Notice of Meeting

EAST LONDON WASTE AUTHORITY

Monday, 1 February 2010 - 9:30 am
Council Chamber, Civic Centre, Dagenham

Members: Councillor S Kelly (Chair); Councillor B Tebbutt (Vice Chair); Councillor I Corbett, Councillor M Dunn, Councillor P Murphy, Councillor E Norman, Councillor Mrs V Rush and Councillor G M Vincent

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David Woods
Managing Director

Contact Officer: Tony Jarvis
Tel: 020 8270 4965
Fax: 020 8270 4973
E-mail: tony.jarvis@lbbd.gov.uk

AGENDA

1. Apologies for Absence

2. 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.

3. Minutes - To confirm as correct the minutes of the meeting held on 23 November 2009 (Pages 1 - 4)

4. Governance Arrangements - Constitution Review (to follow)

5. Budgetary Control to 31 December 2009 (Pages 5 - 9)

6. Revenue & Capital Estimates and Levy 2010/11 (Pages 11 - 27)

7. Treasury Management Strategy 2010/11 and Prudential Code Indicators 2010/11 to 2012/13 (Pages 29 - 59)

8. Risk Strategy - Update for 2010/11 (Pages 61 - 74)

9. Contract Monitoring to November 2009 (Pages 75 - 85)

10. Waste Management to November 2009 (Pages 87 - 99)

11. Frizlands Lane Reuse & Recycling Centre Site Lease (Pages 101 - 105)

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

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

Private Business

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

14. **Service Delivery Plan 2010/11 to 2014/15 (5 Year) (Pages 107 - 117)**

15. **ELWA Limited (restricted circulation)**

    This report has been circulated under separate cover to Members and specific officers only.

16. **Employment - Staffing Update (restricted circulation) (to follow)**

    This report will be circulated under separate cover to Members and specific officers only.

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

EAST LONDON WASTE AUTHORITY

Monday, 23 November 2009
(1:00 - 3:00 pm)

Present: Councillor S Kelly (Chair), Councillor B Tebbutt (Deputy Chair), Councillor I Corbett, Councillor M Dunn, Councillor E Norman, Councillor Mrs V Rush and Councillor G M Vincent

29 Apologies for Absence

An apology for absence was received from Councillor P Murphy.

30 Declaration of Members' Interests

There were no declarations of interests.

31 Minutes (29 September 2009)

The minutes were noted and agreed. There were no matters arising.

32 Annual Audit Letter 2008/09 and Notice of Certification of Completion of Audit

We noted the Annual Audit Letter 2008/09.

The Chair welcomed the External Auditor (PricewaterhouseCoopers) to the meeting. Their Annual Audit Letter stated that the Auditors were pleased with the quality of the draft accounts and, in line with Approved Auditing Standards, issued an unqualified opinion. In addition the Audit Commission requires that the External Auditor's assess the overall arrangements for managing finances, governing the business and managing resources.

The Auditor issued an unqualified conclusion on the Authority's arrangements for its Use of Resources.

The Finance Department will keep Members updated of any changes.

We offered our thanks to the Auditor for presenting his report. The Auditor attended for this item only.

33 Programme of Meetings 2010/11

We have approved the following programme of meetings for the forthcoming municipal year, all to be held at the Civic Centre, Dagenham starting at an earlier time of 9.30am.

Monday, 1 February 2010
Monday, 12 April 2010
Monday, 21 June 2010 (Annual General Meeting)
Monday, 27 September 2010

Monday, 22 November 2010
Monday, 7 February 2011
Monday, 11 April 2011

34 Budgetary Control and Treasury Management Report to October 2009

We have noted the Finance Director's report and noted that there is an overall underspend against the profiled budget of £264,000 after seven months of the financial year.

The report explained the factors that contributed to this including lower tonnages of waste for disposal but reduced income from commercial waste and interest receivable.

35 Financial Projection and Budget Strategy 2010/11 to 2012/13

We have agreed the report from the Finance Director on ELWA's Financial Projection and Budget Strategy for 2010/11 to 2012/13.

The level of the projected levy increase had been reduced from 7% to 6% for 2010/11 and from 9.82% to 9% for 2011/12.

Members discussed reserves, the increasing rates of landfill tax, levels of waste, potential service improvement and cost savings. The Financial Projection and Budget Strategy was agreed.

36 Contract Monitoring - September 2009

We have received the Assistant Executive Director's report and appendices which included the levels of monitoring carried out and issues arising that Jenkins Lane had suffered a series of breakdowns but the service had not been interrupted and only been one non conformance and penalty applied.

Performance was at or above target for all materials except glass.

Members questioned issues of capacity and there will be a report back on this to the February meeting.

ELWA has also engaged London Remade for a three month period to audit Bring Sites, RRC sites and key facilities. We have raised the issue of bringing separate collections forward. We will receive a report on this in February.

The report was noted.

37 Waste Management - September 2009

We have received the Assistant Executive Director's report.

All Boroughs were within their targets for waste minimisation and three Boroughs were exceeding their recycling targets.

With regard to collating data on flats recycling WRAP have been engaged feed this into a debate. A report on this is expected in December 2009.

We have received and noted the Appendices to the report including the Overview of the 2010/11 Communications Programme.

LBR have a bring site approach to blocks of flats and this has been found to be cost effective. We were interested to learn from the Redbridge approach.

The Assistant Executive Director gave an update on Aveley Methane Ltd (AML). We will receive a further report on gas management in April 2010.

The Assistant Executive Director will further report on gas levels at Aveley and will set out the options.

This Assistant Executive Director's report is noted.

38 Aveley 1 Composting

We have received the Assistant Executive Director's report.

ELWA manages four closed landfill sites one of which includes a composting operation. The Assistant Executive Director also reported that we will be reviewing the composting operations.

Members noted that:-

Continuing the operation:

(i) will require a significant upgrade of Health and Safety at the site;
(ii) may result in a requirement to apply for an Environmental permit and an increase in management control;
(iii) cause the Authority to incur increased future expenditure;

Stopping the operation:

(iv) will not adversely affect the risk profile of the Authority;
(v) will not incur redundancy costs;
(vi) will not have a detrimental affect on the restoration of the site;
(vii) will deliver a revenue saving to the Authority;
(viii) will not affect the contractors recycling performance.

Members agreed:-

a) that the composting operation at Aveley 1 is stopped after all materials currently on site have been processed;
b) that ELWA Officers continue to review the ongoing management of the closed landfill sites and that Members receive a report in due course.

39 IWMS Contract - Service Delivery Plans 2010/11 to 2014/15

We have received the Executive Director's report and discussed the Service Plans for the next five years and progress on improving performances.

The financial implications were noted including specifically the estimated costs of the Annual Budget and Service Delivery Plan for 2010/11. Further reports on future Service Plan will be made at the next meeting. Arising from a Members' question on the London Waste and Recycling Board the Managing Director agreed to investigate sources of funding that might be available in conjunction with Borough officers.

Members noted and agreed the proposals set out in Appendix A and B to the report.

40 Date of next meeting : 01 February 2010

Noted.

41 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).

42 ELWA Ltd Board Meeting - 14 October 2009

We have received a report from ELWA Ltd's 'A' Director and the Executive Director.

We noted the commentary relating to the possible gasification project and progress on other ELWA Ltd projects.

Financial Advisers are still awaited and Project Orange is still running. It was decided that this would be a good use of money and there is a funding gap within that market.

It was noted that:-

(i) the ELWA Ltd Minutes of the 29th July are noted;
(ii) further reports be brought forward as progress is made.

Chair: ………………………………..

Dated:………………………………..

(Contact Officers: Suzana Coco-Bassey: 020 8708 3735)

EAST LONDON WASTE AUTHORITY

01 FEBRUARY 2010

FINANCE DIRECTOR'S REPORT

BUDGETARY CONTROL REPORT TO 31st DECEMBER 2009	FOR INFORMATION

1 Introduction

1.1 This budgetary control report compares ELWA's actual expenditure to the original revenue estimates, approved in February 2009, for the period April to December 2009 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 nine months of the financial year, there is an overall underspend against profiled budget amounting to £181,000 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 because there was less tonnage disposed than was originally estimated. The lower tonnage has contributed to a saving of £747,000. Similar trends as a result of reduced tonnage have also been noted with Tonnage mileage charges being lower than anticipated reflecting a further saving of £30,000.

2.3 The reduced tonnage is largely owing to the fall in commercial waste volume, with an income under achievement to date for commercial waste of £869,000. The reduction is mainly due to the reduction in number of businesses and Commercial Waste collected. Current revised estimate for the annual total of Commercial Waste is in the region of 38,000 tonnes compared with a budget of 51,000 tonnes. This equates to income of £3,344,000, which would result in a reduction of £1,159,000 for the year compared to the original budget set in February 2009.

2.4 There is a positive variance of £30,000 is for employee and support cost due to the vacant position of Contract Monitoring Officer for ELWA during the year and lower recruitment cost than anticipated.

2.5 Other costs consist of Services Level Agreement costs for all four boroughs, office and administration costs, rates, pumping, trade effluent charges and various other expenses. The underspend of £86,000 reflects savings due to a cost efficiency drive during the year. Officers were seeking to make savings where possible.

2.6 Disposal credits shows a positive variance of £48,000. It is anticipated that the revised cost for the year as a whole will be £50,000 compared to the original budget of £116,000.

2.7 As a consequence of continued low interest rates, there is an adverse variance of £265,000 on interest receivable. The budget was set based on an estimated monthly investment return of 2.79%. In comparison, the average interest rate for the month of

December 2009 is only 0.88% and the current base rate is 0.5% compared to 5% last year.

2.8 There is a positive variance of £182,000 to date on other income, which is mainly due to £178,000 of royalty income from Shanks East London which was not budgeted for. It also includes rent receivable of £4,000 for which the tenancy agreement was not concluded at the time the budget was prepared.

2.9 This revised sum for contingency is now £150,000 compared to the original budget of £300,000 for 2009/10. The contingency position after nine months has produced an under utilisation of £169,000 compared to the original budget, which is reflected in the accounts.

2.10 Any final 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 Authority sets Prudential Indicators covering borrowing, lending and capital expenditure limits. These are monitored by the Finance Director on a monthly basis and the Authority remains within the limits set by the Prudential Indicators.

3.2 The Treasury Management Strategy, including borrowing and investment strategies, is approved by Members on an annual basis. The current Treasury Management Strategy was agreed by Members at your meeting in February 2009. Within this, the investment strategy defines a comprehensive and rigorous range of credit rating criteria.

Whilst the credit crisis in international markets has raised the overall possibility of default, the Authority's use of the highest credit ratings for investment counter-parties will assist to avoid undue risk. The Authority has continued to refine procedures to ensure that the highest quality of institutions is used through its 2009/10 Treasury strategy by:

- Adopting the lowest common denominator approach, whereby rating agencies provide credit ratings of institutions and the lowest rating is applied for the institution to determine whether they meet the criteria to be on the Authority's counterparties list;

- Tightening the selection criteria for investments for over 1 year;

- Expansion of information gathering procedures to identify changes in the status of investment counterparties.

3.3 No breaches of the Treasury Management strategy occurred during the period. Given the current uncertainty in the financial markets, a prudent lending policy continues to be operated on a day-to-day basis.

3.4 Day-to-day investment strategy remains under review on a regular basis, with a view to updating the Authority's lending list where appropriate to provide the opportunity for improved returns. The Authority has recently opened another AAA rated money market fund to add greater flexibility whilst continuing to minimise risk.

4 Recommendation

4.1 Members are asked to note this report.

Geoff Pearce
FINANCE DIRECTOR

Appendices	
A	Budget Monitoring Statement to 31st December 2009
Background Papers	
None	

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EAST LONDON WASTE AUTHORITY
BUDGET MONITORING STATEMENT TO 31 DECEMBER 2009

EXPENDITURE	Original Budget 2009/10 £'000	Profiled Budget to 31.12.09 £'000	Total Actuals to 31.12.09 £'000	Variance to to 31.12.09 £'000
Employee and Support Services	477	358	328	(30)
Premises Related Expenditure	125	94	75	(19)
Transport Related Expenditure	7	5	1	(4)
Supplies and Services				
Payments to Shanks.East London	49,907	38,098	37,351	(747)
Other (inc cost of Support Costs)	808	606	520	(86)
Third Party Payments				
Disposal Credits	116	87	39	(48)
Recycling Initiatives	210	158	158	0
Tonne Mileage	525	394	364	(30)
Rent payable - property leases	267	200	200	(0)
Capital Financing Costs	232	174	174	0
TOTAL GROSS EXPENDITURE	**52,674**	**40,174**	**39,210**	**(964)**
Income				
Commercial Waste Charges	(4,503)	(3,377)	(2,508)	869
Bank Interest Receivable	(562)	(422)	(157)	265
Other Income	(21)	(16)	(198)	(182)
TOTAL INCOME	**(5,086)**	**(3,815)**	**(2,863)**	**952**
Contingency Allocated	300	225	56	(169)
NET EXPENDITURE ON SERVICES	**47,888**	**36,584**	**36,403**	**(181)**
PFI Grant Receivable	(4,181)	(3,136)	(3,136)	0
Transfer to PFI Contract Reserve	4,181	3,136	3,136	0
Levy Receivable	(38,660)	(28,995)	(28,995)	0
Transfer from PFI Contract Reserve	(6,949)	(5,212)	(5,212)	0
Contribution from Reserves	(2,279)	(1,709)	(1,709)	0
REVENUE SURPLUS FOR PERIOD	**0**	**668**	**487**	**(181)**

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(Contact Officer: Geoff Pearce – Tel 020 8708 3588/Suzana Coco-Bassey - Tel. 020 8708 3735)

EAST LONDON WASTE AUTHORITY

01 FEBRUARY 2010

FINANCE DIRECTOR'S REPORT

REVENUE & CAPITAL ESTIMATES AND LEVY 2010/11	**FOR APPROVAL**

1 Executive Summary

1.1 This report sets out the projected outturn for 2009/10, and the proposed budget and levy for 2010/11. The proposals set out in this report have been prepared in accordance with the ELWA financial strategy for the next three years as agreed at the November 2009 Authority meeting.

1.2 It is anticipated that the Authority's budget will broadly break even for 2009/10 and the proposed revised revenue estimate is the same in total as the original revenue estimate of £47,888,000. A fall in commercial waste income and bank interest receivable has been offset by a reduction in payments to Shanks due to a fall in tonnages.

1.3 It is proposed that ELWA agree a 2010/11 budget of £49,920,000. The increase in relation to the 2009/10 projected out-turn arises primarily from an increase of £8 per tonne in landfill tax and a reduction in commercial waste income.

1.4 The Financial Projection and Budget Strategy report agreed by Members on 23rd November 2009, highlighted a projected increase in 2010/11 levy of 6% compared with 2009/10. It is now recommended that the levy increase be reduced to 5.6%, giving a levy requirement of £40,825,000. The reduction in the projected levy is primarily due to improved estimated cost savings and the closure of the composting operation.

1.5 The 20010/11 ELWA estimates are based upon the submitted Annual Budget & Service Delivery Plan (ABSDP). A sum between £1m to £1.5m has been made available by Shanks.east London once Optibag operation ceased and savings made. This sum will be used to reduce levy or subsidies additional borough waste collection. London Borough of Redbridge will not benefit from the above distribution of savings and therefore ELWA is to provide the recycling grant to compensate London Borough of Redbridge and give additional support to improve recycling performance. It is recommended that provision be made in contingency for £150,000. This is to cover the cost of recycling grant for London Borough of Redbridge.

1.6 ELWA Members will understand the impact of its levy on the budgets and Council Taxes of its constituent boroughs. Therefore, as in previous years, a balance has been sought between prudent financial management that secures the long-term operational viability of ELWA and keeping annual increases in the levy requirement to a minimum. It is likely that ELWA will face further volatility and uncertainty in the future and given the economic recession, new financial pressures cannot be ruled out.

1.7 A prudent level of reserves is recommended to ensure levy stability in future years because of the uncertainties faced by the Authority. These include uncertainties connected with the overall level of waste tonnages, the introduction of new technologies, and the implications of recent EU and UK legislation. The proposed Levy for 2010/11 reflects a further reduction in reserves; it is proposed to transfer £7,117,000 from PFI reserves and £1,978,000 from revenue reserves. The level of reserves remains appropriate based on an analysis of the risks and uncertainties facing ELWA.

1.8 Members' attention is drawn to the current projections for the ELWA levy in 2011/112 and 2012/13 at 9%. If a reduction in this level is to be achieved additional work needs to be put in hand now with Shanks.east London to find further ways to reduce costs.

1.9 The ELWA Management Board supports the contents and recommendations, and the Finance Service of each constituent Council has been briefed on the issues in this report.

2 Introduction

2.1 This report presents the revised revenue estimates for 2009/10 and the revenue estimates for 2010/11. Members are asked to consider the estimates and determine the levy for 2010/11.

2.2 The key strategic themes of this report were set out in the Financial Projection and Budget Strategy 2010/11 to 2012/13 report as agreed at the November 2009 Authority meeting.

3 Legal Background to Levy

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

3.2 There is no specific power enabling ELWA to make a supplementary levy during the course of the year should it require additional resources due to unforeseen circumstances.

3.3 The levy requirement is made up of the ELWA budget plus any contingency provisions, and drawings from or contributions to reserves including the PFI reserve.

4 Levy Apportionment

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

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

5 2009/10 Revised Revenue Estimate

5.1 The revised revenue estimate for 2009/10 is the same total as the original budget of £47,888,000 which represents a break even position for the year. This is primarily due a fall in commercial waste income and bank interest receivable being offset by a reduction in tonnages. Appendix A shows a summary of these estimates.

5.2 The main budget variations for 2009/10 have been referred to in the regular budget monitoring reports and financial position update reports during the year.

5.3 These are a lower total tonnage of waste handled than anticipated (£0.8million); decrease in commercial waste income (£1.1million) and investment income (£0.3million) and under utilisation of contingency (£0.15million). Tonnages are now expected to be in the region of 474,000 tonnes compared to the original estimate for 2009/10 of 486,000 tonnes.

5.4 In 2009/10 a contingency of £300,000 was set. It is anticipated that £150,000 of this will not be required during the rest of this year. This under utilisation will be added to the resources available for setting the 2010/11 Levy.

6 Underlying Cost Pressures 2010/11

6.1 The basic elements of the ELWA budget are:

- Shanks.east London's proposed ABSDP for 2009/10. Contractual costs are the key item of expenditure as the estimated annual contractual cost accounts for over 95% of ELWA's total gross expenditure;
- The cost of services not subject to the IWMS Contract, for example, management of Aveley I site, strategy, support and administration costs;
- Offsetting income, for example, generated by commercial waste charges to the Boroughs, investment and bank interest receipts.

6.2 The key financial pressures in the preparation of the ELWA budget for 2010/11 are as follows:

- A general rise in the cost of waste disposal including higher taxation (e.g. a further increase in landfill tax of £8 per tonne in each of the next two years);
- The need to hold a reasonable level of reserves against foreseeable contract cost increases and against operational risks; and
- The reduction of Commercial Waste income. It is anticipated that total tonnages will reduce by 10,000 tonnes for the next three years due to a reduction in Commercial Waste tonnage.

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

7 2010/11 Net Revenue Estimate

7.1 The net revenue estimate for 2010/11 is £49,920,000, an increase of £2,032,000 (4.2%) over the 2009/10 original net revenue estimates. A summary of the detailed net revenue estimate for 2010/11 is contained in Appendix A. A detailed commentary is shown below.

7.2 The table below highlights the key expenditure movements from the original budget of 2009/10.

Narrative	**£m**
Original Budget 2009/10	**£47.9**
Shanks contract - Increase in Landfill Tax	£1.5
Shanks contract – Increase due to inflation	£0.6
Reduction in Tonnage and increased Landfill Diversion (From 486,000 to 464,600)	(£1.6)
Decrease in Commercial waste income as a result of decrease in tonnage	£1.8
Reduction in Bank Interest	£0.2
Increase in Other Income	(£0.2)
Reduction in Contingencies and other costs	(£0.3)
Proposed Budget for 2010/11	**£49.9**

Financed By	**£m**
Transfer from PFI Reserve	(£7.1)
Transfer from General Reserve	(£2.0)
Proposed 2009/10 Levy	(£40.8)
Total Financing	**(£49.9)**

- The government has announced that Landfill Tax is due to rise by £8 per tonne from 1st April 2010, giving rise to an additional cost of £1.5million.

- Estimates of tonnage disposed are lower than the ABSDP forecast as at the February 09 Authority meeting. The drop is from 486,000 tonnes to 464,600 which have resulted in a financial saving of £0.8m. An improvement on the diversion rate from landfill has also generated a saving of £0.2m.

- Decrease in tonnage for commercial waste disposal has resulted in a negative variance of £1.8m.

  Whilst there are contract cost savings arising from the reduction in tonnage, the marginal cost saving per tonne is less than the marginal loss of income, leading to a net negative variance.

- There have been significant reductions in bank interest rates from the projected 2.79% down to 0.9% as a result of the Bank of England's actions to stimulate the economy. The loss of interest receivable as a result of the interest rate fall is £0.2m.

8 Assumptions on Net Revenue Estimate 2010/11

8.1 Inflation

The 2010/11 detailed Revenue Estimates include provision for:

- Increases in general costs, including pay, of 1%;
- An inflationary rise of 1.52% (80% of 1.9%) in IWMS contract cost from 1st April 2010 in line with the indexation provisions within the contract.

8.2 IWMS Contract Costs

The financial year 2010/11 will be the eighth full year of ELWA's IWMS Contract with Shanks.east London. This is the single largest element (approx. 95%) of ELWA's budget. The delivery of the service is controlled by Service Delivery Plans and each year there is an Annual Budget and Service Delivery Plan (ABSDP).

The revised data in the 2010/11 ABSDP underpins the 2010/11 estimate and levy report. The ABSDP was the subject of a report at the November ELWA Authority meeting and that report included the main operational and financial summaries relating to 2010/11.

It is estimated that the annual contractual costs will be £50,471,000 in 2010/11. This represents an increase of £564,000 (1.1%) compared to 2009/10. This increase primarily reflects the further increases in landfill tax and inflation, offset against tonnage reductions. This increase was part of the original IWMS Contract and had been anticipated and factored into ELWA's financial projections and is one of the main reasons that ELWA has built up and held reserves over recent years to ensure a smoother levy increase profile.

The ABSDP now assumes a total contract waste figure of 464,600 tonnes. This is based on recent patterns and the advice of technical officers. This reduction compared to the past projection reflects technical officers' advice on the slowdown in the economy and residents' spending capacity. For the purposes of setting the levy for 2010/11 a projection of 464,600 tonnes has been used. Further details are within the ABSDP presented to Members.

Boroughs will continue to benefit from the annual net revenue savings following the transfer of the operation and management of their Civic Amenity and Recycling sites to Shanks.east London. These costs are included in the ELWA levy via the contractual payments to Shanks.east London. ELWA pays a market rent to the Councils for the lease of these sites, which is also included in the levy. The market rent is reviewed every five years and the outcome of the first review was included in the IWMS Contract in 2008/09.

8.3 Landfill Allowances Trading Scheme

These Financial Projections and Budget Strategy assumes no income for the anticipated surplus Landfill Allowance accruing to the Authority, nor any penalties for any potential deficit of Landfill Allowances for the years to 2012/13. This is because the current value of any sale of surplus allowances is likely to be nil.

8.4 Landfill Tax

For 2010/11 and beyond, the rate of landfill tax for ‘active’ waste is to increase by at least £8 per year on the way to a medium to long-term rate of £64 per tonne. There are expectations that this maximum figure will rise further in the future.

From 1 April 2010 the new level of landfill tax for ‘active’ waste will be £48 per tonne. This is an increase of £8 per tonne from the 2009/10 rate. It is reflected in the IWMS contract pricing structure and effectively increases the ELWA levy by approximately £1.5 million (3.9%).

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

8.5 Service Level Agreements

Costs charged by constituent Councils for legal, financial, technical and administrative services including contract monitoring carried out on ELWA's behalf are the subject of Service Level Agreements. These services will be reviewed during 2010/11 to reflect any changes in ELWA’s requirements.

8.6 Waste Minimisation & Recycling Initiatives

ELWA officers will continue to discuss with the constituent councils and Shanks.east london opportunities to encourage participation in new and financially beneficial local recycling initiatives. A continuous budget provision of £150,000 is included in the detailed 2010/11 estimates.

8.7 Commercial & Industrial Waste Charges

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

This stream of waste will count against the ELWA LATS allocation if it is landfilled. ELWA therefore needs to keep under consideration the impact of this waste stream, including the impact on LATS, when setting its commercial and industrial waste charges in the future. To reflect the increased cost of landfill tax within the IWMS contract it is proposed that the normal charge for 2010/11 is increased from £88 to £96 per tonne.

To incentivise Councils to recycle, a lower rate of £70 per tonne in respect of specific commercial waste that has been recycled is recommended. The lower rate charge should encourage boroughs to recycle more commercial waste. The proposed charges of £96 and £70 as set out above have been the subject of full consultation with Borough Officers.

The estimated income to ELWA for 2010/11 based on the latest forecast waste figures charged at the proposed new rates for 2010/11 (assuming all waste is charged at £96 per tonne) is shown below.

	Estimate 2009/10 (tonnes)	Estimate Income 2009/10 (£'000)	Estimate 2010/11 (tonnes)	Estimate Income 2010/11 (£'000)
Barking & Dagenham	6,595	580	3,266	314
Havering	10,076	887	5,770	554
Newham	9,611	846	8,619	827
Redbridge	11,718	1,031	10,345	993
	38,000	3,344	28,000	2,688

8.8 Capital Expenditure

Through the IWMS contract Shanks.east london has had a major capital programme for the provision of new waste disposal facilities and the refurbishment of existing ones in the ELWA area. The costs of this are reflected within the contract charges.

In addition, consideration will be given by ELWA officers to making bids for additional funding in appropriate circumstances including recycling and composting initiatives.

ELWA has had reports on developing its closed landfill sites and some capital works on these may be necessary in the next few years. If such work is required a report will be brought to Members.

9 PFI Credits and PFI Contract Reserve

9.1 As previously agreed by Members, ELWA's future financial planning must take account of both the continually reducing value of the PFI credit in cash terms and the increases in contract costs particularly in 2009/10 and 2010/11. It is prudent to seek to smooth the impact on the levy over this period and over the term of the contract to give greater financial stability to the Boroughs.

9.2 ELWA's policy is therefore that it pays Special PFI Grant into a PFI Contract Reserve account with a priority of withdrawal as follows:

(i) To meet additional costs, over and above normal operational increases, arising from the IWMS contract in the relevant year;
(ii) To be set aside to meet stepped increases in the IWMS contract (e.g. when higher recycling targets are achieved) to ensure a smoother levy profile by avoiding exceptional levy increases in those years;
(iii) To supplement ordinary revenue reserves, particularly in the early years of the implementation of the IWMS contract when the level of uncertainty is at its greatest.

9.3 It should be appreciated that 2006/07 was the peak year in terms of the PFI Contract Reserve as the PFI grant has been built up since 2002/03 specifically for application in 2008/09 and beyond. Stepped price increases scheduled as part of the IWMS contract 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. Therefore a large portion of grant is being utilised to cover these abnormal cost increases.

9.4 The table below shows the figures in respect of the PFI Contract Reserve account for 2009/10 and 2010/11. The PFI Contract Reserve had been built up in accordance with paragraph 9.2 above and is to be released to partially offset and smooth the expected IWMS Contract cost increases in 2009/10, 2010/11 and future years. It is recommended in this report that £7,117,000 of these reserves be used to fund the increase in the IWMS contract cost for 2010/11, leaving a projected level of £7,664,000 as at 31 March 2011. Further drawings are planned in subsequent years.

	£'000
Balance at 31.3.09	**13,535**
PFI credit to be received in 2009/10	4,181
Utilisation in 2009/10	(6,949)
PFI Contract Reserve balance at 31.3.10	**10,767**
PFI credit to be received in 2010/11	4,014
Utilisation in 2010/11	(7,117)
PFI Contract Reserve balance at 31.3.11	**7,664**

10 The 2010/11 Contingency Reserve

10.1 In order to deliver a sustainable budget that is able to adapt to uncertainty, it is prudent for the Authority to set aside a provision or contingency for uncertain events.

10.2 The 2010/11 detailed Revenue Estimates include provision for pay and price rises where appropriate and, therefore, no separate provision for general inflation is required in the contingency.

A provision of £150,000 is recommended to provide recycling grant for London Borough of Redbridge for support to improve recycling performance.

11 2010/11 Revenue Reserves

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

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

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

- A fund to cushion the impact of unexpected events – these can include potential overspends, which have been the main pressure on balances over recent years. In particular they can include changing service demand or changes in government regulations, but can also include changes in inflation from projections, e.g. a 1% change in tonnages would have a £0.4 million impact on ELWA budgets.
- To help fund transitional pressures
- To help cushion the impact of uneven cash flows and avoid unnecessary borrowing

11.4 ELWA's revenue balance at the end of 2008/09 is £10,157,000. It was recommended in last year's levy report that in total £2,279,000 of these reserves be used to fund the £150,000 contingency with the balance of £2,129,000 being used to support the levy for 2009/10.

11.5 It is recommended to further draw down the revenue reserve by £1,978,000 to fund the contingency of £150,000 with the balance being used to support the levy for 2010/11.

11.6 The Finance Director, in conjunction with other ELWA Directors, has undertaken the annual detailed exercise to review the risks faced by ELWA in 2009/10 and beyond (see Appendix B). In the light of this and recent years' experiences of financial volatility and uncertainty, the residual level of balances of £5.9 million is recommended by all the Directors.

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

11.8 The effect of the levy and expenditure on Revenue Reserves in 2009/10 and 2010/11 is shown below:

	£'000
Working Balance at 31.3.2009	**10,157**
Transfer to fund Contingency for 2009/10	(150)
Transfer to support Levy for 2009/10	(2,129)
Estimated Working Balance at 31.3.2010	**7,878**
Transfer to fund Contingency for 2010/11	(150)
Transfer to support Levy for 2010/11	(1,828)
Projected Working Balance at 1.4.2011	**5,900**

12 Capital Reserve

12.1 It is to be noted that there is a £400,000 Capital Reserve earmarked for future costs at the Aveley I site. In the opinion of ELWA officers there continues to be the potential need for significant works e.g. concerning the proper environmental protection of the site and the continuation of existing operations on the site.

13 2010/11 Levy

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

13.2 The levy for 2010/11 is recommended to be £40,825,000 including the contingency of £150,000 and after applying £7,117,000 from the PFI reserve and £1,978,000 of Revenue reserves.

13.3 The Finance Director's Financial Projection and Budget Strategy report agreed by Members on 23rd November 2009 highlighted a potential increase in the 2010/11 levy in the region of 6%. This has been reduced to 5.6% largely as a result of a reduction in cost due to cost savings exercise.

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

Actual Levy 2009/10 £'000		Tonnages	Apportion Tonnages £'000	Band D Basis	Apportion Band D £'000	Proposed Levy 2010/11 £'000
7,128	Barking & Dagenham	63,519	5,361	53,227	2,097	7,458
10,078	Havering	82,298	6,946	89,182	3,513	10,459
11,353	Newham	110,042	9,288	74,599	2,937	12,225
10,101	Redbridge	84,401	7,123	90,372	3,560	10,683
38,660	Total	340,260	28,718	307,380	12,107	40,825

14 Levy Projections for 2011/12 and 2012/13

14.1 The table below highlights a potential levy in the region of £44.5 million for 2011/12 and £48.5 million for 2012/13 levies. The reserves position at the end of 2012/13 is projected to be £3.9 million for revenue reserves and £3.6 million for the PFI Contract reserve.

14.2 The levy forecasts for 2011/12 to 2012/13 clearly can only be taken as an attempt to provide an indication for planning purposes. However, a change in any of a number of uncertain factors, for example changes in landfill tax, waste growth and inflation assumptions and any new legislation could impact on the overall projections.

14.3 The indicative levy position and reserve figures for the next three years based on the data used for the 2010/11 levy is summarised in the table below:

Summary Budget	**2010/11 £'000**	**2011/12 £'000**	**2012/13 £'000**
Revenue Budget	49,770	51,805	54,497
Annual PFI Grant	(4,014)	(3,854)	(3,699)
Transfer to PFI Reserve	4,014	3,854	3,699
Contingency	150	150	150
Sub Total	**49,920**	**51,955**	**54,647**
Financed By			
Transfer from PFI Reserve	(7,117)	(6,456)	(5,143)
Transfer from General Reserve	(1,978)	(1,000)	(1,000)
Levy	(40,825)	(44,499)	(48,504)
Levy Increase over previous year	5.6%	9.0%	9.0%
Year End Reserves			
PFI Reserve	7,664	5,062	3,618
Capital Reserve	400	400	400
General Reserve	5,900	4,900	3,900

14.4 Increases in the levy in future years are likely to put pressure on the budgets of the constituent councils. As I have highlighted before, if increases of this level are to be avoided ELWA should work with Shanks.east London to find further ways to reduce costs.

14.5 Any changes on the estimates provided in the recent 3-year plan will be reflected in the next 3-year strategy due in November 2010.

15 Funding and monitoring arrangements

15.1 In the past ELWA has agreed that each year’s levy should be sought in four equal instalments payable in the middle of each quarter i.e. 15 May, 15 August, 15 November and 15 February or the nearest banking day thereto. It is recommended that the Levy be paid in the same way in 2010/11.

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

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

16 Prudential Indicators

16.1 At this meeting Members need to consider the Prudential Indicators in respect of Treasury Management and Capital Expenditure, as set out in a separate report on this agenda, as part of the formulation of the 2010/11 levy.

17 Value For Money

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

18.2 ELWA officers have taken into account the need to provide continuing value for money in the preparation and formulation of the 2010/11 levy and will continue to seek further improvements in the future in the area of the IWMS Contract and in other areas.

18 Robustness of estimates and adequacy of reserves

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

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

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

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

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

18.6 The details and balances of ELWA's proposed reserves are contained in this report. The levels of these reserves are deemed appropriate based on my professional judgement and ELWA's previous experience.

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

19 Recommendations

19.1 Members are asked to agree:

(i) the revised estimates for 2009/10, totalling £47,888,000 (paragraph 5.1);

(ii) the revenue estimates for 2010/11, totalling £49,920,000 excluding contributions from reserves (paragraph 7.1);

(iii) the charges for commercial and industrial waste for 2010/11:

Commercial & Industrial Waste – recycled	£70.00 per tonne	(paragraph 8.7)
Commercial & Industrial Waste – other	£96.00 per tonne	(paragraph 8.7)

(iv) the utilisation of the PFI Contract Reserve of £7,117,000 for 2010/11 (paragraph 9.4);

(v) a Contingency Reserve of £150,000 for 2010/11 (paragraph 11.3 – 11.6);

(vi) A contribution from Revenue Reserves of £1,963,000 (paragraph 11.5);

(vii) that on the basis of (ii) to (vi) above, ELWA determines its levy for 2010/11 in the sum of £40,825,000 (paragraph 14.2 – 14.4);

(viii) the policy on Reserves and associated criteria for use (paragraphs 9 to 13); and

(ix) the continuation of existing arrangements for the payment of the levy and funding of Constituent Councils in 2010/11 (paragraph 15).

Geoff Pearce
FINANCE DIRECTOR

Appendices	
A	Summary of Original and Revised Revenue Estimates for 2009/10 and Forward Estimates for 2010/11
B	Financial Risk Analysis 2010/11
Background Papers	
1	Returns from the Constituent Councils
2	Budget Working papers

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EAST LONDON WASTE AUTHORITY - SUMMARY OF REVENUE ESTIMATES

	Note Reference	Original Estimate 2009/10 £'000	Revised Estimate 2009/10 £'000	Forward Estimate 2010/11 £'000
EXPENDITURE				
Employee and Support Services	**1**	477	436	530
Premises Related Expenditure	**2**	125	117	107
Transport Related Expenditure	**3**	7	1	5
Supplies and Services				
Payments to Shanks.east London	**4**	49,907	49,095	50,471
Other (inc cost of Support Costs)	**5**	808	686	720
Third Party Payments				
Disposal Credits	**6**	116	50	50
Recycling Initiatives		210	210	210
Tonne Mileage		525	485	525
Rent payable - property leases		267	267	267
Capital Financing Costs		232	232	229
TOTAL GROSS EXPENDITURE		**52,674**	**51,579**	**53,114**
Income				
Commercial Waste Charges	**7**	(4,503)	(3,344)	(2,688)
Bank Interest Receivable	**8**	(562)	(240)	(396)
Other Income	**9**	(21)	(257)	(260)
TOTAL INCOME		**(5,086)**	**(3,841)**	**(3,344)**
Contingency Allocated		300	150	150
NET EXPENDITURE ON SERVICES		**47,888**	**47,888**	**49,920**
PFI Grant Receivable		(4,181)	(4,181)	(4,014)
Transfer to PFI Contract Reserve		4,181	4,181	4,014
Levy Receivable		(38,660)	(38,660)	(40,825)
Transfer from PFI Contract Reserve		(6,949)	(6,949)	(7,117)
Contribution from Reserves		(2,279)	(2,279)	(1,978)
REVENUE DEFICIT/(SURPLUS) FOR PERIOD		**0**	**0**	**0**

Notes

1 The additional budget requirement for 2010/11 reflects the increase in pay inflation, employers national insurance, pensions and two new staff

2 The reduction in Premises related expenditure estimates for 2010/11 is mainly due to the closure of the composting operation

3 The reduction in Transport related expenditure estimates for 2010/11 is due to lower contract hire charges

4 This variance is discussed under Para 8.2.

5 The decrease in estimate for 2010/11 reflect efforts made to reduce costs and the closure of the composting operation

6 This reduction in Disposal Credits estimates for 2010/11 is due to less disposal of waste to third party

7 This variance is discussed under Para 8.7.

8 This variance is discussed under Para 7.2.

9 The increase in Other Income for 2010/11 reflects royalty income from Shanks East London and rent income

EAST LONDON WASTE AUTHORITY

FINANCIAL RISK ANALYSIS FOR 2010/11 (as at January 2010)

Risk	**Likelihood** **%**	**Worst Case £m**	**Value of Risk £m**
Discriminatory law changes i.e. concerning waste management, definition, or regulation	60	0.8	0.5
General change in law – impact on IWMS contract - share of capital expenditure	10	6.0	0.6
Landfill sites – pollution & costs –gradual events	5	7.0	0.3
Aveley Methane contingency plan for gas extraction	40	0.5	0.2
Waste increases above service plan assumptions	60	2.7	1.6
Resources to invest in improved performance – arising from national and local waste strategies	50	4.0	2.0
Authority Insurances (excluding IWMS Contract) - liability for uninsured losses and deductibles	10	2.5	0.3
IWMS Contract Operational Insurances – liability for uninsured losses and deductibles	40	1.0	0.4
TOTAL			**£5.9m**

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(Contact Officers: Geoff Pearce - Tel. 020 8708 3588)

EAST LONDON WASTE AUTHORITY

01 FEBBRUARY 2010

FINANCE DIRECTOR'S REPORT

TREASURY MANAGEMENT STRATEGY 2010/11 AND PRUDENTIAL CODE INDICATORS 2010/11 TO 2012/13	**FOR APPROVAL**

1. Introduction

1.1 This report sets out the Treasury Management Strategy for 2010/11 and encompasses:

- Borrowing requirements and debt management arrangements (paragraphs 3-7);
- A Minimum Revenue Provision Policy Statement (paragraph 8);
- The Annual Investment Strategy (paragraph 9-15);
- The Treasury Management Policy Statement (paragraph 2 and Appendix A); and
- Prudential Indicators for Treasury Management. (paragraph 16).

1.2 The Local Government Act 2003 introduced the Prudential Capital Finance system. The Chartered Institute of Public Finance and Accountancy (CIPFA) have developed the Prudential Code for Capital Finance in Local Authorities as a professional code of practice to support local authorities in taking these decisions. The Code has recently been revised to take account of revisions to the Treasury Management Code of Practice and changes in the accounts as a result of migration to reporting in accordance with International Financial Reporting Standards (IFRS). The Prudential regime requires consideration of the Authority's borrowing and investment strategies within the decision making process for setting the Authority's spending plans.

1.3 The Authority's treasury activities are strictly regulated by statutory requirements and a professional code of practice, the CIPFA Code of Practice on Treasury Management in the Public Services. The Authority adopted this code of practice as part of its Financial Standing Orders (D40-6.9) by resolution of the Authority.

1.4 A Revised edition of the CIPFA Treasury Management Code of Practice was published at the end of November 2009. The key changes initiated in the revisions are:

- Enhancing the scrutiny role;
- Increased reporting of strategies and policies;
- Management and control of risk;
- Priority to protect capital over returns.

1.5 The Authority has the majority of these new proposals already embedded into its processes, and where applicable will initiate new procedures to ensure compliance with the revised codes of practice.

1.6 Standing Order D40-6.9.5 requires that the Finance Director present to Members the Treasury Management Strategy for recommendation prior to the start of the financial year.

1.7 It is a statutory requirement under Section 33 of the Local Government Act 1992, for the Authority to produce a balanced budget. In particular, a local authority is required to calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This therefore means that any capital expenditure must be limited to a level, which is affordable within the projected income of the Authority for the foreseeable future.

1.8 Inevitably certain technical terms have been used in this report. Explanations are provided where possible and a glossary covering main terms is included at Appendix D.

2. Treasury Management Strategy 2010/11

2.1 ELWA's present borrowing dates to before 2002 and no further borrowing is currently projected for 2010/11. Provision has been made in ELWA's detailed Revenue Estimates for the revenue cost in terms of interest and capital repayments.

2.2 Historically, ELWA has had sufficient cash balances to cover expenditure flows during each year and hence there has been no need for any short-term borrowings. However, such borrowing may be required to fund timing differences between payment and receipt of cash/maturity of investments or the temporary financing of urgent, major capital schemes.

2.3 By ELWA's Standing Orders, the Finance Director is responsible for all of the Authority's banking, borrowing and investment activities. Under the Authority's existing service level arrangements, the London Borough of Redbridge administers the treasury management function on behalf of ELWA.

2.4 ELWA's Treasury Management Strategy covers the estimated funding requirements, the need for long and short-term borrowing, the management of the debt portfolio, and the investment of surplus cash. The proposed Strategy should ensure that a stable cash position is maintained.

2.5 ELWA's Treasury Management Policy Statement (attached at Appendix A) has been prepared by officers and is based on current best practice.

3. Borrowing Requirements and Debt Management Arrangements for 2010/11

3.1 Current external borrowing portfolio – ELWA's estimated total borrowing of £1,610,000 at 31 March 2010 consists entirely of Public Works Loan Board (PWLB) loans. All the loans are on a fixed rate.

3.2 The current fixed borrowing rate of 9.63% is the average rate of interest payable on all loans within the portfolio. Some of these loans were taken out many years ago when interest rates were much higher than now. Early repayment of these loans would incur a large premium, as rates are much lower now.

4. Prospects for Interest Rates

4.1 Forecasts provided as part of the treasury management Service Level Agreement (as at 5th January 2010) are shown in the table below.

Annual Average	Bank Rate	Money Market Rates		PWLB Rates*		
		3 month	1 year	5 year	20 year	50 year
2009/10	0.5%	0.8%	1.4%	3.2%	4.4%	4.6%
2010/11	1.0%	1.5%	2.6%	4.0%	5.0%	5.2%
2011/12	2.0%	2.5%	3.3%	4.3%	5.3%	5.3%
2012/13	4.5%	4.8%	5.3%	5.3%	5.5%	5.3%

* Borrowing Rates

4.2 The economy is slowly emerging from recession. The availability of credit has improved modestly but banks remain nervous about the viability of counterparties. The main drag upon the economy is expected to be weak consumer expenditure growth. Inflation is anticipated to remain subdued, therefore the pressure upon the Monetary Policy Committee (MPC) to increase rates will remain moderate, but some increase will be seen in 2010 to counter the effects of external cost pressures.

4.3 Longer-term interest rates, which are based on gilt yields, are expected to be more volatile. A sharp rise in net gilt issuance coupled with a fall in the demand for gilts from investors, as their risk appetite increases, would result in rising bond yields and lead to higher interest rates. In addition, there remains the possibility that the UK’s AAA sovereign credit rating could be downgraded, which will result in higher borrowing costs.

5. Borrowing Requirements

5.1 The options available to ELWA to finance any future capital requirements include the temporary use of internal cash balances and to raise loans via PWLB and capital markets.

5.2 The Authority may need to make arrangements to finance expenditure during 2010/11 in respect of any possible capital works identified as a result of the ongoing review of landfill sites. Indicative estimates for production of Prudential Indicators are shown for 2010/11, 2011/12 and 2012/13:

Borrowing Requirement	2010/11 £’000	2011/12 £’000	2012/13 £’000
Potential Capital Spending	400	-	-
Maximum Estimated Borrowing Requirement	400	-	-

5.3 The capital spending figures in the above table exclude any capital expenditure, which will be financed from capital grants and receipts, revenue contributions and external funding.

5.4 It is recommended that £400,000 is set as the borrowing requirement for 2010/11.

6. Borrowing Strategy 2010/11

6.1 Paragraph 5.2 indicates a need to finance £400,000 of capital requirements in 2010/11. The Authority is free to borrow what it deems to be prudent, sustainable and affordable within the Authority's approved Authorised External Debt Limit. This is discussed in further detail at paragraph 16.6.

6.2 The need to undertake external borrowing can be reduced by the (temporary) application of internal balances held for provisions and reserves within the Authority's accounts and cashflow movements on a day-to-day basis. The option of postponing borrowing and running down investment balances will reduce investment risk and provide some protection against low investment returns. The use of internal balances however must be monitored in order to mitigate the risks arising from the need to externally refinance when rates are unfavourable.

6.3 Regard must be given to the maturity profile of the loan portfolio. All borrowing undertaken will be in accordance with the objectives set out in the Authority's agreed Treasury Management Policy Statement, shown as Appendix A.

6.4 A view has to be taken on the balance between variable rate borrowing and fixed rate borrowing. To give the Authority flexibility, it is suggested that the upper limit for fixed rate borrowing be set at 100% of its outstanding principal sums, and the upper limit for variable rate borrowing be set at 25% of its outstanding principal sums.

6.5 The uncertainty over the future movement of interest rates increases the risks associated with treasury activity. Therefore all borrowing options will be carefully evaluated, and advice sought from treasury advisers as appropriate.

6.6 In summary, considering the factors set out above, the recommended Borrowing Strategy is:

(i) That cash balances are used to finance capital expenditure on a temporary basis, pending permanent funding at a time when rates are deemed more favourable;

(ii) All available sources of finance are evaluated when undertaking decisions for long term borrowing and advice sought as appropriate;

(iii) The repayment spread period of the long-term debt portfolio remains at a maximum period of 50 years;

(iv) That the maturity schedule is maintained so that no more than 20% of total borrowing is due for renewal in any one year;

(v) That the upper limit for fixed rate borrowing be set at 100% and the upper limit for variable rate borrowing be set at 25%.

7. Debt Rescheduling

7.1 It is good practice to evaluate the borrowing portfolio on a periodic basis to see if it could be structured more efficiently. This will continue to be kept under review and be undertaken in conjunction with advice from treasury advisors should opportunities arise.

8. Minimum Revenue Provision

8.1 In accordance with the Local Government Act 2003, the Authority is required to pay off an element of accumulated General Fund capital expenditure each year through a revenue charge known as the Minimum Revenue Provision (MRP). MRP is calculated in accordance with the detailed methodology set out in the regulations. Amendment to these regulations has now replaced the detailed statutory calculation to one that Local Authorities consider to be prudent.

8.2 In conjunction with the regulatory amendment, the Department of Communities and Local Government has issued statutory guidance on the “options” available for making prudent provision for the repayment of debt. These options relate to existing and supported debt, whereby the Authority receives government support towards capital financing costs, and unsupported (Prudential) borrowing whereby financing costs are met wholly by the Authority. Local Authorities must have regard to this guidance.

8.3 Secretary of State guidance requires that before the start of each financial year the Authority prepares a statement of its policy on making MRP in respect of the forthcoming financial year and submits it to Members for approval.

8.4 Annual Minimum Revenue Provision Statement

- For capital expenditure incurred before 1 April 2008, or any new capital expenditure incurred in the future up to the limit of the Authority's supported borrowing, minimum revenue provision will be provided for in accordance with existing practice outlined in the former regulations, which is based on a 4% charge.

- Minimum revenue provision for new capital expenditure incurred wholly or partly by unsupported (Prudential) borrowing or credit arrangements is to be determined by reference to the expected life of the asset. Asset life is deemed to begin once the asset becomes operational. Minimum revenue provision will commence from the financial year following the one in which the asset becomes operational.

- Minimum revenue provision in respect of Finance Leases and on balance sheet Private Finance Initiative (PFI) contracts will be regarded as being met by a charge equal to the element of the rent/charges that goes to write down the balance sheet liability. Where a lease (or part of a lease) or PFI contract is brought onto the balance sheet, having previously been accounted for off balance sheet, the minimum revenue provision requirement would be regarded as having been met by the inclusion in the charge, for the year in which the restatement occurs, of an amount equal to the write down for that year plus retrospective writing down of the balance sheet liability that arises from the restatement.

- Minimum revenue provision in respect of unsupported (Prudential) borrowing taken to meet expenditure, which is treated as capital expenditure by virtue of either a capitalisation direction or regulations, will be determined in accordance with the asset life method as recommended by the statutory guidance.

- The Authority retains the right to make additional voluntary payments to reduce debt if deemed prudent.

9. Annual Investment Strategy 2010-2011

9.1 The Authority is required to produce an Annual Investment Strategy that sets out the Authority's policies for managing its investments. The Authority's investment strategy must have regard to the CIPFA Code of Practice on Treasury Management and the "Guidance on Local Government Investments" issued by the former Office for the Deputy Prime Minister in March 2004, now the Department for Communities and Local Government (CLG) The CLG is currently consulting on changes to the investment guidance. These proposals have been incorporated where appropriate.

9.2 The key intention of the Guidance is to maintain the requirement for Authority to invest prudently, and that priority is given to the security and liquidity of investments before yield. The Guidance requires the Authority to set out within its Annual Investment Strategy:

- Security, creditworthiness criteria, risk assessment and monitoring arrangements for investments;

- The liquidity of investments and the minimum amount to be held in short-term investments (i.e. one which the Authority may require to be repaid or redeemed within 12 months of making the Investment) and those that are available to be lent for a longer period;

- Which investments the Authority may use for the prudent management of its treasury balances and limits for each class of investment;

- The classification of each investment instrument for use by either the Authority's in-house officers and/or external fund managers, and the circumstances where prior professional advice is to be sought from the Authority's treasury advisers.

10. Investment Objectives

10.1 The Authority's investment strategy gives priority to:

- the security of the investments it makes;

- the liquidity of its investments to meet known liabilities.

10.2 The Authority's objective is therefore to achieve, within this constraint, the optimum return on its investments with the appropriate levels of security and liquidity.

10.3 Within the prudent management of its financial affairs, the Authority may temporarily invest funds, borrowed for the purpose of expenditure expected to incur in the reasonably near future. Borrowing purely to invest or on-lend for speculative purposes remains unlawful and the Authority will not engage in such activity.

11. Security of Capital

11.1 The Authority seeks to maintain the security of its investments by investing in high credit quality institutions. These institutions comprise the Authority's lending list. In order to establish the credit quality of the institutions and investment schemes in which the Authority invests, the Authority primarily makes use of credit ratings, both country (sovereign) ratings, and institution ratings provided by the three main ratings agencies, Fitch Rating Ltd, Moody's and Standard & Poors.

11.2 The rating criteria use the "lowest common denominator" method to selecting counters and counterparties and applying limits. This means that the application of the Authority's minimum criteria will apply to the lowest available rating for any given country or institution. The major benefit of using this approach is to further enhance the risk control process of the Authority, as credit ratings are opinions, not statements of fact or a guarantee. There may be some slight differences between the ratings provided by each agency. By using the lowest set of ratings the Authority is making a conscious effort to analyse all rating information available and adopting a prudent, risk-adverse policy on limits. Those institutions that have no ratings from a particular agency will still be considered as appropriate. Creditworthiness criteria are set out at Appendix B.

11.3 **Credit Risk Assessment:** As set out above, security of counterparties is evidenced by the application of minimum credit quality criteria, primarily through the use of credit ratings from the three main ratings agencies. These ratings are used to formulate a credit matrix to determine prudent investment periods and monetary limits and the need for diversification.

11.4 In formulating the matrix, consideration has been given to the levels of historic default against the minimum criteria used in the Authority's investment strategy. The table below, produced by Fitch Ratings, shows average defaults for differing periods of investment grade products for each long term rating category over the period 1990 to 2007.

Long Term Rating	1 year	2 years	3 years	4 years	5 years
AAA	0.00%	0.00%	0.00%	0.00%	0.00%
AA	0.00%	0.00%	0.00%	0.03%	0.06%
A	0.03%	0.15%	0.30%	0.44%	0.65%
BBB	0.24%	0.78%	1.48%	2.24%	3.11%

11.5 The Authority's credit matrix minimum long term rating for investments up to one year is "A" and the minimum rating for investments up to five years is AA. The Authority investment strategy is therefore considered low risk.

11.6 Other highly rated Counterparties and Investment Schemes that may be included on the approved lending list are:

- Eligible institutions included in the UK Government Credit Guarantee Scheme
- Building Societies with assets in excess of £3 billion;

- AAA rated Money Market Funds;
- The UK Government (Debt Management Office and Gilts);
- UK Nationalised Banks
- Other Local Authorities; and
- Supranational Institutions.

11.7 **Credit quality monitoring:** The Authority's treasury advisers, Butlers, provide credit rating information as and when ratings change and these are acted upon when received. An institution's credit quality is reviewed before any investment is made.

11.8 On occasion credit ratings may be downgraded when an investment has already been made. The creditworthiness criteria used are such that minor downgrading should not affect the full receipt of the principal and interest. Any counterparty whose ratings fall to the extent that they no longer meet the approved credit quality criteria are immediately removed from the lending list. If an institution or investment scheme is upgraded so that it fulfils the Authority's criteria, its inclusion will be considered at the Finance Service's monthly treasury meetings. The inclusion of institutions and investment schemes that meet the agreed credit criteria is delegated to the Finance Director.

11.9 Reliance is not placed on credit ratings alone. Regard is also given to other sources of information such as:

- Publicity from sources such as the financial press and internet and from ratings alerts from the credit rating agencies;
- Price movements of Credit Default Swaps, which are a financial instrument for swapping the risk of debt default, that can give an indicator of relative confidence about credit risk
- Investment rates being paid, and whether they are out of line with the market, as this could indicate that the investment is of a higher risk.

All information received is acted upon promptly as appropriate.

11.10 **Investments and Diversification across Asset Classes -** Additional security of capital is also achieved through diversification and specifying the type of investment that the Authority is prepared to invest in.

11.11 "Guidance on Local Government Investments" (see paragraph 9.1) requires the Authority to set out the investments in which it is prepared to invest under the headings of Specified Investments and Non-Specified Investments.

11.12 **Specified Investments** are those investments that meet the Authority's high credit quality as set out in paragraph 11 and also meet the following criteria;

- Are due to be repaid within twelve months of the date in which the investment was made;

- Are denominated in sterling and all repayments in respect of the investment are only payable in sterling;

- The making of the investment is not defined as capital expenditure by virtue of regulation 25(1)(d) of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 [SI 3146 as amended]

Specified investments are therefore deemed to be of low risk.

11.13 **Non-Specified Investments** are those investments deemed to have a greater potential of risk, such as investments for longer than one year or with institutions that do not have credit ratings, like some Building Societies. Limits must be set on the amounts that may be held in such investments at any one time during the year. The Authority's creditworthiness criteria for selecting non-specified investments is set out at Appendix B and Specified and Non Specified Investment categories are detailed at Appendix C.

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

UK Government	100%
Local Authorities	100%
Banks- Specified	100%
Money Market Funds	75%
Building Societies - Specified	50%
Total Unspecified Investments	50%
Non UK Government and Supranational Bonds	15%

The actual balance between the above asset classes will depend, at any one time, on the relative levels of risk, return and the overall balance of the portfolio.

12. Investment of Cash Balances and the Liquidity of Investments

12.1 **Cashflow Management** - In order to assist in managing the Authority's finances, a cashflow model is produced. The model details all known major items of income and expenditure of both a revenue and capital nature, based on Capital and Revenue budget proposals, detailed elsewhere on your agenda. Cash balances can fluctuate significantly during the course of the year due to timing differences between the receipt of cash such as grants and capital receipts and the corresponding expenditure. It is estimated that over the course of the year cash balances will vary between £18 million and £31 million. The initial cashflow estimates provide an indication of cash receipts and outgoings on a month-by-month basis.

12.2 **Liquidity:** The Authority is required to have available or access to adequate resources to enable it at all times to have the level of funds available to it, which are necessary for the achievement of its service objectives. The cashflow model provides the Authority with information on its cash requirements, detailing immediate cash requirements and indicates cash balances that are available for investment for longer periods. The liquidity of the investment portfolio is monitored regularly and reported at monthly treasury meetings with Senior Finance Officers. The minimum amount of short-term cash balances required to support cashflow management is £10 million.

12.3 The borrowing strategy set out at paragraph 6 recommends the use of internal balances to temporarily fund capital expenditure, Whilst this will help reduce the need for investing, this must be balanced against the future requirement to replace these balances, and ensure that sufficient cash is available to meet the Authority's liquidity requirements.

12.4 For debt management purposes the Authority has access to the PWLB and the money market to fund capital projects.

12.5 **Interest rates:** As set out at paragraph 4, interest rates and therefore investment returns are expected to continue to remain low throughout the year, with the average investment return anticipated to be less than 1.5%. Low investment rates will continue to have a significant impact on investment receipts.

12.6 The Authority uses the 7 day LIBID rate as a benchmark for monitoring the Authority's return on its investments.

12.7 **Banking Sector/Market turbulence:** Following the severe volatility in the banking sector, the Authority, like most other local authorities, has taken a more cautious and prudent approach to investing by placing deposits with a more restricted lending list of Banks and Building Societies acceptable within the parameters of the overall investment strategy. This list currently comprises UK banks and building societies including those that have access to the Government's rescue package, AAA rated sterling Money Market Funds, Local Authorities and the UK Government via the Debt Management Account Deposit Facility. Investment periods have also been restricted to less than twelve months.

12.8 The creditworthiness criteria for choosing counterparties set out in this report provides a sound approach to investment in "normal" market circumstances. Whilst Members are asked to approve the base criteria set out in this report, under exceptional market conditions institutions can face real and sudden difficulties with a time lag before the credit rating agencies reflect this. Therefore it is vital that the Authority maintains a strategy of responding swiftly and the Finance Director will restrict further investment activity to those counterparties, that are at any one time considered of the highest credit quality. Security of the Authority's money remains the main priority and this strategy will take precedence over yield.

12.9 Investments longer than a year: The Prudential Code requires the Authority to give consideration to longer-term investment and set an upper limit for principal sums to be invested for longer than one year. The Authority currently has no investments for longer than one year but limits must be set to continue to accommodate these, and also to allow flexibility for market improvement.

12.10 Therefore taking all of the foregoing into consideration it is recommended that the Authority set an upper limit for principal sums to be invested for longer than one year at £5 million for 2010/11, 20011/12, 2012/13, none for 2013/14 and 2014/15.

13. Investment Strategy 2010/11

13.1 **In summary** – considering the factors set out above, the recommended Investment Strategy is:

(i) That cash balances, not immediately required to finance expenditure, are lent to the money market for the most appropriate periods as indicated by the cashflow model and current market and economic conditions;

(ii) That liquidity is maintained by the use of overnight deposits and call funds;

(iii) That the minimum amount of short-term cash balances required to support cashflow management is £10 million;

(iv) That the upper limit for investments longer than one year is £5 million;

(v) That the maximum period for longer term lending be 5 years.

(vi) That all investment with institutions and investment schemes is undertaken in accordance with the Authority's creditworthiness criteria as set out at Appendix B;

(vii) That more cautious investment criteria are maintained during times of market uncertainty;

(viii) That all investment with institutions and investment schemes is limited to the types of investment set out under the Authority's approved "Specified" and "Non-Specified" Investments detailed at Appendix C, and that professional advice continues to be sought if appropriate;

(ix) That all investment is managed within the Authority's approved asset class limit as set out at paragraph 11.14.

14. Provision for Credit-related losses

14.1 If any of the Authority's investments appear at risk of loss due to default, provision would need to be made from revenue for the appropriate amount. The Authority currently has no direct exposure to any banking failure other than as set out below.

14.2 As members are aware an adjustment in the 2008/09 accounts has been made to account for impairment of the £1 million investment to Heritable Bank. To date the Authority has received a total of £303,611 of the recoverable amount. It is currently anticipated, based on the advice from the liquidator, that on a prudent basis a total of £843,790 will be recovered in due course.

15. Member and Officer Training

15.1 One of the main requirements of the revised Treasury Management Code of Practice requirements is the increased Member and Officer consideration of treasury management matters and the need to ensure that officers dealing with treasury management are trained and keep their skills up to date. The Authority proposes to address this important issue by:

- Offering Members the opportunity to attend training sessions, briefings and reports on treasury management and investment issues.

- Requiring all relevant Officers to keep their skills up to date by utilising both external and internal training workshops and seminars, and by participating in the CIPFA Treasury Management Forum and other relevant local groups and societies;

- CIPFA and the Association of Corporate Treasurers (ACT) have jointly introduced the Certificate in Treasury Management – Public Services qualification. Treasury officers will undertake this qualification as appropriate.

16. Prudential Indicators for Treasury Management

16.1 The key objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable. Further, that Treasury Management decisions are taken in accordance with good professional practice. To demonstrate that local authorities have fulfilled these objectives, the revised Prudential Code of Practice and revised CIPFA Treasury Management Code set out the indicators that must be used, and the factors that must be taken into account.

16.2 Prudential Indicators for Treasury Management relate to:

- The adoption of the CIPFA Code of Practice for Treasury Management;

- Limits for external debt;

- Interest rate exposures;

- Maturity structure of borrowings; and

- Investment for periods of longer than one year.

16.3 The Treasury Management indicators are not targets to be aimed at, but are instead limits within which the Treasury Management policies of the Authority are deemed to be prudent.

16.4 The CIPFA Code of Practice in Treasury Management - The Authority has adopted the CIPFA Code of Practice in Treasury Management in the Public Services and subsequent revisions as part of its Financial Standing Orders. In November 2009, CIPFA published a revised Code of Practice. The Authority has incorporated the revised code into the Authority's Treasury Management Policies and Practices, where appropriate. The necessary changes to Standing Orders are set out in Appendix D. Members are asked to approve these changes.

16.5 In accordance with the CIPFA Code of Practice in Treasury Management, the Authority has an approved Treasury Management Policy Statement. This is a short policy statement, which sets out core strategic issues and was last revised in March 2002. The Treasury Management Policy Statement is reviewed periodically and amended if policies change. The revised Code of Practice recommends some minor amendments to the wording to enhance clarity. The Statement has been reviewed and the recommended amendments incorporated. The revised Treasury Management Policy Statement is attached as Appendix 1 for approval.

16.6 **Authorised limit for External Debt 2010/11 – 2012/13 and indicative limits for 2013/14 and 2014/15** - The authorised limit for external debt represents total external debt, gross of investments, and separately identifies borrowing from other long-term liabilities such PFI Schemes and leasing. The authorised limit is based on the Authority's spending plans, makes allowance for short-term cashflow movements and provides sufficient headroom for unusual cash movements.

16.7 In order to determine the authorised limit, a number of assumptions need to be made on the possible future use of borrowing. Borrowing can be used to finance capital expenditure over and above that supported by government grant, or to cover for slippage in the realisation of capital receipts, as an alternative form of financing e.g. instead of leasing, and for short-term treasury management purposes. Provision has also been made within the authorised limit to replace the temporary use of internal borrowing with external borrowing if rates are deemed favourable. The following table sets out limits that represent the maximum amount of gross debt:

Authorised Limit for External Debt

	2010/11 £'000	**2011/12 £'000**	**2012/13 £'000**	**2013/14 £'000**	**2014/15 £'000**
Est. external debt b/f	1,610	2,010	2,288	2,288	2,050
Borrowing requirement	400	400	-	-	-
Maturing debt	-	(122)	-	(238)	-
	2,010	2,288	2,288	2,050	2,050
Short term/cashflow requirements and contingency provision	11,000	11,500	11,500	11,700	12,000
Total External Debt	**13,010**	**13,288**	**13,688**	**13,050**	**13,050**

It is therefore recommended that the total Authorised Limit for External Debt for 2010/11 to 2014/15 set at £13 million.

16.8 **Operational Boundary for External Debt 2010/11** – 2012/13 and indicative limits for 2013/14 and 2014/15 - As with the authorised limit for external debt, the operational boundary represents total external debt, gross of investments, and separately identifies borrowing from other long term liabilities. The operational boundary is based on the same assumptions as the authorised limit but reflects the most likely estimate, i.e. a prudent but not the worst-case scenario of gross debt, as assumed in the authorised limit. This has resulted in a reduction of £6 million by comparison with the authorised limit.

16.9 The operational boundary is a key monitoring tool and whilst it may be breached temporarily due to cashflow variations, a sustained or regular trend above the operational boundary would be significant and lead to further investigation and action as appropriate.

Operational Boundary for External Debt

	2010/11 £'000	2011/12 £'000	2012/13 £'000	2013/14 £'000	2014/15 £'000
Borrowing	5,000	5,500	5,500	5,700	6,000
Other Long Term Liabilities	**-**	**-**	**-**	**-**	**-**
TOTAL	**5,000**	**5,500**	**5,500**	**5,700**	**6,000**

It is therefore recommended that the total operational boundary for external debt for 2010/11 to 2012/13 be set at £5 million and indicative limits for 2013/14 be set at £5.7 million and 2014/15 be set at £6 million.

16.10 **Interest rate exposure 2010/11 – 2014/15** –The management of interest rate risk is a priority for the Authority. This is recognised in the Prudential Code, which requires the Authority to establish operational boundaries on net interest rate exposure. These are set by way of two Prudential Indicators, the upper limit on fixed interest rate exposure and the upper limit on variable rate interest exposure. The indicators are calculated by netting off projected borrowing and lending estimates as follows:

Upper Limits on Interest Rate Exposures

	2010/11 £'000	2011/12 £'000	2012/13 £'000	2013/14 £'000	2014/15 £'000
Fixed Rate	8,000	8,300	8,700	8,000	8,000
Variable Rate	(29,000)	(23,000)	(23,000)	(23,000)	(23,000)

The net principal sums represent the annual upper exposure limit.

16.11 The limits indicate that all of the Authority's borrowing is fixed. Investments, because they are invested mainly for less than one year, are classified as variable and income is therefore subject to movement in base rates. In addition, some longer-term investments are classed as variable as the interest rate can be varied at agreed periods throughout the life of the investment. As cash balances fluctuate significantly throughout the year the figure for projected lending is based on the estimated maximum position.

16.12 The Authority's Treasury Management Practices require the setting of a local indicator for the percentage of borrowing at fixed and variable rates. The borrowing strategy recommends an upper limit of 100% for fixed rate borrowing, and in order to maintain flexibility should interest rates fall much more quickly than expected, that the percentage of variable rate borrowing be set at an upper limit of 25%. This would not breach the upper limit on variable rate exposure.

16.13 **Maturity Structure of Borrowings** – in order to avoid the risk of having to refinance a significant proportion of debt at any one time in the future when interest rates may be volatile or uncertain, the Prudential Code requires the Authority to set upper and lower limits with respect to the maturity structure of its fixed rate borrowings. These are shown below and are consistent with previous practice and the Authority's Treasury Management Practices.

	Upper Limit	Lower Limit
Under 12 months	25%	0%
12 Months and within 2 years	40%	0%
2 years and within 5 years	60%	0%
5 Years and within 10 Years	80%	0%
10 Years and within 20 Years	100%	0%
20 Years and within 35 Years	100%	0%
35 Years to 50 years	100%	0%

16.14 **Investments for longer than 364 days** – within the Annual Investment Strategy, paragraph 12.10, the following amounts have been identified as available for longer term investment,

2010/11 £'000	2011/12 £'000	2012/13 £'000	2013/14 £'000	2014/15 £'000
5,000	5,000	5,000	5,000	5,000

17. Recommendations

17.1 Members are asked to agree:

(i) The Minimum Revenue Provision policy statement as set out at paragraph 8;

(ii) Authorised Limit for External Debt as set out at paragraph 16.7;

(iii) Operational Boundary for External Debt as set out at paragraph 16.8;

(iv) Upper Limits on Interest Rate Exposures as set out at paragraph 16.10;

(v) Amount of Projected Fixed Rate Borrowing that is Maturing in each Period as a Percentage of Total Projected Borrowing that is Fixed Rate as set out at paragraph 16.13;

(vi) Upper Limit for Total Principal Sums Invested for more than 364 days as set out at paragraph 16.14

(vii) That the authority adopts the revised CIPFA Treasury Management in the Public Services Code of Practice as revised in November 2009 as set out at paragraph 16.4.

G Pearce
FINANCE DIRECTOR

Appendices	
A	Treasury Management Policy Statement
B	Investment Criteria
C	Approved List of Specified and Non Specified Investments
D	Revised Standing Orders on Treasury Management
E	Glossary
Background Papers	
None	

TREASURY MANAGEMENT POLICY STATEMENT

1. The Authority defines its Treasury Management activities as:

    - The management of the organisation's investments and cash flows, its banking, money market and capital market transactions;

    - The effective control of the risks associated with those activities; and

    - The pursuit of optimum performance consistent with those risks.

2. The Authority regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its Treasury Management activities will be measured. Accordingly, the analysis and reporting of Treasury Management activities will focus on their risk implications for the organisation.

3. The Authority acknowledges that effective Treasury Management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in Treasury Management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

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CREDITWORTHINESS

(Extract from Treasury Management Practices)

The Authority is required to invest prudently and demonstrate that priority is given to security and liquidity before yield. Creditworthiness covers:-

1. Credit quality for selecting counterparties.

2. Credit ratings for institution and country.

1. Credit Quality

The criteria for providing a pool of high quality investment counterparties for both Specified and Non Specified investments is as follows:

- **Banks with a Good Credit Quality**

  a) UK banks

  b) Non UK banks domiciled in a country, which has a minimum Sovereign long term rating of AA+

  c) Meet the short term and or long-term credit matrixes set out in 2 below.

- **Guaranteed Banks with suitable Sovereign Support**

  The Authority will use banks whose ratings fall below the criteria specified above if the following conditions are met:

  a) the wholesale deposits in the bank are covered by a government guarantee.

  b) the government providing the guarantee is rated at least AA+ by all three major rating agencies.

  c) the Authority's investments with the bank are limited to amounts and maturities within the terms of the stipulated guarantee.

- **Eligible Institutions under the HM Treasury Credit Guarantee Scheme**

- **UK Nationalised Banks**

- **The Authority's banker – National Westminster Bank (NWB),** for transactional purposes. NWB is a subsidiary of the Royal Bank of Scotland, For investment purposes investments are made with the Royal Bank of Scotland (RBS). RBS is an eligible institution. If this were to cease and the ratings of RBS did not meet the credit matrix criteria then cash balances are to be minimised in both monetary size and time.

- **Bank Subsidiary and Treasury Operations**

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

- **Building Societies** –the Council will use all Societies which

(a) Meet the ratings for banks outlined in the credit matrix

(b) Are Eligible Institutions

(c) Have assets in excess of three billion and ranked within the top 10 building societies.

- **AAA rated Money Market Funds**

- **UK Government** (including gilts and the Debt Management Account Deposit Facility)

- **Local Authorities**

- **Supranational Institutions**

- **Corporate Bonds**

2. Credit Criteria

The Authority adopts a range of credit rating criteria. Creditworthiness is based on the credit ratings of all three credit rating agencies supplied by Fitch, Moody's, and Standard & Poors. Where appropriate, the rating criteria applied will be the "**lowest common denominator"** method for selecting counterparties and applying limits using all three credit rating agencies. This means that the application of the Authority's minimum criteria will apply to the lowest available rating for any institution. For instance, if an institution is rated by two agencies, one meets the Authorityl's criteria, the other does not, then the institution will fall outside the lending criteria. This is in compliance with the revised CIPFA Treasury Management Code of Practice.

Short Term Credit Matrix

For short term lending (less than one year) the following minimum credit criteria for Banks and Rated Building Societies will apply using the lowest common denominator method:

	Fitch	**Fitch**	**Moody's**	**Moody's**	**S&P's**	**S&P's**
	Highest	**Lowest**	**Highest**	**Lowest**	**Highest**	**Lowest**
Long term credit	AAA	A	Aaa	A2	AAA	A
Short term credit	F1+	F1	P-1	P-2	A-1+	A-1
Individual standing	A	C	*	*	*	*
Financial Strength	*	*	A	C	*	*
Support	1	3	*	*	*	*

***** no equivalent / comparable rating criteria

Long Term Credit Matrix

For Long Term lending (more than one year), the following minimum credit criteria will apply using the lowest common denominator method:

	Fitch	Fitch	Moody's	Moody's	S&P's	S&P's
	Highest	Lowest	Highest	Lowest	Highest	Lowest
Long term credit	AAA	AA-	Aaa	P1	AAA	AA-
Short term credit	F1+	F1+	P-1	P-1	A-1+	A-1+
Individual standing	A	C	*	*	*	*
Financial Strength	*	*	A	C	*	*
Support	1	2	*	*	*	*

***** no equivalent / comparable rating criteria

Long Term – relates to long term credit quality

Short Term – relates to short term credit quality

Individual/Financial Strength – Strength of the organisation as a stand alone entity

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

- **Monitoring of Investment Counterparties**

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

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

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

- **Country Sovereignty Considerations**

  Due care will be taken to consider the country, group and sector exposure of the Council's investments, no more than 25% of the total investment portfolio will be placed with any non UK country at any time.

  For countries other than the UK, sovereignty ratings for overseas banks must fall within the ratings matrix using the lowest common denominator approach before they can be considered for inclusion on the lending list and then each individual foreign institution must meet the criteria as detailed as high credit quality and the credit matrixes.

	Fitch	Fitch	Moody's	Moody's	S&P's	S&P's
	Highest	Lowest	Highest	Lowest	Highest	Lowest
Sovereign ratings	AAA	AA+	Aaa	Aa1	AAA	AA+

A Fitch rating of 'AAA' denotes the highest credit rating quality with the lowest expectation of default risk. The lowest rating "C" denotes that default is imminent and a rating of 'D' denotes that the issuer is currently in default.

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

(Extract from Treasury Management Practices)

Specified Investments are sterling investments of not more than one year maturity, or those which could be for a longer period, but where the Authority has the right to be repaid within 12 months if it wishes. These are considered low risk assets where the possibility of loss of principal is small..

INVESTMENT	SECURITY/CREDIT RATING	USE
UK Government and Local Authorities with less than one year maturity.	High Security.	In House
Money Market Funds	Rated AAA.	In House
Bank of High credit quality as detailed above - for deposits with maturity less than one year.	See table and criteria above. Lowest common denominator matrix Meets sovereignty criteria Eligible Institutions	In House
Building Society of High credit quality as detailed above - for deposits with a maturity less than one year.	See table and criteria above. Lowest common denominator matrix, or assets of at least £3bn in top 10 building societies. Eligible Institutions.	In House
The Council's own banker - if it fails to meet the basic criteria, in this instance balances to be minimised as much as possible.	Eligible Institution.	In House
Supranational Bonds	Government backed.	To be used in house after consultation from Treasury Advisory or use of external fund manager.
Certificates of Deposit issued by banks and building societies	Short-term lowest common denominator matrix. Government backed.	To be used in house after consultation from Treasury Advisory or use of external fund manager.
UK Government gilts with a maturity of less than one year. These are government bonds and provide the highest security of interest.	Government backed.	To be used in house after consultation from Treasury Advisory or use of external fund manager.

Gilt funds and Bond Funds	Government backed.	To be used in house after consultation from Treasury Advisory or use of external fund manager.
Treasury Bills	Government backed.	To be used in house after consultation from Treasury Advisory or use of external fund manager.

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

(extract from Treasury Management Practices)

Non Specified Investments are any other type of investments that do not fall under the Specified classification.

In accordance with the guidance issued by the Secretary of State effective from 1 April 2010, a limit must be stated for the upper limit that may be held in non-specified investments at any time. This limit has been set at 50% of the total portfolio as per the asset class limit set in the Investment Strategy Report.

Unrated banks, building societies and other institutions are classed as non-specified investments irrespective of the investment period.

INVESTMENT	SECURITY/CREDIT RATING	Maximum term	USE
Unrated Building Societies	Market capitalisation over £3bn in top 10 building societies.	364 days	In House

All long-term investments are constrained by the Prudential Indicator Limits as set out below:

Upper Limit for Total Principal Sums Invested for more than 364 days

2010/11 £'000	2011/12 £'000	2012/13 £'000	2013/14 £'000	2014/15 £'000
5,000	5,000	5,000	5,000	5,000

The table below details the total percentage of the Annual Principal Sums Invested for more than 364 days that can be held in each category of investment, for example 100% of the Principal Sums limit can be held with Eligible Institutions at any one time.

INVESTMENT (All in Sterling)	SECURITY/CREDIT RATING	Maximum term	USE	Upper Limit % of the Total Principal sums for each year
Eligible Institutions - these institutions have access to HM Treasury Liquidity if needed.	Government backed.	5 Years	In House	100%

UK Government more than one year maturity.	High Security.	5 years	In House	100%
Local Authorities more than one year maturity.	High Security.	5 years	In House	100%
Bank of High credit quality as detailed above - for deposits with a maturity more than one year.	See table and criteria above. Lowest common denominator matrix Meets sovereignty criteria	5 Years	In House	100%
Building Society of High credit quality as detailed above - for deposits with a maturity more than one year.	See credit criteria table. Lowest common denominator matrix or assets of at least £3bn and in top 10.	5 years	In House	100%
Certificates of Deposit issued by banks and building societies	Short term lowest common denominator matrix Sovereignty government guarantee.	5 Years	External fund manager	50%
Government Gilts with a maturity of more than one year.	Government backed.	5 years	In house after consultation from Treasury Advisory or use of external fund manager.	50%
Gilt funds and Bond Funds	Government backed.	5 years	In house after consultation from Treasury Advisory or use of external fund manager.	50%

AMENDMENTS TO ELWA'S STANDING ORDERS ON TREASURY MANAGEMENT (D40-6.9)

<u>Amendments are indicated in italics</u>

6.9. Treasury Management

6.9.1. ***The Authority has adopted the CIPFA Treasury Management in the Public Services Code of Practice as revised in November 2009.***

6.9.2. ***The content of the policy statement and the Treasury Management Practices will follow the recommendations contained in Section 6 and 7 of the Code, subject only to amendment where necessary to reflect the particular circumstances of the Authority. Such amendments will not result in the organisation materially deviating from the Code's key principles.***

6.9.3. Accordingly, the Authority will adopt and maintain, as the cornerstones for effective treasury management: -

a) A Treasury Management Policy Statement, stating the purposes and objectives of its treasury management activities (*see Below*); and

b) Suitable Treasury Management Practices setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

6.9.4. All money in the hands of the Authority is aggregated for the purposes of Treasury Management and is under the control of the Finance Director.

6.9.5. The Authority has responsibility for the implementation, amendment and monitoring of its treasury management policies. The Finance Director has delegated responsibility for the implementation, amendment and monitoring of the Treasury Management Practices and the execution and administration of treasury management decisions and will act in accordance with the Authority's Treasury Management Policy Statement and Treasury Management Practices and, if he/she is a CIPFA member, CIPFA's Standard of Professional Practice on Treasury Management.

6.9.6. The Finance Director shall report to the Authority on its Treasury Management Policies, practices and activities, including as a minimum, an Annual Strategy and Plan in advance of the year, and an annual report after its close, in the form prescribed in the Treasury Management Practices.

6.9.7. ***The Authority is responsible for ensuring effective scrutiny of the treasury management strategy and policies.***

TREASURY MANAGEMENT POLICY STATEMENT

1. The Authority defines its Treasury Management activities as:

   - The management of the organisation's ***investments*** and cash flows, its banking, money market and capital market transactions;

   - The effective control of the risks associated with those activities; and

   - The pursuit of optimum performance consistent with those risks.

2. The Authority regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its Treasury Management activities will be measured. Accordingly, the analysis and reporting of Treasury Management activities will focus on their risk implications for the organisation.

3. The Authority acknowledges that effective Treasury Management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of ***achieving value for money*** in Treasury Management, and to employing suitable ***comprehensive*** performance measurement techniques, within the context of effective risk management.

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GLOSSARY

Asset Class Limits	Limit on the amount of the total portfolio that can be invested an asset class for example credit rated Banks, Money Market Funds unrated Building Societies
Asset Life	The length of the useful life of an asset e.g. a school
Borrowing / Investment Portfolio	A list of loans or investments held by the Council.
Borrowing Requirement	The amount that the Council needs to borrow to finance capital expenditure and manage debt.
Capitalisation direction	Government approval to use capital resources to fund revenue expenditure.
CIPFA Code of Practice on Treasury Management	A code of practice issued by CIPFA detailing best practice for managing the treasury management function.
Counterparty	Banks, Building Societies and other financial institutions that the Council transacts with for borrowing and lending.
Credit Arrangements	Methods of financing such as the use of finance leases
Credit Ratings	A scoring system used by credit rating agencies such as Fitch, Moody's and Standard and Poors to indicate the creditworthiness and other factors of a Governments, banks, building societies and other financial institutions.
Creditworthiness	How highly rated an institution is according to its credit rating.
Debt Management Office	An agency of the HM Treasury and its responsibilities include debt and cash management for the UK Government
Debt Rescheduling	Refinancing loans on different terms and rates to the original loan.
Fitch Ratings	A credit rating agency.
Gilts	Issued by the UK Government in order to finance public expenditure.
Interest Rate exposures	A measure of the proportion of money invested and what impact movements in the financial markets would have on them.

Lender Option Borrower Option (LOBO)	Loans that have a fixed rate for a specified number of years then can be varied by the lender at agreed intervals for the remaining life of the loan.
Limits for external debt	A Prudential Indicator prescribed by the Prudential Code sets limits on the total amount of debt the Council could afford.
Liquidity	Access to cash that is readily available.
Lowest Common Denominator	Whereby rating agencies provide credit ratings of institutions and the lowest rating is applied to determine whether they meet the criteria to be on the Council's lending list.
Maturity	The date when an investment is repaid or the period covered by a fixed term investment.
Maturity Structure of Borrowings	A profile of the Council's loan portfolio in order of the date in which they expire and require repayment.
Minimum Revenue Provision	The minimum amount, which must be charged to an authority's revenue account each year for the prudent repayment of debt.
Money Market Funds	Funds run by banks and other financial institutions.
Moody's	A credit rating agency.
Non Specified Investments	Investments deemed to have a greater potential of risk, such as investments for longer than one year or with institutions that do not have credit ratings, like some Building Societies. Limits must be set on the amounts that may be held in such investments at any one time during
Prudential Borrowing	Borrowing undertaken by the Council that does not attract government support to help meet financing costs.
Prudential Code for Capital Finance in Local Authorities	The capital finance system is based on the Prudential Code developed by CIPFA. The key feature of the system is that local authorities should determine the level of their capital investment and how much they borrow to finance that investment based on their own assessment of what they can afford.
Prudential Indicators	The key objectives of the Prudential Code are to ensure that the capital investment plans are affordable, sustainable and prudent. As part of this framework, the Prudential Code sets out several indicators that must be used to

	demonstrate this.
Public Works Loan Board (PWLB)	A central government agency, which provides loans to local authorities and other, prescribed institutions at interest rates slightly higher than those at which the Government itself can borrow.
Credit Rated	Institutions that possess a credit rating from a credit rating agency such as Fitch, Moody's or Standard and Poors.
Risk Control	Putting in place processes to control exposures to events.
Security	Placing cash in highly rated institutions.
Specified Investments	Investments that offer high security and liquidity. They must have a maturity of no longer than 364 days.
Standard and Poors	A credit rating agency.
Supranational Institutions	Multi national structures - an amalgamation of different countries offering investment opportunities - for example Euro Investment Bank

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

EAST LONDON WASTE AUTHORITY

01 FEBRUARY 2010

EXECUTIVE DIRECTOR'S REPORT

RISK STRATEGY – UPDATE FOR 2010/11	**FOR APPROVAL**

1 Purpose

1.1 To update the Risk Register approved last year (Minute 1634).

2 Background

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

2.2 The Risk Registers and a Risk Matrix were further developed in 2008 with the support of a risks management consultant from the JLT Group (who are also the Authority's insurance advisers) and the Insurance and Risk Manager at the London Borough of Redbridge.

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

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

3 The Risk Register

3.1 The Registers of Strategic Risks and Operational Risks have been set out in Appendix B1 and B2. These Registers have been reviewed with a further year's experience and the outcome is described in paragraph 3.3 below.

3.2 Further amendments will be required in due course to reflect:

a) any consequential changes arising from the separate report on the agenda regarding the Constitution. For example, the changes in the Management structure will require amendments to the 'Risk Holder' in the last column of the Register;

b) implications on the risk analysis arising from the potential changes in ownership of the Shanks Group;

c) the tightening financial constrains on local government and general economic downturn are both having a direct impact on the Constituent Councils. This will inevitably have consequences for the finances of ELWA, and is therefore likely to have an impact on certain Strategic and Operational risk assessments.

3.3 There have been no new risks added to the Risk Registers and only two increases in risk relating to items already in the Register.

3.4 The following items, following review, have been amended.

a) Strategic Risk Register;

INCREASED	Number 14	It looks very likely that AML will cease trading in the near future and that alternative arrangements will have to be put in place.
REDUCED	Numbers 2 & 3	The likelihoods of ‘Corporate divisions and disagreements’ and the ‘withdrawal of co-operation of Boroughs’ have been reduced following the agreement of the way forward in respect to the Governance Review.
REDUCED	Numbers 4 & 12	The likelihoods of ‘breakdown in relation with Shanks’ and ‘performance of ELWA adversely impacts upon four Boroughs’ performance’ have been reduced following the improvement in contract performances being achieved in the current year.

b) Operational Risk Register

INCREASED	Number 1	It is likely that Arden House will be closed in the near future and Arden House staff and documents transferred to a new location.

4 Mitigation of Risk

4.1 The Risk Registers assess the ‘Gross’ position and the ‘Net’ position. The ‘Net’ position assesses the Net Likelihood and Net Impact of a Risk after account is taken of the High Level Controls and Mitigation Controls set out and described in the Table. In order to simplify this report only the Net position is displayed in Appendix C1.

5 The Risk Matrix

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

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

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

5.4 There are no Operational Risks currently in the top right of the Risk Matrix Table, ie. needing priority consideration at this time.

5.5 The Risk Matrix Definitions in Appendix C2 sets out the categories of Likelihood (1 to 4) and categories of Impact (1 to 4) used to compile the Matrix from the Risk Registers. The values attributed to each category of risk have been reviewed to reflect the current circumstances, and the Authority's higher level of turnover and resources.

6 Financial Implications

6.1 The review of the Register and Matrix this year has been carried out by ELWA staff and no external costs have been incurred.

6.2 The development of Action Plans to minimise exposure to risks could require additional resources for implementation if financial provision has not already been made as a result of the current ELWA Strategies.

6.3 The Authority must consider the level of contingencies and reserves that are appropriate to cover the exposure to costs incurred if identified (and unidentified) risks actually occur. This assessment is included in the Levy Report elsewhere on the Agenda.

7 Conclusion and Recommendations

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

7.2 Members are recommended to:-

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

Tony Jarvis
EXECUTIVE DIRECTOR

Appendices		
A	The Risk Management Strategy	
B1	The Strategic Risks Register	
B2	The Operational Risks Register	
C1	The Risk Matrix – Net	
C2	The Risk Matrix - Definitions	
Background Papers		
02/02/09	Authority Report and Minute 1634	Risk Strategy – Update for 2009/10
04/02/08	Authority Report and Minute 1544	Risk Strategy – Update for 2008/09
05/02/07	Authority Report and Minute 1476	Development of Risk Registers
06/02/06	Authority Report and Minute 1405	Risk Strategy
23/12/02	IWMS Contract	Risk Matrix

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RISK MANAGEMENT STRATEGY	elwa

ELWA's Vision and Objectives

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

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

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

1 What is Risk Management

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

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

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

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

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

2 Purpose of the Risk Management Strategy

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

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

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

3 Benefits of Risk Management:

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

4 How will we deliver the benefits:

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

5 Types of Risk

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

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

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

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

6 The Risk Management Process

Identifying the Risks

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

Prioritising the Risks

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

Mitigation Strategies

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

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

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

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East London Waste Authority (ELWA) Ltd – Strategic Risk Register January 2010

ID Number	Risk Description	Consequences	Category	Likelihood Gross	Likelihood Net	Impact Gross	Impact Net	High Level Controls	Mitigation Controls	Risk Holder
1	Abolition of the Authority	1. Higher precept costs 2. Disruption to waste disposal planning 3. Adverse media attention 4. Four Boroughs more remote from service.	Corporate	1	1	2	2	Legislation required Political opposition / London Councils	Compatible strategic goals with GLA	Managing Director
2	Corporate divisions and disagreements	1. Delayed decision making 2. Uncertainty over way forward	Corporate	1 (2)	1 (2)	2 (3)	2	Joint Waste Management Strategy. Open dialogue at all levels within Boroughs.	IWMS Service Delivery Plans Governance review	Board
3	Withdrawal of cooperation of Borough(s)	1. Long term future of partnership in doubt 2. Relationship with contractor suffers. 3. Performance falls	Partnership	1 (2)	1 (2)	3	2	Joint Waste Management Strategy. Open dialogue at all levels with Boroughs.	IWMS Service Delivery Plans Governance review	Board
4	Breakdown of relationship with Shanks Waste Management Ltd	1. Non co-operation by Contractor 2. Problems not resolved. 3. Performance suffers. 4. Eventual failure of PFI contract	Partnership	2 (3)	2 (3)	3	3	Contractual Provisions & Penalties. Role of ELWA Ltd to resolve. Dispute Resolution Procedures in Contract.	Partnership interfaces at all levels. IWMS Service Delivery Plans.	Executive Director
5	Major Service failure by ELWA Ltd	1. Re-tender costs for ELWA. 2. Adverse media attention. 3. Massive threat to services	Performance	2	2	3	3	Representation on ELWA Ltd Board. Contract Monitoring by ELWA, Boroughs and London Remade. Intervention by the Banks.	Service Delivery Plans include contingency arrangements. Penalty regime for service failures. Parent Co. guarantee	Operations Director
6	Termination of IWMS Contract e.g. on Force Majeure event or insolvency of Shanks Waste Management Ltd	1. Re-tender costs for ELWA Ltd 2. Adverse media attention 3. Disruption of services	Financial	2	2	4	4	Provisions in IWMS Contract Monitor press reports. Review financial results and accounts.	ELWA Ltd contingency plans. Parent Co. guarantees. ELWA files of licences and operation manuals. External advisers fully prepared.	Executive Director
7	Failure to effectively manage waste in accordance to regulations	1. Site closures 2. Waste not dealt with 3. Fines 4. Adverse media attention	Environmental	1	1	3	3	Contractual requirements. Contract Monitoring arrangements. Maintain high level of national involvement and expertise.	Penalty regime. Contractor contingency plans. Change of law provisions in IWMS Contract.	Executive Director
8	Instantaneous pollution event on a closed landfill site e.g. explosion	1. Clear-up costs 2. Scrutiny of techniques used 3. Adverse media attention 4. Local resident concerns 5. H&S Event 6. Financial penalties by EA 7. Prosecution 8. On-site remediation	Environmental	2	2	3	2	Site engineering pre 1990 Risk assessments in 2005 Inspection by on-site staff.	Insurance cover is in place for rapid or instant event.	Technical Director

( ) previous year

ID Number	Risk Description	Consequences	Category	Likelihood Gross	Likelihood Net	Impact Gross	Impact Net	High Level Controls	Mitigation Controls	Risk Holder
9	Gradual pollution event on a closed landfill site	1. Clear-up costs 2. Scrutiny of techniques used 3. Adverse media attention 4. Local resident concerns 5. Financial penalties eg EA 6. Prosecution 7. On and off site remediation	Environmental	3	2	3	2	Site engineering pre 1990 Risk assessments in 2005 Bi Annual testing since 2005	Environmental impairment liability insurance is now in place.	Technical Director
10	New statutory requirements	1. New investment required. 2. Chance in contract negotiated.	Legislative	3	2	3	3	Maintain high level of national involvement and expertise.	Contingency plans. Change of law provisions in IWMS Contract.	Executive Director
11	Financial reserves are too low to meet unforeseen circumstances	1. Progress is limited by lack of resources 2. Subsequent levy increases are unpredictable	Finance	2	1	2	2	Medium Term financial strategy. Risk Management strategy. Joint strategies with Borough and Contractor.	Maintain risk register. Maintain reserves at adequate level. Keep insurances under review. Awareness of potential new regulations.	Financial Director
12	Performance of ELWA adversely impacts upon the four Borough's CAA scores	1. Failure in joint working and joint planning 2. Disputes hamper progress 3. Pressure on future ELWA strategies 4. Impact on contractor	Performance	2 (3)	2	2	2	Joint Waste Management Strategy. Open dialogue at all levels with Boroughs.	IWMS Service Delivery Plans. ELWA staff support CPA process in Boroughs.	Board
13	Loss of key staff / lack of succession planning	1. Authority fails to meet statutory requirements. 2. Lack of knowledge and experience in monitoring the PFI contract. 3. Loss of strategic direction.	Performance	3	2	2	2	Review structure. Additional members of staff. Succession planning	Use of advisors. Arrangements with London Remade. Involvement of Borough Officers.	Managing Director
14	Viability of Aveley Methane Ltd within next 3 year period	1. AML ceases trading. 2. Landfill gas requires managing. 3. Additional management responsibilities.	Environmental	4 (3)	4 (3)	2	2	AML Board meetings. Review financial results and accounts.	Contingency plans Use of advisors	Executive Director
15	Definite plans for medium and long term improved performances	1. Failure to meet Borough recycling targets. 2. Poor perception of Authority. 3. Increased landfill costs.	Performance	3	2	3	3	Medium and long term strategy planning with contractor.	IWMS Service Delivery Plans	Board

( ) previous year.

KEY TO GROSS/NET LIKELIHOOD AND IMPACT

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

BACKGROUND INFORMATION FOR THE COMPILATION OF THE RISK REGISTERS

Reports to ELWA on Closed Landfill Sites in 2004 to 2009
Annual review of Insurance Arrangements
Work Plan Monitoring ELWA Management Board 2009
IWMS Contract Provisions 2002 and Service Delivery Plans
ELWA Constitution
Joint Waste Management Strategy 2005
Medium Term Financial Forecasts and Levy Reports annually
Annual External and Internal Audit Reports
Contingency Reviews in Service Delivery Plans

East London Waste Authority (ELWA) Ltd – Operational Risk Register January 2009

ID No.	Risk Description	Consequences	Likelihood Gross	Likelihood Net	Impact Gross	Impact Net	High Level Controls	Mitigation Controls	Risk Holder
1	Loss of Arden House and documents contained within	1. Unable to access important documents 2. Loss of critical data 3. Monitoring and reporting are weakened	3(2)	2	2	1	Landlord responsibilities for accommodation. Daily IT backup by LBBD	Key contractual documents held elsewhere (Wragge & Redbridge). IT link up for home-working or hot desking within LBBD. Insurance	Office Manager
2	Closure of public waste disposal site	1. Unable to receive waste from public 2. Potential for fly tipping near the site 3. Adverse local media attention 4. Poor perception of the Authority	2	1	2	2	Contractual performance requirements. Alternative sites if one closes	Penalty regime on contractor.	Assistance Executive Director
3	Trespass on closed landfill site leading to death / serious injury	1. HSE / Police investigation 2. Adverse national media attention 3. ELWA security provisions called into question	3	3	3	2	Quarterly review of site security. Appropriate signage	Insurance cover.	Assistance Executive Director
4	Closure of a key waste facility	1. Service to Boroughs disrupted 2. Significant costs if a long period.	2	1	3	2	Contractor contingency plans.	Penalty regime on contractor. ELWA Ltd Insurances	Assistance Executive Director
5	Major Health & Safety event at a waste site or at office	1. HSE / Police investigation 2. Adverse national media attention 3. ELWA Ltd safety provisions called into question 4. Disruption to admin	2	2	2	1	Contractual requirements. Contract Monitoring Landlord requirements.	Penalty regime on contractor. Contractor Health and Safety procedures monitored.	Assistance Executive Director / Office Manager
6	Major failure of technology e.g. shakers / pushers / Screens / Conveyors	1. Performance is poor 2. Viability of contract is in doubt	3	3	3	2	Contractual performance requirements receive waste.	Penalty regime on contractor. ELWA Ltd insurance cover.	Assistance Executive Director
7	High level of customer complaints	1. Poor perception of the Authority 2. Adverse media attention 3. Indicator of contractor failure?	2	1	2	2	Contractual service requirements. Complaints monitoring systems.	Penalty regime on Contractor. Contract monitoring by ELWA, Boroughs and London Remade	Contracts Manager
8	Extreme weather conditions e.g. Heavy snow, flood	1. Failure to transfer waste to landfill sites 2. Backlog of waste 3. High cost of clearance	3	3	2	2	Contractual service requirements.	Contractor contingency plans. Thames Barrier. Borough diversions.	Assistance Executive Director
9	Discovery of hazardous substances	1. Suspension of activities 2. Cost of removal and treatment of substances	3	3	2	2	Contractual service requirements.	Specific contractor arrangements for hazardous waste. Contingency plans.	Assistance Executive Director
10	Failure to meet stakeholder expectations	1. Criticism of ELWA and ELWA Ltd 2. Reputations damaged	3	2	2	2	Maintain dialogue with stakeholders. Consultation on strategies.	Proactive public relations. Further review strategies and service delivery plans.	Executive Director
11	Increased risk of enforcement notice due to failure to comply with Regulations	1. Contractor's costs increase 2. Indicator of that viability of contract is in doubt	3	3	3	2	Contractual performance requirements. Contract monitoring	Penalty regime on contractor.	Executive Director
12	Lone working (both office and site)	1. Personal attack on a member of staff 2. Personal injury/incapacity not discovered	2	2	1	1	Risk assessments.	Security arrangements with Arden House. Working practices and communication equipment on sites. Insurance	Executive Director

( ) previous year

ID No.	Risk Description	Consequences	Likelihood Gross	Likelihood Net	Impact Gross	Impact Net	High Level Controls	Mitigation Controls	Risk Holder
13	Operational incidents on landfill site e.g. leachate overflow	1. High cost of remediation and correction 2. Adverse media attention	2	2	2	2	Site engineering pre 1990. Risk assessments in 2005 Bi-annual testing of gas equipment. Inspection by on-site staff.	Insurance re: sudden events	Assistance Executive Director
14	Fraudulent activity (both in terms of the contract and internal)	1. Termination of contract if contractor 2. Criticism by Government / District Audit 3. Service performance jeopardised	2	1	2	1	Authority's' anti fraud and corruption strategy. Contractual provisions on corrupt gifts and fraud.	Insurance. Internal and external audit.	Financial Director
15	Poor performance of collecting authorities	1. Failure to meet Borough recycling targets. 2. Failure to meet ELWA Pooled/Contractual Targets	2	1	2	2	Requirements upon collection authorities in IWMS Contract. Annual Service Delivery Planning by partners. Monthly provision of information by contractor.	Meetings of Board and Directors of Environment. Public and stakeholder pressure on collection authorities for improvements.	Executive Director
16	Insufficient waste produced to meet contract minimums	1. Cost per tonne increases - inefficiencies arise	1	1	2	2	Specific arrangements IWMS Contract re minimum tonnages. Service Delivery Planning with Boroughs and Contractor.	Contractual requirements to mitigate costs.	Executive Director
17	Asset obsolescence over the term of the contract, or changed performance requirements	1. Contract renegotiation required if performance falls 2. Contract renegotiation if targets changed and assets do not meet new targets	2	2	2	2	Contractual provisions on Maintenance, Defects etc. Performance requirements in Contract. 'Change' provisions in Contract.	Penalty and Performance Regime. Contract Monitoring Regime.	Assistance Executive Director
18	Waste produced in excess of contract maximums	1. Contract renegotiation or tendering process for excess 2. Disruption to services.	1	1	2	2	Specific arrangements in IWMS Contract for re tendering excess. Service Delivery Planning with Boroughs and Contractor.	National and local waste minimisation initiatives.	Executive Director
19	Waste increases above budgetary assumptions	Costs increase pro rata to waste increase	2	2	2	2	Service Delivery Plans Budgetary Control	Waste minimisation National Legislation on producer responsibility	Assistant Executive Director
20	Ability to place materials to markets	1. Failure to meet Borough recycling targets. 2. Failure to meet ELWA Pooled/Contractual Targets 3. Increased disposal costs to landfill	3	3	2	2	Contractual performance requirements. Contract monitoring Monitoring of quality of materials	Contractor contingency plans. Borough enforcement policies. Communication and education programmes.	Executive Director

( ) previous year.

KEY TO GROSS/NET LIKELIHOOD AND IMPACT

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Contingency Reviews in Service Delivery Plans

Risk Matrix Net

Net Strategic Risk items placed in a Matrix

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

Net Operational Risk items placed in a Matrix

Likelihood					
	Almost Certain (4)				
	Likely (3)	1	3, 6, 8, 9, 11, 20		
	Unlikely (2)	5, 12	13, 10, 17, 19		
	Improbable (1)		2, 4, 7, 14, 15, 16, 18		
		Minimal (1)	Moderate (2)	Critical (3)	Calamitous (4)
		Impact			

Risk Matrix Definitions

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

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

The table above illustrates likelihood assessment criteria and the impact definitions in terms of cost, service disruption and damage to reputation.

(Contact Officer: Mark Ash - Tel. 020 8270 4997)

EAST LONDON WASTE AUTHORITY

01 FEBRUARY 2010

ASSISTANT EXECUTIVE DIRECTOR'S REPORT

CONTRACT MONITORING – NOVEMBER 2009	FOR INFORMATION

1 Purpose

1.1. To provide an update on the monitoring, outcomes and actions taken with regards to the management of the IWMS contract for the period of November 2009.

2 Monitoring by ELWA and Borough staff

2.1 The requirement placed on the Boroughs to monitor the RRC (Reuse and Recycling Centres) sites was completely satisfied in November. No non conformances were raised. ELWA officers also met the monitoring obligations for RRC sites and no non conformances were raised. Minor observations were made where damage had occurred to fences and barriers.

2.2 London Remade Services (LRS) have been engaged to cover the monitoring work that would normally be undertaken by the Waste and Recycling Officer as detailed in the previous report to the Authority. As a consequence all Bring Sites, RRCs, and Key Facilities were monitored in accordance with agreed schedules.

2.3 The obligations to monitor Bring Sites by the Boroughs' officers were met fully in accordance with the Service Level Agreements (SLAs).

2.4 ELWA officers carried out monitoring of the Key Facilities for November. During one visit observations were made that several of the optical units used to separate black sacks from orange sacks were not working at the Jenkins Lane facility. Detailed investigation was carried out as to the cause and duration. The results of the investigation were concerning enough to escalate the matter to the Executive Director who has written to the Managing Director of Shanks requesting an explanation. At the time of writing this report no response has been received, although the facility was restored to full operations very quickly.

2.5 However Jenkins Lane has continued subsequently to experience long periods of downtime in the BioMRF facility causing significant reduction in processing capacity. This had a consequence of a loss of recycling from orange bags from Newham.

2.6 Frog Island BioMRF also suffered three consecutive days of down time also resulting in a small loss of recycling from orange bags collected co-mingled from flats from both Barking & Dagenham and Havering.

2.7 Having raised concerns regarding the continued breakdowns of Key Facilities ELWA officers have been informed of the following changes within Shanks maintenance to further strengthen and support the maintenance function:

(a) Changes to maintenance shift pattern to deliver an additional 80 man hours of maintenance time per month;

(b) Change in salary structure to attract and retain a higher calibre of technician including a dedicated controls engineer;

(c) Recruitment of a technical support engineer;

(d) Refurbishment works on optibag at Jenkins Lane to be brought forward by 12 months due to premature wear;

(e) Increase in the number of preventative maintenance tasks on key equipment.

3 Notifications received from Shanks

3.1 Despite the breakdowns occurring at the facilities Shanks failed to notify ELWA on at least two occasions of significant interruptions (as mentioned in 2.4 and 2.6 above) that affected service. ELWA officers levied penalties in accordance with the contractual mechanisms for this failure.

3.2 There were no accidents involving the public in November.

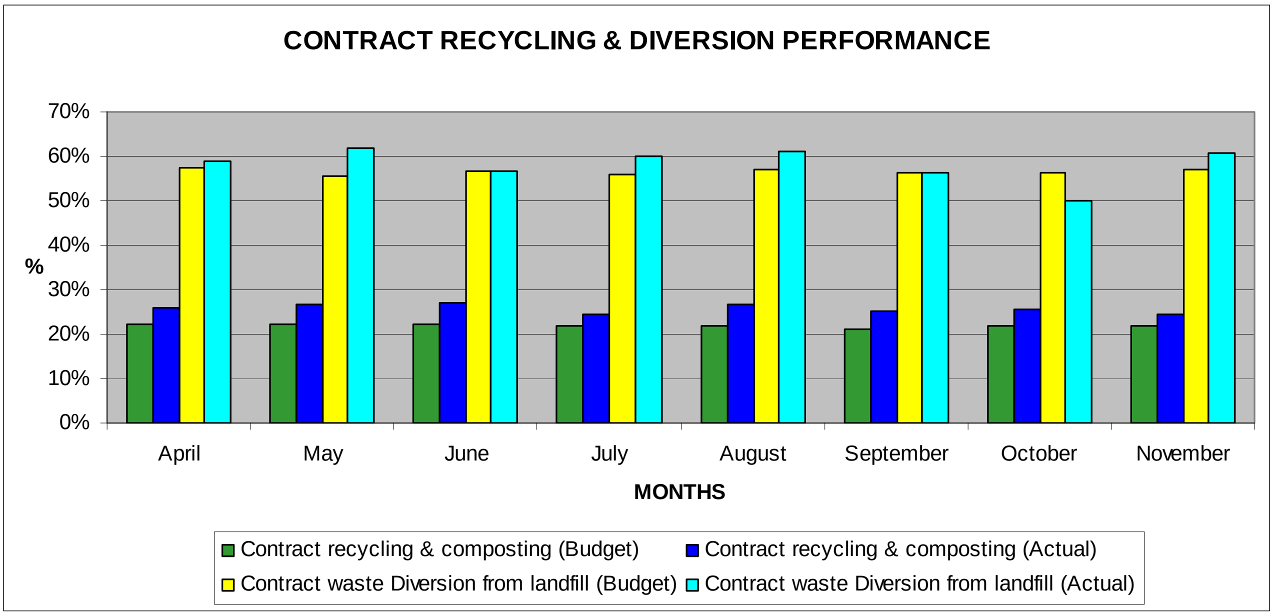
3.3 There were no public complaints in November.

3.4 All sites remained available to receive waste in November.

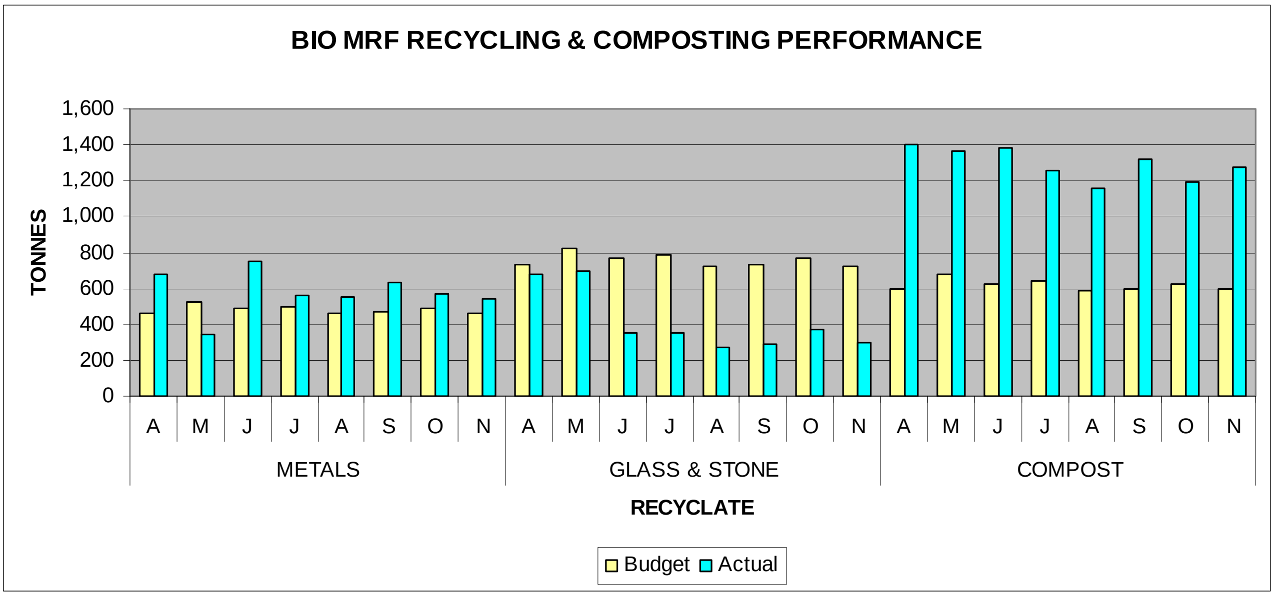
4 Issues arising out of monitoring

4.1 Positive outcomes

a) The graph below shows that the recycling and composting performance for November remains above the forecast levels. At the end of November the year to date performance was 25.8%. Diversion from landfill also remains high and is currently at 60% for the year to date.

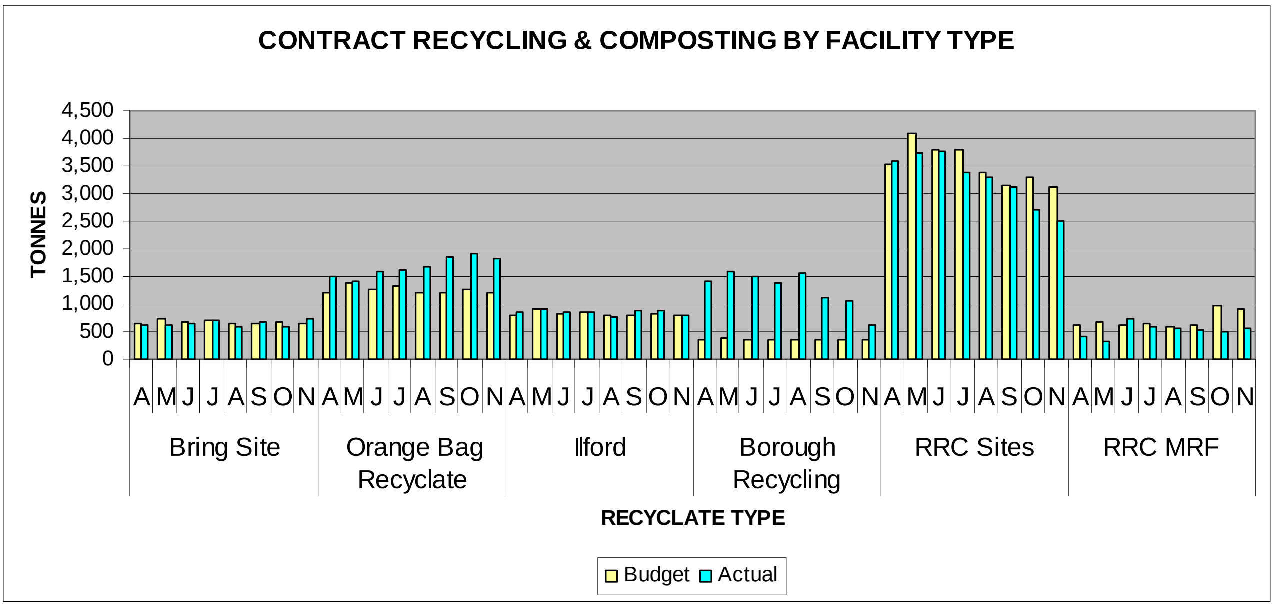


b) Monitoring of the outputs of the BioMRFs shows that metals recovery is just above expectations and compost output remains strong and is significantly above projected levels. Glass levels recovered slightly after the quality problems but have not risen to the levels seen earlier in the year. ELWA officers have been advised that adjustments in the process to achieve the correct quality have meant that significant reductions in volumes have occurred. Trial loads of glass material have been sent to alternative reprocessors but were subsequently rejected due to poor quality.



4.2 Other Monitoring Outcomes

a) There are no real current concerns over any of the other facilities' performances in relation to contract performance albeit the graph shows that the RRC MRF continues to perform below expectations. The graph below provides an overview of a summary of the other facilities' performances. Borough recycling (materials such as green waste, fridges and tyres etc collected separately by the Boroughs) and RRC sites are normally viewed as one item but are split purely for clarity of monitoring.



4.3 Specific monitoring of key issues.

4.3.1 ELWA officers are particularly concerned over the general reliability of the Key Facilities and in particular Jenkins Lane. ELWA officers are mindful of the changes as outlined in 2.7 above and will continue to monitor the situation.

4.4 Remedial actions following Monitoring.

a) Financial penalties invoked - Appendix B shows the penalties levied on Shanks as per the payment mechanism for contractual non conformances. In addition to the penalties for exceeding turnaround times and non service of Bring Sites, two additional penalties were levied as outlined in 3.1 above. The total financial penalty levied for specific non conformances for the month was approximately £2,000.

5 Conclusion

5.1 Other than problems at the Key Facilities routine monitoring carried out by ELWA and Borough Officers is not highlighting any major issues on the operational management of the facilities.

5.2 With the engagement of LRS all monitoring is being carried out in line with agreed schedules.

5.3 ELWA Officers continue to have concerns over the continued reliability problems of the BioMRF at Jenkins Lane and the subsequent effect on performance but note however the changes being implemented to the maintenance structure.

5.4 The overall contract recycling and composting performance for November was above the contractual target of 22% resulting in a year to date performance of 25.8%. Diversion from landfill remains high at 60%.

6 Recommendations

6.1 Members are recommended to:-

i) note this report.

Mark Ash
ASSISTANT EXECUTIVE DIRECTOR

Appendices	
A	Facility Monitoring indicators
B	Recycling, composting and diversion indicators
C	Contract monitoring indicators
D	Performance Deductions
Background Papers	
None	

FACILITY MONITORING INDICATORS

KEY	
Performance acceptable	✔
Improvement Required	✘

Indicator Number	IWMS - Facility Monitoring Indicators (arising from Borough and ELWA monitoring)	Quarter 2 Jul-09	Aug-09	Sep-09	Quarter 3 Oct-09	Nov-09	Dec-09	Month on Month
	Bring Sites							
1	Number of completed audits against planned audits (ELWA)	0%	0%	0%	100%	100%		✔
2	Number of completed audits against planned audits (constituent councils)	100%	100%	100%	100%	100%		✔
3	Number of non conformances raised against contractor	25	1	12	47	31		✘
	RRC Sites							
4	Number of completed audits against planned audits (ELWA)	100%	100%	100%	100%	100%		✔
5	Number of completed audits against planned audits (constituent councils)	125%	125%	125%	125%	125%		✔
6	Number of non conformances recorded on audits.	4	1	0	0	0		✔
	Key Facilities							
7	Number of completed audits against planned audits (ELWA)	100%	100%	100%	100%	100%		✔
8	Number of non conformances recorded on audits.	0	1	0	0	0		✔

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RECYCLING, COMPOSTING & DIVERSION INDICATORS

KEY	
Target achieved or bettered	✔✔
Less than target but within 10%	✔
More than 10% below target	✘

Recycling, Composting & Diversion Indicators		Quarter 1- 2009/10						Quarter 2- 2009/10								
		July		August		September		October		November		December		YTD		YTD Performance
Indicator Number	Indicator	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual	See key
1	Contract waste tonnage (tonnes)	43,616	43,438	39,965	38,746	40,593	41,364	42,469	38,081	40,180	37,637			335,221	326,166	✔
2	% Shanks primary recycling and primary composting	22%	24.6%	22%	26.8%	21%	25.2%	22%	25.7%	22%	24.3%			22%	25.8%	✔✔
3	% Shanks Contract waste Diversion from landfill	56%	60%	57%	61%	56%	56%	56%	50%	57%	61%			57%	60%	✔✔
4	LATS performance (tonnes) Against allowance	19,594	14,671	17,911	12,694	18,219	15,052	18,201	16,165	15,702	12,390			147,258	114,577	✔✔
5	Bring Site Recyclate (tonnes)	704	700	645	580	655	680	685	600	648	739			5,410	5,189	✔
6	Orange Bag Recyclate (tonnes)	1,311	1,610	1,201	1,680	1,220	1,860	1,276	1,925	1,207	1,819			10,074	13,405	✔✔
7	Ilford Recyclate (tonnes)	855	850	783	750	796	875	833	880	788	798			6,571	6,767	✔✔
8	Borough Recycling (Green, Fridges etc) (tonnes)	365	1,390	341	1,550	345	1,121	358	1,055	343	619			2,831	10,210	✔✔
9	RRC Recyclate Processed (tonnes)	3,803	3,386	3,394	3,300	3,148	3,115	3,307	2,700	3,113	2,502			28,168	26,098	✔
10	RRC Mrf Recycling Tonnage (tonnes)	642	580	601	555	608	528	965	512	926	547			5,642	4,186	✘
11	BioMRF - Metals (tonnes)	500	560	459	555	466	628	487	569	461	547			3,844	4,632	✔✔
12	BioMRF Glass & Stone (tonnes)	787	350	722	268	734	286	767	370	726	299			6,055	3,298	✘
13	Bio Mrf Composting (tonnes)	644	1,260	591	1,160	600	1,315	627	1,190	594	1,277			4,950	10,351	✔✔
14	Total (tonnes)	9,611	10,686	8,738	10,398	8,572	10,408	9,304	9,801	8,806	9,147			73,547	84,135	✔✔

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CONTRACT MONITORING INDICATORS

Indicator Number	IWMS - Contract Monitoring Indicators (arising from self monitoring information from shanks and	Quarter 2 Jul-09	Aug-09	Sep-09	Quarter 2 Oct-09	Nov-09	Dec-09	Comments
	Self monitoring information from Shanks							
1	Number of occurrences of non contract waste being prioritised over contract waste.	0	0	0	0	0		
2	Number of Environmental non conformances	0	0	0	0	0		
3	Number of Accidents involving Members of Public	2	1	1	0	0		
4	Number of Public complaints received	0	1	1	1	0		
5	Number of occurrences of unavailability of sites.	0	0	0	0	0		
6	Number of ad hoc / immediate notifications received from contractor.	0	0	4	4	0		
	ELWA contract monitoring information							
7	Number of incidences of procedures not being followed during outages as per ABSDP.	0	0	0	0	2		See Contract Monitoring report paragraph 3.1
8	Number of improvement issues raised	0	1	2	0	0		
9	Number of improvement issues closed	4	0	0	0	0		
10	Number of non conformances escalated	0	0	1	0	1		See Contract Monitoring report paragraph 2.4
11	Number of complaints received from WCA.	0	0	2	0	0		
	Special contract performance targeted monitoring							
12	BioMRF composting output	196%	196%	219%	190%	215%		
13	BioMRF glass output	44%	37%	39%	48%	41%		See Contract Monitoring report paragraph 4.1b
14	Optibag performance	122%	140%	152%	151%	151%		
15	BioMRF metals output	112%	121%	135%	117%	119%		

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PERFORMANCE DEDUCTION INDICATORS

			Quarter 2 09/10			Quarter 3 09/10			
Indicator Number	Performance Deduction Indicators	Rectification period	Jul	Aug	Sep	Oct	Nov	Dec	YTD
A1	Failure to accept contract waste delivered by WCA	None	0	0	0	0	0		0
A2	Failure to accept contract waste delivered by the public.	None	0	0	0	0	0		0
A3	Failure to accurately distinguish, weigh and record waste.	None	0	0	0	0	0		0
A4	Failure to achieve turnaround times for WCA vehicles.	None	21	42	21	48	11		360
A6	Failure to weigh an authorised vehicle within 10 minutes of arrival.	None	0	0	0	7	0		7
A8	Failure to prevent a queue at entrance to RRC sites.	None	0	0	0	0	0		21
A9	Failure to prevent tipping of commercial / industrial waste at RRCs.	None	0	1	0	0	0		1
A10	Failure to prevent unauthorised tipping of waste at RRC sites.	None	0	0	0	0	0		0
A11	Minor infringement of H&S procedures.	30 Mins	0	0	0	0	0		0
A12	Material breach of H&S precedures.	None	0	0	0	0	0		0
A15	Failure to empty or service a bring site in accordance with spec.	1 Day	1	1	12	0	6		54
A16	Non provision of CELO (rectification period applies)	2-3 Months	0	0	0	0	0		0
A18	Failure to provide a contractor representative.	None	0	0	0	0	0		0
A19	Failure to deliver orange bags in accordance with the ABSDP.	2 Weeks	0	0	0	0	0		0
A20	Failure to deliver orange bags to a household.	1 Week	0	0	0	0	0		0
B1	Failure to transport contract waste in enclosed containers.	None	0	0	0	0	0		0
B4	Failure to observe H&S procedures relating to transportation of waste.	5 Days	0	0	0	0	0		0
C1	Failure to rectify breaches of planning or licencing conditions.	2 Weeks	0	0	0	0	0		0
C3	Failure to take reasonable efforts to limit fugitive emissions.	None	0	0	0	0	0		0
D	Failure to comply with any administrative requirement (D1-D9).	Various	0	0	0	0	2		2

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(Contact Officer: Mark Ash - Tel. 020 8270 4997)

EAST LONDON WASTE AUTHORITY

01 FEBRUARY 2010

ASSISTANT EXECUTIVE DIRECTOR'S REPORT

WASTE MANAGEMENT – NOVEMBER 2009	FOR INFORMATION

1 Purpose

1.1 To report on the general waste management issues concerning the Authority and Boroughs for the period to November.

2 Performance against New National Performance Framework

2.1 Appendix A shows the four Boroughs' individual performance against the National Indicator Targets of NI 191 Residual household waste per household, NI 192 Household waste composted and recycled and NI 193 Municipal waste landfilled up to and including the month of November 2009.

2.2 Points to note are :

a) NI 191 Residual household waste per household – Whilst Havering were the only Constituent Council to set a target with the Government Office for London (GOL) for NI 191 the table below provides a comparison of all ELWA Constituent Councils' performance up to November.

Note this is not the full year target or performance but a profiled calculation for the period up to and including November 2009. The monthly breakdown can be viewed in Appendix A.

Borough	NI 191 Target (Kg)	NI 191 Actual (Kg)
LBBD	No target set	528 Kg
LBH	562 Kg	475 Kg
LBN	Local target 712 Kg	678 Kg
LBR	No target set	473 Kg

b) NI 192 Household waste recycled and composted – All constituent councils were required to agree targets with GOL for National Indicator 192 and the table below shows the cumulative performance up to and including November. The monthly breakdown can be viewed in Appendix A.

Borough	**NI 192 Target (%)**	**NI 192 Actual (%)**
LBBD	27%	34.3%
LBH	30%	36.6%
LBN	22%	18.3%
LBR	27.5%	33.4%

c) The percentage of municipal waste sent to landfill was 39% for November equating to a diversion of 61% which remains well in excess of ELWA's strategy target of 45%. This high diversion rate has a positive impact on ELWA's LATS position.

3 Background information

3.1 Waste arisings in November were 37,637 tonnes. This is significantly below budgeted projections by 2,543 tonnes and the year to date tonnage received is 9,055 tonnes below budget.

4 Markets for recyclates

4.1 There have been no significant changes to the markets for recycled materials since the last report to the Authority.

5 Landfill Allowance Trading Scheme (LATS) performance

5.1 ELWA's permitted 2009/10 LATS allowance allocation is 211,793 tonnes. Subject to reconciliation by the Environment Agency the amount of Biodegradable Municipal Waste sent to landfill for this scheme year so far is 114,577 tonnes. The continuation of this profile would mean that ELWA would be comfortably within its permitted allowance for this target year.

6 Service Impacts

6.1 Flats recycling – The last report to the Authority informed Members that WRAP were providing resources to provide a report based on a desk top study of the feasibility of using a bring type, near entry door system, for the collection of recyclates from flats.

6.2 The report was received on time in December and provided comprehensive data on the number of flats in the ELWA region (LBR excluded) and the potential number of bins that may be required. The report also gave an indication of possible additional costs involved for providing this service.

6.3 It is planned for the Directors of Environment to meet to consider this work and plan the next stages. (The meeting on the 8th January was cancelled due to bad weather and difficult road conditions).

7 ELWA Facilities Waste Processing Capacities

7.1 At the last meeting of the Authority there was some discussion relating to the capacity of the ELWA facilities. The table at Appendix B gives an estimation of design capacity, forecast usage of that capacity for 2010/11 and a theoretical availability of capacity.

7.2 The table shows that there is very little spare capacity available at the Jenkins Lane BioMRF. Following the closure of two of the three optibag lines at Frog Island it is currently estimated that spare capacity could rise to 50,000 tonnes next year. Shanks have currently contracted a significant part of this to Veolia and ELWA receives a royalty payment for each tonne of third party waste delivered to this facility.

7.3 It should be noted that waste flows are not even throughout the year and seasonal variations in waste flows mean that the available daily capacity is often exceeded.

8 Mayor's Draft Municipal Waste Management Strategy

8.1 The London Mayor is given the responsibility to produce a Municipal Waste Management Strategy for London. The first draft Strategy for consultation with the London Assembly and Functional Bodies was released on 18th January 2010. A second draft for public consultation will be released in the summer 2010 with a view to publishing the final strategy late 2010 early 2011.

8.2 The strategy is made up of 6 key policy chapters and are listed as follows:

- Policy 1 – Inform producers and consumers of the value of reducing, reusing and recycling;
- Policy 2 – London will have a greenhouse gas standard for municipal waste management activities to reduce their impact on climate change;
- Policy 3 – Capture the economic benefits of waste management;
- Policy 4 – London to achieve 50 per cent municipal waste recycling or composting performance (including anaerobic digestion) by 2020 and 60 per cent by 2031;

- Policy 5 - Catalysing municipal waste infrastructure in London, particularly low-carbon technologies;
- Policy 6 – Achieving a high level of street cleanliness;

8.3 The Mayor's Strategy outlines objectives and targets and will use policies to achieve them.

8.3.1 The objectives set out in the Greater London Authority (GLA) Strategy are as follows:

- To provide Londoners with the knowledge, infrastructure and incentives to change the way we manage municipal waste: to reduce the amount of waste generated, encourage the repair and reuse of items that are currently thrown away, and to recycle or compost as much material as possible;
- To minimise the impact of municipal waste management on our environment including reducing the carbon footprint of London's municipal waste;
- To unlock the massive economic value of London's municipal waste through increased levels of reuse, recycling, composting and the generation of clean energy from waste;
- To manage the bulk of London's municipal waste within London's boundary, through investment in new waste infrastructure;

8.3.2 The GLA are proposing that the following targets should be included in their final strategy:

- To achieve zero municipal waste direct to landfill by 2025;
- To reduce the amount of household waste produced in 2008/09 from 970kg per household to 790kg per household by 2031;
- To increase London's capacity to reuse or repair municipal waste from approximately 10,000 tonnes each year in 2008 to 40,000 tonnes a year in 2012 and 120,000 tonnes a year in 2031;
- To recycle or compost at least 45 per cent of municipal waste by 2015, 50 per cent by 2020 and 60 per cent by 2031;
- In addition to the above targets, the Mayor will set a greenhouse gas reduction target for London's municipal waste;

8.4 Attached at Appendix C, for background information, are informal notes of a meeting attended by the Executive Director relating to the GLA waste strategy and the London Waste and Recycling Board (LWaRB).

8.5 A further report to the next meeting will consider a provisional response to the GLA on its new Waste Strategy. There has been insufficient time to prepare a response for this meeting.

9 Recommendations

9.1 It is recommended that Members:

i) note this report.

Mark Ash
ASSISTANT EXECUTIVE DIRECTOR

Appendices			
A		Table	National Indicator Table
B		Table	ELWA Facility Capacity Overview
C		14/01/10	London Waste and Recycling Board Informal notes of GLA meeting

Background Papers		
None		

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National Indicator Performance

KEY	
Target achieved or bettered	✔ ✔
Less than target but within 10%	✔
More than 10% below target	✘

		Quarter 1- 2009/10						Quarter 2- 2009/10								
		July		August		September		October		November		December		Cumulative YTD		
Indicator Number	Indicator	Planned	Actual	Planned	Actual	Planned	Actual	Planned	Actual	Planned	Actual	Planned	Actual	Planned	Actual	YTD Performance
1	**NI 191 Residual Household waste per household (LBBD)**	Not set	73.66	Not set	61.41	Not set	68.89	Not set	56.71	Not set	54.95			**Not Set**	**528.0**	--
2	**NI 191 Residual Household waste per household (LBH)**	74.84	66.72	68.41	55.40	69.59	63.37	69.52	52.53	59.98	54.20			**562**	**474.6**	✔ ✔
3	**NI 191 Residual Household waste per household (LBN) *(See Note 1 below)***	94.78	92.63	86.64	77.85	88.13	84.43	88.04	74.72	75.95	78.28			**712**	**677.5**	✔ ✔
4	**NI 191 Residual Household waste per household (LBR)**	Not set	65.68	Not set	53.25	Not set	61.52	Not set	55.75	Not set	55.91			**Not Set**	**472.8**	--
5	**NI 192 Household waste recycled and composted (LBBD)**	27.0%	31.4%	27.0%	34.7%	27.0%	31.7%	27.0%	36.4%	27.0%	36.8%			**27.0%**	**34.3%**	✔ ✔
6	**NI 192 Household waste recycled and composted (LBH)**	30.0%	33.7%	30.0%	38.3%	30.0%	34.8%	30.0%	36.9%	30.0%	35.1%			**30.0%**	**36.6%**	✔ ✔
7	**NI 192 Household waste recycled and composted (LBN)**	22.0%	16.7%	22.0%	19.8%	22.0%	20.8%	22.0%	18.7%	22.0%	20.8%			**22.0%**	**18.3%**	✘
8	**NI 192 Household waste recycled and composted (LBR)**	27.5%	32.7%	27.5%	36.5%	27.5%	32.6%	27.5%	33.2%	27.5%	28.2%			**27.5%**	**33.4%**	✔ ✔
9	**NI 193 Municipal waste landfilled (ELWA) *See Note 2 below***	60%	40%	60%	39%	60%	44%	60%	50%	60%	39%			**60%**	**42%**	✔ ✔

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 Mangaement Strategy.

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CAPACITY CALCULATION AT ELWA FACILITIES

		Forecast Tonnage 2010/11 ABSDP		
Facility	**Theoretical Capacity (t)**	**Contract Waste (t)**	**Non Contract Waste (t)**	**Theoretical Available Capacity (t)**
BioMRFs				
Jenkins Lane BioMRF	180,000	165,000	4,000	11,000
Frog Island BioMRF	180,000	101,000	53,000	26,000
MRF Facilities				
Frog Island RRCMRF	90,000	50,000	21,000	19,000
Jenkins Lane SBMRF	35,000	23,000	0	12,000
Ilford Recycling Centre	10,000	11,000	0	-1,000
RRC sites				
Chigwell Road	25,000	30,000	0	-5,000
Jenkins Lane	54,000	41,000	3,000	10,000
Gerpins Lane	45,000	43,000	0	2,000
Frizlands Lane	53,000	30,000	2,000	21,000

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London Waste and Recycling Board (LWaRB) – 14th January 2010

Informal Notes of Meeting

1. Andy Holdcroft (LWaRB) Chief Operating Officer) (www.lwarb.gov.uk)

a) Their timeframe is that they must try to complete their business by 2015 and this is realistic because of long lead-in times for new projects and awaiting strategic input of GLA. (They must operate in accordance with GLA strategies).

b) They are concentrating their efforts on developers and are still thinking about how Boroughs fit into this (!!).

c) Their brokerage service is going to a passive tool-based introduction service.

d) Their active strategy will be partnering and targeting the critical capacity gaps (see slides on website).

2. Wayne Hubbard (LWaRB – Business Development Manager)

a)	Reported that	- 184 submissions - 16 withdrawn - 69 require brokerage (this service is not yet fully up and running) - 71 under health check - 5 have business plans submitted and evaluated
b)	Imminent approvals	- Communications - re-use (small sum)
c)	Within 6 months	- 6 projects including re-use and the Bio-Essense gasification project

3. Isabel Dedring (GLA Environment Director)

The GLA Waste Strategy – BACKGROUND

a) To be published next week.

b) Recognises changed landscape of landfill tax, climate change, $C0_2$ emissions, economic potential of waste, newer technologies and LWaRB.

c) In London, Municipal Waste is still on 25% recycled, 23% incinerated and 49% landfilled.

d) Looking forward they have reduced previous projections of waste growth – because of population growth lower and economic activity lower BUT waste arisings per household have not been assumed to go down (but GLA would like it happen).

e) They expect to reduce landfill to nil by 2025 but with 5% on land reclamation and building materials.

f) Wants us to use GLA and LWaRB to remove barriers.

The Proposed GLA Strategy

g) Headlines – reduced in size – main strategic points:

- preventing waste and greater emphasis on re-use (but the latter still a tiny proportion);
- reduce climate change impact (using DEFRA table of kgs of CO_2 equivalent per tonne for different processes and different materials);
- unlock economic opportunity;
- achieve higher recycling rates but stressed this was Londonwide and not a Borough Target and recognised high flat density was a barrier:
  - 45% by 2015;
  - 50% by 2020;
  - 60% by 2031.
- Catalyze waste infrastructure;
- street cleanliness (NB 2012).

h) Timetable

Public consultation draft to be issued later in 2010 with final strategy by end of 2010/early 2011.

4. <u>Richard Linton (GLA Planner)</u>

a) The London Plan went out to consultation in October and the consultation period closed last week.

b) The new London Plan has squashed multiple policies in just two in respect of waste:

- Self-sufficiency;
- Capacity (but the Mayor will not dictate technologies but judge facilities on environmental performance – based on a new tool)

c) The Minor Alterations to the London Plan are still current and out to consultation until 1st February. This is where the Boroughs could consider responding along the lines in the Conclusions.

15th January 2010
Tony Jarvis

Conclusions

1. LWaRB

a) Bio-Essence has done well because the Bio-Essence Project (eg. Novera gasification plan next to Frog Island) is one of the six projects within the six months of approval and is by far the biggest project.

b) LWaRB – ELWA and Boroughs should re-try another flats bid because GLA recognise flats are a barrier to higher recycling and they have asked that they be used to remove barriers!

c) However, cash outflows to Boroughs look likely to be very slow and needing lots of input in terms of bidding and evaluation.

2. GLA Strategy

a) Recognise that new GLA Strategy is better focused but, based on today, the weaknesses may be (subject to reading actual text).

- failing to identify what their priorities really are e.g. between – recycling, energy and CO_2;
- failing to recognise the new financial situation facing the Boroughs (particular with respect to the cost of meeting GLA's increased recycling targets);
- failing to have realistic forecasts for waste (still too high) and landfill requirements (too low).

b) ELWA and Borough (and indeed other JWDAs and Boroughs) should attempt to co-ordinate their responses on some issues.

3. London Plan

4. ELWA and Boroughs should respond to London Plan and Minor Alterations (which are still current) on the lines that:

"The waste growth forecasts are still too high (perhaps by 10% - 20%). This has an adverse impact on all regeneration across London if Land set aside for new waste infrastructure is too great but not be needed. It has a particularly adverse impact on East London because land in East London is relatively cheap and developers will be able to bring forward lower cost options in East London for waste treatment of the rest of London's waste. This would be counter productive in delivering the underlying GLA Strategy of local self-sufficiency and preventing the continued concentration of waste facilities in just one part of London. The Inspector should therefore be requested to defer the final decisions on the overall figures for apportionment until two importance pieces of strategy information are available.

- the results of the survey of business waste shortly to be undertaken by DEFRA/EA.
- A new review of municipal waste trends in recent years (for example to take into account the impact of fortnightly collections and the introduction of no-side-waste policies)."

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

EAST LONDON WASTE AUTHORITY

01 FEBRUARY 2010

EXECUTIVE DIRECTOR'S REPORT

FRIZLANDS LANE REUSE & RECYCLING CENTRE SITE LEASE	**FOR APPROVAL**

1 Purpose

1.1 To seek Authority approval to enter into a Deed of Variation in respect of the lease of Frizlands Lane Reuse and Recycling Centre (RRC) site to reflect slightly revised boundaries.

2 Background

2.1 The London Borough of Barking & Dagenham (LBBD) wish to amend the boundaries of the RRC site at Frizlands Lane to accommodate the redevelopment of another adjacent part of the site. The redevelopment would involve some demolition and reconstruction of old LBBD Buildings. The redevelopment would be assisted if the boundary with the RRC site was effectively moved slightly southwards.

2.2 The final works specification has been agreed and Shanks have agreed the operational changes at the RRC site necessary as a consequence.

2.3 In 2002, as part of the IWMS Contract, LBBD leased to ELWA their Civic Amenity Site at Frizlands Lane. The three other Constituent Councils did the same. The sites were then subleased to the Contractor for the construction and operation of new RRCs. The Contractor operates the four RRCs in accordance with the relevant leases and in accordance with the Service Delivery Plans agreed between the Contractor and the Authority.

3 Site Boundaries

3.1 Appendix A shows the original leases area (in 2002) from LBBD to ELWA and from ELWA to the Contractor.

3.2 Appendix B shows the revised leased area.

3.3 The overall area of the site has increased slightly, and the majority of the operations on the site are unaffected.

4 Legal Implications

4.1 LBBD are responsible for carrying out and completing the works and providing a new boundary structure and to make necessary changes to road markings and signs.

4.2 There already exists a Lease between LBBD and ELWA of the Frizlands Depot land and an Underlease between ELWA and ELWA Ltd for the same land. In order to undertake the works required to be done by the contractor as mentioned earlier in this report, it has been agreed that the boundaries of the land previously demised under the existing Lease be amended so as to incorporate a slightly larger piece of land. This is being undertaken by way of a Variation to the existing Lease which formally involves a surrender of the existing lease land and an immediate re-grant of the new lease land. Technically this involves both a disposition and acquisition of the land but in reality only involves a re-definition of boundary lines on the respective plans. The legal implications are therefore technical in nature and minimal in reality. Under ELWA's Constitution matters of land acquisition and disposal require the Authority's approval and the matter is therefore brought to the Authority for formal approval.

5 Financial Implications

5.1 There is no change to the current lease rental paid by ELWA to LBBD of £47,250 p.a. ELWA pays similar amounts for the lease of the other three sites. The overall leased area is the same under new and old leases. LBBD will meet the majority of the costs incurred by the parties.

5.2 The Authority incurred minor legal costs in the finalisation of the new leases to ensure compatibility with the terms of the Integrated Waste Management Services contract.

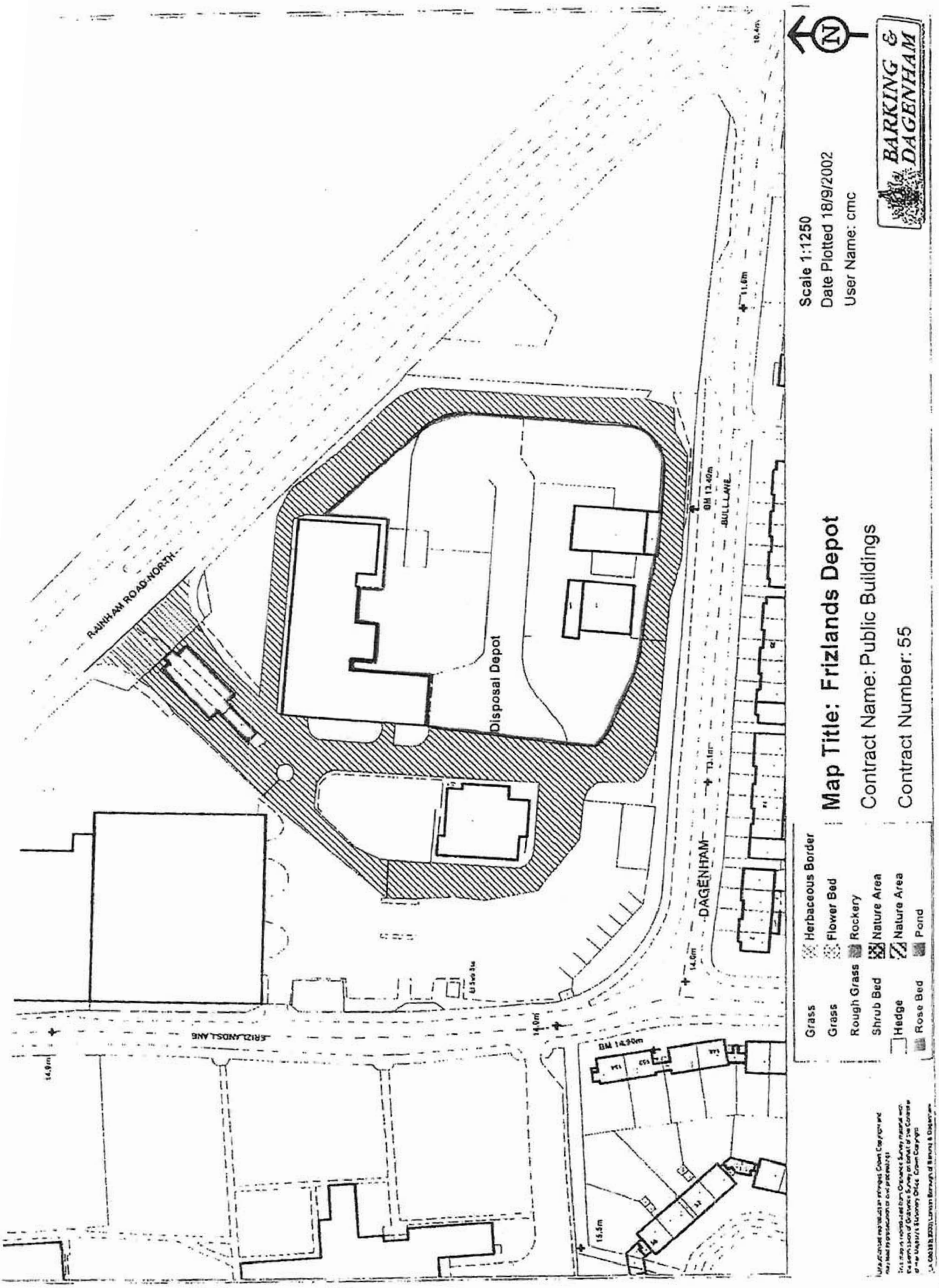
6 Recommendations

6.1 It is recommended that Members:-

i) Agree that the Authority enters into the Deed of Variation between LBBD, ELWA and ELWA Ltd varying the existing Lease between the said parties, plans and land demised in respect of the Frizlands Lane RRC site.

Tony Jarvis
EXECUTIVE DIRECTOR

Appendices		
A	Original lease area (in 2002) from LBBD to ELWA and from ELWA to the Contractor	
B	Revised leased area.	
Background Papers		
None		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Contract Number: 55
Scale 1:1250
Date Plotted 18/9/2002
User Name: cmc
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N
RAINHAM ROAD NORTH
Disposal Depot
DAGENHAM
BULL LANE
FRIZLANDS LANE
BM 13.40m
BM 14.90m
Grass
Grass
Rough Grass
Shrub Bed
Hedge
Rose Bed
Herbaceous Border
Flower Bed
Rockery
Nature Area
Nature Area
Pond

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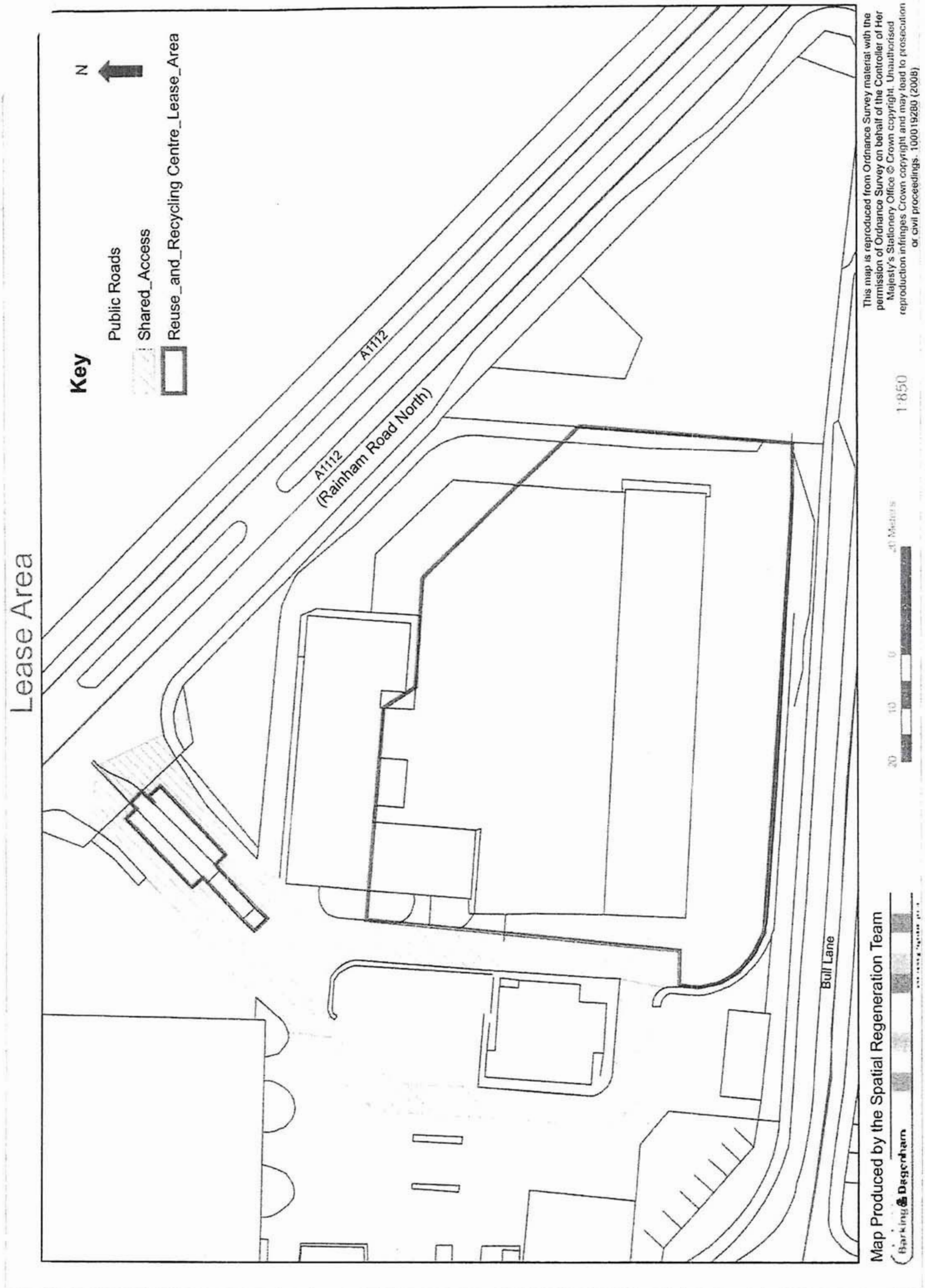
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Public Roads
Shared_Access
Reuse_and_Recycling Centre_Lease_Area
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A1112
A1112
(Rainham Road North)
Bull Lane
20
10
0
40 Meters
1:850
Map Produced by the Spatial Regeneration Team
Barking & Dagenham
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