Notice of Meeting

EAST LONDON WASTE AUTHORITY

Monday, 7 February 2011 - 9:30 am
Council Chamber, Civic Centre, Dagenham

Members: Councillor S Kelly (Chairman); Councillor G M Vincent (Vice Chairman); Councillor I Corbett, Councillor R Crawford, Councillor M Dunn, Councillor G Letchford, Councillor B Tebbutt and Councillor V Tewari

Date of Publication: 28 January 2011

Paul M Taylor
Managing Director

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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 22 November 2010 (Pages 1 - 3)**

4. **Governance Arrangements - Chairman Succession Plan (Pages 5 - 6)**

5. **Budgetary Control to 31 December 2010 (Pages 7 - 9)**

6. **Revenue & Capital Estimates and Levy 2011/12 (Pages 11 - 25)**

7. **Treasury Management Strategy 2011/12 and Prudential Code Indicators 2011/12 to 2013/14 (Pages 27 - 58)**

8. **Corporate Identity (Pages 59 - 61)**

9. **Contract Monitoring to 30 November 2010 (Pages 63 - 71)**

10. **Waste Management to 30 November 2010 (Pages 73 - 77)**

11. **Reuse & Recycling Centres - Controls (Pages 79 - 85)**

12. **Annual Budget and Service Delivery Plan (ABSDP) 2011/12 (Pages 87 - 89)**

13. **Date of Next Meeting: 11 April 2011 - Workshop**

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

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

Private Business

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

16. **ELWA Ltd Board Meeting - 26 October 2010 (Pages 91 - 92)**

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

EAST LONDON WASTE AUTHORITY

Monday, 22 November 2010
(9:35 - 11:58 am)

Present: Councillor S Kelly (Chair), Councillor G M Vincent (Deputy Chair), Councillor I Corbett, Councillor R Crawford, Councillor G Letchford, Councillor B Tebbutt and Councillor V Tewari

37 Apologies for Absence

Apologies were submitted on behalf of Councillor M Dunn.

38 Declaration of Members' Interests

There were no declarations of interest.

39 Minutes (27 September 2010)

We have confirmed as correct the minutes of the Authority meeting on 27 September 2010.

40 Annual Audit Letter 2009/10 and Notice of Certification of Completion of Audit

The Chairman welcomed the External Auditor to the meeting. He stated that the only difference in the Audit letter was that a financial recommendation was now included in the annual audit letter. He advised that PWC would no longer be attending ELWA Meetings.

Members noted the report and the progress being made in ensuring the Authority's Financial Statements were compliant with International Financial Reporting Standards.

We have offered our thanks to the Auditor for attending for this item.

41 Budgetary Control to 31 October 2010

The Finance Director presented his report GP recapped his report detailing a net overspend of £50,000.

Members noted the report.

42 Treasury Management and Mid-Year Strategy Review

The Finance Director recapped on his report.

We have noted this report and approved the revised indicators at Appendix A.

43 Financial Projection and Budget Strategy: 2011/12 to 2013/14

The Finance Director provided commentary on his report, stating that it showed projected levy increases of 10% over each of the next 3 years. This was on the basis of reducing reserves to the lowest prudent level over the next three years. There would need to be a strategy to review this position.

The contractor had been underperforming and officers were asked to seriously look at improvements to waste disposal numbers and income generation.

Concern was raised over Olympic tonnages. LBN advised that they were expecting an increase in population levels and had made a funding bid to the Olympic Committee. Waste generated in the Olympic Park would not be down to ELWA for disposal. However, the Olympics would impact on surrounding areas. The Managing Director will discuss with Directors the possibility of submitting bids for additional funding.

Members discussed putting in Waste Minimisation targets for Boroughs and are looking at 10% reduction within 3 years. The Office Manager was asked to arrange a Special meeting of the Authority before Christmas for officers to report and discuss with Members.

The managing director reported that the contractor had been asked to evidence their assurance that they will improve performance and will come up with proposals for his next meeting with Shanks.

We have considered inviting the contractor to another Authority meeting.

On the detailed borough level figures, the Finance Director advised that since despatch he had received updated borough figures so would rework the borough level figures in the report within the overall 10% levy increase.

44 Contract Monitoring - September 2010

We have noted the improvements in performance monitoring, the reviews being carried out on the way the contract is monitored and changes to the reports, contractual performance in relation to recycling and diversion and the mitigating actions the contractor is taking to improve the overall performance. We have agreed to a compositional analysis on residual waste being started.

45 Waste Management - September 2010 *

The Head of Operations presented his September report. He added that there had been a subsequent reduction in waste during October. He would continue to circulate re-processor information on a monthly basis.

We have noted the position relating to the repeal of the Repeal of the Refuse Disposal (Amenity) Act 1978 (RDA) and the release of the second public consultation of the Mayor's Waste Management Strategy (MWMS). We have agreed to receive further updates in respect of RDA and a draft response in respect of the MWMS consultation for comment prior to submission. We have approved a joint response, with other joint waste disposal authorities, on the MWMS. We have also agreed delegated responsibility to the Managing Director in order for him to market and progress matters in respect of the disposal of the Aveley 1 site. The Legal Adviser would confirm constitutional procedures. We have requested a further report before a final decision is taken.

(*Part of this item was considered after the resolution had been passed to exclude the public and press from the remainder of the meeting.)

46 Arden House Relocation

We have received and noted the managing director's report.

47 Programme of Meetings 2011/2012

Members agreed meeting dates for the year 2011/12.

48 Dates of Next Meetings: 7 February 2011 (Authority) and 11 April 2011 (Workshop)

Noted.

49 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).

50 Annual Budget and Service Delivery Plan 2011/12

We have agreed to defer this item until our next meeting when it is hoped more complete information would be available.

51 Future Financial Savings

We have received and discussed the Managing Director's report. We have asked the Managing Director to prepare a survey on glass collection/disposal taking into account changes require to the plant and orange bags and costings.

With the exception of one borough (LBN) we have agreed to delay implementation of the feasibility study on how the constituent councils could integrate waste management services for a period of two years.

Chair: ……………………………….

Dated:……………………………….

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(Contact Officer: Paul Taylor - Tel. 020 8270 4965)

EAST LONDON WASTE AUTHORITY

7 FEBRUARY 2011

MANAGING DIRECTOR'S REPORT

GOVERNANCE ARRANGEMENTS - CHAIRMAN SUCCESSION PLAN	**FOR APPROVAL**

1 Purpose

1.1 To consider a proposal to adopt a formal succession plan for the positions of chairman and vice-chairman of ELWA and the 'A' Director of ELWA Ltd.

2 Background

2.1 The constitution of ELWA (Section 4) specifies the appointment procedure for the chairman and vice-chairman of the authority. Each position is agreed at the annual meeting of the authority and appointees are eligible for re-appointment for one additional year, i.e. the term of office for each appointment may be for a maximum of two years.

2.2 In addition to the positions of chairman and vice-chairman, an authority member is appointed annually to the position of 'A' director on the board of ELWA Limited.

2.3 Members considered a succession planning protocol at the workshop held in the summer of 2010. However, a decision was not taken at that time. This paper proposes such a protocol for adoption by the authority.

3 Proposal

3.1 The three positions may be seen as representing a natural progression, in terms of the knowledge required and responsibilities associated with each role. The role of vice-chairman is to support the chairman in leading the decision-making process of the authority. Progression to the role of chairman would be the best use of the knowledge and experience gained as vice-chairman.

3.2 Currently, there is no link between the chairmanship roles and that of the 'A' director. However, this directorship represents the interests of the authority on the board of ELWA Limited. These interests may best be served by the outgoing chairman of the authority, as this person will have gained four years knowledge and experience in positions of responsibility with the authority and should be most in touch with current contractual issues.

3.3 The constitution states the chairman and vice-chairman should not be members of the same constituent borough. Currently, the 'A' director is from a different constituent borough to those of the chairman and vice-chairman. Maintaining this separation will ensure that, at any one time, only one borough does not have a member holding a position of responsibility within the authority.

3.4 The following template details the proposed rotation and succession of these three roles:

Year	ELWA Vice-Chairman	ELWA Chairman	ELWA Ltd 'A' Director
2010-2011	Barking & Dagenham	Havering	Newham
2011-2012	Barking & Dagenham	Havering	Newham
2012-2013	Redbridge	Barking & Dagenham	Havering
2013-2014	Redbridge	Barking & Dagenham	Havering
2014-2015	Newham	Redbridge	Barking & Dagenham
2015-2016	Newham	Redbridge	Barking & Dagenham
2016-2017	Havering	Newham	Redbridge
2017-2018	Havering	Newham	Redbridge
2018-2019	Barking & Dagenham	Havering	Newham
2019-2020	Barking & Dagenham	Havering	Newham

3.5 These arrangements are, of course, subject to any changes in authority members as a result of borough appointments.

4 Recommendations

4.1 Members are recommended to:

a) consider and agree the proposal to be presented to the Authority at the meeting on 7th February 2011.

Paul Taylor
MANAGING DIRECTOR

Appendices		
None		
Background Papers		
None		

(Contact Officer: Janice Mansfield: 020 8708 3010)

EAST LONDON WASTE AUTHORITY

7 FEBRUARY 2011

FINANCE DIRECTOR'S REPORT

BUDGETARY CONTROL TO 31 DECEMBER 2010	FOR INFORMATION

1 Introduction

1.1 This budgetary control report compares ELWA's actual expenditure for the nine months ended 31st December 2010 with the original revenue estimates approved in February 2010 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 Based on the profiled budget of £582,000 and the actual net expenditure on services of £529,000, the variance for the period is approximately £53,000 under budget (see Appendix A).

2.2 Payments to Shanks East London had previously shown a higher than anticipated level of expenditure due to greater delivered tonnages from the boroughs. This has been offset by landfill diversion performance, which has continued to improve on a monthly basis resulting in a favourable current variance. The ELWA Contract Manager advises that tonnage levels are volatile and this budget will continue to be closely monitored in order to proactively manage any pressure that may arise.

2.3 A beneficial impact of the increase in tonnages discussed in paragraph 2.2 is that there is a greater than budgeted level of commercial waste income. LB Havering and LB Barking & Dagenham have continued to use this facility but were not included within the original budget due to their request to withdraw from the service.

2.4 There continues to be an adverse variation in respect of bank interest receivable. This is because interest rates have remained lower than those estimated when the budget was agreed.

2.5 Supplies and Services - Other Costs is currently showing an overspend relating to Consultancy Fees for Landfill Strategy and Project Orange. The rest of this budget includes Service Level Agreement costs for all four boroughs, recycling initiatives, office and administration costs, rates, pumping, trade effluent charges and various other expenses. These items are forecast to meet the budgeted target.

2.6 ELWA's Contingency sum for 2010/11 of £150,000 has already been allocated for the year. Robust monitoring of the financial position will continue throughout the year so as to ensure that any remedial action if needed can be swiftly taken. Such action may become necessary should performance levels fall and delivered tonnages increase further.

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. Details are within the Treasury Management Strategy 2011/12 report elsewhere in the Agenda.

4 Recommendation

4.1 Members are asked to note this report.

Geoff Pearce
FINANCE DIRECTOR

Appendices	
A	Budget Monitoring Statement to 31December 2010
Background Papers	
None	

EAST LONDON WASTE AUTHORITY
BUDGET MONITORING STATEMENT TO 31st DECEMBER 2010

EXPENDITURE	Original Budget 2010/11 £'000	Profiled Budget to 31.12.10 £'000	Total Actual to 31.12.10 £'000	Variance to 31.12.10 £'000
Employee and Support Services	500	375	375	0
Premises Related Expenditure	107	80	74	(6)
Transport Related Expenditure	5	4	1	(3)
Supplies and Services				
Payments to Shanks.East London	50,471	38,411	38,320	(91)
Other (inc cost of Support Costs)	750	534	596	62
Third Party Payments				
Disposal Credits	50	38	38	0
Recycling Initiatives	210	173	173	0
Tonne Mileage	525	394	394	0
Rent payable - property leases	267	200	200	0
Capital Financing Costs	229	172	172	0
TOTAL GROSS EXPENDITURE	**53,114**	**40,381**	**40,343**	**(38)**
Income				
Commercial Waste Charges	(2,688)	(2,016)	(2,121)	(105)
Bank Interest Receivable	(396)	(297)	(207)	90
Other Income	(260)	(195)	(195)	0
TOTAL INCOME	**(3,344)**	**(2,508)**	**(2,523)**	**(15)**
Contingency Allocated	150	150	150	0
NET EXPENDITURE ON SERVICES	**49,920**	**38,023**	**37,970**	**(53)**
PFI Grant Receivable	(4,014)	(3,011)	(3,011)	0
Transfer to PFI Contract Reserve	4,014	3,011	3,011	0
Levy Receivable	(40,825)	(30,619)	(30,619)	0
Transfer from PFI Contract Reserve	(7,117)	(5,338)	(5,338)	0
Contribution from Reserves	(1,978)	(1,484)	(1,484)	0
REVENUE SURPLUS FOR PERIOD	**0**	**582**	**529**	**(53)**

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(Contact Officer: Geoff Pearce – Tel 020 8708 3588/Clive Dundon - Tel. 020 8708 3034)

EAST LONDON WASTE AUTHORITY

7 FEBRUARY 2011

FINANCE DIRECTOR'S REPORT

REVENUE & CAPITAL ESTIMATES AND LEVY 2011/12	FOR APPROVAL

1 Executive Summary

1.1 This report sets out the projected outturn for 2010/11, and the proposed budget and levy for 2011/12. 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 2010 Authority meeting.

1.2 Based on the budget monitoring information to date it is anticipated that the Authority's expenditure will remain within budget in 2010/11. It is therefore proposed that the revised revenue estimate is the same in total as the original revenue estimate of £49,920,000.

1.3 It is proposed that ELWA agree a 2011/12 budget of £53,236,000. The increase in relation to the 2010/11 projected out-turn arises primarily from an increase of £8 per tonne in landfill tax, tonnage increases and contractor inflation.

1.4 The Financial Projection and Budget Strategy report agreed by Members on 22nd November 2010 highlighted a projected increase in 2011/12 levy of 10% compared with 2010/11. The proposal in this report is for a levy in 2011/12 of 9.6%.

1.5 The 2011/12 ELWA estimates are based upon the Annual Budget & Service Delivery Plan (ABSDP). This issue is considered elsewhere on this agenda.

1.6 ELWA Members will understand the impact of its levy on the budgets and Council Taxes of its constituent boroughs particularly against the background of the recent Government Comprehensive Spending Review. Therefore, as in previous years, a balance has been sought between prudent financial management that secures the long-term operational viability of ELWA while 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 general 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, and the implications of recent EU and UK legislation. The proposed Levy for 2011/12 reflects a further use of reserves; it is proposed to transfer £6.0m from PFI reserves and £2.5m from revenue reserves. The residual level of reserves remains appropriate based on an analysis of the risks and uncertainties facing ELWA. The transfer in respect of the PFI reserve reflects a change in the treatment of the PFI grant which in future will be paid on an annuity rather than a declining balance basis. However in the medium term it is proposed that an action plan will need to be put in place to increase reserves so that ELWA can effectively manage the transition and risks that will need to be faced at the culmination of the PFI contract.

1.8 Members' attention is drawn to the current projections for the ELWA levy in 2012/13 and 2013/14 at 9.6% and 9.8%. If increases at this level are to be avoided, work must continue to progress with Shanks 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 advised of the potential levy increases.

2 Introduction

2.1 This report sets out the background to the levy, the assumptions and cost pressures determining the levy, the strategic use of reserves to mitigate cost increases to Boroughs, the revised revenue estimates for 2010/11 and the revenue estimates for 2011/12. Members are asked to consider these matters and determine the levy for 2011/12.

2.2 The key strategic themes of this report were set out in the Financial Projection and Budget Strategy 2011/12 to 2013/14 report as agreed at the November 2010 Authority meeting. The Constituent Authority were made aware of this and the proposed levy increase.

2.3 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.

2.4 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.

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

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

(a) A levy based on waste tonnage for costs attributable to Household Waste;

(b) A levy based on Council Tax Band D to apportion other costs attributable to, for example, Reuse and Recycling Centres, Aveley I landfill site.

2.7 At the September 2010 meeting ELWA agreed to maintain this levy apportionment arrangement and to wait until the 2013/14 levy setting process to formally review the Levy methodology once more.

2.8 In compiling this report ELWA Technical officers have undertaken Equality Impact Assessments of the proposals in it. I am advised there is no adverse equalities impact on service users or staff.

3 Cost Pressures on Revenue Budget

3.1 The two broad determinants of the levy are the cost pressures facing ELWA mainly from the Integrated Waste Management Contract and secondly, the ability to use reserves to mitigate against these cost pressures. The following paragraphs detail the main cost pressures.

ABSDP

3.2 The key item within the revenue budget is Shanks East London's Annual Budget and Service Delivery Plan (ABSDP). The current provisional contract cost forecast for Shanks East London for 2011/12 is £53,833,000, an increase of £3,462,000 compared with the budget estimate of £50,371,000 for 2010/11. This is approximately 95% of ELWA's total gross expenditure.

3.3 The revenue budget has accounted for further increases in landfill tax of £8 per tonne each year. Based on the draft 2011/12 ABSDP and built into the IWMS contract pricing structure the increase in landfill tax is £1.5 million in 2011/12. It is anticipated that there will be further increases in landfill tax of £1.8 million in 2012/13 and £1.5 million in 2013/14.

3.4 Under the IWMS contract, landfill tax is met by Shanks up to £15 per tonne. ELWA bears the excess over £15 on the levels of landfilled waste provided the contractor has achieved the contracted diversion from the landfill target.

3.5 As a consequence of additional Landfill Tax rises, the revenue budget has assumed subsequent increases in commercial waste disposal charges to the boroughs of the equivalent amount.

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

3.7 Managing waste levels is a key pressure for constituent Councils and it will be affected by the pace of development of the Thames Gateway and the impact of the Olympics and its legacy, which could significantly add to waste growth over the next decade. Based on technical officer advice, an estimated increase in tonnages of 7,000 tonnes for 2012/13 has continued to be reflected in the projection to allow for the impact of the Olympics.

3.8 As required in the contract, annual cost inflation has been built into the projections. This is based on the Retail Price Index at the previous October each year. This is 4.6% for 2011/12 and projected to be 3.5% for 2012/13 and 2.5% for 2013/14.

3.9 The provisional ABSDP for 2011/12 assumed a total ELWA Waste figure of approximately 469,600 tonnes.

Non-Contract Costs

3.10 As reported at the November 2010 Authority meeting, over the three-year period it is assumed that there will be no increase in the employees, support services and service level agreement budgets as any inflationary pressures would have to be offset by identified efficiencies. The results of the 2010 triennial valuation of the ELWA pension fund shows a shortfall of £78,000 which will need to be funded from the Revenue Budget.

Income

3.11 ELWA receives interest on its balances and the total income generated depends on the level of balances and interest rates. ELWA's Treasury Management Strategy continues to focus on security rather than returns. Interest rates remain low but may increase later in 2011/12.

3.12 There are some other income streams within the revenue budget projections. These are commercial waste charges to the Boroughs and trade waste royalty income.

Commercial and industrial waste charges

3.13 Commercial Waste tonnage is anticipated to show an increase over the three-year period compared to 2010/11. Technical officers have advised that this is because the ABSDP assumed the outsourcing of trade collections in Havering and Barking and Dagenham and the latest projections do not.

3.14 ELWA makes charges to Boroughs for commercial and industrial waste disposal based on the tonnage disposed of. Under the IWMS contract Shanks must accept and deal with this waste.

3.15 To reflect the increased cost of landfill tax and inflation within the IWMS contract it is the view of the ELWA Technical officers that the normal charge for 2011/12 is increased from £96 to £107 per tonne and to incentivise Councils to recycle a lower rate of £70 per tonne in respect of recycled waste is proposed and this would be at the same level as 2010/11.

Capital Expenditure

3.16 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, but none are planned at the moment.

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.

Capital financing charges are taken account of in the revenue estimates.

Summary

3.17 The table below summarises the movement and the increase in cost pressures which will have a direct impact on the levy.

	£m	Reference
Original Budget 2010/11	49.9	
Shanks contract - Increase in Landfill Tax	1.5	Para. 3.3
Shanks contract – Increase due to inflation	1.7	Para. 3.8
Increase in Tonnage and increased Landfill Diversion	0.3	Para. 3.9
Higher commercial waste income	(0.2)	Para. 3.13
Proposed Budget for 2011/12	£53.2	

4 Reserves Strategy

4.1 Given the cost pressures outlined in paragraph 3 and the potential impact on the levy, the use of reserves in mitigating these increases is recommended as detailed below.

4.2 The approach to reserves is a continuation of our long-term strategy. A higher level of reserves was put in at the start of the contract due to the uncertainty around the innovative nature of the contract, the technologies used and planning risk. Once the contract was established, reserves have been reduced in stages to an appropriate level. As reported to the November 2010 meeting this scaling down of reserves is to continue until 2013/14 when the PFI reserve and General reserve would be £2.0 million and £3.6 million respectively. There will need to be a process in the medium-term to build up the reserves to reflect risks that may arise towards the end of the life of the PFI asset.

PFI Reserve

4.3 The PFI reserve was put in place to smooth the IWMS contract step price increases in the early years of the contract. It was good financial practice and agreed ELWA policy that a suitable level of PFI Contract Reserve be set aside in the years prior to such changes to avoid large step increases in the levy for those years. Since then other pressures outside ELWA control such as the annual increases in landfill taxes have required financing. With Members agreement, the PFI grant has been used to support this. The current government policy is that the landfill tax will increase annually by £8 per tonne over the next three years to a cap of £80. It is proposed that the PFI reserve will be used to support the impact of these tax increases on the levy to constituent councils. PFI reserves stood at £5.7 million at 31st March 2012 with further transfers in 2012/13 and 2013/14. Further transfers are proposed for the next two years to help smooth the levy increase. There has been a change in the payment method of PFI grant which has impacted on this and this is dealt with in paragraphs 4.9 and 4.10. This may impact on ELWA in future years unless the reserves are built up again as proposed.

Revenue Reserves

4.4 Authority Members will be aware that in previous budget reports the Authority has agreed to set aside a minimum level of normal operational revenue balances based on an analysis of risk. This has been undertaken as part of this Budget Strategy process. It is now estimated that the total level of reserves that need to be held are £3.6 million at the end of 2011/12 compared to an estimated £6.1 million at the end of 2010/11. This level of revenue reserves must be seen in the context that a 2% increase in waste tonnage creates a cost pressure of £1 million on the Authority.

4.5 The effect of the levy and expenditure on Revenue Reserves in 2010/11 and 2011/12 is shown below:

	£'000
Working Balance at 31.3.2010	8,104
Transfer to support Levy for 2010/11	(1,978)
Estimated Working Balance at 31.3.2011	6,126
Transfer to support Levy for 2011/12	(2,500)
Projected Working Balance at 31.3.2012	3,626

The 2011/12 Contingency

4.6 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.

4.7 The 2011/12 detailed Revenue Estimates do not include provision for pay and price rises. A contingency provision of £150,000 is recommended.

Capital Reserve

4.8 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.

Change of Basis of PFI Grant

4.9 The Department of Communities and Local Government has recently advised that the annual PFI grant will be paid on an annuity basis rather than the declining balance basis with a final payment made in 2026/27. Work has been done on the impact of this change on the Authority. Overall the total grant in cash terms will be the same, however, the payment profile has changed. The main impact of this is in the short term is that for the next three years the Authority will receive additional PFI grant of approximately £870,000 as follows:

	£
2011/12	137,682
2012/13	291,825
2013/14	439,802

It is proposed that the additional grant over this period is used to reduce the levy requirement in these 3 years.

The reduction in the number of years the grant is payable will result in increased financial pressures at the end of the asset and therefore adds strength to the strategy of building up reserves in the medium term.

The PFI reserve was put in place at the start of the project to deal with smoothing the PFI step price increases. As time has moved on, the reserve has been also used to mitigate against landfill taxes. It is recommended that the PFI reserve remains and is utilised as detailed in paragraph 5.6.

4.10 The effect of the levy and expenditure on PFI Reserves in 2010/12 and 2011/12 is shown as follows:

	£'000
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
PFI credit to be received in 2011/12	3,991
Utilisation in 2011/12	(5,987)
PFI Contract Reserve balance at 31.3.12	5,668

4.11 The Authority's Auditors in their Annual Reports over recent years have commented favourably on the Authority's medium to long-term approach to financial planning. This includes the need for the Authority to continue to monitor and agree the level of reserves it holds

5 2011/12 Levy/Three Year Period

2011/12 Levy

5.1 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.

5.2 The levy for 2011/12 is recommended to be £44,749,000 including the contingency of £150,000 and after applying £5,987,000 from the PFI reserve and £2,500,000 of Revenue reserves.

5.3 The Finance Director's Financial Projection and Budget Strategy report agreed by Members on 22nd November 2010 highlighted a potential increase in 2011/12 of 10%. The proposal now is for an increase of 9.6%.

Levies 2012/13 and 2013/14

5.4 The table below highlights a potential levy in the region of £49.1 million for 2012/13 and £53.9 million for 2013/14. The reserves position at the end of 2013/14 is projected to be £3.6 million for revenue reserves and £2.0 million for the PFI Contract reserve.

5.5 The levy forecasts for 2012/13 to 2013/14 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, inflation assumptions and any new legislation could impact on the overall projections. The effect of the Olympics will mainly be felt in 2012/13.

5.6 The indicative levy position and reserve figures for the next three years based on the data used for the 2011/12 levy is summarised in the table below:

Summary Budget	**2011/12 £'000**	**2012/13 £'000**	**2013/14 £'000**
Revenue Budget	53,086	56,234	58,080
Annual PFI Grant	(3,991)	(3,991)	(3,991)
Transfer to PFI Reserve	3,991	3,991	3,991
Contingency	150	150	150
Sub Total	**53,236**	**56,384**	**58,230**
Financed By			
Transfer from PFI Reserve	(5,987)	(7,295)	(4,355)
Transfer (from)/to General Reserve	(2,500)	(26)	
Levy	(44,749)	(49,063)	(53,875)
Levy Increase over previous year	9.6%	9.6%	9.8%
Year End Reserves			
PFI Reserve	5,668	2,364	2,000
Capital Reserve	400	400	400
General Reserve	3,626	3,600	3,600

The above year reserves projections reflect the current understanding and assessment by officers on the risks faced by ELWA. These matters will need to be kept under review and the advice may change in light of any future developments.

5.7 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.

5.8 Any changes on the estimates provided in the recent three-year plan will be reflected in the next three-year strategy due in November 2011.

5.9 The previous Government's capping regime did not apply to Waste Disposal Authorities like ELWA. The new Coalition Government has made public sector financial constraint a key feature of its policies. If ELWA continues to set levy increases around the 10% level there must be a risk that it will face some Government pressures or potential action. This reinforces the need for ELWA to seek ways to reduce future levy increases.

Apportionment of the 2011/12 levy and monitoring arrangements

5.10 The basis of the apportionment of the levy is explained in para 2.6 of the report. The detailed apportionment is given in the table below.

Actual Levy 2010/11		**Tonnages**	**Apportion Tonnages**	**Band D Basis**	**Apportion Band D**	**Proposed Levy 2011/12**
£'000			£'000		£'000	£'000
7,405	Barking & Dagenham	65,615	6,230	52,724	1,917	8,147
10,477	Havering	80,370	7,631	89,700	3,263	10,894
12,242	Newham	118,462	11,247	75,642	2,751	13,998
10,701	Redbridge	88,543	8,407	90,864	3,303	11,710
40,825	Total	352,990	33,515	308,930	11,234	44,749

5.11 Changes in the relative tonnages between boroughs and between household and non-household waste tonnage may reflect not only volume changes but also the re-classification of waste. Relative movements in household tonnages in respect of Newham and Havering have led to different levy increases for these boroughs compared to the overall levy increase.

5.12 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 2011/12.

5.13 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.

6 Risks

6.1 In line with all public sector organisations, ELWA faces difficult financial challenges over the next few years. Consequently, it is vital that ELWA is aware of the risks it faces and has arrangements in place to mitigate these.

6.2 The risks that ELWA faces include ensuring that contractual performance targets are met to minimize the costs of landfill, avoiding major failure in technology, new legislation and ensuring that existing regulations continue to be complied with (Appendix B).

6.3 Controls have been put in place to mitigate against identified risks and the success of these controls will need to be regularly monitored within ELWA's risk management arrangements. Paragraph 7.6 of this report states that an adequate level of reserves has been set giving the currently known risks facing ELWA. This level of reserves has been based on the assumption that these risks will be mitigated in line with ELWA's agreed risk management framework. The level of reserves held will need to be kept under review.

7 Robustness of estimates and adequacy of reserves

7.1 The Local Government Act (LGA) 2003 places 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.

7.2 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 professional and technical officers of other Waste Disposal Authorities are also taken into account.

7.3 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 and in particular their views on waste levels.

7.4 The view of ELWA Directors is that the proposed estimates are robust and the proposed levels of reserves are adequate given the currently known risks facing ELWA. These provide a reasonable and sound basis for the operation of ELWA next year and in the medium term but do need to be kept under review.

7.5 At present ELWA officers maintain detailed systems for budgetary control and also for waste/contract monitoring. It is vital these systems are maintained to supply effective data for Members and senior managers. This will better enable in year variances to be identified and mitigated.

7.6 In my view, having consulted relevant colleagues and 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 budget and levy and the proposed level of reserves, subject to the various remarks about mitigation in this report. A continued prudent level of reserves is again recommended to ensure levy stability in future years because of the uncertainties faced by the Authority. The levels proposed for future years will need to be kept under review in the light of any new developments which may impact on the Authority.

7.7 The details and balances of ELWA's proposed reserves are contained in this report. Subject to all the above, the levels of these reserves are deemed appropriate based on information supplied to me, my professional judgement and ELWA's previous experiences and future plans.

7.8 In my opinion, if ELWA follows the advice contained in this report then the relevant requirements of the Local Government Act 2003 are met.

8 Recommendation

8.1 Members are asked to agree:

(a) The revised estimates for 2010/11 totalling £49,920,000 (paragraph 1.2 & Appendix A);

(b) The revenue estimates for 2011/12, totalling £53,236,000 excluding contributions from reserves;

(c) The charges for commercial and industrial waste for 2011/12

- Commercial & Industrial Waste – recycled £70 per tonne
- Commercial & Industrial Waste – other £107 per tonne

(d) The utilisation of the PFI Contract Reserve of £5,987,000 for 2011/12 and the policy of utilising the increased PFI grant in the next 3 years to mitigate the levy increase in this period;

(e) A Contingency Reserve of £150,000 for 2011/12;

(f) A contribution from Revenue Reserves of £2,500,000:

(g) That on the basis of (b) to (d) above, ELWA determines its levy for 2011/12 the sum of £44,749,000;

(h) The policy on Reserves and associated criteria;

(i) The continuation of existing arrangements for the payment of the levy and funding of Constituent Councils in 2011/12.

Geoff Pearce
FINANCE DIRECTOR

Appendices	
A	Summary of original and revised Revenue Budgets for 2010/11 and Forward Budget for 2011/12
B	Financial Risk Analysis 2011/12
Background Papers	
Returns from Constituent Councils	
Budget working papers	

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EAST LONDON WASTE AUTHORITY - SUMMARY OF REVENUE ESTIMATES

	Original Estimate 2010/11	Revised Estimate 2010/11	Forward Estimate 2011/12
EXPENDITURE	**£'000**	**£'000**	**£'000**
Employee and Support Services	530	480	530
Premises Related Expenditure	107	107	107
Transport Related Expenditure	5	5	5
Supplies and Services			
Payments to Shanks.east London	50,471	50,471	54,033
Other (inc cost of Support Costs)	720	720	720
Third Party Payments			
Disposal Credits	50	50	50
Recycling Initiatives	210	210	210
Tonne Mileage	525	525	525
Rent payable - property leases	267	267	267
Capital Financing Costs	229	229	229
TOTAL GROSS EXPENDITURE	**53,114**	**53,064**	**56,676**
Income			
Commercial Waste Charges	(2,688)	(2,668)	(2,965)
Bank Interest Receivable	(396)	(306)	(275)
Other Income	(260)	(320)	(350)
TOTAL INCOME	**(3,344)**	**(3,294)**	**(3,590)**
Contingency Allocated	150	150	150
NET EXPENDITURE ON SERVICES	**49,920**	**49,920**	**53,236**
PFI Grant Receivable	(4,014)	(4,014)	(3,991)
Transfer to PFI Contract Reserve	4,014	4,014	3,991
Levy Receivable	(40,825)	(40,825)	(44,749)
Transfer from PFI Contract Reserve	(7,117)	(7,117)	(5,987)
Contribution from Reserves	(1,978)	(1,978)	(2,500)
REVENUE DEFICIT/(SURPLUS) FOR PERIOD	**0**	**0**	**0**

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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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EAST LONDON WASTE AUTHORITY

7 FEBRUARY 2011

FINANCE DIRECTOR'S REPORT

TREASURY MANAGEMENT STRATEGY 2011/12 AND PRUDENTIAL CODE INDICATORS 2011/12 TO 2013/14	**FOR APPROVAL**

1 Introduction

1.1 This report sets out ELWA's Treasury Management Strategy for 2011/12 together with the Prudential Indicators for Treasury Management. The report encompasses:

- New borrowing requirements and debt management arrangements;
- A Minimum Revenue Provision Policy Statement;
- The Annual Investment Strategy;
- The Treasury Management Policy Statement; and
- Prudential Indicators for Treasury Management.

1.2 The Local Government Act 2003 requires the Authority to adopt the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code for Capital Finance in Local Authorities as a professional code of practice to support local authorities in taking these decisions. 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 has adopted this code of practice as part of its Financial Standing Orders (D 2-27.1) by resolution of the Authority. The Code of Practice was fully revised by CIPFA in 2009.

1.4 In 2011/12, the Authority's maximum borrowing requirement to meet new capital expenditure and debt redemptions/replacement is estimated to be £0.4 million. The borrowing strategy to meet this requirement is set out in paragraphs 2 to 5.

1.5 ELWA is required to prepare an Annual Minimum Revenue Provision Policy Statement setting out policy for the prudent repayment of debt. The Authority must have regard to statutory guidance issued by the Department for Communities and Local Government (DCLG) when preparing this statement. The Authority's Minimum Revenue Provision Policy Statement is set out at paragraph 6.

1.6 Each year the Authority is required to produce an Annual Investment Strategy that sets out the Council's policies for managing its investments. The Council's investment strategy must have regard to guidance issued by the former Office for the Deputy Prime Minister in March 2004, (now DCLG). The Annual Investment Strategy is at paragraphs 7 -11.

1.7 Standing Order D 2-27.6 requires that the Finance Director present to Members the Treasury Management Strategy for recommendation prior to the start of the Financial Year. The Prudential regime requires that the Prudential Indicators for Treasury Management be considered with the Treasury Management strategy and that ELWA set these limits. These are detailed at paragraph 15. This is an annual process.

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

1.9 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 Borrowing Requirements and Debt Management Arrangements for 2011/12

2.1 ELWA's estimated total borrowing of £1,610,000 at 31st March 2011 consists entirely of Public Works Loan Board (PWLB) loans. All of these loans are on a fixed rate.

2.2 The current fixed borrowing rate of 9.63% is the average rate of interest payable on all loans within the portfolio. All 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.

3 Prospects for Interest Rates

3.1 As part of the Treasury Management Service Level Agreement, economic forecasting is provided and to assist the Authority to formulate a view on interest rates. The Authority's treasury management consultants Sector have provided forecasts for medium term interest rates (as at January 2011) as shown in the table below.

Annual Average %	Bank Rate	Money Market Rates		PWLB Rates*		
		3 month	1 year	10 year	25 year	50 year
2010/11	0.5	0.7	1.5	3.7	4.6	4.7
2011/12	0.7	1.0	1.8	4.5	5.3	5.3
2012/13	1.7	2.0	2.8	5.0	5.4	5.4
2013/14	3.1	3.2	3.8	5.3	5.6	5.6
2014/15	4.0	4.2	4.5	5.6	5.6	5.8
2015/16	4.0	4.2	4.2	5.4	5.5	5.5

* Borrowing Rates

3.2 The most recent view from Sector (January 2011) is that the strong rate of economic growth that was seen during 2010 is unlikely to be sustained. This was evidenced by the 0.5% reduction in growth in the last quarter of 2010. The danger of a double dip recession was diminishing, but the prospect of tight economic policies and weak consumer confidence coupled with the crisis in the euro-zone, means that the threat remains. The Bank of England admits that inflation will stay above target until 2012. Inflation performance remains a key risk to the future course of interest rates, however in light of the current growth figures, it is anticipated that the Monetary Policy Committee will be prepared to hold rates at very low levels until the latter stages of 2011.

3.3 The outlook for longer term interest rates is favourable in the short term but anticipated to deteriorate in the latter part of 2011. In the short term bond yields are likely to remain suppressed due to the continuing uncertainties and unfolding tensions within the Euro-zone. In addition, the market has been underpinned by evidence of activity in major economies and the UK Government's determination to deal with public sector finances will constrain any fall in gilt market performance in the short term. However, this will be a lengthy process and will still require heavy gilt issuance as the market will not be able to rely on Quantitative Easing indefinitely to lessen this huge burden.

4 New Borrowing Requirements

4.1 The Authority may need to make arrangements to finance expenditure during 2011/12 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 2011/12, 2012/13 and 2013/14:

Borrowing Requirement	2011/12 £'000	2012/13 £'000	2013/14 £'000
Potential Capital Spending	400	-	-
Maximum Estimated Borrowing Requirement	400	-	-

4.2 New Borrowing Requirements - 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.

4.3 Public Works Loan Board (PWLB) - The Public Works Loan Board is a statutory body operating within the United Kingdom Debt Management Office, an executive agency of HM Treasury. Their function is to lend money from the National Loans Fund to local authorities and other prescribed bodies, and to collect repayments. Interest rates are calculated by the Treasury and are based on base rate and the government cost of borrowing (gilt yields). Loans can be taken at fixed rates for periods up to 50 years or variable rates for up to 10 years.

4.4 Money Market - Institutions, such as banks, offer alternative loan arrangements to the fixed/variable rate loans offered by the Public Works Loan Board.

4.5 It is recommended that £400,000 is set as the borrowing requirement for 2011/12.

5 Borrowing Strategy 2011/12

5.1 Paragraph 4 indicates a potential need to finance £400,000 of capital requirements in 2011/12. The Authority is free to borrow what it deems to be prudent, sustainable and affordable within the Authority's approved Authorised External Debt Limit. See further detail at Para. 15.

5.2 The need to undertake external borrowing can be reduced by the (temporary) application of internal balances held for provisions and reserves within ELWA's accounts and cashflow movements on a day-to-day basis. The option of postponing borrowing and running down investments 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.

5.3 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 Treasury Management Policy Statement.

5.4 A view has to be taken on the balance between variable rate borrowing and fixed rate borrowing. To give ELWA maximum 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.

5.5 It is good practice to evaluate the borrowing portfolio on a periodic basis to see if it could be structured more efficiently. Sector, the Authority's treasury management consultants, provide information on potential restructuring opportunities as part of their service.

5.6 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 where appropriate.

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

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

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

(c) The repayment spread period of the long-term debt portfolio is set at a maximum period of 50 years;

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

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

6 Minimum Revenue Provision

6.1 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 was 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.

6.2 In conjunction with the regulatory amendment, the DCLG have 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. Authorities must have regard to this guidance with effect from the 1 April 2008.

6.3 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.

6.4 Annual Minimum Revenue Provision Statement

(a) 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.

(b) Minimum revenue provision for new capital expenditure incurred wholly or partly by unsupported (Prudential) borrowing or credit arrangements are 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.

(c) 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.

(d) 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.

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

7 Annual Investment Strategy 2011-2012

7.1 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 revised "Guidance on Local Government Investments" issued by the DCLG which came into operation on 1st April 2010.

7.2 The key intention of the Guidance is to maintain the requirement for Authorities 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:

(a) Security, creditworthiness criteria, risk assessment and monitoring arrangements for investments;

(b) 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;

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

(d) 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 management advisers.

8 Investment Objectives

8.1 The Authority's investment strategy gives priority to:

(a) the security of the investments it makes;

(b) the liquidity of its investments to meet known liabilities.

8.2 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.

8.3 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.

9 Security of Capital

9.1 ELWA 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.

9.2 The rating criteria are used to apply the "lowest common denominator" method, of selecting country and counterparties and applying limits. This means that the Authority's 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.

9.3 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.

9.4 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 2009.

Long Term Rating	1 year	2 years	3 years	4 years	5 years
AAA	0.00%	0.01%	0.05%	0.10%	0.17%
AA	0.03%	0.06%	0.08%	0.14%	0.20%
A	0.08%	0.22%	0.37%	0.52%	0.70%
BBB	0.24%	0.68%	1.19%	1.79%	2.42%

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

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

(a) Eligible institutions included in the UK Government Credit Guarantee Scheme

(b) Building Societies with assets in excess of £3 billion;

(c) AAA rated Money Market Funds;

(d) The UK Government (Debt Management Office and Gilts);

(e) UK Nationalised Banks

(f) Guaranteed banks with suitable Sovereign Support;

(g) Other Local Authorities; and

(h) Supranational Institutions.

All counterparties must meet the Authority's Creditworthiness Criteria as set out at Appendix B.

9.7 Credit Quality Monitoring: The Council's treasury management advisers, Sector, 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.

9.8 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 is 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. The inclusion of institutions and investment schemes that meet the agreed credit criteria is delegated to the Finance Director.

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

(a) Publicity from sources such as the financial press and internet and from ratings alerts from the credit rating agencies;

(b) 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.

(c) Where available, price movements of Credit Default Swaps, which are a financial instrument for swapping the risk of debt default, can be plotted to give an indicator of relative confidence about credit risk.

(d) All information received is acted upon promptly as appropriate.

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

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

9.12 Specified Investments are those investments that meet the Authority's high credit quality as set out in this section and also meet the following criteria;

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

(b) Are denominated in sterling and all repayments in respect of the investment are only payable in sterling;

(c) 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.

9.13 Non-Specified Investments are all other investments that do not satisfy the Specified criteria and are 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.

9.14 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%

9.15 These limits have been set to ensure that the Authority retains maximum flexibility and can react quickly to changing market conditions. 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.

10 Investment of Cash Balances and the Liquidity of Investments

10.1 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 £8 million and £25 million. The initial cashflow estimates provide an indication of cash receipts and outgoings on a month-by-month basis.

10.2 Liquidity: The Authority is required to have available, or access to adequate resources to enable it at all times to have available the level of funds which are necessary for the achievement of its service objectives. The cashflow model provides the Council 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 cash balances required to support cashflow management on a monthly basis is £6 million.

10.3 The borrowing strategy set out at paragraph 5 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 ELWA's liquidity requirements.

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

10.5 Borrowing in Advance of Need: The Authority has some flexibility to borrow funds this year for use in future years. The Finance Director may do this under delegated authority, where for instance, a sharp rise in interest rates is expected, and so borrowing early at fixed rates will be economically beneficial to meet budgetary constraints.

10.6 The Finance Director will adopt a cautious approach to any such borrowing, and will only do so to fund the approved capital programme or future debt maturities where there is a clear business case. The investment of funds borrowed ahead of need, will be within the constraints of the approved investment strategy.

10.7 Interest Rates: As set out at paragraph 3, 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.

10.8 Yield - The Authority uses the 7 day LIBID rate as a benchmark for comparing the return on its investments.

10.9 Banking Sector/Market turbulence: Following the severe volatility in the banking sector in 2008, the Authority, like most other 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.

10.10 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.

10.11 Investments Longer than a Year: The code of practice 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 invested for longer than one year but limits must still be set to continue to accommodate these.

10.12 Having given due consideration to the level of balances over the next three years, the need for liquidity, spending commitments and provisions for contingencies, it is determined that under “normal” market conditions up to £2 million of total fund balances could be prudently invested for longer than one year.

10.13 Therefore taking all of the foregoing into consideration and to allow the Authority flexibility for market improvement, it is recommended that the Authority set an upper limit for principal sums to be invested for longer than one year at £2 million for 2011/12, £1 million for 2012/13 and £1 million for 2013/14.

11 Provision for Credit-related Losses

11.1 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 (para. 11.2)

11.2 An adjustment in the 2009/10 accounts was made to account for impairment of the £1 million investment to Heritable Bank. To date the Authority has received a total of £528,450 of the recoverable amount. It is currently anticipated, based on the advice from the liquidator, that on a prudent basis a total of 85p in the £ will be recovered in due course.

12 Treasury Management Consultants

12.1 Treasury Management support is provided as part of the Service Level Agreement. The Authority uses Sector as its treasury management consultants. The company provides a range of services which include:

(a) Economic and interest rate analysis:

(b) Credit ratings/market information service comprising the three main credit rating agencies;

(c) Generic investment advice on interest rates, timing and investment instruments

(d) Debt rescheduling advice;

(e) Technical support on treasury matters and capital finance issues.

12.2 Whilst Sector provide support to the Authority’s internal treasury function, under current market rules and the CIPFA Treasury Management Code of Practice, the final decision on treasury matters remains with the Authority. The treasury consultancy service is subject to regular review.

13 Member and Officer Training

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

(a) Providing training sessions, briefings and reports on treasury management and investment issues to those Members responsible for the monitoring and scrutiny of treasury management, as appropriate.

(b) 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;

(c) 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.

14 Investment Strategy 2011/12

14.1 In summary – considering the factors set out in Paragraphs 9 and 10, the recommended Investment Strategy is:

(a) 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;

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

(c) That the minimum amount of short-term cash balances required to support monthly cashflow management is £6 million;

(d) That the upper limit for investments longer than one year is £2 million;

(e) That the maximum period for longer term lending be 5 years;

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

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

(h) 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 in the appendix and that professional advice continues to be sought if appropriate;

(i) That all investment is managed within the Authority's approved asset class limits as set out at paragraph 9.14.

15 Prudential Indicators for Treasury Management

15.1 Overview - The key objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of Authorities are affordable, prudent and sustainable. Further, that Treasury Management decisions are taken in accordance with good professional practice. To demonstrate that 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.

Prudential Indicators for Treasury Management relate to:

(a) The adoption of the CIPFA Code of Practice for Treasury Management;

(b) Limits for external debt;

(c) Interest rate exposures;

(d) Maturity structure of borrowings; and

(e) Investment for periods of longer than one year.

15.2 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.

15.3 The CIPFA Code of Practice in Treasury Management - The Authority adopted the CIPFA Code of Practice in Treasury Management in the Public Services as part of its Financial Standing Orders. In November 2009, CIPFA published a revised Code of Practice which the Authority incorporated into its Treasury Management Policies and Practices.

15.4 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 The Treasury Management Statement is reviewed periodically and amended if policies change. This Statement is attached as Appendix A for information.

15.5 Authorised limit for External Debt 2011/12 – 2013/14 - 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 Finance leasing (see paragraph 15.6).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.

15.6 As part of the Prudential Indicators Members need to take account of the ELWA PFI scheme . As a result of the changes in accounting treatment PFI assets and liabilities have been brought onto the balance sheet . The liability needs to be recognised as part of the Prudential Indicators and Members need to agree to Prudential Indicators which take account of this . Of the long term liability indicator approximately £103 million relates to the PFI liability with the balance being potential finance leases which may arise as part of the International Financial Reporting Standards review.

15.7 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:

	2011/12 £'m	2012/13 £'m	2013/14 £'m
Estimated borrowing b/f Borrowing requirement Replace internal borrowing Less: Maturing debt	1.6 0.4 - (0.1)	2.0 - 	2.0 - (0.2)
Less: Loan Replacement			
Short term/cashflow requirements	6.0	6.5	7.0
Unforeseen cash movements	7.0	7.5	8.0
Borrowing	14.9	16.0	16.8
Other long term liabilities	105.0	105.0	105.0
Total External Debt	119.9	121.0	121.8

15.8 It is therefore recommended that the total Authorised Limit for External Debt for 2011/12 set at £120 million, for 2012/13 £121 million, and for 2013/14 is £122 million.

15.9 Operational Boundary External Debt 2011/12 – 2013/14 - 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 £2 million that is included in the authorised debt calculation for unforeseen cash movements.

15.10 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. It is therefore recommended that the total operational boundary for external debt for 2011/12 be set at £118 million, for 2012/13 £119 million, and for 2013/14 £120 million.

15.11 Interest rate exposure 2011/12 – 2013/14 - 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 of projected borrowing and lending estimates as follows:

	2011/12 £'000	2012/13 £'000	2013/14 £'000
Fixed Rate	8,300	8,700	8,000
Variable Rate	(25,000)	(25,000)	(25,000)

The net principal sums represent the annual upper exposure limit.

15.12 The limits indicate that all of the Authority's borrowing is fixed and interest costs are therefore certain. 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. As cash balances fluctuate significantly throughout the year the figure for projected lending is based on the estimated maximum position.

15.13 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 fixed term interest rates be unfavourable, 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.

15.14 Maturity Structure of Borrowings – the Authority is required to set upper and lower limits with respect to the maturity structure of its fixed rate borrowings. These have been set to avoid the need to refinance a significant proportion of outstanding debt on an annual basis, and to provide the Council with flexibility to manage its debt portfolio efficiently.

	Upper Limit	Lower Limit
Under 12 months	35%	0%
12 Months and within 2 years	45%	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%

15.15 Investments for longer than 364 days – within the Annual Investment Strategy, paragraph 10.13, the following amounts have been identified as available for longer term investment 2011/12 £2 million, 2012/13 £1 million and 2013/14 £1 million.

15.16 In Summary – the Prudential Indicators for Treasury Management are recommended as follows:

Authorised Limit for External Debt

	2011/12 £'m	2012/13 £'m	2013/14 £'m
Borrowing	15	16	17
Other Long Term Liabilities	105	105	105
TOTAL	120	121	122

Operational Boundary for External Debt

	2011/12 £'m	2012/13 £'m	2013/14 £'m
Borrowing	13	14	15
Other Long Term Liabilities	105	105	105
TOTAL	118	119	120

Upper Limits on Interest Rate Exposures

	2011/12 £'m	2012/13 £'m	2013/14 £'m
Fixed Rate	8.3	8.7	8.7
Variable Rate	(25.0)	(25.0)	(25.0)

Amount of Projected Fixed Rate Borrowing that is Maturing in each Period as a Percentage of Total Projected Borrowing that is Fixed Rate

	Upper Limit	Lower Limit
Under 12 months	35%	0%
12 Months and within 2 years	45%	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%

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

2011/12 £'m	2012/13 £'m	2013/14 £'m
2	1	1

16 Recommendations:

16.1 It is requested that Members agree :

(a) The Borrowing Strategy for 2011/12 as set out in Paragraphs 5 to 7;

(b) The Minimum Revenue Provision Policy Statement for 2011/12 is set out in Paragraph 6;

(c) The Annual investment Strategy for 2011/12 as set out in Paragraphs 9,10 and 14;

(d) The Treasury Management Policy Statement as set out in Appendix A;

(e) The Prudential Indicators for Treasury Management as set out in Paragraph 15.

Geoff Pearce
FINANCE DIRECTOR

Appendices	
A	Treasury Management Policy Statement
B	Creditworthiness Criteria
C	Approved List of specified and Non Specified Investments
D	Glossary
Background Papers	
None	

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TREASURY MANAGEMENT POLICY STATEMENT

1. The Authority defines its Treasury Management activities as:

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

   (b) The effective control of the risks associated with those activities; and

   (c) 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

1.1 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 requirements of 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 credit matrix criteria specified below 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

The Authority will use banks and building societies that are classified as an eligible institution for the HM Treasury Credit Guarantee Scheme initially announced on the 13 October 2008, and have the necessary short and long-term ratings as specified in the short term / long term credit matrix.

UK Nationalised Banks

The Authority's banker – National Westminster Bank (NWB), for transactional purposes 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 Authority will use these where the parent bank has the necessary ratings outlined above.

Building Societies –the Authority will use Building Societies that:

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

(b) Meet the requirements of an Eligible Institution; or

(c) Have assets in excess of three billion and are 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 Authority'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	Highe st	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 Highest	Fitch Lowest	Moody's Highest	Moody's Lowest	S&P's Highest	S&P's Lowest
Long term credit	AAA	AA-	Aaa	A1	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	3	*	*	*	*

*** 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 Authority'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 foreign 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.

Time and Monetary limits applying to Investments

Type of Investment	Minimum Fitch rating (or equivalent)				Limit £'m	Time Limit
	1*	2*	3*	4*		
Credit rated institutions	F1+	A	B	3	5	1 Year
	F1+	A	C	1	4	1 Year
	F1+	A	B/C	3	4	1 Year
	F1	A	B	3	3	1 Year
	F1	A	C	1	3	1 Year
	F1	A	B/C	3	2	1 Year
	F1+	AA-	B	2	3	3 Years
	F1+	AA-	B/C	3	2	3 Years
	F1+	AA-	C	1	2	3 Years
	F1+	AA-	B	2	3	3 Years
	F1+	AA-	B/C	2	2	3 Years
	F1+	AA-	C	1	1	3 Years
Other Institutions						
Money Market Funds	AAA				3	1 year
Unrated Building Societies	Assets greater £3bn				3	3 months
Supranational Bonds	F1+	AA			3	1 Year
Guaranteed Organisations						
Bank of England - DMADF					30	3 years
Local Authorities (each)					5	5 years
UK Government Backed Banks	F1	A			5	1 Year
UK Government Backed Banks	F1+	AA-			1	3 years
Guaranteed Banks with suitable Sovereign Support	F1+	A			1	3 months

1* **Short Term** – relates to long term credit quality

2* **Long Term** – relates to short term credit quality

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

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

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
Supranational Bonds	Government backed	To be used in house/ 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 / external fund manager
UK Government gilts with a maturity of less than 1 yr. These are government bonds and provide the highest security of interest	Government backed	To be used in house / external fund manager
Gift Funds and Bond Funds	Government backed	To be used in house / external fund manager
Treasury Bills	Government backed	To be used in house / 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 Security 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 no-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	6 months	In House

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	3 years	In House	100%
UK Government more than one year maturity	High Security	3 years	In House	100%
Local Authorities more than one year maturity	High Security	3 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	3 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.	3 years	In House	50%
Certificates of Deposit issued by banks and building societies	Short term lowest common denominator matrix Sovereignty government guarantee	3 Years	External fund manager	50%
Government Gilts with a maturity of more than one year	Government backed	3 years	In house after consultation from Treasury Advisory or use of external fund manager	50%
Gilt Funds and Bond Funds	Government backed	3 years	In house after consultation from Treasury Advisory or use of external fund manager	50%
The Council's own banker	Government backed / eligible institution	3 years	In house	50%

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GLOSSARY

Asset Class Limits	Types of investments - such as Banks, Building Societies, Government, Money Market Funds. The Authority has to set these limits in terms of percentages of each type of investment held of the total portfolio.
Asset Life	How long an asset is likely to last eg a Recycling Centre.
Borrowing Portfolio	A list of loans held by the Authority.
Borrowing Requirements	The Authority's need to finance and manage debt and debt redemption and replacement.
Capitalisation direction or regulations	Expenditure of a revenue nature that may use capital reserves, borrowing and capital receipts to finance.
CIPFA Code of Practice on Treasury Management	A code of practice issued by CIPFA defining treasury management as the management of the organisation's cash flows, banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of the optimum performance consistent with those risks.
Counterparty	Banks and Building Societies that the Authority transacts with for borrowing and lending.
Credit Arrangements	Methods of Financing such as borrowing, leasing etc.
Credit Ratings	A scoring system issued by credit rating agencies such as Fitch, Moody's and Standard and Poors that indicate the financial strength and other factors of a bank or similar institution.
Creditworthiness	How highly rated an institution is according to its credit rating.

Debt Management Office	The DMO is an agency of the HM Treasury and its responsibilities include debt and cash management for the UK Government, lending to local authorities and managing certain public sector funds.
Debt Rescheduling	When the Authority's loans are refinanced at different terms and rates to the original loan.
Depreciation Method	The spread of the cost of an asset over its useful life and expected wear and tear.
Fitch Ratings	A credit rating agency who provides credit rated worthiness information.
Gilts	Issued by the UK Government in order to finance public expenditure. Gilts are generally issued for a set period and pay a fixed rate of interest for the period.
Guidance on Local Government Investments	Guidance issues by CIPFA on the scale of treasury management activities.
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 taken by the Authority that have a fixed rate for a specified number of years and the rate can be varied by the lender at agreed intervals for the remaining life. If the Authority is not happy with the revised rates offered by the lender, the Authority then has the option to repay the loan in full and the loan agreement will end.
Limits for external debt	This forms part of the Prudential Indicators prescribed by the Prudential Code. The level of external debt is a consequence of a treasury management decision about how much external borrowing to undertake.
Liquidity	Availability of 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 Authority'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 and set aside as provision for credit liabilities.
Minimum Revenue Provision Policy Statement	An Authority is required under statutory guidance to set out how a revenue charge would be paid.
Money Market	Financial institutions and dealers in money and credit.
Money Market Funds	Funds where money can be placed in a particular fund and then invested in a mix of investments in Banks and other institutions.
Moody's	A credit rating agency who provides credit rated worthiness information.
Non Specified Investments	This is terminology specified within CIPFA's Treasury Management Code to describe investments for more than one year and with unrated banks and building societies.
Prudential Borrowing	Authorities are required to comply with the Prudential Code by demonstrating the affordability, prudence and sustainability of the Authority’s financial planning methods.
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 developed by CIPFA 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 long and medium term loans to local authorities 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 risk.
Security	Placing cash in highly rated institutions.
Specified Investments	This is terminology specified within CIPFA's Treasury Management Code to describe investments for less than one year and with rated banks and building societies.
Standard and Poors	A credit rating agency who provides credit rated worthiness information.
Supported Borrowing	Mainstream funding for housing investments is provided in the form of revenue support to cover borrowing costs.
Supranational Institutions	Multi national structures - an amalgamation of different countries offering investment opportunities - for example Euro Investment Bank
Unrated institution	An institution that does not possess a credit rating from one of the main credit rating agencies.
Unsupported Borrowing	Borrowing costs wholly financed by the Authority.

(Contact Officer: Paul Taylor - Tel. 020 8270 4965)

EAST LONDON WASTE AUTHORITY

7 FEBRUARY 2011

MANAGING DIRECTOR'S REPORT

CORPORATE IDENTITY	FOR INFORMATION

1 Purpose

1.1 To inform Members about changes to the corporate identity of ELWA.

2 Background

2.1 Following the recent changes to the ELWA constitution and the impending office relocation, officers have considered refreshing the organisation's corporate identity. The aim is to strengthen the image of ELWA and take the opportunity to introduce a consistent identity across all published documents and information.

3 Proposal

3.1 The existing corporate identity is clean and simple and the intention is not to stray from these fundamental principles. We consider the addition of the organisations full name to the logo, will help strengthen the identity. The revised logo and an example of how it may be used as a document footer can be seen at Appendix A.

3.2 In addition to changing our office address, we will take the opportunity to change our e-mail address and move away from using xxx@lbbd.gov.uk. The new format will be xxx@eastlondonwaste.gov.uk, which is the format approved by the Naming and Approvals Committee, Central Office of Information. This also ties in with the move to include the full organisational name in the logo.

3.3 We are developing a suite of document templates that use the new identity. The templates will be introduced during the spring of 2011.

3.4 We are also reviewing the website, with a view to combining the organisational information website www.eastlondonwaste.gov.uk with the community engagement website www.recycleforyourcommunity.com. This mirrors the approach taken by other waste disposal authorities and should help remove any confusion generated by the existence of two websites.

4 Recommendations

4.1 Members are recommended to:

a) note the change to the ELWA corporate identity.

Paul Taylor
MANAGING DIRECTOR

Appendices		
A	Revised ELWA logo	
Background Papers		
None		

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

EAST LONDON WASTE AUTHORITY

7 FEBRUARY 2011

HEAD OF OPERATION'S REPORT

CONTRACT MONITORING TO NOVEMBER 2010	FOR INFORMATION

1 Purpose

1.1 To provide an update on the monitoring, outcomes and actions taken with regards to the management of the Integrated Wastes Management Strategy (IWMS) contract for the period to November 2010.

2 Monitoring by ELWA and Borough staff

2.1 The high level of site monitoring in the first half of the year was repeated in the third quarter. Almost a 100% inspection rate against targets was recorded for Borough and ELWA Officers.

3 Notifications received from Shanks

3.1 Generally the Reuse and Recycling Centres are very reliable and never have cause to close the gates to the public. However in November the Frizlands Lane RRC site had to be closed for a couple of hours as a result of a chemical spillage in the LBBD main depot adjacent to the site.

3.2 The optibag units at Jenkins Lane are by far the most unreliable aspect of ELWAs facilities. A number of breakdowns were experienced in November in relation to this facility and strengthens the decision by Newham to introduce separate collections of dry recyclates from residual waste and begin the closure of these units at Jenkins Lane. Work is continuing on collection of recycling from flats which will allow the second and final optibag line to be closed.

4 Issues arising out of monitoring

4.1 The year to date contractual recycling performance is 25.6% which is 1.4% below the contract target. As previously reported to Members it is usual for more than 50% of the contract recycling to originate in the first 6 months of the contract year. Officers have carried out an analysis of data and trends and have forecast that the end of year recycling performance is likely to be in the region of 24.6%.

4.2 Towards the latter part of the calendar year Shanks experienced a high turnover of key staff including the loss of the general manager, Frog Island site manager, Frog Island BioMRF manager, the IRC supervisor and the maintenance manager. Shanks have filled the two key positions of Frog Island and Jenkins Lane site managers and also the BioMRF manager at Frog Island. Officers have increased their engagement with Shanks management as a result of this to ensure continuity of service and to ensure that there is no erosion in the provision of information or the failure to follow contractual procedures.

4.3 Remedial actions following Monitoring.

(a) Financial penalties continue to be applied to the contractor for contractual non conformances. An additional line has been added at the top of Appendix C to show the value of financial penalties levied against the contractor.

5 Update on contract negotiations

5.1 In exchange for the Authority giving it's approval to Shanks Waste Management for the sale of its equity share in ELWA Ltd, Members approved a strategy to increase the contractual targets for diversion from landfill and a penalty structure for failing to achieve contractual targets for both diversion and recycling.

5.2 These new performance targets and penalties were agreed between the Authority and ELWA Ltd but are subject to ELWA Ltd funders approval. At a recent ELWA Ltd meeting Shanks Directors provided an update as follows.

(a) Shanks Directors have had several meetings with their Technical Bank, Curry and Brown, to provide an evidence base to assure the funders that the targets are achievable and therefore do not place the funders in a position of increased risk.

(b) In order to satisfy the Technical bank that this is the case they wanted to see additional security over the market for Solid Recovered Fuel (SRF). Shanks Directors advised that they will enter into a contract at the beginning of March which should satisfy the funders in relation to this issue.

(c) Shanks Directors remain confident that the funders will give approval to this formal amendment to the contract between the Authority and ELWA Ltd.

6 Update for December

6.1 The severe weather conditions in December resulted in an inability for Shanks to service all the Bring Sites in line with contractual requirements particularly where bring sites are located in schools which were closed or in car parks that had not been gritted. However in the majority of cases the contractor responded to this issue as soon as was practical to clear up the backlog.

6.2 All RRC sites remained open and were fully functional during December despite the long period of bad weather.

6.3 There were some issues with icy access roads to the key facilities. Shanks have an agreement with LBBD and LBN to grit Frog Island and Jenkins Lane respectively but it is understood that pressures elsewhere delayed this from taking place.

6.4 The collection authorities within ELWA made alternative arrangements to catch up with the missed collections. Unfortunately each Borough decided on a different plan which put pressure on Shanks to provide facilities for extended working days and Bank Holidays when they would otherwise have been closed. However the Authority received the full cooperation of Shanks to accommodate all of the collection authorities' requirements including extended working hours over the Christmas period.

6.5 An officer group has been tasked with coordinating the collection arrangements for the next and subsequent public holiday periods.

6.6 At the time of writing this report a detailed analysis of December's performance had not been completed, however Members will be updated via the monthly bulletin report.

7 Recommendations

7.1 Members are recommended to:-

(a) receive and note this report for information.

Mark Ash
HEAD OF OPERATIONS

Appendices	
A	Facility Monitoring indicators
B	Recycling, composting and diversion indicators
C	Contract monitoring and performance deduction indicators
Background Papers	
None	

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FACILITY MONITORING INDICATORS

KEY	
Performance acceptable	✓
Improvement Required	✗

			Quarter 2			Quarter 3			
Indicator Number	**IWMS - Facility Monitoring Indicators** (arising from Borough and ELWA monitoring)	**Required No. of inspections**	**JUL**	**AUG**	**SEP**	**OCT**	**NOV**	**DEC**	**Month on Month**
	Bring Sites								
1	Number of completed audits against planned audits (ELWA)	4	4	4	4	4	4	4	✓
2	Number of completed audits against planned audits (constituent councils)	4	4	3	4	4	4	4	✓
	RRC Sites								
3	Number of completed audits against planned audits (ELWA)	8	8	8	8	8	8	8	✓
4	Number of completed audits against planned audits (constituent councils)	8	8	8	8	8	7	7	✓
	Key Facilities								
5	Number of completed audits against planned audits (ELWA)	6	6	6	6	6	5	6	✓

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Recycling, Composting & Diversion Indicators

KEY	
Target achieved or bettered	✓
Below target	✗

Indicator Number	Indicator	Quarter 2- 2010/11 July Target	July Actual	August Target	August Actual	September Target	September Actual	Quarter 3- 2010/11 October Target	October Actual	November Target	November Actual	December Target	December Actual	YTD Target	YTD Actual	YTD Performance See key
1	Contract waste tonnage (tonnes)	42,517	41,654	37,892	38,366	41,371	41,066	39,739	37,063	34,943	36,243	35,826		320,479	321,247	✗
2	% Shanks primary recycling and primary composting	27%	25.9%	27%	25.6%	26%	25.6%	26%	26.1%	27%	24.1%	27%		27%	25.6%	✗
3	% Shanks Contract waste Diversion from landfill	59%	57%	61%	64%	58%	58%	59%	58%	61%	56%	61%		60%	56%	✗
4	LATS performance (tonnes) Against allowance	17,413	14,592	15,917	11,053	16,191	15,161	16,175	13,666	13,954	13,725	14,162		130,867	118,528	✗
5	Bring Site Recyclate (tonnes)	731	632	652	516	711	530	683	480	601	498	616		5,511	4,574	✗
6	Orange Bag Recyclate (tonnes)	1,955	2,163	1,742	1,682	1,902	1,960	1,827	1,815	1,607	1,956	1,647		14,735	15,073	✓
7	Ilford Recyclate (tonnes)	1,054	863	967	845	1,033	1,000	1,002	950	911	895	928		8,058	7,137	✗
8	Borough Recycling (Green, Fridges etc) (tonnes)	175	1,710	164	1,725	172	2,050	169	1,800	158	750	160		1,354	14,395	✓
9	RRC Recyclate Processed (tonnes)	3,783	3,184	3,284	2,865	3,284	2,800	3,143	2,475	2,730	2,338	2,806		27,471	23,981	✗
10	RRC Mrf Recycling Tonnage (tonnes)	430	238	396	80	422	350	410	410	373	644	380		3,295	2,663	✗
11	BioMRF - Metals (tonnes)	766	330	684	513	746	370	717	250	632	218	647		5,779	3,105	✗
12	BioMRF Glass & Stone (tonnes)	660	382	590	356	643	370	618	300	545	332	558		4,983	2,279	✗
13	Bio Mrf Composting (tonnes)	1,581	1,285	1,412	1,239	1,539	1,100	1,480	1,180	1,305	1,121	1,337		11,935	8,888	✗
14	Bio Mrf Residual recycling (tonnes)	458	0	458	0	458	0	458	0	458	0	458		3,667	0	✗
15	Total NI 192 Recycling	11,594	10,787	10,350	9,820	10,910	10,530	10,507	9,660	9,320	8,752	9,538		86,789	82,096	✗

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2010 / 11			Quarter 1			Quarter 2			Quarter 3			Quarter 4			
Indicator Number	Performance Deduction Indicators (arising from payment mechanism in contract)	Rectification period	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	YTD
	Financial value of penalty levied		£5,190	£3,699	£2,565	£2,649	£513	£608	£3,400	£4,176	£3,460				£26,260
A1	Failure to accept contract waste delivered by WCA	None	0	0	0	0	0	0	0	0	0				0
A2	Failure to accept contract waste delivered by the public.	None	0	0	0	0	0	0	0	0	0				0
A3	Failure to accurately distinguish, weigh and record waste.	None	0	0	0	0	0	0	0	0	0				0
A4	Failure to achieve turnaround times for WCA vehicles.	None	39	22	21	41	4	24	52	45	41				289
A5	Failure to achieve turnaround times for WCA detritus vehicles.	None	0	0	0	0	0	0	0	0	0				0
A6	Failure to weigh an authorised vehicle within 10 minutes of arrival.	None	0	0	0	0	0	0	0	0	0				0
A7	Failure to achieve turnaround times for public vehicles	None	0	0	0	0	0	0	0	0	0				0
A8	Failure to prevent a queue at entrance to RRC sites.	None	20	10	8	8	1	0	0	0	2				49
A9	Failure to prevent tipping of commercial / industrial waste at RRCs.	None	0	0	0	0	0	0	0	0	0				0
A10	Failure to prevent unauthorised tipping of waste at RRC sites.	None	0	0	0	0	0	0	0	0	0				0
A11	Minor infringement of H&S procedures.	30 Mins	0	0	0	0	0	0	0	0	0				0
A12	Material breach of H&S precedures.	None	0	0	0	1	0	0	0	0	0				1
A15	Failure to empty or service a bring site in accordance with spec.	1 Day	6	0	0	0	0	0	0	0	0				6
A16	Non provision of CELO (rectification period applies)	2-3 Months	0	0	0	0	0	0	0	0	0				0
A17	Failure to provide welfare facilites for representatives of ELWA	None	0	0	0	0	0	0	0	0	0				0
A18	Failure to provide a contractor representative.	None	0	0	0	0	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	0	0	0				0
A20	Failure to deliver orange bags to a household.	1 Week	0	0	0	0	0	0	0	0	0				0
B1	Failure to transport contract waste in enclosed containers.	None	0	0	0	0	0	0	0	0	0				0
B2	Failure to maintain corporate livery markings on waste vehicles.	5 Days	0	0	0	0	0	0	0	0	0				0
B3	Use of non conforming containers / vehicles.	5 Days	0	0	0	0	0	0	0	0	0				0
B4	Failure to observe any H&S related procedures relating to transportation of waste.	5 Days	0	0	0	0	0	0	0	0	0				0
C1	Failure to rectify breaches of planning or licencing conditions.	2 Weeks	0	0	0	0	0	0	0	0	0				0
C3	Acceptance of waste not covered by the site licence conditions	None	0	0	0	0	0	0	0	0	0				0
C3	Failure to take reasonable efforts to limit fugitive emissions.	None	0	0	0	0	0	0	0	0	0				0
D	Failure to comply with any administrative requirement (D1-D9).	Various	0	10	0	0	1	0	0	2	0				13

2010 / 11		Quarter 1			Quarter 2			Quarter 3			Quarter 4			
Indicator Number	IWMS - Contract Monitoring Indicators (arising from self monitoring information from shanks and ELWA targeted monitoring)	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	YTD
	Self monitoring information from Shanks													0
1	Number of Environmental non conformances	0	0	0	0	0	0	0	0	0				0
2	Number of Accidents involving Members of Public	0	3	1	1	0	0	0	0	0				5
3	Number of Public complaints received	2	0	1	2	0	1	1	1	1				9
4	Number of occurrences of unavailability of sites.	0	0	0	0	0	0	0	0	0				0
5	Weighbridge tare weights checked						YES	YES	YES	YES				

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

EAST LONDON WASTE AUTHORITY

7 FEBRUARY 2011

HEAD OF OPERATION'S REPORT

WASTE MANAGEMENT TO NOVEMBER 2010	FOR INFORMATION

1 Purpose

1.1 To report on the general waste management issues concerning the Authority and Boroughs for the period to November 2010.

2 2010/11 Performance against National Indicators

2.1 The last report to the Authority explained that the National indicator system is set to be abolished under new plans and replaced with a single list of government data requirements. It is still unclear as to the future of the three National Indicators relating to waste (NI191, NI192 and NI193). Officers will advise Members as soon as details are released.

2.2 The table below shows the four Boroughs' individual performance against the existing National Indicator Targets for NI 191 Residual household waste per household for the month of November 2010.

Borough	Full Year NI 191 Target	November 2010 NI 191 Target (Kg)	November NI 191 Actual (Kg)
LBBD	Local target 720 kg	53.38	64.46
LBH	776 kg	57.53	56.58
LBN	Local target 972 kg	72.07	72.99
LBR	Local target 700 kg	51.90	60.66

2.3 All constituent councils were required to agree targets with GOL for National Indicator 192 and the table below shows the performance for November for NI 192 Household waste recycled and composted.

2.4 All figures shown in the table below are provisional figures and may be subject to change following ratification by Borough Officers.

Borough	NI 192 Target (%)	NI 192 Actual (%)
LBBD	31.0%	30.9%
LBH	33.0%	33.2%
LBN	27.0%	19.1%
LBR	30.0%	26.6%

2.5 The target for waste tonnage diverted from landfill in November was 60% the actual for November was 56%. The year to date figure for waste diverted from landfill is also 56%.

3 Background information

3.1 Waste arisings in November were in the region of 36k which is approximately 1.2K tonnes above expectations. The year to date contractual tonnage is less than 1K tonnes above budget.

4 Landfill Allowance Trading Scheme (LATS) performance

4.1 Despite the lower than anticipated diversion from landfill performance, ELWA still has headroom in its LATS allocation for this current year. The current years allowance is 188,263 and for the year to date the Authority has used 130,822. It is therefore likely that the Authority will carry over a small quantity of allowances into 2011/12.

5 Other Waste Management Issues

5.1 At the last meeting of the Authority Members agreed that a consultation response to the Mayors Draft Municipal Waste Strategy should be drawn up and circulated for comment prior to submission. This action was carried out and the consultation response was submitted before the deadline.

5.2 In addition to this consultation a further consultation response was circulated relating to the revised Controlled Waste Regulations. This consultation response was also submitted before the deadline.

6 Closed landfill strategy update

6.1 At the last meeting of the Authority Members gave delegated authority to the Managing Director to actively market Aveley 1 in accordance with the constitution with a view to obtaining best value and ultimately disposal of Aveley 1.

6.2 It can be confirmed that this action has begun and Savilles have been appointed to coordinate this process. Aveley 1 will be placed on the market early February 2011. Staff at the site have been consulted.

7 Recommendations

7.1 It is recommended that Members:

(a) receive and note this report for information.

Mark Ash
HEAD OF OPERATIONS

Appendices	
A	National Indicator Table
Background Papers	
None	

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		Target achieved or bettered														✔
		Less than target														✘
		QTR 2 2010/11						QTR 3 2010/11								
		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)	66.6	75.1	60.9	66.4	61.9	73.7	61.9	64.1	53.4	64.5	54.2		501	565	✘
2	NI 191 Residual Household waste per household (LBH)	71.8	61.8	65.6	57.3	66.8	65.4	66.7	54.7	57.5	56.6	58.4		540	476	✔
3	NI 191 Residual Household waste per household (LBN) *(See Note 1 below)*	89.9	80.3	82.2	69.9	83.6	72.9	83.5	67.6	72.1	73.0	73.1		676	614	✔
4	NI 191 Residual Household waste per household (LBR)	64.8	61.7	59.2	61.4	60.2	63.4	60.2	56.4	51.9	60.7	52.7		487	489	✘
5	NI 192 Household waste recycled and composted (LBBD)	31.0%	31.4%	31.0%	32.5%	31.0%	31.1%	31.0%	33.0%	31.0%	30.9%	31.0%		31.0%	32.3%	✔
6	NI 192 Household waste recycled and composted (LBH)	33.0%	33.4%	33.0%	33.9%	33.0%	33.2%	33.0%	34.7%	33.0%	33.2%	33.0%		33.0%	35.0%	✔
7	NI 192 Household waste recycled and composted (LBN)	27.0%	21.2%	27.0%	21.0%	27.0%	20.1%	27.0%	19.1%	27.0%	19.1%	27.0%		27.0%	18.7%	✘
8	NI 192 Household waste recycled and composted (LBR)	30.0%	33.8%	30.0%	31.5%	30.0%	33.2%	30.0%	33.7%	30.0%	26.6%	30.0%		30.0%	32.6%	✔
9	NI 193 Municipal waste landfilled (ELWA) *See Note 2 below*	40.0%	43.2%	40.0%	35.7%	40.0%	41.7%	40.0%	41.9%	40.0%	44.2%	40.0%		40.0%	44.2%	✘

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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Contact Officers: Dave Hawes Tel 0208 270 4980 or James Kirkham -- Tel. 0208 270 4989)

EAST LONDON WASTE AUTHORITY

7 FEBRUARY 2011

CONTRACT MANAGER'S REPORT

REUSE & RECYCLING CENTRES - CONTROLS	FOR APPROVAL

1 Purpose

1.1 To propose changes to the existing Reuse and Recycling Centre (RRC) Protocol to ensure that controls are in place to effectively and properly manage wastes delivered to the RRCs. The main driver of this is to is to push tonnages down and therefore reduce the cost of waste disposal to the Authority.

2 Background information

2.1 Waste processed through the four Reuse and Recycling Centres amounts to around 20% of ELWA contract waste. RRC waste should only be originating from households in the ELWA region, yet it is suspected that a proportion of it is either coming from outside of the region or is trade waste being illegally tipped, avoiding the obligation to pay landfill tax. Furthermore, Schedule 2 waste (eg rubble, soil, ceramics) which is eligible for a charge under the Environmental Protection Act (1990) is currently allowed to be tipped free of charge.

2.2 At the recent informal workshop controls at RRC sites were considered in detail. Members asked Officers to recommend more stringent measures to ensure only ELWA household waste is tipped free of charge at the four RRCs and to consider an appropriate charge for Schedule 2 waste.

2.3 Points to note are :

(a) These measures restrict the type of waste allowed onto the site rather than the type of vehicle or the frequency at which it visits. Only vehicles from outside the boroughs will be assessed by vehicle type.

(b) The appropriate charge for Schedule 2 waste would be in line with the existing trade waste rate that Shanks charge (£160 per tonne). This incorporates a minimum charge of £40 which will be assessed.

(c) There are two options for directing those unable to provide proof of address in the ELWA boroughs:

(i) Refuse entry.

(ii) Allow to pay to tip, charging a flat rate of £10 for domestic vehicles and the current rate Shanks charge for trade waste for all other vehicles.

(d) Further enhancement to the system would be the introduction of an Automatic Number Plate Recognition (ANPR) system which would provide an effective means of logging all vehicle movements and flagging up suspicious use of the site as well as acting as a potent deterrent to any continuing illegal practices. Officers consider this a necessary improvement but further study is required.

(e) Until such time as ANPR were to be introduced, any vehicles considered suspect will be subject to investigation as to whether their load is household waste. If found to be otherwise, appropriate action will be taken.

(f) All changes will be heavily promoted and introduced softly to allow for maximum awareness before being fully implemented.

3 Revised Protocol

3.1 Officers have produced a revised Protocol in two phases (Appendix A) which will:

(a) Restrict free tipping of household waste to residents only, allowing non-residents to pay to tip (Phase 1).

(b) Examine the waste types, differentiating between household and trade waste (Phase 1) and ultimately Schedule 2 waste (Phase 2).

(c) Allow ELWA to make a charge for Schedule 2 waste (Phase 2).

4 Public Launch

4.1 Prior to the implementation of this protocol it will be necessary to inform the public in each Constituent Borough of the forthcoming changes. This will be managed in a number of ways including leaflets, signage and newspaper advertisements.

4.2 Boroughs may also wish to consider using their own communication outlets such as council newspapers to promote the changes.

5 Fly-tipping

5.1 Officers have considered the potential impact on fly-tipping rates as a result of the tighter RRC controls. From information which is freely available there is little evidence to suggest that there is a resultant impact where such controls have been introduced. However, Borough Officers may wish to increase the monitoring and enforcement activities at such time as the controls are introduced.

6 Monitoring

6.1 The new site restrictions will be subject to random testing by ELWA and borough officers to ensure their integrity.

7 Financial implications

7.1 These measures would have limited financial implications to the Authority relating to the communications campaign and a potential legal amendment to the Contract. Savings are likely to be made in the reduction of tonnage processed.

8 Conclusion

8.1 A few simple alterations to the current protocol would likely result in a significant change in the way waste types are managed at the sites with savings to be realised as a result.

8.2 A staggered implementation of the full range of measures will allow for a fuller assessment of their effectiveness and feasibility.

8.3 Further measures, such as ANPR, may be deemed necessary in the future and will be assessed for suitability.

9 Recommendations

9.1 Members are recommended to:

(a) approve the introduction of Phase 1 of the revised Protocol, and

(b) note that Officers are to conduct further research into the feasibility of Phase 2 of the Protocol.

Dave Hawes
CONTRACT MANAGER

Appendices		
A	January 2010	Proposed RRC Waste Protocol
Background Papers		
None		

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RRC Waste Protocol

This protocol applies to all non-council run vehicles using the ELWA RRC sites. Trade waste is not accepted under any circumstances at Chigwell Road; vehicles carrying said waste will be directed to one of the other sites.

It is essential to differentiate between those tipping legitimately at the sites and those doing so illegally. To deter the latter and especially those who wish to avoid payment, the following steps must be completed. This will provide protection to those who have a legitimate right to tip.

All vehicles that are prevented from accessing the public area of the site due to height restrictions must report to the weighbridge. This access will be their only point of entry to the sites.

Meet and Greet officer

A Shanks staff member is to be stationed permanently at the entrance to the RRC site, where currently there is a height barrier restricting access to larger vehicles only. His role will be to assess and direct all vehicles according to load by using the following method:

1) The first check is that the waste is originating from the ELWA region. The driver will be required to produce a valid ELWA council tax document as well as a corresponding driving license. Any driver unable to do so will be presumed to be coming from outside of the ELWA region and will be charged accordingly:

- i) All domestic vehicles will be charged a flat rate of £10.
- ii) All commercial vehicles will be re-directed to the weighbridge and charged in line with Shanks' trade waste rate which incorporates a minimum charge of £40.

2) If the driver can produce these documents, the load will then be assessed to identify it as either household, Schedule 2[1] or trade waste. Household waste will be allowed to proceed with appropriate direction to the RRC site. Schedule 2 or trade waste will be sent to the weighbridge to be charged. The charge for Schedule 2 waste will be in line with Shanks' trade waste rate, incorporating a minimum charge of (yet to be determined). The Meet and Greet officer will be expected to consider the following during this assessment:

- **i)** The Meet and Greet officer shall check if he knows of the driver or if the vehicle appears on a stop list (where in operation).

[1] Identifying, separating and charging for Schedule 2 waste is a Phase 2 measure.

ii) The Meet and Greet officer shall consider among other things the following: Is the vehicle hired? Does the vehicle have commercial livery? What trade is carried out by the owner of the vehicle? Are there tools or invoices visible? Is the driver wearing site boots or high visibility clothing etc?

iii) The driver should be asked to describe the load. The Meet and Greet officer shall, if in any doubt, ask to see the waste to confirm it as described. If there is any discrepancy in the actual waste and that described by the driver, the Meet and Greet officer should be alerted to a possible trader. Also the officer should be aware of the nature of the material, and consider whether the material appears to have come from a domestic property. For example: is it rubble, soil in builders' bags or is there a large number of similar items – i.e. three sinks?

Weighbridge officer

1) The weighbridge officer will perform the same checks as the Meet and Greet officer as described above with any vehicle which has arrived directly at the weighbridge. The Meet and Greet officer will alert the weighbridge operator to any vehicle he has redirected to the weighbridge and why.

2) Any driver unable to provide the required documents will be charged to enter the site, as will all trade and Schedule 2 waste. If the driver does not accept the charge they will be advised of local facilities licensed for restricted/non-Contract Waste and redirected to them.

3) If the weighbridge officer determines that the load is Schedule 2 or trade waste, they will inform the driver of the result of their assessment and that a charge will be made for the depositing of the waste. If the driver does not accept the price they will be advised of other local facilities licensed for restricted/non-Contract Waste and redirected to them.

4) At all sites except Chigwell Road, the trade waste price per tonne will be clearly displayed at the weighbridge. At the Chigwell Road site the driver will be asked to leave and be recommended to use a nearby site, either one of the sites covered by this contract or a third party site. They should be informed that there may be a charge for the disposal of their waste.

Public Launch

Prior to the implementation of this protocol it will be necessary to inform the public in each Constituent Borough of the forthcoming changes. This can be managed in a number of ways including leaflets, signage and the issuing of newsletters.

Safety

To ensure the safety of both the public and employees the following will apply:

1) Customers exhibiting threatening, abusive or violent behaviour will be denied use of the site even if they have a legitimate claim for free tipping. Such customers will be placed on a stop list and prevented from tipping at any site in the future. Their details will be forwarded to the relevant Constituent Borough, Authorised Officer and the Authority Representative. If this behaviour persists the police will be informed and if necessary called out as an emergency.

2) In the interests of safety, staff may judge it to be prudent to allow those who should be rejected to tip. However registration and vehicle details of these customers will be taken and the police may be informed. This will be recorded via the TIMS system as a sub-category of non-Contract Waste. No weighing will be made but an estimated weight will be entered if possible.

Fly-tipping

It is understood that borough officers will be responsible for managing any increase in fly-tipping activity which results from the toughening of site restrictions.

Monitoring

The new site restrictions will be subject to random testing by ELWA and borough officers to ensure its integrity.

January 2011

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(Contact Officer: Paul Taylor - Tel. 020 8270 4965)

EAST LONDON WASTE AUTHORITY

7 FEBRUARY 2011

MANAGING DIRECTOR'S REPORT

ANNUAL BUDGET & SERVICE DELIVERY PLAN 2011-12	**FOR APPROVAL**

1 Purpose

1.1 To consider the Annual Budget & Service Delivery Plan (ABSDP) 2011-12, produced by ELWA Ltd.

2 Background

2.1 The Integrated Waste Management contract contains specific requirements regarding service delivery plans:

2.2 The Overall Service Delivery Plan (OSDP) of ELWA Ltd is a plan that covers the 25 years of the contract. This large document is a schedule to the contract and is essentially the operational and technical proposal by the contractor to meet ELWA's requirements.

2.3 The 3 or 5 year Service Delivery Plan (SDP) follows a similar format to the OSDP but provides a greater level of detail.

2.4 The ABSDP follows a similar format to the other plans but provides a greater level of detail, particularly in respect of financial matters. The plan connects ELWA to the contractor (Shanks East London) through the conduit that is ELWA Ltd. The intention is for the authority to consider the ABSDP in the autumn prior to the commencement of the relevant financial year to which it relates. This is to ensure that the levy report in February can fully reflect the likely expenditure commitments arising from the contract.

2.5 Various penalties can be applied by the authority if these plans, once approved, are not adhered to and met. In extreme circumstances, the authority could terminate the contract. However, changes may occur due to circumstances beyond the control of the contractor, such as force majeure events.

2.6 The contractual arrangements concerning service delivery plans are quite specific and provide a firm foundation for the achievement of contractual targets. They also provide the flexibility to review and update plans as necessary over the life of the contract. In addition, the financial aspects of the ABSDP are important in the preparation of the ELWA levy.

3 The 2011-12 ABSDP

3.1 Shanks East London submitted the financial aspects of the ABSDP to officers in line with the agreed timetable. However, we rejected the plan on the grounds that we did not consider it realistic and achievable, in light of recent operational performance. Appendix A summarises the current ABSDP and the submitted ABSDP for 2011/12 and a comparison on the current years expected performance which indicates why Officers did not have confidence that the submitted ABSDP was achievable particularly given the lack of supporting text within the ABSDP document. We await submission of a revised ABSDP.

3.2 In the absence of an agreed plan, and in order for the Finance Director to make proposals for next year's levy, we have had to make assumptions about contractual performance. We have worked with finance colleagues to arrive at a calculated levy that is likely to fund the contract.

3.3 The intention is to submit the ABSDP for approval by members at the ELWA workshop in April.

4 Recommendations

4.1 Members are recommended to:

(a) note the report about the delay to the production of the ABSDP, and

(b) agree to consider the ABSDP for approval at the April workshop.

Paul Taylor
MANAGING DIRECTOR

Appendices		
A	Summary ABSDP performance figures	
Background Papers		
None		

ABSDP 2011/12

One Year Waste Flow Summary

	10 -11 ABSDP	10 -11 ELWA Estimate	11 -11 ABSDP
Total Contract Waste tonnes	464,700	468,400	469,600
Bring site Recyclates	8,000	8,000	7,800
Kerbside Recyclates *(inc Separately Collected)*	21,500	22,600	16,700
Other Recycling *(excl Green collections to RRC sites)*	2,000	2,000	4,300
Redbridge Box Recyclates	11,000	10,500	12,200
CA Waste Recyclates Processed *(Including Green waste delivered by Boroughs)*	42,500	41,300	42,000
MRF processing of Bio Mrf residue	5,500	Nil	Nil
Frog Island RRC Mrf Recyclates Processed	5,000	7,800	11,300
BioMrf - Recyclates & – Material composted Processed	30,000	22,300	33,400
TOTAL CONTRACT RECYCLING & COMPOSTING Tonnage	**125,500**	**114,500**	**127,700**
TOTAL CONTRACT RECYCLING & COMPOSTING Performance	27.0%	24.4%	27.2%
Total Secondary Recycling	**15,800**	9,200	10,400
Other Diversion From Landfill via Ecodeco Process	**137,000**	136,600	138,100
Other Diversion From Landfill via London Waste (Clinical Waste)	**200**	100	100
DIVERSION FROM LANDFILL Tonnage	**153,000**	**145,900**	**148,600**
OVERALL DIVERSION FROM LANDFILL INCLUDING RECYCLING & COMPOSTING TONNAGE	**278,500**	**260,400**	**276,300**
OVERALL DIVERSION FROM LANDFILL INCLUDING RECYCLING & COMPOSTING Performance	**59.9%**	**55.6%**	**58.8%**

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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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