

NORTH LONDON WASTE AUTHORITY

REPORT TITLE: ANNUAL REPORT OF THE DIRECTORS OF LONDONENERGY LTD

REPORT OF: MANAGING DIRECTOR

FOR SUBMISSION TO: AUTHORITY MEETING

DATE: 21 June 2019

SUMMARY OF REPORT:

This provides the annual report of the Directors of LondonEnergy Limited and sets out the performance and activities of the Company in the Authority's financial year 2018/19

RECOMMENDATIONS:

The Authority is recommended to note this report.

SIGNED:  **Managing Director**

DATE: 11 June 2019

1. BACKGROUND

- 1.1. As the sole shareholder of LondonEnergy Ltd (LEL), the Authority receives regular updates on LEL matters and an Annual Report of the Directors of the company.
- 1.2. The company's Annual Report for 2018/19 is attached as Appendix A.

2. OVERVIEW OF LEL DIRECTORS' ANNUAL REPORT

- 2.1. The report shows that LEL's commercial performance exceeded the budget. The Company's financial year runs from January to December and the results are for the year ended 31st December 2018.
- 2.2. LEL made a profit before tax of £1.363m. This compares with a profit before tax in the previous year of £0.068m and is ahead of the budgeted profit of £0.752m anticipated at the start of the year. LEL's turnover was £65.696m, compared with £62.301m in 2017.
- 2.3. The positive trading year for LEL reflected a number of factors. During the year an operational incident resulted in a loss of the percentage of incineration and generation capacity. The incident was an insurable loss and a claim was accepted by the company's insurers. An interim payment in relation to the claim was made during the year.
- 2.4. The impact of this incident on the financial performance was mitigated in part by the Company's ability to process some third party spot waste in the period prior to the incident.
- 2.5. Despite the challenges over the availability of the energy from waste plant electricity export was only marginally below budget (3,000Mwh) and the company successfully fulfilled the requirements of its waste contracts.
- 2.6. LEL increased their diversion of waste from landfill so that, of the waste they handled, 96.5% was recycled or converted to electricity (the equivalent figure in the previous year was 95%). They maintained a 75% recycling rate from reuse and recycling centres. They produced over 5,400 tonnes of compost.
- 2.7. LEL's focus on health and safety continued into the second year of a major training programme to embed a safety culture through the organisation. In the annual employee survey health and safety training was cited by 78% of respondents as being good or excellent.
- 2.8. In the year the company began a major training initiative, with all managers receiving tailored training courses leading to the award of a CMI level 3 qualification. The quality of the training was recognised at the CIPD Management Awards where the Company was highly commended.

2.9. With the approval of Authority Members, the Company has entered into a Power Purchase Agreement with Ark Estates to supply electricity by means of a private wire. The power will be supplied to a new data centre which Ark are constructing close to the EcoPark.

3. Comments of the Legal Adviser

3.1. The Legal Adviser has been consulted in the preparation of this report and has no comments to add.

4. Comments of the Financial Adviser

4.1. The Financial Adviser has been consulted in the preparation of this report and all comments have been incorporated.

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ANNUAL REPORT OF THE DIRECTORS OF LONDONENERGY LIMITED

1. Introduction

- 1.1 Since December 2009 LondonEnergy Ltd (L E L) has been owned 100% by NLWA. The Company provides a range of waste management services to the Authority through a 10-year contract that was awarded by the Authority in December 2014. This is the annual report from the Directors of LondonEnergy Limited to the Authority summarising the performance and activities of LondonEnergy Limited over the Authority's financial year 2018/19 and its financial results for the year 2018.

2. Directors and Board Meetings

- 2.1 The following non-executive directors, appointed by NLWA, served during the Authority year:

Mr. Paul Wynn (Chairman)
Mr. Ray Georgeson
Ms. Louise Forrest (Resigned 24 January 2019)
Mr. Donald Lloyd
Ms. Tania Songini (Appointed 19 June 2017)

- 2.2 The following executive directors, who are responsible for the day-to-day activities of the Company, served during the Authority year:

Mr. Peter Sharpe (Managing Director)
Ms. Mary Czulowski (Finance Director)
Mr. James Kendall (Operations Director)
Ms. Ellen Mellington (Transformation Director) (Resigned 10 November 2018)

- 2.3 Directors attend LondonEnergy board meetings which are usually monthly. Signed copies of confidential board minutes are submitted to each NLWA meeting for information. These appear on the exempt part of the agenda (the Part II section). The NLWA as shareholder is also advised of the Company's progress through updates to the Shareholder Group.

- 2.4 The audited statutory accounts were adopted at the Company's Annual General Meeting on 23rd May 2019.

3. Finance and Operations

- 3.1 In the year ended 31st December 2018 LondonEnergy made a profit before tax of £1,363,000, 84% better than budget. Revenues of £65.7 million were higher than budget due to higher volumes of NLWA waste and some non-contracted waste tonnages from East London Waste Authority in the first four months of the year, together with improved electricity prices and metals prices.

- 3.2 In May 2018, there was an incident which led to an uncontrolled shutdown of the Energy Centre as a result of a contractor damaging an electric cable. When the plant was brought back into service one turbine (TA2) suffered major damage. The resultant repair is still on-going, and the turbine is expected to be operational in July 2019.
- 3.3 The incident was insurable, and a claim was made against the Company's insurers. An interim payment against the claim was made in 2018 and a further interim payment was agreed in March 2019.
- 3.4 As a result of the loss of capacity resulting from the TA2 incident waste throughput has been reduced leading to lower than budgeted incineration.
- 3.5 The capital projects budgeted for the year were not all completed within the year, with some projects being continued into 2019. This reduced the depreciation charge for the year by £739,000 against budget.
- 3.6 Whilst the Company improved its profit and cash position against the budget for the year, the requirement to fund the extended asset life programme in the Energy Centre will deplete the Company's reserves over the life of the Business Plan. The Company therefore did not pay a dividend to the shareholder.
- 3.7 The Company remained debt-free throughout the year. The balance sheet is strong, with cash reserves of £18.9million, which will be required to fund the ongoing capital programme. The capital investment in the year totalled £4.9 million.
- 3.8 The ageing plant continued to raise operational challenges in 2018 with additional costs being incurred in higher volumes of waste being sent for further reprocessing or landfill as a result of unplanned outages and the TA2 incident. Maintenance costs were £1.5million higher than budget.
- 3.9 The total tonnage handled in 2016 was 758,000 tonnes, with 517,000 tonnes being processed in the Company's Energy Centre. A total of 25,000 tonnes of organic waste was processed in the compost centre, yielding 5,400 tonnes of compost. London Energy managed Re-use and Recycling Centres accepted 38,200 tonnes of waste, of which 75% was recycled.
- 3.10 In the year the Energy Centre exported 240,000 MWh of electricity or enough electricity to power 77,500 homes. The tonnage of waste landfilled fell from 39,000 tonnes in 2017 to 24,000 tonnes in 2018, equating to a 96.5% landfill diversion rate.
- 3.11 The Company closed the Compost Centre to the acceptance of waste in the year to allow enabling work to commence on the North London Heat and Power Project. The facility was cleaned and decommissioned and the environmental permit surrendered to the EA by the end of March 2019.

4. Business Review

- 4.1 LondonEnergy has continued to provide a high level of service to NLWA under the new contract which commenced on 16th December 2014. The Company manages all the waste delivered by the seven boroughs to its centres in Hornsey Street, Hendon and the Edmonton EcoPark. This waste is either recycled, turned into electricity in the Energy Centre, or landfilled.
- 4.2 The Company supports the NLWA in developing the North London Heat and Power Project. During 2018-19 enabling works commenced at the EcoPark, including the closure of the Compost Centre. LEL has appointed a dedicated team with primary responsibility for the interface with the NLWA regarding the Project.
- 4.3 LEL regularly reviews its operational and maintenance regimes to ensure that the Energy Centre can continue to operate safely and efficiently until its potential replacement in 2025.
- 4.4 During every boiler outage period the condition of key elements of the plant are assessed and the Ramboll Condition Survey updated. The Capital programme is formally reviewed twice a year by LEL, NLWA and Ramboll.
- 4.5 In order to service the Resource Recovery Facility (RRF), which will become operational in 2022, the Company has to install new electrical switchgear. Negotiations for the supply of the equipment have been finalised and it is expected that the switchgear will be commissioned in the fourth quarter of 2020.
- 4.6 The Company placed an order to purchase a larger capacity turbine, to replace the house set, in July 2018. The purpose of this is to help mitigate against the future costs of unplanned turbine maintenance, which will inevitably increase as the plant continues to perform beyond its original time horizon. The turbine is expected to be operational in December 2019.
- 4.7 LEL has entered into a Power Purchase Agreement with Ark Estates to supply electricity by means of a private wire. The power would be supplied to a new data centre which Ark are constructing close to the EcoPark.

5. Health & Safety

- 5.1 A RIDDOR (Reporting of Injuries, Diseases and Dangerous Occurrences Regulations) accident is one which results in an absence of at least seven days and which is reportable to HSE under these regulations. There were five RIDDOR reportable accidents in 2018 compared to seven in 2017.
- 5.2 The Company investigates all incidents, reviews its practices and procedures, and gives appropriate and regular training to employees.

5.3.1 LEL's focus on health and safety continued into the second year of a major training programme to embed a safety culture through the organisation. In the annual employee survey health and safety training was cited by 78% of respondents as being good or excellent. It is anticipated that the programme will take three years to significantly effect culture change.

6. Human Resources

6.1 The Company remains committed to the development of its employees and invested heavily in training and development during the year, including the management training programme undertaken by twenty eight managers, which resulted in them being awarded CMI Level 3 certification.

6.2 Sickness absence rates are actively managed through the application of formal absence management systems.

6.3 The Company employed 317 permanent employees as at 31st March 2019. About a third of these operate and maintain the Energy Centre which is a 24 hour per day, 7 day per week operation. Half of the employees are engaged in handling or transporting waste at the various transfer stations and Re-use and Recycling Centres. The remainder are engaged in corporate functions such as health & safety, IT, finance, procurement, HR and corporate communications.

6.4 In April 2018 the Company finalised negotiation with Trades Unions and Energy Centre employees to restructure the Energy Centre operational activities. The new structure came into operation on 1st January 2019, following a period of training. The new working patterns enable a safer and more efficient operation whilst also giving a better quality of life for employees with less impact on their health than the current practices, as measured by the HSE Fatigue Risk Indicator calculator.

6.5 LondonEnergy Limited pays all employees a salary at or above the London Living Wage threshold.

6.6 The LondonWaste Limited Defined Benefit Pension Scheme is pursuing a de-risking strategy through managed investment. The Scheme triennial valuation of the pension scheme as at 1 January 2018 was undertaken which resulted in a deficit of £4.9million on technical basis being reported. A deficit reduction plan was submitted to The Pension Regulator in April 2019 and the Company and Trustees are committed to reviewing the valuation criteria and investment strategy within the next twelve months.

6.7 The Company has closed to the LondonWaste Pension Scheme to future accrual from 31st December 2018.

- 6.8 The Company's Equal Opportunities Policy prohibits unfair discrimination in the recruitment, training, continuing employment, career development and promotion of staff. In April 2018 the Company published its Gender Pay Gap in accordance with new regulations. The median pay gap is -11.7 and the mean pay gap is -65.1, with women's earnings being higher.
- 6.9 The Company undertook its second annual graduate recruitment programme and recruited seven graduates (six in engineering and one in IT). The graduate programme has been introduced to ensure continuity and enhancement of scarce skills to reinforce the current workforce and plan succession.

7. Community Awareness

- 7.1 The Company uses local newspapers and borough communications in the North London area and runs a re-use shop in the Kings Road Recycling and Re-Use Centre to raise community awareness of its waste management and recycling activities.
- 7.2 The Company links with local community groups including secondary schools, local colleges, community groups, the Edmonton Sea Cadets as well as many local residents and allotment groups. Throughout the year the Company gives tours of the EcoPark to local residents, Council officers and members, educational groups, industry groups and representatives of foreign governments.