

**NORTH LONDON WASTE AUTHORITY**

**REPORT TITLE:** ANNUAL REPORT OF THE DIRECTORS OF LONDONENERGY LTD

**REPORT OF:** MANAGING DIRECTOR

**FOR SUBMISSION TO:** AUTHORITY MEETING

**DATE:** 24 SEPTEMBER 2020

**SUMMARY OF REPORT:**

This provides the annual report of the Directors of LondonEnergy Ltd and sets out the performance and activities of the Company in the Authority's financial year 2019/20

**RECOMMENDATIONS:**

The Authority is recommended to note this report.

**SIGNED:**  ..... Managing Director

**DATE:** 14 September 2020

## **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 2019/20 is attached as Appendix A.

## **2. OVERVIEW OF LEL DIRECTORS' ANNUAL REPORT**

- 2.1. The Company's financial year runs from January to December and the results are for the year ended 31<sup>st</sup> December 2019.
- 2.2. LEL made a loss before tax of £1.442m in 2019. This compares with a profit before tax in the previous year of £1.386m. LEL's turnover was £64.991m, compared with £65.696m in 2018.
- 2.3. The 2018 position had been affected by an interim insurance payment received in December 2018 in relation to an operational incident which resulted in loss of treatment and power generation. The repair took longer to complete than was budgeted and was four months late in returning to service in 2019. Unplanned plant breakdowns also contributed to increased levels of waste being sent for further reprocessing to third party operators.
- 2.4. As a result of the challenges over the availability of the energy from waste plant electricity export was below budget by 6,000Mwh. The company successfully fulfilled the requirements of its waste contracts.
- 2.5. Nevertheless, LEL continued to increase their diversion of waste from landfill so that, of the waste they handled, 99.2% was recycled or converted to electricity (the equivalent figure in the previous year was 96.5%). They maintained a 76% recycling rate from reuse and recycling centres.
- 2.6. LEL's focus on health and safety continued with a reduction in RIDDOR (Reporting of Injuries, Diseases and Dangerous Occurrences Regulations) incidents to 1 in the year, compared to 5 in 2018 which was itself the lowest in the company's history. In the annual employee survey health and safety training was cited by 82% of respondents as being good or excellent.
- 2.7. In the year the company continued a major training initiative, with all first line managers and supervisors receiving tailored training courses leading to the award of a CMI level 2 qualification.
- 2.8. Construction on the North London Heat and Power Project (NLHPP) began in 2019. LEL has appointed a team to lead on liaison between the company and the Authority both as regards the planning of new facilities and to ensure the optimal integration of construction and ongoing operational activities.

**3. EQUALITIES IMPLICATIONS**

3.1 There are no equalities implications arising from this report

**4. COMMENTS OF THE LEGAL ADVISER**

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

**5. COMMENTS OF THE FINANCIAL ADVISER**

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

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# **ANNUAL REPORT OF THE DIRECTORS OF LONDONENERGY LIMITED**

## **1. Introduction**

- 1.1 Since December 2009 LondonEnergy Ltd (LEL) 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 2019/20 and its financial results for the year 2019.

## **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

Mr. Donald Lloyd

Ms. Tania Songini

Ms Ulla Rottger (appointed 18/07/2019)

- 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)

- 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 and Quarterly Reports to NLWA meetings.

- 2.4 The audited statutory accounts were adopted at the Company's Annual General Meeting on 21<sup>st</sup> May 2020.

### **3. Finance and Operations**

- 3.1 In the year ended 31st December 2019 LondonEnergy made a loss before tax of £1,442,000, against a budgeted profit of £693,000. Revenues of £63.0 million were £4.5 million higher than budget due to higher volumes of NLWA waste, Hertfordshire waste and non-contracted waste tonnages from East London Waste Authority, together with improved electricity prices. This was partially offset by lower than budgeted recyclates volumes. There was a positive impact of £2.1 million against budget to NLWA as a result of higher electricity volumes and prices.
- 3.2 In May 2018, there was an incident which lead 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 budgeted date of return to service of the turbine was June 2019, however, due to issues which became apparent during the repair process the actual completion date was November 2019. The late return of the turbine had an adverse financial impact of approximately £1.5 million.
- 3.3 The incident was insurable, and a claim was made against the Company's insurers. The claim was settled in January 2020. A payment for the property damage of £1,784,000 was made in full after deductibles and the business interruption claim of £5,179,000 was settled at 82% of the claim value, after deductibles. The total cost to the Company of the loss was £1,529,000.
- 3.4 The capital projects budgeted for the year were not all completed within the year, with some projects being continued into 2020. The most significant of these was the replacement 'house-set' turbine which was planned to be delivered in November 2019 for commissioning in April 2020. This is now planned to be commissioned in November 2020.
- 3.5 Other projects which were delayed on the year reduced the depreciation charge for the year by £541,000 against budget. The delay in the turbine did not have a depreciation impact.
- 3.6 The continuing requirement to fund the extended asset life programme in the Energy Centre and maintain the operational assets 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. Whilst £6.9 million was expended on capital assets in the year the balance sheet is strong, with cash reserves of £12.5 million, which will be required to fund the ongoing capital programme and asset maintenance.

- 3.8 In 2020 the plant will have been in operation for 50 years. The ageing plant continued to raise operational challenges in 2019 with additional costs of £3.2 million being incurred in higher volumes of waste being sent for further reprocessing as a result of unplanned outages and the TA2 incident. Maintenance costs at £10.8 million were £100,000 over budget.
- 3.9 The total tonnage handled in 2019 was 756,000 tonnes, with 496,000 tonnes being processed in the Company's Energy Centre. LondonEnergy managed Re-use and Recycling Centres accepted 28,611 tonnes of waste, of which 76.2% was recycled.
- 3.10 In the year the Energy Centre exported 221,000 MWh of electricity or enough electricity to power 65,000 homes. The tonnage of waste landfilled fell from 24,000 tonnes in 2018 to 5,930 tonnes in 2019, equating to a 99% landfill diversion rate.

#### **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, sent for further reprocessing or landfilled.
- 4.2 The Company supports the NLWA in developing the North London Heat and Power Project. During 2019-20 enabling works continued at the EcoPark. LEL has appointed a dedicated team with primary responsibility for the interface with the NLWA regarding the Project and engages closely with the NLHPP project team and the Authority's project consultants.
- 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 2026.
- 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 once 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. The Contract was awarded in 2019, however, as a result of the impact of COVID-19 on the supply of parts to the manufacturer, the switchgear manufacturer has entered receivership and is unable to deliver its order. The Company is re-tendering the work but lead time for manufacture means that this work now needs to be scheduled for 2021.

- 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 commissioned in November 2020.
- 4.7 In March 2020, The Company produced a service continuity plan to mitigate the effects of the COVID-19. As part of the 2019 audit requirement the Company's external auditors, BDO, also undertook a going concern audit in relation to the business risks arising from the pandemic.
- 4.8 With regard to the availability of key workers to operate the facilities the company has put in place robust contingency plans to ensure the health and safety of workers, whilst allowing the continuation of its essential service, including the use of contractors to cover the impact of absences. The headlines of the company's operational review are set out below:
- the company has reviewed all of the minimum manning levels.
  - the company has reviewed all of key operational posts to ensure that not only can the company operate at minimum levels but that the right expertise is in place; and
  - suppliers of key agency staff have been contacted and contingency plans have been reviewed
- 4.9 Management have reviewed back-office resources and procedures to ensure the company can function remotely, continue to pay staff and agency staff and issue invoices. Staff can operate remotely with full access to the network and IT systems, and the business can operate with a reduced level of staffing which will be able to span sickness periods. The company has contacted key customers to ensure that they have sufficient resilience in place to process invoices and make payments.

As a result of this review, the Board is assured that the business would not be prevented from operating due to unavailability of key workers.

- 4.10 In respect of increases in waste volumes:

As a consequence of lockdown, a number of RRCs in North London boroughs were temporarily closed in March 2020 and re-opened in June 2020 which was managed successfully.

Management have estimated that waste volumes may be up to 20% higher for 6 months, leading to higher operating costs.

Based on the above analysis, the directors have run downside cash flow scenarios reflecting reasonably possible impacts that may arise from the COVID 19 global pandemic which include the combined impact of the loss of key staff to man operations (leading to higher unplanned outages and operational inefficiencies) and an increase in waste volumes arising from the closure of RRCs.

As a result of the directors' assessments, which include considering "reverse stress tests" in relation to the costs of running operations, the directors have a reasonable expectation that the company will be able to continue in operational existence for the foreseeable future under pandemic conditions.

## **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 or a dangerous occurrence which is reportable to HSE. There was one RIDDOR reportable accidents in 2019 compared to five in 2018.
- 5.2 The Company investigates all incidents, reviews its practices and procedures, and gives appropriate and regular training to employees.
- 5.3 LEL's focus on health and safety continued into the third 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 82% (78% -2018) 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 thirty first line managers and supervisors, which resulted in them being awarded CMI Level 2 certification.
- 6.2 Sickness absence rates are actively managed through the application of formal absence management systems.
- 6.3 The Company employed 334 permanent employees as at 31st March 2020. 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 The Company recognises the importance of its employees and is committed to effective two-way communication and consultation.

Company policies and procedures are published on the Company intranet, which is accessible to all employees.

The Company communicates information of concern to employees in a number of ways; by team briefing, newsletter, through union representation and by direct communication. The information in these publications and briefings cover a wide range of subjects that affect the business.



Since March 2020 the Company has utilised Microsoft Teams to communicate operational and Company wide information and encourage wider dialogue across the organisation. A daily operational briefing and a weekly Company briefing is attended widely.

Where it is identified that operational changes are required to meet business or health and safety needs which affect employees the Company consults with groups and individuals at both a functional and Company-wide level.

An annual employee survey is undertaken in December of each year to seek input from employees to inform the Company's employee strategies. The Company also carries out a monthly survey to ascertain employee satisfaction.

The Company encourages the involvement of employees in the performance of the Company through participation in a bonus scheme on successful achievement of Company performance targets.

The Company promotes highly skilled opportunities for graduates and apprentices through structured programmes.

The Company recognises the rights of every employee to join a trade union and participate in its activities.

- 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. The Company has agreed to make additional contributions to the Scheme to eliminate the current deficit by 2027.
- 6.7 The Company's Equal Opportunities Policy prohibits unfair discrimination in the recruitment, training, continuing employment, career development and promotion of staff. In April 2019 the Company published its Gender Pay Gap in accordance with regulations. The median pay gap is -16.8 and the mean pay gap is -0.03, with women's earnings being higher.
- 6.8 The Company undertook its third annual graduate recruitment programme and recruited seven graduates (five in engineering and two in Health, Safety, Quality and Environment - HSQE). 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.