

**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 JUNE 2021

**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 2020/21

**RECOMMENDATIONS:**

The Authority is recommended to note this report.

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

**DATE:** 14 June 2021

## **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 2020/21 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 December 2020.
- 2.2. LEL made a profit before tax of £12.385m in 2020. This compares with a loss of £1.442m in 2020. LEL's turnover was £66.739m compared with £64.991m in 2020.
- 2.3. The high profit reflects a one-off transaction involving the transfer of the EcoPark from LEL to the Authority. Land at the EcoPark was transferred to the Authority under a 999-year lease – save for the site occupied by the current energy from waste plant and land being used by Energetik in connection with the development of a district heating network supplied from the new energy recovery facility. The transfer was in expectation of NLWA taking over the freehold of the site when the current energy from waste plant ceases operation. NLWA will be the asset owner for new facilities at the EcoPark and LEL will be the asset operator.
- 2.4. The Company had a positive year in terms of performance. There were considerable challenges of operating throughout the coronavirus pandemic – for example in staff resources, availability of contractors to travel to site for planned maintenance works and the closure of reuse and recycling centres for a period. Nevertheless, operations were sustained and contracts were met.
- 2.5. As in the previous two years the Company was unable to secure total insurance cover for product damage and business interruption risk. The reason for this is a combination of the age of the plant and a reluctance on behalf of insurers to take risk on waste management assets. To mitigate for this risk the Company has built up a balance sheet reserve of £5.0million. In the financial year £2.64m was added to the insurance reserve,
- 2.6. LEL continued to maintain a high level of diversion of waste from landfill so that, of the waste they handled, 100% was recycled or converted to electricity (the equivalent figure in the previous year was 99.2%). In 2020 they achieved a 74.1% recycling rate from reuse and recycling centres. This was a reduction from 76% in 2020, but it was not possible to take recycling all year because companies who took recycling material were closed for a period during when Covid-19 restrictions were in place.

- 2.7. Operationally LEL took possession of a new transfer station at Wembley in November 2020, serving the western part of the Authority's area. Initial mobilisation took place in 2020. This allows the closure of the Hendon transfer station in 2021. The Wembley facility provides additional capacity and flexibility to manage waste. The new transfer station will contribute to the successful management of waste volumes at the EcoPark while major construction is under way.
- 2.8. LEL were successful in gaining external recognition for their performance in important areas in 2020. The company obtained a silver award from the Royal Society for the Prevention of Accidents (RoSPA) for their health and safety performance. The company also received an "excellent" assessment (the highest standard available) under the Mayor of London's Good Work Standard, covering pay and conditions, workplace wellbeing, skills and progression, and diversity and recruitment.
- 2.9. LEL's focus on health and safety continued. There were three RIDDOR (Reporting of Injuries, Diseases and Dangerous Occurrences Regulations) incidents in the calendar year 2020. In the Company's annual employee survey health and safety training was cited by 83% of respondents as being good or excellent and 86% of employees are comfortable reporting unsafe acts or conditions.
- 2.10. The Authority also decided to make additional board appointments to LEL to strengthen alignment and coherence between organisations at this crucial time in delivering and preparing to operate new facilities at the EcoPark. These took effect in January 2021. In November 2020 Peter Sharpe, LEL's managing director announced his departure from the company. He had led the transformation of the Company to a modern waste management company delivering high quality services to the Authority. He left LEL in an excellent position to make the necessary changes to successfully support the delivery of the Authority's sector-leading North London Heat and Power Project and to play a leading role in London's green, sustainable future. Jim Kendall, previously LEL's operations director, took on the role of managing director.

### **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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## **Appendix A:**

### **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 2020/21 and its financial results for the year 2020.

#### **2. Directors and Board Meetings**

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

Paul Wynn (Chairman) resigned 31st January 2021  
Ray Georgeson (Non-executive Director) resigned 31st January 2021  
Don Lloyd (Non-executive Director) appointed Chair 1st February 2021  
Tania Songini (Non-executive Director)  
Ulla Rottger (Non-executive Director)  
Clyde Loakes (Non-executive Director) appointed 20th January 2021  
Peter Zinkin (Non-executive Director) appointed 20th January 2021  
Rebecca Rennison (Non-executive Director) appointed 20th January 2021  
Ian Williams (Non-executive Director) appointed 20th January 2021  
Doug Wilkinson (Non-executive Director) appointed 20th January 2021  
Martin Capstick (Non-executive Director) appointed 20th January 2021  
Ursula Taylor (Non-executive Director) appointed 20th January 2021

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

Peter Sharpe (Managing Director) resigned 30th November 2020  
Mary Czulowski (Finance Director and Company Secretary)  
James Kendall (Operations Director) appointed Interim Managing Director 1st December 2020

- 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 20<sup>th</sup> May 2021.

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

- 3.1 In the year ended 31st December 2020 LondonEnergy made a profit before tax of £12,385,000, against a budgeted loss of £578,000. The budget had been re-cast in the year when the capital programme to replace electrical switchgear was deferred due to the supplier of the equipment going into liquidation as a result of material supply issues caused by the coronavirus pandemic.
- 3.2 During the year the Company sold the majority of the land at the EcoPark to NLWA, to enable the construction of the new ERF and associated infrastructure. The sale of the land was agreed for £17.3m of which £8.7m was paid to LEL in cash and £8.6m was loaned back to NLWA. The profit and loss impact was a profit on disposal of £8.7m in the year.
- 3.3 Revenues of £66.7 million were £0.2 million higher than budget with slightly higher volumes of NLWA waste, non-contracted waste, higher electricity volumes and recyclates prices offset by lower volumes of Hertfordshire waste.
- 3.4 The capital projects budgeted for the year were not all completed within the year, with some projects being continued into 2021. The most significant of these was the replacement 'house-set' turbine which was planned to be commissioned in November 2020 and has been delayed till September 2021. In part the delay was caused by the pandemic restricting access to site by contractors but installation works proved to be more time consuming due to the presence of asbestos in the fabric of the building, which had to be expertly removed. The switchgear project was also affected by the pandemic and will now be completed in 2022.
- 3.5 The continuing requirement to fund the extended asset life programme in the Energy Centre and maintain the operational assets will impact on Company reserves over the life of the Business Plan. Additionally, on signature of the contract to construct the new ERF the Company, in accordance with accounting regulations, the current assets will be impaired. The impact of this will be a write down of some £23.0 million, which is expected to take place in 2022. The Company did not pay a dividend to the shareholder.
- 3.6 The Company remained debt-free throughout the year. Whilst £6.7 million was expended on capital assets in the year the balance sheet is strong, with cash reserves of £19.0 million, bolstered by the proceeds from the sale of land.

3.7 The cost to the Company of coronavirus mitigation measures was £0.7 million. Half of this was labour related, with the Company buying out some holiday entitlement and extending the holiday year through to March 2022, to maximise available resources.

3.8 The total tonnage handled in 2019 was 764,000 tonnes, with 526,400 tonnes being processed in the Company's Energy Centre. LondonEnergy managed Re-use and Recycling Centres accepted 28,046 tonnes of waste, of which 74.1% was recycled.

3.9 In the year the Energy Centre exported 250,000 MWh of electricity or enough electricity to power 72,000 homes. The tonnage of waste landfilled fell from 5,930 tonnes in 2019 to 0 tonnes in 2020, equating to a 100% 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 In November 2020 NLWA leased a new transfer station on Wembley. LEL successfully began operations from this transfer station from 1st January 2021 and on 31<sup>st</sup> March 2021 ceased operations at the Hendon transfer station with operations completely transferred to Wembley. The environmental permit at Hendon will be transferred to London Borough of Barnet.

4.3 The Company supports the NLWA in developing the North London Heat and Power Project. During 2020-21 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.

4.4 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.

4.5 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.

4.6 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 re-tendered the work and appointed a new manufacturer but lead time for manufacture means that this work will now be completed in 2022.

- 4.7 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. Delays in installation have been caused by the pandemic and also by the need for removal of asbestos in the turbine hall. The turbine is expected to be commissioned in September 2021.
- 4.8 In March 2020, The Company produced a service continuity plan to mitigate the effects of the COVID-19.
- 4.9 With regard to the availability of key workers to operate the facilities the Company 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.
- 4.10 As a result of the mitigation measures put in place the Company has been able to successfully fulfil its contracts throughout the pandemic, whilst ensuring the health and safety of its workforce. that the business would not be prevented from operating due to unavailability of key workers

#### Health & Safety

- 4.11 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 2020-2021 and three in the 2020 calendar year.
- 4.12 The Company utilised the HSE's Safety Climate Tool to assess the safety climate at work, with employees answering survey questions which were analysed and reported by HSE. The Company was assessed to have a high safety culture in place.
- 4.13 The Company investigates all incidents, reviews its practices and procedures, and gives appropriate and regular training to employees.
- 4.14 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 83% of respondents as being good or excellent.

## **5. Human Resources**

- 5.1 The Company remains committed to the development of its employees and invested heavily in training and development during the year, including the training in coaching undertaken by the senior leadership team and a health and safety training programme for all employees, delivered in a virtual environment.
- 5.2 Sickness absence rates are actively managed through the application of



formal absence management systems.

5.3 The Company employed 349 permanent employees as at 31st March 2021. 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.

5.4 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.

In November 202 the Company was accredited as a Great Place to Work by Best Companies. This was a strategic objective and a major milestone in the Company's culture change programme.

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.

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

5.6 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.

- 5.7 The Company's Equal Opportunities Policy prohibits unfair discrimination in the recruitment, training, continuing employment, career development and promotion of staff. In April 2021 the Company published its Gender Pay Gap in accordance with regulations. The median pay gap is -9.1 and the mean pay gap is -0.06, with women's earnings being higher. In the year the percentage of women in the workforce increased to over 10% for the first time in its history, with women represented in every area of the business.
- 5.8 The Company undertook its fourth annual graduate recruitment programme with six engineering graduates joining the Company. The graduate programme has been introduced to ensure continuity and enhancement of scarce skills to reinforce the current workforce and plan succession.

## **6. Community Awareness**

- 6.1 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.
- 6.2 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.