

**NORTH LONDON WASTE AUTHORITY**

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

**REPORT OF:** MANAGING DIRECTOR

**FOR SUBMISSION TO:** AUTHORITY MEETING

**DATE:** 23 JUNE 2022

**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 2021/22

**RECOMMENDATIONS:**

The Authority is recommended to note this report.

**SIGNED:**



Managing Director

**DATE:** 13 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 2021/22 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 2021.
- 2.2. LEL made a loss before tax of £5.567m in 2021. This compared with a budgeted profit of £0.4m. The main reason for the loss was an extended outage to one of the four turbines which generate electricity at the energy from waste facility in Edmonton. The facility's design means that when a turbine is not working, the amount of waste treated at the plant has to be reduced. This is consistent with the plant becoming more unreliable as it ages, with it already being over 50 years old.
- 2.3. A second reason for the reduction in profit relates to an insurance success. In recent years business interruption and property damage cover has become increasingly hard to obtain in the waste sector. This reflects the high degree of claims in the industry. While LEL has a strong safety record its insurance cover had reduced from 100% to 25% for business interruption and property damage and the deductible (which the operator must pay before being able to claim) had risen from £1m to £10m (or 90 days for business interruption). This left LEL – and the Authority – exposed to potentially significant costs in the event of any catastrophic incident. As reported to Authority meetings, LEL established a "captive cell" to gain access to the reinsurance market and was able substantially to increase LEL's protection. While the higher level of insurance came at an increased premium, it provided a major reduction in the financial risk in the event of any major incident.
- 2.4. Subject to the turbine issue mentioned above, the Company had a positive year in terms of performance. This included maintaining services – including public-facing reuse and recycling centres – successfully during the extended coronavirus pandemic in 2021.
- 2.5. In November 2020 LEL began to relocate their transfer station serving Barnet and Camden from Hendon to Wembley. The transition lasted into the early months of 2021. When the transition was successfully completed the lease of the Hendon site was surrendered to the London Borough of Barnet. The facility at Wembley has greater capacity and has provided increased flexibility. This has assisted in maintaining business continuity when construction work has been underway at the Edmonton EcoPark.

- 2.6. LEL were successful in gaining external recognition for their performance in important areas in 2021. The company maintained their silver award accreditation from the Royal Society for the Prevention of Accidents (RoSPA) for their health and safety performance. The company also maintained their gold accreditation under the Fleet Operator Recognition Scheme (FORS).
- 2.7. 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 May 2021 the company was accredited under the "Best Companies to work for" scheme. It was assessed as 60<sup>th</sup> in the 'Top 75 best large companies to work for in London' and was listed as 9th in the 'Top 10 best utility companies to work for' nationally.
- 2.8. 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. During the year, Jim Kendall was appointed as the Managing Director of the company, following an open competition. Mary Czulowski, the Finance Director since 2015 stood down in August, with appreciation for her service. This included not only finance responsibilities but also improving company systems to enhance management information and leading human resources – achieving the awards referenced in para 2.7 above. Justin Price was appointed to be Finance Director from December following open competition.

### **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 comments have been incorporated.

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**APPENDIX A      ANNUAL REPORT OF LONDONENERGY LTD**

## **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 2021/22. As the Company reports on a calendar year basis, all the information below relates to the period 1 January 2021 to 31 December 2021.

#### **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:  
Mary Czulowski (Finance Director and Company Secretary)  
James Kendall (Managing Director) appointed permanently on 6th December 2021
- 2.3 Directors attend LondonEnergy board meetings which are were held monthly and changed to quarterly from July 2021. 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 will be adopted at the Company's Annual General Meeting (AGM) currently scheduled for 28th July 2021. As this report is supplied before the Company's AGM, the data are provisional.

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

- 3.1 In the year ended 31 December 2021 LondonEnergy made a loss of £5.5m, against a budgeted profit of £0.4m. The principal reason for the loss was the extended outage of one of the four turbines over a 5 month period. This adversely impacted the business by £4.5m, particularly through the reduction in waste treated at the energy from waste facility and through the reduction in electricity generated as a result. In addition higher volumes of waste needed to be diverted to third party destinations.
- 3.2 Revenues of £62.2m were £4.6m lower than the previous year driven by the protracted outage.
- 3.3 Operating costs were £3.2m higher than the previous year. This increase was driven by the increased levels of insurance compared to the previously declining insurance protection available. While insurance costs rose £2.5m, this also provided increased protection against potential liabilities for major business interruption.
- 3.4 The Company did not pay a dividend to the shareholder. The Company remained debt-free throughout the year. Cash reserves at the end of 2021 were £1m. The outstanding balance of £8.6m due from the Authority to the Company from the sale of land in 2020 was received in April 2022. This was released to mitigate the cash impact from trading losses.
- 3.5 Despite the challenges with plant outages, the Company successfully delivered the requirements of its waste contracts in 2021 and the Recycling Centres achieved a recycling rate of 72.4%.
- 3.6 In the year the Energy Centre exported 211,000 MWh of electricity (16% less than 2021). This was enough electricity to power 61,000 homes. Despite the extended outage the Company still diverted over 96% of the waste received away from landfill. The Company continued to undertake investments as necessary to maintain the operation of the energy centre and other assets. Following the signature of the contract to construct the new Energy Recovery Facility the Company, in accordance with accounting regulations, will write down the value of its existing assets in 2022. This will lead to a reduction of approximately £30 million in the Company's balance sheet but will have no cashflow implications.

## **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 (NLHPP). During 2021-22 enabling works continued at the EcoPark. LEL has appointed a dedicated team with primary responsibility for the interface with the Authority regarding the Project and engages closely with the NLHPP project team.
- 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 entered receivership and was 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 was rescheduled to complete in 2022. As at the time that this report was written, the project to replace the electrical switchgear at the LEL Energy Centre has now been substantially completed. The handover to LEL Operations represents a huge achievement for the project team. The upgrade of the switchgear also effectively mitigates the risk that the outdated and obsolete electrical distribution system might fail and take the Energy Centre out of action prior to its end of life.

## **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 Health and Safety Executive (HSE) under these regulations or a dangerous occurrence which is reportable to HSE. There were two RIDDOR reportable accidents and one Dangerous Occurrence in 2021-2022.
- 5.2 The Company used 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.



- 5.3 The Company investigates all incidents, reviews its practices and procedures, and gives appropriate and regular training to employees.
- 5.4 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.

## **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 training in coaching undertaken by the senior leadership team and a health and safety training programme for all employees, delivered in a virtual environment.
- 6.2 Sickness absence rates are actively managed through the application of formal absence management systems.
- 6.3 The Company employed 351 permanent employees as at 31st March 2022. 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 used 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 have high attendance.

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 2021 the Company was accredited as a 'One to Watch' by Best Companies. The company will continue to deliver its employee engagement strategy and will re-survey employees during the course of 2022.

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 is closed to future accruals, and the Scheme triennial valuation of the pension scheme as at 1 January 2018 was undertaken which resulted in a deficit of £4.9million on a technical basis being reported. Recognising the need to increase contributions into the pension scheme to reduce the £4m deficit as at the 31 December 2020 valuation, it was agreed with the Trustees and the Board of LEL in February 2022, to increase monthly contributions into the scheme by £8,750 (Total annual contribution now £710,000).
- 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 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 than men's. In the year the percentage of women in the workforce increased to over 10% for the first time in the Company's history, with women represented in every area of the business.
- 6.8 The Company undertook its fourth annual graduate recruitment programme with six graduates joining the Company. The graduate programme, in combination with a complementary scheme for apprentices, 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.