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Exempt Information Category 3 – Information relating to the financial or business affairs of any particular person, including the authority holding that information, and not required to be registered under various statutes: the reasons why the public interest favours withholding the information are that the release of such information would prejudice the Authority’s conduct of a commercial operation OR because the disclosure of the information is likely to prejudice the commercial interests of the Authority and organisations engaged in commercial activities as the information related to commercial activities that are conducted in a competitive environment.

NORTH LONDON WASTE AUTHORITY
REPORT TITLE: GOVERNANCE OF LONDONENERGY LTD
REPORT OF: MANAGING DIRECTOR
FOR SUBMISSION TO: AUTHORITY MEETING
DATE: 2 December 2019
<p>SUMMARY OF REPORT:</p> <p>This provides a regular report on the Governance of LondonEnergy Ltd</p>
<p>RECOMMENDATIONS:</p> <p>The Authority is recommended to:</p> <ul style="list-style-type: none"> A. note the comments on the Company’s performance and activities B. approve the Company’s budget for 2020 C. agree that the Authority should increase the gate fee for tonnages treated arising through Hendon transfer station as set out in section 3 D. agree that the Authority should meet costs of £2.771m associated with shutting down the EcoPark to install new switchgear, which is needed for the North London Heat and Power Project E. note the Company’s business plan for the period to 2025 F. note that further proposals for gate fee changes from 2022 onwards will be considered by the Members Finance Working Group and recommendations made to the Authority in due course G. note the report for the quarter ending 30 September 2019 on the Company's activities at Appendix A.

NORTH LONDON WASTE AUTHORITY

H. note the implementation of the Company's arranged banking facility as previously approved

SIGNED:  **Managing Director**
DATE: 20 November 2019

1. INTRODUCTION

- 1.1. Following decisions made at the February 2010 meeting of the Authority covering a range of issues connected with the control of LondonEnergy Ltd (LEL) by the Authority, this is the regular report to up-date Members on the governance of the Company and its financial performance.
- 1.2. The Authority team manage a close relationship with LondonEnergy Ltd, providing both challenge and support. The LEL executives and board have the key responsibility to deliver their services and to operate in a cost effective manner. The relationship with the Authority ensures that there is constructive exchange of information between both organisations on strategic issues.

2. QUARTERLY REPORTS

- 2.1. LEL provides quarterly reports to the Authority covering the financial performance of the Company and the main operational issues experienced. This provides shareholder information to enable members to be briefed on key information concerning the operation of LondonEnergy Ltd. The report covering the period from 1 July 2019 to 30 September 2019 is at Appendix A.
- 2.2. The position compared with budget is complicated by the fact that LEL had assumed an interim repayment being made in 2019 under the insurance claim of [REDACTED]. In fact, an interim payment of [REDACTED] was received in December 2018 and was reflected in the financial results of 2018.
- 2.3. Excluding the insurance repayment, the Company's operational budget is a loss in the quarter of [REDACTED] against a budgeted loss of [REDACTED] and a year to date loss of [REDACTED] against a budgeted loss of [REDACTED].
- 2.4. Excluding the insurance repayment, revenue was better than budget by [REDACTED] (9.5%), disposal costs were worse than budget by [REDACTED] (109.0%), direct operating costs excluding depreciation were worse than budget by [REDACTED] (1.5%) and overheads were [REDACTED] (7.7%) worse than budget.
- 2.5. The improved revenue position of [REDACTED] was due to additional waste tonnages from Hendon being treated. However, disposal costs from Hendon are higher than for waste disposed of at the EcoPark. The improved revenue position did not therefore directly enhance LEL's earnings.
- 2.6. Direct operational costs of [REDACTED] in the quarter were driven by high disposal costs, which were [REDACTED] adverse to budget. These were affected because the turbine damaged in 2018 (referred to as TA2) was not returned to service in the quarter as expected.
- 2.7. The profit and loss account for the quarter and year to date is set out in the following table:

	July to September 2019			YTD 2019			FY2019
	Actual £000's	Budget £000's	Variance £000's	Actual £000's	Budget £000's	Variance £000's	Budget £000's
Revenue							
Disposal costs							
Direct costs							
Overheads							
Loss before depreciation interest & tax							
Depreciation							
Interest							
Operating Loss							
Insurance Claim							
Loss before tax							

2.7.1. Operational results continue to reflect the continuing loss of capacity following the damage and loss of service of turbine TA2. The repair programme was anticipated to bring the unit back into operation in early July 2019 this timetable was not met due to engineering issues with the turbine repair and commissioning. The turbine was brought back into service on 8 November 2019. No further planned boiler maintenance is expected until May 2020.

2.7.2. The new house set (standby turbine) has also been delayed and is now expected to arrive on site in mid-January 2020 with the installation programme being complete by end of April 2020.

2.7.3. During July 2019 a fault was found on the electrical export transformer, which meant that not all electricity generated was being metered. The fault was rectified by UK Power Networks, which restricted export and reduced operational capacity in the month. The Company has made a claim for recovery of costs associated with the loss of revenue associated with the metering fault.

2.7.4. The Company made an insurance claim for business interruption and engineering damage in July 2018, in respect of product damage and business interruption following the TA2 incident. The insurers have accepted the company's claim and made interim payments of ██████████ in December 2018 and ██████████ in April 2019. A further interim payment of ██████████ was agreed in October 2019. It is expected that the insurance claim will be finalised by the end of 2019.

3. 2020 BUDGET AND 2021 -2025 BUSINESS PLAN

3.1. The Budget and Business Plan is detailed in the Quarterly Report in Appendix 1.

3.2. The Company have prepared a budget for 2020 on the basis of continuing gate fees as at present. In this situation, the company has earnings before interest, tax, depreciation and amortisation (EBITDA) of ██████████. However, after taking account of depreciation, the company would face a loss of ██████████.

3.3. The underlying reasons for this loss are:

3.3.1. The costs incurred by LEL are not fully met by the gate fee which NLWA pay

3.3.2. There is a requirement for investment in the EfW

3.3.3. The company has to make substantial allowances in its profit and loss account for depreciation of capital investment

3.4. Members agreed at the Authority meeting in April 2019 that officers and the company should work together to develop an approach to gate fees from Hendon which would align incentives between the company and the Authority. The proposal set out in the following paragraph achieves this and assists LEL's financial position in 2020 and 2021.

Hendon charges

3.5. The majority of waste which is delivered to the Hendon transfer station (from the boroughs of Barnet and Camden) is taken by rail to the facility owned by the company FCC at Greatmoor. This costs ██████████ per tonne which is paid by LEL and that cost is invoiced to the Authority. Some tonnage is taken by LEL to the EcoPark, for which the Authority pays the standard gate fee of ██████████ per tonne plus transport and handling costs of ██████████ per tonne. It is proposed to increase the gate fee which the Authority pays to LEL for waste which is taken from Hendon to the EcoPark to ██████████. This is equivalent to the income which LEL receives for each tonne of waste under its contract with Hertfordshire.

- 3.6. This would reduce LEL's loss for 2020 by [REDACTED] and for 2021 by [REDACTED]. The impact on the Authority's budget in the current year and 2020-21 is included in the budget report under agenda item 6 for this meeting (an increase of £0.266m in 2019/20 £1.557m in 2020/21). The proposal was considered by the Member Finance Working Group on 5 November.

Closure of the EcoPark for switchgear installation

- 3.7. It will be necessary for LEL to undertake a full shutdown of the EcoPark for three weeks in August 2020, to install and commission new electrical switchgear. This equipment is essential to enable power to be supplied to the new resource recovery facility (RRF) and to the new energy recovery facility when that is in commissioning stages.

- 3.8. The cost impact of the shutdown is estimated to be as follows:

Additional costs for disposal of waste via third parties	£ 2,371,000
Additional operating costs including vehicle hire, generator hire and agency staff	£ 400,000
Lost electricity revenue	£
718,000	

- 3.9. As this cost can be associated with the North London Heat and Power Project (NLHPP), there is a strong case for NLWA funding the first two categories of cost (£2.771m), which can be capitalised and funded through the Authority's borrowing. This cost is not identified within the NLHPP "baseline cost" and so would need to be funded out of the risk provision within the overall project budget. The annexes to the paper provided by LEL assume that only the £2.371m cost is borne by the Authority, which explains the discrepancy between the table below and the 2020 earnings shown in the annex.
- 3.10. The budget in the table below sets out the proposed position assuming the gate fee change from para 3.5 is implemented in full from 1 January and with the Authority taking on the funding of £2.771m as mentioned in para 3.9.

2020 BUDGET YEAR

	<u>2020 Budget</u>	<u>2020 LEL Proposal</u>
	<u>£'000</u>	<u>£'000</u>
INCOME		
Tonnage related income		
Electricity income		
Other income		
TOTAL INCOME		
Labour		
Maintenance		
Disposal		
Own Transport		
Depreciation		
Treatment chemicals		
TOTAL DIRECT COSTS		
GROSS MARGIN		
TOTAL OVERHEADS		
TOTAL FINANCE COSTS		
PROFIT/ (LOSS) BEFORE TAX		
EBIT		
EBITDA		

Within this budget, the costs associated with Reuse and Recycling Centres (RRCs) are included based on current costs, but are not specifically identified. Further discussion is needed to assess with certainty what the impact on the 2020-21 RRC element of the levy would be. Officers are considering with LEL an arrangement under which a fixed price could be paid for delivery of RRC service against an agreed performance specification, and we expect to report back on that in February 2020. We recommend that in approving LEL's budget it is recognised that further consideration is needed to agree RRC costs from April onwards and that may lead to updates to the budget.

Future years

- 3.11. The measures above would strengthen LEL's financial position but would not provide a sustainable long-term solution. This is especially the case as the current Hendon facility – with its rail connection – is expected to close during the period covered by the business plan and a new facility will come into operation. The company has made a planning assumption that activity will transfer to the new facility from the beginning of 2022. The company has proposed a general gate fee increase from that date, set at a gate fee of [REDACTED]/tonne at 2020 prices. This is intended to provide the company with the longer-term profit to which LEL aspires.

This was discussed with the Member Finance Working Group (MFWG) on 5 November. Members were sympathetic to the broad thrust that a change to gate fees along these lines would be needed and wished to consider specific proposals in more detail early in the new year. It is therefore proposed that Members support the principle of a change to gate fees to put the company on a sustainable financial footing and approve the business plan on this bases, noting that post-2022 changes will be subject to further discussion with the Authority.

3.12. In general terms costs are expected to rise above inflation over the period of the business plan. This reflects that Ramboll - advisers on the condition of the energy from waste plant - recommend that non-capital maintenance provision (currently around [REDACTED] million per year) should be assumed to rise by an annual cost of RPI+2.5%, reflecting the age and the extent to which bespoke parts are needed for the plant at the EcoPark. In addition, Ramboll advise that it is likely that assumptions of boiler availability will decline which will affect the total capacity of waste which can be processed in the EcoPark facility.

3.13. The summary position for LEL with the proposed gate fee increase is as below:

	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>
	<u>Business Plan</u>	<u>Business Plan</u>	<u>Business Plan</u>	<u>Business Plan</u>	<u>Business Plan</u>
	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>
REVENUE FROM OPERATIONS	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
PROFIT FROM OPERATIONS	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
FREE CASH POSITION	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

3.14. The equivalent table showing what would happen if gate fees remained at their current level is below. This shows a large reduction from 2022 as a result of the closure of the current Hendon transfer station with rail connection.

	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>
	<u>Business Plan</u>	<u>Business Plan</u>	<u>Business Plan</u>	<u>Business Plan</u>	<u>Business Plan</u>
	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>
REVENUE FROM OPERATIONS	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
PROFIT FROM OPERATIONS	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
FREE CASH POSITION	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

LEL Capital Investment

3.15. The company is proposing capital expenditure of [REDACTED] million in 2020. The key elements of this investment are set out below.

Automation of energy centre cranes [REDACTED] (completion of project costing [REDACTED])

Switch gears and busbars [REDACTED] (completion of project costing [REDACTED])

Turbine House Set [REDACTED] (completion of project costing £6.05m)

Flue Gas Treatment upgrade costing £1.5m [REDACTED] (completion of project costing £1.5m)

Information Technology [REDACTED]

Vehicles [REDACTED]

Additional information on smaller projects making up the full capital expenditure plan is provided in the annex.

4. NORTH LONDON HEAT AND POWER PROJECT (NLHPP)

- 4.1. With work starting on the northern access to the EcoPark/Deephams Farm Road, the interface between the NLHPP and the operations of LEL has increased. While Deephams Farm Road is not in the EcoPark, it runs right to the very boundary and LEL use access to pumping facilities which is via this land. Tenders have also been awarded for the sewer diversion enabling works and the sewer diversion main works. These will be the first substantive construction works taking place on the EcoPark itself when work begins in July 2020. The joint Site Working Group provides the forum for resolving issues between operation and construction. Close liaison also takes place to ensure security of the site against incursion which could lead to disruption of LEL's operations and/or delay to the NLHPP. The procurement process has commenced for the EcoPark South work package. As the intended operator, LEL will feed into the Authority's tender evaluation process.
- 4.2. LEL continues to work with NLWA on the move of the transport yard to Hawley Road.
- 4.3. As noted elsewhere in this paper, LEL is managing the project to install switchgear which will provide power to the resource recovery facility and the new energy recovery facility (ERF) as the ERF is commissioned.

5. HEALTH & SAFETY

- 5.1. The Board of LondonEnergy Ltd is legally responsible for Health and Safety matters and closely monitors the Company's performance.
- 5.2. There were no reportable accidents or dangerous occurrences during the quarter.

6. PUBLIC RELATIONS

- 6.1. There have been seven compliments and one complaint in the quarter. The compliments relate the helpfulness of staff and tidiness and cleanliness of the recycling and re-use centres. In the complaint a member of the public stated that a member of staff at a recycling and re-use centre had wrongly advised him that he was disposing of his waste in the wrong receptacle,

7. LONDONENERGY LTD BOARD

- 7.1. The following directors served during the third quarter

- 7.1.1. Paul Wynn (Chairman)
- 7.1.2. Ray Georgeson (Non-executive Director)
- 7.1.3. Don Lloyd (Non-executive Director)
- 7.1.4. Tania Songini (Non-executive Director)
- 7.1.5. Ulla Rottger (Non-executive Director)
- 7.1.6. Peter Sharpe (Managing Director)
- 7.1.7. Mary Czulowski (Finance Director)
- 7.1.8. Jim Kendall (Operations Director)

7.2. On 18th July 2019 Ms Ulla Rottger was duly appointed to the Board as a non-executive director.

8. BANKING ARRANGEMENTS

- 8.1. The Company has agreed a £5,000,000 lending facility with its bank, Lloyds, in accordance with the approval given by the Authority at the meeting of 9th February 2017. The facility is to be used in the event of short term cash flow fluctuations.
- 8.2. The facility is to be securitised by way of a debenture on the Company.

9. LONDONENERGY LTD BOARD MINUTES

- 9.1. Signed copies of Board minutes are submitted to meetings of the Authority for Information. The LEL signed Board minutes for meetings held since the last meeting of the Authority can be found at Appendix B.

10. COMMENTS OF THE LEGAL ADVISER

[Redacted]

11. COMMENTS OF THE FINANCIAL ADVISER

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

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APPENDIX A: QUARTERLY REPORT TO NORTH LONDON WASTE AUTHORITY



LondonEnergy

Powering the Circular Economy

**Quarterly Report to North London
Waste Authority**

Quarter ended September 2019



LondonEnergy Limited

Quarterly Report to North London Waste Authority

Quarter ended September 2019

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APPENDIX A

2020 Budget

2021 - 25 Business Plan

APPENDIX B

Signed Board Minutes – Quarter 3 2019

1 EXECUTIVE SUMMARY

1.1. Overview of the Third Quarter

Financially, the Company's operational performance in the third quarter of 2019 is below budget, with a loss of [REDACTED], against a budgeted loss of [REDACTED] and a year to date loss of [REDACTED] against a budgeted loss of [REDACTED].

Revenue was better than budget by [REDACTED] (9.5%), direct operational costs (excluding depreciation) were worse than budget by [REDACTED] (1.5%) and overheads were [REDACTED] (7.7%) worse than budget.

An interim insurance claim of [REDACTED] was paid in December 2018 and is reflected in the financial results of that year. An interim claim of [REDACTED] was paid in May 2019 and a further claim was agreed in October for [REDACTED].

Post Quarter Results

TA2 returned to service on 8th November 2019.

TA2 Insurance Claim

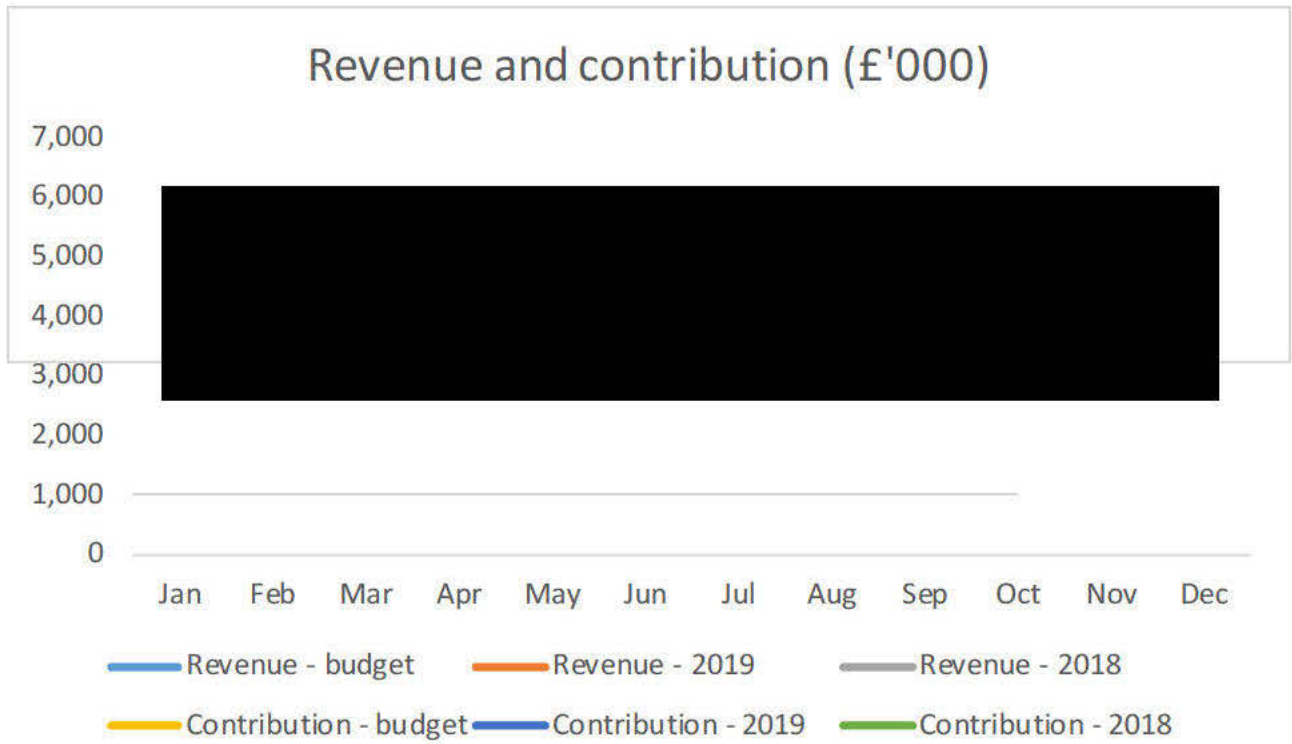
Insurance claims for business interruption and product damage continue to be processed. The 18-month period for claiming for business interruption has now been reached and no further claims will be made for this.

A final claim for business interruption loss has been made by the Company and is currently being assessed by Zurich.

1.2. Key Year to Date Financial Indicators

	July to September 2019			YTD 2019			FY2019
	Actual £000's	Budget £000's	Variance £000's	Actual £000's	Budget £000's	Variance £000's	Budget £000's
Revenue							
Disposal costs							
Direct costs							
Overheads							
Loss before depreciation interest & tax							
Depreciation							
Interest							
Operating Loss							
Insurance Claim							
Loss before tax							

Year to Date Financial Indicators



NB: Revenue includes insurance claim receipts.



Key Events/Activities/Performance Issues

Turbine Incident

The expectation at the start of the quarter was for the turbine and generator to be returned to service in early July 2019. Whilst this date was not met, the turbine was returned to site for commissioning in early August, however, during commissioning a requirement for further repairs on the turbine and ancillaries was identified. The turbine was returned to service on November 8th 2019.

The budget was compiled with the expectation that TA2 would be back in service by June 2019 and this delay is having a significant impact on the Company's financial performance against budget.

Operational Activity

The third quarter of the year has been disappointing in terms of waste throughput and generated and exported electricity and all the key indicators are worse than budget.

Unplanned downtime on boilers for the third quarter was 989 hours, versus a budget of 410 hours, 579 hours worse than budget. Boiler availability for the quarter was 86.7% compared to the budget of 91.4% which led to a waste throughput of 123,680 tonnes versus a budget of 139,913, a negative variance of 16,233 tonnes. This variance mainly results from the delay in the return to service of TA2 together with unplanned downtime as a result of the failure of one of the export transformers and poor quality waste which caused CO control issues.

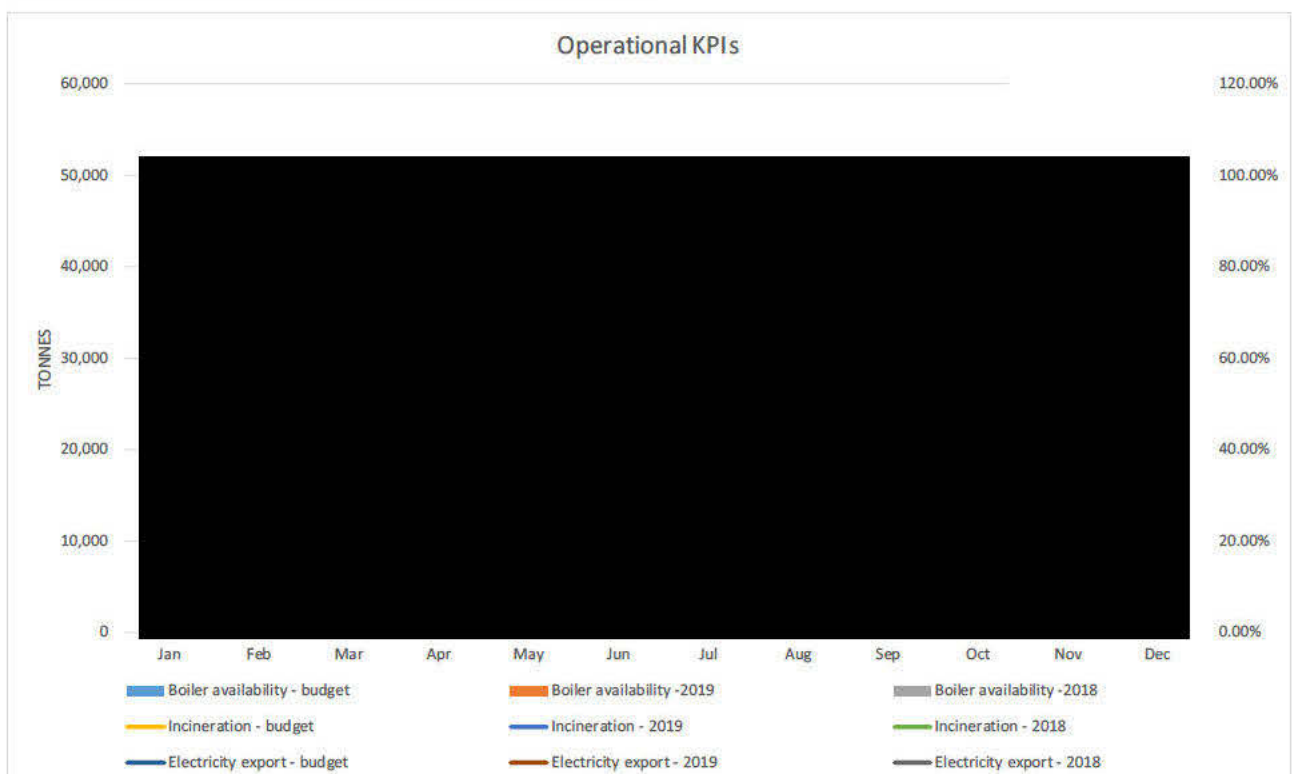
Electricity export of 52,535MWhrs versus a budget of 62,941MWhrs, a negative variance of 10,406MWhrs. In June a significant variance in the exported power figure was noted and investigated. This was found to be caused by a fault on one of the main transformers which led to the transformer being taken out of service in July to effect a repair.

403 tonnes of waste has been sent to landfill or to RDF facilities in the third quarter.

The main operating indicators for the quarter are:

	Results Q3 2019	Variance to Budget (+ /better - /worse)
Boiler Availability	86.7%	-4.7%
Throughput	12.94 tonnes/hr	-0.9%
Incineration	123,680 tonnes	-11.6%
Electricity Generated	62,557 MWh	-18.1%
Electricity Exported	52,535 MWh	-16.5%
Disposal	403 tonnes	-360 tonnes
Total tonnage received	190,421 tonnes	+5.6%

Year to Date Operational Indicators



	July to Sept 2019		July to Sept 2018
	Actual	Budget	Actual
Total tonnes handled	190,421	180,367	184,126
Incinerated	123,680	139,913	121,510
Disposal	403	43	6,058
Recycled/recovered	66,338	40,411	54,589
Total	190,421	180,367	195,965
Percentage Diverted from landfill	99.7%	99.9%	96.9%

2. OPERATIONS

2.1 Commercial and Operational Developments

Capacity Market auctions

LEL has submitted a pre-qualification application to be entered into the Capacity Market auctions being held in late January/early February 2020. There are two auctions being run by National Grid in their role as Electricity Market Reform (EMR) Delivery Body. The auctions being run are:

- Three year ahead (T-3) auction for the delivery year commencing 1st Oct 2022
- Four year ahead (T-4) auction for the delivery year commencing 1st Oct 2023

Pre-qualification results are expected on the 22nd November.

Electricity Contract – Kinect

LEL has entered into a 3-year Power Purchase Agreement with N-Power, commencing September 2019. Kinect has been instructed to sell electricity forward for a period of 18 months from October 2019.

Procurement

Procurement is as set out in the business plan.

RRCs

The RRC recycling rate for the quarter was 76.69% which is a 0.9% increase on the same period last year and continues to represent a very high recycling rate.

Transport

No prohibition notices have been issued.

2.2 Key Technical Issues

Plant Maintenance

The autumn schedule for the remaining two boilers began on September 9th, 2019 and ended on November 7th 2019 with both boilers successfully returned to service on time.

Environmental

There were minor exceedances/breaches of our half hourly and daily limits for CO and TOC on a few occasions during Boiler start-up and shutdown in July. There were no exceedances in August and two reportable emissions exceedances reported in September. One was a gas cylinder which exploded and the other a dust breach which happened during routine maintenance and calibration of the equipment.

High CO levels due to incomplete combustion of wet and decomposing waste were also noted in September.

All monthly reports have been submitted as required by the Company's Permit.

2.3 Post Quarter Events

TA2

TA2 was returned to service on November 8th 2019.

New Turbine

In November LEL engineering team are attending the Triveni manufacturing facility in India to witness the final factory acceptance tests of the control and safety systems for the turbine, all other factory acceptance tests having been passed in September 2019. Successful results will mean that the turbine is shipped from the factory at the beginning of December, with arrival in the UK in mid-February.

2.4 Long-term issues including variance from Business Plan

Except as stated in this report, there have been no variances from the Business Plan to report.

2.5 Staffing Issues

The third annual graduate intake assessment days took place in May, with six graduates starting employment in September.

FINANCE

3.1 Quarterly Management Accounts

Financially, the Company's operational performance in the third quarter of 2019 is below budget, with a loss of [REDACTED], against a budgeted loss of [REDACTED] and a year to date loss of [REDACTED] against a budgeted loss of [REDACTED].

Revenue was better than budget by [REDACTED] (9.5%), direct operational costs (excluding depreciation) were worse than budget by [REDACTED] (1.5%) and overheads were [REDACTED] (7.7%) worse than budget.

The worse than budget performance was driven by disposal costs of [REDACTED] which were worse than budget by [REDACTED] as a result of TA2 not being returned to service as budgeted and the unplanned loss of EEB1 transformer.

An interim insurance claim of [REDACTED] was paid in December 2018 and is reflected in the financial results of that year. An interim claim of [REDACTED] was paid in May 2019 and a further claim for [REDACTED] has been accepted in October 2019.

TA2 Insurance Claim

Insurance claims for business interruption and product damage continue to be processed. The 18-month period for claiming for business interruption has now been reached and no further claims will be made for this. A final claim has been submitted for business interruption loss and is currently being assessed by Zurich.

Key Year to Date Financial Indicators

	July to September 2019			YTD 2019			FY2019
	Actual	Budget	Variance	Actual	Budget	Variance	Budget
	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Revenue							
Disposal costs							
Direct costs							
Overheads							
Loss before depreciation interest & tax							
Depreciation							
Interest							
Operating Loss							
Insurance Claim							
Loss before tax							

Profit and Loss

Revenue

Total operational revenue for the quarter of [REDACTED] was [REDACTED] better than budget and [REDACTED] better than prior year. The improvement was due to higher than budgeted revenues from Hendon. There was minimal third party waste accepted in the quarter.

Costs

Direct Costs

Direct costs of [REDACTED] were [REDACTED] worse than budget driven by increased disposal costs which were [REDACTED] worse than budget in the quarter, as greater volumes were sent to RDF processors as a result of the loss of turbine capacity and the EEB1 transformer unplanned outage.

Maintenance costs were [REDACTED] better than budget, and labour costs were [REDACTED] worse than budget.

Depreciation at [REDACTED] was [REDACTED] better than budget, reflecting the timing of budgeted capital expenditure.

Overheads of [REDACTED] were [REDACTED] worse than budget.

Balance Sheet

Fixed assets

There was a net increase of [REDACTED] in net book value over the quarter, with additions of [REDACTED] and a depreciation charge of [REDACTED].

Working capital (net current assets excluding cash) increased by [REDACTED] in the quarter.

Trade Debtors increased by [REDACTED], reflecting the timing of payments for electricity generation and sales receipts from Hertfordshire and Ballast Phoenix. Group receivables increased by [REDACTED]. Prepayments decreased by [REDACTED] in the quarter.

Trade creditors increased by [REDACTED] and group payables increased by [REDACTED]. Accruals decreased by [REDACTED].

Closing cash balances amounted to [REDACTED], a decrease of [REDACTED].

Cash Flow

Net cash outflow in the quarter was [REDACTED] against a budgeted outflow of [REDACTED], an increase of [REDACTED].

Total receipts of [REDACTED] were [REDACTED] better than budget, and payments of [REDACTED] were [REDACTED] worse than budget.

Aged Debtor Profile (Non-NLWA)

At 30th September 2019, total trade debtors amounted to [REDACTED] of which [REDACTED] related to NLWA and [REDACTED] to third party customers. 19% of third party debtors was not yet due and a further 68% was between 0 and 30 days overdue. There were no new liquidations during the quarter and no old, uncollectable debts were written off during the quarter.

3.2 Staffing Report

The headcount summary shows that as at 30th September 2019 LondonEnergy employed 325 employees compared to the budget of 338.

Sickness Absence

Absence has averaged 2.54% in the quarter, against a budget of 3% and prior year experience of 2.93%. The results reflect a decrease in the level of long term sickness, which are at 1.16% (Prior year: 1.76%).

3.3 Summary of Loans

The Company remained completely debt free in the quarter.

3.4 Amendments to the agreed Business Plan

Other than as set out in this report, there are no amendments to the agreed business plan.

3.5 2020 Budget and 2021-25 Business Plan

The Budget and Business Plan is detailed in the Quarterly Report in Appendix A.

The Company have prepared a budget for 2020 in which the Company makes a loss before tax of [REDACTED].

The underlying reasons for this loss are:

NLWA gate fee being insufficient to fund delivered services

Requirement for investment in the EfW

Depreciation of EfW capital investment

The Company has proposed that to mitigate the loss in part, the Authority agree to an increase in the gate fee for all waste tonnages treated by the Company arising from Hendon Transfer Station for the years 2020 and 2021 and then subsequent to the transfer of operations from Hendon to Geron Way in January 2022 a general gate fee increase.

The Company has made a proposal for a general gate fee increase for 2022, set at a gate fee of [REDACTED]/tonne at 2020 prices.

The Company proposes the Hendon gate fee increase to [REDACTED] from [REDACTED] effective from January 1st 2020.

This increase in the Hendon gate fee would reduce the loss for the 2020 budget year by [REDACTED] to [REDACTED].

The increase in the Hendon gate fee for the Business Plan year 2021 would reduce the loss before tax in the year by [REDACTED] to [REDACTED].

2020 BUDGET YEAR

	<u>2020</u> <u>Budget</u>	<u>2020 LEL</u> <u>Proposal</u>
	<u>£'000</u>	<u>£'000</u>
INCOME		
Tonnage related income		
Electricity income		
Other income		
TOTAL INCOME		
Labour		
Maintenance		
Disposal		
Own Transport		
Depreciation		

Treatment
chemicals

TOTAL DIRECT COSTS

**GROSS
MARGIN**

TOTAL
OVERHEADS

TOTAL FINANCE COSTS

**PROFIT/ (LOSS) BEFORE
TAX**

EBIT

EBITDA



The Company discussed the proposal with the Members Finance Working Group who agreed to recommend the increase in the Hendon gate fee to the Authority.

The Company will undertake a full shutdown for a period of three weeks in August 2020 to install and commission new electrical switchgear. The switchgear is a critical upgrade, in support of the NLHPP, enabling power for the RRF and the new ERF whilst commissioning.

The costs of the shutdown arise from three elements

Landfill costs for waste that cannot be treated	£ 2,371,000
Additional operating costs including vehicle hire, generator hire and agency staff	£ 400,000
Lost electricity revenue	£ 718,000

The Company has budgeted that the landfill costs are invoiced to the NLHPP as a project cost.

The current budget includes additional operating costs and loss of electricity revenue to the Company totalling £ 1,118,000.

The Members Finance Working Group have requested NLWA officers to confirm whether these costs could be capitalised and charged to the NLHPP.

NLWA officers agreed to confirm the position at the Authority December meeting.

2021-25 BUSINESS PLAN

The Company has prepared a business plan for the period 2021-2025 based on the current contractual gate fees.

This business plan confirms that with the closure of the Hendon Rail Transfer Station and the treatment of all waste arising in London Borough of Barnet the Company is unable to treat all waste under contract.

The result of this is that disposal costs are incurred for approximately 50,000 tonnes of waste each year from 2022 and that there is no spare capacity to treat other local authority waste in the current plant.

Without an increase in the gate fee the Company becomes loss making in each year and has a negative cash balance from 2020 rising to [REDACTED] by 2025.

The summary position is:

	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>
	<u>Business Plan</u>	<u>Business Plan</u>	<u>Business Plan</u>	<u>Business Plan</u>	<u>Business Plan</u>
	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>
REVENUE FROM OPERATIONS	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
PROFIT FROM OPERATIONS	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
FREE CASH POSITION	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

This negative cash position will require cash injections by NLWA in order for the Company to be sustainable.

The Company has made a proposal for a general gate fee increase for 2022 set at a gate fee of [REDACTED]/tonne at 2020 prices. This proposal ensures that the Company remains profitable and builds a cash reserve of [REDACTED] by 2025. This cash reserve will transfer certain key risks to LEL:

Operational shocks

Balance sheet strength

Redundancy costs

Retention payments

The summary position with the proposed gate fee increase is:

	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>
	<u>Business Plan</u>	<u>Business Plan</u>	<u>Business Plan</u>	<u>Business Plan</u>	<u>Business Plan</u>
	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>
REVENUE FROM OPERATIONS					
PROFIT FROM OPERATIONS					
FREE CASH POSITION					

The Company has discussed its proposals with Members Finance Working Group and agreed a plan to enable a full discussion and decision to be reached by the summer of 2020.

The agreed plan is:

Following discussion with NLWA officers the Company will revert to the Members Finance Working Group in January 2020 with a revised proposal which has an annual profit before tax outcome of £1million to £1.5million.

NLWA officers will revert to the Members Finance Working Group in January 2020 with the impact of the revised proposals on the Levy.

The Members Finance Working Group will review the proposals and make recommendations to the June 2020 Authority meeting.

The timescale is critical to meeting the 2021 Budget and Business Planning cycle.

4 SHAREHOLDER MATTERS

4.1 Number and names of directors in period

The following directors served during the third quarter of the year

- Paul Wynn (Chairman)
- Ray Georgeson (Non-executive Director)
- Don Lloyd (Non-executive Director)
- Tania Songini (Non-executive Director)
- Ulla Rottger (Non-executive Director)
- Peter Sharpe (Managing Director)
- Mary Czulowski (Finance Director)
- Jim Kendall (Operations Director)

On 18th July 2019 Ms Ulla Rottger was duly appointed to the Board as a non-executive director.

4.2 Director attendance at Board meetings

There have been two board meetings during the quarter and the following table indicates the attendance of individual directors. No Observer attended the meetings.

<u>Director</u>	<u>25th</u> <u>July</u>	<u>19th</u> <u>September</u>
Paul Wynn	Present	Present
Ray Georgeson	Present	Present
Don Lloyd	Present	Present
Tania Songini	Present	Present
Ulla Rottger	Present	Absent
Peter Sharpe	Present	Absent
Mary Czulowski	Present	Present
Jim Kendall	Present	Present
Martin Capstick (Observer)		Present

4.3 Pension Trustees

There were no changes to pension trustees during the quarter. There are three trustees, an independent Chair, one member nominated trustee and one employer nominated trustee.

4.5 LondonWaste Defined Benefit Pension Scheme

The LondonWaste Pension Scheme closed to future accrual on 31st December 2018.

4.6 Insurance Cover

The Company maintains the following insurance policies:

- Property/Business Interruption
- Excess Property/Business Interruption
- Engineering Damage
- Combined Liability
- Excess Employers Liability
- Excess Public Liability
- Motor Fleet
- Business Travel/Personal Accident
- Engineering Inspection
- Directors & Officers
- Pension Trustee Liability
- Environmental Liability
- Cash in Transit

The Company's insurance was renewed as at 31st December 2018.

All insurances except for Property Damage and Business Interruption have been written in full on the same terms as the previous year.

Product Damage and Business Interruption

The Company has secured a total of [REDACTED] coverage, on the following terms:

[REDACTED]

This level of insurance is below the requirement laid down in the Shareholder Agreement. The Company previously advised NLWA of the position and that as a result the Main Waste Contract is frustrated in respect of the insurance clause.

4.7 Insurance Claims and Incidents

There has been one insurance claim against the Company in the quarter and one claim has been settled in the quarter.

Public Liability

A claim has been settled in respect of an accident that took place at Park View RRC in July 2014 [REDACTED]

Employer Liability

An ex-employee has made a claim for damages. [REDACTED]

LEL Claim for Business Interruption and Engineering Damage

The Insurers accepted the Company's claim and have made two interim payments totalling [REDACTED]. A further interim payment of [REDACTED] has been agreed.

The Company continues to submit claims as costs arise.

4.8 Capital and Revenue Expenditure with Business Plan

Other than as set out in this report, capital and revenue expenditures were contained within the limits set by the Business Plan.

4.9 Asset Disposals

No assets with a net book value were disposed of in the quarter to date.

4.10 Borrowing/Lending

There were no borrowings or lending in the quarter.

The Company has agreed a £5,000,000 lending facility with its bank, Lloyds, in accordance with the approval given by the Authority at the meeting of 9th February 2017. The facility is to be used in the event of short term cash flow fluctuations.

The facility is to be securitised by way of a debenture on the Company.

4.11 Legal Proceedings

There were no legal proceedings in the quarter.

5. HSQE

5.1 Update on compliance matters:

There were no prohibition notices, improvement notices or prosecutions in the quarter.

There have been no reportable or dangerous occurrences during the quarter.

Prohibition Notices

No prohibition notices were issued in this quarter.

Improvement Notices

No improvement notices were issued in this quarter.

Prosecutions

There are no prosecutions pending.

6. COMMUNICATIONS

6.1 Communications Update

Visits to the EcoPark

During the quarter the Company hosted visits from Enfield Council, community groups from Waltham Forest and the Brushwood area and the South Korean Government.

2020 BUDGET and 2021-25 BUSINESS PLAN

**NLWA Authority Meeting Approval
December 2nd 2019**

ACTIONS REQUIRED

LondonEnergy Board has approved the 2020 Budget and noted the 2021-2025 Business Plan

LondonEnergy Board commend the Main Waste Contract gate fee increase as proposed in the Business Plan to the NLWA for approval

APPROVALS REQUESTED

NLWA approve the 2020 Budget including the gate fee increase for Hendon tonnages

NLWA note the 2021-2025 Business Plan

NLWA approve the gate fee increase for the years 2021-2025

NLWA confirm acceptance of a debenture on LondonEnergy as security for the previously approved bank overdraft facility

NLWA authorise the ring-fenced capital expenditure of £2,000,000 should this be required to refurbish either or both electricity export transformers in the Budget or Business Plan period.

HIGH LEVEL NARRATIVE AND ASSUMPTIONS

The budget and business plan has been prepared from 2020 – 2025, that is, to the end of the current contract.

The future loss making and cash negative position confirms the unviable financial future the Company faces, which has been reported to Board and the Authority since the 2017 Budget and Business Plan. This arises from two main structural deficits:

- The level of ongoing capital investment in extending the asset life of the Energy Centre, exhausting cash reserves and depreciation costs coupled with the increasing cost of maintenance of an ageing plant. The forecast for future maintenance costs in the business plan is based on Ramboll's estimate of budget year cost plus inflation and 2.5% incrementally.
- NLWA does not pay a sustainable rate for the waste treated. This is confirmed by the acceleration of losses when:
 - The management of all waste tonnages from Hendon, 121,000 tonnes, is undertaken from 2022
 - The capacity to treat third party waste is substituted by Hendon tonnages. Third party waste subsidised NLWA by ██████/tonne in 2018, and average of ██████ for the years 2015-2018 and ██████ in 2019, despite the loss of TA2.
- Within the budget and business plan a position to stabilise the commercial position is proposed. This is based on an increased gate fee for Hendon tonnages for 2020 and 2021 and a gate fee increase for all tonnages from 2022.

2020 BUDGET ASSUMPTIONS

REVENUE

- The budget is based on main waste contract tonnages, Hertfordshire waste of 65,000 tonnes and 29,933 tonnes of Hendon waste being treated at LEL.
- There is no inclusion of ELWA / other third party wastes.
- Ferrous metals prices are budgeted at █████/t as the best current estimate of rates.
- Inflation is set at the August 2019 BOE forecast rate of 2.8%.
- All NLWA gate fees are as contracted in the main waste contract.

CONTRACT

- The budget and business plan assumes the rail transfer station at Hendon closes at end of 2021 and from January 2022 all tonnages (currently forecast as 121,000) are treated by LEL. Note: LBB closure date is currently stated as December 2020.
- In the budget year 29,333 tonnes are treated at LEL with the remainder being treated at FCC Greatmoor.

CAPACITY MARKET INCOME

- Capacity Market payments of █████ have been assumed in the budget.

THROUGHPUT ASSUMPTIONS

- Throughput based on 13.85 t/hr.
- 2,880 survey hours have been budgeted for 2020 Budget.
- 21 days full shutdown is budgeted in August 2020. This is to enable the commissioning of the new electrical switchgear. The switchgear is a critical upgrade, enabling power for the RRF and the new ERF. **The cost of landfill incurred as a result of the switchgear will be charged to NLWA as part of the NLHPP works**
- Unplanned outages – 5.0%. 2019 year to date 5.2%.
- Flexibility to manage Hertfordshire waste volumes has been built into the outage plan.

INSURANCE RESERVE

- An insurance reserve is being accrued to compensate for the lower level of coverage being included in the insurance premiums

2021 - 2025 BUSINESS PLAN ASSUMPTIONS

REVENUE

- The forecast is based on main waste contract tonnages.
- Non-contractual Hendon waste volume treated in 2021 is 39,000 tonnes (limited by logistics capability)
- Contractual Hendon waste volume treated in 2022-2025 is 121,000 tonnes per annum.
- Hertfordshire waste volumes forecast in 2021 at 49,000 tonnes.
- Hertfordshire waste volumes from 2022 to 2025 are forecast at 10,000 tonnes.
- There is no inclusion of ELWA / other third party wastes.

CONTRACT

- The rail transfer station at Hendon closes at end of 2021 and from January 2022 all tonnages (currently forecast as 121,000) are treated by LEL.
- The Company is obliged under FRS102 accounting standard to recognise an impaired asset in the financial statements as soon as the probability of the event is known. The business plan assumption is that the [REDACTED] fixed asset impairment at contract end will be recognised in 2022 on signing a contract for the construction of the ERF

THROUGHPUT ASSUMPTIONS

- Throughput based on 13.85 t/hr each year.
- Unplanned outages – 5.0% - 2021, 5.5% 2022 and 2023, 6% 2024 and 2025
- Planned outages 2,640 hours (110 days) all years other than 2022 (2,880 hours). This is a reduction from the previous forecast of 2,880 hours each year.

INFLATION

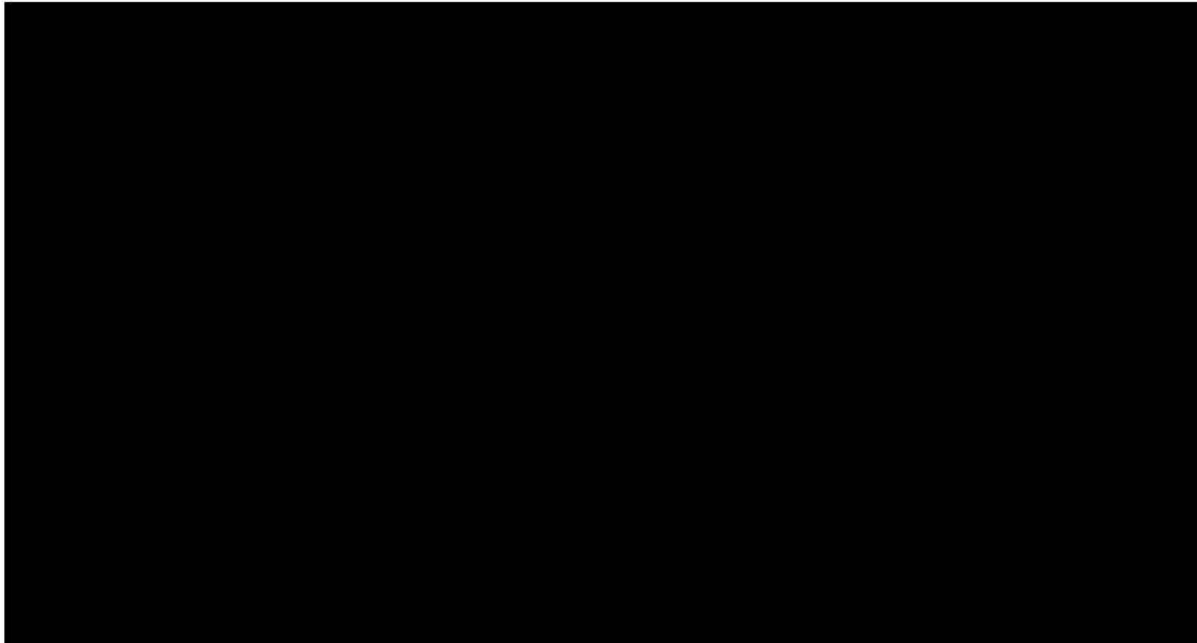
- Inflation is calculated at the August 2019 BOE forecast of: 3.1% for 2021, 3.3% for 2022 and 2023 then 2.5% for 2024 and 2025.

INSURANCE RESERVE

- An insurance reserve continues to be accrued for until the end of 2022 (at which time the reserve amounts to [REDACTED]). The maximum exposure to an business interruption insurance loss, based on a 90 day deductible for business interruption, is [REDACTED].

2020 - 2025 BUDGET AND BUSINESS PLAN – PRICES PER MAIN WASTE CONTRACT

	<u>2020 Budget</u>	<u>2021 Business Plan</u>	<u>2022 Business Plan</u>	<u>2023 Business Plan</u>	<u>2024 Business Plan</u>	<u>2025 Business Plan</u>
	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>
REVENUE FROM OPERATIONS						
PROFIT FROM OPERATIONS						
NLHPP INCOME						
NLHPP COSTS						
SWITCHGEAR SHUTDOWN LANDFILL COSTS - NLWA CHARGE						
SWITCHGEAR SHUTDOWN LANDFILL COSTS						
EBIT						
EBITDA						
PBT						
2022 FIXED ASSET IMPAIRMENT						
NET PROFIT						



2020 BUDGET ASSUMPTIONS – PROPOSED PRICE INCREASES

REVENUE – HENDON PRICE INCREASE

- The budget is based on main waste contract tonnages, Hertfordshire waste of 65,000 tonnes and 29,933 tonnes of Hendon waste being treated at LEL.
- There is no inclusion of ELWA / other third party wastes.
- Ferrous metals prices are budgeted at █████/t as the best current estimate of rates.
- Inflation is set at the August 2019 BOE forecast rate of 2.8%.
- Excluding Hendon, NLWA gate fees are as contracted in the main waste contract.

CONTRACT

- The budget and business plan assumes the rail transfer station at Hendon closes at end of 2021 and from January 2022 all tonnages (currently forecast as 121,000) are treated by LEL.
- In the budget year 29,333 tonnes are treated at LEL with the remainder being treated at FCC Greatmoor.

REVENUE – RATE CHANGES

- Hendon transfer gate fee assumed to increase to █████ / tonne compared with the current rate of █████ / tonne.

CONTRACT

- The rail transfer station at Hendon closes at end of 2021 and from January 2022 all tonnages (currently forecast as 121,000) are treated by LEL.

THROUGHPUT ASSUMPTIONS

- Throughput based on 13.85 t/hr.
- There are 2,880 survey hours budgeted for 2020 planned outages.
- 21 days full shutdown is budgeted in August 2020. This is to enable the commissioning of the new electrical switchgear. The switchgear is a critical upgrade, enabling power for the RRF and the new ERF. **The cost of landfill incurred as a result of the switchgear will be charged to NLWA as part of the NLHPP work**
- Unplanned outages – 5.0%. 2019 year to date 5.2%.
- Flexibility to manage Hertfordshire waste volumes has been built into the outage plan.

INSURANCE RESERVE

- An insurance reserve is being accrued to compensate for the lower level of coverage being included in the insurance premiums.

2021 - 2025 BUSINESS PLAN – INCLUDING PROPOSED PRICE INCREASES

REVENUE

- The forecast is based on main waste contract tonnages.
- Non-contractual Hendon waste volume treated in 2021 is 39,000 tonnes (limited by logistics capability)
- Contractual Hendon waste volume treated in 2022-2025 is 121,000 tonnes per annum.
- Hertfordshire waste volumes forecast in 2021 at 49,000 tonnes.
- Hertfordshire waste volumes of 10,000 contracted tonnes per annum are forecast.
- There is no inclusion of ELWA / other third party wastes.
- The Hendon transport fee and site operations fees are included at the current rates.

REVENUE – RATE CHANGES

- Hendon gate fee assumed to increase to [REDACTED] / tonne, inflation adjusted, compared with the current rate of [REDACTED] / tonne for 2020 and 2021.
- The gate fee for all main contract waste (delivered to Hendon, Hornsey Street or EcoPark) has been set at [REDACTED] / tonne, priced as at 1st January 2020, applied from January 2022 and subject to inflation from January 2020. An additional [REDACTED] / tonne, has been applied from January 2024.

CONTRACT

- The rail transfer station at Hendon closes at end of 2021 and from January 2022 all tonnages (currently forecast as 121,000) are treated by LEL.

THROUGHPUT ASSUMPTIONS

- Throughput based on 13.85 t/hr each year.
- Unplanned outages – 5.0% - 2021, 5.5% 2022 and 2023, 6% 2024 and 2025
- Planned outages 2,640 hours (110 days) all years other than 2022 (2,880 hours).

2021 - 2025 BUSINESS PLAN – INCLUDING PROPOSED PRICE INCREASES

INFLATION

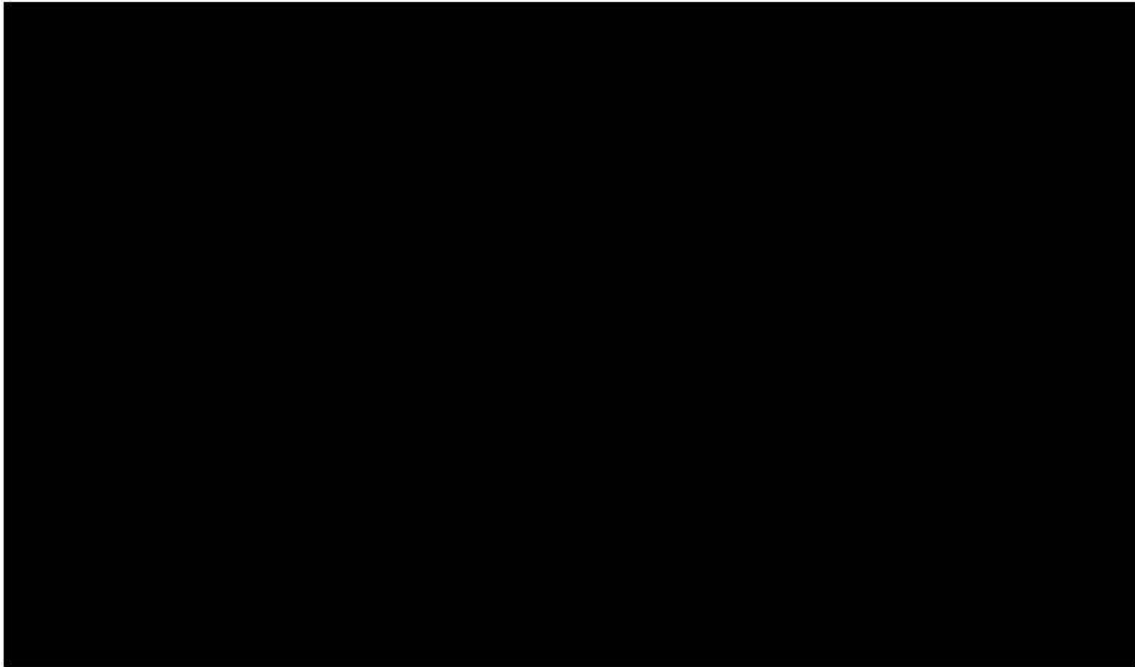
- Inflation is calculated at 3.1% for 2021, 3.3% for 2022 and 2023 then 2.5% for 2024 and 2025.

INSURANCE RESERVE

- An insurance reserve continues to be accrued for until the end of 2022 (at which time the reserve amounts to [REDACTED]). The maximum exposure to an business interruption insurance loss, based on a 90 day deductible for business interruption, is [REDACTED].

2021 - 2025 BUSINESS PLAN – INCLUDING PROPOSED PRICE INCREASES

	<u>2020 Budget</u>	<u>2021 Business Plan</u>	<u>2022 Business Plan</u>	<u>2023 Business Plan</u>	<u>2024 Business Plan</u>	<u>2025 Business Plan</u>
	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>
REVENUE FROM OPERATIONS						
PROFIT FROM OPERATIONS						
NLHPP INCOME						
NLHPP COSTS						
SWITCHGEAR SHUTDOWN LANDFILL RECOVERY						
SWITCHGEAR SHUTDOWN LANDFILL COSTS						
EBIT						
EBITDA						
PBT						
2022 FIXED ASSET IMPAIRMENT						
NET PBT						



2021 - 2025 BUSINESS PLAN – IMPACT OF REVENUE RATE INCREASES

EBIT £'000	2020	2021	2022	2023	2024	2025
2020 Budget - including proposed price increases						
2020 Budget - at main waste contract rates						
Difference						

CASHFLOW 2020-2025

- Cash availability to the business becomes a critical issue in 2020, without any changes to gate fees.
- The Company has in place an agreed overdraft facility of £5,000,000 which can be utilised when securitised through a debenture (standard commercial terms)
- In 2020 the facility is not high enough to absorb NLWA normal payment terms for the landfill costs incurred in August as a result of the shutdown to commission the switchgear
- The shortfall could be alleviated by NLWA making a payment in the same month as the creditor payment is made (back to back payment)
- At main contract gate fees the Company builds a cash deficit of [REDACTED] by 2025
- With the proposed gate fee increase the Company builds a positive cash position of [REDACTED], which could offset the balance sheet impact of the fixed asset impairment and potentially contribute to redundancy costs for the transition from EFW to ERF

2021 - 2025 BUSINESS PLAN CASHFLOW- AT MAIN WASTE CONTRACT RATES

2019 Forecast £'000	2020 Business Plan £'000	2021 Business Plan £'000	2022 Business Plan £'000	2023 Business Plan £'000	2024 Business Plan £'000	2025 Business Plan £'000
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Free Cash



2021 - 2025 BUSINESS PLAN CASHFLOW – INCLUDING PROPOSED RATE CHANGES

2019 Forecast £'000	2020 Business Plan £'000	2021 Business Plan £'000	2022 Business Plan £'000	2023 Business Plan £'000	2024 Business Plan £'000	2025 Business Plan £'000
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Free cash with proposed rate changes

Free cash - main waste contract rates



2020 CASH BUDGET BY MONTH – PRICES PER MAIN WASTE CONTRACT

Budget Jan-20 £'000	Budget Feb-20 £'000	Budget Mar-20 £'000	Budget Apr-20 £'000	Budget May-20 £'000	Budget Jun-20 £'000	Budget Jul-20 £'000	Budget Aug-20 £'000	Budget Sep-20 £'000	Budget Oct-20 £'000	Budget Nov-20 £'000	Budget Dec-20 £'000
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Free cash balance



2020 CASH BUDGET BY MONTH – INCLUDING PROPOSED RATE CHANGE

Budget Jan-20 £'000	Budget Feb-20 £'000	Budget Mar-20 £'000	Budget Apr-20 £'000	Budget May-20 £'000	Budget Jun-20 £'000	Budget Jul-20 £'000	Budget Aug-20 £'000	Budget Sep-20 £'000	Budget Oct-20 £'000	Budget Nov-20 £'000	Budget Dec-20 £'000
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Free cash with proposed rate changes



Free cash - main waste contract rates

2020 CASH BUDGET BY MONTH – PRICES PER MAIN WASTE CONTRACT

Budget Jan-20 £'000	Budget Feb-20 £'000	Budget Mar-20 £'000	Budget Apr-20 £'000	Budget May-20 £'000	Budget Jun-20 £'000	Budget Jul-20 £'000	Budget Aug-20 £'000	Budget Sep-20 £'000	Budget Oct-20 £'000	Budget Nov-20 £'000	Budget Dec-20 £'000
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Net cash inflow

Inflow/ outflow from operating activities

Interest/ Commission paid

Taxation payments

Capital purchases

Movement

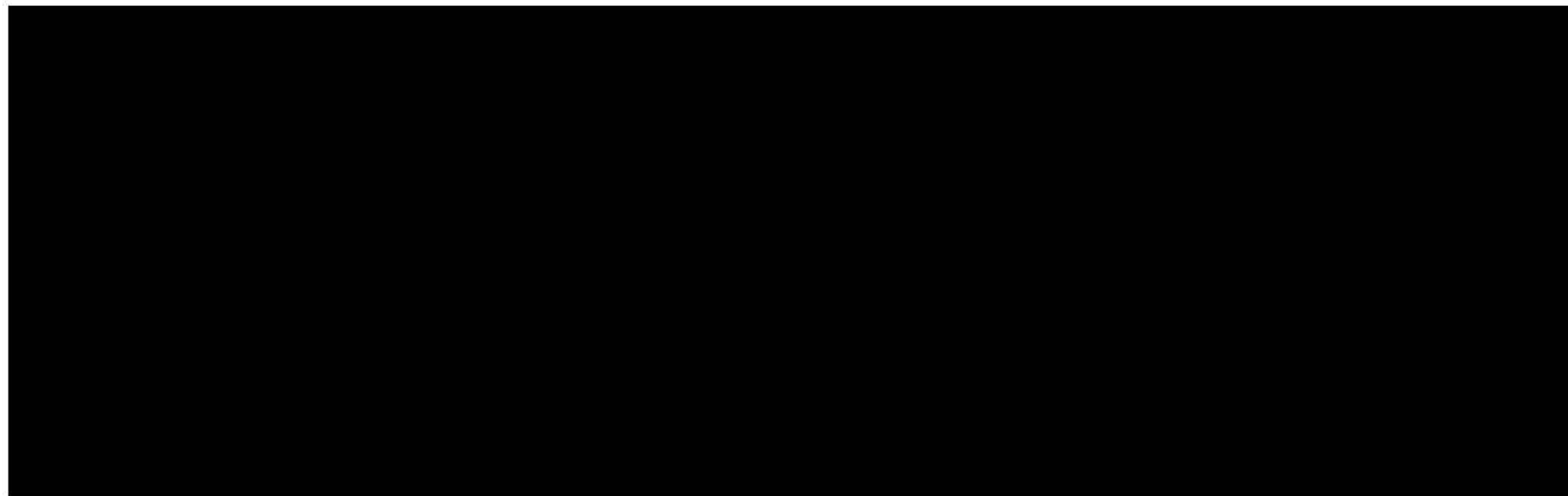
Cash B/ fwd

Cash c/fwd

less: insurance reserve

Cash excluding insurance reserve

2019 May reforecast (exc insurance
reserve)



2021 - 2025 BUSINESS PLAN CASHFLOW- AT MAIN WASTE CONTRACT RATES

2020 Budget	2019 Forecast £'000	2020 Business Plan £'000	2021 Business Plan £'000	2022 Business Plan £'000	2023 Business Plan £'000	2024 Business Plan £'000	2025 Business Plan £'000
Opening cash							
Receipts:							
NLWA (tonnage, RRC, picking station)							
NLWA (LFT & NFFO)							
Electricity (Smartest Energy)							
Interest Receivable							
Other							
Herts							
Cash inflow							
Payments:							
Employment Costs							
Capital Expenditure							
Purchase Ledger							
Insurance							
Rent & Rates							
VAT							
Corporation Tax (POA)							
Interest paid							
OFFSETS							
Cash outflow							
Net cashflow							
Closing cash balance							
less: insurance reserve							
Cash excluding insurance reserve							

2020 CASH BUDGET BY MONTH – INCLUDING PROPOSED RATE CHANGE

Budget Jan-20 £'000	Budget Feb-20 £'000	Budget Mar-20 £'000	Budget Apr-20 £'000	Budget May-20 £'000	Budget Jun-20 £'000	Budget Jul-20 £'000	Budget Aug-20 £'000	Budget Sep-20 £'000	Budget Oct-20 £'000	Budget Nov-20 £'000	Budget Dec-20 £'000
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Net cash inflow

Inflow/ outflow from operating activities

Interest/ Commission paid

Taxation payments

Capital purchases

Movement

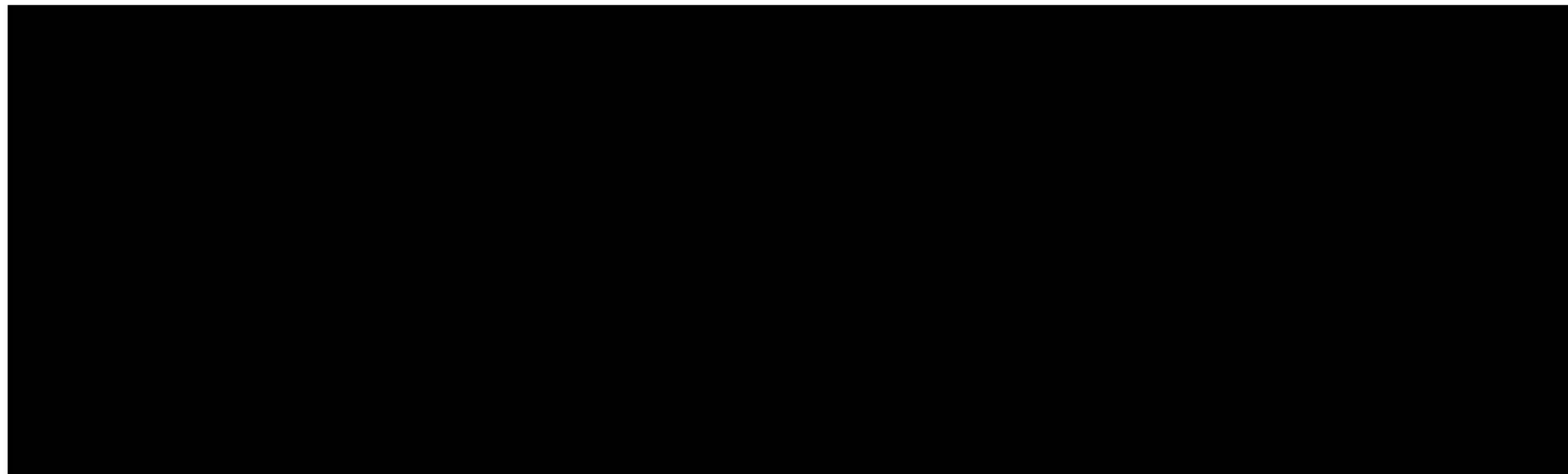
Cash B/ fwd

Cash c/fwd

less: insurance reserve

Cash excluding insurance reserve

2019 May reforecast (exc insurance reserve)



2021 - 2025 BUSINESS PLAN – INCLUDING PROPOSED RATE CHANGES

2020 Budget

	2019 Forecast £'000	2020 Business Plan £'000	2021 Business Plan £'000	2022 Business Plan £'000	2023 Business Plan £'000	2024 Business Plan £'000	2025 Business Plan £'000
Opening cash							
Receipts:							
NLWA (tonnage, RRC, picking station qtr)							
NLWA (LFT & NFFO)							
Electricity (Smartest Energy)							
Interest Receivable							
Other							
Herts							
Cash inflow							
Payments:							
Employment Costs							
Capital Expenditure							
Purchase Ledger							
Insurance							
Rent & Rates							
VAT							
Corporation Tax (POA)							
Interest paid							
OFFSETS							
Cash outflow							
Net cashflow							
Closing cash balance							
less: insurance reserve							
Cash excluding insurance reserve							



NLWA IMPACT OF PROPOSED GATE FEE INCREASES


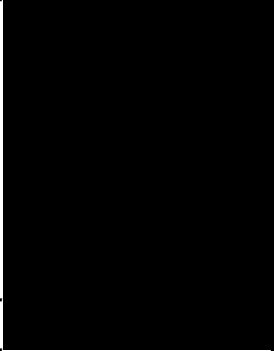
2021 - 2025 BUSINESS PLAN – NLWA CHARGES – WITH PROPOSED NEW CHARGES

<u>£'000</u>	<u>2020 Budget</u>	<u>2021 Business Plan</u>	<u>2022 Business Plan</u>	<u>2023 Business Plan</u>	<u>2024 Business Plan</u>	<u>2025 Business Plan</u>
Gate Fees - Main Waste Contract						
3rd party disposal gate fees						
Other Gate fees and charges						
Electricity Claim - base						
Electricity Claim - Ark benefit						
Landfill Tax Claim - Hendon/ Core tonnages						
Landfill Tax Claim - Others						
NLHPP Costs						
Switchgear Shutdown landfill recovery						
TOTAL						
TOTAL at main waste contract rates						



CAPITAL BUDGET

2020 CAPITAL BUDGET

Capital Expenditure	2020 Budget
£	
Buildings	
IT	
Motor Vehicles	
F&F	
Office	
P&M	
Total	
Energy Centre	
Waste Operations	
Facilities & Estates	
IT	
Total	

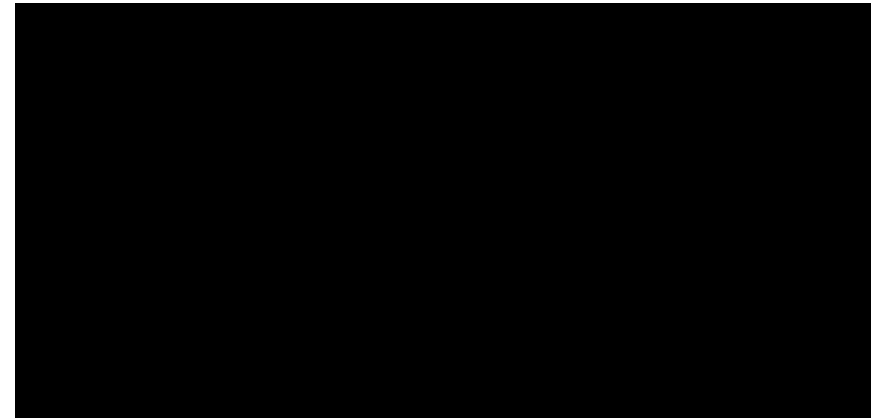
2020 CAPITAL BUDGET

Capital projects > £500,000

£'000

cost b/f 2020 2021 Total

Automation of energy centre cranes
Switch Gears and busbars
Turbine House Set
FGT upgrade
Repeated replacement of Inconel clad
superheater banks
Replacement shredder



2020 CAPITAL BUDGET

2020 Capital Budget

Previously approved in 2019 Budget:

Switch gear and busbars

Turbine house set

FGT upgrade

Others

New projects



2020 BUDGET DETAILED CAPITAL EXPENDITURE

Automation of energy centre cranes

Turbine monitoring and protection

Replacement DeNOx analyser system

Quench bath drive - new inverter drive

Grit hopper down pipe - working platform modifications

New Replacement welded in Isolation Valves/Drains plus purchase of spare set of valves.

Floor repairs - boiler house basement

Cooling Water Systems

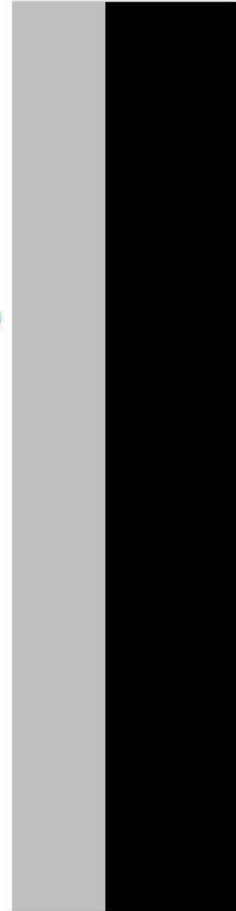
Switch gear and Busbars

Turbine House Set

FGT Upgrade

FGT En-masse densivir system modifications

Total Energy Centre



Container refurbishment

RoRo bins for CA sites/ Hookloaders

Bay 9 Metal Cladding (Modification)
Western Road site redesign - barriers, gates, lining, cameras

Floor repair buliking area Hornsey St
Hopper kerb repairs

Total Waste Operations



2020 BUDGET DETAILED CAPITAL EXPENDITURE

EcoHouse roof repair
Two replacement Bobcats
Sendon hand gritter lorry for salt spread
Refurbish shower facilities
Boiler House roof upgrades
FPP and side road lighting
Replacement weigbridges
replacement barriers
Gate LED Screen
Misc Signage
Canteen Building
Canteen Equipment
2nd Floor Canteen
Gym equipment
Air conditioning for firing aisle
Office upgrades
Total Facilities

Hardware contingency
Software contingency
CCTV
Telephone Upgrade project
Replacement helpdesk software/ IT ope
Disaster Recovery upgrade
Scada server replacement
Web Site Redesign
Cloud layer backup for Veeam (100% DR
Site Message Display Screens
Upgrades to the enviromental monitorir
Two way radio upgrade
Large LED Screen Front gate

TOTAL CAPITAL
EXPENDITURE

Electricity Export Transformers

- A review in conjunction with consultant engineers, Ramboll, of the extended life of the electricity export transformers (EEBT1 and EEBT2) has been undertaken.
- There is a possibility that either or both transformers will require refurbishment during the period of the Budget and Business Plan, however, the timing and extent of this refurbishment is not currently forecastable.
- A planned programme of monitoring is in place and this will highlight deterioration, which will inform any future programme.
- The cost of having to refurbish both transformers is estimated at [REDACTED].
- The requirement is not certain enough to include in the capital expenditure Budget and Business Plan at this stage.
- Should the work be required then it is possible that it would need to be commissioned with a short lead-in time, therefore, NLWA is requested to authorise a ringfenced sum of [REDACTED] should this work be required, with no further authorisation required.

RECOMMENDATION

- Trading under the current main waste contract is an unsustainable position for the Company which could lead to:
 - Auditors refusing to certify accounts on an on-going business basis
 - Suppliers considering the Company a bad trading risk
 - The Pension Scheme covenant continuing to be weak leading to increased financing of the fund
 - Difficulty in attracting new employees
- This budget and business plan proposes increases to the gate fee to ensure a sustainable future. This will allow the Company to:
 - Mitigate cash pressures
 - Offset balance sheet impairment costs
 - Contribute towards offset of redundancy cost.
- The executives recommend this budget, business plan with the proposed gate fee increases for Board approval.

Meeting of the Board of Directors
Thursday 18th July at 12.00
Venue: EcoPark, Advent Way, Edmonton, London N18
3AG

Present

Ms. M. Czulowski, Finance Director & Company Secretary
Mr. J. Kendall, Operations Director
Mr. P. Sharpe, Managing Director
Mr. P. Wynn, Non-Executive Director (Chairman)
Dr. D. Lloyd, Non-Executive Director
Ms. T. Songini, Non-Executive Director
Mr. R. Georgeson, Non-Executive Director
Ms. U. Rottger, Non-Executive Director

██████████ Legal Manager (Minutes)

1. Apologies/Quorum

The meeting was quorate.

2. Declaration of Conflicts of Interest

No Conflicts of Interest were declared.

3. Minutes of the Previous Meeting/Matters Arising

The Minutes from the Board Meeting held on the 20th of June 2019 were considered and approved.

4. Any Other Business

Appointment of ██████████: the appointment was approved on the 18th of July 2019 by the Shareholder (NLWA). ██████████, on behalf of the Board moved to appoint ██████████ to the LEL Board as a Non-Executive Director. ██████████ asked if there if any objections and there were none.

The Board also appointed ██████████ to the Remuneration Committee since the position vacant following the resignation of ██████████.

The Board had a discussion on the Company's modern slavery policy and explained the importance of having such a policy in place. ██████████ advised the Board of recent cases, where companies have been penalised.

██████████ noted the Company had adequate checks and measures in place to ensure compliance and appropriate protection. ██████████ will ensure ██████████ is aware of this.

5. Outstanding actions

1. **Board Effective Review:** the complete set of data will be given to GT (Grant Thornton) by the end of July. It is then expected that GT will meet the Board in September to deliver the results and advise on the effectiveness of the Board.
2. **Circulate to the Board final copy of Ramboll TA2 Root Cause Analysis:** completed.
3. **NLWA 3D model of underground services to be shown to the Board:** completed.
4. **Appointment of new NED:** completed.
5. **Update Board on HAZOP training requirement:** ██████████ updated the Board in his PowerPoint presentation.
6. **Investigate discrepancy between throughput tonnes and boiler hours on load in Operations Board Report:** ██████████ was able to clarify this point to the Chair's satisfaction.

6. HSQE (Health Safety Quality and Environment) Monthly Report (for Noting)

The report was noted and discussed.

██████████ noted the importance of having top management focus on this. ██████████ advised the lead director on H&S is ██████████, as a representative is required in accordance with the UK rules.

The Board discussed the report in further detail and had a discussion on banksmen. ██████████ advised the Company has had this policy of no banksmen for three years. ██████████ noted that the Company must understand what the potential risks and issues are, to ensure no one is injured. ██████████ **noted this and will ensure the areas in question are safe for delivery.**

██████████ advised the Company intends to identify the drivers of a borough waste vehicle who would not move to a safe area when they were asked to, as reported in the HSQE report. If these identities are not obtained, the Company will ban the vehicle/company from site. ██████████ suggested it was worthwhile to remind the council of their obligations in safe working by their staff/contractors when on site. ██████████ **will action this.**

5.2 Hornsey Street – LBI shutting off extractor fans: ██████ raised this issue for discussion and noted that our people cannot be exposed. ██████ confirmed if it happens again, the Company will shut the transfer station and further added that Islington Council are not sharing odour complaints that they are receiving with LEL.

5.5 Fire Systems: ██████ advised there are a number of issues with responsiveness of the current providers and a tender will be issued to appoint another company for fire services. He noted that all the fire extinguishers are active and these are managed by Interserve.

5.7 Environment Agency (EA) communication: ██████ noted that a report has now been sent to the EA.

Appendix 1 – FGT Fire alarm activated following release of lime: ██████ suggested that this should focus on prevention rather than containment.

Body part injured diagrams: The Board noted the importance of increased reporting and the Company will encourage staff to continue to do this.

██████ complimented ██████ on the good work he has done so far and noted the joint site safety tours with contractors are a good enhancement.

7. Priority Issues

7.1) Briefing from Head of HSQE

██████ gave a presentation after a review of the Company's procedures and safety practices and suggested considerations for the future benefit of the Company.

The key points were:

- The Company continues to look for any exemplar companies to improve its processes;
- Self-reporting has continued to be encouraged;
- Safety is our priority;
- The outage processes have greatly improved;
- Mr Kendall praised ██████ (Head of Waste Operations), ██████ (Head of Transport), ██████ (RRC Manager) on their continued solid efforts;
- The lime treatment process is being evaluated to prevent future incidents;

- [REDACTED] suggested for moisture control to be considered as there is too much water in the gas. [REDACTED] advised there are current FGT projects, which have taken priority but said concern will be considered as soon as practicable; and
- Emitags are currently being implemented - these are first-response management and communication tags, which will have the particular employee's health details in case of a health emergency.

The Board discussed MOP (Member of the Public) incidents and how the Company could prevent these from occurring. The answer was in the control of plant, safety alerts, monitoring of the public and balance in the desire to be of assistance by RRC staff. The Company will continue to train operators and be vigilant. Whilst the concern is primarily in regard to safety the Company must ensure that it is properly safeguarded should there be insurance claims arising from these incidents. [REDACTED] advised the Company has processes in place in order to effectively manage these incidents.

The Board was also asked for a benchmark against other RRCs. [REDACTED] **to progress this.**

7.2) Update on NLHPP (North London Heat and Power Project) Programme

[REDACTED] gave a presentation on the NLHPP.

[REDACTED] advised the Transport team will have to go offsite to allow the sewage diversion. Transport's new site's lease is 4 years and will be leased from the London borough of Enfield. It is likely the site will be needed for 10-12 years.

Safety is the key priority for LEL, and costs have been presented to NLWA for consideration with the safest option as the priority. The co-operation has been positive, and NLWA are keen to operate via a sequential approach.

The NLHPP team continues to grow with recent additions of a civil engineer, an administrator, and transfers into the team of expertise in waste operations, [REDACTED], and implementation of new ERF plant, [REDACTED]

Geron Way: The Board discussed potential issues with Geron Way and suggested considerations for mitigating against those issues.

Meridian Water Heat Network (MWHN): There have been no updates from the MWHN since the Company objected to their planning submission.

8. Monthly management reports

8.1) Finance and People (for Noting)

The report was noted and discussed.

██████████ advised the following:

- Losses were attributed to diverting more waste to RDF processors;
- TA2 is due to be up and running by the end of July, the Company will then be at full capacity until September;
- The Company has noted the high labour costs and ██████████ explained the reason for this;
- The Kronos system is to be enhanced to ensure the call-out function is properly set up, which will help allocate overtime requests evenly, leading to a reduction in overtime costs.

- There is a marked improvement in RRC overtime; it is the first time that there has been no overtime. All overtime has reduced with the exception of the Energy Centre;
- The 2018 graduate intake and programme has not achieved the same success as the 2017 intake with only two graduates remaining. **The People team will evaluate this and consider how to improve the success rate for the 2020 intake.**

8.2) Operations (for Noting)

The report was noted and discussed.

██████████ advised the following:

- The recruitment of new RRC teams in December 2018 has been generally very positive;
- A claim has been lodged with Total for the loss of generation resulting from the transformer outage, and further information will be required in order to pursue the claim;
- The new Kinect contract will commence in October. Sales will start to be traded in August via the power purchase agreement, which is currently with Total and will be transferred to Npower in September.

8.3) Central Services (for Noting)

The report was noted and discussed.

There were two FOI requests; one on breaches of health and safety, where the claimant has now made a claim for unfair dismissal. The other one was from an ex-temporary employee.

8.4) Development and Property (for Noting)

The report was noted.

8.5) ERP Project (for Noting)

The report was noted.

9. Dates of Next Meetings

Thursday, 22nd of August 2019 – this date is to be held only.

The next scheduled Board Meeting will be Thursday, 19th of September 2019.

Timings

9:45 – Audit Committee Meeting

12:00 – Board lunch

12:30 - Board Meeting

Time of adjournment: 4:29

Board Minutes Approval

Signature _____
Name _____

Date 19/09/2019.

Meeting of the Board of Directors
Thursday the 19th of September at 12.30
Venue: EcoPark, Advent Way, Edmonton, London N18 3AG

Present

Ms. M. Czulowski, Finance Director & Company Secretary
Mr. J. Kendall, Operations Director
Mr. P. Wynn, Non-Executive Director (Chairman)
Dr. D. Lloyd, Non-Executive Director
Ms. T. Songini, Non-Executive Director
Mr. R. Georgeson, Non-Executive Director

Mr. M. Capstick, NLWA Managing Director (Observer)
[REDACTED] Legal Manager (Minutes)

Apologies

Ms. U. Rottger, Non-Executive Director
Mr. P. Sharpe, Managing Director

1. Apologies/Quorum

The meeting was quorate. Apologies had been received and accepted from Ms Rottger and Mr Sharpe.

2. Declaration of Conflicts of Interest

No Conflicts of Interest were declared.

3. Minutes of the Previous Meeting/Matters Arising

The Minutes from the Board Meeting held on the 18th July 2019 were considered and approved following minor amendments.

4. Any Other Business

Mr. Wynn welcomed Mr. Martin Capstick, the Shareholder's representative to the meeting as an Observer.

[REDACTED] requested the following be minuted; as requested by Elektrobudowa S.A. (Switchgear Supplier), to confirm that [REDACTED] has delegated authority from the Board to sign all commercial contracts in his capacity as Managing Director. After the Board's agreement, [REDACTED] signed the letter, which will be sent to the supplier.

5. Outstanding actions

In [REDACTED] absence, the Board reported on all outstanding actions as the meeting progressed.

6. HSQE (Health Safety Quality and Environment) Monthly Report (for Noting)

[REDACTED] (the Head of HSQE) was not available for questions.

The Report was noted and discussed by the Board.

[REDACTED] advised the report should be condensed and requested for the examples to remain but to ensure the report is more concise.

[REDACTED] highlighted the impressive record of one year without a RIDDOR and commended the efforts of the team's practices and noted that the START safely campaign has been a huge success.

The following questions were asked by Board and answered satisfactorily.

- Safety procedures at the RRC;
- Interface between the lorries and people at the EcoPark;
- Sensitivity alarms in relation to the turbines;
- Asbestos register and other asbestos matters.

[REDACTED] asked for an update regarding the odour control system at Hornsey Street. [REDACTED] **will follow up with Head of Waste Operations to ensure agreed actions have been completed.** [REDACTED] also confirmed that the EA had audited the transfer station and given a positive report regarding odour. LEL has made strong representations to LBI following the unacceptable action taken by a member of their staff in switching off the air conditioning system causing an environmental issue in the transfer station.

[REDACTED] asked if there is a budget cap on 7.6 – Business Continuity and Crisis Management. [REDACTED] **will check this and report back.**

The Board discussed item 7.9 – Out of date document reviews. [REDACTED] [REDACTED] noted the Company is checking and reviewing the documents to ensure that all documents are up to date and relevant. [REDACTED] advised the Company are addressing the change management document process alongside the document review, all of which will be held within the Asset Management Module in ERP. This will also be utilised for the NLHPP project by [REDACTED]

In relation to item 7.11, [REDACTED] advised the START Safely champions are trained on the guiding principles, as are all managers. It is essential that managers are proactive in promoting the guiding principles with their

teams. [REDACTED] noted that this ties back the Guiding Principles to influencing RIDDORs and therefore, has requested for this to be discussed at the next Board meeting. The Board questioned the Lhoist and lime situation given the current incidents. [REDACTED] will update the Board at the next Board meeting.

[REDACTED] requested for an update regarding the pump shaft stick. This is an unsafe operation of the press pump (page 15). [REDACTED] will update the Board at the next Board meeting.

[REDACTED] asked whether all the steps at the RRCs will be painted with the anti-slip paint. **This was confirmed.**

7. Priority Issues

7.1) Proposed 2020 Board meeting dates (for Decision)

These dates were discussed and agreed. [REDACTED] will send the email invites shortly.

23 January
20 February
24 March
23 April (held)
21 May
23 June
23 July
20 August (held)
22 September
22 October
19 November
17 December (held)

8. Monthly management reports

8.1) Finance and People (for Noting)

The report was noted and discussed.

The Board discussed and advised the following:

- The Board is aware that overtime costs in the Energy Centre continue to be higher than expected
- It is pleasing to note that there has been no overtime worked in RRCs for the whole of summer, which is typically the busiest season. The RRC management team are to be congratulated for this achievement.

- On October 1st the Company will launch a monthly Pulse Survey. Every month employees will be asked a simple question: how happy are you working at LEL? Comments can be added, and the employee can request contact by the People team to discuss their response. The purpose of the survey is to register trends over a medium to long term basis.

8.2) Operations (for Noting)

The report was noted and discussed by the Board.

The Board discussed and advised the following:

- ██████████ advised that the Netherlands had introduced an RDF tax of 36 Euros a tonne. This comes in force on 1st January 2020 irrespective of the position on Brexit.
- The replacement house-set is now expected to pass factory acceptance tests and be shipped from India at the beginning of December 2019.

8.3) Central Services (for Noting)

The report was noted.

8.4) Development and Property (for Noting)

The report was noted.

8.5) ERP Project (for Noting)

The report was noted.

██████████ reported the following:

- EAM: end-to-end testing continues to progress
- It is now possible to raise work orders, allocate skills to a job from employees available on site and progress work orders. All engineers are working on tablets to raise and progress works orders. Engineering management verify works schedules and allocation of employees to tasks in real time. This is an exponential change in the management of maintenance operations.
- Testing continues with a potential the go-live date of either 1st of October or the end of October depending on test results and operational readiness.

9. Dates of Next Meetings

Thursday 31st October at 10:00am



Timings

10:00 Board Meeting: Company Strategy, 2020 Budget and 2021-2025
Business Plan

12:00 Board lunch

12:30 Board Meeting

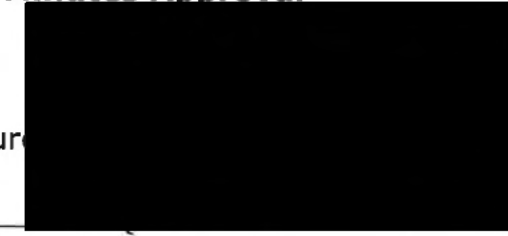
Time of adjournment: 4:29

Board Minutes Approval

Signature

Name

Date



31/10/2019

