Information contained in this report is exempt because it falls within Category 3 of Schedule 12A Local Government Act 1972 (as amended). The Proper Officer has considered all the circumstances of the report and is of the view that on balance the public interest in maintaining the exemption outweighs the public interest in disclosing the information. 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:** 13 February 2020 |
| **SUMMARY OF REPORT:**<br><br>This provides a regular report on the Governance of LondonEnergy Ltd |
| **RECOMMENDATIONS:**<br>The Authority is recommended to:<br><br>A. note the comments on the Company's performance and activities<br>B. note the report for the quarter ending 31 December 2019 on the Company's activities at Appendix A. |
| **SIGNED:** Martin Capstick ............ **Managing Director**<br>**DATE:** 3 February 2020 |

## 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 September 2019 to 31 December 2019 is at Appendix A.

2.2. The position compared with budget is complicated by the division of payments under the insurance claim between 2018 and 2019. LEL had not expected to receive payments in 2018 but in fact received a payment of [redacted] in December 2018. This was reflected in the 2018 financial results for the company and resulted in an equivalent reduction in 2019 performance compared with forecasts for the 2019 year. In the September to December quarter of 2019 LEL accrued an insurance claim of [redacted].

2.3. The financial performance reported reflects the full year management accounts. There may be adjustment to this position due to year end accounting transactions.

2.4. Excluding the insurance repayment, the Company's operational result is a profit in the quarter of [redacted] against a budgeted loss of [redacted] and a full year loss of [redacted] against a budgeted loss of [redacted].

2.5. In the final quarter of the year (excluding the insurance repayment), revenue was better than budget by [redacted] (8.0%), disposal costs were worse than budget by [redacted] (44.0%), direct operating costs excluding depreciation were worse than budget by [redacted] (0.04%) and overheads were [redacted] (27.3%) worse than budget.

2.6. The improved revenue position of [redacted] was due to additional waste tonnages from Hendon, main waste contract and third parties being treated, partially offset by lower revenues form Hertfordshire and metal recovery.

2.7. Direct operational costs of [redacted] in the quarter were driven by high disposal costs, including the additional waste tonnages from Hendon, which were [redacted] adverse to budget. These were affected because the turbine damaged in 2018 (referred to as TA2) was not returned to service until November and a lower operational throughput in the quarter than expected.

2.8. Overhead costs include NLHPP costs incurred by LEL and costs associated with the private wire contract, both of which are recovered, with the income being accounted for in operational revenue. The overhead costs for the quarter also include [redacted] in support of the defined benefit pension scheme deficit reduction plan following the 2019 revaluation.

2.9. The profit and loss account for the quarter and year to date is set out in the following table:

| | **October to December 2019** | | | **FULL YEAR 2019** | | |
|---|---|---|---|---|---|---|
| | **Actual £000's** | **Budget £000's** | **Variance £000's** | **Actual £000's** | **Budget £000's** | **Variance £000's** |
| Revenue | [redacted] | | | | | |
| Disposal costs | | | | | | |
| Direct costs | | | | | | |
| Overheads | | | | | | |
| **Loss before depreciation interest & tax** | | | | | | |
| Depreciation | | | | | | |
| Interest | | | | | | |
| **Operating Loss** | | | | | | |
| Insurance Claim | | | | | | |
| **Profit/Loss before tax** | | | | | | |

2.9.1. 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 scheduled until May 2020.

2.9.2. The new house set (standby turbine) has also been delayed due to the control and safety systems not being complete and ready for factory acceptance testing. It is not now expected to be shipped until February 2020 with the installation programme being complete by end of June 2020.

2.9.3. 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 [redacted] in December 2018 and [redacted] in April 2019. A further interim payment of [redacted] was agreed in October 2019. The Company has now submitted its final claim.

2.9.4. The full year results assume recovery of the product damage claim in full and 70% of the business interruption claim. This means that the business currently bears [redacted] of the loss, in addition to the [redacted] of insurance excess.

## 3. 2020 INSURANCE

3.1. The Company's insurance was renewed as at 31 December 2019. The market review undertaken by the Company's broker, WillisTowerWatson, indicated that the number of insurers prepared to take risk in insuring EfW plants continues to decrease. In addition to the adverse market, the age of the plant was cited as a significant factor.

3.2. This is the second year that property damage and business interruption insurance have not been able to be fully secured. [redacted]

[redacted] [redacted]

[redacted] [redacted]

[redacted] [redacted]

[redacted] [redacted]

[redacted] [redacted]

[redacted] [redacted]

3.3. The Company continues to review mitigation measures to the risk associated with the insurance position through a range of financial actions. These include:

3.3.1. Continuing to build up a cash reserve in the Company to mitigate for business interruption 90-day deductible. The aim is to have a reserve of [redacted] by December 2022.

3.3.2. Reviewing the case for moving to catastrophic insurance cover – under such an arrangement the Company would self-insure for lower cost events (replacing the current insurance levels) but insure for major costs.

3.3.3. Reviewing the opportunity to self-insure with the insurance fund being held in a captive investment vehicle. This could involve the fund being held UK offshore, though the scope for a UK based captive will also be explored. The fund would be administered by the insurance broker.

3.4. The Company intend to complete these reviews and propose their recommendations to the Authority by September 2020, so as to provide a way forward for insurance from 2021 onwards.

**4. 2020 BUDGET AND 2021-2025 BUSINESS PLAN**

4.1. In December 2019, the Authority approved the Budget for 2020, which included an increase in the gate fee for Hendon derived tonnages treated at the EcoPark to [redacted].

4.2. It was also agreed at the Authority meeting that at the Members Finance Working Group in January 2020,

4.2.1. LEL would provide a revised proposal which had an annual profit before tax outcome of £1million to £1.5million.

4.2.2. NLWA officers would provide the impact of the revised proposals on the Levy.

4.3. These actions were met,

4.3.1. The Company proposed that from January 1st 2022 the gate fee be increased to [redacted] at January 2020 prices, with a further additional [redacted] charged from 1st January 2024. The additional charge would be subject to review in advance of its introduction. In addition to the [redacted] gate fee, LEL would expect NLWA to take on a cost equivalent to landfill tax for NLWA-produced tonnage which could not be disposed of at the EcoPark, this would represent a further cost to NLWA of approximately a further £3m per year

4.4. On the basis of “business as usual” assumptions, this increase would yield the following results:

| | 2021 £000 | 2022 £000 | 2023 £000 | 2024 £000 | 2025 £000 |
|---|---|---|---|---|---|
| Revenue | [redacted] | | | | |
| Profit before Tax | | | | | |
| PBITDA | | | | | |
| Cash | | | | | |

4.5. The Members Finance Working Group noted this proposal. Officers will make recommendations on future gate fees to the Authority meeting in June, including uses of cash balances which would be generated in the company.

## 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 thirty compliments and two complaints in the quarter. The compliments relate the helpfulness and knowledge of staff and tidiness and cleanliness of the recycling and re-use centres. In the first complaint a member of the public stated that another member of the public was mis-using the site and that the site staff were not intervening to prevent this. This was thoroughly investigated, and staff were found to have acted appropriately. In the second complaint a tradesperson complained about being refused entry to unload a van, and after having had the site rules explained, blocked access to the site. The second complaint was also copied to the Authority chair. The company review concluded that site rules were correctly applied, but there was learning from the case which would be shared with all sites and staff.

## 7. LONDONENERGY LTD BOARD

7.1. The following directors served during the fourth 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)

**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 A.

**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.

**Contact officer:**

Martin Capstick
Managing Director
North London Waste Authority
Berol House, Unit 1b
25 Ashley Road
Tottenham
London
N17 9LJ

Tel: 020 8489 5730
E-mail: post@nlwa.gov.uk

## APPENDIX A: QUARTERLY REPORT TO NORTH LONDON WASTE AUTHORITY

LondonEnergy
Powering the Circular Economy

# Quarterly Report to North London Waste Authority

# Quarter ended December 2019

**LondonEnergy Limited**

**Quarterly Report to North London Waste Authority**

**Quarter ended December 2019**

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## APPENDIX A

Signed Board Minutes – Quarter 4 2019

# 1 **EXECUTIVE SUMMARY**

## 1.1. Overview of the Fourth Quarter

Financially, the Company's operational performance in the fourth quarter of 2019 is below budget, with an operational loss of [redacted], against a budgeted loss of [redacted] and a full year loss of [redacted] against a budgeted loss of [redacted].

The Company made a profit before tax of [redacted] in the quarter as a result of submitting claims to the insurers relating to TA2. The full year net loss is [redacted] against a budgeted net loss of [redacted]. The budgeted loss anticipated an insurance payment in the year of [redacted], however, [redacted] was paid and accounted for in the 2018 financial year.

Revenue in the quarter was better than budget by [redacted] (8.0%), direct operational costs (excluding depreciation) were worse than budget by [redacted] (13.2%) and overheads were [redacted] (27.3%) 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 payment was agreed in October for [redacted].

### Post Quarter Events

The financial performance reported is based on the full year management accounts. There may be adjustments to these results as a result of year end accounting transactions.

### TA2 Insurance Claim

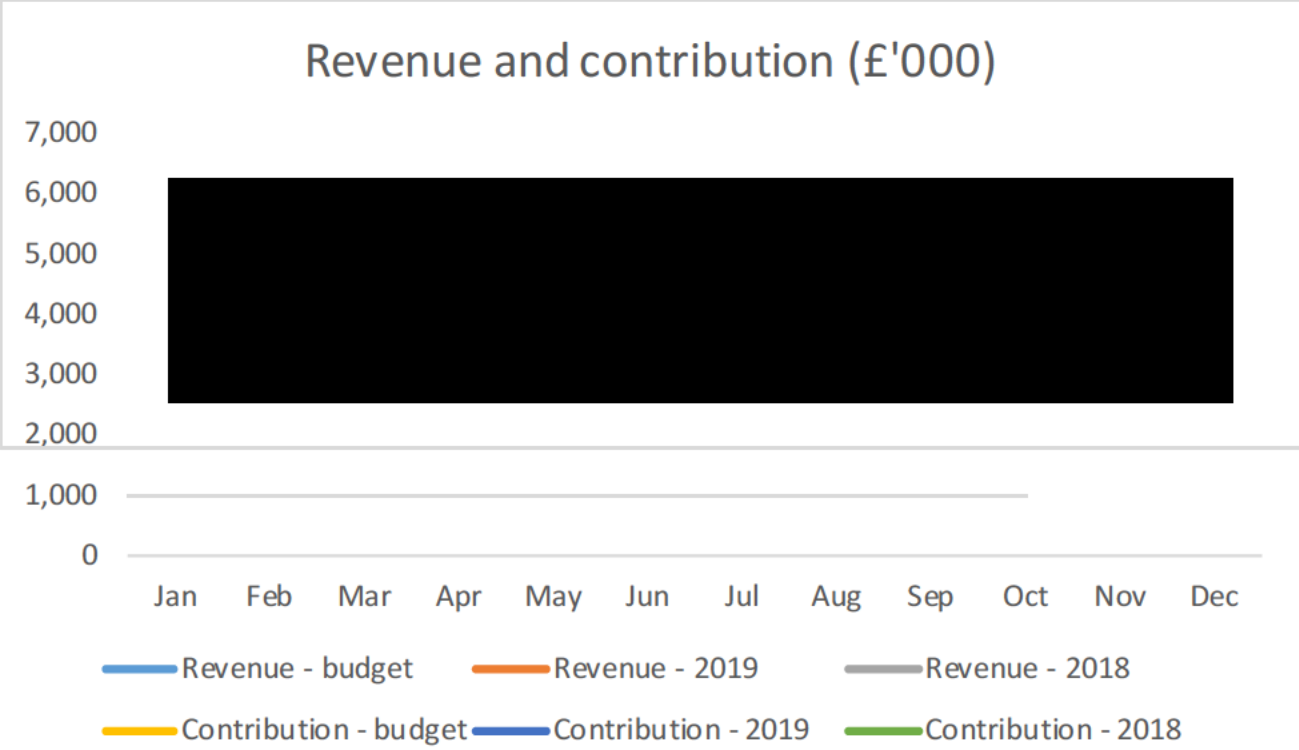
Insurance claims for business interruption and product damage continue to be processed. The 18-month period for claiming for business interruption has now been reached and no further claims will be made for this.

A final claim for business interruption loss has been made by the Company and is currently being assessed by Zurich. In the financial accounts the Company has recognised the expected payment of the property damage claim in full and the business interruption claim at 70% of the value of the claim.

1.2. Key Year to Date Financial Indicators

| | October to December 2019 | | | FULL YEAR 2019 | | |
|---|---|---|---|---|---|---|
| | Actual £000's | Budget £000's | Variance £000's | Actual £000's | Budget £000's | Variance £000's |
| Revenue<br>Disposal costs<br>Direct costs<br>Overheads | [redacted] | | | | | |
| **Loss before depreciation interest & tax** | | | | | | |
| Depreciation<br>Interest | | | | | | |
| **Operating Loss** | | | | | | |
| Insurance Claim | | | | | | |
| **Profit/Loss before tax** | | | | | | |

## **Year to Date Financial Indicators**




NB: Revenue includes insurance claim receipts.

Key Events/Activities/Performance Issues

## Turbine Incident

The budget was compiled with the expectation that TA2 would be back in service by June 2019, however, the turbine was actually brought back into service on November 8th 2019. The delay had a significant impact on the Company's financial performance against budget in the second half of the year.

## Operational Activity

The fourth quarter of the year has been disappointing in terms of waste throughput and generated and exported electricity with most of the key indicators worse than budget.

Whilst boiler availability for the quarter was 88.5% compared to the budget of 88.2% the waste throughput was 127,417 tonnes versus a budget of 134,869, a negative variance of 7,452 tonnes. This was primarily due to the lower than budgeted throughput rate of 12.93 tonnes per hour against a budget of 13.85 tonnes per hour. This lower throughput reflects the delay in bringing TA2 into service together with boiler loads being reduced on several occasions due to poor quality waste which resulted in incomplete combustion. This also led to a higher than budgeted reject rate (unburnt stock) . The root cause is believed to be wet waste. In addition, high levels of oversized metal in the waste caused a significant number of blockages which also resulted in unplanned outages and unburnt waste.

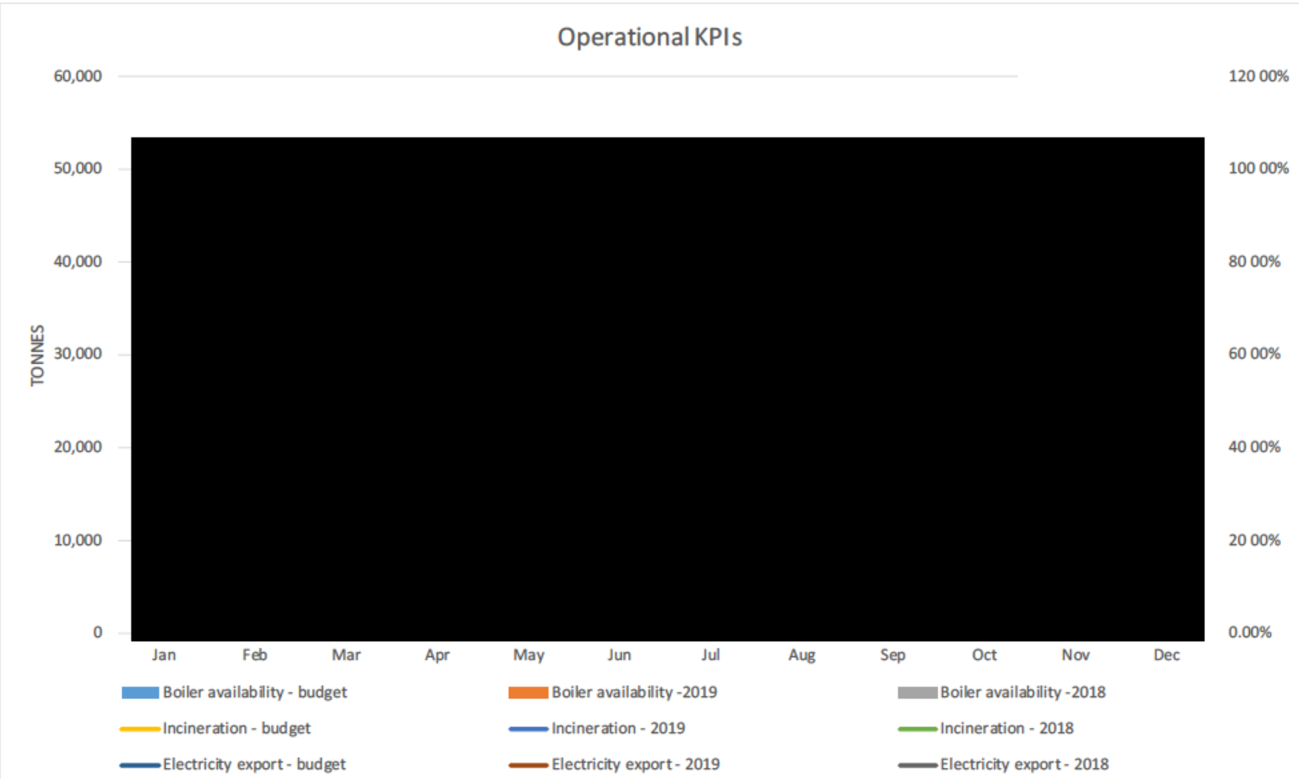
Electricity export was impacted by the lower incineration with 58,333MWhrs versus a budget of 60,671MWhrs, a negative variance of 2,338MWhrs.

3,446 tonnes of waste has been sent to landfill or to RDF facilities in the fourth quarter.

The main operating indicators for the quarter are:

| | Results Q4 2019 | Variance to Budget (+/better -/worse) |
|---|---|---|
| Boiler Availability | 88.5% | 0.3% |
| Throughput | 12.93 tonnes/hr | -0.92% |
| Incineration | 127,417 tonnes | -5.5% |
| Electricity Generated | 67,862 MWh | -4.7% |
| Electricity Exported | 58,333 MWh | -3.8% |
| Disposal | 3,446 tonnes | -3,408 tonnes |
| Total tonnage received | 189,056 tonnes | +3.1% |

## Year to Date Operational Indicators



| | Oct to Dec 2019 | | Oct to Dec 2018 |
|---|---|---|---|
| | **Actual** | **Budget** | **Actual** |
| Total tonnes handled | **189,056** | **183,303** | **184,831** |
| Incinerated | 127,417 | 134,869 | 117,822 |
| Disposal | 3,446 | 38 | 6,124 |
| Recycled/recovered | 58,193 | 48,396 | 60,885 |
| Total | **189,056** | **183,303** | **184,831** |
| Percentage Diverted from landfill | 98.2% | 99.9% | 96.7% |

## 2. OPERATIONS

### 2.1 Commercial and Operational Developments

Capacity Market auctions

LEL was successful in its pre-qualification application for the two current auctions being run by National Grid in their role as Electricity Market Reform (EMR) Delivery Body. The auctions were:

- 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

Electricity Contract – Kinect

Kinect traded in accordance with the agreed strategy.

Procurement

Procurement is as set out in the business plan.

RRCs

The RRC recycling rate for the quarter was 76.5% 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.

The Company was awarded FORS Gold Accreditation in December 2019.

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 throughout the quarter.

in October. There was a dust breach which happened during routine maintenance of equipment.

High CO and TOC levels due to incomplete combustion of wet and decomposing waste were reported in October and November.

In November and December there were elevated levels of HCL as a result of lime spillages.

In December there was a breach due to smoke being released into the atmosphere when a door was not properly closed in the FGT plant.

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

2.3 Post Quarter Events

There are no post quarter events to report.

New Turbine

In November and in January LEL engineering team attended 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. However, on both occasions the systems were not in a complete state and could not be tested. Given this delay, it is now expected that the turbine will not be shipped until February 2020.

### 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

There are no staffing issues.

## FINANCE

### 3.1 Quarterly Management Accounts

Financially, the Company's operational performance in the fourth quarter of 2019 is below budget, with an operational loss of [redacted], against a budgeted loss of [redacted] and a full year loss of [redacted] against a budgeted loss of [redacted].

The Company made a profit before tax of [redacted] in the quarter as a result of submitting claims to the insurers relating to TA2. The full year net loss is [redacted] against a budgeted net loss of [redacted]. The budget anticipated an insurance payment in the year of [redacted], however, [redacted] was paid and accounted for in the 2018 financial year.

Revenue in the quarter was better than budget by [redacted] (8.0%), direct operational costs (excluding depreciation) were worse than budget by [redacted] (13.2%) and overheads were [redacted] (27.3%) 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 worse than budgeted throughput performance.

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 payment was agreed in October for [redacted].

The financial performance reported is based on the full year management accounts. There may be adjustments to these results as a result of year end accounting transactions.

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. In the 2019 financial accounts the Company has recognised the expected payment of the property damage claim in full and the business interruption claim at 70% of the value of the claim.

The total insurance claim related to TA2 is [redacted], of which [redacted] is against product damage cover and [redacted] is against business interruption cover. The Company must absorb the first 45 days of business interruption loss, which totals [redacted], which is not included in the costs claimed. To date the Company has received interim payments of [redacted] against the claim.

Key Year to Date Financial Indicators

| | October to December 2019 | | | FULL YEAR 2019 | | |
|---|---|---|---|---|---|---|
| | Actual £000's | Budget £000's | Variance £000's | Actual £000's | Budget £000's | Variance £000's |
| Revenue<br>Disposal costs<br>Direct costs<br>Overheads | [redacted] | | | | | |
| **Loss before depreciation interest & tax** | | | | | | |
| Depreciation<br>Interest | | | | | | |
| **Operating Loss** | | | | | | |
| Insurance Claim | | | | | | |
| **Profit/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 main drivers of improvement were higher than budgeted revenues from Hendon, NLWA main waste contract and third party revenues, partially offset by lower Hertfordshire and metal revenues

**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.

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. This includes charges for NLHPP costs, which are also included in revenue and an additional charge of [redacted] in accordance with the funding of the defined benefit pension scheme deficit reduction plan.

<u>Balance Sheet</u>

Fixed assets

There was a net decrease 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 decreased by [redacted], reflecting the timing of payments for electricity generation. Group receivables increased by [redacted]. Prepayments increased by [redacted] in the quarter, reflecting the accrued income relating to the insurance claim.

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].

<u>Cash Flow</u>

Net cash outflow in the quarter was [redacted] against a budgeted outflow of [redacted], a decrease 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. 23% of third party debtors was not yet due and a further 64% 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 31st December 2019 LondonEnergy employed 328 employees compared to the budget of 338.

Sickness Absence

Absence has averaged 3.56% in the quarter, against a budget of 3% and prior year experience of 2.38%. The results mainly reflect an increase in the level of long term sickness, which is at 1.45% (Prior year: 0.92%).

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 – 2025 Budget and Business Plan

In December 2019, the Authority approved the Budget for 2020, which included an increase in the gate fee for Hendon derived tonnages treated at the EcoPark to [redacted], at January 1st 2020 prices.

It was also agreed at the Authority meeting that LEL would:

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.

These actions were met, and the Members Finance Working Group will advise the Authority of their recommendations.

## 4 SHAREHOLDER MATTERS

4.1 Number and names of directors in period

The following directors served during the fourth 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)

4.2 Director attendance at Board meetings

There have been three board meetings during the quarter and the following table indicates the attendance of individual directors. Mr Capstick attended the meetings as an Observer.

| Director | 31st October | 21st November | 19th December |
|---|---|---|---|
| Paul Wynn | Present | Present | Present |
| Ray Georgeson | Present | Present | Present |
| Don Lloyd | Absent | Present | Present |
| Tania Songini | Present | Present | Present |
| Ulla Rottger | Present | Present | Present |
| Peter Sharpe | Present | Present | Present |
| Mary Czulowski | Present | Present | Present |
| Jim Kendall | Present | Present | Present |
| Martin Capstick (Observer) | Present | Present | 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 2019.

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 market review undertaken by the Company's broker, Willis Tower Watson, indicated that the number of insurers prepared to take risk in insuring EfW plants continues to decrease.

In addition to the adverse market, the age of the plant was cited as a significant factor.

This is the second year that property damage and business interruption insurance have not been able to be fully secured.

[redacted]

[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.

The Company will continue to take measures to attempt to mitigate its risk through:

Continuing to build up a cash reserve in the Company to mitigate for business interruption 90 day deductible, with an aim to have a reserve of [redacted] by December 2022.
Reviewing catastrophic insurance cover whereby the Company self-insures for lower cost events (replacing the current insurance levels) but insures for major costs.
Reviewing the opportunity to self-insure with the insurance fund being held in a captive investment vehicle. This involves the fund being held UK offshore, giving a tax timing advantage for the period that the fund is not used. The fund would be administered by the insurance broker.

The Company intend to complete these reviews and propose their recommendations to the Authority by September 2020.

### 4.7 Insurance Claims and Incidents

There have been no insurance claims against the Company in the quarter.

LEL Claim for Business Interruption and Engineering Damage

The Company has submitted its claim for Business Interruption and Property Damage resulting from the TA2 incident.

Whilst the Property Damage claim has not yet been formally confirmed, it is expected that this will be paid in full and an accrual of [redacted] has been made in the financial accounts.

The BI claim has been rejected at the total claim level, in the main because the insurer's forensic accountants disagree with daily steam flow used for the calculation of loss. The insurer has made an offer of 70% of the claim, [redacted] less than has been claimed. This offer has been rejected by the Company but has been accrued in the financial statements. The Company and its advisors, Willis, continue to have dialogue with the insurer and their advisors.

To date, the insurers have made interim payments against the claim of [redacted], [redacted] in respect of the business interruption claim and [redacted] in respect of product damage. [redacted] of this was received and accounted for in 2018.

The Company has also absorbed business interruption costs of [redacted] incurred in the 45 day waiting period.

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

Partnerships & Initiatives

LEL has attended three university job fairs this semester and continue to build key partnerships with four universities, Sheffield, Hertfordshire, Brunel and Imperial, to develop a pipeline of engineering candidates.

A partner has also been identified to provide the Apprenticeship Scheme for our Transport Department. The aim will be to recruit either externally, people who want to be trained to become drivers and internal employees who want to have a new career opportunity in a different role. This initiative will also be fully funded by the Apprenticeship Levy.

Two sessions were attended with charities who work for the rehabilitation of ex-offenders and young people with difficult backgrounds. Princes Trust and Second Chance are identified as key partners to the Company in recruitment. Second chance is a charity dedicated for women ex-offenders.