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Exempt Information Category 1 – Information relating to an individual: the reasons why the public interest favours withholding the information are that the release of such information would include information about a specific individual and could lead to speculation about the position of other individuals.

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.

Exempt Information Category 5 - Information in respect of which there is a claim to legal professional privilege: the reasons why the public interest favours withholding the information are that the release of such information could prejudice the safeguarding of openness in all communications between client and lawyer and the Authority's ability to ensure access to full and frank legal advice.

NORTH LONDON WASTE AUTHORITY
REPORT TITLE: REVIEW OF RELATIONSHIP WITH LONDONENERGY LTD
REPORT OF: CLERK
FOR SUBMISSION TO: AUTHORITY MEETING
DATE: 3 DECEMBER 2020
SUMMARY OF REPORT: This paper reports on work done to review the relationship between the Authority and LondonEnergy Ltd (wholly owned by the Authority) to maximise collaboration. It reports on

recent developments and proposes a way forward to set the direction for stronger coordination between the Authority and LondonEnergy Ltd.

RECOMMENDATIONS:

The Authority is recommended to:

- A. Note the report provided at Appendix A
- B. Note developments since the report was commissioned, described in section 3
- C. Consider the proposed early actions to take forward matters identified in the review and
- D. Note the proposed approach to appointment of directors and delegate to the managing director, in consultation with the chair and vice chairs, authority to make appointments to the LEL Board

SIGNED: Clerk

DATE: 23 November 2020

1. INTRODUCTION

- 1.1. At the Authority meeting in June 2020, Members noted that important milestones were being reached on the North London Heat and Power Project (NLHPP). These were the letting of the contract for major new facilities in the south of the EcoPark and the launch of the tendering process for the new energy recovery facility. Members agreed that this was the right time to examine the structures in place for delivery between NLWA and LondonEnergy Ltd (LEL), especially as several years have passed since the shareholder agreement was last reviewed. Members agreed that a review should be commissioned, bringing an external perspective. It was agreed that responsibility for the terms of reference and oversight of the process should be delegated to the Clerk, in consultation with the Chair and Vice Chairs. It was also agreed that the results of the review and recommended actions should be reported to the Authority.

2. CARRYING OUT OF THE REVIEW

- 2.1. EY was appointed to undertake the review. They brought an independent perspective to the operation of the relationship between NLWA and LEL. Their report is attached at appendix A, including a description of the scope of their work on page 12. Pages 37 and 38 of the EY report set out the information which was provided to EY and the names of those who were interviewed, including NLWA Members and LEL board members.
- 2.2. The report identifies that there are three common themes to successful parent/subsidiary relationships. These are:
- 2.2.1. The role and expectation of the subsidiary, with regard to the owning organisation is clearly understood by both parties
 - 2.2.2. The parent-subsidiary relationship is aligned by strategy, giving consideration to the actual and required capabilities of the subsidiary.
 - 2.2.3. Control and coordination systems are in place, and adhered to, with review points to enable continuous improvement.

On a day to day basis, this requires effective coordination, delegation and communication within, and between, the two parties.

- 2.3. The report makes a series of observations which need to be addressed to ensure the relationship operates effectively. The report goes on to say that the relationship hierarchy is clear, with NLWA as parent and LEL as subsidiary. However, it appears that current operating practices have impacted the degree to which NLWA is able to inform and influence LEL over its expectations, both in its role as customer and as sole shareholder. While the consultations identified a

number of positive and value enhancing activities of the parties, they also identified considerable tension between the organisations.

- 2.4. The report outlines that, as the shareholder, the responsibility should lie with the Authority for setting more directly and specifically the terms of the relationship. It also highlighted that the relationship needed to be more joined up at all levels.
- 2.5. The review contains eight recommendations which are as follows:
 - 2.5.1. Recommendation 1: There should be the development of a Responsibility, Accountability, Consult and Inform (“RACI”) Model to provide clarity on roles of both parties from the various perspectives required - shareholder, customer, parent body, limited company, service provider and subsidiary
 - 2.5.2. Recommendation 2: Consideration should be given to the composition of LEL’s board to meet the desired balance between control and commercial freedom
 - 2.5.3. Recommendation 3: There should be redevelopment of elements of core corporate documentation including Terms of Reference and Shareholder Agreement
 - 2.5.4. Recommendation 4: There is a need for an effective strategic development process, that provides clarity on the process of developing LEL’s strategy in line with the strategic requirements of NLWA and the means through which it is properly engaged with and constructively reviewed.
 - 2.5.5. Recommendation 5: The establishment of a structured framework of strategic interactions between both parties
 - 2.5.6. Recommendation 6: Improved engagement established with Member Boroughs, presenting a more united front between NLWA and LEL.
 - 2.5.7. Recommendation 7: There needs to be improved business dialogue, founded upon an harmonious approach to mutual tasks and challenges
 - 2.5.8. Recommendation 8: The establishment of a shared decision making protocol, including Programme Boards, dispute resolution process and a collaborative approach to risk management

3. DEVELOPMENTS WHILE THE REVIEW HAS BEEN UNDER WAY

- 3.1. The report has been shared in draft with LEL.
- 3.2. An announcement has recently been made to LEL staff by the company Board: “It is with regret that we announce that after five and half years as Managing Director of LondonEnergy Ltd, Peter Sharpe has decided to announce his departure from the

Company. During his time with LondonEnergy Peter has led the transformation of the Company to a modern waste management company delivering high quality services to North London Waste Authority. Peter has developed and led a dedicated and talented team who have and will continue to play an integral role in the successful every day running of the Company. Peter leaves LondonEnergy in an excellent position to make the necessary changes to successfully support the delivery of NLWA's sector-leading North London Heat and Power Project and to play a leading role in London's green, sustainable future. NLWA and the Board of LondonEnergy sincerely thank Peter for his contribution and leadership during his tenure as Managing Director. We wish him every success for his future."

- 3.3. Peter Sharpe will leave LEL at the end of November 2020. The chair and vice chairs are liaising with the chair of the LEL Board to agree arrangements for interim leadership of the company pending appointment of a new permanent managing director. A key personal priority for the interim managing director will be that they will be expected to work closely with NLWA officers to take forward work on increasing coordination and collaboration between organisations. An update on the LEL leadership will be provided at the Authority meeting.

4. FOLLOWING UP THE REVIEW

- 4.1. The review identifies issues which need prompt attention to ensure practical alignment between LEL and NLWA and a focus on the priorities set by the Authority. Implementing these recommendations could facilitate options for further reform in the longer term. However, at this stage the priority is to make rapid progress towards building a stronger partnership, delivering the outcomes wanted by the Authority.
- 4.2. It is recommended that there should be quick action to refresh the governance. It will then be for the management teams of the organisations to lead the development of more integrated working arrangements with commonality of purpose.
- 4.3. The proposed initial actions for consideration by the Authority are:
 - 4.3.1. The Authority as shareholder has the ability to appoint directors to the LEL board. The non-executive members of the LEL board currently comprise people with strong backgrounds in safety, finance and the waste sector. Officers consider that further board members should be appointed with experience of matters such as customer requirements. This could comprise a mix of councillors and officers. The board should retain some key professional expertise so that company executives receive the fullest level of support and challenge to provide safe and efficient services. It is recommended that proposals for appointments and consequent changes to the existing board should be considered by the managing director in

consultation with the chair and vice chairs and with Authority advisers and that the managing director should have delegated authority, following this consultation, to make appointments and changes to the LEL board. LEL currently has eight directors. The company's articles of association specify that nine is currently the maximum number. An increase above that number would involve a resolution to set a new limit.

4.3.2. The Authority managing director and the interim LEL managing director should establish new ways of working.

4.4. Following this, further actions will be brought forward for consideration to the February Authority meeting. These will include the establishment of more structured governance documentation to clarify the responsibilities of parent and subsidiary.

4.5. Further action will also take account of points raised by Members in this meeting so that the follow up to the review meets the Authority's needs as sole shareholder in LEL.

5. EQUALITIES IMPLICATIONS

5.1. The aim of the review is to provide greater coherence between the activities of LEL and the Authority and in so doing provide a stronger customer service to boroughs and residents of north London. This should benefit all communities.

5.2. Permanent appointments in LEL, as in NLWA, are subject to fair and open competition, encouraging applications from all sections of the community, irrespective of age, disability, sex, gender identity and expression, pregnancy, maternity, race (which includes colour, nationality and ethnic or national origins), sexual orientation, religion or belief, or because someone is married or in a civil partnership.

6. COMMENTS OF THE LEGAL ADVISER

[Redacted]

7. COMMENTS OF THE FINANCIAL ADVISER

7.1. The Financial Adviser has been consulted during the preparation of this report and all comments have been incorporated.

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**APPENDIX A EY REPORT OF A REVIEW OF THE RELATIONSHIP AND GOVERNANCE
ARRANGEMENTS BETWEEN NORTH LONDON WASTE AUTHORITY AND
LONDONENERGY LTD**

[Redacted]