

NORTH LONDON WASTE AUTHORITY

REPORT TITLE: GOVERNANCE OF LONDONENERGY LTD

REPORT OF: MANAGING DIRECTOR

FOR SUBMISSION TO: AUTHORITY MEETING

DATE: 14 DECEMBER 2023

SUMMARY OF REPORT:

This provides a regular report on the Governance of LondonEnergy Ltd. The Authority is the 100% shareholder of the company. This report covers the company's performance from July to September 2023. It also includes the company's proposed budget for its financial year 1 January 2024 to 31 December 2024, for which Authority approval is required under the shareholder agreement. The report also updates on the position on board appointments.

RECOMMENDATIONS:

The Authority is recommended to:

- A. Note the comments on the company's performance and activities
- B. Approve the company budget for the year 2024
- C. Agree the approach set out in section 7 to formal reappointment of board members appointed in January 2021

SIGNED:  Managing Director

DATE: 4 December 2023

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 update Members on the governance of the company and its financial performance.
- 1.2. The Authority is the 100% shareholder of LEL. The Authority's officers manage a close relationship with LEL, providing both challenge and support, and ensuring both organisations act in alignment to deliver sustainable waste disposal services. The LEL executives and board have the key responsibility to deliver their services and to operate in a safe, sustainable and cost-effective manner.

2. QUARTERLY REPORTS

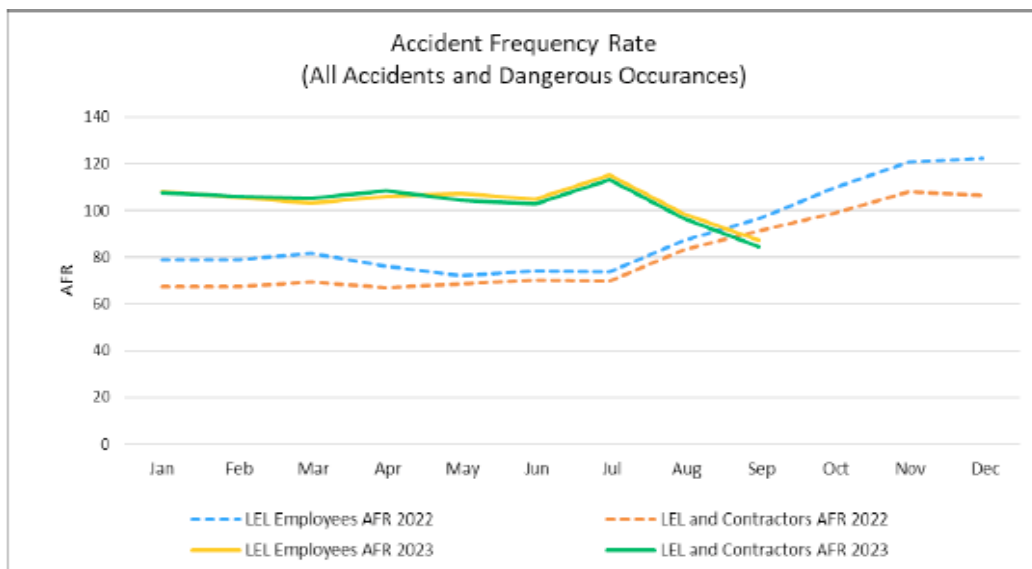
- 2.1. LEL provides quarterly reports to the Authority covering the main operational issues experienced. This report covering the third quarter of 2023 is at Appendix A.
- 2.2. Plant availability at the existing Energy from Waste (EfW) plant during Quarter (Q) 3 was 88%, compared with a planned plant availability of 95%. 108,000 tonnes of waste were incinerated, and 53,900 MWh of electricity generated. The lower availability meant that approximately 8,500 tonnes of waste which would have been treated in north London was instead sent for processing at alternative energy from waste facilities. Availability at the energy centre was impacted by periods of both planned and unplanned maintenance.
- 2.3. The percentage of materials collected at reuse and recycling centres which was recycled averaged 76.6% in Q3 which, although an excellent performance, was slightly down on the previous period (it was 78% in Q2). Mattress recycling continues, and this quarter saw the addition of hard plastic recycling at three of the larger RRCs, further widening the range of materials which members of the public can recycle.

3. CAPITAL PROJECTS

- 3.1. The reserve turbine, Turbine 5, was commissioned and successfully handed over to LEL in Q1. It has been in service as and when required whilst Turbine 4 has been overhauled. The Turbine 4 overhaul is expected to be completed in Q4. The use of the spare turbine helped to ensure that plant availability was not more severely affected in the quarter as, unlike in modern plants, the boilers at the EfW plant cannot operate in the LEL plant without a related turbine.
- 3.2. The installation of the new conveying systems on the flue gas treatment plant are working well, with the aim of reducing blockages. Works on the final gas stream to be updated were completed in the period.

4. HEALTH AND SAFETY

- 4.1. The board of LEL is legally responsible for health and safety matters and closely monitors the company's performance.
- 4.2. Regrettably the waste sector has a high injury rate, and it is important to the company and the Authority as shareholder that LEL seeks to perform contrary to this trend.
- 4.3. LEL's performance is shown in the graph below, displayed in terms of an Accident Frequency Rate (AFR). The AFR for accidents and dangerous occurrences peaked in December 2022. As can be seen from the graph below, the accident frequency rate (relating accidents recorded to hours worked) showed a strong downward trend during the reporting period and is now lower than it was during the same period in 2022. This reflects a sustained focus of the company and new training on "life saving rules" which was referenced in the report to the October Authority meeting.



5. PUBLIC RELATIONS

- 5.1. There were five compliments and four complaints, for the third quarter 2023. The compliments related to RRC sites, and were for good housekeeping, helpful staff and the great initiative of the DIY reuse scheme. The complaints related to a refusal of entry to the public for safety reasons while a bin exchange took place, a refusal of entry due to the material being trade waste and frustration at queues to enter a site during a busy period in the summer months.

6. LONDONENERGY BUDGET 2024

- 6.1. LEL's financial year runs from 1 January to 31 December, and their budget is subject to Authority approval under the shareholder agreement, which sets out the governance between NLWA and the company. LEL's planned budget for 2024 was

considered by the company board. LEL are proposing to set a budget for the calendar year 2024 with forecast income from managing waste and generating electricity of £93 million. This is a “net” figure after taking account of payment of the Electricity Generator Levy, which was announced by the government in December 2022. The company expects to have a requirement to pay £17 million under the levy for electricity income in the current year and £6 million for electricity income in 2024. This £23 million would otherwise be available as increased income.

6.2. In considering operating costs, the company is facing challenges driven by the age and condition of the energy from waste facility. This is driving increases in costs in three key ways:

6.2.1. The first and most significant effect is the maintenance and investment needed to keep the plant operating to its planned end of life. In 2023 the plant suffered from some unreliability and did not operate at its expected capacity over the year. The Authority and LEL commissioned advisers Ramboll to carry out a condition survey and recommend action to be taken to avoid the facility breaking down before its planned end of life. This identified up to £92 million of investment which would increase the resilience of the plant. As a result of critical analysis by company and Authority engineers and further consultation with Ramboll, a more defined and more focused risk-based investment plan, phased over three years was developed. This was costed at some £25 million over three years, with expenditure mainly in 2024. Spending more than this would increase the certainty of the plant continuing to operate successfully but would represent additional sunk costs in a facility nearing the end of its life. The proposed expenditure is not driven by regulatory requirements related to emissions or safety of staff. The £25 million is not therefore expenditure mandated by either the Environment Agency or the Health and Safety Executive. However, if a lower level of investment were undertaken, there is a greater risk of the facility breaking down in an unplanned way. The facility has five boilers, each of which processes around 2,000 tonnes of waste per week. If a single boiler is out of operation for a month, the lost income is over £1,000,000. It is therefore recommended that the company plan on the basis of undertaking some £12.5m of additional investment in 2024 to address the highest-priority risks identified in the Ramboll condition survey.

6.2.2. A second pressure is that the facility contains asbestos. While it operates safely and is monitored to be safe for employees, when maintenance work is required, LEL also need to factor in the cost of the safe removal or treatment of asbestos if it is identified as affecting the works.

- 6.2.3. A third pressure is insurance costs. As a result of LEL's careful and successful management of the facility, it is still possible to secure insurance against business interruption and property damage, despite the age of the facility. However, annual premiums are increasing. The company has carefully reviewed the potential costs which could be reimbursable under a claim in the event of any incident. Any claim paid by an insurance company would be affected by the fact that a new facility is under construction. Therefore, the company proposed to limit the value of insurance to a maximum claim of £50m. This is the company's realistic expected maximum claim at this stage in the life of the energy from waste plant, and restricting the extent of insurance will reduce pressures on costs.
- 6.3. Without mitigation of the pressures, the company forecasts that there would be a £20 million gap between income and expenditure in 2024. As a result of the mitigating actions above and the planned delivery of efficiencies in the company, LEL have reduced the gap to £9 million – i.e. with total costs of £102 million against income of £93 million. Partly because of the Electricity Generator Levy obligations, the company has low cash reserves and would need that gap to be funded by the Authority. If the gap is not funded, LEL has the capacity to borrow. However, any borrowing costs would ultimately be reflected in higher charges to the Authority in the future, especially as the company would not have access to the cheapest funding through the Public Works Loan Board. Therefore, the best value approach is for the Authority to meet the funding gap. If members agree that LEL's budget should be approved, the way in which that £9 million gap would be funded while minimising the impact on borough levies is outlined in the Finance Update paper on this agenda. Appendix B provides commercially confidential information on the budget proposals. The recommendation of this paper is that the budget should be approved.
- 6.4. The company's financial position has varied substantially in recent years, with income exceeding costs materially in 2022 as a result of electricity sales and the forecast deficit in 2024 requiring additional funding from the Authority. When the new energy recovery facility is operational, it is expected that the company's income and expenditure will be more stable. However, the period of transition has some uncertainty, depending on the reliability and costs of the existing plant. That said, the current costs of waste disposal for NLWA are below costs at comparable waste disposal authorities. Authority and LEL officers will review prospects for 2025 and beyond in the first half of next year and advise Members of expected requirements to inform planning for future years' budgets.

7. LONDONENERGY LTD BOARD

- 7.1. The following directors served during the period:

Don Lloyd (Non-executive Director) Chair
Ulla Rottger (Non-executive Director)
Martha Desmond (Non-executive Director)
Clyde Loakes (Non-executive Director)
Peter Zinkin (Non-executive Director)
Rebecca Rennison (Non-executive Director)
Rowena Champion (Non-executive Director)
Mete Coban (Non-executive Director)
Ian Williams (Non-executive Director)
Doug Wilkinson (Non-executive Director)
Martin Capstick (Non-executive Director)
James Kendall (Managing Director)
Justin Price (Finance Director)

- 7.2. Martha Desmond was appointed to the board on 3 May 2023 after approval at the Authority meeting on 27 April 2023.
- 7.3. In January 2021, the composition of LEL was revised, as a key element of plans to enhance the coordination between the company and the Authority. New board appointments were made comprising Members and officers from constituent boroughs. These were: Clyde Loakes, Peter Zinkin, Rebecca Rennison, Doug Wilkinson, Ian Williams, Martin Capstick and Ursula Taylor. These appointments have brought significant benefits in further strengthening the alignment between LEL, the Authority and constituent boroughs, in supporting an integrated transition to new facilities and in planning for the long-term development of the relationship between the parent and subsidiary.
- 7.4. The board appointments were direct appointments of individuals – experienced Councillors and senior officers – who were excellently placed to carry out board director duties and promote enhanced coordination as described above. They were made on the basis that they were terminable either by the individuals or by the Authority, subject to consultation with the individuals concerned. But to avoid them being totally open-ended, they were set for an initial period of three years and so would need renewing in January 2024 if they were proving successful. Ursula Taylor retired and stood down from the board in 2022. Remaining board members referenced in paragraph 6.2 above are content to continue serving on the board. As noted above, our assessment is that the board appointments are proving beneficial; with three years of experience, board members have become familiar with the company and a reappointment would allow them to continue to contribute effectively to the company’s development. The Authority has confirmed its approval for Councillor Loakes to be on the board when electing him chair of the Authority in June 2021, 2022 and 2023. The Authority also confirmed in 2022 – when board members stood down and vacancies would otherwise have arisen – that it approved the continued appointment of Rebecca Rennison and Peter Zinkin

on the board. It is therefore proposed to renew appointments of the individuals listed in section 6.2, other than Ursula Taylor, who has retired. It is proposed that this would be on the same basis as currently – namely that the Authority would retain the right to cease the appointment at its discretion but in any event the appointment would need to be renewed after three years.

8. EQUALITIES IMPLICATION

8.1. There are no equality implications arising from this report.

9. COMMENTS OF THE LEGAL ADVISER

9.1. The Legal Adviser has been consulted in the preparation of this report and comments have been incorporated.

10. COMMENTS OF THE FINANCIAL ADVISER

10.1. 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
Unit 1b Berol House
25 Ashley Road
London
N17 9LJ



LondonEnergy

Powering the Circular Economy

Quarterly Report to North London Waste Authority



Third Quarter Report July – September 2023

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1. **EXECUTIVE SUMMARY**

1.1 Overview of the Third Quarter – July - Sept 2023

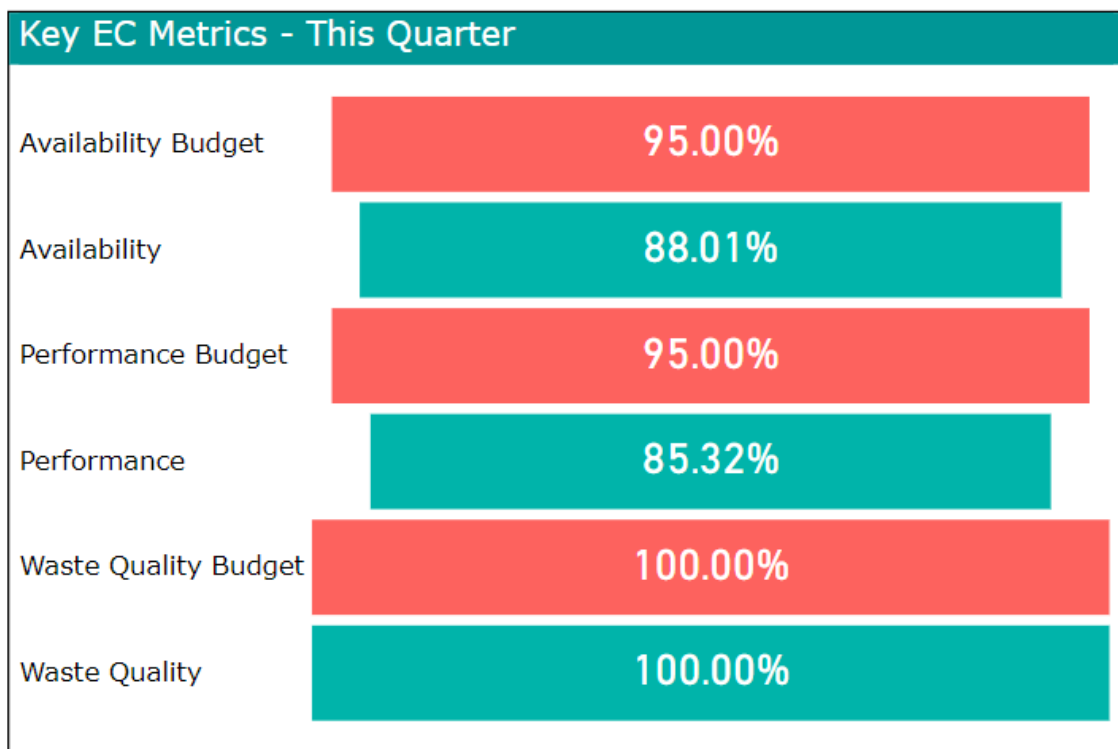
The Reuse and Recycling Centres (RRCs) performed well over the period. The average recycling rate was over 76%. A trial scheme to recycle hard plastics was expanded and now covers three Recycling Centres. Existing programmes to recycle polystyrene and mattresses continue to perform well.

The existing EfW faced a number of operational challenges. These involved boilers – where the waste is burnt - and export transformers – which convey generated electricity to the grid. These engineering issues have been resolved but involved greater than planned outages of the energy from waste facility. Therefore, overall capacity was below forecast for the quarter.

LEL continued to work closely with colleagues at NLWA and NLHPP during the period to ensure effective preparations for the takeover of the RRF, which is expected to take place in December.

2. **OPERATIONS**

2.1 Key Events & Technical Issues



The graphic (left) shows the key operational metrics for the Energy Centre over the period.

The availability percentage measures the amount of time the plant was operational, the performance number is derived from the average throughput of waste, and the quality measure shows plant effectiveness in treating waste without generating rejects.

Energy Centre (EC) Operations

Waste throughput and electricity generation was below forecast in September due to unplanned outages on boilers and planned works on the export transformer.

All 5 of the boilers at the Energy Centre required either planned or unplanned maintenance to be carried out during the month of September. In addition, the export transformers which send electricity from the Energy Centre to the national grid were discovered to have oil leaks which required repair. For safety reasons, these repairs will need to be conducted with the equipment isolated and offline. As a consequence, waste treatment and electricity generation were lower than planned.

Recycling and Waste Operations

LEL continue to push forward with initiatives to expand the range of materials able to be accepted from residents for recycling at the Reuse and Recycling Centres. Recycling of rigid plastics is now offered at the three sites, Regis Road, South Access and Hornsey Street. This new service has contributed to 44.8 tonnes of plastics recycled since March 2023.

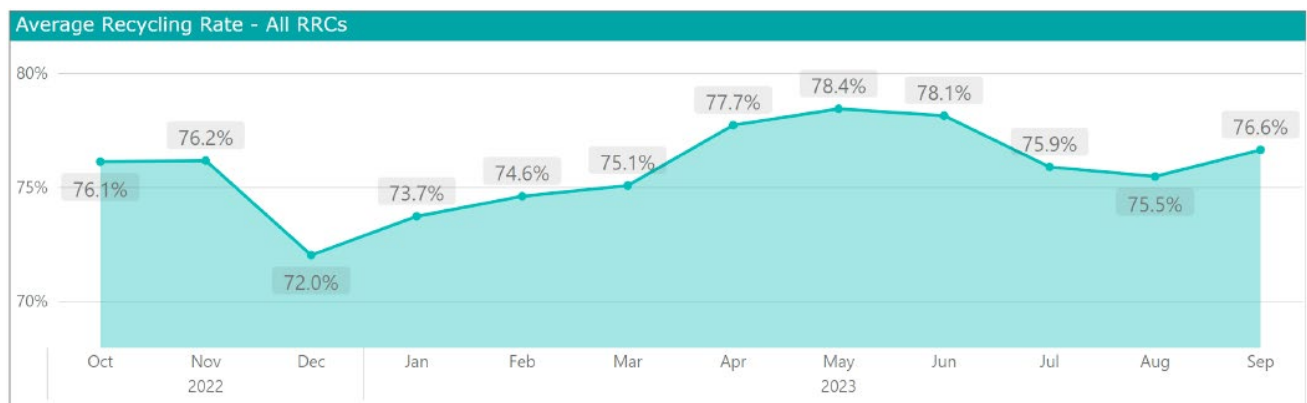
The Kings Road re-use shop performed excellently and took in sales of over £15,000.00 in September. Recycling rates at RRCs increased from both July and August to 76.6% which was primarily due to a reduction in residual waste and an increase in wood recycling.

Recycling of Polystyrene and mattresses remains stable with 6 pallets (1,160 kg) of compacted Polystyrene and 9,223 mattresses recycled in September.

LEL are currently in the process of setting up a new supplier for carpet recycling. The trial load collected at South Access will be sent to the supplier during October for processing.

RRCs

The RRCs performed well over the period, returning an average recycling rate of 76%. This is slightly down on the previous quarter (78%).



The graph above shows the average recycling rate for the six Reuse and Recycling Centres operated by LEL, on a rolling 12-month basis.

Transport

There have been no prohibition notices issued, nor MOT failures nor roadside checks undertaken by the DVSA. LEL has FORS (Fleet Operator Recognition Scheme) Gold Accreditation for the next twelve months and will maintain green Operator Compliance Risk Score (OCRS).

The OCRS a measure used by DVSA to decide which vehicles should be inspected. OCRS is used to calculate the risk of an operator not following the rules on roadworthiness (the condition of its vehicles) and traffic, for example drivers' hours or weighing checks. It's more likely that an operator's vehicles will be inspected if the OCRS is high – LEL's score is very low as measured by the "Green" status.

2.2 Commercial and Operational Developments

Legal & Procurement

The following major tenders &/or RFQ processes were completed between July – Sept 2023.

- Mobile Plant Equipment Hire RRCS – restricted tender completed, and award made for work to commence in October 2023.
- Asbestos Removal in Boiler House – competitive tender carried out and successful bidder and works to commence 16th November 2023.
- NLHPP EcoPark House – EcoPark House Procurement for Furniture – RFQ completed and awaiting details on the architectural layout for placing of the final order.

NLHPP

Resource Recovery Facility (RRF)

During the reporting period, the RRF delivery timetable was refreshed based on a revised handover date of 22 December 2023, with Taylor Woodrow (TW) now being incentivised for delivery against a renewed set of agreed milestones. These milestones have been explained to the LEL team along with progress against them.

During the quarter, LEL's focus was primarily directed towards matters such as training and checking assets as the 22 December handover date approaches. A refreshed and more detailed plan to get all of the asset information onto LEL's systems was developed and deployed – including the need for additional, short term, resource. Governance was also refreshed to ensure an appropriate level of engagement including regular asset management and commissioning meetings.

SHAREHOLDER MATTERS

3.1 Number and names of directors for the third quarter 2023

There were 13 serving directors on the LEL Board for the period, they are as follows:

- Don Lloyd (Non-executive Director) – Chair, Board
- Ulla Rottger (Non-executive Director) – Chair, Transition Committee
- Martha Desmond (Non-executive Director)
- Clyde Loakes (Non-executive Director)
- Rowena Champion (Non-executive Director)
- Mete Coban (Non-executive Director)

- Peter Zinkin (Non-executive Director) – Chair, Audit & Risk Committee
- Rebecca Rennison (Non-executive Director) – Chair, Remuneration & People Committee
- Ian Williams (Non-executive Director)
- Doug Wilkinson (Non-executive Director) – Chair, Health, Safety, Environment & Operations Committee
- Martin Capstick (Non-executive Director)
- Jim Kendall (Managing Director)
- Justin Price (Finance Director)

Note that Martha Desmond was appointed to the Board on **3 May 2023**.

4. Health, Safety, Quality and Environment (HSQE).

4.1 Update on compliance matters:

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

5.1 People Report

The headcount summary shows that as of 30 September 2023 LondonEnergy employed 378 people compared to the forecast of 381. At the end of the reporting period, the company had a total of 18 active vacancies.

In September, the results of the Annual Employee Engagement Survey, conducted by Best Companies, confirmed that LEL had retained its 1-Star accreditation as “very good” to work for, with a small incremental increase in the overall index score. 244 employees filled in the survey representing around two thirds of the organisation.