

NORTH LONDON WASTE AUTHORITY

REPORT TITLE:

ANNUAL REPORT OF THE DIRECTORS OF LONDONWASTE LTD

REPORT OF:

HEAD OF OPERATIONS

FOR SUBMISSION TO:

AUTHORITY MEETING

DATE:

22 JUNE 2017

SUMMARY OF REPORT:

This report provides the annual report of the Directors of LondonWaste Limited and sets out the performance and activities of the Company in the Authority's financial year 2016/17.

RECOMMENDATION:

The Authority is recommended to note this report.

Signed by: _____ Head of Operations

Date: 12 June 2017

1. BACKGROUND

- 1.1. As the sole shareholder of LondonWaste Ltd (LWL), the Authority receives regular updates on LWL matters and an Annual Report of the Directors of the company.
- 1.2. The company's Annual Report for 2016/17 is attached as Appendix 1.

2. OVERVIEW OF LWL DIRECTORS' ANNUAL REPORT

- 2.1. The report shows a favourable commercial year for LWL, making a profit before tax of £2.6m on revenues of £61.6m in 2016.
- 2.2. LWL has a substantial investment programme that is underway to ensure the reliable operation of the Energy Centre in particular until 2025, when the new energy recovery facility (ERF) is planned to be ready.
- 2.3. The recycling of 75% of wastes delivered to the reuse and recycling centres (RRCs) managed by LWL and the diversion from landfill of 91% of total wastes managed are particularly noteworthy. The former has been achieved through a clear focus on recycling at the RRCs, and the latter through a combination close management of the Energy Centre and the use of third party energy-from-waste facilities elsewhere.
- 2.4. The company has a programme for apprentice and graduate trainee engineers.
- 2.5. There is a clear focus on health and safety matters at LWL, and the report notes the company has launched a major training programme in April 2017 to embed a safety culture throughout the organisation
- 2.6. Finally, the report also notes the company's work in reaching out to local communities to raise awareness of waste issues. It does this at RRCs, but most notably at the Second Time Around reuse shop at the Kings Road RRC. It also actively supports Compost Awareness Week and gives tours of the Edmonton EcoPark to local residents, local authority Members and officers, industry groups and representatives of overseas governments.

3. COMMENTS OF THE LEGAL ADVISER

- 3.1. The Legal Adviser has been consulted in the preparation of this report and has no comments to add.

4. COMMENTS OF THE FINANCIAL ADVISER

- 4.1. The company has begun the new year well and is cautiously optimistic that it will achieve its 2017 budget targets.

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ANNUAL REPORT OF THE DIRECTORS OF LONDONWASTE LIMITED

1. Introduction

- 1.1 Since December 2009 LondonWaste Ltd (L W L) has been owned 100% by NLWA. The Company provides a range of waste management services to the Authority through a 10-year contract that was awarded by the Authority in December 2014. This is the annual report from the Directors of LondonWaste Limited to the Authority summarising the performance and activities of LondonWaste Limited over the Authority's financial year 2016/17 and its financial results for the year 2016.

2. Directors and Board Meetings

- 2.1 The following non-executive directors, appointed by NLWA, served during the Authority year:

Mr. John Boast (Chairman) (resigned 31 December 2016)

Mr. Ray Georgeson

Mr. Mike Dunn

Ms. Louise Forrest (appointed 28 April 2016)

Mr. Donald Lloyd (appointed 28 April 2016)

In accordance with arrangements approved by NLWA, the Company undertook a formal recruitment process to appoint a new non-executive director and Chairman to replace Mr. Boast on his retirement. Mr. Paul Wynn was appointed as Non-Executive Director and Chairman on 26th January 2017.

- 2.2 The following executive directors, who are responsible for the day-to-day activities of the Company, served during the Authority year:

Mr. Peter Sharpe (Managing Director)

Mrs. Nazneem Grogan (Operations Director) (resigned 18 April 2017)

Mrs. Mary Czulowski (Finance Director) (appointed 11 April 2016)

- 2.3 Directors attend LondonWaste board meetings which are usually monthly. Signed copies of confidential board minutes are submitted to each NLWA meeting for information. These appear on the exempt part of the agenda (the Part II section). The NLWA as shareholder is also advised of the Company's progress through updates to the Shareholder Group.

- 2.4 The audited statutory accounts were adopted at the Company's Annual General Meeting on 26th May 2017.

3. Finance and Operations

- 3.1 In the year ended 31st December 2016 LondonWaste made a profit before tax of £2.6 million, 132% above budget. Revenues of £61.6 million were higher than budget due to higher volumes of NLWA waste and un-contracted waste tonnages from East London Waste Authority, together with improved electricity prices and volumes and improved metals recycle prices and volumes.

Improved waste throughput contributed to the Company's above-budget performance which meant that electricity export and incineration were slightly ahead of expectation.

The capital projects budgeted for the year were not all completed, with some projects being deferred into 2017. This reduced the depreciation charge for the year by £750,000 against budget.

- 3.2 Whilst the Company significantly improved its profit and cash position against the budget for the year, the requirement to fund the extended asset life programme in the Energy Centre will deplete the Company's reserves over the life of the Business Plan. The Company therefore did not pay a dividend to the shareholder (£1M in 2015).
- 3.3 The Company remained debt-free throughout the year. The capital investment in the year totalled £6 million.
- 3.4 The ageing plant continued to raise operational challenges in 2016, with additional costs being incurred in higher volumes of waste being sent for further reprocessing or landfill as a result of unplanned outages due to plant failures and higher than planned maintenance costs.

In November 2016 the Company successfully completed its first planned total Energy Centre shutdown, finishing to plan and within budget and with no disruption to the Boroughs' waste services throughout the period. Coming out of the shutdown and planned outage period did present some operational issues in November but the year ended with a strong operational performance in December.

For the year in total, incineration was just above budget, however the export was significantly above budget due to improved plant performance and reduced on-site electricity usage.

- 3.5 The total tonnage handled in 2016 was 767,000 tonnes, with 547,000 tonnes being processed in the Company's Energy Centre. A total of 33,000 tonnes of organic waste was processed in the compost centre, yielding 10,500 tonnes of compost. LondonWaste managed Re-use and Recycling Centres accepted 31,500 tonnes of waste, of which 75% was recycled.

- 3.6 In the year the Energy Centre exported 253,000 MWh of electricity or enough electricity to power 72,000 homes. The tonnage of waste landfilled fell from 106,000 tonnes in 2015 to 69,000 tonnes in 2016, equating to a 91% landfill diversion rate.
- 3.7 On 26th March 2016 fire broke out at LondonWaste EcoPark in the Fuel Preparation Plant (FPP) area, which contained approximately 500 tonnes of waste at the time. The fire was brought under control within nine hours of the Fire Brigade attending and extinguished six hours later. The FPP was back in operation within 24 hours and there was no impact on Borough waste services or damage to the building.
- 3.8 LWL, with assistance from specialist advisers, reviewed its fire precautions across all sites in order to meet the new Industrial Emissions Directive permitting regulation. A revised capital expenditure plan was approved to carry out the recommendations of the review and these projects have to a large extent now been completed, with two projects to be completed in 2017, due to the level of complexity involved.
- 3.9 During the year the Company decided to appoint a new provider for the management of its electricity sales. Kinect were appointed on 31st May 2016 for a period of three years. The Power Purchase Agreement (PPA) was tendered following the expiry of the previous contract with Smartest Energy. The tender secured a good level of interest and, following a commercial and legal review of the bids, the offer from Total was judged to be the most economically advantageous and LWL signed into a 3-year PPA in September 2016.

Kinect is operating to a sales strategy to sell forward 80% of the planned electricity generation by the start of each delivery year.

- 3.10 Ofgem published a decision regarding network charging arrangements for small electricity distribution connected generators (referred to as embedded benefits) in December 2016 which will terminate payments of these embedded benefits no later than 2020/21. These benefits include both payments that small generators such as LWL receive and also charges which they avoid paying. They are worth approximately £1million to LWL. The Company has taken this revenue loss into account in revising its Business Plan.
- 3.11 An updated Capacity Market Operational Plan was published by the National Grid in May 2016. This has given LWL the opportunity to participate in capacity auctions. The Company has so far participated in the T-4 auction (for delivery of electricity four-years hence) in December 2016 and the T-1 auction (for delivery of electricity one-year hence) in January 2017. It has successfully sold electricity in both auctions and should generate an additional £230,000 in 2018 and £750,000 in 2020.

- 3.12 The Company has a contract with Hertfordshire County Council (HCC) to process 65,000 tonnes of waste. This contract was due to expire in December 2017, at which time it was expected that LWL would start to receive all of the waste from Hendon Transfer Facility. The new Hendon facility is now expected to come on stream in 2020, leaving a shortfall in the available waste streams.

LWL has therefore successfully sought a contract extension with HCC whereby LWL will continue to accept residual waste from the county after the end of the current contract term in December 2017, until 2020.

The contract extension with HCC secures an essential waste stream into the Energy Centre for the next three years, during which period LWL is unable to transfer any more NLWA waste than at present from the Hendon rail transfer station.

The impact of this is reflected in the revised Business Plan.

4. Business Review

- 4.1 LondonWaste has continued to provide a high level of service to NLWA under the new contract which commenced on 16 December, 2014. The Company manages all the waste delivered by the seven boroughs to its centres in Hornsey Street, Hendon and the Edmonton EcoPark. This waste is either recycled, turned into electricity in the Energy Centre, or landfilled.
- 4.2 The Company supports the NLWA in developing the North London Heat and Power Project. LWL regularly reviews its operational and maintenance regimes to ensure that the Energy Centre can continue to operate safely and efficiently until its potential replacement in 2025.

An extensive review of the capital expenditure plan, involving Ramboll and NLWA Technical Manager, has been undertaken to ensure that the asset extension programme continues to safeguard the NLWA position.

During every boiler outage period the condition of key elements of the plant are assessed and the Ramboll Condition Survey updated. Following the full station outage late last year and boiler outages in early 2017 the schedule of planned capital expenditure has been re-prioritised (some projects increased in priority and others decreased). This has meant that some projects planned for 2017 have now been rescheduled for 2018.

5. Health & Safety

- 5.1 A RIDDOR (Reporting of Injuries, Diseases and Dangerous Occurrences Regulations) accident is one which results in an absence of at least seven days and which is reportable to HSE under these regulations. There were three RIDDOR reportable accidents in 2016 compared to one in 2015.

- 5.2 The Company investigates all incidents, reviews its practices and procedures, and gives appropriate and regular training to employees.
- 5.3 In April 2017 the Company launched a major Health and Safety training programme, START Safely, which will engage all employees in attending training sessions to promote all aspects of safe working. Each employee will attend twelve sessions during the course of the year with the objective to begin to embed a safety culture throughout the organisation. It is anticipated that the programme will take three years to significantly effect culture change.

6. Human Resources

- 6.1 The Company remains committed to the development of its employees and invested heavily in training and development during the year. Sickness absence rates compare favourably with waste industry benchmarks and are actively managed through the application of formal absence management systems. The Company employs 272 permanent and temporary employees. About a third of these operate and maintain the Energy Centre which is a 24 hour per day, 7 day per week operation. Half of the employees are engaged in handling or transporting waste at the various transfer stations and Re-use and Recycling Centres. The remainder are engaged in corporate functions such as health & safety, IT, finance, HR and corporate communications.
- 6.2 In December 2016 the Company commenced a major negotiation with the Trades Unions and employees to modernise and simplify the terms and conditions of employment for all staff. This consultation concluded in May 2017 and new contracts will be in place in July 2017.
- 6.3 LondonWaste Limited pays all employees a salary at or above the London Living Wage threshold.
- 6.4 The report on the triennial valuation of the pension scheme as at 1 January 2015 showed that the defined benefit pension scheme is now fully funded on a technical provisions basis.

The LondonWaste Limited Pension Scheme is pursuing a de-risking strategy through managed investment. The Company will continue to pay a contribution of £250,000 in 2017 to help the scheme reach its long term target of being fully funded on a gilts basis.

- 6.5 The Company's Equal Opportunities Policy prohibits unfair discrimination in the recruitment, training, continuing employment, career development and promotion of staff.
- 6.6 The Company has launched an Apprenticeship Scheme partnering with the College of North East London (CONEL) to tailor engineering apprenticeships to meet the Company's needs. In 2017 the Scheme will be extended beyond the engineering disciplines.

6.7 The Company has embarked on its first Graduate Development Programme and will recruit five engineering graduates in 2017, to ensure continuity and enhancement of scarce skills to re-inforce the current ageing workforce.

7. Community Awareness

7.1 The Company uses local newspapers and borough communications in the North London area and runs a re-use shop in the Kings Road Recycling and Re-Use Centre to raise community awareness of its waste management and recycling activities.

7.2 The Company holds an annual Compost Awareness Week featuring workshops, tours and discussions. Visitors are encouraged to take home EcoPark compost.

7.3 The Company links with local community groups including secondary schools, local colleges, community groups, the Edmonton Sea Cadets as well as many local residents and allotment groups. Throughout the year the Company gives tours of the EcoPark to local residents, Council officers and members, educational groups, industry groups and representatives of foreign governments. The Company sponsors a garden at Capel Manor College which uses compost from the EcoPark for horticultural purposes.