

NORTH LONDON WASTE AUTHORITY

REPORT TITLE ANNUAL REPORT OF DIRECTORS OF LONDONWASTE LTD	
REPORT OF MANAGING DIRECTOR	
FOR SUBMISSION TO THE NORTH LONDON WASTE AUTHORITY	DATE: 17 JUNE 2016
SUMMARY OF REPORT This report is 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 2015/16.	
RECOMMENDATION That the Authority notes the report.	
Signed by: Managing Director:	
Date: 8 June 2016	

ANNUAL REPORT OF THE DIRECTORS OF LONDONWASTE LIMITED

1. Introduction

- 1.1 Since December 2009 LondonWaste Ltd 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 report, presented by the Authority's Managing Director, 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 2015/16.

2. Directors and Board Meetings

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

Mr. John Boast (Chairman)
Mr. Ray Georgeson
Mr. Mike Dunn
Dr. Chris Elliot (resigned 30 June 2015).

In accordance with arrangements approved by NLWA, the Company undertook a formal recruitment process to appoint two non-executive directors, one to replace Dr Elliot and one additional director to enable the Board operate effective sub-committees.

The following non-executive director appointments have been made:

Ms Louise Forrest was appointed on 28 April 2016.

Dr Donald Lloyd was appointed on 28 April 2016.

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

Mrs. Nazneem Grogan (Technical Director)

Mr David Sargent retired on 31st July 31 2015. With approval of NLWA the Company undertook a recruitment process to appoint a new managing director.

Mr Peter Sharpe was appointed Managing Director on 3rd August 2015.

Mr Matt McGeehan resigned from the Company on 9th February 2016. The Company undertook a formal recruitment process and with the approval of NLWA Mary Czulowski was appointed Finance Director and Company Secretary on 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 26 May, 2016.

3. Finance and Operations

- 3.1 In the year ended 31st December 2015 LondonWaste made a profit before tax of £4.0 million. Waste throughput and boiler availability contributed to the Company's above-budget performance. This meant that electricity export and incineration exceeded expectation, whilst lower operational costs also contributed to higher profitability. The recognition that the life of certain assets was extended to 2025 reduced the depreciation charge for the year by £500,000.
- 3.2 The reduction in revenue and profit from 2014 reflected the first year of the new NLWA contract and the result of the commercial conditions attached to it. The changed nature of the contract and the reduced gate fee payable by NLWA in some cases was also reflected in the reduced dividend paid to the shareholder (£1M in 2015, £5M in 2014).

Whilst the ageing plant continues to raise operational challenges in 2016, based on the first four months of trading the directors believe that the budget for the Company's year ending 31 December 2016 will be achieved.

- 3.3 The total tonnage handled in 2015 was 745,000 tonnes, with 542,000 tonnes being processed in the Company's Energy Centre. A total of 52,000 tonnes of organic waste was received of which 32,000 tonnes was processed in the compost centre, yielding 17,000 tonnes of compost. LondonWaste managed Re-use and Recycling Centres accepting 32,000 tonnes of waste, of which, 73% was recycled.
- 3.4 In the year the Energy Centre exported 248,000 MWh of electricity or enough electricity to power 72,000 homes. The Company recycled 96,000 tonnes of material and the tonnage of waste landfilled fell from 129,000 tonnes in 2014 to 106,000 tonnes in 2015, an 86% landfill diversion rate.

- 3.5 The Company remained debt-free throughout the year. Dividends totalling £1.0 million were paid to the Authority in the Company's year ended 31 December 2015.
- 3.6 LondonWaste sold forward its electricity generation on an annual contract until 30 September 2015. However, energy prices remained relatively weak, with rates for winter 2015 negatively affected by low oil prices remaining at £45 - £46 /MwH which fell short of the Company's budget expectation. With electricity prices also depressed by a strong pound relative to the euro and with no forecast increase in oil prices, the Company sold forward to April 2016 to protect its forecast position.
- 3.7 In the July 2015 budget the Government confirmed that it was changing the exemption from the Climate Change Levy (CCL) which has historically benefitted generators of electricity from renewable sources. The exemption is managed by Ofgem which issues Levy Exemption Certificates (LECs) to accredited generators.
- 3.8 LECs have a value to the electricity supply companies and allows them to enter into contracts with end-users where a proportion of the electricity supplied comes from renewable sources. The Government removed the exemption from midnight on 31 July 2015 which significantly reduced the income the Company can receive from the sale of electricity.
- 3.9 The value of the LECs to LondonWaste varies according to the amounts of electricity generated, but the annual LEC revenue within the 2015 budget was £680,000 of which £355,000 was budgeted during the period August to December and was subsequently lost.

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. LondonWaste is reviewing its operational and maintenance regimes to ensure that the Energy Centre can continue to operate safely and efficiently until its potential replacement in 2025. Following an independent technical review of Energy Centre plant and equipment a significant capital programme started in 2015 and continues through to 2017 to safeguard this position.
- 4.3 LondonWaste took operational control of Summers Lane RRC with effect from 4 October 2015 and effected a smooth handover to ensure a continuing high service level to residents in LB Barnet.

- 4.4 Satisfactory recycling percentages were achieved across all of the Re-use and Recycling Centres during the year. Recycling rates averaged 73% including rubble, and the sites handled a combined volume of over 2,000 tonnes per month. The RRC team at Kings Road has been shortlisted as a finalist for Team of the Year at the MRW National Recycling Awards 2016.
- 4.5 On 26th March 2016 at 21:45 fire broke out at LondonWaste EcoPark in the Fuel Preparation Plant (FPP) area. Approximately 500 tonnes of waste was contained within the FPP, London Fire Brigade were called and attended. 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.
- 4.6 The Industrial Emissions Directive permitting regulation has changed and the Environment Agency has advised that LWL will be required to meet new criteria, which impacts fire prevention measures on waste sites. Consequently, LWL, with assistance from specialist advisers, has reviewed fire precautions across all sites in order to meet the higher requirement.
- 4.7 A comprehensive plan has been approved by the LWL Board to action the recommendations from these reviews and the additional capital expenditure required has been recognised in the revised capital expenditure plan. The total cost of the Fire Prevention Plan is estimated at £500,000.

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 was one RIDDOR reportable accident in 2015 compared to three in 2014.
- 5.2 The Company investigates all incidents, reviews its practices and procedures, and gives appropriate and regular training to employees.

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 over 270 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, corporate communications etc.

LondonWaste Limited pays all employees a salary at or above the London Living Wage threshold.

- 6.2 The report on the triennial valuation of the pension scheme as at 1 January 2015 showed that the pension scheme is now fully funded on a technical provisions basis, LondonWaste having made additional deficit funding contributions in 2014 of £947,000 and in 2015 of £627,000. 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 2016 to help the scheme reach its long term target of being fully funded on a gilts basis.
- 6.3 The Company's Equal Opportunities Policy prohibits unfair discrimination in the recruitment, training, continuing employment, career development and promotion of staff.

7. Community Awareness

- 7.1 The Company continues to use local newspapers and borough communications in the North London area 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 In November 2015 the Company and NLWA launched the Second Time Around re-use shop at Kings Road RRC, selling household items which had been recovered at RRCs.
- 7.4 LondonWaste continued 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. There were over 500 visitors to the EcoPark, including representatives of foreign governments. The Company sponsors a garden at Capel Manor College which uses compost from the EcoPark for horticultural purposes.

8. Comments of the Legal Adviser

- 8.1 The Legal Adviser has no comments on this report.

9. Comments of the Financial Adviser

- 9.1 The company paid a dividend of £1.0m in the year which was in line with the Authority's budget assumptions. The dividend was lower than in previous years and reflects the reduced cost incurred by the Authority for waste services. The company

has begun the new year well and is cautiously optimistic that it will achieve its 2016 budget targets.

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