

NORTH LONDON WASTE AUTHORITY

REPORT TITLE: ANNUAL REPORT OF THE DIRECTORS OF LONDONENERGY LTD

REPORT OF: MANAGING DIRECTOR

FOR SUBMISSION TO: AUTHORITY MEETING

DATE: 21 June 2018

SUMMARY OF REPORT:

This provides the annual report of the Directors of LondonEnergy Limited and sets out the performance and activities of the Company in the Authority's financial year 2017/18

RECOMMENDATIONS:

The Authority is recommended to:

Note this report.

SIGNED:

. **Managing Director**

DATE: 11 June 2018

1. BACKGROUND

- 1.1. As the sole shareholder of LondonEnergy Ltd (LEL), the Authority receives regular updates on LEL matters and an Annual Report of the Directors of the company.
- 1.2. The company's Annual Report for 2017/18 is attached as Appendix A.

2. OVERVIEW OF LEL DIRECTORS' ANNUAL REPORT

- 2.1. The report shows that LEL's commercial performance exceeded forecasts. LEL made a profit before tax of £68,000. While this compares with a profit before tax in the previous year of £2.766m, it is significantly ahead of the forecast loss of £994,000 anticipated at the start of the year. LEL's turnover was £62.301m, compared with £61.685m in 2016.
- 2.2. The positive trading year for LEL reflected a number of factors: despite challenges over the availability of the energy from waste plant, electricity export was on budget, the company successfully delivered the requirements of its waste contracts and had sufficient excess capacity to manage some spot market third party waste. Higher than expected prices for metal recyclates also positively impacted on revenue and profitability.
- 2.3. LEL increased their diversion of waste from landfill so that of the waste they handled, 95% was recycled or converted to electricity (the equivalent figure in the previous year was 91%). They maintained a 73% recycling rate from reuse and recycling centres. They produced over 10,000 tonnes of compost.
- 2.4. LEL's focus on health and safety included taking forward a major training programme to embed a safety culture through the organisation. As a result of this LEL won the Chartered Institute of Wastes Management (CIWM) health and safety best practice award in November 2017.
- 2.5. The company rebranded itself from LondonEnergy Ltd to LondonEnergy Ltd on 5 September 2017. This was a visible indication of a cultural change in the company, responding to meet the challenges of delivering London's circular economy and highlighting the positive effects of the company's work.

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 Financial Adviser has been consulted in the preparation of this report and has no comments to add

List of documents used:

[First document]

[Second document]

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ANNUAL REPORT OF THE DIRECTORS OF LONDONENERGY LIMITED

1. Introduction

- 1.1 Since December 2009 LondonEnergy Ltd (L E 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 LondonEnergy Limited to the Authority summarising the performance and activities of LondonEnergy Limited over the Authority's financial year 2017/18 and its financial results for the year 2017.

2. Directors and Board Meetings

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

Mr. Paul Wynn (Chairman)
Mr. Ray Georgeson
Mr. Mike Dunn (Resigned 30 June 2017)
Ms. Louise Forrest
Mr. Donald Lloyd
Ms. Tania Songini (Appointed 19 June 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)
Ms. Mary Czulowski (Finance Director)
Mr. James Kendall (Operations Director) (Appointed 27 July 2017)
Ms. Nazneem Grogan (Operations Director) (Resigned 18 April 2017)
Ms. Ellen Mellington (Transformation Director) (Appointed 3 January 2018)

- 2.3 Directors attend LondonEnergy 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 24th May 2018.

3. Finance and Operations

- 3.1 In the year ended 31st December 2017 LondonEnergy made a profit before tax of £68,000, 107% better than budget. Revenues of £62.3 million were higher than budget due to higher volumes of NLWA waste and some non-contracted waste tonnages from East London Waste Authority, together with improved electricity prices 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 2018. This reduced the depreciation charge for the year by £1,958,000 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 £7.2 million.
- 3.4 The ageing plant continued to raise operational challenges in 2017 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 a longer than planned turbine maintenance period.

For the year in total, incineration and export was slightly below budget due to unplanned periods of outage.

- 3.5 The total tonnage handled in 2016 was 762,000 tonnes, with 512,000 tonnes being processed in the Company's Energy Centre. A total of 30,000 tonnes of organic waste was processed in the compost centre, yielding 10,200 tonnes of compost. LondonEnergy managed Re-use and Recycling Centres accepted 49,700 tonnes of waste, of which 73% was recycled.
- 3.6 In the year the Energy Centre exported 273,000 MWh of electricity or enough electricity to power 80,000 homes. The tonnage of waste landfilled fell from 69,000 tonnes in 2016 to 39,000 tonnes in 2017, equating to a 95% landfill diversion rate.
- 3.7 An updated Capacity Market Operational Plan was published by the National Grid in May 2016. This has given LEL the opportunity to participate in capacity auctions. The Company has so far successfully participated in three auctions for delivery in 2018, 2020 and 2021.
- 3.8 The Company had a contract with Hertfordshire County Council (HCC) to process 65,000 tonnes of waste, which was due to expire in December 2017. LEL has therefore successfully negotiated a contract extension with HCC whereby LEL will continue to accept residual waste from the county until the end of 2020.

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

- 3.9 The Company has confirmed that it intends to close the Compost Centre to the acceptance of waste with effect from Saturday 27th October 2018. This should give sufficient time to allow for the material remaining within the facility to be processed, the facility cleaned and decommissioned and the environmental permit surrendered to the EA by the end of March 2019.

The closure is required so that the area can be made available to NLWA for boreholes and ground investigation work in preparation for the redevelopment of the EcoPark site. The closure of the Compost Centre also addresses the concerns of the Environment Agency (EA) that the facility does not meet the current required standard for the control of emissions to atmosphere (bioaerosols).

4. Business Review

- 4.1 LondonEnergy 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's re-branding to LondonEnergy Limited took place on 5th September 2017. This is an important milestone for the Company marking a clear cultural change for the Company as it seeks to make the necessary changes in order to successfully meet the challenges of the future.
- 4.3 The Company supports the NLWA in developing the North London Heat and Power Project. In January 2018 the Company recruited an executive director with primary responsibility for the interface with the NLWA regarding the Project.
- 4.3 LEL 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.
- 4.4 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.
- 4.5 During every boiler outage period the condition of key elements of the plant are assessed and the Ramboll Condition Survey updated. The Capital programme is formally reviewed twice a year by LEL, NLWA and Ramboll.

4.6 The Company is negotiating the purchase of a larger capacity turbine, to replace the house set. The purpose of this is to help mitigate against the future costs of unplanned turbine maintenance, which will inevitably increase as the plant continues to perform beyond its original time horizon.

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 seven RIDDOR reportable accidents in 2017 compared to three in 2016.

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, engaging all employees in attending training sessions to promote all aspects of safe working. Each employee attended ten 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.

5.4 The Company won the CIWM Delivering Health and Safety Best Practice Award for its START Safely training programme.

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 are actively managed through the application of formal absence management systems. The Company employs 310 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, procurement, HR and corporate communications.

6.2 In 2017 the Company completed a major negotiation with the Trades Unions and employees to modernise and simplify the terms and conditions of employment for all staff. A single Contract of Employment was issued to all staff in July 2017, replacing twenty-six previous Contract variants.

6.3 In January 2018 the Company commenced negotiation with Trades Unions and Energy Centre employees to restructure the operation activities. A ballot ruled in favour of the new structure which will come into operation from January 2019, following a period of training. The new working patterns will enable a safer and more efficient operation whilst also giving a better quality of life for employees

with less impact on their health than the current practices, as measured by the HSE Fatigue Risk Indicator calculator.

- 6.4 In September 2017 body cameras were issued to all RRC staff improving the safeguarding of our public facing employees.
- 6.5 LondonEnergy Limited pays all employees a salary at or above the London Living Wage threshold.
- 6.6 The LondonWaste Limited Defined Benefit Pension Scheme is pursuing a de-risking strategy through managed investment. The Company paid an additional contribution of £250,000 in 2017 to help the Scheme reach its long-term target of being fully funded on a gilts basis.
- 6.7 The Scheme Actuary has commenced work on the triennial valuation of the pension scheme as at 1 January 2018 and the report is expected in July 2018.
- 6.8 The Company has proposed to the LondonWaste Pension Scheme Trustees that the Scheme be closed to future accrual from 31 December 2018. The Trustees are consulting with their advisors on this proposal following which there will be consultation with the Company.
- 6.9 The Company's Equal Opportunities Policy prohibits unfair discrimination in the recruitment, training, continuing employment, career development and promotion of staff. In April 2018 the Company published its Gender Pay Gap in accordance with new regulations. The median pay gap is -6.91 and the mean pay gap is -12.65, with women's earnings being higher.
- 6.10 The Company has an Apprenticeship Scheme partnering with the College of North East London (CONEL) to tailor engineering and IT apprenticeships to meet the Company's needs.
- 6.11 The Company recruited six graduates (five in engineering and one in IT) onto its first Graduate Development Programme in September 2017 and will recruit a further five engineering and two IT graduates in 2018, to ensure continuity and enhancement of scarce skills to reinforce the current 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.