YORWASTE

1. How Yorwaste delivers shareholder value.

As a Teckal company, Yorwaste delivers shareholder value in a number of ways.

Directly through either a reduction in the cost of service provision to the shareholding authority or in the generation of profits which accrue to the shareholding authority. This value is enhanced by the operation of commercial activities which can offset operating costs to the authority or enhance the generation of profits.

Indirectly through the shareholders' investment in Allerton Waste Recovery Park by maximising their potential financial return from volume related contractual terms.

Intangibly in that, as a result of its shareholding ownership, additional ad-hoc services and assistance to the shareholding authority are provided at either cost or zero charge.

The challenge for Yorwaste is to balance the above factors to deliver a cost effective, tax efficient, value for money solution for the local taxpayer.

2. Review of performance for financial year ending 31st March 2020.

The fiscal year to March 2020 saw the consolidation of Yorwaste's new operating model and whilst the full year reported a loss, this did not reflect the underlying improvements in Yorwaste core operations.

The reported loss before tax of £544k was the result of two main factors:

The first equates to losses arising from the final year of a seven-year contract at Seamer MRF and the subsequent closure of the facility. This loss-making contact had been problematic for many years and has now ended.

The second factor relates to waste transfer fires of which we had 3 in the same year. These resulted from the careless disposal of lithium ion batteries in general waste streams. Following the in-house development of a low cost, insurer approved fire deluge system, all our transfer stations will have fire suppression systems in place by the end of this year.

3. Current Year Update.

COVID Impact

Current year trading has been significantly impacted by the COVID crisis. At the start of the lockdown commercial activity dropped to around a third of pre-covid levels. Yorwaste took the decision to allow a no-cost-no-penalty suspension of service to affected customers, a strategy that was welcomed by many local businesses, and then subsequently copied by competitors. Whilst we have seen a gradual recovery, at the half-year mark we are still around 10% down on pre-covid commercial activity.

In response to the crisis Yorwaste actively engaged with NYCC, CYC, and the districts to develop contingency plans. Yorwaste cross trained its drivers to increase our operational flexibility and as a Company was prepared to act as strategic reserve to ensure that general waste would continue to flow. In the end the local authority teams managed their resources well and did not require Yorwaste's assistance, however this scenario demonstrates one of the intangible benefits which the shareholders' investment in Yorwaste can offer.

Throughout the COVID crisis Yorwaste has operated its offices, sites, and HWRCs in compliance with the covid safe operating guidelines from WISH and HSE.

The impact of COVID also saw a significant decrease in residual waste in the first couple of months. This resulted in a shortfall in the volume run rate required to maximise the shareholders' investment in AWRP. Yorwaste was able to source additional material to make up the shortfall and is confident it can deliver the full volume requirement of the current contractual year at the target gate price.

In terms of York's recycling, whilst total recyclate tonnage for H1 was broadly in line with last year, the average market rates for recyclate fell by around 20% due to reduced market demand for resulting from covid's impact on the economy and the increase supply from the on-shoring of UK recyclate which previously had been exported to the far east.

H1 Financial Performance

Despite the impact of covid, Yorwaste is trending ahead of budget at the half year point. This was due to quick and decisive cost management including accessing the government furlough scheme for commercial operations staff; off-hiring vehicles; delaying non-essential maintenance, and postponing capital investment. Whilst some of this positive variance may unwind over the remainder of the year as we catch-up on maintenance and investment we are still forecasting a full year profit position.

4. Looking Forward.

Internally, the company continues to build on recent investment in ICT and asset upgrades to further optimise front line operational service delivery.

Financially, the company has a medium-term challenge in funding the aftercare liabilities and reducing the current levels of debt funding. Whilst these should be manageable, they do limit the Company's ability to fund new strategic investments (e.g. solar & wind farms on closed landfills).

Commercially, Yorwaste continues to target sales growth in a highly competitive market. The recent investment in ICT systems has enabled improvements in our route profitability and we are currently rolling out our new CRM system which will improve the customer experience.

Strategically there are many challenges and opportunities arising from the planned Government Waste Strategy, as well as the potential outcome of the Unitary proposals. The combination of these will shape the future of front-line collections including potential for mandated separate food waste collections and standardised recycling streams. Yorwaste is engaging with the authorities in modelling potential scenarios and will work with the authorities to deliver their required solution.

Whilst there is considerable uncertainty facing the business over the next couple of years, the company is in a strong position to deal with the challenges.

SJB Recycling Ceased Trading

Historically, SJB provided green waste disposal via a co-composting process for a small number of local authority contracts. Following a change in EA guidelines, which resulted in a loss-making business model, the Company ceased operation in March 2020.

The business model for SJB Recycling was originally based on “co-composting” where green waste would be mixed with sewerage solids and matured for 6 to 8 weeks to produce a high-nutrient material which was then used as fertiliser. This allowed the sewerage facility operators to dispose of their by-product in a cost-effective way and, as such, SJB was able to operate on their sites on a highly competitive ground rent.

The Environment Agency then changed the guidelines which essentially ended the co-composting practice. Therefore, SJB had to transition the production process to PAS100 compost, a longer and more costly process which takes 12 weeks maturation. As the sewerage facility operators could no longer use co-composting to dispose of their waste, they sought to renew site rents on a much higher rate, and for a significantly extended lease term.

The higher operating costs pushed SJB from a profitable operation to a loss making one. As existing contracts expired the customers were either not prepared to meet the higher operating costs or offer the volume guarantees required to cover the fixed costs. Being unable to agree acceptable commercial terms with existing customers, and absent any alternative customers within our locale, SJB ceased operations in March 2020.

Aside from its composting operations SJB had a small subsidiary operation, Toddpak, which was a PRN scheme compliance administrator. A by-product of the acquisition of the Todd Waste Management Group, this subsidiary whilst profitable, operated in a highly speculative commercial environment and was not a natural strategic fit for either Yorwaste or SJB. Following discussions and approval from the shareholder Toddpak was sold in early March 2020 at a small profit. The timing of the sale was fortuitous as COVID has seen a dramatic fall in PRN prices which, had we still been holding the company, would likely have resulted in a loss-making position.