ANNEX 1 - YORWASTE PERFORMANCE & FINANCE UPDATE

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 (AWRP) 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 the fiscal year to 31st March 2021.

We previously reported on performance just before the close of the last fiscal year and the final out-turn was in line with those expectations. The Company delivered a solid health & safety performance. It exceeded budget and delivered a Profit Before Tax of £1.2m (vs prior year loss £0.55m). This was driven by acceleration of planned cost reductions, proactive optimisation of non-effective (annual leave) during the lockdown, and delays to investment and maintenance spending. It should however be noted that many of those savings were one-off in nature and not sustainable in a "business as normal" scenario.

In addition to a positive outcome on profitability the Company also met the shareholder targets for Allerton Waste Recover Park inputs in both volume and gate price.

3. Current Year Update

Q1 performance exceeded Budget driven by a strong performance in Commercial revenues and higher than anticipated landfill gas revenues. Underlying operating costs were in line with expectations after accounting for some catch-up maintenance costs from the prior year and profit is trending ahead of budget.

Whilst Q1 is off to a good start, the remainder of the year does have considerable headwinds. Competition for commercial customers is once again on the rise after a period of relative calm and the national driver shortage is stretching resources very thin. All indications are that the impact of the driver shortage may get worse before it gets better and the Company is closely monitoring the problem.

Whilst we are cautiously optimistic that the Company will continue to deliver a profit for the current fiscal year, it is unlikely to be at the same level as last year. The Company has the cash resources to meet its ongoing liquidity requirements, including debt repayments, without recourse to the shareholder.

4. Looking Forward

There are three key areas which present opportunities and/or challenges for the Company in the short to medium term.

a) Local Government Review

The Government has published the outcome of the Local Government Review (LGR) which sees the formation of a single unitary council in North Yorkshire along with the continuation of the current City of York unitary.

Initially LGR is not expected to significantly impact Yorwaste as the shareholding remains the same and the Teckal operations will continue to perform the same function. The Company does not expect LGR to materially impact its commercial operations.

In time, and subject to the appropriate review process, it is thought that there may be scope to co-locate some collection depots alongside the disposal depots as part of a wider optimisation process. This would need to take into account any new requirements arising from the Resource Waste Strategy (e.g. food waste and changes to recyclate collection) and the impact that may have on the upstream collection process.

Yorwaste will continue to support the work of the respective waste teams in assessing options.

b) Resource Waste Strategy

Whilst the potential changes to waste collection have been outlined in the Government’s Waste Strategy there has been little detail of how any changes will be funded.

The biggest impact is likely to be on collection operations which may require larger fleets and/or more collections. The cost-benefit on both financial and environmental outcomes will require careful analysis as there may be unintended consequences such as increased carbon footprint depending on the details of any final policy from Central Government.

For Yorwaste, there may be potential to operate a regional MRF to manage both Shareholder’s recyclate requirements, as well as potential to provide a food waste management option, however both options will need to be assessed against the potential alternative offered from a reconfigured Allerton Waste Recover Park.

Yorwaste will continue to support the work of the respective waste teams in assessing options.

c) Longer Term Aftercare costs

The Company periodically updates (every 5 to 7 years) its assessments on the long-term costs of the aftercare liability of closed landfills. This liability was accrued whilst the landfills were in operation and was calculated based on assumptions relevant at that time. The Company anticipates performing an update of its aftercare liability at some point over the next 24 months. This will be conducted by an independent external body and will incorporate the latest data and evidence on what that future liability should be.

It is difficult to state with any certainty what the outcome of that review might be, however should it be deemed higher than the current liability on the balance sheet this could result in a negative impact on profitability.