

North Yorkshire County Council

Shareholder Committee

10 September 2019

Brierley Group 2018/19 Outturn Annual Report

Report of the Assistant Director Strategic Resources

1.0 Purpose of the Report

1.1 For the Shareholder Committee's consideration, this report presents the Brierley Group Annual Report for 2018/19 (Appended)

2.0 Recommendation

2.1 It is recommended that the Shareholder Committee notes the appended report.

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21 August 2019



brierley
group

Brierley Group

2018-19 Annual Report

Brierley Group Headlines

The performance of the Brierley Group through the financial year 2018/19 was mixed. Overall the Group delivered a net profit (before interest and tax) of over £1.6m, however this fell £1m short of the target of £2.6m. The main factors driving this performance were:

In the Education sector there is a significant squeeze not only on the Group's ability to attract new sales but increasingly the ability to retain business. There are two key drivers of this:

1. Schools coming under growing financial pressure and therefore reducing their non-frontline spend, which is the predominance of Brierley Group's offer.
2. The trend for schools to convert to academy status and then join a MAT (multi-academy trust) has continued. The impact is that those chains tend to bring services 'in house' and therefore reduce spend with third parties. In addition, MATs also consolidate together to undertake a larger procurement exercise which not only increases competition but also increases the cost to sell through having to undertake a bid process.

This double squeeze has served to congest the market in terms of competitors vying for a reducing volume of business. The knock on is that margins are squeezed across the board.

Yorwaste – a combination of factors has resulted in a challenging financial year for the company, notably the recyclate market, commercial competition and increased costs of maintaining assets:

3. Recyclate market – after China banned the import of certain recyclate/waste at the start of 2018, several Asian countries have now followed suit in order to get a grip on the flood of plastics waste. Export to China and Hong Kong, Vietnam, Malaysia, India and Indonesia – previously important destinations – has dropped by 40% compared with 2017.
4. There is continuing price pressure across locations in North Yorkshire.
5. Given the age of some assets across the business, a number of them are costing more to repair, and now require investment. The plan for 2019 is to begin a staggered investment programme to bring the estate up to the required standard.

Following the implementation of Allerton Waste Recovery Park (AWRP) in February 2018, a few operational challenges presented themselves – which is normal following mobilisation for this type of project. Specifically, Yorwaste have been facing increased, unbudgeted queue times attempting to deliver waste to the plant through the year. There is now a resolution to the issue, however in 2018/19 it meant that Yorwaste carried additional transport cost although most of that cost has now been recovered.

To counter the issues described above, the Group continues to explore areas where there are benefits of scale through synergy. Examples include shared sales and marketing, where First North Law and North Yorkshire Education Services have jointly delivered sales in the Teesside region; and non-operational overheads, where Finance, HR and other support functions are delivered across the Group. There is importance in the Group leveraging its scale to generate further efficiencies and remain cost competitive.

Notable successes in the year

Growth out of county:

1. North Yorkshire Education Service (NYES) – the sales plan to deliver out of county sales is gaining traction, through 2018/19 the lead conversion rate has been enviable and generated significant new business.
2. Veritau – through the GDPR product, 2018-19 was a highly successful year for the company. The roll out of a full Data Protection Officer service for schools has proved to be attractive. Working closely with NYES the company signed approximately 500 schools, council and other organisations up to the service.
3. Align Property Partners (APP) has continued to perform well and has opened desk space in Selby to complement their existing offices in Penrith and Northallerton. In addition to the Cumbria County Council framework, APP have been successful across a number of areas and clients. Notable examples include Hambleton District Council, Teesside University, Cleveland County Police, West Yorkshire Combined Authority and a number of larger academies.
4. First North Law has built momentum through 2018/19 having now been awarded over 40 new contracts with schools.

For Brierley Homes, the pilot at Thorpe Willoughby has been a success – at least if the measure is by sales and expected return. This is a significant milestone for the company as it now seeks to develop a number of other sites in its pipeline. The next such site is at Marton-cum-Graton, where planning consent was received in November 2018.

Current challenges

As described in the previous section, the Education sector continues to be a challenging environment to operate in. Financial pressure on this key sector, in addition to changing buying habits, remains a hurdle for the Group and its ability to make progress.

Competition in the marketplace across all sectors whether from MATs pulling services ‘in house’, from third party providers or from new entrants, the pressure is on the Group to remain competitive and relevant. A current example of this is for NYnet where developments in ubiquitous next generation access allow competitors to enter the market in this region putting price pressure on the business.

To accommodate a number of recent changes in the composting sector, SJB has had to change its business model. Those factors are the cessation of co-disposal, the need for larger breaks between rows to comply with EA fire guidelines, an increase in maturation time required (for PAS 100 compliance) from 8 weeks to 12 weeks and a more robust maintenance and replacement plan for its heavy plant. The result of these changes has increased the cost to SJB in delivering the service.

Future areas of development

Following the April 2019 decision by NYCC's Executive to migrate the existing operation from Ringway into a wholly owned company, there is significant work required to meet the implementation date of April 2021 to create a Highways 'Teckal' Company. The project is in progress, however it is worth noting a couple of key issues that need managing:

1. Service continuity and transition through the period of change; making sure the service continues to deliver to a high standard by continuing to work closely with the contractors: Ringway and WSP.
2. Staff engagement and communication to ensure the workforce are kept informed and aware through the change, minimizing disruption and risk of an impact on the existing high performance of the teams.

This company will sit within the Brierley Group.

2018/19 Financial Summary

The following table is the draft 2018/19 financial position for North Yorkshire County Council's share of the Brierley Group:

Brierley Group	2018/19 Full year - draft	Full Year Budget	Full Year Variance
	£,000	£,000	£,000
Revenue	77,671	79,016	(1,345)
Cost of Sale/Service	(67,624)	(67,645)	21
Gross Profit	10,047	11,371	(1,324)
Overheads & Other Costs	(8,292)	(8,279)	(13)
Other Trading Income/(Loss)	274	-	274
Other Gains/(Losses)	(399)	(416)	17
Operating Profit	1,629	2,675	(1,046)
Finance Income	-	-	-
Profit before Interest & Tax	1,629	2,675	(1,046)
Interest Paid	(689)	(679)	(10)
Tax (Expense)/Surplus	8	(198)	206
Profit after Tax	948	1,798	(850)

North Yorkshire Education Services

NYES delivered its financial target for the year and contributed a return to the County Council. The performance by service unit was:

Property and Facilities Management

Overall the unit overachieved against its target for 2018/19, despite the challenge of business retention. One of the main factors for this performance was that overheads were less than budget. Looking ahead the unit is building a robust three year plan which aims to address the issue of retention.

Education and Skills

The unit concluded the year down against target; some of the services found the commercial environment particularly difficult to win business and generate sufficient income to cover service costs. In addition, new products launched in the year have not been as successful as anticipated. However there is room for some optimism though for the unit, as schools continue to see the value of the School Improvement offer and NYES brand is well placed.

Professional Support Services

A number of services overachieved within the Professional unit through generating new business outside of North Yorkshire. Whilst the sector is highly competitive, customers are still drawn to a value for money proposition and the unit has used this to achieve its financial target for 2018/19.

NYnet

NYnet have posted a net profit for 2018/19 slightly below budget, but better than previous forecast. In the face of increasing competition, this was a successful year for the business.

The “Schools Accord” is now signed. An extension to the accord is now being completed. The extension will return the commercial relationship with NYES to a more standard footing, reflecting the same principles as that of NYCC corporate.

The company is continuing to develop a plan to address market competition, working closely with customers and its shareholder to make sure the proposition remains relevant and attractive.

First North Law

The draft year end accounts for 2018/19 show the business is running ahead of its business development plan. This has been driven by the additional income from other Brierley Group entities and also from winning new customers out of county.

These figures indicate that First North Law is starting to move towards profitability, though the year end position is still forecast as a small loss, stemming primarily from the set up costs of the Company. The expectation is that First North Law will move towards profitability as it further establishes itself in the marketplace as a commercial provider of legal services.

Additional staff have now been recruited and revenue has increased during Q4 2018/19 with income generating services coming on-stream. This will enable the Company to recover initial investment costs and move to profitability during 2019/20.

First North Law is currently servicing a contract with Brierley Homes. Legal Services have also been identified by NYES as having significant out-of-county sales potential. Any proactive sales approach will need to be factored in to forward planning accordingly. Both areas of work provide an indication of effective synergies across the Brierley Group of companies.

The key issues and risks for First North Law remain its ability to both win and resource the necessary level of future work within timescales that ensure the Company grows in a timely and stable way.

Brierley Homes

The company experienced a financial loss in 2018/19 which was driven by the running costs of the company including staffing, management and financial and legal costs which have been incurred prior to the sale of any homes. The initial development costs of the site at Eshton Road site have also been taken to the P&L account as this site is no longer progressing.

Key activity during the year has included advance of design and planning works at Marton-cum-Grafton, together with preparatory design and pre-application engagement on further pipeline sites. It is anticipated that the Thorpe Willoughby construction phase of development will complete in August 2019. Sales commenced in Q1 2019/20.

The forecast expenditure relating to the land purchase for the Marton cum Grafton development has been put back to Q1 2019/20 and therefore total expenditure within the 2018/19 financial year has been reduced. Tender analysis is underway and works on site are anticipated to commence during the 2019/20 financial year, with income expectations for the site realised during the 2020/21 - 22 financial years.

Woodfield Square, Harrogate was submitted for planning in May 2019, and land acquisition is forecast in the winter of 2019. Other sites are also being actively explored.

Align Property Partners

The company has had a successful year with total income and profit for 2018/19 ahead of target; this was mainly due to increased external sales as income from NYCC was below expectation. Also a positive note was that there were no accidents, incidents or RIDDOR reportable events through the year and that all APP staff undertook the UKATA Enhanced Asbestos Awareness e-learning course. APP have also recently retained their prestigious Association for Project Safety Corporate Office status.

Looking ahead, the business is seeking to further expand its operations out of County.

Yorwaste/SJB

Recent Developments

The two-year transition period from a business focused on landfill operations to one focused on transfer and recycling operation with a commercial collection business has now concluded. This period saw the acquisition and integration of Todd Waste Management, the closure of the Harewood Whin Landfill, and the ramp-up of the Allerton Waste Recovery Park, which collectively represented a fundamental change to the Yorwaste business model.

In addition to the internal challenges, the wider waste management industry has also seen significant change. The widely discussed “Blue Planet” effect resulted in higher quality thresholds for recyclate material being demanded from the supply chain and heavily influenced the recent Government Waste Strategy, which in turn detailed the need for further investment and innovation in the industry.

Closer to home, the Regional waste market saw a “race for waste” as competitors sought to increase volumes, resulting in flat-to-declining average real commercial rates.

Achievements of 2018/2019

To respond to the ever-changing market Yorwaste has to be more customer focused, more efficient operationally, and more forward thinking in innovation and investment. Yorwaste always needs to prioritise safety in an industry widely acknowledged as one of the most dangerous in the UK.

To meet these challenges Yorwaste has over the past year:

- Set a target of achieving ISO 45001 this year supported by the rollout of behavioral-based Health & Safety.
- Streamlined and refocused the management team to increase accountability and improve decision-making.
- Increased management training for senior and middle management, and implemented management succession planning.
- Invested in information systems to support real-time tracking of vehicles and route optimisation.

- Upgraded the Harewood Whin based Materials Recycling Facility (MRF) to improve recovery rates and meet modern quality thresholds.
- Standardised employment terms and conditions to reduce administration overheads; promote operational flexibility and fairness; and simplify staff rostering.

Whilst significant progress has been made, the Company has been negatively impacted by market pressure on recycle quality and commercial collections, costs arising from the transition to supplying AWRP and the need to modernise plant and equipment to improve operational delivery and reliability. These combined elements contributed to a loss in the 2018/19 financial year.

SJB has had a difficult year with its composting operation due to a very wet Q1 and very dry summer and autumn, with the impact of these issues partially offset by a one off project generating additional revenue.

Veritau

2018/19 was a successful year for the company and the wider group. The group achieved an operating profit ahead of target. The main focus was on the development and roll out of a full Data Protection Officer service for schools and other public bodies. The offer proved attractive to schools across Northern England. Working closely with NYES, the company signed up approximately 500 schools, councils and other organisations. To support the delivery of the service additional specialist staff had to be recruited and investments made in new technologies.

The company retained its Investors in People accreditation and was shortlisted for a number of awards. The company also received a positive assessment report following an external review of its internal audit working practices.