

North Yorkshire County Council

Shareholder Committee

21 January 2020

Brierley Group 2019/2020 Quarter 2 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 Quarter 2 Performance report – see Appendix A.

2.0 Recommendation

- 2.1 It is recommended that the Shareholder Committee notes the report at Appendix A.

Michael Leah
Assistant Director – Strategic Resources
County Hall
Northallerton

10 December 2019

This page is left intentionally blank



2019/20 Brierley Group Quarter 2 report

July to September 2019

Brierley Group Headlines

The performance of the Brierley Group through the second quarter of the 2019/20 financial year has continued in a similar way to the first quarter and the 2018/19 financial year with a mixed performance across the Group. Overall the Group delivered a net profit for the first half of the year (before interest and tax) of just under £500k, however net profit for the end of the year is forecast to be £1.6m, which is £600k short of the budgeted target of £2.2m. The main factors driving this performance are:

In the Education sector there remains a significant squeeze not only on the Group's ability to attract new sales but increasingly the ability to retain business. This is due to schools coming under growing financial pressure and therefore reducing their non-frontline spend, which is the predominance of Brierley Group's offer and also the continued trend for schools to convert to academy status and then consider joining a MAT (multi-academy trust). The impact is that those chains tend to bring services 'in house' and therefore reduce spend with third parties. Therefore the market remains congested with the resultant squeeze on margins.

Legal Services have been identified by NYES as having significant out-of-county sales potential and both First North Law and NYES are targeting the acquisition of commercial contracts in the Academy and MAT sector outside of North Yorkshire. 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 and will help First North Law to grow and move to a profitable position in the future.

NYnet continues to develop a plan to address market competition, working closely with customers and its shareholder to make sure the proposition remains relevant and attractive. Although NYnet is forecasting profit for 2019/20 to be above budget, following the move to new contract terms profits are likely to be smaller than previous years.

For Brierley Homes, the key focus during the first half of the year has been the completion of the first site at Thorpe Willoughby near Selby which was achieved on schedule in July 2019. This site is proving successful for Brierley Homes with all homes now reserved exceeding forecasts on both value and pace of sales. For Brierley Homes, a key issue is the availability/suitability/price of land for development as well as the uncertainty of the current economic and political climate and the potential impact on both construction prices and sales values. A further pipeline of land has been identified to sustain the business longer term and preparatory works are progressing to bring forward these development opportunities.

The actuals for Align for Q2 are slightly above budget. This variation is expected to level out in the second half of the year in line with fluctuations in workload and subsequent client billing and therefore the year end is currently forecast to come in on budget and therefore delivering the growth built into the plan for the Company for 2019/20.

Yorwaste core operations generally performed well, but due to the impact from a facility closure; external commodity prices; and two waste fires; the full year is forecast to be a loss.

SJB Recycling is currently undergoing a period of contraction following the change in EA policy referred to in previous reports.

Veritau again are forecasting to make a small profit by the end of the year. Their main issue is maintaining clients/income streams in a competitive market. The company seeks to maintain its position,

and ideally grow in size and profitability by seeking out new opportunities (the recent GDPR training is an example of this).

To counter the issues described above, as noted previously, 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.

Following the April 2019 decision by NYCC's Executive to migrate the existing Highways operation from Ringway into a wholly owned company, there is significant work required to meet the implementation date of April 2021. The project is continuing at pace while managing the issues of ensuring service continuity through the change and ensuring appropriate staff communication and engagement takes place. It is anticipated this company will sit within the Brierley Group.

Current Challenges

As with Q1, for NYES, as the service is school-focussed, a significant challenge remains in respect of school academisation and the associated sales risk to the current NYES contract portfolio. Additional challenges are presented by the pressure on individual school budgets.

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. It is anticipated that revenue will continue to increase in the future as income generating services start to come on-stream and additional employees are recruited.

For Brierley Homes, a key issue is the availability/suitability/price of land for development as well as the uncertainty of the current economic and political climate and the potential impact on both construction prices and sales values. A further pipeline of land has been identified to sustain the business longer term and preparatory works are progressing to bring forward these development opportunities.

Key challenges for Align are to maintain its position in the market and attract new business. Align has successfully responded to the challenges posed by the academisation of schools and the associated direct funding by the EFA of new construction works by utilising the contacts and expertise of the company's Technical Directors to expand its marketing and business development prospects.

Challenges for Yorwaste are the poor performance of the Seamer materials recovery facility (MRF) where excessive downtime from outdated equipment has forced its early closure and the two fires experienced by the business.

Veritau seeks to maintain its position, and ideally grow in size and profitability by seeking out new opportunities (the recent GDPR training is an example of this).

Future areas of development

The NYES business plan is being developed to address the challenges faced and this will focus on cross-border strategies in order to significantly expand and diversify the current customer base by selling key NYES services into out-of-county schools and academy markets. In addition, focused support is also being given to key services to ensure the services' efficiency through financial planning and to enhance the services through developing new products and services. As noted above both First North Law and NYES are targeting the acquisition of commercial contracts in the Academy and MAT sector outside of North Yorkshire.

NYnet continues to develop a plan to address market competition, working closely with customers and its shareholder to make sure the proposition remains relevant and attractive. The company has identified strategic opportunity for public sector sales growth via geographic growth of the current product offer and the expansion of their product set. These opportunities are being investigated.

It is anticipated that revenue will continue to increase for First North Law in the future as income generating services start to come on-stream and additional employees are recruited.

Brierley Homes now has more stability in its staffing which will help in long term planning and delivery. Recruitment in line with the company's growth strategy was completed in Q2 with two more staff starting which supports the delivery of multiple sites into 2020/21 and beyond. A project governance structure is being embedded to monitor project performance against Key Performance Indicators.

Align is forecasting to come in on budget and therefore delivering the growth built into the plan for the Company for 2019/20. To improve productivity a new software package 'Revit' is being integrated into the design teams which in turn will continue to help facilitate growth in the company in the future.

As noted above, Yorwaste has seen a number of significant challenges to its business over the last year, however that does belie the overall contribution the business makes towards its shareholders. Therefore, looking ahead the business is seeking a more stable platform to operate from whilst continuing to provide a return to its shareholders through the arrangement at Allerton Waste Recovery Park (AWRP). A number of areas are being developed including exploring how best to improve profitability from its commercial business.

The coming months are a critical time for the future SJB, as the leases on its operating sites are up for renewal whilst at the time the business is reviewing its pricing to retender for existing contracts. Veritau seeks to maintain its position, and ideally grow in size and profitability by seeking out new opportunities (the recent GDPR training is an example of this). For 2019/20 there are a number of projects in the pipeline and the company is continuing to sign up clients for its new Data Protection Officer Service.

2019/20 Quarter 2 Brierley Group Financial Summary

The following table sets out the 2019/20 financial position as at the end of quarter 2 for North Yorkshire County Council's share of the Brierley Group.

Brierley Group	Actuals for Year to Date	Full Year Forecast	Full Year Budget	Variance
	£,000	£,000	£,000	£,000
Revenue	28,748	72,608	78,848	(6,240)
Cost of Sale/Service	(24,567)	(63,085)	(69,270)	6,185
Gross Profit	4,181	9,523	9,578	(55)
Overheads & Other Costs	(3,189)	(6,991)	(7,503)	511
Other Trading Income/(Loss)	(384)	(640)	(1)	(639)
Other Gains/(Losses)	(208)	(417)	-	-
Operating Profit	400	1,475	2,075	(599)
Finance Income	92	116	103	13
Profit before Interest & Tax	492	1,591	2,178	(586)
Interest Paid	(308)	(611)	(604)	(7)
Tax (Expense)/Surplus	(26)	2	19	(17)
Profit after Tax	157	982	1,593	(610)

North Yorkshire Education Services

NYES has improved its position from quarter 1 and whilst still not forecasting to achieve its financial target for the year it is still forecast to contribute a financial return to the County Council.

There are significant challenges to the service in respect of school academisation and the associated sales risk to the current NYES contract portfolio as well as the pressure on individual school budgets. The NYES business plan is being developed to address the challenges faced and this will focus on cross-border strategies in order to significantly expand and diversify the current customer base by selling key NYES services into out-of-county schools and academy markets. In addition, focused support is also being given to key services to ensure the services' efficiency through financial planning and to enhance the services through developing new products and services.

The performance by service unit was:

Property and Facilities Management

The unit is forecasting an underachievement against its target for 2019/20, mainly due to reduction in school meal take-up. Building Cleaning is showing an increase in mobile cleaning costs but is seeking to bring this overspend down by management of costs throughout the remainder of the year. Looking ahead the unit is building a robust three-year plan which aims to address the issue of retention.

Education and Skills

The unit is still forecasting to be down against target which has arisen following some large-scale restructures in two of the key service areas which has had a knock-on effect on trading in the current

year. Plans are now in place to develop new products and generate sufficient income to cover service costs and expand where there are clear market opportunities, particularly in out of county areas. It is anticipated that the shortfall against target will be reduced by the end of the year and reasonable optimism that this will continue next year with a strong NYES brand.

Professional Support Services

Most services are on target and some are forecasting overachievement within the Professional unit through a combination of generating new business outside of North Yorkshire, and reduced management costs through control of vacancies. This sector is highly competitive, and therefore a close watch is kept on value for money in operating the services and bidding for new work to ensure the unit exceeds its financial target for 2019/20.

NYnet

NYnet is forecasting profit for 2019/20 to be ahead of budget, however this position includes one-off in-year items to some extent masking the underlying profitability issues facing the business.

NYnet has identified strategic opportunity for public sector sales growth via geographic growth of the current product offer and the expansion of their product set. These opportunities are being investigated.

The company continues 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 reported figures indicate that First North Law are slowly growing and moving into a profitable position in the future, although the year end position is still forecast as an overall loss, broadly in line with budget. The expectation at the end of Q2 is that First North Law will continue to move towards profitability as it further establishes itself in the marketplace as a commercial provider of legal services. First North Law remains reliant on loans from North Yorkshire County Council to support itself in the short term.

Additional staff were recruited last year and revenue has started to increase with income generating services coming on-stream. This will enable the Company to start to recover initial investment costs and move closer to profitability through 2019/20 and into 2020/21.

First North Law continues to service a contract with Brierley Homes. Legal Services have also been identified by NYES as having significant out-of-county sales potential and both First North Law and NYES are targeting the acquisition of commercial contracts in the Academy and MAT sector outside of North Yorkshire. 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.

It is anticipated that revenue will continue to increase in the future as income generating services start to come on-stream and additional employees are recruited.

Brierley Homes

The key focus during the first half of the year has been the completion of the first site at Thorpe Willoughby near Selby which was achieved on schedule in July 2019. This site is proving successful for Brierley Homes with all homes now reserved exceeding forecasts on both value and pace of sales.

The company has four active planning applications in the Harrogate Borough and these schemes are anticipated to be on site during the financial period 2020/21 and will deliver a further 75 homes, with sales forecast in 2021/22.

For Brierley Homes, a key issue is the availability/suitability/price of land for development as well as the uncertainty of the current economic and political climate and the potential impact on both construction prices and sales values. A further pipeline of land has been identified to sustain the business longer term and preparatory works are progressing to bring forward these development opportunities.

The company now has more stability in its staffing which will help in long term planning and delivery. Recruitment in line with the company's growth strategy was completed in Q2 with two more staff starting which supports the delivery of multiple sites into 2020/21 and beyond. A project governance structure is being embedded to monitor project performance against Key Performance Indicators. Each potential project is costed separately throughout its lifetime so monitoring can be accurately forecast. In addition, a new accounting system will help in producing more accurate and timely financial information to aid the decision making process. Competitive bidding for major expenditure on design and construction is applied to ensure value for money and optimise commercial returns. Relationships with key local land agents are developing well and more land opportunities are coming forward to the company for review. Brierley Homes has recently successfully bid on land in the open market and this scheme will come into the programme for delivery in 2020/21.

Align Property Partners

The actuals for Align for Q2 are slightly above budget. This variation is expected to level out in the second half of the year in line with fluctuations in workload and subsequent client billing and therefore the year end is currently forecast to come in on budget and therefore delivering the growth built into the plan for the Company for 2019/20. To improve productivity a new software package 'Revit' is being integrated into the design teams. This, together with the associated training has contributed to an increase in software and training costs, all of which is accounted for in the year end position.

Key challenges for Align are to maintain its position in the market and attract new business. Align has successfully responded to the challenges posed by the academisation of schools and the associated

direct funding by the EFA of new construction works by utilising the contacts and expertise of the company's Technical Directors to expand its marketing and business development prospects.

A new financial information system is now installed. This is enabling Align to adhere to the requirements of Making Tax Digital and also providing more timely and accurate management information.

Overall forecast profit for the year remains in line with budget.

Yorwaste

Yorwaste core operations generally performed well, but due to the impact from a facility closure; external commodity prices; and two waste fires; the full year is forecast to be a loss.

The performance in the Transfer Segment has been strong with additional tonnage and improved gross margin, bulk haulage has also performed in line with budget which is a major improvement compared to the prior year. Harewood MRF has performed above budget with significant improvement in recycling recovery following the recent investment, however performance at Harewood compost has been less favourable due to problems in producing PAS100 (the baseline quality specification for compost), which were exacerbated by equipment failures. HWRC activity has been broadly on budget and central costs have been tightly controlled. Commercial Transport has been performing well in a challenging market and is currently broadly on budget despite increasing competition.

Unfortunately, this positive picture has been negated by the poor performance of the Seamer MRF where excessive downtime from outdated equipment has forced its early closure. The business also experienced two waste fires, one at Seamer Carr, the other at Tancred and whilst both sites were up and running within 24 hours, there have been costs in repairing damage. Both fires are thought to have resulted from Lithium Ion batteries combined with bulky storage and plans to reduce the risk are underway. Whilst the day-to-day operations of the LRA segment have been broadly in line with budget, the revenues from gas production are significantly down with market prices below budget and landfill gas volumes trending lower than expected.

SJB Recycling

SJB Recycling is currently undergoing a period of contraction following the change in EA policy referred to in previous reports. We are now planning withdrawal from two of the three sites we currently operate as with the cessation of co-composting they are no longer commercially viable to operate. The future of the remaining site is dependent on the result of two tenders which will be released in the coming months.

Veritau

There has been little change in the position to that reported at Q1. Although Veritau are showing a loss for the year to date at the end of Q2, the profiling of work means that Veritau is on track to achieve a profit of approximately £20k for the year and there are no significant variances to report. The main issue for Veritau is maintaining clients/income streams in a competitive market. The company seek to

maintain its position, and ideally grow in size and profitability by seeking out new opportunities (the recent GDPR training is an example of this). For 2019/20 there are a number of projects in the pipeline and the company is continuing to sign up clients for its new Data Protection Officer Service.



brierley
group



North Yorkshire
County Council