

**North Yorkshire County Council**

**Shareholder Committee**

**18 January 2022**

**Brierley Group Financial Update 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 Financial Performance Report 2021-22 – see Appendix A.

**2.0 Recommendation**

- 2.1 It is recommended that the Shareholder Committee note the Brierley Group Q2 Finance report in Appendix A.

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Assistant Director  
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5 January 2022

Shareholders Committee

Brierley Group Financial Update

2021-22: Quarter 2 and Future Outlook

## 1.0 Brierley Group Headlines

- 1.1 The trading performance of the Brierley Group through the second quarter of the 2021/22 financial year continues to out-perform 2020/21 as the complications arising from the Covid- 19 pandemic within some sectors start to ease. Overall at the Q2 position, the group delivered an actual loss after tax (6 months of the financial year to 30 September 2021) of £333k against a budgeted loss of £1k, with the forecast to the year-end being a full year profit after tax of £268k against a budgeted profit of £368k. This represents an adverse variance of £100k for the Brierley Group as a whole.
- 1.2 Total revenue generated is behind budget at Q2 which is forecast to continue to the end of the year and is offset by a reduction in the associated cost of sales. The main factors driving this performance are further detailed in the report. Covid-19 had a significant impact on the performance of Brierley Group during last year and the forecast for 2021/22 assumes that Covid continues to impact some of the markets in which Brierley Group operate and is reflected in the future forecast.
- 1.3 Within Align Property Partners (APP), workload continues to be strong with several commissions received from both NY Highways (NYH) and several external clients. Align are on a number of public sector frameworks such as Cumbria, Durham, Barnsley, North Lincolnshire, and continue to attract a range of public sector clients both in and out of county. In the current year, profit levels are expected to significantly exceed budget and be ahead of pre Covid trading levels which is forecast to continue for at least the next 3 years of the business plan.
- 1.4 NY Highways (NYH) went live on 1st June with all existing Ringway staff transferring to NYH as expected. The late Q1 inception date combined with implementation work required on the Sage accounting software meant that NYH financial reporting was not available at the end of that quarter. Following further completion of the implementation work, this Q2 report now incorporates NY Highways financials. These include an associated shareholder value deliverable to NYCC of £1.69m. These forecasts have a material impact upon the 2021/22 consolidated Group financials.
- 1.5 The present assumption is that Covid will still be impacting services for the foreseeable future in terms of both face to face delivery as well as associated NYES sales and marketing activity. While NYES continues to accrue some benefits of remote working and operating digitally, Covid cases in the UK continue to rise and become more prevalent in schools, which is impacting upon attendance and school priorities. School meal uptake in particular continues to be unpredictable, with local pockets of isolation impacting on the service.
- 1.6 Inflation continues to build in the UK and is forecast to peak into early 2022, this is having a material effect on the supply chain in a number of areas; food, transport, energy and fuel and rising wage costs. These factors not only increase NYES costs and erode margins but add cost pressures into discretionary spending available in schools.
- 1.7 NYnet has made significant progress with the delivery of the Local Full Fibre Networks project, which suffered delays in obtaining wayleaves and access to sites. The roll out of public Wi-Fi and IoT network will increase pressure on the NYnet technical resources in Q3 but this has been anticipated in the funding of the later projects.

- 1.8 First North Law continues to build on a strong Q1, with Q2 being the second successive quarter where FNL reported a profit. This was despite a significant increase in the cost of Professional Indemnity Insurance (PII) which has increased 70% from last year. PII increases are being seen across the legal sector and are not unique to FNL. Turnover is significantly up on last year and client satisfaction is reasonable although FNL requires additional resources to ensure that the standards set in the last year continue to be met.
- 1.9 Brierley Homes is currently focused on construction activity at three sites; Woodfield Square, Millwright Park and Yew Tree Farm. The main issues within the construction industry are the availability of materials and labour to complete committed projects to time, cost and quality. This risk is mitigated on projects currently under construction by the fixed price nature of Brierley Homes contracts and professional supervision of the contractor to maintain quality. Completion of the Millwright Park development scheduled for FY21/22 has been pushed into early FY22/23.
- 1.10 The sales market for residential housing remains very strong with healthy interest across all active and pipeline developments giving good confidence in future business performance. Further land assets are under review for inclusion in the programme in order to maintain the identified average a targeted delivery rate of 50 homes per annum recurring.
- 1.11 Commercial segment performance was strong for Yorwaste with trade collection customers returning slightly above expected levels, and disposal tonnages being initially lower also helping Q2 margins. Some additional opportunities related to direct tipped waste handling also helped to lift profit in the quarter. The challenges in retaining and recruiting drivers due to the Brexit / Covid impacts that had started to impact service delivery have now been largely resolved, but will need continued monitoring as the national driver shortage continues.
- 1.12 The Veritau group is continuing to attract new clients with a number of academy schools and trusts signing up for services during 2021/22. Member councils are also requesting additional support, while overall client satisfaction and retention rates remain high.
- 1.13 NY Highways is now close to 5 months trading and despite mobilising through Covid, has already proven to be a success on the ground, with positive feedback from the public and members alike.
- 1.14 Systems and financial accounting process implementation is ongoing as expected with any start-up company, with a lot of focus on supply chain, invoicing and fleet processes. The system pressures in year 1 are expected to increase SLA activity from NYCC services, where significantly more back office support is needed.
- 1.15 The public perception of the NYH remains a seamless continuation of the service delivery allowing the business to push forward quickly and bring some other business improvements including the completion of the Carbon Plan and development of a carbon counting tool, the recruitment of apprentices and HGV drivers and a pilot of “spray injection patching” which reduces potholes prices by up to 30% a pothole.

### 2.0 Current Challenges

- 2.1 Last year the impact of Covid was felt by those areas directly engaged in front line service delivery, this has continued into 21/22 with NYES catering in particular being impacted the most. The service is the largest in the NYES portfolio and reliant on economies of scale in delivering high volume of throughput to drive down the cost per meal, with meal uptake during the first 6 months of the financial year tracking at approx. 90% to budget.
- 2.2 NYES core areas of focus continue to be targeted on longer term business plan actions in; pursuing profitable new opportunities, being innovative in their products, services and business processes, developing the (Multi Academy Trust) MAT offer and ensuring consistent service delivery and customer experience throughout the life of contract.
- 2.3 The NYES service offer is heavily reliant on having the right calibre of people within the organisation to maintain and deliver to a high standard. Recruitment and retention has been an issue which is evidenced in many service sectors throughout the UK. It is vital that there is capacity and resilience within teams to maintain and grow the sales pipeline and optimise opportunities presented for an evolving traded offer. Both the HR and the Financial Management Services team have recently appointed into key commercial lead roles that will focus on business growth and work towards long term business plan targets.
- 2.4 A commercial work stream has been developed to understand and plan around the outcome of the Local Government Reorganisation (LGR) on traded activity. It is anticipated that this will impact upon services that carry traded and statutory responsibilities, where team resources will be prioritised in mobilising LGR work.
- 2.5 NYnet has made significant progress with the delivery of the Local Full Fibre Networks (LFFN) project, which suffered delays in obtaining wayleaves and access to sites. Due to wayleave issues and subsequent delays in migrating sites to LFFN, the drive for new sales onto LFFN has been pushed back so that resources are not withdrawn from the main task of migrating sites. The roll out of public Wi-Fi and Internet of Things (IoT) network will increase pressure on the NYnet technical resources in Q3 but this has been anticipated in the funding of the later projects.
- 2.6 Staffing resource is the key issue and challenge facing First North Law (FNL) at present. FNL have built several relationships with new clients outside of North Yorkshire in the last year leading to a stronger pipeline of business. These new trading relationships will require further investment to grow the business capabilities and the need to recruit additional expertise to further expand its client base.
- 2.7 For Brierley Homes, the most pressing issue in the construction industry at present is the availability of materials and labour to complete committed projects to time, cost and quality. This risk is mitigated on projects currently under construction by the fixed price nature of Brierley Homes contracts and professional supervision of the contractor to maintain quality. However, inflated pricing for future jobs has been noted and future procurement and purchasing decisions in the design and construction disciplines will be vital to the long term success of the company along with maximising sales values. Maintaining a competitive tension with trusted supplier bases in order to drive value for money whilst maintaining quality as a core focus in the business plan period will be key for Brierley Homes.

- 2.8 The key issue for Align Property Partners is to continue to rebuild its workload via existing and new clients, whilst operating in an increasingly competitive market place. Associated with this is the challenge of recruiting and retaining staff with the required skills and expertise as the company moves into different markets including NYH contracts. These increased resource requirements have necessitated the use of agency staff to strengthen the team during the first half of 2021/22, which is expected to continue to the end of the year and beyond.
- 2.9 Yorwaste has seen a continued return of customers as restrictions eased, with growing volumes in Q2. Businesses, however, will continue to find trading challenging over coming months with lower demand than normal coupled with staffing challenges and wider impacts of Covid. Yorwaste may see the permanent closure of more customers, at this stage the situation is fluid, however the company continues to attract new business helped by the customer care approach during lockdown. The budget in the second half of the year remains a challenge for the commercial collections' activity, together with increased driver and fuel costs. However, this is expected to be mitigated by the continued positive revenue from power generation due to increased electricity prices.
- 2.10 The driver position is a forward risk. Yorwaste are benefiting from a core of drivers who have been with the company for several years.
- 2.11 The main risk for Veritau continues to be staff recruitment and retention, which is a common issue across many sectors in the UK at present. Staff turnover continues to increase resulting in an increase in competitive pay rates. The loss of key staff has caused some ongoing challenges with regard to the delivery of services to existing clients.
- 2.12 Systems and financial accounting process implementation is ongoing for NY Highways as expected with any start-up company, with a lot of focus on supply chain, invoicing and fleet processes. The system pressures in year 1 are expected to increase SLA activity from NYCC services where significantly more back office support has been needed than expected.
- 2.13 The first year financial and operational baseline is key in establishing areas to target improved efficiency, using that financial information as a basis to set key targets for the business and focus clearly on savings and income targets identified in the business plan.

### **3.0 Current and future areas of development**

- 3.1 APP continues to attract clients that can provide a consistency of work over a number of years. FY21/22 and subsequent years are forecast to generate strong shareholder returns into the Brierley Group, in addition to expanding its expertise and close working relationship with NY Highways.
- 3.2 As seen across other sectors, APP are seeing difficulties within the labour market in the UK, which has led to the use of agency resource to service and fulfil contracts. This is expected to continue into 2022/23 until the right calibre of staff can be placed.
- 3.3 As well as looking at where efficiencies can be made, a key area of focus is clearly defining the purpose and proposition of NYES. Innovation is essential to commercial success and work is progressing across the portfolio to improve the core, traded offer and to adapt and evolve, to predict and meet the changing needs of the sector and customers.

- 3.4 In partnership with One Awards NYES is now developing and launching unique, commercially competitive accredited digital courses. Notably, achievement of NYES/One Awards accredited units results in nationally recognised certification, adding significant value to the existing proposition. Using a state of the art ELearning platform, VLearn, NYES courses will be promoted and accessed both nationally and internationally, signposting the NYES brand and wider portfolio generally.
- 3.5 Developing off the shelf products within the NYES portfolio to supplement annual contracts will allow NYES to capture more market share throughout the year. Increased collaboration with sector experts, along with NYNET, YPO and One Awards, is also leading to additional opportunities, which will result in improved reach and new income streams in the months ahead.
- 3.6 NYnet is working with NYCC to develop a number of opportunities that will strengthen the company and allow alternative delivery methods for NYCC. NYnet has obtained a Market Economic Operators Principals (MEOP) approval to allow NYnet to leverage and market the LFFN network to the private sector excluding business parks. NYnet also now has technical relationships with a significant number of public sector organisations outside the County border and will be building on them to try and bring in further commercial opportunities.
- 3.7 FNL turnover is predicted to remain stable for 22/23. While higher staffing costs, following recruitment will temporarily reduce profitability, the company is still expected to deliver a trading profit for the year. The additional resources added will allow for greater time to be spent on marketing and organic growth of FNL.
- 3.8 The next phase of the Brierley Homes pipeline continues to go ahead, with 3 sites scheduled to complete in the next financial year as well as construction activity planned during 2022 across an additional 3 sites and further sites awaiting planning submissions which takes the existing pipeline into FY25/26 with further land assets under review in order to maintain a healthy lifecycle and cash flow.
- 3.9 Current commercial activity for Yorwaste continues to be buoyant, revenues are tracking ahead and landfill gas revenues from the LRA (Landfill, Restoration and Aftercare) are above expectations. The challenges in retaining and recruiting drivers due to the Brexit / Covid impacts that had started to impact service delivery have now been largely resolved, albeit at an increased cost to the business as the national driver shortage continues.
- 3.10 Strategies are being developed to mitigate and address the driver shortages including HGV qualified managers and planners taking occasional shifts.
- 3.11 Veritau is continuing to review its pay and rewards offer in order to help reduce the loss of qualified and experienced staff. It is envisaged that the resourcing pressures being felt across the sector will see some competitors encounter service provision difficulties of their own; providing potential opportunities to the Veritau Group in relation to contract acquisition.
- 3.12 One of the Veritau Group companies, Veritau North Yorkshire, will cease trading from 1st April 2023 due to the implementation of LGR. All existing staff, assets and contracts will be transferred to Veritau Ltd on that date.

- 3.13 NY Highways faces similar problems in attracting and retaining skilled workers but following a successful recruitment drive have been able to secure the required HGV drivers to run the NYCC winter service. The business needs to steadily and organically grow the workforce in the coming months, to provide resilience and prepare for further expansion of the services as laid out in the Business Plan.
- 3.14 Further business activity is focused on the following areas:
- Completion of the NY Highways Ltd carbon plan, which will assist the council in meeting DFT survey requirements but more importantly achieve carbon delivery on behalf of the company.
  - Local Council's Road Innovation Group (LCRIG) have awarded NY Highways £20,000 from their innovation fund, to develop a carbon counting tool
  - The recruitment of 7 apprentices, in an attempt to arrest the ageing workforce and loss of skills, something the industry faces nationally
  - Successful recruitment of the HGV drivers needed to deliver winter services
  - The pilot of "spray injection patching" which reduces potholes prices by up to 30% a pothole

#### 4.0 2021/22 Q2 Brierley Group Financial Summary

- 4.1 The following tables set out the 2021/21 financial position at Q2, the forecast to the end of the 2021/22 financial year for North Yorkshire County Council's share of the Brierley Group, and the total value to NYCC as shareholder of the Brierley Group companies.

| Brierley Group               | Actuals<br>Q2 | Budget<br>Q2 | Variance<br>Q2 | Projection<br>2021/22 | Budget<br>2021/22 | Variance<br>2021/22 |
|------------------------------|---------------|--------------|----------------|-----------------------|-------------------|---------------------|
|                              | £,000         | £,000        | £,000          | £,000                 | £,000             | £,000               |
| Revenue                      | 38,201        | 48,692       | (10,491)       | 91,706                | 109,097           | (17,391)            |
| Cost of Sale/Service         | (31,660)      | (41,609)     | 9,948          | (75,716)              | (92,929)          | 17,213              |
| Gross Profit                 | 6,541         | 7,084        | (543)          | 15,990                | 16,168            | (178)               |
| Overheads & Other Costs      | (5,760)       | (5,767)      | 7              | (13,093)              | (12,967)          | (125)               |
| Other Trading Income/(Loss)  | (240)         | (223)        | (17)           | (464)                 | (447)             | (17)                |
| Other Gains/(Losses)         | (150)         | (164)        | 14             | (328)                 | (372)             | 44                  |
| Operating Profit             | 390           | 929          | (539)          | 2,106                 | 2,382             | (276)               |
| Finance Income               | 21            | 1            | 20             | 3                     | 1                 | 2                   |
| Profit before Interest & Tax | 411           | 930          | (519)          | 2,108                 | 2,383             | (274)               |
| Interest Paid                | (594)         | (929)        | 335            | (1,639)               | (1,987)           | 348                 |
| Tax (Expense)/Surplus        | (150)         | (2)          | (148)          | (201)                 | (28)              | (173)               |
| Profit after Tax             | (333)         | (1)          | (332)          | 268                   | 368               | (100)               |

\* Consolidated figures based on NYCC Brierley Group shareholding. Company financials based on 100% of traded performance

- 4.2 The table above highlights a Brierley Group performance of an actual loss of £333k for Q2 and a forecast profit of £268k compared with a budgeted profit of £368k at year end. The performance of each organisation driving this result is explained in detail below.

| Shareholder Value                   | Total NYCC   |
|-------------------------------------|--------------|
| <b>Financial Year:</b>              | <b>21-22</b> |
| <b>Value</b>                        | <b>£000</b>  |
| Profit before Interest and Tax      | 268          |
| NYCC Support Service Contracts      | 2,019        |
| NYCC Loan Financing Interest        | 1,370        |
| Other Deliverable Shareholder Value | 2,241        |
| <b>Total</b>                        | <b>5,898</b> |

- 4.3 The table above demonstrates total value to NYCC as shareholder of the Brierley Group companies as this benefit is significantly in excess of the profit generated by each organisation. A total Shareholder Value of £5.89m is generated in 2021/22 through group profitability, income to NYCC through Service Level Agreements, loan interest and the financial benefit of the Allerton Waste Recovery Park contractual agreement.
- 4.4 North Yorkshire Education Services**  
The forecasted and consolidated trading performance for NYES is tracking to marginally under-perform the 2021/22 commercial challenge target.
- 4.5 Results are mixed throughout the portfolio, continuing the trend from the last financial year with the professional service areas tracking ahead, partially mitigating adverse variances in the Property and Facilities areas, where trading arrangements continue to be more severely impacted by the pandemic.
- 4.6 NYES has recently invested in its Customer Relationship Management (CRM) functionality to improve consistency of communication between schools and customer service teams, which has allowed it to build up knowledge and deal with any issues or concerns more effectively.
- 4.7 NYnet**  
The company has sustained its strong performance into Q2 with growth continuing into different product ranges. Local Full Fibre Network (LFFN) migrations are on track to be completed on schedule and all sites migrated by the end of Q3. Projected Gross Profit remains in line with Budget, while Profit before Interest and Tax is currently projected to outperform Budget and is attributable to a higher than anticipated LEP contribution.
- 4.8 First North Law**  
A projected out-performance against a break-even Budget is indicative of the continuing sales growth and revenue generation as the company develops its commercial offer.
- 4.9 The monthly retainer arrangement has been used to offer the client base competitive rates, while also guaranteeing FNL an income stream to invest in additional services, employees and marketing to target external clients in 2021/22.
- 4.10 Brierley Homes**  
Brierley Homes was established as a development company to generate income to reinvest for the benefit of local taxpayers using surplus county land assets and delivering on a private sector basis. Construction pipeline is financed via an NYCC loan drawdown facility with (variable) interest repayable based on market rates. Brierley Homes budgeted to make a loss in its early years, as due to the nature of the business, there are overhead costs initially to establish the business, purchase land and construct homes prior to any sales income being achieved.
- 4.11 Brierley Homes is forecasting a loss in 2021/22, which is primary driven by the development pipeline showing no realised sales in the current financial year. Due to the pause in the construction sector, there is a timing delay until sales are realised. The next phase of the development portfolio shows a profitable position from 22/23 onwards.

- 4.12 The main issues within the construction industry are the availability of materials and labour to complete committed projects to time, cost and quality. This risk is mitigated on projects currently under construction by the fixed price nature of Brierley Homes contracts and professional supervision of the contractor to maintain quality. However, inflated pricing for future jobs has been noted and future procurement and purchasing decisions in the design and construction disciplines will be vital to the long term success of the company along with maximising sales values.
- 4.13 The current pipeline of work extends to FY25/26, with current construction activity focused on three sites:
- Woodfield Square, Harrogate: 19 homes scheduled for completion in Feb 2022
  - Millwright Park, Pateley Bridge: 20 homes scheduled for completion in Apr 2022
  - Yew Tree Farm, Marton-cum-Grafton: 21 homes scheduled for completion in Sept 2022
- 4.14 The overall shareholder value proposition remains strong both in terms of value deliverable to NYCC in 2021/22 as well as over the full course of the business plan cycle.
- 4.15 Align Property Partners**  
Q2 delivered a strong sales and margin position, with contract volumes continuing to increase, both from NYCC and external clients and have been further bolstered by a substantial level of work being undertaken on behalf of North Yorkshire Highways
- 4.16 This strong trading performance is expected to continue into the second half of the year with current financial projections anticipating a material outperformance against the FY21/22 budget.
- 4.17 Yorwaste**  
The quarter ended with a Profit significantly ahead of budget with a forecast to year end that broadly maintains this level of outperformance. The positive profit variance is generated by higher net revenues at commercial and increased landfill gas revenues from Landfill, Restoration and Aftercare (LRA).
- 4.18 The Commercial segment performance has been strong with trade collection customers returning slightly above expected levels, and disposal tonnages being initially lower helped Q2 margins also. Some additional opportunities related to direct tipped waste handling also helped to lift this profit in the quarter.
- 4.19 Veritau**  
Veritau is expecting to marginally underperform its budgeted profit for 2021/22 with capacity and expertise in the business under review. Despite the slight full-year profit shortfall currently projected, Veritau is continuing to win new contracts and expand the range of services provided to existing clients. It is therefore expecting to increase turnover and profits for 2022/23 in line with recent years.
- 4.21 North Yorkshire Highways**  
A net trading loss and adverse result against budget to the end of Q2 is driven by timing issues and how the Budget is profiled. Winter, Capital and Framework costs will start to see associated margins come through in Q3 and Q4.
- 4.22 A Profit after Tax is forecast for the year end, though NYCC capital programme reductions mean it is forecast to be slightly lower than Budget. Overall projected shareholder value deliverable back to NYCC is also extremely strong.