

North Yorkshire County Council

Shareholder Committee

21 June 2022

Brierley Group FY2021-22 Financial Performance 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:

- Brierley Group FY2021-22 Financial Performance report – Appendix A

2.0 Recommendation

2.1 It is recommended that the Shareholder Committee note the Brierley Group FY2021-22 Financial Performance report in Appendix A.

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13 June 2022

Shareholders Committee

Brierley Group Financial Update

FY2021-22 Financial Performance Report

1 Brierley Group Headlines

- 1.1 The Brierley Group of organisations operate in a range of sectors and delivered a mixed outturn for the financial year to March 2022 due to the impact of Covid and the current and emerging market conditions. The unaudited financial position shows actual revenue of £97.4m against a budgeted revenue of £109.9m, resulting in a loss after tax of £327k against a budgeted profit of £324k.
- 1.2 Align, NYNET and Yorwaste delivered strong performances ahead of budget as the recovery from Covid continues while Brierley Homes and NY Highways posted losses for the year. The loss in Brierley Homes is in line with budget as three sites were in a construction phase during the year with the sales to be realised in 22/23 while NY Highways posted a loss as it was its first year of operations as the company experienced higher mobilisation and integration costs than anticipated to bring its operational and financial systems online – a move to profitability is budgeted for in 22/23.
- 1.3 Additional value delivered to NYCC in the form of income for Support Service contracts, Loan Interest and the financial benefit of the Allerton Waste Recovery Park contractual agreement is also presented, with these benefits adding to shareholder value and significantly exceeding the profit generated by each with total Shareholder Value for 21/22 of £5,576k.
- 1.4 The expectation is a return to a positive profit after tax position through FY22/23. Brierley Homes will see the sales completion of a number of sites; Woodfield Square, Millwright Park and Yew Tree Farm and NY Highways are now in a stronger position to refine and streamline the business, with other companies in the portfolio like First North Law, Align, NYnet and Veritau building on the successes of FY21/22 with high levels of customer retention and satisfaction as well as additional capacity and expertise into their teams.
- 1.5 2021/22 has been an unusual year for all the organisations as they have moved out of the Covid restrictions and have all had to deal with a challenging trading environment with similar significant issues being experienced throughout the group. These include a challenging staff recruitment and retention environment, high energy costs, rising material costs and challenges brought about by schools academisation.
- 1.6 The previous financial year was driven by the impact and challenges of Covid-19, which brought significant practical and financial challenges to the Brierley Group. The education sector in particular saw the introduction of large scale restrictions into schools which impacted on their immediate priorities. The situation around pupil and staff absence continued into this financial year but showed signs of improvement following the start of the new academic year in September. This brought more stable attendance levels, however levels still continue to track below the pre Covid Department for Education levels.
- 1.7 North Yorkshire Education Services (NYES) continued its hybrid operating model, with the Facilities Management areas physically delivering into school locations complimented by the Professional Services areas, offering both virtual and in person support that is convenient for schools. A transition away from a wholly physical delivery model has allowed NYES to accrue savings from sales and marketing activities, travel expenditure and office costs, with some areas seeing an increase in capacity and agility to service customers.
- 1.8 Align Property Partners (APP), have recovered from the effects of Covid-related disruption, with work volume and margins significantly exceeding pre-pandemic levels, outpacing what Align can deliver. Order book is strong with commissions received from both NYCC and a range of external clients, which provides general optimism going forward.

- 1.9 Yorwaste segments performed positively, with most of the upside coming from Commercial and the Landfill, Restoration and Aftercare (LRA) areas. The LRA segment saw improved gas revenues driven by strong electricity prices.
- 1.10 The Veritau Group exceeded expectations, delivering a number of new internal audit contracts with strong demand coming from the Education sector for the Data Protection Officer (DPO) service during the year. Customer satisfaction and client retention rates tracked very high although staff recruitment and retention remains an issue.
- 1.11 NYnet continued its strong performance into Q4, with tight cost control complimented by growth through a diversified product range that allowed the Company to nearly achieve its sales target for the year. NYnet saw the implementation of Local Full Fibre Networks (LFFN) to all scheduled locations and sites were migrated by 31 March 2022.
- 1.12 First North Law is now in its third year of operation, with turnover significantly ahead on last year's trading. The business secured some significant pieces of work in the MAT sector and continued to deliver effective retainer services throughout the Brierley Group. The financial year saw significant increases in the sector-wide cost of Professional Indemnity Insurance (PII).
- 1.13 Brierley Homes is forecast to move into a profitable position from 2022/23 following a budgeted loss in 21/22 when it is forecast that the sales income will be achieved for the 3 sites; Woodfield Square, Millwright Park and Yew Tree Farm currently under active development. Historic performance has been impacted by timing delays to the programme through construction to sales completion but sales off plan remain strong.
- 1.14 The Woodfield Square and Millwright Park sites are due to complete in summer 2022. Both projects have experienced delays caused by labour and materials shortages being experienced across the construction sector nationally. Yew Tree Farm at Marton cum Grafton is now progressing well and is scheduled to complete in winter 2022. The Whorlton Meadows development of nine stone built homes in Swainby is due to commence construction imminently and the revenue recognised in the 23/24 financial year.
- 1.15 NY Highways (NYH) had a challenging first financial year but ended in a steady position. Although NYHighways reports a loss, overall it has been a successful first 10 months of trading considering the challenges of setting up a new company in addition to the difficult market conditions. The loss in the first year of trading is driven principally by additional implementation costs which were not foreseen at the time of setting the budget, including additional Finance and Business Support Service time, Week 1 costs were more than originally planned due to having to adhere to social distancing restrictions (multiple events at depots, outdoor settings, extra staff to support each site), Personal Protective Equipment (PPE) and Training. Public, Member and officer feedback following the first winter service has been extremely positive with only minor complaints evidencing the key success criteria that the "public perceives no real difference in service". NY Highways now have the strong foundation needed to move forward with the business plan.

2. Current Challenges

- 2.1 Covid still continues to present some challenges in education markets, in particular areas directly engaged in front line service delivery, and this has continued into 21/22 with NYES Catering 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 delivered.

- 2.2 The labour market continues to be very challenging in all sectors limiting a lot of companies' ability to recover from the pandemic and grow their businesses. Many companies and traded services continue to have issues with recruitment and retention leading to foregone business opportunities and some customer refunds. Rising inflation continues to be an issue across the Group.
- 2.3 Key issues for NYnet include Local Government Reorganisation (LGR) with property rationalisation as a result of multiple properties in each area likely to result in circuit ceases. In addition home working may result in further property rationalisation.
- 2.4 As with several of the Brierley Group organisations, staffing resource continues to be the key issue and challenge facing First North Law (FNL). FNL have built 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 and ensure the sustainability of future service delivery.
- 2.5 The Senior Development Manager for Brierley Homes left the company in March, stretching the capacity of the remaining two employees. An initial recruitment exercise to appoint a Construction Manager in an amended role was unsuccessful but a second recruitment process has resulted in an appointment with the successful candidate starting in June 2022 with the remit to review and ensure timely delivery of the pipeline sites.
- 2.6 With three sites due to complete in 2022, the requirement to acquire sites to continue the programme is pressing and is a key aim of 2022. In a competitive market, there is little availability of sites, particularly with planning consent which represents a risk to the short term deliverability of the Business Plan. Rising construction costs continues to impact on the viability of some sites in the project plan.
- 2.7 Align have recovered from the effects of Covid-related disruption, with work volume and margins significantly exceeding pre-pandemic levels. The key issue for APP is now the challenge of recruiting and retaining staff with the required skills and expertise as the Company expands. Increased staffing requirements have necessitated the use of agency staff and external consultants as the company acquires greater workloads and moves into different markets after securing significant external client contracts under collaboration agreements.
- 2.8 Yorwaste finished the year well, however future fuel costs are expected to be significantly higher, both directly with its own fleet operations and indirectly from third party contractors. Fuel is also having a knock on effect to other costs and current expectation is that inflation will continue to rise which are costs Yorwaste will need to absorb.
- 2.9 Recruitment and retention of staff continues to be a risk for Veritau in terms of the ability to deliver services but it also provides opportunities because of the resourcing pressures across the local government sector. Veritau North Yorkshire will cease trading from 1 April 2023 due to LGR. The existing staff, assets and contracts will therefore be transferred to Veritau Limited on that date. Work is ongoing to prepare for this change.
- 2.10 NY Highways have had some significant challenges in establishing the range of financial and operational systems and reporting, this will continue into FY22/23 as further refinement is required to drive more efficient and effective processes including the current works management system. A further challenge is recruitment with the continued loss of key members of staff to competitors and neighbouring contracts coupled with an ageing workforce.

3 Current and future areas of development

- 3.1 NYES Catering continue to promote and publicise meal uptake amongst schools. The work stream is supported by colleagues in Public Health and the Children and Young Peoples Service (CYPS) with the aim of demonstrating commitment as a Local Authority and as a commercial provider to delivering healthy, appealing, school meals to children of all ages, improving the health and ability to learn of young people. The goal is to achieve record numbers of pupils taking free and paid school meals, thus reducing the number of children taking packed lunches to school – an increasing trend since the onset of COVID. This will give NYES Catering greater economies of scale and drive down the cost per meal levied onto schools and parents.
- 3.2 NYES continue to review its portfolio, including the viability of its individual product lines as well as looking at end to end processes, overheads and efficiency savings. Given the challenges in the labour markets in addition to the rising cost of service delivery through inflation and additional national insurance impacting on higher pricing, it is vital that its products remain marketable, affordable to schools and financially viable.
- 3.3 Since the circulation of the NYES Business Plan, a review of the NYES structure has been commissioned, reflecting the intention to evaluate existing commercial activity and profitability.
- 3.4 NYnet has plans to pursue the remaining public sector areas in North Yorkshire, particularly North Yorkshire Police and has also obtained a Market Economic Operators Principals (MEOP) approval to allow the Company to leverage and market the LFFN network to the private sector and business parks.
- 3.5 NYnet has developed the Internet of Things (IoT) gateways and backhaul capability that will allow NYCC; other Brierley Group companies, other public sector and private sector organisations to deploy IoT sensors that achieve efficiencies through real time data, the trials for IoT commenced. NYnet is the largest federator/reseller of Govroam in the UK and this will be used to expand its services, particularly in the North East.
- 3.6 FNL are developing a marketing strategy with a particular focus on trying to secure a place on the WPS framework. If FNL is successful in its bid to be added to that framework, turnover is expected to increase slightly as a result of increased work streams.
- 3.7 The appointment of a Construction Manager to Brierley Homes signifies a change in focus with a potential move into construction management as a method of reducing construction cost and enhancing project viability. In addition, specialists are being sought to support the land acquisition process through identifying sites and producing development appraisals to fill the forward portfolio and keep momentum of developments.
- 3.8 Veritau is continuing to review its pay and rewards offer in order to help reduce the loss of qualified and experienced staff and has introduced a new hybrid working arrangement from February 2022. This will increase flexibility and choice for employees in when, where and how they work, reduce travel to lessen environmental impact and improve efficiency. The Group continues to view its graduate training programme and investment in specialist areas such as IT audit and data analytics as being key priorities to support future growth and maintain the existing client base.
- 3.9 NY Highways continues to develop its financial systems, including the works management and real time data collection, with significant progress anticipated throughout FY22/23. The company has now carried out successful “Safety Stand-Down Days” to reinforce key messages around safety and an enhanced driver skills, which will be followed by a programme of advanced driver training in key positions.

- 3.10 Staffing issues including a loss of Staff and ageing workforce remain issues which are being addressed. NYH have an Apprenticeship programme which is going some way to improve the situation and HR are supporting the business to analyse market rates and ensure the best affordable packages are offered in an attempt to retain more staff alongside a recruitment drive. Rising Inflation has significant implications for NY Highways and so the company is currently examining all suppliers within the contracts register and where necessary either re-tendering or breaking up larger contracts into individual disciplines in an attempt to reduce price risk.

4 2021/22 Q4 Brierley Group Financial Summary

- 4.1 The following table sets out the 2021/22 outturn financial position 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	Performance 2021/22	Budget 2021/22	Variance 2021/22
	£,000	£,000	£,000
Revenue	97,414	109,888	(12,475)
Cost of Sale/Service	(82,306)	(93,871)	11,565
Gross Profit	15,107	16,017	(910)
Overheads & Other Costs	(12,778)	(13,387)	609
Other Trading Income/(Loss)	(596)	(447)	(149)
Other Gains/(Losses)	(303)	(440)	137
Operating Profit	1,430	1,743	(313)
Finance Income	3	1	2
Profit before Interest & Tax	1,432	1,744	(311)
Interest Paid	(1,413)	(1,392)	(21)
Tax (Expense)/Surplus	(347)	(28)	(319)
Profit / (Loss) after Tax	(327)	324	(651)
NYCC Support Service Contracts	2,087	2,238	(151)
NYCC Loan Financing Interest	1,260	846	414
Other Deliverable Shareholder Value	2,556	2,442	114
Total Value Deliverable to NYCC	5,576	5,850	(274)

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

- 4.2 The table above outlines a consolidated trading loss of £327k for 2021/22 for NYCC owned Brierley Group organisations. This position is driven principally by losses in Brierley Homes and NY Highways offset by profitable positions in the rest of the Group. Align, NYNET and Yorwaste delivered strong performances ahead of budget as the recovery from Covid continues while Brierley Homes and NY Highways posted losses for the year. Additional value delivered to NYCC in the form of income for Support Service contracts, Loan Interest and the financial benefit of the Allerton Waste Recovery Park contractual agreement is also presented, with these benefits adding to shareholder value and significantly exceeding the profit generated by each with total Shareholder Value for 21/22 of £5,576k.
- 4.3 The Brierley Group continues to explore areas of synergy from which benefits of scale and shareholder value can be derived. Examples of these synergies include shared sales and marketing functions as well as non-operational overheads, where packages of support for Finance, HR, Legal and other professional services are delivered across the Group. The leveraging of the group's scale is integral to generating further efficiencies and remaining cost competitive.

4.4 North Yorkshire Education Services

- 4.4.1 NYES achieved a profitable outturn and ahead of budget, a significant movement from FY20/21 which brought about difficult trading conditions due to Covid. The Property and Facilities segment underperformance was attributable to NYES Catering which has been the service mostly impacted in the last couple of years, with pupil attendance levels difficult to forecast, increased absence amongst staff due to Covid and rising cost of food eroding margins due to the fixed meal price model.
- 4.4.2 School attendance has been unpredictable throughout the trading year, dropping to an average of 75% on the approach to the summer break. Following the start of the new academic year in September, attendance was less sporadic and more stable however DfE data show that it still continues to be lower than the pre-Covid average of 95%. In addition, School staff absence for Covid and non-Covid reasons has climbed throughout the academic year. The continuing effects of Covid are still apparent in the education sector and impacting on school priorities and the trading conditions of NYES.
- 4.4.3 The Property and Facilities segment saw a strong outturn position for the Cleaning and Health and Safety services, tracking significantly ahead of budget due to additional commissioned work being backfilled within the existing teams. Throughout the year significant work has been undertaken to develop the new property solutions offer giving schools access to a repairs and maintenance dashboard and data. This has gone live in April 2022. NYES Energy achieved a breakeven position with the current energy crisis taking up a lot of staff time keeping schools informed and advised about the continued impact on their energy prices.
- 4.4.4 The Professional Services area continued to deliver a solid performance with some key contract awards as well as additional commissioned income and high levels of customer retention and customer satisfaction. NYES Digital saw a loss of revenue and gross margins, the global supply issues associated with hardware still showing long lead times, which has impacted on the associated upselling of installation and additional bolt on services

4.5 NYNet

- 4.5.1 NYnet continued to build its strong performance throughout 21/22, with tight cost control complimented by growth through a diversified product range that allowed the company to nearly achieve its sales target for the year.
- 4.5.2 Implementation of Local Full Fibre Networks (LFFN) to all scheduled locations was successfully completed and sites were migrated by 31 March 2022.

4.6 First North Law

- 4.6.1 The Company is now in its third year and has moved from loss making to making to a trading profit in 21/22. The business continues to build on a strong first half of the year despite significant increases in the sector-wide cost of Professional Indemnity Insurance (PII) which has increased 70% from last year.
- 4.6.2 Turnover continues to be significantly up on last year, with two significant new pieces of work being undertaken within the MAT sector. While adhoc work volumes are lower than anticipated, retainer arrangements throughout the Brierley group continue to deliver substantial revenue to the Company increasing its financial viability for future

4.7 Brierley Homes

- 4.7.1 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.
- 4.7.2 Brierley Homes made a budgeted loss for the year in 21/22. Historic performance has been impacted from timing delays to the programme through construction to sales completion whilst the company continues to bear overhead and interest costs.
- 4.7.3 Brierley Homes is forecast to move into a profitable position from 2022/23 when it is forecast that the sales income will be achieved for the 3 sites currently under development.

4.8 Align Property Partners

- 4.8.1 Full Year performance represents a significant outperformance for Align against Budget. This is despite some challenging conditions around the recruitment and retention of appropriately skilled staff. Contract volumes continue to increase, with new external client contracts being acquired under collaboration agreement arrangements as well as synergies with NY Highways delivering further workflows into the Company.

4.9 Yorwaste

- 4.9.1 The Company delivered a significant outperformance to budget during 2021/22 with additional revenue generated against a lower cost of sales target. Recruitment issues carried some positive variances throughout the year but by the year end most vacancies had been filled. There were cost pressures due to the Thirsk fire repair provision along with an increase in the provision for the Halton East yard works due to significant inflationary increases in concrete and reed bar costs.
- 4.9.2 Asset costs are under control; however asset replacement continues to prove a challenge due to limited supply with manufacturers, and this will result in an increasing maintenance cost risk as the age profile increases. The company is now exploring the placing of orders much earlier than usual with deliveries on some key items now taking over a year.

4.10 Veritau

- 4.10.1 Veritau outperformed the targeted profit for 2021/22 with an increase in revenue resulting in an increase in net profit. The group is continuing to win new contracts and expand the range of services provided to its existing clients. Interest in internal audit and data protection services remains high, particularly from the education sector.

4.11 North Yorkshire Highways

- 4.11.1 Although NY Highways posted a net loss during FY21/22, overall it has been a successful first 10 months of trading considering the challenges of setting up a new company in addition to the difficult market conditions.

- 4.11.2 The loss in the first year of trading is driven principally by additional implementation costs including costs associated with adhering to social distancing restrictions (multiple events at depots, outdoor settings, and extra staff to support each site), Personal Protective Equipment (PPE), additional finance and business support time, training expenses, plus purchases from Ringway for workshop and depot consumables. The 2021/22 reported Revenue was significantly less than target with the shortfall attributable to less capital schemes being delivered in the year due to a reduction in the funding to NYCC.
- 4.11.3 Overheads came in on budget, however, this includes extra implementation costs. The additional costs were offset against savings in salaries, in addition to the cost savings from the restructure being pushed back to 2022/23.
- 4.11.4 NY Highways now have the foundation needed to deliver on the NYH Business Plan, in particular the upcoming restructure and a much better understanding of individual cost centres, that can be analysed for savings opportunities.