

North Yorkshire County Council

Shareholder Committee

18 October 2022

Brierley Group 2022-23 Quarter 1 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 2022-23 Q1 Financial Performance report – Appendix A

2.0 Recommendation

2.1 It is recommended that the Shareholder Committee note the Brierley Group 2022-23 Q1 Financial Performance report in Appendix A.

VICKI DIXON
Assistant Director
Strategic Resources BES/CS

7 October 2022

Appendix A - Brierley Group 2022-23 Q1 Financial Performance

This page is left intentionally blank

Shareholders Committee

Brierley Group Financial Update

2022-23 Quarter 1 Financial Performance Report

1 Brierley Group Headlines

- 1.1 The Brierley Group performance continues to be mixed due to the challenges in the range of markets in which it operates. Overall the 2022/23 group forecasted out turn position is a £1.98m pre-tax profit vs a budget of £2.61m representing a £631k reduction.
- 1.2 Revenue is tracking ahead of budget, however all segments are seeing significant cost pressures due to the rising levels of inflation in the UK increasing the cost of sale and overheads. The main contributors continue to be in labour, energy and bought in items such as food and cleaning materials in North Yorkshire Education Services (NYES) and the external running costs of NY Highways (NYH).
- 1.3 The UK has seen a succession of interest rate rises since December 2021 which impact the interest payable within a number of the companies such as NY Highways and Brierley Homes. The consolidated financial summary reports an interest payable increase of £114k to budget, however as loan financing is funded via NYCC, this is delivered back through an increased shareholder value position.
- 1.4 The shareholder value position continues to be strong forecasting £9.4m in 2022/23 through group profitability, income to NYCC through Service Level Agreements, loan interest and the financial benefit of the Allerton Waste Recovery Park contractual agreement.
- 1.5 The labour market is a key challenge across the Brierley Group, recruitment and retention is proving difficult in all sectors limiting some business growth opportunities. Unemployment rates during Q1 were running at 3.8% coupled with a significant rise in the number of economically inactive people leading to lots of vacancies throughout the portfolio.
- 1.6 At Q1, Align, NYNET, First North Law and Yorwaste are tracking ahead of budget delivering a strong return into the group. Brierley Homes saw some sales completions at Woodfield Square and Millwright Park sites, with all plots reserved at both sites and full sale completion to be expected in autumn 2022.
- 1.7 NYES has experienced the highest impact of the rise in inflation and difficulties in recruiting into key roles. In addition, the outcome of the NJC pay agreement is forecasted to add further costs into the service. Cost increase within NYES creates further pressure into school budgets and the service continue to work closely with customers to balance pricing and service viability. Covid still continues to have a residual impact on NYES, with teacher and pupil absence tracking below their pre-Covid Department for Education levels.
- 1.8 Align Property Partners (APP) have a strong order book and they continue to expand and recruit to allow the business to pursue new market opportunities. APP have delivered significant workflows into NYH throughout Q1.
- 1.9 Increases in electricity and gas prices are generating additional revenue into Yorwaste, mitigating some cost pressures from areas including the rise in fuel.

2. Current Challenges

- 2.1 The immediate challenges for the Brierley Group are to maintain trading margins through cost control and re-pricing product lines to stay competitive and generate shareholder returns. The financial outlook is that by the end of the year, the UK will be in another recession which could further impact on areas such as NYES and Yorwaste.
- 2.2 GMB, Unite and Unison are currently in negotiations to substantially increase NJC pay

rates to combat the rising cost of living among its members. There has been significant pressure to address the National Living Wage and ensure that Local Government aspires to move its lowest spinal point towards this rate. Staffing within NYES will be materially impacted by the rise, with a significant number of its education staffing in roles towards the lower end of the pay scale where the rise is mostly favourable.

- 2.3 NYES Catering and Cleaning are seeing cost increases through their supply chains which will be reflected in higher pricing into schools. This will impact areas such as the school meal pricing which is reliant on economies of scale to drive down the cost per meal levied onto schools and then onto parents. NYES are working closely with schools to pursue growth and uptake in school meals (both free and paid) which have considerable headroom due to the decline following Covid.
- 2.4 Work continues to prepare the Local Authority for Local Government Reorganisation (LGR) with the new single unitary council in place for April 2023. Several work streams are in place to ensure a smooth legal and safe transition, this has required some traded services and management within NYES to focus their priorities on LGR which has led to foregoing some commercial opportunities and growth.
- 2.5 Brierley Homes saw the completion of Woodfield Square and Millwright Park during Q1. Delays in construction completion schedules caused by national labour and materials shortages have pushed the sales completion into Q2/Q3. However all plots at both developments are reserved and sales will be realised this financial year. Further plots are about to be released for sale at the Yew Tree Farm site with completion of the development scheduled for winter 2022, with revenue projections remaining favourable to the outline business case.
- 2.6 Construction of the Whorlton Meadows development and planning at The Paddocks at Great Ouseburn has been delayed whilst an alternative delivery mechanism is explored to address the increasing cost pressures in the construction sector and scheme viability. A revised appraisal of the delivery routes for these sites is to be finalised in Q2.
- 2.7 Growth within First North Law (FNL) is limited by its ability to attract and recruit to key roles, the business continues its recruitment drive, in addition to looking at its workforce planning through the use of trainee solicitors, paralegal support and potential use of locums to pursue some commercial opportunities.
- 2.8 APP have a strong outlook with a financial position well ahead of its pre-Covid trading, however commercial opportunities are outpacing what APP can deliver, with recruitment and retention of appropriately skilled staff in a very competitive marketplace proving difficult. This has necessitated the ongoing use of agency staff to meet project completions which erodes some contract margins. To address its recruitment challenges, APP have engaged with the NYCC resourcing team to conduct a targeted campaign to backfill the key vacant roles.
- 2.9 For NYNet, equipment delays continue to present a substantial issue to the Company, with current orders experiencing delays that place fulfilment outside of anticipated delivery targets. Workarounds are being put in place to alleviate the impact.
- 2.10 Yorwaste performance during Q1 was strong with an increase in revenue due to the current electricity pricing levels. The restoration and aftercare segment are also seeing additional upside driven by a similar increase in gas revenues. Other areas such as commercial and landfill are on track with its optimum tonnage targets. Future fuel costs are expected to be significantly higher, both directly with its own fleet operations and indirectly from third party contractors, this is also having a knock on effect to other costs and current expectation is that inflation will continue to rise. The impact of a recession may have an impact on commercial footfall throughout Q3/Q4

- 2.11 NYH are seeing Q1 revenues tracking slightly behind budget with a reduction in external work and focus on capital work programmes. NYH have had significant challenges in establishing the range of financial and operational systems and reporting, this continues into 2022/23 as further refinement is required to drive more efficient and effective processes in its works management systems.
- 2.12 Like most areas of the group, NYH is seeing an increase in its costs, with items such as fuel, tarmac and subcontractor bought in services showing inflationary increases. To combat this, NYH is reviewing 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 risks.

3 Current and future areas of development

- 3.1 The NYES hub is undergoing a restructure to produce a leaner more focussed cost effective structure, with some staff vacancies not replaced in addition to a reduced spend on physical sales and marketing activity; car allowances, event marketing and conference fees. Given the volatile economic situation, combined with the additional work and priorities around LGR, the NYES service will be focussing on customer retention, pricing and managing its running costs.
- 3.2 Brierley Homes has recently appointed a construction manager to actively manage the development pipeline and enhance the viability and financial position of active schemes. The appointment allows the business the flexibility to potentially move into different delivery models on a site by site basis to allow for greater control over managing its build costs. 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 the momentum of developments.
- 3.3 Veritau continues 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. This has increased 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 recruitment and 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.
- 3.4 NYH continues to develop its financial systems, including 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 training, which will be followed by a programme of advanced driver training in key positions.
- 3.5 The NYH buying team are 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. NYCC schedule of rates have been amended to reflect the additional costs from inflationary pressures.

4 2022/23 Q1 Brierley Group Financial Summary

- 4.1 The following tables set out the 2022/23 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	Full Year Forecast 2022/23	Full Year Budget 2022/23	Full Year Variance 2022/23
	£,000	£,000	£,000
Revenue	140,727	138,635	2,091
Cost of Sale/Service	(120,802)	(118,354)	(2,448)
Gross Profit	19,924	20,282	(357)
Overheads & Other Costs	(14,735)	(14,536)	(199)
Other Trading Income/(Loss)	(450)	(450)	-
Other Gains/(Losses)	(392)	(430)	38
Operating Profit	4,347	4,865	(518)
Finance Income	-	-	-
Profit before Interest & Tax	4,347	4,865	(518)
Interest Paid	(2,366)	(2,253)	(114)
Profit before Tax	1,981	2,612	(631)

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

Projected Shareholder Value	Total NYCC
Financial Year:	22-23
Value	£000
Profit before Tax	1,981
NYCC Support Service Contracts	2,817
NYCC Loan Financing Interest	2,098
Other Deliverable Shareholder Value	2,500
Total	9,396

- 4.2 The consolidated trading profit before tax is a forecasted FY22/23 out turn of £1.98m against a budget of £2.61m. Align, NYNET, First North Law and Yorwaste are tracking ahead at Q1 with a positive outlook for sales completions in Brierley Homes. The majority of the adverse trading conditions in the group come from within NYES, with some product lines such as the professional service areas continuing to successfully operate their remote / hybrid service delivery models. Some of the larger services within the Facilities Management segment are seeing significant mid-year cost increases.
- 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.
- North Yorkshire Education Services**
- 4.4 NYES is forecasting a trading loss for 2022/23 with the underperformance largely attributable to NYES Catering within the Facilities Management segment. NYES Catering has been the service mostly impacted in the last couple of years due to Covid disruption with attendance levels difficult to forecast. Schools continue to see attendance levels lower than the pre-Covid

average of 95% showing ongoing issues in the education market. The rise in food costs through the supply chains add further cost pressures into the service due to the fixed meal pricing model that the schools subscribe to. Meal uptake in schools has not recovered in many areas to pre-Covid levels which is leading to high diseconomies of scale. A marketing campaign is underway to encourage and promote healthy school meal uptake across the county.

- 4.5 Supply of cleaning products for NYES Cleaning is also impacted, with some significant cost increases being passed on through the supply chain.
- 4.6 Both NYES Catering and Cleaning have a large proportion of staffing towards the lower end of the NJC pay scale, the outcome of the pay negotiations is expected to add further costs into these services as the proposal is more favourable to the lower bands in an effort to address the rising cost of living.
- 4.7 The Professional Services segment continues to deliver good returns, with some contract awards as well as additional commissioned income and high levels of customer retention and customer satisfaction, however this area is one of the most affected by LGR and there is likely to be little chance of expansion within the next year or so until the new authority is established. NYES Digital continue to experience global supply issues associated with long lead times, which has impacted on the associated upselling of installation and additional bolt on services.

NYNet

- 4.8 Despite a slow start, NYnet continues to build its strong performance throughout the previous year, with tight cost control complimented by growth through a diversified product range that is forecast to ensure the company continues to post profits for 2022/23. Implementation of Local Full Fibre Networks (LFFN) to all scheduled locations was successfully completed and sites were migrated by 31 March 2022.

First North Law

- 4.9 The company generated a profit in FY21/22 and looks to post a modest profit again this year. Turnover is now fairly steady due to its retainer model which has allowed First North Law to repay some of the loan capital to NYCC.

Brierley Homes

- 4.10 The last couple of years have seen project delays to the development pipeline in Brierley Homes due to Covid and difficulties due to labour and material shortages. The current financial year is on track to complete the Woodfield Square and Millwright Park sites generating a significant return. In addition to this, further plots are due to be released for sale at the Yew Tree Farm site, with revenue projections ahead of business case targets.
- 4.11 The key issue facing the business is viability of sites as a result of rising construction costs across the sector. The team has appraised several sites for potential acquisition to maintain the pipeline of projects but have been unable to enter a competitive bid. The appointment of a construction manager allows Brierley Homes the potential to take some alternative approaches to sites and revisit its strategic direction.

Align Property Partners

- 4.12 APP continue to build client reputation, win new business and are on track to deliver another significant return into the Brierley Group this financial year. The limiting factor for APP continues to be in recruitment and retention of key personnel which is impacting on further growth for the business. APP is working closely with staff to identify training opportunities and clear career development to grow its internal talent pool.

- 4.13 Align continues to move into new and adjacent markets and have been successful in establishing framework and collaboration agreements with other local authorities and public bodies. Align continue to partner with NYH to aid its FY22/23 capital programme.

Yorwaste

- 4.14 Q1 performance is tracking ahead due to the increased revenues from power generation and commercial activity from disposal tonnages. Yorwaste are seeing increases in its fleet running costs and from third party contractors. To mitigate cost increases and maintain its financial position, the business is actively monitoring its asset maintenance and servicing program to maximise uptime, minimise disruption and drive more efficiencies in its processes. Yorwaste also looking at additional investment to drive further optimisation in the medium term.

Veritau

- 4.15 Veritau continues to attract new clients into its internal audit and information governance services, with client satisfaction and retention rates remaining strong. Interest in products and services remains high, particularly from within the education sector. The Q1 position is in line with financial targets to deliver a modest return to the group.
- 4.16 A key focus for Veritau is investment in its graduate training programme and in specialist areas such as IT audit and data analytics to support future growth and address market opportunities.

North Yorkshire Highways

- 4.17 Q1 is tracking behind budget due to a reduction in external work not undertaken in favour of focusing on capital programmes. NY Highways expect to meet budgeted profit levels based on the pipeline of work scheduled in for the year in addition to some one-off gains from asset disposals.
- 4.18 NYH is forecast to deliver a solid shareholder return through services delivered via SLA's and interest payable to NYCC on its borrowings.
- 4.19 Work continues to refine its operational and finance systems to allow for greater transparency and real time data collection.