North Yorkshire County Council

Shareholder Committee

21 March 2023

Brierley Group 2022/23 Quarter 3 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 Q3 Financial Performance report – Appendix A

2.0 Recommendation

2.1 It is recommended that the Shareholder Committee note the Brierley Group 2022/23 Q3 Financial Performance report in Appendix A.

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13 March 2023

Shareholders Committee

Brierley Group Financial Update

2022/23 Quarter 3 Financial Performance Report

1 Brierley Group Headlines

1.1 While Group performance continues to be mixed due to the diverse markets in which the Brierley Group organisations operate, 6 of the 8 organisations are projected to deliver pre-tax trading profits, with 5 of these out-performing associated 2022/23 Budgets. Overall, the 2022/23 group out turn projection is a £2.69m pre-tax profit vs a budget of £2.61m; representing a £82k out-performance.

1.2 Revenue remains significantly ahead of Budget, however all market segments continue to experience material cost increases, with inflationary pressures in the UK acting to drive up general costs of sale. UK CPI was 10.5% at the end of the third quarter. Alongside more established labour and energy cost increases, food and cleaning materials in North Yorkshire Education Services (NYES) and external operations for NY Highways (NYH) continue to present cost control challenges.

1.3 Interest rate rises continue to impact, with the BoE base rate having increased by 3.25% since the beginning of the 2022/23 trading year. This acts to increase the interest payable within a number of the loan-financed companies such as NY Highways and Brierley Homes. The consolidated financial summary projects interest payable across the group is set to outstrip the associated Budget by £442k, with much of this being deliverable as shareholder value back to NYCC in the Council's capacity as a lender.

1.4 The Group continues to present strong shareholder value to NYCC, with £10.42m deliverable in 2022/23 through group profitability and income via Service Level Agreements, loan interest and the financial benefit of the Allerton Waste Recovery Park contractual agreement. This represents an increase of just over £1m to prior quarter projections; driven by the aforementioned increases to loan interest payments as well as individual trading performance.

1.5 A tight labour market continues to present challenges across the group and is proving to be a limiting factor on some business growth opportunities. Unemployment rates continue to hold at near historic lows; running at 3.7% for Q3. This has combined with an additional 500k people becoming economically inactive since 2019 to create a highly competitive employment marketplace in which recruitment of appropriately skilled and experienced staff is extremely challenging. These factors continue to drive numerous vacancies throughout the portfolio.

1.6 As at Q3, Align, NYNET, First North Law and Yorwaste are tracking ahead of budget; delivering strong returns into the Group. Brierley Homes had completed all sales at its Woodfield Square development by the end of Q3, with exchange and completion of the final units at Millwright Park site set for Q4. Around half of the unit sales at the development at Marton-cum-Grafton are also set to complete before the end of 2022/23.

1.7 The final NJC pay agreement acted to place further cost pressures onto NYES, with staff intensive Facilities services more acutely impacted. The Catering service acted to mitigate the effect of the pay rise with a re-pricing exercise (effective from the 1st January 2023). NYES is cognisant that such action places further pressure onto school budgets, with other services continuing to work closely with customers to balance pricing and service viability.

1.8 Align Property Partners (APP) has a strong order book and continues to expand and recruit in order to capitalise on new market opportunities. APP have delivered significant workflows into NYH throughout the year to December and are set to outperform 2022/23 trading targets by a significant margin.

1.9 Further increases in electricity and gas prices are driving additional power generation revenue for Yorwaste. This continues to mitigate fuel price impacts for the Company. Tight cost control and vacancy savings have also helped to drive financial performance for the business.

1.10 NY Highways (NYH) revenue has benefited from increased Capital & Tender work during the year. Cost savings resulting from a mild Winter have also helped to alleviate some of the inflationary pressures and increased financing costs faced by the Company. As external work is tracking behind budget, this is driving a reduced profit outturn for the company in comparison to Budget.

2. Current Challenges

2.1 The immediate challenges for the Brierley Group are to navigate the economic headwinds in order to maintain healthy trading margins across a diverse range of sectors. This is to be achieved through a combination of tight cost control and the repricing of product lines where appropriate in order to maximise shareholder return. The financial outlook is for the UK to be entering a shallow and potentially protracted recession by the end of the financial year, which could further impact on areas such as NYES, Align and Yorwaste particularly.

2.2 While NYES Catering has acted to address some of the cost pressures caused by the NJC pay settlement, it should be noted that the new meal prices only come into effect from January 2023 and the impact upon take-up is yet to be fully gauged with the actual results playing though in Q4 and beyond. NYES Cleaning is the other service most significantly impacted by the effect of the pay award, which is more favourable to employees on lower spinal points, where a large proportion of the Cleaning workforce sit. In addition to the pay pressures, the service continues to have issues with the recruitment and retention of staff and is carrying a significant number of vacant roles. While this is favourable to the short-term financial position, it presents capacity limitations that may prevent the Service from pursuing certain new bids and tenders.

2.3 Work continues to prepare the Local Authority for Local Government Reorganisation (LGR) with the new single unitary council in place from April 2023. Several work streams are in place to ensure a smooth legal and operational transition. This continues to require resource from across the Council and companies and therefore the capacity to bid for and deliver additional new work is reduced in the short term.

2.4 Brierley Homes saw the practical completion of Woodfield Square and Millwright Park sites during Q2, with delays in construction schedules caused by national labour and materials shortages having pushed sales completions into Q3/Q4. However, all plots at both developments are reserved and associated sale values will be fully realised this financial year. Further sale completions are anticipated throughout Q4 at the Yew Tree Farm site, with revenue projections remaining favourable to the outline business cases for all 3 developments.

2.5 Facilitation and Construction work commenced at the Whorlton Meadows development as well as The Paddocks at Great Ouseburn, where a hybrid delivery model has been utilised in order to address increasing cost pressures in the construction sector and the impact upon scheme viability.

2.6 While growth within First North Law (FNL) has been limited by its ability to attract and recruit to key roles, the Company has engaged legal recruitment specialists on these terms and made some traction in the market. With the successful recruitment of a Commercial Lawyer in Q3, FNL is looking to finish this financial year strongly and build into 2023/24.

2.7 The key issue for APP remains consolidating significant Company expansion with the recruitment and retention of appropriately skilled staff in a very competitive marketplace in order to reduce the reliance upon agency resource. APP have engaged with the NYCC resourcing team to conduct a targeted campaign to backfill the key vacant roles. Further potential challenges stem from the overarching economic conditions prompting an element of APP’s potential client-base to substantially scale back or delay the commencement of planned projects in 2023/24. This presents a challenge to Company growth, though it is envisaged that APP will continue to perform in line with existing business plan targets.

2.8 Yorwaste continued its strong financial performance into Q3 with an increase in revenue due to electricity pricing levels. Customer price increases were broadly in line with the wider market and therefore the Company has not seen any signs of increased attrition. The majority of lost trading has been due to business closures and, while commercial sales have underperformed, this has been mitigated by reduced disposal tonnage and associated costs. Future challenges revolve largely around economic factors both in terms of fuel costs as well as the anticipated recession impacting a significant element of the Yorwaste customer base with early signs of reduced footfall already being shown in the hospitality sector.

2.9 Quarter 3 saw NY Highways (NYH) enter the winter maintenance season and this has gone substantively to plan. The winter period has been milder than expected thus far and has allowed the Company to fully review fleet requirements and carry out work around route optimisation. It is expected that this will impact significantly in the next financial year by which time NYH will have disposed of excess and redundant assets.

3 Current and future areas of development

3.1 An NYES pricing review continues, with in year pricing in relation to commissioned bespoke work seeing immediate price increases to reflect the revised costs of service delivery. Pricing has been revised across all services as part of the annual service review, which will bring services back into a viable and sustainable position for 2023/24. However, NYES are keenly aware of the immediate impact on school budgets and relationship managers are working proactively with customers to communicate revised pricing structures.

3.2 Brierley Homes has adopted a flexible procurement approach that allows the business to manage construction costs and appoint best-fit contractors. This flexibility extends to the delivery mechanism, with Construction Management or Partnering approaches being assessed and approved on a case by case basis. This allows the Company to ensure the right fit of product, location, and procurement for each individual business case.

3.3 NYnet is continuing to develop partnership opportunities with NYCC that will strengthen the Company and allow alternative delivery methods for NYC. NYnet work on Internet of Things (IOT) gateways is still in active trials, with the developed systems then due to be productised for commercial sale. The IoT gateway systems allow devices to exchange real time information with cloud databases. This will enable NYC, Brierley Group companies and other client organisations to work more efficiently with the faster and more dynamic exchange of operational/management information and data.

3.4 NYH work continues to identify all costs associated with operations and make savings based on intelligence-led financial data. Consolidation of terms and conditions across the business means the Company now has over 82% of employees on NYH terms and conditions and this is expected to increase further as the company moves into 2023/24. An NYH restructure has been completed that is aimed at mirroring the champion roles operated by NYCC. This has been well received by the operational teams with engagement sessions being held across all depots as NYH continue to respond to issues raised and maintain positive engagement with their people. Q4 should see continued progress in this area in preparation for an exciting 2023/24.

4 2022/23 Q3 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	143,656	138,635	5,021
Cost of Sale/Service	(122,956)	(118,354)	(4,602)
Gross Profit	**20,700**	**20,281**	**419**
Overheads & Other Costs	(14,665)	(14,536)	(129)
Other Trading Income/(Loss)	(174)	(373)	199
Other Gains/(Losses)	(475)	(507)	32
Operating Profit	**5,385**	**4,865**	**522**
Finance Income	5	1	4
Profit before Interest & Tax	**5,390**	**4,866**	**526**
Interest Paid	(2,695)	(2,253)	(442)
Profit before Tax	**2,695**	**2,613**	**82**

** 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	2,695
NYCC Support Service Contracts	2,766
NYCC Loan Financing Interest	2,458
Other Deliverable Shareholder Value	2,500
Total	**10,419**

4.2 The consolidated trading profit before tax is a projected 2022/23 out turn of £2.69m against a budget of £2.61m. Align, NYNET, First North Law and Yorwaste continue to track ahead at Q3 with a positive outlook for sales completions in Brierley Homes driving a full year projection that also exceeds Budget. The majority of the adverse trading conditions in the group continue to come from within NYES, although full year projections have improved here also. NYES Professional Service areas continue to successfully operate using remote / hybrid delivery models, while the resource intensive Facilities Management segment has partially mitigated 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

4.4 North Yorkshire Education Services

4.5 NYES is forecasting a trading loss for 2022/23 with the underperformance largely attributable to NYES Catering within the Facilities Management segment. A pricing review has resulted in a projected trading loss in Q2 now moving towards a break-even position but this is still short of the substantial profits delivered by the Service in prior trading years. NYES Catering has been the service most impacted by Covid disruption with school attendance levels still lower than the pre-Covid average of 95%; demonstrating ongoing issues in the education market. The rise in food costs through the supply chains as well as the NJC pay agreement have added further cost pressures onto the service; exacerbated by 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 has led to dis-economies of scale.

4.6 The NYES Professional Services segment continues to deliver good returns, with some of the highest levels of customer retention and satisfaction. However, this area has been most affected by LGR resource requirements and growth is likely to be muted while the new authority is established. NYES Digital continue to experience challenging supply and trading conditions, prompting a workstream to secure efficiencies and improved product line costing. This workstream is due to complete work in Q4.

4.7 NYNet

NYnet has continued to experience a moderate growth in new sales, which are mainly targeted at the private sector. However, savings were achieved on the cost of sales due to Local Full Fibre Network (LFFN) site migrations and this continues to improve gross margins for the Company.

4.8 First North Law

First North Law continues to consolidate its position and turnover remains stable across the first 3 Quarters. Despite significant price increases to several areas of overhead, including Professional Indemnity Insurance, FNL is well placed to meet these additional pressures and is forecasting a profit for financial year 2022/23.

4.9 Brierley Homes

4.10 The current financial year sees the Company on track to fully complete the Woodfield Square and Millwright Park sites as well as part of the Yew Tree Farm development, generating a significant return for NYCC. In addition to this, work on the next stage of the development pipeline is underway with two further sites set to reach practical completion during 2023/24.

4.11 Increased borrowing costs combined with other inflationary pressures have made site viability cases more challenging but the core strategy of utilising up to date and comprehensive market intelligence to ensure the Company matches appropriate developments to sites with regular sales turnover is working well.

4.12 Align Property Partners

4.13 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 has been recruitment and retention of key personnel. The appointment of several new members of staff has resulted from the customised SLA with NYCC Resourcing Solutions, aimed at assisting Align in the successful identification and recruitment of appropriately skilled personnel.

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

4.15 Yorwaste

4.16 Q3 performance is tracking ahead due to the increased revenues from power generation and commercial activity from disposal tonnages. This is expected to continue into the full-year trading results. Asset costs continue to be under control, however asset maintenance and replacement is challenging due to the limited supply of parts and new equipment from manufacturers. The Company continues to place orders for new equipment much earlier than previously, with deliveries on some key items now taking over a year, and where practical, holding stock of key replacement parts to minimise downtime.

4.17 Veritau

4.18 Veritau continues to attract new clients into its internal audit and information governance services, with client satisfaction and retention rates remaining strong. Increased revenue has been offset by an anticipated uplift to projected Direct Costs for the year; largely driven by staffing costs following finalisation of the NJC pay agreement.

4.19 Recruitment and retention of appropriately qualified and experienced staff continues to be a concern, in terms of the ability to deliver services. The resourcing pressures are being felt across the sector and represent an ongoing concern for the Company.

4.20 North Yorkshire Highways

4.21 Q3 is tracking behind budget due to a reduction in external work undertaken in favour of focusing on capital programmes. Increased revenue levels driven by Capital & Tender work are being offset by inflationary pressures on overheads as well as increased borrowing costs.

4.22 NYH is forecast to deliver a solid shareholder return through profitability and interest payable to NYCC on its borrowings.