North Yorkshire Council

Shareholder Committee

19 March 2023

Brierley Group 2023/24 Quarter 3 Financial Performance report.

Report of the Assistant Director – Commercial, Property and Procurement

1.0 Purpose of the Report

1.1 To provide Shareholder Committee with:

- an update on the Brierley Group's Q3 Financial Performance.

2.0 RECOMMENDATION

2.1 For the Shareholder Committee to note the report and the Brierley Group Q3 Financial Performance for the 2023/24 year.

3 Brierley Group Headlines

3.1 The Q3 performance across the Brierley Group shows strong performance in most areas, with the majority of organisations projecting higher pre-tax profits than budget in both the year to date and forecast outturn, with the exception of Brierley Homes and Brimhams Active. Overall, the 2023/24 group outturn projection shows a **pre-tax profit of £3.534m** against a budget of £3.786m. Although the forecast outturn position represents a £252k adverse variance against original budget estimate the projected pre-tax profit does still represent a healthy commercial return across the Group for the year.

3.2 The projected outturn position at Q3 compares to a reported projected pre-tax profit of £4.188m at Q1; representing a deterioration in the profit projections of £654k throughout the period. This is driven by material changes to the in-year forecast for Brierley Homes, which has partially been offset by improved projections across other entities, and in particular Align Property Partners and Yorwaste.

3.3 The movement in the projected outturn position for Brierley Homes for 23/24 is driven principally by delays to sales at the Great Ouseburn and Whorlton Meadows sites, along with additional costs being incurred to complete the Marton cum Grafton site. The forward development plan for Brierley Homes continues to be refined, with commencement dates on several pipeline sites being pushed back into 2024/25 and 2025/26. This has resulted in the bulk of the projected reduction in profit for 2023/24 compared to budget and Q1, with projected sales revenue being moved into later years. Re-profiled profit projections, based on the current pipeline of projects, anticipate that profits of £2.8m will be generated by Brierley Homes over the three financial years to 2026/27, however this projection could be materially impacted by future fluctuations in areas such as borrowing rates and house prices.

3.4 The forecasted loss for Brimham Active as at Q3 stands at £388k, which represents a slight increase in comparison to the Q1 projection of £330k. The loss identified in Q1 was primarily due to uncontrollable delays in the facility development programme which impacted in the company's ability to generate income from the new and refurbished facilities plus inflationary cost pressures; the deterioration between Q1 and Q3 is attributed to further amendments to the impact on income as a result of the delays. Brimham Active's trading operations relate solely to running council owned leisure facilities in return for a financial subsidy, therefore this reported 'loss' should be seen as a cost of operating Council owned leisure facilities as opposed to being a true commercial loss.

3.5 Align Property, Yorwaste and Bracewell Homes are showing strong financial performance and are set to deliver significant pre-tax profits in excess of £1m per entity within the Group.

3.6 North Yorkshire Highways and NYC continue to work together to ensure efficiencies are maximised particularly in relation to road surface dressing works, filling potholes and treating roads for winter. Compliance to ISO standards was achieved in December 2023 which allows NYH to tender for other public sector works and commercial opportunities in addition to providing a framework for good management practices and continual improvement.

3.7 Increased interest rates continue to impact on trading projections within the Group. This acts to increase the interest payable within a number of the loan-financed companies. It is anticipated that £3.348m loan financing interest will be payable across the Group companies in the 23/24 year, which delivers shareholder value back to NYC in the Council's capacity as lender.

3.8 The Group continues to present strong shareholder value to NYCC, with £11.949m deliverable in 2023/24 through group profitability, surpluses achieved via Service Level Agreements, loan interest and the financial benefit of the Allerton Waste Recovery Park contractual agreement.

4. Current Challenges

4.1 The main challenges within the Group relate to resourcing, recruitment and retention of professional staff, and inflationary cost pressures.

4.2 The labour market continues to be very difficult in all sectors, limiting a lot of businesses ability to expand. Unemployment remains unchanged at 4.2% in the 3 months to November 2023 with a significant rise in the number of economically inactive people, leading to vacancies across the portfolio.

4.3 Resourcing issues within the Brierley Group are exacerbated by the ongoing workload pressures arising from Local Government Reorganisation and a lack of capacity within the Council's professional support service teams to assist with the development of growth plans across the Group.

4.4 Yorwaste has continued its recent strong financial performance into Q3 of the 2023/24 year with an increase in revenue due to landfill gas revenues. It is expected that prices will return to more "normal" levels in 2024/25 as electricity prices reduce, which will have a significant negative effect on future year revenue projections for the Company. This, along with a number of other challenges, will result in a significant forward challenge for the Company from 2024/25 onwards.

4.5 Brierley Homes has adopted a flexible procurement approach that allows the business to manage construction costs and appoint best-fit contractors. Previous viability challenges presented by cost inflation in the Construction sector have been successfully mitigated by a move to a direct contracting model for the sites presently under active construction. The expansion of the current development pipeline to four active sites, and a further six in the extended pipeline, will bring its own challenges across a range of areas, including the commissioning and active management of multiple sub-contractors, coupled with a substantial increase in transaction volumes.

4.6 General inflation (RPI) is currently 4.9%, down from highs of 14% in November 2022. Inflation has had substantial impacts across all companies with particular impacts on loan interest, utilities and overheads. Mortgage rate fluctuations continue to present a risk to the residential housing sector as a whole.

5 Current and future areas of development

5.1 At North Yorkshire Highways (NYH) efficiencies in gully cleaning are being robustly managed with the appointment of a champion role that will have operational responsibility for maximising the achievement of the gully cleaning programme and NYH are working with North Yorkshire Council colleagues to prioritise areas. NYH and North Yorkshire Council continue to work together to ensure that works order information is accurate, and does not result in unnecessary delay in rectifying identified defects.

5.2 Yorwaste continues to explore options to maximise current year landfill gas revenues through continued investment in well optimisation and to review the potential for investment in solar to mitigate the impact of the future increases in electricity costs. The Company's in-house sales team has been strengthened to mitigate attrition in the current challenging market conditions and also drive revenue growth. Several options are also being progressed to optimise asset maintenance and servicing to improve uptime and reduce costs.

5.3 Many companies are undertaking initiatives to drive cost efficiencies and address recruitment issues as well as development of future sales pipelines.

6 2023/24 Q3 Brierley Group Financial Summary

6.1 The following tables set out the 2023/24 outturn financial position for North Yorkshire Council's share of the Brierley Group, and the total value to NYC as shareholder of the Brierley Group companies.

Table 1 – Brierley Group: Forecast Variance to Budget

Brierley Group	Q3 Performance 2023/24	Q3 Budget 2023/24	Q3 Variance 2023/24	Full Year Forecast at Q3 - 2023/24	Full Year Budget 2023/24	Full Year Variance 2023/24	Full Year Forecast at Q1 - 2023/24	Movement between Q1 and Q3
	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000
Revenue	115,362	113,113	2,249	161,568	164,484	(2,916)	167,501	(5,933)
Cost of Sale/Service	(96,280)	(94,649)	(1,631)	(131,549)	(133,899)	2,351	(136,653)	5,104
Gross Profit	**19,082**	**18,464**	**618**	**30,020**	**30,585**	**(565)**	**30,848**	**(828)**
Overheads & Other Costs	(13,853)	(14,104)	251	(24,797)	(24,304)	(493)	(24,125)	(672)
Other Trading Income/(Loss)	(8)	43	(51)	(58)	(453)	394	187	(245)
Other Gains/(Losses)	1,508	1,188	320	1,585	1,130	455	502	1,083
Operating Profit	**6,730**	**5,591**	**1,139**	**6,750**	**6,958**	**(208)**	**7,412**	**(662)**
Finance Income	98	57	41	133	12	121	14	119
Profit before Interest & Tax	**6,827**	**5,648**	**1,180**	**6,882**	**6,970**	**(88)**	**7,426**	**(544)**
Interest Paid	(2,413)	(2,289)	(123)	(3,348)	(3,184)	(164)	(3,238)	(110)
Tax (Expense)/Surplus								
Profit before Tax (NYC% Shareholding)	**4,415**	**3,358**	**1,057**	**3,534**	**3,786**	**(252)**	**4,188**	**(654)**

Table 2 – Forecast Variance to Budget by organisation

Company	Q3 Performance 2023/24	Q3 Budget 2023/24	Q3 Variance 2023/24	Full Year Forecast at Q3 - 2023/24	Full Year Budget 2023/24	Full Year Variance 2023/24	Full Year Forecast at Q1 - 2023/24	Movement between Q1 and Q3
	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000
NYnet	310	278	32	394	376	18	347	47
First North Law	13	8	5	11	11	-	10	1
Brierley Homes	(320)	136	(456)	(739)	959	(1,698)	959	(1,698)
Align PP	1,060	428	632	1,191	700	491	700	491
Yorwaste	890	175	715	1,083	78	1,005	652	431
Veritau	19	11	8	19	14	5	51	(32)
NY Highways	38	14	24	45	19	26	26	19
Bracewell Homes	1,522	1,167	355	1,557	1,519	38	1,519	38
CNDCL	58	19	39	19	7	12	-	19
Total (NYC % Shareholding) External companies	**3,590**	**2,236**	**1,354**	**3,580**	**3,683**	**(103)**	**4,264**	**(686)**
NYES	521	462	59	109	31	78	20	89
Maple Park	405	377	28	233	72	161	233	-
Brimhams Active	(102)	282	(384)	(388)	-	(388)	(330)	(58)
Total (NYC % Shareholding) all	**4,415**	**3,358**	**1,057**	**3,534**	**3,786**	**(252)**	**4,188**	**(654)**

Table 3 – Brierley Group Shareholder Value

Projected Shareholder Value	Total NYC
Financial Year:	**23-24**
Value	**£000**
Profit / (Loss) before Tax	3,534
NYCC Support Service Contracts	477
NYCC Loan Financing Interest	3,113
Other Deliverable Shareholder Value	4,825
Total	**11,949**

6.2 Tables 1 and 2 show a projected year-end trading profit before tax across the Group of £3.534m against a budget of £3.786m for the 2023/24 year; representing a £252k adverse variance. Although the forecast outturn position represents an adverse variance against original budget estimate the projected pre-tax profit does still represent a healthy commercial return across the Group for the year.

6.3 The projected outturn position at Q3 compares to a reported projected pre-tax profit of £4.188m at Q1; representing a deterioration in the profit projections of £654k throughout the period. This, along with the adverse variation against budget, is driven by material changes in the in-year financial forecast for Brierley Homes, which has partially been offset by improved projections across other entities, and in particular Align Property Partners and Yorwaste.

6.4 The movement in the projected outturn position for Brierley Homes for 23/24 is driven principally by delays to sales at two sites, along with additional costs being incurred to complete the Marton cum Grafton site. The forward development plan for Brierley Homes continues to be further refined, with commencement dates on several pipeline sites being pushed back into 2024/25 and 2025/26. Re-profiled profit projections, based on the current pipeline of projects, anticipate that profits of £2.8m will be generated by Brierley Homes over the three financial years to 2026/27.

6.5 A £388k forecasted loss is projected for Brimhams Active. This loss is primarily due to uncontrollable delays in the facility development programme, which delayed the opening date of two facilities and impacted on the income generation potential at each site within the financial year.

6.6 All other entities are showing a forecasted profit for the 2023/24 year, with Yorwaste and Align Property profits being notably higher than budget.

6.7 Details by entity can be found in Appendix A.

APPENDICES:

Appendix A – Brierley Group - Financial Performance update by entity

Kerry Metcalfe
Assistant Director, Commercial, Property and Procurement
Corporate Director - Resources

Date : 05 March 2023

Presenter of Report – Kerry Metcalfe - Assistant Director (kerry.metcalfe@northyorks.gov,uk)

Note: Members are invited to contact the author in advance of the meeting with any detailed queries or questions.

APPENDIX A

FINANCIAL PERFORMANCE BY ENTITY

North Yorkshire Education Services (NYES)

NYES is projected to realise a gross profit of £1.86m in FYE 2024, which will be offset by operating expenses totalling £1.77m (comprising hub costs of £0.90m and overheads £0.87m). Consequently, the forecast net profit stands at £109k which is £78k higher than budget and £89k higher than Q1.

As detailed in the Q1 report 2022/23 was a particularly difficult trading year for NYES, with the year-end position showing a loss of £566k after making allowance for central core overheads. The forecast outturn position currently projected for the 23/24 year therefore represents a significant improvement against last year's outturn position.

The UK's unemployment rate was largely unchanged at 4.2% in the 3 months to November 2023. Vacancies continue to fall, but still remain above pre-pandemic levels. The unwinding of the tightness in the UK labour market is expected to continue in 2024, easing the challenge of workforce recruitment and retention for our services that has been a persistent obstacle in delivering a sustainable and high-quality offering.

LGR has had an impact on internal services which fulfil core council duties as well as commercial functions. Combined with the difficulties in recruiting staff, resources are having to be diverted to supporting the ongoing transition to the new authority, and this is likely to continue for the next 9 months.

The NYES hub has undergone a restructure to produce a leaner structure, with a forecasted expenditure of £0.9m which is only slightly higher than last year. Given the significant level of pay inflation, this has been achieved by holding staff vacancies wherever possible, in addition to a reduced spend on physical sales and marketing activity, car allowances, event marketing and conference fees.

The focus of NYES will remain on keeping a tight control of costs (external and internal) and concentrating development on key areas where there is a strategic and/or financial advantage to the council.

NYnet

The Q3 forecast indicates a £394k profit before tax, representing an increase of £47k from Q1. Connectivity remains the largest contributor to sales revenue, but diversification plans are coming to fruition and NYnet have seen a steady increase in orders from private sector customers.

Higher than budgeted sales on the diversified portfolio have also resulted in additional costs. These sales are at lower profit margin and cost saving options will be looked into for the remainder of the year. The budget for the financial year included operating cost rises close to the inflation index at the time, but the decline in inflation has resulted in savings against budget for the three quarters to date. Internet coverage is still on-going with new locations and solutions identified and trials are on-going at a few schools.

NYnet is continuing to work on diversification of product offering to the private sector. It is a difficult market to capture but the sales team have seen some promising leads. Rising costs due to inflation is still the biggest challenge despite the rate beginning to fall.

NYnet has continued its work with NYC to productise its network through trials. New cost saving options are being considered, wherever possible, through diversifying equipment used on different orders and using the own Local Full Fibre network for new orders.

First North Law

First North Law (FNL) has had a stable Q3 and forecast outturn is in line with budget. The additional resource available via secondment agreements continues to be welcomed and utilised thereby driving up instructions from existing clients. Financially FNL is on track to report a profit for the third successive year despite increased overheads.

Dedicated staffing remains a key issue and market conditions are such that recruiting lawyers to work directly for FNL is unlikely. As reported in Q2, FNL intends to grow its own lawyers and 2 trainee solicitors have now been recruited by NYC and will be introduced and exposed to FNL during their training contract. Whilst this is a slow burn, it is a tried and tested method of resolving staffing resource issues.

Brierley Homes

Revenue continues to be driven principally by sales at the Great Ouseburn and Whorlton Meadows sites, with further sales at the Marton cum Grafton site also. The forward development plan continues to be further refined, with commencement dates on several pipeline sites being pushed back into 2024/25 and 2025/26. This has resulted in the bulk of the projected reduction in profit for 2023/24 compared to budget and Q2, with projected Sales Revenue being moved into later years along with additional costs being incurred to complete the Marton cum Grafton site. An in-year loss of £739k is now forecast for Brierley Homes at the end of the 2023/24 financial year.

It should be noted that the loss for 2023/24 largely represents a timing change to revenues rather than a reduction to underlying profitability across the full Brierley Homes development pipeline with sales, and therefore profits, which were due to be achieved in 23/24 now forecast for 24/25 along with a reduced forecast profitability on the Marton cum Grafton site.

Sites that have been reprofiled in delivery include Branton Lane, where sales have been moved back from 23/24 into Q1 2024/25 following Section 278 public highways related issues at the site and Ouseburn Phase 2 which is also impacted by delayed revenue along the same timeline.

In order to progress the pipeline delivery, approval was obtained in Q2 for the purchase and development of three further sites.

Despite the above reprofiling of delivery, significant shareholder value continues to be demonstrated by Brierley Homes for 23/24 and beyond with a positive shareholder value of £706k estimated for the year.

Re-profiled profit projections, based on the current pipeline of projects, anticipate that profits of £2.8m will be generated by Brierley Homes over the three financial years to 2026/27. There is a risk, however, that if sales do not materialise at the value forecast, the company could see a reduction in projected future profits.

This risk is mitigated through a strong sales strategy and control of costs. Brierley Homes looks to mitigate wider economic pressures via the core strategy of choosing only to develop in higher demand areas, where the housing market is more robust and better insulated from economic headwinds. This is achieved via diligent site appraisal; incorporating up to date and comprehensive market intelligence aimed at ensuring sites with high house values and regular sales turnover are matched with appropriate developments. The result of this approach is borne out by 50%+ of Brierley Homes customers being cash buyers, with mortgage rates having a to-date very limited impact upon sales interest and pricing. Each project is provided a 2-phase base case for approval, including assessed sales values and construction costs with contingencies to both. This is to combat foreseeable interest rate rises and sales market drops; ensuring that Brierley Homes pipeline financials and associated Business cases are robust.

Align Property Partners (APP) and Align Property Services (APS)

A new company, Align Property Services Ltd. (APS) commenced operations in this quarter on 01 December 2023. This has allowed APP to pursue its commercial aspirations without constraint. The financial results for Q3 in this report encompass the combined performance of both companies.

Cumulative Profit Before Tax (PBT) of £1.060m as at Q3 represents a significant outperformance against the year to date budget of £632k. Contract volumes remain strong coming off a very successful 2022/23 trading year. Forecasted PBT for the full year stands at £1.191m, which reflects a projected out performance against budget of £491k. This better reflects the trading performance observed in the year to date.

A £750k Dividend payment was paid to NYC this quarter, in addition to a £500k payment made to NYCC in February 2023.

Recruitment and retention of appropriately skilled staff in a competitive marketplace continues to be a challenge. Significant progress has been made in this area, with the utilisation of agency staff and external consultants more than halving in 2023/24 as the company continues to operate in newer markets.

Yorwaste

Yorwaste made a profit before tax within the Q3 period of £284k which was £338k higher than budget. NYC's share of Yorwaste's projected profit before tax for the year stands at £1.083m which is £1.005m higher than budget.

Landfill gas revenues have been at an all-time high and this supported both the current and prior year actuals. However, in the coming 2024/25 budget year these will be at a much reduced, albeit still ahead of pre-Ukraine conflict levels levels, which combined with the underlying decline in gas volumes will result in an estimated fall of £1.7m. To combat some of the pressures, Yorwaste has continued to explore options to maximise current year landfill gas revenues through continued investment in gas well optimisation.

The development of commercial initiatives to develop growth continue to be pursued, as is tight cost control.

The Commercial price rises implemented for 2023-24 have generally held, however there remains a risk of attrition as business struggle with their increasing costs, and lower demand. The company has strengthened and rebalanced its sales team to mitigate attrition and drive growth. A business development manager has been recruited to pursue larger contracts. Progress is being made, but market conditions remain highly competitive, and this is not expected to change in the foreseeable future.

Whilst customer numbers are broadly flat, tonnages are down. This, combined with further route optimisation, has allowed a further reduction in the commercial fleet costs.

The availability of parts, and the poor support from the leasing companies, continues to impact the uptime of plant and fleet vehicles.

Driving future costs reductions through "invest to save projects" continues to be a priority. We are continuing to review the potential for investment in small-to-mid-scale solar as part of net zero obligations and reducing longer-term electricity costs.

Veritau

The group is continuing to attract new clients and gain contracts. The areas of growth are the support being provided to other council internal audit teams experiencing resourcing pressures and to schools/MATs. A £39k profit before tax is expected in the forecast outturn. NYC's share of PBT is £19k, which equates to a £5k improvement against budget.

Recruitment and retention of appropriately qualified and experienced staff continues to be a concern. Continuing recruitment and investment in professional development programmes is essential to maintain capacity within the business and remains a priority. The Company has also commissioned an external review by NYC of the existing pay / grading structure to ensure it remains competitive.

A project implementation plan has been developed to mitigate the impact of the introduction of a new audit management system on service delivery and to ensure the system is available by the anticipated 'go live' date of 1 April 2024.

North Yorkshire Highways (NYH)

Forecast profit for 2023/24 is £45k which is £26k higher than budget which is reflective of the ongoing efficiencies generated through NYH.

Additional capital works are being delivered by the company leading to further revenue being generated in comparison to budget. Interest payable is above budget at the end of Q3 due to the interest rate increases during the year from 10.75% to 11.50% although a loan repayment has been made during the year.

NYH and NYC continue to work together to ensure efficiencies are maximised. Partnership working has resulted in 1.5million square metres of surface dressing completed across the county, over 100,000 square metres of potholes filled in, 2,900 emergency call outs attended and 250,000 kilometres of roads treated for winter maintenance.

Compliance to ISO standards was achieved in December 2023 after a 9-month focus, which allows NYH to tender for other public sector works and commercial opportunities in addition to providing a framework for good management practices and continual improvement.

Bracewell Homes

The FY23/24 outturn forecast for profit before interest and tax equals £1.557m, which is broadly in line with the Q1 projection.

The main challenge for Bracewell Homes concerns delivery on time by developers. The company is due to complete on house purchases at two sites this financial year, however neither developer achieved their initial forecast completion dates.

To try and mitigate this, Bracewell regularly seeks updates from the developers, and challenges these updated timescales, in order to forecast as accurately as possible.

Maple Park

The projected profit before tax for 2023/24 of £233k represents a significant £161k outperformance of the full-year budget.

Maple Park has entered its second year of operation. It has received overwhelmingly positive feedback from its visitors and has established itself with families and funeral directors alike. The bereavement facility features an electric cremator making it a "green" facility, contributing towards the Council's net zero ambitions.

Q3 performances has shown the Maple Park facility to be performing better than expected financially and this is driven by lower than budgeted electricity costs. Energy price volatility may mean this benefit is not replicated in future years.

Ancillary memorial sales are expected to increase as the site matures and more land is made suitable for memorialisation. There has also been an increase in cremation numbers from 2022/23, with this year continuing to demonstrate a consistent trend of excelling cremation targets.

Approval has been given to bring the operation wholly in-house within North Yorkshire Council. Approval will be sought from the Executive to wind up Hambleton Holdings and Maple Park LLP and transfer the assets into the Environment Directorate.

Brimhams Active

The forecasted loss before tax in this financial year of £388k is primarily due to uncontrollable construction delays to the facility development programme that delayed the date at which increased levels of income could be achieved. These delays involved Harrogate and Knaresborough Leisure and Wellness Centres.

There are five risks to the financial performance of the business, as follows. Exceptional cost inflation above budget, the cost-of-living impact on service demand, the performance of the new/ unique five ways to wellness service offer, the effectiveness of marketing and sales processes and the retention of practitioner roles i.e., therapists, swimming teachers and instructors.

Central Northallerton Development Company (CNDCL)

Central Northallerton Development Company (CNDCL) is a 50:50 Joint Venture partnership between NYC (formerly Hambleton District Council) and Wykeland Property, which was established to redevelop the old Northallerton Prison site. The mixed-use site called Treadmills is now complete, but several units are still to be let. The Council owns the site with CNDCL acting as Development Manager. CNDCL also leases Crosby Road car park from the Council.

The trading activity at CNDCL relates solely to the income generated from the car park.