

North Yorkshire Council

Shareholder Committee

16th July 2024

Brierley Group 2023/24 Outturn 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 Outturn (Q4) Financial Performance.

2.0 RECOMMENDATION

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

3 Brierley Group Headlines

- 3.1 The performance across the Brierley Group shows strong performance in most areas, with most organisations reporting higher pre-tax profits than budgeted. Overall, the 2023/24 group outturn shows a **pre-tax profit of £3.934m** against a budget of £3.775m; representing a positive variance of £159k and a healthy commercial return across the Group for the year. The overall outturn pre-tax profit position represents an increase of £399m against Q3 projections largely due to improved performance for NYES. This improvement was partially offset by slippage in the delivery of profit for Brierley Homes, predominantly due to the delay of some house sales into the 2024/25 financial year.
- 3.2 Align Property Partners (APP), Yorwaste and Bracewell Homes showed strong financial performance for the year and have each delivered pre-tax profits in excess of £1m; with outturn losses reported for Brierley Homes and Brimhams Active.
- 3.3 The outturn position for Brierley Homes has principally arisen due to ongoing challenges which have resulted in delays and additional costs being incurred at the Marton cum Grafton site (as reported in Q3), and a number of house sales which were forecast to be completed during the final quarter of the year but have been delayed into the 24/25 financial year. The issues at the Marton cum Grafton site have played a significant part in the 23/24 outturn position, with the delays and additional work needed on that site impacting on the completion of homes and sales on other sites. The consolidated development plan for Brierley Homes continues to be refined, but forecasts demonstrate significant pre-tax profit projections for the two years commencing 2024/25.
- 3.4 The 23/24 reported loss for Brimham Active is primarily due to significant uncontrollable delays in the facility development programme, which delayed the

date at which increased levels of income could be achieved. This has been partially offset by savings on staff costs and some improved performance on other specific income lines. 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 Yorwaste continued to benefit from healthy landfill gas revenues and have delivered a pre-tax profit relating to NYC's % shareholding of £1.050m, which is £972k higher than budgeted. Tight cost control has also helped to drive financial performance for the business.
- 3.6 North Yorkshire Highways (NYH) 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.
- 3.7 The projected profit before tax for Bracewell homes stands at £1.69m for the year; driven through the sale of shared ownership properties within the Company's ownership, and the receipt of rental income on the share retained within the Company.
- 3.8 The high Bank Rate continues to impact on trading projections within the Group. This acts to increase the interest payable within several of the loan-financed companies, with £3.32m loan financing interest payable across the Group companies in the 23/24 year, most of which delivers shareholder value back to NYC in the Council's capacity as lender.
- 3.9 The Brierley Group companies continue to present strong shareholder value to NYC, with £12.897m 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. Additional shareholder value is driven through the delivery of affordable homes by Brierley Homes and financial efficiencies delivered to NYC by works undertaken by NYH.
- 3.10 Further narrative on each organisation's trading performance is provided within Appendix A of the report.

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, 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 had a strong financial performance in 2023/24, largely driven by increases 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, estimated at £1.7m. 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, with the potential for a further five, 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 3%, down from highs of 14% in November 2022. Inflation has had substantial impacts across all companies with particularly impacts on loan interest, utilities, and overheads.

5 Current and future areas of development

- 5.1 During the year NYH has achieved MOT test centre status and compliance to ISO standards. This will provide NYH with opportunities to tender for other public sector and commercial opportunities as well as pursue further options to generate cost savings for NYC. Other achievements during the year include returned revenue of £1.989m back to NYC during the 2023/24 year following a review of the schedule of rates, a reduction in insurance claims by volume due to fixing identified defects within priority times, cleaning over 100,000 gullies, delivery of £2 million pounds of NYC capital schemes at £700k less than order value, attending approximately 6,000 street lighting defects and 2069 emergency call outs to make the highway network safe and over completing 1.5 million square meters of surface dressing and patching.
- 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	Full Year Budget 2023/24	Draft outturn 23/24	Full Year Variance 2023/24	Full Year Forecast at Q3 - 2023/24	Movement between Q4 and Q3
	£,000	£,000	£,000	£,000	£,000
Revenue	164,455	158,292	(6,162)	161,568	(3,277)
Cost of Sale/Service	(133,899)	(127,541)	6,358	(131,549)	4,007
Gross Profit	30,556	30,750	196	30,020	731
Overheads & Other Costs	(24,346)	(25,318)	(971)	(24,797)	(521)
Other Trading Income/(Loss)	(453)	(38)	415	(58)	21
Other Gains/(Losses)	1,130	1,722	592	1,585	137
Operating Profit	6,887	7,117	231	6,750	367
Finance Income	72	141	69	133	8
Profit before Interest & Tax	6,959	7,258	300	6,882	375
Interest Paid	(3,184)	(3,324)	(140)	(3,348)	24
Tax (Expense)/Surplus					
Profit before Tax (NYC% Shareholding)	3,775	3,934	159	3,534	399

Table 2 – Forecast Variance to Budget by organisation.

Company	Full Year Budget 2023/24	Draft outturn 23/24	Full Year Variance 2023/24	Full Year Forecast at Q3 - 2023/24	Movement between Q4 and Q3
	£,000	£,000	£,000	£,000	£,000
NYnet	365	404	39	394	10
First North Law	11	15	4	11	4
Brierley Homes	959	(1,316)	(2,275)	(739)	(577)
Align PP	700	1,217	517	1,191	26
Yorwaste	78	1,050	972	1,083	(33)
Veritau	14	20	6	19	1
NY Highways	19	113	94	45	68
Bracewell Homes	1,519	1,693	174	1,557	136
CNDCL	7	19	12	19	-
Total (NYC % Shareholding) External companies	3,672	3,215	(457)	3,580	(367)
NYES	31	854	823	109	745
Maple Park	72	356	284	233	123
Brimhams Active	-	(491)	(491)	(388)	(103)
Total (NYC % Shareholding) all	3,775	3,934	159	3,534	399

Table 3 – Brierley Group Shareholder Value

Projected Shareholder Value	Trading Entities	General Fund Entities	TOTAL NYC
Financial Year:	23-24	23-24	23-24
Value	£000	£000	£000
Profit / (Loss) before Tax	3,215	719	3,934
NYC Support Service Contracts	224	242	466
NYC Loan Financing Interest	3,090	-	3,090
Other Deliverable Shareholder Value	5,407	-	5,407
Total	11,936	961	12,897

- 6.2 Tables 1 and 2 show year-end trading profit before tax across the Group of £3.934m against a budget of £3.775m for the 2023/24 year; representing a £159k favourable performance.
- 6.3 All entities are showing a 2023/24 profit except for Brierley Homes and Brimhams Active. Yorwaste, NYES, Maple Park and Align Property profits are notably higher than budget.
- 6.4 Details by entity can be found in Appendix A.

APPENDICES:

Appendix A – Detailed Company by Company Update

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

Date: 08/07/2024

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.

North Yorkshire Education Services (NYES)

NYES has realised a gross profit of £2.6m in FYE 2024, which is offset by operating expenses totalling £1.75m (comprising hub costs of £0.81m and overheads £0.94m). Consequently, the net profit stands at £0.85m. The significant positive movement of £749k between outturn and Q3 is due to several one-off savings in Q4 that were not anticipated plus improved income performance across several services. Catering and cleaning saw significantly improved performance which demonstrates excellent recovery from the prior year loss making position.

The UK's unemployment rate increased to 4.2% in the 3 months to February 2024. Vacancies continue to fall but remain above pre-pandemic levels. There are tentative signs that the labour market is beginning to cool, potentially 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.

UK inflation has continued to fall back towards the Bank of England's 2% target level - the Consumer Prices Index rose by 3.2% in the 12 months to March 2024, marking a decline from a recent peak of 11.1% in October 2022. However, the fall in this headline rate seems to be slowing down, and as the main driver for most of our services' input costs is wages, its growth rate will be a key point to be monitored in FYE 2025.

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 6 months.

The NYES hub has undergone a restructure to produce a leaner structure, with an expenditure of £0.8m (slightly lower 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 Draft 23-24 outturn indicates a £404k profit before tax, an increase of £10k from Q3 and an increase of £38.9k compared to the budget for the year. Connectivity remains the largest contributor to revenue, but diversification plans are coming to fruition. NYnet have seen a steady increase in orders from private sector customers

Higher than budgeted sales on the diversified portfolio have resulted in additional costs as these sales are at lower profit margin. Budget for the financial year included operating cost rises based on the inflation index at the time, but lower than anticipated inflation has resulted in savings for the year. Internet coverage is still on-

going with new locations and solutions identified. Trials are on-going at a few schools.

NYnet continues to work on diversification of its product offering to the private sector. It is a difficult market to capture but the sales team have seen some promising leads. Rising costs in line with inflation, still represent the biggest challenge.

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

First North Law

First North Law (FNL) reported a profit for the third successive year. Whilst it remains a micro-company, it has ambitions to grow now that Local Government Reorganisation has occurred, and the Legal Team restructure is complete. Growth is the main focus of the company this year with ambitious growth plans documented for the next 3 years.

Recruitment and growth have been the main challenges faced by FNL. The company operates on a fully seconded basis and resource available has been scarce during LGR and the implementation thereafter. However, the recruitment market is changing with several new solicitors appointed to NYC during a recent recruitment drive. These appointments will assist FNL and support its growth ambitions.

FNL implemented various efficiency savings over the past 12 months to drive down external spend and ensure that it remained profitable despite a slightly reduced turnover. It is envisaged that turnover will increase in 2024/25 with a 30% increase forecast. That will be delivered using the additional resource available from NYC and addition of dedicated FNL staff wherever possible.

Brierley Homes

Following a successful year in 2022/23 where a net profit of £0.3m was achieved, the company reports a draft net loss of £1.3m for the year ended 31 March 2024. Shareholder value however continues to be demonstrated by Brierley Homes for 23/24 and beyond with a positive shareholder value of £0.1m estimated for the year and a cumulative shareholder value delivered of £1.3m since the company started.

The loss in the current year has arisen due to ongoing challenges which have resulted in delays and additional costs being incurred at the Marton cum Grafton site (as reported at Q3) and also a number of house sales which were forecast to complete in March 2024 but have been delayed until the 24/25 financial year. The issues at the Marton cum Grafton site have played a significant part in the 23/24 outturn position, with the delays and additional work needed on that site impacting on the completion of homes and sales on other sites. As a consequence of the delays the financing costs for the scheme have increased significantly, which is a cost to Brierley Homes but benefits North Yorkshire Council as shareholder through increased income relating to interest payments and hence increased shareholder value.

Shareholder value continues to be demonstrated by Brierley Homes for 23/24 and beyond with a positive shareholder value of £0.1m estimated for the year, despite the loss in profit; driven through both loan interest and service level agreements.

Additional shareholder value is facilitated by Brierley Homes through the provision of affordable housing, and through the progression of problematic Council owned sites to ensure the value and use of these sites is maximised in line with wider Council objectives. In addition to market sales, 46 affordable homes have been delivered by Brierley Homes during 23/24 with a further 163 affordable homes in the plan to be delivered over the next 4 years.

A large proportion of the loss for 2023/24 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. Additional developments have improved the projected profit across the consolidated development plan, with forecasts of a profitable position along with positive Shareholder Value being delivered across the 2 financial years commencing 2024/25.

There is a risk that if sales do not materialise at the value forecast the company could see a reduction in projected future profits however this risk is mitigated through a strong sales strategy and control of costs. Brierley Homes chooses to develop sites in areas with a stronger demand for properties that are more insulated from financial headwinds. In the event that sale values were compromised then this would be further mitigated via refinement of the forward development pipeline and the site viability assessment criteria used by the Company.

The Principal Contractor method of delivery used on the Marton cum Grafton site has demonstrated the risk of that approach and the impact it can have on the company as a whole. Following a move to direct contracting as the main delivery method, the model is now being used for all sites presently under active construction. Combined with the expansion of the current development pipeline to four active sites and a further six in the extended pipeline, this brings several challenges across a range of areas. These include the commissioning and active management of multiple sub-contractors (the majority of which are employed on a freelance basis so as to minimise any overhead risk if programmes needed to be amended or changed) as well as enhanced responsibilities around CIS, coupled with a substantial increase to transaction volumes. Whilst this approach creates additional management costs and associated risk, it is a construction approach which provides better value for money which offsets those additional costs and it provides greater flexibility to avoid the risks of a single contractor approach, with Brierley Homes retaining control (and therefore all the risks and rewards) of the sites.

The scaling up of the development pipeline and move to a hybrid development model featuring direct contracting has necessitated the expansion of Brierley Homes. Additional Project Managers with the appropriate skill set have been brought in to manage the development of the sites, while back-office staff have also been recruited. In terms of increased CIS responsibilities and transactional volumes, the Finance and Accounting resource available to Brierley Homes has also been increased.

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

A new company, Align Property Services Ltd. (APS), commenced operations on 01 December 2023. This was set up to address a growing concern with the existing company, Align Property Partners Ltd. (APP), which faced limitations on its turnover growth. As a single entity, APP was restricted to undertake no more than 20% trading with third parties outside its parent local authority to remain Teckal compliant. The 'Teckal' contract has been transferred to the new company APS, enabling APP to relinquish its Teckal status and pursue its commercial aspirations without constraint. The financial results for Q4 in this report encompass the combined performance of both companies.

Align's unaudited outturn Profit before Tax stands at £1.22m, exceeding the £0.7m target that was originally set out in its Business Plan. Contract volumes remained strong for the year, leading to higher income generation that is partially offset by higher survey passthrough and other direct Costs of Sale that are required to service the elevated workload. As a result of its recent strong financial performance, two dividend payments were made to NYC during the 2023 calendar year, totalling £1.25m.

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.

While the novation of the 'Teckal' contract from APP to APS is complete, some post-launch actions remain to finalise the split of ongoing revenue and costs between the two companies. This process is nearly complete; however, the result will need to be reviewed during the companies' year end audit.

Yorwaste

The draft outturn position for 23-24 shows a profit before tax attributable to NYC of £1.05m which was higher than budgeted and slightly lower than Q3 forecast.

Landfill gas revenues have been at an all-time high and this supported both the 2023/24 year and prior year actuals. In the coming 2024/25 budget year these revenues will return to more normal levels as electricity prices reduce, which combined with the underlying decline in gas volumes will result in an estimated fall in income of £1.7m for Yorwaste. Whilst rates will decrease on the income side costs for energy usage will increase when current fixed rates expire, giving a significant forward challenge for 24/25 onwards, with most of the impact being felt in 25/26. To combat some of the pressures Yorwaste continues 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.

Yorwaste finished the year having zero RIDDORS (reportable incidents), and a 50% reduction in time lost Injuries (LTI's).

Veritau

The outturn results for Veritau were in line with budget expectations. Total revenue was 3.3% above budget due to gaining several new contracts but the pay award was higher than expected and additional costs were also incurred because of the investment in a new audit management system. The NYC portion of profit before interest and tax was £20k compared to the budget of £14k.

The key priorities during the year have been to complete the implementation of the new audit management system before 1/4/24 and to develop the business case for the corporate restructure (which has resulted in the creation of a new Teckal company limited by guarantee). The main challenge has continued to be the recruitment and retention of experienced and qualified staff. This has led to workforce pressures and has limited the group's ability to take on new work.

The priority for 2024/25 is to complete the corporate restructure and to onboard the new member councils / public bodies. Veritau also proposes some limited changes to the pay and grading structure to help reduce the recruitment and retention risks.

North Yorkshire Highways (NYH)

The year end position for NYH for 23/24 was a profit before tax of £113k, which was predominantly due to the company achieving over double the external sales originally budgeted and a profit of £101k from core work activities.

A key business plan aim of NYH is to deliver efficiencies back to NYC as shareholder. NYH has successfully delivered this aim and, in addition to the profit generated by the company, has returned £1.989m of revenue back to NYC during the 2023/24 year following a review of the schedule of rates charges claimed in the year. Savings include 19% savings from efficiencies on the rate charged for inlay patching, cost reductions for non-programmed clearance of Gully's, cost savings for Winter Gritting and salt heap/bin refills and a labour rate charge reduction which was possible due to the actual costs being lower than budgeted.

Not only has a tangible financial return been delivered, but the Company have also delivered the most productive year in terms of maintaining the highway infrastructure and meeting every business plan objective set.

During the period NYH has achieved MOT test centre status; allowing the business to generate further income and cost savings for NYC in addition to maintaining its own fleet of 216 vehicles and 192 NYC vehicles. This has been the start of expected growth with the fleet department with plans to bring inhouse more NYC vehicles in the future.

Other achievements during the year include a reduction in insurance claims by volume due to fixing identified defects within priority times, cleaning over 100,000 gullies, delivery of £2 million pounds of NYC capital schemes at £700k less than order value, attending circa 6,000 street lighting defects and 2,069 emergency call outs to make the highway network safe, and completing over 1.5 million square meters of surface dressing and patching. NYH is delivering on the advantages envisaged by the Teckal arrangement and will continue to build on this performance for the next financial year.

Volume of works has increased this financial year with an increased delivery volume. Resourcing the increased volume of works has been challenging on occasion due to recruitment market pressures. Careful management of internal and external NYH workload will be required to ensure that risk is managed and organic growth is maintained by the company.

Bracewell Homes

The FY23/24 draft outturn profit before tax equals £1.693 which is £174k higher than budget and £136k higher than the Q3 projection. The variance between the Q3 forecast and the draft outturn position is due to property sales not materialising and Bracewell retaining the full value of the asset and associated rental income.

Maple Park

The draft outturn profit before tax for 2023/24 is £356k, which represents a significant £284k outperformance of the full-year budget and is £123k higher than Q3 forecast.

The Crematorium is still developing and becoming established, with the original budget reflecting a prudent target as it was a new facility. During 2023/24 it has gained a very good reputation and with the large catchment area has seen the volume of cremations increase.

Electricity costs were not as high as expected when the budget was set, resulting in an underspend for the year and the movement in the outturn variance between Q3 and Q4. 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.

The Maple Park operation will be brought wholly in-house within North Yorkshire Council during the 2024/25 year.

Brimhams Active

The forecasted loss before tax in this financial year of £491k 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.

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.

The Council is in discussion with CNDCL regarding the car parking arrangement, with a view to reviewing the operation in order to allow the Joint Venture to be dissolved.