

**North Yorkshire Council**

**Shareholder Committee**

**17 September 2024**

**Brierley Group 2024/25 Quarter 1 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 Q1 Financial Performance.

**2.0 RECOMMENDATION**

2.1 For the Shareholder Committee to note the report and the Brierley Group Q1 Financial Performance for the 2024/25 year.

**3 Brierley Group Headlines**

- 3.1 The performance across the Brierley Group shows strong performance in most areas, with most organisations forecasting the achievement of budgeted pre-tax profits. Overall, the 2024/25 group outturn forecasts a pre-tax profit of £3.287m against a budget of £2.875m; representing a positive variance of £412k.
- 3.2 Align Property Partners and Align Property Services performance at Q1 indicates that the strong trading position seen in recent years will be sustained and projections assume that their £1.455m budgeted profit will be achieved.
- 3.3 The Q1 position for Yorwaste reflects a £305k favourable variance driven by commercial activities, with commercial collections and the retention of the third-party recycle processing being the main contributors to the surplus. This performance is expected to be sustained within the remainder of the year, with a forecast surplus of £499k projected for the year.
- 3.4 NYES is forecasting a £218k favourable variance for the year following a positive first quarter. Vacancy savings in the cleaning, employment and HR services are driving the current forecast, plus improved turnover performance. Projections will be further refined in Q2 when structure changes and recruitment to vacant posts become clearer.
- 3.5 NY Highways are on track to deliver budget. Recruitment remains challenging for the company and the policy of 'grow your own' will continue through maximising the apprenticeship levy and work with resourcing solutions to fill open positions.
- 3.6 The Q1 position for Brimhams Active reflects a £98k adverse variance predominantly driven by Turkish Baths income being below its increased 2024/25 target. Challenges in this area and Learn to Swim income are expected to continue

through the year. Health Suite and Corporate Membership income is performing well, however surpluses are not sufficient to offset these income shortfalls; resulting in a £323k adverse projected variance position for the full year.

- 3.7 The Q1 figures for Veritau show a negative variance against budget of £394k due to a restructuring of the company which has involved the creation of a new company (limited by guarantee) called Veritau Public Sector Limited (VPS). The new company started trading on 1 August. One of the consequences of these changes were delays in billing (from Veritau Limited) due to the need to obtain a new VAT number. The Q1 shortfall is merely an accounting timing difference and the position will correct itself in the remainder of the year.

#### **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. 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.
- 4.3 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.
- 4.4 General inflation (RPI) is currently 2.25%, 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.

#### **5.0 Current and future areas of development**

- 5.1 North Yorkshire Highways (NYH); The standard of fleet and operational facilities at Pickering and Finkalls Way have been improved to allow continued operation of the sites and deliver improvements to meet the growth of the fleet business. This work has been a good example of NYC property and NYH working together to deliver a benefit for both.
- 5.2 NYH has registered on several portals to identify external trading opportunities and have been successful in working with APP to secure certain contracts works. They have also been successful in the delivery of smaller scale and value works to build up capabilities and create confidence with the operational teams.
- 5.3 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.

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

## 6.0 2024/21 Q4 Brierley Group Financial Summary

- 6.1 The following tables set out the 2024/25 Q1 position and Forecast Variance to budget 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	Q1 Performance 2024/25	Q1 Budget 2024/25	Q1 Variance 2024/25	Full Year Forecast 2024/25	Full Year Budget 2024/25	Full Year Variance 2024/25
	£,000	£,000	£,000	£,000	£,000	£,000
Revenue	33,738	33,965	(227)	187,804	192,396	(4,592)
Cost of Sale/Service	(26,955)	(27,128)	173	(153,827)	(158,690)	4,863
Gross Profit	6,782	6,836	(54)	33,977	33,706	270
Overheads & Other Costs	(6,001)	(6,415)	414	(27,375)	(27,573)	198
Other Trading Income/(Loss)	12	180	(168)	268	372	(104)
Other Gains/(Losses)	4	-	4	8	-	8
Operating Profit	798	602	196	6,878	6,506	372
Finance Income	40	38	2	161	155	6
Profit before Interest & Tax	838	640	198	7,039	6,661	378
Interest Paid	(509)	(619)	110	(3,753)	(3,786)	33
Tax (Expense)/Surplus	-	-	-	-	-	-
Profit before Tax (NYC% Shareholding)	329	21	308	3,287	2,875	412

**Table 2 – Forecast Variance to Budget by organisation**

Company	Q1 Performance 2024/25	Q1 Budget 2024/25	Q1 Variance 2024/25	Full Year Forecast 2024/25	Full Year Budget 2024/25	Full Year Variance 2024/25
	£,000	£,000	£,000	£,000	£,000	£,000
NYnet	99	107	(8)	400	400	-
First North Law	7	10	(3)	39	42	(3)
Brierley Homes	(157)	(157)	-	182	182	-
Align PP	375	361	14	1,462	1,445	17
Yorwaste	294	(10)	305	577	78	499
Veritau	(388)	6	(394)	16	16	-
NY Highways	12	(408)	420	61	57	4
Bracewell Homes	22	76	(54)	244	244	-
Total (NYC % Shareholding) External companies	264	(16)	280	2,981	2,464	517
NYES	101	47	54	406	188	218
Maple Park	86	14	72	223	223	-
Brimhams Active	(123)	(25)	(98)	(323)	-	(323)
Total (NYC % Shareholding) all	329	21	308	3,287	2,875	412

**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	2,981	306	3,287
NYC Support Service Contracts	259	213	472
NYC Loan Financing Interest	3,095	-	3,095
Other Deliverable Shareholder Value	4,681	-	4,681
<b>Total</b>	<b>11,016</b>	<b>519</b>	<b>11,535</b>

6.2 Tables 1 and 2 above highlight a 2024/25 full year forecast outturn pre-tax profit of £3.287m for the Brierley Group (£2.981m excluding performance on General Fund related operations), compared to a budget of £2.875m; representing a projected favourable forecast variance for the year of £412k.

6.3 All entities are currently forecasting a 2024/25 profit except Brimhams Active. Brimhams Active purely operate services on behalf of the Council so the 'loss' reported within the Brierley Group summary relates to the subsidy associated with running a Council service as opposed to a true commercial loss.

6.4 Yorwaste and NYES are showing a predicted stronger positive outturn than budget.

6.5 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: 9 September 2024**

Presenter of Report – Kerry Metcalfe - Assistant Director  
[kerry.metcalfe@northyorks.gov.uk](mailto: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 is projected to realise a gross profit of £2.26m in FYE 24/25, which will be offset by operating expenses totalling £1.85m (comprising hub costs of £0.92m and overheads £0.93m). Consequently, the forecast net profit stands at £0.41m. Services that have projected a higher profit (as compared to the full year budget) include Cleaning, Employment Support, and HR Advisory Service, mainly due to anticipated underspends from staff vacancies. The impact of this will be monitored and updated in future quarterly reports as any proposed structure changes and timing of recruitment becomes clearer.

Customer attrition due to academisation poses a significant long-term threat to the business model of some of our services. Increasingly, schools are joining MATs that already have their own provisions for professional support services. While bidding for and winning such MAT contracts presents a growth opportunity, accommodating the typical size of these MAT contracts may require extra service capacity building and further development of our own contract management expertise.

Workforce recruitment and retention for our services has been a persistent recent obstacle to 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. As the first round of service transformation programmes draws to a close, some services may have freed up additional capacity to trade following efficiency improvements.

### **NYnet**

Quarter 1's draft position for the 24/25 outturn indicates a forecast outturn profit of £400k, which is in line with budget. Connectivity remains the largest contributor to the revenue. NYnet have seen steady increase in orders from private sector customers as well as on diverse portfolio.

Higher than budgeted sales on diversified portfolio have contributed additional costs as these sales are at lower profit margin, therefore gross profit margin is lower than the year-to-date budgeted level. Internet and sensor trials are on-going with new locations and solutions.

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.

### **First North Law**

First North Law (FNL) is trading broadly in line with budget at the end of Q1. FNL has increased its target for profit this year by 30% to account for the ambitions of the company to grow significantly over the next 3 years.

At present recruitment and meeting client demand are issues for FNL.

## **Brierley Homes**

Q1 2024/25 income of £1,769k was a combination of Sales Revenue of £1,562k and a VAT repayment of £207k. The Sales Revenue was a result of further sales completions at the Company's Yew Tree Farm (Marton cum Grafton) development as well as the Whorlton Meadows site. These sales were originally expected during March 24. Further sales completions (estimated at £1.7m) are expected during Q2.

Construction costs incurred during Q1 mainly related to Leven Pastures and Branton Lane. Yew Tree Farm has continued to incur additional development and finishing costs as the site approaches completion.

During April 24, the land purchase for the site at Kirkby Malzeard took place.

The expectation is that budget will be met, with no major variances identified at Q1. The profiling of sales and construction at new sites, along with profit projections will be reviewed and updated for Q2.

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 as well as enhanced responsibilities around CIS, coupled with a substantial increase to transaction volumes.

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. This delivery model is well developed in terms of procedures, management and administrative resources and following a recent internal audit, further procedures are being developed in line with the new delivery model for Brierley Homes to ensure robust governance is in place – this is being developed over the coming months.

Brierley Homes looks to mitigate wider economic pressures via the core strategy of choosing only to develop in higher demand, more affluent 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.

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

A new company, Align Property Services Ltd. (APS), commenced operations on 1 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 associated with its legal status. The financial results in this report encompass the combined performance of both companies.

Align's projected profit for the year of £1.46m is broadly in line with its £1.45m target. A £0.5m dividend payment is expected to be approved and made to NYC later this year, in recognition of the companies' recent strong financial performance.

Recruitment and retention of appropriately skilled staff in a competitive marketplace continues to be a challenge as Align continues to operate in newer markets.

## **Yorwaste**

Yorwaste made a profit before tax in Q1 of £379k, being £392k favourable to budget. To date the company has had zero reports of Injuries Diseases and Dangerous Occurrences Regulations and no Lost Time Injuries. Q1 saw net revenue ahead of budget; driven by the commercial activities, with commercial collections and the retention of the third-party recycle processing being the main elements.

Total operating costs were favourable to budget with tight staff cost controls and effective asset management continuing as in previous years. The underlying asset quality, including vehicles and buildings, is now of a good standard which has improved fuel economy, reduced reactive maintenance costs, and improved asset uptime. The quarter saw the delivery of a number of owned replacement vehicles.

Q1 has seen very strong performance and gives significant weight to the Company ending the year in a reasonable positive profit position. Whilst there is much room for optimism based on the Q1 performance, it should be recognised that most of the current fiscal year is still to occur.

## **Veritau**

Veritau Q1 negative results (£394k) is a timing delay in invoicing due to a restructuring of the company which has involved the creation of a new company (limited by guarantee) called Veritau Public Sector Limited (VPS). The new company started trading on 1 August. One of the consequences of these changes were delays in billing (from Veritau Limited) due to the need to obtain a new VAT number. The impact of this has not been accrued at Q1, so it is expected that the revenue figure will correct itself at the end of Q2.

The corporate restructure has been necessary to maintain Veritau's Teckal position and to make it easier for other councils to join as member councils. Recruitment and retention remain a key risk, along with the completion of the corporate restructure.

## **North Yorkshire Highways (NYH)**

NYH are on track to deliver profits in line with budget for the year.

Recruiting to NYH to meet retirement, attrition and growth continues to be an ongoing issue. NYH has benchmarked their terms and conditions against other Highway Teckals in the UK and found there is negligible difference, and has offered recruitment incentives for harder to fill positions. Despite these actions recruitment remains an issue, and NYH will continue to "grow their own" through maximising our apprenticeship levy and work with resourcing solutions to fill open positions.

The standard of fleet facilities at Pickering and Finkalls Way have been improved to allow continued operation of the site and widen fleet opportunities. Further work to improve the office accommodation is taking place in partnership with property.

### **Bracewell Homes**

The forecasted outturn position at Q1 projects that the 24/25 budgeted profit before tax position of £244k will be achieved.

It is currently not expected that any properties will wholly be taken into stock in the 24/25 financial year. To date a deposit had been paid for properties at Yew Tree Lane, Harrogate however it is not expected that these will be completed until 25/26.

There are currently three properties on the market at Burton Leonard. It is expected that these will sell in 24/25.

### **Maple Park**

The draft forecast profit before tax for 2024/25 is £223k, which is in line with the full-year budget.

The Crematorium is still developing and becoming established. During 2023/24 it has gained a very good reputation and with the large catchment area has seen the volume of cremations increase.

Energy price volatility continues and is currently being contained within budget but could affect future profits. 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, with Hambleton Holdings and Maple Park LLP being wound up and the assets being transferred into the Environment Directorate.

### **Brimhams Active**

Year to date Brimhams Active have a budget deficit of £98k.

Income is down £209k against budget as at the end of June 2024, primarily as a result of an increased income target for growth in admissions, which hasn't been achieved during Q1. Key variations relate to Turkish Baths admissions and treatment income. Pay as you go swim admissions income was also below target in Q1, however difficulty in recruiting swim teachers has been the main driver in not achieving the increased targets.

As at Q1 Brimhams Active are forecasting an overall year-end deficit of £323k. Areas forecasting significantly below budget are Turkish Bath admissions and treatment income, and learn to swim income. Health Suite Memberships and Corporate Memberships are performing particularly strongly, however these surpluses are not sufficient to cover the aforementioned shortfalls.



Brimham's run leisure services on behalf of NYC and receive an annual management fee from the Council. The management fee payable to Brimhams from NYC was reduced to £600k in 24/25, compared to £1,672k in 23/24. The 'loss' reflected in this report reflects that the reduction in management fee will not be fully realised in the year, as opposed to representing a true commercial loss.

The challenge regarding learn to swim income targets relates to difficulties in recruiting qualified swim teachers. Two intensive swimming teacher courses are being held in July and August and as soon as these have taken place new learn to swim places will be released.

Additional marketing is being provided for the Turkish Baths to try to mitigate the income shortfalls at the venue.