North Yorkshire Council

Shareholder Committee

21st January 2025

Brierley Group 2024/25 Quarter 2 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 Q2 Financial Performance.

2.0 RECOMMENDATION

2.1 For the Shareholder Committee to note the report and the Brierley Group Q2 Financial Performance for the 2024/25 year.

3.0 Brierley Group Headlines

3.1 The performance across the Brierley Group shows strong performance in most areas, with most organisations continuing to forecast the achievement of budgeted pre-tax profits. Overall, the 2024/25 group outturn forecasts a **pre-tax profit of £4.45m**, which represents a positive variance of £1.560m against budget for the year, and an improvement of £1.163m in comparison to the forecast reported at Q1.

3.2 The Group continues to deliver significant Shareholder Value for the Council, with a **Shareholder Value of c£14m projected for the year**.

3.3 Align Property Partners and Align Property Services performance at Q2 continues to indicate that the strong trading position seen in recent years will be sustained, with a pre-tax profit of £1.394m projected for the year. Yorwaste, NYES and NYnet also continue to deliver strong returns with NYC's share of outturn profits projected at £1.573m, £551k and £400k respectively.

3.4 The Q2 position for Brimhams Active shows a forecast outturn 'loss' of £161k for the year, predominantly due to Turkish Baths income being below its increased 2024/25 target. It is however pleasing to note that the company's overall projected deficit for the year has reduced by £162k in comparison to the position reported at Q1. 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.

3.5 The services operated by Brimhams Active were transferred back to NYC in December 24, therefore these services are now managed within the Council's General Fund as opposed to being managed via a separate commercial entity. The services previously delivered through the Maple Park commercial entity have also now transferred back to NYC.

3.6 Brierley Homes forecast outturn position shows a projected profit of £107k for the year (a £75k negative variance against budget), as a result of significant income from sales to be realised later in the year.

2. Current Challenges

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

2.2 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.

2.3 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.

2.4 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.

2.5 General inflation (RPI) is currently 2.7% (Sept 24), 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.

3 Current and future areas of development

3.1 North Yorkshire Highways (NYH): Fleet facilities at Pickering have been brought to an acceptable standard to allow continued operation. Further work to improve the office accommodation is taking place in partnership with property. Finkills Way planning and building regulation approvals is well underway and so is securing contractors to deliver the improvements to meet the growth of the fleet business. This has been a good example of NYC property and NYH working together to deliver a benefit for both.

NYH has registered on several portals to identify opportunities and have been successful in working with APP in doing so for works in Teesside. They have also been successful in delivery of smaller scale and value works to build up capabilities and create confidence with the operational teams.

3.2 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.

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

4 2024/21 Q4 Brierley Group Financial Summary

4.1 The following tables set out the 2024/25 Q2 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	Full Year Forecast 2024/25	Full Year Budget 2024/25	Projected Variance 2024/25
	£,000	£,000	£,000
Revenue	185,368	191,674	(6,306)
Cost of Sale/Service	(150,373)	(157,797)	7,424
Gross Profit	**34,995**	**33,877**	**1,118**
Overheads & Other Costs	(27,384)	(27,648)	264
Other Trading Income/(Loss)	419	289	130
Other Gains/(Losses)	19	-	19
Operating Profit	**8,050**	**6,519**	**1,531**
Finance Income	167	153	14
Profit before Interest & Tax	**8,217**	**6,672**	**1,545**
Interest Paid	(3,767)	(3,781)	15
Profit before Tax (NYC% Shareholding)	**4,450**	**2,891**	**1,560**

Table 2 – Forecast Variance to Budget by organisation

Company	Full Year Forecast 2024/25	Full Year Budget 2024/25	Full Year Variance 2024/25
	£,000	£,000	£,000
NYnet	378	400	(22)
First North Law	41	42	(1)
Brierley Homes	107	182	(75)
Align PP	1,394	1,501	(107)
Yorwaste	1,573	39	1,534
Veritau	18	15	4
NY Highways	52	57	(5)
Bracewell Homes	274	244	30
Total (NYC % Shareholding) External companies	**3,837**	**2,480**	**1,358**
NYES	551	188	363
Maple Park	223	223	-
Brimhams Active	(161)	-	(161)
Total (NYC % Shareholding) all	**4,450**	**2,891**	**1,560**

Table 3 – Brierley Group Shareholder Value

Projected Shareholder Value	£'000
Profit / (Loss) before Tax	4,451
NYC Support Service Contracts	513
NYC Loan Financing Interest	2,157
Other Deliverable Shareholder Value	6,825
Total	13,946

4.2 Tables 1 and 2 above highlight a 2024-25 full year forecast outturn pre-tax profit of £4.450m for the Brierley Group entities (£3,837k excluding performance on General Fund related operations. Details by entity can be found in **Appendix A**.

4.3 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.

4.4 A total Shareholder Value of £13.946m is forecast for NYC in the 24-25 year. This is categorised by group profitability, margins on support service contracts and loan financing arrangements, along with other Shareholder Value in the form of financial benefits and cost savings which the Council derives from the trading and operational arrangements that are in place with the Brierley Board entities.

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

Date: 08/01/2025

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.

APPENDICES:

Appendix A – Detailed Company by Company Update

APPENDIX A

North Yorkshire Education Services (NYES)

NYES is projecting a profit of £550k for the year (after allowing for hub costs and centrally allocated overheads of £1.855k), and a shareholder value to NYC of £644k. This position represents a significant turnaround against the trading loss reported in 2022/23.

Customer attrition due to academisation poses a significant long-term threat to the business model of some of NYES' services. Increasingly, schools are joining Multi Academy Trusts (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

Given the significant changes in the UK academy market, particularly with the growth of Multi-Academy Trusts (MATs) and the centralisation of services, the business must adapt to these trends. Strengthening relationships with key decision-makers within MATs and tailoring services to meet their specific needs will be crucial. Developing packages that cater to centralised procurement processes, enhancing digital presence, leveraging data and feedback, and offering training and support are essential steps. Staying informed on policy changes will also help anticipate and adapt to market shifts. These actions will close communication gaps and position the business for sustained growth and increased profitability in the competitive education sector.

NYES has prioritised maximising training income, focusing on high-volume, low-cost sales with significant profit potential. The new website - NYES Training - facilitates instant sign-up and credit card payment, enhancing the user experience. The initial website, NYES Info, drives traffic to the new platform, boosting customer engagement.

Future developments include optimising the website for search engine visibility, enhancing social media campaigns, and refining customer feedback processes. These actions will further close communication gaps and position the business for sustained growth and increased profitability in the competitive education sector.

NYnet

NYnet's Q2's draft position for the 24-25 outturn indicates a forecast outturn profit of £378k, representing a small downturn of £22k from Q1. Although higher than budgeted sales/income is reported, it has resulted in a lower profit margin due to general increased costs across the board in delivering these new sales. New cost saving avenues are considered, wherever possible, through diversifying equipment's used on different orders and using the own Local Full Fibre Network (LFFN) network for new orders.

Internet and sensor trials are on-going with new locations and solutions identified. NYnet continues 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 projecting a profit of £41k for the year which is broadly in line with budget and the Q1 forecast.

FNL has addressed two issues which had limited historic growth. Firstly, FNL has appointed a further dedicated resource from November 2024 ending a long search for additional resource and secondly FNL has been awarded a place on a YPO Wider Public Sector legal framework. FNL had bid for eleven lots and succeeded in being awarded a place on all eleven lots. This removes a significant barrier to market for a lot of FNL's target clients.

FNL has targeted year on year growth of 30% for this year and the next two financial years. It is on track to exceed this target in the current year and with a significant additional route to market in the form of the YPO framework, FNL is confident that future growth can also be achieved. Further recruitment exercises will need to be undertaken but as evidenced by the recent appointment, the legal recruitment market is changing for the better and should assist FNL with its growth aspirations.

Brierley Homes

The full year forecast as at Q2 anticipates a gross profit of £3,100k and a net profit of £100k after taking account of £2,100k financing costs and £900k overheads. This forecast is reliant on a significant number of sales in the second half of the year and so the forecast will be further revised at Q3 once more detailed information is known on the construction and sales profiles of all active sites. Sales within the financial year are assumed at the following sites: Marton cum Grafton; The Paddocks, Great Ouseburn, Stokesley and North Road, Ripon. Further sites will be released for sale during Q3 for sales completions forecast for during the 25/26 financial year.

The profiling of sales and construction at new sites continues to be refined to determine the optimum profile for new developments, ensuring returns are maximised whilst staying within the agreed loan facility.

Significant shareholder value continues to be achieved by Brierley Homes which is predominantly derived from the interest payable on the loan from the Council.

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 will be 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. 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.

Brierley Homes has also recently being the recipient of an award for the sites at Marton Cum Grafton and Swainby from the UK Property and the Housebuilder Awards.

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

A new company, (Align Property Services Ltd APS), commenced operations on 01 December 2023, to address the turnover growth limitation faced by Align Property Partners Ltd. (APP). As a single entity, APP was restricted to undertake no more than 20% trading with third parties outside its parent local authority to maintain Teckal compliance. The Teckal contract has now been transferred to the new company APS, allowing APP to shed its Teckal status and be free to fully pursue its commercial aspirations. The financial results in this report encompass the combined performance of both companies. The split of revenue and costs between the two companies is all but now complete, pending review during the audit process.

Align are projecting a profit of £1.39m and a shareholder value to NYC of £1.527m for the year. A £1.0m dividend payment is expected to be approved and made to NYC later this year, in recognition of this 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 is projecting a pre-tax profit of £2,025k for the year; £1,573k of which relates to NYC's share of the company, and a shareholder value to NYC of £6,503k. The projected pre-tax profit position is in line, if not slightly ahead of the prior year outturn position.

At the mid-year point Yorwaste's underlying net revenues were slightly ahead of expectations with reductions in landfill gas revenues from the sharp fall in wholesale energy prices and the long-term volume decline of the gas curve offset by its wider commercial activities including increased commercial collections and continuing third-party recyclate processing.

Total operating costs were lower in real terms compared to the same period last year driven by cost efficiency measures and increased asset optimisation which has improved significantly over the past few years, so the company is now carrying greater volumes on fewer vehicles.

Whilst commercial collections have performed well, wider market conditions are expected to see increasing price challenges arising against the backdrop of an economic slowdown. These same market conditions will present added cost pressures for Yorwaste over the coming year and beyond and the company continues to explore opportunities to help mitigate their impact.

Veritau

As at Q2 Veritau is projecting a pre-tax profit of £46k for the year; £18k of which relates to NYC's shareholding. Total forecast fee income is £171k higher than the original budget due to the addition of two new member councils and continued growth in external work. A broadly similar increase is anticipated in the cost of sales.

The main focus for the business over the last two quarters has been the creation of Veritau Public Sector Limited (VPS) (the new Teckal company), which started trading on 1 August.

Recruitment and retention remains a key risk to the company. Continuing recruitment and investment in professional development programmes is essential to maintain capacity within the business and remains a priority. Veritau also commissioned an external review by NYC of the existing pay / grading structure which concluded that some changes were needed. These changes will be taken forward in Q3 or Q4.

North Yorkshire Highways (NYH) (April to August Only)

As at Q2 NYH is projecting a pre-tax profit of £52k for the year, which is broadly in line with budget and the Q1 projection, and a shareholder value to NYC of £3,025k.

NYH are forecasting an overall deficit against revenue for the year, which is derived from a reduction in the capital schemes delivery plan and is due to cost savings against planned schemes budgets, schemes programme delivery slippage into 25/26 and re-allocation of schemes by NYC outside of the NY Highways contract. Cost of sales has decreased in line with the reduced revenue.

Recruitment continues to be a challenge although for the first time NYH are close to having a full complement of operatives and supervisors to meet the needs of the highway network. To address recruitment challenges NYH have changed the way vacancies are advertised, set up specific contracts for external works operatives, and are working with Resourcing Solutions closely. Whilst it is improving for business-as-usual activities it remains harder to attract operatives with larger project experience.

NYH is performing well despite the challenges of recruitment and budgetary pressures and is increasingly being seen as the organisation within Brierley group that can deliver construction and maintenance works. NYH is also focussed on establishing efficient processes so that efficiency savings can be realised by NYC.

Bracewell Homes

Bracewell Homes is forecasting a profit before tax of £274k for the year and a shareholder value to NYC of £309k. The pre-tax profit projection represents an improvement of £30k against the position reported at Q1 predominantly due to a reduction in interest payable associated with an improved cashflow position.

Maple Park

Maple Park was transferred back to the council on 1st of October 2024, with Hambleton Holdings and Maple Park LLP being wound up. The draft forecast pre-tax profit position for 2024/25 is currently reported to full-year budget, however the actual trading position for the 6 months should be available to report at Quarter 3.

Brimhams Active

The leisure contract for the Harrogate area transferred in-house on 1 December. At Q2 Brimhams Active were forecasting a loss of £161k for the year. This is an improvement of £162k against the forecast reported in the Q1 report.

Health Suite and Corporate Memberships continue to grow and are performing particularly well, however this has been offset by projected income shortfalls at the Turkish Baths and on Learn to Swim activities.

Turkish Bath income is below budget as a result of income targets being stretched significantly for 2024/25. The service is forecasting similar income to that received in 2023/24 and continues to increase its marketing to improve its income position. Shortfalls in Learn to Swim income relate directly to difficulties in recruiting and retaining swim teachers and work continues to recruit additional swim teachers.