BRISTOL holding

Report Title:		Board/Committee:	
Draft Business Plans – BHL Board Overview Report for Cabinet		**Cabinet**	
Agenda item:	**Meeting date: 03/03/2022**	**Non-confidential**	**For information**
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Executive Summary			
This document provides cabinet with a summary of Holdco Board assurance reviews of the draft Bristol Holding, Bristol Waste and Goram Homes proposed business plans.			
Recommendations			
Cabinet is asked to: **1.** *Note the commentary from Bristol Holding on each of the published draft business plans*			
Link to Corporate Objectives			
Effective governance, performance and risk management arrangements.			

1. Background and Context

1.1 As part of its assurance to the Shareholder role, Bristol Holding has set out, for information to Cabinet, a summary review commentary on each of the proposed company business plans for Bristol Holding, Bristol Waste and Goram Homes.

2. Bristol Holding

2.1 Bristol Holding (BHL) has submitted a one-year only business plan. Its basic assumption is that, in line with the independent Shareholder Advisor's review of the governance arrangements for wholly owned companies and following disposal of BHNL to City Leap when only two subsidiaries will remain in the group (BWC and Goram Homes) and no new council owned companies are envisaged, BHL functions will be transferred either to the Council or remaining companies in the group. The business plan therefore focusses on the winding down of BHL key assurance, scrutiny, and support functions, and ensuring an effective transfer under the desired delivery model. It should be noted that that decision has yet formally to be taken. The aim will be to complete that process in seven months, but the financial assumptions are based on a full financial year.

2.2 Pending the actual wind-down and transfer process BHL will continue to provide commercial and corporate governance assurance to the Shareholder, which will be important as the Strategic Client role evolves. The proposed strategic objectives reflect this as well as the need to prioritise the successful share disposal of BHNL to the City Leap Joint Venture. The KPIs are by default a series of defined delivery milestones. Clearly a key risk to delivery of the milestones would be delays to or failure to complete City Leap and/or council decisions about BHL's future.

2.3 The financial assumptions reflect a reduced establishment, both board and employee, and need for continuation of group-wide activities for the next year (including external audit, tax advice and insurances). It should be noted that some of these costs are fixed and will need to be borne either by the Council, or subsidiary companies after wind-down.

2.4 The reduced establishment is consistent with the assumptions but will leave no capacity to take on any additional responsibilities. Social value calculations are derived from those national TOMs which form part of the Council's amended social value policy and calculated accordingly.

2.5 Failure to have clear and effective corporate governance arrangements is considered to be a key risk, and transitional arrangements to the new operating model will need to ensure appropriate mitigations. The risk to retention of staff during this transitional period means the company needs to have adequate resilience arrangements.

3. Bristol Waste

3.1 Bristol Waste have presented a very detailed and ambitious business plan given the Shareholder's challenge of absorbing the costs of a new service (Hartcliffe HRRC) and delivering improvements within the existing financial envelope. Improvements embedded within the plan include flats recycling initiative, additional engagement with students and a waste reduction campaign. However, the most significant change (other than opening of Hartcliffe) is the intention to move street cleaning and refuse collection to a 'village' approach, making services more neighbourhood centric. The steps required to deliver further transformation of the business are also detailed. Importantly, the plan excludes any further costs of Big Tidy, and if BCC wishes this to continue then funding will need to be separately identified. It also excludes any changes to core contract service delivery which may provide opportunities for cost saving.

3.2 Agreed strategic objectives with the Strategic Client are to promote citizen ownership of waste and recycling in the city, deliver measurably cleaner streets, provide leadership in the delivery of waste and recycling services, and deliver innovation and bespoke waste management solutions. Reducing waste and increasing recycling volumes is a key priority and the plan incorporates a few planned deliverables, albeit limited due to budget constraints. It should be noted that key performance targets, which align to these objectives, have yet to be agreed with the Council as client.

3.3 Core waste contract services (refuse collection/disposal, street cleaning, graffiti removal etc), are assumed in this plan to deliver a small surplus for 2022/23 (£144k). This includes absorbing the running costs of the new Hartcliffe Reuse and Recycling Centre from the start of the financial year, at an estimated net cost of £751k. Significant work has been done by the company to identify and deliver efficiencies to achieve this, and it should be noted the assumed margin is very low. Furthermore, contract revenue is only assumed to increase by 3% each year over the next 5 years, which will require delivery of ongoing efficiencies and improved income from waste mining, reuse and other initiatives. The risk of capacity to deliver the significant efficiencies and initiatives covered in the plan should not be underestimated, and an important challenge will be to set out service delivery implications of potential reductions, particularly given the ambitions of the plan and new interventions therein.

3.4 It should be noted that the core service surplus is predicated on maintenance of relatively buoyant recyclates prices compared to those pre-pandemic (although income is assumed to be lower than forecast for this financial year,) with ongoing growth over the next 5 years. Whilst there are reasons to justify higher commodity prices being sustainable (e.g. growth in UK internal recycling facilities), this is a significant risk and should prices fall then losses will be incurred on this part of the business, and there could be a call on the contract payment mechanism at additional cost to the Council.

3.5 Overall, the draft business plan assumptions indicate an overall EBITDA of £705k, of which £234k is assumed to be generated through non-teckal commercial activities. From a commercial perspective this is very low margin on a £55m turnover business, underlining that this BP is tight and that there is very limited room for manoeuvre in regards additional cost growth and/or revenue shortfall.

3.6 Non-teckal turnover for next year is assumed to be some £3.9m, almost exclusively relating to commercial waste functions. This is significantly higher than forecast for the current year, as well as that assumed in last year's plan, with moderate growth (approx. 5% pa) assumed for the following 4 years. The focus for non-teckal commercial growth from 2023/24 is assumed to be through expansion of FM services. Deliverability of this growth will be a challenge.

3.7 There is planned to be capital investment during 2022/23, on plant and machinery – but this will be funded from reserves so there will be no call on BCC for further loans. It should be noted that the capital investment will be focussed primarily on areas that support delivery of Council objectives (e.g., minimisation of waste to landfill). BWC will need to regularly review its reserves policy as it will need to build financial resilience and invest in new vehicles, plant and machinery that supports delivery of its strategic objectives.

3.8 Overall, the view of the Holding Company is that the plan is deliverable, but very tight, and there are significant risks which may impact on financial performance.

4. Goram Homes

4.1 As explained in previous annual submissions, the Goram BP is by its very nature, a framework plan that only captures a high-level view of the anticipated programme. Although detailed in the short-term, it can only be indicative in regards the wider overall business and the test for individual sites will be covered by separate Business Case approvals process. The plan outlines a pipeline for delivery of some 3,000 homes over the next 10 years. This is significantly higher than last year's plan following the inclusion of Hengrove Park, which in itself aims to deliver over 1,400 homes from 2024. Operating through joint ventures with private developers, the business model is able to generate significantly higher proportion of affordable housing – indeed some 48% of the overall pipeline aims to be affordable housing, whilst generating longer term returns to the Council (based on an assumption of approximately 15% gross profit margin for developments on Gross Development Value for each scheme). That investment is in the form of market rate loans, both for the transfer of land to the company and working capital. The interest payments, back to the Council, are reflected in the business plan financial assumptions.

4.2 The Council's strategic objectives for the company, as set out in the plan, focus on the delivery, at pace of affordable and sustainable housing, which help create inclusive communities, and these are reflected in the key performance indicators. It should be noted that Goram is structured as a company not governed by public law, which facilitates flexibility and pace in procurement of joint venture partners and development but does mean they must primarily operate as a commercial developer. That said, the business plan clearly lays out its commitment to building high quality homes, achieving environmental sustainability, and delivering additional social value.

4.3 A key financial assumption of the plan is that land values will make up the majority, if not all, of the investment required by Goram Homes as joint venture collateral. Of course, each site is different and values, other than Romney are only indicative. Any further project investment, along with core operating costs on the company, are currently assumed to be contained within £3.3m for pipeline 1 (Romney and Baltic Wharf) and £10m for pipeline two (all other sites), as approved by Cabinet in March 2021. This includes the development of Hengrove. However, the business plan does assume flexibility in the use of the £10m, and it is anticipated that a higher proportion will be required for core Goram costs than the current working capital facility agreement. The plan assumes repayment of £8.1m by the end of this medium-term financial planning period.

4.4 In addition to core team and contribution to development costs, the plan assumes some £67m of loans from BCC for acquisition of land over the period of the plan (based on current estimated site land values). Some £32m is assumed to be repaid during this period, as sales on Romney and other early development sites crystallise.

4.5 It should be noted that whilst cost and sales assumptions for both Romney and (to a lesser extent Baltic Wharf) are based on detailed financial modelling, all financial assumptions for the remaining programme can only be indicative at this stage. Additionally, the plan excludes inflation as Goram suggests that inflation cannot be forecast, and this also adds risk to the forecasts which will also be dependent on market conditions when houses are completed. As schemes progress then the business plan assumptions will inevitably change. The assumption that Baltic Wharf will commence in 2022 adds some additional prudence to the early years of the plan (as this type of development requires significant investment before any profits are generated). Based on current assumptions of when works can commence on each site, and when revenues can be generated from sales, then overall profits (as opposed to individual LLP) are unlikely to be realised until at least 2025. As the numbers are indicative the plan includes some stress testing.

4.6 Annual operating costs of Goram will fluctuate as work focusses on site preparation and LLP partnership development. The costs are reasonable given the scale of work required over this period.