

# Detailed Financial Commentary on Bristol Holding Group Business Plans

## 1. Financial Overview

### 1.1 Overview to Date

1.1.1 Bristol Holding group currently includes the following subsidiaries:

- Bristol Waste Company Ltd.
- Goram Homes Ltd.
- Bristol Heat Networks Ltd.

1.1.2 Bristol Holding currently holds £1 Ordinary share capital in each of Bristol Waste, Goram Homes and Bristol Heat Networks.

1.1.3 This financial commentary covers the 2022/23 business plans and proposals submitted by Bristol Holding, Bristol Waste Company and Goram Homes. Bristol Heat Networks is expected to be transferred to City Leap mid-2022/23. This transition is subject to some commercial confidentiality and the preparation of its business plan with accompanying due diligence is following a separate timetable.

1.1.4 Please note that Bristol Holding and Bristol Waste are Teckal companies. The Teckal directive requires that:

- The Council must control all of the shares in the company and must also exercise effective day-to-day control over its affairs; in other words, the same as the relationship between the Council and one of its internal directorates.
- At least 80% of its turnover / activity must be for its public sector owners and the companies can undertake up to 20% trading (smoothed over 3 years) with third parties outside of their 'Teckal' contract.
- The Council can directly award contracts to them without a formal public procurement process. However, the Teckal companies themselves are required to comply with public procurement processes when awarding contracts.
- If the companies are also trading with third parties (up to maximum 20% of turnover) the Council must be mindful that it is not subsidising the third party activity and giving a 'competitive advantage', not breaching new UK state aid and/or transfer pricing regulations.

1.1.5 The legal status of Goram Homes, due to its commercial purpose, is a Body Not Governed By Public Law (non-BGPL) and as such the following principles apply:

- Any financial assistance provided by the Council will be on similar terms provided to external bodies and will not give a 'competitive advantage'.
- The Council must follow public procurement processes before awarding

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- any contract to Goram Homes.
  - Goram Homes is not required to follow public procurement processes itself when awarding contracts.
- 1.1.6 Local authority trading companies can be diverse, which means classification is not always a simple process and as such consideration needs to be given each year as to whether the status and exemptions remain unchanged, particularly in the context of funding / loan transactions. The business plans for 2022/23 are considered on the basis that the legal status for each of the companies at present remains unchanged.
- 1.1.7 As at 31 December 2021 the Council held £0.653m share capital investment in Bristol Holding (£0.05m of Ordinary shares and £0.603m of redeemable Preference shares). This will be considered in 2022/23 alongside a review of all shareholder company structures. There are currently no loan agreements between Bristol City Council and Bristol Holding Company.
- 1.1.8 At the Balance Sheet date 31 March 2021 the fair value of the Council's investment in the Bristol Holding Group stood at £4.992m.

## 2. Bristol Holding Ltd. (BHL)

### 2.1 2022/23 Business Plan

- 2.1.1 There are currently no loan agreements between Bristol City Council and Bristol Holding Company.
- 2.1.2 Bristol Holding currently directly employs 2.6 Full Time Equivalent staff, with additional administrative costs relating to Finance, Legal, HR and ICT incurred via service provision arrangements partly with the Council.
- 2.1.3 Bristol Holding maintains a balanced budget through its operating model which allows it to recover costs incurred, either directly where appropriate or via management recharges to the subsidiary companies and the Council in the form of a fee.
- 2.1.4 The budgeted recharging of Bristol Holding's management costs is as shown below, comparing 2021/22 with 2022/23:

**Table 1: Bristol Holding Budget Recharges**

	<u>Revised Budget 21/22</u>	<u>Budget 22/23</u>
<b>BCC</b>	1%	1%
<b>BWC</b>	55%	59%
<b>Goram</b>	19%	24%
<b>BE2020</b>	7%	-
<b>BHN</b>	19%	16%
<b>Total</b>	<b>100%</b>	<b>100%</b>

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2.1.5 Budget 2022/23 assumes that the transfer of Bristol Heat Networks to City Leap will result in Bristol Heat Networks receiving only a part year charge to the end of September 2022. Any delay to City Leap will change this assumption.

2.1.6 See the revenue budget proposal for 2022/23 in the table below:

**Table 2: Bristol Holding 2022/23 Budget Position**

<b>Bristol Holding - Draft Budget 2022/23</b>			
<b>Original Budget 2021/22 £</b>		<b>Revised Budget 2021/22 £</b>	<b>Draft Budget 2022/23 £</b>
<b>Income</b>			
5,000	Charges to BCC	2,000	2,000
558,000	Charges to Subsidiaries	565,500	371,500
<b>563,000</b>	<b>Total</b>	<b>567,500</b>	<b>373,500</b>
<b>Expenditure</b>			
396,000	Employees	361,500	256,000
95,000	<b>Supplies &amp; Services</b>	148,000	78,000
<b>Recharges from BCC/ Subsidiaries</b>			
54,000	Finance, Audit & Insurance	47,000	35,500
10,000	Legal	5,000	2,000
5,000	HR	3,000	-
3,000	ICT	3,000	2,000
<b>563,000</b>	<b>Total Costs</b>	<b>567,500</b>	<b>373,500</b>

2.1.7 The proposed gross Budget expenditure for the 2022/23 financial year is £0.374m. This represents an almost £0.2m reduction against the Revised Budget 2021/22 and is reflective of the step process to transition governance arrangements from BHL to the Council as outlined by the Chair of Bristol Holding in his foreword. However, the Council will need to ensure that robust governance processes, internal controls and risk management remain in place so that sufficient due diligence and assurance can continue to be provided during and following any transition process. No financial provision for additional costs has been made within the Council's own budget or Medium Term Financial Plan.

2.1.8 Table 3 below is an extract from Bristol Holding's risk framework (please see BHL Business Plan 2022/2023 Page 7 Appendix A3 for further details) highlighting the higher risk items identified by Bristol Holding (i.e. those for which the assessed probability/likelihood combined with the impact put it in the amber to red range).

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### Table 3: Bristol Holding Top Risks

Risk Title	Description	Mitigations/ Controls	Current Risk Level		
			L i k e l i h o o d	I m p a c t	R i s k R a t i n g
<b>RIS12: Corporate Governance</b>	<p>Failure to have clear and effective corporate governance arrangements contributes to business failings and further loss of confidence by shareholder and other stakeholders</p> <p>Risk Causes Include;                      Out of date or inappropriate governance arrangements                      Focus on unreasonable cost reduction rather than effective governance                      Lack of clarity with respect to roles and responsibilities                      Vast majority of decision making authority rests with Shareholder                      Inadequate or incomplete corporate policies and procedures                      Breach of appropriate standards and/ or probity                      Poor risk management processes and culture</p>	<p>Retention of assurance and scrutiny role pending finalisation of BCC management action required from Grant Thornton and independent shareholder advisor reviews                      Prioritised programme for standardised policies and procedures                      Group-wide risk management framework and assurance policy and regular risk reviews                      Internal Audit Review of effectiveness of Holdco corporate governance arrangements and action plan in place to address issues raised</p>	4	4	16
<b>RIS15: Cyber Security</b>	<p>Risk that key IT systems are compromised and systems become inoperative and/or sensitive data stolen or lost</p> <p>Risk Causes Include;                      Insecure ICT hardware                      Inadequate virus protection software                      Malicious behaviour by 3rd parties                      Human causes</p>	<p>BHL on BCC server and utilise BCC applications where feasible                      Sign-on and password protections                      Secure Configuration                      Malware protection                      User education and awareness                      Home and Mobile working                      Managing user privileges (BCC)                      Incident management (BCC)                      ICT Monitoring (BCC)                      Network security (BCC)                      Implementation of Modern.Gov</p>	3	4	12
<b>RIS08: BHL Workforce Retention</b>	<p>Failure to ensure continuity of key staff prior to completion of transition to Post City Leap alternative governance delivery model</p> <p>Risk Causes Include;                      Lack of succession planning                      Inability to retain the right people at the right remuneration                      Inadequate staff development and training                      Failure to agree approach for retention of workforce between Shareholder and companies</p>	<p>Early commencement of transition planning                      CoSec role to transition seamlessly into BCC                      Key support staff retention arrangements agreed by BHL Board                      Indicative temporary succession arrangements for Group FD role</p>	3	4	12
<b>RIS22 - Leadership</b>	<p>Failure of board / Senior Leadership team to give capable leadership, control and strategic direction                      BHL Board/                      executive fail to gain confidence/trust of stakeholders;                      lack of buy-in to HoldCo by subsidiaries</p>	<p>Approval by Shareholder of revised BHL Board/ Committee arrangements                      Board Effectiveness Review                      Consistent and effective oversight in regards subsidiary performance,                      Supporting and influencing strategic direction in a positive way                      Keep key stakeholders apprised of key issues and action plans                      Ensure BHL has the right mix of skills at board level to achieve goals                      Ensure updated governance protocols support board to fulfil role</p>	3	4	12
<b>RIS07: Delivery of Business Plan</b>	<p>Risk of failure to deliver BHL business plan</p> <p>Risk Causes Include;                      Incorrect service transition assumptions in business plan                      Incorrect financial assumptions in business plan                      City Leap doesn't progress as planned                      Poor performance                      Failure of buy-in from Shareholder/ Subsidiaries to alternative governance and transitional arrangements                      Failure of performance from BCC on areas of their control                      Failure to achieve service KPIs and milestones                      Loss of funding</p>	<p>Annual business plan and budget preparation, scrutiny and approval process with review by Shareholder                      Monthly monitoring of financial performance and key operational KPIs by BHL Board                      Robust financial modelling for business planning and business development                      Efficiencies delivered during 2021/22                      Identification of realistic targets and benefits in tangible terms                      Alignment of limited resources to service priorities and risk mitigations                      Collaboration with BCC and subsidiaries</p>	3	4	12
<b>RIS18 - Inadequate Resources</b>	<p>Insufficient resources are available to deliver against BHL plan.                      Budgetary constraints                      Staff reductions (CE &amp; CoSec)                      Multiple concurrent issues demanding BHL involvement</p>	<p>Reduce involvement in operational matters across subsidiaries.                      Prioritise work with small exec Team                      Key staff retention arrangements</p>	3	4	12

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- 2.1.9 If the risks materialise or are compounded this would adversely impact on the delivery of Bristol Holding's 2022/23 Business Plan, and in turn, its financial and cash position. Bristol Holding's mitigating measures include accessing interim / short-term cash inflow from its shareholder companies and seeking Council assurance that financial shortfalls will where possible be met. It should be noted that any financial assurances provided by the Council will be subject to the Council's own assessment of the position and will not extend beyond those outlined within this report. Ultimately any additional costs to the Council above that outlined in this report would be subject to a supplementary report / decision.

### 3. Bristol Waste Company Ltd. (BWC)

#### 3.1 Overview to Date

- 3.1.1 The Council's original 2021/22 budget for its core waste services (Teckal activity) is 39.1m. This represents 74% of BWC's total income.
- 3.1.2 The BWC contract with the Council for its core (Teckal) service includes a payment mechanism ('paymech') which is calculated annually according to unavoidable cost, market volatilities (e.g. for recyclates) and which also provides a means for efficiencies and cost savings to be returned to the Council under the contract. This payment mechanism represents a risk / reward arrangement between the Council and BWC when dealing with in-year contract variations. Section 8 (page 70) of BWC's Business Plan 2022-23 sets out details of the payment mechanism's calculation.
- 3.1.3 The payment mechanism is based on a cost plus % approach and as such should be consistently applied to remain compliant with tax rules. It can, however, be periodically reviewed and reset.
- 3.1.4 The cost plus approach for the 5 years up to and including 2021/22 allowed for +15%. A full review has taken place in 21/22 taking into consideration the developing Waste Strategy, changes in market conditions and the addition of new business segments. This has resulted in it being agreed that the paymech's cost plus approach be revised down to +14% for the next 3 year period with the aspiration that this will be reduced further thereafter as the company continues to grow in scale.
- 3.1.5 At the balance sheet date of 31 March 2021, the Council had reduced BWC's net asset valuation from the previous year's £5.623m to £4.992m.

#### 3.2 2022/23 Business Plan

- 3.2.1 Financial headlines are included in Section 8 (from page 64) of BWC's Business Plan and details are included in exempt Section 9.
- 3.2.2 BWC has continued to face significant financial challenges in 2021/22 driven by the following:

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- BREXIT and Covid-19
- National shortage of HGV drivers and consequent increases in labour rates
- The ‘Pingdemic’ which led to the large scale notification of people to self-isolate
- Housing and population growth combined with working from home leading to increases in domestic waste volumes
- Waste disposal prices
- Volatility of the Recyclate market
- Commercial market competitor activity
- Preparing for legislative changes and targets set in response to the Climate Emergency

3.2.3 BWC’s Business Plan includes both a PESTEL and SWOT analysis for 2022/23 both of which capture some of the uncertainties and opportunities that may impact the business. It also demonstrates that many of the challenges outlined above are expected to continue and examines opportunities to mitigate these.

**Table 4: Abstract from BWC PESTEL**

Political	Economic	Social
<ul style="list-style-type: none"> <li>• Gov focus on growth in response to Brexit and C19</li> <li>• Environmental and zero carbon priorities growing in importance post COP 26</li> <li>• Local authority funding under significant pressure</li> <li>• Local elections in 2024</li> <li>• Local mayoral referendum in 2022</li> </ul>	<ul style="list-style-type: none"> <li>• Record levels of borrowing</li> <li>• High employment levels with skill shortages in some sectors</li> <li>• Higher wages, rising energy prices and supply chain constraints likely due to fuel inflation and Covid</li> <li>• Increasing pressure on funding local services</li> <li>• Protracted restructuring of UK economy post Covid</li> </ul>	<ul style="list-style-type: none"> <li>• Pandemic accelerated societal changes such as home working</li> <li>• Increase in citizen’s demanding change (equality and environmental)</li> <li>• Inequalities further exposed by pandemic</li> <li>• One City Plan and Approach brings together public, private, voluntary and third sector partners within Bristol to make Bristol a fair, healthy and sustainable city</li> </ul>
Technology	Environment	Legal
<ul style="list-style-type: none"> <li>• Social media influencing political agendas</li> <li>• Rise of Artificial Intelligence presenting opportunity</li> <li>• Data increasing in importance (use, abuse, ownership)</li> <li>• Technology and robotics improving productivity and efficiency</li> </ul>	<ul style="list-style-type: none"> <li>• Climate and ecological emergency now discussed in mainstream</li> <li>• Rising levels of concern and engagement across society and governments</li> <li>• Increasing public awareness of recycling, plastic pollution and eco-friendly products</li> <li>• Ambitious local, national and global climate targets have been set (e.g. net zero carbon)</li> <li>• Bristol Clean Air Zone implemented by Summer 2022</li> </ul>	<ul style="list-style-type: none"> <li>• Approval of the Environmental Act in Nov 2021 will lead to new legislative changes in 2022</li> <li>• Awaiting DEFRA responses to consistency of collections, EPR and DRS consultations</li> <li>• Gov consultation re security/ public spaces may lead to legislative changes</li> <li>• Increasing focus on worker rights</li> <li>• UK Legislation to be developed post Brexit</li> <li>• Continued need to manage data protection</li> <li>• Increasing use of environmental legislation to influence behaviour</li> <li>• Plastic tax in 2022</li> </ul>

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Table 5: Abstract from BWC SWOT

### SWOT analysis

- Partnership with BCC stronger - open and transparent relationship after a difficult period
- Committed to investing in and providing agile, efficient operations to improve service delivery
- Investment in state-of-the-art fleet and plant equipped with smart technology
- Quality of our recycle materials and UK based processing network.
- Award winning Innovations, Communications & Reuse teams
- "Bristol" brand. Local base with local knowledge with all surpluses being reinvested for the benefit of the city
- Leading English core city for recycling
- Non teckal business continues to grow despite pandemic
- First transition of BCC FM services implemented successfully and expanding busines portfolio
- Opening new Hartcliffe HRRC in 2022

- Increasing pressure on costs:
  - Scarcity and competition for staff, particularly drivers
  - Supply chain costs
  - Local Authority finances
- Low levels of enforcement across the city
- Single point of failure for Albert Road baler facilities
- Management capacity
- Reduction in trust due to garden waste service suspension



- Longer term economic and societal impacts of Covid and Brexit
- Local Authority impacts from Covid and Brexit
- Recyclate market volatility
- Increasing competition in the marketplace
- Market value and market availability
- Further and additional Local and National legislation and regulation such as consistency of collections, DRS and EPR for waste
- Security providers operating in public spaces
- M & E recommendations following Grenfell Report II
- Unable to fully influence recycling headline rate.
- BCC / BWC alignment re service changes – balance to be found between financial, societal, environmental and political city needs residents

- Build on the BCC relationship with the new Strategic Client approach
- Avonmouth – space to improve waste mining processing facilities and add new waste resource income streams
- Lead behaviour change with residents on recycling and waste behaviour
- Play a leadership role in waste, cleanliness and recycling for visibly cleaner streets and to meet city environmental targets
- Commercial (Non-Teckal) growth for integrated waste services
- Investment in new systems, technology and processes to improve Integration and efficiency
- Growing reuse material streams and market demand
- Successful implementation of "The Village" approach in 2022 leading to:
  - improvements in cleanliness and waste service
  - improved community attitude to waste, cleanliness & recycling
- Implementation of range of enhanced services for BCC
- DRS and EPR to support service improvements for residents
- Maximise on data-led systems developed in 20/21 to drive service improvements/ innovations
- Potential new markets such as M&E

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3.2.4 Tables 6 and 7 below set out the full composition of BWC's budget income for 2022/23 and against latest Forecast 2021/22 and last year's MTFP for 2022/23 for comparison purposes.

**Table 6: BWC Revenue by Business Division 2022/23**

	Municipal	Commercial	FM	Company
Revenue	£k	£k	£k	£k
Contract Revenue - Fixed	40,181	-	-	40,181
FM Contract Revenue	-	-	5,516	5,516
Recyclables Revenue	3,344	-	-	3,344
Other Income	538	5,078	60	5,676
<b>Total Revenue</b>	<b>44,064</b>	<b>5,078</b>	<b>5,576</b>	<b>54,718</b>

**Table 7:**

**BWC Budget 2022/23 with Forecast 2021/22 and last year's MTFP for 2022/23 as Comparators**

Company	22-23 Business Plan		21-22 Forecast			22-23 (21-22 Business Plan)		
	£k	% of income	£k	£k	%	£k	£k	%
Revenue								
Contract Revenue - Fixed	40,181	73%	39,144	1,037	3%	40,181	0	0%
Contract Revenue - Variable	-	-	43	(43)	(100)%	-	-	-
FM Contract Revenue	5,516	10%	5,130	386	8%	5,516	(0)	(0)%
Recyclables Revenue	3,344	6%	3,826	(481)	(13)%	1,899	1,445	76%
BCC Recovery	-	-	35	(35)	(100)%	-	-	-
Other Income	5,676	10%	5,534	142	3%	5,953	(277)	(5)%
Interest Income	-	-	-	-	-	-	-	-
<b>Total Revenue</b>	<b>54,718</b>	<b>100%</b>	<b>53,711</b>	<b>1,006</b>	<b>2%</b>	<b>53,549</b>	<b>1,169</b>	<b>2%</b>
<b>Cost of Sales</b>								
Labour	28,211	52%	26,970	(1,241)	5%	28,030	181	(1)%
Waste Disposal	15,649	29%	15,816	167	(1)%	15,056	593	(4)%
Premises	1,353	2%	1,341	(12)	1%	1,277	76	(6)%
Vehicle & Fleet	4,620	8%	4,171	(450)	11%	4,468	153	(3)%
Fuel	1,630	3%	1,595	(35)	2%	1,297	333	(26)%
Equipment & Materials	1,033	2%	1,200	167	(14)%	1,310	(277)	21%
<b>Total cost of sales</b>	<b>52,496</b>	<b>96%</b>	<b>51,093</b>	<b>1,403</b>	<b>3%</b>	<b>51,437</b>	<b>1,059</b>	<b>2%</b>
Overheads & Central	840		1,277	437	(34)%	1,875	(1,035)	(55)%
Finance and depreciation	676		627	(50)			676	-
Overheads & Central	1,516	3%	1,903	387	(20)%	1,875	(359)	(19)%
<b>Surplus / Deficit</b>	<b>705</b>	<b>1.3%</b>	<b>715</b>	<b>10</b>		<b>237</b>	<b>468</b>	
Paymech - subject to review	-					555		
Surplus after paymech	705					792		



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- 3.2.5 Table 7 summarises Bristol Waste's Budget for 2022/23 compared against the Forecast Outturn for 2021/22 and last year's MTFP for 2022/23. BWC's forecast result for 2021/22 is £0.715m. This includes the £0.3m adverse impact of COVID without which BWC's result for the current year would be £1m.
- 3.2.6 The end of year position is however still subject to risk and this may result in the terms of the paymech triggering an additional payment.
- 3.2.7 BWC's planned Budget for 2022/23 shows a surplus of £0.705m. Contained within this budget position is BWC's absorption of £0.751m additional operating costs linked to the new Hartcliffe Waste Recycling Centre so that BWC's comparable result for the budget year would otherwise have been £1.5m.
- 3.2.8 Direct Labour Costs of £28.211m are budgeted for 2022/23. These represent 52% of Total Revenue and as such are the biggest cost driver of the business. Any movement in labour rates against those budgeted will have a significant impact on BWC's profitability.
- 3.2.9 **Municipal**  
BWC's Municipal Revenue Budget for 2022/23 is £44.1m and its profit is £0.1m. This sector comprises waste and street cleansing operations plus income from recyclates.  
Its core waste services (Teckal activity) income is £40.2m. This reflects a £1.1m increase from 2021/22 aligning with the previously agreed 2.65% assumed budget increase for inflation. This represents a real terms efficiency reduction of £0.5m which has contributed to the Council's delivery of the budget challenge.
- 3.2.10 **Commercial**  
BWC's Commercial (non-Teckal) Revenue Budget for 2022/23 is £5.1m and its profit is £0.3m. Its commercial activity comprises bulk waste (50%), commercial bin collections (40%) and BCC trade waste collections (10%). BWC plans to grow its portfolio of customers and increase this sector's profit over the next five years.
- 3.2.11 **FM**  
BWC's FM (non-Teckal) Revenue Budget for 2022/23 is £5.5m and its profit is £0.3m. BCC awarded BWC its cleaning and security related services effective 1 June 2021 following Cabinet approval. BWC is expected both to improve the provision of these services and make cumulative savings against BCC's baseline budget of £2.88m over the first 5 years of this contract.
- 3.2.12 BWC's plan also includes Capital investment for a £0.6m waste shredder at its Avonmouth site and further replacements to its fleet vehicles. BWC is not seeking any loan funding for these from the Council but plans to fund from Reserves (see BWC Business Plan Section 8, page 76 for details).
- 3.2.13 BWC's accounts at 31 March 2021 reported Reserves of £4.6m.

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3.2.14 BWC's exempt appendix (Section 9) includes sensitivity analysis against top income and cost drivers. The Council recommends that BWC is prudent in its approach to these risks since should any of these materialise, mitigating action would need to be considered and, depending on the timing, it may be necessary for BWC to manage these within their Reserves and / or the paymech.

3.2.15 The Council has previously approved repayable loan facilities of £12.7m to BWC for fleet vehicle replacement (Cabinet 4 December 2018) and £2.8m for Phase 2 of the Avonmouth site redevelopment (Cabinet 26 January 2021). Both of these loan agreements include interest charges on the principal sums.

### 4. Goram Homes Ltd.

#### 4.1 Overview to Date

4.1.1 The Council approved the establishment of Goram Homes (a housing company) at Cabinet on 4 September 2018. At the same time, it agreed an initial Pipeline 1 development relating to Romney House and Baltic Wharf. This comprised their land transfer with deferred receipt plus interest and a £10m loan to Goram Homes both for working capital and development investment (terms to be agreed). The 2 developments are expected to deliver 432 units of housing, 173 (40%) of which will be 'affordable'.

4.1.2 Against this approved £10m, an initial loan facility of £3.3m for Pipeline 1 working capital was established with a contractual repayment date (of principal plus interest) of March 2026.

4.1.3 As part of Budget 2021/22, £4m of the loan facility was released back to the Council and the final £2.7m of this approved £10m was set aside as potential development funding also linked to Pipeline 1. As part of Budget 2022/23, £1.7m of this is now proposed to be released back to Reserves so that only £1m then continues to be set aside for Pipeline 1.

4.1.4 This brings the total loan availability for Pipeline 1 to £4.3m.

4.1.5 A further loan facility of £10m for a suite of 7 development sites was approved at Cabinet 26 January 2021. This is referred to as Pipeline 2.

4.1.6 From this 2nd Pipeline's overarching approved £10m, a loan facility of £4m for working capital has been established during 2021/22 with a contractual repayment date (of principal plus interest) of March 2027. Drawdowns from this £4m facility are expected to commence in Q4 2021/22 since the development of properties within this Pipeline 2 is still in its infancy. The £6m balance continues to be set aside for Pipeline 2 at this time.

#### 2022/23 Business Plan

4.1.7 Goram's Business Plan 2022/23 has expanded the number of sites to be covered by the Pipeline 2 £10m loan facility so that it now relates to the 12 sites as detailed in report to Cabinet (9 March 2021) plus Hengrove Park and the Blake Centre.

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4.1.8 This £10m is the total envelope for 22/23 and it is intended that this is used flexibly to cover all working capital required to take these sites forward. At this early stage in the process no additional funds have been requested. Should any additional funds be required this will be considered in future budget rounds.

4.1.9 Profit and Loss, Operating Costs, Cash Flow and Balance Sheet for Goram are included in its Business Plan at Sections 8.9 – 8.12. Table 8 below sets out Goram’s latest projected cumulative retained profit/(loss) after taxation.

**Table 8:**

**Goram Cumulative Retained Profit/(Loss) After Tax**

Financial extracts (£'000) Year to 31st March	2021	2022	2023	2024	2025	2026	2027
Cumulative Retained Profit/(Loss) after Tax	(1,590)	(2,848)	(3,944)	(4,914)	(2,380)	5,068	16,213

4.1.10 Goram’s prior year business plan indicated a cumulative net profit by the close of financial year 2024/25. This latest business plan indicates a cumulative net profit by the close of financial year 2026/27. This delay in profitability reflects the fact that assumptions around timings of the early stages of each programme are indicative until planning approval has been confirmed. Following planning and mobilisation, timings on profitability then become more certain. No provision has been made in BCC’s accounts for these future profits since a decision will need to be made by the Council as to whether these amounts are returned in the form of dividends or redistributed for reinvestment.

4.1.11 The business plan on which this financial commentary is based reflects the recent news that for ecological reasons the Novers Hill development will have to move forward on a much reduced area of brownfield land which in turn will reduce the number of homes planned to circa 70. Goram’s initial assessment of the impact of this is that across the timeframe of this business plan profitability will be reduced by circa £1m whilst over the full life of the Novers Hill development programme profitability will be reduced by circa £2.5m.

4.1.12 It should be noted that emerging risks include: site suitability, delays to planning consents, market failure, housing price volatility, interest rate uncertainty, changes within the construction industry, a slowdown in production rates and, more generally, material uncertainties regarding the value of land and buildings since the onset of COVID-19.

4.1.13 Goram’s Business Plan includes stress test modelling at Section 8.13 with the accompanying impact of mitigating actions.

4.1.14 Goram Homes’ risk framework is included in Section 9 Appendix B. The highest potential score is 28 (4 for probability x 7 for impact) within the current risk framework. The extract below from its Business Plan shows the following higher

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category risks for consideration:

**Table 9: Goram Risk Assessment**

Risk Name	Risk ID	Risk Description	Current Score	Trend	Target	Narrative
Business Growth	2	Failure to deliver growth / profit targets in line with Business Plan assumptions	12	unchanged	12	The pipeline management approach to accelerate all projects mitigates delays, which stress the financial plan.
Legal failure	12	Failure to comply with miscellaneous legislation	8	unchanged	6	Goram Homes are advised by external legal advisors and all key legal areas are reviewed by the board.
Taxation liabilities	13	Taxation liability is greater than planned	8	deteriorating risk	8	Prudent Tax liability is assumed in the business plan, expert external advice is provided on any detailed tax matters.
Leadership	4	Failure of board to give capable leadership, control, and strategic direction and/or inappropriate governance arrangements and structures	9	unchanged	8	The team is now established to deliver the current pipeline. The addition of Hengrove Park is covered by growth included in the costs shown in the financial plan.
Business continuity	15	Business continuity / Disaster recovery failure	9	unchanged	8	The Covid-19 pandemic has allowed us to test the business continuity plan with full operation.
Demand failure	38	Loss of demand for property sales	8	unchanged	9	The market assessment section of the business plan covers our forecast for changes in the housing market.
Governance failures	19	Failure of the Board and the management team to set an appropriate strategic direction and exercise appropriate oversight	8	unchanged	12	The board are well placed to oversee the company with the right skills and competency as recently assessed by the governance review conducted by Bristol Holding.
Senior Leadership Failure	5	Failure of the Senior Leadership Team to demonstrate effective leadership and management	8	unchanged	8	The Managing Director and Finance Director are subject to robust supervision and performance by the board and line managers.

4.1.15 Since Goram is a non-BGPL subsidiary, in the event that these risks materialise, Goram would implement management controls without requesting to utilise the Council's resources. Consequently, the Council has not made specific provisions in its accounts to mitigate any of Goram's (a non-BGPL Company) financial risks.

*Jemma Prince - Finance Business Partner, 10 February 2022*

*Bristol Holding Ltd. Business Plan – 25 January 2022*

*Bristol Waste Company Ltd. Business Plan – 25 January 2022*

*Goram Homes Ltd. Business Plan – 1 February 2022*