

<b>Report Title:</b>		<b>Board/Committee:</b>	
<b>Draft Business Plan – BHL Board Report</b>		<b>Cabinet</b>	
<b>Agenda item:</b>	<b>Meeting date:</b> <b>07/03/2023</b>	<b>Non-confidential</b>	<b>For information</b>
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<b>Executive Summary</b>			
This Holdco Executive report provides a summary of Holdco Board assurance reviews and highlights key priorities, performance, and issues, relating to the Council's companies.			
<b>Recommendations</b>			
Cabinet is asked to:			
1. <i>Note the commentary from Bristol Holding, Goram Homes and Bristol Waste business plans.</i>			
<b>Link to Corporate Objectives</b>			
<i>Effective governance, performance, and risk management arrangements.</i>			

## 1. Background and Context

1.1 Wholly owned company Business Plans for Bristol Holding (“BHL”), Bristol Waste (“BWC”) and Goram Homes (“GH”) are scheduled to be considered by cabinet at a 7<sup>th</sup> March 2023 meeting. A summary review commentary is provided by Holdco as part of the Shareholder reporting process. These are provided below.

## 2. Bristol Holding

2.1 BHL is submitting a business plan for one year only. The fundamental assumption is that, in line with the Independent Shareholder Advisor’s review of the governance arrangements for wholly owned Bristol City Council (“BCC”) owned companies, BHL will transition during the next financial year (2023/24) to operate with a much-reduced role and with an option to operate as a ‘shell’ company beyond this financial year.

2.2 This follows the disposal of Bristol Heat Networks Ltd (“BHNL”) to Vattenfall as part of City Leap. As a result, 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 focuses on the winding down of BHL key assurance, scrutiny and support functions and ensuring an effective handover under the desired delivery model. It should be noted that

the decision has yet to formally be taken. The aim will be to complete that process in eight months, but the financial assumptions are based on a full financial year.

- 2.3 BHL will continue to provide corporate governance assurance to the Shareholder, as the Strategic Client role evolves.
- 2.4 The financial assumptions reflect a reduced establishment, both board and support staff and the need for continuity of group-wide activities for 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 the wind-down and that transfer of BHL activities will also impose some costs on BCC or subsidiaries.
- 2.5 The reduced establishment is consistent with the assumptions, but leaves no capacity to take on any additional responsibilities. Social Value calculations are derived from the national "TOM's" (Themes, Outcomes, Measures) which form part of the Councils social value policy and are calculated accordingly.
- 2.6 Failure to have clear and effective corporate governance arrangements is a key risk and transitional arrangements to the new operating model will need to ensure appropriate mitigations.

### **3. Goram Homes**

- 3.1 The Business Plan for Goram Homes is a framework plan that only captures a high-level view of the anticipated programme. It is indicative with regards to the wider overall business and the test for individual sites is covered by separate business case approvals, as and when they arise. It does nevertheless provide a detailed view for the shorter term.
- 3.2 The plan outlines a pipeline for delivery of some 3,400 homes over the next 10 years. This includes Hengrove Park which aims to deliver over 1,400 homes from 2024. Operating through joint ventures with private developers, the business model can generate a significantly higher proportion of affordable housing – indeed some 45% of the overall pipeline aims to be affordable housing, whilst generating longer term returns for the Council (based on an assumption of circa 15% gross profit margin for the developments on Gross Development Value for each scheme). That investment is in the form of market rate loans, both for the transfer of land in the company and working capital. The interest payments, back to the Council, are reflected in the business plan financial assumptions.
- 3.3 The Council's strategic objectives for the company, as set out in the plan, focus on the delivery, at 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 in procurement of joint venture partners and development but does mean they must primarily operate as a commercial developer. The Business Plan also clearly lays out its commitment to building high quality homes, achieving environmental sustainability, and delivering additional social value. We note that the strategic client is content with the strategy outlined in the plan.
- 3.4 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. Any further project investment, along with core operating costs on the company are currently assumed to be contained within the current approved two working capital facilities, as approved by the Cabinet in March 2021. This includes the development of Hengrove. The Business Plan, however, does assume some flexibility in the use of the facility and it is anticipated that a higher proportion will be required for core Goram costs.

- 3.5 In addition, to the core team and contribution to development costs, the plan assumes a peak loan note balance of £39m from BCC for the acquisition of land over the period of the plan (based on current estimated site land values). It is assumed repayments back to BCC will be made during this period, as sales on Romney and other early development sites begin to crystallise.
- 3.6 It should be noted that whilst cost and sale assumptions for both Romney and Hengrove are based on detailed financial modelling, all financial assumptions for the remaining programme can only be indicative at this stage. As the schemes progress then the business plan assumptions will inevitably change.
- 3.7 The plan includes only four developments as live deliverable sites and eight others have not been included in the financial projections as they are less certain. However, the costs for initial development of all twelve sites have been included which, in our view, leads to an overly prudent approach to the financial forecasts. As a result, the cumulative profits are £13m (80%) below those shown in last year's GH business plan.
- 3.8 Based on current assumptions of when works are due to commence on each site, and when revenues can be generated from the sales, then overall profits (as opposed to individual LLP) are unlikely to be realised until 2025/26.
- 3.9 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.
- 3.10 We consider that Goram should develop a robust set of KPIs that enables better monitoring of delivery against the plan, as well as including critical non-financial measures such as health and safety once developments are under construction. Additionally, the risks could be sharpened, for example separate risks for each of increasing costs; reduced demand; construction delays; planning issues together with clear mitigations.
- 3.11 It should be noted that there is considerable uncertainty currently around the housing market. It is not quite clear yet, whether there will be a small correction of house prices or whether there will be a larger deeper downturn and what the impact will be on volume of house sales – the outturn is very uncertain, which is why this business plan has been shaped to be a very prudent view for the delivery of the development pipeline.

#### **4. Bristol Waste**

- 4.1 BWC is submitting a business plan for one year only, reflecting the particularly challenging business conditions caused by a combination of factors impacting on the cost of delivering key municipal waste services. A key assumption is that a more detailed review of potential efficiencies and services will be conducted in the coming months as part of a longer-term review beyond for the period beyond this 12 month business plan.
- 4.2 Please see Exempt Appendix I3 for more information on this point**
- 4.3 Despite the above, BWC have taken on the key message of "living within your means" and to achieve this, all services have been scrutinised with a view to delivering them as efficiently as possible. This has resulted in some services being scaled back, with the full engagement and input from the strategic client: indeed, BWC and the strategic client have closely together to reach a balanced cost-effective plan, whilst recognising BCC's requirement not to substantially alter service levels, and we pay tribute to the level of co-operation between both

parties to pull together this plan.

**4.4, 4.5 & 4.6 Please see Exempt Appendix I3 for more information on this point**

4.7 The Business Plan includes an investment in Avonmouth and a new shredding facility. There is an existing cabinet approved loan of £2.85m (March 2021) to part fund updating the facility with a baler and sorter, which will support business growth in the waste recycling arena. This plan assumes the £2.85m will be applied for in the year, with an additional £1.5m investment from existing BWC reserves to be used in conjunction with the £2.85m from BCC.

4.8 Overall, the draft business plan assumptions indicate an overall surplus of £433k for the Company for the Financial Year 2023/24, with a loss of £250k from the Municipal business, offset by a £590k profit from the Commercial business and £93k from Workplace Services. Considering this is based on a total revenue of £61.9m

**4.9 Please see Exempt Appendix I3 for more information on this point**

4.10 Given the requirement to find savings and the need to achieve service reductions, the plan, as noted by BWC, is “extremely challenging and there are significant risks to achievement.” That said there are some opportunities which are not included in the draft Business Plan, such as future new contract opportunities like the ‘Waking Watch’ contract. There is also the potential for betterment against cost savings targets, which will be to the benefit of the BWC’s bottom line.