

Report Title:		Board/Committee:	
Draft Business Plan – BHL Board Report		Cabinet	
Agenda item:	Meeting date: 05/03/2024	Non-confidential	For information
Report author:	Chris Smith BHL - Interim Executive Lead	Author contact details:	Chris.Smith3@bristol.gov.uk
Executive Summary			
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.			
Recommendations			
Cabinet is asked to:			
1. <i>Note the commentary from Bristol Holding, Goram Homes and Bristol Waste business plans.</i>			
Link to Corporate Objectives			
<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 (“Goram”) are scheduled to be considered by cabinet at a 5th March 2024 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 continues to provide a governance and assurance role in accordance with its Business Plan and articles. It has submitted a business plan for the next financial year 2024/25, and this has been approved by the Shareholder Group. The current plan is for BHL to operate in its existing format until at least October 2024.
- 2.2 Since the companies set up their own Audit and Risk Committees (“ARAC’s”), BHL has continued to provide assurance on behalf of BCC, whilst reviewing the progress in setting up the ARAC’s. BHL in its assurance role attends the company ARAC’s as an independent observer. The ARAC’s are still relatively immature and as anticipated will need time to become more established. BHL along with the internal audit function provide another independent line of assurance and this is particularly important as the ARAC’s re-established.
- 2.3 It is anticipated that two subsidiaries will remain in the group, BWC and Goram for the year ahead.
- 2.4 At some point this or next year, after the adoption of the new committee system, BHL functions may be transferred either to the Council or remaining companies in the group. It is important to note that no decision has been made at this point and indeed BCC will seek to an independent

third-party review later this financial year, to assess the strength of the governance framework for the companies, including BHL's involvement. If it is decided that BHL will have less of a role, then the activities of BHL will focus 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 the decision has yet to formally be taken.

- 2.5 BHL continues to operate with a reduced establishment, both in terms of the board and support staff. It is agile however and can flex resource levels if required. It will continue to supervise and consult with external audit, tax advice and insurances. It should be noted that these costs will need to be borne either by the Council, or subsidiary companies, whether BHL operates or not.
- 2.6 During the ongoing review of BHL's functions, it is important to note that 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.
- 2.7 BHL's priorities for the year ahead are set out in the business plan.
- 2.8 One of the priorities in the first quarter of 2024 is to consult with PwC our external auditors. Work is being scoped out for the 2023/24 company audits. BHL is also supporting the process to appoint an executive search agency for the recruitment of a Managing Director for BWC. It will also advise and be involved in the selection of a new Finance Director for BWC, where an Interim Finance Director occupy the current role.
- 2.9 BHL's statutory accounts have been filed at Companies House. The next set of accounts for the year ending 31st March 2023 are due to be filed by December 2024.
- 2.10 During this transition period, the strategic objectives of BHL will remain as follows:

Key Strategic Objectives.

- To provide effective commercial, financial and risk assurance to the Shareholder in the operation of its wholly owned companies
- To ensure strategic alignment between Bristol City Council corporate aims, objectives, and values, and those of its wholly owned companies, including their commercial objectives
- To oversee the delivery of the companies' 2024/25 business plans and objectives
- To ensure effective corporate governance arrangements across the companies
- To promote maximisation of social value of the companies
- To support the Council, achieve a seamless transition of Holding Company services, staff, and corporate governance requirements to a delivery model yet to be determined.
- To ensure effective and efficient arrangements for residual company statutory and retained Holding Company activities.
- To minimise costs and charges to subsidiaries pending completion of the transition process and deliver value for money.

3. Goram Homes

- 3.1 The Business Plan for Goram Homes is a framework plan that captures a high-level view of the anticipated programme for the next five years. It is indicative with regards to the wider overall business and the approval 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 business plan is focused around the four objectives of the business as a forward-looking document. It was reviewed in conjunction with the backward-looking Annual Review and further detailed operational performance information.
- 3.3 Goram's business plan supports the Homes and Communities theme, by accelerating home-building in the city and increasing the supply of affordable homes and building resilient communities.
- 3.4 The business is able to report that it has now started selling its first homes and over course of the next year there are five sites becoming operational; One Lockleaze, Dovercourt Road,

New Fossey Road, Hengrove Park and Baltic Wharf.

- 3.5 The business plan outlines a further 3 developments being prioritised for planning permission in the financial year 2024/25; these include Novers Hill, St Ursula's, and the Grove Car Park. In addition, there are a further five in the pipeline being the SS Great Britain Car Park, Castel Park, A Bond and B Bond, Spring Street and Western Harbour.
- 3.6 The plan outlines a pipeline for delivery of some 3,000 homes over the next decade. This includes Hengrove Park which aims to deliver over 1,000 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. 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.
- 3.7 The Council's strategic objectives for the company, as set out in the plan, and focus on the delivery, at affordable cost and sustainable housing; these help create inclusive communities and this is 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.
- 3.8 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.
- 3.9 In addition, to the core team and contribution to development costs, the plan assumes a peak loan note balance of £30m 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.
- 3.10 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.
- 3.11 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.
- 3.12 Goram have developed a robust set of KPIs that enables monitoring of delivery against the plan, as well as including critical non-financial measures such as health and safety once developments are under construction. The risks remain around market uncertainty, increasing costs, construction delays and planning issues. The board have developed mitigations where risks have been identified.
- 3.13 It should be noted there is still 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 is prudent in the short-term.

4. Bristol Waste

- 4.1 BWC is submitting a business plan for a three period from 2024/25 to 2026/27. It reflects the particularly challenging business conditions caused by a combination of factors impacting on the cost of delivering key municipal waste services. These factors included the rising costs of delivering waste services including fuel and labour costs.
- 4.2 Some of these rising costs have been mitigated by a further injection of funding from the council, including circa £4m for inflation and costs of delivering the municipal waste services.
- 4.3 A key assumption is that BWC is undergoing a transformation resulting in the business moving from a loss-making position in 2024/25 to a profit in 2026/27. This is primarily a result of achieving further efficiencies, but also the growth of the commercial arm or non-teckal business.
- 4.4 BWC is forecasting a loss of £825k for the year 2024/25 and £532k for the year 2025/26. The business returns to a small profit in 2026/27.
- 4.5 In terms of Capital Investment Plans, there is the Avonmouth redevelopment which will conclude during 2024/25. This includes a can sort and picking line. In terms of the Vehicles and Fleet, the majority of the fleet is now approaching year six of an anticipated lifespan of eight years, and the business is experiencing the financial cost of increased maintenance requirements. During the year ahead we will need to collaborate closely with the Council to agree the nature of service that is required to be delivered post 2026 and the implications for the financing of a new fleet.
- 4.6 In relation to cash reserves, BWC have reviewed the medium-term cash flows taking account of the need to utilise cash reserves to part finance Avonmouth and key plant and machinery, plus the need to cover accumulated losses. This plan assumes there are sufficient cash reserves to cover the projected losses and, therefore, there are no 'going concern' issues.
- 4.7 In October 2023, the Government published proposals relating to the simplification of recycling collection, digital tracking of waste, and waste carrier and broker reform. The key elements and their potential impact on BWC are believed to be limited, however will be monitored during the coming months.
- 4.8 Despite the challenges, BWC have reviewed all services and scrutinised with a view to delivering them as efficiently as possible. This has resulted in some services being reviewed, 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 this plan together

Please see Exempt Appendix I1 for more information on this point

- 4.9 The Business Plan includes a forecast for growth of the commercial/non teckal part of the business which delivers significant growth over next three years; with commercial waste going from a profit of £367k in 2023/24 to a profit of £1,085k in 2026/27.

Please see Exempt Appendix I1 for more information on this point

- 4.10 Given the continued need to find efficiencies and the need to maintain service levels, the plan, is "very challenging and there are significant risks to achievement." That said there are some opportunities which are not included in the draft Business Plan, but which are highlighted in the exempt sections such as new commercial contract opportunities and the potential for further efficiencies.