

Detailed Financial Commentary on Bristol Holding Group Business Plans

Includes Exempt Content – See Appendix I2

1. Financial Overview

- 1.1 Bristol Holding group currently includes the following operational subsidiaries:
 - Bristol Waste Company Ltd.
 - Goram Homes Ltd.
- 1.2 This financial commentary covers the financial implications for the council associated with the following 2024/25 business plans, as published for the Overview and Scrutiny Management Board on 2 February 2024:
 - Bristol Holding Ltd – version 02.02.2024 - v3 (Appendix A1)
 - Goram Homes Ltd – version 01.02.2024 - v4 (Appendix A2)
 - Bristol Waste Company Ltd plus Addendum (Appendix A3) and Exempt appendix plus Exempt Addendum – version 02.02.2024 - V6 (Appendix I1)
- 1.3 The council holds £37.153 million share capital investment in Bristol Holding (£36.55 million of Ordinary shares and £0.603 million of redeemable Preference shares). The ordinary shares relate to the legacy investment in BE2020 Limited which is dormant and in the process of being wound up, with the council's investment being fully provided as set out in the council's financial statements. Bristol Holding currently holds £1 Ordinary share capital in each of Bristol Waste and Goram Homes.
- 1.4 At the Balance Sheet date of 31 March 2023 the fair value of the council's investment in the Bristol Holding Group stood at £3.574 million.
- 1.5 The total value of any loans approved for the subsidiaries are subject to remaining within the Capital Strategy Affordability Indicator for the council. This is set at the lower of either 10% of the Council's General Fund Capital Financing Requirement (£67.7 million) or £70 million. For 2024/25 this is estimated to be £70 million.
- 1.6 The highest rated risk items impacting the group and mitigations proposed as assessed by Bristol Holding at the end of January 2024 are summarised in Table 1 below. If realised, many of these risks may have a financial impact and could result in an unplanned financial request to the council. 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 the council's 2024/25 Budget report which provides the financial framework for the company's business plans. Any additional costs to the council above that outlined in the council Budget report would be subject to a supplementary report / decision.
- 1.7 Given the current financial climate, it is essential that the council provides adequate scrutiny to its subsidiaries. Examples of poor governance and control across the local government sector have resulted in significant financial implications to a number of authorities. Not only are there financial risks of an unplanned draw down from the

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council and financial reporting accuracy, there are risks in common such as cyber security, health & safety and fraud for which ineffective oversight by the council can result in subsidiary governance failures which could pose both reputational and financial risks for the council if they materialise.

Table 1: Bristol Holding Top Risks

Risk Title	Description	What has been done	P e r f o r m a n c e	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 o
RIS 11 Subsidiary Development & Growth	<p>Failure to develop and grow HoldCo subsidiaries</p> <p>Risk Causes include: Market failure Lack of demand for product Poor reputation impacts commercial growth Economic downturn impacts external commercial opportunities</p> <p>Insufficient appropriate development opportunities provided for Goram to deliver timely new housing Insufficient Council housing site pipeline for Goram Insufficient loan facility to finance new developments</p>	<p>Annual business plan and budget preparation, scrutiny and approval process with review of financial projections by company & Holdco Boards Skilled resources in construction, development and sales (Goram) Monthly monitoring of financial performance and key operational KPIs by Boards Approval for Pipeline 2 and 3 of Goram Homes development sites Approval of Hengrove site to be developed by Goram Homes Goram housing site appraisals to ensure scheme viability Continual training regarding construction industry changes Adequate supply of land under control Expansion of BWC into IT Reuse and other areas Successful delivery of FM cleaning and security services to BWC</p>	↓	4	5	20
RIS23: Severe economic downturn caused by external factors	<p>Risk of business failure due to significant reduction in/ or termination of local authority and commercial trading streams following external threats, and subsequent severe economic recession/ stagflation</p> <p>Risk Causes Include; Market failure (eg collapse of housing market) Steep rises in energy prices Measures to combat any future pandemic lead to recession and loss of tax revenues to adequately fund public services BCC de-prioritises development of trading activities Lack of capacity or appetite to identify new commercial opportunities Shortage of labour due to illness or border controls Inflationary impact of shortages or in supply or tariffs on goods Interest rate increases</p>	<p>Regular financial and commercial review by Holdco, Board of BHL and subsidiaries Regular subco, financial and commercial review by appropriate subco, board Regular liaison with BCC Finance and Shareholder Liaison Annual business plan refresh and scrutiny review process;</p>	↓	4	5	20
RIS08: Delivery of Financial Targets/ Deficit	<p>Risk of failure to deliver BHL and/or subsidiary business plan financial assumptions leading to significant losses and business failure</p> <p>Risk Causes Include; Incorrect financial assumptions in business plans Market failure impacts volumes/ prices Poor pricing strategy for provision of services Unanticipated development costs (Goram) Price volatility of key sources of income (eg recyclates) Increases in development costs from those planned (eg Goram) Insufficient access to capital finance increases revenue costs Failure to achieve service KPIs with financial implications Loss of key funding stream (eg BCC and RHI) Locked in legacy issues impact returns of new companies Inadequate PayMech arrangements with BCC (BWC) Inadequate funding from BCC for additional services Lack of funding from government via BCC to cover 2nd peak of pandemic</p>	<p>Annual business plan and budget preparation, scrutiny and approval process with review of financial projections by company & Holdco Boards Economic impact of cost increases reflected in BWC business plan Skilled resources in construction, development and sales (Goram) Monthly monitoring of financial performance and key operational KPIs by Boards with BHL attending as observers Robust financial modelling for business planning and business development, reviewed by BHL Goram housing site appraisals to ensure scheme viability Continual training regarding construction industry changes Business cases for investment or business development scrutinised through Holdco</p> <p>BWC efficiencies delivered 2018-22, Review 22-23 meeting targets in view of inflationary and commercial pressures Ongoing reviews of alternative revenue streams</p>	↓	4	4	16
RIS17: Leadership Retention and Succession Planning	<p>Failure to ensure continuity of the right leadership with the right skills across the Companies</p> <p>Risk Causes Include; Lack of succession planning Inability to recruit the right people at the right remuneration Inability to secure shareholder support to key appointments Insufficient HR expertise across the Group Inadequate staff development and training Weak or ineffective company boards Failure of executive to set appropriate strategic direction and exercise appropriate oversight Failure to agree approach for recruitment and retention of key personnel between Shareholder and companies</p>	<p>Group Remuneration Committee Industry benchmarking of staff remuneration BWC workforce planning and rewards and benefits market assessments BWC executive remuneration package proposals to Remuneration Ctte Performance & Development framework Agreement of key executive contracts</p>	→	4	4	16
RIS18: Workforce Retention and Planning	<p>Failure to ensure continuity of the right workforce with the right skills across the Companies</p> <p>Risk Causes Include; Lack of succession planning Lack of effective local recruitment and retention Inability to recruit the right people at the right remuneration Insufficient HR expertise across the Group Inadequate staff development and training Failure to agree approach for recruitment and retention of workforce between Shareholder and companies Brexit and macro economic pressures leading to national shortages in key workers (e.g. HGV drivers)</p>	<p>Living wage accreditation and compliance Industry benchmarking of staff remuneration BWC workforce planning and rewards and benefits market assessments BWC Apprenticeship Programme BWC draft remuneration package proposals to Remuneration Ctte Resilience arrangements for key areas Performance & Development framework</p>	↓	4	4	16
RIS01: Health, Safety and Wellbeing	<p>If a company does not meet its wide range of Health & Safety requirements then there could be a risk to the safety of employees, contractors and citizens</p> <p>Risk Causes Include; Insufficient resources to carry out work safely Lack of appropriate equipment Lack of appropriate information and training Lack of management framework and controls Policies and processes not properly applied Policies are not kept up to date Inadequate contract management Lack of systems and processes to undertake O&M services Vehicle failure or fire Human factors</p>	<p>Each established company has an approved health and safety policy which is updated annually Each Board reviews H&S KPIs at every meeting Significant investment by BWC in safety initiatives Robust accident and incident reporting procedures and systems within BWC, reviewed regularly at Board level Contractors checked for their relevant H&S competency Working from home risk assessments required for all appropriate staff Regular review of operations to ensure Covid safety Compliance team in place in BWC with regular reporting to Board and Audit & Risk Cttee Compliance reporting for all group companies standing item for ARC External training for BHNH Board on CDM duties and requirements BWC SHEQ team and procedures Measures in place to mitigate risk of DPF fires in recycling vehicles</p>	→	4	4	16

2. Bristol Holding Ltd. (BHL)

2024/25 Business Plan

- 1.8 Bristol Holding Ltd (BHL) is wholly owned by the council and is an intermediate holding company for investments in Bristol Waste Company Limited and Goram Homes Limited. Its principal role is to design controls and implement them to protect the interest of the shareholder by ensuring effective governance of the council's portfolio of trading companies, supporting delivery of activities and reinforcing the shareholder values and ethics. Whilst BHL may oversee management decisions, it does not actively participate in running the day-to-day operations of the subsidiaries. There is no assumption at this stage of any change in the company portfolio.
- 1.9 BHL staffing consists of a Chair, a part time Executive lead and a part time administrator. It operates in conjunction with other key lines of assurance, such as Internal audit, the company Audit and Risk Committees ("ARACs") and External audit. This budget reflects a lean operating model where functions, as appropriate, have been transferred to the council with time spent by council employees expected to be charged back to BHL. If the council commissions work through BHL which is additional to that budgeted, then BHL's operating model enables recovery of such costs where appropriate or in the form of a fee via management recharges to the subsidiary companies.
- 1.10 BHL reviews and consolidates the shareholder companies' common or specific high risks into its' group-wide risk register each month. In turn, quarterly or more regularly if appropriate, the council incorporates those risks into its Corporate Risk Register where it assesses them as significant to the council. It also includes an additional risk impacting the council as shareholder rather than the investment companies themselves.
- 1.11 The Business Plan assumes that BHL continues in its present form for another fiscal year to March 2025. However, the future role of BHL will be reviewed through 2024/25. The council will look to review the position in 2024/25, ensuring proposals remain effective with clear roles, responsibilities and accountability. Where transfers are proposed, the council will need to ensure that it has the organisational capacity to maintain sufficient oversight. The council will engage an external reviewer to assess progress in embedding governance structures and in implementing previous review recommendations, including establishing the ARAC's and assessing their maturity. Until then, BHL will continue to play its assurance role, until stakeholders are satisfied that the new governance and assurance environment is embedded and 'fit for purpose.'
- 1.12 The council holds £0.603 million of redeemable Preference shares (7% interest rate). No interest has been paid on these shares and BHL has made provision in its budget for the interest. There are currently no loan agreements between the council and BHL. BHL currently holds £1 Ordinary share capital in each of Bristol Waste and Goram Homes.

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1.13 The proposed gross Budget expenditure for the 2024/25 financial year is £0.309 million. This represents a £0.021 million (7.2%) increase against the revised 2023/24 Budget which reflects increased costs, particularly in relation to external audit costs which are 20% higher year on year. The revenue budget proposal for 2024/25 is outlined in the table below:

Table 2: Bristol Holding 2024/25 Budget

Original Budget 2021/22 £	Original Budget 2022/23 £	Bristol Holding - Approved Budget 2022/23	Revised Budget 2023/24 £	Budget 2024/25 £	Comments
		<i>Income</i>			
5,000		Charges to BCC			
558,000	409,845	Charges to Subsidiaries	249,996	309,294	
563,000	409,845	Total	249,996	309,294	
		<i>Expenditure</i>			
396,000	292,229	Staff costs	170,939	178,557	Exec Team Incl Co Sec, Back Office
95,000	78,000	Supplies & Services	91,757	107,937	Ext Audit, Tax advice, IT costs External audit costs c.20% higher YOY
		<i>Recharges from BCC/ Subsidiaries</i>			
54,000	35,456	Insurance	24,800	22,800	Insurance costs
10,000	2,080	Legal	500		
5,000	-	HR	-		
3,000	2,080	ICT	500		
		Others			
563,000	409,845	Total Costs	288,496	309,294	7.2% increase on costs in the year.
		Surplus/ (Deficit)	(38,500)	-	Being £38.5k of audit fees absorbed by BHL and covered by reserves rather than being recharged to subsidiaries.

1.14 Key sensitivities are attributed to pay award, inflation and audits and are not considered material. The BHL gross budget is assumed to be recharged in the following proportions for 2024/25. These are indicative as BHL has flexibility to provide specialist ad hoc work as and when required.

	Split %
Bristol Waste	63%
Goram Homes	37%
Total	100%

1.15 The budget forecast for 2023/24 includes recharges to the subsidiaries of £0.250 million. BHL have absorbed £0.039 million of additional audit and other charges in this financial year and utilised some of its reserves. This was a 'one off' to help the companies as part of the cost-of-living challenge and to keep recharges to a minimum this year. This is not likely to be repeated in future years and any additional costs will be recharged in full.

3. Goram Homes Ltd.

- 3.1 The legal status of Goram Homes, due to its commercial purpose, is a Body Not Governed by Public Law (non-BGPL). The term “A Body Governed by Public Law BGPL” covers a body that possesses all the following three characteristics:
- It has legal personality;
 - It has been established for the specific purpose of meeting needs in the general interest which do not have an industrial or commercial character; and
 - financed for the most part, or controlled, by the State, regional or local authorities, or any other body governed by public law.
- 3.2 Local authority trading company activities 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.
- 3.3 As Goram is deemed a non-BGPL (due primarily to its commercial characteristics as assessed at the council’s annual procurement status review meeting by Legal, Shareholder Liaison, Finance and Bristol Holding Ltd acting on behalf of the council as shareholder, with the Managing Director and Finance Director of Goram Homes in attendance), the business plan for 2024/25 is prepared and considered on this basis and 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 any contract to Goram Homes.
 - Goram Homes is not required to follow public procurement processes itself when awarding contracts.

Overview to Date

- 3.4 The council approved the establishment of Goram Homes (a housing company) at Cabinet on 4 September 2018. The initial Pipeline 1 development relating to One Lockleaze (formally known as Romney House) and Baltic Wharf comprised land transfer with deferred capital receipt plus interest and a £10 million loan to Goram Homes both for working capital (£3.3 million) and development investment.
- 3.5 The unrequired balance of £3.7 million remaining from the initial £10 million for Pipeline 1 was re-directed into a second £10 million loan facility, including £4 million for working capital, for seven additional development sites referred to as Pipeline 2, as approved at Cabinet 26 January 2021. Pipeline 2 developments include: Hengrove, Dovercourt Road and New Fosseyway Road.
- 3.6 The total working capital loan facility of £7.3 million has been utilised as follows:
- Pipeline 1 (£3.3 million): £2.4 million utilised as at February 2024. The remaining balance of £0.921 million is currently forecast for 2025/26 but is not expected to be required.
 - Pipeline 2 (£4 million): £1.5 million utilised as at February 2024, with a further £1 million forecast to be drawn down in 2023/24. The expected drawdown for 2024/25 is nil, with a £0.5 million drawdown expected for 2025/26.

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- 3.7 On 25 March 2022, the council transferred the freehold of land at Romney (Lockleaze) to Goram Homes for £12.851 million, the consideration being an unsecured loan note. It should be noted that principal repayments began in 2022/23 with the council receiving £2.825 million, following the council paying a deposit for units on the Romney site for the same value. A further £4 million is forecast to be received in 2023/24.
- 3.8 The development of properties within Pipeline 2 is in the early stages. Loan notes for Dovercourt Road and New Fosseyway are expected to be issued by March 2024.
- 3.9 In addition to the above, in association with the Hengrove pipeline scheme, £10.1 million of the West of England Combined Authority funding will transfer to Goram Homes via a 'pass down, back-to-back funding agreement' between the council and Goram Homes to support the development at Hengrove Park. It is expected that Goram Homes will manage the programme of works and submit quarterly returns to enable the council to comply with its obligations under the terms of the Funding Offer. It is also expected that Goram Homes will ensure that the £5 million repayable loan element due to be repaid over the three financial years 2027/28 to 2029/30 will be repaid to the council in line with the agreed profile.

Table 3:

Summary of the Council's Outstanding Loans with Goram Homes

	Approved Loans	Utilised to Date	Interest (to 31 Jan 24)	Repaid	Outstanding Balance (Including accrued interest)
	£m	£m	£m	£m	£m
Goram Homes - Working Capital Facility & Potential Development (Pipeline 1 & 2)	7.300	3.879	0.569	0.000	4.448
Goram Homes - Loan Notes (Deferred Capital Receipts)	12.851	12.851	1.138	(3.349)	10.640

2024/25 Business Plan

- 3.10 Goram's 2024/25 Business Plan incorporates results delivered through partnership arrangements in the form of Limited Liability Partnerships (LLPs), with 50% shareholding by Goram Homes. The Business Plan also includes a contract with the council for the delivery of the Hengrove Bookends development at Hengrove Park. The Business Plan assumes that the following project LLPs will be operating in the financial year 2024/25:

- One Lockleaze
- Dovercourt Road
- New Fosseyway Road
- Hengrove Park
- Baltic Wharf

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- 3.11 The Business Plan incorporates cash funding to progress planning and partner procurement for four other sites in Goram’s pipeline, which have been prioritised for planning in 2024/25. These are Novers Hill, St Ursula’s and The Grove Car Park. Where existing council car parks are made available for development, the Council may receive a one off payment for the sale price of the land but lose future revenue. A clear and transparent process will need to be agreed for the years of lost revenue in the calculation and this loss of income needs to be considered and approved in relation to the Council’s Budget and Medium Term Financial plan.
- 3.12 The Business Plan states that £0.03 million social value will be generated per completed home, with One Lockleaze delivering more than £0.045 million of social value per home. These figures have been independently verified by the Social Value Portal. It is important to remember that social value is intended to be the added value (additionality) to financial return and not a replace thereof. The optional direct costs associated with delivering social value should be monitored to allow appropriate scrutiny and evidenced based decision making by the council, to the priority it would seek to give when considering options over social, economic, environment and financial value in each of the programmes and ongoing financial sustainability.
- 3.13 From the council’s perspective the residual working capital facility from Pipeline 1 (£0.921 million), and the £8.5 million balance of the £10 million approved Pipeline 2 funding (with £2.5 million remaining of the approved £4 million in relation to working capital, and £6 million set aside for Hengrove) is the total envelope for 2024/25 subject to further approvals and/or drawdowns taken by March 2024. It is intended that this is used flexibly to cover all working capital and development required to take these sites forward. Land transfer for sites at market value would occur as future plans mature. It should be noted that a deed of variation to the working capital facility loan agreements is in the final stages of approval, and this will allow greater flexibility for future developments. At this stage no additional funds have been requested. Should any additional funds be required this will be considered in future budget rounds.
- 3.14 The table below sets out Goram’s latest projected cumulative profit/(loss) after taxation.

Table 4:
Goram Cumulative Profit/(Loss) After Tax

Profit & Loss Account	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
Year to 31 March	£000	£000	£000	£000	£000	£000
Current Business Plan	(4,990)	(4,101)	(2,386)	3,792	5,728	5,156
Previous Business Plan	(6,564)	(1,604)	1,938	2,726	3,271	
Change	1,574	(2,497)	(4,324)	1,066	2,457	

- 3.15 Goram’s business plan indicates a cumulative net profit by the close of financial year 2026/27 (the 2023/24 Business Plan forecast a cumulative net profit by the close of 2025/26, a year earlier). This year on year change reflects the delays to

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development, primarily as a result of planning delays. The forecast movement from a £2.4 million loss in 2025/26 to a forecast profit of £3.8 million in 2026/27 is due to the expected completion of the Baltic Wharf development. The council are exploring grant opportunities, including submitting a bid of £2.5 million for the Brownfield Land Release Fund, to support the development of Baltic Wharf.

- 3.16 This forecast assumes that, by the end of 2024/25, funds set aside by the council for Pipeline 1 are released back to the council and the associated working capital facility 1 is repaid. Goram is forecasting to commence paying dividends within the time horizon of the Business Plan. This is due to LLPs completing and distributing their profits to Goram Homes through dividends.
- 3.17 The council has confirmed in its 2024/25 budget the anticipated release of profits to the shareholder, forecast as £6 million across 2025/26 and 2026/27, and will work with Goram to determine the appropriate and most cost effective mechanism to achieve this. In the interim, the council will make notional reductions to the Goram Homes pipeline reserves to reflect the intent and anticipated profile. This decision and forecast is on the basis of initial developments now coming to fruition and the company business projections.
- 3.18 The council's strategic priority for housing delivery may result in further development opportunities and whilst no further funding has been earmarked in 2024/25, should Goram be successful in securing these opportunities, it would result in further pipeline funding adopting similar principles in the medium term to support the acceleration of housing development.

Risk

- 3.19 The housing market is subject to fluctuating economic and market conditions which continues to be a risk to Goram's commercial return, and subsequently is a risk to the return to the council. The risks that have been identified as having the highest likelihood and impact are shown on the Group Risk Register (see Table 1). Monitoring and mitigation is essential to ensure Goram can deliver the required return to the council in the expected timeframes.
- 3.20 It should be noted that developments may be dependent on grant funding being secured. The council are awaiting the outcome of a bid to the Department for Levelling Up, Housing & Communities for Brownfield Land Release Fund 2 (BLRF2) in relation to Baltic Wharf. This bid of £2.528 million, along with additional grant funding from Homes England for the provision of affordable homes, will improve the viability of this development.
- 3.21 Goram's business plan includes the following risk statement in relation to commercial return:

"The risks that run through the whole plan are also present in the assessment of the ability to deliver Objective Four [Provide a commercial return to our shareholder and meet the highest standards of social and environmental accountability]. Those specifically impacting Commercial Return, are time, cost, and revenue. These risks can be managed most simply before the LLP is formed. When projects start, we

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manage matters within the control of the LLP to prioritise commercial return. Goram Homes' ability to meet the objectives set by Bristol City Council is impacted greatly by time. For example, time taken to gain planning, find appropriate partners, and deliver homes. To limit these risks, it is critical that we continue to work closely with the council to align objectives and work towards joint goals."

3.22 Since Goram is assessed as 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.

4. Bristol Waste Company Ltd. (BWC)

Overview to Date

4.1 Bristol Waste is a Teckal company and due to the operations 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 the company 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.

The procurement status review meeting for 2023/24 has confirmed that BWC remains within the 20% limit permitted for Teckal companies.

4.2 BWC provides the council's waste and street cleaning services (its municipal waste business) as well as providing commercial services and workplace/facilities management services. The council has two main contracts with BWC:

- Waste Services
- Facilities Management (FM)

4.3 The council has previously approved repayable loan facilities of £12 million to BWC for fleet vehicle replacement (Cabinet 4 December 2018) and £2.8 million for Phase 2 of the Avonmouth site redevelopment (Cabinet 26 January 2021). Both loan agreements include interest charges on the principal sums. No further loan requests are anticipated for 2024/25.

4.4 Of the £12 million for fleet vehicle replacement, £11.3 million has been borrowed. In line with contractual payment terms, £5.4 million (the principal) had been repaid at January 2024. This leaves £5.9 million to be repaid in full plus interest by November 2028.

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- 4.5 Of the £2.8 million for Phase 2 of the Avonmouth site redevelopment, £1 million has been borrowed with the initial drawdown in January 2024. The balance of £1.8 million is forecast to be drawn down in 2024/25. BWC indicates that the total cost for the Avonmouth site redevelopment will be £5.4 million with the balance over and above the £2.8 million to be funded from their cash reserves.
- 4.6 At the balance sheet date of 31 March 2023, the council had reduced BWC's net asset valuation from the previous year's £5.465 million to £3.574 million. This year on year reduction is mainly driven by an actuarial change, with an increase in pension liability resulting in a decrease in net assets. The asset valuation is measured in the Balance Sheet at fair value on a recurring basis with the investment being valued at the council's share of the company's net assets. Calculations have been based on Bristol Holding Ltd.'s unaudited accounts as at 31 March 2023.

Waste Services

- 4.7 The council's original 2023/24 budget for its core waste services is £42.7 million. This represents 69% of BWC's total forecast income for 2023-24.
- 4.8 The BWC contract includes a payment mechanism (paymech) based on actual cost (and open book accounting, in order to achieve best value for the use of public funds) plus % approach. This is calculated annually according to unavoidable cost, market volatilities (for example for recyclates) and a mechanism for efficiencies and cost savings to be returned to the council under the contract. The cost plus approach allows for +14% overhead as set in 2022/23 council budget preparation with a 3 year review period.
- 4.9 This approach ensures the council pays appropriately for actual activity commissioned and eliminates variations in estimates in the business planning process due to financial and economic conditions which change over time coupled with over optimism at the outset.
- 4.10 The paymech represents a risk / reward arrangement between the council and BWC when dealing with Waste in-year contract variations only and is calculated as follows:
- The variance is defined as the difference between Teckal Waste (direct) cost + 14% mark-up and Teckal Waste revenue contract as outlined in paragraph 4.17 below.
 - The paymech is stacked.
 - i. any variance within +/- £0.250 million will be 100% met by BWC
 - ii. variances of up to a further +/- £0.250 million – 100% the council
 - iii. any further variance above +/- £0.500 million is shared between the council and BWC in the percentage split of council 30%: BWC 70%.
 - Illustration based on £1.0 million verified in year variance post open book reconciliation would equate to BWC £0.600 million and council £0.400 million.
- 4.11 During the year (2023/24 to date) other council income of £0.870 million is forecast in relation to items such as Bank Holiday catch ups, Fly tipping, Big Tidy, Harbour & Metro Bus cleansing etc.

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Facilities Management (FM)

4.12 The council entered a 4 year contract with BWC for Integrated Workplace & Facilities Management Services (Soft FM) for the council estate which started on 1 June 2021 to deliver a range of 'Soft FM' services including internal & external cleaning, security, waste, consumables, service management, and co-ordination.

4.13 This is a contract for services with the main aim of finding savings and efficiencies for the council as reflected in the annual pricing structure in the table below (table reflects contract years and not financial years). The council's FM cleaning and security staff were TUPE'd across to BWC (142 Full Time Equivalent (FTE) positions).

Table 5: Council & BWC FM Contract, Annual Price (June-May)

	Council Baseline 2020/21 Outturn £m	Year 1 £m	Year 2 £m	Year 3 £m	Year 4 £m	Year 5 £m
Annual Cost	6.0	5.8	5.5	5.3	5.2	5.1
Annual Efficiencies		0.1	0.3	0.2	0.1	0.1
Cumulative Efficiencies		0.1	0.5	0.6	0.8	0.9

4.14 The pricing structure is forecast on year one baseline figures which do not include inflation. Inflationary increases will need to ensure that if the absolute value of BWC's annual pay increase exceeds the absolute value which the council would have awarded the cleaning and security staff had they remained with the council, then BWC must absorb that difference.

4.15 FM arrangements included Third Party Income (TPI) received by the council. In operating a similar baseline as 2020/21, the TPI budget has been set at £0.6 million and will remain a fixed liability for BWC.

4.16 Table 6 below sets out the council's total annual budget for FM, which includes the provision made by the council to fund the pay implications of TUPE'd staff in line with pay awards negotiated by the union in 2023/24 and assumptions for 2024/25.

Table 6: FM annual budget, including pay award

	Council Baseline 2020/21 Outturn £m	Year 1 £m	Year 2 £m	Year 3 £m	Year 4 £m	Year 5 £m
Annual Cost	6.0	5.8	5.5	5.3	5.2	5.1
Annual actual/projected pay awards		0.1	0.3	0.3	0.2	0.1
Total Annual Budget		5.9	5.9	5.7	5.4	5.2

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2024/25 Council Budget

- 4.17 The council's 2024/25 budget for its core waste services (Teckal activity) is £46.6 million. This includes a £2.1 million increase from 2023/24 budget in line with the council's assumed budget increase for inflation and a £1.8 million budget increase to reflect the pressure in relation to increased municipal waste costs. These increases are included in the operating profit/(loss) assumptions for Table 7 below.
- 4.18 Due to current levels of inflation and other economic pressures, in order to remain within the funding envelope set by the council, BWC put forward proposals on savings and an increase in charges which came into effect from 2023/24; £0.7 million of additional income (included in the council's budget) is expected to be generated via the council and transferred across. To mitigate the risk of this income not being achieved, the income position will be reconciled as part of the paymech process at the end of the year.
- 4.19 The council's 2024/25 budget for FM is £5.4 million, which includes the provision made by the council to fund the pay implications of TUPE'd staff in line with the outcomes of the National Joint Council (NJC) pay negotiations in 2023/24 and assumptions for 2024/25. See Table 6 above (Year 4).
- 4.20 The 2024/25 budget for other service areas for items such as Bank Holiday catch ups, Fly tipping, Big Tidy, Harbour & Metro Bus cleansing etc is £0.913 million. The budget also assumes the risk for regulation changes for Persistent Organic Pollutants (POP) would be borne by the council. This however would need to be assessed along with BWC's available contingencies and reserves.

2024/25 Business Plan

- 4.21 A Financial Summary is provided at Section 19 of BWC's Business Plan, with details included at Section 3 of the Exempt Sections.
- 4.22 BWC has produced a 3 year business plan and budget which reflects the next phase of their transformation plan and is designed to coincide with the end date of the current Waste Service Agreement (WSA) and assumes alignment of the Integrated Workplace and Facilities Management contract with the WSA. The company is currently loss making, with a forecast loss of £2 million for 2023/24. The impact of inflation and other economic factors have created pressures for BWC this year, hence the need to adapt and continue to explore further opportunities for savings. The business has laid the foundations for improvement, which has been the focus of 2023.
- 4.23 The Business Plan states that during 2024/25 BWC expects to deliver more than £30 million of social value to Bristol. This figure has not been independently verified by the Social Value Portal and as such should be considered illustrative only, with a reminder that social value is intended to be the added value (additionality) to financial return and not a replace thereof. The optional direct costs associated with delivering social value should be monitored to allow appropriate scrutiny and evidenced based decision making by the council, to the priority it would seek to give when considering options over social, economic, environment and financial value and ongoing financial

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sustainability.

4.24 The business plan identifies the following risks and opportunities, which are quantified in Exempt Section 1. Should any of these risks materialise, mitigating action would need to be considered and, depending on the timing, it may be necessary for BWC to manage these with their reserves and / or the paymech. If BWC are unable to mitigate these risks, this presents a risk to the council as there may be a call for additional funding or a trigger to the pay mech resulting in a payment from the council to BWC.

Risks:

- Recyclate income/prices fall by an average of 5%
- Increased waste disposal costs
- Fuel price increases by 5%
- Increased vehicle maintenance, repairs
- Recruitment challenges increase agency/overtime costs
- Failure to achieve commercial growth targets
- Additional employers liability insurance excess

Opportunities:

- Agency/overtime costs reduction
- Additional procurement savings
- Gains significant commercial wins via tender
- Further cost savings drive

4.25 A summary Profit & Loss Statement for BWC is set out in Table 7 below. This shows a comparison with the current forecast outturn for 2023/24 and budget assumptions for 2024/25 to 2026/27. There is a forecast loss of £2 million for 2023/24, and a deficit budget of £0.8 million for 2024/25. The business is expected to move to a small profit of £0.027 million by 2026/27. BWC currently have sufficient cash reserves to cover losses over the three year period and therefore there are no 'going concern' issues. However, if the risks referenced in 4.24 above materialise without mitigation, then this threatens the move to a break even position over the period of this business plan or would result in further depletion of BWC cash reserves.

Table 7: Summary Profit & Loss Statement for BWC

	Forecast	Budget		
Profit & Loss Statement	2023-24	2024-25	2025-26	2026-27
Sales (£000's)	62,241	64,415	66,035	67,998
Operating profit / (loss)	(2,014)	(825)	(532)	27

4.26 The forecast deficit of £2 million for 2023/24 indicates a trigger to the paymech, which will result in a payment from the council to BWC. This is a forecast and not yet agreed with the council. The position will be closely monitored and a full reconciliation undertaken at year end.

4.27 Given the forecast loss of £0.825 million for 2024/25, the council expects BWC to review their operating model throughout the 2024/25 financial year to move the

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company into a more sustainable position longer term. The budget currently being proposed will result in a trigger to the paymech which will put further pressure on council reserves.

4.28 Detailed financial summaries for the 2024/25 Business Plan can be found in the Exempt Sections, with a Teckal/Non Teckal split at Exempt Section 3.3. Teckal income represents 89.2% of total income, which is slightly higher than the 2023/24 business plan (88.8%). Income from Non Teckal activity is 10.8% of BWC total income for 2024/25 and is therefore within the 20% permitted for Teckal companies. It should be noted that Section 3.3 presents draft 2024/25 figures as they do not reflect the additional funding agreed by the council as part of the 2024/25 budget. The additional funding relates to the municipal waste contract therefore represents an increase to Teckal activity, which would reduce the non-Teckal percentage to 10.6%.

4.29 The sales by sector are shown in the table below. The Municipal waste figures represent the Teckal element of the revenue and do not include the additional funding agreed as part of the council's 2024/25 budget.

Table 8: Sales by sector

	Forecast 23-24		Budget 24-25		Budget 25-26		Budget 26-27	
	£000's	% of income	£000's	% of income	£000's	% of income	£000's	% of income
Revenue								
Municipal	43,384	70%	45,568	71%	46,942	71%	48,357	71%
Commercial Waste	6,085	10%	7,593	12%	7,794	12%	8,000	12%
FM - BCC	6,363	10%	6,142	10%	6,305	10%	6,472	10%
FM - Other	1,118	2%	727	1%	746	1%	766	1%
Other	5,291	9%	4,385	7%	4,248	6%	4,403	6%
Total Revenue	62,241	100%	64,415	100%	66,035	100%	67,998	100%

Municipal (Including waste, recycling and street cleaning)

4.30 BWC's Municipal revenue budget for 2024/25 is £49.8 million. This sector comprises waste and street cleansing operations plus income from recyclates. The core waste services (Teckal activity) income is £45.6 million, which does not reflect the additional funding agreed by the council as part of the 2024/25 budget.

Commercial

4.31 BWC's commercial waste business includes both Teckal and non Teckal activity and includes waste collection from businesses across the city and commercial collection from the council's operational buildings, Business Improvement District additional street cleansing and commercial waste processing and disposal from Avonmouth and Albert Road.

4.32 The revenue budget for 2024/25 is £7.6 million. The split of revenue streams is Commercial collections (55%), Commercial Processing (36%), Recyclates and other income (9%). BWC intend to grow the commercial/non Teckal part of the business, supported by a sales and marketing plan. This will be monitored by the council to ensure the 20% Teckal limit is not breached.

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FM

4.33 BWC's FM revenue budget for 2024/25 is £7.1 million. This includes delivery of a range of 'Soft FM' services including internal & external cleaning, security, waste, consumables, service management, and co-ordination.

4.34 Inflationary pressures have continued to impact the cost of service delivery in 2023/24, however, following the reorganisation of cleaning and security services this year, BWC are anticipating that the main FM contract with the council will generate a small surplus in 2023/24 and 2024/25. The cash-in-transit service still operates at a loss, however, the commercial FM contract activity continues to deliver a net surplus with growth forecast over the next three years.

Capital

4.35 The majority of the vehicle fleet is approaching year 6 of an anticipated lifespan of 8 years and BWC are experiencing the financial cost of increased maintenance requirements. During 2024/25, BWC will need to work closely with the council to understand the nature of service that is to be delivered post 2026 and the implications for financing a new fleet, which could be significant.

Exempt Content

4.36 See Appendix I2 for exempt content in relation to BWC.

Kathryn Long, Finance Business Partner – Resources & Shareholding 21 February 2024

Bristol Holding Ltd. Business Plan (version 02.02.2024 - v3) – 2 February 2024
Goram Homes Ltd. Business Plan (version 01.02.2024 - v4) – 2 February 2024
Bristol Waste Company Ltd. Business Plan plus Addendum (version 02.02.2024 - V6) – 2 February 2024; Including Exempt Appendix plus Exempt Addendum 2 February 2024