Item 4

24th April 2024

Glasgow City Council

Finance and Audit Scrutiny Committee

Report by the Executive Director of Finance

Contact: Anne Ross Ext: 78342

ALEO Quarterly Report: Quarter 3 2023/24

Purpose of Report:

To provide the Committee with quarterly information on Arms Length External Organisations. This report covers the second quarter of 2023/24 (1 April 2023 to 9 February 2024).

Recommendations:

The Committee is asked to note the contents of the report.

Ward No(s): Citywide: ✓

Local member(s) advised: Yes ☐ No ☐ consulted: Yes ☐ No ☐

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1. Introduction

1.1 This report provides financial information for the Council's Arms Length Organisations ('ALEOs') for quarter 3, covering the period 1 April 2023 to 9 February 2024. The financial information is based on the latest position provided by each ALEO and includes the financial performance to date. The overall responsibility for the financial management of each ALEO rests with the Board of that ALEO.

2. Financial Position

2.1 The format of the financial report shows income and expenditure on an accruals basis, however, technical non-cash accounting entries are excluded as they distort the underlying operating trading performance of the ALEO. At the financial year end these technical accounting entries are included to reflect proper accounting practice and are reported as part of their statutory accounts and within the Council's group accounts.

2.2 Table 1 shows the actual operating performance against budget for each ALEO to quarter 3 of 2023-24. Further information about the financial performance of each ALEO is contained in section 3 of the report. The financial performance across all ALEOs shows an actual operating net deficit at quarter 3 of £10.356m which compares to a budgeted deficit of £7.717m. Clyde Gateway have planned for a budgeted deficit in 2023-24 which is fully funded from accumulated reserves.

2.3 Table 2 shows the forecast operating surplus or deficit position for the year compared to the annual budget for each ALEO. The forecast for the year is a deficit of £11.749m compared to a budgeted deficit of £5.109m, an adverse variance of £6.640m. This adverse variance reflects a lower return from City Building due to anticipated turnover from the Council's capital programme being lower than anticipated and also due to the impact of labour and material price inflation pressures.

2.4 The 2023-24 budget includes approved savings of £7.569m. At this stage of the year, it is anticipated that actual savings will amount to £7.569m representing 100% of target. This is reflected in the overall financial position reported in this monitoring statement.

2.5 The council's budget includes a contribution from City Property (£3.965m), City Building Glasgow (£2.5m) and City Building Contracts (£2.0m). The probable outturn indicates that contributions from related companies are anticipated to be £7.792m under budget. This reflects a lower return from City Building as outlined above. City Property is anticipating a return in line with budget.

2.6 A summary of the operating performance to date against the budgeted operating position for each ALEO is shown in Table 1 below. Reasons for significant variances are provided for each ALEO at section 3.

Table 1 – 2023-2024 Actual year to date (quarter 3) operating performance against budget

ALEO	Annual Net Budgeted Operating Surplus (+) Deficit (-) £'000	Net Budgeted Operating Surplus (+) Deficit (-) to date £'000	Actual Net Operating Surplus (+) Deficit (-) to date £'000	Variance favourable(+) adverse(-) £'000
City Building (Glasgow)	3,918	2,085	136	-1,949
City Building (Contracts)	1,512	-1,821	-4,684	-2,863
City Property [1]	1,034	2,814	3,346	532
Clyde Gateway[2]	-11,573	-10,795	-9,109	1,686
Glasgow Life	0	0	0	0
Jobs & Business Glasgow	0	0	-45	-45
Total	**-5,109**	**-7,717**	**-10,356**	**-2,639**

[1] City Property includes figures for City Property Glasgow LLP, City Property Glasgow Investments LLP; and the new legal entities, CPG (Operations SL1) LLP, CPG (Operations SL2) LLP and CPG (Operations SL3) LLP.

[2] Clyde Gateway budget deficit is planned for and is funded from reserves brought forward and regeneration returns.

2.7 The forecast outturn against budget for each ALEO is shown in Table 2 below. It is this comparison between the annual net budgeted operating surplus and the forecast operating surplus/deficit at the year-end which could impact on the general fund reserves of the Council.

Table 2 - 2023-2024 Forecast annual outturn against budget

	Annual Net Budgeted Operating Surplus (+) Deficit (-) £'000	Forecast Operating Surplus (+) Deficit (-) £'000	Variance Favourable (+) adverse (-) £'000
City Building (Glasgow)	3,918	3,374	-544
City Building (Contracts)	1,512	-4,979	-6,491
City Property	1,034	1,479	445
Clyde Gateway	-11,573	-11,573	0
Glasgow Life[1]	0	0	0
Jobs & Business Glasgow	0	-50	-50
Total	**-5,109**	**-11,749**	**-6,640**

[1] Glasgow Life financial position is being supported by £5.37m covid funding.

3. Comments on variances

3.1 City Building

3.1.1 The Council's Executive Committee on the 8 December 2016 approved the terms of a 50/50 joint venture between the Council and the Wheatley Group to form City Building (Glasgow). The Joint Venture is responsible for housing repairs and investment programmes, City Council repairs programme and apprentice training and the RSBi operation. In addition, it was agreed that City Building (Contracts) would remain wholly owned by the Council as a separate company and will be responsible for the Council's investment programme and work for other Registered Social Landlords.

City Building (Glasgow)

3.1.2 The net position is an operating surplus of £0.136m against a budgeted surplus of £2.085m.

3.1.3 The original business case identified a return to the council of £2.500m and it is estimated £1.687m will be achieved. This reflects a revised workload profile from both Wheatley and the council and additional costs associated with labour and material price inflation.

3.1.4 City Building continue to be adversely affected by material price increases due to increased demand and shorter supply of materials. Furthermore, the 2023/24 agreed pay award was in excess of the original budget. The position will continue to be closely monitored with corrective action identified including VR/ER programmes where appropriate.

City Building (Contracts)

3.1.5 The net operating deficit to date is £4.684m against a budgeted deficit of £1.821m.

3.1.6 The original business case identified a return to the council of £2.0m. Inflationary increases to labour and material costs have resulted in tender returns being greater than approved budgets. The Council has therefore engaged with the company to review specifications and value engineer tender returns to align costs to approved budgets.

3.1.7 As a consequence there has been a reduction in anticipated turnover from the GCC investment programme and the company is now projected to incur a deficit of £4.979m in 2023/24.

3.1.8 This position will continue to be closely monitored with corrective action identified including VR/ER programmes where appropriate.

3.2 Glasgow Life

3.2.1 Glasgow Life continues to be affected by the ongoing impact of Covid – 19 with income levels still below pre pandemic levels. This results in an estimated deficit position for 2023-24 of £5.37m.

3.2.2 As part of the recovery plan post Covid, the Council has agreed to support Glasgow Life to manage its deficit position until the end of 2023-24. This will allow income levels to recover and budgets to be realigned to a long-term sustainable level. This support is met through the application of carried forward Covid funding previously provided by the Scottish Government.

3.2.3 The projection at quarter 3 for 2023-24 is a break-even position after the provision of deficit funding of £5.37m in line with budget.

3.2.4 This position will continue to be closely monitored over the coming months.

3.3 Clyde Gateway

3.3.1 At quarter 3 (to 31 December 2023) the net deficit to date is £9.109m compared to a budgeted deficit of £10.795m. This is primarily due to phasing delays on capital projects and consequential timing of drawdown of the associated grant funding.

3.3.2 As planned, the current year's expenditure is being funded from a combination of existing reserves brought forward, including deferred grant funding income (received prior to March 2023 against contracted works) and Clyde Gateway's own regeneration returns from property disposals and rental income, together with grant funding awards for the current financial year. This deferred grant funding together with accumulated reserves within the group is being applied against key regeneration projects and programmes spanning the 2023/24 to 2024/25 financial years.

3.3.3 As in previous years, a re-forecasting exercise was undertaken based on actual income and expenditure at the 6 month point. The re-forecast annual net budget for 2023-24 is a planned deficit of £11.573m and the current outturn projection remains in line with this forecast. This will be funded from a combination of deferred grant income and accumulated reserves.

3.4 City Property

3.4.1 At quarter 3 the actual net surplus is £3.346m, £0.532m more than the budgeted surplus of £2.814m.

3.4.2 The annual forecast surplus for City Property at quarter 3 is £1.479m, £0.445m higher than the budgeted surplus of £1.034m.

3.4.3 The position at quarter 3 and the annual forecast reflects the revised financial strategy and budget approved for 2023-24.

3.4.4 The financial position is continuously monitored in terms of costs, income generation and debt management, in line with the financial strategy.

3.5 Jobs & Business Glasgow

3.5.1 At quarter 3 (to 31st January 2024) the net deficit is £0.045m. This position is mainly due to overspends within repairs and maintenance.

3.5.2 The annual forecast deficit at quarter 3 for Jobs & Business Glasgow is £0.050m.

4. Policy and Resource Implications

4.1 Resource Implications:

4.1.1 Financial: As noted above

4.1.2 Legal: None

4.1.3 Personnel: None

4.1.4 Procurement: None

4.2 Council Strategic Plan: Recommendations reflect outcomes across all themes

4.3 Equality and Socio-Economic Impacts: None

4.4 Climate Impacts: None

4.5 Privacy and Data Protection impacts: None

5. Recommendations

5.1 The Committee is asked to note the contents of the report.