



**Glasgow City Council**

**Finance and Audit Scrutiny Committee**

**Report by the Executive Director of Finance**

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**Item 4**

10th April 2019

**ALEO Quarterly Report: Quarter 3 2018/19**

**Purpose of Report:**

To provide the Committee with quarterly information on Arms Length External Organisations. This report covers the third quarter of 2018/19 (1 April 2018 to 15 February 2019).

**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

**PLEASE NOTE THE FOLLOWING:**

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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 2018 to 15 February 2019. 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 2018-19. 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 surplus at quarter 3 of £0.917m which compares to a budgeted surplus of £5.144m, an adverse variance of £4.227m, mainly due to Cordia and Glasgow Life. Community Safety Glasgow, and Clyde Gateway have planned for budgeted deficits in 2018-19 which are 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 surplus of £4.169m compared to a budgeted surplus of £9.819m, an adverse variance of £5.650m. This unfavourable variance is mainly due to Cordia, Glasgow Life, City Building Contracts, and City Parking.
- 2.4 The 2018-19 budget includes approved savings of £5.326m. At this stage of the year, it is anticipated that actual savings will amount to £3.016m representing 57% of target. There are forecast shortfalls in Glasgow Life (£1.518m), City Parking (£0.376m), and Cordia (£0.416m). This is reflected in the overall financial position reported in this monitoring statement.
- 2.5 The council's budget includes contributions from City Building (£7.100m), City Property (£3.422m), and part year contributions from Cordia (£1.092m) following the wind up of the service on 30 September 2018. These contributions are partly contingent on the delivery of the above savings detailed at 2.4. Forecast shortfalls in their surplus are reported for Cordia, City Property and City Building which is likely to impact upon the discount which is due to be returned to the Council. City Property and City Building are mitigating this shortfall with the use of reserves, this is discussed further in section 3. The financial implications for the council's budget have been included in the council's probable out-turn.

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 – 2018-2019 Actual year to date (quarter 3) operating performance against budget**

<b>ALEO</b>	<b>Annual Net Budgeted Operating Surplus (+) Deficit (-) £'000</b>	<b>Net Budgeted Operating Surplus (+) Deficit (-) to date £'000</b>	<b>Actual Net Operating Surplus (+) Deficit (-) to date £'000</b>	<b>Variance favourable(+) adverse(-) £'000</b>
<b>City Building Joint Venture</b>	5,082	3,475	3,935	460
<b>City Building Contracts</b>	4,001	2,889	2,534	-355
<b>City Parking</b>	7	68	-118	-186
<b>City Property <sup>1</sup></b>	2,582	1,624	1,612	-12
<b>Clyde Gateway<sup>2</sup></b>	-2,064	-3,080	-3,328	-248
<b>Cordia<sup>3</sup></b>	1,092	1,092	-2,174	-3,266
<b>Community Safety Glasgow<sup>4</sup></b>	-881	-881	-212	669
<b>Glasgow Life</b>	0	0	-1,473	-1,473
<b>Jobs &amp; Business Glasgow</b>	0	-43	141	184
<b>Total</b>	<b>9,819</b>	<b>5,144</b>	<b>917</b>	<b>-4,227</b>

<sup>1</sup> City Property includes figures for both City Property Glasgow and City Property Investments.

<sup>2</sup> Clyde Gateway budget deficit is planned for and is funded from reserves brought forward and regeneration returns.

<sup>3</sup> Cordia figures to date are in respect of the period to the 29 September 2018.

<sup>4</sup> Community Safety Glasgow budget deficit is planned for and is funded from reserves brought forward.

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 - 2018-2019 Forecast annual outturn against budget**

	<b>Annual Net Budgeted Operating Surplus (+) Deficit (-) £'000</b>	<b>Forecast Operating Surplus (+) Deficit (-) £'000</b>	<b>Variance Favourable (+) adverse (-) £'000</b>
<b>City Building Joint Venture</b>	5,082	5,082	0
<b>City Building Contracts</b>	4,001	3,501	-500
<b>City Parking</b>	7	-360	-367
<b>City Property<sup>1</sup></b>	2,582	2,274	-308
<b>Clyde Gateway<sup>2</sup></b>	-2,064	-2,064	0
<b>Cordia<sup>3</sup></b>	1,092	-2,174	-3,266
<b>Community Safety Glasgow<sup>4</sup></b>	-881	-881	0
<b>Glasgow Life</b>	0	-1,572	-1,572
<b>Jobs &amp; Business Glasgow</b>	0	363	363
<b>Total</b>	<b>9,819</b>	<b>4,169</b>	<b>-5,650</b>

<sup>1</sup> City Property includes figures for both City Property Glasgow and City Property Investments.

<sup>2</sup> Clyde Gateway budget deficit is planned for and is funded from reserves brought forward and regeneration returns.

<sup>3</sup> Cordia figures to date are in respect of the period to the 29 September 2018.

<sup>4</sup> Community Safety Glasgow budget deficit is planned for and is funded from reserves brought forward.

### **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 £3.935m against a budgeted surplus of £3.475m.

3.1.3 The overall business is performing in line with expectations and the current projected outturn is that the budgeted surplus of £5.082m for the year will be achieved.

3.1.4 The Joint Venture is due to return a discount of £2.5m to the Council in 2018-19 and the current forecast is that this will be achieved.

##### **City Building (Contracts)**

3.1.5 The net operating surplus to date is £2.534m against a budgeted surplus of £2.889m.

3.1.6 It is anticipated that a surplus of £3.501m for the year will be achieved.

3.1.7 City Building Contracts is due to return a discount of £4.600m to the Council in 2018-19 however due to a reduction in the level of work from the Council and slippage in the Council's capital programme the current forecast is that a discount of £4.100m will be achieved, utilising the operating surplus and reserves.

#### **3.2 City Parking**

3.2.1 The quarter 3 position shows an actual deficit of £0.118m against a budgeted operating surplus of £0.068m to date.

3.2.2 The forecast outturn for the financial year is a deficit of £0.360m, compared to a budgeted surplus of £0.007m. The above position is after debt repayments of £0.652m have been taken into account. The adverse variance is mainly due to car park revenues being lower than anticipated, this position continues to be closely monitored going forward.

### **3.3 Glasgow Life**

3.3.1 The actual net operating deficit to date is £1.473m, compared to a breakeven budget.

3.3.2 The forecast outturn reflects a deficit of £1.572m mainly due to a delay in the achievement of savings. In order to mitigate the above financial position, Glasgow Life continue to operate a moratorium on non-essential spend. In addition, discussions are ongoing with the council regarding the service fee level for 2018-19.

### **3.4 Community Safety Glasgow**

3.4.1 The net position to date is a deficit of £0.212m compared to a budgeted deficit of £0.881m, mainly due to timing of expenditure and income.

3.4.2 The forecast outturn for the financial year is a deficit £0.881m, this will be fully funded by accumulated reserves.

### **3.5 Clyde Gateway**

3.5.1 At quarter 3 (to 31 January 2019) the net deficit to date is £3.328m compared to a budgeted deficit of £3.080m.

3.5.2 The current year's expenditure is being funded as planned from a combination of existing reserves, derived from regeneration returns and deferred income (i.e. grant funding received prior to March 2018 against contracted works in 2018-19), and the current financial year's main grant awards and development returns, including rental income.

3.5.3 The expenditure budget for 2018-19 is a planned deficit of £2.064m and the current outturn projection remains in line with this forecast. This will be funded from a combination of advance funding against committed project contracts and accumulated reserves from previous years.

### **3.6 Cordia**

3.6.1 On 19 April 2018 the City Administration Committee approved the wind up of the current LLP models for Cordia and re-organising delivery of services across the council by 30 September 2018.

3.6.2 The forecast outturn to the 29 September 2018 is a deficit of £2.174m against a budgeted surplus of £1.092m, an adverse variance of £3.266m. This is mainly due to the ongoing pressures in care.

### **3.7 City Property**

3.7.1 At quarter 3 the actual net surplus is £1.612m compared to a budgeted surplus of £1.624m.

3.7.2 The annual forecast surplus for City Property Glasgow is £2.274m

3.7.3 City Property are due to return £3.422m to the Council in 2018-19. This will be funded from the operating surplus for the year and reserves.

### **3.8 Jobs & Business Glasgow**

3.8.1 For the latest period (to 31 January 2019) there is a surplus of £0.141m.

3.8.2 The forecast outturn reflects a surplus of £0.363m primarily due to income received that relates to prior year claims.

## **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 Sustainability Impacts:**

4.4.1 Environmental: None

4.4.2 Social: None

4.4.3 Economic: None

**4.5 Privacy and Data Protection impacts:** None

## **5. Recommendations**

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