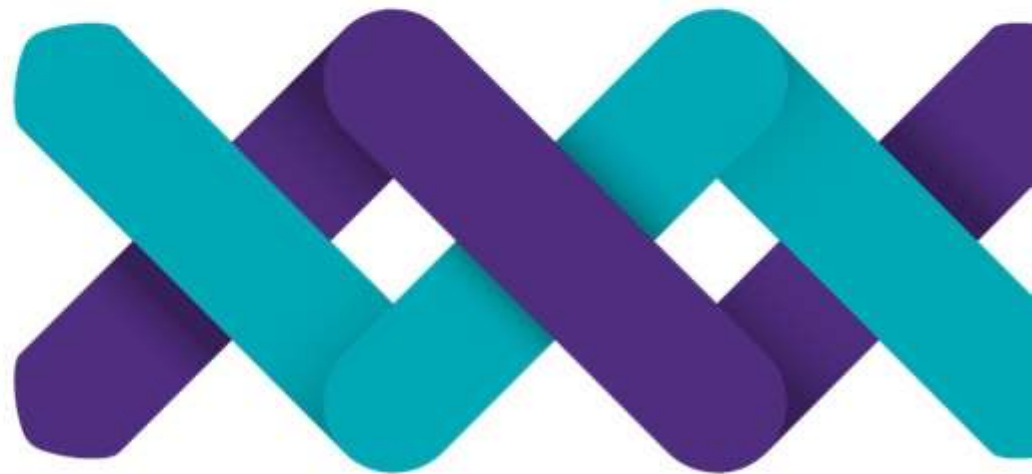




Gloucester City Council

High-level governance and financial assessment of Marketing Gloucester Limited

Final report dated 16 December 2019



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Gloucester City Council
Shire Hall
Westgate Street
Gloucester
GL1 2TG

For the attention of Anne Brinkhoff (Corporate Director) and Jon Topping (Head of Policy and Resources)

16 December 2019

Dear Sirs

High-level governance and financial assessment of Marketing Gloucester Limited

We have pleasure in enclosing a copy of our report in accordance with your instructions dated 6 November 2019 which is reproduced at Appendix A of this report. This document (the **Report**) has been prepared by Grant Thornton UK LLP (**Grant Thornton**) for Gloucester City Council (the **Addressee** or the **Council** or **GCC**) in connection with the Council's review of Marketing Gloucester Limited (**MGL**), a wholly owned subsidiary company of the Council. We understand that the Council has recently approved a lending facility to MGL and is therefore carrying out a review of MGL (the **Purpose**). For the avoidance of doubt, our work does not constitute an audit nor a forensic investigation of the affairs of MGL.

We stress that the Report is confidential and prepared for the Addressee only. We agree that the Addressee may disclose our Report to its professional advisers solely in relation to the Purpose, or as required by law or regulation, the rules or order of a stock exchange, court or supervisory, regulatory, governmental or judicial authority without our prior written consent but in each case strictly on the basis that prior to disclosure you inform such parties that (i) disclosure by them is not permitted without our prior written consent, and (ii) to the fullest extent permitted by law we accept no responsibility or liability to them or to any person other than the Addressee.

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The data used in the provision of our services to you and incorporated into the Report has been provided by the management of MGL and the Council. We have not verified the accuracy or completeness of any such data. There may therefore be errors in such data which could impact on the content of the Report. No warranty or representation as to the accuracy or completeness of any such data or of the content of the Report relating to such data is given nor can any responsibility be accepted for any loss arising therefrom.

The management of MGL has not been provided with a copy of this Report and so has not confirmed its factual accuracy in all material respects. You recognise and accept that our Report and any conclusions we draw may differ had we had the benefit of confirming the facts with the management of MGL.

Period of our fieldwork

Our fieldwork was performed in the period between 7 November 2019 and 2 December 2019. We have not performed any fieldwork since 2 December 2019 and, our Report may not take into account matters that have arisen since then. If you have any concerns in this regard, please do not hesitate to let us know.

Scope of work and limitations

Our work focused on the areas set out in our scope of work, which is reproduced at Appendix A of the Report. Our assessment of the affairs of MGL does not constitute an audit in accordance with Auditing Standards and no verification work has been carried out by us; consequently, we do not express an opinion on the figures included in the Report.

The scope of our work has been limited both in terms of the areas of the business and operations which we have assessed and the extent to which we have assessed them. There may be matters, other than those noted in the Report, which might be relevant in the context of the Purpose and which a wider scope assessment might uncover.

Forms of report

For your convenience, the Report may have been made available to you in electronic as well as hard copy format, multiple copies and versions of the Report may therefore exist in different media and in the case of any discrepancy the final signed hard copy should be regarded as definitive.

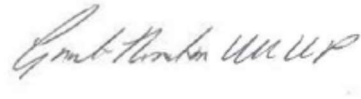
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General

The Report is issued on the understanding that the management of MGL and the Council have drawn our attention to all matters, financial or otherwise, of which they are aware which may have an impact on our Report up to the date of signature of this Report. Events and circumstances occurring after the date of our Report will, in due course, render our Report out of date and, accordingly, we will not accept a duty of care nor assume a responsibility for decisions and actions which are based upon such an out of date Report. Additionally, we have no responsibility to update this Report for events and circumstances occurring after this date.

Notwithstanding the scope of this engagement, responsibility for management decisions will remain solely with the officers and directors of the Council and not Grant Thornton. The officers and directors of the Council should perform a credible review of the recommendations and options in order to determine which to implement following our advice.

Yours faithfully

A handwritten signature in cursive script that reads "Grant Thornton UK LLP".

Grant Thornton UK LLP

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Glossary

BID	Business Improvement District
Board	Board of directors of MGL
CEO	Chief executive officer
Current ratio	Current assets ÷ Current liabilities
DMO	Destination Management Organisation is responsible for promoting a community as an attractive travel destination and enhancing its public image as a dynamic place to live and work
FYxx	Financial year ended/ending 31 March 20xx
Gearing ratio	Total loans and borrowings ÷ shareholders' equity
Gloucester BID	Gloucester Bid Limited, a private company limited by guarantee (without share capital) that manages Gloucester Business Improvement District (BID)
HMRC	Her Majesty's Revenue & Customs
KPIs	Key financial indicators
Management	Management team of MGL
MGL or the Company	Marketing Gloucester Limited, a private company limited by shares, which is wholly owned by the Council
NIC	National insurance contributions
PGT	Pitt Godden & Taylor LLP
P&L	Profit and loss
SLA	Service-level agreement

SoMAC event	Gloucester Summer of Music, Arts & Culture (SoMAC) is a two-month long festival in July and August every year, celebrating Gloucester's music, arts and cultural offering
Tall Ships Festival	Gloucester Tall Ships and Adventure Festival that brings some impressive ships, interactive history, and water activities to Gloucester Docks. The festival takes place every two years with the last one being held over the bank holiday weekend in May 2019
The City	City of Gloucester
The Council or GCC or the Addressee	Gloucester City Council
UK:DRIC	The UK Digital Retail Innovation Centre, which was launched in May 2019, is based at Eastgate Shopping Centre in Gloucester. It is managed by UK Digital Retail Innovation Centre Limited (formed on 28 November 2017), a wholly owned subsidiary company of MGL
VAT	Value added tax

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1. Introduction

1.1 Background of MGL

- Marketing Gloucester Limited (MGL) was incorporated on 9 May 2008 with the primary purpose of representing, supporting and advising business and public leaders on economic and regenerative growth, leisure and tourism, and promotion of these themes in the City of Gloucester (the City).
- We understand that prior to the setting up of MGL, the Council's marketing and promotion function for the City was fragmented. MGL was formed to pull functions together and achieve co-ordination and resilience, and to bring a 'private sector entrepreneurial' ethos to the task of promoting the City as a great place to live, work, study, visit and invest.
- MGL is recognised by Visit England and Visit Britain as the Destination Management Organisation (DMO) for the City.
- The Company's core activities have expanded since its inception. In recent years, MGL took on the responsibility for delivering the Council's festival and events programme under an SLA with the Council. The Council's festival and events range from the Tall Ships Festival to SoMAC, Gloucester Goes Retro and firework events.
- In addition, MGL provides management service to Gloucester BID since April 2019, including management of Gloucester BID's programme of events. We understand that there is currently no SLA between MGL and Gloucester BID in respect of the services.
- On 28 November 2017, MGL formed a wholly owned subsidiary company, UK Digital Retail Innovation Centre Limited that manages the UK Digital Retail Innovation Centre (known as UK:DRIC). The UK:DRIC, which was launched in May 2019, is based at Eastgate Shopping Centre in the City. We understand that the UK:DRIC aims to be the national centre for testing and developing digital innovations that will help shape and inform the future development of town and city centres from a retail perspective.
- UK:DRIC's current directors are Jason Smith (MGL's CEO) and Richard Brooks (MGL's bookkeeper). The first accounts for the period ended 30 November 2018 (filed with Companies House) were dormant accounts. We understand that it started trading from 1 October 2019, with the main source of income being rental income from the letting of spaces at the centre.
- The current corporate structure of MGL is shown in the diagram below.



Sources: 1. Companies House record as at 28 November 2019

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1.2 Our work

- MGL has experienced financial challenges in recent years, which were compounded by the significant reduction in funding from the Council particularly over the last three years.
- In October 2019, the Council approved a £240,000 credit facility to MGL in order to support its cash flow position. As part of the provision of the loan, the Council is carrying out a review of MGL, covering (a) strategic and operational aspects; and (b) governance and financial aspects.
- The Council has engaged an external consultancy company, Melanie Sensicle Consulting Ltd (working with Brightside Tourism Consulting) to perform a strategic and operational review of MGL.
- In addition, the Council has engaged Grant Thornton UK LLP to perform a high-level governance and financial assessment of MGL, which covers commentary of the following areas:
 - the corporate governance arrangements, focusing on the structure of MGL board and its committee(s), and board reporting to the Council;
 - the budgeting and forecasting procedures;
 - the key financial controls and procedures;
 - the financial performance and position of MGL for the last two years ended 31 March 2019 and current year-to-date; and
 - the overall profitability, liquidity and solvency position.
- For the avoidance of doubt, our work does not constitute an audit nor a forensic investigation of the affairs of MGL. Our scope of work is detailed in Appendix A of this report.
- Our work is based on a review of the key documentation and information provided by the relevant personnel of MGL and the Council as listed in Appendix B, as well as our meetings/discussions with them and their

representations to us. We would like to highlight that the CEO of MGL is currently absent on leave. As requested by the Council, we have not sought information from him nor held discussion with him as part of our work.

- The data and information used in our work and incorporated into this report has been provided by the personnel of MGL and the Council. We do not accept responsibility for such information which remains the responsibility of the personnel of MGL and the Council. We have satisfied ourselves, so far as possible, that the information presented in our report is consistent with other information which was made available to us in the course of our work. We have not, however, sought to establish the reliability of the sources by reference to other evidence.
- Our report makes reference to 'Grant Thornton Analysis'; this indicates only that we have (where specified) undertaken certain analytical activities on the underlying data to arrive at the information presented; we do not accept responsibility for the underlying data.

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2. Executive summary

2.1 Our key findings and recommendations

Issue	Commentary	Next steps / recommendations
Board governance	<p>Board structure and composition</p> <ul style="list-style-type: none"> MGL currently has 11 directors (based on Companies House record), all of whom work on a voluntary basis and represent different stakeholder groups (retail, cultural, media, etc). We consider the size of the Board to be large given the size and nature of the Company. During our work, we found some discrepancies in the list of directors and instances where the changes of directors were not updated with Companies House in a timely manner. It is unclear whether MGL has a company secretary. There is currently no clear division of responsibility amongst the Board members. Based on our interviews, we understand that all the Board members are non-executives, acting in an advisory capacity. Their roles as non-executive directors are, however, not explicitly stated. There is no executive director on the Board. The CEO who regularly attends the Board meetings is not a Board member. There are no explicit references in MGL's articles of association on the voting rights of the directors and the decision-making process. Based on our interviews, it is unclear whether there is a formal process in place or criteria being established for changes or appointment of directors. For example, consideration of the director's experiences, skillsets and term of office. 	<p>Board structure and composition</p> <ul style="list-style-type: none"> We believe there is an urgent need to review and strengthen the Board structure and composition. We also believe there is merit in reducing the size of the Board, so that it is manageable, to ensure focus and clarity amongst Board members of their roles and responsibilities. It is also appropriate to have an executive director (e.g. CEO or managing director) appointed to the Board. This would allow proper governance and ensure a clear of division of roles and responsibilities where non-executive directors are able to hold executive directors to account and provide appropriate scrutiny and challenge. To protect the shareholder's interest, we recommend the Council have a controlling representation on the Board, by introducing appropriate voting rights of directors and having the Council's appointed director as chair. In addition, we believe there is benefit of having a Council's officer (e.g. corporate director) attending the Board meetings in the short term given the governance issues and current financial situation of MGL. It is important for the Council to gain comfort that the MGL Board can function effectively and is fit for purpose. There is also the opportunity for the Council to

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Issue	Commentary	Next steps / recommendations
	<ul style="list-style-type: none"> • We have the following observations based on our review of the minutes of Board meetings between 24 March 2017 and 26 April 2019: <ul style="list-style-type: none"> - We noted that the notes of Board meetings did not record any material questions or challenge from the Chair of the Board or Board members; - We noted little evidence of challenges or scrutiny by the directors, partly due to the lack of clarity over their roles as non-executives as mentioned earlier; - We noted from the Board minutes that the main discussions during Board meetings tend to be on the CEO's updates on the financial position (focusing on profit and loss) and operational matters (recent events), rather than a more strategic and systematic review of risks and opportunities. - There was no risk register being maintained or reviewed during Board meetings. <p>Reporting to the Council</p> <ul style="list-style-type: none"> • The Members Agreement between the Council and MGL (which was updated in March 2017) sets out the Council's requirements and the terms of the relationship upon which the Council will participate in the business of MGL as a shareholder. The agreement also includes the specific matters reserved for the Council's approval, which in summary restrict MGL from amending the business plan, entering into contracts or arrangements of over £100,000 in value and changing directors. • Regular monitoring and review of MGL's performance are undertaken by the Council through the quarterly review meetings, which are minuted and typically attended by a Council's corporate director, the MGL chair and CEO. • There are no terms of reference for these review meetings. There are also no standard agenda items, but discussions tend to have focused on the review of the previous quarter's performance, operational and events highlights, financial update and forecast, and new business/opportunities. We understand that quarterly review meetings in recent years had been structured to broadly cover 	<p>provide some operational support to MGL in the short term where possible (e.g. legal, company secretarial, finance or HR matters).</p> <ul style="list-style-type: none"> • In terms of stakeholders' representation, we believe it is possible to continue their engagement and promote representation through an alternative forum, for example, in a working group or stakeholders' committee that is separate from the Board but has a reporting line to the Board. • The MGL Board should develop a business plan that is aligned to the shareholder expectations. This should be developed in consultation with the Council and other stakeholders, and clearly set out the purpose and objectives of MGL. The Board should then oversee and receive assurance on the business plan. <p>Reporting to the Council</p> <ul style="list-style-type: none"> • We believe the quarterly review meetings lack structure and clarity of the Council's expectations, partly due to the absence of terms of reference. We would recommend the Council establishes terms of reference for these meetings and sets out a schedule of agenda. • Based on our work, we noted a lack of clarity on what the Council expects from MGL. This is complicated by the different roles of the Council in its relationship with MGL (i.e. shareholder, customer and funder). The SLA has attempted to set out the services to be provided by MGL and the associated funding. Nonetheless, we noted that the scope of the services set out in the SLA was too broad and that the agreed funding (which was fixed in nature across different years) did not appear to commensurate with the variable nature of events

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	<p>the Council's requirements of MGL (such as business plan, etc) as set out in the Members Agreement (explained earlier).</p> <ul style="list-style-type: none"> Based on our interviews, we understand that MGL has not submitted a business plan to the Council, including annual budgets. We also noted that there was a business plan document prepared by MGL in respect of 2016-2021. However, we noted that the Council has concerns over the robustness of the business plan. A revised business plan has not been provided nor submitted to the Council. 	<p>and services that MGL was expected to deliver as part of the SLA.</p> <ul style="list-style-type: none"> We recommend that the Council prepares a document that sets out a clear set of expectations of MGL covering the next 3-5 years. The shareholder's expectations document should be proportionate to the circumstances of MGL as well as aligned to the Council's own strategies and wider plans. This document should be reviewed and restated each year, if necessary, in the form of a shareholder letter from the Council to MGL. The MGL Board should then develop an appropriate business plan that is aligned with the shareholder letter.
Budgeting and forecasting procedures	<ul style="list-style-type: none"> Based on our interviews, we understand that the preparation of budget and forecast is managed by the CEO. The bookkeeper and MGL employees were not directly involved in the preparation of annual budget or forecasts. We also understand that there are no written procedures for the preparation, review and monitoring of the budget. We understand that separate budgets for specific events and areas exist (e.g. Tall Ship festival, marketing budget, etc). However, these budgets only relate to the specific events or areas. It is unclear how these individual or specific budgets form the overall budget for MGL as a corporate entity. Based on our interviews with Board members, we understand that the Board was made aware of the annual budget. However, there was no detailed discussion on the budget nor evidence of review and challenge by the Board members. Performance against budget is monitored each month via the monthly profit and loss accounts prepared by the bookkeeper on Excel. No balance sheet and cash flow information are prepared. 	<ul style="list-style-type: none"> Given the size of the organisation and with no dedicated finance accountant or director, it is not uncommon for the CEO or a managing director equivalent to take the overall responsibility for the preparation and development of annual budget or forecasts. As the CEO is currently absent, we are unable to discuss the process involved nor provide our commentary and observations. However, we do have reservations over the extent and quality of review by the Board members on the budgets prepared by the CEO, based on our interviews and review of minutes of Board meetings. In addition, it is unclear whether the Board's review of budget covers balance sheet and cash flows, as the discussions appeared to have focused on profit and loss only. As noted earlier, there is no evidence of risk management, including review and monitoring of risks to the delivery of budget/forecast. Also, no sensitivity analysis or stress testing / assessment of downside scenarios to understand the potential financial implications on MGL. We recommend the Board ensures appropriate discussion and review of the budget. In addition, the Board should maintain a

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Issue	Commentary	Next steps / recommendations
		<p>risk register that is being reviewed and managed. We do not see this risk register as an extra administrative burden on MGL and the Board to manage, as long as it is proportionate and fit for purpose.</p>
Financial controls and procedures	<ul style="list-style-type: none"> MGL does not have formally documented financial procedures in place. It has no separate finance function nor a full-time finance director/accountant. This broadly reflects the size of the organisation with a few numbers of employees being employed. Based on our interviews, we understand that the overall management and financial leadership of MGL is provided by the CEO, with support from a part-time bookkeeper and a Board member with a finance background (who is a partner at PGT, a local accounting firm). The bookkeeper prepares monthly management accounts (only profit and loss) on Excel, which are used for management review purposes and discussion at Board meetings. Balance sheet or cash flow statements are not prepared. Sage 50 Accounts accounting software is used to maintain MGL's accounting records. We understand that the bookkeeper prepares several key accounting reconciliations each month, which includes a bank reconciliation, deferred income reconciliation and deferred expenditure reconciliation. For year-end accounts, the bookkeeper provides the monthly management accounts and the relevant accounting records to PGT as part of the annual close-down process. We understand that PGT prepares the year-end accounts and provides these and the supporting accounting file to the statutory auditors, Kingscott Dix Ltd, for the annual audit. Cash is managed by the bookkeeper, who has online access to MGL's bank account. Receipt is generally made via BACS into MGL's bank account. The bookkeeper manages payment of suppliers' invoices, largely through an online bank account. We understand that payment will not be made without an approval from the relevant manager or the CEO. The Company maintains a 	<ul style="list-style-type: none"> Without any formal documented financial procedures in place, the current practices and processes appear informal. Although the organisation is relatively small, we would have expected some degree of controls and good financial management practices being adopted given the reliance of public funding and the nature of the business that involves multiple stakeholders. As the Board has the overall responsibility for internal controls and governance, the Board should ensure there are formal and transparent policies and procedures in place. We do not see this as an extra administrative burden on MGL and the Board, as long as the policies and procedures are proportionate and fit for purpose. We would encourage the Council to support MGL on this. We would recommend the Board reviews the authorisation limits and signatory, for example, by requiring a second signatory when authorising amounts of over a certain amount.

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	<p>purchase order (PO) book, where a PO number is assigned to the respective expenditure. We understand that any payment for over £5,000 needs to be signed off by the CEO.</p> <ul style="list-style-type: none"> Payroll is managed by PGT. We understand that any changes to payroll are confirmed by the CEO. 	
Historical financial results and position	<p>Profitability</p> <ul style="list-style-type: none"> MGL incurred annual losses after tax of £23,000 and £45,000 in FY18 and FY19 respectively (based on management accounts). In addition, it incurred negative gross margins before including other operating income such as grant funding from the Council and sponsorship income. In the current year trading to 31 October 2019, MGL reported a £16,000 net profit. However, given it is not at year-end, the management accounts may not reflect the underlying trading results as the preparation of management accounts did not follow the year-end close-down and accrual process. MGL's main sources of income include annual funding from the Council as part of the SLA (which covers various services including delivering certain events for the Council), tickets sales and sponsorship income from third party organisations. Sales declined significantly from £443,000 in FY18 to £199,000 in FY19, largely because there was no Tall Ships Festival during FY19. The festival is a major flagship event for MGL, which takes place every two years, i.e. in May 2017 (during FY18) and May 2019 (in FY20). The festival has generated a significant amount of extra income to MGL, through sponsorship income and ticket sales. This suggests a degree of volatility in the business. The Council's funding has also reduced over the historical period by circa £100,000 each year in FY18 and FY19. <p>Liquidity</p> <ul style="list-style-type: none"> In terms of liquidity, MGL had a relatively low cash balance of £5,000 and £10,000 at 31 March 2019 and 31 October 2019 respectively. 	<ul style="list-style-type: none"> The Council should note that MGL has been trading under unprofitable circumstances, as well as historically incurring negative gross margins. MGL's trading is also subject to a degree of volatility every two years, due in part to the timing of the Tall Ships Festival which takes place every two years. The festival has generated a significant amount of extra income to the Company. The MGL Board should consider this business cycle when developing its business plan going forward and take actions to ensure continued financial resilience of the organisation. In addition, there are significant risks around liquidity and solvency of the Company. This is because of the low levels of cash balance (even after receiving Council's funding generally in advance) and significant net liabilities on the balance sheet. We recommend that the MGL Board prepares weekly or monthly rolling cash flow forecasts for the next six months in order to monitor liquidity and working capital position of the Company, with oversight by the Council's officers and their finance team. Based on MGL's historical results and its current financial situation, there is a risk that the Council's loans (including the new revolving facility due in 5 years' time) may not be repayable.

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	<ul style="list-style-type: none"> • MGL had a high cash balance of £251,000 at 31 March 2018, but this was due to a significant amount of unspent grant money received by MGL on behalf of UK:DRIC, its wholly owned subsidiary company. UK:DRIC was successful in applying for a £400,000 local growth capital funding, a scheme managed by GFirst LEP and Gloucestershire County Council. The grant relates to the development of the UK Digital Retail Innovation Centre in Gloucester. • At 31 March 2018, the unspent grant money relating to UK:DRIC was £319,610. This indicates that MGL would have had a negative cash balance at 31 March 2018 should the grant money be excluded from MGL's bank balance. We understand that the development of UK:DRIC was completed in FY19, with the grant money fully utilised as at 31 March 2019. • Current ratio was below 1.0 across each of the balance sheet dates, suggesting that MGL may have challenges in meeting its short-term obligations with regards to suppliers and ongoing costs, e.g. payroll. <p>Solvency</p> <ul style="list-style-type: none"> • Overall, MGL had net liabilities of circa £220,000 and £286,000 at 31 March 2018 and 31 March 2019 respectively. At 31 October 2019, net liabilities were £262,000. MGL is therefore technically insolvent due to its net liability position. MGL's going concern is subject to continued financial support from the Council. • MGL has a £97,000 loan from the Council, which was provided at inception of the business for pump priming and initial set up (based on the Members Agreement). The loan is interest free and repayable on demand upon a 6-month notice. The Company has not made any loan repayment. • In October 2019, the Council has agreed to provide further borrowing to MGL up to a total of £240,000 revolving credit facility, in order to support MGL's working capital. The credit facility has not been drawdown by MGL at 31 October 2019. The facility is subject to a 3% interest per annum above the Bank of England's base rate. The loan amount plus interest is repayable in full at the end of the facility term of 5 years. 	

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Issue	Commentary	Next steps / recommendations
UK:DRIC	<ul style="list-style-type: none"> • The UK Digital Retail Innovation Centre was launched in May 2019. The centre is based at Eastgate Shopping Centre in Gloucester and managed by MGL, via its wholly owned subsidiary company, UK Digital Retail Innovation Centre Limited (UK:DRIC). • UK:DRIC was formed in November 2017 and was dormant in its first year of inception. The current directors of UK:DRIC are Jason Smith (MGL's CEO) and Richard Brooks (MGL's bookkeeper). The first set of accounts for the period ended 30 November 2018 (filed with Companies House) were dormant accounts. We understand that it started trading from 1 October 2019, with the main source of income being rental income from the letting of centre spaces. • In December 2017, UK:DRIC was successful in securing £400,000 of local growth capital funding to fund the development of the centre in Gloucester. The funding scheme was managed by GFirst LEP and Gloucestershire County Council. • We have been provided with the funding agreement dated 19 December 2017 between UK:DRIC and Gloucestershire County Council. We noted that the agreement was entered into by MGL, as the parent company of UK:DRIC. We also noted the following: <ul style="list-style-type: none"> - A business case for UK:DRIC, specifically in relation to the "UK Digital High Street Lab" was prepared by MGL and submitted to GFirst LEP as part of the grant application. We have requested but have not received a copy of this business case; - A number of "outcomes" are expected to be delivered by UK:DRIC as part of this grant approval, for example, (a) reduction of vacancy rate in Gloucester City from 13.8% to below the UK average at year 3 (UK rate at that time was 11.1%); (b) an increase in direct spend in retail environment, etc. - Specific reporting, governance and management requirements. For example, the requirement to have a project advisory board to provide oversight. 	<ul style="list-style-type: none"> • We have significant concerns over the UK:DRIC project, particularly as the project involves a significant amount of public funding. We have no information or detail of how the project was managed and governed, how the grant money was utilised and the arrangements around the use of grant money. There is also no financial information about the project nor the business plan. • Based on our interviews, we understand that there was overspend in the development of the project and that the entire grant money has been fully utilised. According to the Council's officers, MGL did not seek prior approval from the Council. We noted this did not appear to comply with the terms of the Members' Agreement that requires MGL to seek the Council's prior approval before entering into any contract or project above £100,000. • We therefore recommend the Council commissions a full and comprehensive review of the UK:DRIC project as a matter of urgency, with the main objectives of gaining comfort over the use of the grant money and ensuring proper governance going forward. The Council should ensure MGL puts in place proper review and monitoring of the project and its compliance with the grant conditions.

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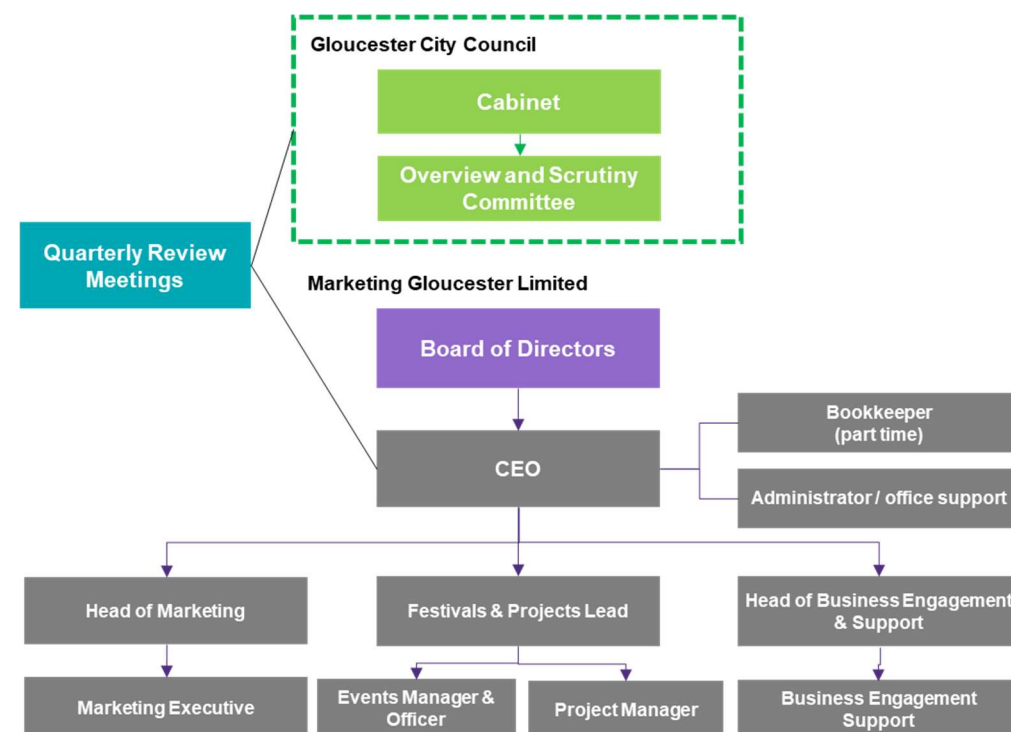
Issue	Commentary	Next steps / recommendations
Gloucester BID	<ul style="list-style-type: none"> • Gloucester BID is a private company limited by guarantee (without share capital) that manages Gloucester Business Improvement District (BID). As Gloucester BID has no employees, MGL provides management roles and manages the administrative function on behalf of Gloucester BID. • From April 2018, MGL started to provide management service to Gloucester BID for a monthly fee of £2,500 (this was increased to £3,900 from August 2018). From April 2019, MGL also manages the full programme of events on behalf of Gloucester BID for an additional monthly fee of £3,200. We understand that there is no SLA between MGL and Gloucester BID. • Based on the Companies House record, we noted that three of the MGL directors (plus Peter White who attends MGL Board meetings) are also the directors of Gloucester BID. • For the avoidance of doubt, Gloucester BID is not part of our scope of work. 	<ul style="list-style-type: none"> • We recommend that the Council, as shareholder of MGL and a public body, commissions an urgent review of the governance and arrangements in respect of Gloucester BID, including identifying any conflicts of interest with MGL by virtue of other interests and arrangements involving the directors of both entities. • MGL should ensure there is transparent and appropriate arrangements in place with regards to its dealing and relationship with Gloucester BID, for example, by putting in place an appropriate SLA.

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3. Governance arrangements

3.1 Overview

- The Council is the sole shareholder of MGL. The Members Agreement between the Council and MGL (which was updated in March 2017) sets out the Council's requirements and the terms of the relationship upon which the Council will participate in the business of MGL as a shareholder.
- The Members Agreement includes the following key points:
 - The MGL Board has the overall responsibility for the supervision and management of MGL and its business;
 - The Council is entitled to appoint/remove one director to/from the Board;
 - MGL is required to prepare a business plan in respect of each financial year. The business plan will include the full financial forecasts (P&L, cash flow and balance sheet), together with a five-year medium-term financial strategy projection and a management report setting out the business objectives and activities for the year;
 - MGL is required to provide to the Council draft and final audited accounts including an annual governance statement (or equivalent) in accordance with the Council's year-end timetable.
- The Members Agreement also includes the specific matters reserved for the Council's approval, which in summary restrict MGL (unless with prior approval by the Council) from:
 - adopting or amending the business plan in respect of each financial year;
 - entering into any arrangement, contract or transaction with either a capital or revenue value of over £100,000 which is not included in the current approved business plan; and
- agreeing the appointment and the associated terms of all MGL directors, other than the Council appointed director.
- The diagram below shows the overall corporate governance and management structure of MGL.



Sources: 1. Based on interviews with the Council and MGL's personnel.

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- As a wholly owned subsidiary of the Council, the affairs and performance of MGL come under the oversight of the Cabinet Member for Culture and Leisure. The Overview and Scrutiny Committee provides scrutiny and review, given the committee's main role as the body responsible for co-ordinating scrutiny at the Council.
- The regular monitoring and review of MGL's performance are undertaken by the Council through the quarterly review meetings with MGL. These review meetings are minuted and attended by:
 - a corporate director of the Council, who acts as the main liaison officer for the Council, and a relevant Council's officer or Cabinet member;
 - chair and CEO of MGL.
- We understand that there are no terms of reference for these review meetings. There are also no standard agenda items, but discussions tend to have focused on the review of the previous quarter performance, operational and events highlights, financial update and forecast, and new business/opportunities. We understand that quarterly review meetings in recent years had been structured to broadly cover the Council's requirements of MGL (such as the business plan, etc) as set out in the Members Agreement (explained earlier).
- Based on our interviews, we understand that MGL has not submitted a business plan to the Council, including annual budgets. We also noted that there was a business plan document prepared by MGL in respect of 2016-2021. However, we noted that the Council has concerns over the robustness of the business plan. A revised business plan has not been provided nor submitted to the Council.
- Based on our work, we noted a lack of clarity on what the Council expects from MGL. This is complicated by the different roles of the Council in its relationship with MGL (i.e. shareholder, customer and funder). The SLA has attempted to set out the services to be provided by MGL and the associated funding. Nonetheless, we noted that the scope of the services set out in the SLA was too broad and that the agreed funding (which was fixed in nature across different years) did not appear to be commensurate with the variable nature of events and services that MGL was expected to deliver as part of the SLA.
- We recommend that the Council prepares a document that sets out a clear set of expectations of MGL covering the next 3-5 years. The shareholder's expectations document should be (a) proportionate to the circumstances of MGL as well as (b) aligned to the Council's own strategies and wider plans. This document should be reviewed and restated each year, if necessary, in the form of a shareholder letter from the Council to MGL. The MGL Board should then develop an appropriate business plan that is aligned with the shareholder letter.

Our observations and recommendations

- We note that the quarterly review meetings lack structure and clarity of the Council's expectations, partly due to the absence of terms of reference. We would recommend the Council establishes terms of reference for these meetings and sets out a schedule of agenda.

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3.2 The Board

- In accordance with MGL's articles of association, the Board shall consist of between 5 and 17 directors, with one director being appointed by the Council.
- We noted that MGL currently has 11 directors, based on the public record from Companies House. We have listed them in the table below based on their appointment date, together with their background.

Name	Background / Sector experience	Date of appointment
1. Jennie Watkins	Deputy Leader of the Council / Councillor	28 June 2019
2. Owen Acland	Peel Group / Gloucester Quays (retail)	28 June 2019
3. Vivienne Hargreaves	Gloucestershire Academy of Music (cultural sector)	1 April 2018
4. Jenny Hawthorne	Eastwood Media (media and PR)	1 April 2018
5. Alex Bailey	Gloucester Civic Trust (heritage sector)	1 April 2018
6. Mike Turner	Elonex (digital marketing)	17 October 2013
7. Chris Atine	Café Rene Group (café/pubs)	17 October 2013
8. Jason Robinson	Eastgate Shopping Centre (retail)	17 October 2013
9. Nick Bishop	Partner, PGT (finance)	1 June 2011
10. Jude Rodrigues	Partner, Davies and Partners Solicitors (legal)	1 June 2011
11. Mike Mintram	Principal Consultant, Market Return (business coaching)	1 June 2011

Sources: 1. Companies House record as at 28 November 2019;
2. MGL website (<http://marketinggloucester.co.uk/about/board-of-directors/>) as at 28 November 2019.

- The Board has no supporting Board committees.

Our observations

- During our work, we found some discrepancies in the list of directors. The list of directors shown on MGL website appeared to differ from the list obtained from Companies House. It is unclear to us whether MGL has a company secretary. In addition, we noted the following:
 - the recent changes of directors (appointment and resignation) were not updated with Companies House in a timely manner. For example, three directors' appointments on 1 April 2018 were only reported to Companies House on 6 November 2019;
 - Peter White, the centre manager at King's Walk Shopping Centre, was listed as a director on the MGL website and had regularly attended Board meetings (based on minutes). However, he is not a Board member based on the Companies House record;
 - both Mike Turner and Chris Atine are listed as MGL directors based on the Companies House record but not on the MGL website, although they did not appear to have regularly attended Board meetings (based on minutes).
- We noted from the articles of association that the Council (as shareholder) and the MGL Board shall ensure the Board is made up of people with an interest in the MGL services and a broad range of skills, who are likely to contribute to the Company's success. Based on our interviews, we understand that the Board is currently made up of a Council's appointed director and individuals representing the various stakeholder groups, such as retail, cultural, media, etc.
- We have the following observations:
 - The size of the Board (i.e. 11 members) appears large in the context of the size and nature of the Company;
 - There is no clear division of responsibility amongst the Board members. Based on our interviews, we understand that all the Board members work

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- on a voluntary basis (unremunerated) and are acting as non-executives or on an advisory basis. Their roles as non-executive directors are, however, not explicitly stated;
- There is no executive director on the Board. The CEO who regularly attends the Board meetings is not a Board member;
 - There are no explicit references in the articles of association on the voting rights of the directors and the decision-making process;
 - Based on our interviews, it is unclear whether there is a formal process in place or criteria being established for changes or appointment of directors. For example, consideration of the director's experiences and skillsets and term of office;
 - Based on the minutes of Board meetings between 24 March 2017 and 26 April 2019, we noted that the notes of Board meetings did not record any material questions or challenge from the Chair of the Board or Board members. In addition, we noted little evidence of challenge or scrutiny by the directors, partly due to the lack of clarity over their roles as non-executives as mentioned earlier. We noted from the Board minutes that the main discussions in Board meetings tend to be centred around the CEO's updates on the financial position (focusing on profit and loss) and operational matters (recent events), rather than more strategic matters and a systematic review of risks and opportunities. There was no risk register being maintained or reviewed during Board meetings.

Our recommendations

- We believe there is an urgent need to review and strengthen the Board structure and composition given our observations of a lack of governance. An effective Board will set the tone of the organisation. It defines the company's purpose and sets a strategy to deliver it, underpinned by the values and behaviours that shape its culture and the way it conducts its business. Board members, including the chair, need to discharge their duties effectively.
- We also believe there is merit in reducing the size of the Board to ensure focus and clarity amongst Board members of their roles and responsibilities. It is also appropriate to have an executive director (e.g. CEO or managing director) appointed to the Board. This would allow proper governance and ensure a clear division of roles and responsibilities where non-executive directors are able to hold executive directors to account and provide appropriate scrutiny and challenge.
- To protect the shareholder's interest, we recommend the Council have a controlling representation on the Board, by introducing appropriate voting rights of directors and having the Council's appointed director as chair. In addition, we believe there is benefit of having a senior Council officer (e.g. corporate director) attending the Board meetings in the short term given the governance issues and current financial situation of MGL. It is important for the Council to gain comfort that the MGL Board can function effectively and is fit for purpose. There is also an opportunity for the Council to provide some operational support to MGL in the short term where possible (e.g. legal, company secretarial, finance or HR matters).
- As noted earlier, the wide composition of the Board is to ensure there is representation of the various stakeholder groups (e.g. retail, cultural, media, etc) on the Board. We acknowledge and recognise the importance of having key stakeholders on side. Nonetheless, we believe it is possible to continue stakeholders' engagement and promote representation through a different forum, for example, in a working group or stakeholders' committee that is separate from the Board but has a reporting line to the Board.
- The MGL Board should develop a business plan that is aligned to the shareholder expectations. This should be developed in consultation with the Council and other stakeholders, and clearly set out the purpose and objectives of MGL. The Board should then oversee and receive assurance on the business plan.

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3.3 Budgeting and forecasting procedures

- Based on our interviews, we understand that the preparation of the budget and forecast is managed by the CEO. The bookkeeper and MGL employees were not directly involved in the preparation of the annual budget or forecasts. We also understand that there are no written procedures for the preparation, review and monitoring of budget.
- We understand that separate budgets for specific events and areas exist (e.g. Tall Ship festival, marketing budget, etc). However, these budgets only relate to the specific events or areas. It is unclear how these individual or specific budgets form the overall budget for MGL as a corporate organisation.
- Based on our interviews with Board members, we understand that the Board was made aware of the annual budget. However, there was no detailed discussion on the budget nor evidence of review and challenge by the Board members.
- We noted that performance against budget is monitored each month via the monthly profit and loss accounts prepared by the bookkeeper on Excel. Further commentary of management accounts is provided later in this section.

Our observations and recommendations

- Given the size of the organisation and with no dedicated finance accountant or director, it is not uncommon for the CEO or a managing director equivalent to take the overall responsibility for the preparation and development of annual budget or forecasts. As the CEO is currently absent, we are unable to discuss the process involved nor provide our commentary and observations.
- However, we do have reservations over the extent and quality of review by the Board members on the budgets prepared by the CEO, based on our interviews and review of minutes of Board meetings. In addition, it is unclear whether the Board's review of the budget covers an assessment of the

balance sheet and cash flow statement, as the discussions appeared to have focused on profit and loss only. As noted earlier, there is no evidence of risk management, including review and monitoring of risks to the delivery of budget/forecast.

- We recommend the Board ensures appropriate discussion and review of the budget, covering profit and loss, balance sheet and cash flows. In addition, the Board should maintain a risk register that is being reviewed and managed. We do not see this risk register as an extra administrative burden on MGL and the Board to manage, as long as it is proportionate and fit for purpose.

3.4 Key financial controls and procedures

Overall financial leadership and finance function

- MGL has no separate finance function nor a full-time finance director/accountant. This broadly reflects the size of the organisation with a few numbers of employees being employed. We understand that MGL does not have formally documented financial procedures in place.
- Based on our interviews, we understand that the overall management and financial leadership of MGL is provided by the CEO, with support from a part-time bookkeeper and a Board member with a finance background.
- The Company's bookkeeper has the primary roles of maintaining management accounts, raising invoices and making payments to suppliers. The bookkeeper, who operates a local accounting service (Leonis Accountants), works on a part-time basis for MGL. Our understanding is that the bookkeeper is a qualified accountant.
- Based on our interviews, Nick Bishop, who is a Board member, provides ad-hoc advisory to the Board on financial matters. Nick is a qualified accountant and a partner of Pitt Godden & Taylor LLP (PGT), a local accounting firm.

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Management accounts

- The bookkeeper uses Sage 50 Accounts accounting software to maintain MGL's accounting records, which operates a general ledger, sales ledger, purchase ledger and cash book.
- On a monthly basis, the bookkeeper prepares management accounts on Excel, which are used for management review purposes and discussion at Board meetings. The monthly management accounts consist of a profit and loss account, showing the main sources of income (e.g. sales by events, grant income, etc), cost of sales or purchases (e.g. by events or key items) and a breakdown of overheads / administrative expenses. The profit and loss accounts compare the actual figures for the month with the planned figures. Balance sheet and cash flow statements are not prepared.
- The bookkeeper typically prepares the management accounts during the second week of the following month, before being sent to the CEO for review/approval and subsequently sent to the Board members.
- We understand that the bookkeeper prepares several key accounting reconciliations each month, which include a bank reconciliation, deferred income reconciliation and deferred expenditure reconciliation.
- For year-end accounts, the bookkeeper provides the monthly management accounts and the relevant accounting records to PGT as part of the annual close-down process. We understand that PGT prepares the year-end accounts and provides these and the supporting accounting file to the statutory auditors, Kingscott Dix Ltd, for the annual audit.

Cash and payroll

- Cash is managed by the bookkeeper, who has online access to MGL's bank account.
- Receipt is generally made via BACS into MGL's bank account. For cheque receipt, the bookkeeper will deposit the cheque into the bank account.

- The bookkeeper manages payment of suppliers' invoices, largely through an online bank account. We understand that payment will not be made without an approval from the relevant manager or the CEO. The Company maintains a purchase order (PO) book, where a PO number is assigned to the respective expenditure. We understand that any payment for over £5,000 needs to be signed off by the CEO.
- We understand that payroll is managed by PGT. We also understand that any changes to payroll are made by the CEO. The bookkeeper then provides the information to PGT, who prepares the staff payroll for BACS payment. The bookkeeper then makes the payment via online bank account.

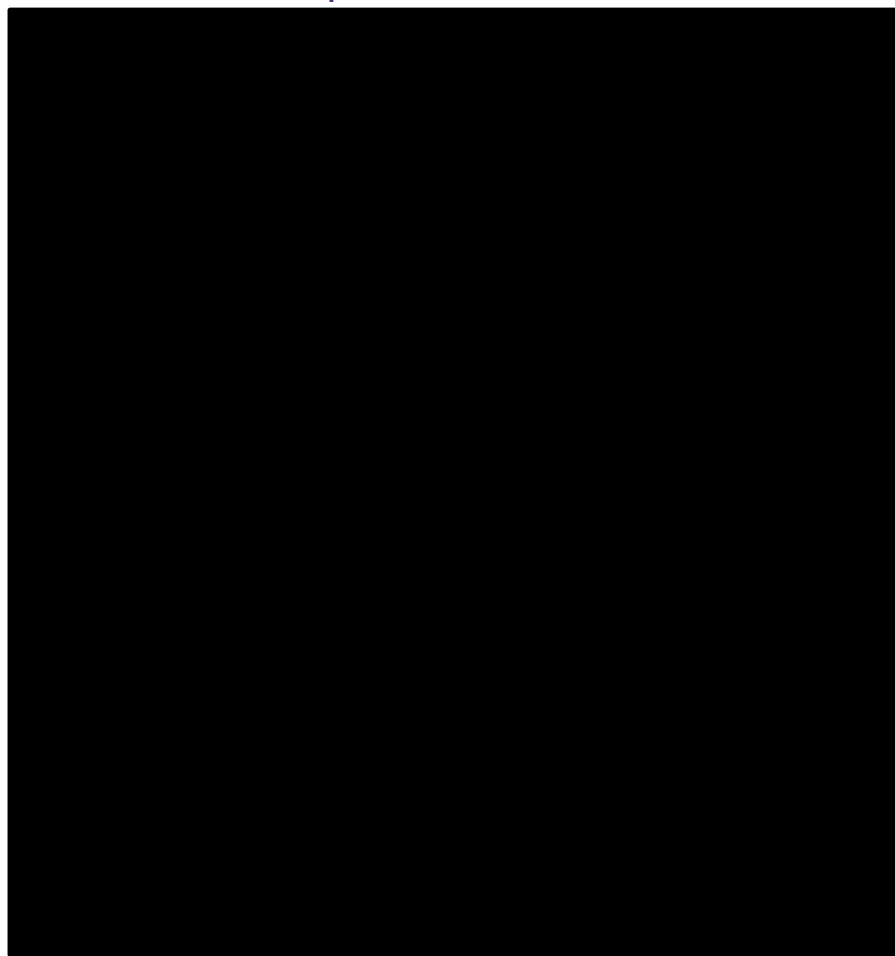
Our observations and recommendations

- Without any formal documented financial procedures in place, the current practices and processes appear informal. Although the organisation is relatively small, we would have expected some degree of controls and good financial management practices being adopted given the reliance of public funding and the nature of the business that involves multiple stakeholders.
- As the Board has the overall responsibility for internal controls and governance, it should ensure there are formal and transparent policies and procedures in place. We do not see this as an extra administrative burden on MGL and the Board, as long as the policies and procedures are proportionate and fit for purpose. We would encourage the Council to support MGL on this.
- We would recommend the Board reviews the authorisation limits and signatory, for example, by requiring a second signatory when authorising amounts of over a certain amount.

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4. Summary financial results and position

4.1 Historical trading results



Basis of preparation

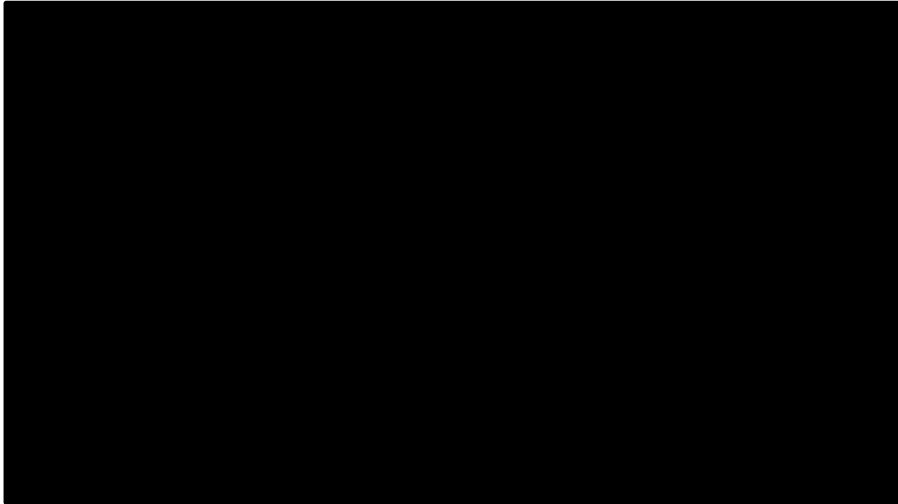
- The figures presented opposite are based on the unaudited management accounts provided by the MGL's bookkeeper.
- We have used the management accounts rather than the audited accounts due to insufficient additional information and analysis supporting the figures stated in the audited accounts. We have requested this additional information and analysis from PGT (who provides accounting services to MGL) and Kingscott Dix Ltd (external auditor). However, at the date of this report, we have not been provided with this information.
- We understand from the bookkeeper that the main differences between the management accounts and the audited accounts are year-end adjustments (e.g. depreciation, bad debt provision) and audit adjustments / reclassifications made by PGT and the auditor. We have set out the differences in Appendix C, although we have not been provided with any detail of the adjustments nor any explanations for these differences.

Commentary

- MGL's main sources of income include funding from the Council as part of the SLA (which covers the provision of various services including delivering events), sales of event tickets, sponsorship from third party organisations and a management fee from Gloucester BID. The small tourism service sales relate to map/brochure sales.
- MGL incurred negative gross margins historically, although this was due to the inclusion of the Council's grant income and sponsorship income as other operating income rather than sales.

Sources: 1. Management accounts (monthly profit and loss accounts) for FY18, FY19 and YTD FY20 (October 2019);
2. FY19 draft statutory audited accounts (with FY18 as comparatives) provided to us on 13 November 2019;
3. Grant Thornton Analysis

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- Overall, MGL incurred annual losses after tax of £23,000 and £45,000 in FY18 and FY19 respectively based on its unaudited management accounts. The annual losses as per the draft audited accounts were higher, amounted to £98,000 and £66,000 respectively, due to year-end and audit adjustments.
 - In the current year period up to 31 October 2019, MGL reported a small profit before tax of £16,000 based on the draft and unaudited management accounts at the time of preparation. As it is not year-end, we understand that the October 2019 management accounts did not follow the year-end close-down and accrual process, and hence may not reflect the underlying trading results – this is due to the timing of suppliers' invoices and accruals.
 - Sales declined from £443,000 in FY18 to £199,000 in FY19. Lower sales in FY19 was largely due to the absence of the Tall Ships Festival in that year. The festival takes place every two years, with the last two festivals taking place in May 2017 (in FY18) and May 2019 (in FY20). The Tall Ship Festival is one of the MGL's main events, which generates a significant amount of income through ticket sales and sponsorship income.
 - The table below shows the overall net financial performance (before overheads) of the previous two festivals. The 2019 festival has grown significantly from the previous event, contributing £35,000 to the Company's trading results before overheads.
- 
- We noted that a reduction in the Council's grant funding from £150,000 in FY18 to £90,000 in FY19, as shown in the management accounts. However, we noted that the Council's funding as per the SLA was £348,000 and £248,000 in FY18 and FY19 respectively. This was because some of the Council's funding which specifically related to certain events was classified as event sales in the management accounts (see previous page). Apart from events funding, the Council agreed to fund payroll costs of two members of Council staff who were seconded to MGL. One of them left in FY19. We have asked the Council and the MGL's bookkeeper for a detailed list of the Council's funding contributions by events and items but have not received this information at the date of this report.
 - Since April 2018, MGL has started to provide management service to Gloucester BID for a monthly fee of £2,500 (which was increased to £3,900 from August 2018). As Gloucester BID has no employees, we understand that MGL provides management roles and manages the administrative function on behalf of Gloucester BID. From April 2019, MGL also manages all the programme of events on behalf of Gloucester BID for an additional monthly fee of £3,200. We understand that there is no SLA between MGL and Gloucester BID.
 - Administrative expenses increased from £267,000 in FY18 to £284,000 in FY19, mainly driven by an increase in salaries and wages as a result of a new administrative support staff member being recruited.
 - In addition, the increase in salaries and wages in FY19 was due to the CEO joining the Company's payroll in FY19 (this was reflected by the cessation of CEO charge). Prior to that year, the CEO was engaged by MGL as a contractor.

Note: Certain income lines for the 2019 festival were classified as other operating income in the management accounts.
Sources: 1. Management accounts (monthly profit and loss accounts) for FY18 and YTD FY20 (October 2019);
2. Management analysis of actual versus budget for Tall Ships Festival in 2019 and 2017.

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4.2 Historical balance sheet

Summary balance sheet

£'000	31 March 2018 Audited accounts	31 March 2019 Draft audited accounts	31 October 2019 Management accounts
Fixed assets			
Intangible assets - software	7	4	7
Tangible assets - fixtures, fittings and equipment	2	2	3
Total fixed assets	9	5	10
Current assets			
Trade debtors	4	163	79
Other debtors	40	146	79
Cash at bank and in hand	251	5	10
Total current assets	295	314	168
Current liabilities			
Trade creditors	(34)	(123)	(110)
Other creditors	(405)	(370)	(125)
Taxation and social security	(9)	(36)	(109)
Total current liabilities	(447)	(529)	(344)
Net current liabilities	(152)	(215)	(176)
Non-current liabilities	(77)	(77)	(97)
Net liabilities	(220)	(286)	(262)
Capital and reserves			
Share capital (£1)	-	-	-
Accumulated losses	(220)	(286)	(262)
Total deficit	(220)	(286)	(262)
KPIs:			
Current ratio (in times)	0.66	0.59	0.49
Debtor days	5	128	42
Creditor days	25	155	49

Sources: 1. Trial balance from SAGE at 31 October 2019;
2. FY19 draft statutory audited accounts (with FY18 as comparatives) provided to us on 13 November 2019;
3. Grant Thornton Analysis

Commentary

- The balance sheets shown opposite are based on the audited accounts at 31 March 2018, the draft audited accounts at 31 March 2019 and the unaudited management trial balance provided by MGL at 31 October 2019.
- Overall, MGL had net liabilities of circa £220,000 and £286,000 at 31 March 2018 and 31 March 2019 respectively. MGL is therefore technically insolvent due to its net liability position. MGL's going concern is subject to continued financial support from the Council. The increase in net liabilities was due to the £66,000 net loss for the year, as per the audited accounts (see previous pages).
- At 31 October 2019, net liabilities were £262,000, which was £24,000 lower than the 31 March 2019 level. There is a discrepancy here as the profit after tax for the period from March to October 2019 as per management accounts was £16,000. This was mainly because the balance sheet at 31 October 2019 shown opposite was based on an unaudited trial balance at the time of preparation. As noted earlier, the October 2019 management accounts did not follow the year-end close-down process and therefore may not reflect the accurate balance sheet position at that point. We have presented the balance sheet position at 31 October 2019 for information only and provided commentary where helpful.
- MGL had net current liabilities across the period of our work. In terms of liquidity, it had a low cash balance of £5,000 and £10,000 at 31 March 2019 and 31 October 2019 respectively, although the high cash balance at 31 March 2018 was mainly due to significant unspent grant money (explained further later).
- Current ratio was below 1.0 across each of the balance sheet dates. This indicates that MGL may have challenges in meeting its short-term obligations with regards to suppliers and ongoing costs, e.g. payroll.

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Key balance sheet items

- Intangible fixed assets relate to software, which is depreciated on a straight-line basis over 5 years. Tangible fixed assets mainly relate to fixtures, fittings and equipment, which are depreciated over 4 years on a straight-line basis. The decrease over the period is driven by depreciation of the net book value of these assets.
- The high cash and other creditor balances at 31 March 2018 were mainly due to a significant amount of unspent grant money received by MGL on behalf of UK:DRIC, its wholly owned subsidiary company. UK:DRIC was successful in applying for a £400,000 local growth capital funding, a scheme managed by GFirst LEP and Gloucestershire County Council. The grant relates to the development of the UK Digital Retail Innovation Centre in Gloucester.
- The unspent grant money relating to UK:DRIC was £319,610 at 31 March 2018. This suggests that MGL would have had a negative cash balance at 31 March 2018 should the grant money be excluded from MGL's bank balance. We understand that the development of UK:DRIC was completed in FY19, with the grant money fully utilised as at 31 March 2019.
- High trade debtors balance at 31 March 2019 was mainly due to raising of an invoice to the Council at year end. This related to the late agreement of funding by the Council, resulting in a high debtor (also high debtor days) and deferred income balance at year-end.
- We understand that the increase in trade creditors in FY19 (as well as high creditor days) was mainly driven by increased activity relating to the development of the UK:DRIC project.
- Included in other creditors (current liabilities) was a £20,000 current element of the £97,000 loan provided by the Council. The £77,000 non-current element was shown in non-current liabilities. This loan, which was provided by the Council for pump priming, is interest free and repayable on demand upon a 6-month notice.
- In October 2019, the Council has agreed to provide further borrowing to MGL up to a total of £240,000 through a revolving credit facility, in order to support MGL's working capital. The credit facility has not been drawdown by MGL at 31 October 2019. The facility is subject to a 3% interest per annum above the Bank of England's base rate. The loan amount plus interest is repayable in full at the end of the facility term of 5 years.
- Based on MGL's historical results and its current financial situation, there is a risk that the Council's loans (including the new revolving facility due in 5 years' time) may not be repayable.


4.3 Historical cash flows

- MGL has not prepared any cash flow statements for the period of our work. There was no cash flow information in the audited accounts nor management accounts. This represents a limitation in our findings.
- We noted there was some limited analysis of monthly cash deficits based on expected funds flow for 1 October 2019 to 31 March 2020. We understand that the analysis was prepared by the bookkeeper for internal purposes and discussion with the Council's finance team as part of the recent loan arrangement. Based on our observations, the cash analysis does not appear to be supported by any trading nor supporting assumptions.

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Appendix A - Letter of engagement

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 **Grant Thornton**
An instinct for growth™

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For the attention of Jon Topping, Head of Policy and Resources

6 November 2019

Dear Sirs

High-level governance and financial assessment of Marketing Gloucester Limited (the Assignment)

1 Introduction

1.1 This letter (the **Engagement Letter**), together with our standard terms and conditions (the **Terms and Conditions**), sets out the basis on which Grant Thornton UK LLP (Grant Thornton) will undertake our role for Gloucester City Council (the **Client** or the **Council**) in connection with the Council's review of Marketing Gloucester Limited (MGL), a wholly owned subsidiary company of the Council (the **Purpose**). We understand that the Council has recently approved a lending facility to MGL and is therefore carrying out a review of MGL.

2 Scope of engagement

2.1 The services that we expect to perform pursuant to our engagement (the **Services**) are set out below:

- We will undertake a high-level governance and financial assessment of MGL as further set out below.
- We will assess and report in summary on the following:
 - the corporate governance arrangements, focusing on the structure of MGL board and its committee(s), and board reporting to the Council;
 - the budgeting and forecasting procedures;
 - the key financial controls and procedures.
- We will assess and comment on the financial performance and position of MGL for the last two years ended 31 March 2019 and current year-to-date. Specifically, we will summarise and comment, at a high level, on:
 - the historical trading results, balance sheet and cash flows, highlighting key trends and observations;
 - the overall profitability, liquidity and solvency position.
- We will report any areas of concern and make recommendations from the scope of work set out above as appropriate.

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- We will prepare a report that sets out our key findings and recommendations from the scope of work set out above.
- We will hold discussions with the senior management team of MGL and/or the Council and will consider documentation and information provided by them.
- For the avoidance of doubt, our work does not constitute an audit nor a forensic investigation of the affairs of MGL.

2.2 During the course of the engagement we may show drafts of our reports to you and we draw your attention to section 3.5 of the Terms and Conditions. You will bring to our attention any issues in the draft reports that you wish to have clarified prior to the reports being finalised. A document remains 'draft' for these purposes until it has been manually signed by a Grant Thornton partner or director.

2.3 Draft copies of our report will be provided to the directors or senior management team of MGL to confirm the factual accuracy of the information contained therein.

2.4 Notwithstanding the scope of this engagement, responsibility for management decisions will remain solely with the directors of the Council and not Grant Thornton UK LLP. The directors should perform a credible independent review of any analysis provided.

3 Taxation

3.1 The scope of our work does not include the provision of any tax advice. Should you require tax advice in connection with this engagement then this will be the subject of a separate letter of engagement.

4 Timetable

4.1 Our work will take place over a period of five weeks, commencing on 7 November 2019, with a draft report being provided to you on 6 December 2019 and a final report on 10 December 2019.

4.2 We will work with you to meet this expected timetable but point out that our ability to meet this deadline will be most notably dependent on the availability of the directors and senior management teams of MGL and the Council, and/or their advisers, and the timeliness and completeness of the information provided by them.

5 Confidentiality and reliance

5.1 Our report and related communications including attachments (together, the **Deliverables**) will be addressed to you. We draw your attention to clause 3.4 'Liability to Addressees only' and clause 7.1 'The Addressees' confidentiality obligations' in the Terms and Conditions.

5.2 Notwithstanding clause 7.1 'The Addressees' confidentiality obligations' in the Terms and Conditions, we hereby agree that you may disclose our Deliverables to your professional advisers in connection with the Purpose without our prior written consent but in each case strictly on the basis that prior to disclosure you inform such parties that (i) disclosure by them is not permitted without our prior written consent, and (ii) we accept no duty of care nor assume responsibility to any to any person other than the Addressee.

6 Conflicts of interest and independence

6.1 You agree that we reserve the right to act during and after this engagement for other clients whose interests are or may be competing with or adverse to yours, subject to clause 7 'Confidentiality' of the Terms and Conditions. In the event that we act for other clients whose interests may be adverse to yours we will manage the potential conflict of interest by implementing additional safeguards to preserve confidentiality and objectivity, such as the use of separate teams, physical separation of teams and separate arrangements for storage of and access to information. You agree that the effective implementation of such steps or safeguards will provide adequate measures to reduce the threat to this firm's objectivity to an acceptable level and to avoid the risk of client confidentiality being impaired.

6.2 By agreeing to the terms of this letter of engagement you confirm your understanding of the roles that Grant Thornton is undertaking and you consider that there are no conflicts of interest or independence in relation to these roles. Should a conflict of interest or independence arise then this shall be promptly

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Appendix A - Letter of engagement (continued)

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disclosed to the other party and appropriate safeguards discussed. If it is not possible to put appropriate safeguards in place, either party may terminate this engagement.

7 Our team

7.1 Quality assurance will be provided by [REDACTED] a partner in our London office. Detailed below is the service team we intend to use on this assignment along with their proposed roles. It is our intention to use the same team throughout the course of this assignment however we may supplement or substitute members of our team from time to time as necessary.

Staff Member	Grade	Role
[REDACTED]	Partner	Engagement partner and quality assurance
[REDACTED]	Director	Review director
[REDACTED]	Associate director	Assignment manager and principal point of contact
[REDACTED]	Assistant manager	Project support

8 Fees

8.1 Our fees for providing the Services will be [REDACTED]

8.2 Our fee invoices will be subject to VAT at the appropriate rate and will be payable by the Client.

8.3 Out of pocket expenses, which will include travel expenses, will be added to our fees.

8.4 We draw your attention to clauses 4.1, 14.4 and 14.5 of the Terms and Conditions.

9 Fee assumptions

9.1 Our fees are based on the following assumptions:

- we will have disclosed to us all relevant accounting records and related information and explanations, and the information and explanations we require will be reliable and will be provided to us without undue delay;
- we will receive full co-operation from all relevant personnel at, and other professional advisers to, the Council and MGL;
- we are given appropriate access to all information and people involved in this assignment from the management teams of the Council and MGL we reasonably require in the course of our work;
- we will attend no more than two meetings with the senior management team of the Council to discuss our report; and
- we will not undertake any work that is not specified in paragraph 2 of the Engagement Letter.

If the above assumptions are not met, we reserve the right to charge an additional or further fee for any extra work involved in carrying out the engagement or to compensate us for our staff being inefficiently utilised.

10 Limitation of liability

10.1 We draw your attention to clause 9 'Limitation of liability' in the Terms and Conditions. The limitation of liability referred to in that clause refers to all assignments undertaken by us for you in relation to the Purpose, whether the subject of this Agreement or another engagement letter/agreement.

10.2 The data used in the Services and which will be incorporated into the Deliverables has been provided by the management team of MGL and/or third parties. We will not verify the accuracy or completeness of any such data. There may therefore be errors in such data which could impact on the content of the Deliverables. No warranty or representation as to the accuracy or completeness of any such data or of the content of the Deliverables relating to such data is given nor can any responsibility be accepted for any loss arising therefrom.

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10.3 You are solely responsible for assessing whether the Services and the results of the Services would meet your specific requirements or fulfill a specific purpose, even if such requirements or purpose are specified by you.

10.4 You agree not to bring any claims in respect of the Services, the Deliverables, the data used in the Deliverables and/or this Agreement against any parties other than us.

11 Data Protection

11.1 We may need to Process Personal Data about you and individuals associated with you (such as clients, staff, trustees and others), which could include the following: personal identification and contact details, employment related information or financial data. We will hold the Personal Data as Data Controller. Our privacy notice on our website (www.grantthornton.co.uk/en/privacy) contains further details as to how we may use, process and store Personal Data.

12 Additional terms and condition of engagement

12.1 The additional detailed Terms and Conditions, version: T&C 04-18 apply to the Services as if they were set out in this Engagement Letter and should be read and understood in conjunction with it as they form an important and integral part of the overall terms of our Agreement.

12.2 Please follow this link [T&C 04-18](#) to access the Terms and Conditions. Alternatively refer to the "Terms and conditions" link at the bottom of our website (www.grantthornton.co.uk). A hard copy of our Terms and Conditions is available upon request.

13 Acceptance of terms


13.1 We should be grateful if you would confirm your instructions by signing and returning the enclosed copy of this Letter of Engagement.

Yours faithfully

Grant Thornton UK LLP

GRANT THORNTON UK LLP

I accept the terms of this Agreement for and on behalf of Gloucester City Council:

Signed:  Date: 13/11/19

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Appendix B - Principal sources of information

In conducting our work, we held discussions and/or exchanged correspondence with the following individuals:

MGL

- Jennie Watkins, director of MGL and Chair of the MGL Board (28 June 2019 – present) / Deputy Leader of the Council / Cabinet Member for Communities & Neighbourhoods
- Paul James, director of MGL (4 September 2008 – 28 June 2019, including as the Chair from 2 December 2010 to 28 June 2019) / former Leader of the Council (June 2007 – November 2019) / Cabinet Member for Regeneration & Economy
- Nick Bishop, director of MGL / partner of Pitt Godden & Taylor LLP (PGT)
- Richard Brooks, bookkeeper of MGL and owner of Leonis Accountants
- Ben Hau, Head of Marketing
- Karen Pearson, Events and Operations Manager
- Emily Knight, Head of Business Engagement

The Council

- Jon McGinty, Managing Director
- Anne Brinkhoff, Corporate Director
- Jonathan Lund, Corporate Director
- Jon Topping, Head of Policy and Resources and Section 151 Officer
- Greg Maw, Accountancy Manager
- Hadrian Walters, Accountancy Manager

The Council's advisers

- Melanie Sensicle, director of Melanie Sensicle Consulting Ltd

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Appendix C – Differences between management and audited/draft accounts (profit and loss only)

Summary profit and loss per management accounts

£'000	FY18		FY19	
	Management accounts		Management accounts	
Profit and loss				
Sales	443		199	
Cost of sales	(480)		(269)	
Gross (loss)/profit	(37)		(70)	
Other operating income	280		309	
Administrative expenses	(267)		(284)	
Operating (loss)/profit	(23)		(45)	
Loss on asset disposal	-		-	
(Loss)/Profit before tax	(23)		(45)	
Tax	-		-	
(Loss)/Profit after tax	(23)		(45)	
KPIs:				
Gross profit margin/(loss) %	(8)%		(35)%	

Summary profit and loss per audited and draft accounts

£'000	FY18		FY19	
	Audited		Draft audited	
Sales	322		467	
Cost of sales	(496)		(288)	
Gross (loss)/profit	(174)		179	
Other operating income	405		52	
Administrative expenses	(315)		(297)	
Operating (loss)/profit	(84)		(66)	
Loss on asset disposal	(14)		-	
(Loss)/Profit before tax	(98)		(66)	
Tax	-		-	
(Loss)/Profit after tax	(98)		(66)	
KPIs:				
Gross profit margin/(loss) %	(54)%		38%	

Sources: 1. Management accounts (monthly profit and loss accounts) for FY18, FY19 and YTD FY20 (October 2019); 2. FY19 draft statutory audited accounts (with FY18 as comparatives) provided to us on 13 November 2019.

We understand from the bookkeeper that the differences between the management accounts and the audited accounts (shown above) are year-end adjustments (e.g. depreciation, bad debt provision) and audit adjustments / reclassifications made by PGT and the auditor. We have not been provided with any detail of the adjustments nor any explanations for these differences.



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