



OVERVIEW AND SCRUTINY COMMITTEE

MEETING : Thursday, 19th December 2019

PRESENT : Cllrs. Coole (Chair), Ryall (Vice-Chair), Dee, Finnegan, Haigh, Hilton, Hyman, Lewis, Organ, Patel, Pullen, Stephens, Taylor, Toleman, Tracey, Walford and Wilson

Others in Attendance

Councillor Norman, Deputy Leader and Cabinet Member for Performance and Resources

Councillor Morgan, Cabinet Member for Culture and Leisure

Councillor Watkins, Cabinet Member for Communities and Neighbourhoods and current Chair of the MGL board

Councillor James, Cabinet Member for Regeneration and Economy and former Chair of the MGL Board

Grant Thornton Representative

Corporate Director (Partnerships)

Corporate Director and Monitoring Officer

Head of Policy and Resources

Democratic and Electoral Services Officer

APOLOGIES : None.

2. DECLARATIONS OF INTEREST

There were no declarations of interest.

3. DECLARATION OF PARTY WHIPPING

There were no declarations of party whipping.

4. PUBLIC QUESTION TIME (15 MINUTES)

The below questions were raised by four members of the public:

4.1 The CEO of a local business addressed the Committee raising his concerns about the methodology used in the Online Survey. The survey was carried

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out by the consultants as part of the strategic and operational review (details of which can be found within pages 4-4 of Appendix 4). He believed that the data input into the process lacked reliability and validity. In particular, he criticised the data collection methods, the bias in the questions, and the fact that the geographical boundaries were not clearly defined.

He then posed the following question to Cabinet members:

How can this administration justify guessing answers which compromise mine and other city businesses?

The Corporate Director responded to say that the aim of the survey was to collect qualitative data from a broad range of stakeholders as set out in the Terms of Reference. She added that the report does not claim to use quantitative or statistical data. Moreover, Melanie Sensicle was chosen because of the company's industry expertise in the area.

- 4.2 A former local business owner also addressed the Committee. He questioned whether the Managing Director of MGL (Marketing Gloucester Limited) had been involved in the review. Secondly, he asked who would now be delivering the City's marketing events. Thirdly, he expressed his concern that given the current situation with MGL, current MGL staff could be demoralised about their future job security

Firstly, Councillor Watkins, the current Chair of the MGL Board, advised that the Managing Director of MGL had not been involved in the review. Secondly, Councillor Morgan, Cabinet Member of Culture and Leisure explained that the Council was having a thorough review of all the events delivered, and who would be best placed to deliver the events. He added that it was likely going to be a mixture of existing and new staff. In response to the third query, Councillor Watkins stated that whilst she could not talk in detail about private employment matters in the public domain, she could however confirm that herself and the Corporate Director had offered their support to MGL staff.

- 4.4 A former employee of MGL then spoke to the Committee. She explained that she was behind a whistleblowing case brought against the company in 2014, due to what she considered to be major issues across different areas within the company. Thus, her question was why did Gloucester City Council ignore the concerns raised within the whistleblowing in 2014?

Councillor James, who was also the former Chair of the MGL board stated that it would not be appropriate for him to delve into employment matters in the public domain. However, he confirmed that the whistleblowing case in question was investigated by an independent organisation and the allegations levelled against MGL were found to be groundless.

- 4.4 A resident of Gloucester asked how the situation with MGL would be turned around for the most positive outcome in the future. Councillor Morgan responded to say that the decision as to how MGL would operate would be

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determined in the future, and in the meantime the Council was consulting widely.

5. PETITIONS AND DEPUTATIONS (15 MINUTES)

There were no petitions or deputations.

6. MARKETING GLOUCESTER

- 6.1 Councillor Morgan, Cabinet Member for Culture and Leisure presented the report and outlined key points. He stated that since taking over the post of Cabinet Member for Culture and Leisure, and after talking to various stakeholders, it had become clear to him that there were issues with MGL. This report delivered on promises made to the Overview and Scrutiny Committee at the 14th of October 2019 Call-In meeting to carry out a full strategic, operational, finance and governance review of the company.
- 6.2 He then thanked MGL staff for their professionalism and 'business as usual' approach over the last weeks and council officers. He also thanked Councillor Watkins who had recently taken over the post of Chair of the Board of MGL for her grit and determination.
- 6.3 Councillor Norman, Cabinet Member for Performance and Resources set out the structure of the meeting as follows. Councillor Morgan and the Corporate Director (Partnerships) would take the lead on questions related to strategic and operational matters of the review, whilst Councillor Norman and the Head of Policy and Resources would deal with finance and governance related queries.
- 6.4 Councillor Haigh noted that at the last meeting Councillor Morgan had provided a brief verbal timescale outlining the events leading up to the Cabinet decision to provide a credit facility of to MGL £240,000. Councillor Haigh asked if the timeline could be repeated for Members as a starting point.
- 6.6 Councillor Morgan provided a timescale of events leading up to the Cabinet decision as follows:
- *Wednesday 11th September – receipt of management figures from MGL identifying outstanding debts to HMRC, other creditors and a growing cash flow deficit; and consideration of options to address this. MGL informed the Council that the deadline for HMRC payments would be the 6th October.*
 - *The Corporate Director (Partnerships) notified the Leaders of the Oppositions and the Chair of Overview and Scrutiny on Monday, 16th*

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September by email about a Cabinet Member decision, requesting briefings as soon as practicable.

- *A revised Forward Plan was published on Tuesday, 17th September.*
- *Individual briefings were held on 18th September (Cllr Hilton, Cllr Coole) and 19th September (Cllr Stephens). Officers present were the Corporate Director (Partnerships), the Council's Solicitor and the Finance Manager. They provided an update on the issue; Councillors were talked through the MGL management figures and the draft decision record. Due to the confidential nature of the matter, no documents were exchanged. Members were advised of the urgency of the matter, given the deadline for outstanding payments to HMRC. Members requested a confidential briefing to members of Overview and Scrutiny Committee following the meeting on the 30th September.*
- *The Cabinet Decision was published on Wednesday, 26th September.*
- *A confidential briefing was held to members of the Overview & Scrutiny Committee following its meeting on the 30th September.*

- 6.6 Councillor Haigh then queried whether the £240,000 credit facility had been used to clear the HMRC debts as intended. Councillor Norman responded to say that there had been a drawdown of the loan to clear the HMRC debts following the Call-In meeting on the 14th of October 2019.
- 6.7 Councillor Haigh queried whether cash flow statements had been received. Councillor Norman explained that they had received cash flow statements. In order to draw down the loan, MGL have to provide the Council with a drawdown notice and evidence of the use of the loan.
- 6.8 Councillor Stephens considered the Grant Thornton report to be a damning assessment of MGL. In addition, he was critical of the Council 's handling of MGL. He believed that there had been inadequate oversight of the company and a failure to obtain key financial data. Moreover, he believed that whilst MGL had done some good work, the cuts to the funding provided to MGL by the Council had contributed to the current problems. In terms of MGL itself, he was concerned with the lack of transparency over the process of appointing board members and what he considered to be a lack of oversight over the Managing Director role. Notwithstanding the above, Councillor Stephens commended MGL staff for their hard work and professionalism especially with the current backdrop.
- 6.9 Councillor Stephens then posed the following questions to Cabinet Members and Officers. First, he suggested that MGL had been trading both insolvently and fraudulently. He asked if this was true, and if it was, he questioned what the liability of this would be for the City Council. He was informed that the advice from the Council 's lawyers OneLegal was that MGL was not trading either insolvently nor fraudulently.

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- 6.10 Secondly, he queried whether an independent Chair of the Board could be appointed. Councillor Norman advised that the current Chair of the Board, Councillor Watkins had been very effective in the role so far, and perhaps it would not be prudent to make changes for the time being. Councillor Watkins would be stepping down from her Councillor duties and her role as Chair in May 2020, and an Independent Chair could be appointed then. Similarly, there were proposals to appoint two Gloucester City Council representatives to the board of MGL. This idea was still in discussion, but, when finalised, the representatives would likely comprise of Officers and/or Cabinet Members.
- 6.11 Thirdly, Councillor Stephens questioned how likely it was that the Council would recover both the £97,000 (historic loan to MGL) and the more recent £240,000 cash flow facility. Councillor Norman explained that if the recommendations in the report were taken forward, it would allow the Council to deal with both the historical and the current loan.
- 6.12 Councillor Pullen stated that a good place management organisation was needed for the City. However, pointing to paragraph 3.7 of the Cabinet report, he was concerned that MGL was financially unstable to be able to effectively carry out this function. Councillor Morgan replied stating that the purpose of the review was to put MGL in a better financial position moving forward, amongst other things. Moreover, it was noted that there was a lot of good will towards MGL in the City, and thus it would not be prudent to dissolve the company.
- 6.13 Councillors Hilton and Wilson echoed the views expressed by Councillors' Stephens and Pullen. In particular, Councillor Wilson stated that the review was excellent and the fact that it was independent was to be welcomed.
- 6.14 Councillors Hilton and Councillor Wilson noted the existence of a subsidiary company, UK Digital Resource Innovation Centre (UK DRIC). Councillor Hilton questioned whether UK DRIC had been incorporated with the Council's approval. Similarly, Councillor Wilson asked why the £400,000 UK DRIC money was held by MGL. Moreover, he questioned whether the City Council would have responsibility for UK DRIC's liabilities, if any.
- 6.16 Councillor Norman stated that as far as she was aware, there had been no formal approval of UK DRIC by the Council, although the Chair of the Board may have a different view. In relation to UK DRIC's grant money being held by MGL, she suggested that this could have been because UK DRIC did not have a proper bank account at the time. However, the Chair would need to confirm this. Councillor Morgan added that Cabinet would be looking at UK DRIC more closely.
- 6.16 Councillor Norman responded to the Members' queries as follows. On the topic of how board Members and Directors were appointed and whether there was any oversight from the City Council, she noted that there was a Members' Agreement which outlined the process on how directors are appointed. In relation to missing information, she stated that this would need to be raised with the Chair.

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- 6.17 Councillor Ryall thanked Cabinet Members and Officers for carrying out a transparent review process and added that the Grant Thornton report was to be welcomed. Councillor Ryall reiterated a query raised by a member of the public in the Public Question Time regarding the methodology used for the survey. She suggested that the survey had quantitative elements. Likewise, she asked for a breakdown of the process for selecting the Consultants.
- 6.18 The Corporate Director (Partnerships) responded stating that the survey was based on qualitative data, as it would not have been feasible to interview each stakeholder. She added that qualitative research methods were never used in the process. Lastly, the Council had a budget of £10,000 for Consultants and carried out a tender process. The council had invited expressions of interest from three consultants, and had appointed Melanie Sensicle Consulting Ltd and Jason Freezer based on quality and value for money.
- 6.19 Councillor Haigh expressed her dissatisfaction with what she described as Members' concerns about MGL not being dealt with in previous years. She noted that at an Overview and Scrutiny meeting on the 10th of June 2013, she had questioned why MGL did not have an Independent Chair. Moreover, she suggested that a 2016 Audit report which was circulated to members of the Audit and Governance Committee indicated that there were failings with financial control at Marketing Gloucester. Additionally, she highlighted the Corporate Director 's comments at that meeting where he informed the Committee that MGL 's performance monitoring meetings were not public meetings. The Corporate Director stood by the sentiments made here, noting that the meetings were private to allow for open and frank discussions. In response, Councillor Haigh suggested that there was a lack of transparency.
- 6.20 Councillor Stephens asked the Corporate Director why the financial issues were not picked up from the private meetings. The Corporate Director explained that it had been difficult to obtain information from MGL. He added that in March 2019 the Council had no choice but to send a letter to MGL outlining the legal and contractual obligations for MGL to provide the requested financial information.
- 6.21 Councillor Stephens then asked when the risk register was updated in relation to MGL, and how MGL scored on this. The Corporate Director advised that this would be included within the wider risk of contractual management, and that he would obtain this.
- 6.22 Councillor Hilton asked whether Cabinet Members and Officers would consider looking at other Destination Management Companies (DMOs) to examine what has worked well for them. Meanwhile, Councillor Pullen questioned whether Cabinet would consider moving events management in-house. Moreover, he also believed that an assessment of all the events from the last few years was also needed in order to decide which events were still worth keeping in terms of the revenues generated. Councillor Morgan stated that Cabinet would be keeping an open mind about what would be the best approach and would consult with stakeholders.

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- 6.23 Councillor Organ suggested that moving events in-house could mean losing sponsors. He added that without sponsors, the City may not be able to hold the same high-quality events. Additionally, he noted that the 2020 events calendar would be in the planning process. He was of the view that it was important to keep the momentum in order to maintain the confidence of the sponsors.
- 6.24 Councillor Patel stated that despite the current issues now facing the company, MGL had done a good a job of delivering events in the City, and residents had benefitted from this. Nevertheless, he inquired whether there would be more robust monitoring of organisations with whom the Council has an interest. Councillor Norman stated that there would be more robust monitoring, and that any gaps would be looked at.
- 6.26 Councillors James and Watkins then addressed the Committee, in their capacity as former and current Chairs of the Board of MGL, respectively.
- 6.26 Councillor James stated that the issues must be dealt with in context. Firstly, it was noted that MGL had brought in millions of pounds to the Gloucester visitor marketing economy. For example, the visitor marketing economy currently stood at £270,000 million, a 68% increase from 2010 when MGL was first incorporated. Secondly, Councillor James addressed the queries surrounding his former position as Chair of the MGL board. He advised that he took over the position of Chair when the previous Chair resigned and nobody else had wanted to take the role. However, due to the conflicts of interests which would inevitably arise, his personal view was that an independent Chair would have been better. Thirdly, on the issue of why MGL held the £400,000 grant for UK DRIC, he confirmed that it was indeed because UK DRIC had not yet set up a bank account. Further, he stated that whilst MGL did not seek the City Council 's approval before setting up UK DRIC, MGL were not aware of any legal obligation to seek the City Council 's approval at the time.
- 6.27 Councillor James then addressed the questions on accountability. In terms of the membership of the board, he advised that there was a qualified accountant, a qualified solicitor, others with marketing experience and the rest were stakeholders. He stated that new board members were appointed from nominations which went to the board for approval. The Council was not involved in this process.
- 6.28 Councillor James suggested that the Council had been aware of MGL 's difficulties since 2017, following the 2016 Tall Ships Festival. Moreover, he stated that there had been a two third reduction in the core operating grant received from the City Council, and it was now only £100,000. He suggested that this could have contributed to the issues MGL was currently facing. In essence, there was a reduction in funding but not a reduction in expectations as indicated in the Melanie Sensicle report.
- 6.29 Responding to an earlier suggestion made that MGL could look to Marketing Cheltenham and other DMOs to see how they are run, he explained that

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Marketing Cheltenham was set up in response to the success of MGL and that other DMOs could have different governance arrangements to MGL. Lastly, Councillor James advised that keeping a separate limited company could be more prudent given that if the delivery of events took place in-house, the funding for this would be allocated from the wider Council budget. He agreed that changes were needed, however, he did not believe that completely dissolving MGL was the best course of action.

- 6.30 Councillor Watkins then addressed the Committee. She started by thanking MGL employees for continuing to do their work even with the current backdrop. She then confirmed that the Managing Director no longer worked for MGL.
- 6.31 Councillor Haigh suggested that the financial difficulties had been apparent for a while, and thus the issues should have been addressed earlier. She asked Councillor James why as Chair he did not highlight the issues. He responded to say that when the decision was taken to reduce the core operating grant provided to MGL, information provided by Officers at the time highlighted the risks this would bring. He added that he could have lobbied Cabinet Members, but this would have been inappropriate due to the conflict of interest. Likewise, as Chair he was not involved in the company's finances and was never invited to any internal audit meetings except one meeting which he went to prior to stepping down as Chair. Lastly, accounts were completed by an external accountancy firm.
- 6.32 In response to a query regarding the 2014 whistleblowing, he reiterated that this had been externally investigated and found to be without foundation. Moreover, some of the issues raised were considered in an internal audit meeting.
- 6.33 Councillor Wilson asked Councillor James how long the Managing Director had been an employee of MGL, and secondly, whether he had claimed personal expenses whilst working for MGL as a contractor. Councillor James stated that, from memory, the Managing Director had been an employee for 18 months, and he could not confirm whether he had claimed expenses, as he had not been involved in that level of detail.
- 6.34 Councillor Stephens wanted clarification on when Cabinet and Officers became aware of the financial issues. Councillor James stated that from late 2017, the Council was aware of the deficit budget forecast, following the reduction in funding provided to MGL. He added that this was not to be confused with the current cash flow problems which only became apparent in recent months. This was echoed by the Corporate Director and the Head of Policy and Resources.

The meeting was extended by 30 minutes.

- 6.35 Councillor Ryall queried whether as Chair, Councillor James thought that the governance structure and oversight at MGL was appropriate. He advised that governance is relative to the size of an organisation. Given that MGL

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only had around 7 or 8 employees, the level of governance was not unusual for an organisation of that size, something which he said was acknowledged in the Grant Thornton report.

- 6.36 Councillor Hilton questioned why the former Managing Director was never appointed to the board of MGL. Likewise, he pointed out that Jason Smith was listed as a Director at UK DRIC. Councillor James replied to say that no Managing Director had ever been appointed to the board. Moreover, Jason Smith was still a director at UK DRIC. However, the board had only recently become aware of the company.
- 6.37 Councillor Pullen suggested that the board were not in control. Thus, he asked whether Councillor Watkins as Chair was satisfied that the existing board members could take this company going forward. Councillor Watkins advised that MGL would be looking to have an entire refresh and reshape of the board, and reconsidering the skill sets of its Members. She added that the company had undergone changes since being incorporated. Whilst the membership of the board was good at the time, it was now perhaps the right time to reconsider this.
- 6.38 Finally, Councillor Hilton requested that information be provided outlining the effects of the £240,000 credit facility provided to MGL on the 2020-21 budget at the upcoming February Budget Council meeting. Councillor Norman stated that this information would be provided as requested.
- 6.39 **RESOLVED** that the Overview and Scrutiny Committee **RECOMMENDS** that:
- 1.) A process is drawn up outlining the appointment of an independent Chair who would take office in May 2020.
 - 2.) That before any arrangements are agreed, Cabinet investigates other models, including the structure of Marketing Cheltenham and examine whether there would be a better alternative to that in the recommendations within the report. Moreover, it is recommended that this is done in partnership with the BID and other stakeholders.
 - 3.) That any changes proposed to the running of MGL are subject to a full risk impact assessment.

7. EXCLUSION OF PRESS AND PUBLIC

- 7.1 The Chair opened the discussion by reminding Committee Members that there were some minor redactions in the Report which were not available to the Public, and thus he asked Committee Members to reserve any questions relating to these redactions to the end of the meeting.
- 7.2 Councillor Hilton questioned why the redactions had been made. In his view, the information contained here was not commercially sensitive. The

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Corporate Director and Monitoring Officer explained that the advice given to the Council by Grant Thornton was that the redacted sections contained commercially sensitive information. By law, this was a legitimate ground for exempting public access to the information.

7.3 **RESOLVED** that the press and public be excluded from the meeting during any discussion of the redacted items on the grounds that it is likely in view of the nature of the proceedings that if members of the press and public were present during consideration of this item there will be disclosure to them of exempt information as defined in Paragraphs 3 of Part 1 of Schedule 12A of the Local Government Act 1972 as amended.

7.4 There was no discussion relating to any of the redacted items in the report during the meeting, and hence agenda item 8 has been removed from the minutes.

8. MARKETING GLOUCESTER

8.1 There was no discussion relating to any of the redacted items in the report during the meeting.

9. DATE OF NEXT MEETING

Monday 6th of January 2020.

Time of commencement: 6:30pm

Time of conclusion: 9:15pm

Chair