



## OVERVIEW AND SCRUTINY COMMITTEE

**MEETING** : Tuesday, 10th March 2020

**PRESENT** : Cllrs. Coole (Chair), Ryall (Vice-Chair), Dee, Hilton, Hyman, Lewis, Patel, Stephens, Taylor, Walford, Wilson, Hansdot and Lugg

**Others in Attendance**

Councillor Morgan, Cabinet Member for Culture and Leisure

Councillor James

Councillor Watkins

Steve Brown, Former Interim CEO at Marketing Gloucester Ltd

Sarah Farooqi, Solicitor, One Legal

Managing Director

Corporate Director and Monitoring Officer

Corporate Director (Partnerships)

Policy and Governance Manager

Democratic and Electoral Services Officer

**APOLOGIES** : Cllrs. Finnegan, Haigh, Organ, Pullen and Toleman

### 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)

4.1 A member of the public asked whether matters relating to the oversight of the former Chief Executive of MGL's personal expenses would be discussed during the meeting and whether the whistleblowing allegations in relation to the former CEO of MGL would be explored, as she understood that the council had not retained a copy of the report into the allegations.

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- 4.2 In response to the above queries, the Chair advised that these issues were likely to be explored by Committee members and attendees during the meeting.

**5. PETITIONS AND DEPUTATIONS (15 MINUTES)**

- 5.1 There were no petitions and deputations.

**6. MARKETING GLOUCESTER LIMITED REVIEW**

- 6.1 The Chair reminded the Committee of the need to act in a collegiate manner and to act as a critical friend. Further, they stated that the meeting was about fact finding in order to make cogent recommendations for the future, and to provide a solid foundation for the incoming Overview & Scrutiny Committee after the May elections. They then invited Councillor James and Councillor Watkins, both former Chairs of the board of Marketing Gloucester Limited (MGL) to address the Committee.
- 6.2 Councillor Watkins first addressed the Committee. Before proceeding, she stipulated that as she was no longer Chair of the Board of MGL, she could not respond to any questions on behalf of the company. Therefore, any financial related questions about MGL would need to be directed to the insolvency practitioner.
- 6.3 Councillor James expressed his concern with some of the procedural matters regarding the meeting, noting that the committee report had only been published the day before the meeting, allowing insufficient time to prepare. He stated that the former CEO of MGL, and the former bookkeeper should have been invited to attend the meeting as they would be more likely to be able to answer questions of detail that he could not. Councillor James added that he had suggested to the Chair of the Overview and Scrutiny Committee that some board members should have been invited to the meeting due to their closer involvement in issues such as the company's finances and the UK DRIC.
- 6.4 Councillor James then turned his attention to the contents of the report. In relation to question 2 in appendix 1, his view was that the reduction in grant funding from the council was not matched by a reduction of expectations, with MGL expected to run the same number of events with a reduced budget. He contrasted the situation to other partner organisations, some of which had products to sell in order to increase revenue, and highlighted the shorter timescale within which MGL were expected to achieve the savings. He believed there was a limit to which costs could have been reduced by MGL. Councillor James outlined that he had documents and emails showing that he had suggested to council Officers that the Service Level Agreement should have been altered to reflect the reduction in funding. Furthermore, he questioned the Officer response to question 2 of the report, particularly the quote from the insolvency practitioner that "too many high-risk projects were entered into" and explained that he was not sure what this meant.

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- 6.5 Councillor James stated that he was happy that there was no active police investigation underway, the suggestion of which had been upsetting for all involved. However, he added that he had only found out from the Committee report which was being considered in the meeting, in contrast to the public way in which the announcement about a potential police investigation had been made.
- 6.6 In relation to the financial issues which were faced by MGL, his view was that this was communicated to council Officers on many occasions. However, he noted that the cash flow figure was not provided to Officers until after the 2019 Tall Ships Festival. He highlighted that there were financial losses at MGL for three consecutive years following the reduction in funding from the council, and thus, it was inevitable that money would eventually run out. He believed that the council was aware of the financial issues at MGL as they provided a going concern statement which accompanied the accounts submitted to Companies House each year. He added that the council should have known of the financial issues which MGL was experiencing well before the Grant Thornton and Melanie Sensicle reports had been published. He highlighted that the financial issues had been raised by Members at Audit & Governance Committee meetings, and he pointed to an internal audit which recommended that the council assist MGL with strengthening its financial controls, and this was later confirmed as having been implemented. Similarly, he pointed to the Audit and Governance Committee minutes of the 19 September 2016 which state that *“the Corporate Director confirmed that the legal documents and financial management arrangements were now up to date and in place and that there was now a rigorous performance management framework in place, including SMART target”*. His view was that all this did not tally. Finally, he questioned the idea that the council was not aware of the UK DRIC. He outlined that the details of a performance meeting dated 29 September 2017 which were recently circulated to the Audit & Governance Committee and indicated that the council was aware of the UK DRIC.
- 6.7 The Chair invited questions to Councillor James from the Committee. Councillor Hilton asked for clarification on whether Councillor James as Chair was aware that UK DRIC had been set up as a subsidiary of MGL, and moreover, that the former CEO and bookkeeper of MGL were Directors of the UK DRIC. Illustrating his point, he pointed to the fact that Councillor James was photographed at an opening for the facility at Eastgate Shopping Centre. Further, Councillor Hilton questioned why as Chair, Councillor James, did not flag up to the Council the revenue pressures which the company was experiencing as a result of the reduced funding. Finally, he suggested that Councillor James had failed to provide oversight of MGL in the 8 years that he was Chair of the Board.
- 6.8 Councillor James noted that views expressed on social media suggested that Councillor Hilton was not coming to the subject with an independent mindset. Moreover, he suggested that, as a former non-executive Chair of Gloucestershire Airport Limited (GAL), Councillor Hilton should understand the limitations that a non-executive Chair can have in terms of access to certain information, highlighting recent allegations of serious issues at the

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Airport. On the topic of the UK DRIC, he stated that he had never said that he was unaware of the company's existence, but rather, that he was unaware that the former CEO and bookkeeper of MGL had made themselves Directors of UK DRIC at the time the company had been created. He outlined that certain board members were aware of the subsidiary as the former CEO had sought advice from a professional board member on the best way to set up the company. Lastly, he outlined that both himself and the former CEO did inform the council of the revenue pressures resulting from the reduction in funding, but as a Teckal company, they were required to follow the council's instructions.

- 6.9 Councillor Hilton then asked Councillor James whether he had a copy of the 2014 Whistleblowing report in relation to MGL and, if not, to explain, in his capacity as former Leader of the Council, why the council had lost the report. Councillor James advised that as Leader of the Council he would not have held a copy of the report, and it would have been inappropriate for him to retain a report for an organisation he was no longer involved with. He added that he in fact held no documents prior to 2017 as they were lost when IT switched over his laptop. He advised that he had contacted two professionals who had worked on the whistleblowing investigation, and they had assured him that his recollection of events was accurate. The independent investigation found that there was no case to answer and subsequent attempts were made to resolve matters through mediation. Finally, he had not been involved in communicating the board decision to the parties involved as this had been carried out by other board members.
- 6.10 Councillor Wilson queried whether Councillor James had read the internal audit report in 2017 which followed on from the 2014 whistleblowing allegations. Councillor James advised that it had not been brought to his attention at the time.
- 6.11 In response to a suggestion from Councillor James that he should declare an interest in the matters under discussion, Councillor Wilson advised that he did not have an interest to declare and that his dealings with a former employee of MGL were solely in his capacity as a Councillor; the individual had contacted him between 2014/15 in relation to the whistleblowing investigation.
- 6.12 Councillor Wilson questioned whether as cheque signatory, Councillor James, would have signed off the former CEO's expenses. Councillor James stated that he had not signed off any expenses for the former CEO, but that he had signed off his invoices during the time when he was employed as a consultant. Further, Councillor James stated that he had consulted with the board on whether they wished to add an extra level of control, but they had chosen not to. In terms of whether he was a cheque signatory, he stated that he occasionally signed off cheques for a short period around 6 or 7 years ago, something which the previous CEO, Chris Oldershaw, had asked him to do. However, he had not signed off any cheques for a long time.
- 6.13 Councillor Wilson noted that one of the recommendations in the Grant Thornton report was that the council should carry out a review of the UK

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DRIC, with the objective of “gaining comfort over the use of the grant money” and asked whether this had been achieved. Secondly, referring to article published in the Punchline newspaper which considered issues with the UK DRIC, he queried how the council had ended up in a situation in which public money had been spent with no records of the subsidiary company having been set up in the first place. Furthermore, he inquired about who had signed off the project on GFirst LEP, and what documentation the individual/s saw to justify signing it off.

- 6.14 Councillor Watkins advised that some of the facts were yet to be established. She explained that while there was awareness at board level of the UK DRIC, there was no evidence of a board decision supporting the setting up of a separate subsidiary and no records of the formation of the subsidiary or the rationale for appointing the then CEO and bookkeeper of MGL as directors of UK DRIC. Furthermore, there was no documentation outlining the contractual liabilities of the UK DRIC. In terms of the funding provided to the UK DRIC, she explained that £400,000 had been received by MGL for the project. However, there had been a £76,000 overspend which the board of MGL were not made aware of at the time, and this sum was now a debt owed by MGL.
- 6.15 Councillor Wilson queried whether there was any documentation perhaps held by GFirst LEP regarding the UK DRIC. Councillor Watkins advised that there would be email records from when UK DRIC would have been set up, however, this would involve Gloucestershire County Council, the former CEO and bookkeeper. Moreover, as UK DRIC had a separate board, the liquidator would have to undertake a separate process to establish whether the two directors conducted themselves as they should have in the course of setting up and running the company. Finally, she advised that this was still in the early days, since it had been difficult to obtain information which should have been available to her as Chair. However, it would become available in the course of the insolvency proceedings.
- 6.16 Councillor James stated that he did not disagree with any of what Councillor Watkins had said. He then added that when applying to GFirst LEP, MGL would have had to provide comprehensive information. Therefore, GFirst LEP perhaps still held this information. In terms of the decision-making process, his recollection was that it was the decision of the GFirst LEP board to approve funding for UK DRIC. Furthermore, he outlined that there was a separate advisory board for the UK DRIC. Finally, in terms of the limited company, he believed that the limited subsidiary of the UK DRIC was a dormant company with no assets or liabilities. Councillor Watkins outlined that there was an active UK DRIC subsidiary company with both assets and liabilities.
- 6.17 Councillor Wilson asked whether a review of UK DRIC would be conducted as recommended in the Grant Thornton report. Moreover, he reiterated his earlier question on whether the council now had “comfort” over the use of the grant money. Councillor Watkins explained that as it stands, a review of the UK DRIC would not be going ahead. Nonetheless, there were conversations to be had regarding the future of the UK DRIC. On the issue of the grant

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money, she noted that GFirst LEP had stated that the grant money had been used as intended. She added that there was the £76,000 overspend, and further investigations to be carried out by the liquidator on how the £400,000 was spent.

- 6.18 The Chair sought clarification on the level of awareness which the board had about UK DRIC. Councillor Watkins reiterated that although there were discussions between the former CEO and some board members about the vehicle for the UK DRIC, there were no formal decisions made by the board on the creation of the company. Secondly, the Chair queried whether there was ever formal authorisation of the UK DRIC from the council, and, whether there the council was liable for the UK DRIC. Councillor Watkins stated that as Chair she was made aware of a potential issue based on a £100,000 project and whether this would change the status of MGL from a Teckal company to a trading company. On the issue of liability, she provided that as far as she was aware, the council had no liability for the UK DRIC which was a limited company.
- 6.19 Councillor Stephens requested further information on the process of selecting investigators in the whistleblowing investigations in 2014. In particular, he wanted to know what criteria, if any, was used to decide who would be appointed, why a HR company was selected, and, whether the process was independent.
- 6.20 Councillor James noted that it would be difficult to remember every detail. However, as far as he could recall, it was a board decision to appoint the company to investigate the whistleblowing allegations. He stated that the company had written some policies for MGL in the past, but that the individual investigator had no prior involvement with MGL and had experience in the issues raised in the whistleblowing allegations, which were not purely financial.
- 6.21 Councillor Stephens questioned why the board did not revise the business plan following the reduction in funding from the council. Secondly, he queried why there was insufficient financial reporting to the board. Furthermore, he asked Councillor James if he could provide the Committee with any evidence to support his assertion that MGL was ordered to carry out events by the council even despite informing the council that it did not have sufficient budget to do so following the reduction in funding.
- 6.22 Councillor James outlined that there was a 5-year business plan for 2016-2021. He added that although this was not revised, the budgets were revised, and there were discussions within the board to try and address the financial issues through reducing expenditure and looking for other sources of income. Moreover, whilst there was regular reporting to the board on income and expenditure, he suggested that better information on cash flow and balance sheets could have been provided. He stated that overall as a board they were perhaps guilty of relying too much on the information provided by the various levels of accountants. However, this was understandable. Councillor James reiterated that he would be happy produce any emails or other relevant information he held as he had done for

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the Finance, Governance, Strategic and Operational review of Marketing Gloucester carried out in 2019. In his opinion, the ultimate collapse of MGL occurred because the reduction in funding was not coupled with a reduction in delivery expectations. He stated that service level agreement should have been revised and a more active and collaborative approach between MGL and the council was needed to achieve the savings.

- 6.23 Councillor Stephens echoed the concerns raised earlier regarding the fact that there was no sign off from the council for UK DRIC. Councillor James submitted that as a non-executive Chair he was not aware of every legal detail, and he relied on the advice that was provided by the CEO and council Officers. He added that the advice he was given was that MGL did not need to seek advice from the council in order to create a subsidiary company. However, he noted that permission should have been formally sought from the council for the project due to the sums involved. Lastly, he highlighted that the issue was discussed at an Audit & Governance Committee meeting on 29 September 2017; however, permission was never given in a formal sense.
- 6.24 Councillor Stephens asked Councillor James whether he had any views on Councillors being elected on the boards of organisations. Councillor James noted that the two consultants, Grant Thornton and Melanie Sensicle, who had carried out a governance review of MGL offered differing views on the matter and that his personal view was that Councillors should not act as the Chair of boards where there was a conflict of interest; furthermore, being both Leader of the Council and Chair of a Teckal organisation was not desirable, but at the time there was no alternative as no one else had wanted to take on the role.
- 6.25 Councillor Watkins agreed that the reduction in funding would have been difficult, but noted that all of the council's partner organisations faced the same challenge as a result of cuts to local government funding. However, her concern with MGL was that there was no revised business plan forthcoming on how the savings would be achieved and that costs in a number of areas instead increased. She stated that this would require further dialogue and investigation. Likewise, she stated that MGL had not been forthcoming in providing information to the council or the board of directors and that when information was requested, it would come back incomplete with cash flow information missing. Councillor Watkins added that in August 2019 when cash flow issues were identified, MGL assured the council that a £240,000 loan facility would be enough to survive the financial year. At the time she believed that the loan would be sufficient, but as further information came to light it became clear that this would not be the case. Finally, she confirmed that the former CEO had been dismissed following a formal process.
- 6.26 Councillor Watkins' stated that there were some good examples of Councillors sitting on boards. However, it was important to ensure that training was provided to the Councillors, and perhaps there would need to be a specific budget allocated to this effect. She noted that without this training,

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being appointed to a board could be particularly difficult for Councillors who were in a non-executive role.

- 6.27 Councillor Walford asked what relations were like between MGL and council Officers. Councillor James replied to say that relationships were variable. Generally, the team at MGL was on good terms with everyone. However, he believed that there was tension between the former CEO and one of the Corporate Directors and that when he stepped down from his role as Chair of the MGL board, he suggested to the Managing Director that there should be a change in the Corporate Director overseeing MGL. Councillor Watkins stated that strained relationships went beyond council Officers and Members; relationships with MGL were variable with different parties, and thus it was unfair to focus on any individual. She explained that relations between MGL and the council had broken down, and that council Officers had stated that it was difficult to have discussions with MGL due to the conflict of interest with Councillor James acting as both Chair of the MGL board and Leader of the Council.
- 6.28 Councillor Lugg asked who had signed off the MGL accounts for submission to Companies House as, despite financial issues, auditors had repeatedly described MGL as “a going concern”. Councillor James stated that the issues facing MGL were historic and went back to 2010 when MGL lost £165,000 in a single year. He explained that it was at this point the former Chair had stepped down and he had taken over the role. At that time the net liability was converted into a loan the council provided annual statements confirming that the loan would not be called in.
- 6.29 Councillor Hilton stated that in a briefing with Officers, he had been informed that the £240,000 loan provided to MGL was an interim measure which would help to ensure that MGL would survive until the end of the year, and that this was reiterated at the Overview & Scrutiny Committee call-in meeting on 14 October 2019. He sought further clarification as to why the company went into liquidation given that the loan was supposed to prevent this outcome, and asked whether it was known the that loan amount would not be enough.
- 6.30 Councillor Watkins explained that the board and the council were told that £240,000 would be enough to help the company, and would cover paying creditors, salaries and overheads. She explained that it later became apparent that she and the rest of the board had not be provided with factually correct information. It was at this stage, following a formal process, that the former CEO and bookkeeper of the company were dismissed. Following this, the Finance, Governance, Strategic and Operational review was carried out, and it became clear that the company was in more serious financial difficulty than initially understood and the decision was made to take the company into insolvency. Councillor Watkins stated that, as a Councillor, she had a responsibility to guard public funds, and every decision she had made in relation to MGL took this into account. She added that whilst MGL had made some positive impact in the City, there were clear issues with the way the company had been operating. The idea that the loans provided by the council may not be repaid saddened her.

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- 6.31 In response to a question from Councillor Hilton, Councillor Watkins stated that she never expected to be overseeing the dissolution of MGL when she took over as Chair of the board, and perhaps no-one had expected to be in this position. However, those involved had worked hard to protect the company's staff and the reputation of Gloucester. She stated that individuals who should answer for some of the failings were not present at the meeting.
- 6.32 Councillor James stated he had sent an email recommending that the Grant Thornton review should explore cash flow, profit and loss issues in order to avoid a situation like this, and was disappointed that these issues were not looked at.
- 6.33 Councillor Morgan (Cabinet Member for Culture and Leisure), the Managing Director, both Corporate Directors, and the former Interim Chief Executive of MGL were invited to address the Committee.
- 6.34 Councillor Morgan stated in his Cabinet role, he had always sought to be transparent with the Committee and he believed Officers had also been transparent. He echoed Councillor Watkins' earlier remarks that everyone involved had been working to achieve the best outcome under the circumstances. He thanked MGL staff for working hard even against the backdrop of the issues the company had been facing.
- 6.35 Councillor Stephens also noted the valuable work carried out by MGL staff. He asked whether council Officers had undertaken enough scrutiny of MGL and whether issues should have been flagged earlier. He asked the Cabinet Member and Officers whether they agreed that the council had not sufficiently lowered expectations when MGL funding was cut. He asked for further clarification on why the Council did not have a copy of the whistleblowing report. Councillor Stephens also noted that Gloucestershire Airport Limited of which the Council was a 50% shareholder, was undertaking an internal investigation in response to an anonymous letter sent to directors at the company, and asked whether the council would be changing policies relating to whistleblowing at partner organisations as a result of the MGL situation. He asked what advice was given to Cabinet by Officers when the MGL budget was being set and, finally, he asked the Corporate Director to comment on the alleged tensions between himself and the former CEO of MGL.
- 6.36 The Managing Director explained that the whistleblowing allegations had initially been submitted to the council, however, the Head of Paid Service at the time had correctly referred the allegations to the MGL board who then set up a process to investigate the claims. It had been established that a copy of the whistleblowing report had been given to the previous Chief Executive, but following a thorough search of files and mailboxes, it was found to no longer be in the council's possession. He noted that, as the allegations were made by an employee of MGL against the management of MGL, under the council's whistleblowing policy, there was no requirement for the council to retain a copy of the report. The Managing Director suggested that perhaps a

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copy of the report had been sent to the former Chief Executive so that he could satisfy himself that the allegations had been properly investigated, but that he could not speak for the former Chief Executive. On the issue of whether the council should review its whistleblowing policy in relation to partner organisations, he stated that he would be willing to review this for the council's Teckal companies, but not all of the council's partner organisations as this could lead to micromanaging of the organisations' procedures. He added that he would be willing to consider a recommendation from the Committee to change the whistleblowing policy in relation to companies wholly owned by the council.

- 6.37 In respect of the governance mechanisms in place, the Corporate Director noted that an internal audit report from 2016 recommended that the governing documents between the council and MGL needed to be reviewed; this was completed in March 2017. As a result of the review a revised memorandum and articles of association, a members' agreement and a contract for services were compiled. This placed specific requirements on MGL to produce an annual business plan which set out its capital programme, budget, monthly cash flow and a management report providing a narrative to the council about its plans for the year ahead and a 5 year strategy outlining how that one year would fit into this; the objects and scope of work which MGL would carry out had been widely drawn in order to allow for some flexibility. Moreover, the contract of services outlined that MGL would carry out certain city and civic events to be agreed with the Council. There were also a number of core functions around business support and inward investment around the visitor economy, against which MGL was required to report performance. It was noted that all the above was signed and agreed with MGL in March 2017, hence, the Audit and Governance Committee report on 13 March 2017 stated that these provisions were now in place. The Corporate Director therefore confirmed that mechanisms were in place to monitor and scrutinise MGL, but clearly given the information which had subsequently come to light they had not been sufficient to flag up the issues that had led to the current situation.
- 6.38 The Corporate Director noted that many attempts were made by Officers and Cabinet to obtain an updated annual business plan from MGL, in order that any challenges, especially financial challenges could be addressed. He regretted that over the course of two years and after many attempts, he had failed to obtain a workable and cogent business plan from MGL.
- 6.39 In relation to the issue of whether the Council instructed MGL to carry out events without sufficient funding, the Corporate Director explained that the contract of services outlined that there would be an annually agreed programme of events. MGL would produce a report outlining both the progress made in the previous year, and plans for the year ahead to be signed off by the Cabinet Member for Culture and Leisure, and then be brought before Cabinet as part the Festivals and Events programme. He explained that the report brought before Cabinet in January 2018 included delivering Kings Jam, which had been identified in an independent review as a festival with the potential for growth. In March 2018, at a performance review meeting, the former CEO of MGL stated that MGL did not have

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sufficient funds to deliver Kings Jam. He was told that Kings Jam was an important growth event for the City and a memo was subsequently sent by the former Head of Cultural and Trading Services to the CEO instructing MGL to deliver Kings Jam in line with the programme agreed by Cabinet earlier in the year. The Corporate Director added that MGL was not being asked to deliver Kings Jam without a budget because the event was already part of the budgeted programme.

- 6.40 In response to a question from Councillor Stephens about the cost of the 2018 Kings Jam, the Corporate Director advised that a supplementary invoice for £18,000 was sent to the council by MGL, which the council refused to pay noting that the costs for the event were intended to be covered from the festivals and events budget provided to MGL. The following year MGL offered to deliver Kings Jam for £24,000, however, the organisers of the event offered to deliver the event with £16,000 from the council, match funded by the Arts Council, therefore, in that year £16,000 was delivered directly to the organisers.
- 6.41 Addressing the suggestion that the relationship between himself and the former CEO of MGL had broken down, the Corporate Director stated that he had consistently tried to maintain a professional relationship with all parties at MGL.
- 6.42 Councillor Patel suggested that the timeline in Appendix 2 was not clear and asked for clarification on when senior Officers first became aware of MGL's financial difficulties and asked why this was not identified earlier. He questioned the appropriateness of comparing MGL to Aspire Trust in the Officer response in 3A as they were very different. Referring to the Officer response in 2c, he asked who had contacted the police in relation to MGL. He questioned why the service level agreement with MGL was not revised when the council reduced the funding. Finally, addressing the Chair of the Committee, he questioned why invitations to the meeting were not extended to other key figures at MGL such as the former CEO and bookkeeper.
- 6.43 The Chair stated that when deciding who to invite to the meeting they had sought advice from Officers as part of the scoping process for the meeting and also consulted with Committee Members, but had not received any responses.
- 6.44 The Managing Director advised that it was not normal practice for Officers to decide which external parties should be invited to meetings; to his knowledge, Officers had not advised against inviting the former CEO and bookkeeper to the meeting and were not aware that they were being asked to comment on who should be invited to the meeting. He was aware that Councillor James had sent the Chair an email suggesting that they invite the former bookkeeper and CEO and noted that the Chair had emailed the Vice-Chair and Spokesperson asking for their input.
- 6.45 In relation to the query about the police investigation, the Managing Director explained that as far as he was aware, the Council did not instigate any contact with the Police.

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- 6.46 Councillor Watkins confirmed that she had approached Gloucestershire Constabulary on behalf of the board of MGL with their consent, and after seeking external advice about the information which she had identified within the company that suggested financial irregularities. She had met with police officers on two occasions to provide them with information. Councillor Watkins confirmed that while there was currently no active police investigation, financial information was still being collected and this would be submitted to the police.
- 6.47 The Corporate Director (Partnerships) explained that Officers first became aware of MGL's financial issues on 16 July 2019 at a performance meeting in which Officers were able to obtain more useful financial information, including a cash flow statement and profit and loss account. The minutes of that meeting included an action for the former CEO of MGL, the Chair of the board and the Head of Policy and Resources to discuss the accumulative cash flow issues, which at that point totalled approximately £180,000. Following this, there were a number of conversations, emails, and meetings which revealed the true cash flow deficit. Officers continued to push for more information and it became clear that the level of cash flow had changed on an ongoing basis. The Corporate Director (Partnerships) noted that in a note to the council on 29 August 2019, MGL proposed a number of projects, and suggested that these would improve the balance sheet and cash flow situation. The Corporate Director read out the note as follows:

*“During the last 3 financial years MGL have been highly successful in leveraging additional funding to allow the activities it has been tasked to do so by Gloucester City Council to take place. In total over the last 3 years nearly £1.5 million of external funding has been raised by the company to enable it to continue delivering an ambitious programme of events, promote the City to tourists and inward investors and deliver the UK DRIC. In the same period there has been a significant reduction in City Council funding amounting to over £500,000 combined with the instruction to deliver a number of events on behalf of the City Council which placed significant pressure on the company. Remarkably, although this led to losses during the previous 2 trading years, the prospect for 2019-20 shows that on a P&L basis the company will be approaching a break-even position. Although the company and directors have operated prudently and through intelligent cash management have managed to trade through this difficult period, the accumulative facts of deficit in the previous years and especially the 2018-19 fiscal year has led to an operation shortfall and subsequent cash requirement of £192,000.*

The Corporate Director advised that this positive note led Officers to believe that the issues faced by MGL were just a short-term cash flow requirement.

- 6.48 Responding to Councillor Patel's concerns about the comparison made between MGL and Aspire Trust in the officer response (3A), the former Interim CEO of MGL, Steve Brown, explained that MGL's challenges were not unique, with Destination Management Organisations (DMOs) around the

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country facing reductions in funding. The challenge for DMOs was to either reduce costs or increase revenues and MGL did neither

*The meeting was extended by 30 minutes.*

- 6.49 The Corporate Director replied to Councillor Patel's question about why the Service Level Agreement was not revised when funding was reduced. He stated that the mechanisms and expectation was there for this to happen, but MGL repeatedly refused to provide the 3-year strategic plan and a 1-year business plan required of them and raised as performance review meetings, with the former CEO stating that the company already had a 5-year business plan and would not provide anything further. The Corporate Director added that Grant Thornton said that the 5-year plan was not an adequate business plan for an organisation facing the challenges which MGL faced. In relation to the query about the advice given to Cabinet by Officers surrounding the savings plan, he informed the Committee that a Cabinet-approved plan to save approximately £200,000 over a two year period pre-dated his arrival at the council and this had already been communicated to MGL in order that they could begin to prepare. Initial savings proposals provided by MGL did not quite reach the £200,000 required, but following discussions Cabinet ultimately decided to proceed with the £200,000 savings target over the course of two years.
- 6.50 Councillor Hilton thanked Officers for the briefing he received on 18 September 2019 in which he was advised of the situation regarding MGL at that time and the proposal to provide MGL with a £240,000 loan facility. He noted the difficulties faced in trying to obtain full accounts from MGL and asked whether the Council should put in place arrangements to receive full management accounts and annual business plans for any companies of which it is a shareholder in future, stating that this information would provide insight into the financial health of a company.
- 6.51 The Corporate Director (Partnerships) responded that there was a fine balance between shareholders having access to certain information and a company having the independence to manage its affairs. She noted that the Members' Agreement required MGL to provide the business plan, cash flow statement, monthly projected P&L account, balance sheet forecast, a 5 year medium term strategy projection and a management report. She considered that the processes were there, but more could have been done to ensure that the information was provided and subject to proper scrutiny. Moreover, she stated that building good relationships with Teckal companies was key to ensuring access to information.
- 6.52 Councillor Hilton thanked Councillor Morgan for honouring his promise to publish the consultants' reports following the governance and strategic review. In response to a question from Councillor Hilton, Councillor Morgan provided categorical assurance that when the £240,000 loan was agreed he believed it would be sufficient to sustain MGL to until the end of the financial year having received assurances to that effect.

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- 6.53 Councillor Hilton asked the former Interim CEO of MGL for his view on MGL and whether the decision to enter into insolvency proceedings had been the correct one. Furthermore, he asked him for his view about which sort of model the City should adopt for delivering marketing in the future and whether there were any good examples of council-run DMOs that the council could learn from. Steve Brown responded to say that he had joined MGL at its worst, and thus had only seen a tiny portion of the company's operation, but that he had to agree that entering into insolvency proceedings was the correct decision. He outlined the work he was undertaking to look at how Gloucester should market itself in the future, which he hoped would be completed by the end of April 2020. He advised that there were good examples of all types of models, including council-run and commercial operations. His work would identify a number of options for an effective destination marketing delivery vehicle, which was essential for the City to achieve its ambitions.
- 6.54 Councillor Hyman asked whether events would be going ahead in the meantime. Councillor Morgan stated that it was proving challenging to deliver some of the events as the council was having difficulties obtaining financial and operational information for these events. However, four members of MGL staff had accepted short term temporary contracts with the council and were continuing to work on events and, so far, this seemed to be going well. Councillor Morgan added that the council had taken on certain obligations from MGL in relation to events which they had contracted to produce. Thus, the Council would be carrying on with these events and the Cabinet and Officers would be looking at the range of events to be delivered in the future. He stated that whilst they were starting from a difficult position, he was confident that a good range of festivals and events would be delivered across the City this summer and into the future.
- 6.55 Councillor Patel asked for further clarification of when Senior Officers became aware that MGL was experiencing financial difficulties, and that they would not be able to deliver certain events. He asked what actions Senior Officers took to ensure that events were still delivered. The Corporate Director stated that the council was aware that the reduction in funding would present a challenge, however, the council's core funding had also been reduced and all partner organisations had a role to play in making savings. The Council had engaged with MGL to address how the reduced funding would be managed, and his view was that MGL did not respond in a constructive and positive way. He explained that Officers checked with Cabinet whether they wanted to proceed with the proposed savings, which they did. Nonetheless, Officers only became aware of the fact that MGL were unable to pay creditors and the HMRC from around September 2019, as previously highlighted by The Corporate Director (Partnerships).
- 6.56 In response to a question from Councillor Patel the Corporate Director reiterated that the former CEO had informed the Council that it could not afford to put on certain events, as detailed in the minutes of various meetings. However, he explained that the funds provided to MGL had originated as two separate payments, a grant to meet MGL's core operating costs and to deliver a number of core services plus an additional £165,000,

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added later in 2013/14 to fund the delivery of festivals and events. It had always been made clear to MGL that the reduction in funding from the Council was not intended to reduce the £165,000 for festivals and events and that this level of funding remained the same throughout the period. There had been no reduction in the level of funding to MGL for festivals and events.

- 6.57 Addressing the former Interim CEO of MGL, Steve Brown, Councillor Stephens stated that he looked forward to the outcome of his work and noted that the final decision on the delivery vehicle for marketing in the City must also have the confidence of other stakeholders, particularly as the current situation with MGL could have had a damaging effect on stakeholders' confidence in the council. Steve Brown agreed and advised that he was speaking with many stakeholders across different sectors.
- 6.58 The Committee discussed and agreed a number of recommendations.
- 6.59 **RESOLVED** that the Overview & Scrutiny Committee **RECOMMENDS** that:
- 1.) Once the liquidation proceedings have been concluded, a report is brought before the Committee detailing how grant money was spent by MGL and accounted for.
  - 2.) Cabinet reviews the Council 's whistleblowing procedure particularly in relation to Teckal companies.
  - 3.) Cabinet reviews existing Service Level Agreements and performance management frameworks for existing contracts currently in place.
  - 4.) Cabinet reviews the role of Councillors on the Boards of the Council's partner companies and organisations.
  - 5.) The report which is being prepared by Steve Brown is brought before the Overview & Scrutiny Committee for consideration prior to the report going to Cabinet. This report should also detail the Terms of Reference for the new Destination Management Organisation, if any, and the budget to be allocated for this.
  - 6.) When the Council enters into any arrangement with partner organisations there are access to information policies between the organisation and the Council.
  - 7.) When the Council enters into any such future arrangements there are clear guidelines and expectations for reporting to the Overview & Scrutiny Committee.
- 6.62 The Chair highlighted that this would be their last meeting as Chair, and they concluded the meeting by thanking Committee Members, guests and Officers for their efforts over the last 4 years.

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6.63 On behalf of the Committee, Councillor Stephens thanked the Chair for their work in the last 4 years.

**7. DATE OF NEXT MEETING**

**Time of commencement: 6:30pm**

**Time of conclusion: 9:00pm**

**Chair**