The Gathering 2009

AUDIT SCOTLAND

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Auditor General for Scotland

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Background

1. Homecoming Scotland 2009 was a Scottish Government tourism initiative. It aimed to deliver additional tourism and revenue for Scotland by encouraging people, whether at home or abroad, to join in a number of celebrations of Scotland's heritage, culture and contributions to the world. Homecoming Scotland included over 400 events, ranging in size from high-profile signature events to community-led events. According to an external economic assessment, Homecoming Scotland 2009 generated additional tourism revenue of £53.7 million to the Scottish economy.[1]

2. The Gathering (the event) took place on 25 and 26 July 2009 comprising a clan gathering, Highland Games and pageant. A private sector company, The Gathering 2009 Ltd (the company), developed, organised and delivered the event. Although the idea and original development of the event started before the announcement of Homecoming Scotland 2009, it evolved to become one of the signature events in the programme.

3. The event had a budget of £2.4 million and attracted public sector grant funding of nearly £500,000 from organisations including EventScotland, the City of Edinburgh Council (the council), Scottish Enterprise Edinburgh and Lothians (SEEL) and the Scottish Government, but made a financial loss of £516,000. This resulted in the company being unable to pay its creditors, which included a number of public sector bodies.

4. Following media coverage of the financial situation, two MSPs contacted Audit Scotland about the circumstances leading to this position. After consideration of the events, the Auditor General asked Audit Scotland to undertake a review of the event. The key objectives of the project were to:

   - review the governance arrangements of the Gathering event
   - evaluate the event's financial management arrangements
   - review the basis of the decision to write-off the public sector monies owed by The Gathering 2009 Ltd, including both monies to fund the event and the services provided.

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[1] *Homecoming Scotland 2009 Economic Impact*, EKOS Economic and Social Development Consultancy, March 2010.

5. This report concentrates on the role played by public sector bodies in the event. Our work did not include an audit or full investigation of the financial affairs of the company, as financial matters relating to private companies are outwith the auditing powers of the Auditor General.

Key findings

- The three original public sector funders (EventScotland, the council and SEEL), formed a steering group with the company directors to allow them to maximise the economic benefit of the event and look after their interests. However, the steering group had a purely advisory role with no sanction to enforce changes on how the company should deliver the event.
- From April 2009 onwards, the company provided regular financial projections to the steering group. While financial issues were discussed at each steering group meeting, the quality of the financial information could have been better, for example, by including information on actual income and expenditure to date.
- In May 2009, the company directors informed ministers that the company was experiencing cash flow difficulties. In response, the Scottish Government provided support to the company in the form of a short-term loan of £180,000, to be repaid by 31 August 2009 at the latest. The steering group was not told of this loan. At the same time the public sector funders represented on the group also brought forward grant payments to help alleviate the cash flow problems.
- In September 2009, the company told the Scottish Government that the event had made a significant loss of £516,000 and that it was unable to repay the loan. Analysis of the financial outturn against budget projections shows that expenditure for the event was largely on budget, but there was a considerable shortfall in income. Less income than forecast was received from ticket sales, sponsorship and merchandise sales.
- An external economic assessment reported that the event delivered significant economic benefits to both Edinburgh and Scotland as a whole. In an attempt to secure the Gathering brand for future events, the Scottish Government, along with the council, sought potential purchasers of the company. The Scottish Government and other public sector creditors also wrote-off nearly £300,000 due to them by the company, as the debts were judged irrecoverable and their write-off would make a potential purchase more viable.
- Separate reports on the company's intellectual property and on the estimated value of assets and liabilities were commissioned.[2] However, the Scottish Government and the council did not have a full understanding of the position before releasing information about the future of the company. The due

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[2] Intellectual property includes brands and trademarks, contact databases and the website and internet domain name.

diligence work was still be carried out and the valuation of the brand was yet to be finalised, causing misleading information to be published in a council-issued press release.

- The council commissioned its own valuation of the intellectual property of the company which reported, in January 2010, that it had a value of between £40,000 and £100,000. The council subsequently told the Scottish Government on 26 January 2010 that it could not purchase the company or the intellectual property due to budget constraints. The company went into voluntary liquidation the same day.

Recommendations

There may be lessons for the wider public sector arising from the problems with this project. Public sector bodies are increasingly working in partnership with each other and with the private sector. When considering arrangements where the private sector contributes towards the delivery of public sector objectives, it is important that public bodies protect their interests and taxpayers' money. As a result public sector bodies should:

- ensure good communication between joint funding bodies through regular exchange of information and agreeing roles and responsibilities
- consider carefully the role, membership and reporting line of steering groups, including the balance between advisory and decision-making roles. They should establish a clear remit for a steering group
- ensure that the accountability for spending public money is always clearly understood, with an explicit statement of the degree of financial risk being assumed by each of the partners
- set out clear expectations for financial reports and add these to the key performance indicators which are required to be met for payments to be released
- where relevant company history exists, consider the circumstances when due diligence checks on private sector companies should be undertaken prior to offers of funding being made.

Part 1. Organisation and delivery of the event

The event was developed, organised and delivered by a private sector company

6. The idea for the Gathering 2009 (the event) originated from Jamie Sempill in partnership with Jenny Gilmour. They developed the idea for the event and in February 2007 established a private company limited by shares, The Gathering 2009 Ltd (the company), to design, organise and deliver the event. The company is owned equally by Jamie Sempill and Red Sky at Night Ltd, of which Jenny Gilmour is a director. The company owned the event and, as a result, its directors legally carried the associated financial risk, benefiting from any profits made but also bearing the consequence of any losses.[3]

7. Red Sky at Night Ltd is an event management company which has run a number of high-profile events in Scotland and the UK. Since 2002, for example, it has been responsible for delivering elements of the Johnnie Walker Golf Championship at Gleneagles and the RBS Six Nations Rugby Championship at Murrayfield. Jamie Sempill is the Vice-Convenor of the Standing Council of Scottish Chiefs and has a wide network of contacts through previous marketing activities on the Highland Games circuit in North America. Lord Sempill was responsible for the marketing and promotion of the event while Red Sky at Night Ltd led the production of the event.

The Gathering became a signature event of the Homecoming Scotland celebrations

8. The idea to establish 2009 as a year of celebration was initiated by the Scottish Executive in 2003, with a commitment to celebrate the 250th anniversary of the birth of Robert Burns. Following the Ministerial Review in 2007, it was decided that the main focus of the year was to generate additional tourism, with responsibility for the project moving to EventScotland and VisitScotland in November that year. The Homecoming Scotland 2009 celebrations were directed at Scots, ancestral Scots and anyone with an interest in the country. The events programme which formed the basis of the year was

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[3] A private company limited by shares means that the company has shareholders and that the liability of the shareholders to creditors of the company is limited to the capital originally invested. In the case of The Gathering 2009 Ltd, the two directors own one £1 share each. The directors have therefore limited personal financial liability towards the company's creditors but they would bear the reputational consequences if the company was unable to pay its creditors.

created around five themes: Robert Burns, whisky, golf, great Scottish minds and innovations, and ancestry. The Gathering event supported the ancestry theme of Homecoming Scotland, and although the idea and original development of the event started before the announcement of Homecoming Scotland 2009, it evolved to be one of the signature events in the programme **(Exhibit 1)**.

Exhibit 1

Main elements to the event

The Gathering was a large-scale event with three different elements.

The event was the largest clan gathering ever held in the world and took place in Edinburgh over the weekend of the 25 and 26 July 2009. It consisted of three main elements:

- Highland Games in Holyrood Park, which hosted the 'World Highland Games Championship 2009' and attracted the world's best heavy athletes.
- Clan Parade along the Royal Mile on the 25 July.
- Clan Pageant on the evening of the 25 July including a production of Aisling's Children, a theatrical production of the contribution made by the Clans to the culture and history of Scotland.

Other events during the weekend included clan tents, Celtic music performances, a literary event featuring top authors, an ancestral tent helping people trace their roots, and a whisky tasting tent.

The event was also supported by an education programme, held pre-event, in local schools with activities including a poetry competition, storytelling sessions, Scottish country dance, and an introduction to Highland Games activities. HRH The Prince of Wales was patron of the event.

Source: Company business plan

The public sector provided grant support of £490,500 for the event

9. A number of public sector bodies provided £490,500 funding for the £2.4 million event, at various stages and for different reasons. Public sector funding accounted for about a quarter of the event's total income. The public sector funding can be split into three categories:

- Initial funding to establish the idea as an event and to ensure its delivery.
- Funding given to develop the event further.
- Funding to stimulate ticket sales **(Exhibit 2, overleaf)**.

Exhibit 2

Summary of public sector funding

Public sector funders provided grant support of £490,500 towards the event.

Organisation	Amount of funding	Date granted
Initial funding		
Scottish Enterprise Edinburgh and Lothian	£100,000	10 August 2007
EventScotland	£100,000	27 August 2007
City of Edinburgh Council	£100,000	18 September 2007
Development of event		
Scottish Government	£100,000	15 December 2008
Heritage Lottery Fund	£10,500	6 April 2009
Marketing		
Homecoming Scotland (via EventScotland)	£80,000	19 June 2009
Total	**£490,500**	
Total actual event income	**£1,868,680**	
Public sector funding as a percentage of total income	**26%**	

Source: Audit Scotland analysis of funding approval letters, 2010

An initial £300,000 funding was provided to support the event

10. In February 2007, the company approached a number of public sector bodies to see if they would provide funding to support the event:

- EventScotland, the national events agency which attracts, generates and sustains a portfolio of world class events in Scotland. EventScotland is a directorate of VisitScotland, the national tourism agency.
- City of Edinburgh Council (the council), to attract a local audience and to maximise benefits for Edinburgh.
- Scottish Enterprise Edinburgh and Lothians (SEEL)[4], to maximise benefits for business in Edinburgh and the Lothians.

[4] The role of SEEL has subsequently been taken on by Scottish Enterprise.

11. Over the next three months, the public sector bodies considered the request for funding taking into account the likely economic impact of the event. Each public sector body assessed the funding request against its own corporate priorities, but as is normal practice for major events, they also worked in partnership to assess the event and to maximise its potential.

12. The company submitted its final business plan to EventScotland, the council and SEEL in June 2007, seeking £300,000 grant split equally between the bodies. Funding was awarded during August and September 2007 **(Exhibit 2)**.

13. Each of the public sector bodies followed their standard processes for assessing grant applications. The public sector bodies separately assessed the event to ensure that its projected benefits were in line with their corporate objectives and the appropriate level of approval, eg sub-committee level, was sought in each case. EventScotland performed credit checks on Red Sky at Night Ltd as the Gathering 2009 Ltd was a new company and had no credit history. EventScotland concluded that Red Sky at Night Ltd had ‘good credit worthiness’ and shared this information informally with the other public bodies. These bodies did not perform their own credit checks.

14. The company’s business plan forecast that the event would attract at least 37,500 visitors over two days, and deliver an economic impact ranging from £1.4 million to £2.3 million for Edinburgh and from £3.1 million to £5.2 million for Scotland as a whole.[5] This equated to a return on the £300,000 public sector investment ranging from 1:5 to 1:17.

15. The public sector funders and the company agreed indicators of progress which would trigger grant payments, such as selling a minimum number of tickets and submitting a budget. A payment schedule was agreed, staggering the payments from each of the funders over the life of the event.

A further £110,000 funding was provided to increase the event’s impact

16. In June 2008, the company approached the Scottish Government with proposals for further grant funding. At that time the large scale of the event was becoming clear and the company sought additional funding to maximise its impact. The business case submitted to the Scottish Government contained two proposals for further funding:

    - Funding of £100,000 towards the Highland Games, to allow higher quality temporary structures to be used.

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[5] Economic impact includes the additional expenditure as a result of the event, including the company’s use of suppliers and subsequent support of employment levels, and the spend by visitors to the event on accommodation and other items.

- Funding of £75,000 to film the event for broadcast and £30,000 for an education programme to be run in local schools.

17. The Scottish Government assessed the proposal and decided to award the company £80,000 towards the Highland Games element and £20,000 towards the education programme. The Scottish Government's assessment concluded that the Highland Games would be a good way to reach its target tourism audience. It considered that providing funding to film the event would provide the company with an ongoing income stream and was not the best use of public money. The Scottish Government followed its normal procedures for awarding grants, and accordingly, did not complete any background checks on the company or discuss the grant with any of the other public sector funders.

18. In addition, the council applied for a grant, on behalf of the company, from the Heritage Lottery Fund (HLF) to help fund the education programme held prior to the main event. HLF agreed to award the education programme £10,500. The council drew down the grant payments and subsequently forwarded them to the company to deliver the programme.

A final £80,000 funding was provided to support the marketing campaign

19. EventScotland provided a further grant of £80,000 from its Homecoming Scotland budget in June 2009 to help with a second wave marketing campaign.[6] By April 2009, the company had successfully sold 80 per cent of the advance passport tickets available; however the public sector bodies had concerns about the slow sale of Highland Games tickets.[7] The further funding was provided to support additional marketing focused on short-haul overseas visitors, those people already likely to be in the UK at the time of the event, the UK and Ireland market and also the local Scottish market.

The original public sector funders formed a steering group to look after their interests

20. The three original public sector funders (EventScotland, the council and SEEL) alongside representatives from Homecoming Scotland, formed a steering group with the company's directors. The group first met in February 2008 and approximately quarterly thereafter, until April 2009 when it started meeting monthly and from June 2009 it met weekly.

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[6] The Homecoming Scotland budget was initially part of the Scottish Government budget, but was transferred to EventScotland when it was given responsibility to deliver the programme.
[7] Passport tickets to the event included entry to the Highland Games on both days and a seat at the Clan Pageant. Tickets for entrance to the Highland Games on each day of the event were also sold separately.

21. The steering group did not have a formal remit but its role was to allow the public sector funders to be updated on progress with the event's planning, to protect their interests and maximise the economic benefits. The public sector funders were also expected to contribute their knowledge, experience and expertise to the event. Homecoming Scotland was represented to ensure a fit with the overall Homecoming programme. EventScotland took the lead role in organising meetings and agendas and was the assumed chair of the group, although all funders were equal partners.

22. As the event was run by a private sector company, the steering group had a purely advisory role and could not enforce any actions or changes. The company, as the event owner, had the power to make all commercial decisions.

23. The Scottish Government did not join the steering group on the award of its grant, nor did it ask for information from other steering group members before awarding the grant. The Scottish Government did, however, seek informal updates on the event's progress directly from the company directors in accordance with the conditions of the £100,000 grant.

The financial information provided by the company to the steering group could have been better

24. The company provided each steering group meeting with information regarding progress on the event, including ticket sales, marketing activities and financial projections. From April 2009, the financial information provided did not include figures for actual income and spend to date, but was based on forecasts of total income and spend for the event. It was, therefore, not possible to compare outturn figures with budgets, at any point in time, to provide assurances as to the accuracy of the financial projections.

25. Some steering group members told us that the financial projections were difficult to understand but they did not doubt the reliability or accuracy of the figures. The group challenged the financial information, discussed the information presented and, where necessary, asked for revisions and updates. For example, from May 2009 onwards, the company responded to the group's suggestion to provide financial projections based on three different scenarios for ticket sales.

The Scottish Government provided a loan of £180,000 in response to the company's cash flow difficulties

26. In April 2009, the directors of the company met with the Minister of Culture, External Affairs and the Constitution to discuss the broadcasting of the event. At this meeting, the directors reported that they were facing a number of cash flow problems, particularly for the period from May to July 2009.

27. The company had contracted with WorldPay to process advance sales of passport tickets from overseas.[8] In accordance with the signed contract, WorldPay was withholding income from advance ticket sales until after the event had taken place, and the directors reported this was affecting the company's cash flow. At this time, income held by WorldPay totalled approximately £160,000, and was expected to reach around £250,000 by the end of the event.

28. In its planning for the event, the company had expected that other income streams, including sponsorship and advance sales through other mechanisms, would provide sufficient cash while it waited for payment from WorldPay. The directors reported, however, that as a result of the recession, sponsorship income was £150,000 less than originally forecast. The shortfall in sponsorship income meant that there was not enough cash to cover the company's outgoings while the funds collected in WorldPay were unavailable.

29. The directors also reported that suppliers were demanding full payment upfront due to their own financial difficulties in the economic climate. The company directors had expected that they would not need to make payment until after the event and this was also causing cash flow problems.

30. As a result of these issues, the company was anticipating a cash shortfall of £260,000 in June 2009 and was trying to negotiate an overdraft with its bank. It was also looking for support from the Scottish Government, either in the form of additional funding or a loan.

31. The Minister of Culture, External Affairs and the Constitution asked Scottish Government officials to advise on the practicalities of underwriting the company's cash flow until the money from ticket sales was released. Officials sought advice from the finance directorate regarding the provision of a loan and were advised that there was no barrier to offering funds if it was considered necessary to a successful outcome. The Scottish Government did not complete robust checks of the company's ability to repay the loan, or seek information from the other steering group members regarding the company and the event's status.

32. These discussions culminated in the offer of a short-term interest-free loan of £180,000 in June 2009 to help the company manage its cash flow. The Scottish Government did not consider charging interest on the loan or asking the company to provide any guarantees because it was only intended to be short-term in nature. According to the agreed terms, the loan was to be repaid within 14 days of payment being received from WorldPay, and no later than 31 August 2009.

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[8] WorldPay is the payment processing business of the Royal Bank of Scotland Group and was used by the company to process ticket sale transactions from overseas.

33. The Scottish Government does not normally provide loans to private companies and officials did not seek professional advice on its legality. The Scottish Government awarded the loan under s23 of the National Heritage (Scotland) Act 1985, which relates to the power of the Secretary of State to make payments to any body whose activities appear likely to promote the development or understanding of cultural or scientific matters.

Other public sector funders brought forward scheduled payments

34. Cash flow difficulties were discussed at steering group meetings in June 2009 and members were told by company directors that they were negotiating overdraft terms with their bank. As a result, public sector funders agreed to adjust their payment schedules to help the cash flow position. The steering group members were not informed of the Scottish Government loan, as media interest was intense at the time and the Scottish Government was concerned that a leak of information would jeopardise the delivery of the event's economic impact. The other public sector funders were therefore making decisions without the full knowledge of other public sector cash flow assistance. **Exhibit 3** shows the payment schedules of the public sector funders on the steering group.

Exhibit 3

Public sector funding payment schedule

Public sector funders brought forward their final payments to help with the company's cash flow position.

	Payment 1		Payment 2		Payment 3		Payment 4	
	Scheduled	*Actual*	*Scheduled*	*Actual*	*Scheduled*	*Actual*	*Scheduled*	*Actual*
EventScotland	£50,000 October 07	£50,000 October 07	£25,000 August 08	£25,000 August 08	£15,000 March 09	£15,000 March 09	£10,000 September 09	£7,500 July 09 £2,500 March 10*
Scottish Enterprise	£50,000 November 07	£50,000 November 07	£25,000 August 08	£15,000 March 08 £10,000 August 08	£15,000 March 09	£15,000 March 09	£10,000 September 09	£10,000 July 09
City of Edinburgh Council	£25,000 January 08	£25,000 January 08	£50,000 April 08	£50,000 June 08	£15,000 April 09	£15,000 June 09	£10,000 September 09	£10,000 July 09

**In accordance with normal practice EventScotland retained £2,500 from the final payment until after the event. This was released in March 2010 as EventScotland judged that the company had met the terms of the agreement.*
Source: Audit Scotland analysis

Throughout the organisation of the event financial projections indicated that a small deficit was most likely

35. Financial projections showed that the event would be loss-making except if it attracted the most optimistic gate numbers. The company directors considered a loss was acceptable in the first year as they intended to carry on the company after the event, with a view to holding a similar event in the future. The company also anticipated income streams from post-event merchandising sales of DVDs and CDs which meant that the deficit would be manageable. From discussions with steering group members who have experience of other events, it is not uncommon for an event to run at a loss for the first year.

36. Steering group minutes and discussions with members indicate that the group paid attention to maximising income and keeping costs down, while ensuring that the event attracted sufficient visitor numbers and made an impact. The project director for Homecoming Scotland met with the company directors in May 2009 to discuss ways of improving the budget, including more realistic income streams and, to suggest ways of potentially reducing expenditure. As a result, the directors made some changes to the budget, including removing the additional entry fee for the literary tent. However, they did not take on board other suggestions such as reducing projected income from CD sales.

37. The company directors presented the final financial projections prior to the event to the steering group on 15 July 2009. These projections included three possible scenarios based on pessimistic, most likely and optimistic numbers of ticket sales (excluding passport sales). The most pessimistic scenario was based on 30,000 ticket sales and forecast a deficit of £223,000. The most likely scenario was based on ticket sales of 40,000 and forecast a deficit of £49,000. The most optimistic scenario forecast a surplus of £118,000 based on ticket sales of 50,000 **(Exhibit 4)**.

Exhibit 4

Financial projections immediately prior to the event

The final budget projections show that a deficit of £49,000 was most likely.

	Pessimistic	Most likely	Optimistic
Ticket sales	30,000	40,000	50,000
Income	£2,132,000	£2,306,000	£2,473,000
Expenditure	£2,355,000	£2,355,000	£2,355,000
Budget outturn	Deficit £223,000	Deficit £49,000	Surplus £118,000

Source: Budget presented to steering group 15 July 2009, prepared by the company. Figures have been rounded.

Part 2. The results of the event and what happened next

The company reported a loss of £516,000 on the event with unpaid creditors of £675,000

38. The company's unaudited financial records of 16 September 2009 indicate an overall net loss of £516,000, with total income of £1,868,000 and total expenditure of £2,384,000.[9] The company also owed £675,000 to public sector and private sector organisations. Analysis of post-event budget information indicates that expenditure on the event was broadly in line with expectation. However, there was a significant shortfall in income, with a number of factors contributing to this shortfall.

39. As at September 2009, income from the event amounted to £1,868,000. This was £438,000 (19 per cent) lower than the projected income based on the most likely scenario for ticket sales of £2,306,000. It was also £264,000 (12 per cent) lower than the projected income based on the pessimistic scenario of £2,132,000 **(Exhibit 5, overleaf)**. The directors attributed the lower than anticipated ticket sales to a number of factors including the economic recession, public concerns about the impact of the swine flu outbreak and poor weather on the second day of the event.

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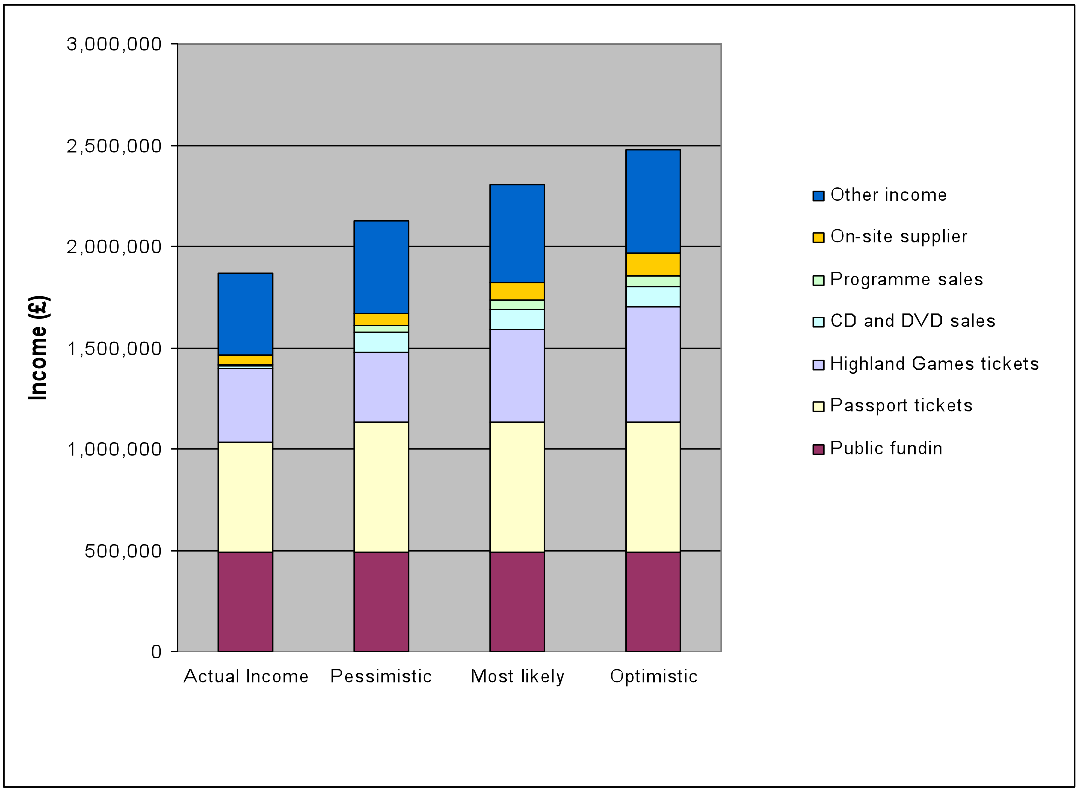
[9] These figures are taken from post-event financial information prepared by the company. These figures have not been audited and may differ to figures released to creditors by the liquidator.

Exhibit 5

Actual income compared to projections

Income was lower than projected mainly as a result of fewer sales of tickets and CD and DVD sales



Source: Audit Scotland analysis of company information, 2010

Income from ticket sales was less than forecast

40. Total ticket sales for the Highland Games were 32,400, which was only 2,400 more than the pessimistic forecast of 30,000.[10] The event also attracted a larger number of concessionary tickets than expected. The company had forecast that 30 per cent of tickets would be concessions, whereas the actual figure was 40 per cent of tickets. The overall effect of lower than expected sales and higher than expected concessions was that income from Highland Games ticket sales amounted to £366,000. This compares with the projected income from this source ranging from £342,000 (pessimistic scenario) to £456,000 (most likely scenario) to £570,000 (optimistic scenario).

41. Actual passport ticket sales were also lower than expected at 7,400 against a projection of 8,100. As a result, passport sales amounted to £543,000 against £644,000 projected.

[10] The directors reported that the event attracted 47,000 visitors. This, however, includes 2,600 participants who were not required to pay an entry fee. It also includes an estimated 4,500 passport holders who attended both days of the Highland Games. These people were counted twice as visitors but they did not have to pay an additional entry fee for the second day.

Sales of programmes and CDs and DVDs were lower than expected

42. Income from sales of programmes and programme advertising was £25,000 less than forecast. The company contracted with a supplier for the production and sales of the programmes and the programme advertising. As at 16 September 2009, total income from programme sales and advertising was £37,000, and after costs a profit of £6,545 was realised.

43. The company had also forecast that merchandise sales of CDs and DVDs would provide a significant income stream post-event, with sales forecast at £99,500. As at September 2009, sales had reached £10,800. However, as this income stream was expected to continue for some time into the future, it is not unreasonable to expect a lower income than final projections at that time.

Expenditure was only one per cent over budget

44. Actual expenditure on the event as reported in September 2009 was £2,384,000, only £30,000 over the final projected costs (one per cent). The main area of overspend was on the production cost of the Highland Games which, at £742,000, was £47,000 over budget. According to the directors of the company, the on-site build took over five weeks and additional costs were incurred on other elements including security, event cleaning, and policing and medical cover. This overspend was partly compensated for by an underspend of £29,000 on DVD filming and production (against a budget of £51,000). The company had made an agreement with a third party whereby the third party took 45 per cent ownership of the DVD filming and production, as a result reducing the company's costs.

An external assessment of the economic impact indicated that the event was successful in generating tourism revenue

45. EventScotland commissioned an external assessment of the event's economic impact for Edinburgh and Scotland.[11] This report indicated that the event generated net additional expenditure of £8.8 million in Edinburgh and £10.4 million in Scotland as a whole. The return on the public sector investment was 1:18 at the Edinburgh level and 1:21 at the Scottish level. This is greater than the £5.2 million economic impact and 1:17 return on investment originally forecast in the business plan at the highest level of expected attendance (paragraph 14).

46. An external assessment was also undertaken of the economic impact of the Homecoming Scotland campaign as a whole. This found that it generated £53.7 million to the Scottish economy, which included a contribution from the Gathering event.

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[11] *The Gathering Economic Impact Assessment*, EKOS, September 2009.

47. We have not validated the external economic impact assessment of either the Gathering or Homecoming Scotland 2009.

When the scale of losses became known significant attempts were made to secure the future of the event

48. In early September 2009, the company directors told ministers and the Scottish Government that the scale of the losses meant that they could not repay the £180,000 loan. As a result, ministers asked the Scottish Government to investigate the financial situation of the company. No formal report was prepared but, on the basis of the latest management accounts and the list of creditors provided by the company, it was concluded that the debts were likely to be irrecoverable.

49. As the company could not pay its debts as they fell due, they were at immediate risk of insolvency because a creditor could instigate proceedings against it. It was therefore felt necessary that the subsequent assessment of options and decisions about potential solutions were completed quickly. This work took place over a two-week period from the end of September to the middle of October.

The Scottish Government concluded that it could not provide any further financial assistance

50. At the end of September the First Minister and the Minister for Culture, External Affairs and the Constitution met with the company directors to discuss the financial situation. As a result of the positive economic benefits provided by the event, ministers were keen to protect the reputation of the event to allow further economic benefits to be generated for Scotland through future Gathering events.

51. In September 2009, the Scottish Government asked VisitScotland to commission a valuation of the intellectual property of the company. The Scottish Government considered three options: taking no action, buying a stake in the company, or buying the company's intellectual property. It came to the conclusion that there were significant barriers to the second and third of these options, including compliance with State Aid rules, budgetary implications and the need to comply with Companies Act legislation.[12] As a result, the Scottish Government sought an alternative buyer for the company.

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[12] State Aid is a European Commission term which refers to a form of assistance from a public body given to private companies with the potential to distort competition and affect trade between member states of the European Union.

Public sector creditors wrote-off debts of £292,000

52. A key issue of concern was whether any potential purchasers would realistically consider buying the company with its level of outstanding debts. As there was a low probability of recovery of the debt and in an effort to avoid the liquidation of the company and to safeguard the reputation and future of the event, the Permanent Secretary took internal advice on whether the loan could be written-off for internal accounting purposes in line with the Scottish Public Finance Manual (SPFM).[13]

53. The Permanent Secretary also passed on his judgement on the recoverability of the debt to other public bodies that had incurred debts through the provision of services to the event, so that they could also consider writing-off the amounts owed to them **(Exhibit 6)**. The Scottish Government and the three public sector bodies all agreed to write-off the outstanding debt (in accordance with the SPFM).

Exhibit 6

Amounts written-off by public sector creditors

Four public sector creditors wrote-off a total of £292,000 owed by the company.

Public sector organisation	Amount written off (including VAT)
Scottish Government	£180,000
Scottish Ambulance Service	£11,738
Lothian and Borders Police	£27,204
Historic Scotland	£73,565
Total	**£291,508**

Source: Individual public sector organisations

Potential purchasers of the company were considered

54. At the start of October 2009, the Scottish Government approached the Royal Edinburgh Military Tattoo (Edinburgh Tattoo) to gauge its interest in buying the company. The Edinburgh Tattoo commissioned consultants to complete due diligence checks to review the assets and liabilities of the company.

55. The Scottish Government also approached the council to see if it would consider being party to a solution to the company's financial problems and to help realise the future of the Gathering as an

[13] The Scottish Public Finance Manual states that losses should only be written off after careful appraisal of the facts and all reasonable action must have been taken to effect the recovery of losses. In accounting terms, a write-off of a debt means that it is no longer recorded as a creditor in the organisation's financial records. However, a public sector body would still seek to recover the debt if possible.

event. The council told the Scottish Government that Destination Edinburgh Marketing Alliance (DEMA) might be interested in taking on the Gathering event, as it considered that the core role of DEMA would align with the aims of a future Gathering style event.[14] DEMA currently receives the majority of its funding from the council.

56. Following initial discussions with the council, DEMA stated that it would be interested in delivering future Gathering events, and the council confirmed this to the Scottish Government. However, these discussions did not include consideration of DEMA taking on the current liabilities of the company. DEMA and the council believed that the Scottish Government would find a way to manage the private sector liabilities of the 2009 event.

57. Subsequently, the Scottish Government informed the Edinburgh Tattoo that it was no longer required to take any action over the company, and arrangements were made to develop a press release announcing that DEMA would purchase the company.

A press release raised expectations, contained misleading information and was issued before all the facts were known

58. The council issued a press release on behalf of DEMA on 15 October 2009, indicating that DEMA would take on the company's remaining private sector obligations and, with the council and other public sector bodies, develop the assets and intellectual property rights to organise future events. Council officials and the Scottish Government worked jointly on the press release prior to its release.

59. The press release was misleading because DEMA had not agreed to take on the outstanding private sector liabilities of the company. The chair of DEMA did not see the whole press release prior to its release and only approved his quote expressing DEMA's desire to be involved in delivering similar Gathering events. It was also issued before all of the facts were known, as due diligence work was still being carried out and the valuation of the intellectual property was yet to be finalised. The press release created an expectation among creditors that they would be paid, which could not be guaranteed at that time. The press release was issued in a very tight timescale mainly to ensure that creditors did not commence winding up proceedings while the purchase of the company remained a possibility.

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[14] DEMA is a private company limited by guarantee, which is specifically charged with the destination promotion of Edinburgh. It is an alliance of key partner organisations including the Edinburgh Chamber of Commerce, Festivals Edinburgh, VisitScotland, Scottish Enterprise and the council.

60. At a subsequent DEMA board meeting on 21 October 2009 the press release was discussed, and the board confirmed that as a private company with limited financial resources it could not take on the financial liabilities of the company. On 17 November 2009, DEMA issued a further press release clarifying its position and stating that it was considering the potential of a future event, subject to the resolution of the financial affairs of the company with which it was not involved.

The company was placed in liquidation when no buyers could be found

61. The valuation of the intellectual property commissioned by VisitScotland was between £40,000 and £100,000, which was not enough to pay the outstanding liabilities. The due diligence work commissioned by the Edinburgh Tattoo confirmed the previous financial results, that the company was insolvent, both in terms of its liabilities exceeding its assets, and that it was unable to pay its debts as and when they fell due.

62. The council also commissioned an independent valuation of the intellectual property of the company to enable them to consider its position with the company or the event. The report took into account the earlier due diligence and brand valuation work commissioned by other bodies and concluded that the value of the company's intellectual property was out-weighed by the list of creditors. In addition, the company directors held much of the intellectual property personally. The report did, however, state that if the company was provided with financial support of approximately £300,000, then there could be potential future economic benefits of £10.4 million. The council concluded that it could take no further action with regards to the purchase of the company or the intellectual property, based on the budget constraints it faced. The council wrote to the Scottish Government on 26 January 2010 confirming that no further action would be taken.

63. The company was placed in liquidation on the same day and a provisional liquidator, Derek Forsyth of Campbell Dallas LLP, was appointed as it was clear there were no potential buyers. The company directors had remained in contact with the council throughout the period from October, and had endeavoured to keep creditors up to date with the situation as it evolved.

The liquidator's list of creditors stands at £726,000

64. The liquidator held the first creditors' meeting on 30 March 2010. The list of creditors compiled by the liquidator amounts to £726,000, with £382,000 owed to six public sector bodies and £344,000 owed to 103 private sector organisations. The £382,000 owed to public sector bodies comprises the £292,000 as shown in **Exhibit 6**, plus £65,000 owed to HM Revenues and Customs for outstanding Pay As You Earn, National Insurance Contributions, VAT and corporation tax, and £24,000 owed to the council for

other services. The list of creditors also includes £23,500 owed to Red Sky at Night Ltd for services rendered, and £15,000 owed to Jenny Gilmour.

65. The liquidator is currently inviting creditors to lodge claims with him. Public sector bodies are in the process of lodging claims to seek recovery of taxpayers' funds.

66. The liquidator will follow the formal legal process for liquidation, and is currently in the process of realising assets in order to make a payment to creditors. As part of the liquidation process, the liquidator is required to make a formal report to the Department of Trade and Industry on the conduct of the directors of the company.

The council settled one of the company's debts

67. On 16 October 2009, one of the creditors wrote to the company stating that they would instruct solicitors to commence winding up proceedings unless the debt of approximately £6,000 was immediately paid. The company passed this information onto the council as negotiations were ongoing regarding the purchase of the company by DEMA. The council subsequently wrote to the creditor stating that it was prepared to underwrite the outstanding debt, until such a time as the Gathering transfers to DEMA and settlement could commence. This arrangement only involved one of the creditors.

68. In late December 2009, the creditor lodged a claim against the council for payment of the debt. The council initially considered this to be inappropriate. But later, in view of The Gathering 2009 Ltd going into liquidation in late January 2010, the council reconsidered its options and entered into discussions with the creditor. This led to an out of court settlement in March 2010.

Appendix 1. The Gathering 2009 timeline

The following timeline provides the key events in the run-up to the Gathering 2009 held on 25 and 26 July 2009, and what happened afterwards. As a summary, it does not go into the detail of, for example, the discussions which took place over the potential purchase of The Gathering 2009 Ltd. The timeline does, however, highlight the key events which helped shape subsequent decisions and actions.

February 2007	Lord Sempill and Jenny Gilmour first approach EventScotland with their ideas for a ‘gathering-style’ event.
20 February 2007	The Gathering 2009 Ltd is incorporated as a company limited by guarantee.
18 June 2007	The company submits its final version of business plan to EventScotland, the council and SEEL.
June - July 2007	The three public sector funders agree to each provide a grant of £100,000 to support the event.
5 February 2008	The steering group comprising representatives from EventScotland, SEEL, the council, Homecoming Scotland and the company’s directors has its first meeting.
10 June 2008	The company submits its proposal to the Scottish Government for further funding.
15 December 2008	The Scottish Government offers the company £100,000 grant.
1 April 2009	The company provides updated financial projections to the steering group showing anticipated losses of £78,000. The minutes indicate that cash flow is ‘an area of considerable concern’ with June identified as a key month.
6 April 2009	The Heritage Lottery Fund agrees to provide £10,500 towards education programme.
28 April 2009	Directors meet with the Minister for Culture, External Affairs and the Constitution to discuss broadcasting the event. The directors report experiencing cash flow problems due to WorldPay withholding income from ‘passport’ ticket sales. Ministers ask Scottish Government officials to advise on the practicalities of underwriting their cash flow until the money from ticket sales is released.
12 May 2009	A meeting between the directors and Scottish Government officials to discuss the WorldPay issue.
21 May 2009	The project director of Homecoming Scotland meets with the company to review the budget and, in particular, the scope to increase income and reduce expenditure.
26 May 2009	Directors provide steering group meeting with financial projections based on pessimistic/most likely/optimistic scenarios of ticket sales (excluding ‘passports’) of 30,000, 40,000 and 50,000 respectively. The steering group meets weekly from this point on.
1 June 2009	The Scottish Government agrees to provide the company with an interest-free, short-term loan of £180,000 to help it manage its cash flow.
19 June 2009	Homecoming Scotland agrees to provide the company with £80,000 as a contribution towards a second wave of marketing.

8 July 2009	Public sector partners agree to explore the possibility of bringing forward remaining grant instalments to aid cash flow.
16 July 2009	Final pre-event budget financial projections are provided to the steering group. Anticipates a deficit of £223,000 (pessimistic), a deficit of £49,000 (most likely) and a surplus of £118,000 (optimistic) based on ticket sales less passport sales of 30,000, 40,000 and 50,000 respectively. Directors also inform the steering group they have secured a suitable overdraft facility with their bankers for the week prior to and after the event until WorldPay funds are released.
25 and 26 July 2009	The Gathering 2009 event takes place.
31 August 2009	The loan is due to be paid back to the Scottish Government.
9 September 2009	The directors meet with the Minister for Culture, External Affairs and the Constitution to review the event. Directors report the event had made a financial loss such that they may be unable to repay the £180,000 loan.
9 September 2009	The First Minister and the Minister for Culture, External Affairs and the Constitution meet to discuss the situation further and commission Scottish Government accountants to investigate the financial position of the company.
16 September 2009	The First Minister and the Minister for Culture, External Affairs and the Constitution meet with the directors to discuss potential courses of action in order to protect the reputation of the event and associated economic benefits.
September 2009	An EKOS economic impact assessment concludes that the event has been successful in generating tourism revenue which is significantly in excess of the public sector funding provided.
29 September 2009	The First Minister, Minister for Culture, External Affairs and the Constitution and the Cabinet Secretary for Finance and Sustainable Growth agree that the Scottish Government should seek a third party valuation of the intellectual property owned by the company. VisitScotland commissions this valuation.
8 October 2009	The First Minister phones the chief executive of the Royal Edinburgh Military Tattoo (Edinburgh Tattoo), to ask him to consider the purchase of the company.
12 October 2009	The First Minister and Scottish Government officials meet with representatives of the council, VisitScotland and the Edinburgh Tattoo to discuss potential purchase of the company by the Edinburgh Tattoo who commission consultants to carry out due diligence work.
12 October 2009	The First Minister phones chief executive of Scottish Enterprise, asking how it could facilitate the purchase of the company.
14 October 2009	The council contacts DEMA Chair to see if DEMA is interested in taking on a future gathering event.
14 October 2009	A phone call between Director of Corporate Services (council) and the Permanent Secretary confirms that DEMA will consider buying The Gathering 2009 Ltd.
14 October 2009	The Private Secretary to First Minister phones the chief executive of Edinburgh Tattoo to say that it need take no further action over purchasing the company.
14 October 2009	The Director General Finance and Corporate Services provides advice to Permanent Secretary regarding the write off of the loan provided by the Scottish Government. The Permanent Secretary agrees to write off £180,000 loan.
14 October 2009	The Permanent Secretary provides advice to other public sector creditors to ask that they consider writing off monies due them by the company to prevent liquidation of the company and to provide a route to repeating the event in subsequent years.

15 October 2009	The council issues a press-release on DEMA's behalf stating that DEMA will take on The Gathering 2009 Ltd's remaining private sector obligations and, with the council and other public sector organisations, will develop the assets and intellectual property rights to organise future events.
16 October 2009	In order to prevent the winding up of the company, the council write to a creditor confirming that it was prepared to underwrite the outstanding debt owed, until such time as the Gathering transferred to DEMA and settlement could commence.
21 October 2009	A DEMA board meeting is held which discusses the potential purchase of the company. It is made clear that DEMA cannot take on financial liabilities of The Gathering 2009 Ltd.
26 October 2009	An independent report commissioned by VisitScotland on the intellectual property of the company is finalised. The intellectual property is valued at £40,000 – £100,000.
30 October 2009	The due diligence report to the Edinburgh Tattoo is finalised and concludes the company is insolvent. The report is later made available to the council.
17 November 2009	DEMA issue a press release stating that it is considering the potential of a future event, subject to the resolution of the financial affairs of The Gathering 2009 Ltd with which they are not involved.
8 December 2009	The council commissions a further independent valuation of the event.
27 January 2010	The valuation report to the council is finalised and concludes that the valuation is in the range of £40,000 – £100,000 and that much of the intellectual property is held by the two directors. However, £300,000 public sector funding would be required to pay the private sector creditors.
27 January 2010	The council writes to the Scottish Government confirming that it would not be buying The Gathering 2009 Ltd or its intellectual property.
27 January 2010	The Gathering 2009 Ltd goes into liquidation and Campbell Dallas is appointed as provisional liquidator.
17 February 2010	A Court Order winding up of The Gathering 2009 Ltd is issued.
26 March 2010	The council settles out of court a legal claim lodged by a creditor in December.
30 March 2010	The liquidator holds the first creditors meeting.

The Gathering 2009

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