

Governance, Risk and Best Value Committee

10.00am, Tuesday 8 December 2020

Marketing Edinburgh Annual Report 2019/20 – referral from the Housing, Homelessness and Fair Work Committee

Executive/routine
Wards All
Council Commitments

1. For Decision/Action

- 1.1 The Housing, Homelessness and Fair Work Committee has referred an annual update report on Marketing Edinburgh to the Governance, Risk and Best Value Committee for scrutiny.

Andrew Kerr

Chief Executive

Contact: Sarah Stirling, Committee Services

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Referral Report

Marketing Edinburgh Annual Report 2019/20

2. Terms of Referral

- 2.1 On 5 November 2020, the Housing, Homelessness and Fair Work Committee considered a report which provided an update on the annual performance of Marketing Edinburgh Limited for the financial year 2019/20.
- 2.2 The Housing, Homelessness and Fair Work Committee agreed:
 - 2.2.1 To note the annual report provided by Marketing Edinburgh Limited for 2019/20.
 - 2.2.2 To refer the report to the Governance, Risk and Best Value Committee for scrutiny.

3. Background Reading/ External References

Minute of the Housing, Homelessness and Fair Work Committee of 5 November 2020

4. Appendices

Appendix 1 – report by the Executive Director of Place

Housing, Homelessness and Fair Work Committee

10.00am, Thursday, 5 November 2020

Marketing Edinburgh Annual Report 2019/20

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| Executive/routine Wards Council Commitments | Executive ALL |
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1. Recommendations

- 1.1 It is recommended that Committee:
 - 1.1.1 Notes the annual report provided by Marketing Edinburgh Limited for 2019/20; and
 - 1.1.2 Refers this report to Governance, Risk and Best Value Committee for scrutiny.

Paul Lawrence

Executive Director of Place

Contact: Paul Lawrence, Executive Director of Place

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Marketing Edinburgh Annual Report 2019/20

2. Executive Summary

- 2.1 This report provides an update on the annual performance of Marketing Edinburgh Limited (Marketing Edinburgh) for the financial year 2019/20.

3. Background

- 3.1 City of Edinburgh Council agreed to set up a new destination promotion body for the Council – Marketing Edinburgh – on [18 November 2010](#).
- 3.2 The business case supporting the creation of this new body was also approved by the City of Edinburgh Council on [18 November 2010](#). Fundamental to the business case was integration of the Destination Edinburgh Marketing Alliance, Edinburgh Convention Bureau, and Edinburgh Film Focus, into a single official, promotional body for Edinburgh - to be known as *Marketing Edinburgh* - with a remit to promote the city to visitors, tourists and investors.
- 3.3 Since being established, Marketing Edinburgh has operated under an SLA with reducing annual funding from the Council. In 2018/19 Marketing Edinburgh received £0.890m of grant funding from the City of Edinburgh Council. On [21 February 2019](#) the Council approved an allocation of £0.590m funding for Marketing Edinburgh in 2019/20.
- 3.4 In 2019/20, Marketing Edinburgh had four core service areas:
- 3.4.1 Business Tourism;
 - 3.4.2 Commercial and Memberships;
 - 3.4.3 Film Edinburgh; and
 - 3.4.4 Marketing and Commercial.
- 3.5 A Service Level Agreement (SLA) for 2019/20 between the Council and Marketing Edinburgh was approved by the Housing and Economy Committee on [21 March 2019](#).
- 3.6 There have been a number of update reports to Committees since March 2020 in respect of the future of Marketing Edinburgh. The most recent report to Policy and

Sustainability Committee was on [9 July 2020](#) and includes a summary of the Council decisions taken on Marketing Edinburgh.

4. Main report

- 4.1 Appendix 1 provides a summary of Marketing Edinburgh's activities in the financial year 1 April 2019 – 30 March 2020.
- 4.2 The Council decision in February 2019 on funding for Marketing Edinburgh led to a reduction in funding of £0.3m in 2019/20, with a further reduction of £0.490m to be applied in 2020/21.
- 4.3 In 2019/20 Marketing Edinburgh went through a period of significant change within the organisation. This report provides an update on the performance of the organisation against the Strategic Objectives which were outlined in the approved SLA.
- 4.4 Appendix 2 links to the Marketing Edinburgh accounts for 2018/19 as submitted to Companies House.

Marketing Edinburgh – Future Business Planning

- 4.5 A business plan for the future operation of the company was considered by Housing, Homelessness and Fair Work Committee on 31 October 2019 (B agenda). However, this approach was not agreed.
- 4.6 In advance of the October Committee meeting, the Board of Marketing Edinburgh resigned and therefore a new Board was appointed through November 2019, and a new business plan was developed in line with the funding available.
- 4.7 On 31 October 2019, Committee agreed to transfer responsibility for film from Marketing Edinburgh to the Council with effect from 1 April 2020.
- 4.8 However, towards the end of the financial year, the outbreak of COVID-19 immediately affected the operations of Marketing Edinburgh and led to a further review of the future service operations of the company.
- 4.9 This led the Council to decide to hibernate the company, and to subsequently decide to transfer the staff, assets and liabilities into the Council.

5. Next Steps

- 5.1 This performance update together with Appendix 1 should be referred to Governance Risk and Best Value Committee, in line with the Council's governance arrangements for arm's length companies.
- 5.2 The staff of Marketing Edinburgh transferred to the Council on 14 September. At the time of writing the arrangements to transfer the current Marketing Edinburgh assets and liabilities into the Council is on-going.

6. Financial impact

- 6.1 The Council provided grant funding of £0.590m to Marketing Edinburgh in 2019/20 for delivery of the Strategic Objectives set out in the SLA. The outcomes delivered are summarised in this report and reported in more detail in Appendix 1.
- 6.2 Marketing Edinburgh's annual audited accounts for the year 2019 have recently been submitted to Companies House and are linked in Appendix 2.
- 6.3 The Council agreed additional financial support to Marketing Edinburgh to enable the company to meet its ring-fenced liabilities and to deliver operational activities in 2020/21.

7. Stakeholder/Community Impact

- 7.1 The Boards of Marketing Edinburgh carried out significant stakeholder engagement in 2019/20 to develop the business plans for future service operations.
- 7.2 Council officers will continue to work closely with the Board of Marketing Edinburgh and with stakeholders to conclude the transfer of staff, assets and liabilities to the Council.

8. Background reading/external references

- 8.1 Previous annual reports on Marketing Edinburgh's performance were reported to the appropriate Committee. The last annual report was considered by Housing and Economy Committee on [6 June 2019](#) and Governance Risk and Best Value Committee on [13 August 2019](#).

9. Appendices

- 9.1 Appendix 1 - Marketing Edinburgh Annual Report 2019/20
- 9.2 Appendix 2 – [Marketing Edinburgh Accounts for 2019](#)
- 9.3 Appendix 3 – Auditor Report

Appendix 1 – Marketing Edinburgh Annual Review 2019/20

Introduction

The purpose of this report is to provide City of Edinburgh Council with information on the performance and activities of Marketing Edinburgh Limited (Marketing Edinburgh) during the financial year 2019/20 (1 April 2019 – 31 March 2020).

Marketing Edinburgh Performance

In 2019/20 Marketing Edinburgh's activities were delivered in four distinct areas:

- Business Tourism;
- Commercial and Membership;
- Film; and
- Marketing and Partnerships.

The Business Tourism team sourced and facilitated conventions and conferences into the city, working closely with conference centre venues and hotels across the city.

The Commercial and Memberships team delivered a range of benefits for Marketing Edinburgh members, including providing information on upcoming conferences and events, promoting member activities and campaigns, facilitating the sharing of ideas and views, and booking accommodation for delegates visiting Edinburgh for conferences and conventions.

Film Edinburgh acts as the film office for the city, providing film office services for Edinburgh, East Lothian and the Scottish Borders. On 1 April 2020 responsibility for the film office transferred to City of Edinburgh Council.

Marketing and Partnerships were responsible for raising awareness of Edinburgh as a destination for visitors and residents, maintaining the city's digital media channels. A summary of the digital channels and campaigns during the year is provided at the end of this report.

The table below summarises Marketing Edinburgh's performance against the Service Level Agreement (SLA) targets agreed with the Council for the period 1 April 2019 to 31 December 2019. The Marketing Edinburgh team reported being on target to achieve all of the SLA targets prior to a period of significant change for the organisation.

| Activity | 2018/19 Actual | 2019/20 Target | 2019/20 Actual 1 April 2019 – 31 December 2019 |
|---|---------------------|----------------|--|
| Membership | | | |
| Income | £388,000 | £335,000 | £311,454 |
| Digital Advertising | £53,185 | £60,000 | £42,968 |
| Accommodation Service Commission | £108,610 Commission | £85,000 | £116,619 |
| Total Sales | £549,795 | £480,000 | £471,041 |
| Business Tourism | | | |
| Economic Impact of conferences to the city in 2019/20 | £72.4m | £65m | £41.8m |
| Partnership | | | |
| Revenue | £0.643m | £25,000 | £20,275 |
| City Pass Revenue | N/A | £6,900 | £16,480 |

| Film Activities | 2018 Actual | 2019 target | 2019 (1 January 2019 – 31 December 2019) |
|----------------------|-------------|-------------|--|
| Enquiries | 481 | 450 | 480 |
| Conversions | 66% | 60% | 71% |
| City Economic Impact | £5.7m | £5m | £14.4m |
| Locations | 51 | 40 | 32 |
| Revenue | £0.0115m | £0.012m | £0.017m |
| Industry Workshops | N/A | 2 | 4 |
| | | | |

Marketing Edinburgh – Digital Summary for Marketing and Subvention

In 2019/20, the results for www.edinburgh.org were:

- 3m website page views;
- 1.5m website sessions;
- 1.2m website users;
- 15.8m social media reach;
- 0.753m social media engagements; and
- 0.470m social media followers.

In 2019/20, the results for Convention Edinburgh were:

- 0.026m web page views;
- 0.018m website sessions
- 0.016m website users;
- 0.005m social media followers;
- 0.363m social media reach; and
- 0.05m social media engagements.

Marketing Edinburgh – Future Plans

Through financial year 2019/20 plans were made for the future of Marketing Edinburgh, taking account of the Council decision to reduce grant funding to the organisation over a two year period.

In early 2020 a redundancy consultation commenced. An initial business plan was developed which retained the three business areas, with reduced staffing capacity. At the same time the global coronavirus pandemic (COVID-19) was identified in the United Kingdom and began immediately impacting on Marketing Edinburgh's core business activities. This led to a revised business plan and a significant reduction in the number of members of staff employed by Marketing Edinburgh.

The Board of Marketing Edinburgh worked closely with the remaining team and with Council officers to maintain the digital channels, to support the Ambassador programme and to maintain support for Marketing Edinburgh members.

In July 2019, the Council's Policy and Sustainability Committee agreed to transfer the staff, assets and liabilities of Marketing Edinburgh into the Council.

Our Ref: NML / MA0721

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PRIVATE AND CONFIDENTIAL

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27 August 2020

Dear Madams

MARKETING EDINBURGH LIMITED LETTER TO THOSE CHARGED WITH GOVERNANCE

We have completed our audit of the above named company for the year ended 31 March 2019 and present the key findings of our audit below:

SCOPE OF WORK

The scope of our work has already been communicated to you in our audit planning letter dated 4 July 2019. There were no changes to the scope of our work during the course of our audit.

2. AUDIT AND ACCOUNTING ISSUES IDENTIFIED

The following audit and accounting issues were identified during the planning of your audit:

(i) All Companies

| <u>RISK IDENTIFIED</u> | <u>AUDIT APPROACH</u> |
|--|--|
| Management override | Intrinsically there is always a risk of material misstatement due to fraud (and hence a significant risk to most companies) as a result of potential management override. A review of large and unusual journals and material bank transactions was undertaken and no incidences of management override were identified that required further investigation. All items tested had a commercial substance. |
| Revenue recognition – completeness and cut off | Revenue recognition is generally accepted to give rise to a risk of material misstatement due to the risk of fraud. In order to test revenue, we completed walk through testing in order to confirm the operation of the system and verification of key controls as we understood them. Furthermore, detailed testing in the form of proof in totals |

| | |
|----------------------|---|
| | <p>of specific revenue streams was carried out where appropriate, and additional substantive testing on a sample basis for the remaining income streams.</p> <p>Sales cut off testing was also completed on a sample basis.</p> <p>From the testing carried out, no material adjustments were carried out and revenue recognition was assessed as being appropriate and in accordance with FRS102.</p> |
| <p>Going concern</p> | <p>Going concern was noted as a significant area of audit focus at the planning stage of the audit as the company was aware that the City of Edinburgh Council ('the Council') would be reducing their future funding.</p> <p>Going concern was therefore critical to the future of the business, with the support from the Council and the intentions of the Board of Directors key to determining the future direction of the entity.</p> <p>The Council met and determined in July 2020 that all trading and associated assets and liabilities of the company would transfer over to the Council post year end. From discussions with the current board of directors, we also understand that they intend to make appropriate arrangements in order to bring about the orderly wind-down of the company.</p> <p>As a result of these decisions, the financial statements have been prepared on a break-up basis which requires the carrying value of assets to be at the amounts they are expected to realise, and liabilities include any amounts which have crystallised as a result of the decision to wind-down the company. An emphasis of matter detailing this departure from the going concern basis of accounting has been incorporated within the audit report in the year end financial statements.</p> |

The following audit and accounting issue was identified during the course of our audit work:

| | |
|---------------------------|---|
| <p>Subvention accrual</p> | <p>During the audit it was noted that in the situation whereby Marketing Edinburgh Limited agreed to make a contribution to events or conferences being hosted in Edinburgh, no accrual was currently provided in the financial statements.</p> <p>From discussion with management it was clear that there was a contractual obligation to make these</p> |
|---------------------------|---|

| | |
|--|---|
| | <p>payments, the amounts could be estimated reliably and it was probable that the amounts would be paid.</p> <p>As the adjustment to correct the accounting treatment was material, a prior period adjustment was processed in the 2019 financial statements to account for this appropriately.</p> |
|--|---|

3. SIGNIFICANT DEFICIENCIES IN INTERNAL CONTROLS

There were no significant deficiencies in internal controls identified during the course of our audit.

Further details of our findings are detailed in section 10 below, which includes our recommendations to the Board in respect of addressing the deficiencies noted during the audit.

Please note that the above only includes those deficiencies which were highlighted during the course of our audit work and it should be noted that these may not represent all of the deficiencies that may exist within your accounting and internal control systems.

4. SIGNIFICANT ACCOUNTING POLICIES, DISCLOSURES AND ESTIMATES

During the course of our audit we reviewed the adequacy of the disclosures contained within the financial statements and their compliance with both the relevant accounting standards and Companies Act 2006.

There were no issues to note with regards to the disclosures within the financial statements.

5. UNADJUSTED / ADJUSTED MISSTATEMENTS

A summary of our unadjusted misstatements is recorded per the letter of representation. These were identified during the course of our work and discussed with management during our completion meeting.

We have not disclosed those items which we consider to be clearly trifling in the context of our audit.

6. INDEPENDENCE

In accordance with International Standards on Auditing (UK and Ireland) 260 "Communication with those charged with governance", there have been no changes to the relationships between French Duncan LLP and Marketing Edinburgh Limited that may reasonably be thought to impact the independence and objectivity of the audit partner, the audit staff and the related safeguards from those detailed in our audit planning letter dated 4 July 2019.

7. FRAUD

There have been no instances of fraud or theft identified during the course of our audit work.

8. COMPLIANCE WITH SIGNIFICANT LAWS AND REGULATIONS

There have been no instances of non compliance with significant laws and regulations identified during the course of our audit work.

9. AUDIT REPORT

The audit report included an emphasis of matter due to the departure from the going concern basis of accounting.

10. MANAGEMENT LETTER POINTS

As required by International Standards on Auditing, we are required to bring to your attention items noted by ourselves during the audit which we consider require to be brought to your attention. Attached is a list of these points at Appendix A. We are aware that a number of the issues have already been discussed; however we are still required to formally include them in this letter.

It should be noted that this letter is not a comprehensive statement of all weaknesses that exist or of all improvements that may be made. We have only documented those matters that have come to our attention as a result of the audit procedures performed, and which we consider to be of sufficient importance that they should be brought to your notice.

If you have any queries on any of the matters raised in this letter please do not hesitate to contact us to discuss these.

May we take this opportunity of thanking you for your assistance during the course of the audit.

11. OTHER AUDIT ISSUES

There were no other issues identified during the audit which should be brought to the attention of the Board of Directors.

This report has been prepared for the sole use of the Board of Directors of Marketing Edinburgh Limited. It must not be disclosed to any third party without our written consent. No responsibility is assumed to any other person in respect of this report.

Yours sincerely



Nicola MacLennan
Partner

APPENDIX A

Prioritisation of Recommendation:

- High Significant findings which requires urgent attention
- Medium Important findings which requires imminent attention
- Low Findings which requires non urgent attention

| OBSERVATION | PRIORITY | RISK | RECOMMENDATION | COMPANY RESPONSE |
|---|----------|---|--|------------------|
| VAT – Sales to EU countries Sales to EU countries have not been accounted for correctly with respect to VAT. | Low | The accounting team correctly charged no VAT on these sales, however coded to T0 rather than T24 within the system. In addition, we noted one invoice that did not state the customer VAT number. | VAT in relation to sales to EU countries should be posted to T24 rather than T0 going forward. | |
| VAT – Business entertainment There are some transactions noted in the year that could be considered business entertainment, and if this is the case, then VAT should not have been reclaimed. | Low | If hospitality such as food or drink, or other entertainment is provided free of charge to individuals who are not employees, then this could constitute business entertainment. | If provided as part of the taxable membership fee, then this may fall outside the business entertainment classification, however, to ensure the accounting is appropriate, additional VAT advice should be sought. | |
| VAT - In kind transactions It was noted that no VAT is recorded in respect of memberships in kind. | Low | There is a risk that you are under accounting for output VAT and input VAT on in kind transactions, although there would be no impact upon the net VAT figure. | VAT in relation to in kind transactions should be accounted on the value of the goods or services provided or bought. | |
| VAT – Partnerships It was noted during the fieldwork that there is a risk on certain projects that VAT may not be reclaimable on expenditure incurred for the partnership project. | Low | Although not considered a material risk this year, input VAT could be claimed on projects when it was not appropriate to do so. | If the entity is involved in projects that are reclaiming VAT on supply costs, it is recommended that the organization confirms that this is the appropriate VAT treatment with a VAT expert. | |