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The author wishes to thank the individuals interviewed during the course of this study

for their generous help and assistance.

1. INTRODUCTION

In the summer of 1989 Barrowfield Community Business (BCB) went into liquidation. Only a year or two before it was one of the flagships of the community business movement. The estate was visited regularly by other community groups hoping to learn from the achievements of BCB, policy advisers to the Government and many others. Indeed, only a few weeks before closure, BCB had been a strong contender for the 'It's My City' award and had been featured on BBC Television as an outstanding example of employment creation.

The focus of this report is on how a seemingly success story ended in failure. The report has been put together following a series of consultations with individuals from different agencies each of whom was closely involved at some stage in the story of BCB. These interviews sought to canvas people's views about what went wrong and led to the failure of BCB. In addition, the report draws on key documentation made available by Strathclyde Community Business Ltd. (SCB).

The Report is set out in two main sections. The first draws on both interviews and available documentation to provide a factual account of the life of BCB. The second section relies to a greater extent on the views and reflections of the individuals involved.

2. A FACTUAL ACCOUNT OF BARROWFIELD COMMUNITY BUSINESS

Origins

Prior to the start of BCB, Barrowfield had built up a reputation as one of the most notorious housing estates in Glasgow. Despite the effort to regenerate the East End under the GEAR scheme, little benefit could be seen in Barrowfield. In March 1981 Glasgow District Council (GDC) set up a working party to look at Barrowfield and invited Strathclyde Regional Council, the SDA and the Health Board to participate. GDC's commitment to Barrowfield was strengthened in July 1983 when a full-time co-ordinator, funded by Urban Aid under the auspices of the Town Clerk's Department, was appointed. A second co-ordinator with specific responsibility to develop the Regional Council's social work activity in the area was appointed early in the following year.

The Barrowfield Project itself was formally launched early in 1984 with objectives to improve the environment, promote community involvement and control, improve security and the area's image, and develop the local economy. At the time, the Barrowfield Project was seen by many as a last resort effort to deal with Barrowfield's problems. Local people talked about "the bulldozer waiting at the end of Stamford Street" which reflects the strongly held view that if the initiative was not successful, then Barrowfield would probably have been demolished.

The Barrowfield Project brought a new approach to regeneration, with a strong commitment to involving residents from the beginning. One of the first initiatives taken was to establish an Employment Study Group which brought together residents, locally-based council staff, and other interested parties. The Study Group set about exploring a range of possible economic initiatives. It was out of this group that BCB eventually emerged.

Another critical part of the background to BCB was the SDA's announcement in June 1984 of a scheme to carry out environmental improvements in the area. Again this would stimulate community participation and aim to train and employ local workers on a programme of capital works in the area. Finding a firm that would be committed to maximising local employment was to the forefront in the selection of consultants to work up and oversee the environmental improvements.

BCB, therefore, had its roots in both the Barrowfield Project and the related Environmental Improvement Scheme. Staff of the Barrowfield Project had a close role in working with the embryo community business group. Similarly the Environmental Scheme was seen as an important source of sub-contracted work for a local community business.

Early Days

BCB was awarded a small start-up grant from SCB in November 1984. By March 1985 a detailed funding application for management grant support was submitted. It is clear at this stage that the CB group saw itself as a multi-functional enterprise and identified a structure involving a Holding Company which would function as a micro-development agency. Linked to this would be an MSC managing agency, a neighbourhood security patrol, workforces engaged in local environmental work and a managed workspace. In other words, it was setting out with a fairly complex organisational structure from the start. Approval for BCB's management grant was forthcoming the following month (April, 1985) which allowed BCB to proceed with hiring a manager. The business was officially registered in August 1985 as a company

limited by guarantee, with charitable status. The community business group had been assisting the Tenants Association to run a small community programme managing agency with 25 places. When BCB was established, this was moved wholly under the control of the community business.

The idea of a mobile security patrol was progressed. The rationale for this was to keep an eye on vacant council flats on the estate. Field Security Ltd. was eventually registered later in 1986 as a subsidiary of the holding company.

The Environmental Scheme took some time before work could begin. But in the interim, staff of the Barrowfield Project and the consultants (James Cuning, Young and Partners) were working with the BCB and working up what role it could play.. A dual role emerged involving assisting in the recruitment of local people into the main contractor (Sportsworks) and the carrying out of sub-contracted elements of the work. Barrowfield Landscapes was also incorporated as a subsidiary later in 1986 to fulfil the latter of these two roles.

Advertising for workers for the first phase of the environmental work started in February 1986 and the Community Business played a key role in helping to screen and recruit applicants. From 50 responses 16 local people were employed, most of them previously long term unemployed males.

By this time the CB had hired its second general manager. The first had stayed only a short while, and was replaced late in 1985 by an internal appointment. The new manager had previously been the company's part-time administrative worker.

By early 1987 the company had already made a considerable impact on jobs. Some 36 people were employed in the Security and Landscaping companies and the Community Programme Agency had expanded 10-fold to 250 places.

However, despite these developments a number of financial difficulties were noted. In September 1986, visiting SCB financial staff reported slackness in book-keeping, the handling of petty cash and the use of company vans. The end of year annual review (January 1987) indicated that Barrowfield Landscapes was not trading profitably. It was also proving difficult to finish jobs on time which suggested problems with work supervision. In addition, this meant that contracts could not be invoiced for, thus adversely affecting the CB's cash flow.

There was also no system in place to enable separate profit and loss accounts for each trading concern to be prepared. This meant the BCB board was unable to set targets

and monitor performance. The annual review recommended that forecasts be prepared on a monthly basis and that the problems with productivity and supervision of the landscapes company be dealt with urgently.

By early 1987 BCB had grown into one of the largest CB's in the country. It had done so by relying primarily on locally generated work for a limited number of customers, namely, Glasgow District Council's Housing Department and Sportworks. Sportworks had been awarded the main contract for the environmental scheme. Apart from a small contract from the Housing Department in Castlemilk, BCB's work was all carried out in the estate. However, with 1987 in mind, the CB was beginning to look beyond its area and towards a wider set of customers in addition to continuing its role in phase 2 of the local environmental work. It was therefore, moving towards a new period of growth and expansion but with some noticeable problems already evident in its financial control systems, workers' performance and in trading profitability.

Growth and Growing Problems

1987 was a year of rapid development for the CB. It ended in what has since been called the CB's "most traumatic year". Work on the local capital programme continued. However, a major development was that the company began to undertake contracts outside of Barrowfield.

From having a single contract with the District Council, the security team worked on six different contracts and expanded from 14 to 29 workers. Four of these contracts were outside of the estate at Parkhead Forge (two contracts), Calvay, and Dalmarnock. Three were for private sector firms. The landscape team also secured contracts outside of Barrowfield, in South Carntyne and Castlemilk.

In addition, an ESF training scheme for over 25 year olds had been approved, a number of small private enterprises (a glazier, an electrician and two plasterers) had been helped to set up. The transport side had been expanded to five vans and another eight new project ideas were being worked up.

The company's orientation at this time was to press ahead with developments on a number of fronts. In its second urban aid review, (January 1988) the CB argued that its initial three years urban aid funding should be extended to at least five. The rationale offered was three years was too short a period in which to reach self sufficiency and at the same time continue with development work on new projects.

The CB's view not shared by the head of SCB, who in a written response to the annual review argued that the emphasis during 1988 should be on consolidation, with new developments postponed until the company had reached a sounder commercial footing. This reflected the worrying signs in terms of inadequate financial controls and profitability highlighted by the review.

Around this time, SCB monitoring staff reported several financial irregularities concerning miscellaneous expenditure and cashbook entries. These problems echo the findings of monitoring staff over a year earlier, but despite this these had obviously not been cleared up.

A particularly worrying situation emerged with the landscaping company. During 1987 the company had made a dramatic loss of over £58,000. Substantially more money had been paid out in wages than had been invoiced for in sales, the loss being financed by a loan from the holding company. The security had also made a trading loss of over £5,000.

The MSC managing agency fees showed a healthy surplus of around £27,000 but this was not adequate to cover the losses sustained by the other trading companies. BCB (the holding company) closed the year with a trading deficit of over £22,000. However, when the substantial grant funding was taken into account BCB showed an overall surplus of £15,000.

In March, SCB indicated that both the landscaping and security companies would need to look seriously at their costings and productivity, and that detailed profit and loss projections should be prepared to establish targets and assist financial planning in the financial year 1988.

Although not brought out into the open at the time of the 1987 review, a number of practices had been taking place at the management level that were to have massive future repercussions for the CB.

One concerned the ESF scheme for adults. The ESF had provided £17,500 to cover the first six months of its operation. A separate bank account should have been opened which would also hold the matching funds element. The scheme was sponsored by Glasgow District Council, through its Housing Department, which undertook to meet half the cost. It is ESF practice to check up later, to ensure that schemes have been properly carried out. A separate account was not opened. Indeed the ESF training scheme as proposed did not actually take place. Yet the money was accepted and spent servicing the cash flow needs of the business.

According to later Reports, this seems to have reflected general management practice over 1987. Funding received for specific project developments was not immediately being used for those purposes. For example, a private sector sponsor had provided £12,000 to develop a community garden, yet the money appears to have been used up in the cash flow.

Financial problems also extended to tax and national insurance. Ideally companies should pay employers' national insurance contributions on a monthly basis. BCB had not been doing so in order to ease the company's cash flow problems. When the full extent of this later came to light, the company owed the Inland Revenue £56,000 in back tax and insurance.

Another practice at the time which was to create major problems for the CB concerned the pricing of new contracts. This was the responsibility of the commercial manager who had been recruited to work alongside the general manager. Again, with the benefit of hindsight, it appears that the commercial manager was pricing jobs and committing the CB to work that proved uneconomic to carry out. One example of this was a security contract at Parkhead Forge. The contract was priced on the basis of 5 guards and one supervisor. However, in practice it was carried out with 3 supervisors, not 1. This also probably reflected problems with the control and supervision of workforces.

It is important to stress that the CB ended its second full trading year still without a system which regularly collected and presented information on financial performance. Consequently, neither the Board of the CB, nor anyone else, was able to monitor commercial performance of the company.

Many of the practices which were to lead to major difficulties were, therefore, not immediately obvious even to people close to the business. During 1987 things were seriously amiss in terms of financial management, but the consequences had still to fully surface. Furthermore, the lack of any detailed financial information and reporting meant that there was no overriding reason to call any party to boot. Generous grant support, from a variety of sources, also played its part in masking the economic realities of the CB's trading operation.

It is also worth noting that at this time BCB was widely seen to be a major success story. In turn this made it easier for the CB to attract offers of work. Indeed the consultants, who had a close relationship with the community business, prepared a glowing reference at the time of the January 1988 Review. This commented on the "high quality service" provided by the CB and its excellent working relationship with consultants, funding bodies and contractors. The CB and the Barrowfield initiative was regularly

courted as a champion of community-based local economic regeneration. Barrowfield was very much "on display" as an example of what community business could achieve.

Managing in crisis

The January 1988 review which began to expose serious problems coincided with a major turn around in the management of the business. The CB lost two of its three main management staff. Both the general manager and the commercial manager left. The remaining person was wholly concerned with the community programme, ie a part of the operation which had been performing well and showing a healthy surplus.

Two new management staff were appointed in March 1988. One was to act as chief executive and deal with the overall organisation, new project initiatives, etc. The other appointment was a commercial manager to look after the commercial aspects of the security and landscaping companies, i.e. recruitment and discipline, pricing and tendering, etc. The immediate remit for the new management was to improve systems of control throughout the company, try and withdraw from or renegotiate the loss making contracts, review pricing policy and tighten up on productivity and supervision.

The new team came into a situation where there was no system of financial information in place. They were unable to access information on turnover, work tendered for, the projected profitability (or otherwise) of work in progress etc. There was no standard monthly system which checked that invoices for work done went out, that work previously invoiced had been paid for, etc. This was despite the fact that a bookkeeper had been attempting to improve the CB's financial administration since around October 1987.

The new management set about putting the required systems in place. But it took several months to do this. Indeed, the full picture regarding the company's commercial position did not emerge until later in the year. It was also the case that, as the financial picture cleared, the apparent extent of the company's problems deepened.

One of the first problems to emerge was that the company had not been paying the Inland Revenue and was in debt in excess of £50,000. The CB management held meetings with the Revenue and eventually worked out an agreement to pay the debt by regular instalments of £2000 per month. SCB also provided £10,000 towards the tax bill and a similar amount to meet creditors' demands. The company's cash flow crisis was now having direct effects in that sources of credit were drying up and it was finding it more difficult to access supplies.

By July 1988 the tax problem appeared to be in hand and the main management focus was on how to resolve the trading position of the security and landscape companies. The CB management had prepared a report for SCB around June which tried to set out the financial position of the company and argued the case for additional SCB funding to help it trade out of the crisis.

In August the CB management and Board met with SCB, at SCB's insistence, to consider the situation. By this time the CB management was able to present a much clearer picture of the financial position than had been the case a few months earlier. The outcome of the meeting was that a number of specific requirements were laid out by SCB as conditions for continued financial support.

One of these involved rationalising staff and overhead costs in the CB's central office. The rationalisation involved shedding the general manager, a research officer and a receptionist. The effect was to cut the CB's core annual wage bill from £80,400 to £48,000.

Overall charge of the company was subsequently placed in the hands of the commercial manager. Another step taken was to establish an emergency management committee consisting of the company's accountant, a CB director, the BCB finance officer and the SCB development worker. The aim was to press on and ensure that new contracts were properly costed and efficiently managed. It was hoped that the company would be able to trade out of the situation.

In hindsight the decisions of August beg the question why a tighter, slimmer business administration was not put in place earlier, i.e. following the 1987 Review. It was at that time that SCB's response recommended the need for consolidation and sorting out the financial position of the security and landscape teams. It seems slightly strange that, instead of concentrating resources on commercial management, a chief executive was also appointed with a remit which included new project development.

Once better financial systems were in place around August, a more detailed picture of the company's position emerged. It meant that over the next few months the reality of previous management practice was laid bare. The use of project-specific funds to service general cash flow, the purchasing of unsuitable equipment, the bad pricing of contracts, and paying workers for more hours than they were working, were now realised where they did not seem to be before. However, this indicates that it took six months and more before the new commercial manager was able to understand the the CB's commercial position. Again this underlines the virtual lack of financial information that could be accessed and the shambolic state that the control systems must have been in.

Some hopeful signs could be seen around this time. By September the situation the trading companies was improving. Both security and landscaping showed a small trading profit for the month of September. The CB was slowly reducing its losses, by gradually disengaging from loss making contracts, securing new commercial work and tightening up on the running of the trading companies. More still needed to be done to cut back on core overheads (including a mini bus which was costing the CB in the region of £12,000 a year), throw off loss making contracts, and improve productivity (particularly in the landscaping company). There were, nevertheless, some positive signs that things were beginning to turn round. However, precisely at this time, other crises descended to further compound the financial difficulties of the company.

Since the outset, the company's participation in the MSC's CP had provided a welcome flow of income in the form of managing agency fees. Despite the general unpopularity surrounding the Government's shift from CP to Employment Training (ET), the CB wanted to continue with the new scheme. It turned out that it could not. Consistent with its position of non participation in ET, Glasgow District Council gave a very strong steer to the CB that the Council did not want the company to participate in the scheme. Consequently the ET operation was floated off from BCB as a separate private enterprise in its own right.

The decision not to participate in ET lost BCB around £15,000 at least a year in management agency fees and was a significant blow. It had the immediate effect of putting additional pressure on the company's cash flow, which at the time was already heavily strained. The CB was finding it increasingly difficult to access credit on decent terms and the monthly back payments of £2,000 to the Inland Revenue were crippling on the cash flow. The commercial manager describes the latter part of 1988 as a time when the CB could only "stagger from week to week". The major task at hand was how to pay workers' wages. Meeting suppliers' invoices had to take second place, thus further complicating the company's credit standing.

Yet another problem to surface at this time concerned the 1987 ESF scheme, which did not run, but for which the company had received £17,500 from the ESF. On checking up and finding that the training did not in fact take place, the ESF instructed that the grant should be repaid. Consequently the CB again had to turn to others for help. Glasgow District Council, which had sponsored the scheme through the Housing Department, eventually met the bill.

The traumatic year of 1988 ended with the CB losing an annual figure in excess of £100,000. Audited accounts for the business appeared in January 1989 and covered the six months up to the end of September 1988. These showed that the Holding Company,

the Landscapes and the Security were losing on average £8,300, £6,000 and £2,000 respectively per month. The monthly figures from November to January showed some improvement. but the position at the time of the Annual Review in February 1989 remained grim.

The company's liabilities were far in excess of its assets. Even if the security and landscape arms had been able to break even, the holding company would still have been losing more than it received in management grant. The company's accountant pointed out that the the CB was effectively insolvent to the tune of over £100,000. The only reasons it could continue to trade were because it was making payments to its major creditor (the Inland Revenue) and had grants still to spend. This raised the new spectre that the company's directors could be held personally liable for the CB's debts unless they were sure of being able to "trade out" of the situation.

It was clear at this stage that the landscaping and security companies would have to (at least) break even very soon if BCB was to have any future. Despite the mess the business was in, BCB was still the largest employer in Barrowfield, employing around 50 people, approximately 80% of these from the local area. The commercial manager had been able to improve many aspects of the business's operation and the CB's predictions about future profitable work were optimistic.

There were therefore several positive signs, although the business was undeniably in deep trouble. However, the lack of reliable up to date financial information remained a major difficulty for those confronted with this situation. Regular detailed monitoring and financial appraisal (eg on a monthly basis) was still not being carried out. Consequently, the SCB board and other support agencies had limited information upon which to base their response to the CB's current approaches for further help.

The final months

The end of year review began a period of hectic reporting and investigation into the state of the business. SCB staff carried out detailed reviews and reported on these in February and March. Independent financial consultants were also appointed to assess the CB and recommend a course of action to the SCB board.

In February, SCB development staff indicated that monthly management accounts would have to be provided in order that decisions could be made. A further review meeting between SCB and the CB was held in early April. Between the two dates, SCB development staff prepared a statement on the current position set out possible elements

of a "survival" plan for the company.

By April was that the company was in debt to the sum of £122,000. There were five main groups of creditors. The CB still owed the Inland Revenue £50,000. Discussions were in progress (or planned) with two private companies concerning debts of £17,000. Two loans totalling £22,000 had been provided by SCB. The final category concerned the ESF.

The ESF situation was soon to become a point of contention between Glasgow District Council and SCB. There were two elements associated with this. One was the £17,500 received for the 1987 scheme which never ran. The ESF were pressing for this money to be repaid. The second concerned a scheme which had run in 1988. A total of £78,000 had been spent on this.

To enable the 1988 ESF scheme to proceed, GDC had provided £45,000. Although the sponsoring Department was the Housing Department, this funding came through the Economic Development Committee. The funding was made as a loan, and it is this issue which caused confusion. It is clear from the documents prepared by SCB development staff in April that this money was being treated as the District Council's matching support for the ESF scheme. As such, the CB was seen to owe the Council £6,000, this being the difference between what was actually spent and what the Council had provided. The Council, on the other hand, maintain that there was never any intention that this money was to be treated as a matching funding. It was always their expectation that the loan should be repaid. This, however, does not alter the fact that as sponsors of the ESF scheme the Council had undertaken to meet half of the total £98,000 cost.

The main elements of the "survival plan" suggested by SCB development staff involved rescheduling or writing off SCB's loans to the CB, negotiating payment terms with the company's private creditors, negotiating an agreement with GDC regarding the ESF, providing a maximum management grant of £30,000, and continuing the arrangement with the Inland Revenue to pay off back tax in instalments.

The April Review Report stressed that a new package of support could only be justified if the company was able to trade profitably on a month by month basis. The March figures provided some encouragement. Although the CB had made an overall loss of £3,614 during the month, the Landscaping arm, which in the past had been the major drain on the CB, had shown a profit.

The April meeting of the SCB board was given a verbal report on progress from development staff and informed that details of the action plan would be tabled at a

meeting of the Appraisal and Monitoring Sub-Committee at the end of the month. At this meeting the Board also discussed its own position in relation to supporting a CB that could be seen to be trading at a loss, and in that way trading illegally. The Board felt that legal advice was required about the extent of the Board's own liability in this context. This later surfaced as a concern that the directors of SCB could be liable as "shadow directors". A number of those interviewed feel that this issue was an important factor in the SCB board's eventual decision not to agree further support for BCB.

The Meeting of the Sub-Committee later in April did not feel able to make a firm recommendation on action by SCB. Before a decision could be made, SCB directors wanted to assess performance in the form of the management accounts for March and April.

The next meeting of the full SCB board took place on 12 May 1989. The trading figures for March and April showed that an improvement in March had not been sustained in April. Two options were considered. One was that the CB continue to trade for a further three months and be monitored very closely. This was the option recommended by SCB staff. The other option was that the CB be advised to cease trading. The Board did not choose either, but decided to appoint an insolvency expert (Touche Ross) to assess and make recommendations about which course of action to follow.

The Touche Ross Report was completed by early June. The report set out the current position and future prospects for the CB and its trading subsidiaries, and made several recommendations designed to enable the CB to continue.

The Touche Ross report indicated that each of the CB's trading companies was insolvent. The consultants also made a number of other observations about the financial state of the CB. One was that inter-company borrowing had complicated the picture. The major assets of the Holding Company and the Security company were debts owed by the Landscape company. These were debts that it was in no position to pay. The Report also highlighted previous management's failure to keep records on contract cost accounting, which meant that the consultants were unable to judge whether or not current contracts were profitable. In addition it indicated that the company had been employing more personnel than were needed, had a relatively high absenteeism rate, and had been carrying out local environmental maintenance work within Barrowfield for no income.

This last point reflected a matter of dispute with the District Council. The CB had decided to carry out environmental maintenance that it felt the Council should be doing, but was not. The CB was hoping to persuade the Council to pay for the work it was doing.

The consultant's indicated that the CBs commercial difficulties were primarily the responsibility of the previous management who had not costed the services provided on a commercial basis and had used grant monies intended for specific purposes to offset trading losses. The present management of the company was considered competent and it was noted that several steps had been taken to reduce costs and overheads. However, there was also felt to be a need for a more senior member of the management team to back up the commercial manager and deal with outside agencies.

The Consultant's Report also put considerable stress on the social value of the CB. It recognised the greater difficulties the CB faced in terms of achieving commercial viability due to hiring previously long-term unemployed and relying on local directors with untested capabilities in business.

Four main recommendations aimed at SCB and GDC, and designed to keep the CB afloat, were made. These involved:

- (i) writing off or capitalising the sums owed by the CB (over £85,000) to both GDC and SCB
- (ii) making up the balance of the existing deficiency owed to creditors (including the Inland Revenue)
- (iii) providing additional short-term finance of around £25,000
- (iv) providing longer-term funding to meet management and overhead costs (i.e. a continuation of SCB management grant).

The general thrust of the Consultant's recommendations was known a few weeks before the Report's formal presentation to the Board of SCB. In the interim, SCB made arrangements to allocate one of its Business Finance Officers to work with the CB on a random half-time basis for three months. In the run-up to the June board meeting, it appears that key SCB staff were operating on the assumption that the CB would continue. SCB's General Manager is also on record indicating that he was personally very committed to the survival of the business.

Prior to the July Board meeting, senior officers and selected members from GDC met to consider the Touche Ross recommendations. The view of the group was that acceptance could not be recommended to Council. This position was communicated to SCB.

Without the support of GDC to write-off debts owed by the CB and commit additional monies, the Board of SCB were not in the position to act on the Touche Ross recommendations. There may also have been some reluctance due to the issue of

"shadow directors". Consequently, SCB wrote to BCB advising it of the position and suggesting that the directors move to liquidation.

3. PERSPECTIVES ON BARROWFIELD COMMUNITY BUSINESS

In this section the views of key parties involved are presented. During the interviews, people were asked what they saw to be the main elements in the BCB story and what they felt to be the main lessons emerging. These comments are grouped into three main categories:

- (i) former staff and directors of BCB
- (ii) organisations associated with the Barrowfield Project
- (iii) SCB staff

The View from Barrowfield Community Business

This section draws on interviews with the last commercial manager and the two directors who formed the Board during BCB's final days. These representatives had no doubt that the reasons behind failure were rooted in bad management decisions over 1986 and 1987. However, the interviewees were also highly critical of SCB. The main point, is that SCB should have monitored the situation more closely and advised the CB of its difficulties at a much earlier stage. Looking back on their experience, the directors feel that much more guidance should have been given by the support agency throughout, given their lack of previous business experience.

A specific example is that SCB could have played a more forceful role at the time of hiring the second manager and prevented what was a disastrous appointment. Similarly, once this mistake had been made, directors should have been advised that there were serious problems in the management of the company. In the event, it appears that it required an informal approach on the initiative of a director to precipitate the departure of the manager.

The former directors consider that the CB grew too large too fast. They see themselves as having been caught up in a rapid transition from a small to a large employer without having first developed the necessary skills on the Board or having secured an effective management team. Again, directors would have expected SCB to have assisted by providing more regular contact and a greater training input over this period.

It may be worthwhile noting here that SCB development staff also considered more training and preparation should have been given to the CB directors. However, they claim to have found it difficult to persuade the directors to undergo training. They also felt that the directors of the CB had, over the years, demonstrated a reluctance to take the advice of "outsiders".

The help that SCB provided late in the day, i.e, through the provision of professional financial help for the manager, was felt to be the sort of back-up that the CB needed. However, it came to late. The manager would have welcomed this input from a much earlier stage, for example, soon after he took up post. In addition, the return of the former Co-ordinator of the Barrowfield Project to the Board of the CB was also a help. But again, this initiative was taken late. This point is also born out by the Coordinator who, in retrospect, feels that the board of the CB was left largely to its own devices at a very difficult time.

One of the main lessons here is that the CB would have benefited from a broader board which brought together a wider range of skills than could be mustered from within a small housing estate. This should have included strong business and financial expertise. Indeed, over the crisis period, the Board, which was made up exclusively of locals, shrank from five to only two directors.

The last commercial manager also felt that the CB should have been pressed, and given assistance, to get its financial paperwork and monthly management accounts together immediately after the end of year annual review around February/March 1988. Because this was not done, problems continued to run on where they could have been realised much earlier. The management was left to get on with the job of installing control systems, but this took much longer than had been expected. Again, the feeling is that SCB, which was aware the situation was serious earlier in the year, should have ensured a rapid solution to these problems.

Over the final months, the relationship between BCB and SCB appears to have declined from the point of view of the CB. There is a suspicion held by the CB that it was not being kept fully informed about the position the support agency was adopting towards it. The CB had appealed for additional support early in 1989 but did not receive a decision on a survival plan until July, when the SCB Board advised liquidation. The delay is interpreted as a loss of commitment towards the CB, and that the CB was being kept in the dark about SCB's intentions towards it.

There may be some misreading of the situation here by the CB. It has been noted that the final months involved detailed scrutiny of the CB by both SCB staff and consultants.

The SCB board was insisting on more financial information before a decision could be made despite SCB staff recommending a survival package in April and again in May. This scrutiny may have created the impression that SCB staff were "gunning" for the CB. Monitoring visits may have been seen by the CB as snooping. Indeed, monitoring staff reported that the CB was not being completely open with them. However, it is worth underlining that this was a very difficult time for the CB, which was awaiting the outcome of a major decision about its future. Furthermore, the combination of development support, funding, and project monitoring within SCB could also create tensions such as this.

As is discussed below, it was also a time of organisational change for SCB, which could explain the loss of some momentum. In addition, there seems to be some confusion over the distinction between the position of SCB staff and the agency's Board during this final period. In short, documented support from key SCB staff for keeping the business afloat may not have been fully appreciated within the CB.

The View from the Barrowfield Project and Related Agencies

The discussions with this group of consultees covered a number of different organisations: the SDA, James Cuning Young and Partners, GDC Town Clerks Department and local staff at the Barrowfield project. Again, a fairly consistent set of observations emerged.

All parties agreed that the CB did not contain the organisational skills required to cope with the growth it experienced. One commentator indicated that the CB's move to a wider and more diverse customer base should have been planned on strategic lines. Development of the CB should have been based on a clear assessment of the CB's organisational capacity and phased on that basis. The weak management structure actually operated in reverse, and led to a situation where the work taken on grew despite poor management.

Financial difficulties should have been spotted at a much earlier stage, and professional financial and business support brought in. The fact that difficulties had not been identified were partly attributed by staff from the Barrowfield Project to a looser relationship between the Project and the CB than could have been the case. The feeling here is that certain key staff should have remained in closer contact with the CB for longer than they did, and possibly participated at board level. Apart from a representative from Social Work and the SCB development worker, locals were left to their own devices.

However, while other agencies could have provided more back-up, there was broad agreement that the main responsibility lay with SCB. It was SCB's responsibility to monitor community businesses and provide business training to their boards. Quite simply, SCB is seen to have fallen down on the job. As a consequence, certain consultees doubted whether the agency was capable of dealing with the business related needs of CB's.

GDC was perhaps most the critical of SCB's performance in this respect. The feeling was that SCB staff had repeatedly given assurances that they were aware of, and were dealing with, the CB's problems. The fact that the difficulties continued to deepen and new problems appeared, served to undermine confidence in SCB to perform a role which is part of the agency's remit and for which GDC provides financial support.

The problem with the second ESF scheme is seen by GDC to demonstrate poor monitoring by SCB. According to the proposal sent to the EEC, GDC was responsible for monitoring financial aspects of the scheme. While this is not disputed, the Council's position is that it was SCB's job to ensure that the CB was competent and well managed. Indeed, as far as the Council is concerned, it was operating on the understanding that the situation with the CB, if not fully satisfactory, was nevertheless in hand. The fact that its £45,000 loan was wrongly treated as a grant, and was eventually lost, indicates that SCB were not on top of the situation.

There does, however, seem to be some deep confusion over this particular issue. The consultants (James Cuning Young) recal that the issue of whether or not the Council would be matching the ESF contribution "in kind" or "in cash" was never fully clear. Their recollection is that a proposal which specified "in kind" support was never accepted by the ESF. As has already been noted, SCB, which had no hand in working up the scheme, also operated on the basis that the money represented the Council's matching support. Nevertheless there is no doubt that the money forwarded by the Council to the CB was processed as a loan.

SCB points out that it had no direct involvement in the ESF scheme. Furthermore, if GDC was to have made its full matching contribution in the form of materials and equipment, then the input of these "in kind" contributions would have had to be closely monitored to ensure that the support was given. SCB claims that responsibility for this sort of monitoring could only have rested with the Housing Department who were supposed to be the source of this help. SCB argue that as the scheme was not monitored, and the Council's matching funding was not all provided "in kind", then this placed a duty on the Council to provide its matching funding in cash.

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These points indicate that the whole episode is marked by a degree of confusion, even among parties closely involved. It can also be noted that GDC have since taken steps to tighten up the Council's procedures for sponsoring ESF bids. While this does not alter the Council's views that SCB should have performed a more effective monitoring role, it does indicate that the Council itself feels it can do more to avoid problems with ESF schemes it supports in the future.

GDC senior officers felt unable to accept the recommendations of the Touche Ross Report for several reasons. A principal one was that, in their view, the CB had failed as a business. It had been given many chances to succeed, but at the end of the day, had been unable to do so. In other words, they were not convinced of the case being made by Touche Ross for further heavy subsidy. There was also some criticism that the Report did not accurately reflect the fact that £45,000 had been loaned by GDC for the second ESF scheme.

Even if the officers had been convinced that the CB could be turned into a viable business, they feel that the prescription set out in the Report would probably have been politically unacceptable to the Council. The main sticking point here was that GDC was being called on to meet part, or all, of the debt owed to the Inland Revenue. In the opinion of senior staff, it is very unlikely that the Council would have accepted this recommendation.

SCB, however, stresses that its staff believed the companies could be turned around and that the interpretation of the above issue by Council staff was over-simplistic. SCB feels that what was being asked for was a contribution to working capital. This contribution would not have been used directly to pay off the Inland Revenue. The debt would have been settled over a period of time through a process of staged payments negotiated with the Inland Revenue.

Officers working locally at the Barrowfield Project were able to throw further light on difficulties which developed within the CB's organisation. It is reported that, what was always a relatively small board, became divided. A minority group was unhappy with the way that the business was being run. The other group of directors was on more friendly terms with the management. This is clearly an unsatisfactory arrangement and created suspicion that decisions were not being taken in an open and participative way.

In the opinion parties associated with the Barrowfield Project, a critical lesson of the BCB experience is the need to give greater support to lay people who get involved in running CBs. More emphasis needs to be placed on preparing CB boards for the work

at hand and training directors to understand financial information that is put before them. Furthermore, expert support and advice needs to be readily available where the board gets into difficulties.

The View of Strathclyde Community Business Ltd.

SCB staff themselves endorsed the the points already made about the need for quicker and more effective responses to the difficulties the business faced. In retrospect SCB staff recognise that over its period of rapid growth, BCB was allowed to develop without ensuring that the organisation's skills and management capacity was up to the job. It is recognised that, while serious problems were identified on several occasions by visiting development and monitoring staff, steps were not taken soon enough to deal with them.

One of the problems at the time is seen to be a lack of clear lines of responsibility within the organisation. The agency had regular contact with the CB through the development worker. Financial staff also carried out quarterly monitoring visits. However, these two jobs were quite separate. Financial irregularities could be noted and recorded during monitoring visits, but there was no internal mechanism within SCB to ensure that difficulties were promptly followed up and dealt with.

Looking back, staff feel that SCB should have also insisted on a more detailed financial picture much sooner and, in response to the problems it would have indicated, seconded or brought in financial expertise to work hand in hand with the company's management. Had this been done (say) early in 1988, the outcome may well have been very different. Instead, when the new management team replaced the old early in 1988, SCB was too complacent, feeling that the worst of the problems were over. In a sense the installation of a more competent management team was, wrongly, looked on as a solution in itself. In reality, the full extent of the business's problems was still to emerge. The lack of a proper system of information gathering is also seen to be critical in serving to conceal the extent of the problem.

When SCB became more fully aware of the situation following the accountants report in January 1989, the organisation had just lost its Glasgow Team Development Manager. This member had been with BCB since the outset and knew the CB well. In addition, the organisation was in the process of restructuring its working method into a system of combined skills within teams. This change was being made partly in response to the sort of problems evident in Barrowfield.

This meant that SCB lost a degree of continuity at an important time of restructuring. It

compounded the already difficult problems they were faced with. The departure of the Glasgow Development Manager meant that a close working knowledge of BCB and the personalities involved was lost with him. It was extremely difficult for the new development worker to quickly get to grips with the complexities of the situation. In retrospect, the new officer feels that the CB desperately needed someone with specialist financial expertise at this time. Had she had greater knowledge of the situation she might have pressed for this sort of help sooner.

The original development worker was able to point to a number of other difficulties that stemmed from the CB's close relationship with the Barrowfield Project. The pace of development associated with the Project tended to pull the CB into activities before it was able to manage and run these effectively. While this echoes the point made by several others, the worker also felt that the general excitement surrounding the Project created other problems. One was that it served to divert directors and management away from the relatively mundane job of running a specific set of commercial activities. There were other, larger, issues to discuss, but many of these were unrelated to the current commercial activities of the CB.

The high profile of the Barrowfield Project, with a great deal of activity going on around it, served to complicate life in other ways. The CB was being advised and guided in different ways by all the other agencies involved in the Project. While SCB was seen as the main agency for developing and supporting community business, the involvement of these other parties complicated the situation. New developments were progressed with the SCB development worker having little or no knowledge of them. The ESF scheme, negotiated by the GDC, independent consultants and the CB is one example. It therefore appears that the task of keeping in touch with what the CB was doing was not easy. It may have required more regular contact between the development worker and the CB, but it would also have called for a flow of accurate information from the management of the CB.

There seems to have been major problems concerning this last point. Despite repeated requests, it proved very difficult for the development worker to obtain clear information from management during 1986 and 1987. The general response from management was that things were moving well. The development worker was also frustrated in efforts to encourage the CB board to meet more regularly and concentrate on aspects of the business. He was told by the manager that formal board meetings and reporting to directors was not necessary as the directors were in and around the CB every day, and, consequently, knew what was happening.

The development worker considers that a major problem which undermined the CB was that, from the start, it was difficult to generate and sustain a sense of reality about what was possible. The influence of the whole Barrowfield Project did not help. But the

development worker feels it was compounded by a difficulty in getting the directors and management to hold regular board meetings, focus on the key issues when they did, or secure their participation in training courses run by SCB.

It would appear that the particular circumstances in Barrowfield presented SCB's development worker with more difficult problems than he faced in other areas. A comparison with Possil seems to highlight this. Here was another housing estate with broadly similar problems to Barrowfield. A CB had been set up, also with security as one of its subsidiary companies, and has since done very well. The same development worker spent a good deal of his time with the Possil group. Here the CB secured a good manager and kept a tight focus on achieving viability, not allowing itself to be deflected from this. Part of the demise of BCB is seen to be its failure on precisely these counts.

4 SUMMING UP

The report has tried to outline the main stages in the story of BCB and identify what people feel were the main reasons behind the business closing. There is general agreement that poor management over a critical period in the business's life, and a failure to identify and deal with the problems this created quickly enough, are the key factors in the story.

Other important lessons have also emerged from the Barrowfield experience. These include:

- (i) the dangers associated with rapid community business growth which is not tied to the organisation's capacity and a clear business strategy.
- (ii) the need to ensure that an effective CB board and management team is installed from an early stage,
- (iii) the need to give intensive support to locally-constituted boards, possibly by adding on specialist business and financial expertise from the outside,
- (iv) the need to ensure that all external agencies directly involved keep each other informed and co-ordinate their efforts more effectively.

It is also worth remembering that the Barrowfield Project as a whole was a novel experiment in urban regeneration. As such, we would expect lessons to be learned. Indeed, several of the organisations consulted in the course of this study would approach things in a different way a second time around. SCB, for example, which was the agency most closely alligned with the CB, has recognised major shortcomings in its approach to community business development. Indeed, Barrowfield appears to have been instrumental in a number of fairly fundamental changes which have since been made.