

CABINET

23 October 2013

THE OVERVIEW AND SCRUTINY COMMITTEE

28 October 2013

THE FUTURE OF THE MUSEUMS SERVICE: ESTABLISHING A HAMPSHIRE  
SOLENT CULTURAL TRUST

REPORT OF ASSISTANT DIRECTOR (ECONOMY & COMMUNITIES)

Contact Officer: Eloise Appleby      Tel No: 01962 848 181, Email:  
[eappleby@winchester.gov.uk](mailto:eappleby@winchester.gov.uk)

RECENT REFERENCES:

[CAB2129 - Winchester Museums: Opportunities for Partnership Working, 16 March 2011](#)

[CAB2147 – Winchester Museums Reserve Collections, 13 April 2011](#)

[CAB2248 – Winchester Museums: Improving the Long Term Sustainability of the Service, 9 November 2011](#)

[CAB2278 - Integrated Museums Service: Preferred Option for Approval, 18 January 2012](#)

[CAB2335 – Museums Fully Integrated Merger Proposal: Public Consultation Phase, 17 May 2012](#)

EXECUTIVE SUMMARY:

In May 2012, Cabinet authorised officers to develop a full Business Case around the development of an independent Trust through which to deliver the museum services

of Winchester City Council, along with the museums and arts services of Hampshire County and Southampton City Councils (CAB2335 refers). Members also approved a programme of public consultation to explore attitudes towards the proposal.

The aim of moving to a Trust is first and foremost to find a means to enhance the ambition and resilience of the services, by making the most of new sources of funding whilst drawing on shared skills, resources and collections. It has never been intended to make large-scale savings for the Council.

Although Southampton City Council decided not to continue as a project partner in August 2013, a Business Case has been produced for a joint initiative between Hampshire and Winchester. Key information is included in this report, as a basis for a series of Member decisions in support of the establishment of the Hampshire-Solent Cultural Trust.

## RECOMMENDATIONS:

### To Cabinet and Council:

1. that the proposal to proceed with the establishment of the Hampshire Solent Cultural Trust (*working title*) in partnership with Hampshire County Council as outlined in the Business Case (Appendix 1) be approved;
2. that a net cost of up to £53,000 over the five years to 2018/19 (detailed in Appendix 2) be approved;
3. that as the Governance arrangements already make provision for the portfolio holder role (to be taken by the Portfolio Holder for Economic Development), full Council be asked to make the Winchester City Council appointment to the Interim Trustee Board.

### To Cabinet

4. the Head of Legal Services, in consultation with the Assistant Director (Economy and Communities) be authorised to agree terms and enter into a Partnering Agreement with Hampshire County Council on terms in accordance with those outlined in Appendix 4 to the Report;
5. the transfer of the services and funding for the Council's Museums Service to the new Trust be agreed in principle, subject to detailed arrangements to be set out in the Partnering Agreement;
6. the loan of Winchester City Council's museum collections to the new Trust for a minimum period of 25 years be agreed in principle;
7. any future acquisitions made by the Trust which align with collecting policies

for Winchester current at the time of this report be held by the Trust on behalf of Winchester City Council;

8. the leasing, sub-leasing or licensing as appropriate of individual museum properties and stores from the Council to the Trust, under long-term arrangements where feasible (with the minimum unexpired term at any time being 25 years where practicable) be agreed in principle, on terms to be agreed by the Head of Estates, with the Council being responsible for repairs, maintenance and insurance in accordance with current practice, and that it be noted that the City Council will be responsible for securing appropriate storage arrangements for the City Council collections at the expiry of the lease at its current F2 facility;
9. the Council continue to insure the collections and premises against loss, damage and theft the creation of an 18-month interim Executive Officer post for the Trust, initially seconded from one of the two Councils, be agreed, to commence from 1 January 2014 in order to manage establishment of the Trust;
10. the Head of Human Resources be authorised to consult formally with affected staff and Union(s) regarding the details of the proposed transfer to the Trust;
11. a final report regarding staffing matters be brought to Personnel Committee, following formal consultation with staff and Union(s);
12. a final report regarding arrangements for the transfer of services to the Trust be brought to Cabinet in March 2014;
13. the Assistant Director (Economy and Communities) be authorised to take any other steps that are reasonable and necessary in order to implement the above recommendations, in consultation with the Portfolio Holder for Economic Development.

To The Overview and Scrutiny Committee:

That The Overview and Scrutiny Committee raises with the Portfolio Holder any issues arising from its consideration of the Report and whether any items of significance should be drawn to the attention of Cabinet or Council.

## CABINET

23 October 2013

### THE FUTURE OF THE MUSEUMS SERVICE: ESTABLISHING A HAMPSHIRE SOLENT CULTURAL TRUST

#### THE OVERVIEW AND SCRUTINY COMMITTEE

28 October 2013

#### DETAIL:

##### 1 Introduction

- 1.1 Members will recall a series of Cabinet reports in 2011/12 considering the future of the Council's museum service. The reports explored a number of options intended to increase resilience at a time of mounting financial pressure on local authorities.
- 1.2 In May 2012, Cabinet authorised officers to work with Hampshire County Council and Southampton City Council to develop a Business Case for the creation of an independent charitable trust for the delivery of its museum services (CAB2235 refers), and to take explore reactions to the emerging concept through a comprehensive public consultation programme.
- 1.3 With generous funding from Arts Council England, which has met nearly all of the associated costs, a Business Case has been developed. This has drawn on advice and information from local authority colleagues, from consultants, from technical experts (eg for legal and financial matters) and from comparator organisations elsewhere in the country.
- 1.4 Although Southampton City Council opted to withdraw from the discussions this summer following a change of Administration in May 2013, the Business Case was revised on the basis of continued collaboration by Winchester and Hampshire. It is now complete, and can be found at Appendix 1 to this report.
- 1.5 The Business Case demonstrates that an independent Trust could be a sustainable and exciting vehicle through which to deliver Winchester's Museum Services.
- 1.6 Hampshire County Council's Executive Member for Culture, Communities and Rural Affairs has already approved the proposal to move towards the creation of an independent Trust.
- 1.7 This report sets out some of the essential information for Member consideration – supported by the Business Case at Appendix 1 - and seeks approval to proceed with the establishment of the Trust in partnership with

Hampshire County Council. At this stage, the working title of the Trust is the Hampshire Solent Cultural Trust.

## 2 Background

- 2.1 The residents of Hampshire place great value on their cultural heritage, and visitors to the area are attracted because of it. The two local authorities already invest heavily in cultural provision, and recognise its value in underpinning the local economy, quality of life, recreation and lifelong learning.
- 2.2 Both Councils need to realise significant savings in the coming years. Winchester Museums were one of the first teams to see redundancies in the past decade, and staff numbers have continued to dwindle as year-on-year economies have taken their toll. Yet the Council holds a celebrated archaeological collection, along with a host of other artefacts which collectively trace the story of Winchester. The collections continue to grow – albeit at a slower pace now than in times gone by - to accommodate the most significant objects from major building projects in the District, along with gifts and long term loans from a range of local residents and an active community of metal detectors.
- 2.3 Caring for these collections requires significant time and expertise. Moreover, Members have consistently asked for objects in store to be more regularly displayed, and for the museums service to reach out to bigger audiences – particularly outside the city centre. This, too, requires more time, space and expertise than the team currently has.
- 2.4 An independent Trust for cultural services is not a wholly new idea in local government. Trusts have financial advantages, such as:
- a) the ability to claim Business Rates rebates and Gift Aid;
  - b) the potential to access new grant-making bodies and to inspire philanthropic giving in a way which local authorities cannot;
  - c) the opportunity to establish commercial activities (sales, licensing, on-line merchandising, corporate hirings) which do not always sit comfortably with public authority culture and aptitudes.
- 2.5 At the same time, a Trust can nurture ambition. Whilst Hampshire and Winchester already employ staff with excellent skills and experience, the nature of a dedicated cultural Trust is very different from that of local government, and staff would be better able to innovate and to think bigger. This is in part because of the concentrated focus of a Trust. It would also be able to develop innovative marketing strategies, supported by appropriate IT infrastructure, which raise its profile and build new audiences.
- 2.6 Recent joint working between Hampshire, Southampton and Winchester has had an invigorating effect on staff, and is already giving rise to an exciting

three-year programme of projects including county-wide exhibitions and new digital marketing. The 'Hampshire Solent' cultural brand has already secured £2 million of external revenue investment for the period 2011/12 - 14/15, which has enable strategic partnership working on a national, and potentially international, stage. This kind of success would be significantly augmented with the shared vision, resources, premises and financial benefits of a Trust.

- 2.7 Both Councils have the option to 'do nothing'. But in reality this is likely to mean further reductions in funding and staffing, which will not only diminish the ability to engage in joint working but will also threaten the capacity to care for and share the collections held in trust by the two Councils.

### 3 The Proposal

- 3.1 It is proposed that Hampshire County Council and Winchester City Council establish an independent charitable Trust, in the form of a company limited by guarantee. This would deliver museum services for Winchester City Council and museums and arts services for the County. (The City Council has already commissioned out its arts support service, but will review this provision before the end of the current contract next summer.)

- 3.2 The proposed Trust offers a long term solution which can:

a) foster a strong ambition for cultural heritage into the future and build on previous investment by the Council; and

b) deliver managed and pre-agreed levels of savings to the two partner authorities over a 5 -10 year timescale.

- 3.3 The Trust would champion the vision to:

*Position the Hampshire Solent cultural offer In the UK top ten by 2020*

- 3.4 Each Council would provide for the long term loan of the collections in its care, and the buildings which house or exhibit them, to the Trust. There would be no transfer of ownership.

- 3.5 The approach is not risk free, nor is there guaranteed success. However, officers believe that it represents the best opportunity to sustain services for the public in the long term.

- 3.6 The Trust model has secured the interest of Arts Council England (now the primary funding and advice body for museums as well as the arts), and a recent letter from the Regional Director speaks of the 'foresight' of the local authorities to 'work beyond traditional boundaries and put first the long-term benefits to the consumer and wider economy'. The full letter can be found at Appendix 5.

- 3.7 The Trust would continue to work with partners such as Southampton City Council and Portsmouth City Council as well as other private museums,

alongside national heritage organisations and a range of partners from outside the sector.

3.8 The Business Case at Appendix 1 demonstrates the potential of the Trust model, based upon a set of assumptions drawn up in response to a thorough assessment of the sector, including reference to examples elsewhere, current performance and external advice. It is, of course, dependent on the following factors:

- The national economic situation, which in turns impacts on the cultural participation;
- The behaviour, actions and financial decision making of other partners;
- The support of national arts and museums policy and funding organisations;
- Excellent and inspiring leadership.

#### 4 Implementation

4.1 As is outlined above, the proposed Trust would be a long-term partnership initiative. The Council would be committing to a long-term arrangement in terms of operations and assets, with a rolling funding agreement as outlined below.

4.2 It is therefore proposed that:

- i) The Council enters into a minimum 25 year management agreement with the Hampshire Solent Cultural Trust. This would see:
    - a) specific funding arrangements confirmed for years 1 – 5;
    - b) arrangements for years 6 -10 confirmed by year 4;
    - c) a review of funding levels and associated review of management agreements in year 7, and agreement as to the timing, level and duration of agreements for years 11 to 25 (see Appendix 1: Business Case, section 5)
  - ii) 36 months' notice by the Council (mirrored by the County) of significant change - including termination of funding or exit from the agreement - with all reasonable costs incurred by the exiting party.
  - iii) The Council provides £29,000 towards the one-off set up costs associated with establishing the Trust and transferring services (see Appendix 1: Business Case, section 7). This is in addition to potential severance costs of approximately £16,000. Provision for these costs is proposed to be made in the revised 2013/14 estimates – CAB2523 elsewhere on this agenda refers.
- 4.3 *NNDR (Business Rates)*: As has been indicated elsewhere in this report, one of the financial advantages of a Trust is its potential to apply for Business Rates Relief. The Council has taken advantage of this benefit previously,

through DC Leisure's creation of a trust to run part of its operations at River Park and Meadowside. For Museums, the relief would apply not only to the City's properties but also to the County's large museum store and headquarters at Chilcomb on the edge of the City. However, as the billing authority the City Council has always held the responsibility for offsetting part of that Relief. Under the localisation of business rates, effective from April 2013, the Council receives a 40% share of business rates collected within the Winchester District (subject to a start up funding baseline and a 'safety net' scheme). Therefore, whilst realising a net cost saving to the Trust, the Trust status is likely to result in a net cost to the Council through a loss of funding. The effect of this loss of funding is shown in Appendix 2.

- 4.4 It should be noted that were the City Council to decide not to proceed, and the County went ahead with the establishment of a Trust without Winchester, the City Council is still likely to incur a potential reduction in funding of approximately £20,000 per annum arising from the County Council's museums store buildings at Chilcomb with none of the operational or financial benefits of the Trust.
- 4.5 *Reserves:* One important issue for the Trust is the timing of grant payments. It will need to create a reasonable level of reserves 'from scratch' in order to meet its operational liabilities. One of the next tasks will be to develop a Reserves Policy and a series of financial projections for the new organisation, including a Balance Sheet. This needs to be co-ordinated by the seconded interim executive officer of the Trust (see section 6 below) and approved by the interim Board of Trustees (see section 5 below), and not carried out by the Councils on behalf of the new Trust. The Councils may be asked to pay a portion of the annual grant in advance of the first operational year of the Trust in order to establish this reserve. Although the Trust would see this simply as an 'early payment' of the agreed grant, in accounting terms it would be an additional grant payment without restrictions to ensure the Trust can meet its financial obligations. Discussions are continuing with the County about an appropriate level of reserves, and the outcome will be fed into the budget-setting process over the coming months.
- 4.6 *Assets:* Again, in the interests of establishing a financially secure and successful Trust at the outset, the Business Case sets out the proposed arrangements for property and collections
- 4.7 This would see the leasing, sub-leasing or licensing of property and collections to the Trust for a minimum period of 25 years (ie to at least March 2039 and beyond). The property to which the arrangements would apply are City Museum, Westgate, City Space (at Winchester Discovery Centre), and the collections store known as F2 at Bar End (Officers are aiming to move the contents of the other store on the old depot site at Bar End into F2 before the Trust takes over). The Museum and Westgate are owned by the City Council as freehold interests and therefore a lease of 25 years could be granted to the new Trust for these properties. City Space is part of the Discovery Centre, and is operated by the City Council by arrangement with the County Council



which owns the freehold of the building. The F2 store is leased by the City Council from a private landlord, on a 20 year lease which expires in March 2028 (ie before the end of the proposed minimum 25 year lease period to the new Trust). The City Council will be responsible for securing appropriate storage arrangements for the City Council collections at the expiry of the lease at its current F2 facility (March 2028).

- 4.8 It is further proposed that the Council continues to undertake repairs and maintenance, rather than pass these – potentially extensive - liabilities on to the Trust. The Head of Estates considers the buildings to be in a good state of repair currently, but the arrangement would protect the Council's long term interests in the buildings and ensure that the Trust is not disabled by any unanticipated repair bills.
- 4.9 *Insurance:* As part of the property and collections arrangements, the Council would continue to maintain its existing insurance cover although the Trust would procure insurance for employer's and public liability. There would also be protection for the two Councils and third party rights to property and collections in the event of failure of the Trust as an ongoing financial concern.
- 4.10 *Commissioning:* Specialist legal advice has been secured in support of this process and has been built in to the draft Partnering Agreement currently under consideration, summarised at Appendix 4. Legal advice from external solicitors instructed by the officer steering group on behalf of the Councils involved has confirmed that if the Trust is to operate facilities in accordance with a core strategic funding arrangement, with leases/licences of property, and is free to manage its operations subject on to achieving core funding conditions, these arrangements would not constitute a contract for services, and would therefore be outside of the EU rules governing procurement of service/works contracts. This advice has been confirmed by another firm of solicitors engaged to advise on the documentation required to move the project forward.

## 5 Governance

- 5.1 The independent charitable Trust would be overseen by a Board of 12 Trustees. As strong leadership will be critical to the success of the venture, the Board would mainly be composed of individuals from the business, cultural and educational community with high levels of skills and experience. The recruitment of an outstanding Chair will be an early task.
- 5.2 The Board will also draw on the strengths of Hampshire County Council and Winchester City Council, with one representative at Trustee level from the two founding partner authorities as well as an observer role which should be for Portfolio Holder/Executive Members.
- 5.3 A dynamic and influential Board, supported by a skilled executive team, would be required to deliver the vision and build a strong cultural business within 5 years (see Appendix 1: Business Case, section 10).

## 6 Staff Implications

- 6.1 Staff from Winchester City Council, Hampshire County Council and Southampton City Council have been involved throughout the development of the Trust model over the last for about two years. They helped to shape the vision, mission and values, and have been involved in many elements of the Business Case. They have also been testing and feeding back on joint working through the raft of externally-funded programmes currently under way.
- 6.2 Overall, staff feedback suggests a good understanding of the benefits and risks of the Trust proposal in general terms. There has been excitement about the personal development opportunities it presents and about the broader scope for projects and programmes within the Trust.
- 6.3 There have been some general meetings with Union representatives, and the Council's own UNISON representative has received updates at key moments during the project.
- 6.4 The proposal would be for everyone in the City Council's Museum Service to transfer to the new Trust. Following the usual TUPE process, terms and conditions would be protected and a 'pass through' arrangement put in place for pensions. At the time of writing this report, staff briefings are being arranged for November which will provide more information about staffing structures and also the way TUPE works. This will be the formal start of staff and Union consultation process, feedback from which will be reported to Personnel Committee along other matters arising from the transfer of staff to the Trust.
- 6.5 Teams which provide support for the Museums Service have also been asked to contribute to the Business Case and given updates at key stages of the project. However, the setting up of a Trust is not an activity with which many officers are familiar. No staff other than the Museums Team will be transferred or 'at risk' in any way as a result of the proposals. This is because only a fraction of the time of support officers (eg Legal, HR, Finance) is spent on museums-related work, and this cannot effectively be extracted from the Establishment. However, it is possible that there is a different spread of support required for the Trust from the current in-house Team: for example, the Trust will not require any assistance from IMT after transition, but may require additional time from Finance in scrutinising financial records as part of the usual grants monitoring processes.
- 6.6 One of the next steps following decisions this Autumn by the two Councils is to recruit an interim executive officer to oversee the creation of the Trust and support the recruitment of an unpaid interim Chair and interim Board. The executive officer post would be for 18 months, and be a secondment opportunity for staff from either Council. It would be succeeded by an externally-advertised, permanent post.

- 6.7 The Business Case (Appendix 1, section 11) outlines the implications for staff. Following this decision period, detailed proposals will be shared with staff and unions, including formal consultation on TUPE arrangements.

## 7 Public Consultation

- 7.1 Last May, Members gave permission for officers to commission a wide-ranging programme of consultation activities in order to gauge response to the idea of a Trust for museum services in Hampshire. Surveys, focus groups and in-depth interviews were conducted with audiences and stakeholders throughout June to August 2012, with follow-up stakeholder focus group sessions in October, and a communication inviting any further comment issued in Spring 2013.

- 7.2 Satisfaction rating with the current service was good, with 72% of audiences (visitors and other users) and 75% of stakeholders expressing satisfaction. The consultation has shown that, in general, both audiences and stakeholders are prepared to support the Trust and will value further detail during the implementation phase. The Business Case, section 3 (see Appendix 1) provides a further summary.

## 8 Next Steps and Timetable

- 8.1 Assuming that both Councils decide to move ahead with the creation of the Trust, there will need to be clarity about roles, responsibilities and liabilities between the two Councils. A Partnering Agreement has been drafted (with the support of the two Councils' Legal Teams) which covers the setting up of the Trust up until grant funding and management agreements are in place. A summary can be found at Appendix 4. Member approval for the signing of this Agreement is requested, subject to a decision to proceed with the Trust.

- 8.2 In summary, the main actions required following decision will be as follows:

Sept-Nov 2013: Decisions by Hampshire County Council and Winchester City Council to proceed in principle, establish charitable company and consult with staff and unions

Enter into Partnering Agreement that includes sharing set up costs with Hampshire County Council and penalties for withdrawal

Nov 13 – Feb 14: Register charitable company

Recruit interim chair, executive officer and board

Consult with staff, unions and funding partners

Detailed finance, IT, communications, programme planning

March 14:	Feedback on staff consultation and confirmation of other staffing matters to Personnel Committee
	Decision to transfer staff, services and resources (lease for property and collections) to Trust
Summer 14:	Transfer to Trust
Up to Summer 2015:	Transition
	Recruit Full-term Chair and Board
	Recruit Chief Executive
December 15:	Handover between interim and full-term Board and Executive completed

## 9 Conclusion

- 9.1 This report offers a judgement concerning the best way forward to secure the long term future of the Council's museum services, and indeed cultural services across Hampshire. It proposes an approach that builds on the strong legacy of public investment made over many years, but represents a major shift away from direct delivery. This accords well with the Council's wish to modernise and look for new, economical mechanisms through which to deliver valued services.
- 9.2 The contents of this paper demonstrate in outline the potential, business case and wider impacts of this proposal to inform that decision. It also highlights the risks and mitigation approach to minimising the risk of failure which, if it occurred, would be subject to a clear exit strategy built into the Partnering Agreement.
- 9.3 Whilst the Council will cease to control its Museum Service, under this proposal, it will retain influence through the governance structure, its continued grant funding and also ownership of the assets. Moreover, a successful Trust will reflect positively on the Council which will have done the very best to sustain long term heritage and cultural provision across Hampshire.

## OTHER CONSIDERATIONS:

### 10 SUSTAINABLE COMMUNITY STRATEGY AND CHANGE PLANS (RELEVANCE TO):

- 10.1 The Trust project is the extension of an action in the Economic Prosperity Change Plan for 2011/12, *to assess the benefits of working in new ways with other Hampshire museum services*. The Trust would enable the Council to provide resilient services in the face of public spending reductions, which supports the corporate outcome of being an 'Efficient and Effective' Council.

- 10.2 The potential impact of the Trust on public awareness as well as innovation and quality of service delivery would enhance Winchester's reputation as a cultural centre and visitor destination. This supports the first outcome of the Council's Economic Strategy for 2010 – 2020.

## 11 RESOURCE IMPLICATIONS:

- 11.1 As highlighted in 4.2 above, the Council will be entering into a 25 year management agreement with the specific funding arrangements confirmed for years 1 to 5. Funding will be provided to the Trust in the form of annual grant payments, the amounts being shown in Appendix 2 under 'Third Party Payments'.
- 11.2 The Council will be retaining responsibility and budgets for repairs and maintenance of the Museum buildings, Utility and Insurance costs.
- 11.3 One-off costs of £45,000 have been identified. Transition costs are estimated to be £29,000 and severance costs are estimated at £16,000. Provision for these costs is proposed to be made in the revised 2013/14 estimates – CAB2523 elsewhere on this agenda refers – and a Report will be brought to Personnel Committee detailing all related staffing matters. As highlighted in 4.5 above, the Trust has yet to determine what level of reserves will be sufficient to meet its financial obligations. Any grant payments will be treated as a cost when the payment is made and will therefore be treated as an additional one-off cost if paid in a prior financial year.
- 11.4 Appendix 2 shows the forecast financial impact of the proposals for the first five years. The forecast savings of £176,000 over five years are reduced by the potential loss of funding through reduced business rates, giving a forecast net cost of £53,000 after five years. The payback period is estimated to be between 6 and 7 years, before taking into account any additional grant payment to ensure the Trust can meet its financial obligations, discussed in 11.3 above.

## 12 RISK MANAGEMENT ISSUES

- 12.1 Section 3 of this report says that this approach is not risk free. Although officers have spent many months exploring every detail of the Trust arrangements and drawn on significant advice and expertise in creating the Business Case, there will inevitably be external or unforeseen factors at play.
- 12.2 A primary risk is that the Trust fails to deliver on predicted financial performance and becomes at risk of insolvency. Potential risk areas that may impact on financial performance include the ability to generate additional funding (e.g. via other local authorities or grant-making bodies), and the underachievement of visitor/ income targets. Members may be concerned that this would require a financial injection from the Council(s). The Trust will be a separate entity from the founding local authorities and neither Council would inherit any debts attributable to the Trust should it fail with monies outstanding, however there will be an obligation to provide for the collections

and reassume management of the buildings. It is not anticipated that the Council would be in a position to provide additional funding should the Trust fall into difficulty, although it would be expected to work proactively with the Trust in such circumstances to implement mitigating strategies. It should be noted that grant monies paid in advance by the Council could be at risk in the event of insolvency.

12.3 As a core element of ordinary budgeting procedures, the Trust will be able to anticipate cash flow issues or budget pressures and put mitigation strategies in place to ensure a balanced budget, in discussion with the Board and funding partners.

12.4 There is an analysis of the risks for the Trust in the Business Case (Appendix 1: Business Case – section 12). However, there are some additional risks for the City Council to consider as follows:

<b>Risk</b>	<b>Impact</b>	<b>Likelihood</b>	<b>Mitigation</b>
Trust fails in first year and up-front grant payment is lost (year 1 grant is £390k)	Major	Minor	<ul style="list-style-type: none"> <li>• Sound financial planning, to be carried out at next stage</li> <li>• Learning from reference sites</li> <li>• High calibre trustees appointed from outset to oversee development of Trust</li> <li>• Unlikely to have to pay full grant up front – this is worst case scenario</li> </ul>
Ambitious Trust leads on capital funding bids for which there is an anticipated City Council contribution (eg City Museum refurbishment; new joint stores)	Major	Probable	<ul style="list-style-type: none"> <li>• Strong liaison between Trust and Council so that projects can be planned collaboratively</li> <li>• Programme discussions form part of annual WCC budgeting cycle</li> </ul>
Trust will take strategic lead on cultural funding applications, which might reduce WCC's chances of funding for solo projects	Minor	Definite	<ul style="list-style-type: none"> <li>• WCC does not have capacity to apply for external funding for cultural projects, as evidenced by its recent track record – it is likely to benefit more from being in the Trust than it would if the status quo is maintained</li> <li>• WCC can focus on avenues of funding more specific to LAs</li> </ul>

			(eg LEP grants)
Trust generates new requirements for support from Council Teams which are not resourced to provide this	Minor	Probable	<ul style="list-style-type: none"> <li>• Ongoing monitoring/liason work is likely to settle into a routine after transition period</li> <li>• Support should be broadly comparable to other grant recipients</li> </ul>
Loss of direct control, meaning reduced scope to direct localised activities such as Civic Silver; paintings in Guildhall; informal display areas (Market Lane toilets) etc.	Minor	Definite	<ul style="list-style-type: none"> <li>• Members and colleagues to be involved in development of Service Level Agreement</li> <li>• Legal Agreement provides for 'loan back' of certain items for use by the Council</li> <li>• Feedback from internal user group (eg Guildhall Manager) to inform ongoing monitoring activities</li> </ul>
Hampshire decides to pull out of Trust	Major	Unlikely	<ul style="list-style-type: none"> <li>• Clear exit strategy in the Business Case, with all associated costs carried by the party deciding to pull out</li> <li>• WCC not responsible for any losses incurred by the Trust</li> </ul>

### 13 Equalities

- 13.1 This report proposes a different way of delivering broadly similar services to those currently provided by the Council. The Trust would seek to develop and improve on existing operations, and a requirement would be built into the Council's funding agreement that the Trust adopt an appropriate Equalities Policy in the same way that other grant-aided organisations have. This would be subject to ongoing monitoring as part of the wider Service Level Agreement.
- 13.2 Accordingly, there are no obvious negative equalities impacts as a consequence of the creation of the Trust. However, a full Equalities Impact Assessment has been carried out and forms part of the full Business Case. It can be found in the Background Documents below.

### BACKGROUND DOCUMENTS:

- Consultants' report on public consultation programme from summer 2012
- Cultural Trust: Full Risk Assessment
- [Hampshire County Council CCRA Executive Member Decision Day papers](#)
- [Equalities Impact Assessment](#)
- Draft Partnering Agreement
- Cautious Financial Model for Trust

### APPENDICES:

Appendix 1: Business Case for the Hampshire-Solent Cultural Trust

Appendix 2: Financial Impact on the Council

Appendix 3a: Proposed Financial Model for the Trust

Appendix 3b: Summary of Proposed Financial Model

Appendix 4: Summary of Partnering Agreement between Hampshire County Council and Winchester City Council

Appendix 5: Letter from Mr P Gibby, Regional Director, Arts Council England



# Summary Business Case for the Hampshire Solent Cultural Trust

## 1. Executive Conclusion

1.1 It is proposed that Hampshire County Council and Winchester City Council come together to create a Hampshire Solent Cultural Trust with the capacity to champion a bold vision and facilitate wider partnership working, while playing its part by delivering quality arts and museum services on behalf of Hampshire and Winchester residents.

1.2 The Hampshire Solent cultural cluster is one of the richest in the UK, and plays a key role in driving the visitor economy and strengthening sense of place that encourages business investment. In the current economic climate, traditional models of local government funding are under significant pressure. Innovative solutions that centre on integration and strategic partnership are required to secure a bold economic ambition for culture into the future to:

### ***Position the Hampshire Solent cultural offer In the UK Top Ten by 2020***

1.3 In January 2011, Hampshire County Council, Southampton City Council and Winchester City Council agreed to investigate an integrated solution to addressing the following business drivers in comparison with individual service options:

- Retain a bold ambition for cultural heritage into the future and protect previous investment
- Deliver an appropriate level of resilient savings to partner authorities within a 5-10 year timescale

An initial review of governance options identified the charitable company limited by guarantee as the preferred model, and in January 2012, the 3 partner authorities approved preparation of this detailed business case to test the preferred option. Arts Council England (and its predecessor, MLA) has provided strategic and funding support throughout this process.

1.4 The business analysis considered 3 options:

- A Fully Integrated Merger of the 3 partner authorities into a Hampshire Solent Cultural Trust**, working in strategic partnership with the wider cultural heritage sector
- A Partially Integrated Merger of the 3 partner authorities into a Hampshire Solent Cultural Trust**, working in strategic partnership with the wider cultural heritage sector

## Appendix 1

### **C. A Fully Integrated Merger of Hampshire County Council Arts and Museums and Winchester City Council Museums into a Hampshire Solent Cultural Trust, working in strategic partnership with the wider cultural heritage sector**

These options have been compared with each Arts, Museums and Heritage Service remaining as a separate local authority service.

- 1.5 The business case concludes that the development of a Hampshire Solent Cultural Trust (options A, B and C) achieves the best performance against the business drivers identified in 1.3, delivering a dynamic brand with national profile that achieves long-term savings for its founding partner authorities. Having reviewed the outcomes of the business analysis, Hampshire County Council and Winchester City Council are interested in proceeding. Options involving the integration of Southampton City Council are not achievable in the current economic climate given the financial constraints under which they are operating. However, there is continued appetite for strategic partnership working from Southampton and other cultural organisations, including Portsmouth City Council, for targeted projects. It is proposed therefore that Option C in 1.4 above is taken forward.
- 1.6 In summary the key long-term benefits of a Hampshire Solent Cultural Trust delivering arts, heritage and museums services are:
- Financial efficiency (including tax efficiencies, increased earned income, external investment)
  - New sources of expertise and resources engaged in running services
  - Delivery of a vision and ambition across geographic boundaries

There are risks of the unknown and the new business will be vulnerable, particularly in its early years. However, if these risks are recognized at the outset and the Trust is established in the best way to accommodate these (expertise and skills, support in the early years etc.), the potential benefits are of great significance particularly in the current local government funding climate.

### 2. A Shared Ambition

- 2.1 Hampshire County Council (HCC), Southampton City Council (SCC) and Winchester City Council (WCC) came together in January 2011 to investigate the opportunity for integrating their arts, museums and heritage services. Arts Council England (and its predecessor, Museums, Libraries and Archives Council (MLA)) has given strategic and funding support to this initiative since 2010.
- 2.2 The partner organisations share a fundamental belief that dynamic cultural activity supports economic prosperity through attracting business and visitor investment and inspiring local people. They have an excellent track record of delivering on these outcomes over many years and wish to protect investment and ensure it can be built on in the longer-term in line with strategic plans already defined.
- 2.3 However, in this period of economic austerity these organisations are not in a position to continue investing in this cultural heritage to the same level over the next 5-10 years. An inevitable 'spiral of decline' in service excellence would be the outcome of a decision to 'do nothing'. The proposal to create an integrated service delivered within the framework of a charitable company limited by guarantee (with associated trading arm) is under consideration to determine whether it best meets the following shared business needs of each to:
- Retain a bold ambition for cultural heritage into the future and protect previous investment
  - Deliver an appropriate level of resilient savings to partner authorities within a realistic timescale

The proposed working name of the new organisation is Hampshire Solent Cultural Trust.

- 2.4 In 2011, a Steering Group was established with senior officer representation from Hampshire County Council, Southampton City Council and Winchester City Council. Anne Millman, Business of Culture and Eversheds undertook an initial financial evaluation and review of governance. In January 2012, the three partners approved the preferred option as the establishment of a charitable company limited by guarantee. Focus Consultants were appointed to support preparation of a detailed business case and The Susie Fisher Group to undertake research into stakeholder and public attitudes towards the current cultural heritage offer delivered and responses to the initial proposal of a Trust.

## Appendix 1

- 2.5 As an outcome of the above work, it is proposed that a Hampshire Solent Cultural Trust will create a brand that raises the profile of greater Hampshire's cultural heritage. It would champion a vision to:

***Position the Hampshire Solent cultural offer  
In the UK Top Ten by 2020***

This vision is of significant economic value to the ambitions of Hampshire, Winchester, Southampton and wider partner areas, where the Trust has the potential to retain the necessary capacity to facilitate partnership working and joint fundraising required to make it happen. The Trust will also be able to support wider skills for employment and wellbeing agendas.

- 2.6 The Trust will develop and deliver an exciting, innovative arts and heritage programme that maximises earned income, strategic collaboration and efficiencies of integration. Coming together as a Trust, the partners will commit to delivering an innovative 5 year business plan (Appendix A) that drives up earned income, building on the strengths, unique selling point (USP) and customer base of the local authority areas/ services. An annual **Big Theme Event** will deliver a multi-venue arts and museums programme of flagship and community exhibitions, performance, installations, events, and digital opportunities. Enterprising popular culture projects, including future potential development of the LegoMania concept, will be aimed at encouraging new audiences and investment. State of the art **digital technology** will drive dynamic community engagement, marketing, resources and ticketing. Building the fundraising capacity of the Hampshire Solent cultural Trust in support of cultural programming will be a priority investment area from the outset. A dynamic philanthropy and advocacy strategy is under development, ***Inspiring a Culture of Philanthropy*** working in partnership with the wider sector.
- 2.7 Through the establishment of a **trading arm for the charitable company**, it may be possible to maximise the commercial opportunities generated by retail, catering and venue hire activities, with all net profits covenanted into delivery of the charitable objects.

### 3. Public and Stakeholder Viewpoint

3.1 Hampshire County Council, Southampton City Council and Winchester City Council set out to discover the level of support for setting up a charitable trust to deliver their Arts, Museums and Heritage Services. Independent consultants, The Susie Fisher Group, undertook a multi-stranded study. This included conversation with service users, non-service users as well as external stakeholders to the service. The aims were to understand current levels of satisfaction with Arts, Heritage and Museums Services; to investigate spontaneous responses to the Trust proposal; to assess its strengths, weaknesses and to evaluate the level of public support. The key findings from the study are outlined below:

#### ***Satisfaction with Current Service***

3.2 Satisfaction rating with the current service was good, with 72% of the Audience and 75% of Stakeholders expressing satisfaction. The consultation has shown that, in general, both Audiences and Stakeholders are prepared to support the Trust.

#### ***Initial Responses to the Trust***

3.3 Almost half of all those consulted will want more detail and tangible reassurance that the system can be made to work. The main concerns include the loss of local voices, venues and identity; regional rivalries wrecking the system; and that those that seek to implement the change have the required management, leadership and enterprise competencies. Many recognised that the time was right for action by the three partners otherwise the services would inevitably decline.

3.4 Audiences and stakeholders share similar hopes for the Trust in that it will result in the positive pooling and sharing of resources as well as dramatically better marketing and IT. Only professional stakeholders and more frequent service users hold a more realistic ambition to achieve an improved quality and scope of the service under the new system. The majority of those consulted are more focused on protecting the current service. Art goers, by contrast, see change as a route to higher quality exhibitions and performances.

3.5 The vocabulary of merger – “integrate, combine, single cultural voice” – does not motivate the public audience as it suggests cuts. Audiences want to hear a more positive vocabulary – “support, protection, cross fertilisation, energy”. The idea is to strengthen variety and identity across the County. Senior stakeholders however can better see the value in a single strong cultural voice for Hampshire.

### ***Stakeholder Relationships***

- 3.6 More local, community orientated stakeholders had more developed relationships with the three local authorities' arts, heritage and museum services but these relationships often operated at a more functional than strategic level. A primary concern for these stakeholders relates to how these relationships will continue into the future. External stakeholders working on a larger canvas often had less developed and less satisfied relationships, finding the lack of coherence and strategy to be a barrier when working with Hampshire-based council run arts, heritage and museum services.

### ***Planning for the Future***

- 3.7 There is enough public support for a Trust to be established and there is no outright hostility to this proposal from stakeholders as long as the Councils' address concerns raised and provide further detail during the implementation phase. During this phase, an important Audience group to target relates to older regular users. An important Stakeholder group to target is the more locally minded, smaller-scale organisations that currently perceive they have more to lose than to gain.

### ***Staff engagement***

- 3.8 Staff from Hampshire County Council Arts and Museums (and its partners) have been involved in scoping and visioning workshops since 2010. During the detailed business case (2012-13) stage, staff and unions have been briefed at regular intervals on progress and invited to comment on the proposals. Additionally, during summer 2012, staff participated in operational workstreams to develop the indicative 5 year programme for the Trust.
- 3.9 Main staff comment areas include:
- Opportunities for the arts within the Trust
  - HR implications for staff, including terms and conditions, pension arrangements, period of consultation etc.
  - District and Borough Council responses to the proposals and the needs of community arts and museum venues
  - Financial resilience of the Trust
  - Public and stakeholder responses to the proposals

### 4. Options Considered

4.1 Various organisational options were considered during 2011 and scored in terms of resilience, benefits and risks. The options reviewed are as follows:

- Charitable company limited by guarantee
- Joint Venture Company
- Shared administrative service hosted by 1 local authority partner
- Outsourcing of individual partner services to commercial organisations/ charitable trust
- Do nothing (status quo) – traditional model of local authority delivery

4.2 The recommended governance option at this stage was a charitable company limited by guarantee, on the basis for example that it secures a balance between retention of sufficient control whilst achieving flexibility to engage with the wider market, secure efficiencies and economies of scale and obtain the benefit of wider expertise and resources. A trading arm may be established to manage commercial activities on behalf of the Trust.

4.3 While the full integration of arts, museums and heritage services was initially the preferred option (option A), it was decided in October 2012 that other options should be compared and contrasted to assess financial benefits and risks. These options considered:

- Option B: a fully integrated merger of Hampshire County Council Arts and Museums and Winchester City Council Museums, and a partially integrated merger of Southampton City Council Arts and Heritage professional services (exhibitions, collections, learning, strategic development, fundraising)
- Option C: a fully integrated merger of Hampshire County Council Arts and Museums and Winchester City Council Museums, working in formal strategic partnership with a range of cultural partners on specific projects, including Southampton City Council

These options were compared with the governance ‘Do nothing’ option in which each arts, heritage and museums provision remains a separate local authority service.

4.4 The present direct delivery scope proposed for the Hampshire Solent Cultural Trust is centred on arts and museums services with an appetite for integration. Lessons learnt from elsewhere suggest that large cultural trusts established at the outset may have a greater risk of failure. The starter set of services proposed have a logic based on



## Appendix 1

current partnership working and proven ability to attract external investment. These foundations will give the best chance of success in the early years. Once the Trust is established, its role has the potential to develop further in terms of a wider cultural offer.

### 5. Financial Appraisal

5.1 The specific financial benefits and costs associated with a charitable company limited by guarantee are:

- Decrease in NNDR costs (advantage to Trust)
- Gift aid opportunities
- Increased earned income potential
- Accessing new funding from trusts and foundations, corporate donors and individual philanthropists
- Increase in costs through VAT on some expenditure

These benefits and costs have been factored in to the financial modeling undertaken.

5.2 The proposed Trust is a long-term partnership initiative that retains service excellence (ambition) and delivers savings. Hampshire County Council and Winchester City Council, in proceeding with the transfer of arts and museums services, would be committing to a long-term arrangement in terms of operations and assets, with a rolling funding agreement.

5.3 The financial benefits outlined in 5.1 take time to develop and it is in the best interests of the founding authorities to nurture the Trust in its early years of business whilst securing necessary efficiency. The returns in the longer term are the strategic benefits outlined in section 2, the potential external investment outlined in section 8 and the fact that the Trust will be looking after founding authority owned assets.

5.4 The financial appraisal has therefore assumed that:

- The founding authorities enter into a minimum 25 year management agreement with Hampshire Solent Cultural Trust, with specific funding arrangements confirmed for years 1-5, and arrangements for years 6-10 confirmed by year 4. Renewal of funding and associated review of management agreements for years 11-25 would be agreed during a review in year 7.
- Years 1-5 funding agreement recognises that savings requirements are back loaded as follows:
  - Year 1: 2% reduction in cash limit from Year 0
  - Year 2: 2% reduction in cash limit from Year 1



## Appendix 1

- Year 3: 2% reduction in cash limit from Year 2
- Year 4: 10% reduction in cash limit from Year 3
- Year 5: 2% reduction in cash limit from Year 4
- 36 months notice by Hampshire County Council and Winchester City Council of significant change / termination of funding/ exit from agreement, with all reasonable costs incurred by exiting party

5.5 A 5-year proposed income and expenditure profile has been modeled for each Trust option based on the assumptions in 5.4 to allow for comparison. The model for option C, the recommended option, is attached as appendix 1a to this summary. It is not a detailed budget, and this will be constructed as part of the implementation stage if a decision in principle is made to proceed. Appendix 1c (Executive Member report) summarises the financial outcomes for the other options considered.

5.6 Additional assumptions include:

- The level of arts and museums services provided by year 5 is the same as in baseline year (2013/14) i.e. no venue closures or reduction in service assumed, with noticeable enhancement of offer in the areas of public programming, marketing, digital and fundraising.
- Inflation is not included. (It is anticipated that if salaries within the Local Authorities are increased by inflation during this 5 year term and a corporate allowance is made to cover these costs then a corresponding inflationary allowance will be included as part of the grant agreements for the relevant year(s). For inflation related to other revenue expenditure it is assumed that the Trust will manage through ongoing efficiencies as would be required under the 'Do Nothing' option.)
- Salary increments are not included: it is assumed that the Trust will manage through vacancy management and other efficiencies as would be required under the 'Do Nothing' option
- For Hampshire County Council Arts and Museums, any potential grant reductions required by district and borough council funding partners are not included. It is assumed that the Trust will manage these as required through local changes to service delivery within a district/ borough council area as would be required under the 'Do Nothing' option. A benefit of the Trust in the longer-term is that it will have greater opportunity to identify funding and other resources from alternative sources in mitigation of any such reductions, in comparison with the 'Do Nothing' option. As part of the consultation stage, district and borough council funding partners have been asked to consider minimising any reductions in Years 1-3 to give the Trust its strongest chance of success, and this should be a key area of negotiation at the implementation stage.

## Appendix 1

- VAT on expenditure will be realised at lower end of current estimate range.
- A gift aid scheme will be established during implementation to provide the maximum return Gift Aid target returns from Year 1. Annual costs of administration have been taken into account.
- The Trust will receive full benefit of the 80% NNDR relief for which the Trust is eligible to reinvest in operating budgets in order to drive up the enterprise dividend and attract external investment. It should be noted that this represents reduced business rates income to Hampshire County Council of c. £40,000 per annum and to Winchester City Council of c. £30,000. This matter is also relevant to district and borough council partners, and will be discussed in detail as part of overall funding and strategic discussions during the implementation phase.

5.7 A significant area of new income for the Trust is gift aid, a Treasury operated scheme that helps charities maximise the value of donations by reclaiming tax from HM Revenue and Customs. The income targets are calculated from the 'opt-out' scheme which is used for example by the National Trust. Under this scheme UK taxpayers are offered a choice of two entry tickets: Standard admission or Gift Aid Admission. The Gift Aid Admission includes a 10% or more voluntary donation and would enable the Trust to reclaim tax on the whole amount paid. It is essential that the presentation of this option to the customer is clear. An alternative option is to consider an annual membership gift aid scheme which is likely to give less financial return because it allows for repeat visits. However, in the implementation stage both options will be modeled in further detail and their VAT implications fully considered. The gift aid income currently excludes any return from the Culture-All passport scheme and a figure of £50k associated with administering the gift aid scheme has been deducted from the estimated income target in the financial model along with an increasing return until year 4 and then 3% pa thereafter.

5.8 As part of the sensitivity analysis undertaken, a second financial model has also been prepared which takes a cautious approach to modeling risks, including realising the full 80% NNDR, meeting earned income targets and VAT costs. If there is no increased core internal investment in public programming from Year 1 onwards then increased income targets will be more reliant on securing project-related external investment, which takes time. Therefore under the cautious model, increased earned income at 3% per annum commences at Year 3 and Gift Aid target returns are profiled at lower returns from Year 1. The cautious modeling for option C is attached as appendix 1b to this summary. Although financial performance is less strong under the cautious model predicting a £175,000 per annum deficit if no mitigation

## Appendix 1

undertaken by year 5, this still compares favorably to that of the 'do nothing' option which predicts a £460,000 per annum deficit by year 5 with significantly fewer options for mitigation, using the same savings profile identified in 5.4. Therefore option C has the best chance of ensuring a long-term resilient future for arts and museum services in Hampshire and Winchester.

- 5.9 The Trust will need to have at least 12 weeks operating budget in the Charity Bank Account in order to officially establish and sustain. With the Trust operating budget proposed at over £6 million during year 1, the organisation would require at least £1.4 million available upon transfer of services. This requirement may require the founding authorities at least in the early years to transfer the full year 1 grant on transfer of services, and remaining grant funding 6 months in advance for year 2 onwards. Financial modeling indicates that the Trust will over time build its own reserves (currently estimated at c. £400,000 by end of year 5, based on lower end income targets and excluding external investment opportunities). Rigorous financial monitoring by the Trust and founding local authorities will be required, particularly during the early years.
- 5.10 The proposed governance arrangements as outlined in section 10 may enable the Trust to be eligible for cultural exemption regarding VAT on admissions. However, in this case it will be liable for VAT on associated expenditure and an allowance has been made in the proposed and cautious models based on HCC VAT expert advice and external benchmarking. It is recommended that further detailed analysis on company structure and VAT implications will need to be undertaken early in the implementation stage.
- 5.11 One of the main issues in the TUPE transfer of local government staff into the Hampshire Solent Cultural Trust is likely to be the issue of pension terms and conditions. TUPE requires the Trust to provide a broadly comparable pension scheme ie final salary scheme with defined benefit and contributions to the Local Government Pension Scheme (LGPS). This is a key area for staff and union consultation during the implementation period.
- 5.12 There is a financial risk associated with the pension fund where any future shortfall due to changes in national conditions must be funded. A solution is for the two authorities to agree 'pass-through' arrangements as a closed scheme which means the pension risk remains with each Local Authority ie each former employer retains the pension responsibility for the outsourced staff, and new or future employees of the Trust would not be eligible to join LGPS. The Trust will need to set up a new pension scheme as part of the

## Appendix 1

implementation phase and set policy for dealing with staff promotions with respect to pension terms and conditions as it would be usual for membership to LGPS to cease at this point. In summary while in the short term pension liabilities will remain with Local Authorities, in the longer term pension costs will decrease for Local Authorities. Costs associated with the Trust applying for admission body status have been included in the HR set up.

## Appendix 1

### 6. Central Support Services

6.1 Hampshire County Council will transfer c. 90 ftes to the Trust and Winchester City Council 10 ftes. It is therefore proposed that the County Council provide all Central Support Services to the Trust as an integral part of the grant agreement. Initial feasibility work has determined that this will require marginally less central support resource than presently with potential to reduce further through efficiencies, especially in terms of IT, identified during the implementation phase and early years of operation.

6.2 Legal, procurement and benchmarking advice has been obtained regarding VAT on support services supplied as part of the grant funding agreement. The advice confirms this is a low risk as the arrangements have been developed as a VAT efficient option. Mitigation relies on the publication of the partner authorities' intention to provide services to the Trust in this way prior to implementation. It is recommended that further detailed advice is sourced in respect of this area during the implementation stage.

6.3 The following table estimates the costs for support services for the options considered and compared to current Hampshire County Council costs.

Support Services	HCC Current Model	Fully integrated merger (3 partners) Option A	Partially integrated merger (3 partners) Option B	Hampshire Solent Cultural Trust Recommended Option C
Finance	£107,900	£98,000	£75,000	£74,000
HR	£99,400	£77,000	£70,000	£68,000
IT	£195,000	£400,000	£290,000	£250,000
Legal	£50,000	£80,000	£60,000	£55,000
Architectural Consultancy	£75,000*	£75,000* – same cost for all options		
Property including FM	Repairs & maintenance remains the responsibility of owning local authority			
Marketing inc Business Development Consultancy	£25,500	£25,500 – same costs for all options		
Risk & Safety	£30,000	£30,000 – same costs for all options		
<b>Total</b>	<b>£583,000</b>	<b>£785,000</b>	<b>£625,000</b>	<b>£578,000</b>

\*Agreed annually up to a value in the region of £75,000

## Appendix 1

- 6.4 Hampshire County Council corporately will provide central support services to the Trust as part of a grant agreement to the value of up to £578,000 (current cost of central support services is £583,000). Central support services to the Trust covering Finance (including VAT advice), HR, IT and Legal (value of £447k) are corporately funded within Hampshire County Council while the consultancy support for architecture, property management, marketing, business development, risk and safety (value of £131k) are departmentally funded services within the Culture, Communities and Business Services (CCBS) department of Hampshire County Council. The latter will continue to be funded by the CCBS department. As the County Council continues to improve the efficiency of delivering these services, generally and in liaison with the Trust, the cost corporately (and where appropriate departmentally) to Hampshire County Council of this grant provision will decrease over time. This arrangement is 'cost neutral' to the Trust.
- 6.5 The main area of difference between each option relates to IT. A specific analysis of this area has been undertaken by HCC IT Services in Spring 2013. There is room for potential efficiencies in the figures relating to ongoing organisational review efficiencies and data storage – see report R.B503071 Analysis and proposal IT provision for the proposed Charitable Trust. The HCC current support service costs were provided by each Head of Service in September 2012 based on current level of provision. For the purposes of providing estimates for future HR costs, three estimates have been produced, however they are calculated on the basis of a very different type of service approach, to the one currently provided, ie that the Trust would manage its HR matters with the support of HCC HR for delivery of a basic HR service. The estimates therefore do not include the management aspect of HR which would include aspects such as being responsible for the recognition and ongoing relationships with Unions and any wider staff engagement outside of specific restructures / remodelling, managing the ongoing development of people strategy and any associated revision in policies and their implementation. The estimated costing would enable the provision of specialist expertise to support the management of these processes, but their management would be undertaken within the framework of the Trust. In summary the HR service would be very basic for the Trust in comparison to the existing provision, which is why there is a difference between the current cost estimates and the estimates for different Trust options.
- 6.6 The Core Business Case Financial Model for the Trust includes a budget for insurance and audit services (estimated as £30,000 and £20,000 for option C) respectively based on revenue costs incurred by a reference site. Any insurance arrangements associated with assets by the founding partners (primarily property and collections) would remain with the Local Authorities but the Trust will require its own

## Appendix 1

insurance to operate as a business. The Trust will procure a package of insurance to cover public employer's liability, director/trustee liability, fidelity guarantee, professional indemnity and content insurance but excluding collections. The Trust insurance costs are not included in the table in section 6.3 and will be subject to procurement/VAT; they have therefore been allowed for in the financial modeling. Legal Costs have been estimated by HCC Legal Services, but appear high when compared to a benchmark trust with a similar turnover and incurring actual legal costs of £30,000 per annum.

- 6.7 It is proposed that building liabilities, repairs and maintenance costs as well as utilities will remain with the Local Authorities due to economies of scale. The Trust will be responsible for Business rates expenditure and eligible for a reduction modeled at 80% (and 50% net in the cautious model as part of the sensitivity analysis). Further work is required to the property activities and associated resources which are included in the financial model during the implementation stage to confirm allocation of costs and budgets remaining with the Trust and those remaining with the Local Authorities.

## Appendix 1

### 7. Set Up Costs

7.1 Exceptional one-off costs of setting up the Trust for Hampshire County Council have been calculated as £261,000 and for Winchester City Council as £29,000. Section 11 outlines any staffing implications which are envisaged at a senior management level and may involve exit cost. Any such additional costs are excluded from the above figure because there would also be significant redundancy costs incurred in a 'Do nothing' option.

7.2 A series of specific tasks and costs have been identified to take the preferred trust option successfully through the transition phase, as per the table below. Where a range of figures has been provided the highest figure has been used to reflect the worst-case scenario.

<b>Set Up Costs - Key Transition Tasks</b>	<b>Fully Integrated Merger (3 Partners)</b>	<b>Partially Integrated merger (3 partners)</b>	<b>Hampshire Solent Cultural Trust – recommended option</b>
Recruitment/expenses to Interim Trustee Chair	6,600	6,600	6,600
Staffing costs -Interim Executive team	70,200	24,000	N/A
Branding and Communications	20,000	20,000	17,000
Appointment to Trustee board & training	24,500	24,500	22,000
Appointment of Executive team	41,500	N/A	N/A
HR actions*	74,000	70,000	67,000
Legal actions	59,200	59,000	54,000
Finance	38,000	33,000	30,000
IT set up	331,000	72,000 – 92,000	45,000 – 60,000
Fundraising actions	20,000	20,000	17,000
Contingency	TBC	TBC	15,000
<b>Sub total</b>	<b>£685,000</b>	<b>£350,000</b>	<b>£290,000</b>

\*To facilitate pension 'pass through' proposals for TUPE staff, the Trust will need to become an admission body under the Local Government Pension Scheme. Costs of £10k are estimated regardless of the option to cover actuary resources and have been included in HR set up costs above.



## Appendix 1

7.3 Contributions from Hampshire County Council and Winchester City Council are calculated as follows:

Authority	FTE	FTE %	Transition costs (excluding any exit costs)
HCC	90	90	£261,000
WCC	10	10	£29,000

7.4 Taking into account the set up costs above, payback to the founding Local Authorities would be completed within 3 years and is proportional to the savings identified in Core Business model.

### 8. External Revenue Investment

- 8.1 The growing potential value of the Hampshire Solent brand can be demonstrated by the following:
- Arts Council England (ACE) has provided funding support for Hampshire Solent branded projects since 2011/12 to a value of £1.95m, which include for example:
    - ACE funded the business case work behind the Hampshire Solent Cultural Trust project
    - ACE awarded the Hampshire County Council, Southampton City Council and Winchester City Council partnership over £600,000 to support delivery of the Hampshire Big Theme 2014 (1914: Commemorating World War 1) programme and a digital viral marketing initiative (working with wider Alliance partners)
  - HLF have recently awarded a Round One pass under their high profile Catalyst Building Fundraising Capacity Scheme for the Hampshire Solent Cultural partnership project, Inspiring a Culture of Philanthropy, with a grant value of £300,000
  - Hampshire County Council, Southampton City Council and Winchester City Council are planning to enter into partnership to deliver the 2015 *Hampshire Big Theme Dinosaurs* public programme
- 8.2 Future opportunities for strategic partnership revenue funding may include the ACE – Visit England Cultural Destinations Fund and ACE Renaissance/ Grant for Arts funding and Heritage Lottery revenue funding schemes, for example. The HLF Catalyst Scheme would enable the Trust to develop valued relationships of mutual benefit with private and corporate philanthropists, trust and foundations. A target of £2- £2.5 million external revenue investment over a 5 year period seems appropriate.
- 8.3 Throughout this process, ACE has continued to demonstrate significant strategic as well as funding support for this collaborative initiative. A copy of a letter from Phil Gibby, Regional Director ACE South West, to the Chief Executives of the Local Authorities dated 15<sup>th</sup> July 2013 is attached as appendix 3 to the Executive Member report.

### 9. Property and Collections

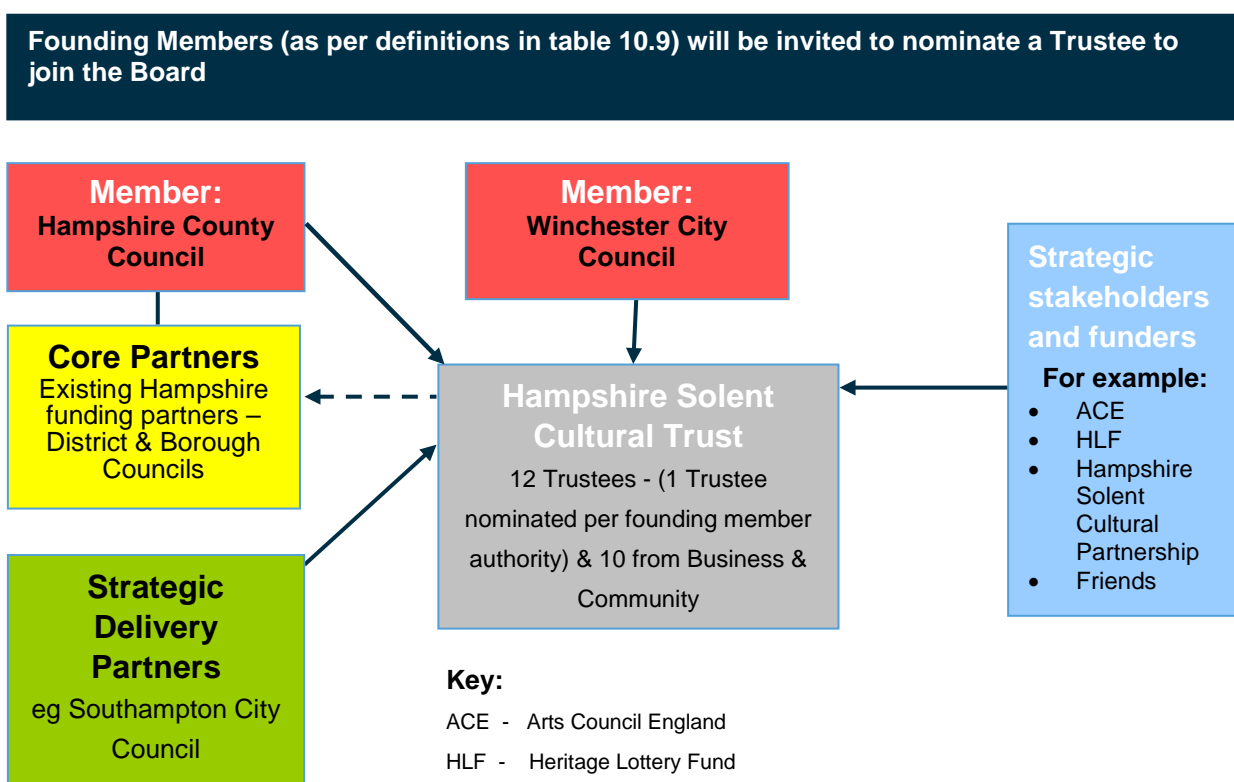
- 9.1 Property would be leased/ sub-leased/ licensed, as appropriate, under long term arrangements where feasible, with the minimum unexpired term at any time being 25 years so as to support external grant applications by both the Trust and the owning local authorities relating to property. The Trust would be able to break a lease at agreed periods, perhaps each five years. Leases would be in standard form, but include bespoke terms where appropriate in order to protect both parties' wider interests. This will include protecting Hampshire County Council and Winchester City Council rights to their property in the event of failure of the Trust as an on-going financial concern. It is proposed that responsibility for repairs, maintenance, buildings insurance and utilities (with exception of business rates) is retained by Hampshire County Council and Winchester City Council for reasons of cost effectiveness although it would be necessary to include capping arrangements and other safeguards to ensure that costs did not rise in real terms in the future.
- 9.2 For Hampshire County Council, it is proposed that property maintenance would continue to be delivered through Term Maintenance Contracts and an integrated Customer Helpdesk Service to provide the majority of the planned revenue maintenance and breakdown/ repair work. In order to manage the Capital liabilities, Property Services have a well-developed strategic Corporate Risk Assessment based approach to Capital and Revenue funded repair and maintenance. This is a key aspect of the overall approach adopted by Property Services to manage risks and it is proposed that the Trust's properties will remain within the current approach and the overall priorities established from this process.
- 9.3 Collections would be leased/ sub-leased, as appropriate, under long term arrangements where feasible, with the minimum period at any time being 25 years so as to support external grant applications by both the Trust and the owning local authorities relating to these heritage assets. It is proposed that the management and care of collections would be undertaken by the Trust. The Hampshire Solent Cultural Trust on behalf of the respective local authority would hold any new collections acquired in trust.
- 9.4 Any insurance arrangements associated with assets by Hampshire County Council and Winchester City Council (primarily property and collections) would remain with the Council, including for Hampshire County Council under self-insurance arrangements an agreed risk management approach. The Trust will require its own insurance to operate as a business as explained in section 6.6.

## 10. Governance and Leadership

10.1 The Trustee Board governance framework for the Hampshire Solent Cultural Trust will bring together the unique strengths of Hampshire County Council, its district and borough council partners and Winchester City Council with the dynamic abilities of influential and high quality individuals from the wider business, cultural, public and educational community. Strong leadership will be critical to the success of the venture and an appropriate level of ambition will be vital to secure an outstanding Chair, Board and Executive team who can deliver the vision and build an acclaimed cultural business within 5 years.

10.2 It is proposed that the Board will consist of 12 Trustees with 1 each being nominated by the founding local authorities, Hampshire County Council and Winchester City Council. The Chair and non-local authority Trustees will be appointed by open competition from the business, media, community, public, cultural and educational sectors, ensuring the best balance of skills and expertise to ensure business success. It is proposed that they will serve a 3-year term with the option of re-appointment for a further 3 years, to facilitate the need both for stability and new ideas/ energy. It is also proposed that Hampshire County Council and Winchester City Council have the option to nominate an observer to the Board as appropriate. The diagram below illustrates the governance arrangements:

### 10.2 Diagram to show governance for Hampshire Solent Cultural Trust:



## Appendix 1

- 10.3 It is also proposed that the constitution of the Trust formally includes the establishment of an Annual Advisory Group Meeting to which Core Funding Partners (district and borough council partnerships) would be invited to review performance and contribute to future planning. Individual meetings (up to 4 per annum) would continue with district and borough councils in addition, and current Joint Management arrangements can form the basis for these as appropriate.
- 10.4 The table below summarises the proposed constituted groups which would provide appropriate voice and influence commensurate with level of funding and engagement:

<b>Democratic Process</b>	<b>Frequency</b>	<b>Key Purpose</b>
<b>Cultural Advisory Group</b>	Bi-annual	A meeting between the Project Board/Trust representatives and external stakeholders for the Implementation stage only to provide consultation and communication.
<b>Bi-annual Individual Member Meetings</b>	Bi-annual	Individual meeting between each Member and the Trust to review the grant funding agreement, performance and forward programme.
<b>Annual Members Strategic Board</b>	Annual	Meeting between the Trust and Members to review the funding and management agreement(s) and 5 Year Business Plan incorporating an Annual General Meeting
<b>Annual Trust Advisory Group</b>	Annual	Advisory meeting between the Trust, Members and Core Partners to report on performance and receive advice on the forward programme
<b>Trust Community Liaison Group</b>	Annual	Advisory meeting between the Trust and representatives from the wider community nominated by Members and Core Partners
<b>Core Partner Meetings</b>	1-4 per annum	Meeting between the Trust, Hampshire County Council and individual Core Partner, including within joint management arrangements
<b>Various Project Board/Meetings</b>	As required	Best practice methodology to monitor project performance and make timely decisions among strategic partners.

- 10.5 During the implementation stage, it is proposed that an Interim Chair and Board of 4 Trustees is appointed for up to 2 years from early 2014. The selected Chair would have a strong reputation with key national funding and strategic bodies, including ACE and DCMS. Someone well respected by local authority members who is also well connected with influential individuals in the local and national context, who will give the Trust significant credibility and who will advocate the Hampshire Solent cultural vision. He/ she will be supported by the Interim Trust Executive Officer who will also work with an appointed Interim Vice Chair with expertise in development of Trust operations and business change.
- 10.6 During implementation, a Trust Advisory Group could be established to seek the advice of and help develop relations with representatives in the wider cultural, business, media, tourism, community and educational sectors. The first meeting of the Annual Advisory Group

## Appendix 1

could also be held during the implementation phase to bring district and borough council partners together with the Interim Trust Board to discuss future planning.

- 10.7 It is proposed that during 2014, the Trust will be established and services transferred. Later in 2014, the Trust (with the support of its founding authorities) will commence recruitment of a Chairman Elect, Trustees and a Chief Executive by open competition for appointment by summer 2015. This will allow a 6-month handover between the Interim Chair/ Board and the new Chairman/ Board that will take the Trust forward in the long-term from end 2015.
- 10.8 It is also proposed that consideration is given to evolving the current Hampshire Solent (Museums) Alliance, which has driven significant strategic partnership work since its inception in May 2011, into a Hampshire Solent Cultural Partnership facilitated by the Hampshire Solent Cultural Trust. As per the Alliance, this Partnership would aim to bring together senior leads from key cultural s working with wider sector networks as appropriate, to champion a programme of strategic partnership working of benefit to all cultural organisations in the greater Hampshire area. This Partnership would provide a framework for managing existing collaborative projects as well as developing new opportunities.
- 10.9 The table overleaf summarises the proposed funding relationships with the Trust, level of resources provided to the Trust and the corresponding level of governance influence. It should be noted that final arrangements with Core Partners will be determined during the implementation stage.

## Appendix 1

### 10.9 Table to summarise proposed Hampshire Solent Cultural Trust Governance Framework

	Legal Agreements with Trust	Resources Provided to Trust	Exit Arrangements	Involvement and Influence
<b>Member</b>	<p>Minimum 25 year management agreement with specific funding arrangements confirmed for years 1 – 5, and arrangements for years 6 – 10 confirmed by year 4 and renewal of funding agreement for years 6 – 10 confirmed by year 7.</p> <p>Minimum unexpired term at any time being 25 year lease for property and collections</p>	<p>Complex leasing of significant assets including multiple buildings and large collections</p> <p>TUPE of staff</p> <p>Commensurate level of funding to manage resources provided</p> <p>Proportionate contribution to set up costs</p>	<p>Break clause every 5 years</p> <p>36 months notice of significant change/ termination</p> <p>Incur all reasonable costs on exit</p>	<p>Ability to nominate Trustee</p> <p>Bi-annual individual Core Member Mtg.</p> <p>Annual Core Members/ Members Strategic Mtg.</p> <p>Representation at Annual Trust Advisory Group Mtg.</p> <p>Ability to nominate a member of Community Liaison Group</p>
<b>Core Partner</b> (e.g. district/ borough council partnerships)	<p>3 year grant agreement</p> <p>Minimum 3 year funding agreement (annually confirmed)</p> <p>Minimum unexpired term at any time being 3 year license for property assets where appropriate</p>	<p>May involve small scale, short duration leasing of assets including a building or limited collection</p> <p>Commensurate level of funding to manage venue in partnership with HCC</p>	<p>18 months notice of significant change/ termination</p>	<p>1-4 joint partnership meetings per annum (HCC; Core Partner; Trust)</p> <p>Representation at Annual Advisory Group Meeting</p> <p>Ability to nominate a member of Community Liaison Group</p>
<b>Strategic Partner</b>	<p>Partnership Agreement for specific projects/ initiatives</p>	<p>Resources provided for specific projects for timescale relevant to project</p>	<p>Ordinarily 6 months notice</p>	<p>Relevant Project Board/ Team Meetings</p>

## Appendix 1

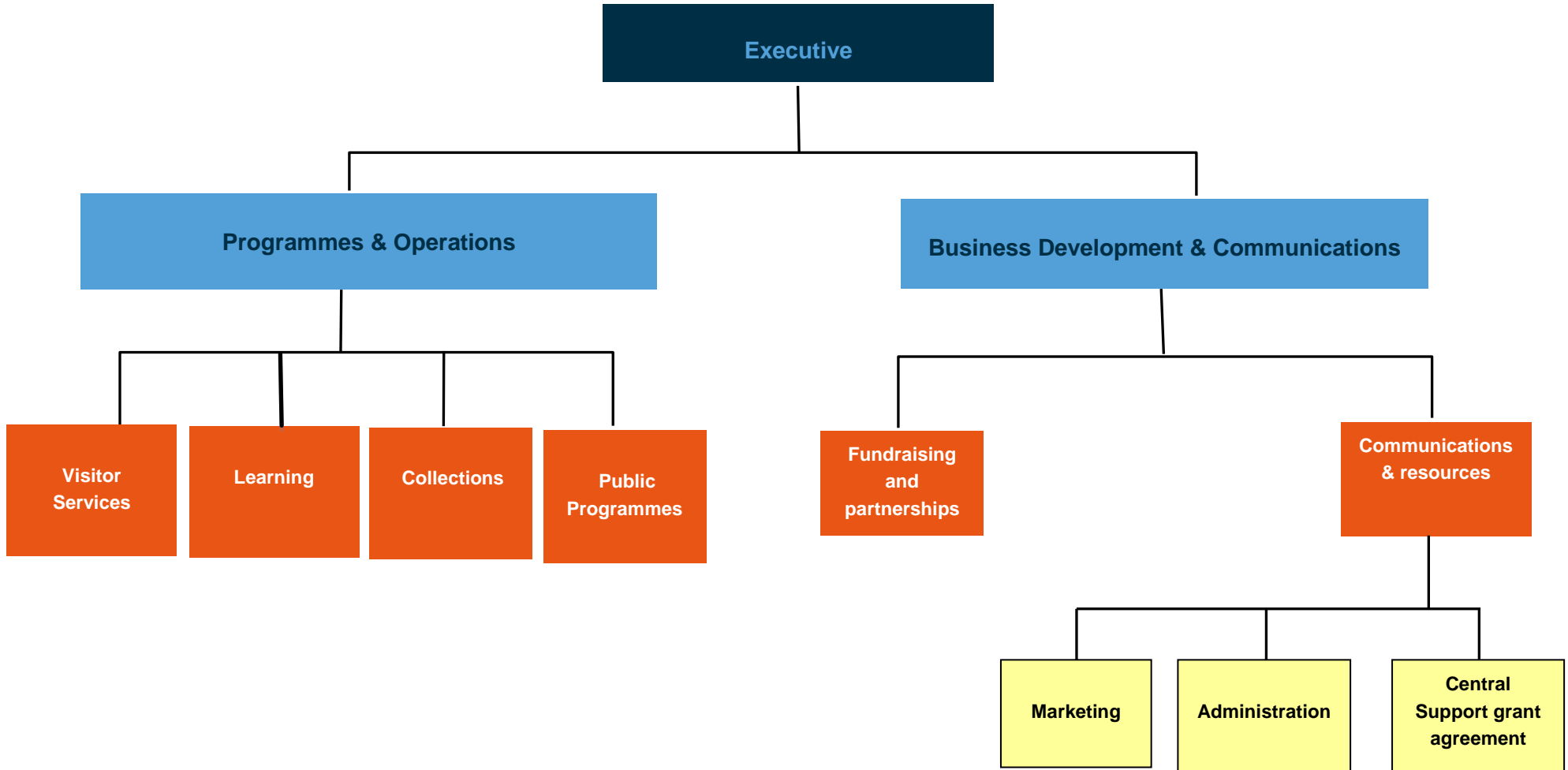
### 11. Staff and Organisational Structure

- 11.1 All Hampshire County Council Arts and Museums related and Winchester City Council Museums staff would transfer to the Trust, according to the preferred option selected, under TUPE provisions with protected contractual terms and conditions. It is proposed that all TUPE staff retain access to the Local Government Pension Scheme through a 'pass-through' process. A new Trust pension scheme, with agreed terms and conditions of employment will need to be set up for new appointments. Further work is required to confirm costs and longevity of pension 'pass-through' arrangements. Staff and Union consultation regarding these proposals should take place at the implementation phase as per the timetable outlined in section 13.
- 11.2 A re-organisation of staff structure at a senior management level is anticipated, and it is proposed that from 1<sup>st</sup> January 2014, an 18 month Interim Trust Executive Officer role is created (with appointment ring-fenced to existing senior management) in order to work with the Interim Trustee Board and partner authorities in setting up the Trust.
- 11.3 It is not anticipated at this stage that posts below senior management team level will be significantly affected directly by the Trust proposals. A functional (please note not organisational) structure is provided in 11.4 for information. A detailed staffing structure would be developed and available during the implementation stage for consideration with staff and unions.



# Appendix 1

## 11.4 Functional Structure for Hampshire Solent Cultural Trust



## Appendix 1

### 12. Key Risks and Mitigations

- 12.1 A primary risk is that the Trust fails to deliver on predicted financial performance and becomes at risk of insolvency. Potential risk areas that may impact on financial performance include ability for funding partners (including districts and boroughs) to continue investment and underachievement of visitor/ income targets. The proposed governance model is a charitable company limited by guarantee and the Trust will be a separate entity from the founding Local Authorities. The Trust will be able to anticipate cash flow issues or budget pressures and put mitigation strategies in place to ensure a balanced budget, in discussion with the Board and funding partners.
- 12.2 A key risk in terms of financial performance is the ability within district and borough councils to continue a stable level of investment in existing arts and museum partnerships. This risk exists regardless of the Trust proposal. Initial consultation with district and borough funding partners has emphasised the value of minimising any anticipated budget reductions during at least the first 2-3 years of the Trust to give the best chance of growing new income streams. Overall, most partners have been interested in the Trust proposal in principle with a requirement to understand the detail at implementation phase. This detailed discussion will include future funding arrangements with outcomes reported to the Executive Member in March 2014.
- 12.3 A second key financial performance risk is underachievement of visitor numbers and income targets. This risk will be mitigated by prioritising quality programmes appealing to a large customer base, investing more existing funding (made available by the tax relief opportunities of becoming a Trust) into marketing and programmes, securing additional external investment and retaining the local familiar brand for venues.
- 12.4 A third key financial performance risk is the revealing of any hidden costs associated with the Trust operation. Detailed analysis has already been undertaken during the business case stage, including securing advice from relevant specialists and existing charitable cultural organisations. Further detailed budget construction and analysis will be undertaken during the implementation stage, and any significant variation in financial performance will be brought to the Executive Member for consideration in March 2014.
- 12.5 External investment targets are not a key requirement of the baseline financial model delivering arts and museums services for Hampshire County Council and Winchester City Council during the first few years. However, they are desirable in terms of developing ambition and enabling delivery on the wider the strategic partnership vision. Given the number of arts, museums and cultural organisations in the Hampshire Solent area (which is of course its strength), there is a risk that individual applications will compete with each other for major strategic funding opportunities. The Hampshire Solent Cultural Trust would have the capacity to support a wider Hampshire Solent

## Appendix 1

Cultural Partnership, and facilitate collaborative initiatives as appropriate.

- 12.6 Moving from a local authority service into an independent Trust and merging two organisations is a significant challenge for staff in terms of cultural change. Over the last 2 years considerable emphasis has been placed on staff from Hampshire, Winchester and Southampton working closely together on projects that deliver public outcomes. During the first 3 years, the Trust would need to embark on a significant programme of business change to best equip and motivate staff to capitalise on the associated opportunities and effectively manage risks.
- 12.7 In terms of decision and implementation stage, the top risks currently identified for setting up the Hampshire Solent Cultural Trust are:

Risk Summary	Likelihood	Impact	Mitigation	Risk Outcomes
<b>Set up costs exceed range making project unviable</b>	Medium	High	IT costs investigated in detail as part of Business Case. Check points during implementation	Low
<b>Inability to provide Trust with legally acceptable cash reserves</b>	Low	High	Propose in years 1-5 that in Year 1 the full grant is made in advance; Years 2-5 the grant is made 6 months in advance Close monitoring of budgets by Trust and partners during 5 year period; Strategy to build reserves over time	Low
<b>VAT costs are found to be unrealistic as budget is constructed during implementation stage</b>	Low	Medium	VAT expenditure estimated according to current expenditure and benchmarked with similar cultural charitable	Low
<b>80% NDR relief unrealistic in negotiation with billing authorities</b>	Medium	Medium	Assumed in cautious model	Medium
<b>Significant reductions to district/ borough council grants</b>	Medium	Medium	Local solutions will be identified that are likely to involve an element of service reduction	Medium
<b>Problems recruiting/ retaining Trustees and key posts</b>	Low	High	Bold vision embedded in strong partnership. Strategy to nurture Trust in early years	Low
<b>Staff motivation and cultural differences</b>	Medium	High	Bold vision; Selection of exciting projects. Minimise impact on staff in transfer; Skills development	Medium
<b>Charitable status of new company not secured</b>	Low	High	Clear charitable objectives established	Low
<b>Partners distancing themselves after transfer</b>	Low	Medium	Shared bold vision; Relationships and behaviours strategy embedded in Partnership and Grant Agreements'	Low
<b>State aid legal challenge</b>	Low	Medium	External legal advice has assessed the risk as very low. There is no requirement to notify aid to the European Commission	Low

## Appendix 1

### 13. Next Steps

13.1 A project of this kind involves the following phases:

- Scoping and Options (completed Dec 2011)
- Developing the Business Case (completion Sept 2013)
- *Implementation*
- *Transfer*
- *Transition*

13.2 The next phase, if a decision were made to proceed, would be Implementation. During this stage, key tasks include:

- Registering the Trust (and associated trading arm as appropriate)
- Appointing Interim Trustee Board
- Developing brand and finalising business plan
- Consultation with staff and unions, and addressing HR matters
- Consultation with district and borough council funding partners regarding details, including financial arrangements
- Construction of budgets, finance and IT systems
- Development of business change plan
- Dialogue with cultural sector re Hampshire Solent Cultural Partnership
- Advocacy at a local and national level

13.3 It is proposed that Transfer of services and staff, and loan of property and collections would take place during the period May-October 2014

13.4 It is anticipated that the remainder of 2014 and into 2015 would be a Transition period during which the following key tasks include:

- Open competition for long-term Trustee Board
- Open competition for Chief Executive

By January 2016, it is anticipated that the Trust will be firmly established and fully ready for business.

## Appendix 2

### Cultural Trust: Financial Impact on the Council

	2013/14 Year 0				2014/15 Year 1	2015/16 Year 2	2016/17 Year 3	2017/18 Year 4	2018/19 Year 5	TOTAL Yrs 1 - 5
	Baseline £000	Grant £000	Retained £000	Revised £000	£000	£000	£000	£000	£000	£000
Employees	299	299								
Premises	44	21	23	23	23	23	23	23	23	
- F2	78	78								
Transport *	13	7	6	6	6	6	6	6	6	
Supplies & Services	75	75								
Third Party Payments	4	4		398	390	382	375	337	330	
Depreciation & Impairment Losses	63		63	63	63	63	63	63	63	
	577	485	92	490	482	474	467	429	423	
Support Services *	88	0	88	88	88	88	88	88	88	
	665	485	180	578	570	562	554	517	510	
External Income	-87	-87								
<b>TOTAL NET EXPENDITURE</b>	<b>578</b>	<b>398</b>	<b>180</b>	<b>578</b>	<b>570</b>	<b>562</b>	<b>554</b>	<b>517</b>	<b>510</b>	
<b>SAVINGS</b>					<b>(8)</b>	<b>(16)</b>	<b>(23)</b>	<b>(61)</b>	<b>(68)</b>	<b>(176)</b>
<i>* Transport &amp; Support Services costs from 2014/15 will be reallocated other services within the council</i>										
<b>ONE-OFF COSTS **</b>										
Transition				29						
Severance Costs				16						
				<b>45</b>						
<i>** All one-off costs assumed to take place in 2013/14</i>										
<b>NET COST / (SAVING) BEFORE NNDR</b>				<b>45</b>	<b>(8)</b>	<b>(16)</b>	<b>(23)</b>	<b>(61)</b>	<b>(68)</b>	<b>(131)</b>
<b>Business Rates***</b>										
WCC Museums				36	37	38	39	40	42	
HCC Museums HQ				48	50	51	53	54	56	
				84	87	89	92	95	97	
WCC Loss of Funding (40% Assumed)				<b>34</b>	<b>35</b>	<b>36</b>	<b>37</b>	<b>38</b>	<b>39</b>	<b>184</b>
<i>**** 2013/14 shown for baseline purposes, Trust will not commence until 2014/15</i>										
<b>NET COST / (SAVING) AFTER NNDR ****</b>				<b>45</b>	<b>27</b>	<b>20</b>	<b>13</b>	<b>(23)</b>	<b>(29)</b>	<b>53</b>

\*\*\*\* Payback forecast to take between 6 & 7 years (after NNDR)

#### Other Assumptions

The above figures does not take into account the cost of any advance grant payments to ensure the Trust can meet its financial obligations.

Appendix 3a - Proposed Financial Model

Trust Income and Expenditure - Fully Integrated Merger of HCC and WCC Proposed Financial Model

Version 29/08/13

	Baseline - 13/14	Year 1 - 14/15	Year 2 - 15/16	Year 3 - 16/17	Year 4 - 17/18	Year 5 - 18/19	Notes
<b>Income</b>		2%	2%	2%	10%	2%	
<b>Local Authority Funding Core Contributions excluding grants</b>							
Hampshire County Council	-2,725,200	-2,670,696	-2,617,282	-2,564,936	-2,308,443	-2,262,274	
Winchester City Council	-397,953	-389,994	-382,194	-374,550	-337,095	-330,353	
<b>Total grant contributions</b>	<b>-3,123,153</b>	<b>-3,060,690</b>	<b>-2,999,476</b>	<b>-2,939,487</b>	<b>-2,645,538</b>	<b>-2,592,627</b>	
<b>Earned income / other funding (HCC and WCC)</b>							
Venue Management	-2,441,240	-2,476,240	-2,511,240	-2,546,240	-2,581,240	-2,616,240	Assumes £35kpa increase from HCC+WCC from year 1 (Focus)
Exhibitions	-2,000	-2,060	-2,122	-2,185	-2,251	-2,319	Assumes 3% income year on year from year 1
Collections	-17,400	-17,922	-18,460	-19,013	-19,584	-20,171	Assumes 3% income year on year from year 1
Engagement and Learning	-24,300	-25,029	-25,780	-26,553	-27,350	-28,170	Assumes 3% income year on year from year 1
Arts and Heritage Management	-70,500	-72,615	-74,793	-77,037	-79,348	-81,729	Assumes 3% income year on year from year 1
HCC Marketing Budget	-88,700	-88,700	-88,700	-88,700	-88,700	-88,700	
HCC Marketing Post		-39,500	-39,500	-39,500	-39,500	-39,500	Funding being transferred from HCC CCBS Budget
HCC Admin Budget	0	-83,000	-83,000	-83,000	-83,000	-83,000	
<b>Trust Specific Reinvestment of Savings / New Revenue Income (HCC and WCC)</b>							
NNDR Savings (80%)	0	-421,530	-421,530	-421,530	-421,530	-421,530	
Gift Aid for Milestones	0	-33,000	-42,900	-64,350	-88,500	-91,155	
Gift aid for HCC Venues (Basing House, Aldershot Military entrance fee)		-4,500	-6,300	-9,450	-13,000	-13,390	
Trusts and foundations / other grants			-15,000	-20,000	-25,000	-25,750	
Corporate sponsors			-15,000	-20,000	-25,000	-25,750	
Sold Services			-10,000	-10,000	-10,000	-10,000	
Creative Industries				-10,000	-10,000	-10,000	
<b>Sub Total Earned Income</b>	<b>-2,644,140</b>	<b>-3,264,096</b>	<b>-3,354,325</b>	<b>-3,437,560</b>	<b>-3,514,004</b>	<b>-3,557,404</b>	
<b>Total income</b>	<b>-£5,767,293</b>	<b>-£6,324,786</b>	<b>-£6,353,801</b>	<b>-£6,377,046</b>	<b>-£6,159,541</b>	<b>-£6,150,032</b>	
<b>Expenditure</b>							
<b>Core Services (HCC and WCC)</b>							
Venue Management	2,657,421	2,657,421	2,657,421	2,657,421	2,657,421	2,657,421	
Exhibitions	280,200	280,200	280,200	280,200	280,200	280,200	
Collections	750,325	750,325	750,325	750,325	750,325	750,325	
Engagement and Learning	863,100	863,100	863,100	863,100	863,100	863,100	
Arts and Heritage Management	600,634	600,634	600,634	600,634	600,634	600,634	
Marketing - increase expenditure	88,700	88,700	88,700	88,700	88,700	88,700	
Marketing Post		39,500	39,500	39,500	39,500	39,500	
Administration	0	83,000	83,000	83,000	83,000	83,000	
External Audit	0	20,000	20,000	20,000	20,000	20,000	
Learning and Development	0	10,000	10,000	10,000	10,000	10,000	
Professional Indemnity	0	500	500	500	500	500	
NNDR	526,913	526,913	526,913	526,913	526,913	526,913	
Revenue budget efficiencies (bringing 2 organisations together)		0	0	0	0	0	
Staff savings across HCC and WCC during first four years		-40,000	-40,000	-40,000	-75,000	-110,000	
Insurance (estimated and assuming HCC/SCC/ WCC insure collections/ buildings as appropriate)		30,000	30,000	30,000	30,000	30,000	
VAT on Arts and Museum Services (estimated)		210,000	210,000	210,000	210,000	210,000	
<b>Sub total core expenditure HCC &amp; WCC</b>	<b>£5,767,293</b>	<b>£6,120,293</b>	<b>£6,120,293</b>	<b>£6,120,293</b>	<b>£6,085,293</b>	<b>£6,050,293</b>	
<b>Potential new Trust activity and expenditure delivering 3% increase in venue commercial income included above</b>							
Additional Big Theme Public programme and marketing budget		80,000	80,000	80,000	40,000	40,000	
Digital development post		25,000	25,000	25,000	0	0	
Fundraising budget		20,000	20,000	20,000	0	0	
<b>Sub Total Expenditure Hampshire Solent Cultural Trust - proposed model only</b>		<b>125,000</b>	<b>125,000</b>	<b>125,000</b>	<b>40,000</b>	<b>40,000</b>	
<b>Grand total core expenditure</b>	<b>£5,767,293</b>	<b>£6,245,293</b>	<b>£6,245,293</b>	<b>£6,245,293</b>	<b>£6,125,293</b>	<b>£6,090,293</b>	
<b>Annual surplus (-ve)/deficit (+ve)</b>	<b>£0</b>	<b>-£79,493</b>	<b>-£108,508</b>	<b>-£131,753</b>	<b>-£34,248</b>	<b>-£59,739</b>	£414,000 contribution to Trust reserves in 5 Years

## Appendix 3b

### Fully integrated merger - HCC & WCC - summary of proposed financial model (HCC DFU spreadsheet)

	Baseline	Year 1	Year 2	Year 3	Year 4	Year 5
	13/14	14/15	15/16	16/17	17/18	18/19
A. Summary excluding impact of Trust status	£	£	£	£	£	£
<b>Income</b>						
<b>Local Authority core contributions</b>						
Hampshire County Council	-2,725,200	-2,670,696	-2,617,282	-2,564,936	-2,308,443	-2,262,274
Winchester City Council	-397,953	-389,994	-382,194	-374,550	-337,095	-330,353
sub-total	-3,123,153	-3,060,690	-2,999,476	-2,939,487	-2,645,538	-2,592,627
% reduction on previous year		-2.00%	-2.00%	-2.00%	-10.00%	-2.00%
<b>Earned income</b>						
Earned income commercial and venues	-1,958,240	-1,958,240	-1,958,240	-1,958,240	-1,958,240	-1,958,240
Other LA contributions to HCC/JMC run museums	-685,900	-685,900	-685,900	-685,900	-685,900	-685,900
sub-total	-2,644,140	-2,644,140	-2,644,140	-2,644,140	-2,644,140	-2,644,140
<b>Total LA income</b>	<b>-5,767,293</b>	<b>-5,704,830</b>	<b>-5,643,616</b>	<b>-5,583,627</b>	<b>-5,289,678</b>	<b>-5,236,767</b>
<b>Expenditure</b>	5,767,293	5,767,293	5,767,293	5,767,293	5,767,293	5,767,293
Efficiency savings bringing 2 organisations together		-40,000	-40,000	-40,000	-75,000	-110,000
incremental efficiency % of expenditure						
<b>Total expenditure</b>	<b>5,767,293</b>	<b>5,727,293</b>	<b>5,727,293</b>	<b>5,727,293</b>	<b>5,692,293</b>	<b>5,657,293</b>
<b>Net surplus (-) or deficit (A)</b>	<b>0</b>	<b>22,463</b>	<b>83,677</b>	<b>143,666</b>	<b>402,615</b>	<b>420,526</b>
<b>B. Main Impact of Trust</b>						
<b>Income</b>						
NNDR savings (80%)		-421,530	-421,530	-421,530	-421,530	-421,530
<b>other income:</b>						
Gift aid		-37,500	-49,200	-73,800	-101,500	-104,545
HCC Budget Transfer admin & marketing roles		-122,500	-122,500	-122,500	-122,500	-122,500
Trusts and foundations/other grants		0	-15,000	-20,000	-25,000	-25,750
Corporate sponsors		0	-15,000	-20,000	-25,000	-25,750
Professional Services consultant & community hub		0	-10,000	-20,000	-20,000	-20,000
subtotal of other income		-160,000	-211,700	-256,300	-294,000	-298,545
<b>Total new Trust income</b>		<b>-581,530</b>	<b>-633,230</b>	<b>-677,830</b>	<b>-715,530</b>	<b>-720,075</b>
<b>Expenditure</b>						
External audit		20,000	20,000	20,000	20,000	20,000
Learning & development		10,000	10,000	10,000	10,000	10,000
Insurance		30,500	30,500	30,500	30,500	30,500
HCC Budget Transfer admin & marketing roles		122,500	122,500	122,500	122,500	122,500
VAT		210,000	210,000	210,000	210,000	210,000
<b>Total expenditure</b>		<b>393,000</b>	<b>393,000</b>	<b>393,000</b>	<b>393,000</b>	<b>393,000</b>
<b>Net benefit of Trust status (B)</b>		<b>-188,530</b>	<b>-240,230</b>	<b>-284,830</b>	<b>-322,530</b>	<b>-327,075</b>
<b>Overall net surplus(-) or deficit (A) + (B)</b>		<b>-166,067</b>	<b>-156,553</b>	<b>-141,164</b>	<b>80,085</b>	<b>93,450</b>
<b>Cumulative position</b>		<b>-166,067</b>	<b>-322,621</b>	<b>-463,785</b>	<b>-383,701</b>	<b>-290,250</b>
<b>C. Other opportunities brought by the Trust:</b>						
Development activity to protect existing & generate + 3%		125,000	125,000	125,000	40,000	40,000
+3% income per annum		-38,426	-76,955	-115,589	-154,333	-193,189
Net (C)		86,574	48,045	9,411	-114,333	-153,189
<b>Total net surplus (A)+(B)+(C)</b>		<b>-79,493</b>	<b>-108,508</b>	<b>-131,753</b>	<b>-34,248</b>	<b>-59,739</b>
<b>Cumulative position</b>		<b>-79,493</b>	<b>-188,002</b>	<b>-319,755</b>	<b>-354,004</b>	<b>-413,742</b>

## THE FUTURE OF THE MUSEUMS SERVICE: ESTABLISHING A HAMPSHIRE SOLENT CULTURAL TRUST

### SUMMARY OF DRAFT PARTNERSHIP AGREEMENT

#### Parties

Hampshire County Council and Winchester City Council

#### Partnership contributions

90% HCC, 10% WCC

#### Project Objective

The establishment of a Trust to deliver arts, museums and heritage services currently being delivered by the Parties.

#### Period of Agreement

Date of signature until final signature on grant funding and management agreements.

#### Costs

The agreement covers both internal and external costs incurred by either or both of the parties, in pursuance of the Project Objective. Costs are assessed on a monthly basis by the Project Board, and calculated on a quarterly basis. The costs are split in between the parties (90% HCC, 10% WCC) and appropriate balancing payments made taking account of actual expenditure incurred.

#### Obligations of Parties

Both parties commit to working together to deliver the Project Objective, including:-

- Setting up the Trust
- Jointly nominating a chair of the shadow board and Trust Board (once established)
- Provide appropriate resources to deliver the project plan

In addition, other agreements are to be entered into with to cover ongoing funding over 25 years, loan of collections, etc.



## Governance

A Project Board is to be set up, with decisions being taken on basis of unanimity (given fact that there are only two parties). The Board will oversee the Project and make relevant appointments.

The Board will be comprised of key officers from WCC and HCC, plus the relevant Portfolio Holder/Executive Member.

## Termination

Either party may withdraw prior to signing the grant funding agreements, in certain circumstances (including 10% or more increase in forecast budget for Project, significant deviation from original planned financial targets, or failure to agree issues at Project Board. It is liable to pay its share of costs up to termination.

## Grant Funding Agreements

GF agreements are to be entered into by each Party with the Trust (once established), committing to base funding (of ~£2.6M for HCC and £390,000 for WCC) for the first year, reducing down by 2% (year on year, each year) thereafter for the first five years of the Trust. For years 6 to 10, negotiations will be held to agree the funding levels.

Support services set out in the Business case are also to be provided by the Parties for at least five years.

These agreements will be for a minimum term of 25 years, but terminable by either party at any time after five years (provided 3 years' notice is given). Compensation for redundancy and other costs incurred by the Trust must be paid,

## Collections and Premises Agreements

Agreements covering the loan of collections for not less than 25 years, and provision of premises (as existing) to the Trust must be entered into.

## Staff

Staff should transfer across under TUPE. Any redundancy costs incurred by the Trust up to £160,000 are to be reimbursed by the parties in the agreed proportions.



Mr Andrew Smith  
Chief Executive  
Hampshire County Council  
The Castle  
Winchester  
Hampshire  
SO23 8UJ

Monday 15 July 2013

Dear Mr Smith,

I am writing to offer our strong backing for the Hampshire Solent Cultural Trust proposal currently under consideration.

In these challenging financial times, the economic value of arts and museums is of increasing importance to the UK's wider recovery. Arts Council England (ACE) takes a national lead on promoting the contribution of arts and museums to the tourism industry, the creative economy and health and wellbeing objectives. We are particularly keen to work with organizations that wish to retain and develop a bold ambition for culture into the future, and which are keen to explore innovative solutions in order to achieve this outcome.

The Hampshire Solent Cultural Trust project is a model that is of great interest, and we have strategically and financially supported its development since its beginnings in 2010. The detailed and considered analysis and planning that has been undertaken during this time has convinced ACE that it has the potential to provide a resilient solution for current services; one that allows for longer-term local authority savings and enables strong future growth of the sector in support of wider economic and social ambitions in the Hampshire Solent area.

We are delighted that Hampshire County Council, Southampton City Council and Winchester City Council have had the foresight to work beyond traditional boundaries and put first the long-term benefits to the consumer and wider economy. This comes as no surprise given the ongoing commitment to culture and investment shown by all 3 partners over many years, and it is what makes the Hampshire Solent Cultural Trust proposal so important.

From our perspective, the proposed integrated offer brings a currently fragmented group of individual services into a united critical mass of cultural



product that is much bolder and stronger together. It creates a dynamic and unified vision and brand that will attract a wider customer and investor base, without losing the local sense of place that is also so important. It allows for economies of scale and a sharing of complementary strengths and capacities across individual organizations. Under the auspices of a Trust, this cultural offer will be shaped, resourced and delivered through a partnership of local authorities, community, private sector and wider public sector stakeholders.

ACE has already demonstrated its ongoing interest in working with such an organization into the future, not least through its significant financial support of the emerging Hampshire Solent cultural brand over the last 3 years. The range and quality of the Hampshire Solent cultural offer overall is of major regional significance in terms of tourism and the creative economy. With continued bold vision and leadership, it has the potential to become one of the top cultural clusters in the UK.

Please do not hesitate to contact me if I, or my team, can be of any further assistance in the decision-making process.

Yours Sincerely,

A handwritten signature in black ink that reads "Phil Gibby".

Phil Gibby  
Regional Director

T: 01392 229205  
M: 07972 416656  
E: [phil.gibby@artscouncil.org.uk](mailto:phil.gibby@artscouncil.org.uk)