

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. **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
- B. **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

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.

- 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:

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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

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

- 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.

- 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

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

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.

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		
Total	£583,000	£785,000	£625,000	£578,000

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

- 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

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.

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.

Set Up Costs - Key Transition Tasks	Fully Integrated Merger (3 Partners)	Partially Integrated merger (3 partners)	Hampshire Solent Cultural Trust – recommended option
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
Sub total	£685,000	£350,000	£290,000

* 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.

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 15th July 2013 is attached as appendix 3 to the Executive Member report.

9. Property and Collections

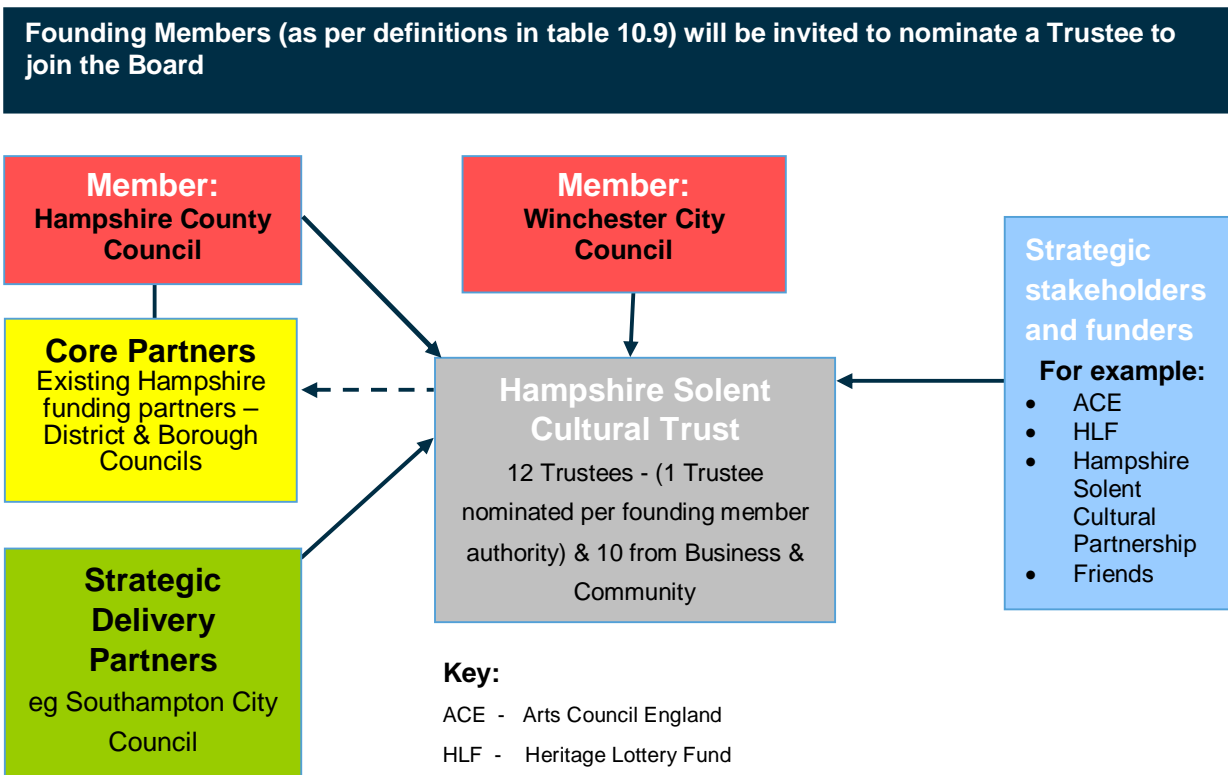
- 9.1 Property would be leased/ sub-leased/ licensed, as appropriate, under long term arrangements where feasible, with the minimum unexpired term at any time being 25 years so as to support external grant applications by both the Trust and the owning local authorities relating to property. The Trust 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:



- 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:

Democratic Process	Frequency	Key Purpose
Cultural Advisory Group	Bi-annual	A meeting between the Project Board/Trust representatives and external stakeholders for the Implementation stage only to provide consultation and communication.
Bi-annual Individual Member Meetings	Bi-annual	Individual meeting between each Member and the Trust to review the grant funding agreement, performance and forward programme.
Annual Members Strategic Board	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
Annual Trust Advisory Group	Annual	Advisory meeting between the Trust, Members and Core Partners to report on performance and receive advice on the forward programme
Trust Community Liaison Group	Annual	Advisory meeting between the Trust and representatives from the wider community nominated by Members and Core Partners
Core Partner Meetings	1- 4 per annum	Meeting between the Trust, Hampshire County Council and individual Core Partner, including within joint management arrangements
Various Project Board/Meetings	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

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.

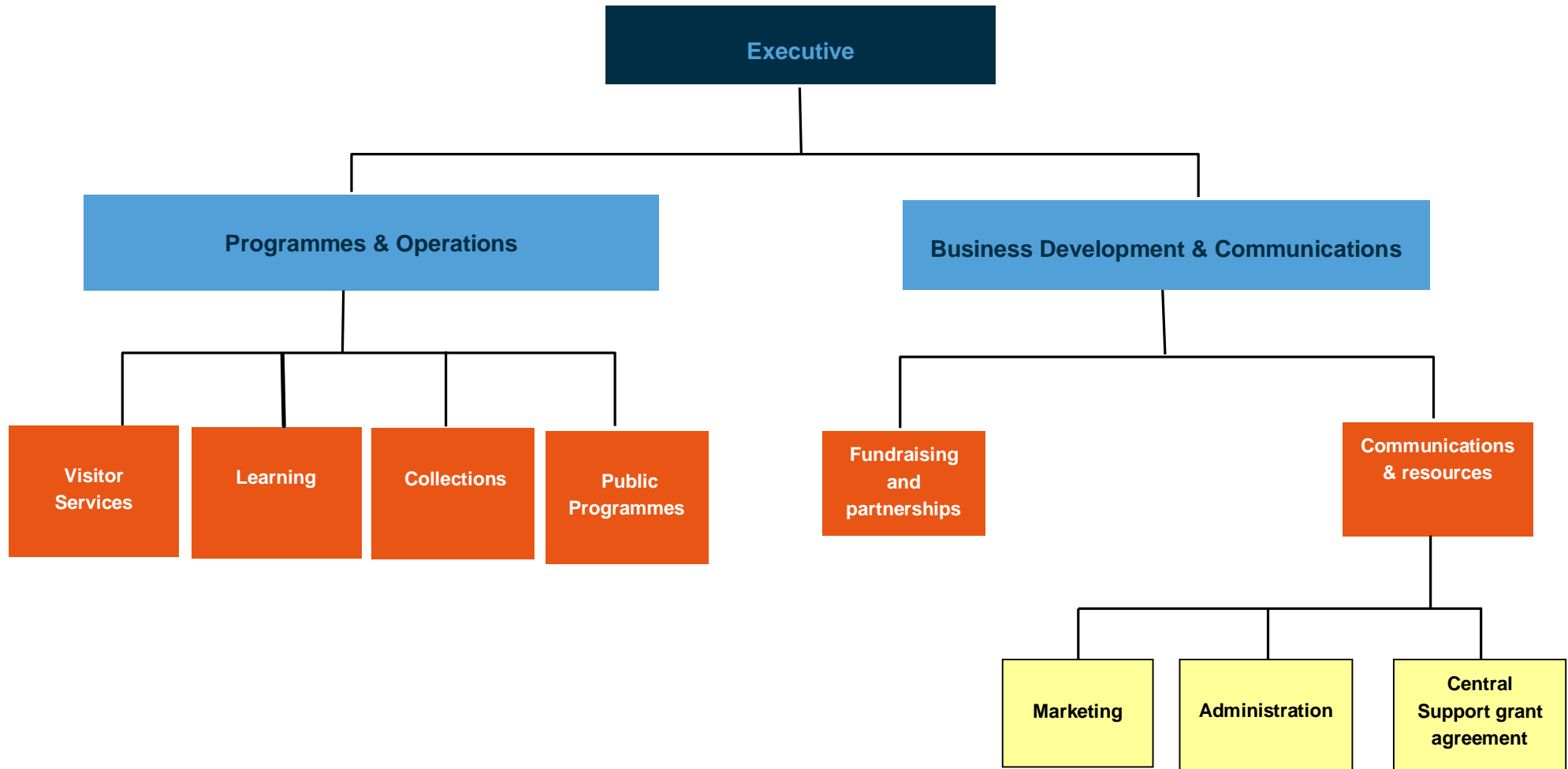
10.9 Table to summarise proposed Hampshire Solent Cultural Trust Governance Framework

	Legal Agreements with Trust	Resources Provided to Trust	Exit Arrangements	Involvement and Influence
Member	<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>
Core Partner (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>
Strategic Partner	<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>

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 1st 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.

11.4 Functional Structure for Hampshire Solent Cultural Trust



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

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.