

STRATEGIC POLICY AND RESOURCES COMMITTEE

17 April 2019

CULTURAL TRUSTS TRANSFORMATION PROJECT: FINDINGS AND RECOMMENDATIONS

Report by Depute Chief Executive, Chief Operating Officer (Report No. 19/118)

PURPOSE OF REPORT

This report recommends key steps to put in place a new delivery model for culture to make services sustainable in the long term and maximise economic, social and tourism benefits from culture for Perth and Kinross.

1. BACKGROUND/KEY ISSUES

- 1.1. In June 2018 Committee approved the scope of a Transformation Review for culture services funded by the Council and delivered by our Arm's Length External Organisations Horsecross Arts (HX) and Culture Perth and Kinross (CPK). [Report 18/194](#) refers. The review **aim** was to identify and implement a future delivery model for culture which maximises social, economic and tourism benefits for Perth and Kinross and protects frontline Council investment.
- 1.2. At the heart of this Review is the Council's **£47M** existing or planned investment since 2005 in five city centre venues: Perth Concert Hall and Theatre, City Hall (opening in 2021), Perth Museum (due for refurbishment) and the AK Bell Library (which will be extended to create a new museum collections centre). Collectively these 5 venues need to be marketed and operated as a strong, joined up visitor 'offer' In particular £10M UK Government funding is now confirmed for City Hall from the Tay Cities Deal, in recognition of the project's international significance. The Full Business Case for City Hall will be scrutinised by the UK Department for Culture, Media and Sport. We need to demonstrate we have the right capacity in place to operate this major new venue and to do so cost effectively:
- 1.3. Whilst expectations grow for the cultural offer, these services also face significant revenue pressures. We need to create a sustainable delivery model culture in future which can:
 - **Maximise economic return on investment.** By 2023 we are projecting an additional 240-280,000 visitors per year to Perth once City Hall and other projects are open;
 - **Respond to market opportunity** for cultural tourism given growth elsewhere in the Tay Cities Region/elsewhere in Scotland and the UK, including relation to mass participation events and festivals such as UK City of Culture and new/planned developments in Dundee and Aberdeen
 - **Maintain confidence from the Tay Cities Deal** that City Hall will generate the expected economic impacts;
 - **Get Best Value from Council funding** by joint resourcing including stronger collaboration than currently exists on staffing, cultural programming, marketing, property and other assets;

- **Deal with external pressures** including National Living Wage and rising utilities costs

1.4. Services in scope of this review were:

- Operation of Perth Concert Hall and Perth Theatre and delivery of performing arts programmes – Horsecross Arts Limited (HX, established 2005);
- Operation of public library, archives, local studies, museum and gallery services – Culture Perth and Kinross (CPK, established 2016);
- Perth city centre cultural events funded by the Council.

1.5. This work follows a 2015 review of our culture and sport delivery models to identify £542,000 savings from April 2016 onwards. Report 15/295 refers. The Council approved a move to 100% commissioning from ALEOs with the bulk of savings from business rates relief. A single Culture and Sport Trust emerged as the strongest option but the cost and complexity of change ruled it out and it was not re-examined as part of this Review. A single Culture Trust alongside Live Active Leisure emerged as the second strongest option. This was ruled out in 2015 because of the significant risks associated with major change for HX at that time. CPK was therefore set up in April 2016 and the Council directed a further review should take place in 2017/18.

1.6. HX and CPK are independent charities and Sole Member Companies (SMC) with the Council as sole member. This is the most common ALEO model in Scotland. Services delivered by SMC ALEOs do not have to be tendered by the Council¹ and they are eligible for business rates relief on venues they occupy. The 2017 Barclay Review has now effectively capped rates relief– for Perth and Kinross the cap is £600,000 for the cultural venues operated by HX and CPK.

1.7. City Hall will not be eligible for business rates relief when it opens even if it is operated by an ALEO. The implications of this are explained in para 2.4.

1.8. There were originally 5 options to be appraised but, at the request of the ALEOs, the Project Team included a further option - retention of both Trusts with a move from SMC status to full independence from the Council bringing the total number of options appraised to 6. The options appraised by the Review Team were as follows and the criteria and consolidated scores from the options appraisal are at **Appendix 1**:

- Status quo/no change from 2 sole member company ALEOs (Option 1)
- Single Culture Trust – sole member company (Option 2)
- Single Culture Trust – fully independent (Option 3)
- Single Culture Trust – Scottish Charitable Incorporated Organisation (SCIO) or other constitutional status eg mutual (Option 4)
- Hybrid delivery model – Trust plus in-house Council delivery plus community-led delivery (Option 5)
- Two fully independent Trusts (Option 6)

¹ A key assumption of the review was that risks of tendering services outweigh the potential benefits. The market response is uncertain and there are also risks to the cost and time taken to tender (estimated 14-18 months).

2. REVIEW FINDINGS

- 2.1. The review was carried out June-November 2018 by a Project Team chaired by the Head of Culture & Community Services with Finance, HR, IT, Property Services and Communications input, reporting to a Project Board chaired by the Depute Chief Executive. Both Arm's Length External Organisations' (ALEOs) Chief Executives were members of the Project Team. Workshops were held with ALEO Board members over summer/early autumn 2018 to gather wider input to the Review. [Report 18/238](#) provides further detail of the review process.
- 2.2. The Review Team gathered information, summarised at **Appendix 2**, to inform the options appraisal on:
 - **Customers** - the audience profile for culture and key trends;
 - **Staff** - the workforce profile for each ALEO plus staff terms and conditions and potential costs of change in moving to a new structure;
 - **Tax implications of the options** under review, especially ability to generate business rates relief;
 - **Indirect/additional costs to the Council** of supporting ALEOs;
 - **Income generation by the ALEOs** to supplement Council/other public funding;
 - **Longer term opportunities and pressures** for these services;
 - **Legal implications of each of the options** under review (**Appendix 3**);
 - **What works elsewhere**.
- 2.3. The Review Team then carried out a detailed scoring exercise for the 6 options. After an initial scoring stage, 4 options were ruled out leaving Option 1 (status quo) and Option 2 (single Culture Trust, SMC model). As Appendix 1 shows, these options scored the highest and very closely with Option 2 achieving the highest score.
- 2.4. A further options appraisal stage was therefore proposed whereby the two ALEOs were asked to provide more specific, quantifiable evidence of how Option 1 would deliver the Review aim and objectives. The questions to which the ALEOs were asked to respond are at **Appendix 4** and they were asked to respond by mid-October 2018. The ALEO response was not specific or quantifiable enough to enable further scoring of the 2 options as it mainly focused on the risks attached to Option 2 rather than the quantifiable benefits of Option 1.
- 2.5. By November 2018 a number of key material factors had emerged:
 - **Tay Cities Deal funding was confirmed for City Hall** enabling the full £30M cultural transformation programme (City Hall, Perth Museum, AK Bell) to go ahead. The funding is from UK Government, signalling the international importance of City Hall and the need to demonstrate we have sufficient capacity to deliver and operate the new venue.
 - **Changing patterns of library use** confirm the need to review the property portfolio for Libraries as the current number of buildings may be unsustainable in the longer term as footfall declines (in line with UK trends). Alternatives (co-location in other public buildings and community self-access) are being examined to ensure a level of service is maintained in localities across Perth and Kinross.

- **City Hall was initiated prior to the 2017 Barclay Review of business rates.** Discussions with Scottish Government have now confirmed it will not be eligible for rates relief at an estimated £200,000 pa. This is being factored into the Outline and Full Business Cases for City Hall which are required as part of the Tay Cities Deal process as well as for the Council's own governance. Together with a potentially smaller property portfolio operated by CPK in future, this may change the overall balance of benefit between delivering all culture services via ALEOs or delivering some services in-house.
- **Concerns about the financial sustainability of HX.** This is explained further in para 2.6.

- 2.6. Separately there is significant concern about governance and financial management/control in HX. The interim Chief Executive at HX has been able to implement some improvements but governance and oversight by the HX Board and Finance Committee has not been sufficient despite concerns being repeatedly raised by the Council and Scrutiny Committee. Improvements in governance, organisational culture and business systems are now urgently needed in HX. In March 2019 the Council Chief Executive accordingly exercised the Council's Sole Member Company powers to issue a direction to the HX Board requiring change and improvement. An Advisory Group drawing together skills from the Council, HX, CPK and Live Active Leisure has been established to oversee improvements over the next 12 months. The Group will be chaired by the Council's Depute Chief Executive, with the Head of Culture and Community Services leading the detailed work. These arrangements have been discussed and agreed with Creative Scotland as the other core funder of HX.
- 2.7. Key review findings are summarised below and are drawn from evidence gathered by the Project Team and informed by the factors summarised in para 2.2:

Maximising economic, social and tourism impact from culture

- A joined-up, coherent and distinctive cultural offer is fundamental for us to grow tourism market share and connect with local audiences. We are operating in an increasingly competitive market. The Review identified that planning, marketing and delivery of the whole cultural offer, including services delivered by the ALEOs and events delivered by the Council, is not sufficiently integrated. Stronger collaboration is essential, as is regional collaboration where appropriate across the Tay Cities Region such as through the Tay Country campaign; and joined-up work with Visit and Events Scotland.
- The Review examined well established evidence that digital investment is key to attracting and retaining new audiences within Scotland and globally, for example immersive Apps offering bespoke visitor itineraries. The Review identified that neither ALEO currently has the specialist skills set required to do this. Collaboration (including with Live Active Leisure, which is currently developing its digital offer) would make better use of existing skills.

Making culture sustainable and reducing financial risk

- **Both ALEOs are highly reliant on Council core funding** to run their current operations and this presents financial risk to them and to the Council. Public funding will always be an essential funding component but the Review found neither ALEO had a clear long term strategy for growing and diversifying new income streams including sponsorship and commercialisation of services where appropriate.
- External funding has been regularly raised by both ALEOs from Trusts and Foundations but increasingly **the same limited funds are being applied for separately** when a joined-up approach is more likely to be credible to funders.
- **Joint programming, marketing and integrated visitor facilities** are central to providing a joined-up customer offer and to a sustainable business model. The Review found that both ALEOs were in some cases competing for the same markets (notably the family market). It also identified questions about whether the venues are currently maximised to raise income and reduce operating costs by better planning and integration of customer services such as catering and front of house.
- **Pricing policy and price incentives** are key to attracting new customers, particularly for more niche events which require strong promotion to persuade people to give them a try. They also require strong relationships with accommodation and travel providers. For example Live Active Leisure runs a promotion with local hotels to promote joint admission/accommodation deals which also promote subsidised LAL membership for hotel staff. The Review found that pricing policy for cultural events requires systematic review across the ALEOs and the Council. Other cities such as Newcastle and Gateshead have successfully introduced small charges for major events with minimal impact on attendances and wider footfall/expenditure in city centres whilst events are running.
- **There are key pressures in relation to IT, digital and property** facing these services in the next 10 years, as well as further proposed Council savings. These underline the need to find a sustainable future business model.

Other finding/considerations

- As para 2.6 explains, the Council will be working directly with HX over the next 12 months to implement change and improvement which is urgently required to safeguard the long term future of the performing arts services which HX delivers. CPK senior staff will be contributing to this work which is expected to strengthen joint working, hitherto limited, between both ALEOs. It is also expected to identify wider potential solutions, to how all 5 major cultural venues in Perth can be managed sustainably in the future.
- The Review identified key skills and/or capacity gaps in both ALEOs in relation to curatorial expertise given the scale of City Hall and the wider city centre museums offer; venue management; fundraising; and marketing including digital marketing. The ALEOs themselves are aware of these gaps but have limited resources and time to address them or build deep relationships with relevant regional and national agencies which can help, for example Visit Scotland on events promotion.

- The Review found currently limited potential to establish community-managed culture services. However this model is emerging particularly in library services elsewhere in the UK and there is scope to do so with some aspects of the library service operated by CPK.
- Drama can be an expensive and risky programme strand, albeit one where HX has a strong national reputation and there is an ongoing desire from the Council to support cultural excellence. The Review identified collaboration opportunity for example between Perth Theatre, Pitlochry Festival Theatre and Dundee Rep to share costs and risk. This requires further exploration with all parties.
- There are one-off costs of change if a single delivery model (option 2) is pursued. These would include cost of IT systems integration to create a single customer portal and staffing costs associated with restructuring. These are estimated at £200-300,000. They could be met through non-recurring underspend on previous culture projects and Transformation funds. But they need full quantification by developing a Full Business Case for Option 2 to enable the Committee to make an informed decision on whether to proceed with this option.

3. CONCLUSIONS

- 3.1. The Review has concluded that Option 1 (maintaining the status quo) is a viable short term option for delivering culture services. It would delay one-off costs of change and other business continuity risks associated with bringing both organisations together.
- 3.2. Para 1.3 sets out the external drivers for change. The Review has concluded that given these status quo is not sustainable longer-term. The rapidly increasing scale of our cultural offer, the economic impact which the Tay Cities Deal commits us to deliver and our ongoing budget pressures mean that status quo will have to be revisited in the next 2-3 years.
- 3.3. Not all the costs of change could be quantified in detail during the Review, particularly in relation to staffing and IT. Work is required over the next 12 months to develop Full Business Case for a longer term delivery model which:
 - Ensures we have the right delivery model in place prior to the opening of City Hall in mid-2021 when we will have 5 major culture venues operating in Perth.
 - Satisfies Tay Cities Deal funding requirements.
 - Finds a long term sustainable business model for culture which is more resilient to new pressures over the next decade.
- 3.4. Meanwhile there is an immediate requirement to make change and improvement to the performing arts services delivered by HX, as outlined in **para 2.5**. This is also expected to take 12 months. The Council has exercised its Sole Member Company powers to effect improvement. If it had not done so the Council risked breaching its statutory Best Value and Following the Public Pound responsibilities.

3.5. The Committee is asked to:

- i. **Note** the Council Chief Executive has put recovery measures in place for HX Arts, by exercising Sole Member Company powers as set out in the Articles of Association and Memorandum of Understanding between HX Arts and the Council.
- ii. **Direct** officers to commission an independent business assessment of Perth city centre culture venues and proposed operating model to maximise the economic impact and minimise operating costs of all 5 venues.
- iii. **Direct** officers to complete full business case and timeline for a single delivery model for further consideration by the Council.
- iv. **Direct** the Depute Chief Executive (Chief Operating Officer) to bring a further report and recommendations to Council in April 2020.

Author

Name	Designation	Contact Details
Fiona Robertson	Head of Culture and Community Services	01738 475000
Mariam Mahmood	Cultural Transformation Graduate	

Approved

Name	Designation	Date
Jim Valentine	Depute Chief Executive (Chief Operating Officer)	4 April 2019

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IMPLICATIONS, ASSESSMENTS, CONSULTATION AND COMMUNICATION

Strategic Implications	Yes / None
Community Plan / Single Outcome Agreement	Yes
Corporate Plan	Yes
Resource Implications	
Financial	Yes
Workforce	Yes
Asset Management (land, property, IST)	None
Assessments	
Equality Impact Assessment	None
Strategic Environmental Assessment	None
Sustainability (community, economic, environmental)	None
Legal and Governance	None
Risk	None
Consultation	
Internal	Yes
External	Yes
Communication	
Communications Plan	No

1. Strategic Implications

Community Plan / Single Outcome Agreement

1.1. This report relates to the delivery of the Perth and Kinross Community Plan / Single Outcome Agreement in terms of the following priorities:

- Promoting a prosperous, inclusive and sustainable economy
- Creating a safe and sustainable place for future generations.

Corporate Plan

1.2. This report relates to the achievement of the Council's Corporate Plan Priorities:

- Promoting a prosperous, inclusive and sustainable economy;
- Creating a safe and sustainable place for future generations.

2. Resource Implications

Financial

- 2.1. There are resource implications to this report. A fixed term Graduate Trainee post has been appointed to support delivery of the project. This will be funded from underspend in the 2017/18 Transformation Programme.

Workforce

- 2.2. There are no direct workforce implications arising from this report but there may be workforce implications for the ALEOs and relevant Council staff which arise from the next stage of work. These will be examined and reported to the Committee as part of the review recommendations/conclusions.

Asset Management (land, property, IT)

- 2.3. There are no direct asset management issues arising from this report but there may be asset management implications for the Council which arise from the next stage of work. These will be reported to the Committee as part of the recommendations/conclusions.

3. Assessments

- 3.1. This report has been considered under the Corporate Equalities Impact Assessment process (EqIA) with the following outcome:

(i) Assessed as **not relevant** for the purposes of EqIA.

Strategic Environmental Assessment

- 3.2. The Environmental Assessment (Scotland) Act 2005 places a duty on the Council to identify and assess the environmental consequences of its proposals.

Assessed as not relevant for the purposes of Strategic Environmental Assessment

Sustainability

- 3.3. None.

Legal and Governance

- 3.4. There are no direct legal and governance implications to this report but there will be governance implications which arise from any new delivery model for culture services. These will be examined and reported to the Council as part of the next stage of work.

Risk

- 3.5. A risk profile will be completed for the next stage of work and specifically risks relating to creation of a single delivery body and determined by the scope and scale of the new body.

4. Consultation

Internal

- 4.1. The following have been consulted in the preparation of this report:

Internal

- Chief Executive
- Executive Director (Housing and Environment)
- Head of Legal and Governance
- Head of Corporate Finance
- Corporate Human Resources Manager
- Head of Property Services

External

- Creative Scotland
- Chair and Chief Executive, Culture Perth and Kinross
- Chair and Chief Executive, Horsecross Arts

5. Communication

- 5.1 A Communications Plan to support internal and external communications will be prepared and monitored/updated by the Project Team.

2. BACKGROUND PAPERS

None.

3. APPENDICES

- Appendix 1 – scoring criteria for Options Appraisal and consolidated scores
- Appendix 2 – summary of evidence examined by the Review Team
- Appendix 3 – legal advice on options
- Appendix 4 – further evidence requested from ALEOs for options appraisal