

## Outline Business Case



Title:	<b>Securing the Future for Culture and Leisure – Phase 2</b>		
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## • EXECUTIVE SUMMARY

This Transformation Project is the second phase of transformation for commissioning culture services from arms-length external organisations (ALEOs). It follows a Phase 1 project which was completed in 2015. This examined how both culture and sport services are commissioned, delivered and monitored by the Council.

The project aim is to ***identify and implement a single delivery model for culture which maximises social, economic and tourism benefits for Perth and Kinross and protects frontline Council investment in culture.***

The project will evaluate the options for delivering culture through a single delivery organisation from 2019/20 onwards. A single delivery model emerged as the preferred option in Phase 1/2015 but was not achievable in the timescales required to meet a £542,000 savings requirement approved by the Council in 2013/14.

Since 2015 a number of external drivers for culture have changed and these, plus a further recurring savings requirement of £150,000 from 2019/20, approved by the Council in February 2018, necessitate a Phase 2 review.

The timescale for the project is 5 months, assuming commencement in June 2018. Recommendations will be submitted to Strategic Policy and Resources Committee on 28 November 2018. The project will be monitored and reported on to the Transformation Board and SP&R Committee in line with wider Transformation Programme arrangements.

## 2. INTRODUCTION

Perth and Kinross Council commissions culture and sport services with a total value of £10M from three Arms-Length External Organisations as follows:

- Operation of Perth Concert Hall and Perth Theatre, and delivery of performing arts programmes – Horsecross Arts Limited (est 2005)
- Operation of public library, archives, local studies, museum and gallery services – Culture Perth and Kinross (est 2016)
- Operation of all leisure centres and delivery of sport and leisure activities except school PE activities – Live Active Leisure (est 1967)

In July 2015 Perth and Kinross Council carried out Phase 1 of a service review for culture and sport provision, 'Securing the Future for Culture and Sport. This was required to achieve £542,000 approved savings from April 2016 onwards. Council approved a further shift to the commissioning of culture and sport through ALEOs. Report 15/295 refers.

The Phase 1 options appraisal identified a single Culture Trust as the preferred long-term option for future commissioning of culture. However this option was assessed as undeliverable in the timescale required to deliver the required saving. This was largely because of significant factors affecting Horsecross Arts at that time. The Council therefore approved a further option to establish Culture Perth and Kinross as a second cultural Trust capable of realising major business rates savings within required timescales. The Council also committed to re-examine these arrangements in 2017/18 in a Phase 2 review.

In completing the Phase 1 review, the option to create a single Culture and Leisure Trust was also examined. This had significant advantages but was judged to be structural change at a scale undeliverable in the timescales required to achieve required savings, and likely to incur significant costs of change. In addition it did not score highly on acceptability criteria. This option will therefore not be revisited in the Phase 2 review, the key focus of which will be culture services. However wider improvements to the commissioning process for sport and leisure will continue to be considered within the Council's ongoing Transformation Programme.

Since the Phase 1 review in 2015 a number of new factors have emerged:

- The increased policy focus within the Council on culture-led regeneration and stimulating cultural tourism growth including a £20M capital commitment to new cultural attractions in Perth.
- The PKC budget process which requires a further £830K in revenue savings from ALEOs over the next 3 years (includes £178K existing approved savings and £150K to be realised from the creation of a single Trust)
- The 2017 Barclay Review of business rates and the Barclay recommendation to remove Non-Domestic Rates (NDR) relief from ALEOs. This has not been implemented by Scottish Government for the time being, but no new ALEOs, or properties transferred to existing ALEOs after 1 April 2018, will be eligible for relief
- The new national funding settlement for Horsecross Arts of £1.6M over 3 years
- Continuing changes in customer use of libraries, a key free universal statutory service, which face major challenges in maintaining usage and generating income as customer expectations and needs evolve.

### **3. BENEFITS (*including assumptions*)**

- Improved customer experience via a cohesive approach to planning and delivering Council-funded cultural provision
- Improved efficiency and effectiveness via a single organisational structure which integrates senior management and corporate functions across Horsecross Arts and Culture Perth and Kinross

- A cost effective operating model for 5 major cultural venues in Perth city centre (Perth Concert Hall, Perth Theatre, AK Bell Library, City Hall, Perth Museum and Art Gallery)
- More strategic, cohesive fundraising strategies for culture – current approaches can duplicate or compete for the same sources
- Wider collaborative opportunities
- Delivery of a required £150,000 saving by integrating senior management and corporate functions in a single body

#### 4. OBJECTIVES

The aim of this Transformation Project is 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.***

Objectives are as follows:

- To protect/maximise Council revenue investment in culture
- To identify the most efficient and effective model for operating 5 major city centre venues from 2021: Perth City Hall; Perth Museum; Perth Concert Hall; Perth Theatre and the AK Bell Library.
- To investigate current indirect costs to the Council of maintaining the current 2 Trust model and identify potential for efficiencies
- To investigate how new income streams for culture can be grown and diversified including opportunities to commercialise services where appropriate
- To identify any wider collaboration opportunities to strengthen the quality of the cultural offer across Perth and Kinross and create further potential for efficiencies

#### 5. CRITICAL SUCCESS FACTORS

These are addressed in the risk table below but can be summarised as:

- Strong leadership at political and senior level within the Council
- Buy-in from the Boards and senior staff within the current cultural Trusts, Horsecross Arts and Culture Perth and Kinross
- A focus by all parties on improving the customer experience and the imperative to protect/maximise Council investment in culture
- Effective communication with key stakeholders, specifically Creative Scotland and the Gannochy Trust as well as the wider public
- Willingness from all parties to consider other successful models in use or emerging across the UK

## 6. KEY ACTIVITIES

### Methodology

Areas for investigation:

- Current total direct/indirect spend by PKC on the services in scope
- Current indirect costs of supporting the 2 Trust model: governance and accountability, contract monitoring, corporate services support
- Future NDR relief and other tax efficiency assumptions (VAT, Theatre Tax Relief)
- Track record of current Trusts in external fundraising, and external fundraising potential of different delivery models
- Existing/emerging delivery models elsewhere in the UK
- Funder and stakeholder attitudes (to inform acceptability scoring)
- Pathway for creating a single delivery model in light of Barclay (ALEOs established after 1 April 2018 are ineligible for NDR relief)
- Appropriate future contract monitoring arrangements
- Finalisation of options to be appraised

External legal advice on the benefits/disbenefits of the sole member company model for ALEOS was last obtained by the Council in early 2017. This will be refreshed to ensure no significant factors have changed. Otherwise it will not be extensively re-examined.

### **Services in scope are:**

- All performing arts services currently commissioned from HX Arts (theatre, classical and contemporary music, dance, spoken word)
- All museum, heritage & gallery services currently commissioned from CP&K
- Library, local studies & archive services currently commissioned from CP&K
- Creative Learning services currently commissioned from HX Arts and CP&K
- Conference & business tourism services currently commissioned from HX
- Public art and public realm activities services currently commissioned from CP&K
- Wider cultural activities delivered by the Council as part of its Events Strategy

### **Services not in scope are:**

- The Instrumental Music Service in schools. This was examined during Phase 1 and subsequently transferred to Education Services (Secondary and Inclusion) in April 2016.

- Theatre and performing arts activities delivered by Perth Festival of the Arts and Pitlochry Festival Theatre. These are funded through 3<sup>rd</sup> party grants, not the ALEO mechanism.

### Key Deliverables and Timescales

The key deliverables for this review are as follows:

- Project scope approval; SP&R Committee: 13 June 2018
- Stakeholder engagement: ongoing
- Review undertaken: June-November 2018
- Recommendations to Strategic Policy & Resources Committee: 28 November 2018
- Implementation phase: January 2019 onwards

## **7. OPTIONS (*Potential Solutions including assumptions and Recommendations*)**

Core options are as follows and may be amended/expanded following the research stage:

### Option 1-Status Quo (2 sole member company Trusts)

The Council's current position is that a single Culture Trust emerged as the preferred option from Phase 1 of Securing the Future for Culture and Sport. However the status quo will be re-tested in light of any major new factors which emerge from the research stage.

### Option 2: Single Culture Trust - sole member company – all services in scope.

This will re-examine the preferred option which emerged from Phase 1, Securing the future for Culture and Sport.

### Option 3: Single Culture Trust – fully independent from PKC – all services in scope

This will re-examine the model in place prior to 2012 when HX Arts was fully independent from the Council. However this model does not enable the Council to meet its statutory responsibilities of BV and FPP and may require the Council to tender services.

### Option 4: Single Culture Trust – other constitutional status (e.g. SCIO) – all services in scope

This will examine alternatives to the SMC model which enable PKC to meet its statutory duties, for example the SCIO model used for Culture and Leisure Dundee.

### Option 5: Hybrid delivery model: Single Culture Trust *plus* in-house and/or community-led delivery

Some key services, in particular Libraries and Archives, have very limited scope to generate additional income but are important universal statutory services and community assets. Some Councils have retained in-house delivery models for these services whilst other models have emerged in the UK/elsewhere enabling community self-management of library buildings outside core opening hours. A hybrid delivery model may enable PKC to focus future investment on areas which will always require significant public funding to be sustainable, whilst enabling other cultural activities with most potential to generate external income to be delivered arms-length through a Trust.

## **8. VALUE/COST ANALYSIS (*including assumptions*)**

A required outcome from this review is the delivery of £150,000 savings from April 2019, to be achieved from the integration of senior management and corporate functions across Horsecross Arts and Culture Perth and Kinross. However a key assumption is that one-off restructuring costs will be incurred, including for example severance or systems integration costs. These have been estimated at around £180,000 in 2019/20.

Further value/cost analysis is required of:

- Current indirect costs to Perth and Kinross Council of supporting the two-Trust model, particularly when issues arise which require significant intervention from the Council to protect charitable assets. This has been the case with Horsecross Arts on two occasions since 2013.
- Implications of the Barclay Review as only existing ALEOS will be able to maintain eligibility for business rates relief from April 2018. A key assumption is that no further changes to ALEO rates relief will be implemented in the period 2018/19-2020/21.

## **9. MAJOR RISKS**

<b>Risk Description</b>	<b>Impact Scale (1 to 5)</b>	<b>Probability Scale (1 to 5)</b>	<b>Action Plan to Mitigate Risk</b>
Acceptability of change for Boards of current Trusts	4	5	Political and senior executive leadership within PKC Effective communication & engagement plan
Lack of staff buy-in and loss of key skills	4	3	Leadership from Boards and CEOs of existing Trusts

			Effective staff communications plan Transparent staff consultation process
Acceptability of change for key external funders	3	3	Effective communication & engagement plan
Loss of future funding and revenue opportunities	3	2	Robust research, financial analysis and legal advice
Acceptability of change for elected members and the public	4	2	Effective communication plan linked to cultural transformation programme & rationale