

# STRATEGIC POLICY AND RESOURCES COMMITTEE

12 September 2018

## Cultural Trusts Transformation Project: Update Report

Report by Depute Chief Executive (Chief Operating Officer) (Report No. 18/238)

### PURPOSE OF REPORT

This report provides an update on progress with the Cultural Trusts Transformation Project approved by Committee on 13 June 2018.

### 1. BACKGROUND / KEY ISSUES

- 1.1. On 13 June 2018 Strategic Policy and Resources Committee approved the purpose and scope for a review of the two Arms-Length External Organisations (ALEOs), Horsecross Arts (HX) and Culture Perth and Kinross (CPK), which deliver culture services on behalf of the Council. [Report 18/194](#) refers. Committee requested an update in September 2018 on progress with the review, which is part of the Council's wider Transformation Programme. In particular Committee asked for clarity on the position with rates relief for current and new ALEOs, and on the scoring criteria for the options appraisal. Paragraphs 2.7 and 2.12 address these points.
- 1.2. All ALEO arrangements were last reviewed in 2015. HX and CPK are both independent charities and Sole Member Companies (SMC) with the Council as Sole Member. Since 2015 the operating environment for culture has changed with a significantly increased level of ambition to grow cultural tourism and remain competitive in a fast developing creative economy across the Tay Cities Region. This is explicit in projects including Perth Creative Exchange and City Hall, and in the Tay Cities Deal. Wider investment in the city centre such as the Thimble Row development is also part of this ambition.
- 1.3. The Council also faces continuing budget pressures across all services including culture. HX and CPK are required to deliver £144,000 total recurring revenue savings in 2019/20 and 2020/21 (savings for 2018/19 were rejected). A further recurring saving of £150,000 is required from this review from 2019/20.
- 1.4. The review purpose is therefore 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.**
- 1.5. The 5 options for future delivery models approved as part of the review scope are:
  - 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 from the Council (Option 3)

- Single Culture Trust – SCIO (Scottish Charitable Incorporated Organisation) /other constitutional status (Option 4) and
  - Hybrid delivery model – Trust plus Council in-house delivery plus community-led delivery (Option 5).
- 1.6. The review scope enables any further options which emerge from the information gathering phase to be included in the options appraisal. At the request of the ALEOs, the Project Team has 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.
- 1.7. The remainder of this report sets out:
- The governance arrangements for the review (para 2.1-3.)
  - Engagement to date with the two ALEOs and wider stakeholders (para 2.4-5)
  - Review methodology including criteria for options appraisal (para 2.6-.7)
  - Key issues emerging to date (para 2.8-18)
  - Next steps (para 2.19).

## **2. PROGRESS**

### **Governance**

- 2.1. The Review is driven by a Project Team chaired by the Senior Responsible Owner. Project Team meetings take place approximately every 3 weeks with representation from key service leads in the Council alongside senior representation from HX and CPK.
- 2.2. A small Project Board is overseeing the work of the Project Team chaired by the Executive Sponsor in the Council or his nominated deputy. **Appendix 1** provides the Terms of Reference for the Project Board and Project Team.
- 2.3. The Project Team reviews the Risk Profile at every Project Team meeting to ensure risks are managed and to identify any new issues/risks as these arise.

### **Engagement to date with ALEOs and wider stakeholders**

- 2.4. Five workshops have been held with the ALEOs (two with CPK, two with HX and one with both ALEOs) which Board members and key senior staff attended. Both ALEOs were keen to discuss shared issues arising from the review and a joint staff engagement session, led by the Chief Executives, was held in early July with further sessions planned. Prior to the review this joint engagement had not routinely taken place.
- 2.5. Key national and local stakeholders (Creative Scotland, Museums Galleries Scotland and the Gannochy Trust) have been updated on the review.

## Review Methodology

2.6. The Project Team is gathering information 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; *and*
- What works elsewhere

2.7. The Project Team has developed scoring criteria for the options appraisal. These have been approved by the Project Board and are attached as **Appendix 2**.

2.8. **Future opportunities:** Workshops have been held with both ALEOs to identify key opportunities for these services. These are as follows:

- Ability to make a significant contribution to tourism destination marketing. From 2021 there will be five major cultural venues in Perth as part of a growing regional tourism offer. Events, including major free events like the Tay Light Nights which attract more footfall to the city, are central to a competitive tourism offer. However current ways of working within the ALEOs plus constraints on capacity and skills limit their contribution to destination marketing. There is a wider need to ensure that destination marketing, including marketing of public programmes, and business tourism marketing, are well integrated. Stronger joint working between the Council and the ALEOs is also needed to ensure the customer 'offer' is well targeted, cohesively delivered and makes best use of joint resources.
- Pricing policy and price incentives to attract new audiences whilst ensuring services remain accessible to a range of audiences and local communities. Whilst investment is required to set these up and operate them, there has been limited exploration of their potential to date - for example well tailored subscriptions/membership schemes offering access to a range of cultural product across Perth and Kinross. Joint marketing between the ALEOs, the Council and wider partners is key. There are also existing membership schemes at national and regional level, for example Young Scot, which could assist the ALEOs to reach communities and people who do not currently use their services.
- Theatre co-production across the region and beyond. Co-production enables risk and cost to be shared and potential to generate income by touring shows to wider Scottish, UK and international venues.

- Opportunities to commercialise some services. For example there is a strong market for Scottish ancestral history in the UK/ worldwide which could be developed to generate more revenue for CPK.
- Online and digital services will be increasingly important for attracting and retaining audiences as customer expectations for digital grow. CPK has already seen a major shift to online use in the past 3 years. Digital also offers potential to reach audiences across the UK/worldwide who are not able to access services in person, and rural/remote communities.
- Opportunities to develop community-led services, for example in some aspects of museums and library service delivery.

### **Key Issues to Date**

- 2.9. So far the following key issues have been identified which, together with growth opportunities, are informing the options appraisal:
- 2.10. **Customers:** Both CPK and HX have comprehensive knowledge about their own current customers. However this focuses largely on local and regional audiences. Better shared knowledge of market opportunities in both leisure and business tourism is needed for these services to make a significant contribution to destination marketing. A joined up approach with the Council is also critical. There is currently little information sharing between the ALEOs about customers. Whilst there are commercial and competitive reasons why they do not do so, it can mean a complicated, sometimes conflicting 'offer' for customers, and opportunities to cross-sell are missed. An example is family activities which are currently planned and marketed separately by both ALEOs despite being aimed at the same finite audience. Communities and people who don't currently use culture services much (or at all) are also broadly similar across both ALEOs. These include some Perth city centre residents, some rural audiences, young people and BAME (Black Asian and Minority Ethnic) communities. There are limited Customer Relationship Management (CRM) systems and capacity, particularly in CPK, which limits the ALEOs ability to target and effectively market services to existing customers, grow new audiences, and understand customer trends.
- 2.11. **Workforce profile:** This information is still being analysed but it is clear that there are varying levels and types of skills and capacity in each ALEO for some key functions including communications, fundraising and marketing. Recruitment and retention of some highly sought after skills such as fundraising can be challenging (this is not unique to the ALEOs) and there are opportunities to pool skills and expertise to achieve joint aims.
- 2.12. **Cost of change:** information about current staff structures and terms and conditions in each ALEO is still being analysed. It is clear there are complex terms and conditions within HX which have developed over time. Both organisations have admitted body status to the Local Government Pension Scheme. The potential cost of any workforce changes will be taken into account when evaluating the options under review.

- 2.13. **Tax implications:** The Scottish Government and COSLA (Convention of Scottish Local Authorities) have negotiated an umbrella policy for how any new ALEOS, or existing ALEOs given new properties to manage, will be eligible to claim business rates relief. There will be a capped amount which ALEOs in each local authority area can claim, calculated by the baseline amount of rates relief which ALEOS were receiving on 28 November 2017. For CPK and HX this figure is being finalised but is in the region of £600,000. Any additional rates relief will be deducted from the local government block grant to the Council. However the capped amount will be claimable by both existing and new ALEOS in the future, recognising that ALEO structures will change over time.
- 2.14. **Costs to the Council of supporting ALEOs:** As with all delivery models there are both direct and indirect costs associated with funding culture services. Direct costs (Property, HR, finance, IT etc.) would also be incurred if the services were delivered in-house by the Council. But there are indirect additional costs associated with ALEO delivery. These are estimated at £40-50,000 pa, attributable to service commissioning and contract monitoring, support to ALEOs on Property, Health and Safety and HR issues; and legal advice for the Council on ALEOs when issues or risks arise.
- 2.15. **Income generation:** The primary source of income for both ALEOs is Council funding via the contract fee. Other key income sources for HX are ticket sales (which accounts for nearly 40% of its total income); Creative Scotland funding, catering and conferences. A large part of CPK business is delivering a free universal service (public libraries) so its ability to generate commercial income is more limited than HX Arts. Apart from the contract fee, CPK does generate income from retail, catering, lets and fees/charges but these are relatively minor. Both ALEOs have had limited success with fundraising from other sources, generating around £140,000 in revenue funding each in 2017/18 although HX Arts has made significant progress towards its 2018/19 target to generate around £300,000 . Fundraising for capital projects, such as the campaign HX Arts carried out for Perth Theatre, will limit the ALEOs ability to return to Trusts and Foundations too soon. Some tax and other efficiencies available to the ALEOs as charitable bodies, such as Gift Aid, have not been fully maximised to date. There are opportunities to review pricing policy (HX) and consider commercialisation of some services (CPK).
- 2.16. **Future pressures:** In discussion with the ALEOs during the workshops, these can be summarised as follows. All are ongoing service pressures irrespective of the delivery model used by the Council:
- IT infrastructure – this will be an increasing pressure as functionality evolves in response to the changing needs and expectations of customers particularly in relation to digital service provision. This is the case regardless of the delivery model.
  - Property and equipment costs are an ongoing pressure which need to be managed as part of the Council's wider asset management aims, and which will exist regardless of the delivery model. Major new venues are

under development in Perth and existing venues will require repair, maintenance and renewal. Future use of buildings needs to align with changing customer needs and priorities.

- Changing customer needs, particularly in relation to increased expectations as the tourism potential of the Tay Cities Region continues to grow. There are also specific issues relating to libraries where there is a significant shift to online service use and declining footfall in some smaller community libraries. CPK is developing a separate Libraries Strategy to address these issues.

- 2.17. **Legal Implications:** There are legal implications to each of the options on which external specialist advice has been obtained. Principally these concern the Council's statutory Best Value and Following the Public Pound obligations given the significant level of investment in these services. There are also procurement considerations which underpinned the move from full independent status for HX to a Sole Member Company (SMC) in 2012, enabling the Council to have clear oversight of ALEO performance and priorities, through the Scrutiny Committee and robust contract monitoring arrangements.
- 2.18. A key reason for continued widespread use of the SMC model is that tendering services is not required. External legal advice confirms that this position has not changed. A key assumption for the Review is that risks to the Council of tendering services at this stage outweigh the potential benefits. The market response is uncertain and there are also risks associated with the cost and time taken to tender (estimated 14-18 months) and potential disruption for customers.
- 2.19. Arguments have been made that the SMC model restricts ALEOs' ability to raise income from philanthropic sources because these funders view the ALEO as a Council subsidiary and so not a funding priority. The Review has not found conclusive evidence to support this. But it seems likely that, even if the ALEOs were fully independent, their continued high level of Council funding would still be a consideration for other Trusts and Foundations which are under increasing pressure to fund many different good causes.
- 2.20. The Review has examined the potential of the SCIO as an alternative to the SMC model, or other models such as mutuals or social enterprises. There is limited evidence on the latter and the Project Team is still assessing the evidence which does exist. The SCIO model is designed for smaller charities with the aim of reducing governance burdens on them, although it is used for some larger charities including Culture and Leisure Dundee. But the scale of HX and CPK is quite significant with a total value of £4.4M of services delivered annually. This scale of operation requires an appropriate level of governance (for example publically available annual accounts) to ensure transparency and accountability.

- 2.21. Taking these legal considerations into view, a key assumption is that the SMC model remains in place for any future ALEO arrangements in Perth and Kinross.

### **Next Steps**

- 2.22. The Project Team is continuing to work on the options appraisal in order to identify a recommended option. Review recommendations and an outline operating model will be submitted to Strategic Policy and Resources Committee on 28 November 2018.

## **3. CONCLUSION AND RECOMMENDATIONS**

- 3.1. This report provides an update on the Review of Cultural Trusts as part of the Cultural Trusts Transformation Project.
- 3.2. The Committee is requested to **note** the progress of the Review, scoring criteria for the options appraisal, and key assumptions to date which are informing the options appraisal.

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### **Approved**

<b>Name</b>	<b>Designation</b>	<b>Date</b>
Jim Valentine	Depute Chief Executive (Chief Operating Officer)	31 August 2018

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## IMPLICATIONS, ASSESSMENTS, CONSULTATION AND COMMUNICATION

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

### 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 no direct resource implications to this report.

### 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 review process. 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 review. 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.

- 3.2 An EQIA will be completed as part of the review process.

### Strategic Environmental Assessment

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

- 3.4 Assessed as not relevant for the purposes of Strategic Environmental Assessment

### Sustainability

- 3.5 None.

### Legal and Governance

- 3.6 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 Committee as part of the review recommendations/conclusions.

## Risk

- 3.7 A risk profile has been completed as part of the Outline Business Case for this Transformation Project as follows:

<b>Risk Description</b>	<b>Impact Scale (1 to 5)</b>	<b>Likelihood 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	4	3	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

## **4. Consultation**

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

### Internal

- Head of Legal and Governance
- Head of Corporate Performance

### External

- Chief Executive, Culture Perth and Kinross
- Chief Executive, Horsecross Arts

**5. Communication**

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

**6. BACKGROUND PAPERS**

None.

**7. APPENDICES**

Appendix 1 – Project Team and Project Board Terms of Reference

Appendix 2 – Scoring Criteria for Options Appraisal