Communities and Environment Scrutiny Committee
24th July 2024

Outcomes from the completion of the Decision Model Appraisal (DMA) Museum & Gallery Service

1.0 Background

1.1 The DMA exercise was formally approved in March 2023 as part of the Executive Board recommendations relating to the return of Nottingham Castle operations under Council control and initiating a review of the longer-term options for delivery of the wider Museum & Gallery service.

1.2 Relevant governance structures in the form of a Project Board and Transition Programme Board were put in place for monitoring and managing both the DMA process (through its defined steps) and the monthly performance of the service against the new Nottingham Castle business plan submitted and approved for the Nottingham Castle site re-open. This having been a subject to a separate Scrutiny Review which took place February 2024

The DMA process was undertaken and completed in full accordance with the relevant Crown Commercial, Government Commercial Function guidance and was conducted via the appointment of independent specialist consultants, Esito Limited, CounterCulture and Durnin Research Uk.

1.3 The financial evaluation of potential delivery options under the DMA considered the following main areas:

1.3.1 **Costs**: The likely impact on costs for operating and trading; the level of Council subsidy required; the need for transition/setup costs; and opportunities for cost recovery.

1.3.2 **Liabilities**: Potential repayment of grants through non-compliance of funding agreements; landlord obligations and liabilities; taxation liabilities; and any other or additional liabilities that might be associated with specific delivery options.

1.3.3 **Income**: Potential income opportunities through grant funding; fund raising; trading; donations; or disposals.

1.4 The financial evaluation arrived at the following key outcomes:

1.4.1 Retaining the service “as is” with increasing cost cutting pressure will likely impact the income potential across the service, in turn necessitating a greater proportion of Council subsidy (potentially offsetting any savings).

1.4.2 Models which result in arm's length management and operation of the assets will likely increase the pressure and liabilities for Council as the landlord, but without any associated grant funding to contribute to capital maintenance requirements.

1.4.3 Increasing the potential to create income, access more external funding, and benefit from specific tax reliefs available to the cultural sector provides several opportunities to reduce the Council subsidy.

1.4.4 Any "cease and dispose" or "cease and mothball" options will likely reduce the potential value of assets (the "fire sale" effect) and will require continued operation of a reduced service, as well as securing the sites/collections during any winding down period (disposal could take a number of years due to the complexities associated with the buildings and legal arrangements related to the service).

1.5 The non-financial evaluation of potential delivery options under the DMA considered the following main areas with specific criteria defined for each:

1.5.1 **Strategic**: How the service delivery model aligns with the Council's medium- and long-term organisation and service strategy. (9 individual criteria were assessed under this category)

1.5.2 **Economic**: What contribution might be made (or protected) for the wider economic outcomes for the city. (6 individual criteria were assessed under this category)

1.5.3 **People & Assets**: Where capabilities and resources are best placed to deliver the service. (8 individual criteria were assessed under this category)

1.5.4 **Delivery**: Who is best placed to deliver the service and maintain continuity of service. (6 individual criteria were assessed under this category)

1.5.5 **Market & Suppliers**: Whether there is viable market for delivering the service (or if one can be created). (5 individual criteria were assessed under this category)

1.5.6 **Risk**: How can the Council best minimise overall risk associated with the service and delivery model. (8 individual criteria were assessed under this category)

1.6 The non-financial evaluation arrived at the following key outcomes:

1.6.1 Delivery models under which the Council retains higher levels of management, input, or control provide the most protection for cultural, economic, and strategic outcomes for the city, residents, visitors, and business. These models also allow stronger mitigation against risks associated with achieving these wider outcomes.

1.6.2 Delivery models which increasingly move away from Council control erode the ability to influence or manage these wider outcomes. They also introduce new or additional levels of risk to the Council.

1.6.3 Delivery models which relate to the ceasing of the service (either permanently or temporarily) obviously prevent the achievement of any of the wider outcomes and also present additional risks.

1.7 In parallel with the DMA, a market appraisal exercise was commissioned (Aug-23 to Oct-23) and undertaken (Nov-23 to Feb-24) to inform the evaluation of options under the DMA, with a specific focus on the wider national, regional, and local market for delivery of similar services and/or cultural and heritage assets.

1.8 The market appraisal included consultation and engagement with a range of stakeholders; 25 individuals across a range of 21 organisations, ranging from national fund agencies to regional and local partnerships. A roundtable session with thought leaders from the sector (from Local Authorities, Trusts, and advisory/research organisations) was also held as part of the consultation.

1.9 The market appraisal produced the following key findings:

1.9.1 Council-owned Museum and Galleries services are still the predominant models for the Core Cities in England. Bristol, Leeds, and Manchester are delivered in-house with an associated charitable development Trust (Birmingham being a full Trust under Council control). Nottingham is the only Core City in England operating wholly in-house but without the charitable Exhibitions and/or Development Trusts. There are also many other examples of currently retained in-house services with associated charities across other Local Authorities in England.

1.9.2 There are limited precedents for Core Cities in England being part of a combined service with neighbouring Authorities or being under a fully independent Trust. Newcastle is the sole example of being under a combined service (with Tyne & Wear Councils and also with an associated Development Trust). Sheffield is under a single independent Trust (there were originally separate Trusts for a number of sites, but these were merged together to remain sustainable).

1.9.3 Engagement with local and regional stakeholders identified no real appetite or viable options for leading on any merger with the NCC service (in fact stakeholders considered it more likely that the NCC service is better placed to absorb other regional cultural organisations).

1.9.4 Moving to an independent Trust model would be akin to the previous Nottingham Castle Trust arrangement but with all sites and the associated collections being under the control and management of an arm's length Trust (whilst responsibility and obligations relating to buildings and land would remain with NCC).

1.9.5 There are no precedents in the UK for a commercial outsource of an entire service of this nature (only for individual heritage sites which have presented the best financial and commercial viability, leaving Authorities with the least viable assets often leading to closure).

1.9.6 There are no existing not-for-profit organisations (e.g. National Trust, English Heritage) who would be interested in taking on the service as a whole, although this may be a valid option when considering partial disposals.

1.9.7 There are no existing commercial providers who would be interested in taking on the service as a whole, although again this may be a valid option when considering partial disposals.

1.9.8 In terms of options to cease or mothball the service, due to the loss of National Portfolio Organisation ("NPO") status - along with the associated national and other cultural project funding - there are very few precedents for cultural or historic sites being ceased on a wholesale, service-wide basis. As an example of the implications of NPO status, Northampton lost accreditation in 2014 after the sale of an Egyptian statue and took almost 10 years to regain accreditation and associated grant funding. All stakeholders consulted expressed concern for the significant impact on the city, communities, and economy under potential closure of any site and the loss of NPO status.

1.9.9 Some additional findings included the identification of the current service as one of the “highest performing” in terms of the quality of cultural and economic offer, with one of the lowest levels of Council subsidy. However, external organisations and stakeholders have concerns over the risk of engagement/commitment to long term initiatives whilst the service is wholly under Council control due to the current financial issues and potential commissioner interventions as a result of the S114 situation.

1.10 The aim of this preferred, recommended model as an outcome of the DMA exercise is to increase opportunities for income and external funding, in order to reduce the need for Council operating/revenue subsidies as well as seek contributions towards capital liabilities for maintenance of assets.

1.11 The establishment of the proposed charitable entities would enable exploration of the following opportunities (not currently available under the "as is", wholly in-house service provision) to reduce reliance on Council funding:

1.11.1 Ability to seek larger donations as a source of income, which will be eligible for Gift Aid at the 20 per cent basic rate.

1.11.2 The application of Gift Aid to existing income sources such as annual memberships and ticketing.

1.11.3 Exemption from corporation tax on profits from trading undertaken in the course of charitable provision.

1.11.4 80 per cent mandatory, and 20 per cent discretionary, relief from business rates (rate relief).

1.11.5 Exemption from VAT charges on certain goods and services.

1.11.6 Immediate eligibility for Museums & Galleries Exhibition Tax Relief, currently being held at an uplifted rate of 45 per cent under post-Covid measures (the normal level being 20 per cent).

1.11.7 Ability to seek additional funding through active fundraising, additional grants, sponsorships, fostering long-term sustainability and supporting various initiatives such as touring exhibitions, educational programs, and conservation efforts.

1.11.8 Protection of the current NPO accreditation and seeking to increase the NPO funding envelope through the inclusion of Nottingham Castle (not currently included due to previous operations being under the NCT).

1.11.9 An agreed and monitored revised business plan to proactively reduce the Council subsidy over the next 5 years, essentially scaling up the current monitoring and performance regime that is already in place for the Nottingham Castle operations.

The establishment of these charitable entities will enable a range of activities and functions to transferred and delivered on behalf of the Council. Whilst the full extent of - and timing for transferring - these activities will continue to be considered as part of the revised business plan.

2.0 Next Steps

Attached as Appendix 1 please see a presentation that outlines the detail of the work of the DMA further.

Currently detailed business planning work is now taking place to look at subsidy reduction journey taking into account the outcomes that emerged from the DMA and looking at the financial position and situation of the Council over the its next number of years.

This work will conclude in a new business plan being proposed and structural delivery changes for the service to further reduce costs aiming to bring a full report to a future Executive Board in the autumn.

End
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