

# Royal Pavilion and Museums Options Phase One Report

August 2018

Mike Woodward & Associates

**Introduction**

This report is the conclusion of the first stage of a two phase options appraisal of the possible governance models for the Royal Pavilion & Museums (RPM), as commissioned by Brighton & Hove City Council (BHCC). It is important to note that this is a phase 1 report intended only for use as an internal discussion document to enable council officers to agree the focus of phase 2 of the brief.

The report outlines the options that have been raised in previous reports and in discussions to date and recommends that two should be pursued in more detail in the next phase. It looks at the some of the pros and cons of these options as a way of introducing themes and questions likely to arise in Phase 2.

The first phase has comprised:

1. A review of the substantial body of relevant work that has been carried out previously by BHCC’s staff and advisors.
2. A tour of the sites (except Hove Museum and Art Gallery).
3. Meetings with key council officers, managers and staff from RPM.
4. Discussion with Arts Council England, the service’s other major revenue funder.

It is important to note that it has not been possible to speak to all stakeholders at this early stage. Meetings with Trade Union representatives have been arranged. Further meetings will take place with elected Members and wider stakeholders.

**Background**

In January 2018 the council’s Policy, Resources & Growth committee approved the necessary steps to transfer the Royal Pavilion & Museums service from the City Council to a charitable trust, to be managed under a contract for services on a 25 year arrangement. The charitable trust would bring together the management of the Royal Pavilion and Museums service with the management of the Brighton Dome & Brighton Festival. However, implementation of the decision was delayed in order to allow for further staff engagement and an external review of all the options for the future management and governance of the service.

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**The Options to be Appraised at Phase One**

The brief was to take a high level view on a broad range of options at the first phase, to include:

- 1. In-house scenario – including for part or all of the service
- 2. Charitable operation – including a stand-alone RPM service or combined with other services or assets (within and outside BHCC), including the possibility of a charitable operation for part or all of the service (and a variety of not-for-profit models of governance)
- 3. Commercial operation – including the possibility of a joint venture with a commercial or not-for-profit partner, and of a commercial operation of part of the service
- 4. Partnership with another anchor institution – including for part or all of the service
- 5. Combinations of the above

**The Assets**

The Appendix lists the assets in question.

**The Criteria**

- 1. Long term **sustainability** – including ability to generate funds to compensate for planned savings, from earned and contributed sources, and the ability to reduce inefficiencies
- 2. **Flexibility** and future proofing – including risk of changes to NNDR, taxation and customer behaviour
- 3. **Council priorities** in relation to the visitor economy, cultural participation, learning and protection of assets
- 4. **Confidence** of key stakeholders
- 5. **Support of staff** and volunteers
- 6. Appropriate professional standards of care for **buildings and collections**
- 7. **Customer** needs and customer expectations
- 8. The council’s **statutory obligations**, including health and safety, equalities and procurement compliance

(**bold** words are used for brevity below)

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**The Recommended Short-list of Options**

The recommended short-list is:

- 1. In-house**
- 2. Charitable Operation – Single Purpose**

The following tables summarise the issues that have been identified around each of the options for short-listing and the reasons for recommending their further examination. Issues that are common to all options are ignored. Only major financial pros and cons are referred to; they are not quantified at this stage.

**1. In-house**

This option that the whole service to continue to be managed directly by BHCC. It is understood that the substantial savings on BHCC budgets will be required from 2020/21 onwards.

Criteria	Pros	Cons
<b>Sustainability</b>	<ul style="list-style-type: none"> <li>• RPM has proved adept at generating earned income under BHCC management.</li> <li>• Admissions income is eligible for VAT exemption.</li> <li>• All input VAT is recoverable.</li> <li>• Support costs are shared with whole of BHCC.</li> <li>• Savings on set-up costs of a new organisation could be used to invest in income generation opportunities.</li> <li>• Cashflow and reserves are dealt with by BHCC.</li> <li>• BHCC has a significant portfolio of Long Term Assets.</li> </ul>	<ul style="list-style-type: none"> <li>• Local Authority budget cuts are likely to continue.</li> <li>• Gift Aid is not applicable on admissions income.</li> <li>• Charitable Business Rates relief is not applicable.</li> <li>• Some Trusts and individuals refuse to fund local authority bodies.</li> </ul>
<b>Flexibility</b>	<ul style="list-style-type: none"> <li>• BHCC’s resources can be mobilized quickly in extreme circumstances.</li> </ul>	<ul style="list-style-type: none"> <li>• Democratic processes can be slow and risk averse.</li> <li>• Electoral cycles impact decision making.</li> </ul>
<b>Council Priorities</b>	<ul style="list-style-type: none"> <li>• The in-house option gives direct Council control over the present and future strategic direction of the museums.</li> </ul>	
<b>Confidence</b>	<ul style="list-style-type: none"> <li>• Substantial revenue and capital is forthcoming from national funding bodies, showing confidence in the</li> </ul>	

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	<p>current arrangements.</p> <ul style="list-style-type: none"> <li>• BHCC has a strong credit rating.</li> <li>• Local residents understand the governance arrangement and its democratic accountability.</li> </ul>	
<b>Support of staff</b>	<ul style="list-style-type: none"> <li>• Some staff strongly support this option in order to protect employment conditions.</li> </ul>	<ul style="list-style-type: none"> <li>• Some staff are keen to operate outside of local authority control.</li> </ul>
<b>Buildings and collections</b>	<ul style="list-style-type: none"> <li>• There is clarity in a single body, BHCC, being owners and retaining stewardship responsibility for the historic buildings and collections.</li> <li>• RPM under local authority control is rated 'Strong' for its collections management.</li> </ul>	<ul style="list-style-type: none"> <li>• Potential collection donors can be put off by local authority ownership.</li> </ul>
<b>Customer</b>	<ul style="list-style-type: none"> <li>• RPM delivers a successful programme of exhibitions, events and learning opportunities from within BHCC control.</li> <li>• Partnership work has successfully enhanced the public programme, e.g. Dr Blighty 2016 Festival.</li> <li>• RPM is already judged as 'Strong' in its knowledge of its audiences and its audience development.</li> <li>• RPM is already judged as 'Outstanding' in its provision for Children and Young People</li> </ul>	<ul style="list-style-type: none"> <li>• Council pressures and systems may inhibit innovative product development.</li> </ul>
<b>Statutory Obligations</b>	<ul style="list-style-type: none"> <li>• There is no risk of legal challenge on procurement.</li> <li>• BHCC systems should ensure compliance with other obligations.</li> </ul>	

**Conclusion**

The in-house option has many benefits and should be examined further in the second phase. It has to be seen as the lowest risk option across a range of criteria. Issues to be explored in Phase 2 are primarily around the impact of forecast funding cuts.

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## 2. Charitable Operation – Single Purpose

This option is for the RPM bundle of assets and services to be transferred on a long-term basis to a newly formed charitable trust (here referred to as ‘RPM Trust’). Typically this would be a company limited by guarantee with a wholly owned trading subsidiary company to carry out non-charitable trading. The objects of the RPM Trust would be focussed on delivery of a museum service, stewarding and using the assets transferred.

Criteria	Pros	Cons
<b>Sustainability</b>	<ul style="list-style-type: none"> <li>• Gift Aid could be gained on admission income and other donations.</li> <li>• Charitable relief is available on Business Rates.</li> <li>• Admissions income is likely to be eligible for VAT exemption.</li> <li>• Direct control of the marketing mix - product, place, price and promotion – should enable the RPM Trust to grow income more rapidly.</li> <li>• Fundraising from Trusts and individuals should be made easier than under local authority control.</li> <li>• Medium-term planning should be more reliable than within the local authority environment, e.g. based on five year funding agreements.</li> <li>• There is potential for savings on staff costs if structures and/or conditions are changed.</li> </ul>	<ul style="list-style-type: none"> <li>• Only a proportion of input VAT is likely to be recoverable.</li> <li>• RPM has proved adept at generating earned income so headroom for growth may be limited, e.g. capacity of Royal Pavilion.</li> <li>• The success of the RPM Foundation shows that charitable funding can be achieved without the full governance model.</li> <li>• Central support costs – IT, HR, Finance, Estates - will be significant and will (probably) not be shared.</li> <li>• Set up costs will be substantial.</li> <li>• Working capital will need to be created.</li> <li>• Cash flow and reserves will need to be managed locally.</li> <li>• Local Authority budget cuts are likely to affect funding in the long term.</li> <li>• New management skills will be required.</li> <li>• A new board will need to quickly gel with each other and the executive team.</li> </ul>
<b>Flexibility</b>	<ul style="list-style-type: none"> <li>• A new independent organisation focussed on one key purpose would be able to be able to take decisions quickly and respond to challenges and opportunities as they arise.</li> </ul>	<ul style="list-style-type: none"> <li>• This potential advantage could be constrained by restrictions imposed by funding agreements.</li> <li>• Reactive responses can undermine the benefits of longer-term planning.</li> </ul>
<b>Council Priorities</b>	<ul style="list-style-type: none"> <li>• The relationship with a new RPM Trust could be structured to ensure current and future Council priorities are taken into account.</li> </ul>	<ul style="list-style-type: none"> <li>• A successful RPM Trust would need freedom to set its own priorities which may or may not align directly with BHCC’s.</li> </ul>

<b>Confidence</b>	<ul style="list-style-type: none"> <li>BHCC could lend credibility to a new RPM Trust through its strong support.</li> </ul>	<ul style="list-style-type: none"> <li>It will take time for a new body to earn the trust of stakeholders.</li> <li>Key funders will need confidence that the RPM Trust has been set up to succeed.</li> </ul>
<b>Support of staff</b>	<ul style="list-style-type: none"> <li>This is the favoured route for a number of staff for a variety of reasons including stewardship and fundraising.</li> </ul>	<ul style="list-style-type: none"> <li>Some staff have concerns about the potential impact on employment terms and conditions.</li> </ul>
<b>Buildings and collections</b>	<ul style="list-style-type: none"> <li>A charitable trust with the primary object of stewardship of buildings and collections would have a strong focus on these issues.</li> </ul>	<ul style="list-style-type: none"> <li>If BHCC remains responsible for planned building maintenance there is a potential for divergent interests between landlord and tenant.</li> <li>Collection donors may be put off if the collection is still ultimately owned by the local authority.</li> </ul>
<b>Customer</b>	<ul style="list-style-type: none"> <li>The flexibility of an independent body should open more opportunities for partnership working around the public programme.</li> </ul>	<ul style="list-style-type: none"> <li>The current strengths in programming and audience development might be weakened by commercial pressures.</li> </ul>
<b>Statutory Obligations</b>	<ul style="list-style-type: none"> <li>There would some transfer of compliance risk from BHCC to the new RPM Trust.</li> </ul>	<ul style="list-style-type: none"> <li>The new organisation would need to create its own policies and procedures to ensure compliance with Health &amp; Safety, Procurement, Employment, Equalities, Company and Charity law.</li> <li>There is a risk of legal challenge on procurement if the funding is in the form of a contract for services (which is the most VAT advantageous route).</li> </ul>

**Conclusion**

There are good reasons to consider this option further in phase 2. There are relevant precedents for successful transfers of museum services into single-purpose charities as proposed here.

As well as financial implications, phase 2 should examine the skills, knowledge and management capacity that would be required under this option. Opportunities for close partnership working should also be looked into.

**Other Options Considered and Reasons for Not Recommending**

**3. Charitable Operation – Merger with Brighton Dome and Festival Limited (BDFL)**

Under this the option responsibility for managing RPM would be transferred on a long-term basis to the existing BDFL charitable trust. The objects of the BDFL/RPM Trust would be have a broader cultural scope than the Trust described in option 2 above, however many of the potential benefits and risks are common to both options.

Criteria	Pros	Cons
<b>Sustainability</b>	<ul style="list-style-type: none"> <li>• Gift Aid could be gained on admission income and other donations.</li> <li>• Charitable relief is available on Business Rates.</li> <li>• Admissions income is likely to be eligible for VAT exemption.</li> <li>• Direct control of the marketing mix - product, place, price and promotion – should enable the BDFL/RPM Trust to grow income more rapidly.</li> <li>• Fundraising from Trusts and individuals should be made easier than under local authority control.</li> <li>• Medium-term planning should be more reliable than within the local authority environment, e.g. based on five year funding agreements.</li> <li>• There is potential for savings on staff costs if structures and/or conditions are changed.</li> <li>• Central support costs – IT, HR, Finance, Estates – would be shared across a larger organisation than under option 2.</li> <li>• BDFL would be able to supply many of the skills, policies and procedures that could be lacking under option 2.</li> </ul>	<ul style="list-style-type: none"> <li>• Only a proportion of input VAT is likely to be recoverable.</li> <li>• RPM has proved adept at generating earned income so headroom for growth may be limited, e.g. capacity of Royal Pavilion.</li> <li>• The success of the RPM Foundation shows that charitable funding can be achieved without the full governance model.</li> <li>• Transfer costs will be substantial.</li> <li>• Working capital will need to be created for the larger organisation.</li> <li>• Given the range of activities the risk profile of the new organisation will be complex; whilst spreading of risk is generally a benefit this is not always the case when the same root cause can impact several areas of operation, e.g. relying on the same physical site, or the same market segment.</li> <li>• Cash flow and reserves will need to be managed carefully.</li> <li>• Local Authority budget cuts are likely to affect funding in the long term – though BDFL has protected funding.</li> <li>• Care would be needed, from board level down, to avoid a creating a Janus-faced organisation pulling in two different directions.</li> </ul>

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<b>Flexibility</b>	<ul style="list-style-type: none"> <li>The independent organisation should be able to be able to take decisions quickly and respond to challenges and opportunities as they arise.</li> </ul>	<ul style="list-style-type: none"> <li>This potential advantage could be constrained by restrictions in funding agreements.</li> <li>Reactive responses can undermine the benefits of longer-term planning.</li> <li>Complex structures and conflicting interests could also undermine decision making.</li> </ul>
<b>Council Priorities</b>	<ul style="list-style-type: none"> <li>The relationship with a new BDFL/RPM Trust could be structured to ensure current and future Council priorities are taken into account.</li> </ul>	<ul style="list-style-type: none"> <li>A successful BDFL/RPM Trust would need freedom to set its own priorities which may or may not align directly with BHCC's.</li> </ul>
<b>Confidence</b>	<ul style="list-style-type: none"> <li>BHCC could lend credibility to a new BDFL/RPM Trust through its strong support.</li> <li>Funders and creditors are likely to see a merger as inherently less risky than a stand-alone museums trust.</li> <li>The public is already aware and supportive of BDFL.</li> </ul>	<ul style="list-style-type: none"> <li>Key funders will still need confidence that the combined trust has been set up to succeed.</li> </ul>
<b>Support of staff</b>		<ul style="list-style-type: none"> <li>Some staff have concerns about the potential impact on employment terms and conditions.</li> <li>Some staff have concerns that BDFL is not financially robust.</li> <li>Some staff have concerns that museums would play second fiddle in a 'take-over' scenario.</li> </ul>
<b>Buildings and collections</b>	<ul style="list-style-type: none"> <li>There is a strong potential synergy in that RPM and BDFL share the Royal Pavilion Estate</li> </ul>	<ul style="list-style-type: none"> <li>The current HLF approved masterplan for the site demonstrates that co-operation is possible without merger.</li> <li>If BHCC remains responsible for planned building maintenance there is a potential for divergent interests between landlord and tenant.</li> <li>Collection donors may be put off if the collection is still ultimately owned by the local authority.</li> </ul>
<b>Customer</b>	<ul style="list-style-type: none"> <li>The range of skills and activities in a combined BDFL/RPM Trust would give creative opportunities for a diverse but</li> </ul>	<ul style="list-style-type: none"> <li>The current strengths in programming and audience development might be weakened by commercial</li> </ul>

	coherent cultural programme for Brighton & Hove.	pressures.
<b>Statutory Obligations</b>	<ul style="list-style-type: none"> <li>• There would some transfer of compliance risk from BHCC to the BDFL/RPM Trust.</li> <li>• A combined trust should already have its own policies and procedures to ensure compliance with Health &amp; Safety, Procurement, Employment, Equalities, Company and Charity law.</li> </ul>	<ul style="list-style-type: none"> <li>• There is a risk of legal challenge on procurement.</li> </ul>

**Conclusion**

Option 3 potentially offers many of the benefits of option 2 without many of the set-up headaches and risks.

Key questions that remain are around the focus of a merged organisation, the risk profile of BDFL and the significant reservations of RPM staff about a merger.

In view of the amendment made at the Council’s Policy, Resources and Growth Committee on 14 June 2018, revoking the committee’s previous decision to enter into such an arrangement, it is clear that this option would be difficult to implement and therefore it is not recommended to be shortlisted.

**4. Single Purpose Charity as Staging Post to Merger with BDFL**

This option was previously recommended. It is essentially implementation of Option 2 with the intention of moving to Option 3 within a few years.

This option’s genesis lies in previous legal advice that there would be potential of a challenge under procurement rules if BHCC awarded a contract to BDFL without competition. There are no other clear advantages of this option over moving directly to Option 3.

A two stage transfer would inevitably be more expensive to implement and disruptive over a much longer period than any of the first 3 options described above. Furthermore, if the single purpose charity was implemented successfully it is not obvious that, a few years on, it would make sense for Trustees of that body to choose to merge with BDFL.

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Further legal advice has been taken which suggests that, given BDFL’s unique position, the procurement risk of moving directly to Option 3 is low.

**Conclusion**

This option should not be carried forward to Phase 2 of the appraisal. This does not, of course, preclude an eventual merger of a single purpose museum charity with BDFL if Option 2 is the chosen route.

**5. Merger with Other Local Charity or Education Institution**

There are various potential shared governance or working partnership models with local bodies other than BDFL, e.g. the Universities have been cited in this connection. However in the absence of any strong existing partnerships or documented discussions towards this goal it is difficult to appraise the likelihood of a successful outcome.

What can be said is that legal advice on the procurement position of a merger with BDFL hinged on that body’s unique possession of buildings within the Royal Pavilion Estate. By definition no other organisation is in that position so it would very likely be a more complicated and time-consuming process.

**Conclusion**

On the evidence seen to date there is no clear avenue to investigate this option in Phase 2.

**6. Transfer to an existing National Heritage Body**

Operating the Royal Pavilion may well be of interest to bodies such as English Heritage, National Trust or Historic Royal Palaces, however running local museums is generally outside of their remit.

With regard to the Royal Pavilion itself this option would have most of the advantages of Option 3 with the additional benefits of national marketing reach and ready access to specialisms in building conservation and heritage management more generally. The Pavilion would also benefit from the resilience of a large, well established body.

More widely however there are a number of important arguments against this option:

- a. This would be a solution for only part of the museum service.
- b. It would denude the service of its highest profile and highest earning asset.

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- c. It would severely compromise the case for ACE NPO status and so threaten a substantial source of revenue funding.
- d. The Pavilion becoming part of a national organisation would detract from its local Brighton identity and cultural role.

**Conclusion**

If the Royal Pavilion stood alone this option would have to be seriously considered but given the brief to look at the best solution for the whole service it is not recommended to take forward to Phase 2.

**7. Commercial Operation**

The final option that has been discussed in previous reports is that of contracting a for-profit company to manage RPM. A case could be made that a commercial operation would be focussed on extracting the highest revenue directly from the assets and so would be the most resilient to cuts in public funding.

Against that there are a number of strong counter-arguments:

- a. A commercial venture would not be eligible for many sources of funding, including the current ACE NPO funding.
- b. There would be no opportunity to benefit from charitable reliefs around Gift Aid, Business Rates and VAT exemption.
- c. A profit, or management fee, would need to be extracted from the operations.
- d. There is a limited field of potential operators.
- e. A focus on profitability would be in tension with many aspects of museum operation such as stewardship of the buildings and collections, innovative and diverse programming, community engagement and educational activities.
- f. This option is likely to face concern and opposition from staff and the general public.

**Conclusion**

This option should not be carried forward to Phase 2 of the appraisal.

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**Summary and Phase 2 Brief**

The recommended reduced list of options put forward for BHCC officer approval and comment is:

- 1. In-house**
- 2. Charitable Operation – Single Purpose**

In Phase 2, a full financial model for the reduced list of options will be developed covering the period to the end of 2021/22. This will allow the benefits of any proposed change to be realised in the lifetime of the financial plan, and will fit with the current planned cycle for Arts Council England funding. The Phase 2 work will set out:

- 1. The non-cashable benefits of the options
- 2. The dependencies of each
- 3. Any up-front investment required or other financial support required on a temporary basis
- 4. Any implications for staff in relation to the changes involved
- 5. Potential equality impact in relation to staff and customers
- 6. Timescales for implementation and for recouping any investment
- 7. An outline project plan with key risks or each approach
- 8. The recommended course of action with clear milestones and a full risk assessment

## Appendix

### Sites within the Royal Pavilion & Museums portfolio

- Brighton Museum & Art Gallery – a Grade 2 listed building, on its present site since 1873.
- Booth Museum of Natural History – a Grade 2 listing building, founded in 1874, bequeathed to the public in 1890 by Thomas Booth and held in trust by the council since that date.
- Hove Museum & Art Gallery – established in 1927 (purchased by Hove Corporation in 1926).
- Preston Manor – which is a Grade 2 listed building, bequeathed in 1933 to be held in trust by the council (an 18th century building dating back in part to medieval period).
- Royal Pavilion – a Grade 1 listed building, purchased by the council in 1850. It was restored as a historic palace in the 1970s since which it has been open all year round to the public.
- Royal Pavilion Garden – Grade 2 on Historic England register of parks
- Grade 1 listed buildings: William IV Gate House and India Gate.
- Grade 2 listing buildings/sites: Northgate House, the Old Court House, Jaipur Gate
- 4/5 Pavilion Buildings which includes the Royal Pavilion Shop (rented)
- Off-site store (rented)

The museum collections include:

- Three Designated Collections of national/international significance. These are World Art, Natural History & Decorative Art (designation attracts funding). The designation scheme is a mark of distinction, identifying and celebrating pre-eminent collections of national and international importance in non-national institutions. There are 140 designated collections held in museums, archives and libraries across England.
- Other collections include: Local History, Social History, Fine Art, Costume, Musical Instruments, Archaeology, Egyptology, Numismatics, Toys and Crafts.

Most of the collections are owned directly by the City Council having been either donated or acquired by the museum service since its inception in 1860. Some items are held in trust by the city council e.g. for the National Toy Museum & Institute of Play; The James Green Trust's collection of Burmese textiles; photographs and artefacts; the Booth Trust Birds, Cases, Library and Building.

# Royal Pavilion and Museums Options

## Phase Two Report

19 September 2018

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### Terms and Abbreviations

- ACE – Arts Council England – a key revenue funder of the museum service through the NPO revenue stream
- BHCC – Brighton & Hove City Council (also ‘The Council’)
- Charitable Trust – the museum service transfers to a new charitable body
- Charitable Status – the museum service transfers to a new charitable body
- In-House – the museum service remains in the control of BHCC
- LGPS – Local Government Pension Scheme
- Museum Development – a support service for the region’s museums, funded by ACE and administered through RPM
- NPO – National Portfolio Organisation – a revenue funding stream from ACE

The Council – Brighton & Hove City Council (also ‘BHCC’)

The Foundation – Royal Pavilion and Museums Foundation – an existing charity giving support to RPM (also ‘RPMF’)

RPM – Royal Pavilion and Museums (see appendix for full list)

RPMF – Royal Pavilion and Museums Foundation – an existing charity giving support to RPM (also ‘The Foundation’)

Single Purpose – the charitable body is focused exclusively on running RPM

Trades Unions – GMB and Unison are unions recognised by BHCC

Trust Status – the museum service transfers to a new charitable body

## Introduction

This report is the conclusion of the second stage of a two-phase options appraisal of the possible governance models for the Royal Pavilion & Museums (RPM), as commissioned by Brighton & Hove City Council (BHCC). The first stage report concluded that short-list of options brought forward and examined in this second stage were:

3. In-house
4. Charitable Trust – Single Purpose

The two reports have been produced on tight timescales, which has only been possible due to the investigations, consultations and reports that had been produced by Council officers and external consultants over the last few years.

Heartfelt thanks are due to the numerous people who have given their time to discuss the issues and give their well-considered and valuable opinions and insights. First and foremost these include the broad cross-section of RPM staff who took part in the nine group meetings with me and the individual staff who took the time to contact me directly.

Many thanks are also due to the senior council officers, representatives of the main political parties, GMB and Unison, Arts Council England, the RPM Foundation and the former Shadow Board. Many thanks also to those who have organised and facilitated the various meetings and visits.

The brief at phase two was to compare the financial implications of each option up to 2021/22 and to explore:

1. The non-cashable benefits of the options
2. The dependencies of each
3. Any up-front investment required or other financial support required on a temporary basis
4. Any implications for staff in relation to the changes involved
5. Potential equality impact in relation to staff and customers
6. Timescales for implementation and for recouping any investment
7. An outline project plan with key risks or each approach

8. The recommended course of action with clear milestones and a full risk assessment

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## Financial Comparison of In-house and Charitable Trust Options

### 1. The Financial Context

The stated aim is to ensure RPM’s long-term sustainability including ability to generate funds to compensate for planned savings, from earned and contributed sources, and the ability to reduce inefficiencies.

The report to PRG in January 2018 indicated the scale of savings expected from the museum service in the coming years:

Table 1 – Projected funding requirement	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000
Provision of service	1181	1119	1065	734	691
Maintenance contribution	686	699	713	727	742
<b>Total funding requirement</b>	<b>1867</b>	<b>1818</b>	<b>1778</b>	<b>1461</b>	<b>1433</b>

The cost of the museum service is expected fall substantially – from £1.87m in 2018/19 to £1.46m 2021/22 onwards. Allowing for inflation, the saving being sought in 2021/22 is £392,000.

A further funding requirement of c.£220,000 per year his also been identified as necessary to address a property maintenance backlog.

### 2. Tax

Tax benefits and costs are one of the few areas where a direct and quantifiable distinction can be drawn between the finances of local authority and charitable governance.

As has been identified in previous reports the Charitable Trust option presents somewhat better prospects from a tax perspective. Current estimated benefits and costs are:

Table 2 – Projected Tax Savings	Estimate Annual Saving / (Cost)
Business Rates 80% Relief *	£220,000
Gift Aid on Admissions **	£200,000
Exhibition Tax Relief ***	£30,000
Irrecoverable VAT	(£190,000)
<b>Net Saving</b>	<b>£260,000</b>

- \* N.B. This comparison is based on current Business Rates bills for the Royal Pavilion. This bill is likely to be substantially cut, which would mean:
- RPM's annual Rates Bill is likely to reduce by c.£170,000 per annum, whether it moves to Charitable status or remains In-house.
  - This reduction could be used to deliver a large part of the savings required in RPM's budget in either scenario.
  - The comparative benefit of Charitable status vs. In-house will reduce by £136,000 (80% of the £170,000 saving) to around £124,000 per annum, as follows:

Table 3 – Projected Tax Savings (Adjusted)	Estimate Annual Saving / (Cost)
Business Rates 80% Relief	£84,000
Gift Aid on Admissions **	£200,000
Exhibition Tax Relief ***	£30,000
Irrecoverable VAT	(£190,000)
<b>Net Saving</b>	<b>£124,000</b>

- \*\* Based on current levels of admissions income and following a period of bedding-in for the Gift-Aid processes. Any future growth in admissions income would have a knock-on benefit for Gift-Aid.
- \*\*\* This new relief would be automatically available to the Trust as a registered company. It is theoretically possible for BHCC to use another registered company as a vehicle to claim this relief but this would be complicated and there are no current plans to do so. The calculation is based on estimated eligible spend of £190k per year.

In summary, in both scenarios reductions in taxes could play a significant part in delivering the savings required. RPM's Business Rates are due to fall by c.£170k in any case and Trust Status could yield a further c.£124k net saving.

### 3. Control Over Products and Prices

If RPM is able to freely set and adjust the nature and prices of the goods and services it provides it could potentially generate significantly more revenue. Previous reports have estimated, for example, that admissions income could grow by around 10%, or £300,000, as a result. Freedom to adjust other fees and hire charges should also have a beneficial impact.

The ability to adjust prices does not require to a change of governance to Charitable Trust but would require the RPM to be given considerably more delegated power, with freedom to set and alter pricing to suit business need.

Once the new operating model is established, whether In-house or Trust the ability to be flexible with income could be implemented relatively quickly. The benefits could be gained and measured in the short to medium term.

The extent to which the Council is prepared to relinquish control of fees and charges, under either scenario, needs to be determined as part of planning RPM's next steps.

### 4. Fundraising

RPM has been successful in raising funds from grant-giving bodies, trusts and foundations, often through the work of the RPM Foundation, a charity which fundraises on its behalf. If RPM remains In-house, as part of the Council, it is planned that the future role of the Foundation as a development trust for RPM will be reviewed.

Charitable status for RPM would further expand the field of potential donors, particularly amongst private individuals who are sometimes reluctant to give to a council-run service. Such relationships can be very valuable but can take years to build and bear fruit, for example through a legacy scheme. So, although this is a significant long-term benefit of Charitable status, it cannot be relied upon in the time-frame of savings required.

Gift-aid would also be available to increase the value of donations from UK taxpayers.

5. Long-Term Financial Planning

Council budgets are under continuous pressure and in its current configuration RPM’s budgets and targets, like any other council service, are set year-to-year and can be subject to mid-year savings or spending freezes.

Furthermore since council departments have no way to carry forward general reserves any benefit from over-achieving its targets is lost to RPM at year end.

Investing to generate future income growth is thus effectively discouraged.

This issue is particularly pertinent to RPM which generates more than £4m per year in fees and charges. This level of income is unusual both in comparison to many other council departments and in comparison to museum services in most other local authorities.

The fact that RPM has access to a large tourist audience and that it charges admission fees means that there are significant opportunities for gaining returns on investment in products and promotion.

Depending on the terms of the funding agreement, as an independent body RPM should be able to plan investment in products and marketing knowing that it would reap the rewards over a number of years. It is unlikely that this important benefit could be replicated in the In-house scenario as budgets could always be cut as revenues grow.

The security and timeframe of the funding commitment from the Council to a Trust would influence the Trust’s investment decisions. A five-year rolling contract, for example, would give plenty of time for investments to pay back.

It is difficult to predict what the impact of this change would be and by its very nature the results would come through in terms of long-term sustainability rather than short-term contributions to the savings required.



## 6. Cost Savings and Efficiencies

Savings in core running costs would not follow automatically from either Trust status or from greater autonomy within BHCC control. In theory Trust status could give more control over staff costs, however given that the intention is to provide undertakings over terms and conditions significant savings cannot be anticipated from this in the short-term.

Regarding pensions, previous transfer proposals have assumed that:

- The Trust will become an admitted body of the LGPS
- The scheme will remain open to transferred members of staff
- BHCC will act as guarantor and retain the pension deficit relating to transferred staff
- Some savings may be made in the long term by closing the scheme to new members

Perhaps of more significance is the fact that, as with investment to grow income, independent status would give greater incentive for RPM management to invest in longer-term savings and efficiencies, knowing that the benefits would remain within the service. Greater control over investment decisions, procurement processes and partnership working would provide a wider range of opportunities.

## 7. Central Services

A key difference between the independent Trust and In-house scenarios is that central services – primarily ICT, HR and Finance, as well as senior management – would be run and paid for directly by RPM. (Building Services are here assumed to continue to be provided on the same basis as currently – i.e. by BHCC as landlord with input from RPM staff).

The question of how these services would be financed is an important one. As stated above, RPM is expected to deliver c.£392,000 annual saving from 2021/22; in addition to that, a similar sum again would need to be needed to pay for central services if it became an independent organisation. The following indicative costs are based on previously prepared estimates:

Table 4 - Indicative Additional Support Costs	
ICT Management & Systems	£ 150,000

Financial Management & Systems	£	90,000
HR Support	£	70,000
Legal Support	£	20,000
Insurance and Other Administrative Costs	£	70,000
<b>Total</b>	<b>£</b>	<b>400,000</b>

The current cost recharges to RPM are:

Table 5 - Current Recharges to RPM (excluding premises and admin)	
ICT Management & Systems	£ 222,200
Financial Management & Systems	£ 95,200
HR Support	£ 83,200
Legal Support	£ 14,300
Communications	£ 13,200
Insurance	£ 45,600
<b>Total</b>	<b>£ 473,700</b>

This level of cost would not automatically be translated into savings on Council central service budgets if RPM were to become an independent trust - previous work has estimated that to be approximately £50,000 initially, rising to **£200,000 per year**.

8. Up-front Investment Required

Transfer to Trust status would come with one-off setup costs, estimated as follows:

Table 6 - Indicative Setup Costs	
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Legal Support	£	100,000
ICT Systems	£	70,000
HR and Finance Systems	£	40,000
Other Professional Advice	£	50,000
New Staff – Implementation	£	40,000
<b>Total</b>	<b>£</b>	<b>300,000</b>

Legal Support assumes a 'good value' firm and limited revisions. Like-wise other professional advice. ICT assumes £50k is spent in advance on new desktops. Support from Central Service departments to make the change is assumed to be free of charge.

#### 9. Transfer of Assets – Fixed and Current

The essence of moving RPM to independent status is a transfer of management of assets – including the Collections and Fixed Assets such as property, equipment, furniture & fittings. Current Assets such as stock, debtors and cash would also need to be considered when agreeing the terms of transfer.

As part of the BHCC, RPM uses effectively part of the Council's cash reserves as working capital and as a buffer against difficult financial times. As an independent Trust, RPM would need its own working capital and reserves. BHCC's own need for working capital and reserves would be reduced in direct proportion as the requirement for day-to-day cash and risk management is transferred. The scale of the requirement will become clear from the Business Planning process but it is likely to be in the order of £300k to £500k.

#### 10. Overview of Financial Comparison

The short-term financial costs and benefits of transfer to Trust status can be forecast with some reliability – e.g. it is tempting to compare the setup costs of c.£300k (Table 6) with the c.£124k per annum tax saving (Table 3) because they are both reasonably quantifiable. However, these are relatively small matters in the context of the long-term future of RPM.

Far bigger financial impacts are likely to play out in the medium and longer term as a result of factors such as ability to control prices, to carry forward the returns on investments and efficiencies, having some guarantees of core funding and being able to work to a much longer planning horizon.

Furthermore, it only takes one donor who is prepared to leave a substantial legacy to RPM as a Charitable Trust to swing the balance significantly in that direction.

Whilst we should not base a business plan on such unpredictable benefits we need to acknowledge their reality and give them appropriate weight in our decision making.

Given all of the above, the following summaries should be seen as indicative of two possible scenarios and not as forecasts or basis for a business plan.

Table 7 is not a pure 'no-change' scenario in that it assumes some benefits of price changes and fundraising can be achieved whilst RPM remains In-house.

**Table 7- Indicative Scale Of Savings - In-house Scenario**

	2019/20	2020/21	2021/22	2022/23	2023/24
	£	£	£	£	£
Benefit of Price Increases ^	50,000	100,000	150,000	200,000	200,000
Benefit of Fundraising Activities ^^	0	20,000	40,000	50,000	50,000
Cost Savings & Efficiencies ^^^	0	50,000	100,000	100,000	100,000
<b>Total Growth &amp; Savings</b>	<b>50,000</b>	<b>170,000</b>	<b>290,000</b>	<b>350,000</b>	<b>350,000</b>
Business Rates Savings	-170,000	-170,000	-170,000	-170,000	-170,000
Savings Target (vs. Direct Service Budget 2018/19)	170,000	170,000	392,000	392,000	392,000
<b>Total Target Savings</b>	<b>0</b>	<b>0</b>	<b>222,000</b>	<b>222,000</b>	<b>222,000</b>
<b>Net Contribution to Maintenance Target (£220k pa)</b>	<b>50,000</b>	<b>170,000</b>	<b>68,000</b>	<b>128,000</b>	<b>128,000</b>

^ Assumes the Council approve regular above inflation increases

^^ Net benefit of investing in fundraising activity

^^^ Reductions in spending in years of greatest savings targets

All figures at current prices.

The scenario suggests that the necessary budget savings would be found through a combination of increased income and cost savings. Contributions would be made towards the additional maintenance target.

The following table assumes successful transfer to trust status in early 2020-21:

**Table 8 - Indicative Scale and Timing of Costs and Savings of Trust Status**

	2019/20	2020/21	2021/22	2022/23	2023/24
	£	£	£	£	£
Initial Setup Costs (Table 6)	-300,000	0	0	0	0
Net Tax Saving (Table 3)	0	124,000	124,000	124,000	124,000
Benefit From Freedom to Set Prices	0	320,000	350,000	400,000	400,000
Fundraising Benefit re Personal Donations *	0	20,000	50,000	100,000	150,000
Additional Investment **	0	-100,000	-100,000	-100,000	-100,000
Returns on Additional Investment **	0	50,000	150,000	200,000	200,000
Cost Savings & Efficiencies ***	0	25,000	50,000	75,000	100,000
Central Service Savings to BHCC	0	50,000	150,000	200,000	200,000
Central Service Costs of New Trust (Table 4)	0	-400,000	-400,000	-400,000	-400,000
<b>Indicative Net (Cost)/Benefit of Trust Status</b>	<b>-300,000</b>	<b>89,000</b>	<b>374,000</b>	<b>599,000</b>	<b>674,000</b>
Business Rates Savings	-170,000	-170,000	-170,000	-170,000	-170,000
Savings Target (vs. Direct Service Budget 2018/19)	170,000	170,000	392,000	392,000	392,000
<b>Total Target Savings</b>	<b>0</b>	<b>0</b>	<b>222,000</b>	<b>222,000</b>	<b>222,000</b>
<b>Net Contribution to Maintenance Target (£220k pa)</b>	<b>0</b>	<b>89,000</b>	<b>152,000</b>	<b>220,000</b>	<b>220,000</b>

\* Private individuals prepared to give to RPM as a charity - could vary substantially

\*\* Increased investment in product and marketing due to Long-term planning

\*\*\* Minimal savings initially, gradually increasing

All figures at current prices.

As stated above, the figures are indicative rather than predictive. The broad picture painted is familiar from previous reports, with up-front costs of Trust status being balanced out by revenue growth over time. This model suggests that the initial investment of c.£300k would be returned after approximately 2 years of operation, that by 2021/22 the savings target of £392k would be achieved and that by 2022/23 the full additional maintenance target of £220k would also be achieved.

This is predicated on the following:

- the new trust having control over prices,
- commitment to long-term funding from the council (other than the £392k saving from 2021/22 onwards),

- Related savings in council central services and in business rates of the Royal Pavilion being counted towards the savings required of RPM.

This broadly positive analysis would not automatically translate to most local authority museum services. RPM is unusual in that its strong tourism market and the iconic nature of its heritage assets give it great potential to exploit Charitable status to grow its earned income and donations.

## Non-Cash Factors

### 1. Relationship with Arts Council England

ACE is a major revenue funder of RPM - the NPO funding stream provides nearly £700,000 of unrestricted income per year. Maintaining their support is therefore crucial for either option.

In addition to the NPO funding ACE also funds the regional Museum Development service through RPM which has an annual turnover of approximately £550,000. This would need to be considered as part of any transfer of funding arrangements.

ACE have indicated that they could, in principle, support a move to Trust status and the NPO business plan was prepared and approved on that basis.

However, a change of governance would require a reallocation of the funding agreement. Reallocating funding to a new governing body would only be approved on the basis of a robust plan that recognised the need for funding commitments from BHCC, both in terms of long-term revenue funding and short-term investment to set the organisation up on a sound basis. ACE will need to be satisfied that the proposed solution provides a well-managed and sustainable service. They have previously highlighted the following features of failed transitions to Trust:

- Lack certainty of funding;
- Insufficient independence from the local authority;
- Not having the right skill sets in the new organisation.

### 2. Relationship with the RPM Foundation

The independent charity, the RPM Foundation, has been an important source of financial support over many years.

As might be expected, the Foundation's relationship with BHCC is largely via RPM and as a result lacks clarity. The Foundation has considerable autonomy, including powers to support organisations other than RPM. This process is an opportunity to re-set the relationship with a shared understanding of mutual responsibilities. This is true in either scenario:



- If RPM remains part of BHCC the key questions will be how can best strategic use be made of the Foundation's charitable status and fundraising success, and what additional roles might it play in support of RPM;
- If RPM moves to charitable status the same questions need to be answered, with the additional question as to whether two charitable trusts would be required or some form of merger should take place.

### 3. Staff Skills and Systems

In order to take advantage of new freedoms – whether In-house or in Charitable Trust – RPM staff will need to exercise skills in financial planning, marketing, product development and partnership development, amongst others.

Trust status would additionally require new financial, administrative, reporting, HR and IT systems to be implemented and maintained by the staff (or procured from third parties).

ACE's assessment of RPM's application for NPO funding in 2017 draws attention to the need to undertake a fundamental review of the entire organisational structure and management systems prior to transition to Trust status.

So, whilst recognising that RPM has a diverse and experienced and valued workforce, a review of skills, capacity and structure is strongly advised prior to implementing any major change. Particular attention should be given to the senior management requirements of a stand-alone Trust. This work is already proposed under the 'Readiness for Change' agenda.

### 4. RPM Staff Opinion

This review comes at the end of a long period of uncertainty and mixed messages about the future of RPM. Staff are extremely passionate about the service and show a clear desire to see the best outcome for RPM. They have expressed frustrations about the process to date and are understandably keen to see the matter settled.

Concerns have been expressed by individuals and trades unions about the importance of protecting jobs and terms and conditions of employment. Whilst TUPE would apply to staff at transfer it does not give guarantees in the longer term and so some see remaining in-house as the safer option. A sensible Business Planning process for transfer to Trust status would continue to consult and give additional assurances on these issues.

It is perhaps dangerous to generalise from discussions with relatively small groups but recent meetings with staff have expressed very clear support for RPM's greater independence from the Council. On the evidence of those meetings there would be a generally positive staff response to a well-resourced move to Trust status and in some cases great enthusiasm for it.

For many staff simply streamlining day-to-day operations is one of the most important objectives of greater independence. Museums are not typical council departments and museums in important historic buildings are even less typical. As a result many of the centrally administered local authority systems and procedures are difficult to implement in RPM and staff feel that they have a day-to-day negative impact how people do their jobs.

As it is an issue of practicalities, it is worth reporting some of the practical examples that have been cited by RPM staff:

- Procurement procedures which are time consuming and don't take account of the specialisms required or facilitate working with small businesses
- Budget-setting timetables which don't fit with the long lead times required when communicating with customers
- Recruitment processes which cause delay and gaps in areas of quick staff turnover
- Out-dated IT infrastructure and hardware
- IT rules which prevent transmission of large files, access to major social media platforms, use of specialist hardware and software and customer friendly systems

It must be recognised that business processes can be streamlined under any governance arrangement and many of these issues could be addressed without a change of status. A charitable trust would also need to have its own systems in place, e.g. robust procurement processes to ensure value for money. However, the issues raised do suggest that the nature of the work done by RPM is currently a poor fit with local authority bureaucracy.

## 5. The Smaller Sites

Another point made by staff was that discussions over governance have been focused on the buildings in the Royal Pavilion site. Hove Museum and Gallery, Preston Manor and the Booth Museum all play important roles in providing services to a

primarily local audience and so are integral parts of the service's public provision. If there is a change of governance to Trust status their future sustainability needs to form part of the discussions and be addressed in the terms of transfer.

## 6. The Historic Buildings and Collections

RPM's portfolio of heritage assets is not only important to the locality, it has national and international significance.

Stewardship of RPM's historic sites and collections would be the fundamental objective of a Charitable Trust created specifically to manage them.

This focus of sole-purpose Trusts is one of the strongest arguments for assigning the management of important heritage assets to them.

However, a Trust cannot perform its stewardship role properly if it is chronically under-resourced. Hence the compelling need to ensure that any transfer is properly planned and properly financed from the outset.

## 7. Impact on Visitors and Other Service Provision

The recent assessment of RPM's service provision by ACE provides evidence that the public programme is of a very high standard and is based on detailed knowledge of its audiences. The report praises the service's 'exceptionally strong track record of high quality provision for Children and Young People' and its Community Engagement Strategy. Collections knowledge and management is also commended.

This indicates that a high quality service is being provided whilst RPM is an In-house service; it also indicates that RPM would have a strong basis on which to build its audiences and services as an independent Trust.

It is reasonable to assume that the professionalism of the staff transferred, together with the oversight of ACE and others, would ensure that the public programme maintains its high standard.

There is a longer term risk that the quality of service could suffer if a Trust came under financial pressure, though this could equally apply to the In-house option.

8. Equality Impact

Any funding agreement with a new Trust would require it to deliver the equality duties and objectives of the Council which would be likely to require certain services to be delivered as a result. ACE will also continue to expect RPM to deliver outcomes against its Creative Case for Diversity objectives.

## 9. Overview of Non-Cash Factors

RPM has a range of key stakeholders (ACE, staff and RPMF) and a range of beneficiaries (local people, tourists, schools etc.) who, to a greater or lesser extent, have an interest in its sound governance and management. Their views and interests need to be acknowledged and accommodated.

When considering appropriate long-term governance models we need to go back to the long-term purpose of the organisation. In the case of RPM this is the stewardship for present and future generations of heritage assets of local, national and international importance. Other things being equal, a governance structure that has this as its primary objective must be preferred.

However, the following factors mean more work needs to be done before a final decision on such a fundamental change is taken:

- Clarification and agreement is needed re:
  - the future relationship between the Council and the RPM foundation, and
  - the RPM Foundation's potential role in a new governance arrangement.
- The future relationship between a new Trust and the Council needs to be understood and agreed by all parties, including potential new trustees. These include the future obligations of each party and the terms of the transfer e.g. of fixed and current assets and of key powers.
- The agreed terms of the transfer, as well as a review of staff skills, structure and management systems, need to inform an updated Business Plan which clearly demonstrates the future sustainability of the new organisation.
- ACE will only agree to transfer funding to a new body if it is demonstrably properly planned, financed and structured, including appropriate skills and capacity of staff and trustees.

## Conclusions and Recommendations

1. The assets and the audiences of RPM mean it is potentially well placed to exploit the benefits of Trust status.
2. A sole-purpose Charitable Trust would give the greatest focus on stewardship of the very significant heritage assets in RPM's portfolio.
3. Conversion to charitable status has quantifiable short-term costs but gives potentially substantial financial advantages in the medium and longer term.
4. The success or failure of a new Trust will depend heavily on the terms of its initial setup and of its ongoing relationship with BHCC. It is therefore recommended that the Terms of Transfer are negotiated and an associated Business Plan drawn up in an 'Initiation Phase' before a final decision is made on whether to transfer RPM to Trust status.
5. The purpose of the structured Initiation Phase would be to give all key parties a shared understanding of and confidence in future governance, financial and operational arrangements.
6. The support of RPM staff and of ACE, RPM's other main revenue funder, will be essential for a successful change of governance and so they should be informed and engaged throughout the process.
7. Potential RPM Trustees will need to be party to the discussions, therefore an 'Initiation Group' of prospective Trustees should be constituted. The membership, chair and terms of reference of should be considered carefully. The role of the RPM Foundation and the previous 'Shadow Board' should be clarified and agreed at this point.
8. The negotiations on the terms of a transfer to Trust status should involve, at a minimum, representatives of the Initiation Group, senior Council officers and senior staff from RPM.
9. The Initiation Phase should also be used to progress a number of important initiatives, most notably a review of structure and management systems, which will strengthen RPM's operational effectiveness regardless of the final decision.

## Outline Project Plan

### Initiation Phase

The initiation phase can begin as soon as in principal approval is given to move RPM to be a more arm’s length organisation from BHCC. The objective should be for RPM to be a well-planned and well-resourced body with the confidence of all key stakeholders. Rather than focusing exclusively on the ‘big bang’ moment of independence this phase can also be seen as making a series of improvements towards that goal.

Previous attempts to implement change show the importance of keeping RPM staff fully informed during this period and of creating genuine opportunities for staff and unions to influence the process. ACE also need to be kept informed and engaged.

The proposed actions are:

1. Constitute an ‘Initiation Group’ of potential future Trustees with an interim chair. The future relationship with the RPM Foundation and the role of the previous Shadow Board should be clarified at this early stage.
2. Agree how staff, unions and ACE are to engage with the process.
3. Agree the Terms of Transfer – a lot of work has already been done but if transfer is to take place final agreement needs to be reached and documented on some essential points, including:
  - a. The length and nature of the funding agreement – including the scale and timing of any future funding cuts and access to capital funding.
  - b. How central services – primarily Senior Management, Finance, HR, ICT and Building Services – are to be resourced in the new organisation. The costs involved are substantial and clarity is required on the proportion of BHCC central service budgets to be transferred.
  - c. How savings or overspends on current delegated budgets will be dealt with, including the substantial pending savings and rebate relating to Royal Pavilion Business Rates.
  - d. What assets would be transferred and on what terms. Assets include:
    - i. Cash – both as working capital and initial unrestricted reserve
    - ii. Stock
    - iii. Equipment, Vehicles, Furniture and Fittings

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- iv. Intellectual Property – including:
    - 1. databases of all sorts
    - 2. media of all sorts
    - 3. existing licenses from third parties
    - 4. brand identities and trade marks
    - 5. general correspondence, systems and documents
  - e. Which powers would be transferred and which retained, e.g. over:
    - i. Fees and Charges
    - ii. Opening Hours of all sites
    - iii. Collections Acquisition and Disposal
    - iv. Setting of Objectives and Performance Indicators
    - v. Reporting, investigation and audit
  - f. The main terms of building leases, for example:
    - i. Length of leases and break clauses
    - ii. Long term maintenance responsibilities
    - iii. Short term maintenance responsibilities
    - iv. Emergency maintenance responsibilities
    - v. Rights to sub-let or grant licenses to occupy to third parties
    - vi. Rights to alter and improve the buildings and grounds
  - g. What guarantees are to be given by each body regarding staff pay and conditions, including:
    - i. underwriting of the Local Government Pension Scheme
    - ii. any extension of rights transferred under TUPE
    - iii. any opportunities for redeployment within BHCC, before or after transfer
  - h. How the set-up costs are to be funded.
4. Prepare a Long-term Business Plan
- A realistic business plan should be developed for the potential new charitable trust to demonstrate its sustainability to all concerned. This should be an iterative process, informing and being informed by the discussions of the Terms of Transfer described above.



Cashflow and reserves forecasting is particularly important and should take account of capital investment requirements as well as revenue spending. The plan should include an anticipated opening Balance Sheet and annual forecast Balance Sheets thereafter.

Tax is a specialist and ever-changing area so an update on previous advice should also be sought and incorporated into the plan.

5. Review Staff Structure – with the objective of establishing a fit-for-purpose structure to deliver an arms-length service, which could include:
  - a. Reviewing existing skills and capacity
  - b. Recruiting into new posts; externally, or transfer of existing central BHCC staff to RPM (as part of 3.b above)
  - c. Making changes to existing roles and job descriptions
  - d. Redirecting training and development
  - e. Revising the communications and decision-making structures within RPM
  
6. Review Community Engagement
 

The initiation phase can be used to review how other groups and individuals might influence the future direction of RPM. Ideas can be trialled during this phase.
  
7. Review Financial Management Systems
 

Including the structure of the accounts and systems for production of timely management accounts.
  
8. Develop ICT Strategy
 

Ideally, a costed strategy that meets the unique requirements of the museum service and that can be implemented whatever the governance of RPM.

9. Agree Maintenance Plan

The surveys currently under way can form the basis of an agreed maintenance plan, informing discussions of Leases under item 3f above.

Decision Point Timing

The end of the Initiation Phase will come either:

1. when BHCC, the Initiation Group and ACE are all confident in supporting formal transfer, in which case the Implementation Phase can begin, or
2. when it becomes clear that agreement cannot be reached or support cannot be given, in which case RPM would remain an In-house service, with benefit of the work carried out under points 5 to 9 above.

The timing is not fixed but the table of Milestones below suggests this could take approximately twelve months. This best-case scenario assumes an open dialogue, based on trust and good faith commitment from all involved; this may take time to establish. The timing will also depend on the satisfactory resolution of questions raised by others around the structure and management of RPM.

A further complicating factor is the political cycle – the run up to the local election in May 2019 could hamper discussions. The broad support of politicians across the spectrum will be important to minimise impact on the project from any resulting change of administration. The wider political and economic uncertainties around the UK’s planned exit from the European Union on 29 March 2019 may also impact the timing of the process.

There are clearly incentives to move to Trust status as quickly as possible, in order to dispel the uncertainty and begin to realise the potential benefits. However, it is a long-term change and its success will depend on the long-term support of a range of stakeholders. Building consensus and confidence cannot be rushed.

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## Implementation Phase

If the final decision move to Trust is supported there are a number of steps involved in implementation. The following list is not comprehensive:

1. Prepare and Execute Legal Documentation - the agreed terms and plans will be set out in legal documents, typically including:
  - a. Memorandum and Articles of Association of the new organisation and any Trading Subsidiary Company
  - b. Transfer Agreements to the Trust and any Trading Subsidiary, including intellectual property
  - c. Funding and Management Agreement setting out levels of funding and respective responsibilities
  - d. Leases
  - e. Collections Loan Agreement
  - f. Admission Agreement for the LGPS
  - g. Other side agreements and guarantees to third parties and existing staff
  - h. Transfer of existing funds or assets held in trust, if applicable

The legal documentation will normally state the date for formal handover of responsibility.

2. Notify and register with all relevant statutory bodies.
3. Recruit into any new staff posts not already filled.
4. Procure, implement and test any new systems e.g. Financial Management and Gift Aid
5. Transfer agreed datasets.
6. Finalise TUPE and other HR information.
7. Notify and agree terms of transfer for suppliers, creditors and any leasing companies
8. Formalise novation of funding agreements with third parties, most notably with ACE and HLF.
9. Set up insurances, banking and audit arrangements.

## Milestones

Key Milestones	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020	Q3 2020
	Initiation Phase				Implementation Phase		Operating Phase	
Constitute Initiation Group								
Engagement with Stakeholders								
Review Staff Structure								
Agree Maintenance Plan								
Review Financial Management								
Develop ICT Strategy								
Review Community Engagement								
Agree Business Plan								
Agree Terms of Transfer								
Agree Funding Arrangements								
<b>Decision Point</b>								
<i><b>If Decision is to Transfer to Trust:</b></i>								
Finalise Legal Documentation								
Novate Funding Agreements								
Notify Statutory Bodies								
Recruitment to New Posts								
Procure Systems								
Set Up Systems and Transfer Data								
Train and Test								
Finalise HR Data								
Notify Creditors								
Insurances, Banking & Audit								
<b>Transfer Takes Place</b>								

Risks and Dependencies

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Key Risks	Mitigating Actions
<b>Initiation Phase:</b>	
Ineffective Initiation Group	Recruit against clear, relevant criteria; clarify role of RPM Foundation
Stakeholders not supportive	Plan engagement with staff, unions, ACE and RPMF
Inconclusive or delayed negotiations	Ensure all parties have appropriate authority and process is structured and supported
Certainty of funding not given	Ensure Councillors aware of importance to success
Insufficient powers granted	Ensure Councillors aware of importance to success
Inadequate opening reserves	Ensure Councillors aware of importance to success
Change of administration	Seek support of all parties through the process
Poor Business Planning	Re-check base data and use conservative growth assumptions
<b>Implementation Phase:</b>	
Funding Agreements not transferred	Understand each funding body's requirements in advance
Delays in Legal documentation	Documented agreements on key points in Initiation Phase
Pension Scheme delays	Discussions during Initiation Phase
Systems and data transfer delays	Ensure premium technical support for first six months
<b>Early Operational Phase:</b>	
Cash-flow problems	Plan cash-flow as a priority in Initiation Phase
Declining visitor numbers to B&H	Short-term - use reserves; Medium-term - adjust cost base
Declining visitor numbers to RPM	Invest in marketing and programme
High staff turnover	Protect staff terms and conditions; engage staff in process
Staff skills or capacity shortfall	Review in Initiation Phase; train and recruit
Systems failures	Ensure premium technical support for first six months

## Appendix – Sites and Collections

### Sites within the Royal Pavilion & Museums portfolio

- Brighton Museum & Art Gallery – a Grade 2 listed building, on its present site since 1873.
- Booth Museum of Natural History – a Grade 2 listing building, founded in 1874, bequeathed to the public in 1890 by Thomas Booth and held in trust by the council since that date.
- Hove Museum & Art Gallery – established in 1927 (purchased by Hove Corporation in 1926).
- Preston Manor – which is a Grade 2 listed building, bequeathed in 1933 to be held in trust by the council (an 18th century building dating back in part to medieval period).
- Royal Pavilion – a Grade 1 listed building, purchased by the council in 1850. It was restored as a historic palace in the 1970s since which it has been open all year round to the public.
- Royal Pavilion Garden – Grade 2 on Historic England register of parks
- Grade 1 listed buildings: William IV Gate House and India Gate.
- Grade 2 listing buildings/sites: Northgate House, the Old Court House, Jaipur Gate
- 4/5 Pavilion Buildings which includes the Royal Pavilion Shop (rented)
- Off-site store (rented)

### Summary of Main Collections

- Three Designated Collections of national/international significance. These are World Art, Natural History & Decorative Art (designation attracts funding). The designation scheme is a mark of distinction, identifying and celebrating pre-eminent collections of national and international importance in non-national institutions. There are 140 designated collections held in museums, archives and libraries across England.
- Other collections include: Local History, Social History, Fine Art, Costume, Musical Instruments, Archaeology, Egyptology, Numismatics, Toys and Crafts.

Most of the collections are owned directly by the City Council having been either donated or acquired by the museum service since its inception in 1860. Some items are held in trust by the city council e.g. for the National Toy Museum &

Institute of Play; The James Green Trust’s collection of Burmese textiles; photographs and artefacts; the Booth Trust Birds, Cases, Library and Building.