

PORTFOLIO AREA: PERFORMANCE & DEVELOPMENT

Date of 13th December 2010

Meeting:

Public

Key	Yes	Recorded in Forward	Yes
Decision:		Plan:	

Inside Policy Framework

Title: TULLIE HOUSE TRUST GOVERNANCE ARRANGEMENTS

Report of: Strategic Director

Report reference: GD43/10

Summary:

This Report outlines the progress made by the Council in its consideration of future governance arrangements for Tullie House Museum and Art Gallery.

It sets out the legal and financial context for the proposal to transfer the Museum and Art Gallery to a charitable trust and also outlines the potential opportunities and risks of progressing this transfer.

Note: in compliance with section 100d of the Local Government (Access to Information) Act 1985 the report has been prepared in part from the following papers: None

Recommendations:

That further to earlier reports and the comments received from the Resources and Community Overview and Scrutiny Committees that the Executive recommends that full Council, at its meeting on 14th December:

1. Agree in principle to the transfer of the Tullie House Museum and Art Gallery to a new charitable trust subject to completion of the legal framework identified in the body of this report and achievement of the proposed levels of annual funding specified in the Business Case.
2. Agree that final sign off of the legal framework including the Partnership and Funding agreement be delegated to the Leader of the Council, Portfolio Holder for Performance and Development and Chief Executive.

Contact Officer: Darren Crossley

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1.0 BACKGROUND INFORMATION

- 1.1 Members will be aware that there is currently in place a project to transfer Tullie House Museum and Arts Gallery to a charitable trust. This work follows a decision by the Executive on 14 April 2009 (EX.068/09) that Tullie House Management is devolved to a Trust and that reports are made back to the Executive at key stages. On 14 July 2009 the City Council approved a budget of £150,000 to support the work programme.
- 1.2 A project group has been established and has initiated a range work streams (finance, property, legal, human resources and communications) in line with corporate project assurance guidance. A 'critical friend' has also been appointed with relevant experience to offer advice and assistance to the Council in relation to the project. Key to these work streams has been the preparation of a Business Case to test the Trust proposal and, following a recruitment process, Armstrong Watson were engaged to produce this document (Appendix 2).
- 1.3 In addition to the above, a Shadow Trust Board has been established and, after a rigorous recruitment process, Mr Roger Cooke has been appointed as the Chair. He has subsequently gone on to appoint Mr Alan Niekirk (Charities Lawyer and ex Chair of the Friends of Tullie House) and Mr Andrew Smith (background in Accountancy) as fellow Shadow Board Members.
- 1.4 Tullie House Museum and Art Gallery is a very important part of the cultural offer available in our City Region and the Tullie House Trust will play a vital role in safeguarding and enhancing the Museum's status. To this end, it was felt important that, in establishing the Trust, the Shadow Trust Board identified its vision for the future of the institution as it becomes established and moves forward.

The Assistant Director (Community Engagement) has worked with the Shadow Board to produce the draft Vision Statement which is included in this report at Appendix 1.

The draft Vision Statement sets out the purpose and objectives of the Shadow Trust Board and details the rationale for the establishment of a charitable trust. It makes the case for a trust that will:

- Provide a single purpose, so the Trustees and staff can focus on their services without consideration of corporate issues which are a necessary aspect of being part of Carlisle City Council.
- Seek further community involvement either through being a Trustee or involvement with the Friends or wider community groups; this fully supports the ethos set out in the recent Government White Paper on communities.
- Bring financial and managerial autonomy, a trust can be more responsive to situations and is able to act more decisively, potentially attracting more external support for specific projects.
- Deliver organisational change, trusts have quickly shown that staff are more committed to the service and develop a greater sense of ownership.

2.0 FINANCIAL CONTEXT

2.1 Officers within the Resources Directorate have been involved with providing the financial and property advice to support the business case as now presented. The business case has been prepared utilising the 2010/11 budgets as the baseline figure and with the aim of achieving 20% savings over the next three years (see financial comments for savings to be achieved).

2.2 The development of the Business Case has brought forward a number of key financial issues, these are presented in the attached Risk Assessment (Appendix 3) and our current position is summarised below:

- **National Non-Domestic Rates (Business rates)** – The Business Case assumes that the new Trust (a company limited by guarantee with charitable objects) will be eligible for the 80% mandatory relief on business rates.
- **Insurance liability** – the Trust will be required to source their own insurance provision independently from the Council, and cannot utilise the Council's current contract. However it is suggested that any savings made by the Council as a result of the transfer will be utilised by the Trust to meet its liabilities in this respect.

- **Pensions liability** – the proposed Trust will seek to achieve admitted body status into the Cumbria Local Government Pension Scheme (LGPS). Whilst this should not be an issue, as the precedent has been set with other trust transfers, external advice is being sought from the Pension Scheme's Administrators (Cumbria County Council) and the Pension Fund's Actuary regarding the level of assets and liabilities which will transfer and the impact on future contribution rates. Initial advice suggests that the Council will continue to fund any deficit built up within the LGPS for the transferring staff as has been the case in previous trust transfers. Further discussions are required with regard to any guarantee the Council will have to provide to the Actuary which is dependent upon which provision of the Pension Fund Regulations is used to apply for admitted body status. A further issue is the type of admission arrangement. The assumption is that admission to the scheme will be sought on a 'closed' basis i.e. only employees who are in membership when the transfer takes place, or are entitled to become members at that time, could retain or become members of the Cumbria pension scheme.
- **VAT** – external advice has being sought regarding the potential impact on both the Council and the Trust of the proposed arrangements. Using the advice received legal arrangements will be devised to maximise VAT recovery. The proposed Partnership and Funding Agreement will seek to detail agreed arrangements.
- **Admission / fees and charges** – Legal advice has been received regarding the current Council arrangements for admission charges, this suggests that this may be viewed as being unlawful under European legislation. The Business Case has assumed that the new entity will achieve similar levels of income to our current arrangements. The Shadow Trust Board favours retaining our current Tullie card scheme and is researching similar schemes operated by other museum trusts. However there will be VAT implications if the Trust does not charge for admissions.
- **Central Administration Charges** – the Business Case assumes that the majority of central services will still be provided by the Council. However under Trust regulations some services will need to be procured from other bodies e.g. accountancy, at an additional cost to the Trust, this additional cost has been factored into the Business Case.

- **Transfer of assets/Set up and Start up costs**, including the transferring of buildings, stock, bequests, provisions and specific reserves to the trust. Trust regulations require the Trust to have sufficient opening assets (including reserves) to operate as a Trust. The Shadow Trust Board and Council officers have discussed how grant payment methods can assist the Trust with start up costs and arrangements and subject to Council approval in principle will move to formalising these proposals. Funding of the trust's initial cash outflow in the short term is an issue which needs to be resolved in order to comply with trust regulations. It is likely that the Council will be required to pay the management fee in advance during the early years of any arrangement to allow the Trust time to build up its own cash flow.
- **Transformation actions (in year 2010/11)** – the business case takes into account transformation actions that are being delivered during this year but will have a bearing on future operations.

2.3 **Council level of affordability**

A key aspect of the Business Case is the Council's financial requirements on affordability. The Council's level of funding (under the Business Case) supports a reduction in revenue of 20% (to be achieved across the first three years of the Trust). This assists the Council achieve its Transformation Programme objectives and is in line with the 2011/12 Budget Proposals. The Business Case seeks to demonstrate that the Shadow Trust Board's Vision Statement is achievable whilst bearing this 3 year budget reduction.

3.0 **THE ESTABLISHMENT OF A TRUST – LEGAL CONTEXT**

- 3.1 Before proceeding with the formation of a trust to operate the Museum, the Council must be satisfied that it has the legal power to do so and that it is exercising its power in a proper manner. This will provide a proper audit trail for its decision making.
- 3.2 There are a number of specific and general statutory powers which are relevant to the provision of recreational and leisure services and which provide sufficient power to support the transfer of services to a Trust. A number of local authorities have set up trusts using a range of powers.

3.3 Authorities normally seek to use a combination of statutory provisions in a cumulative manner, for example:

- s19
Local Government (Miscellaneous Provisions) Act 1976 – recreational facilities
- s145
Local Government Act 1972 – provision of entertainment
- s144
Local Government Act 1972 – tourism powers
- Publi
c Libraries and Museums Act 1964 – powers to contribute to art galleries and to do all things necessary in connection with the provision and maintenance of museums
- secti
on 2 of the Local Government Act 2000 which creates wide ranging powers to secure the social and economic well being of the area in accordance with the Council's Community Strategy and including power to provide financial assistance.

3.4 Section 111 Local Government Act 1972 creates “incidental powers” enabling the Council to do anything which secures the exercise of the Council's functions and powers. Coupled with s1 Local Government (Contracts) Act 1997 – power to enter into contracts and its general powers to hold assets and employ staff, there is clear legal power for the Council to discharge this function and to employ a trust mechanism to do so.

3.5 In terms of the proper exercise of its powers, the basic principle is that the Council, in determining its proposed course of action must take into account all relevant issues and dis-regard what is not relevant. On the information that has been presented to Members to date this has been satisfied.

- 3.6 In order to act on these powers the Council will seek to develop and agree, with the Trust a legal framework that will provide appropriate coverage of all legal issues. A summary of the proposed framework is contained at Appendix 4.
- 3.7 It is proposed that the development of the Trust, its Board and its arrangements with the Council are governed by a legal framework. An outline of this proposed framework is attached at Appendix 4. This outline explains the nature and form of the legal arrangements that will be required in order to achieve a successful transfer and operate the Trust.

Under these arrangements the Trust will form a Board of Trustees. The recruitment of Trustees will build on the good work already undertaken to recruit Shadow Board members. The precise size of the Board is still to be determined by the Shadow Board. The Council as a stakeholder in the Trust will have the opportunity to be part of the Board; however under Charity Commission guidance the Council membership of the board may not exceed 20% of the total membership.

4.0 Project and Risk Management

- 4.1 The development of this project has been managed and monitored via a Project Board. The Project Board has brought together officers of the Council (representing legal, property, finance, human resources, communications, community engagement and Tullie House staff liaison) with external advisors and the Shadow Board Chair to lead the development of the project and manage and monitor key aspects of the work.
- 4.2 The Project Board has developed various work packages covering each aspect of the transfer. Leads have been established for each 'package' and updates are brought to each meeting of the board.
- 4.3 The Project Board has also developed a comprehensive Risk Register. This is attached at Appendix 3 and covers all significant risk areas identified at this stage of the project.
- 4.4 Subject to Executive and Council in principle approval of the transfer it is envisaged that the Project Board will next enter an Implementation and Phase in stage. The

Project Board will then prepare and deliver revised work packages reflecting the requirements of the transfer and development of the Trust.

5.0 CONCLUSION

- 5.1 The Executive has led and supported the extensive work that has shaped proposals for the future governance of the Tullie House Museum and Art Gallery. The importance of this work is reflected in the research and analysis, the involvement of members and the setting up of the Shadow Board. All the work undertaken has led Senior Officers to conclude that the establishment of a Trust represents the best way forward for the future of Tullie House and this is strongly supported by the Business Case (prepared by Armstrong Watson), which indicates the viability of this position. Moreover the current economic climate, with its emphasis on huge cuts to revenue support grants, makes it even more important for the City Council to prepare a positive future for one of the city's most important assets, rather than consider its possible demise in years to come, with year-on-year budget cuts. Members will no doubt be aware that local authorities across the country are either pulling out of arts and museums services altogether, or at the very least, drastically reducing their funding. Members will also be aware that as a District Council, the City Council does not have statutory responsibility for delivering arts and museums services. During this very difficult financial time, the protection of statutory services has to be given priority.

6.0 CONSULTATION

- 6.1 There have been two stages to the consultation process. Informally, consultation has taken place over the last three years, when Members, staff and key partners have considered the establishment of a Trust for Tullie House at various times over this period. These discussions can be tracked through reports to the Joint Management Team and the Executive, notes of Tullie House staff meetings and discussions undertaken by the Friends of Tullie House.
- 6.2 Following the decision taken by the Executive on 14th April 2009, and the establishment of the Project Board, followed by the setting up of the Shadow Board, more extensive consultation has taken place, which has involved the staff at Tullie House, the Friends of Tullie House and by the Shadow Board itself. Over the last

two weeks, two of the Council's Overview & Scrutiny Panels, Community and Resources, have discussed the Business Case and have reported back their comments to the Executive. Consultation will of course continue beyond the Council's decision on the 14th December 2010.

7.0 RECOMMENDATIONS

That further to earlier reports and the comments received from the Resources and Community Overview and Scrutiny Committees that the Executive recommends that full Council, at its meeting on 14th December:

1. Agree in principle to the transfer of the Tullie House Museum and Art Gallery to a new charitable trust subject to completion of the legal framework identified in the body of this report and achievement of the proposed levels of annual funding specified in the Business Case.
2. Agree that final sign off of the legal framework including the Partnership and Funding agreement be delegated to the Leader of the Council, Portfolio Holder for Performance and Development and Chief Executive.

8.0 IMPLICATIONS

- Staffing/Resources – The establishment of a Trust will involve a TUPE transfer for those staff affected.
- Financial – The main financial issues are detailed in section 2 of the report.

As set out in 2.2 of the report the draft business case put before Members assumes that additional funding will be required to fund items such as procuring additional costs that cannot be legally procured from the Council, e.g. Board expenses, legal and finance costs. The business case assumes that the Council funds these costs, estimated at £73,000 in year one, and then £60,000 recurring, this would reduce the savings to £230,000 after 3 years(16%) from £290,000(20%) target set out in 2.1 above.

The trust will also need to be aware of any future one-off costs, incurred after the service has transferred to trust, are not currently factored into the financial appraisal.

- Legal – Section 3 of the Report details legal implications and actions undertaken to appropriately exercise the Council's powers and duties. The proposed legal framework is outlined in Appendix 4.
- Corporate – corporate implications are dealt with through the main body of this report and the accompanying appendix.
- Risk Management – A full Risk Assessment of this project has been used to guide this stage of the project, a copy of this Register is attached at Appendix 4
- Environmental – None.
- Crime and Disorder – None.
- Impact on Customers – Tullie House will remain as a primary visitor attraction in Carlisle although the offer from the Trust may change over time.

- Equality and Diversity –

Impact assessments

Does the change have an impact on the following?

Equality Impact Screening	Impact Yes/No?	Is the impact positive or negative?
Does the policy/service impact on the following?	No	
Age	No	
Disability	No	
Race	No	
Gender/ Transgender	No	
Sexual Orientation	No	
Religion or belief	No	
Human Rights	No	
Social exclusion	No	
Health inequalities	No	
Rurality	No	

If you consider there is either no impact or no negative impact, please give reasons:

The establishment of a Trust will not affect the manner in which any party is treated.

If an equality Impact is necessary, please contact the P&P team.

APPENDIX 1

TULLIE HOUSE TRUST DRAFT VISION STATEMENT

SUMMARY

Vision

Tullie House will be the leading and most influential arts and cultural institution in Cumbria, providing a vibrant and proactive centre for heritage and the arts in Carlisle. It will directly serve the people of the city and north Cumbria and their visitors; play a leading part in the cultural, social and economic life of the north of England, and become recognised as a leading institution nationally with a growing reputation within its specialist fields.

Purpose

To provide educational resources and opportunities for local communities and tourists to learn, stimulate their pride in where they live or interest in where they visit, and be inspired and entertained, through the mediums of heritage, arts and creativity, in consultation with Carlisle City Council.

We will do this through the provision of:

- attractive and welcoming museum facilities, buildings and exhibitions;
- easy public access to actively managed and developed collections and knowledge about them;
- high quality formal and informal learning opportunities; and
- regular programmes of activity with targeted sections of the community.

We will be an independent Trust made up of imaginative, energetic, dedicated and competent Trustees, who:

- develop and maintain excellent relationships with the Council;
- employ energetic and efficient staff who are well lead;
- foster an entrepreneurial spirit, identify new opportunities for fund raising and develop new sources of income that complement Tullie's core cultural activities; and
- ensure that Tullie House is well-run and that the Trust is financially sound.

Definitions

Heritage – collections and knowledge relating to both natural and human heritage, and their effects upon the landscape and environment.

Arts – includes historic art collections and the work of regional, national and international professional artists and designers.

Education – Necessary to gain charitable status. Our definition includes all opportunities to learn, whether by formal or informal means.

Community – as defined by geography, social groups and communities of interest (eg artists or archaeologists)

ELABORATION

1 Stature

Tullie House will be the leading and most influential arts and cultural institution in Cumbria, providing a vibrant and proactive centre for heritage and the arts in Carlisle. It will directly serve the people of the city and north Cumbria and their visitors; play a leading part in the cultural, social and economic life of the north of England, and become recognised as a leading institution nationally with a growing reputation within its specialist fields.

The Trust's vision is that Tullie's reputation and standing are steadily enhanced by the quality of its offer and the credibility of its infrastructure.

- We want the museum to grow from being an essentially local service to also being the leading and most influential cultural institution in the North West, with strong links to other cultural institutions, funding bodies, professional associations and the like.
- We will encourage Tullie House to build strong collaborative links with the main regional museums and art galleries, and with selected national and international ones.

2 Proactive development

Tullie House will be the leading and most influential arts and cultural institution in Cumbria, providing a vibrant and proactive centre for heritage and the arts in Carlisle. It will directly serve the people of the city and north Cumbria and their visitors; play a leading part in the cultural, social and economic life of the north of England, and become recognised as a leading institution nationally with a growing reputation within its specialist fields.

The Trust wishes to:

- continue to provide a popular cultural attraction for the citizens of Carlisle and surrounding areas;
- build upon the present range of permanent and temporary museum and gallery spaces, exhibition, education, outreach and retail services and facilities; and
- be recognised as proactive, innovative and a leader in its field.

3 Focus on Heritage

*Tullie House will be the leading and most influential arts and cultural institution in Cumbria, providing a vibrant and proactive **centre for heritage** and the arts in Carlisle. It will directly serve the people of the city and north Cumbria and their visitors; play a leading part in the cultural, social and economic life of the north of England, and become recognised as a leading institution nationally with a growing reputation within its specialist fields.*

Tullie House holds important collections and knowledge relating to the history, nature and art of Carlisle and Cumbria. Our collections have the power to educate, inspire and transform people. The Trust aims to care for, show and interpret these collections.

The Trust wishes to:

- maintain the collections entrusted to it safely and securely;
- proactively develop the collections through acquisitions and where appropriate disposals, and so ensure that the collections remain clearly focused on Tullie's evolving vision and purpose;
- display and use the collections to best contemporary standards;
- attain and maintain all relevant accreditations; and
- sustain, preserve and support Cumbria's historic and, to the extent possible for a cultural institution, natural environment.

4 Focus on the Arts

*Tullie House will be the leading and most influential arts and cultural institution in Cumbria, providing a vibrant and proactive **centre for heritage and the arts** in Carlisle. It will directly serve the people of the city and north Cumbria and their visitors; play a leading part in the cultural, social and economic life of the north of England, and become recognised as a leading institution nationally with a growing reputation within its specialist fields.*

The Trust will attach priority to maintaining and developing the considerable success of Tullie House's visual and contemporary arts programme, the only such programme between Glasgow and Preston. Of the museum's c300,000 annual visitors, over 32,000 go to the contemporary art gallery.

The Trust therefore wishes to:

- continue its drive to attract repeat visitors;
- continue to hire touring exhibitions, using them to increase visitors' access to and understanding of the collections;

- engage Tullie’s audiences with the very best contemporary art practice within its target geographies, and also nationally and internationally;
- generate in-house exhibitions linked in to our collections and involving local communities and artists;
- provide education support to all exhibitions; and
- support artists and designers in the area.

5 Communities

*Tullie House will be the leading and most influential arts and cultural institution in Cumbria, providing a vibrant and proactive centre for heritage and the arts in Carlisle. **It will directly serve the people of the city and north Cumbria and their visitors;** play a leading part in the cultural, **social** and economic life of the north of England, and become recognised as a leading institution nationally with a growing reputation within its specialist fields.*

The Trust would aim to:

- attract 300,000 plus visitors a year;
- achieve annual growth of regular users and visitors;
- provide a wide range of options for engaging with the collections and exhibitions – including growing use of new media (350,000 plus virtual visitors per year);
- develop its understanding of its visitors and users.

The Trust wishes to:

- work with partners within both the Council and the community to help them achieve their aims and objectives;
- be at the heart of the community - its soul - its history – its future;
- contribute to a sense of place (helping residents, visitors and users to understand this part of the world);
- ensure our displays, exhibitions and workforce reflect the communities we serve; and
- undertake regular programmes of activity with targeted sections of the community.

6 Economy

*Tullie House will be the leading and most influential arts and cultural institution in Cumbria, providing a vibrant and proactive centre for heritage and the arts in Carlisle. It will directly serve the people of the city and north Cumbria and their visitors; play a leading part in the cultural, social **and economic life of the north of England**, and become recognised as a leading institution nationally with a growing reputation within its specialist fields.*

The Trust wishes to:

- progressively expand Tullie House’s visitor base and market particularly in the north-west region, but also nationally and internationally;
- capture a fair and growing share of the established Lake District and border country tourist markets; and
- ensure that Tullie House plays an active role with other local bodies (including in particular the Castle and the Cathedral) in the continuing regeneration of Carlisle’s historic quarter and the city’s emergence as a leading visitor attraction in the north-west.

The Trust would therefore seek to:

- play an important role in making Carlisle a cultural tourism destination;
- bring tourism spend into the local economy;
- attract public funding and other investment into Carlisle; and
- provide direct and indirect employment for local people.

7 Education and learning

*To provide **educational resources and opportunities for local communities and tourists to learn, stimulate their pride in where they live or interest in where they visit, and be inspired and entertained**, through the mediums of heritage, arts and creativity, in consultation with Carlisle City Council.*

The Trust wishes to:

- use all opportunities to promote learning, whether by formal or informal means, activities, experience or traditional education;
- educate and inspire young people and adults whether individually, in families or in wider groups;
- be physically and intellectually accessible to visitors and users;
- provide imaginative and energetic outreach and education services; and
- to help residents, visitors and users to understand this part of the world.

8 Independence

*We will be **an independent Trust** made up of imaginative, energetic, dedicated and competent Trustees, who:*

- *develop and maintain excellent relationships with the Council;*
- *employ energetic and efficient staff who are well lead;*
- *foster an entrepreneurial spirit, identify new opportunities for fund raising and develop new sources of income that complement Tullie’s core cultural activities; and*
- *ensure that Tullie House is well-run and that the Trust is financially sound.*

The Trust wishes to encourage an organisational culture that:

- Is proactive and responsive to opportunities;
- Is innovative, entrepreneurial and not afraid to take risks;
- shows respect for knowledge, leadership and research; and
- is independent from but takes full account of the Council's objectives.

9 Communications

We will be an independent Trust made up of imaginative, energetic, dedicated and competent Trustees, who:

- ***develop and maintain excellent relationships with the Council;***
- *employ energetic and efficient staff who are well lead;*
- *foster an entrepreneurial spirit, identify new opportunities for fund raising and develop new sources of income that complement Tullie's core cultural activities; and*
- *ensure that Tullie House is well-run and that the Trust is financially sound.*

The Trust wishes to:

- have regular, formal and informal interaction with the Council; and
- have a distinctive voice, effectively communicated to policy makers, opinion formers and the media at all relevant levels.

10 Culture and staff

We will be an independent Trust made up of imaginative, energetic, dedicated and competent Trustees, who:

- *develop and maintain excellent relationships with the Council;*
- ***employ energetic and efficient staff who are well lead;***
- ***foster an entrepreneurial spirit, identify new opportunities for fund raising and develop new sources of income that complement Tullie's core cultural activities; and***
- *ensure that Tullie House is well-run and that the Trust is financially sound.*

The Trusts wishes to:

- attract and retain skilled and talented staff who are committed to working for the Trust; and
- instil corporate values that are both:
 - professional, progressive, dynamic, supportive and collective; *and*
 - dynamic and entrepreneurial, with a willingness to support staff in taking legitimate risks in pursuit of Tullie's cultural, business and financial objectives.

11 Finance

We will be an independent Trust made up of imaginative, energetic, dedicated and competent Trustees, who:

- *develop and maintain excellent relationships with the Council;*
- *employ energetic and efficient staff who are well lead;*
- *foster an entrepreneurial spirit, identify new opportunities for fund raising and develop new sources of income that complement Tullie's core cultural activities; and*
- *ensure that Tullie House is **well-run and** that the Trust is **financially sound**.*

The Trust must know that it is possible for the business to be viable. At the very least it must be able to balance the books through sound financial management; ideally, it will begin to generate reserves to fund future development.

The Trust wishes to:

- develop long-, medium- and short-term development plans with the necessary funding for achieving them;
- attract a progressively larger share of Tullie House's funding from new sources – whether local, regional, national or international;
- reduce its dependence over time on funding from Carlisle City Council as a basis for financing growth whether through new activities or expansion of existing ones;
- steadily expand Tullie House's operating and commercial income base in appropriate ways so as to reduce its dependence on public and voluntary funds; and
- generate earned income from its assets.

Revised draft, 18 August 2010

APPENDIX 2

TULLIE HOUSE TRUST BUSINESS CASE

**Note: in compliance with section 100d of the Local Government (Access to Information) Act 1985
the report has been prepared in part from the following papers: None**

Tullie House Museum and Art Gallery

Business Case

08 October 2010

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Armstrong Watson is registered to carry on audit work by the Institute of Chartered Accountants in England and Wales and is authorised and regulated by the Financial Services Authority.

This document is strictly private and confidential.

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- I. Tullie House Trust vision statement
- II. Illustrative balance sheet
- III. Summary 2010/11 existing Tullie House Budget

1. Preamble

Armstrong Watson and Adam Wellings Consulting Limited (the Consultancy Team) were contracted in May 2010 by Carlisle City Council ("CCC") to develop a viable and detailed Business Case to evidence the long term sustainability of a proposed new independent Charitable Trust – The Tullie House Trust ("THT"). The Business Case will form part of the decision making process of CCC in determining if Tullie House Museum and Art Gallery ("THM&AG") should move to THT. The work was contracted to be completed in a relatively constrained time scale of seven weeks.

THM&AG is an important and cherished asset for Carlisle and Cumbria, ensuring the care and interpretation of Carlisle's culture and heritage, as well as providing a popular visitor attraction, function and events venue. THM&AG is also key to the work being progressed in terms of the new Roman Gateway Exhibition, set to become a major attraction for residents and visitors alike in 2011.

The selection and appointment of the Consultancy Team was undertaken by the Chairman of the Shadow Board, Roger Cooke, and a member of the THM&AG Senior Management Team, Mary Robinson, and ratified by Mark Lambert, Assistant Director (Governance), CCC.

Importantly, although the work was contracted by CCC, it was made clear that the Consultancy Team should represent the interests of both the Shadow Board and CCC in terms of its work programme, communication and recommendations in a spirit of openness and co-operation, in recognition that all parties had the common objective, if recommended by the Business Case, to successfully move THM&AG into independent Charitable Trust status.

The rationale for the Business Case, as set out in the brief and agreed by the Consultancy Team was as follows:

- Providing a single purpose so the trustees and staff can focus on the service without consideration of the corporate issues which is a necessary aspect of being part of CCC
- Community involvement either through being a Trustee or involvement with the Friends or wider community groups; this fully supports the ethos set out in the recent Government White Paper on Communities
- Financial and managerial autonomy, a trust can be more responsive to situations and is able to act more decisively, potentially attracting more external funding for specific projects
- Organisational change, trusts have quickly shown that staff are more committed to the service and develop a greater sense of ownership.

A proposed move to Charitable Trust status is further reinforced by a range of potential fiscal and structural advantages, including relief from elements of business rates, the ability to procure services independently and to make savings through release from CCC constraints.

The Business Case process has identified and quantified both the operational and financial complexities of moving to Trust.

2. Vision

Summary (a full version and elaboration of the Vision is attached as Appendix I)

Vision

Tullie House will be the leading and most influential arts and cultural institution in Cumbria, providing a vibrant and proactive centre for heritage and the arts in Carlisle. It will directly serve the people of the city and north Cumbria and their visitors; play a leading part in the cultural, social and economic life of the north of England, and become recognised as a leading institution nationally with a growing reputation within its specialist fields.

Purpose

To provide educational resources and opportunities for local communities and tourists to learn, stimulate their pride in where they live or interest in where they visit, and be inspired and entertained, through the mediums of heritage, arts and creativity, in consultation with Carlisle City Council.

We will do this through the provision of:

- attractive and welcoming museum facilities, buildings and exhibitions
- easy public access to actively managed and developed collections and knowledge about them
- high quality formal and informal learning opportunities
- regular programmes of activity with targeted sections of the community

We will be an independent Trust made up of imaginative, energetic, dedicated and competent Trustees, who:

- develop and maintain excellent relationships with the Council
- employ energetic and efficient staff who are well led
- foster an entrepreneurial spirit, identify new opportunities for fund raising and develop new sources of income that complement Tullie's core cultural activities; and ensure that Tullie House is well-run and that the Trust is financially sound

Definitions

Heritage – collections and knowledge relating to both natural and human heritage, and their effects upon the landscape and environment.

Arts – includes historic art collections and the work of regional, national and international professional artists and designers.

Education – Necessary to gain charitable status. Our definition includes all opportunities to learn, whether by formal or informal means.

Community – as defined by geography, social groups and communities of interest (eg artists or archaeologists)

3. Advantages of Creating an Independent Charitable Trust

There are a number of advantages in creating an independent Charitable Trust to deliver the services of THM&AG. These are important in formulating the Business Case and in understanding the financial impact of any decision to establish a Trust.

Some of the key advantages are as follows:

- Increased flexibility and freedom of the management team to focus on the core business, taking an entrepreneurial approach to service and service delivery.
- Harnessing the experience and expertise of a private sector board of Trustees.
- Fiscal benefits in terms of tax advantages.
- Entitlement to a mandatory relief of 80% from NNDR (business rates).
- Ability to develop income through increased commercial activity and extensions of services.
- Potential benefit from increased gift collections or bequests as no longer part of a local authority.
- Ability to attract additional external funding through grant applications and business sponsorship.

4. Structure of Tullie House Trust and relationship with Carlisle City Council and impact of new Trust

It is being proposed that a new independent charitable entity will be formed, THT under the Charities Act 2006 – a Charitable Incorporated Organisation (CIO). This entity has the same characteristics as a company; it is a separate legal entity with limited liability and is regulated by the Charities Commission only and not Companies House.

It is possible that a separate company owned by the THT may be set up to operate its non charitable activities; the final decision on this will depend upon the level of income generated from non-charitable income or non-incidental activities.

4.1 Buildings and Collections

The buildings and collections of the existing THM&AG will remain with CCC and be leased to THT under lease arrangements and a collections agreement. The responsibility for the upkeep of the buildings and collections will be split; repair and maintenance of external fabric and major plant (heating and cooling) remaining with CCC and responsibility for maintenance of the internal fabric of the building transferring to THT.

4.2 People

The existing staff of THM&AG will be TUPE'd over to THT on the existing terms and conditions they currently enjoy. In addition, the cleaning staff working solely for THM&AG will transfer.

It is anticipated that THT and its employees will be allowed to remain within the local Government Pension Scheme as an admitted body. There are a number of issues surrounding the pension scheme position and the financial implications to be determined. This Business Case assumes admitted body status is achieved and the pension costs are broadly in line with the current budget.

A new position of Chief Executive will be created in THT. The decision regarding the selection process for this post is still under discussion.

4.3 Support Services

Currently THM&AG receives a number of services from the CCC, including ICT, personnel services, payroll, accounts & finance and is also allocated costs relating to management time, from CCC senior management team and building/facilities management team.

A number of these services can be purchased externally, and in fact need to be purchased externally, to maintain the independence of THT. Also it is expected that CCC senior management time previously allocated to THM&AG will be replaced by the new board of Trustees for THT.

The costs of these services are excluded from the Business Case and reduce the overall funding level required but this has implications for CCC in absorbing the costs elsewhere in their budget or through finding savings.

4.4 Additional requirements and costs of THT

THT will have a number of additional requirements in its capacity as an independent charitable organisation including set up costs and transitional costs. The Business Case incorporates the additional costs relating to THT and assumes that set up costs and transitional costs are met within the CCC's budget.

The set up costs and transitional costs will relate to the following:

- Legal costs and consultancy
- Pensions advice
- Costs of admission to the to LGPS (including any deficit)
- Re-deployment costs
- Recruitment costs
- Launch costs

4.5 Asset and Reserves Transfer – creation of THT Balance Sheet

THT will need to manage and account for its own balance sheet. The opening balance sheet of THT will include the specific assets transferred from CCC and the cash reserves relating to legacies, donations and gifts specific to THM&AG. An illustrative balance sheet is included at Appendix II.

Charity Commission rules state that cash funds relating to restricted reserves i.e. specific legacies, grants and donations can only be used for the purposes set out by the grant body or donor.

THT, under Charity Commission best practice is required to build up over a number of years, its level of unrestricted reserves to a figure no less than between 3-6 months of gross expenditure.

4.6 Capital Projects

THM&AG is currently delivering significant capital investment as part of the Roman Gateway project. The management of this project will remain with CCC, as will the asset created.

The Business Case currently does not include a Capital Projects Fund – the method and process of undertaking and funding Capital Projects will need to be determined in legal documents between the CCC and THT.

5. Requirement for cost savings

The current transformation project being undertaken by CCC and the need to identify cost reductions of 20% of existing budgets has been considered as part of the business case exercise and a number of alternative scenarios were reviewed with the THM&AG team and Shadow Board.

The amount of cost savings which relate to THM&AG are £290,900 which equates to 20% of the controllable 2010/11 budget of £1.454m (the total 2010/11 budget is £2.208m).

An alternative business case budget has been determined incorporating the required cost savings – this is included in Section 7 as the “Reduced Budget Available”.

A significant element of these savings identified relates to the NNDR (business rates) relief totalling £116,000 per annum, the remainder of the savings have been identified across all other cost areas of the THM&AG budget.

A Summary of the 2010/11 THM&AG budget is included at Appendix III.

6. Key Elements of the Business Case

6.1 Income

THM&AG currently generates regular income from various sources and will continue to do so following its transfer into a Charitable Trust. These regular sources of income include a contract negotiated for the provision of catering services, the hire of meeting rooms and the auditorium, gift shop sales, admissions (dealt with later) and some other sundry incomes. There are also other opportunities to generate income, primarily through successful grant applications, although it is important to realise that these rarely, if ever, provide revenue that can be applied to the general running costs of the museum and most require the delivery of very specific services or capital works designed to account for the funding provided. Their effect therefore in terms of finances is broadly neutral although they may have a significant effect in terms of the museum offerings such as temporary exhibitions, interpretation, education etc. Total regular income represents in the region of 12% of total expenditure and this reinforces the conclusion that the museum however managed, in common with others of its type, is not an income generating vehicle.

6.2 Admissions

Museum admission is currently free to Carlisle residents holding a Tullie Card, which allows access to all parts of the museum. For non-residents, an admission is charged for access to certain areas of the museum, others being free. Admission prices are subject to various concessions. Prior to this work on the Business Case, we understand that the CCC was made aware that this charging policy was not in line with European Law and would need to be changed to either free entry for all or charged entry for all.

A policy of free entry to all could reduce the amount of input VAT reclaimed by THT, with a consequent cost to THT and ultimately, CCC. The Business Case therefore assumes that a charging policy will be implemented, which is income neutral, meaning that THT will ensure that the income received is no less than currently achieved.

Alternatively CCC and the Shadow Board could decide to maintain free entry for all visitors. This would have an impact of reducing the income levels of THT which in turn would require additional funding from CCC to cover the shortfall or future cost savings to be found. The policy of free entry will also have a significant impact on the VAT position of THT and its ability to reclaim a portion of its VAT costs – again this has funding implications. We understand CCC are receiving VAT advice in relation to this issue.

6.3 Funding

The Business Case sets out the funding requirements for THT in Section 7 of this paper, Financial Summary. This section details the “Base Case” budget required to operate THT taking into account the changes to the operation following transfer to Trust status as outlined in Sections 4 and 6. Section 7 also details the “Revised Budget Available” which sets out the budget level including savings identified from CCC’s transformation process, other immediate cost savings

identified during this work and the requirement to reduce the THM&AG controllable budget by 20%.

6.4 Service Level Fee

Currently THM&AG is supported within CCC's budget, however when it moves into a Charitable Trust, there is an option that THT should charge CCC a fee in the form of a Service Level Agreement, which sets out the services that it will provide to the CCC. This fee would form part of THT's standard rated income as a 'business service' rather than in receipt of a grant and would assist in maximising the level of VAT recoverable. The decision regarding the payment method to be used is also dependent upon any procurement issues that may arise. The Service Level Agreement is also an appropriate vehicle for CCC and THT to set out the terms of their relationship at outset and also as a means of promoting positive developments in that relationship over time.

6.5 Cost Structures

The Business Case considered the most appropriate and efficient ways of arranging the cost structures of THT. An analysis of the headline costs demonstrate that in the region of 47% relates to employees, 19% to premises, 32% to support services and supplies, the balance being depreciation.

The Business Case assumes that £262,000 of Support Services continue to be purchased from CCC. This represents 68% of the Support Services currently purchased by THM&AG. This leaves £123,000 of Support Services to be absorbed elsewhere in the CCC budget or savings found.

These cost structures included in the Business Case have been the subject of detailed discussions between CCC Officers and the Shadow Board. However there are a number of outstanding issues, set out in Section 9, which are in the process of being resolved and agreed.

6.6 VAT

The implications for VAT for a museum operating as a Charitable Trust are significant, particularly given the announced rise in the Standard Rate to 20% in January, the advice provided as part of the Business Case is based on best practice, a number of well-documented precedents and generic advice from HMRC and the Museums Libraries and Archives (MLA).

The Business Case recommends that THT registers for VAT as a new business. Its options to maximise recoverable VAT are based upon the balance of standard rate versus exempt income and the percentage of business versus non-business activity.

THT should charge admission to the museum (the level of charge is irrelevant), which establishes the broadest possible justification that its activities are 'business'. HMRC does provide a specific VAT dispensation for national museums offering free admission, however the applicability of this to THT needs to be investigated further.

In addition, the option for THT to receive a service level fee from CCC needs to be considered.

7. Financial Summary

7.1 Base Case Scenario

The following table presents the projected base case funding requirement to run Tullie House as an independent trust over the next three years. The base case scenario aims to reflect the cost of providing the existing services offered by THM&AG and is based on the current 2010/11 net expenditure budget with adjustments for items including the following:

- Estimates of income that can realistically be achieved and costs that will necessarily be incurred.
- The reduction of central charges from CCC for services that will no longer be required.
- The addition of necessary costs associated with setting up and operating as an independent trust.
- The removal of depreciation in relation to assets that will not transfer from CCC to the Trust.

Base Case	31 Mar 2012 Year 1 £	31 Mar 2013 Year 2 £	31 Mar 2014 Year 3 £
Income	(249,700)	(249,700)	(249,700)
Expenditure	1,591,300	1,591,300	1,591,300
Council recharges	262,300	262,300	262,300
Depreciation	12,800	12,800	5,100
New Trust costs	73,000	60,000	60,000
Total net expenditure	1,689,700	1,676,700	1,669,000
Less non-cash items:			
CCC recharges	(262,300)	(262,300)	(262,300)
Depreciation	(12,800)	(12,800)	(5,100)
Cash funding required	1,414,600	1,401,600	1,401,600

The current 2010/11 THM&AG budget includes CCC recharges totalling £385,700 for central services provided by CCC. The base case total net expenditure only includes recharges for the central services that will be required by the independent trust totalling £262,300 as discussed in Section 4.0. The budget therefore assumes that the difference of £123,400 will be funded elsewhere or saved by CCC.

7.2 Reduced Budget Available

As part of the Business Case process, consideration was given to a number of alternate scenarios in the running of THT in addition to the base case scenario. The alternate scenarios were to be based on the current 2010/11 net expenditure budget less a 20% reduction.

The table below summarises the calculation of the 20% budget reduction required.

	£
2010/11 total net expenditure budget	2,208,400
Less CCC recharges	(385,700)
Less depreciation	(368,200)
Net controllable budget	1,454,500
Savings to find: (20% of net controllable budget)	290,900
Less benefit of NNDR mandatory relief	(116,000)
Other cost savings to find	174,900

These savings are to be found over three years at an average of £58,300 per annum.

The impact of these cost savings results in a reduced budget available to the new THT as summarised in the table below.

Reduced Budget Available	31 March 2012 Year 1 £	31 March 2013 Year 2 £	31 March 2014 Year 3 £
Total net expenditure	2,208,400	2,208,400	2,208,400
NNDR saving	(116,000)	(116,000)	(116,000)
Savings to find	(58,300)	(116,600)	(174,900)
Reduced total net expenditure	2,034,100	1,975,800	1,917,500
Less non cash items			
CCC recharges	(385,700)	(385,700)	(385,700)
Depreciation	(368,200)	(368,200)	(368,200)
Cash funding	1,280,200	1,221,900	1,163,600

The THM&AG team and Shadow Board have identified a menu of cost saving opportunities to achieve the £174,900 required savings over three years. However, even after these savings are taken into account, there is a shortfall in cash funding available compared to the cash funding required per the base case. This shortfall is detailed in the table below.

Cash Funding Required	31 March 2012 Year 1 £	31 March 2013 Year 2 £	31 March 2014 Year 3 £
Cash funding required per base case	1,414,620	1,401,620	1,401,620
Cash funding per reduced budget available	1,280,200	1,221,900	1,163,600
Cash funding shortfall	134,420	179,720	238,020
Less savings found	(58,300)	(116,600)	(174,900)
Remaining cash funding shortfall	76,120	63,120	63,120

The remaining cash funding shortfall broadly equates to the estimated New Trust Costs of £73k in Year 1 and £60k in Years 2 & 3. These New Trust Costs are needed to enable THT to operate as an independent body. A significant proportion of the New Trust Costs relate to services currently provided in house by CCC and included in the CCC recharges. As it is assumed in the base case that these services will be purchased from outside the CCC, they require cash funding as opposed to a budget recharge.

8. What would Tullie House Trust look like?

In order to achieve its vision of Tullie House as a successful and leading cultural organisation, the new Trust will need support from Carlisle City Council in order to establish itself as an independent trust and start preparing short- and long-term development plans. The cuts that are currently being discussed do not alter the fundamental vision, but they are likely to seriously reduce some of Tullie's key activities and delay the achievement of aspects of the vision, potentially by several years. We summarise the key likely effects below.

The early years

The new Tullie House Museum and Art Gallery Trust will continue to be a leading cultural organisation in Cumbria, working closely in collaboration with Carlisle City Council. It will be able to build on its strong collaborative links with other regional museums and galleries and other partners. It will continue to play a leading role in the cultural, social and economic life of the north of Cumbria and serve the people of Carlisle and the surrounding area, as well as tourists. However, it will be unrealistic to aspire to the vision of being a leading cultural organisation nationally, at least for the time being, and Tullie will not be able to play a leading part in the cultural, social and economic life of the wider north of England.

The Trust will continue, to the best of its ability, to provide educational resources and opportunities for local communities and tourists to learn, and stimulate their pride in where they live or develop their interest in where they visit. It will continue to provide a popular cultural attraction. The Trust will, within the constraints of the financial support available, continue to attach high priority to Tullie's popular community outreach, family learning, health and arts, schools outreach and volunteer programmes. However the success of these, and the Trust's ability to maintain education and outreach services at anything like the present levels, cannot be guaranteed because of the cuts and loss of Hub funding.

The Trust will maintain and proactively develop the collections and interior of the buildings entrusted to its care by the Council. Tullie House has important collections relating to history, nature and art of Carlisle and Cumbria and will continue to develop its reputation within these specialist fields. It will display, interpret and manage the collections to the best contemporary standards. The Trust will seek to secure funding to enable Tullie to continue the current digitisation and documentation of the collections. It will ensure that the MLA's Museum Accreditation standards are maintained.

The Trust will maintain the successful and highly regarded contemporary visual art exhibition programme and continue to engage audiences, improving access to and understanding of the collections. These are likely to be at a somewhat lower level than previously.

Tullie House will continue to play an important role in working towards making Carlisle a cultural tourism destination and attracting tourism spend. We will need to work more closely with local heritage bodies, particularly the Cathedral and Castle, to compensate for the loss of marketing budgets. Following the investment in the new *Roman Frontier* Gallery, opening in 2011, the Trust will prepare a development plan for the Service – seeking to develop the gallery spaces, education, outreach and retail services and facilities.

The organisation will provide attractive and welcoming facilities, buildings and galleries, with good access to exhibitions and collections, and develop a diverse programme of activities and events for visitors. However we will not be able to achieve our short-term objective of 300,000 visitors per annum initially, and we will need to grow our “virtual” (on-line) visitors – especially if funding is removed from marketing.

The Trust will be made up of competent and dedicated Trustees, who will employ energetic and knowledgeable staff. The culture of the new organisation will be professional, progressive and dynamic. Against a background of cuts in Council funding it will be particularly important to foster an entrepreneurial spirit in order to ensure that every opportunity is taken to identify alternative income sources. The Trust will encourage an organisation culture that is proactive and responsive to opportunities, innovative and shows respect for knowledge, leadership and research. The organisation will be managed and developed efficiently. It will be independent from the Council, but take full account of the Council’s objectives.

The new Trust will attach great importance to developing and maintaining good working relations with the Council. It will steadily expand the operation and commercial income base in appropriate ways, identify new opportunities for fund raising and new sources of income, and ensure that Tullie House is well-run and the Trust is financially sound. As already mentioned the entrepreneurial spirit will need to be fostered. However there is likely to be a difficult initial period, when the Trust needs to get established on a sound footing and meet the Charity Commission’s financial stability requirements.

The longer-term

None of this needs prejudice the Trust’s long-term vision for Tullie House. The organisation will still aim to become the most influential arts and cultural institution in Cumbria and to play a leading role in the cultural, social and economic life of the north of England. Tullie House will still aim to become recognised as a leading institution nationally and build on its reputation within its specialist fields. It is just that these aspirations will need to be deferred for the time being, and realised over a longer period of time.

9. Outstanding Issues

The Business Case has highlighted a number of issues, which will require final resolution prior to THM&AG transferring to a Charitable Trust. These issues are currently being discussed between CCC Officers and the Shadow Board and it is likely that more may arise as the Shadow Board considers the various transfer agreements currently being drafted. None of these issues seems to provide a significant impediment to transfer, particularly given the goodwill of all parties. The current issues can be summarised as follows:

- Staff pensions – Admitted Body status, actuarial valuation, deficit/surplus, contribution levels
- Service Level Agreement & Fee-Charging
- CCC recharging – final agreement of level of charges
- Balance Sheet – terms of transfer from CCC to THT
- Acquisitions & Collections – policy & resourcing
- Additional THT services & costs – agreement, delivery & funding
- Capital Project funding mechanism
- Admissions policy
- Sec 33a Status applicability to THT
- The level and quantification of insurance premiums for public and employee liability and contents insurance (excluding collections) cover.

10. Risks

There have been a number of risks identified as a result of work on the Business Case and all of these are currently receiving the attention of CCC Officers and/or the Shadow Board. In all cases the severity of each risk and its potential for mitigation has yet to be ascertained and these include:

- Staff Pensions – failure to achieve Admitted Body status and potential for increased funding costs
- THT reserves – need to reach reserve levels to be compliant with Charities Commission requirements
- Roman Gateway Project – ERDF output requirement for increased visitor numbers during and following period of project and consequent claw back should this not be met
- Pay Increments – obligation under TUPE for THT to meet local authority national terms & conditions of service
- VAT and funding implications related to admissions policy

11. Conclusion/Next Steps

The rationale for THM&AG to move to a new charitable trust, THT, has been tested through the process of developing the Business Case. The proposed advantages of trust status including the operational, personnel, financial and fiscal aspects have been considered at length. In principle, these advantages can be delivered by THT as an independent trust, in its vision to be the leading and most influential arts and cultural institution in Cumbria.

To an extent, the work of developing the Business Case has been clouded by the unfortunate but necessary requirement to find savings over the first three years of its operation. This does provide challenge to the THM&AG Senior Management Team in terms of managing a reducing service whilst at the same time maintaining a vision for the organisation going forward. It is clearly understood that these reductions would have had to be managed had THM&AG stayed within CCC. Likewise, there is challenge for the THT Shadow Board in terms of managing a transfer to trust while identifying cuts and attracting the right calibre of Trustees for the future.

Notwithstanding the above, the Business Case has identified that the advantages of trust status, as set out in the Preamble, are available to THT, subject to a number of outstanding issues that are yet to be resolved and certain risks that require mitigation.

Up to and including the point of transfer from THM&AG to THT, there are a number of major critical steps, which need to be completed including:

- Finalisation of all necessary legal agreements to facilitate transfer of THM&AG to THT
- Reconciliation of all current outstanding issues between CCC and THT Shadow Board
- Confirmation of the delivery profile of savings to be made in THT budgets in the next three financial years
- Agreement of Members of CCC and Shadow Board to final transfer proposals
- Updated Business Case and Financial Forecasts to support THT Shadow Board

Given the small number of Shadow Board Members and their current time constraints and the requirement for specific financial, tax and corporate expertise, we recommend that CCC puts in place appropriate support for the Shadow Board and THM&AG Senior Management Team, up to and including transfer to trust.

12. Contacts

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Appendix II

Draft balance sheet

			1 April 2011 £
Fixed assets			£30,600
Stock			£27,100
Cash			£176,300
			£234,000
Unrestricted funds			£57,700
Restricted funds	Routledge reserve	£41,900	
	Picture fund	£12,800	
	Data officer	£89,000	
	Biological records collection	£32,200	
	Small bequest	£400	£176,300
			£234,000

Assumptions

- Obsolete stock of £20,000 written off
- Cash equivalent to the restricted reserves balance is transferred to THT

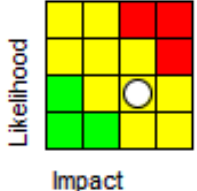
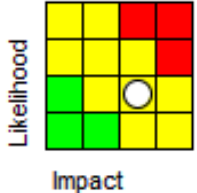
Appendix III

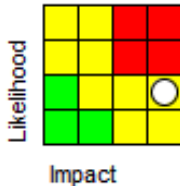
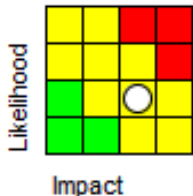
Budget 2010/11 summary

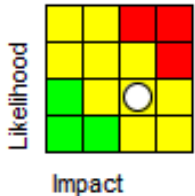
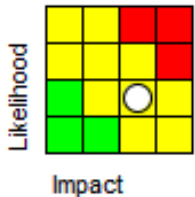
Expenditure by Cost Category	2010/11 Budget £	% of gross expenditure
Employee related	916,500	36.7%
Premises related	533,400	21.3%
- Fixed premises costs	417,100	16.7%
- Other premises costs	116,300	4.6%
Supplies & services & transport	295,700	11.8%
Support services	385,700	15.4%
Depreciation	368,200	14.7%
Gross expenditure	2,499,500	100%
Income	(291,100)	
Net expenditure	2,208,400	

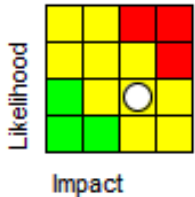
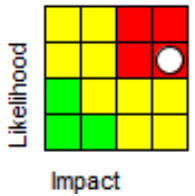
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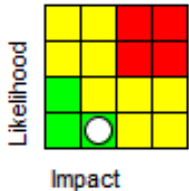
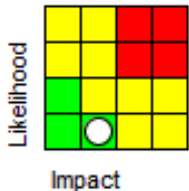
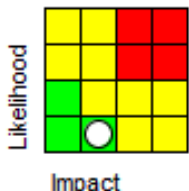
TULLIE HOUSE TRUST PROJECT – RISK REGISTER (As at November 2010)

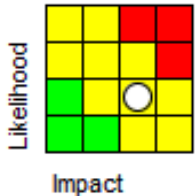
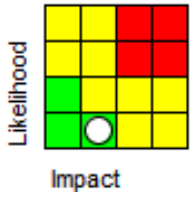
Title	Description	Current Risk Matrix	Matrix review dates	Current risk rating	Rating description	Current action status / control strategy	Target risk rating	Managed by
People and Organisational Development issues								
1. TUPE arrangements / employee terms and conditions	There is a risk that TUPE arrangements are not well understood by all parties		Nov 2010	=6	Impact High Likelihood Remote	Post 14th December Employee transfer work package will commence. This will cover legal arrangements, HR tasks, partner and staff communications	=3	Project Board – HR Manager
2. Pension arrangements 1	There is a risk that the new entity does not obtain admitted body status (ABS) or faces delayed admittance to the Cumbria scheme		Nov 2010	=6	Impact High Likelihood Remote	Pre 14th December Correspondence with actuaries and scheme administrators has registered the potential changes and application Post 14th December Completion of pension negotiations and application activity during January.	=3	Project Board – HR Manager / Legal advisor

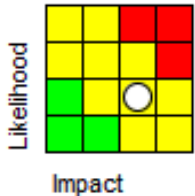
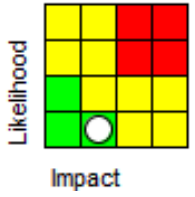
Title	Description	Current Risk Matrix	Matrix review dates	Current risk rating	Rating description	Current action status / control strategy	Target risk rating	Managed by
3. Pension arrangements 2	There is a risk that pension scheme negotiations affect funding affordability		Nov 2010	=8	Impact Critical Likelihood Remote	Pre 14th December The Council's level of total affordability must be set for a Council decision. Pension liabilities need to be allocated and agreed between shadow board and Council. Post 14th December Arrangements agreed above to be delivered via ABS.	=4	Shadow Board and City Council (Portfolio Holder and Strategic Director)
4. Revised staff structures	There is a risk that (in year) revised staff arrangements have a negative impact on the trusts objectives		Nov 2010	=6	Impact High Likelihood Remote	Pre 14th December The Council is currently consulting with staff on revised structures as part of the transformation programme. The Shadow Board have been included in this consultation. Revised staffing budgets have been included in the business case. Post 14th December Final staffing transfer arrangements to be agreed with the Shadow Board	=3	Project Board – HR Manager / AD Community Engagement

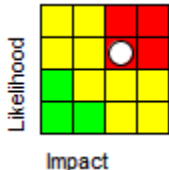
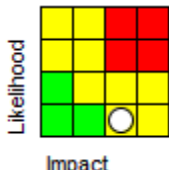
Title	Description	Current Risk Matrix	Matrix review dates	Current risk rating	Rating description	Current action status / control strategy	Target risk rating	Managed by
5.Trust Board Composition / appointments	There is a risk that the development of the Trust Board is delayed by negotiations over the size of board and Council representation		Nov 2010	=6	Impact High Likelihood Remote	Pre 14th December Negotiations to be completed on the size of the Trust Board and Council representation Post 14th December Trust Board recruitment to be completed January / early February	=3	Shadow Board and City Council (Portfolio Holder and Strategic Director)
6. Staff consultation & communication	There is a risk that staff are not consulted with to an appropriate level.		Nov 2010	=6	Impact High Likelihood Remote	Pre 14th December Consultation is currently underway for revised staffing arrangements under Transformation Programme. A staff Liaison group regularly meets. Staff and unions have already been engaged in consultation at the start of the Trust project. Post 14th December Mobilisation plans will engage staff and unions. Communications arrangements will continue.	=3	Project Board / Tullie House Manager / AD Community Engagement

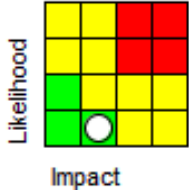
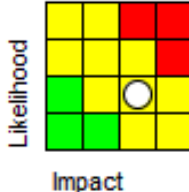
Title	Description	Current Risk Matrix	Matrix review dates	Current risk rating	Rating description	Current action status / control strategy	Target risk rating	Managed by
7. Future Learning and Development Plans	There is a risk that post transfer staff do not receive an appropriate level of training and development post transfer		Nov 2010	=6	Impact High Likelihood Reasonably probable	Pre 14th December Discussions have commenced between the Council and Shadow Board to establish how learning and development will be delivered under new arrangements. Post 14th December Learning and Development Plans to be incorporated into the Trusts Business Plan.	=3	Shadow Board / City Council (Portfolio Holder & Strategic Director)
Financial issues								
8. VAT	There is a risk that legal arrangements and policy decisions on admission charges negatively impact on the Trusts VAT position		Nov 2010	=12	Impact Critical Likelihood Reasonably probable	Pre 14th December VAT advice has been sought from Price Waterhouse Coopers regarding the best means of ensuring maximum VAT recovery. Post 14th December Legal arrangements and admissions policies will be constructed to deliver maximum recovery.	=4	Project Board – AD Resources

Title	Description	Current Risk Matrix	Matrix review dates	Current risk rating	Rating description	Current action status / control strategy	Target risk rating	Managed by
9. Central administration charges	There is a risk that current central administration services are not correctly apportioned between the Trust and Council		Nov 2010	=2	Impact marginal Likelihood extremely remote	Pre 14th December During this last three months this risk has now been dealt with. Recharges have now been apportioned and costs recognised in the Business Case	=2	Project Board / AD Finance
10. Insurance liabilities	There is a risk that insurance liabilities are not properly defined and allocated to the Council and Trust		Nov 2010	=2	Impact marginal Likelihood extremely remote	Pre 14th December During this last three month period this risk has now been dealt with. Understanding and agreement on insurance liabilities has been reached and the Trust will procure appropriate insurance.	=2	Project Board / AD Finance
11. Trust set up costs	There is a risk that Trust set up costs are under estimated and place pressure on Council budgets		Nov 2010	=2	Impact marginal Likelihood extremely remote	Pre 14th December During this last three month period this risk has now been dealt with. Project budget monitoring has ensured that advice and support costs are on track.	=2	Project Board / AD Resources

Title	Description	Current Risk Matrix	Matrix review dates	Current risk rating	Rating description	Current action status / control strategy	Target risk rating	Managed by
12. Trust start up costs	There is a risk that full Trust start up costs are under estimated and place additional strain on Council saving targets		Nov 2010	=6	Impact High Likelihood Reasonably probable	Pre 14th December Discussions have commenced with the Shadow Board regarding 'in advance' payments to assist with trust cash flow and start up issues. Post 14th December Specific arrangements for the Trust commencement will form part of the phase in plans.	=3	Shadow Board / AD Resources
12. Capital programme	There is a risk that the level of Council capital funds available for Tullie House does not match the Trusts Vision Statement		Nov 2010	=2	Impact marginal Likelihood extremely remote	Pre 14th December The Council will retain responsibility for major capital works at Tullie House under the proposed arrangements. Post 14th December Facility maintenance and capital arrangements will be formally agreed prior to any final legal agreement. Any new developments will be considered on their own merits.	=2	Project Board / AD Resources

Title	Description	Current Risk Matrix	Matrix review dates	Current risk rating	Rating description	Current action status / control strategy	Target risk rating	Managed by
13. Sustaining revenue reserves	There is a risk that the new trust can not build up sufficient revenue reserves from a zero budget		Nov 2010	=6	Impact High Likelihood Remote	Pre 14th December The Council is discussing funding arrangements with the Trust to assist with the generation of reserves. Post 14th December Specific payment arrangements will be covered by the Funding Agreement	=3	Project Board / AD Resources
Legal issues								
14. Legal / Partnership arrangements	There is a risk that the legal arrangements between the Trust and Council fail to give adequate legal cover or meet statutory requirements		Nov 2010	=2	Impact marginal Likelihood extremely remote	Pre 14th December Arrangements have been made to retain specialist external legal support to ensure full and appropriate coverage of issues. A comprehensive summary of the legal arrangements will be appended to the Executive Report 13 th December Post 14th December Legal agreements will be drafted for consideration before final sign off pre-April 2010.	=2	Project Board / AD Governance

Title	Description	Current Risk Matrix	Matrix review dates	Current risk rating	Rating description	Current action status / control strategy	Target risk rating	Managed by
15. Admissions / fees and charges	<p>Advice has been received to suggest that the Council's current admissions policy is in contravention with EU rulings on such matters. The Council (and potentially the Trust) is therefore at risk of legal challenge.</p> <p>Any changes to the Council's admissions policy may also affect the Council's / Trusts VAT position.</p>		Nov 2010	=12	<p>Impact High</p> <p>Likelihood Reasonably probable</p>	<p>Pre 14th December Advice and guidance has been received on this matter. Further discussions with the Shadow Board are needed to agree a Trust admissions policy.</p> <p>Post 14th December Further to advice received the Trust admissions policy will be incorporated into a funding agreement.</p>	=3	Project Board / AD Governance
16. Land issues	<p>The Council will require consent from the County Council to sub-let the Millennium Gallery to the trust. Permissions</p>		Nov 2010	=3	<p>Impact High</p> <p>Likelihood Extremely remote</p>	<p>Pre 14th December The Council has entered into correspondence with the County Council and Big Lottery to obtain the relevant permissions.</p> <p>Post 14th December</p>	=3	Project Board / AD Governance

Title	Description	Current Risk Matrix	Matrix review dates	Current risk rating	Rating description	Current action status / control strategy	Target risk rating	Managed by
	must also be received from the Big Lottery.					Permissions will be required before completing legal documentation		
PR & Communication (external) issues								
17. Media and external communications	There is a risk that media and public interests are not managed in a clear and consistent manner		Nov 2010	=2	Impact marginal Likelihood extremely remote	Pre 14th December The Project Board has devised a media and external communications plan to ensure effective arrangements are in place managing project awareness Post 14th December A revised media and external communications plan will be produced to cover the next stage in the project.	=2	Project Board / Communications manager
Performance management and partnership monitoring arrangement								
18. Partnership / performance monitoring arrangements	There is a risk that partnership monitoring arrangements fail to have a positive influence on the performance of Tullie House		Nov 2010	=6	Impact High Likelihood Remote	Pre 14th December Core performance indicators and monitoring arrangements need to be devised and agreed Post 14th December Partnership monitoring plans	=3	Project Board / AD Community Engagement

Title	Description	Current Risk Matrix	Matrix review dates	Current risk rating	Rating description	Current action status / control strategy	Target risk rating	Managed by
						need to be devised and implemented.		

APPENDIX 4

CARLISLE CITY COUNCIL

TRANSFER OF TULLIE HOUSE MUSEUM TO A CHARITABLE TRUST

SUMMARY OF AGREEMENTS

The Trust will take the legal form of a company limited by guarantee. This means that it will be a separate legal entity and the governing documents will be a Memorandum and Articles of Association. The memorandum and articles will set out the aims and objectives of the trust, the powers it has and the procedures by which it will conduct its business. The Trust will not issue share capital nor will it distribute profit. To secure tax benefits and dependent on the activities of the Trust, a subsidiary trading company may be set up which will covenant all its profits to the Trust.

The purposes set out in the Memorandum of Association will be charitable and the Trust requires to be registered with the Charity Commission. The Government has approved in principle a new form of charity called the charitable incorporated organisation. It will have features of both companies and charities and the intention is to require registration only with the Charity Commission and not, as currently, with the Registrar of Companies. This single registration process will reduce time and administrative complexity. However, not all the legal processes to achieve this have been completed by Government so it may not be possible to take advantage of this simplified process.

The relationship between the Council and the Trust will be governed by a number of legal agreements.

Partnership and Funding Agreement

Parties: Carlisle City Council (CARLISLE) and the Tullie House Museum Trust Limited (MT)

An agreement for MT to manage the museum and setting out the agreed aims in so doing and including arrangements for CARLISLE to provide core funding to MT. This is the key document governing the relationship between the parties. The intention is that the Agreement will be for a lengthy period, say 25 or 30 years, and within that there will be a series of financial settlements (say in five-year periods) so as to bring a degree of certainty to the arrangement and also to allow the parties to review the level of commitment in the light of changing circumstances throughout the period of the relationship.

Leases

Parties: CARLISLE and MT

Leases of the Museum from CARLISLE to MT in order to vest occupation of the buildings in MT. As MT has charitable purposes then the leases will enable it to benefit from relief on National Non Domestic tax rates. Leases require CARLISLE to fulfil all repair and maintenance obligations at the centres.

Employee Transfer Agreement

Parties: CARLISLE and MT.

Deals with the transfer of staff currently employed at the Museum from CARLISLE to the employment of MT. Requirement to comply with Transfer of Undertakings regulations protecting the current terms and conditions of employees. Sets out responsibilities of MT.

Admitted Body Pension Scheme Agreement and Bond

Parties: CARLISLE, MT and Cumbria County Council (which administers the local government pension fund)

Agreement dealing with pension payments in respect of employees transferring to the employment of MT in the Employment Transfer Agreement.

Collection Agreement

Parties: CARLISLE and MT

Agreement to allow the Museum to manage the collection which will remain in the ownership of CARLISLE. Items coming into the control of the MT during the course of the operation of the MT will become the property of CARLISLE should the MT cease to exist (unless restrictions have been put on the property by any donor preventing this occurring).