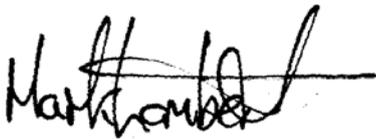


SUMMONS

To the Mayor and Members of Carlisle City Council

You are summoned to attend the Special Meeting of Carlisle City Council which will be held on **Tuesday 15 June 2021 at 18:45** in the **Council Chamber, Civic Centre, Carlisle CA3 8QG**



Corporate Director of Governance and Regulatory Services

1. The Mayor will invite the Chaplain to say prayers.
2. The Town Clerk and Chief Executive will open the meeting by calling the roll.
3. **Public and Press**

To determine whether any of the items of business within Part A of the Agenda should be dealt with when the public and press are excluded from the meeting.

To determine whether any of the items of business within Part B of the Agenda should be dealt with when the public and press are present.

4. **Declarations of Interest**

Members are invited to declare any disclosable pecuniary interests, other registrable interests and any interests, relating to any item on the agenda at this stage.

5. Announcements

- (i) To receive any announcements from the Mayor
- (ii) To receive any announcements from the Leader of the Council
- (iii) To receive any announcements from Members of the Executive
- (iv) To receive any announcements from the Town Clerk and Chief Executive

6. Tullie House and Levelling Up Fund

Pursuant to the Leader's Decision Notice LD.04/21 to receive a report regarding the submission of an application to the Government's Levelling Up Fund to provide capital support for the application and facilitate a funding agreement with Tullie House.

(Copy Report ED.17/21 herewith)

7. Communications

To receive and consider communications and to deal with such other business as may be brought forward by the Mayor as a matter of urgency, in accordance with Procedure Rule 2.1(xv) to pass such resolution or resolutions thereon as may be considered expedient or desirable.

PART 'B'

To be considered in private

- NIL -

Meeting Date:	15 th June 2021
Portfolio:	Health and Wellbeing / Economic Development
Key Decision:	Key Decision
Policy and Budget Framework	Yes/No
Public / Private	Public
Title:	Tullie House and Levelling Up Fund
Report of:	Corporate Director of Economic Development
Report Number:	ED.17/21

Purpose / Summary:

The first round of the Levelling Up Fund provides the opportunity for Local Authorities to bid for up to £20million for projects that include the regenerating, or creatively repurposing museums, galleries, visitor attractions. Tullie House Museum and Art Gallery Trust has been put forward as a candidate for a single bid to this fund entitled Project Tullie.

The purpose of this report is to outline the Project Tullie Levelling Up Bid. The report seeks the authority to be the applicant for the project and agree to a set of recommendations relating to the financial management of the project development and delivery.

Recommendations:

It is recommended that the Council agrees to:

1. be the project applicant for the LUF bid on behalf of Tullie House;
2. provide a 10% capital contribution to fund the project up to a maximum of £1.5million against the requirement that:
 - the bid is for a single project for less than £20 million and produced in accordance with the funding guidance;
 - the programme of work is initiated in 2021/22;

- all bid documents will be submitted by noon 17th June 2021 (one day in advance of the Levelling Up submission date).
3. subject to Executive approval, provide accountable body function for the LUF funded Project Tullie and enter into a grant funding arrangement with the Tullie House to deliver the project;
 4. note that the Corporate Director of Governance and Regulatory Services when undertaking a surrender of the current Tullie House lease and grant a new lease of both Tullie House and Herbert Atkinson House following consultation with the Leader of the Council and the Portfolio Holder for Economy, Enterprise and Housing will take into account the revised arrangements as detailed in this Report [Executive minute ref 55/19];
 5. increase the 2021/22 and 2022/23 capital programme as a commitment to contribute up to £1.5million to support the Levelling Up Fund bid for Project Tullie;
 6. accept the potential, at risk, forward funding requirement to contribute to the Development Phase (exact amount to be determined), prior to knowing the outcome of the Levelling Up Fund bid, which may then be a call on the revenue budget;
 7. approve the increase to the Council's borrowing limits (operational boundary and authorised limits for external debt) as set out in the financial implications section of the report;
 8. approve the use of council reserves to fund the potential recurring external borrowing costs of up to £79,500 per annum over the length of the borrowing terms, if external debt is taken out to fund this contribution, with the final decision being delegated to the Corporate Director of Finance and Resources.

Tracking

Executive:	
Scrutiny:	
Council:	Special Meeting – 15 th June 2021

1. BACKGROUND

1.1 Levelling Up Fund

- 1.1.1 The £4.8bn Levelling Up Fund (LUF) will invest in local infrastructure that has a visible impact on people and places, and that supports economic recovery. The Fund will focus investment in projects that require up to £20m of funding for either a single capital project or package of projects that are strategically aligned. The first round of £600m will prioritise bids that can demonstrate investment or begin delivery on the ground in the coming financial year.
- 1.1.2 The first round of the Fund focuses on three themes including: *Cultural investment* - maintaining, regenerating, or creatively repurposing museums, galleries, visitor attractions (and associated green spaces) and heritage assets as well as creating new community-owned spaces to support the arts and serve as cultural spaces.
- 1.1.3 Applications for funding must clearly demonstrate how proposed investments will support relevant local strategies and their objectives for improving infrastructure, promoting growth, enhancing the natural environment and making their areas more attractive places to live and work. Local areas will also need to show why the proposed investment or set of investments represents the highest value local priorities.
- 1.1.4 MPs have the option of providing formal written support for one bid which they see as a priority.

1.2 Local Funding Contribution

- 1.2.1 The LUF guidance states that bids to the Fund are encouraged that include local contributions representing at least 10% of total costs. In addition, bids must include:
- a. costs and spend profile at the project and bid level. This should also set out clearly what funding is secured from other sources and major interdependencies where funding has not been secured;
 - b. certainty over the whole funding package, including evidence of any wider public or private sector co-funding commitments (i.e. letters, contractual commitments). Identification of any gaps in funding;
 - c. information on margins and contingencies that have been allowed for and the rationale; and

- d. the main financial risks and how they will be mitigated, including how cost overruns will be dealt with and shared between non-UK Government funding partners.

1.3 Assessment Framework

1.3.1 There will be a 3 staged approach to assessment of bids including:

Stage 1 Gateway - The first stage is a **pass/fail gateway** criterion, where bids will be assessed against whether they can deliver some LUF expenditure in 2021/22.

Stage 2 Assessment and Shortlisting Bids: Bids will be assessed against the criteria:

- characteristics of the place – each local authority will be sorted into category 1, 2 or 3 based on our assessment metrics, with category 1 representing the highest level of identified need. Carlisle has been categorised as Priority 2;
- strategic fit with local and Fund priorities – this should be addressed in the strategic case of submissions and should include support from stakeholders; and
- value for money – an economic case should be submitted to explain the benefits of the bid and how it represents value for money.

Stage 3 Decision Making: Once bid assessment and moderation has concluded, and the shortlist is drawn up, Ministers will make funding decisions. In making these decisions ministers may take account of some or all of these additional considerations:

- ensuring a reasonable thematic split of approved projects;
- ensuring a fair spread of approved projects across Great Britain;
- ensuring a fair balance of approved projects across places in need;
- prioritisation of either ‘strategic fit’ or ‘deliverability’ or ‘value for money’ over the other criteria. The prioritisation and weighting at this stage may be different from the weighting at assessment (noting this must be applied consistently to all projects);
- taking into account other investment in a local area. In future rounds, this could include funding provided to local areas through the first round of this Fund.

1.4 Tullie House Levelling Up Proposal

1.4.1 Tullie House Museum and Art Gallery in Carlisle is at a transformative point in its history. Inspired by its founding principles as Carlisle’s centre of arts, learning and knowledge, it remains a building of national and local importance and at 6,000sqm it is the largest museum between Manchester and Glasgow. The LUF bid proposal is

a capital re-development of Tullie House, which has been a significant cultural and community asset since 1893. It is an ambitious cultural project for Carlisle, Cumbria and the Borderlands region, securing Tullie House's future and relevance for the next 100 years. A redeveloped Tullie House, at the heart of the Historic Quarter, will provide new and upgraded space, facilities and services in an innovative environment as part of a new and engaging cultural offer for residents and tourists alike. The project aims to increase visitors by 50,000 per year. The project will contribute to increase the vitality and vibrancy of the city centre, support local communities through engagement in local cultural programmes and activities, and substantially enhance the region's tourism offer.

- 1.4.2 The vision for the project includes creating a high-quality visitor destination and improving the cultural offer of Carlisle, widening the visitor base and improving the vibrancy and vitality of the city centre. The project will reveal hidden Victorian architecture and repurpose existing galleries to create contemporary, multi-functional spaces showing more of the museum's world class collections alongside improvements to visitor infrastructure (including catering, access, exhibitions, and new visitor experiences). It will enable visitors to be able to engage with, and access more of Carlisle and Cumbria's cultural and heritage offer, including the museum's historic buildings and collections, and improve the overall perception of the city by residents and tourists. In addition, future work will include the development of a creative hub in Castle Street (adjacent to the museum) to further boost Carlisle's tourism offer and help bring visitors to the area and support the City's economic recovery and growth.
- 1.4.3 The project will also enable the museum to help deliver the promotion of the Carlisle Town Investment Plan and in particular the objective to become a Destination City. The project is complementary to a number of strategies aimed at redeveloping the city centre and supporting Carlisle's placemaking agenda. As an anchor organisation, the museum plays a critical role in the city's visitor economy.
- 1.4.4 The dramatic effects of Covid-19 have brought the planned redevelopment of Tullie House Museum into even sharper focus as it strives to build back in a way that also supports the recovery of Carlisle and local communities. Despite being a cultural and community focal point for the city, the current buildings and spaces prevent the museum from being able to respond to community demand or reach the organisation's potential to be a major driver of Carlisle's economic growth. This can be achieved but only with holistic refurbishment and the creation of spaces, facilities, services, and technology which are of sufficient quality and resilience to meet these needs now and in the future.
- 1.4.5 The project will resolve complex visitor flow, accessibility and connectivity issues; providing more galleries and spaces for communities to work in; and layering the historic collections across the building to immerse visitors in the heritage of Carlisle

and Cumbria. It will enable greater opportunities for volunteering and learning and skills development, ensuring the investment adds value for people living and working locally to improve their quality of life and life chances. It will also enable the Museum to deliver more of its award-winning and often life-changing engagement programme for children, young people and families.

- 1.4.6 The Stage 1 Gateway for the LUF is a pass/fail gateway criterion, where bids will be assessed against whether Tullie House can deliver some LUF expenditure in 2021/22. In order for Tullie House to achieve capital expenditure this financial year, they will need to initiate a Development Phase prior to the decision on the LUF bid. The cost of the Development Phase is estimated at up to £600k. Tullie House are unable to use the Treasury £2million funding for progressing to RIBA Stage 3, they have £400k from reserves and will require a top up to proceed, the exact amount is to be confirmed. As such Tullie House has requested the use of a portion of the proposed 10% Council contribution prior to the decision on the Project Tullie LUF bid.

2. PROPOSED SUPPORT FROM CARLISLE CITY COUNCIL

- 2.1 Carlisle City Council will:
- a. be the applicant for the LUF bid on behalf of Tullie House;
 - b. provide a 10 % contribution to the bid, up to a maximum of £1.5million;
 - c. provide forward funding requirement to contribute to the Development Phase (exact amount to be determined), prior to knowing the outcome of the LUF bid, which may then be a call on the revenue budget; and
 - d. provide accountable body function for the funds secured from the LUF and enter into a grant funding arrangement with Tullie House to deliver the project.

3. RISKS

- 3.1 The following are to be considered:
- a. the 10% co-funding that Tullie House has asked Carlisle City Council to provide will not present a risk as funding will only be provided if the bid is successful;
 - b. the project and proposed support package present risks to the Council some of which cannot be mitigated, however there is a risk / reward issue to be considered;
 - c. forward funding of the Council's contribution to fund the Development Phase of the Project cannot be capitalised if the overall Project Tullie scheme does not progress; and
 - d. if the project is not delivered in accordance with the business case submitted to the LUF;

- e. The Council would be the lead bidder and recipient of the LUF grant – and therefore would be the accountable body. This additional responsibility is a risk to the Council that needs to be highlighted. It can be mitigated.

4. CONCLUSION AND REASONS FOR RECOMMENDATIONS

- 4.1 Tullie House has always been an important part of the cultural offer in the City and the wider region. Post Covid19 as the economy recovers a strong cultural offer is going to be even more important helping to diversify the City Centre and attract and retain visitors for longer. The works proposed will help improve the visitor experience and showcase not only the collections but also open up parts of the historic building which are currently not accessible to the public. The Levelling Up Fund is an opportunity to obtain funding which will enable the comprehensive development of key elements of the project earlier than anticipated.

5. CONTRIBUTION TO THE CARLISLE PLAN PRIORITIES

- 5.1 The Project Tullie LUF bid if successful will contribute to the Carlisle Plan priorities:
 - P1: Supporting business growth and skills development to improve opportunities and economic prospects for the people of Carlisle.
 - P2: Further develop sports, arts and cultural facilities to support the health and well-being of our residents.
 - P3: Improving the quality of our local environment and green spaces so that everyone can enjoy living, working and visiting Carlisle.
 - P5: Promoting Carlisle regionally, nationally and internationally as a place with much to offer - full of opportunities and potential.

Contact Officer: Jane Meek

Ext: 7190

**Appendices
attached to report:**

Note: in compliance with section 100d of the Local Government Act 1972 the report has been prepared in part from the following papers:

- None

CORPORATE IMPLICATIONS:

LEGAL – Should the levelling up fund be successful then the Grant Funding will be paid to the City Council which will then be required to act as the Accountable Body for the project. At this stage the Council does not know the terms and conditions of Grant so the Executive will be required to consider a Report once these are known and also make the decision to act as the Accountable Body. At this stage consideration will need to be given to any risks associated with said terms and condition, for example clawback provisions.

As Accountable Body, it will be necessary for the Council to have a funding agreement between itself and the recipient (Tullie House).

In addition to the Property Services advice regarding lease arrangements, should the Project proceed, the Council will be required to grant necessary consents as the landowner. The Council will also have a role to play if Planning Permission is required.

PROPERTY SERVICES – Tullie House Trust currently occupy the property on the residue of a 30-year lease from 1 April 2011, they also occupy Herbert Atkinson House although no formal agreement is in place. The current plans offer the perfect opportunity to review the contractual arrangements in place with the Trust.

An investment of circa £16.5m is substantial and one would hope that it significantly increases revenue for the Trust in a not dissimilar way to how the Sands Centre redevelopment is removing the GLL subsidy.

It is recommended that new leases be granted to the trust of both Tullie House and Herbert Atkinson House on a full repairing and insurance basis where the tenant would be responsible for all repairs. This would allow the Council to obtain a return on its investment over time by reducing its long term maintenance liabilities but it would also allow the Council to retain control over the use of the premises and allow the Council to take back the property should the Trust fail to perform.

FINANCE – As part of the Levelling Up Fund bid, and contained within the Prospectus, bidders are encouraged to include a local contribution representing at least 10% of total costs. This report outlines that any Council financial contribution to support a successful Levelling Up Fund bid in respect of Project Tullie will be capped at £1.5million.

As the bid to the Levelling Up Fund is for capital works, it is recommended that the Council provide the (up to) £1.5million as a capital contribution to the project, with any agreed forward funding requirement being funded from this allocation. However, if no capital scheme progresses, then any forward funded development costs would be a call on the revenue budget.

Tullie House Asset Values

The project will provide enhancements to the Tullie House assets, which are currently valued on the Council balance sheet on a Depreciated Replacement Cost basis as follows:

	Asset Value 31/03/2020 £
Tullie House	6,190,765
Guildhall Museum	531,627
Tullie House Collection*	18,300,000
	25,022,392

*Valued on insurance values

The application to the Levelling Up Fund could bring up to £20million in enhancements to the Council assets and a contribution of up to £1.5million could be viewed as offering exceptional value for money to the Council.

The capital contribution would need to be added to the Council's capital programme for 2021/22 and 2022/23 and be funded from Council resources.

There are four ways in which this could be funded; Revenue Reserves, Internal Borrowing, External Borrowing or capital receipts.

Revenue Reserves

The Council could provide capital support from its revenue reserves (and revenue budget). Revenue contributions are an allowable source of funding for capital projects.

Following the Outturn position for 2020/21, the Council's reserve balances are as follows:

	31/03/2021 £000
General Fund Reserves	5,029
Earmarked Reserves	7,506
	12,535

However, General Fund Reserves are forecast to reduce from £5.029m to £3.303m by 2025/26. Earmarked reserves have been set aside to meet specific projects or needs and **it is therefore not recommended that they be released to fund this contribution.** There is therefore no scope to use revenue reserves unless revenue resources can be diverted from another service or found through increased savings requirements.

Internal Borrowing

As the contribution is to be capitalised, the use of internal borrowing is a source of funding with the financial support being provided from the Council's cash balances. This is currently a prudent form of "borrowing" as investment returns are lower than external borrowing rates. However, doing so decreases the amount of cash the Council holds, and which is required to meet its day to day cash-flow requirements.

Internal borrowing would incur a cost equivalent to the lost investment interest and also an MRP charge of £45,000 which is based on the Council's current MRP policy of 3%. Both these costs would fall as a cost to the Revenue budget.

The Council has been utilising internal borrowing over the past few years, for example in 2020/21, the Council repaid the £15m stock issue without undertaking additional external borrowing by using its cash balances. However, in the medium-term financial plan, this internal borrowing is forecast to be replaced with external borrowing in 2021/22.

With the level of cash balances being already reduced, **it is therefore not recommended that internal borrowing is used as a source of funding for this contribution.**

External Borrowing

The Council could fund the contribution by undertaking additional external borrowing. External borrowing rates are still relatively low and would provide the Council the cash to make the contribution to the scheme. However, external borrowing will incur interest costs and MRP costs. It has been the Council policy when undertaking any new borrowing to do so on a principal repayment basis (i.e. repaying the loaned amount over the term of the loan).

The table below provides the current cost of a £1.5million loan with the Public Works Loan Board:

	Current Rate	1st Year interest payment £	Overall Interest Payment £	MRP Charge @3% £	1st Year cost to Revenue Budget £	Principal Repaid Annually £
10 Year	1.75%	26,250	144,000	45,000	71,250	150,000
25 Year	2.30%	34,500	449,000	45,000	79,500	60,000

Therefore, there would be a maximum additional cost to the revenue budget of £79,500 per year if external borrowing were to be undertaken.

The Minimum Revenue Provision charge arises because the contribution is funded from a borrowing requirement. The Council's MRP policy is to charge 3% on a straight-line basis

of any increase in the CFR (the borrowing requirement). This equates to an average debt life of 33.33 years. Therefore, the MRP charge to the revenue budget would continue to be made even after the actual debt is repaid (if loans are for less than 33 years).

Capital Receipts

A further option for funding the contribution could be to seek to generate additional capital receipts over and above those already included in financing the capital programme. Use of additional receipts in this way would negate any increase in the Capital Financing Requirement and would therefore negate an increase in the overall MRP charge to the revenue budget.

However, using capital receipts in this way would require assets to be identified that could be sold, then actively marketing them and securing a willing buyer. This is likely to take some time and may not be in place for when this contribution is required.

Tullie House Subsidy

The Council provided an annual subsidy to Tullie House of £903,772 in 2020/21. There are still planned reductions of £50,000 in 2021/22 and a further £150,000 in 2022/23 in the Medium-Term Financial Plan. Consideration may wish to be given as to whether this contribution to the enhancement of the Tullie House assets and the offer it provides to the local area offer an opportunity as an invest to save scheme where the borrowing costs could be offset by a further reduction in the subsidy.

Prudential and Treasury Indicators 2021/22 – 2023/24

If borrowing is undertaken and the contribution is added to the capital programme, then the Capital Financing Requirement will increase. Therefore, it will be necessary to update the Prudential and Treasury Indicators that were agreed in the Treasury Management Strategy Statement in February 2021.

PRUDENTIAL INDICATOR AFFORDABILITY INDICATORS	2020/21	2021/22	2022/23	2023/24	2024/25
	actual	revised estimate	estimate	estimate	estimate
	£000	£000	£000	£000	£000
Capital Expenditure	14,172	29,558	15,662	4,098	3,976
Ratio of financing costs to net revenue stream	1.19%	4.62%	8.68%	13.63%	12.85%
Net borrowing requirement in year (Internal & External)	(5,035)	(21,428)	(5,627)	73	193
Capital Financing Requirement as at 31 March	21,148	42,576	48,203	48,130	47,937
Annual change in Cap. Financing Requirement	5,035	21,428	5,627	(73)	(193)
Incremental impact of capital investment decisions					
Increase in council tax (band D) per annum (£)	4.38	18.54	4.82	(0.06)	(0.02)

The Council's Borrowing Need (Capital Financing Requirement)

The Capital Financing Requirement (CFR) is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is a measure of the Council's indebtedness and so its underlying borrowing need. Any capital expenditure above, which has not immediately been paid for from capital grants, capital receipts or revenue contributions, will increase the CFR as it will be funded from borrowing.

The CFR does not increase indefinitely. The Minimum Revenue Provision (MRP) is a statutory annual charge to the revenue budget which reduces the CFR in line with each asset's life, and so charges the economic consumption of capital assets as they are used.

PRUDENTIAL INDICATOR TREASURY MANAGEMENT INDICATORS	2020/21 actual £000	2021/22 revised estimate £000	2022/23 estimate £000	2023/24 estimate £000	2024/25 estimate £000
Authorised Limit for External Debt:					
- Borrowing	44,000	48,000	54,000	54,000	54,000
- Other Long Term Liabilities	100	100	100	100	100
TOTAL	44,100	48,100	54,100	54,100	54,100
Operational Boundary for external debt:					
- Borrowing*	39,000	43,000	49,000	49,000	49,000
- Other Long Term Liabilities	100	100	100	100	100
TOTAL	39,100	43,100	49,100	49,100	49,100
Upper Limit for fixed interest rate exposure:					
- Net principal re. Fixed rate borrowing/investments	100%	100%	100%	100%	100%
Upper Limit for variable rate exposure					
- Net principal re. Variable rate borrowing/investments	100%	100%	100%	100%	100%
Upper Limit for total principal sums invested for over 1 year	50%	50%	50%	50%	50%

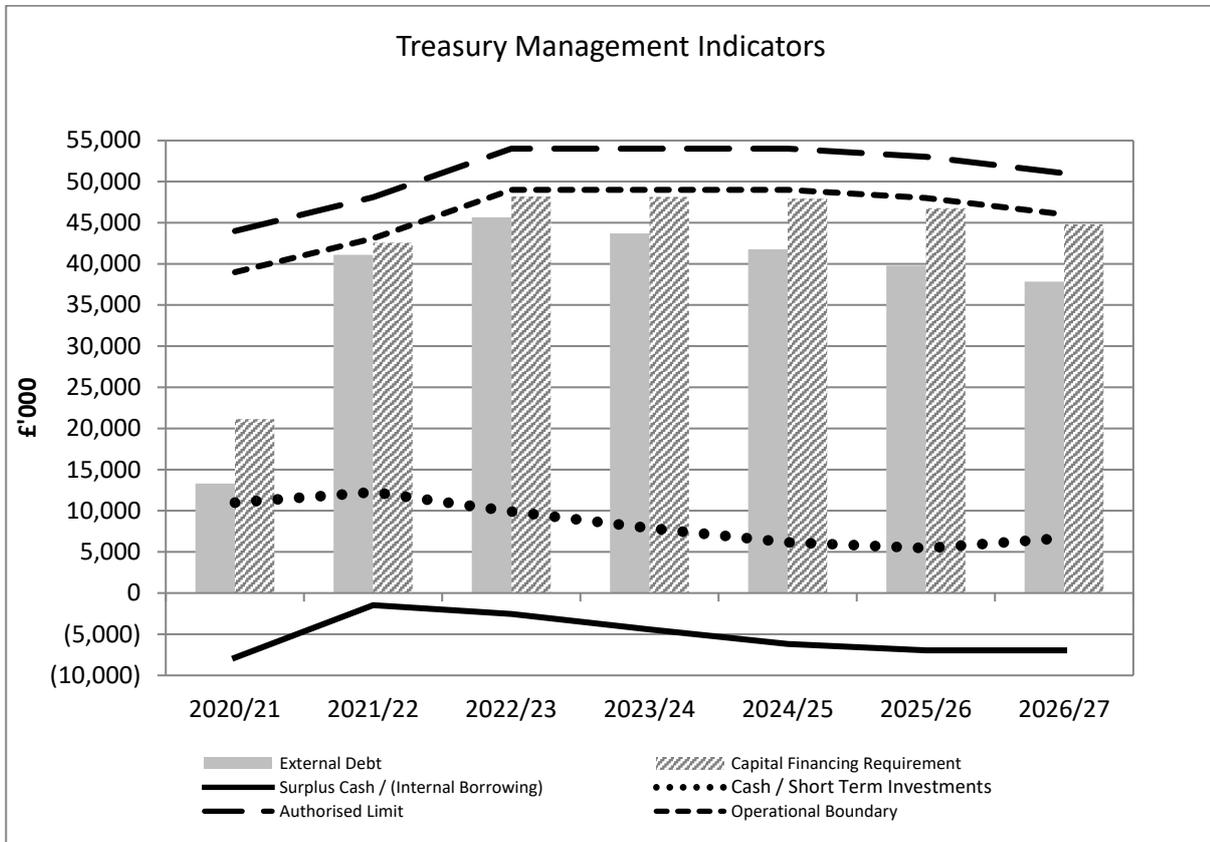
Notes:

The authorised limit for external debt. This is a key prudential indicator and represents a control on the maximum level of borrowing. This represents a legal limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

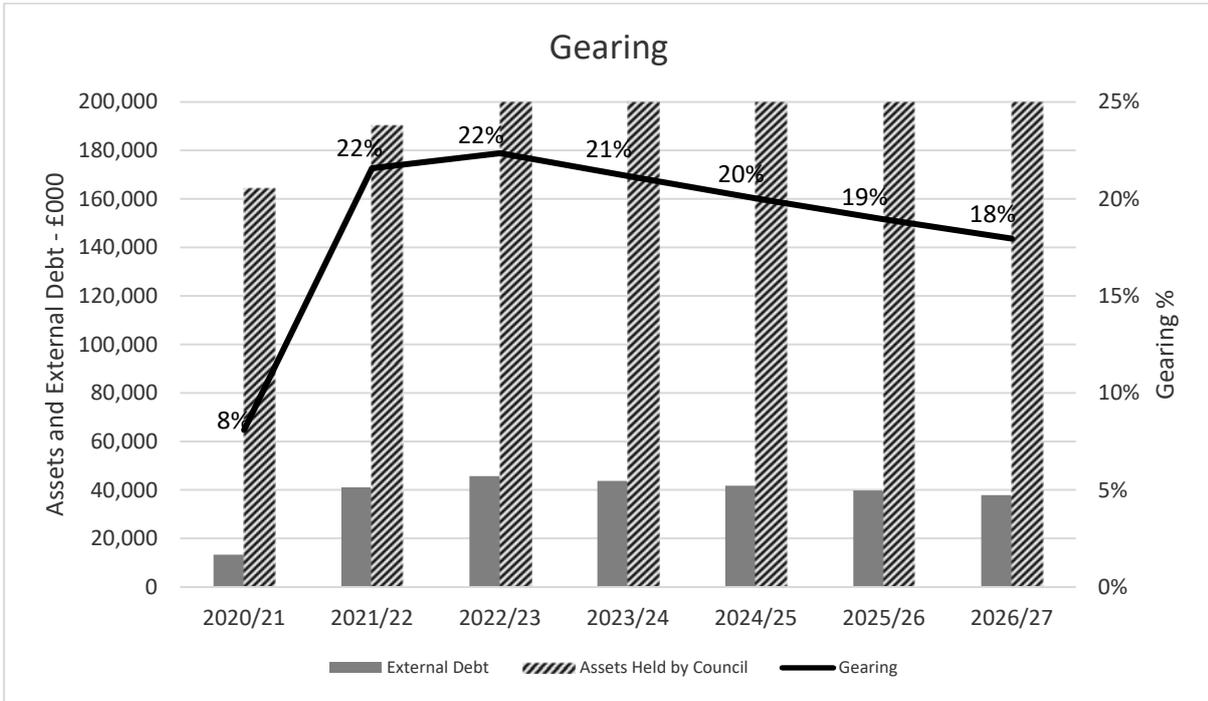
The operational boundary. This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

PRUDENTIAL INDICATOR TREASURY MANAGEMENT INDICATORS	2020/21 actual £000	2021/22 revised estimate £000	2022/23 estimate £000	2023/24 estimate £000	2024/25 estimate £000
External Debt B/Fwd	13,775	13,300	41,105	45,657	43,702
New External Debt (Actual & Planned)	0	29,500	6,507	0	0
External Debt Repaid	(475)	(1,695)	(1,955)	(1,955)	(1,955)
External Debt C/fwd	13,300	41,105	45,657	43,702	41,747

The graph below shows the level of external debt currently forecast against the Capital Financing Requirement. This chart makes assumptions regarding the use of external borrowing and the level of capital receipts to be generated to support the capital programme. It shows that external debt is not forecast to rise above the revised authorised limit over the next five years.



In setting the Authorised Limit consideration should be made to the chart below which demonstrates the level of indebtedness against the Council's overall asset base (i.e. its gearing).



EQUALITY – None

INFORMATION GOVERNANCE – None