

Leicester
City Council

WARDS AFFECTED: All

CABINET

13th October 2003

INVESTIGATION OF ALTERNATIVE MANAGEMENT OPTIONS FOR CULTURAL SERVICES

Report of the Corporate Director of Cultural Services and Neighbourhood Renewal

1. Purpose of Report

- 1.1 This report informs Members of the work that will be carried out to produce cost benefit analysis of options for alternative management options for a number of cultural services.
- 1.2 It asks Members to note the importance of reducing the Council's asset base prior to any transfer of services to any alternative management options in order to ensure the viability of any future .
- 1.3 And it asks Members to consider the setting up and membership of a Cabinet Sub Group to oversee the work of an officer team responsible for producing alternative management options for consideration by Cabinet early in 2004.

2. Summary

- 2.1 Alternative management could have many benefits for Leicester; it could release revenue for investment in services; it could create new ways of working, and could create new investment. But there are also risks. Alternative management puts services further away from direct Council control and could be perceived as an abdication of responsibility to future staff. While safeguards could be put in place to protect staff transferring from the Council, staff are nervous about the potential change in their employment status.
- 2.2 Alternative management alone will not deliver the levels of investment the Council needs to guarantee a future for cultural services in the city. Before any alternative management arrangement is put in place some asset disposals and service reductions need to be in place; and comprehensive investment in services needs to be identified. That process is already in train through the Cultural Services and Neighbourhood Renewal Department's (CS&NR) budget strategy. In effect, the body managing the new services will need to commence with a robust, affordable business plan.
- 2.3 Much work has already been done in exploring the potential of a number of alternative management options for cultural services. That work needs to be fine tuned in the light of the recent consultation exercise to produce detailed options for Members to consider. This report proposes a staff team with oversight from a Cabinet Sub Group to produce options for consideration by Cabinet early next year.

2.4 While it is not usual practice, nor necessary, to seek Cabinet approval for Directors to explore options, this issue is particularly sensitive. This paper makes transparent the route that the Director of CS&NR will use to investigate the alternative management options for cultural services open to the Council.

3. Recommendations

3.1 Members are recommended to:

- 1 Note the work to be carried out to produce alternative management options for consideration by Members at a later Cabinet meeting.
2. Note the importance of reducing the Council's asset base prior to any transfer of services to any alternative management arrangement in order to ensure the viability of any such .
3. Consider the setting up and membership of an Alternative Management Cabinet Sub Group

4 Financial & Legal Implications

4.1 The financial implications of this report are described in paragraph 6.5 of the full report attached to this paper. A sum of £15K has been identified from existing departmental resources to support the work of the staff team investigating alternative management options. Part of the work of that team will be to scope the set up costs of any option(s). A sum of £100K has been identified in the CS&NR budget strategy as an early marker of that work.

4.2 There are no specific legal implications in this report. However both specialist financial and legal advice will be required to establish the most appropriate options for alternative management of cultural services, ensuring that the interests of both the Council and any new organisation are protected.

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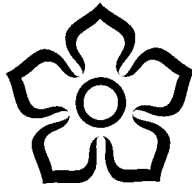
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DECISION STATUS

Key Decision	No
Reason	N/A
Appeared in Forward Plan	No
Executive or Council Decision	Executive (Cabinet)



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SUPPORTING INFORMATION

Report

1. Background

- 1.1 Since late 2002 staff in the Cultural Services and Neighbourhood Renewal Department have been working on a project to create long term sustainability for the department. Faced with challenging financial targets and the consequences of long term budget reductions we found we needed to explore some radical options.
- 1.2 Since some of those options may be sensitive for both the public and staff, this paper asks Members to note the routes officers propose to bring you costed and detailed options early in 2004.

2. Alternative Management – what is it?

- 2.1 Alternative Management is a portmanteau phrase covering a range of different ways of delivering existing services, from partnerships to commercial operations. Alternative management of cultural services could mean that the Council would no longer provide these services directly, but would contract with another organisation or number of organisations, to provide services on the Council's behalf.
- 2.2 For the purposes of this report, Alternative Management is defined as the creation of one or more Not-For-Profit organisations to manage cultural services on behalf of Leicester City Council. Officers will also continue to explore the benefits and dis-benefits of transferring some services to pre-existing and new private sector operations, and will include these options, should they prove viable, in a future report.

3. Benefits and Dis-benefits

- 3.1 Transferring cultural services to one or more Not-For-Profit organisations could allow those services to develop close links with their geographic and interest communities through both formal management and formal and informal local partnerships.

- 3.2 Alternative Management could give staff in the new organisation(s) the freedom to develop new ways of working, new partnerships and new contacts. It could allow, over time, the development of different and appropriate styles of delivery.
- 3.3 There are, dependant on the model and range of services included in the alternative management arrangement, significant financial savings to be made. These savings are outlined in Section 4 of this report.
- 3.4 However, removing services from the body of the Council brings risks as well. An arms length organisation or organisations would not be within the direct control of the Council. Control would be exercised by the contract between the Council and the arms length organisation, by an active partnership with shared and agreed goals, and by rigorous monitoring of outcomes and outputs. While Councillors may be involved in the management of the new organisation(s) their numbers may be controlled by the need to avoid Council controlled companies, and their representative role constrained.
- 3.5 It is likely that TUPE provisions would apply to staff transferring to any new organisation. This would give considerable protection in terms of pay and conditions, depending upon the detail of the arrangements developed. Early consultation with staff and unions consultation is essential to understand the scope and impact of TUPE in respect of all the alternative management options.
- 3.6 The transfer of services to alternative management may result in a a reducing requirement for corporate services including corporate financial, HR, procurement, legal and property services. The options report to Cabinet next year will detail and weigh up the consequences of alternative management in this respect.

4. Potential savings

- 4.1 The financial benefits of the transfer of services to one or more Not-For-Profit organisations arise from 3 areas:

- Non Domestic Rates (NNDR)
- Value Added Tax (VAT)
- Borrowing/Investment/grant aid

NNDR

- 4.2 Local Authorities currently pay full business rates on their building based cultural and other services. A Not-For-Profit cultural organisation established with charitable objectives should be able to achieve 100% mandatory relief if a tax efficient organisational model is chosen. Until charitable status is achieved, such an organisation would be entitled to 100% discretionary relief, but as 25% of this would have to be met by the Council until the organisation's charitable status is agreed, the calculations of potential NNDR savings in the table below are based on 75% rate relief. Once the organisation achieves charitable status the proportion of relief met by the Council reduces to 15%.
- 4.3 Table 1 on the next page shows the NNDR potential savings

Table 1

Annual Savings.
Based on 75% of 2004/04 NNDR
£K

Service	£K
Arts	67.1
Museums & Heritage	92.4
Sports and Leisure Centres	350.9
Parks and Cemeteries	61.5
Markets	196.5 ¹
Recreational Transport	5.2
Total annual savings	773.6
Total savings over 5 years	3,868

VAT

- 4.4 An appropriate organisational model may be able to maximise the opportunities within the VAT legislation. At the same time the Council's own VAT exemption limit, which is currently vulnerable, could be protected.

Borrowing/Investment/grant aid

- 4.5 A not for profit organisation has the opportunity to raise funds commercially in ways that are not currently open to local authorities. Organisations registered as charities have access to sources of grant aid unavailable to local authorities. The private sector is notoriously reluctant to respond to local authorities requests for sponsorship, and may well see a cultural not for profit organisation as a more attractive partner. However, any funds borrowed by a not for profit organisation will be at higher interest rates than a local authority would have to pay. Whilst it is currently true that not for profit organisations can borrow money outside of local authority capital controls (if someone is prepared to lend it to them), the forthcoming prudential framework is expected to grant the same discretion to local authorities.

5. Asset disposal

- 5.1 For any alternative management arrangement to thrive it needs to start from a sustainable base. The work on The Project has identified that the scale of investment needed to give Leicester's cultural services a long term future cannot be met from alternative management alone, nor from disposals and minimal reductions alone.
- 5.2 A complex mix of alternative management options, and fewer but better services will be needed to give cultural services in Leicester a sustainable future. Asset disposal, minimal service reductions and the investment flowing from those disposals and reductions needs to be invested into cultural services prior to a transfer to any alternative options. In short, if Members decide next year to pursue one or more of the alternative management options the organisation or organisations have to start with a sustainable business plan.
- 5.3 That process is being developed through the CS&NR budget strategy and will form part of the budget presentations to Members later this year.

6. Next Steps

¹ As far as officers are aware there is only one market in the UK which has charitable status. More work needs to be done to explore the legality and feasibility of this option.

- 6.1 Much work has already been done to research alternative management. In the Summer of 2001, following the recommendations of the Sports and Arts Best Value reviews, Leonie Cowen and Associates were appointed by the Department to provide an external professional view on the strategic options for future management of cultural services, including Libraries, arts, parks, sports and museums. That report was updated by the consultant in July 2003 at the request of the Service Director, Cultural Services, to inform the research on The Project and this report.
- 6.2 Some more work needs to be done to fine tune, cost and detail a range of options for Cabinet to consider. That work needs to be done in the light of the recent consultation. The analysis of that consultation will be available from the beginning of November 2003. Officers propose that the workload is best managed by a Cabinet Sub-Group overseeing the work of a small officer team.
- 6.3 The table below sets out the tasks and timetable for that team. If, next year, Members decide to pursue alternative management much further work will be needed to make the concept a reality, and a formal project board will need to be established to manage the work, along with Member oversight. As an early marker, a sum of £100K has been identified in the CS&NR budget strategy towards the cost of that work.

Table 2

Cabinet report	Oct 03
Establish officer team and Cabinet Sub group	Oct 03
Prepare detailed project plan	Nov 03
Identify most appropriate organisational model	Dec/Jan 04
Identify and explore viability of private sector options	Nov/Dec/Jan 04
Identify services to transfer	Dec/Jan 04
Identify indicative staff posts to transfer	Dec/Jan 04
Member, staff and union consultation	Ongoing throughout
Report to Cabinet	Jan/Feb 04

- 6.4 The Corporate Director of CS&NR proposes that a small staff team with expertise from Corporate Legal, Property and Financial Services along with administrative and research back up be lead by senior management within CS&NR. This team will undertake the groundwork to inform the options offered to Members
- 6.5 In order to create the capacity to lead the team, some back filling and additional financial, legal administration support will be required. This has been provisionally costed at £15K which will be funded by management budgets, and savings from posts in CS&NR which are currently held vacant.
- 6.6 This report proposes that a Cabinet Sub-Group oversee and inform the staff team with a remit ofr both the staff team and the Cabinet Sub Group to:
- propose the structure of an organisation or group of organisations capable of maximising the benefits of alternative management options.
 - propose the best model for an organisation or group of organisations to maximise VAT recovery for the organisation and the Council
 - propose a low risk approach by adopting a robust structure

- propose a structure capable of being implemented within 18 months from final agreement by Cabinet

7. FINANCIAL, LEGAL AND OTHER IMPLICATIONS

Financial Implications

7.1 Comments of the Chief Financial Officer

The financial implications of transferring cultural services to alternative management arrangements will be very significant, and will vary from model to model. Part of the work of the project team will be to evaluate these in detail when considering options for members. It is noted at this stage that the ability to generate ongoing revenue savings appears to be more fruitful in the case of sports and leisure centres than it is for other facilities.

Mark Noble Sept 03

Legal Implications

7.2 Comments of the Head of Legal Services

A range of legal issues will require detailed consideration as the options are assessed, including those relating to staff, contracts, taxation, capital controls and Council controlled companies.

Peter Nicholls Sept 03

8 Other Implications

OTHER IMPLICATIONS	YES/NO	PARAGRAPH REFERENCES WITHIN SUPPORTING PAPERS
Equal Opportunities	NO	
Policy	YES	The approach supports the Cultural Strategy
Sustainable and Environmental	NO	
Crime and Disorder	NO	
Human Rights Act	NO	
Older People on Low Income	NO	

9. Background Papers – Local Government Act 1972

- Review of alternate management options for the delivery of cultural services, Leonie Cowan and Associates:
 - *Final report September 2002*
 - *Draft update report July 2003*
- Best Value reports:
 - *Arts Jan 2001*
 - *Sports Jan 2001*

10. Consultations

Consultees

CS&NR Head of Finance

Date Consulted

September 2003

Chief Finance Officer
Directors Board
Head of Legal Services

September 2003
September 2003
September 2003

11. Report Authors

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