



## **Costs and implications of a switch in hosting from Worcestershire County Council to Worcester City Council**

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## **1. Executive summary**

The Joint Museums Committee (JMC) of Museums Worcestershire requested a review to explore the costs and implications of switching the hosting of the museums shared service from Worcestershire County Council to Worcester City Council. The review is intended to inform a decision at the January 2018 JMC meeting, regarding whether or not to recommend a switch to each Council. Should a switch be agreed by each Council in February 2018, implementation would take place by 1<sup>st</sup> July 2018.

This report explains the background and context to the review, outlines the approach taken during the review, includes a narrative on the case for a switch, as well as the case for retaining the current hosting arrangements by the County Council. The report then provides detailed information on the actual costs and implications of making a switch, as well as the costs of a decision not to switch. A risk assessment is included as well as a timetable for implementation, should a switch be agreed.

Early on in the report, it is clarified that this review is being carried out on the basis that, in the event of a switch, the operation of the County Museum as a venue (but not the rest of the County Museum Service's remit) remains within the employment and management of the County Council but is still part of Museums Worcestershire. The reasons for this are explained in the detail of the report.

A switch in hosting is physically possible within the timescale (by 1<sup>st</sup> July 2018)

Tables 1 and 2 below provide the detail of costs incurred or savings made, and to which authority, before showing

- total new one off net cash and resource costs of a switch to all parties and
- total new revenue cash and resource costs of a switch to all parties.

**In summary, a switch will require that the City Council incur a one off cost of £24,500 for ICT changes, which can be partially offset by a County Council contribution of £4,200 (includes County cash saving on ICT costs).**

**The annual revenue implications for the City Council are £1,165, with the County Council projected to incur revenue costs of £1,101 per annum.**

**For Museums Worcestershire Shared Service there is a projected annual saving of £540.**

# **TABLE 1 – ONE OFF COSTS**

## **NEW COSTS/SAVINGS OF A SWITCH – ONE OFF**

## **NEW COSTS/SAVINGS OF NO SWITCH – ONE OFF**

### **City Council**

Item	Cash cost	Cashable saving	Total net new cash cost		Item	Cash cost	Cashable saving	Total net new cash cost
ICT equip/ lic	£23, 300	-				-	-	
Total			<b>£23,300</b>					<b>£0</b>

Item	Resource cost	Resource saving	Total net new resource cost		Item	Resource cost	Resource saving	Total net new resource cost
ICT work	Built into workload	-				-	-	
Total								<b>£0</b>

### **For County Council**

Item	Cash cost	Cashable saving	Total net new cash cost		Item	Cash cost	Cashable saving	Total net new cash cost
Phone handsets	£1,200	-			Phone handsets	£3,800		
Not doing network refresh	-	£3,000						
Total			<b>-£1,800 (saving)<sup>1</sup></b>					<b>£3,800</b>

Item	Resource cost	Resource saving	Total net new resource cost		Item	Resource cost	Resource saving	Total net new resource saving
ICT work – data transfer	£858							
Not doing network refresh	-	£3,000				-	-	
Total			<b>-£2,142 (saving)</b>					<b>£0</b>

Total one off net new cash cost of a switch (to all parties)	<b>£21,500</b>		Total one off net new cash cost of no switch (to all parties)	<b>£3,800</b>
Total one off net new resource cost of a switch (to all parties)	<b>-£2,142 (saving)</b>		Total one off net new resource cost of no switch (to all parties)	<b>£0</b>

<sup>1</sup> Additionally, shop-stock up to the value of £20,000 will be written off by County, in the same way as was done by City in 2010. Accounting adjustment will be made

## **TABLE 2 – ANNUAL REVENUE COSTS**

### **NEW COSTS/SAVINGS OF A SWITCH – REVENUE**

### **NEW COSTS/SAVINGS OF NO SWITCH – REVENUE**

#### **For City Council**

Item	Cash cost	Cashable saving	Total net new cash cost		Item	Cash cost	Cashable saving	Total net new cash cost
ICT equipment/ licenses	£3,697					-	-	
Pension uplift to MW	£1,398 <sup>2</sup>					-	-	
Hosting fee		£10,580						
Total			<b>-£5,485 (saving)</b>					<b>£0</b>

Item	Resource cost	Resource saving	Total net new resource cost		Item	Resource cost	Resource saving	Total net new resource cost
ICT support work	£6,650	-				-	-	
Total			<b>£6,650</b>					<b>£0</b>

Cash/resource total			<b>£1,165</b>					
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#### **For County Council**

Item	Cash cost	Cashable saving	Total net new cash cost		Item	Cash cost	Cashable saving	Total net new cash cost
ICT equipment/licenses	-	£10,036 <sup>3</sup>					-	
Hosting fee	£10,580							
Pension uplift to MW	£557 <sup>4</sup>							
Total			<b>£1, 101</b>					<b>£0</b>

Item	Resource cost	Resource saving	Total net new resource cost		Item	Resource cost	Resource saving	Total net new resource cost
ICT support work	-						-	-
Total			<b>£0</b>					<b>£0</b>

<sup>2</sup> If ghost body is retained, after exploration

<sup>3</sup> 26 people to switch at £386 each – ICT budget, not recharged

<sup>4</sup> If ghost body is retained, after exploration

## For Museums Worcestershire

Item	Cash cost	Cashable saving	Total net new cash cost		Item	Cash cost	Cashable saving	Total net new cash cost
Additional line rental/calls costs on 3 sites to cover new maintenance agreement via Lync and Mitel	-	£540			Additional line rental/calls costs on 3 sites to cover new maintenance agreement via Lync	£2,840		
					New website hosting charge	£4,107.36 (£1,600 of this is for Jadu <sup>5</sup> licence fee (similar not recharged by City) – rest is County development support)		
					Claiming VAT cultural exemption at Commandery		-£5,100 saving	
<b>Total</b>			<b>-£540 saving</b>		<b>Total</b>			<b>£1,847.36<sup>6</sup></b>

Total annual revenue net <u>new</u> cash cost of a switch (to all parties)	<b>-£4,924 (saving)</b>		Total annual revenue net <u>new</u> cash cost of no switch (to all parties)	<b>£1,847.36</b> (+ see footnote 2)
Total annual revenue net <u>new</u> resource cost of a switch (to all parties)	<b>£6,650</b>		Total annual revenue net <u>new</u> resource cost of no switch (to all parties)	<b>£0</b>

More detail about costs and savings can be seen in the report. The report does not make a recommendation, but instead intends to provide enough information as is required to enable the JMC to reach a decision.

This report has been compiled with invaluable help from Philippa Tinsley and Angela Bishop at Museums Worcestershire, and significant input from all the work-stream representatives.

<sup>5</sup> Jadu is a web content management platform used by the County Council

<sup>6</sup> This figure would decrease, and may become a saving, if admissions at the Commandery increase, as per the business plan

## **2. Museums Worcestershire**

Museums Worcestershire preserves, interprets, exhibits and celebrates collections which have shaped the identity of Worcestershire and Worcester City for over 2,000 years. Through visits to its three venues (Worcestershire County Council's County Museum at Hartlebury, Worcester City Council's Museum and Art Gallery and The Commandery), education activities and community engagement, Museums Worcestershire aims to enrich the lives of people from Worcestershire and beyond.

Museums Worcestershire was established as a shared service in 2010, at a time when local authorities were creating a range of shared services in several areas, such as Revenues and Benefits and Regulatory Services. The Joint Museums Committee (JMC) was created to govern the new service, with representation from two elected members from each council. Worcestershire County Council became the host authority. Worcester City staff were TUPE-d across with County taking on all the support functions, except for property. (Property budgets and support were left outside the scope of the joint service and remained with each council).

One third of the financial contribution from the two authorities was saved through the creation of a single, joint management team, joint collections and the pooling of expertise. The joint management team provides a strategic and professional lead to the whole service on management of collections, education programmes, outreach, finance, marketing, exhibitions, volunteer management, partnership liaison, fundraising, forward planning and ensuring professional standards are met and the museums remain accredited, as well as providing advice to other museums. Each of the three venues has its own team of operational staff.

The Museums General Manager reports quarterly to the JMC. A scheme of delegation sets out which decisions can be made by the JMC, which decisions need to be recommended to the two councils, and which decisions can be taken by the Museums General Manager without reference to the JMC.

In 2016/17, Museums Worcestershire's overall budget was £1.2m. 60% of this was the financial contribution from the two authorities. 40% was funding raised through successful applications to Arts Council England and Heritage Lottery, income from admissions, activities, retail, commission, café and hire bookings, and donations.

In 2016/17, Museums Worcestershire welcomed 100,000 visitors and users of their services.

## **3. Background to a review of hosting and purpose of report**

In 2015, following a workshop for elected members, it was proposed that the hosting of Museums Worcestershire switch to Worcester City Council, who were shortly to prioritise heritage in their corporate plan. Project management arrangements were set up and the work required to carry out a switch began. The following principles guided the work:

- To be cost neutral
- To be achieved through a thorough examination of the issues
- To be true to the principles of partnership working through continued joint arrangements
- To achieve as far as possible a seamless move of the service
- To meet corporate objectives
- To reflect the work carried out in relation to Hartlebury in any future structure.

In September 2016, this work was halted when it became clear the switch would not be cost neutral, as highlighted by initial calculations on ICT costs and some consideration of revenue impact. The project was deferred for a year.

In June 2017, the JMC agreed *‘to reinstate the proposal to switch the hosting of the shared service....subject to the deletion of the principle that the work would be achieved on a cost neutral basis’*. A cost/benefit analysis was needed to inform a switch decision.

In September 2017, JMC sanctioned the development of this cost/benefit report on their behalf. The purpose of the report was to be a full exploration of the one off and ongoing costs, benefits and implications of a switch in hosting from County to City. The aim was to provide enough information for the JMC to make a decision about whether or not to recommend a switch in hosting to the two authorities.

The report would be received by JMC in January 2018. If JMC approve a switch in hosting on the basis of the findings, the report would then go with a recommendation to City Council’s Communities Committee on 31<sup>st</sup> January 2018, before Council on 20<sup>th</sup> February 2018. At County Council, the report and recommendation would go to Cabinet on 8<sup>th</sup> February 2018.

Implementation would then take place between 21<sup>st</sup> February 2018 and 1<sup>st</sup> July 2018, or sooner if possible.

NB: Some discussion was had at the June 2017 JMC about review of the governance arrangements of Museums Worcestershire. This entailed different views about whether the Joint Museums Committee should be reviewed, and if so, when. A light touch consideration of the arrangements was advised. During the process of developing a cost/benefit analysis, it has become clear that the intricacies of the Hartlebury Castle Preservation Trust (HCPT) and County Council relationship are such that it is felt that it would not be advisable to review the governance arrangements now, but instead to revisit this in 2021, when the management and funding agreements between HCPT and Worcestershire County Council complete. This report therefore does not consider or propose any changes to the Joint Museums Committee model.

#### **4. Review approach**

In September 2017, the JMC agreed that an independent project manager would carry out the review and produce the report on behalf of the JMC, working closely with the Museums General Manager. The cost of this work would be funded by the County Council, whilst the cost of specific external advice in order to provide information for the review (on VAT and Pensions) would be funded by the City Council.

Following a review of the work carried out in 2016, a Steering Group was established with senior representation from both County and City councils on the core work-streams; Finance, ICT, Legal, Human Resources (HR), as well as Museums operations. The Steering Group met on 10<sup>th</sup> October 2017 to agree the overall project plan and tasks to be carried out, and is due to meet again in February 2018 to plan implementation if a switch is agreed. In the meantime, each work-stream has considered the costs and implications of a switch as well as the practical steps to implementation, and the result of this work is presented in this report.

At key intervals, the independent project manager and the Museums General Manager, have reported progress to a Project Board, consisting of Hannah Needham, Assistant Director for Families, Communities and Partnerships at the County Council, and David Sutton, Deputy Director for Commissioning and Transformation at the City Council.

The review itself has cost the County Council c.£4,500 and the City Council c.£2,000 (VAT report cost only c.£500 as added to existing contract and Pensions assessment cost c.£1,500 (not yet billed but ball-park figure provided by Actuary).

## **5. The County Museum at Hartlebury**

Museums Worcestershire has worked with and supported the Hartlebury Castle Preservation Trust (HCPT) since 2011, in their efforts to acquire and develop the house and estate and, in so doing, secure the future and viability of the County Museum. This campaign resulted in a successful bid to the Heritage Lottery Fund (HLF) for £4.97m to enable the acquisition and local management of the site.

The relationship between the County Council, the shared service and HCPT is governed by separate management and funding agreements. These set out the nature of support to be provided by the shared service to the project and the responsibilities of HCPT as the landlord and recipient of funds.

HCPT has expressed concern about the implications of a switch in host for Museums Worcestershire because of the impact this may have on the legal agreements, decision making, budgets, the Trust's VAT position, and their relationship with HLF. The museum and the castle are to be presented as a whole joined up experience to the public and so joint ticketing is planned and the responsibility for and income from the Museums shop now belongs to HCPT. Should the whole of Museums Worcestershire be hosted by the City Council, the detail of these agreements would need unpicking and this would not be without complexity and possible risk to the project.

Further, the County Museum benefits from the cultural exemption from VAT on admission charges. This brings a financial benefit of £5,833, but with a predicted increase in visitor numbers as the new attraction opens, this is estimated to rise to £12,327 by 2019/20. Should the whole of Museums Worcestershire be hosted by the City Council, the cultural exemption for the County Museum could not be claimed (because the City would breach its partial exemption limit and incur a loss of £100,000 of input VAT which could no longer be reclaimed).

The rest of this report has therefore been developed on the basis that, in the event of a switch in host from County to City, the operation of the County Museum as a venue (but not the rest of the County Museum Service's remit) remains within the employment and management of the County Council. It would still be part of Museums Worcestershire, benefiting from the strategic lead and day to day professional management from the joint management team and still using the joint branding. There are implications for, in particular, the HR, ICT and Legal work-streams. A service level agreement would need to be drawn up between Museums Worcestershire and the County Council outlining the nature of this relationship. A matrix line management arrangement would need to be agreed. Details of these implications can be seen further in this report.

## **6. Benefits of a switch in hosting (excludes financial assessment)**

There are significant strategic benefits and synergies that would arise from Worcester City Council becoming the host for Museums Worcestershire. Whilst a number of these benefits can be accommodated within current arrangements, a transfer in hosting should provide added benefits which are outlined below.

Worcester City Council has committed to raise the profile of the City's heritage offer as a key component of its strategic plan. The Worcester City Plan 2016-2021's five priorities include *Priority 4: A Heritage City for the 21<sup>st</sup> Century*, which highlights the potential to increase visitor numbers and spend through maximising the potential of Worcester's heritage and cultural offer, with the Civil war connections being highlighted. As the County city, these benefits would be Worcestershire wide.



Worcester City officers consider that hosting the Museums service will assist in achieving the Council's aims under priority 4 due to the closer relationship that this will entail.

There are overlaps in current initiatives of both the Museums Service and the City Council, such as

- shared development plans for The Commandery and Fort Royal Park
- income generation projects with similar aims such as wedding packages at The Commandery and at Worcester Guildhall
- tourism services and campaigns across the city

Furthermore, with City as employer, the co-location of the main city office space within the City Art Gallery & Museum building brings practical benefits to the Museums service by having such close proximity to those City colleagues who would be providing support functions to the service, or delivering aligned initiatives.

A closer link with the City Council management and officer teams will enable the service to have a higher City profile and representation at various professional partner meetings and groups regarding the development of the City's heritage and tourism agenda. There is also potential for Museums Worcestershire to make external funding applications for the delivery of City tourism and heritage objectives with the City Council as accountable body.

The Museums service will be more significant within the City Council which has a £20M budget compared with the £324M County Council budget. The City contributes a larger proportion of the budget to Museums Worcestershire, funding two venues to the county's one museum. The City Museum and Commandery buildings are both heritage assets owned by Worcester City Council, whereas the Worcestershire County Museum leases its space from its partner Hartlebury Castle Preservation Trust.

A switch in host would not change the branding or presentation of the Museums offer. The public would continue to see the front face of Museums Worcestershire, a successful brand which benefits from combined expertise and economies of scale in having one management team and strategic direction. Both authorities can be proud of their contribution. Museums Worcestershire would still be a joint service, commissioned by both County and City Councils, overseen by a Joint Committee with representation from Elected Members at both authorities.

Worcestershire County Council's role in Museums Worcestershire, through its financial contribution and strategic Elected Member leadership (as well as continuing to directly manage the Hartlebury museum operation and the relationship with HCPT) would be as strong as ever. Removing the hosting duty would enable the County to release some management and support services capacity to focus on its many other priorities and commitments, whilst maintaining its strategic input.

## **7. Benefits of retaining the hosting at County (excludes financial assessment)**

Worcestershire County Council has hosted Museums Worcestershire since its inception in 2010. The support systems are already established and line management works well.

Although heritage is only one of many functions provided by the County Council, it is a neat fit with other Cultural Services provided by County, including Libraries and Arts, and the Museums Service Manager sits on a management team with the heads of those Units and is able to benefit from, and contribute to, wider county cultural developments.

Museums Worcestershire has increased its work with hard to reach groups and excluded communities, for example through taking part in Suitcase Stories, for people with dementia. With the County Council's social care and children's services focusing on county-wide services to vulnerable people,

Museums Worcestershire can benefit from being employed by the same authority and being in the loop on these services' initiatives through management structures and staff communication tools. These projects can certainly continue should a switch happen, but there is a risk that the links with these county-wide agendas are lost.

Making a switch will entail commitment of resource to implement the necessary changes. Leaving it in place allows focus on existing priorities and developments for the service and for the support functions that would need to implement the changes both at County and City.

Retaining the hosting at County would not affect the branding or presentation of the Museums offer. The public see the front face of Museums Worcestershire, a successful brand which benefits from combined expertise and economies of scale in having one management team and strategic direction. Both authorities can be proud of their contribution. Museums Worcestershire would still be a joint service, commissioned by both County and City Councils, overseen by a Joint Committee with representation from Elected Members at both authorities.

## **8. Hosting costs and implications**

In the event of a hosting switch, there would be implications for Human Resources, Pensions, Legal services, ICT, Finance and Museum operations. Each work-stream was asked to consider what a switch would mean for them. This includes the one off costs of making the switch happen and any revenue impact. It also includes implications in terms of time, not shown in cash terms, and any changes that would be effected by a switch.

Two specific areas are drawn out of the appendices and explained in more detail in this report:

### Pensions

Museums Worcestershire has its own pensions 'ghost body', a bubble within a larger pension scheme. Should a hosting switch happen, Hartlebury staff would leave the ghost body and return to the WCC pension scheme. The 'ghost body' would then be smaller.

Although this would not incur one off costs, there would be an annual rise in pension contributions from 16.3% to 16.7%, with a further re-evaluation in 2019. This equates to an extra £1,955 annually from the Museums Worcestershire budget, to be funded by a proportional increase in contributions from each council to the joint service (£1,398 for City and £557 for County). The smaller ghost body would also be more susceptible to spikes caused by personnel changes, than it would as a larger pension fund, with contributions potentially continuing to increase over time. Further, there is a specific risk of potential unfunded liabilities arising from non-ill-health early retirement costs. This risk currently equates to £130,000.

To avoid this increase in costs and longer term volatility, disbanding the ghost body and pooling Museums Worcestershire City employees with the City Council pension fund is an option. By pooling with City, there would currently be no additional strain on City because, at this point in time, Museums have a surplus. Discussions would be required between Museums Worcestershire and City as to how any allocation of deficit/surplus would be made going forward. City currently has a funding shortfall so under a standard pooled approach, all employers in the pool would pay deficit contributions towards it. The total accrued liabilities of Museums Worcestershire (for to-be City employees) is c £1.7 million as at 31 March 2016. City's corresponding liabilities amounted to c£78 million. Museum Worcestershire would represent just 2% of the pool, if it were established. Therefore, the actuary does not envisage any significant impact on City of taking on this fund. There would be a one off cost of c.£2,000 to disband the ghost body and reassess the pensions.

This report shows the financial impact of retaining a smaller ghost body. It is recommended that serious consideration is given during the next phase to disbanding the ghost body and pooling Museums Worcestershire to-be City staff with the City Pensions fund.

### VAT

A report was commissioned into the application of the cultural exemption on VAT and what the impact of a switch would be.

City are very close to their partial exemption calculation, meaning that Hartlebury needs to stay at county in order to keep claiming the cultural exemption, particularly important given their relationship with HCPT.

No actual financial loss would be felt in the case of a switch without Hartlebury, but the report does identify that an opportunity would be lost for the Commandery to start claiming the cultural exemption on admissions whilst hosted by County. This would amount to £5,100 p/a based on 2016 visitor figures and is predicted to increase.

Not all doors are closed, however. Should the City change its current provision which claims cultural exemption, the partial exemption calculation may reduce and there may be a chance for the Commandery to start to claim the exemption. Similarly, if Museums Worcestershire set up an enterprise arm there may be a chance to revisit this in the future.

## **9. Risk Assessment regarding a switch in hosting**

There is one risk which carries a Red risk rating, reduced to Amber with control measures in place:

<b>Risk</b>	<b>Consequence</b>	<b>Likelihood</b>	<b>Impact on switch happening</b>	<b>RAG</b>	<b>Control measure</b>	<b>Revised RAG</b>
Unforeseen costs and issues	Switch takes longer than planned or extortionate extra cost jeopardises the switch	Medium	Critical	Red	Ensure each work-stream thoroughly analyses the impact. Learn from similar models	Amber

## **10. Implementation approach in the case of a switch**

Key tasks and milestones are as follows:

- 21 Feb - June Procurement of ICT equipment and commencement of all ICT switch work
- Feb – March Develop SLA between JMS and Hartlebury
- Feb – March Assessment of impact of disbanding Pensions ghost body
- March – April TUPE consultation
- 1<sup>st</sup> July Staff transfer
- July Confirm final transfer figure for budget and carry out full financial handover