

<b>MEETING:</b>	<b>OVERVIEW AND SCRUTINY</b>
<b>DATE:</b>	<b>21<sup>ST</sup> FEBRUARY 2012</b>
<b>TITLE OF REPORT:</b>	<b>OPTIONS FOR THE MANAGEMENT OF CULTURAL SERVICES</b>
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**CLASSIFICATION:** Open

### **Wards Affected**

County-wide

### **Purpose**

To explain the process of the review of Cultural Services to enable the Overview and Scrutiny Committee to consider the management options for cultural services.

### **Recommendation**

**THAT the Committee consider the management options and decide whether they wish to submit any views to Cabinet.**

### **Key Points Summary**

- The Cabinet report of 15<sup>th</sup> December 2011 entitled "Management Options for Cultural Services" outlined three options on how a range of cultural services could be managed in the future.
- Cultural services delivered by the local authority are largely non-statutory, meaning councils do not have a legal obligation to provide them. However, they are popular and well respected services that aid the health and wellbeing of residents, and contribute to the counties' economy.
- The development of the future management options was undertaken in three phases:
  1. Research and development;
  2. Commercial and options modelling;
  3. Market testing the options.
- Consultation to date shows that stakeholders are concerned with maintaining the current level of services.
- A number of local authorities are reviewing their cultural services offer, working with communities, private enterprise or the voluntary sector to change how services are delivered.

### **Reasons for Recommendations**

- 1 To give Overview and Scrutiny Committee members background to the Cabinet report

“Management Options for Cultural Services” considered on the 15<sup>th</sup> December (Appendix 1) and respond to Cabinet’s invitation to consider the options.

## Introduction and Background

2 In December 2011 the Cabinet considered the report entitled “Management Options for Cultural Services”. The report outlined three options in the future management of services in scope of the cultural services review.

3 The services in scope were those traditionally associated with cultural services (Appendix 2: Services Profiles). Though not completely, these services are largely non-statutory though high profile in contributing to social and economic well-being.

4 The focus of the review is the management of the services, as a way of delivering savings whilst protecting the front line delivery. This means exploring how services can be run differently, internally or externally, to create more efficient ways of working. To that end a set of objectives regarding the review were established:

**Better Services** – opportunity to use cultural services to create better outcomes for people through links with health and well being, learning and economic development.

**Community** – a co-ordinated approach to cultural services that supports third sector sustainability.

**Commissioning** – develop services through commissioning that meets the council’s corporate objectives.

**Financial** – ability to make savings, share resources and maximise income.

5 A number of local authorities are considering how they balance the continued operation and viability of their cultural services next to budget challenges. Appendix 3 profiles cultural trusts operating in different parts of the country.

6 Herefordshire has a track record of outsourcing its cultural services with the establishment of the Courtyard in 1999 and Halo in 2001. Both receive a service level agreement which is based on achieving the corporate aims of the Council.

7 The service expenditure contained within the Cabinet report (Annex 3) outlines a budget subsidy of £7.089m (including central service recharge) within the current financial year. The majority of the costs are staffing for the specialist nature of the services with a number of services benefiting from external funding. (The budget includes the commission to Halo and the Courtyard and service level agreements to other arts organisations).

## Key Considerations

8 The review of the cultural services has been in three phases.

### Phase one – research and development

9 Service managers along with representatives of Halo and the Courtyard were involved in two workshops on the 29<sup>th</sup> March and 27<sup>th</sup> May 2011 to:

- Form the objectives of the review;
- Establish the scope of the review;
- Advise on processes required in conducting the review (including communication and engagement);
- Address strength and opportunities of the different operational models;
- Raise key issues, such as property, finance and existing service changes.

- 10 The first phase also included desk research into the different approaches of other local authorities and referenced to local research, including:
- Economic Impact of the Courtyard (ref background paper 1)
  - The Future Library Programme (ref background paper 2) commissioned jointly by Herefordshire and Shropshire Councils with national government funds to assess the future options for library services
  - The Heritage Services review (ref background paper 3) was useful for additional research.
- 11 Progress reports were presented to HPSLT (Herefordshire Public Services Leadership Team) on 5<sup>th</sup> July and 11<sup>th</sup> October 2011 to test scope and approach.
- 12 Early consultation was sent to key stakeholders from August 2011 onwards to comment on their aspirations and concerns regarding the review. 17 responses were received with strong support for the services, though their key concern was to retain the current level of service.
- 13 A Member's workshop took place on 26<sup>th</sup> October 2011 to understand priorities in terms of importance of services to residents. This included prioritising the outcomes as listed below:
- To give children and young people experience in culture and leisure as grounding for adulthood;
  - To contribute to a thriving and diverse economy through tourism and employment in the cultural sector;
  - To provide access and appreciation of the countryside;
  - To provide access to sport and physical activity where people can improve their health;
  - For cost not to be a barrier to opportunities and experiences in the cultural sector;
  - To make archive and historic collections available to the public;
  - To improve skills and knowledge through access to books and knowledge in different forms and formats;
  - To conserve and preserve historic and environmental assets for future generations, including meeting regulatory and environment management of collections;
  - To instil creative skills as a benefit to employers considering the changing nature of workforce requirements;
  - Enable local people to experience national, regional and local creative experiences;
  - Increase engagement in the arts to bring communities together, develop skills and experience;
  - To set future policy to maximise cultural services as a means to achieve corporate aims, delivered through community enablement, commissioning and partnership activity to provide value for money.

### **Phase Two – Commercial and Options Modelling**

- 14 This phase of the review looked in more detail at the operation of the individual services. This included workshops with the services managers on 27<sup>th</sup> and 29<sup>th</sup> September 2011, and follow-up one to one sessions in October 2011.
- 15 Working with advice from Commercial Services this phase involved understanding the specific activities of the services. To emerge was a number of “commonalities” in which services conduct similar types of activities or serving similar customers in their specialism (ref background paper 4). This can be broadly divided into three areas in commonality by:

**Process:** similar focus of activity eg customer engagement, asset management, marketing and publicity;

**Core function:** split between strategic / development and delivery of services;

**Specialism:** can be grouped several ways, but to emerge was an arts, heritage and sports/leisure split as determined by the service representatives;

**By association:** where there were strong linkages to other functions or services, for example archaeology and planning; archives and modern records; sports and health.

- 16 These commonalities were important in forming the options presented in the Cabinet report because it demonstrated where there was strong linkage between services. The commonalities also demonstrated the split between direct delivery of services next to strategic/development activity; and where services share common processes. In effect these commonalities can be overlaid to form the options.
- 17 In addition to work on commonalities, an evaluation was conducted on Delivery Models (Annex 2 of Cabinet report). These looked at the various management arrangements scored against outcomes important to the review, namely:
- Create savings required without impacting on services;
  - Create long term savings and income generation;
  - Achievable management costs by the local authority;
  - Long term stability;
  - Local authority retain influence and control;
  - Involves communities in governance;
  - Easy and cost efficient to implement;
  - Builds on current arrangements.
- 18 Some of the judgements on the Delivery Models can only be speculative until the financial viability can be confirmed through market testing.

### **Phase Three – Market Testing the Options**

- 19 To fully gauge the viability of the three options they need to be tested within the commercial market. This can identify actual interest in running services and if outsourcing services can create financial and service benefits. This is particularly important as though some of the services can generate significant amounts of income and reach a range of audiences, most services have little to interest the commercial market beyond the subsidy offered by the local authority.
- 20 Option 1 (Combined Services) has undergone soft market testing to see if there is interest from the market in running a combination of services and in so doing creating economies of scale (the market test ran from 19<sup>th</sup> January to 8<sup>th</sup> February 2012).
- 21 If Option 1 proves to be viable, a full procurement will take place starting in April 2012 for any organisation able to bid to run a combination of services. As this will be a comprehensive procurement this will take between 8-12 months and likely to include competitive dialogue.
- 22 For Option 2 (Customer Segmentation) three detailed specifications have been produced for any organisation or business to tender against. The three services are Countryside Sites (part of the sports and leisure segment); Museum and Heritage sites (arts and museum segment) and the Music Service (arts and museum segment). These services are the only ones in the Customer Segmentation Model that are not currently outsourced.
- 23 Originally, Outdoor Education and Positive Activities for Young People were included in the sports and leisure segment, however the services are not ready to go to market. The three services that are part of the tender process are relevantly self-contained areas of work.
- 24 The tender process will also allow for Option 3 (Status Quo with Improvements) as this option looks at retaining services in house, but when and if relevant allowing for individual

arrangements for outsourcing of services. As any organisation can bid for services through the tender process the strongest submissions may not reflect the segmentation model.

- 25 By following this route a wider range of information will be available to form the recommendation for the best option.
- 26 Any type of organisation can submit a tender including private sector, voluntary sector, mutual/co-operatives, charity, social enterprise or voluntary organisation. Their submission will be scored in terms of:
- Track record;
  - Variability and stability (financially and as an organisation);
  - Governance (including local / community involvement);
  - Quality of proposals in terms of service specialisms, financial management, meeting or exceeding service outcomes, etc.
- 27 There will be a restructure of the remaining “client” side of officers who remain within the local authority, with a new structure determined by which option is pursued. The consultation for the service structure will begin in April 2012.

#### **Information to form Recommendation**

- 28 To inform the recommendation the following information will be available:
- Summary of returns for the soft market test (option 1);
  - Summary of tenders for three potentially outsourced services (options 2 and 3);
  - Consultation responses;
  - Outcome of Overview and Scrutiny Committee;
  - Equality Impact and Needs Assessment on the recommended option.
- 29 As the options are concerned with the management of services the decisions regarding the options will be made by the Director for Places and Communities in consultation with the Cabinet Member. Depending on the scale of change there may need further recommendations to be considered by Cabinet.

#### **Scope**

- 30 There has been several considerations of the scope of services in the review. Services have been grouped based on the Department of Culture, Media and Sport areas of responsibility (that include the arts, creative industries, historic environment, libraries, museums and galleries, sport and tourism). With the exception of the Music Service, all these services are contained within the Places and Community Directorate.
- 31 Outdoor Education and Positive Activities for Young People were included in scope because of their linkage to sport and arts, and as the Youth Service is also considering their future delivery arrangements. These services are in the People’s Services Directorate.
- 32 As the delivery of libraries merged with Customer Services in the Deputy Chief Executive’s Directorate only last year to create efficiency savings the operations of the libraries are no longer in scope.
- 33 Some of the services have strong links outside of cultural services, namely archaeology to planning, and archives to modern records, however both still have objectives relating to access to and interpretation of heritage as a core value of cultural services.

### **Community Impact**

- 34 Appendix 4 outlines research conducted to understand the value of cultural services to the

community and economy. This includes positive impacts on:

- Economic viability and contribution (specifically tourism and creative industries);
- Health and wellbeing (physical and mental health);
- Community involvement (catering for different age groups, social inclusions, clubs and societies, and viable geographic communities);
- Raising standards for children and young people (including confidence building, skills development, local identity and heritage).

## **Equality and Human Rights**

- 35 Background paper 5 assesses all three options in terms of the impact on Equality and Human Rights. As this review is concerned with the management of services the Equality Impact and Needs Assessment shows no material impact on front line services that would have a detrimental effect on different groups.
- 36 The current consultation includes request for information on how the options could have an impact on specific vulnerable groups. This will help inform any further decisions.

## **Financial Implications**

- 37 A financial profile of the services is set out in Annex 2 of the Cabinet report. At least £150,000 of savings is expected to be generated through the review via management change not impact on quality of front line delivery.
- 38 The challenging financial environment means that particularly non-statutory services, need to find different ways of operating or cease to be provided. In meeting budget savings cultural services has historically made service changes, for example tourism is now completely outsourced; cease of subsidy for tourist information centres; and different focus for the mobile libraries with the establishment of community libraries. 2012/13 will be the third financial year that Halo and the Courtyard have had percentage reductions in the commissioning agreements.
- 39 The budget provided with the Cabinet report demonstrates the corporate re-charge for services.
- 40 As with the establishment of Halo, many cultural trusts set up as charities have benefited from savings from National Non Domestic Rates (NNDR). The details of NNDR savings are outlined in the Appendix 1 of the Cabinet report, though in summary charities can apply for 80% relief from their premises rates. From 2013 the local collection/management of rates could mean that Herefordshire Council will have to provide all of the mandatory rate relief, and therefore not a saving to the local authority. It is likely there will be some compensation to cover the mandatory requirement, but that will not be known until details of the local collection are confirmed.

## **Legal Implications**

- 41 Recreational, cultural and sporting services are "Category B" services which means that they are not subject to European procurement requirements. However, testing the market and running a competitive process allows the council to assess value for money and gather a range of information to make an informed decision.

## **Risk Management**

- 42 There are a number of risks associated with this review:

(a) Risk: The soft market test and tendering exercise shows no benefit in changing services.

Mitigation: the bidder submissions will be subject to a range of criteria balancing both service benefit and financial creditability (including savings). If none of the submissions show advantages, services will be retained within the local authority in accordance with option 3.

(b) Risk: The budget savings will not materialise. Though the tendering exercise is likely to result in budget savings it is unrealistic to expect those to materialise within the first 6-8 months (therefore limited in financial year of 2012/13).

Mitigation: The saving requirement of £150,000 will be met through a mixture of efficiencies, one of savings, end of contracts and reduction in management costs retained within the local authority.

(c) Risk: creating uncertainty for existing cultural services providers. The review process has created uncertainty for all services and organisations in scope. The soft market test of Option 1 includes Halo and the Courtyard, and this has come at a particularly difficult time for Halo as it enters a new contract to run centres elsewhere.

Mitigation: The commissioning agreement with Halo and the Courtyard has been confirmed for 2012/13 financial year independent of the outcome of the review. Both organisations could benefit from extending their customer offer by managing other service areas.

(d) Risk: Change considered negative. The main concern arising from the consultation is that any change will result in the deterioration of service. Within any of the options there is likely to be management change to be able to meet the budget challenge whilst retaining services level. However, at first sight this change or the transition could be considered a service reduction.

Mitigation: Effective communication outlining that whilst the change may result in a different way of doing things this will not reduce in the standards or level of services. Impacts to be assessed through Equality Impact and Needs Assessments and addressed accordingly and where necessary.

## Consultees

- 43 Consultation for this review has taken the following route:
- 44 Involvement of service representatives and organisations in scope to shape the review (started in March 2011);
- 45 Staff / Unison e-forum established (September 2011);
- 46 Unison briefings and correspondence;
- 47 Written consultation with stakeholders (August 2011);
- 48 Member's seminar on priorities for cultural services (October 2011);
- 49 One to one meeting with the Sports Council and Arts Council - the latter also has responsibility for heritage (October 2011);
- 50 Public consultation available via the e-consult website, email or paper versions at the libraries (from December 2011 to March 2012). Publicised to the media and notification given to key

groups, members and officers who have also distributed the questionnaire;

- 51 The consultation questionnaire asks quite broad questions relating to the options and equalities, with more detailed consultation taking place with target groups if or when there are front line service changes;
- 52 The Cultural Services review was part of the Better Services Group as part of Rising to the Challenge, and used as a model to test the emerging Commissioning Framework.

## **Appendices**

- 53 Appendix 1. Cabinet report and associated annexes
- Appendix 2. Service Profiles
- Appendix 3. Cultural Trusts
- Appendix 4. Value of Cultural Services

## **Background Papers**

Background papers are available in the member's room or electronically on request via member's services:

- 1) Economic Impact of the Courtyard
- 2) The Future Library Programme report
- 3) Heritage Services Review
- 4) Commonalities Diagram
- 5) Equality Impact and Needs Assessment
- 6) Museum Libraries & archives (MLA) - The opportunity of devolved governance
- 7) Public sports and recreation services
- 8) Taking Part 2011-12 Results