

Torbay Museums

Options Appraisal

For Future Governance

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Executive Summary

“Museums are sustainable, resilient and innovative” according to Arts Council England’s Goal 3 (of 5) for museums. That task sits at the core of this options appraisal.

The appraisal is part of the “Future Museums Project”, which looks towards a more sustainable and vibrant future for museums in Torbay. It recognises Torbay’s unique heritage and natural history and looks to build on this, maximising these strengths and opening up new opportunities. It seeks to lead the way by creating a co-operative and collaborative ethos between the three Torbay museums along with the other Torbay organisations connected with them.

The options appraisal represents an opportunity to re-engineer the museum structure within Torbay, starting with a focus on the three accredited museums but with the aim of extending this to the wider cultural, arts and heritage constituent parts of Torbay. A recurring theme in this report is to be quietly bold, building shared services, functions and activities incrementally. Start modestly, but with big ambitions. Achieve and deliver so that the track record draws others in.

To be effective this report needs to be seen as the start of a recovery process, it is certainly not the end product, indeed it cannot be so without consulting funders and stakeholders. Rather it suggests a vision and provides some stepping stones as follows:

The current position

In considering the current position and the commerciality of the three museums it is paramount that the need for change is accepted. Sicilian poet Guiseppe Tomasi gets it right when he says “If we want things to stay as they are then something will have to change”. So the three organisations and their members must avoid being in denial and reflect that this year might actually be better than next, and act rather than assume that despite all, it will come out fine in the end.

There is a need to seize the opportunity with funders, especially Arts Council England and to recognise that funders will be more disposed to help those that seek to help themselves. That means mobilising resources, creating a task group to champion change, to explain, lobby and promote the business case and the need for a capable body in Torbay

Exploring partnerships, collaborations and consortia

The rationale of this project sees the three museums (and those organisations that might join them) as a string of pearls and not a random collection of shiny objects. This is the essence of synergy, where the whole is greater than the sum of its parts. The case for partnership and consortium working is set out in some detail in the report along with several comparisons that offer both lessons and benchmarks. The advantages of working together to save costs and exploit new and existing opportunities feature strongly in the “Big Society” agenda with the same principle of collaboration are promoted equally strongly by the Charity Commission and other agencies. The cause of complementing rather than competing is seen by many to be at the heart of sustainability.

However as well as making the partnership case it is essential to test out the nature of consortium working for Torbay's museums and identify:

- The potential value of cost savings
- Those services that would work best if delivered on a consortium basis (likely around marketing, education and outreach and similar) establishing how these might be developed on an incremental basis
- A couple of "quick wins" to create momentum and a feeling of success, something like the "Passport" idea for marketing to multi-venues
- New areas of activity that work the best and most effectively
- Determine the best Torbay organisational structure to be the delivery vehicle

This process takes Torbay with its rich archaeological and natural history and likens it to a campus with a number of faculties. While each of those faculties is autonomous they all belong to the same campus.

Creating a consortium

In assessing the current situation, the shape of current organisations and their commercial robustness, the report looks at several models that could capitalise on the partnership and consortium ethos and deliver Torbay a capable museum organisation to do the business.

It is envisaged that a new higher level body would be created that would be the commercial equivalent of a holding company. This would be more than a funders header tank, it would represent and galvanise the business part of Torbay museums, leaving the Torquay Museum Society and Friends of Torre Abbey to maintain the community dimension and be freed up from main line commercial considerations. It is proposed that while Brixham Heritage Museum is part of the "consortium club", they maintain their own legal standing and current arrangements.

The report considers all of the structural options for the consortium, some eight different variants, coming down in favour of a charitable trust but also suggesting that in the next stages a community benefit society is also considered.

The change agenda

The biggest brake on change identified was not surprisingly that of the fear of culture change. In terms of organisational change international business guru Peter Drucker commented that "Culture eats change for breakfast". What Drucker meant by that was that no matter how logical and strategic the case for change was, if there was a gut feeling from the established decision makers that was change averse then that view would win out. Consequently in that environment leaders need to be prepared to set the pace and actively persuade and be prepared to impose change for the common good. The actions can therefore be summarised as:

- Create a plan of campaign, consultation and involvement to overcome cultural reticence and achieve a level of engagement and ownership
- Visualise the “capable body” and its powers and scope
- List out the necessary board skills that will be needed along with dream team to deliver, and then work out how to approach and win over the right people
- Decide who is going to be the executive lead on the process and which of the prospective board members might be chair and champion
- Use an informal due diligence process as a road map to plot the way forward
- Prepare the financial projections that will be part of the consortiums business plan

Conclusions and next steps

The three museums are the starting point but it is true sustainability that will represent the sticking point.

This report can only set out the options but the desire to engage and really move forward is strong. Discussions with Torbay Council have been both encouraging and supportive, with a desire to support the plans set out in this document and to give them time. Early board soundings at Torquay Museum suggest a positive and pragmatic sentiment and likewise Brixham Heritage Museum are receptive.

Arts Council England were also aware of the situation, appreciating the frailty of the current set-up and being supportive of potential substantial investment in re-engineering the Torbay museum sector on the proviso that the players were genuinely prepared to “walk the talk”.

The next steps are set out in section 5 of this report.

1 Introduction

1.1 Background

In October 2012 Torre Abbey, Torquay and Brixham Heritage Museums were successful in gaining a Renaissance Strategic Funds grant from the Arts Council for England. This became the Future Museums Project.

A key part of the Future Museums Project was to carry out an options appraisal for future governance models with the aim of providing a more sustainable future for the museums in Torbay. The appraisal included Torquay Museum, Torre Abbey and Brixham Heritage Museum.

The fundamental rationale of the project is to ensure that the three museums move towards a more sustainable future, in part, by identifying and assessing more effective future business models for museum delivery.

Other objectives include: enhancing the capacity of the museums to raise funds, developing innovative programmes of events and exhibitions to attract new audiences, developing outreach activities focussed on the English Riviera Geopark.

It was also decided to include the proposed National Museum of Prehistory at Kent's Cavern along with additional models incorporating other Torbay organisations. This forms part of the overall options review appraising all aspects likely to provide a secure future for the three museums.

1.2 Context

The museums of Torbay are a significant cultural, community and economic resource situated in the 2nd largest population centre in Devon. Torbay has 134,000 residents compared to Plymouth's 258,700 and Exeter's 119,600

Torbay falls within the top 20% most deprived local authority areas in England for the rank of average score and the rank of local concentration. 21,000 (15%) of residents live in areas considered in the top 10% most deprived in England. Deprivation in the area is continuing to worsen. On the index of multiple deprivations Torbay has a high score of 26.8 compared to 16.89 in SW and 19.5 for England as whole with 23.4% of under 16s living in low income households (Torbay).

There are 9,420 pupils on-roll at Primary and 8,716 at Secondary level within the Torbay local authority. The last reported average % of pupils eligible for Free School Meals in Torbay is 19.8%, this compares to 11.1% for the SW and 15.4% for England.

Income from the local community is therefore likely to be low, so the museums need to attract money from outside of the region. Tourism is a major economic driver in the English Riviera. Its visitor economy attracted in 2009 (the most recent official statistics) in excess of one million staying visitors and two and a half million day visitors. Torbay remains Devon's major resort. Its museums have the opportunity of becoming a key player in the culturally led economic regeneration of the Bay.

1.3 History

There are three accredited museums within Torbay:

Torre Abbey was founded in 1196 and is Torquay's most historic building. As well as its abbey ruins it houses a nationally important collection of paintings and antiques. Torre Abbey is owned and run by Torbay Council.

Torquay Museum is Devon's oldest museum, created in 1845 and is still owned and managed by its parent Society. It is a registered charity.

The museum houses international important geological, archaeological and ethnographic collections. A variety of temporary exhibitions and a programme of events are delivered throughout the year.

Brixham Heritage Museum was founded by Brixham Museum & History Society in 1958. It tells the story of the Riviera's oldest town, from the Stone Age through to the present day, using a strong nautical flavour. Particular emphasis is given to Brixham's fishing and ship building industries, also to the Berry Head Napoleonic Fort and Brixham's prehistoric 'Bone' Caverns.

1.4 The Nature of the Three Organisations

Torquay Museum

- Although long established the recent history of recurrent substantial losses suggests an unsustainable model as currently configured
- The board of trustees is drawn exclusively from the Society's membership with a focus towards the activities of the Society rather than the business of the Museum.
- An organisation seeking to do too many things and please too many people without the necessary resources

Torre Abbey

- A significant heritage asset for Torbay but "people don't know what it is"
- Financial uncertainty combined with some parties that suggests it does not need any form of public support and subsidy

- Concern that because of financial pressure Torbay Council will need to put Torre Abbey out to commercial tender

Brixham Heritage Museum

- Volunteer driven
- Smaller in size than its counterparts
- Tightly run by a focused and engaged group with a strong sense of ownership
- It suggests the maxim: “if it ain’t bust don’t mend it”

While not part of the group of three accredited museums, Kent’s Cavern is still part of the Torbay museum campus. An Ancient Monument and Site of Special Scientific Interest Kent’s Cavern is a sustainable commercial undertaking. Plans are in the early stages to create a research and educational charitable trust under the guise of a National Centre for Stone Age Man.

In terms of this assignment the concept of a National Centre for Stone Age Man is a relevant future element of the museum structure in Torbay. The overwhelming findings of this report see the National Centre for Stone Age Man as complementary resources for Torbay rather than a competitor to the existing museums.

1.5 Options Envisaged

Several options were envisaged in the brief and these can be summarised as:

Charitable Trust: Torquay Museum and Brixham Heritage Museum are charities and Torre Abbey is Council owned. The possibility of establishing a single charitable trust to take on all or part of the roles of the existing organisations needs to be explored. This could bring many benefits but some of these benefits may be achievable through agreement rather than establishing a common trust as an all-encompassing solution. There may be more than one permutation of the Charitable Trust model.

Kent’s Cavern is privately owned and run with the possibility that the proposed National Centre for Stone Age Man may follow a different model from commercial ownership, potentially a charitable trust structure.

The hybrid potential: The potential/likelihood of a National Centre for Stone Age Man is outside the scope of this work, however there is a desire to maximise any opportunity that might arise. Consequently an initial assessment should be made with regard to the hybrid potential (private/public/charitable sector) that a Kent’s Cavern, Torquay Museum, Brixham Heritage Museum, Torre Abbey combination might bring.

The brief stated that particular regard should be made of how these and other participating organisations might constitute a viable social enterprise.

Service and staff sharing: Sharing common back office functions may be possible as well as staff operating across all the sites. Regard also need to be had as to the impact of VAT and the ways of mitigating any adverse impact.

Partnership working: Can involve sharing intelligence and marketing ideas, joint ticketing, developing and delivering a coherent programme of events, activities and exhibitions.

Value Added: In the appraisal of options a reasoned economic case should be made with regard to the financial advantages and their long-term sustainability. This applies to both cost saving and new areas of income generation.

2 The Current Position and Issues Arising

2.1 Current Commerciality

The Future Museums Project recognises the frailty of the existing Torbay museums set-up.

In several respects therefore this options appraisal is the opening phase of a recovery plan and need to be regarded as such.

The external environment, funding, habits and priorities are changing at such a pace that even if any of the three museum organisations wished to remain unchanged they would be compelled to change in response to external forces simply to stay as they are. The do nothing option is therefore not an option, but an abdication to let others decide.

Commercially none of the organisations are strong, however because of its modest size and volunteer base Brixham could be said to be the most sustainable (although very vulnerable to any cuts in their Council grant). However the rationale of the Future Museums Project is not one of survival but viability and vibrancy. It perceives of the chance to re-engineer the Torbay museum sector and all that follows is based upon this premise.

2.2 The Impact on Funding: Current Situation

An options appraisal such as this document constitutes a certain moment in time from a funder's perspective. The opportunity to talk and exercise real funding strategy, to broker deals and talk matching and leverage and make money work harder should not be underestimated. Funders expect recipient organisations to show their ability to act decisively and tackle issues that will ultimately lead to their long-term sustainability. Robust self-help, integrity and the avoidance of denial are key. Grants for persistently failing organisations frequently do little more than prolong the agony.

The options appraisal is about re-engineering the museum sector in Torbay and funders support is likely to be there if those involved wholeheartedly set about that task and avoid the temptation of merely tinkering around the edges.

2.3 The Impact on Funding of a Consortium-led Approach

While the impact of a consortium led approach will require a business planning exercise to fully evaluate the coming together of the three accredited museums (see Section 5 "What next"), there are obvious potential savings.

The same principles apply to opportunities and adding value. Many aspects are set out in section 3 of this report both around the expansion of existing services and activities, but also the creation of new ones. The likelihood is that a consortium approach of complementing has the power to be significant.

2.4 Alternative Legal Structures

In assessing the structural options and consortium potentials it is necessary to consider the many different forms that can be adopted for cultural/educational and social enterprises including any of the following:

- **A Company Limited by Guarantee (CLG):** registered as a charity; largely protects trustees from personal liability
- **Charitable Incorporated Organisation (CIO):** ditto, but a very new vehicle so not tried and tested; unattractive to lenders as there is no register of charges
- **Unincorporated charity under a trust deed or constitution (Friends):** not a legal entity so cannot contract in its own name; no protection for trustees
- **Industrial & Provident Society (IPS):** legal entity, registered with the Financial Services Authority; members hold nominal shares; model rules inflexible; can be (exempt) charity. Popular with community run village shops/pubs etc because of 'local' share issue
- **Subsidiary company:** usually wholly owned by charity; either ring-fences a risky activity or carries out non-charitable trading - profits gift aided to charity to save tax

- **Community Interest Company (CIC):** social enterprise for common good, but allows a limited return to investors; asset lock ensures no other benefit to shareholders or investors; company, but not a charity; can be charity's subsidiary; less restricted than charity; suitable for founder, who can be paid board member
- **Trust/holding company:** can be trustee of more than one charity (so an umbrella)
- **Consortium:** can be a loose collaboration by charities, or a more formal contractual arrangement, or a separate legal entity (e.g. CLG) in which various bodies participate

The likelihood is that Torbay Museums Trust will be a charity but also badged as a social enterprise. As such it will either be a Company Limited by Guarantee that registers as a charity or takes the new route of becoming a Charitable Incorporated Organisation.

However the other option would be an Industrial Provident Association (IPA). Although somewhat 'clunky' this could offer the facility of a local share issue that might galvanise local support in a financially effective way.

The Trust would look to meet the requirements of HMRC guidelines of July 2012 with regard to exemption of VAT regarding shared services between linked organisations in the charity sector. Section 4.4 examines these provisions in more detail along with the possibility of using the HMRC guidelines of an ideal group as a template.

2.5 The Legal Options for Coming Together

These can be summarised as follows:

Collaboration:

A loose arrangement where charities work together in certain areas (e.g. by bulk purchasing or by sharing staff or facilities such as IT). In this way, each would retain its own legal structure and governing document.

Consortium (or Federation):

Where each body retains its identity and independence but agrees by contract to cooperate towards their respective objectives in a more formal way than mere collaboration; this can be achieved by setting up either:

- a special purpose vehicle (a company, to ring-fence its activities from their own) to which each party contributes
- a less formal (but arguably more risky) joint venture style of agreement

Merger:

Creation of one entity to carry out the charities' purposes, by either:

- Setting up a new charity into which all participants transfer their assets, liabilities, contracts and undertaking (including staff).
- Transferring the smaller charities' activities etc to the largest, assuming that its constitution is robust enough.
- Setting up a group structure

2.6 The Capable Organisation

In business terms any form of consortium or joint working plan would look to a capable organisation as the leader and champion of the project. The strong party to make things happen and be the natural rallying point.

The capable body not only requires a good management team but a strong and robust board with experience and insight to make it work. Without this, plans remain nothing but good intentions.

Currently such a capable organisation does not exist and the 'whole' (the three museums) amount to less than the sum of its parts, indeed this is recognised as a crucial part of the assignment along with the need to set out measures to change.

2.7 Finding the Capable Organisation

An initial appraisal would suggest that the obvious candidate for "capable organisation" is Torquay Museum; however there are currently significant drawbacks which would suggest the constitution of a new capable body. These issues are succinctly have been explained by Richard Smith (Director of the Tank Museum), who has been working with The Museum's director Phil Collins on behalf of a Museums Association mentoring programme to improve Torquay Museum's governance and organisation. This mentoring has produced some extremely insightful comments which have a direct impact on the concept of a "capable organisation".

A copy of Richard Smith's letter is in Appendix 1 to this report, however while complimenting the Museum Society on running the Museum extremely effectively as a society he thought it questionable as to whether it was equipped to provide governance of a 21st Century Museum.

In terms of the business model Richard talked of a successful museum operating as a successful tourist attraction, enabling it to generate the funds to carry out its core charitable activities in a sustainable way. As a consequence he pointed out that effective governance involved directing strategy at all levels to ensure the achievement of the organisation reflects the strategic intention. It should not be about a hands-on involvement in operational detail.

Richard went on to state that when he joined the Tank Museum his predecessor had just completed a long-term review of governance structures. This saw the board move from one comprising of entirely of soldiers, most of whom were ex-officio posts to a board appointed on a skills basis. The old trustee structure had led to a one-dimensional board without museum or business skills and with a rapid turnover. This led finally to Richard's main proposal which in essence is all about creating the "capable organisation". Richard recommended that the Museum examine the merits of de-merging the Society and the Museum, setting the Museum up as a separate charity with its own board. This is a theme that has been endorsed and built upon in this report.

2.8 Recommendations

- Accept an overall need for change, avoid being in denial and thinking that next year will be better
- Seize the opportunity with funders, especially Arts Council England recognising that funders will be more disposed to help those that seek to help themselves
- Create a task group to explain, lobby and promote the way forward
- Use this group to test out the routes: a charitable trust or form of community benefit society (Industrial and Provident Association)

3 Principles of Partnerships, Collaborations and Consortia

3.1 Synergy and Adding Value

Synergy is about doing and achieving things that one organisation could not do alone but could achieve by working with others. Such advantages of size and scale are separate from pure cost savings, but the two can run together. A typical example could be a fund raiser whose employment costs are shared by several organisations. As well as the obvious cost savings, the fund raiser would be in a position to draw the skills of the several organisations together in a complementary way so that outcome really does become greater than the sum of its parts.

3.2 Sharing Costs

The potential impact of cost sharing is examined below in 4.6 "Critical mass and economies of scale"; however the basic philosophy is around making organisations work smarter not harder, for example having one accounts department serving several different masters rather than everyone having their own. This maximises time but also accounts software, levels of expertise and provides a more fertile environment for employee training and development as well as ensuring greater levels of continuity and security.

3.3 Areas of Advantage

The areas where sharing of costs and services could have a strategic and financial benefit are seen to be as follows:

- Programming, where there is a continuing need to refresh the visitor experience
- Education and out reach
- Curatorial, there is a shortage of expertise within Torbay and there is the potential to utilise existing talents (the current Director/Curator of Brixham Heritage Museum could be an obvious example) and to sell this to other members of the consortium (Torre Abbey) and other interested parties (Kent's Cavern/National Museum of Prehistory)
- Retail: Shop running and combined purchasing. Advantages of scale around volume and discounts, sourcing and retail expertise
- Fund raising: as previously commented, not just a shared fund raiser but as above the synergy, critical mass and cross selling of having organisations working in concert
- Marketing
- Customer service: a common point of entry
- Back office/support services such accounts/book-keeping, personnel, payroll and similar

The aim is to start with a simple concept of sharing obvious services and building these up incrementally, avoiding fanfares and building a reputation for effective and economic delivery.

3.4 Good Practice Comparisons

In November 2012 the Association of Independent Museums published a research paper entitled "Museum Models of Sustainability" detailing 13 case studies covering various aspects of sustainability. While many of the case studies are relevant two have particular resonance:

Partnership and consortia: Marches Network (Working across the West Midlands)

The Marches Network were a long standing informal partnership of museums covering five counties and one city. The Network started as a two county initiative and grew incrementally based on success.

The Marches Network developed a form of joint delivery including special curatorial services and joint networking to other sectors, social care and the work sector being specifically mentioned. 2010 saw more formal structures and a memorandum of understanding (akin to a consortium partnership agreement) and as part of it development plan the group are looking at the best way to formalise the arrangement by creating an organisation with its own legal status to bid for funding from a wide range of agencies.

The benefits have been around the sharing of support services, quality improvement and support within the network as well as a joined up approach to funders. The emphasis has been one of a considered approach, building on success in an incremental way.

Taking on services from a local authority: Woodhorn Museum & Northumberland Archive (WMNA)

WMNA had converted to a trust at about the same time as Northumberland Council had been created, taking over seven local authorities. Northumberland Council inherited three museums but had no capacity, leading to WMNA taking them on with the necessary funding support.

The benefits to Northumberland Council were that WMNA had most front and back office structures already in place. The relationship has continued to prosper with WMNA taking on the events programme in Northumberland libraries, again with additional funding.

Somerset Heritage Services

A Somerset County Council Cabinet paper from July 2012 sets out a detailed review of Somerset Heritage Services (SHS) assessment of the responsibility for services relating to museums along with the optimisation of working with partners and the community plus the promotion, celebration and accessibility of Somerset heritage for people across the world.

The Cabinet paper considered whether the services need to be continued, should they be combined and if so what was the likely best model and where would the efficiency gains and savings be found. The key findings were:

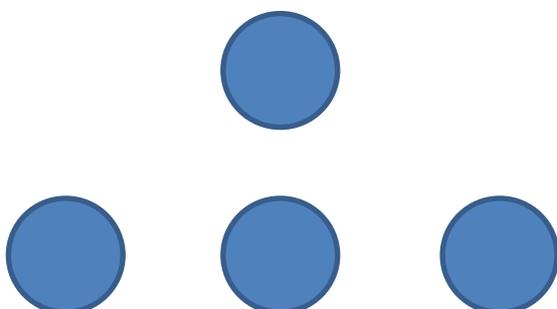
- *Delivering services together:* Somerset had already brought its key heritage functions under a single management span something staff and stakeholders overwhelmingly supported along with the connections and synergies it could bring.
- *Savings and efficiencies:* The cross cutting potential of service sharing was seen as highly important with specific regard to Goal 3 of Arts Council England's five goals for museums: "Museums are sustainable, resilient and innovative". This was seen as a driver towards a more commercial model for Somerset.
- *Model for delivery:* the four options:
 - Remain within Somerset County Council
 - Externalise via a wholly owned (SCC) subsidiary
 - Outsource to a for-profit organisation
 - Create a Somerset Heritage Trust

Lengthy consideration was given to these options concluding in the belief that an externalised service would have to trade, and a 'for-profit' set-up would lose its grant potential, which made Somerset Heritage Trust effective favourite. It was also noted that in Somerset's case since there had already been significant cost cutting, so the advantages of Somerset Heritage Trust were seen as being towards income generation. Work is on-going in bringing this option to fruition.

3.5 The Broad Structural Options

Two broad options are considered:

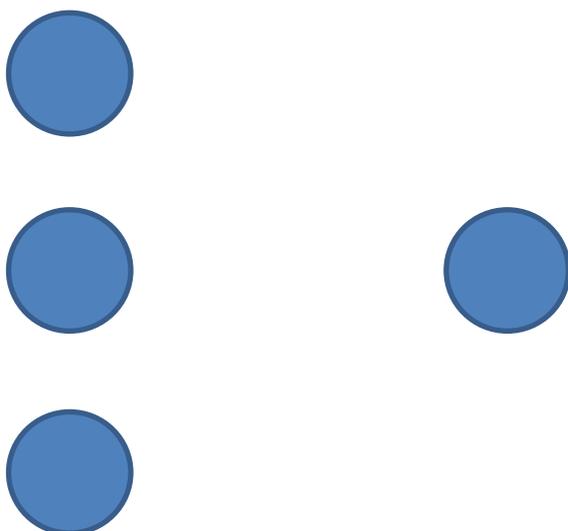
Option A



A classic hierarchal structure with a senior executive organisation at the top and operational subsidiaries below.

While it might be anticipated that the senior company would be connected by a solid line to each of the operating units, in a hybrid form the link could be a less formal dotted line.

Option B



An autonomous structure of three independent organisations with a separate consortium company. The consortium company acts like a header tank, receiving grants and feeding them through to others in the 'club' and also leading on shared services.

3.6 The Best Fit Proposal

The likely best fit option is the creation of a senior body that serves to encapsulate the business of Torquay Museum and Torre Abbey. Brixham Heritage Museum joins the grouping as a consortium partner sharing services and opportunities but in all other respects maintains its independence and its separate grant funding relationships.

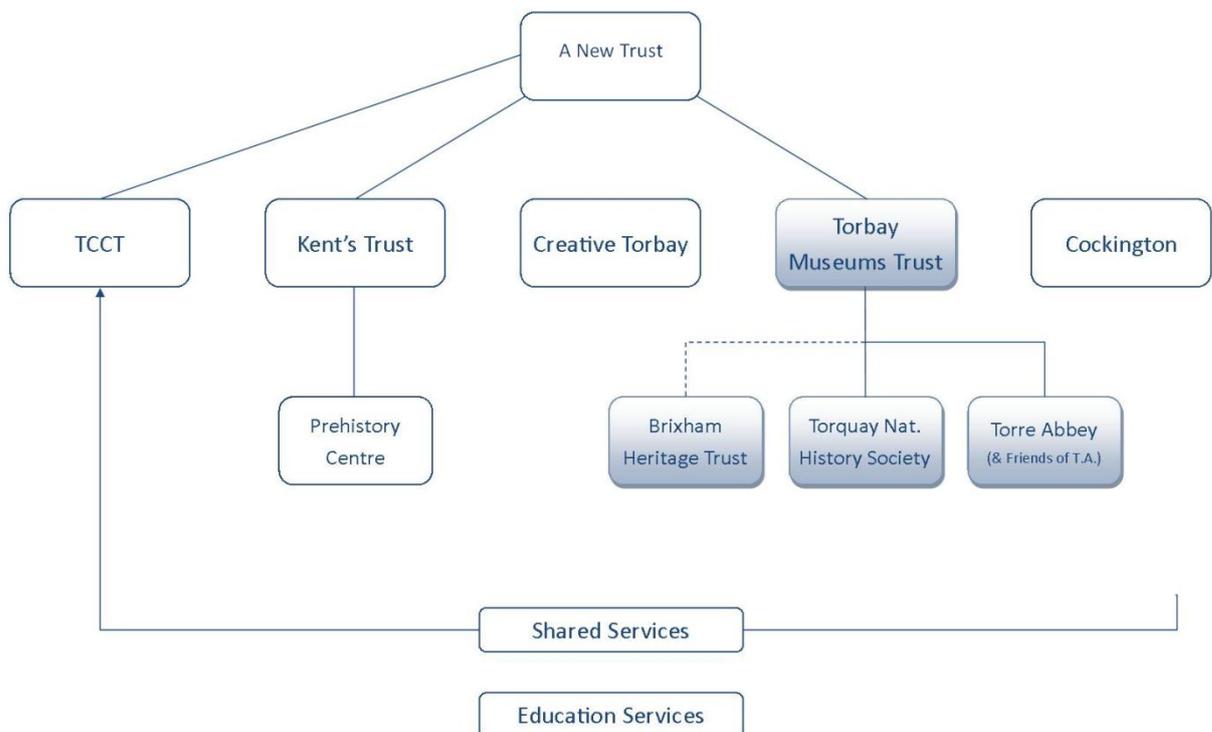
3.7 Recommendations

- Test and tease out the nature and most importantly potential value of cost savings
- Assess which services would be best to launch on a consortium basis (likely around marketing, education and outreach and similar) and establish how these might be worked up on an incremental basis
- Agree at the outset a couple of “quick wins”. A change process such as this will benefit from a quick win, achieving something together that could not have been achieved alone. This creates momentum, so establish what those quick wins might be
- Test out the potential new areas of activity from a fund raisers perspective
- Determine which of options A or B (or a hybrid) would be the most effective delivery structure and which would be preferred by funders

4 Change: impact and considerations

4.1 The Impact of Future Structures

Below is one example of a “big picture” view of what an eventual pan-Torbay arts, culture, museums and heritage structure might look like, with a new Trust sitting at the top of the tree. However the highlighted mini structure within that structure conforms very closely to the model envisaged in 3.6 above.



4.2 Potential Mechanism

While the above 'big picture' view could be some way off, the structure within the structure of Torbay Museums Trust could offer a plausible and effective way forward. The concept would be the creation of a high level body referred to as the 'Torbay Museums Trust' made up of Torquay Museum and Torre Abbey as explained in 3.6 above as follows:

- The new Trust would be the 'capable body,' the business head of the Torbay Museums body
- The existing Torquay Museum would stay largely as existing, a subsidiary, that would be the entity for the Torquay Museum Society (see section 2.8 and the final quote from Richard Smith's proposals)
- It is envisaged that the Friends of Torre Abbey is constituted in a similar way to the Torquay Museum Society of Torquay Museum
- While Brixham Heritage Museum could be funded via the new body if a prerequisite of Torbay Council, but preferably it would be funded as is, but a condition of funding would be around the use and contribution towards shared services
- There would be a mixed economy of grants and commercial earning, explored further in section 4.6 below

The capable body at the top of the "tree" would be the business operation of Torbay Museums; it is intended to be far more than simply a local funding body or "header tank" of grant money. The simple rationale is that this senior body covers the business end of proceedings and the Society/Friends cover the community aspects.

4.3 The Board Structure

The board would be recruited based on the best skills-set for the job and while having a strong representation from Torbay a "house of talents" would be drawn from a wider geographical spread. The need for skills rather than placemen is set out most clearly in Richard Smith's letter referred to in section 2.7 above.

However there should be a representative from both the Torquay Museum Society and Friends of Torre Abbey as well as Brixham Heritage Museum.

Participation of senior players in other organisations should also be sought. While this may create conflicts of interest the potential of networking and development are such that conflicts should be transparently managed rather than avoided. Nick Powe, whose family runs Kent's Cavern and who is behind the concept of a National Museum of Prehistory as well as founding the Geopark Trust and chairing Torbay Coast and Countryside Trust, has already indicated a willingness to be on the board. As well as commercial and financial acumen, such an involvement should be one of the building blocks towards creating a really joined up approach.

A strong board of robust talents will require a chair suitable for the occasion. This will be a key leadership role and consideration as to likely candidates should be given at an early stage.

4.4 HMRC and Cost Sharing Exemption

On 17th July 2012 HMRC issued “Guidance on the Cost Sharing Exemption”. Although not exclusively targeted at charities, the guidance had them in mind in providing a practical way of implementing the “Big Society” ideal.

Among its various ideas the Big Society proposed that larger charities could help their smaller brethren by providing typical back office support services to them. Unfortunately the big drawback is that most larger charities tend to be VAT registered and most smaller charities tend not to be. With the support services attracting 20% VAT all advantages were lost. The HMRC cost sharing exemption sought to remedy this by offering a scenario where VAT would be exempt in such transactions.

Disappointingly the cost sharing provisions introduced in July 2012 are very narrowly drawn and require all participators to be members of a legal entity. These are explained in more detail in Appendix 1. However of particular interest in terms of this options appraisal is that HMRC have set out their ideal structure for a cost sharing group. The cost sharing group must be separate from its members, although owned and operated by the members for their cooperative benefit. The grouping can be a group of equals or one or more members may have effective control, but in all cases all members must have a legal interest in the cost sharing group.

4.5 Other Parties to the Consortium

The other key criteria for any prospective partnership or consortium is that it needs to have the flexibility to admit other players at a later date. The National Centre for Stone Age Man (also known as Kent’s Trust Pre-History Centre) is an obvious example, but there may be others and many of these feature in the “Future Structures” chart of organisations below.

4.6 Critical Mass and Economies of Scale

The prevailing economic wisdom is that three organisations could come together and operate their services with substantial savings. The most sizeable potential saving is around that of office administration, book-keeping and accounts, payroll and financial reporting. However such logic is both a fallacy and a gross over simplification.

For example, looking at the smallest member of the triumvirate, Brixham Heritage Museum. All of its accounting functions are undertaken by a volunteer treasurer and because of its size it is only required to submit to an independent examination which is undertaken on an honorary examiner at no cost. As part of a larger group it would be subject to a full audit and full compliance regime from the Charity Commission. All benefits of shared services would be illusory.

However, in Torre Abbey's case back office support costs for legal, human resources, estates management (but not maintenance), IT, and accounts/book-keeping/payroll come in at a high cost so there would be sizeable scope for cost cutting and rationalisation, however how real actual costs and actual savings are may be a matter for conjecture.

Section 3.3 explored some of the critical mass savings and opportunities of existing service provision; however it is also relevant to consider new areas of activity that could provide added value, new areas that a consortium would be better placed to deliver than a single organisation:

IT and Social Media

Apparently if all the natural history museums in the world that had a William Pengelly item in their collection came together it would be a gathering akin to a United Nations meeting. So while a physical gathering might not be possible could a virtual gathering via a social media link be possible?

However new technology is much more than a gimmick, for an increasing number it is a way of life. A museum that sees its prime sustainability as a visitor attraction needs to set out this part of its stall as seen through the eyes of a 12 year old. That means the visitors being able to use their own iPhones and similar to log on and download information, graphic, narrative and similar (termed QR codes and similar to a bar code that could be on a wall, display case or piece of museum literature). Likewise Smart phones and "Apps" are relevant with many places of interest now having Apps that can be accessed simply by pointing your phone in their direction, releasing interactive material of sound and vision.

Augmented Reality

Augmented Reality is a live view of the world augmented by computer generated sensory input of video, graphics and even sound that is GPS linked. For example via Augmented Reality a person could view an existing cliff or cave scene and then see the layers of time being peeled back to reveal the archaeological features and natural history beneath.

Health and wellbeing

The importance of the health and wellbeing to the museum sector is well documented, most recently in the Museums Association report of July 2012 entitled “Museums 2020”. This heralds a move away from outputs (and frequently funding triggers) of simple visitor numbers to far wider impacts and outcomes. The Localism Act and a regional and national move towards increasing procurement from the charity and voluntary sectors will be led by the contracting out of many health and welfare services.

Museums are uniquely placed in society and are quietly doing the job of engaging many who would suffer from a lack of interest and purpose, depression, isolation and loneliness. As these qualities and potentials are recognised further funding benefits should ensue (even if this means retaining and not losing funding) since there will be a realisation that without these facilities there will be an adverse impact on other related local authority budgets.

While Torquay Museum, Torre Abbey and Brixham Heritage Museum could all develop their own health and wellbeing projects, the cumulative power, breadth and skills that the three could offer in concert would add much to the deliverable product and make any proposal of greater interest to a provider. The idea of a one stop shop and a structure set-up and ready to go signals both cost savings and an ability to move quickly.

4.7 The Longer Term Aspiration

The overall aim is to achieve a mixed museum economy while maintaining clarity of purpose. This means a diversity while avoiding the current situation where on occasions even the core players wonder what they are about and what their priorities are. This means making the whole greater than the sum of its parts as opposed to the current situation where the sum of the parts are actually greater than the whole.

However while the structure needs to be clearly be described it needs to be flexible enough to allow new entrants in, those outer rings yet to be forged.

The mixed economy also means participants not only buying from the consortium but selling too, for example the point made in 3.3 above of Philip Armitage/Brixham Heritage Museum, making their curatorial services available on a commercial basis.

4.8 The Likely Obstacles to be Overcome

The obstacles to be overcome in moving forward are threefold, namely:

- Cultural
- Operational
- Funding

The operational issues are primarily the next steps which are considered in section 5 below. Funding for what is essentially a re-engineering project is also considered in section 5, which leaves the greatest hurdle, that of cultural change.

Undoubtedly it is cultural change, especially at Torquay Museum, that will be one of the greatest challenges. The Society membership would need to support the approach outlined in this report for it to move ahead. Such matters would be determined by Torquay Museum calling an Extraordinary General Meeting (EGM) which is likely to require a 75% majority. However it is difficult to comment specifically on the protocols and running of the EGM since the provisions in the existing Articles regarding such matters are out of date.

If the recommendations in this report are adopted and a funding platform considered likely it would be advisable to start a dialogue with the Society's membership as soon as possible. Much can be gained from a genuinely interactive approach, however it can be time consuming and sometimes arduous.

A part of that approach needs to be a hard headed appraisal of Torquay Museum's financial position. Without Arts Council England funding for 2013/14 and 2015/16 the Museum's net current asset position would be getting perilously close to insolvency. Because the fixed asset position is strong a body of Society opinion might see cash raised via a loan or mortgage as salvation, however this would be a short term expedient. However, the Museum's on-going financial position is such that even if funds could be borrowed the price would be high. Interest and capital repayments would severely tax slender resources, so a loan would likely only delay the inevitable. If that were to happen the membership would have precious little control over the receivers and it would be the building and the collection that the receivers would look to in payment of the debt.

As commented above most operational matters are primarily next steps, however there are two aspects in terms of potential obstacles to be noted that will require further consideration if matters were to be progressed:

- A review of the potential impact of changes on EU procurement rules in terms of services let to the consortium by Torbay Council and similar.
- In terms of the Torquay Museum collection consider the recent Wedgwood charity case that suggests the Museum might consider ring-fencing its collection against unforeseen claims (in that case from a pension fund).

4.9 Recommendations

- Set-up the game plan (and script) for overcoming cultural reticence
- Visualise the “capable body” the powers and scope it would have and list out those to be approached as potential board members
- Decide who is going to be the executive lead on the process and which of the prospective board members might be chair and champion
- Commence an informal due diligence process as a road map to plot the way forward
- Prepare the new organisation’s business plan or at least the financial projections within it

5 What Next?

5.1 Funding

This report can only set out the options, the so-called “doors to walk through”. Conversations with Torbay Council are encouraging and supportive; board soundings at Torquay Museum suggest a positive and pragmatic sentiment and likewise Brixham Heritage Museum are receptive.

The meeting with Arts Council England that formed part of this work also suggested a very supportive response talking of the potential of a substantial investment in re-engineering the Torbay museum sector providing the players were genuinely prepared to “walk the talk”.

The building blocks therefore seem to be in place; consequently it is pertinent to consider what the next steps should be.

5.2 Next Steps

Appendix 3 sets out the legal next steps as proposed by the solicitors advising on the options appraisal (Charity Partner Richard King of Tozers, Exeter), but a summary of the key aspects are as follows:

- Determine the likely ‘best fit’ corporate structure
- Deal with the legal issues surrounding the current governing documents (Memorandum, Articles and similar)
- Create a task group that is capable of becoming the shadow board
- Agree heads of terms for all parties
- Carry out due diligence
- Consider whether TUPE (Transfer of Undertakings and Protection of Employment) is relevant
- Create new structure and subsidiaries seeking Charity Commission approval that is the “capable body”, so often referred to in this report.

- Formal meetings, appointments and changes
- Draft service level agreements between parties
- Deal with availability, access and security of collections
- Establish all governance and operational policies

Each stage will inform the next, especially around the due diligence process. The next stage will also look to cost out the work set out above, establish a timeline and milestones and identify risks and contingencies. But these can only be sensibly undertaken once the overall plan is seen as credible and ultimately achievable.

Appendix 1: Letter of Recommendations from Richard Smith, Director of the Tank Museum

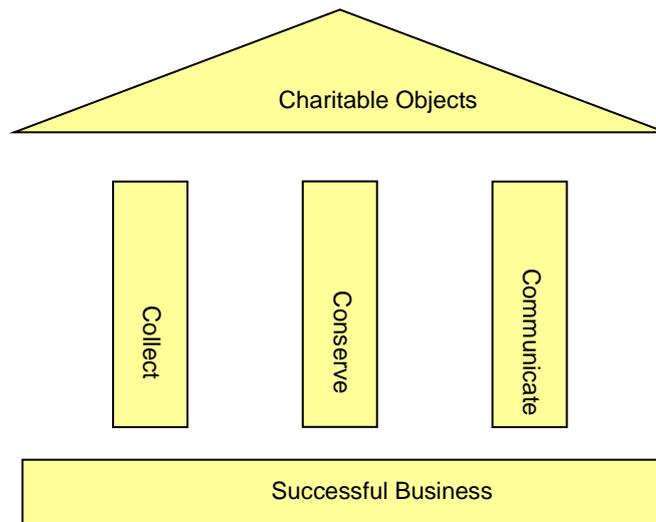
...I was really impressed by the way in which you have been able to attract funding from the HLF and Arts Council and I thought that the Museum was engaging and interesting.

As promised, I am writing to you with some more observations about governance. I will also send some thoughts on visitor experience and branding.

Governance Structure

As I mentioned in my last letter, the governance structure of the museum would be worthy of review. It was clear from my visit that the Historical Society running the Museum is extremely effective as a society, but it is questionable whether it is equipped to provide governance of a 21st Century Museum.

A museum board of trustees needs to be able to set policy and scrutinise activity to deliver the charitable objects of the organisation. I normally represent a museum's business with the schematic below:



As you are very much aware, to be successful, a museum must operate as a successful tourist attraction. This enables it to generate the funds to carry out its core activities in regards to the collections. The two combined enable a museum to achieve its charitable objects sustainably. Effective governance involves directing strategy at each level and ensuring that the achievement of the organisation reflects the strategic intention.

While annual election of trustees can be a very effective way of governing a historical society, keeping it both fresh in approach and ensuring that the wishes of the members are reflected in the operation, it has distinct disadvantages in the governance of a museum. This is particularly the

case regarding the ability to set and audit a strategy and in the provision of appropriate expert views on both the commercial and museological aspects of a museum's work.

As I mentioned to you last week, at The Tank Museum, the most important long term initiative carried out by my predecessor was to review governance. He had inherited a board comprising entirely of soldiers, most of whom were ex-officio posts. This led to a one-dimensional board without museum or business skills and with a rapid turnover. By the time I arrived at The Tank Museum six years ago the board was appointed on a skills-basis, identifying the kind of person we needed and inviting people to join us. This has led to a balanced team including professionals in museums, business, law, finance, media and academia.

I would recommend that you examine the merits of de-merging the Historical Society and the Museum, setting the Museum up as a separate charity with its own board. The Historical Society could continue to be represented on the Museum Board – for instance through the Chairman and Secretary of the Historical Society sitting as ex-officio trustees of the Museum. However the bulk of museum trustees should be appointed specifically for the skills they can offer. I would also suggest that you consider a minimum term for a trustee of three years with the opportunity to extend for further terms with the agreement of the board.

As we discussed, I would be happy to present to your board about how The Tank Museum went about restructuring our governance arrangements and the benefits that it has brought us.

Richard Smith
Director, Tank Museum

Appendix 2: HMRC and Cost Sharing Exemption

As explained in section 4, on 17th July 2012 HMRC issued “Guidance on the Cost Sharing Exemption” as one of the ways of implementing the “Big Society” ideal.

The concept was a device to overcome the charging of 20% VAT from one charity to another where they were acting jointly or sharing services. Particularly relevant when one of the parties could not recover the VAT. Unfortunately the cost sharing provisions are very narrowly drawn and require all participators to be members of a legal entity. VAT exemption is available for services provided by the cost sharing entity to its members where those services will be used for the exempt or non-business activities of the member and they are “directly necessary” for those activities where “directly necessary” means that the services will be used for at least 85% qualifying activities. It should be noted that if any of the members have activities that are taxable for VAT purposes this could preclude the exemption from applying if the 85% test is not met.

Taxable activities include income from shops or cafes and for some museums the admissions income could be taxable if the terms of the cultural exemption are not met. In addition, the cost sharing entity must only claim exact reimbursement of costs from its member i.e. it must not make a profit although the charges to members can include indirect costs.

As stated in 4.4 the cost sharing group must be separate from its members, although owned and operated by the members for their cooperative benefit. The grouping can be a group of equals or one or more members may have effective control, but in all cases all members must have a legal interest in the cost sharing group. If the cost sharing group buys in resources such as staff or IT costs it will not be able to recover the VAT on these costs to the extent that the resources are used to generate exempt income from the members. This means that a cost sharing group will be most beneficial where the cost sharing group employs its own staff.

Appendix 3: Charity solicitors, Tozers, list of next legal steps

If the principle of an overarching body is approved by the participating museums (or at least their funders) the next (mainly legal) steps would be:

- Flesh out the proposal as to the level of collaboration e.g. how flexible a structure is it to be?
- Address any legal issues i.e. is it within their existing objects/powers? Is there permanent endowment?
- Also address any employment implications
- Secure trustee meetings to approve the proposal (if not already achieved)
- Consultation/advice letters to members/'friends'?
- Ensure that they are satisfied that it is legally and financially possible and in their charity's interests
- Form a task group as a 'shadow board' for the new undertaking
- Agree Heads of Terms
- Instruct accountants and solicitors to carry out due diligence on the participating museum bodies
- Instructions to create and register the new charity and any trading subsidiary
- Arrange members' meetings of the participating bodies, especially if constitutional changes or even dissolution envisaged
- Appoint new body as Trustee of the participating bodies?
- Transfer agreement and disclosure letter (depending on chosen structure)?
- Service level agreements between the 'parent' body and its 'subsidiaries'
- Agreements as to availability of collections etc.
- Other policy documents including safeguarding, investments, reserves, risk assessment, H&S etc.
- The order and timescale in which these are carried out will depend on the degree of co-operation achieved and the type of structure chosen.