

# **Torbay Museums: Options Appraisal for Future Governance**

## **Final Report**

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# Black Radley



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## 1 **Executive Summary**

The three Torbay museums operate on a lean basis. None the less, without Council subsidy (in total £261k), each of them runs at a deficit.

The Council is clear that it has no choice but to reduce their subsidy significantly, preferably to £100k by 2016/17: a drop of £161k. In principle, to survive, Torbay museums have three possible options:

1. Invest in jointly developing an ambitious, compelling museums offer, which boosts visitor numbers and helps drive local economic growth;
2. Individual museums separately focus on the activities and assets which add most value to customers and potential customers, generating new revenues as a result, whilst ruthlessly cutting costs;
3. Quickly move to a single, or shared, low cost organisation, with a clear emphasis on commercial revenues.

In practice, the first is not possible. We note that there is enthusiasm amongst some shareholders for the museums to play a significant role in repositioning the visitor offer for Torbay as a whole. But this would take public sector investment: an investment which is not available.

The document explores the other two options. The conclusions are as follows.

- It is highly unlikely that any form of sharing, cooperation or merger between the three can close the subsidy gap.
- It is possible that a change in the museums' governance model could result in an increase in commercial revenue (e.g. trading). This "enterprise dividend" is associated with increased management freedoms; typically, a Council-run service moving to Trust, or a clearer distinction between a Trust's executive and non-executive functions. Even if such changes were made, they are unlikely to deliver sufficient net margin to close the gap.
- Given the circumstances, it is hard to see a sustainable model for the three museums without closures and/or substantial reductions in activity.
- The development of a new trust, incorporating the existing three museums, incorporating two of them, or incorporating some of what they do, could be counter-productive. The evidence is clear: most mergers in both the public and private sectors fail to deliver all the expected outcomes. Key stakeholders in the three museums have very different views and aspirations, the museums themselves are significantly different. Substantial management time is typically required to create stakeholder alignment. This management time would be better spent on improving the individual museums' commercial offer, and on capturing the resultant revenues, rather than dealing with the politics of complex change.

**In our view, therefore, Option 2 is the preferred approach.** Each of the Torbay Museums should focus on customer responsiveness. This means that each of the owning bodies must: (1) challenge their management teams to generate new revenues; and (2) give them the operational and decision-making space to do so. The additional income, combined with site by site cost cutting, plus the impact of positive customer feedback on Council budgeting, may mean a sustainable model can be achieved.

We are aware that we were asked to show how Option 3 might work. Can a combined or merged museum model deliver more than Option 2? **In our view, it is possible - though it is unlikely.** There are costs that could be shared, but the three organisations are already lean. A joint operation may be able to generate more new revenue than the individual parts. But, to work, it would require: (1) enthusiasm and support for close cooperation or merger from key stakeholders from the outset; and (2) a commitment to giving management the operational freedoms and challenge which generate real enterprise. It is not clear that either of these is in place. In any case, such an approach would almost certainly not close the funding gap.

If the three museums are committed to this third option then, in order to give it the best chance of success, we recommend it should incorporate all (not part) of the three museum's functions, be an independent trust, focus on a small number of customer propositions that have broad appeal, and quickly establish a Shadow Board and a transition plan, this way forward is mapped out in detail in sections 7 and 8. This is because the Torbay museums are facing a real, severe and joint financial crisis. If they are to survive, and to do so through working together, they must spend as little time as possible on conversations amongst themselves, and as much time as possible on building new revenue streams and a sustainable way forward.

## **2 Introduction**

This document sets out observations and recommendations on the future governance of Torbay Museums. It builds on a previous options appraisal, seeking to identify the detail which might underpin the recommended option.

### **2.1 The Requirement: Governance Options**

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. The Future Museums Project was set up as a result of this.

The project sought to ensure the museums move towards a more sustainable future, in part by identifying and assessing more effective future business models for museum delivery.

An initial options appraisal was carried out by Devon Square Partners Limited during the early part of 2013. The report found that the current method of operation was not ideal. This initial work envisaged that a new higher level body would be created that would be the commercial equivalent of a holding company. It would represent and galvanise the business part of Torbay Museums, freeing up Torquay Museum Society and Torbay Council from main line commercial considerations. It proposed that while Brixham Heritage Museum is part of the 'consortium club', it maintains its own legal standing and current arrangements.

The museums appointed Black Radley Culture to carry out further work on the options appraisal for the future governance of the three museums. In particular the museums wanted this work to drill down into the detail of what a new trust would look like and the delivery and financial benefits this brings.

### **2.2 The Context**

The recession, the change of government, and tough public sector settlements have all speeded up a process of change which was already taking hold in the cultural sector. A market driven by greater user expectation, more choice, and greater demand for accessibility was driving a focus on improvement and customer engagement. At the same time, Local Authorities are in the process making cuts of around 30% or more; many are looking at redefining the way that local government services are delivered. Universal services such as museums, and the broader cultural sector, are experiencing significant budget reductions.

The museums of Torbay are situated in the second 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 deprivation 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 three accredited museums within Torbay - the English Riviera, all at least in part funded by Torbay Council:

- 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.
- 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.

### 2.3 Methodology: Balanced Enterprise Planning

An effective methodology for this project must:

- Review and summarise the current state of the museums;
- Robustly assess and investigate the financial position of the museums;
- Identify the current and potential challenges and develop appropriate options in response;
- Test the viability of the options and appetite for change (against stakeholder, partnership and wider contexts);
- Using the above, work with the relevant partners and key stakeholders to agree criteria by which possible options should be judged;
- Model possible options, analyse risks and issues.

We have used an approach based on our ***Balanced Enterprise Planning*** methodology. To decide between service and governance options, the key is to recognise that "**form follows function**". The right structural answer is dictated by the nature of what the structure is there to achieve. Organisational vitality requires an alignment between the way we are and what we do.

The **form** of the museums in Torbay (their governance structure) must support the **right balance of operational, financial, and political functioning**.

### 3 Costs and income

#### 3.1 Existing costs and income

Black Radley Culture collated the 2013/14 budgets for the three organisations, adjusted for year to date performance where applicable, to understand the existing costs and income and thereby identify the financial implications of any governance change. The table below shows the result of that exercise.

	<b>Torre Abbey</b>	<b>Torquay Museum</b>	<b>Brixham Museum</b>	<b>13/14</b>
Admissions & gift aid	83,000	99,000	9,156	191,156
ACE grant		140,000		140,000
HLF		39,500		39,500
Happy Museum		20,000		20,000
Other grants		9,500	16,846	26,346
Fundraising	1,000	48,000	7,875	56,875
Trading	54,500	44,500	6,348	105,348
Subscriptions		14,000	2,441	16,441
Rents	40,000		96	40,096
Investment		4,000	367	4,367
<b>Total income not including Council subsidy</b>	<b>178,500</b>	<b>418,500</b>	<b>43,129</b>	<b>640,129</b>
Payroll	(201,700)	(170,000)	(33,717)	(405,417)
ACE payroll		(113,000)		(113,000)
Happy Museum payroll		(14,000)		(14,000)
ACE project		(33,000)		(33,000)
HLF project		(39,500)		(39,500)
Happy Museum spend		(6,000)		(6,000)
Fees	(5,000)	(28,200)	(100)	(33,300)
Establishment	(75,600)	(80,700)	(7,526)	(163,826)
Trading	(22,500)	(12,000)	(2,739)	(37,239)
Admin/society	(6,400)	(9,000)	(2,047)	(17,447)
Curatorial	(24,365)	(4,000)	(1,291)	(29,656)
Engagement/marketing	(23,500)	(7,000)	(4,891)	(35,391)
Exhibitions		(13,300)		(13,300)
Education & outreach		(2,000)	(1,762)	(3,762)
Other	(7,300)		(297)	(7,597)
Governance costs				0
Central costs				0
Capital		(3,000)		(3,000)
<b>Total expenditure</b>	<b>(366,365)</b>	<b>(534,700)</b>	<b>(54,370)</b>	<b>(955,435)</b>
<b>Operating deficit</b>	<b>(187,865)</b>	<b>(116,200)</b>	<b>(11,241)</b>	<b>(315,306)</b>
Torbay Council subsidy	187,865	76,500	20,000	284,365
<b>Net (deficit)/surplus</b>	<b>0</b>	<b>(39,700)</b>	<b>8,759</b>	<b>(30,941)</b>
Admission income as % of total income	46%	24%	21%	30%
Torbay Council subsidy as % of total expenditure	51%	14%	37%	30%
Trading income as % of total income	31%	11%	15%	16%
Staff costs as % of total expenditure	55%	56%	62%	56%

Note: in the absence of a 2013/14 budget Brixham figures are 2012/13 actuals.

The key points to note are:

- All museums operate at a deficit before Torbay Council's subsidy is included. The subsidy as a proportion of total expenditure, including project spend, varies from 14% (Torquay), 37% (Brixham) and 51% (Torre Abbey).
- The subsidy from Torbay Council accounts for the highest proportion of any funding source;
- Torquay Museum has produced a deficit budget even after the Torbay Council subsidy, this has been adjusted by management indicate to reflect the fact that current trading is below budget. The Torquay Museum cash position has been supported by a £100k loan from a member which is repayable in five instalments starting from April 2014;
- Staff costs account for 56% of the total aggregate expenditure of the three museums;
- The largest cost caption after staffing is establishment;
- The ACE grant of £140k is used mainly to deliver projects and is not certain after 2014/15.

#### **4 Stakeholder Perspectives**

If there is not a clear and agreed purpose for the new or changed organisation, a governance/restructuring exercise can use up significant management time, stakeholder goodwill, legal fees and consultancy costs. If key decision makers (“stakeholders”) are not of a common mind about the organisational purpose, then new structures will add no value. The phrase “form follow function” is crucial in all governance reviews, and has particular resonance for Torbay.

Appendix 2 summarises stakeholder opinion generated during this project. Appendix 3 describes how those opinions were turned into a set of success criteria.

In summary, key stakeholders wanted the future museums set up to: (1) be more commercial in orientation; and (2) give them continued close control. There is an unresolved tension between these themes. In addition, there was no clear story concerning how the three museums complemented each other from a customer perspective.

An ambitious model for Torbay museums might be shaped around the need to drive up overnight visits from high net worth individuals. Given the state of public sector budgets, this would probably require some form of joint venture with a private sector player (e.g. Kents Caverns). This, as a consequence, would almost certainly require the new venture to have a fair degree of freedom, in the near future, from the Council and Torquay Museum’s members.

At the other end of the spectrum, a containment approach to the museums, driven by the need for a reduced Council subsidy, would require a hands-on contract management approach from Council staff, putting operational pressure on the three organisations to share staff/activities.

These are just two points on a possible spectrum. The governance models for each are radically different. This is why the initial options appraisal may have been less than conclusive: it was not clear what the question was.

For this reason we asked that Torbay museums stakeholders spend some time working through: (1) why change is needed; and (2) what success looks like. In response the stakeholders gave Black Radley Culture a clear message. Because of the reducing public subsidies available to Torbay Council, the recent redevelopment at Torre Abbey and the financial challenges facing Torquay Museum, a cost reduction/closely controlled option was the only realistic way forward. Stakeholders understood that such an approach would limit their possible ambitions with regard to the quality and scale of the product across the three museums.

It is none the less not clear that some key stakeholders have grasped just how significant Council subsidy is to each organisation’s viability, and therefore the scale of the potential crisis they collectively face.

## 5 **Possible Models**

In principle, there is a wide range of governance, operational and financial perspectives/options available to the museums in Torbay.

The **Governance** options include:

- The three museums operating together;
- Torquay Museum and Torre Abbey operating together;
- The three organisations operating independently;
- A combination of some or all of the three with Kents Cavern.

In each case, the structural form(s) used to underpin the approach could be any one of the following:

- An informal or semi-formal partnership;
- An independent organisation, closely tied to the Council;
- An independent organisation, at arm's length from the Council;
- Radical outsourcing.

There are a range of possible **Operational** options, including:

- Ambitious/strategic – Geopark, National Centre of the Stone Age, Devon-wide cooperation;
- Tactical – establish a heritage attraction in Brixham town centre and on Torquay's seafront, combine with other (fair weather) leisure operators to develop counter-cyclical resourcing approach;
- Containment – maintain existing facilities within a reducing budget ceiling, perhaps by extending the Brixham Museum volunteering model.

There are also a several **Financial** options, or perspectives, in which key stakeholders show interest:

- An increase in public sector investment in museums, to drive visitor numbers, fill local hotel beds and generate economic growth;
- A year-on-year reduction in Torbay Council's spend on museums, in the light of tight budgets;
- A partnership with a private sector player, creating a more coherent and sustainable set of visitor attractions.

These options are explained in more detail in Appendix 4.

## 6 Financial Analysis

### 6.1 Financial Models

Beneath this complexity, there are essentially a limited number of financial models.

- 1. Carry on as now, organisations working and governed separately (with Torbay Council subsidy cut substantially across the three museums).**
- 2. As above, but with individual focused cost cutting and individual enterprise dividend.**
- 3. Joined up, current stakeholder and operational differences not effectively resolved (subsidy reduced, some costs cut, but no enterprise dividend because of management distraction)**
- 4. Joined up with enthusiasm (subsidy reduced, some costs cut, enterprise dividend realised - the enterprise model)**
- 5. Joined up with external commercial (e.g. Kents Cavern or South West Lakes Trust)**

Summary income and expenditure accounts for models 1 to 4 are shown in the table below:

<b>Model 1</b>	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>	<b>2016/17</b>
Income	662,994	576,629	436,629	436,629
Expenditure	(955,435)	(873,225)	(705,651)	(705,651)
Torbay Council subsidy	261,500	261,500	222,275	188,934
<b>Surplus/(Deficit)</b>	<b>(30,941)</b>	<b>(35,096)</b>	<b>(46,747)</b>	<b>(80,088)</b>

<b>Model 2</b>	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>	<b>2016/17</b>
Income	662,994	591,454	467,021	483,365
Expenditure	(955,435)	(874,027)	(707,223)	(708,036)
Torbay Council subsidy	261,500	261,500	222,275	188,934
<b>Surplus/(Deficit)</b>	<b>(30,941)</b>	<b>(21,073)</b>	<b>(17,927)</b>	<b>(35,736)</b>

<b>Model 3</b>	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>	<b>2016/17</b>
Income	662,994	567,071	417,991	392,924
Expenditure	(955,435)	(856,144)	(666,232)	(671,633)
Torbay Council subsidy	261,500	261,500	222,275	188,934
<b>Surplus/(Deficit)</b>	<b>(30,941)</b>	<b>(27,573)</b>	<b>(25,966)</b>	<b>(89,775)</b>

<b>Model 4</b>	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>	<b>2016/17</b>
Income	662,994	593,931	472,483	491,867
Expenditure	(955,435)	(858,006)	(670,049)	(679,555)
Torbay Council subsidy	261,500	261,500	222,275	188,934
<b>Surplus/(Deficit)</b>	<b>(30,941)</b>	<b>(2,575)</b>	<b>24,709</b>	<b>1,245</b>

All four models show very challenging results, three are clearly non-viable with a reduction of Torbay Council subsidy to £189k by 2016/17. This level of subsidy is more than the target of £100k expressed during stakeholder discussions.

It should be noted that Torre Abbey made a transfer from reserves in 2013/14 of £22k which will not be available in 2014/15. This is in essence a reduction in core funding in addition to the reduction in Torbay Council subsidy.

Model 5 is very difficult to assess at this stage. It would depend on a number of variables such as the nature of the organisation that the museums were in partnership with or outsourced to. A relationship with a highly commercial organisation such as Kents Cavern would look very different to a relationship with the likes of South West Lakes Trust.

The detailed workings and assumption behind the models are contained in Appendix 9.

## Model Summary

The modelling demonstrates that, unsurprisingly, the 2<sup>nd</sup> and 4<sup>th</sup> options are the most sustainable ways forward. On paper the 4<sup>th</sup> option seems to offer the best financial outcome. However to achieve this model will require significant realignment of operational, management and stakeholder processes and perspectives. The work around the governance project has already used up a considerable amount of resource across the three organisations and will continue to do so. Therefore delivering this model carries significant risk with it. Based on our previous experience and our analysis of the situation in Torbay we have identified the key risks as:

- Lack of internal operational alignment;
- Stakeholder lack of support/sense of loss of assets
- Lack of management freedom and enterprise
- Legal and change overheads obscure management focus
- Trying to be all things to all people
- Costs are not cut sufficiently
- Council cuts too fast

Unless these risks are mitigated thoroughly, the return on investment of any move to an independent vehicle is likely to be significantly limited. **On balance therefore we have to highlight Model 2 as the most likely to succeed in the current financial and operational climate.**

Section 7 considers how the risks we have highlighted can be mitigated.

## 6.2 Finance under independent trust

Most of the finances of the service are not dependent upon the governance structure. In order to consider the financial effect of an independent trust as outlined in Models 3 and 4 the following headings have been identified as being affected:

- Enterprise Dividend;
- Taxes;

- Philanthropic income;
- Central costs;
- Governance costs.

Each of the five headings and the relevant issues are explained further below. Some of the headings have an investment dimension in the model, recognising that generating new income may require up-front investment.

### ***Enterprise Dividend***

Under the independent trust model the service should be able to be more enterprising and innovative. This will entail exploiting existing sources of income, such as retail and catering, more effectively and accessing new sources of income.

The enterprise dividend will only be realised by staff within the new organisation changing their behaviour and taking advantage of the freedoms which will come with independence. This will require changes in both the way in which the service is directed by the Board and management and by the way front line staff deliver the service. These changes in behaviours are not easily realised and not all staff will be comfortable with the new ways of working. Evidence from comparator organisations indicates that such a cultural shift can take some years to embed.

### ***Taxes***

If the delivery organisation is a registered charity there are certain tax benefits that can be realised. The reduction in the National Non Domestic Rates (NNDR) represents a reduction in the rate charge to the museum service. As a charity the organisation might be able to claim an 80% reduction in its non-domestic rates and might be able to get relief for the other 20% if the Council thought it appropriate. There are also certain VAT exemptions including paying a lower rate of VAT on fuel and the ability to not charge VAT on some sources of income. Torquay and Brixham museums are already registered charities.

### ***Philanthropic Income***

Evidence suggests that there is often a reluctance to donate money to a service that is part of a local authority so an independent organisation should be a more acceptable vehicle for philanthropic income both corporate and personal. Fundraising requires a specific skillset and is a long term activity, Black Radley Culture experience is that that it also involves a change in culture in newly independent organisations; this change can take some time to occur. Any existing fundraising strategy will need to be refreshed under these governance options.

Independent organisations might be able to access funding from trusts and foundations that were not open to the service as part of the local authority. Being a registered charity may assist in accessing new sources of income. Conversely there is also the risk that an independent organisation might not be able to access some sources of funding which were available to the Council.

***Central Costs***

Torre Abbey is currently charged approximately £200,000 internally within the Council for the provision of certain services. These services may include gas & electricity and the provision of finance, property, HR and IT support.

An independent delivery organisation might still choose to have these goods and services provided by Torbay Council but would also have the option of accessing the market for cheaper and/or effective services.

***Governance costs.***

Under the new organisation options being considered there will be additional governance costs, such as Companies House and Charity Commission compliance and the costs of running the board. The scale of such costs is hard to judge but is rarely more than a few thousand pounds per annum.

## 7 **Recommendations**

Amongst some stakeholders there is an appetite for a robust and business-like approach to attracting far greater numbers of high spending visitors to the area, using a high quality heritage service as a draw. However the way forward needs to be realistic, mindful of the public funding situation and the desire of the current governing bodies to retain close control in the short and medium term.

The reality is, therefore, that the focus has to be on (1) sharpening of operational focus and (2) tight cost control. If trustees and members are prepared to give up a level of direct control over their respective museums, there may also be a focus on (3) generating greater commercial income. **This last point is crucial. This “enterprise dividend” is only likely to be possible where a greater critical mass has been achieved (through merger) and greater management freedoms have been granted to the team.** Such freedoms might include:

- The opportunity to raise or reduce admission prices;
- The ability to reallocate resources, from curatorial areas to marketing for instance;
- The opportunity to focus specifically on particular market segments;

In our experience if operational freedoms and merger are not possible, the cost of achieving governance change is likely to be greater than the savings made. It would be better not to change current structures and simply to allow cuts to play out as they will.

The primary recommendation for the three museums is therefore that:

**Recommendation 1: Management and stakeholder focus should be on commercial revenue generation, not on merger.**

However If the governing bodies of Brixham Heritage Museum, Torquay Museum and Torre Abbey are committed to moving towards merger and granting the necessary operational freedoms, then we propose the following governance, structural, operational and financial recommendations.

### 7.1 **Governance Options**

Whilst all three museums have achieved notable successes acting independently, they all face significant financial and operational challenges in the future. The contextual analysis and stakeholder feedback provided some strong messages around governance and as a result three of the six success criteria outlined in detail in Appendix 3 refer specifically to the need for a more joined and efficient approach across the three museums.

We therefore recommend that in the first instance, and as a potential first step to a move towards an independent vehicle:

**Recommendation 2a: The three museums combine their staffing teams and operational processes as soon as is feasible.**

Such an approach will ensure that the three sites work together effectively; it will allow a coherent approach to strategic planning and quickly provide a single point of contact for stakeholders such as Torbay Council and ACE to work with.

## 7.2 Structural Options

If the alignment of staffing teams and operational process moves forward successfully, and the existing governing bodies maintain their willingness to allow the museums the necessary management freedoms, then we also make the following structural recommendations:

**Recommendation 2b: Create a new independent organisation to take on the running of all three museums from 2016.**

Recommendation 2c pays particular reference to the views emerging from the stakeholder discussions concerning reducing public subsidies and a desire expressed by all existing governing bodies to remain close to the assets, in particular the buildings and the collections.

**Recommendation 2c: A single independent museums trust, closely bound to the existing governing bodies through specified interfaces and trustee composition.**

The organisation would be a Company Limited by Guarantee, which would seek charitable status. Staff would become employees of the new organisation. The major assets would remain the property of the relevant governing bodies.

Specifically Torbay Council, Torquay Museum Society and the existing board of Brixham Heritage Museum will pass on all aspects of the day to day running of the museums to the new trust. Torbay Council and Torquay Museum Society will retain ownership of the key assets and pass on management to the Trust through a service level agreement; Torbay Council will also manage its subsidy through such an agreement. Brixham Heritage Museum Board may want to pass on ownership of its collections to the new vehicle or may wish to retain ownership and manage through a SLA as well.

This option will allow Torbay Council, Torquay Museum Society and the existing Brixham Heritage Museum Board to have representation on the Board of the new vehicle, and the business plan will be agreed by these three interested parties. However the new organisation must also to be given sufficient freedom and flexibility to seek out the enterprise dividend that is potentially available to independent vehicles, and to deliver the innovation required to meet the challenges ahead.

Nevertheless we are mindful of the first success criteria outlined in Appendix 3, and the clear message given by stakeholders such as and Torbay Council that they would like to remain in control of the key assets at least in the short term for a variety of political and operational issues, therefore we also suggest that:

**Recommendation 2d: Any move to a single vehicle is staggered over three years. Year 1 involves an operational alignment, Year 2 involves a strategic alignment, with the creation of a shadow board, and Year 3 sees the formal creation of the new vehicle.**

It should be pointed out that a speedier move towards merger and management freedoms is possible if the governing bodies were prepared to relinquish control earlier. Such a change in pace might result it:

- A quicker release of the potential enterprise dividend;
- An earlier opportunity to secure grants and funds from Trusts and Foundations;
- More resource being used across the three museums to increase and diversify income generation.

### 7.3 Operational Options

Discussions with stakeholders, and Torbay Council in particular, illustrated the very challenging public funding environment, and it seems clear that the Council is not able to invest sizeable sums into the museum sector in the medium term.

Therefore any option here needs to be driven by the need to reduce public subsidies. The opportunity to secure grants from sources such as the Heritage Lottery Fund and the Arts Council will remain, but the chances of securing such funding will be severely diminished if public subsidies are being significantly reduced:

**Recommendation 2e: As the three museums move towards a new single vehicle, the prime management task needs is to tightly focus the museum functioning within the existing scope and customer offer, i.e. concentrate on a small number of key areas that have a powerful appeal.**

In practice this means a move away from the traditional cultural sector approach of trying to be all things to all people. Whilst we have not had an opportunity to undertake a thorough analysis of audiences, programmes and collections, we would suggest that:

- Resources are allocated immediately to assessing the customer data currently available from such sources as Torbay Council to assess audience needs and expectations.
- Resources are refocused more generally towards areas, such as marketing, customer care and programming, which generate and sustain larger audiences and income generation;
- Programmes, permanent displays and buildings are focused specifically on clearly identified target markets;
- A more flexible approach is taken in such areas as curatorial and collections, where instead of having a fixed staff resource, budgets are allocated which can be used to bring in the necessary expertise around particular collection areas as and when required;
- The collections across all three sites are reviewed;
- It is also apparent from the work we have undertaken that some sizeable resources across the three museums have been allocated in the past to working with hard to reach groups from the local community. Whilst such work is laudable, we would recommend that this type of engagement is only carried out if it is commissioned or funded by an external agency on a full costs recovery basis.

We anticipate that this might mean that Brixham Heritage Museum decides that its most popular and compelling visitor draw relates to maritime history, and ensures that the majority of conservation, curatorial, volunteer and marketing resources are focused accordingly. Torquay Museum might focus around Agatha Christie, and create stronger links with the Geopark, whilst Torre Abbey might concentrate on being a historic house with accompanying art collection.

The challenging budgetary environment will mean that those working across the three museums will need to consider a range of innovative and challenging approaches to saving money. For instance we suggest that an increased use of volunteering will be considered and the experience gathered by colleagues at Brixham Heritage Museum will be valuable in driving such a development.

In addition stakeholders were at pains to point out that links to such organisations as Kents Cavern and the Geopark should be exploited by the museums in the locality. Whilst such engagement will prove challenging in a reducing subsidy environment any link with an enterprise focused cultural organisation such as Kents Cavern should prove beneficial, it will also allow limited resources to be stretched further.

**Recommendation 2f: Serious consideration is given to exploiting synergies with other cultural organisations in the locality, such as the Geopark TCCT and Kents Cavern. The opportunities provided by the relocation of Brixham and Heritage Museums should also be looked into.**

#### 7.4 Financial Options

There was a clear message from stakeholders that the driver must be to reduce the dependence on the Torbay Council subsidy amongst the three museums, there is an expectation that the museums should work together efficiently, sharing staff and services. Torbay Council has indicated that subsidy levels will decrease from 2015/2016, and that no guarantees can be made about the existing support to the three sites beyond 2016/2017. Costs will need to be cut, services targeted and assets sweated effectively.

Therefore we recommend that:

**Recommendation 2g: The museums reduce their dependence on Council subsidy by further cutting of costs where possible and seizing opportunities to further diversify the funding base.**

However it should be emphasised at this point that the three museums are already lean, the modelling we have undertaken demonstrates that any savings through cost cutting and efficiencies are likely to be small, in the region of a few tens of thousands of pounds at most. Our financial analysis also indicates that it will be very difficult for any new vehicle to operate sustainably in the short term with a subsidy level of less than £200,000 from Torbay Council. In order that the new vehicle is given every chance to succeed we propose that:

**Recommendation 2h: The subsidy from Torbay Council is reduced to £200,000 in 2016/17, and reduced by no more than 10% each of the following two years.**

#### 7.5 Implications for Stakeholders

The recommendations we have described above will go some way towards meeting the short and medium term needs of Torbay Council and Torquay Museum Society. It will allow these organisations to retain direct control of the collections and buildings in the short term. These recommendations will also enable the current governing bodies to have significant influence over the new independent vehicle through board membership and input into the service level agreement. It will place the museums in the most favourable position to realise efficiencies, undertake cost cutting and to become more fleet of foot if they are given the suitable management freedoms.

The recommendations provide the existing Board of Brixham Heritage Museum with a choice; they could pass on their collection assets to the new trust, secure the necessary representation on the Board of the independent vehicle and disband. They could also continue in some form, retaining ownership of the collections and

handing over day to day responsibility through some form of service level agreement.

On an on-going basis the Torquay Museum Society will be able to negotiate a suitable agreement with the new independent organisation which will allow such privileges as the hosting of the lecture programme and access to the local history resource to continue in a similar vein as before. However this limited investment approach may restrict the ability of the new vehicle and each of the museums to take advantage of tactical and enterprising opportunities. It will also limit their ability to maintain a high quality product in the medium term. There are also immediate challenges which need to be overcome, such as the precarious nature of the Torquay Museum's finances, before any significant change can take place.

## **8 Implementation**

This section outlines how the transition to the independent vehicle described in Section 7 should be managed. A detailed financial plan should be developed from our model, taking into account stakeholder expectations, income sources, and the likely requirements of the three existing governing bodies.

### **8.1 Schedule**

If a new, independent organisation is to be created, a managed transition over several stages would be the lowest risk and lowest cost way to make the transition. Such an approach also fits well with the clear messages given by the existing governing bodies of the three museums where a staggered process has been suggested, taking place over three years.

- Year 1 (2014/2015): The first year focuses on developing an operational alignment across the three sites. This will include developing a shared strategic plan, a coming together of services and a focus on cost cutting.
- Year 2 (2015/2016): In the second year there will be a continued process of operational alignment, along with the early stages of the creation of the new vehicle to govern the three museums. This will include the recruitment and setting up of a "Shadow" Board.
- Year 3 (2016/2017): The final year will see the formal creation of the new vehicle, with a Board and executive in place to take it forward.

A shadow approach to independence should be adopted, allowing internal interfaces to be agreed and practised (e.g. with property and HR support in the case of Torre Abbey) alongside the on-going operational and management alignment before legal independence.

A high level draft plan is shown below. The figures on the right hand side of the plan give a broad estimate of the amount of resource required to undertake the various aspects of the timetable. The "internal" column indicates the amount of time that is likely to be required from the three museums to undertake the governance change. The "external" column indicates the number of days of support that will be required from individuals beyond the three organisations with particular areas of expertise (e.g. HR, legal, marketing)

	Year 0		Year 1				Year 2				Year 3				Days	
	2013/14		2014/15				2015/16				2016/17					
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Internal	External
<b>Operational Alignment</b>																
Operational Review															5	
Agree service configuration															3	2
Efficiencies implemented			X												5	
Museums acting as one business																
Operational Review 2								X							5	
Agree core processes & interfaces										X					3	3
<b>People</b>																
Shadow Board recruit			X												5	
Strategic Focus															3	1
Organisation structure															3	3
Staff consultation															3	3
Partner consult															3	
Board recruit								X							5	
Senior Management recruit															5	5
Staff matching															5	
<b>Plan</b>																
5 year business plan											X				5	5
<b>Legals</b>																
Creation of new vehicle scoped															3	
Heads of Terms								X							3	1
Operating Agreement with funders															5	
Company formation										X					1	
Business Transfer Agreement											X				3	3
Regulatory compliance																3
<b>Comms</b>																
Project comms plan		X													5	
Project comms															24	
Launch Marketing															3	3
Go live launch												X			4	
															109	32

**Notes**  
Milestones at the end or completion of a process marked by X

## 8.2 Implementation Checklist

A check list of key issues to consider is recorded below, see Appendix 7 for a detailed list of key transition issues:

Category	Item
Board	<ul style="list-style-type: none"> <li>Governance parameters</li> <li>Recruitment</li> <li>Strategic planning</li> <li>Performance measurement/management</li> </ul>
Team	<ul style="list-style-type: none"> <li>Restructure</li> <li>Leadership</li> <li>Communications</li> <li>Morale</li> <li>Cultural change</li> <li>TUPE</li> <li>Pensions</li> </ul>

Category	Item
Enterprise	<ul style="list-style-type: none"> <li>• Focus</li> <li>• Investment</li> <li>• Implementation</li> </ul>
Delivery	<ul style="list-style-type: none"> <li>• Form</li> <li>• Geography</li> <li>• Process</li> </ul>
Marketing	<ul style="list-style-type: none"> <li>• Positioning</li> <li>• Implementation</li> </ul>
Finance	<ul style="list-style-type: none"> <li>• Asset ownership</li> <li>• Asset maintenance</li> <li>• Internal Audit</li> <li>• External Audit</li> <li>• Budget</li> <li>• Capital budget</li> </ul>
Risk Management	<ul style="list-style-type: none"> <li>• Transition risks</li> <li>• New organisations risks</li> <li>• Risk register</li> <li>• Risk management</li> </ul>
Interface Management	<ul style="list-style-type: none"> <li>• Council strategic relations</li> <li>• Torquay Museum Society</li> <li>• Brixham Heritage Museum Trustee Board</li> <li>• HR</li> <li>• Finance</li> <li>• IT</li> <li>• Property</li> <li>• Marketing</li> <li>• External partners and suppliers</li> </ul>
Change process	<ul style="list-style-type: none"> <li>• Transition project management</li> <li>• Transition budget</li> </ul>
Legals	<ul style="list-style-type: none"> <li>• Activities</li> <li>• Assets</li> <li>• Liabilities</li> <li>• Contracts</li> <li>• Intellectual property rights</li> <li>• Employees</li> <li>• Equipment</li> <li>• Furniture and fittings</li> <li>• Lease/property</li> <li>• Transfer date</li> <li>• Tax</li> <li>• Compliance</li> <li>• Charitable status</li> </ul>

### 8.3 The New Vehicle

The recommendations identify that an incorporated, charitable company limited by guarantee is the most appropriate vehicle for the museums in Torbay (see appendix 5 for a more detailed summary of the options available). This is the form most commonly used by both long standing independent cultural organisations

(such as SS Great Britain) and those museum services which have recently been reprovisioned by local authorities (e.g. Birmingham Museums Trust).

The fact this it is incorporated will provide reassurance to potential trustees and staff about any liabilities that the new vehicle might generate or inherit (such as pension liabilities). The charitable status of the vehicle may provide a number of financial benefits as currently realised by Torquay and Brixham Museums.

#### **8.4 Organisational Ownership and Control**

The new vehicle will be governed by a Board of non-executive directors, with an executive team reporting to this Board. The existing governing bodies of the three museums should not comprise more than 20% of the membership of the Company as that may indicate control and expose them to future liabilities. The majority of comparator organisations we looked at had two local authority nominated board members, and it would seem appropriate for each of the existing governing bodies to have two representatives on the new board

We would recommend a minimum of six additional trustees, including an independent chair, are appointed. They should include representatives of local communities, businesses and key stakeholders, and have a range of relevant experience and skills (see appendix 6 for further details on the appointment of trustees). The governing bodies will also be able to influence the Company by way of the service agreement.

The day to day management of the Company will be exercised by the senior management team under the direction of the board of directors. The Chief Executive of the Company should be an executive member of the Board of directors. Other members of the senior management team may be directors if required. Ideally the non-executive directors should outnumber the executive directors.

Torbay Council and Torquay Museum Society have indicated that they wish to retain ownership of their buildings and collections. Comparator organisations, such as the Birmingham Museums Trust and Coventry's Heritage and Arts Trust, have moved out of local authority control recently, with the local councils retaining ownership of the collections and buildings. Therefore there is no reason why a similar approach should not be adopted in Torbay with the existing governing bodies retaining ownership of key assets where appropriate, but giving the new vehicle sufficient management freedoms to sweat the assets effectively through a service level agreement agreeable both to the existing governing bodies of the three museums and the emerging Shadow Board.

#### **8.5 Delivery**

We would recommend that the complete day to day management and operation of the three museums is transferred to the new vehicle. This has been the approach adopted in the vast majority of the various comparator organisations we have looked at such as the Birmingham Museums Trust, the Luton Culture Trust and the Coventry Heritage and Arts Trust. Discussions with comparator organisations, and our own wide ranging experience, demonstrates that leaving a mixed economy of

service delivery between the existing governing bodies, the new vehicle and potentially third parties, would be difficult and resource intensive to manage.

The creation of an incorporated, charitable company to deliver the three museums in Torbay will have a number of significant benefits, these include:

- It will allow the three museum sites to work together in a genuinely joined up way in such areas as programming, marketing and collections management. Thereby enabling a better use of resources and a tighter focus on a small number of priorities.
- The new trust will provide a single point of contact for engagement with the public. The development of a single brand will encourage strengthened relationships and potentially an increase in income.
- A single vehicle will ensure a single approach to areas such as admission charges.
- The approach will also provide a single point of contact for both local and national stakeholders. This is particularly pertinent with funders such as HLF and ACE who both are requiring cohesive and consistent local approaches with clearly prioritised expectations around investment.
- The greater critical mass provided by bringing the three museums together will also strengthen Torbay's position when attempting to negotiate partnerships with major regional museums, nationals and international organisations. Evidence suggests that such partners will feel more inclined to allow loans and make significant exhibitions available.

## 8.6 Organisational Culture

Any move to a new delivery vehicle and greater management freedoms can only be successful if the move is accompanied by a corresponding cultural change amongst staff. This need has been evidenced by our recent engagement with museum services such as Walsall, Birmingham and Tyne and Wear.

We acknowledge that there is some good work and innovative practice already taking place across the three museums, the exhibition programme at Torquay Museum being a case in point, however a significant cultural shift is still required in some form or another at each of the three museums. Engendering such a change is not straightforward and varies from place to place depending on local circumstances. However the very nature of a move to a new independent organisation, with the accompanying need for processes such as TUPE is likely to generate a change in personnel and approach.

We would also recommend that more proactive approaches are considered in the period up to and soon after the move to trust. These could include:

- Create an environment and mechanism where new ideas and innovation are encouraged and collected from all staff and volunteers.
- Set up a diagonal slice team from across the three organisations, involving staff, full time and part time, volunteers and potentially friends groups. This group can act as a test group for new ideas and opportunities.
- Set all members of staff enterprise related targets, whether this is increasing donations for those who work front of house, to increasing income levels generated by collections for curatorial staff.

## **Appendix 1 – Project Process**

The evidence gathering aspect of the project involved work in four areas:

- Contextual Analysis;
- Stakeholder Engagement;
- Comparator Analysis;
- Financial Baselineing.

A brief summary of the scope and scale of three aspects of the evidence gathering work is included below.

### **Contextual Analysis**

The following documentation was considered:

#### **1 Torbay Council Information**

- 1.1 Community Plan 2011+
- 1.2 Corporate Plan 2010+
- 1.3 Torbay Heritage Strategy 2011
- 1.4 Copy of Heritage Action Plan (Evidence Base)
- 1.5 Arts Strategy
- 1.6 Options appraisal version 6
- 1.7 Future Museums Project Fundraising Strategy

#### **2 Torquay Museum Information**

- 2.1 Torquay Museum Business Plan
- 2.2 Torquay Museum Needs Assessment
- 2.3 Organogram
- 2.4 2013 – 08 Organogram
- 2.5 2013 PA – Phil Collins
- 2.6 Acquisitions and Disposal Policy
- 2.7 Articles of Association document
- 2.8 Budget Revision Final
- 2.9 Documentation and Conservation Plan 2013 – 16
- 2.10 Happy Museum Project Application.
- 2.11 K Boot Esmee Report
- 2.12 Marketing Strategy 2010 – 11
- 2.13 Memorandum and Articles of Association
- 2.14 Torquay Museum Society News
- 2.15 Torquay Museum Society Rules
- 2.16 Torquay Museum Society Annual Report

#### **3 Torre Abbey Information**

- 3.1 Torre Abbey Needs Assessment
- 3.2 Bases of Financial Projections
- 3.3 Theatres, Arts, Museums Profile
- 3.4 Torre Abbey Activity Plan
- 3.5 Torre Abbey Budget 2013/4
- 3.6 Torre Abbey Collections Development Policy

#### **4 Brixham Museum Information**

- 4.1 Brixham Planning Document
- 4.2 Brixham Needs Assessment
- 4.3 Brixham 7 Year Summary
- 4.4 Brixham AGM Accounts
- 4.5 Brixham Acquisitions and Disposals Policy
- 4.6 Brixham Administrators report to AGM
- 4.7 Brixham Chairman's report to AGM
- 4.8 Brixham Curators report to AGM
- 4.9 Brixham Curators report to AGM (2012)
- 4.10 Laws of Brixham Heritage Museum and History Society
- 4.11 Commissioning Agreement

#### **5 Other Relevant Sites**

- 5.1 Kents Cavern  
General information (from <http://www.kents-cavern.co.uk>)
- 5.2 Geopark  
Information from <http://www.englishrivierageopark.org.uk>

#### **Stakeholder Engagement**

Discussions took place with a wide variety of stakeholders:

1. Mary Godwin – SW Museums Relationship Manager, ACE
2. Brixham Heritage Museum – Philip Armitage, Curator; John Parr, Treasurer; Patsy Britten, Chair
3. Phil Collins – Director, Torquay Museum
4. Torbay Council – Dave Butt, Executive Member, Culture and Arts; Sue Cheriton, Executive Head for Residents & Visitor Services; Steve Hurley, Group Manager - Commissioning Partnerships & Business Development; (Simon Jutton, Torbay Lead, ACE)
5. Alan Davies – Service Lead, Theatre, Arts and Museums
6. Richard Sale – Treasurer and Trustee, Torquay Museum
7. Nick Powe – Owner/Manager, Kents Cavern
8. Gillian Westell – Chair, Friends of Torre Abbey
9. Tony Deyes – Honorary Secretary, Torquay Museum Board
  
10. A detailed discussion focusing on the interim plan produced by Black Radley Culture took place with the Future Museums Project Board on 25/9/13.

#### **Financial Baseline**

Using the 2013/14 budget as a baseline, a high level model of the financial situation was prepared. Results in Appendix 3.

## **Appendix 2: Options Analysis – Stakeholder Feedback**

Stakeholder consultation must have a significant influence on the nature and shape of the recommendations. This section briefly sets out the main issues which emerged from the stakeholder engagement which was undertaken as part of the project.

### **Operational:**

- Whilst a number of stakeholders welcomed the original options appraisal undertaken earlier this year by Devon Square Partners Limited, a sizeable number expressed concerns about the findings. Several used the term “vague” and a number of others were unclear about what the recommended option actually involved.
- Working across the three sites has been limited so far, with limited, often informal engagement.
- There is no real strategy, or forward plan currently driving activity across the museums and heritage organisations in the Borough.
- The understanding of audiences and customers across the three organisations is limited.
- The redevelopment at Torre Abbey has resulted in a high quality visitor asset, however this has not been maximised due to delays, and a lack of investment, in effective marketing.
- Torquay Museum punches above its weight with regard to the collections it owns, however it is not sweating these assets as effectively as it might.
- The Society Model currently in existence at Torquay Museum does not lend itself to running a proactive cultural organisation in a competitive market.
- Brixham Heritage Museum delivers good quality services to local people and visitors in the form of outreach, archaeological activities etc., however much of the product is in need of improvement.
- The Museum in Brixham is in danger of being isolated by the forthcoming Tesco redevelopment.
- The sites in Torquay have stronger synergies and face similar challenges, Brixham’s challenges are somewhat different.
- Senior staff at Torquay Museum and Torre Abbey want to see the sites repositioned with a stronger focus on being visitor attractions rather than museums.
- A substantial cultural shift is required in some staff across all three sites.
- The Geopark is seen as a massive opportunity by the majority of stakeholders.

### **Political:**

- There was a strong message from elected members and senior officers at Torbay Council that they would like to retain close control over Torre Abbey until 2016.
- Parts of the membership at the Society at Torquay Museum are reticent about change, and would like to retain control over the building and collections at the very least.
- The membership need to be clear about the benefits they will retain through any change in governance or operational delivery.
- The Board and staff at Brixham Heritage Museum are proud of their independence and would like to retain a substantially independent role;

however there would be an interest in joining a new vehicle containing Torquay Museum and Torre Abbey in the medium term.

- The development of a strong arts and heritage offer is seen as crucial to broadening the visitor base in Torbay by key elected members and senior officers.
- However stakeholders were clear that the future of the museums needed to be considered in the context of reducing subsidies and close control of the assets in the medium term.
- Many stakeholders felt that Kents Cavern needed to be part of the solution, even if was simply in an informal, advisory basis, though a number would prefer stronger links.
- Senior officers at Torbay recognised that if Torquay Museum were to close there would be a public, and perhaps political, expectation that the authority should take on responsibility for any collections made homeless. Such an undertaking could prove costly.

**Financial:**

- Senior officers and members at Torbay Council were not clear what the subsidies to Torquay Museum and Brixham Heritage Museum were actually buying for the Council.
- The subsidies being paid to all three museums by Torbay Council will come under increasing pressure and scrutiny, they cannot be guaranteed in any form beyond 2016.
- Torbay Council indicated that the subsidies paid to Torquay Museum and Brixham Heritage Museum will remain the same in 2014/15 and be reduced by 15% in 2015/16.
- Torbay Council would like to move to a more robust commissioning approach, particularly with regard to Brixham Heritage Museum.
- There is a perception amongst some stakeholders that there are sizeable efficiencies to be made across the three organisations.
- Torquay Museum has a history of loss making, the financial situation at the museum is problematic to say the least and needs to be resolved in the near future, it cannot continue in the current vein.
- Brixham Heritage Museum runs effectively on a small budget, though it is dependent on Torbay Council's subsidy for its small staffing resource.
- There is a strong message from elected members and senior offices that the subsidy to Torre Abbey should be reduced still further to around £100,000 a year.

**Appendix 3: Governance Choice**

**Form Follows Function**

A cultural sector organisation can be seen as an essentially **political** entity (compromising between competing agendas and interests); or from an **operational** viewpoint (it is there to get the job done); or from a **financial** perspective (managing budgets, achieving a socio-economic return on investment). There are tensions between these three priorities.

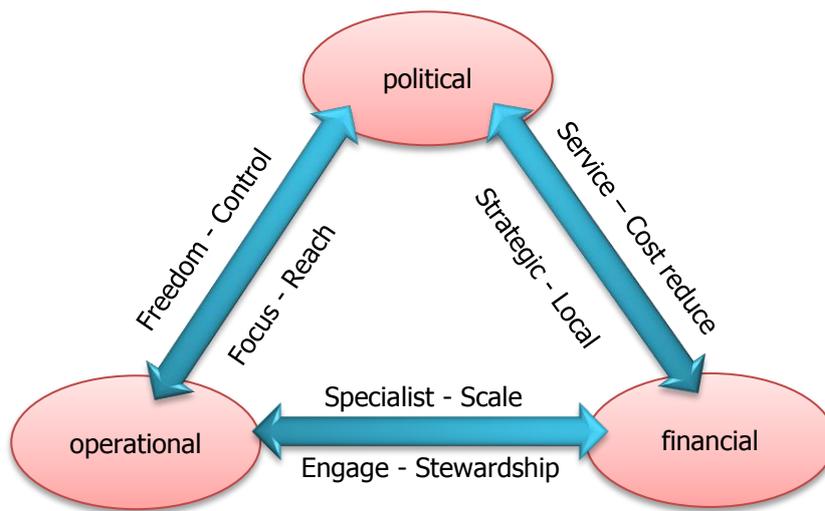


Figure 3: Choice Dimensions

For Torbay’s museums, these tensions translate into six choices as shown above. These are:

- Freedom v Control:** are we more concerned to encourage the freedom to be enterprising, or to keep Torbay’s museums under political ownership?
- Focus v Reach:** do we want the museums tightly focused and customer prioritised (e.g. focusing on specific parts of the community, such as socially deprived groups and/or communities), or a service which impacts on all citizens?
- Service v Cost-reduction:** are we looking for visible service excellence, or are we driven by the need for austerity?
- Strategic v Local:** are we more concerned about celebrating the local story of Torbay, or about seizing the opportunities provided by focusing on broader, potentially more populist areas?
- Service v Income Generation:** is the principal objective to provide a free service to customers or to develop

**Engage v Stewardship:**

a more commercial income generating approach?  
 are the museums in the business of dynamic customer experiences, or are they principally about the stewardship of valuable public assets?

For each choice, there is a spectrum of possible answers between the two extremes.

**Success Criteria**

The following sections provide an account of what success might look like for Torbay museums. The analysis is based on the stakeholder views gathered by Black Radley Culture during the project, supported by the contextual review and existing knowledge of the area and the cultural sector.

The assessment builds on the choice dimensions set out above, focusing on the tensions between the financial, operational and political viewpoints. Subsequent sections then use these success criteria to select between the possible options.

**Freedom v Control**

*Are we more concerned to encourage the freedom to be enterprising, or to keep Torbay's museums under tight political and member ownership?*

**Summary success criteria: *Control and Asset Ownership***

There was a strong message from both Torbay Councils politicians and the members of Torbay Society that they would like to maintain close links to the museums in the borough, both Torre Abbey and Torquay Museum. The members at Torquay museum would like to retain ownership of the museum building and the collections, though they are prepared to distance themselves from the day to day running of the organisation. Politicians at Torbay Council are very keen to maximise the opportunities provided by the recent redevelopment of Torre Abbey and therefore would like to retain significant control in the short and medium terms though they accept that that the site needs to be given more freedom and flexibility if it is to become sustainable in the long term.

Brixham Heritage Museum already enjoys significant independence, and key players within the organisation would like to retain that independence. However these key players would also consider joining a broader vehicle containing the Torbay museums in the medium term.

**Focus v Reach**

*To what extent should the museums in Torbay be focused on a small set of customers or activities?*

**Summary success criteria: *Tight Focus***

Ideally, considering the relatively small size of the three organisations involved, the museums in Torbay would not attempt to be all things to all

people but settle on a small number of key points of focus that have powerful appeal. For instance, the museums (1) focus on developing a strong product to the existing visitors to Torbay; (2) work with the Mayor and other politicians in the Borough to contribute to the development of a high quality cultural offer which will diversify the existing visitor base to the Borough; and (3) target services towards particular parts of the local community, in agreement with Torbay Council.

As part of this process it is crucial that the museums and Torbay Council are clear what (if any) support and/or subsidy from the Council is available and what that subsidy is purchasing/commissioning.

### **Service v Cost-reduction**

*Should the museums in Torbay be about enhancing the service, or about reducing costs?*

#### **Summary success criteria: *More efficient and enterprising***

Torbay Council is facing up to a very challenging financial situation, funding for non-statutory services is under huge pressure, and many grants to other culture, leisure and tourism organisations are being cut completely. Therefore the subsidies given to the three museums are under increasing scrutiny, and are likely to reduce. There is also a perception amongst senior officers and members at the Council that there is a degree of waste across parts of the three organisations.

Other sources of public funding are under similar pressures. Also, whilst Brixham Heritage Museum is a well-run organisation financially, Torquay Museum has a history of loss making, and the current year's trading is proving difficult. The current financial position is secured by way of a short term loan from a member.

This challenging financial environment means: (1) A review of, repositioning and reduction in current levels of delivery, with a focus on cost cutting, and sharing services and resources across the sites; (2) better exploitation of current collections and sites; and (3) a strong focus on stimulating enterprise and drawing in additional funds.

### **Strategic v Local**

*Are we more concerned about celebrating the local story of Torbay, or about seizing the opportunities provided by focusing on broader, potentially more populist themes?*

#### **Summary success criteria: *Joined up, informed approach***

The three museums involved in this study are very different and, as such, currently have different areas of focus both around the stories they tell and the audiences they target. However there is limited evidence of a clear strategy driving this approach, nor is significant evidence of a concerted attempt to engage directly with local communities or visitors, nor involve them directly in service and product development.

The three organisations therefore need to develop a complementary approach to the stories they tell and the associated products and programming. This also needs to be driven by a well-informed understanding of the audiences they are attempting to target.

### **Service v Income Generation**

*Is the principal objective to provide a free service to customers or to develop a more commercial income generating approach?*

#### **Summary success criteria: *Strong commercial focus***

All the sites currently charge for admissions, and most of the programmes and products they provide are also charged for. Though there are some services, particularly from Brixham Heritage Museum, that are provided free of charge to members of the local community, though these are underwritten by grants from HLF and other funders.

Subsidies from the public sector are likely to decrease, and the competition within the leisure and culture sector for people's time and money is only going to get more intense. The financial situation at each of the museums is challenging in various degrees, both staff and stakeholders alike recognise the need for the museums to move to a more business-like approach. This means diversifying the funding base, redirecting resources to areas such as customer care and marketing and developing a targeted public programme. However moving to such an approach will be challenging in an environment of reducing public subsidies. If the product and programming is not regularly improved it will be very difficult for the museums to cope effectively in what is already a congested leisure market across Torbay.

### **Engage v Stewardship**

*Are the museums in the business of dynamic customer experiences, or are they principally about the stewardship of valuable public assets?*

#### **Summary success criteria: *Dynamic visitor attractions***

There is a clear understanding amongst senior staff and stakeholders that the three organisations, and Torquay Museum and Torre Abbey in particular, need to focus their efforts on becoming good quality visitor attractions, though this view is not necessarily shared by staff generally. Whilst this does not mean putting aside their responsibility to act as stewards for important collection and building based assets, it will lead to more resource being invested in developing dynamic customer experiences, and effective marketing and promotion. Such an approach will also result in those assets that might offer the greatest return on investment being sweated more than other less valuable assets. Difficult decisions will need to be taken concerning the collections and building in light of this approach.

**Appendix 4: Success Criteria Assessment**

This section uses the success criteria to assess the range of possible options.

**Reminder: Success Criteria and Options**

Appendix 3 set out a range of choices, the answers to which are the success or design criteria for the optimum governance model.

These criteria are:

1. Control and Asset Ownership;
2. Tight focus;
3. More efficient and enterprising;
4. Joined up, informed approach;
5. Strong Commercial Focus;
6. Dynamic Visitor Attractions.

Section 5 outlined four governance options each with one of four structural options, three operational options and three financial options. Clearly the number of possible permutations is huge.

The following tables seek to expand on each of the options to help identify the permutations that can add value:

**Governance Options**

<p><b>The three museums operating together</b>                  In this option all three museums are managed by a single staff team and management arrangement. They would report to a committee which would either, depending on the structural option adopted, represent the separate interests of the three museums or be the single successor body to all three</p>
<p><b>Torquay Museum and Torre Abbey operating together</b>                  In this scenario, Torre Abbey and Torquay Museum would come together in a Torquay focused single operation. Brixham Heritage Museum would remain completely independent, operating as a separate organisation, potentially still receiving subsidy from Torbay Council, though that would likely to be on an explicit commissioning basis.</p>
<p><b>The three organisations operating independently</b>                  In this scenario, the museums in Torbay would continue as they are, operating independently, with ad hoc engagement and decreasing subsidies from Torbay Council.</p>
<p><b>A combination of some or all of the three with Kents Cavern</b>                  This option would see some (most likely to be Torquay Museum and possibly Torre Abbey) of the museums form a direct relationship with Kents Cavern, this may well involve Kents Cavern taking on the running of some or all aspects of the museums. Such an option is likely to increase the potential of private investment in the sites, but may well reduce the likelihood of public sector funding.</p>

**Structural Options**

**An informal or semi-formal partnership**

This option could take a variety of forms, such as the museums working together in such areas as marketing, education and curatorial expertise. It would mean that the existing governance structures would remain.

**An independent organisation, closely tied to the Council and Torquay Museum Society**

In this scenario, all of the museums in Torbay would move to an independent organisation. Torre Abbey would maintain a close relationship with key senior officers and members, Torquay Museum would do the same with the Society. The governance of Brixham Heritage Museum and Torquay Museum would shift from the existing boards to that of the new organisation. Though the current Boards would expect to provide some trustee representation to the new Board.

The financial/legal interface would be determined by a rolling business plan, developed and agreed together. A longer term concordat would cover on-going relationship management, dispute resolution, and planning cycles. There would need to be elected member representation on the board(s) of trustees from the three existing governing bodies.

**An independent organisation, at arm's length from the Council**

In this scenario, the museums of Torbay would come together within an independent organisation which has a grant maker/grantee relationship with the likes of Torbay Council. The financial/legal interface is determined by a contract, which has a 3 to 5 year rolling budget figure. Contractual terms agreed in place to cover dispute resolution.

There would be no/low member representation on board of trustees from the existing governing bodies of the three museums.

**Radical outsourcing**

This option involves passing the museums of Torbay across to another business or existing independent organisation. Such a move would need to be managed under contract – therefore there would be some similarity to the arm's length option above.

Potential recipients for the museums function could include:

- Organisations such as Capita who have a track record in delivering public sector services;
- Organisations such as Madame Tussauds or Kents Cavern who have a track record in delivering visitor attractions;
- An independent museum or cultural organisation of suitable scale, such as the Tank Museum or Wigan Leisure and Culture Trust;
- Another Local Authority, likely to be nearby, such as Somerset or Dorset.

**Operational Options**

<p><b>Ambitious/strategic – Geopark, National Centre of the Stone Age, Devon-wide cooperation</b></p> <p>In this scenario, similar to the public sector investment option below, significant investment is made into the sector so that it plays a key role in repositioning Torbay. This will involve close links with relevant organisations such as the Geopark and Kents Cavern, and potentially partnerships with other museums across Devon and beyond.</p>
<p><b>Tactical – change locations, lateral alignments</b></p> <p>In this option synergies will be exploited between the museums, and other potential partners in the locality, such as the prehistory story, or around educational programmes. The locations of the museums will also be reviewed, Brixham Heritage Museum’s in light of the forthcoming Tesco redevelopment in the town for example.</p>
<p><b>Containment – reducing budget ceiling, volunteering model</b></p> <p>This option is driven by the need for a reduced Council subsidy, would require a hands-on contract management approach from Council staff, putting operational pressure on the three organisations to share staff/activities. It is also likely to mean an increase in volunteering across the three sites. There will be limited opportunity to improve the product and programme in this option.</p>

**Financial Options**

<p><b>Public sector investment, drive visitor numbers, generate economic growth</b></p> <p>This option links to the ambitious operational model above and might be shaped around the need to drive up overnight visits from high net worth individuals. Given the state of public sector budgets, this would probably require some form of joint venture with a private sector player (e.g. Kents Caverns). This, as a consequence, would almost certainly require the new venture to have a fair degree of freedom from the Council and Torquay Museum’s members.</p>
<p><b>Reduction in Torbay Council’s spend on museums</b></p> <p>This option is similar to the containment option in the Operational area. The key focus is to reduce Council subsidy, either by cutting costs or cooperating with the private sector.</p>
<p><b>Private sector investment, coherent offer</b></p> <p>In this scenario, private sector investment is secured to replace the reducing public sector subsidy. Such investment will require a coherent and popular offer being developed across the museums, with a strong focus on becoming visitor attractions.</p>

## Options Evaluation

The table below shows how well the various options meet the Torbay success criteria. This is a subjective assessment, based upon Black Radley's experience elsewhere and on comparator benchmarking.

Options		Torbay Success Criteria					
		Strategic Influence and Asset Ownership	Tight strategic focus	More efficient and enterprising	Joined up, informed approach	Strong Commercial Focus	Dynamic Visitor Attractions
<b>Governance</b>	The three museums operating together		√	√	√		√
	Torquay Museum and Torre Abbey operating together		√		√		√
	The three organisations operating independently	√					√
	A combination of some or all of the three with Kents Cavern		√	√	√	√	√
<b>Structural</b>	An informal or semi-formal partnership	√					
	An independent organisation, closely tied to the Council	√			√	√	
	An independent organisation, at arm's length from the Council		√	√		√	√
	Radical outsourcing					√	√
<b>Operational</b>	Ambitious/strategic – Geopark, National Centre of the Stone Age, Devon-wide cooperation		√		√	√	√
	Tactical – change locations, lateral alignments		√		√	√	
	Containment – reducing budget ceiling, volunteering model	√	√	√			
<b>Financial</b>	public sector investment, drive visitor numbers, generate economic growth	√	√		√	√	√
	reduction Torbay Council's spend on museums	√		√			
	private sector investment, coherent offer		√	√		√	√

### *An Ambitious Interpretation*

At a headline level, and counting each ticked box as having an equal weighting, we might conclude the following:

- From a governance perspective, the most effective way to deliver what Torbay wants would be for all three museums to come together with Kents Cavern;
- From a structural perspective, the greatest chance of delivering what Torbay wants would come from moving to an arm's length, independent organisation;
- From an operational perspective, an ambitious approach to the scope and future focus of the organisation most fits the bill;
- From a financial perspective, the ideal would be for a robust public sector investment in turning the museum assets into generators of high spending visitors to the area.

Though there are some tensions between these four elements (for instance, there would be challenges in generating public sector investment in a vehicle which would, inevitably, have some level of private sector ownership or involvement), this is a compelling and potentially powerful design specification for a new approach.

### ***A Containment Interpretation***

However the ambitious approach does not fit well with the hard reality of the situation faced in Torbay. In practice, the Council's need to reduce its subsidy means the third success criteria ("more efficient and enterprising") needs to be given much higher weighting and on a short timescale.

On this basis, the conclusion might be as follows:

- From a governance perspective, the most effective way to deliver success would be for all three museums to come together with Kents Cavern;
- From a structural perspective, the greatest chance of success would come from moving to an arm's length, independent organisation;
- From an operational perspective, the management task is to optimise museum functioning within the existing scope and customer offer;
- From a financial perspective, the driver is to reduce Council subsidy, either by cutting costs or cooperating with the private sector.

### ***A Control Interpretation***

However it should be noted that the first success criteria ("strategic influence and asset ownership") is in a position to trump the rest. If Torquay Museum, Brixham Museum or Torbay Council members do not wish to concede a level of control in exchange for releasing greater enterprise, then they are well within their rights to refuse to do so.

In our judgement, this will be a significant issue. We therefore conclude that the first and third success criteria have significantly greater weight than the others, and that Torbay's broad brush specification must be as follows:

- From a governance perspective, a workable model would be for the three museums to come together under a single organisation, cooperating with others (e.g. Kents Cavern) but on a partnership basis;
- From a structural perspective, the most acceptable way to balance stakeholder interests with the possibility of greater enterprise would come from moving to an independent organisation, closely tied to the existing member structures;
- From an operational perspective, the management task is to optimise museum functioning within the existing scope and customer offer;
- From a financial perspective, the driver is to reduce Council subsidy, either by cutting costs or cooperating with the private sector.

We have based our recommendations on this conclusion.

## **Appendix 5 - Options Analysis – Legal/Governance Forms**

This section sets out the key legal and implementation considerations around the four possible structural governance options noted in Section 5.

- An informal or semi-formal partnership;
- An independent organisation, closely tied to the existing governing bodies;
- An independent organisation, at arm's length from the existing governing bodies;
- Radical outsourcing.

Two of the possible governance options involve the museums in Torbay being delivered by a new, independent organisation(s). One of the other options, radical outsourcing, also involves the museums being delivered by an independent organisation(s) but in a different configuration. This might be an existing body or a new organisation set up by an existing body for the specific purpose of running the service. The stakeholder conversations threw up a number of potential organisations who might show an interest, these included Parkwood Leisure, and the South West Lakes Trust. There are other organisations at a national level who might be interested in such a proposition. The Wigan Leisure and Culture Trust, for instance, is already delivering services in other localities including the museum service in Cannock Chase District Council.

### **Incorporation**

One of the decisions in determining the optimum governance option is whether any new organisation should be incorporated.

The most important benefit of incorporation is that it is possible to limit the liability of those involved in the running of the organisation whether as individuals or trustees. The possibility of unlimited liability would make the "not incorporated" options a potential blocker for some trustees.

The other benefit for incorporated organisations is the ability, as a separate legal personality, to contract in its own right.

In light of the above it is clear that, under any of the independent organisation options, incorporation is a requirement for any new delivery body.

The most common form of incorporation is as a company registered with Companies House.

### **Membership**

Incorporation introduces the concept of an organisation owned by its members. Membership can take a number of different forms.

The most common membership structure in the cultural sector is a Company Limited by Guarantee (CLG). In this case the members, known as guarantors, undertake to contribute an amount to the company in the event of its winding up. The amount to be contributed is usually only a small nominal amount and in the

event of any actual winding up would not provide meaningful resources for the settlement of company liabilities or costs of winding up.

Under certain circumstances the guarantors of a CLG may share in the profits of the business although this is generally not the case. Consequently CLGs are frequently known as Non Profit Distributing Organisations (NPDO).

The most common membership structure in the private sector is a Company Limited by Shares (CLS). The members own shares in the company, the shares make up the company share capital. Members will share in the profits of the business.

There are three other incorporated structures which would be available to a new delivery organisation: Community Interest Company (CIC), Industrial and Provident Society (IPS) and a Charitable Incorporated Organisation (CIO).

CICs are limited companies, with special additional features, created for the use of people who want to conduct a business or other activity for community benefit, and not purely for private advantage. This is achieved by a "community interest test" and "asset lock", which ensures that the CIC is established for community purposes and the assets and profits are dedicated to these purposes. Registration of a company as a CIC has to be approved by the Regulator who also has a continuing monitoring and enforcement role.

An IPS is an organisation conducting an industry, business or trade, either as a co-operative or for the benefit of the community, and is registered under the Industrial and Provident Societies Act 1965. The Financial Services Authority is the registering authority for societies which register under the Act. Co-operative societies are run for the mutual benefit of their members, with any surplus usually being ploughed back into the organisation to provide better services and facilities. Societies run for the benefit of the community provide services for people other than their members. There need to be special reasons why the society should not be registered as a company.

A CIO is a relatively new structure with the aim of reducing the regulatory burden of being both a charity and company. In England it still a relatively untested form and was really designed for organisations much smaller than the museums in Torbay. There is a view that the CIO may lack public awareness and credibility, and may actually result in an organisation looking very much like a charitable company limited by guarantee.

The most appropriate membership form would seem to be a Company Limited by Guarantee or Community Interest Company. The first is more established in practice, particularly within the museums sector; with CIC compliance being a relatively untested activity.

The composition of the membership and associated voting rights will need to ensure that there is the right balance between the organisation being truly independent and Torbay Council retaining an appropriate level of influence.

## Management

As with most companies the day to day affairs are managed by a specific group of individuals acting as agents of the company. The name given to this group varies. In the private sector they are known as the board of directors.

Directors can either be executive or non-executive. A non-executive director (NED) does not form part of the executive management team involved in the day-to-day running of business. NEDs challenge and monitor the executive, contribute to the development of strategy and scrutinise performance.

NEDs are also responsible for determining appropriate levels of remuneration of executive directors and have a prime role in appointing, and where necessary removing, senior management and in succession planning.

In some organisations the executive and non-executive roles are spilt in two but there is a move towards unitary boards where the two types of director meet together and reach all decisions by consensus.

In determining the composition of the board of directors or trustees there will be the need to balance influence, control and commercial expertise. The comparator analysis we undertook illustrated that the majority of cultural organisations who had moved to an independent situation in recent years, have two local authority representatives sitting on their boards.

## Charitable Status

Another key decision is whether the delivery organisation registers as a charity. Registration with the Charities Commission requires an organisation to have purposes that are charitable for the public benefit.

The Charities Act 2011 quotes “the advancement of the arts, culture, heritage or science” as a description of charitable purposes.

There are two key principles of public benefit.

Principle 1 - There must be an identifiable benefit or benefits:

- 1a It must be clear what the benefits are;
- 1b The benefits must be related to the aims;
- 1c Benefits must be balanced against any detriment or harm.

Principle 2 – Benefit must be to the public, or section of the public:

- 2a The beneficiaries must be appropriate to the aims;
- 2b Where the benefit is to a section of the public the opportunity to benefit must not be unreasonably restricted by geographical or other restrictions;
- 2c People in poverty must not be excluded from the opportunity to benefit;
- 2d Any private benefits must be incidental.

It seems clear that any independent delivery organisation could serve a purpose that is for the public benefit.

One of the benefits of charitable status is the ability to take advantage of tax exemptions. The costs of charitable status are restrictions on certain trading activities and compliance costs. Compliance costs are not onerous requiring annual submissions to the Charity Commission.

### **Assets**

The key assets of the museums (e.g. premises and collections) may be owned by one organisation and the service delivered by another. Stakeholder conversations indicate that Torbay Council and Torquay Museum Society will want to retain ownership of these assets to protect them for community benefit. Almost all local authorities who have devolved parts or all of their museum services in the last few years have kept responsibility for such assets as collections and buildings.

Any such arrangement would require a binding agreement specifying the rights and responsibilities of the current owners and the independent organisation.

This arrangement removes the (emotive) charge that, in establishing an independent trust, the Council is “selling the family silver”. Should the relationship break down, Torbay Council and Torquay Museum Society would be in a position to find an alternative means of providing stewardship for its assets.

### **Service Level Agreements**

If the Museums were transferred to an independent organisation there would be a number of key interfaces with Torbay Council and Torquay Museum Society. The most important of these would be the agreement determining the levels and standards of service which the delivery organisation would be required to meet. The existing governing bodies would need to have levers to hold the delivery organisation to account and ensure that these service outcomes were being met whilst enabling the delivery organisation to be innovative and commercial.

### **Staff**

It is likely that any transfer of business and services to a new organisation will represent a TUPE transfer. TUPE is the acronym for the Transfer of Undertakings Protection of Employment Act.

In a TUPE transfer all the staff relating to the business are transferred to the new or acquiring organisation on their existing terms and conditions. The independent organisation will be able to restructure its workforce, make redundancies and change terms & conditions, post transfer but only if there are 'economic, technical or organisational' reasons for doing so.

If the staff do transfer to a new organisation there would be significant liabilities transferring with them. These would include certain liabilities such as pensions and contingent liabilities such as redundancy payments. The delivery organisation would require cover for these liabilities. In such recent devolution processes as the creation of the Heritage and Arts Trust in Coventry, the need to quantify, manage and underwrite such liabilities has been an important learning point.

Another option would be for the staff to remain employees of their existing organisations and be seconded to the delivery organisation. This avoids the issues with liabilities outlined above but may not achieve the right independent culture.

## **Appendix 6 - Trustee Skills and Appointment**

The Charity Commission document CC3 'The Essential Trustee' contains the following guidance:

Charity trustees are the people who serve on the governing body of a charity. They may be known as trustees, directors, board members, governors or committee members. The principles and main duties are the same in all cases.

- Trustees have and must accept ultimate responsibility for directing the affairs of a charity, and ensuring that it is solvent, well-run, and delivering the charitable outcomes for the benefit of the public for which it has been set up.

### **Compliance - Trustees must:**

- Ensure that the charity complies with charity law, and with the requirements of the Charity Commission as regulator; in particular ensure that the charity prepares reports on what it has achieved and Annual Returns and accounts as required by law.
- Ensure that the charity does not breach any of the requirements or rules set out in its governing document and that it remains true to the charitable purpose and objects set out there.
- Comply with the requirements of other legislation and other regulators (if any) which govern the activities of the charity.
- Act with integrity, and avoid any personal conflicts of interest or misuse of charity funds or assets.

### **Duty of prudence - Trustees must:**

- Ensure that the charity is and will remain solvent.
- Use charitable funds and assets reasonably, and only in furtherance of the charity's objects.
- Avoid undertaking activities that might place the charity's endowment, funds, assets or reputation at undue risk.
- Take special care when investing the funds of the charity, or borrowing funds for the charity to use.

### **Duty of care - Trustees must:**

- Use reasonable care and skill in their work as trustees, using their personal skills and experience as needed to ensure that the charity is well-run and efficient.
- Consider getting external professional advice on all matters where there may be material risk to the charity, or where the trustees may be in breach of their duties.

The first and possibly most important stage of the trustee recruitment process is to agree skills and experience that are required by the trustees. The board of trustees needs the right balance of skills and experience and appointments should be made explicitly to ensure this. Other Museum Trusts who have recently secured independence have focused on bringing in such skills and experience as:

- Financial Management;
- Legal experience;
- Experience of working in and running commercial organisations;
- Understanding of local businesses;
- Background in, and understanding of, the wider cultural and creative sector;
- Links to Academia;
- Enterprise and Fundraising;
- Working with, or in, the media;
- The broader public sector;
- Health sector.

Some, or all, of these may have relevance to any process in Torbay. However the local context, and the likely priorities and direction of any new organisation will dictate the skills mix required.

It may be wise to recruit a small core of trustees at an early stage in the transition process, who can then help define and establish the new entity. A second tranche of trustees can be recruited once the organisation is ready to start.

## **Appendix 7: Key Transition Issues**

### ***Assets***

The ownership of the main assets of the museums, the premises and collections and the roles and responsibilities of all parties in using them will need to be covered by the service agreement.

### ***Support timescale***

In order to commit to delivering the services of the museums, any independent delivery organisation will need to know the period of time for which Torbay Council and other stakeholders are willing to provide funding and also the level of that support.

Ideally, this commitment would be associated with an agreed, rolling business plan of pre-determined length (e.g. 5 years), refreshed annually.

### ***Liabilities***

When the independent delivery organisation is established it is unlikely to have significant levels of reserves. Therefore it will not be able to take on significant liabilities, real or contingent. This has particular relevance to the financial situation facing Torquay Museum. On-going liabilities such as the pension deficit relating to the previous Director will need to be considered and dealt with before any formal move to a new vehicle can be confirmed. The main liabilities that would definitely crystallise in some form are pensions for staff.

The more contingent liabilities relate to redundancy costs if there was the need to reduce staff and premises costs relating to maintenance and/or refurbishment.

### ***Staffing***

Any acquiring organisation will need assurance that the workforce transferred will not hinder the delivery of an effective service within the agreed financial parameters. Torbay Council, Brixham Heritage Museum and Torquay Museum may need to carry out staff restructuring pre transfer to ensure that this is the case.

### ***Termination***

The transfer agreement needs to cover the eventuality of the any party wishing to terminate the arrangement.

### ***Interface Management***

Any new governance arrangement results in internal or external interfaces that have to be managed effectively. The organisation will need to manage its interfaces with people, functions and organisations which are outside of the organisation. These interfaces will be specified before the organisation moves to any new governance arrangement.

From a governance point of view, the key interfaces are:

- With the citizen (levels of service);

- With Torbay Council contract management;
- With Torquay Museum Society contract management;
- With other public services;
- With any culture/heritage policy function;
- With support functions;
- With Torbay Council political structures;
- With Torbay Council strategic planning/budgeting;
- With partners/competitors.

For each interface, the **ask, offer** and **quality assurance** (including penalty) processes need to be understood by the parties involved.

The process of defining these interfaces will be a major aspect of the transition process. Some elements of the interface will necessarily be included in a legal contract (e.g. for the management of assets). Others should be encapsulated in a Service Level Agreement or other less binding concordat, which helps set parameters around how the parties should work together and what they can expect of each other.

## **Appendix 8: Options Analysis - Financial Assessment**

### **Future costs and income**

Any reconfiguration or change of service will trigger additional costs. The most obvious of these would be termination costs payable to staff on redundancy. The other major potential liability would be any grant funding received by any of the three museums with conditions attached. If any of the conditions ceased to be fulfilled then the grant may become repayable.

A formal due diligence process would need to take place to ensure that the governing bodies of all three museums were fully sighted on any immediate financial implications of restructuring. At a minimum the due diligence process should review all contracts including staff contracts, leases, funding agreements and documentation relating to legacies and bequests.

### **Finance under current governance**

Under the current governance arrangements replacing the Torbay Council grant by way of making cost savings and generating additional income will not be straightforward.

Cost savings can only be realised in a limited number of ways:

- Increasing productivity, fewer staff are required to deliver the existing level of service to customers;
- Reducing the level service offered and thereby reducing the number of staff required to deliver the service;
- Reducing the number of buildings occupied to achieve economies of scale;
- Reducing the number of artefacts maintained to reduce storage costs and the number of staff who maintain them;
- Bringing operations together to achieve economies of scale.

Given the importance of staff costs Black Radley Culture have compiled the following table showing the number of staff employed by role in each of the three organisations.

<b>Staff Role</b>	<b>Torre Abbey</b>	<b>Torquay Museum</b>	<b>Brixham Museum</b>	<b>Total</b>
Management	0.4	1.2	0.3	1.9
Facilities	1	1.3		2.3
Curatorial	0.6	0.8	0.3	1.7
Education	1			1
Gardens	2			2
Marketing		0.6		1
Customer Service	2.5	0.7	0.8	4
Retail		0.5		0.5
Project	0.8			0.8
Finance & admin	0.7	0.4	0.4	1.5
IT		0.3		0.3
<b>Total headcount</b>	<b>9.0</b>	<b>5.8</b>	<b>1.8</b>	<b>16.5</b>

These figures are not precise; assumptions have been made on the time spent on different roles by certain individuals and the treatment of seasonal staff.

As noted earlier the level of staffing is lean.

### **Review of Initial Options Appraisal**

The initial options appraisal makes reference to 'obvious potential savings' (s 2.3). Section 3.3 of the report goes on to list the areas where sharing costs and services could have a financial benefit as:

- Programming
- Education and outreach
- Curatorial
- Retail
- Fundraising
- Marketing
- Customer Service
- Back Office

One of the recommendations of the report in section 3.7 is to 'test and tease out the nature and most importantly potential value of cost savings'. This Black Radley Culture report attempts to do just that.

Although section 3.3 of the report cites Back Office as one of the areas where costs might be saved section 4.6 the report quotes:

*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.*

The report is correctly flagging that significant back office savings will be difficult to achieve.

### **Black Radley Culture approach**

The potential savings from each of the areas identified in the initial options appraisal report are further explored in the table below.

<b>Savings caption</b>	<b>Black Radley Culture commentary</b>
Programming	Synergy around programming may well improve the customer experience and support cross selling of products.
Education and outreach	Both Torquay Museum and Torre Abbey employ an Education Officer, the TQM post is funded by ACE. In the museum this post raises £7k of income; it is not clear how much income is raised by this post in the abbey.  Given the function appears to make a loss; savings could be made by ceasing altogether.
Curatorial	The majority of curatorial spend comprises spend by Torre Abbey. Although expertise could perhaps be shared more effectively any change in governance will not reduce significantly the curatorial work required.  Possible savings with a more robust approach to prioritising curatorial activity.
Retail	Under any governance arrangement the shops would remain separate although there may be opportunities for better purchasing. A more enterprising and commercial approach should be able to increase net income.
Fundraising	Torquay Museum employ a part time funding officer, paid for by ACE grant, who is responsible for fundraising.
Marketing	A large proportion of these costs (£23k) comprise publicity advertising incurred by Torre Abbey.  Reducing marketing spend may impact visitor numbers. Possible savings on better co-operation with marketing, but ideally some of this should be reinvested to increase the profile and attract more visitors.
Customer Service	Customer service is a critical part of the service offer. Any savings in the customer service caption which had a detrimental impact on the customer experience could be false economy.
Back Office	Staffing is lean and so there appears to be little scope for savings.

As noted above the following captions which may show financial benefit on a new governance arrangement such as an independent trust

<b>Savings caption</b>	<b>Black Radley Culture commentary</b>
Enterprise Dividend	There are shops at Torre Abbey and Torquay Museum and a café at Torquay Museum and a contracted out café at Torre Abbey. A more enterprising and commercial approach should be able to increase both gross and net revenue.
Taxes	From the financial information supplied to Black Radley Culture it is not clear how much the organisations pay in rates apart from Torquay Museum paying £7,600.

Philanthropic income	Of the three sites only Torre Abbey is under council control but even so the formation of a new independent trust with an exciting and innovative offer to customers may be able to stimulate higher levels of philanthropic income.
Central costs	Again only applies to Torre Abbey and as noted earlier any new body would have to resource the services previously provided by Torbay Council.
Governance costs	The level of governance costs are a function of the precise structure being adopted. Torquay and Brixham Museums are already registered charities so some compliance costs should be built into existing budgets

## **Appendix 9: Modelling Approach**

### **Income and Expenditure**

Black Radley Culture has taken the income and expenditure budgets, adjusted for current performance where applicable, for the three organisations for 2013/14 and prepared financial scenarios for future models as outlined in section 6. Models 1 and 2 involve the three museums remaining as separate organisations whilst models 3 and 4 involve the three museums combining to form a single entity.

Each model uses high level assumptions in relation to a number of critical account captions. These are not in any sense predictive but are designed to show how the financial scenario might change in the light of the assumptions. Clearly there must be sound rationale for the assumptions. To enable the models to be compared the level of Torbay Council subsidy is the same for all four models. The subsidy remains at the current level for 2014/15 but reduces by 15% in each of years 2 and 3, 2015/16 and 2016/17.

The assumptions are based on a percentage of existing income or expenditure amounts rather than absolute to give an idea of the relative movement. It is self-evident that reducing expenditure and increasing income is going to be challenging, requiring some very tough decisions by both management and Boards.

The models do not include inflation; building in inflationary increases into the model creates more complexity and can mask the impact of bigger changes such as the key driver of reducing Council subsidy. The model therefore does not allow for inflation in any of the factors: either income or expenditure.

### **Income Assumptions**

	<b>Model 1</b>	<b>Model 2</b>	<b>Model 3</b>	<b>Model 4</b>
Admission income & gift aid	No change	Increases by 5% in each of the three years, due increase in volumes	Reduces by 5% in each of the three years, due to reduction in volumes	Increases by 5% in the first two years and by 10% in year 3, due to increase in volumes
ACE, HLF and Happy Museum grant	Grant income cease in line with agreed period of funding			
Other grants	Grant income remains constant for three years, not unrealistic as new grant income sources may be accessed			
Fundraising	No change	No change	No change	Increases by 5% in each of the three years
Trading	No change	Increases by 5% in each of the three years	No change	Increases by 5% in the first two years and by 10% in year 3
Subscriptions	No change		Ceases in year 3 on formation of new entity.	
Transfer from reserves	No further transfer after 2013/14			

	Model 1	Model 2	Model 3	Model 4
Rents	No change			
Investment	Reduces by £4k in year 1 representing the income attributable to TQM.			

### Expenditure Assumptions

	Model 1	Model 2	Model 3	Model 4
Payroll	Reduces by 5% in each of the first two years for TA and TQM		Reduces by 10% in each of the first two years. £9k of termination costs provided	
ACE, HLF and Happy Museum payroll and projects costs	Grant funded activity ceases in line with cessation of income. No termination costs provided.			
Fees	No change			
Establishment	No change			
Trading	No change	Increases by 5% in each of the three years	No change	Increases by 5% in the first two years and by 10% in year 3
Admin/society	Reduces by 5% in each of the first two years		Reduces by 10% in each of the first two years and by 75% in year 3 on formation of the new entity	
Curatorial	Reduces by 5% in each of the first two years		Reduces by 10% in each of the first two years	
Engagement/marketing	Reduces by 5% in each of the first two years		Reduces by 10% in each of the first two years	
Exhibitions	No change			
Education & outreach	No change			
Other	No change			
Governance costs	Not applicable		£5k provided in year 3 to cover additional costs of forming the new entity	
Central costs	No change		£20k provided in year 3 to resources activities previously provided by Torbay Council to TA. These activities are currently present within the TQM and BXM organisations.	
Capital	No change			

The following tables show the income and expenditure accounts generated by the assumptions. For models 2 and 3, the accounts are for the three museums separately for models 3 and 4 for one combined entity.

***Model 1 – Remaining separate and cut costs***

**Torre Abbey**

Torre Abbey	13/14	Adj 1	14/15	Adj 2	15/16	Adj 3	16/17
Admissions & gift aid	83,000		83,000		83,000		83,000
Fundraising	1,000		1,000		1,000		1,000
Trading	54,500		54,500		54,500		54,500
Transfer from reserves	22,865	(22,865)	0		0		0
Rents	40,000		40,000		40,000		40,000
<b>Total income not including Council subsidy</b>	<b>201,365</b>	<b>(22,865)</b>	<b>178,500</b>	<b>0</b>	<b>178,500</b>	<b>0</b>	<b>178,500</b>
Payroll	(201,700)	10,085	(191,615)	9,581	(182,034)		(182,034)
Fees	(5,000)		(5,000)		(5,000)		(5,000)
Establishment	(75,600)		(75,600)		(75,600)		(75,600)
Trading	(22,500)		(22,500)		(22,500)		(22,500)
Admin/society	(6,400)	320	(6,080)	304	(5,776)		(5,776)
Curatorial	(24,365)	1,218	(23,147)	1,157	(21,989)		(21,989)
Engagement/marketing	(23,500)	1,175	(22,325)	1,116	(21,209)		(21,209)
Other	(7,300)		(7,300)		(7,300)		(7,300)
<b>Total expenditure</b>	<b>(366,365)</b>	<b>12,798</b>	<b>(353,567)</b>	<b>12,158</b>	<b>(341,408)</b>	<b>0</b>	<b>(341,408)</b>
<b>Operating deficit</b>	<b>(165,000)</b>		<b>(175,067)</b>		<b>(162,908)</b>		<b>(162,908)</b>
Torbay Council subsidy	165,000		165,000		140,250		119,213
<b>Net (deficit)/surplus</b>	<b>0</b>		<b>(10,067)</b>		<b>(22,658)</b>		<b>(43,696)</b>

The cost cutting is not sufficient to offset the combined effect of the loss of transfer from reserves in 2014/15 and the deduction of Torbay Council subsidy over the following two years.

### **Torquay Museum**

<b>Torquay Museum</b>	<b>13/14</b>	<b>Adj 1</b>	<b>14/15</b>	<b>Adj 2</b>	<b>15/16</b>	<b>Adj 3</b>	<b>16/17</b>
Admissions & gift aid	99,000		99,000		99,000		99,000
ACE grant	140,000		140,000	(140,000)	0		0
HLF	39,500	(39,500)	0		0		0
Happy Museum	20,000	(20,000)	0		0		0
Other grants	9,500		9,500		9,500		9,500
Fundraising	48,000		48,000		48,000		48,000
Trading	44,500		44,500		44,500		44,500
Subscriptions	14,000		14,000		14,000		14,000
Investment	4,000	(4,000)	0		0		0
<b>Total income not including Council subsidy</b>	<b>418,500</b>	<b>(63,500)</b>	<b>355,000</b>	<b>(140,000)</b>	<b>215,000</b>	<b>0</b>	<b>215,000</b>
Payroll	(170,000)	8,500	(161,500)	8,075	(153,425)		(153,425)
ACE payroll	(113,000)		(113,000)	113,000	0		0
Happy Museum payroll	(14,000)	14,000	0		0		0
ACE project	(33,000)		(33,000)	33,000	0		0
HLF project	(39,500)	39,500	0		0		0
Happy Museum spend	(6,000)	6,000	0		0		0
Fees	(28,200)		(28,200)		(28,200)		(28,200)
Establishment	(80,700)		(80,700)		(80,700)		(80,700)
Trading	(12,000)		(12,000)		(12,000)		(12,000)
Admin/society	(9,000)	450	(8,550)	428	(8,123)		(8,123)
Curatorial	(4,000)	200	(3,800)	190	(3,610)		(3,610)
Engagement/marketing	(7,000)	350	(6,650)	333	(6,318)		(6,318)
Exhibitions	(13,300)		(13,300)		(13,300)		(13,300)
Education & outreach	(2,000)		(2,000)		(2,000)		(2,000)
Capital	(3,000)		(3,000)		(3,000)		(3,000)
<b>Total expenditure</b>	<b>(534,700)</b>	<b>69,000</b>	<b>(465,700)</b>	<b>155,025</b>	<b>(310,675)</b>	<b>0</b>	<b>(310,675)</b>
<b>Operating deficit</b>	<b>(116,200)</b>		<b>(110,700)</b>		<b>(95,675)</b>		<b>(95,675)</b>
Torbay Council subsidy	76,500		76,500		65,025		55,271
<b>Net (deficit)/surplus</b>	<b>(39,700)</b>		<b>(34,200)</b>		<b>(30,650)</b>		<b>(40,404)</b>

The cost cutting is not sufficient to offset the loss of Torbay Council subsidy and the 2013/14 forecast deficit is basically maintained for the three subsequent years.

**Brixham Museum**

<b>Brixham Museum</b>	<b>13/14</b>	<b>Adj 1</b>	<b>14/15</b>	<b>Adj 2</b>	<b>15/16</b>	<b>Adj 3</b>	<b>16/17</b>
Admissions & gift aid	9,156		9,156		9,156		9,156
Other grants	16,846		16,846		16,846		16,846
Fundraising	7,875		7,875		7,875		7,875
Trading	6,348		6,348		6,348		6,348
Subscriptions	2,441		2,441		2,441		2,441
Rents	96		96		96		96
Investment	367		367		367		367
<b>Total income not including Council subsidy</b>	<b>43,129</b>	<b>0</b>	<b>43,129</b>	<b>0</b>	<b>43,129</b>	<b>0</b>	<b>43,129</b>
Payroll	(33,717)		(33,717)		(33,717)		(33,717)
Fees	(100)		(100)		(100)		(100)
Establishment	(7,526)		(7,526)		(7,526)		(7,526)
Trading	(2,739)		(2,739)		(2,739)		(2,739)
Admin/society	(2,047)	102	(1,945)	97	(1,847)		(1,847)
Curatorial	(1,291)	65	(1,226)	61	(1,165)		(1,165)
Engagement/marketing	(4,891)	245	(4,646)	232	(4,414)		(4,414)
Education & outreach	(1,762)		(1,762)		(1,762)		(1,762)
Other	(297)		(297)		(297)		(297)
<b>Total expenditure</b>	<b>(54,370)</b>	<b>411</b>	<b>(53,959)</b>	<b>391</b>	<b>(53,568)</b>	<b>0</b>	<b>(53,568)</b>
<b>Operating deficit</b>	<b>(11,241)</b>		<b>(10,830)</b>		<b>(10,439)</b>		<b>(10,439)</b>
Torbay Council subsidy	20,000		20,000		17,000		14,450
<b>Net (deficit)/surplus</b>	<b>8,759</b>		<b>9,170</b>		<b>6,561</b>		<b>4,011</b>

The cost cutting is not sufficient to offset the loss of Torbay Council subsidy but even so a surplus is still incurred for all three years.

Given Brixham's low staff levels no payroll reductions have been assumed.

**Model 2 – Remaining separate, cut costs and achieve enterprise dividend**
**Torre Abbey**

<b>Torre Abbey</b>	<b>13/14</b>	<b>Adj 1</b>	<b>14/15</b>	<b>Adj 2</b>	<b>15/16</b>	<b>Adj 3</b>	<b>16/17</b>
Admissions & gift aid	83,000	4,150	87,150	4,358	91,508	4,575	96,083
Fundraising	1,000		1,000		1,000		1,000
Trading	54,500	2,725	57,225	2,861	60,086	3,004	63,091
Transfer from reserves	22,865	(22,865)	0		0		0
Rents	40,000		40,000		40,000		40,000
<b>Total income not including Council subsidy</b>	<b>201,365</b>	<b>(15,990)</b>	<b>185,375</b>	<b>7,219</b>	<b>192,594</b>	<b>7,580</b>	<b>200,173</b>
Payroll	(201,700)	10,085	(191,615)	9,581	(182,034)		(182,034)
Fees	(5,000)		(5,000)		(5,000)		(5,000)
Establishment	(75,600)		(75,600)		(75,600)		(75,600)
Trading	(22,500)		(22,500)		(22,500)		(22,500)
Admin/society	(6,400)	320	(6,080)	304	(5,776)		(5,776)
Curatorial	(24,365)	1,218	(23,147)	1,157	(21,989)		(21,989)
Engagement/marketing	(23,500)	1,175	(22,325)	1,116	(21,209)		(21,209)
Other	(7,300)		(7,300)		(7,300)		(7,300)
<b>Total expenditure</b>	<b>(366,365)</b>	<b>12,798</b>	<b>(353,567)</b>	<b>12,158</b>	<b>(341,408)</b>	<b>0</b>	<b>(341,408)</b>
<b>Operating deficit</b>	<b>(165,000)</b>		<b>(168,192)</b>		<b>(148,815)</b>		<b>(141,235)</b>
Torbay Council subsidy	165,000		165,000		140,250		119,213
<b>Net (deficit)/surplus</b>	<b>0</b>		<b>(3,192)</b>		<b>(8,565)</b>		<b>(22,022)</b>

The cost cutting is not sufficient to offset the combined effect of the loss of transfer from reserves in 2014/15 and the deduction of Torbay Council subsidy over the following two years even with the additional income realised by the enterprise dividend.

### **Torquay Museum**

<b>Torquay Museum</b>	<b>13/14</b>	<b>Adj 1</b>	<b>14/15</b>	<b>Adj 2</b>	<b>15/16</b>	<b>Adj 3</b>	<b>16/17</b>
Admissions & gift aid	99,000	4,950	103,950	5,198	109,148	5,457	114,605
ACE grant	140,000		140,000	(140,000)	0		0
HLF	39,500	(39,500)	0		0		0
Happy Museum	20,000	(20,000)	0		0		0
Other grants	9,500		9,500		9,500		9,500
Fundraising	48,000		48,000		48,000		48,000
Trading	44,500	2,225	46,725	2,336	49,061	2,453	51,514
Subscriptions	14,000		14,000		14,000		14,000
Investment	4,000	(4,000)	0		0		0
<b>Total income not including Council subsidy</b>	<b>418,500</b>	<b>(56,325)</b>	<b>362,175</b>	<b>(132,466)</b>	<b>229,709</b>	<b>7,910</b>	<b>237,619</b>
Payroll	(170,000)	8,500	(161,500)	8,075	(153,425)		(153,425)
ACE payroll	(113,000)		(113,000)	113,000	0		0
Happy Museum payroll	(14,000)	14,000	0		0		0
ACE project	(33,000)		(33,000)	33,000	0		0
HLF project	(39,500)	39,500	0		0		0
Happy Museum spend	(6,000)	6,000	0		0		0
Fees	(28,200)		(28,200)		(28,200)		(28,200)
Establishment	(80,700)		(80,700)		(80,700)		(80,700)
Trading	(12,000)	(600)	(12,600)	(630)	(13,230)	(662)	(13,892)
Admin/society	(9,000)	450	(8,550)	428	(8,123)		(8,123)
Curatorial	(4,000)	200	(3,800)	190	(3,610)		(3,610)
Engagement/marketing	(7,000)	350	(6,650)	333	(6,318)		(6,318)
Exhibitions	(13,300)		(13,300)		(13,300)		(13,300)
Education & outreach	(2,000)		(2,000)		(2,000)		(2,000)
Capital	(3,000)		(3,000)		(3,000)		(3,000)
<b>Total expenditure</b>	<b>(534,700)</b>	<b>68,400</b>	<b>(466,300)</b>	<b>154,395</b>	<b>(311,905)</b>	<b>(662)</b>	<b>(312,567)</b>
<b>Operating deficit</b>	<b>(116,200)</b>		<b>(104,125)</b>		<b>(82,196)</b>		<b>(74,947)</b>
Torbay Council subsidy	76,500		76,500		65,025		55,271
<b>Net (deficit)/surplus</b>	<b>(39,700)</b>		<b>(27,625)</b>		<b>(17,171)</b>		<b>(19,676)</b>

The cost cutting is not sufficient to offset the loss of Torbay Council subsidy even with the additional income realised by the enterprise dividend and a deficit is incurred for all three years although slightly reduced from the 2013/14 level.

### **Brixham Museum**

<b>Brixham Museum</b>	<b>13/14</b>	<b>Adj 1</b>	<b>14/15</b>	<b>Adj 2</b>	<b>15/16</b>	<b>Adj 3</b>	<b>16/17</b>
Admissions & gift aid	9,156	458	9,614	481	10,094	505	10,599
Other grants	16,846		16,846		16,846		16,846
Fundraising	7,875		7,875		7,875		7,875
Trading	6,348	317	6,665	333	6,999	350	7,349
Subscriptions	2,441		2,441		2,441		2,441
Rents	96		96		96		96
Investment	367		367		367		367
<b>Total income not including Council subsidy</b>	<b>43,129</b>	<b>775</b>	<b>43,904</b>	<b>814</b>	<b>44,718</b>	<b>855</b>	<b>45,573</b>
Payroll	(33,717)		(33,717)		(33,717)		(33,717)
Fees	(100)		(100)		(100)		(100)
Establishment	(7,526)		(7,526)		(7,526)		(7,526)
Trading	(2,739)	(137)	(2,876)	(144)	(3,020)	(151)	(3,171)
Admin/society	(2,047)	102	(1,945)	97	(1,847)		(1,847)
Curatorial	(1,291)		(1,291)	65	(1,226)		(1,226)
Engagement/marketing	(4,891)	245	(4,646)	232	(4,414)		(4,414)
Education & outreach	(1,762)		(1,762)		(1,762)		(1,762)
Other	(297)		(297)		(297)		(297)
<b>Total expenditure</b>	<b>(54,370)</b>	<b>210</b>	<b>(54,160)</b>	<b>250</b>	<b>(53,910)</b>	<b>(151)</b>	<b>(54,061)</b>
<b>Operating deficit</b>	<b>(11,241)</b>		<b>(10,256)</b>		<b>(9,192)</b>		<b>(8,488)</b>
Torbay Council subsidy	20,000		20,000		17,000		14,450
<b>Net (deficit)/surplus</b>	<b>8,759</b>		<b>9,744</b>		<b>7,808</b>		<b>5,962</b>

The cost cutting is not sufficient to offset the loss of Torbay Council subsidy even with the additional income from the enterprise dividend but even so a surplus is still incurred for all three years.

***Model 3 – Coming together, stakeholder differences unresolved, no enterprise dividend***

**Single entity**

Combined entity	13/14	Adj 1	14/15	Adj 2	15/16	Adj 3	16/17
Admissions & gift aid	191,156	(9,558)	181,598	(9,080)	172,518	(8,626)	163,892
ACE grant	140,000		140,000	(140,000)	0		0
HLF	39,500	(39,500)	0		0		0
Happy Museum	20,000	(20,000)	0		0		0
Other grants	26,346		26,346		26,346		26,346
Fundraising	56,875		56,875		56,875		56,875
Trading	105,348		105,348		105,348		105,348
Subscriptions	16,441		16,441		16,441	(16,441)	0
Transfer from reserves	22,865	(22,865)	0		0		0
Rents	40,096		40,096		40,096		40,096
Investment	4,367	(4,000)	367		367		367
<b>Total income not including Council subsidy</b>	<b>662,994</b>	<b>(95,923)</b>	<b>567,071</b>	<b>(149,080)</b>	<b>417,991</b>	<b>(25,067)</b>	<b>392,924</b>
Payroll	(405,417)	40,542	(364,875)	36,488	(328,388)		(328,388)
Termination costs	0	(9,000)	(9,000)		(9,000)		0
ACE payroll	(113,000)		(113,000)	113,000	0		0
Happy Museum payroll	(14,000)	14,000	0		0		0
ACE project	(33,000)		(33,000)	33,000	0		0
HLF project	(39,500)	39,500	0		0		0
Happy Museum spend	(6,000)	6,000	0		0		0
Fees	(33,300)		(33,300)		(33,300)		(33,300)
Establishment	(163,826)		(163,826)		(163,826)		(163,826)
Trading	(37,239)		(37,239)		(37,239)		(37,239)
Admin/society	(17,447)	1,745	(15,702)	1,570	(14,132)	10,599	(3,533)
Curatorial	(29,656)	2,966	(26,690)	2,669	(24,021)		(24,021)
Engagement/marketing	(35,391)	3,539	(31,852)	3,185	(28,667)		(28,667)
Exhibitions	(13,300)		(13,300)		(13,300)		(13,300)
Education & outreach	(3,762)		(3,762)		(3,762)		(3,762)
Other	(7,597)		(7,597)		(7,597)		(7,597)
Governance costs	0		0		0	(5,000)	(5,000)
Central costs	0		0		0	(20,000)	(20,000)
Capital	(3,000)		(3,000)		(3,000)		(3,000)
<b>Total expenditure</b>	<b>(955,435)</b>	<b>99,291</b>	<b>(856,144)</b>	<b>189,912</b>	<b>(666,232)</b>	<b>(14,401)</b>	<b>(671,633)</b>
<b>Operating deficit</b>	<b>(292,441)</b>		<b>(289,073)</b>		<b>(248,241)</b>		<b>(278,708)</b>
Torbay Council subsidy	261,500		261,500		222,275		188,934
<b>Net (deficit)/surplus</b>	<b>(30,941)</b>		<b>(27,573)</b>		<b>(25,966)</b>		<b>(89,775)</b>

The model shows a significant worsening of in financial performance. The cost cutting is not sufficient to offset the loss of visitor income and reduction in Torbay Council subsidy.

**Model 4 – Coming together, cut costs and achieve enterprise dividend**
**Single entity**

<b>Combined entity</b>	<b>13/14</b>	<b>Adj 1</b>	<b>14/15</b>	<b>Adj 2</b>	<b>15/16</b>	<b>Adj 3</b>	<b>16/17</b>
Admissions & gift aid	191,156	9,558	200,714	10,036	210,749	21,075	231,824
ACE grant	140,000		140,000	(140,000)	0		0
HLF	39,500	(39,500)	0		0		0
Happy Museum	20,000	(20,000)	0		0		0
Other grants	26,346		26,346		26,346		26,346
Fundraising	56,875	2,844	59,719	2,986	62,705	3,135	65,840
Trading	105,348	5,267	110,615	5,531	116,146	11,615	127,761
Subscriptions	16,441		16,441		16,441	(16,441)	0
Transfer from reserves	22,865	(22,865)	0		0		0
Rents	40,096		40,096		40,096		40,096
Investment	4,367	(4,367)	0		0		0
<b>Total income not including Council subsidy</b>	<b>662,994</b>	<b>(69,063)</b>	<b>593,931</b>	<b>(121,448)</b>	<b>472,483</b>	<b>19,384</b>	<b>491,867</b>
Payroll	(405,417)	40,542	(364,875)	36,488	(328,388)		(328,388)
Termination costs	0	(9,000)	(9,000)		(9,000)		0
ACE payroll	(113,000)		(113,000)	113,000	0		0
Happy Museum payroll	(14,000)	14,000	0		0		0
ACE project	(33,000)		(33,000)	33,000	0		0
HLF project	(39,500)	39,500	0		0		0
Happy Museum spend	(6,000)	6,000	0		0		0
Fees	(33,300)		(33,300)		(33,300)		(33,300)
Establishment	(163,826)		(163,826)		(163,826)		(163,826)
Trading	(37,239)	(1,862)	(39,101)	(1,955)	(41,056)	(4,106)	(45,162)
Admin/society	(17,447)	1,745	(15,702)	1,570	(14,132)	10,599	(3,533)
Curatorial	(29,656)	2,966	(26,690)	2,669	(24,021)		(24,021)
Engagement/marketing	(35,391)	3,539	(31,852)	3,185	(28,667)		(28,667)
Exhibitions	(13,300)		(13,300)		(13,300)		(13,300)
Education & outreach	(3,762)		(3,762)		(3,762)		(3,762)
Other	(7,597)		(7,597)		(7,597)		(7,597)
Governance costs	0		0		0	(5,000)	(5,000)
Central costs	0		0		0	(20,000)	(20,000)
Capital	(3,000)		(3,000)		(3,000)		(3,000)
<b>Total expenditure</b>	<b>(955,435)</b>	<b>97,429</b>	<b>(858,006)</b>	<b>187,957</b>	<b>(670,049)</b>	<b>(18,507)</b>	<b>(679,555)</b>
<b>Operating deficit</b>	<b>(292,441)</b>		<b>(264,075)</b>		<b>(197,566)</b>		<b>(187,688)</b>
Torbay Council subsidy	261,500		261,500		222,275		188,934
<b>Net (deficit)/surplus</b>	<b><u>(30,941)</u></b>		<b><u>(2,575)</u></b>		<b><u>24,709</u></b>		<b><u>1,245</u></b>

The model shows a break even business by year 3, 2016/17, but only just.