

# REPORT FOR: **CABINET**

---

<b>Date of Meeting:</b>	21 May 2015
<b>Subject:</b>	Future Options for Harrow Arts Centre, Harrow Museum and Harrow Music Service
<b>Key Decision:</b>	Yes
<b>Responsible Officer:</b>	Marianne Locke, Divisional Director of Community and Culture Caroline Bruce, Corporate Director of Environment and Enterprise (in view of extensive property implications)
<b>Portfolio Holder:</b>	Councillor Sue Anderson, Portfolio Holder for Community, Culture and Resident Engagement  Councillor Keith Ferry, Deputy Leader and Portfolio Holder for Business, Planning and Regeneration
<b>Exempt:</b>	No, except for Appendices 2a (i. introduction to Business Plan and ii. lost opportunity cost) and 2b (Business Plan) which are exempt under paragraph 3 of part 1 of Schedule 12A of the Local Government Act 1972 (as amended) because they contain information relating to the financial or business affairs of any particular person (including the authority holding that information) (ie commercially sensitive information relating to financial and business affairs of the Council)
<b>Decision subject to Call-in:</b>	Yes
<b>Wards affected:</b>	All wards
<b>Enclosures:</b>	Appendix 1: EQIA Appendix 2a: Introduction to Business Plan and lost opportunity cost (Part B) Appendix 2b: Business Plan (Part B)

## **Section 1 – Summary and Recommendations**

This report sets out options for the future governance arrangements for cultural services (Harrow Arts Centre, Harrow Museum and Harrow Music Service) and the feasibility for the future delivery of Harrow Arts Centre including a business plan.

### **Recommendations:**

Cabinet is requested to:

i) Consider the options outlined in this report for the future of Harrow Arts Centre, Harrow Schools Music Service and Harrow Museum (paragraphs 3,6, 7 and 8 of this report) and approve the recommendation

ii) Delegate authority to the Corporate Director Community Health & Wellbeing after consultation with the Portfolio Holder Community & Culture and Resident Engagement to commence the setting up of a Charitable Trust for the delivery of services at Harrow Arts Centre, Harrow Museum and Harrow Schools Music Service as outlined in paragraph 3 Option C of this report and including as follows:

- Delegate to the Corporate Director Environment and Enterprise after consultation with the Portfolio Holder Business, Planning & Regeneration for the leasing of the properties to a new Charitable Trust at less than best consideration
- Undertake the necessary actions for the formation of an Interim Board of Trustees and the Trust including preparing legal agreements between the Council and a new Trust for the delivery of services, for staff transfer, back office services agreements, any contract novation, building surveys and other preparatory works which may be necessary and the identification of Council capital through the Council processes of up to a maximum of £1million in 2016/17 should this not be fully delivered by the Trust to support the delivery of the Phase 1 capital works.

iii) Receive a further report in January 2016 outlining the outcome of the formal review in October 2015, progress to date and seeking final approval for the transfer of services and assets as appropriate to a Trust on 4<sup>th</sup> April 2016 if Members are satisfied with that progress.

### **Reason: (For recommendations)**

In February 2015, Cabinet requested that options on alternatives to closure of Harrow Arts Centre be brought back to Cabinet within 12 months. This report outlines future governance options for Harrow Arts Centre, Harrow Museum and Harrow Music Service to ensure sustainable delivery of cultural services in Harrow whilst delivering savings for the Medium Term Financial Strategy.

## **Section 2 – Report**

### **1. Introductory paragraph**

As part of the Medium Term Financial Strategy for 2015/16, Members considered the potential closure of Harrow Arts Centre (HAC) and Harrow Museum alongside other MTFS savings. In response to Take Part consultation outcomes, Cabinet agreed to the following:

- the submission of the Heritage Lottery Fund (HLF) Round 2 application for funding of £3.6million for Harrow Museum (Headstone Manor)
- tender award and capital works to proceed on the Great Barn
- to allow a period of 12 months (March 2016) before final decisions on the future of Harrow Arts Centre to enable the development of a sustainable business plan for HAC and new governance arrangements for HAC, the Museum and the Music Service.
- However as part of the MTFS, the expectation is that the Arts & Heritage service would no longer require a Council subsidy of £604k for 2016/17 onwards

This report outlines the outcome of the business planning exercise and sets out options for the future delivery of these cultural services in Harrow.

### **2. Background**

2.1 The Council currently directly provides the following cultural services through its Arts & Heritage Service:

i) Harrow Arts Centre: based at Hatch End from a range of buildings centred on the Grade 2 listed Elliott Hall (former school building). The service delivers a professional artistic and participation programme which provides opportunities for local people to get involved in the visual and performing arts as audiences, artists and producers. A robust programme of workshops reaches out to those who may not otherwise have the opportunity to participate.

ii) Harrow Schools Music Service: provides a broad and balanced range of musical activities both in and out of school that ensures every child has the opportunity to experience the richness of music in all its cultural contexts. 70 teachers directly deliver 700 hours of instrumental tuition every week through SLAs with schools. The Music Service leads the Harrow Music Hub, a partnership of local organisations (such as Harrow Young musicians) providing additional music offer to Harrow schoolchildren and young people.

iii) Harrow Museum (at Headstone Manor) providing the management and development of the historic Headstone Manor site, including museum learning, participation & cultural programmes, and public access to the Local History collection.

2.2 The services are funded by the Council as follows:

<b>SERVICE</b>	<b>2014/15 (£)</b>	<b>2015/16 (£)</b>
Harrow Arts Centre	473,887	£402,730
Music Service	72,036	39,905
Headstone Manor Museum	164,856	160,971
<b>TOTAL</b>	<b>710,779</b>	<b>603,606</b>

These are net figures after income and external grants (such as the Music Education Grant) are deducted and reflect controllable budgets (ie; excludes corporate overheads and any capital financing costs). This represents the total subsidy by the Council to these services.

2.3 In November 2014, Cabinet approved that officers should:

- Approve the works to the Great Barn (Harrow Museum) from Council capital including the leasing arrangements for the installation of a Biomass Boiler
- Submit a Round 2 application for £3.6million for delivery of the master plan for Harrow Museum
- Approve and commit to the business plan, management & maintenance plan and other plans associated with the application
- Conduct an options appraisal for alternative governance arrangements for Arts & Heritage services in Harrow to include Harrow Museum, returning to Cabinet with recommendations early in 2015.

2.4 Officers submitted the HLF application in December 2014 and the application was approved by the HLF in March 2015. Officers will now proceed with the necessary work to deliver the master plan for the site. In committing to the business plan, Cabinet have approved an ongoing subsidy for the Museum but this is expected to be reduced from the budgeted subsidy of £161k in 2015/16 to £98k in 2016/17 and further reduce annually thereafter to £60k. This could be reduced to zero from 2020/21 depending on the recommendations contained within this report.

2.5 In order to conduct the options appraisal for new governance arrangements for HAC, the Museum and the Music Service, officers needed to develop a business case and plan to assess the sustainability of any new body. The business planning exercise for the future of Harrow Arts Centre has taken into account the physical site from which services are delivered and that the Hatch End site is identified as one of the regeneration sites in the Council's Regeneration Strategy.

The business case and plan considered the following:

- Best governance model to achieve sustainability (in-house, trust, outsource etc.)
- Reconfiguration of physical spaces to maximise income generation and reduce operating costs
- Revenue and capital projections

- Sources of funding (revenue and capital)

2.6 The following work has been undertaken to develop the business case (available as listed background documents):

i) External visioning session was held with local resident's associations, arts centre users, U3A, arts groups, local ward councillors, the Portfolio Holder etc. to define what an arts centre should deliver and for prioritisation of outcomes. It is clear that not all aspirations can be fulfilled as some are conflicting in commercial terms but a majority view was achieved on most areas.

ii) Architects experienced in the design of theatres/arts centres have produced an outline master plan with options for a redesign of Harrow Arts Centre to enable maximum delivery of income. This proposes a modular approach to delivery of work to minimise disruption of current income and allow for increased revenue streams to come on stream in a phased approach. The plans would require eventual demolition of many of the ancillary buildings on site; refurbishment of the Grade 2 listed Elliott Hall and phased new build additions linked to the Hall to deliver:

#### Phase 1

- 240 seat, 2 screen state of the art cinema showing first run films (e.g. Curzon, Picture House etc.)
- New box office, bar and café
- New gallery, rehearsal spaces, dance studios
- Dedicated spaces for youth activities and art rooms, music warm-up/exams etc.
- Hireable function space
- Ancillary spaces (offices etc.)

#### Phase 2

- Refurbishment of Elliott Hall and potential provision of a new 600 seat theatre at a later stage depending on fundraising and planning constraints

iii) The Audience Agency was commissioned to review audience catchment areas, audience segregation and potential for audiences for reconfigured space, also comparing Hatch End to Harrow town centre locations for an arts centre in audience terms. Their report (March 2015) concluded that the location of Harrow Arts Centre meant it was ideally located to capture audiences from groups in the community who are especially engaged in the arts both locally and from further afield. It was difficult to assess the catchment for Harrow Town Centre, as any cultural offer made there would have a distinct nature and therefore to some extent a distinct audience potential.

iv) An external catering consultant was commissioned to consider the potential catering and bar income for both the Museum offer and the Arts Centre, including fit-out costs, profitability and financial projections. The reports concluded that both venues offered the opportunity to deliver net income from bar and catering which could be significant and offered topline projections based on franchise or direct delivery.

v) An external theatre and arts centre consultant supported the development of a draft business plan which has had initial review by Planning, Finance, Corporate Estates, Procurement, and Legal. This has informed the information contained within this report.

vi) An external legal consultant's report (March 2015) commissioned directly by the external theatre and arts centre consultant provided the legal context and potential for setting up an independent charity or community interest company with the benefits, risks and issues outlined.

### **3. Options considered**

The consideration of this work has outlined the following options.

**3.2 Option A: Continue delivering as currently.** This would not achieve sustainability of the cultural offer or deliver the savings as outlined in the Medium Term Financial Strategy for 2016/17. In addition, some of the external grant funding confirmed for the Museum is conditioned on its becoming part of a charitable trust, external to the Council. This funding (£250k) would be lost to the project under a status quo. Commercial opportunities for the cultural services to attract other business, private funding and other charitable opportunities are diminished or non-existent under Council operation. Finally, the Hatch End site is one of the major regeneration sites in the borough and is currently under consideration for the delivery of private rented housing. Continued operation of the Arts Centre in its current configuration would mitigate against the delivery of this objective.

*This option is not recommended.*

**3.3 Option B: Close Harrow Arts Centre, move Harrow Music Service and Headstone Manor to stand alone trusts or other delivery models or keep in house within the Council.** This option would deliver the majority of the savings indicated in the MTFS except for the ongoing commitment to Harrow Museum. It would enable the Headstone Manor project to continue if it becomes a Trust but would mean that there is a greater risk that it does not become completely self-sustaining even after 5 years. Other risks would be that the Music Service fails to cover costs if continued to be delivered in house and as for Option A above. This option would not deliver the total savings in the MTFS for 2016/17 as the Museum would continue to require Council subsidy (£98k in 2016/17). Finally, this would diminish the cultural offer for Harrow but Members could return to this option in January 2016 (see Option C below) to enable savings in 2016/2017, if the recommendation below is approved but after the delivery of actions, proposed funding targets are not met or other considerations are identified. Closure costs in the region of c£130k have been identified excluding staff redundancy costs. This option would support the regeneration objective by releasing the Hatch End site for housing development.

*This option is not recommended at this time.*

### **3.4 Option C: Move to new governance arrangements as a single charitable trust.**

The aim would be to set up a new Trust to include Harrow Arts Centre, Harrow Music Service and Harrow Museum with a go live date of 31st March 2016. This would take the form of either:

- (a) A charity, either a charitable company limited by guarantee (CLG) or a charitable incorporated organisation (CIO); or
- (b) A community interest company limited by guarantee or a community interest company limited by shares (CIC);

This would allow the services to cross-subsidise and reduce the subsidy from the Council (eliminating this in the longer term) but would be contingent on initial capital investment of £3.8 million (the majority of which is expected to be raised by the new Trust, capping the Council funding requirement for £1m to deliver the Phase 1 capital project (paragraph 2.6 above): a new extension to the Elliott Hall to replace the existing one, which will contain a 240 seat, 2 screen independent cinema, lettable spaces, new box office and café/bar area etc. This is expected to generate the revenue income which will see the facility become self sustaining within 2 years.

Early registration of an interim Board of Trustees (by June 2015) would allow for fundraising activities before go live in order to fund the first phase of construction costs (£3.8million). It is recommended that this interim Board includes the Portfolio Holder for Community & Culture to ensure appropriate scrutiny of activity to deliver Council priorities. This option would enable fundraising activity not available to the Council in terms of external funders, donations, memberships and philanthropic giving. The aim would be to be self-sustaining by March 2017 excluding an annually reducing contribution from the Council to the Museum which would end on 31st March 2020. This is outlined in paragraph 7 below.

All physical assets would remain in the Council's freehold but let under lease to the new Trust. Affected staff would transfer their employment to the new Trust under the TUPE. Risks for the Council would be generating the capital funding required and delivering/sustaining existing and new revenue streams. However, there are examples of this approach succeeding, where properly configured arts and museum venues can deliver the appropriate mix of commercial and community programming without any Council subsidy (e.g. Newcastle).

In addition, the business plan projections include repayment of £1million of Council capital over 10 years to kick-start the fundraising activity and match fund for external grants etc. The plan would be to deliver the new cinema block by December 2016 dependent on funding, planning consents etc.

It is proposed that if Members agree this option, that a formal review of progress of the fundraising, the establishment of the Trust and development of the whole site is undertaken in October 2015; and that a further Cabinet report is brought forward in January 2016 to update Members on that progress and seek permission for the 'Go Live' of the new Trust with a start date of 4<sup>th</sup> April 2016, if Members are satisfied with the progress and the

delivery of the regeneration opportunities for the site so that a rounded decision on the future of Arts & Heritage can be made. Alternatively at this stage Members may revert to option B to close the HAC should the fundraising progress indicate that the required level of investment cannot be secured to eliminate the subsidy from April 2017 as assumed within the business plan.

This option outlines a reduction of the overall subsidy for Arts & Heritage Service from the £604k budgeted in 2015/16 to £350k in 2016/17 including the £98k for Harrow Museum. Although this will not achieve the total reduction of subsidy currently in the MTFs for 2016/17, it does represent a significant reduction (42%) on 2015/16 budgets.

In year (2015/16) implementation costs for developing alternative governance of c£150k would be required for:

- Legal advice and support
- HR (drafting policies/TUPE etc./implementation of full management system)
- IT Migration (including purchase of equipment and software)
- Fundraiser post
- Building survey costs
- Financial advice and support

This option also allows physical space for other development on the Hatch End site as part of the Regeneration Strategy for Harrow e.g. private rented housing. Any reconfiguration of the Arts Centre can only be confirmed in the light of the total regeneration proposals and housing development opportunities on site. The timetable or delivery would be as follows:

Activity	Target date	Comments
Approval to form new Trust (suggested name Cultural London)	21 <sup>st</sup> May 2015	Dependent on Cabinet approval.
Registration of interim Board at Companies House	June 2015	To enable fundraising activity and start of set-up of new trust
External legal support contracted	June 2015	To enable management to new governance arrangements
Fundraising commences	June 2015	Milestone: review of amount raised December 2015.
Regeneration and delivery of housing	July 2015	Confirmation with Planning and Housing on delivery of targets for private rented housing
Appoint Board and Patron	Sept 2015	
Contract HR services	Sept 2015	To support new body
Formal review by relevant Portfolio Holders and officers	31 <sup>st</sup> October 2015	To establish progress of fundraising and regeneration development targets
Charity registration	December 2015	Could be achieved before this date.
Fundraising target of 90% of capital for Phase 1 achieved	December 2015	



Final Cabinet approval	January 2016	To consider options including regeneration offer etc
Appoint CE for Trust	January 2016	
TUPE process	Feb/Mar 2016	
ICT/Payroll contract and novation of services	Mar 2016	External to support new body
Formal transfer to new body (leases/contract novation etc)	4 <sup>th</sup> April 2016	
Reach fundraising target £3.8 million	30 <sup>th</sup> April 2016	Fundraising achieved to match-fund HLF grant December 2015
Staff appointments including other HLF funded staff	April 2016	
Phase 1 capital project commences	April 2016	Dependent on planning consents. Modular timber build.
Cinema etc opens	December 2016	
Phase 2 capital project commences	March 2017	Fundraising achieved for theatre
Headstone Manor & Museum 1st year of full activity	2017/18	
Theatre opens	April 2018	
Fundraising achieved for Elliott Hall	March 2019	
Elliott Hall and final catering offer fully open	December 2019	

*This option is recommended. The implications of this recommendation would be a reduction of the MTFs savings target for Arts & Heritage in 2016/17 from £604k to £350k and the provision of up to £1million Council capital monies towards the construction of a new cinema/café/bar block. This would require implementation costs of c£150k in 2015/16 to be covered by the MTFs Implementation Fund. This also requires Cabinet to approve a disposal at less than best consideration on the basis that a trust would require leases longer than 7 years*

#### **4. Current situation**

4.1 In February 2015, Cabinet delayed making a final decision on the future of Harrow Arts Centre to enable the development of a sustainable business plan for the future of the service and to meet the MTFs savings target of £604k in 2016/17.

#### **5. Implications of the Recommendation**

##### ***Considerations***

##### **5.1 Resources, costs**

The recommendation would require Estates, HR, Legal and Finance support to implement. These have been included in the £150k implementation costs. If Members decide to proceed with one of the other options e.g. closure of Harrow Arts Centre, there would be costs associated with this option including decommissioning of services and securing of site and/or disposal, cessation

of any leases/contracts/legal costs, cessation of leases/legal costs, potential reimbursement of venue hire for any bookings which cannot be met. These costs are estimated at approximately £130k. In addition, there could be redundancy costs estimated in the region of £200k (tbc).

## **5.2 Property**

The Regeneration Strategy outlines the Hatch End site as a potential private rented sector housing development. This currently forms part of the income generation proposal and is included in the later years of the MTFs. The outcome of this options review could adversely impact on the figures previously assumed, depending on the levels of residential that could be delivered; therefore any proposals must take into account the delivery of private rented housing on this site. Initial assumptions for development have excluded the main Grade 2 listed Elliott Hall building. In addition, the site is partially constrained as Green Belt land. A current car parking survey suggests most users are for the Arts Centre which, if it remains open, would require car parking in the future. Consideration needs to be given to the opportunities/risks of car parking and potential congestion and the impact of delivering car parking on the housing opportunities.

It is considered that if Harrow Arts Centre were to close, that there could be considerable interest from D1 users for the Elliott Hall building and that a significant capital receipt could be generated.

The grant of leases of the various properties to a trust gives rise to best consideration issues as they would require leases longer than 7 years. Whilst this may not ultimately be an issue at Headstone Manor, it will be at the Arts Centre and a suitable Cabinet authority is required. On default the properties would need to revert to the council unencumbered.

## **5.3 Staffing/workforce**

There are currently 15 Permanent staff, 5 Agency, 2 Fixed Term and 5 Vacant posts across Arts & Heritage after a recent restructure which delivered one team with a number of specific posts for museum and music services. In addition, the service employs 'as and when' staff for performances etc. which is an industry norm. Interim and agency staff are in posts where permanent appointments were not made pending consideration of the future of the services. Permanent staff would be subject to TUPE Regulations to the new body if the recommendation is approved. If the Arts Centre is closed, a restructure would have to be undertaken to provide staffing for music and museum services. In addition, there would be redundancy costs. If the recommendation is approved, depending on the trust model adopted, there could be opportunities for employees of the new Trust to be Board Members. Trade Unions have been consulted on the proposals contained within this report.

## **5.4 Performance Issues**

The individual business plans (Background documents) for the services indicate the current and anticipated performance levels in terms of visitor numbers, school music sessions, audiences, income, etc. If the recommendation is not approved, performance targets for Harrow Arts Centre will be negatively affected in 2015/16 and this includes income levels which have been affected in 2014/15 by uncertainty over the future of the centre.

## **5.5 Environmental Implications**

Any new build would conform to Harrow carbon reduction targets and required national and local BREEAM ratings.

## **5.6 Risk Management Implications**

Risk included on Directorate risk register? Yes

Separate risk register in place? Yes

Key risks identified are:

**1. Harrow Council does not agree to the 'spin' out of services as the business plan is not considered to be robust enough and income levels are considered unachievable.**

Mitigation:

Industry experts have been consulted across a number of areas within the Business Plan. Their advice has been used to set the income targets and the validity and feasibility of the plan itself. Independent consultants will also be used during the due diligence phase. The income targets have been set at what is assessed to be a low level. The first year of profit is shown as 2017/18 and this allows for a break-even which would allow for continuous delivery. Cinema income is projected on a 25% occupancy rate. Advertising and income projections are based on other local centres e.g. Waterman's, Curzon etc. In addition, a further report will be brought to Cabinet in January 2016 outlining the external funding achieved to deliver the business plan and offering Members the option to proceed or otherwise.

**2. Failure to recruit to Board: interested parties prove not to be able, or want to, undertake full fiduciary responsibility.**

Mitigation:

Conversations have already commenced with interested parties and a formal recruitment for Board members will be conducted. The new Company can continue to be run with an interim board and a Patron.

**3. Funding for capital development at Harrow Arts Centre is not achieved or delayed and the anticipated levels (90%) of external funding to build the first phase (£3.8mill) at Harrow Arts Centre is not achieved by the target date of December 2015.**

Mitigation: Fundraising will start in June 2015 and an assumption of a level of Council capital repayment (for £1million) has already been incorporated into the business plan expenditure. A formal review of progress to target will be conducted in October 2015 and a Cabinet report will be brought to Members in January 2016 outlining progress and offering Members the option to proceed or otherwise. Alternatively Members at this stage would have the option to consider closure of the HAC by 31<sup>st</sup> March 2016 ie; revert to option B to ensure delivery of agreed MTFS.

#### 4. The new company fails to deliver on its income targets in future years.

The Cabinet report brought to Members in January 2016 will outline an exit strategy. Any property will return to the Council unencumbered and Trustees will have fiduciary responsibilities as part of their role.

## 6. Legal Implications

6.1 The council has discretionary powers to provide arts, heritage and music services. The council can choose to provide all or any of these services through contractual arrangements with any third party provider, including Trusts or Non-profit distributing organisations (NPDOs.).

6.2 External legal advisors commissioned directly by the external theatre and arts centre consultant provided an initial options appraisal for the formation of a separate entity to deliver arts and heritage services. Appendix 3 outlines these options and the considerations for any transfer to a new governance model:

Legal issues to be addressed include:

- **Services Agreement** the Council may wish to enter into a contract for services. If a services agreement is entered into, the Council may need to conduct a public procurement process to comply with EU procurement legislation although there may be legitimate ways of avoiding this.
- **Back office service agreement** – the new Trust may consider buying back certain services from the Council, perhaps for a transitional period (for example, payroll, HR and/or IT). This arrangement would be set out in a back office service agreement. Local authority provision of support services can sometimes result in hidden subsidies, giving rise to State Aid issues, and so a careful analysis of the business case in relation to these back office services would need to be conducted.
- **Contracts/grants** – that will transfer from the Council to the Trust and whether these can be transferred to the new entity or if the consent of the other parties is required;
- **Staff**– who are the PAYE employees of the Council and who will transfer to the new Trust under TUPE;
- **Pension provision for staff** – and the extent to which the new Trust will be required to match the pension provision of the transferring staff;
- **Freehold or leasehold land or other property arrangements** – that will transfer or be leased to the new Trust – see further below entity.
- **Other assets of the Service** – including the physical assets, intellectual property (such as publications and branding, etc.) and funding commitments;
- **Liabilities of the Service** – such as debts, disputes with employees and third parties, reputational issues, loans, etc.

6.3 The formation of a new Trust will require further detailed legal consideration. The initial legal advice was commissioned directly by the external theatre and arts centre consultant. However the Council will commission its own legal advice on the transfer at an early stage, particularly in the drafting of any legal agreements,.

It is also important that at an early stage the Board of the new Trust receives its own independent legal advice on the transfer and potential risks.

6.4 Section 123 of the Local Government Act 1972 ("1972 Act") states that a council may not (without ministerial consent) dispose of land at less than the best consideration that can reasonably be obtained (other than disposals of leases 7 years or less). The current proposal would involve leases longer than 7 years and gives rise to a disposal/s at less than best consideration. Accordingly, Secretary of State consent would be required, unless the General Disposal Consent 2003 applies. This gives a blanket consent where the undervalue is less than £2m and the disposal will help to secure the promotion or improvement of the economic, social or environmental well-being of the Borough. Cabinet will need to be satisfied that those criteria will be met by the proposed arrangements.

6.5 Notwithstanding that the General Disposal Consent 2003 may apply, when disposing of land at an undervalue the Council should remain aware of the need to fulfil its fiduciary duty in a way which is accountable to local people.

## **7. Financial Implications**

7.1 The MTFs approved by Cabinet and Council in February 2015, assumed that the Arts & Heritage service would no longer require a Council subsidy from 2016/17 onwards, saving the Council £615k, of which £100k is planned for 2015/16 and the balance of £515k by 2016/17. Other than closure of the Arts Centre, these options do not achieve this saving until at least 2017/18.

The MTFs also includes savings of £350k 2017/18 and £2m 2018/19 in relation to the housing income generation proposals, which include the Hatch End site, which could be adversely affected if the proposals for new build and car parking impact negatively on the space available for the development of housing on site.

7.2 Having secured HLF funding of £3.6m in relation to Headstone Manor, there is a requirement for the Council to continue to fund the museum. Of the approved MTFs savings target, £165k reflected the subsidy at the museum. The business plan projects that these costs will reduce to £98k in 2016/17 with a further reduction to £60k from 2017/18 onwards, and can be funded by surpluses within the wider Arts & Heritage offer, subject to these being sustainable in the longer term.

7.3 If the recommended option C (transfer to a charitable trust) was approved, the retention of the Arts Centre under the current business plan cannot eliminate the subsidy from April 2016, although this is reduced to £350k (of which £98k represents the museum). The projections indicate a small surplus of £137k in 2017/18, increasing annually to around £330k by 2019/20, and would enable the museum to be subsidised resulting in a reduced overall surplus.

The table below details the high level business plan position, supported by the key assumptions in arriving at this forecast position.

	2015/16	2016/17	2017/18	2018/19	2019/20
	£000	£000	£000	£000	£000
HAC	964	1,162	2,136	2,165	2,845
Music Service	1,454	1,483	1,513	1,543	1,543
Expenditure	2,418	2,645	3,649	3,708	4,388
HAC	492	887	2,250	2,390	3,149
Music Service	1,475	1,506	1,536	1,566	1,566
Income	1,967	2,393	3,786	3,956	4,715
Shortfall / (Surplus)	451	252	(137)	(248)	(327)
Museum Exp	296	362	438	450	447
Museum Inc	171	264	377	395	388
Shortfall / (Surplus)	125	98	61	55	59
Overall	576	350	(76)	(193)	(268)

In projecting a small surplus in 2017/18, the business plan for the Arts Centre is predicated on a number of key assumptions, as follows:

*Expenditure - £2.136m*

- a) Operational costs in the region of £0.920m – largely staffing (£0.625m) and premise related costs (£190k)
- b) Production costs of £1.150m – cinema expenditure (£300k) and theatre programme costs (£0.850m)
- c) Borrowing costs - £65k assuming £1m council borrowing is required

*Income - £2.250m*

- d) Cinema income of £0.8m
- e) Theatre income of £1.1m (including membership and booking income)
- f) Room booking income of £350k

7.4 The Phase 2 theatre offer under the recommended option is significantly greater than the current offer, and is reflected in increased income and expenditure forecast from April 2017. Whilst assumptions have been made about the potential income that this may generate in the longer term, this would require investment which could take longer to acquire therefore delaying the potential for the offer to be self-financing.

7.5 With each of the options there are likely to be additional one-off costs required in 2016/17 which cannot be contained within the existing revenue budget. If the Arts centre is to be closed there will be costs in the region of £325k reflecting redundancy (£200k) and closure costs (£125k - some of this may be required for more than a year, depending on the alternative opportunities for the site).

7.6 If the recommended option is approved, there will be costs associated with the transfer to a new governance model. Experience of previous transfers suggests that costs could be approximately £150k – there may be

an opportunity to seek a Government Office contribution towards this funding but this should not be assumed at this stage.

7.7 If the recommended option is approved then the Council will need to identify up to £1million of capital for 2016/17 to deliver the Phase 1 building project. The repayment of this has been included in the draft business plan (Appendix 2b) but would only be required if the funding targets for the remaining £2.8million required are met. However, the Council's capital delivery programme would need to be increased to reflect the new spend of £3.8million and in accordance with financial regulations would require Council approval, supported by the appropriate evidence of the non-council funded resource secured by the board.

## **8. Equalities implications / Public Sector Equality Duty**

A full EQIA has been carried out for the options in this document and is available at Appendix 1.

This outlines in particular the impact of closure of Harrow Arts Centre on local residents and staff as follows:

Potential negative impact on age if services were to close in particular on young people at Harrow Arts Centre given the level of participation in events and activities from young people.

Mitigation is the proposal contained within this report.

## **9. Council Priorities**

The Council's vision:

### **Working Together to Make a Difference for Harrow**

Please identify how the report incorporates the administration's priorities.

- Making a difference for the vulnerable

Services offered by Harrow Arts Centre, Headstone Manor and the Schools Music Service support mental health & well being of children, young people and older people, supporting educational attainment and offering opportunities to engage in a wide range of activities for all age ranges.

- Making a difference for communities
- Making a difference for local businesses
- Making a difference for families

### **Section 3 - Statutory Officer Clearance**

Name: Donna Edwards	<input checked="" type="checkbox"/>	on behalf of the Chief Financial Officer
Date: 8 May 2015		
Name: Stephen Dorrian	<input checked="" type="checkbox"/>	on behalf of the Monitoring Officer
Date: 11May 2015		

<b>Ward Councillors notified:</b>	<b>NO, as it impacts on all Wards</b>
<b>EqIA carried out:</b>	<b>YES</b>
<b>EqIA cleared by:</b>	<b>DETG</b>

### **Section 4 - Contact Details and Background Papers**

**Contact:** Marianne Locke Divisional Director Community and Culture 020 8736 6530 (x6530) Marianne.locke@harrow.gov.uk

#### **Background Papers:**

Cabinet report: Future Options for Headstone Manor & Harrow Museum:

<http://moderngov:8080/documents/g62358/Public%20reports%20pack%20Thursday%2011-Dec-2014%2018.30%20Cabinet.pdf?T=10>



**Call-In Waived by the  
Chairman of Overview  
and Scrutiny  
Committee**

**NOT APPLICABLE**

*[Call-in applies]*