

The opportunity of devolved governance

for museums, libraries and archives

Executive Summary

April 2010

Purpose

- 1.1 This paper is intended to act as a think piece to stimulate debate around the concept of devolved governance for museums, libraries and archives. It outlines the range of devolution models that MLA considers applicable to museums, libraries and archives and the potential it considers such models offers for the sector.
- 1.2 The central problem it seeks to explore is how, in the long term, local authorities can seek to shape, improve and sustain cultural service delivery - with less.
- 1.3 In 2006 MLA commissioned Egeria to develop a series of papers exploring trust options for museums. This remains a valuable piece of work that continues to shape and inform MLA's thinking.
- 1.4 However this Executive Summary and the accompanying report sought to extend this piece of work by:
 - widening the analysis to explore potential impact on libraries, archives and joint service devolutions – as well as museums
 - exploring an increased range of delivery options
 - reviewing the potential for devolution to support a financially more sustainable sector (ie. a funding model where local authority funding is more proportionate to earned income) – as well as create increased user benefits and drive sector improvement.
- 1.5 This paper is *not* intended to provide a practical framework for organisations considering devolution, as work has already been done in this area by Renaissance Yorkshire and made available by MLA.

Context

- 1.6 The central problem facing local authorities and cultural services is how to shape, improve and sustain cultural service delivery in the context of a market driven by greater user expectation, more choice, and greater demand for accessibility - with less resource.
- 1.7 The exploration of new or alternative models of delivery for museums, libraries and archives within this context is by no means straightforward, representing significant change for service, authority, and user. Whilst the operational activity of a library service can be devolved, statutory responsibility for it remains with a local authority, and public perception around the responsibility of the state towards the cultural sector affects museums and archives. The issue of universal versus targeted service delivery brings additional tension to the mix of strategic considerations around new delivery models.

- 1.8 But these are times of change. Services are expecting cuts of 15-30% over the next three years, and there is a limit to the impact that creating savings can make. Service improvement that has been ‘purchased’ by additional investment over the past decade is no longer sustainable. Because additional resource – investment in new galleries, buildings, staff – cannot be relied upon to drive service improvement, there are increased imperatives to improve sector productivity and contribute demonstrably to economic regeneration.
- 1.9 Although the need to respond decisively to the economic downturn - the need to reduce costs and increase effectiveness – is providing the stimulus for many services, devolved delivery presents a longer term opportunity for museums, libraries and archives to re-vision their service delivery in the context of wider social change
- 1.10 The MLA recognises that the services that will thrive in this environment are those that are able to re-vision and re-think their service delivery models, their traditional working structures and their partnerships. In this context, it considers there is sufficient evidence that devolution of museums, libraries and archive services from local government direct delivery accelerates organisational innovation and growth, increased user benefit, and financial sustainability. Devolution is an innovation that accelerates improvement.

Why devolve? What devolving services offers

- 1.11 Forward thinking local authorities are already seeking to develop ‘new’¹ delivery models for their cultural services, including:
- strategic commissioning (Suffolk)
 - jointly commissioned services (Colchester & Ipswich Museums, Tyne & Weir Museums)
 - integrated and co-located services (Sport & Culture Glasgow) and
 - devolved services (Luton, Wigan)
- 1.12 Evidence to date suggests that *all* the above models catalyse the following positive impacts
- Efficiency savings
 - Improvements in service delivery
 - Increased productivity
 - Increased user benefit – social outcomes
 - Increased partnership working both across geographical and sector domain boundaries
- 1.13 There is some evidence that, *alone* of all the above models, devolving services catalyses the development of an organisation capable of achieving

¹ Alternative models are not necessarily new, but resurgent

greater ongoing financial sustainability through the generation of diverse income streams.

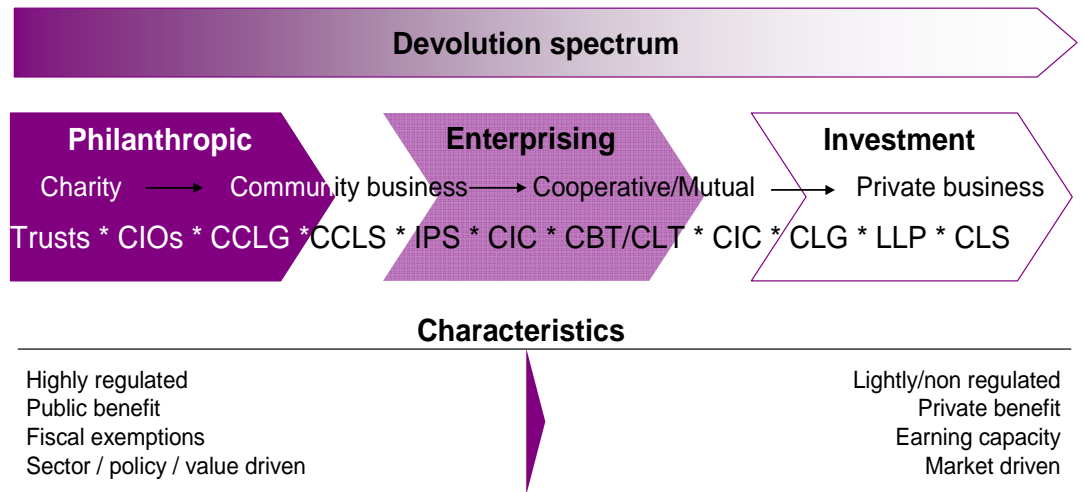
- 1.14 Achieving successful financial sustainability is the key risk faced by all devolving services.
- 1.15 For this reason, debate has centred around the question of whether devolved services should be created as specialist, single-service businesses, or multi-model businesses managing any combination of museums, libraries, archives and also arts, theatre, sport, health, community and third sector services.
- 1.16 Most recent devolutions have devolved as joint services. Joint services create significantly increased efficiencies and economies of scale to support financial sustainability. Wigan Leisure & Culture Trust restructured their management team and changed terms and conditions of employment and was able to reinvest efficiencies in its services – positively impacting on the library service by enabling 2 new outreach libraries, £350K in building improvements, a new branch library, a project development post, stock fund, marketing and branding. It is worth noting, however, that to date few joint service devolutions have yet developed a funding model where local authority funding is more proportionate to independent earned income.
- 1.17 Devolved single service museums, libraries or archives have adjustments to make around a business model more generally predicated towards free entry - unlike the arts or leisure services. However, the independent museum sector evidences single services that achieve financial sustainability, with organisations such as Chatham Historic Dockyard and Ironbridge Gorge Trust achieving a funding mix of philanthropy, earned income and private investment. The common key to successful income diversification in these examples has been the existence of capital assets that the newly independent organisation can exploit as a regular income stream to feed back into the charity or community benefit. This indicates that the successful devolution of museums, libraries and archives - and other cultural or leisure services - has implications for the programme of community asset transfer championed by local government since the Quirk Review of 2007.
- 1.18 As well as the transfer of capital assets, and whether single or joint service, financial sustainability is positively affected by the development of a flexible governance model that plays to the strengths of the service(s), and enables growth through a blend of partnerships - in local and community enterprise, in increasing inward investment through philanthropy, and in attracting mutually beneficial contractual relationships with the private sector.
- 1.19 Successful examples of devolution elsewhere – including in the wider third sector – can inspire change and inform the strategic planning for devolution – but the decision over which devolution model to use should not be based merely on what has worked elsewhere. The devolution model selected should be determined by a thorough service review incorporating community

consultation and based on the strengths of the existing services and the local market opportunities.

Applicable devolution models

1.20 There are six devolution models applicable to the sector, comprising eleven legal formats: charitable trusts, charitable companies limited by guarantee, charitable incorporated organisations, community interest companies limited by guarantee, industrial provident societies, co-operatives, community benefit trusts, community land trusts, community interest companies limited by shares, companies limited by guarantee, and limited liability partnerships.

The devolution spectrum (Fig 3)



1.21 This spectrum is helpful as a tool to rationalise the models but it should be noted that organisations are rarely on one single point within the spectrum and there is a great deal of flex and overlap between the models. Whichever model or combination of models is used, benefits can be gained.

1.22 The philanthropic models (the charitable formats) offer the most potential to exploit philanthropic, enterprise and investment opportunity through the creation of appropriate subsidiary structures. For this reason, although they are applicable to joint service models, the philanthropic models are particularly suited to the creation of strong, single-service businesses able to exploit a wide range of assets. There are multiple examples - both within the national museum sector and regionally within the independent museum sector - that bear this out. The philanthropic models are the most used by devolved museums, libraries or archives.

1.23 In terms of their risk, philanthropy is an extremely competitive market and evidence suggests that it is not automatically a competitive strength for local

museums, libraries and archives. Many of the already-devolved museum or joint service charities have extremely low or non-existent philanthropic income streams, and despite demonstrable public affection no library service has attempted to develop a single service philanthropic model. As a governance model it requires the least change from direct delivery – museums, libraries and archives can maintain local funding arrangements whilst reacting to philanthropic support - but this could represent a potential barrier to success as change in structure and culture are, more often than not, key factors in successful devolution.

- 1.24 The investment models (devolving management of assets to the private sector) are the next most used model. Whilst the evidence base remains insufficient, it seems demonstrable - by Haringey's example - that these models offer restructure, culture change and the implementation of performance management to achieve standards. Arguably a partnership with the private sector is a rapid route to developing business model innovations – for example around digital – within service provision. Most significantly, the models offer the particular advantage of year-on-year funding reserves, enabling the sector to break the cycle of annual, short term, reactionary strategic planning.
- 1.25 In terms of risk, debatably there is a risk - reflected in the recent scale-up of contracted private and third sector leisure service providers - of handing virtual monopolies to large national private and third-sector businesses, creating an improved but homogenised service rather than one determined by and suited to local need. The creation of a well managed contract partnership with the local authority would avert such risk. More significantly, because they deliver private as well as public benefit, investment models could potentially discourage philanthropic support - and therefore offer the least potential to exploit the full range of market opportunity open to museums, libraries and archives.
- 1.26 The philanthropic and investment models have been trialled by the sector. In *addition* to these models, there are community-based, enterprise-driven governance models that may well have the capacity to contribute to a stronger sector in the longer term. They include the resurgent business models of community ownership and staff ownership - in themselves a significant innovation to an overwhelmingly locally-governed museum library and archive sector. Third sector evidence points to community and staff ownership as a key driver in productivity and performance as well as economic regeneration.
- 1.27 These community enterprise models offer flexible, partnership-focused governance formats focused around income generation that can support either philanthropic or private investment partnerships. For this reason, although they are applicable to single-service models, the community enterprise models are particularly suited to the creation of multi-faceted, joint-service businesses able to exploit a wide range of assets. Such a business could be a geographically joint service – the CIC structure offers a potentially strong legal format for enabling single services across multiple geographical

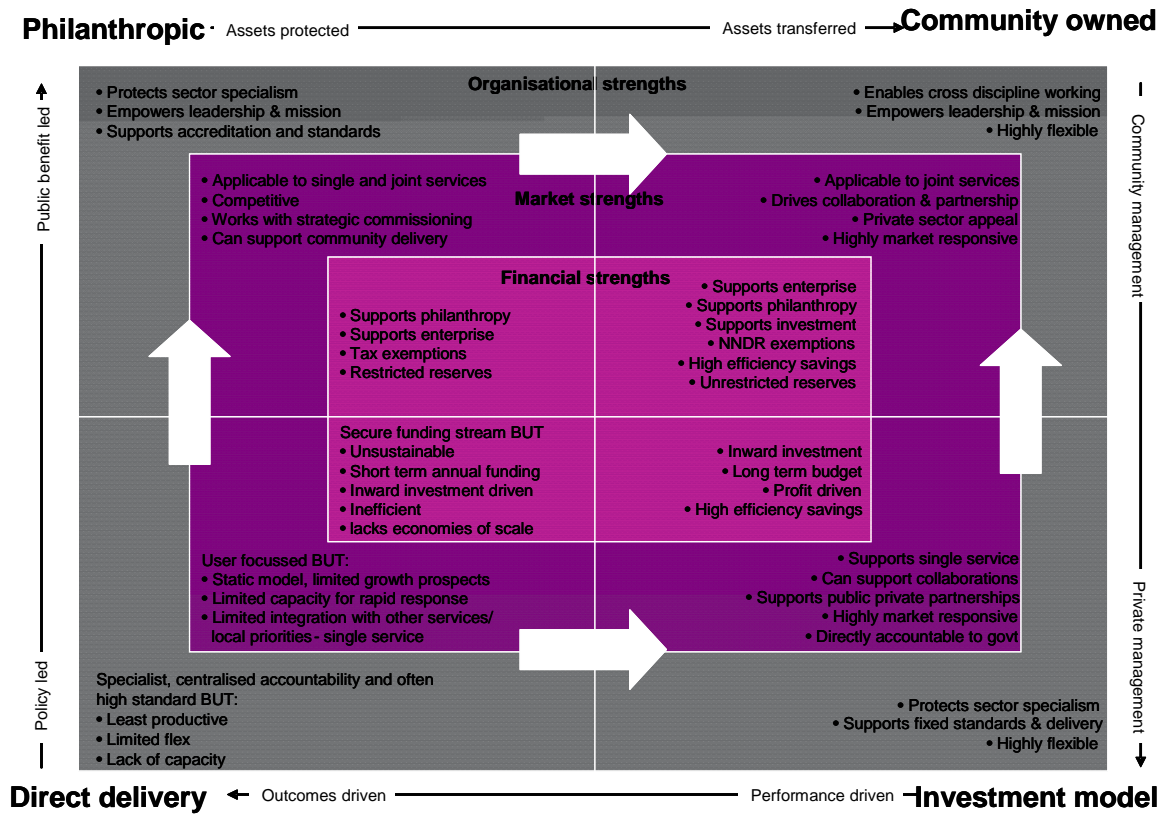
boundaries to achieve scale within a specialist business model – or locally joint service, delivering arts, leisure, sport or other local need. It is worth noting that the growth of the community enterprise sector over the past six years has created an existing pool of viable community development trusts to which, in the appropriate local conditions, local museums, libraries and archive services and their assets could be handed.

- 1.28 The significant risk associated with community enterprise models is that asset transfer, albeit with claw back clauses, is required for success. Although more unfounded, there are also likely to be concerns around loss of the local authority's powers of direct influence.
- 1.29 The types of devolution models utilised by the sector to date remain confined within a fairly narrow range of constitutional formats – charitable companies limited by guarantee, charitable trusts, companies limited by guarantee and, mainly within the leisure sector, IPSs. This could indicate a lack of confidence or clarity about opportunities presented by newer models.
- 1.30 It is a misconception that money 'leaves' the sector in some models; there is always a cost to the sector. Under direct delivery or philanthropic models, money leaves the sector in the form of staff salaries and high public-sector pensions. Under the investment models, money leaves the sector in the form of private profit. Under the enterprise models, money potentially leaves the sector to cross-subsidise other less profitable community organisations. It is more appropriate to judge financial sustainability on the basis of value for money – the value of the service and the outcomes it achieves *relative* to the public cost of provision – by tracking a proportionate decrease in public subsidy relative to earned income.

Developing a devolution strategy

- 1.31 Devolved services need to develop business plans that seek to a) halt any existing financial decline, b) stabilise operation and c) plan for growth. The selection of a devolution model should be based upon the identification of opportunity(ies), around which the strategic business plan is built, which -
 - If philanthropic: a market strength / opportunity for fundraising and philanthropy
 - If community enterprise: the launch of an asset-based service for financial and social return
 - If investment: a business proposition that requires investment to achieve mutually beneficial financial and social return
- 1.32 Where applicable, the most sustainable models diversify their funding models by successfully exploiting opportunities for all three. The charitable format is the most applicable legal model for such a business model. Whilst the characteristics of the models can be distilled into their purest form as demonstrated on the following figure, the business models of devolved organisations can grow in different directions to develop any unique combination of characteristics:

Fig 1: Progressive devolution



1.33 This is not to suggest that a devolved service should expect to have to change its governance model capriciously over time; rather that it should select the model that it allows it the most flexibility to develop the combination of characteristics needed to grow in a planned manner. A thoughtful devolution strategy could envisage strategic direction at the outset.

1.34 There is no reason why a devolving service, to mitigate risk of failure and to gradually build capacity for the challenges of devolution, could not structure its devolution process progressively. Whilst setting its aspiration for community ownership, it could stagger progress through the creation of a philanthropically focused charity before setting up community membership structures and subsidiary community enterprises. Equally an investment model could move towards community ownership through the formation of a CIC limited by shares. For smaller organisations, such progressive devolution could enable it to begin simply but to add layers of complexity to its governance as it grows and achieves scale. The figure also outlines a framework for progressive devolution.

1.35 The model(s) selected should offer the best foundation for success. The determining factors should be: what serves the public best, and the best interests of the organisation in the long term.

MLA support

- 1.36 With the right, locally appropriate plan in place, there is no reason to suppose that any service, however low performing, could not successfully devolve.
- 1.37 The MLA intends to offer support to services deciding to review their governance and delivery models. This support could include:
- *The full report summarised by this Executive Summary*
 - *Field Team support including presentations to Members and Heads of Services providing an overview of the models available and the contexts in which they might work, and options appraisal facilitations*
 - *Best practice case studies including museums, libraries and archives as well as other heritage / leisure sector organisations*
 - *Regional workshops exploring the opportunities of devolution for the sector from May 2010*
 - *Online publication of strategic research including:*
 - [Strategic overview of museums that have devolved to museum trusts \(Egeria\)](#)
 - *and practical frameworks including:*
 - *The Road to Devolution: the Review Process & Legal Transfer Issues (Egeria)*
 - [Feasibility framework for developing trust options for museum services \(Renaissance Yorkshire\)](#)
 - *Precedent documents including a Transfer Agreement, Collections Agreement & Services Agreement for museum services devolving to charitable trusts (to be followed by additional precedent documents for other governance models) developed by Egeria*
- 1.38 Strategically, the MLA will continue to interrogate available evidence to shape and inform policy on devolution for museums, libraries and archives. It will collect and facilitate knowledge sharing amongst museums, libraries and archives. It will work with other naps to provide coherent guidance and create networks with relevant organisations such as the Charity Commission, Development Trust Association, CIC Association, bassac, and third and private sector organisations seeking contracts within the sector.
- 1.39 It could also consider – as a means of smoothing the difficulties of transition and facilitate knowledge share for the wider sector - the provision of challenge funding to help support newly devolved services in developing financially, in successfully entering a less supported marketplace, and in embedding excellence and improvement.



Museums, Libraries
& Archives Council

T +44 (0)121 345 7300
F +44 (0)121 345 7303

Grosvenor House
14 Bennetts Hill
Birmingham B2 5RS

info@mla.gov.uk
www.mla.gov.uk

Leading strategically, we promote best practice in museums, libraries and archives, to inspire innovative, integrated and sustainable services for all.