| Committee(s) | Dated: |
| --- | --- |
| Culture, Heritage and Libraries Committee | 23 May 2016 |
| **Subject:**<br>Income Generation: response to cross-cutting service based review (museums and galleries) | **Public** |
| **Report of:**<br>David Pearson, Director of Culture, Heritage and Libraries | **For Information** |
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## Summary

In March, your committee received a report of the Chamberlain in which a recommendation was made to review charging and income generation opportunities for museums and galleries supported by our City Fund. The recommendation was made in light of figures that highlighted a level of income in relation to expenditure for the City of only 1% against a London average of 8% based on standard Chartered Institute of Public Finance and Accountancy (CIPFA) returns information.

This report examines these figures in more detail and shows that the actual ratio of income to total expenditure is closer to 18% for museums and galleries supported by the City Fund and 34% for those supported by the City's Cash. This is because the CIPFA return is a standard local government measure which did not include the very significant income generated by the Museum of London or income generated but credited to other local risk budgets. These figures far surpass the London average and highlight the business acumen of staff across the City's portfolio of museums and galleries, responsible guardianship and an ability to deliver best value for the public purse, as well as for the City's private funds.

The report also looks at plans going forward and highlights the commitment of officers to deliver greater revenues for assets in light of Service Based Review targets and reductions to public grants, concluding that the City's museums and galleries are well placed to continue to thrive in a volatile financial landscape, given the iterative appraising of options to deliver robust and efficient solutions that officers undertake.


## Recommendation(s)

Members are asked to:

- Note the contents of this report

## Main Report

### Background

1. In March, your committee received a report of the Chamberlain (on behalf of the Chief Officers' Summit Group) entitled Income *Generation: Report of a Cross-Cutting Service Based Review*. Under the *section Publicly Funded Services – Benchmarking Fees, Charges and Reclaimable Costs*, a recommendation was made to review charging and income generation opportunities for City-of-London-funded museums and galleries and so increase revenues.
2. This recommendation was made in light of figures highlighted within the report which showed the City's annual expenditure from its City Fund for 2013/14 to be £6,973,000 against an income of only £68,000, the ratio being 1%, a full 7% lower than the London average for the same year (as measured by the Chartered Institute of Public Finance and Accountancy (CIPFA) standard returns).
3. Working with the Chamberlain, Remembrancer and Museum of London, your Culture, Heritage and Libraries department has examined these figures in more detail and – while embracing the opportunity to undertake such a timely exercise in light of Service Based Review (SBR) savings and the ever-greater need to ensure the City's investment is used efficiently and effectively – has identified that the standard CIPFA return data does not give the full picture.
4. Looking at the data more widely gives a much more positive result. If the whole of the results of the Museum of London are included, not just the City's grant funding element but all funding and commercial income, then the income to expenditure ratio is 18.1%
5. The CIPFA totals (as shown in Appendix 1) indicate a total expenditure for all London galleries and museums of £23,192,000, with a total income of £2,086,000 – this indicates a ratio of 9% for the London average (1% higher than quoted in the report). In the City's case, total income is actually shown at £91,000, slightly increasing its income to expenditure ratio by 0.4%.
6. In addition, the Museum of London grant makes up 78% of the City Fund expenditure shown in the CIPFA return but the associated Museum income, along with other sources of funding is not included in the return (as the City does not directly receive the money). This results in the City's percentage being so very low at only 1%. It is not clear to what extent all or some other local government organisations listed fund external bodies and do not directly receive any income, making the CIPFA London average a difficult benchmark to interpret.

### Current Position

7. The City Fund's expenditure on museums and galleries from its City Fund (accounted for in the CIPFA returns) includes the Museum of London, the Guildhall Art Gallery (and Amphitheatre), Billingsgate Roman Bathhouse and Prince Henry's Room.

8. Looking at each of these in turn, the City made an annual grant of £5,292,000 to the Museum of London in 2013/14. In that same year, the Museum actually earned an additional total of £13,946,000 in grants and sponsorship, and in commercial income from hires, licensing and retail. However, since the standard CIPFA return only measured income directly coming to the City this figure is not included in the original analysis. If the total income and expenditure of Museum Of London was included, then the overall ratio of income to expenditure would be 18.8% for that year.

9. Similarly, for the Guildhall Art Gallery (GAG), income from lettings is not included in the CIPFA return as it is rolled up in the commercial hire package for the whole complex and thus credited elsewhere in the City's accounts. Individual income figures for specific areas of Guildhall are very difficult to extrapolate because they are hired through a combination of paid, non-paid and City-led bookings and because, in the Gallery's case at least, availability to hire is often limited because other events in the complex require its toilets and cloakrooms. In 2015/16, it was used seven times with no other rooms in the complex being hired (these were all City events and so no income was generated), it was booked 36 times along with other Guildhall rooms (generating some direct income) and there were 68 times when it could not have been sold due to other events taking place in the complex.

10. Because most venues rely on significant income from commercial hire, this puts the Gallery at a disadvantage. Despite this, it has delivered an average 2.8% income to expenditure ratio over the last three years which grows significantly if the seven full bookings taken by Remembrancer's last year and the 36 bookings in part are monetised to a commercial value of £5,000 and £2,500 respectively and a return of £125,000 is added to this figure (this makes a healthier average 9.8% ratio). This is a modest estimation and does not consider the 68 times when the gallery was unavailable or the fact that it is not proactively marketed because its hire precludes other Guildhall bookings.

11. For the Roman Bathhouse, no income was generated in 2013/14, or in 2014/15; but in 2015/16, your Visitor Development Team brokered a deal with Museum of London which saw a four-month pilot of weekend openings. This delivered a total ratio of income to expenditure on the City's and Museum of London's expenditure to realise these openings of 12.8%. A newly agreed arrangement with the Museum will see the Bathhouse open for longer this coming financial year and thus a higher yield in ticket income is expected, boosting this ratio.

12. For Prince Henry's Room, Members will recall a decision made by the CHL Committee in October 2012 to return this asset to the City Surveyor for commercial letting. Again, income from letting is accounted for in the City Surveyor's budget and not against the expenditure code. In 2015/16, no expenditure was made against the City Fund for Prince Henry's Room (and only minimal expenditure in the previous two years, but it returned in rental income a total of £12,500 in both 2014/15 and in 2015/16, significantly surpassing the London average.

13. Overall, City Fund expenditure in museums and galleries for the past three years has delivered an income to expenditure ratio as follows:

**CITY FUND**

| Year | CoL funding (£000) | Other funding (£000) | Commercial income (£000) | Total funding and income (equ to expenditure) (£000)** | Ratio commercial income to total expenditure (%) |
|---|---|---|---|---|---|
| 2013/14 | 6,974 | 10,361 | 3,676 | 21,011 | 17.5 |
| 2014/15 | 7,038 | 10,023 | 3,689 | 20,750 | 17.8 |
| 2015/16* | 7,139 | 10,156 | 4,136 | 21,431 | 19.3 |
| **Average all 3 years** | **7,050** | **10,180** | **3,834** | **21,064** | **18.1** |

* 2015/16 figures are estimated ahead of year end
** Income totals do not include commercial hire for Guildhall Art Gallery nor letting income for Prince Henry's Room; capital expenditure and grants for all assets are not included, nor is income from investments

14. To benchmark these totals and to ensure that those museums and galleries funded by the City from other sources are performing well, your officers have also examined relevant assets funded by City's Cash. These are not covered by the CIPFA report which only looks at local authority (City Fund) activities. These include Keats House, Monument, the Heritage Gallery and the Artichoke Great Fire project (2015/16 only). The results show a healthy income to expenditure ratio on City's Cash spend (34.5%).

**CITY'S CASH**

| Year | CoL funding (£000) | Other funding (£000) | Commercial income (£000) | Total funding and income (equ to expenditure)( £000)** | Ratio total commercial income to expenditure (%) |
|---|---|---|---|---|---|
| 2013/14 | 616 | 0 | 581 | 581 | 48.5 |
| 2014/15 | 704 | 100 | 664 | 764 | 45.2 |
| 2015/16* | 1,159 | 1,205 | 746 | 1,951 | 24.0 |
| **Average all 3 years** | **826** | **435** | **664** | **1,099** | **34.5** |

* 2015/16 figures are estimated ahead of year end
** Income totals do not include capital expenditure and grants for all assets are not included, nor is income from investments

15. Of these assets, while Monument and Keats House show a very healthy average ratio on City expenditure over the three years considered (56% and 23% respectively), a series of circumstances prevent the Heritage Gallery making money because it is non-charging and can derive no income from hires due to it being part of the Guildhall complex hire package (see items 9-10 above).

16. Note in addition the Artichoke Great Fire investment of £300,000 from City's Cash (2015/16 only) has generated additional sponsorship of £1,200,000 to date.

## Proposals

17. While these figures show a high-performing income to expenditure ratio against the London average, there is no room for complacency and your officers across all assets are working to achieve ever greater returns.

18. New initiatives from April 2016 include:

    a. the transference of the retail operation from GAG to Tower Bridge, using their commercial acumen to deliver greater spend per head;

    b. a new partnership between the City Centre and GAG to enable private/commercial hires of the Amphitheatre space and the lower galleries, along with City Centre spaces (and outside of the Guildhall complex hire arrangements);

    c. a revised charging policy for GAG education, talks, tours, loans and conservation;

    d. a new partnership with Museum of London to grow Roman Bathhouse opening opportunities and so increase income;

    e. 3% and 10% stretch targets introduced for Keats House footfall and retail respectively;

    f. an options appraisal to realise Keats House SBR targets (presented to this meeting);

    g. funding and commercial strategies for the Museum of London's move to West Smithfield being developed, exploiting the opportunities that this project will afford; and

    h. a feasibility study for Monument to look at options for developing the heritage and retail offer for visitors, with increased returns anticipated from 2017/18.

## Corporate & Strategic Implications

19. The City Corporation is a significant sponsor of London's museums and galleries (marginally behind the GLA, it the largest local government funder of heritage assets in London with a total investment that is 33% of the all-London total).

20. Furthermore, its ratio of income to expenditure surpasses that of all authorities shown in CIPFA's analysis (see Appendix 1).

21. This investment accords with the City's Supporting London agenda and the commitments of its Cultural and Visitor Strategies to animate the Square Mile and provide ever-greater access to its assets for all communities.

## Conclusion

22. It has been a useful and timely exercise for your officers to explore the City's ratio of income to expenditure in relation to its spend on museums and

galleries. From this work, it has become clear that the City Corporation is achieving a significantly higher level of return than the London average.

23. Furthermore, as this report shows, a continued drive by officers to deliver ever-greater revenues is likely to drive this ratio higher in future years, with new opportunities being explored on a regular basis and many plans already in place.

24. This is a good news story for the City and, in light of SBR targets, instils confidence in the ability of our museums and galleries to survive a changing and volatile financial landscape where reliance on public funding is decreasing year-on-year.

**Appendices**

- Appendix 1 – CIPFA Statistics for income against expenditure, museums and galleries in London

**Background Papers**

**Income generation: report of a cross-cutting service based review** – report of the Chamberlain (on behalf of the Chief Officer's Summit Group, received by your Committee on 7 March 2016

**Prince Henry's Room: proposals for public access** – report of the Director of Culture, Heritage and Libraries, received by your Committee on 22 October 2012

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