



Museums Trust – Request for Loan and Capital Contribution for the Museum of Making Silk Mill project

Purpose

- 1.1 The purpose of this report is to seek approval to support both a request for a loan and a capital contribution to the Museums Trust.
- 1.2 The Museums Trust has approached the Council for a loan of £914,000 to assist with cash-flow to enable the completion and subsequent opening of the Museum of Making project at Derby Silk Mill.
- 1.3 As a result of the Covid-19 pandemic, the government implemented a lockdown in March 2020 and this has impacted on the delivery of the Museum of Making project. The projected opening of the new museum has been moved from September 2020 to Spring 2021. This has resulted in there being an increase to the financial amount for capital needed by the Museums Trust to complete the project. They have approached the Council for support and are seeking a capital contribution from the Council of £364,000. External funders have also been approached to request a capital contribution.
- 1.4 Culture has an important role in the future of Derby and the Museum of Making will be a unique asset and a central driver for future city ambition. Appendix 1 describes the strategic cultural links of the project.

Recommendation(s)

- 2.1 To approve the Council providing a loan to the Museum's Trust of up to a maximum value of £914,000 to support the organisations cash-flow for 20/21. This is to be offered at an interest rate of 3.02% and to be paid back within 12 months. To note the specific terms will be developed with input from Legal Services.
- 2.2 To approve the loan be added to the councils 202/21 capital programme and that the loan be funded temporarily from the councils unapplied capital receipts.
- 2.3 To approve the Council providing the Museum's Trust up to a maximum value of £364,000 funded from the existing capital contingency reserve as a capital contribution towards the completion of the construction of the project thus enabling the Museums Trust to complete the Museum of Making in line with the strategic brief.

Reason(s)

- 3.1 Completing the project will help utilise a unique and valuable asset in the city as well as help contribute towards the longer term foundation for culture supporting the achievement of an ambitious city vision.
- 3.2 If additional funding for the project cannot be secured the project outcomes will not be achieved and there will also be further significant financial implications for the Council.
- 3.3 The project partners and stakeholders are aware of the value Derby places on culture as a driver for place making and regeneration. If the requests for financial support from the Council are supported the project can deliver these key objectives.

Supporting information

- 4.1 The Museums Trust was awarded NLHF major grant funding in 2017 to develop the Museum of Making at Derby Silk Mill, the site of the world's first factory dating from 1721 and part of the UNESCO Derwent Valley Mills World Heritage Site. This is a circa £17 million project and is uniquely designed and made by the people and industries of Derby to inspire those who visit with new creativity, while showcasing Derby's 300-year history of making and celebrating the area's rich history of innovation.
- 4.2 In March 2020, before the Covid-19 lockdown, the project was within budget. It was on programme, with 17 weeks of construction remaining and due to open in September 2020. On 27 March 2020, the construction site closed when it became clear that the site could not continue to operate within the social distancing restrictions in place.
- 4.3 Since then the Project Alliance has worked together to calculate the impact on the programme and budget based on a shutdown period, followed by remobilisation for operations under social distance restrictions and the resulting effects of up to 50% reduced site efficiencies.
- 4.4 The Museum of Making is being reconstructed under the Integrated Project Insurance (IPI) Model which is one of the governments' new models of procurement. The IPI Model creates a collaborative team under a multiparty project alliance contract. The contract is supported by a team insurance product, in the case of Museum of Making; this is an Employer Controlled Project Insurance (ECPI).
- 4.5 Under the contract the partners form a Board and work as equals with the Museums Trust, the employer; collectively they become the alliance members. All decisions are made collaboratively and implemented by the Integrated Project Team (IPT) comprising alliance members, all necessary sub-consultants, specialists and suppliers. The overriding objective of the contract is to deliver a project as set out in their strategic brief, within the investment target and at all times achieve best for project decisions that include a value for money assessment.

4.6 Although there is debate about how Covid-19 should be addressed in some contracts, this is not the case under the IPI alliance contract where the Pandemic is considered a force majeure event. This means the alliance is collectively responsible for achieving a best for project outcome in this new Covid-19 environment. There are two ways that this may be resolved;

- Delivering as much of the strategic brief as possible within the available funds whilst complying with the new requirements for social distancing etc.
- Obtaining additional funding to achieve some or all the requirements of their original strategic brief whilst complying with the new requirements for social distancing.

4.7 The current strategy is to progress the project in stages so that it will be able to satisfy the first position based on the funding and forecast prior to Covid-19, whilst seeking additional funding to enable the original requirements to be met. The alliance is adopting a four-stage approach which means that progression of the final fit out can be prioritised and delivered based on importance and additional funding received.

The stages are:

1. Making weathertight and connected
2. Making safe
3. Making permanent (shell and core completion)
4. Making usable – prioritise on accordance with the value this achieves for the Museum of Making

4.8 On 11 May, the construction site reopened, following significant work to put appropriate measures in place to enable safe working conditions. Sub-contractors have returned to the site gradually since then. Since reopening, the site has been operating well, however due to the Covid-19 measures; this has been with reduced efficiency. Site performance has been monitored and the project cost projections have been assessed based on a number of assumptions including, for example, the actual site efficiency and the availability of materials.

4.9 This process has led to increased costs and the request for the grant to be increased for the project to enable it to be completed as a fully operating museum and heritage visitor attraction for the city of Derby. There are various budget areas that have been increased by the Covid-19 pandemic such as the need for compliance measures, inefficiency in programme caused by restrictions and increased staffing resources for extended project delivery. The forecasted total to complete the construction of the project is around £1.4 million.

4.10 The redevelopment programme for the Silk Mill is financially supported by key funders. They are the National Heritage Lottery Heritage Fund (NLHF), Arts Council England (ACE), Derby City Council and D2N2 as well as other Museum Trust Funds. The Museum Trust has approached key funders to ask for a contribution towards the additional Covid-19 costs. The request to the Council is to the value of £364,000 and other external funding is likely to be contingent on the Council showing a commitment to the project by committing funding. This project is important to the city and the building will continue to be a heritage asset owned by the Council once developed.

- 4.11 The table below shows the figures provided by the Museums Trust for the project for both development and delivery phases from the key sources of external grant funding:

	Total £'000
DCC and D2N2	£4,195
NLHF	£9,415
ACE	£2,585
Others	£842
TOTAL	£17,037

The costs incurred on the project are reimbursed to the Museums Trust by NLHF and ACE on an actual basis, i.e. matched against invoices and their project contribution percentage is applied to arrive at what cash is provided to the Museums Trust. For example, if the Museum's Trust incurred cost of £100k, NLHF would reimburse 57% and ACE would reimburse 17%. The Council's reimbursement however is based on 100% of the capital expenditure up to the total contribution of £3.7 million.

- 4.12 An important impact on the Museum Trusts cash-flow is that the NLHF and ACE contracts retain 10% of their grant to be released one year after opening of the Museum of Making. This is estimated to be a net impact on cash-flow of approximately £1 million for 12 months, hence the request to the Council for a loan.
- 4.13 A further factor affecting the Museums Trust cash-flow position is that they have been unable to generate earned income due to closure. This has been partially mitigated by the furlough scheme; however earned income normally makes up 22% of the Museum Trusts revenue based on about 90,000 visitors, events and conferences etc.
- 4.14 The Museum's Trust is requesting cash flow support through a loan of up to £914,000 to allow the Museum of Making to be completed and taking into account the Museum Trust's cash-flow position. The Council has already paid the annual £700k management fee in early April to the Museum Trust.
- 4.15 It is clear that without further support from external funders and the Council the Museum of Making could not be fully completed as planned and there could potentially be impact on the financial sustainability of the Museums Trust. This could result in closures of part of the museum estate and/or responsibilities for the museum estate and collections reverting to the Council.

Public/stakeholder engagement

- 5.1 The following key stakeholders have been consulted on the project Covid-19 impacts;
- National Lottery Heritage Fund, Arts Council England, Project Alliance members, The Museum of Making Project Board members, the Council and D2N2.

Other options

- 6.1 There is the option to not complete the project. However funders would view this negatively as the project has attracted significant investment and it is preferable to see the projects ambitions fully realised. Not completing the project makes it harder to attract future investment to the city from these key funders in the future and also maximise the full potential of the asset.
- 6.2 If the Museum of Making were to be mothballed until further funding could be secured to finish the project, this will inevitably be more costly in the long run.

Financial and value for money issues

- 7.1 The Museums Trust has provided to the Council a cash-flow prediction for the completion of the Museum of Making as planned. This indicates negative cash flows on the Capital Scheme could be experienced from around July 2020. The cumulative estimated net cash flow of £914,000 is subsequently offset in 2021/22 through receipt of the retention monies from NLHF and ACE 12 months after opening.
- 7.2 The Museum's Trust has stated that their current reserves are below that recommended by the Charities Commission. Given the uncertainty around Covid-19, it will be necessary for the reserves to be utilised to mitigate the impacts of the lockdown and to assist their sustainability in the short to medium term. The Museum Trust's ability to raise income will also be reduced and there will also be increased costs in maintaining social distancing, hand sanitisation and additional cleaning of the building. The reserves may also be required to mitigate against these factors as well.
- 7.3 If the Museum of Making were to be mothballed until further funding could be secured to finish the project, this will inevitably be more costly in the long run. The business plan for the museum relies on the successful running of the Museum of Making and income generated therein. This is an important factor to consider in the 'return' that the Council would secure in providing a loan.
- 7.4 The Museums Trust is requesting a loan from the Council of £914,000 by July 2020 to support cash flow and let the Museum of Making progress as planned. As the Council owns the Silk Mill and the museum collections the financial and operational implications of the Museum of Making project not completing are significant. Making the loan would assist with mitigating these. The Council should note that there is a low risk that some may need to be turned into an additional one-off management fee, in the future, depending on what future challenges are experienced.
- 7.5 Given the loan will be a capital loan to fund the completion of the capital works until the retention payments are received the loan will be funded from the councils capital receipts unapplied in the first instance so that once the loan repayments are received these will then replenish the capital receipts applied. It should be noted however that there will be a risk to this should the loan not be repaid then this will have an impact on the capital programme and funding of other schemes.
- 7.6 It is recommended that the loan is offered at an interest rate of 3.02%. The charging of interest is made to cover the opportunity cost to the Council of tying up of cash in the loan and a risk factor and may enable the Museum Trust to potentially recover some of these costs in future funding bids.

- 7.7 Covid-19 pandemic has also impacted on the opening dates of the Museum of Making project. The projected opening of the new museum has been moved from September 2020 to Spring 2021. This delay has increased the financial amount for capital requested by the Museums Trust from the Council and other funding partners. See paragraphs 4.6 – 4.10 that explain the strategy being taken. They are seeking a contribution from the Council of £364,000 towards the forecasted additional cost attributed to Covid-19, which is around £1.4 million. External partners have also been asked by the Museums Trust for support to bridge the funding gap.

Legal implications

- 8.1 The contractual arrangements resulting from this report are being advised on by Legal Services.
- 8.2 There are not considered to be any state aid implications associated with the proposed loan arrangements, which will be subject to a commercial rate of interest.
- 8.3 The capital contribution is not considered impermissible aid as the aid falls within Article 53 of GBER 2014 (Aid for Culture and Heritage Consultation) and is below the intervention rate.

Other significant implications

- 9.1 The Museums Trust is looking to partially mitigate the impact through a claim under its Insurance Policy: In the event that the project is delivered late due to an insured event, the ECPI includes loss of revenue cover. There is significant debate ongoing within the insurance industry as to whether or not Covid-19 will be accepted as an insured risk under this policy. On the advice of the brokers a claim has been made, loss adjusters have been appointed and the necessary information has been made available.
- 9.2 There is a risk that the building will need to be mothballed until further funding can be secured to finish the project resulting in increased cost to the Council. The completion of the Museum of Making as planned, securing additional funds and securing a loan from the Council are all important factors to be resolved.

This report has been approved by the following people:

Role	Name	Date of sign-off
Legal	Emily Feenan	13/07/2020
Finance	Simon Riley	13/07/2020
Service Director(s)	Claire Davenport	13/07/2020
Report sponsor	Rachel North	13/07/2020
Other(s)	Toni Nash	13/07/2020

Background papers:

List of appendices: Appendix 1 – Strategic Links of the Project to Culture

Strategic Links of the Project to Culture in the City

Derby has been at the forefront of industrial Britain from the world's first factory at the Silk Mill to the Midland Railway, Rolls-Royce and Infinity Park. Derby fostered artists – Joseph Wright – and philosophers – Erasmus Darwin – who promoted liberal, enlightened ideas. This pioneering, industrious, outward-looking spirit has pulled people from all over the world to live in Derby, and will help us address the critical challenges we face, such as climate change, technology and automation, inequality and migration.

Designated a city in 1977, Derby is currently home to eight Arts Council National Portfolio organisations and a wide range of independent theatre companies, games and software designers, artists and galleries, musicians, promoters and studios, museums and built heritage, and a year-round programme of festivals and outdoor arts.

The project builds on our rich heritage and the setting of our ambition for the future. Through this project, culture will be included in the thinking and strategies of other key social, economic, education and health partners, continuing the tradition of confluence that has shaped Derby, and taking our city into the future.

It is already clear that Derby is a city with culture at its heart, and culture is the major driver of tourism for both the city and the county. We also know that there is much more we can do to recognise, celebrate and communicate our cultural assets. In providing and connecting spaces and support for cultural opportunities, the city and its communities can work together toward our ambition that by 2030, culture will play a major part in making Derby a great place to work, live, study and visit.

In its broadest sense, culture is the way that we live and how we express ourselves. For this strategy, we use 'culture' to cover the breadth of the arts and creative industries as well as crafts, heritage, and other aspects of Derby's unique historical and current identity.

Strategy Function and Purpose

Derby is small enough to be interconnected and big enough to be influential, and this project aims to amplify this and enable culture to have a positive impact on our residents and visitors.

This Museum of Making is for the whole city; and creates a unique asset to achieve Derby's cultural ambition. It is a resource for those working in the creative, cultural and heritage sectors and those that would like to collaborate with them

Vision for Culture

Our vision is to transform the lives and communities of the people of Derby through a vibrant, diverse, stimulating and high quality cultural offer that also attracts and benefits businesses and visitors.

Values

A set of values underpins the Culture Strategy for the city and the Museum of Making helps contribute to the delivery of them:

- **Excellence** – we are committed to ensuring the work that people participate in, experience and create is of the highest quality and that emerging talent is nurtured to achieve full potential.
- **Inclusivity** – we will ensure culture in Derby embodies the city's rich diversity and that people of all ages, backgrounds and communities are able to take part in creative opportunities.
- **Partnership** – we will work collectively within the creative and cultural sectors and with wider stakeholders to achieve shared ambition.
- **Co-production** – our approach to delivery will collaborate with communities to develop activity that reflects local perspectives and aspirations.
- **Research** – we will draw on research and evidence to underpin our planning and use evaluation to measure outcomes and share best practice.
- **Ambition** – we will strive to go beyond expectation and encourage activity that is innovative, pushes boundaries and surprises.
- **Sustainability** – at all stages of development and activity we will encourage careful consideration of the legacy and environmental impacts of our work.

Derby in figures

Derby is home to eight Arts Council National Portfolio organisations, two of which have a regional remit. For the period 2018-22 these organisations will receive annual investment from Arts Council of £2.54m. In addition to this, each year an average of 17 Arts Council Project Grant awards, with a combined value of £453k, are made to Derby applicants (based on years 2015-18).

The Opportunities

- Derby has a World Heritage Site and is home to the world's first factory
- Derby City has a retail catchment of over 800,000 people, and 6 million people live within one hour's travel time of the city
- Culture is the number one reason for leisure visits to Derby
- Building on innovation – Derby is the 4th in list of patent generating cities in UK
- Developing our manufacturing strengths – the city has 2nd highest number of manufacturing jobs in UK.