

Manchester City Council
Report for Resolution

Report to: Executive - 11 March 2020

Subject: Establishment of new trading company as a vehicle for claiming exhibition tax relief at Manchester Art Gallery

Report of: Strategic Director: Neighbourhoods

Summary

This report seeks Executive approval for the establishment of a City Council wholly owned trading company called Manchester Art Gallery Exhibitions Productions Company Ltd (MAGEP). Once established this will enable the Manchester Art Gallery to benefit from the Government exhibition tax relief scheme in line with the budget efficiency proposals.

Recommendations

The Executive is recommended to:

1. Agree to the establishment of the Manchester Art Gallery Exhibitions Productions Company as set out in this report. The arrangements will be finalised subject to final due diligence and further tax advice.
 2. Delegate authority to the City Solicitor and Deputy Chief Executive and City Treasurer in consultation with the Executive Member for Skills, Culture and Leisure to take all necessary steps to establish the Company and set up appropriate Governance arrangements to give effect to the above resolutions.
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Wards Affected: All

Manchester Strategy outcomes	Summary of the contribution to the strategy
A thriving and sustainable city: supporting a diverse and distinctive economy that creates jobs and opportunities	We provide support for the creative economy through our public programme, training and development opportunities for young people, and contribute to economic growth and prosperity of Manchester by championing creativity, supporting creative industries, and through cultural tourism.
A highly skilled city: world class and home grown talent sustaining the city's economic success	We develop and nurture skills within our workforce and support the development of skills and creativity of Manchester residents through our programme of events, workshops, activities and exhibitions.
A progressive and equitable city: making a positive contribution by unlocking the potential of our	The gallery aims to support individuals, families and communities achieve best outcomes through a programme that brings people together,

communities	encourages creative decision-making, and delivers public projects that generate social capital.
A liveable and low carbon city: a destination of choice to live, visit, work	Manchester Art Gallery has signed up with Culture Declares to declare a Climate Emergency and commit to radical action in relation to its own carbon footprint. The gallery is currently reviewing its policy and approach to making the physical gallery green and working towards being carbon neutral - focusing on exhibitions, loans, business travel, energy use, cafe, retail and events. We encourage social responsibility through community and stakeholder involvement, supporting community climate champions and we aim to be a public platform for climate activism as a respected and trusted educational organisation promoting public dialogue and raising awareness.
A connected city: world class infrastructure and connectivity to drive growth	We deliver world-class exhibitions, education, arts and health, and community development through national and international partnerships.

Financial Consequences – Revenue and Capital

The proposals set out in this report will enable the delivery of the £40k efficiencies from the Exhibition Tax relief scheme that were approved by the Executive on 12th February 2020 as part of the Neighbourhood Directorate 2020/21 budget proposals.

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Background documents (available for public inspection): None

1. Introduction

- 1.1 Museums and Galleries Exhibition Tax Relief (MGETR) was introduced by the government on 1 April 2017 and is a tax relief for museum or gallery-related companies (which can include a charity or other entity that does not actually pay any corporation tax) who create and install new exhibitions. 16% of the eligible costs of creating and installing exhibitions (including staffing and premises costs) can be claimed back.
- 1.2 A qualifying company must either be a charity that maintains a museum or gallery or a wholly owned subsidiary of a charity or local authority that maintains a museum or gallery.

2. Proposal for the establishment of MAGEP Ltd

- 2.1 In order to claim MGETR the organisation must be liable for corporation tax. It is proposed that in order to benefit from the tax relief the City Council will set up a wholly owned subsidiary, who will be responsible for producing the exhibitions on behalf of the City Council and then claim the MGETR on all costs incurred.
- 2.2 Using a subsidiary company to claim creative sector tax reliefs is a common practice used throughout other similar reliefs including film, TV, video games and theatre. HMRC's Creative Sector unit have confirmed that they do not consider it to be tax avoidance to use such a subsidiary company solely or mainly to enable or increase a claim to Creative Sector tax reliefs.
- 2.3 MAGEP Ltd would be contracted by the City Council to produce exhibitions, and be paid for doing this. MAGEP Ltd could then utilise resources and staff of its parent in order to do this, for which it would pay the City Council. This should be supported by a formal agreement entered into by the parties, reflecting the services to be provided. This formal agreement would be a short-form contract detailing the specifics of each eligible exhibition.
- 2.4 It is proposed that MAGEP is based at Manchester Art Gallery, but is an arm's length trading company established by the Council using its powers under Section 95 of the Local Government Act 2003 and that it will be wholly-owned by Manchester City Council. As the only shareholder, the City Council will have oversight and control of the operation of the company and a Board of Directors (all council officers) will undertake day-to-day management and operation of the business of MAGEP LTD.
- 2.5 The company secretariat support would be provided by MPSL on a fee basis. MPSL would service the meetings (minutes, agenda and diary co-ordination) and ensure all necessary submissions are made to Companies House of accounts, confirmation statements, reports of any change to board membership etc.
- 2.6 As MAGEP will be a 100% City Council owned trading company which generates 80% of its turnover from arrangements with the City Council it will

be classified as a Teckal company and this will help simplify the procurement process between the City Council and the company.

- 2.7 As part of the arrangement contracts will be drawn up between the City Council and MAGEP, and these will include the following :
 - commission MAGEP to produce exhibitions for the City Council;
 - provide for the City Council to charge MAGEP for the use of staff, assets and other resources ; and
 - layout the payment terms for this.
- 2.8 It is important that the contract clearly delegates responsibility for producing, running and closing the exhibitions to MAGEP in order that it meets the criteria for being the Production Company as outlined above.

3. Cost/Benefits

- 3.1 In 2020/21 it is forecast that there will be c.£320k of eligible exhibition costs and under the current scheme this would enable c.£51k of tax credit to be claimed. The amount able to be claimed will be variable each year and this is dependent on revenue expenditure, staffing changes and the approach to programming of exhibitions.
- 3.2 It is forecast that the costs of managing the company and processing the claim will be around £9k per annum, and this includes external audit fees and other costs of operating the new company, these will be netted off against the forecast tax credit to provide a net benefit of c£42k in line with the proposed efficiency savings included as part of the budget process.

4. Legal implications

- 4.1 The company will be established with standard constitutional documents (including Articles of Association) of a general trading company, suitably amended.
- 4.2 The contract between the City Council and MAGEP Ltd will detail scope and costs of each individual eligible exhibition, and this will include expenditure on goods, materials and services, the allocation of gallery staff and the changeover periods for which a premises fee will be charged. These are all eligible costs against which tax relief can be claimed.

5. Governance

- 5.1 A Board is to be established to oversee the operation of the business of MAGEP Ltd. The role of the Board is to manage the company's business, which will include executive decision and policy development. The City Council will appoint all company directors and this will be outlined within the Articles.