

Heritage Services Business Plan 2015–2020

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Attachments:

Further details are provided for Cabinet Members in the confidential attachments.

1. The business unit.

The Council established Heritage Services as an internal business unit in 2005. It approved bespoke financial arrangements to give the Service the freedom and agility to plan and to implement investment, pricing and marketing decisions. The Service is unique in operating at no cost to the local taxpayer and returns a net surplus of c.£5 Million p.a. to the Council, measured on a full cost basis.

Through its rolling 5-year business plan, the Service maximizes the commercial opportunities offered by the Council's world class heritage assets. Through planned re-investment of a proportion of its earned income, the Service conserves and develops these assets, maintains and extends the audiences who enjoy them and protects and enhances the income earned through them.

Performance, business planning and investment strategy are reviewed by the Heritage Services Advisory Panel of external specialists in museums, visitor attractions, governance and finance. They advise Cabinet Members and the Scrutiny Panel Chair on the soundness of the Service's business plan.

In 2013/14 a consortium led by Winckworth Sherwood LLP (WS) was commissioned by the s151 officer and Strategic Director (Place) to undertake a high-level options review of the Heritage Services' governance arrangements and development opportunities. A number of key issues identified by WS will be addressed by this Business Plan.

2. Business philosophy.

The Service does not seek to maximise income to the exclusion of all other considerations. The business strategy is to maintain the sustainability of three interdependent areas of activity:

- Conservation – preserving our unique heritage
- Customer care – improving the visitor experience
- Commercial development – remaining competitive and maximising income-earning opportunities

This business philosophy is characterised as the 'tripod of sustainability' in Figure 1 below.



Figure 1. The Tripod of Sustainability.

This business philosophy argues that, to ensure the long-term sustainability of the Council's irreplaceable heritage assets, equal attention must be paid to each of the three key areas of activity. The model suggests that the more one disturbs this balance by unduly extending or contracting any one of the tripod legs, the less sustainable the Service becomes.

3. Business performance 2005-2015.

Significant investment at the Roman Baths since 2005 has improved the state of conservation of the ancient monument and enhanced the quality of the visitor experience. This has led to excellent visitor feedback, higher visitor numbers, increased income and a string of awards.

Since 2005 Heritage Services has:

- earned income (turnover) of £116 Million;
- made a total net profit of over £36 Million – a return of 34% on annual turnover;
- doubled annual profit to c. £5 Million p.a.

Benchmarking against other leading UK visitor attractions has shown Heritage Services as a whole, and the Roman Baths in particular, to operate with great success in the competitive national and international attractions market. The current operation:

- is consistently in the top quartile for profitability;
- is consistently top quartile for income;
- has employee costs that are the lowest in the country.

Investment in conservation, the visitor experience and commercial development has increased over the last 10 years, but is still at a relatively low level when compared with other national visitor attractions.

Admission charges across this period have increased by well above the rate of inflation, and one would expect this to reduce demand, but visitor numbers have still increased significantly.

The continuous line on the graph at Figure 2 below demonstrates how the Roman Baths headline adult admission charge has increased from 2005 to 2014; the dotted line shows the increase in the Retail Prices Index (RPI) over the same period.

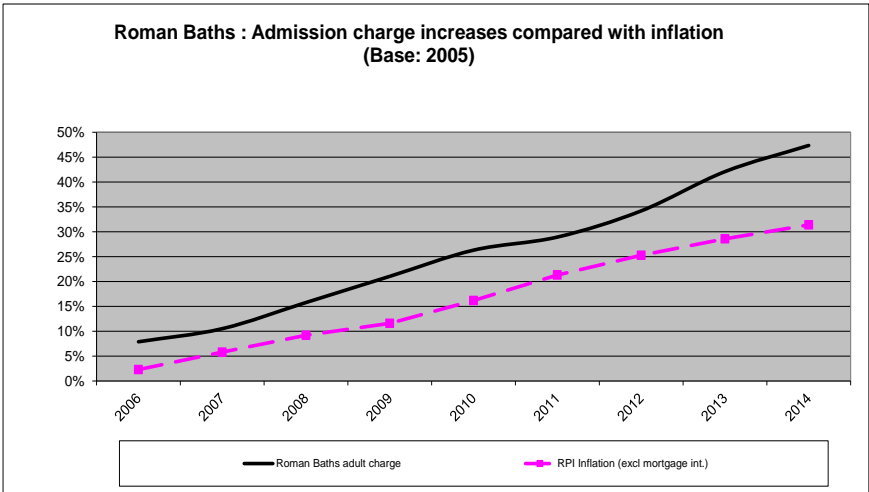


Figure 2: Roman Baths’ admission charge increases compared with inflation.

The continuous line on the graph at Figure 3 below demonstrates the growth in Roman Baths' total visitor numbers. The dotted line illustrates the 5-year trend which currently stands at just above 950,000 visitors per annum.

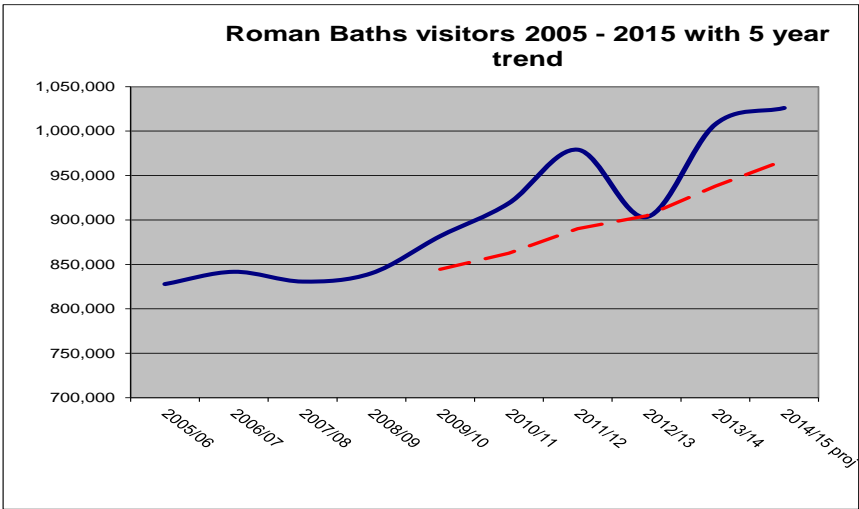


Figure 3: Roman Baths’ visitors 2005-2015 showing the 5-year trend line.

Every year since 2000 there have been geo-political, economic, public health, environmental and meteorological events which have either prevented people from travelling or have influenced their decisions about flying and where it is safe to go. The effects of these have been felt across the visitor attractions sector. These events include:

2000 Mad Cow Disease (BSE);

2001 Foot-and-Mouth Disease (FMD); 9/11;

2002 War in Afghanistan; Bali bomb;

2003 Wars in Iraq and Afghanistan; SARS scare; Bath Spa not open;

2004 Wars in Iraq and Afghanistan; Madrid bombs; Bath Spa not open;

2005 Wars in Iraq and Afghanistan; London bombs; Bath Spa not open;

2006 Wars in Iraq and Afghanistan;

2007 Wars in Iraq and Afghanistan; FMD; Glasgow Airport attack; West Country flooding;

2008 Wars in Iraq and Afghanistan; Credit crunch;

2009 Wars in Iraq and Afghanistan; Recession; Swine 'flu;

2010 War in Afghanistan; Recession; Ash Thursday;

2011 War in Afghanistan; Recession; Bombing of Libya; Japan earthquake/tsunami;

2012 War in Afghanistan; Recession; London Olympics; wettest summer in 100 years;

2013 War in Afghanistan; Unrest in Egypt and Syria;

2014 War in Afghanistan; Unrest in Egypt, Syria and Iraq; Stonehenge; West Country flooding; ebola; Malaysian Airlines' disasters;

2015 Islamic State; ebola; *others?*

4. Performance in 2013/14 and 2014/15.

Visitor numbers at the Roman Baths hit record levels in 2013/14 (1,008,000) and 2014/15 (1,024,000 projected). This followed several years of investment in the visitor experience, new marketing to support it, the emergence from recession and the absence of any significant geo-political, economic or environmental events to inhibit travel.

Performance in these two financial years has significantly exceeded in-year budgets due almost entirely to higher than planned Roman Baths' visitor numbers. This increase in income was offset in 2014/15 by a marginally lower than budgeted admission spend (income) per visitor, largely as a result of an increase in the number of group visitors.

The budgets for each year assumed overall visitor numbers that were:

- At the upper end of the range consistent with providing a high quality visitor experience;
- Consistent with the highest levels of visitor numbers ever achieved by the site.

The table at Figure 4 below illustrates the total income and profit generated in 2013/14 and currently forecast for the financial year 2014/15.

Figure 4: Heritage Services financial performance: 2013/14 and 2014/15						
	2013/14 Actual	2013/14 Budget	Increase / (Decrease)	2014/15 Forecast	2014/15 Budget	Increase / (Decrease)
	£000	£000	£000	£000	£000	£000
External turnover (income excluding internal charges)	14,221	13,218	1,003	14,956	14,073	884
Net profit	5,176	4,052	1,124	5,112	4,581	531
Roman Baths visitors	1,008,000	925,000	83,000	1,024,000	948,000	76,000
Roman Baths average spend (income) per visitor (<i>admission income plus gross retail profit and café / restaurant commission</i>)	£11.33	£11.17	£0.16	£11.76	£11.94	-£0.18

Trend analysis.

These short-term increases in income and profit have been driven almost entirely by record increases in Roman Baths' visitor volumes. This is illustrated in the graph at Figure 5 below, which charts the 2-year (24 month) trend in average monthly visitor volumes and day-visitor-related income.

The average monthly number of visitors is measured on the left hand scale; the blue hatched columns demonstrate the growth in the actual number of visitors received, whilst the solid purple columns demonstrate the average budgeted monthly visitor numbers.

The average monthly visitor admission and secondary income is measured on the right hand scale; the purple, starred line demonstrates the actual growth in average monthly income, whilst the smooth green line demonstrates the average budgeted monthly income;

Figure 5 shows that, at December 2014, actual average monthly income has grown to c. £940k per month (c. £11.3 Million p.a.) as a result of visitor numbers totalling just over 83k per month (1 million + p.a.). This is significantly higher than the average budgeted level of income of c. £10.6 Million p.a. , based on rolling average visitor numbers just under 78k per month (930k+ p.a.)

The short term trends illustrated in this graph are reliant upon sustaining visitor numbers at the current, record levels. The budget proposed for 2015/16 and subsequent years

assumes that these trends will be sustained over the next five years. Section 9 on Risk below illustrates the financial impacts should these record short term trends not be sustained.

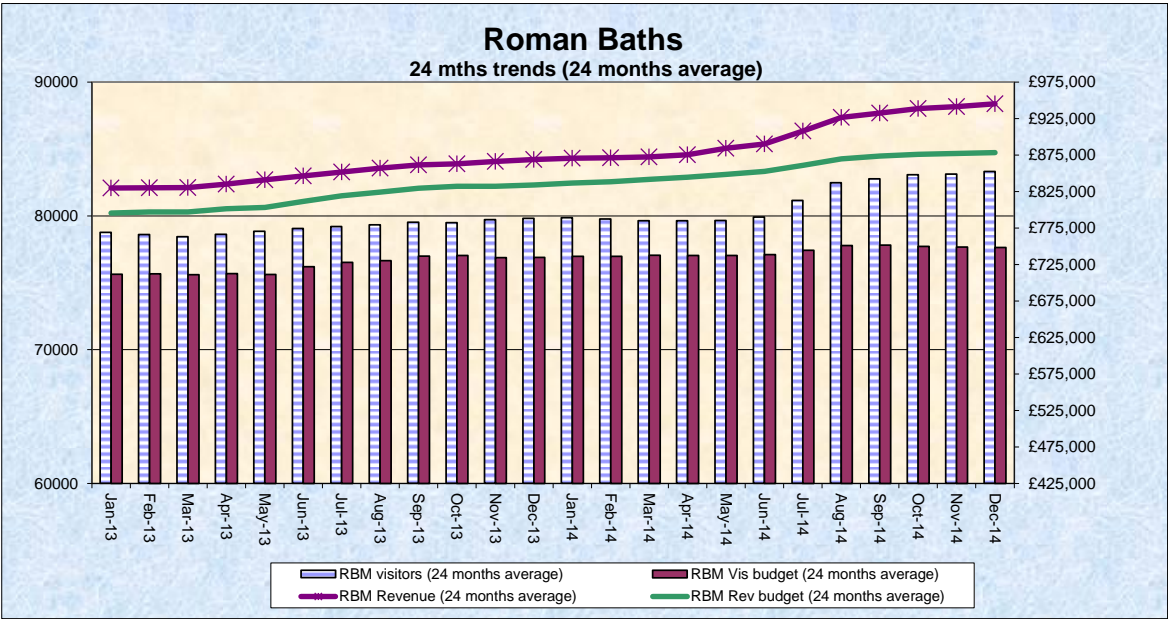


Figure 5: 24 month trend in average monthly visitor volumes and day-visitor-related income.

In addition, the Roman Baths will face severe congestion on a more sustained basis than in previous years. In 2014/15 the attraction has received more visitors than the maximum capacity (5,000) on 17 days, and was close to capacity throughout the peak season. Overcrowding at peak times of year is starting to impact on customer satisfaction levels, as illustrated in the graph at Figure 6 below, which measures Roman Baths performance (in the columns) against the ALVA average (the 0% line. ALVA = Association of Leading Visitor Attractions).

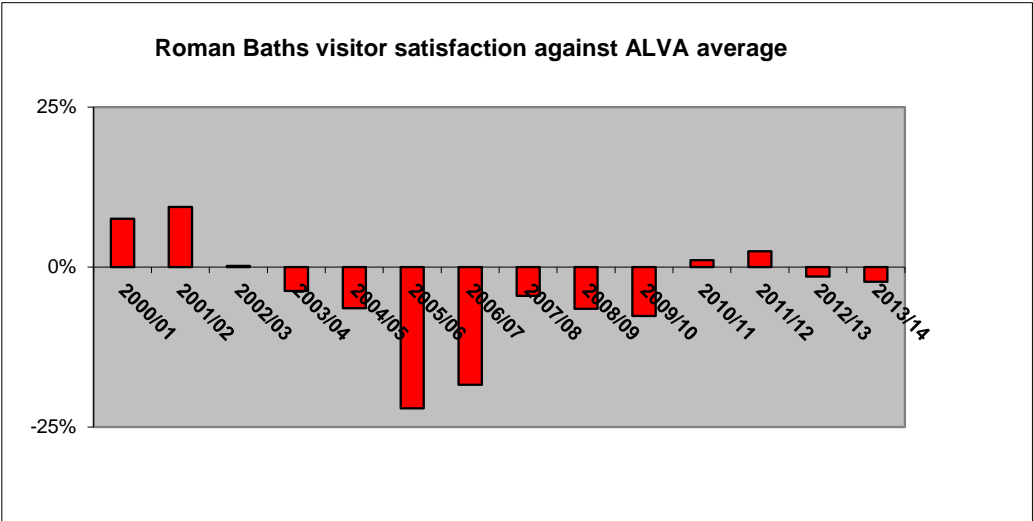


Figure 6: Roman Baths' visitor satisfaction against the ALVA average.

The majority of the increase in income achieved since 2005/06 has been because of increases in prices and average visitor spend. Only 29% of the growth in income achieved over the eight years to 2013/14 was as a result of increases in visitor numbers.

The Roman Baths is now a very high price, high yield, high profitability operation in comparison to other major national heritage attractions. Admissions income is consistently amongst the very highest in the country although further increases in secondary spend (retail and catering) are limited by the restricted space available.

5. Business targets 2015-2020.

The targets in this Plan aim to grow annual profit by over £1.45 Million (32%) over the next five financial years, so that by 2019/20 annual profit will be £6 Million p.a. The Business Plan 2015-2020 proposes measures that will achieve these increases in each of the first four years, and that should achieve all of the increase required over the cumulative five year period. The Heritage Services profit reserve was established to enable profit targets to be addressed on this basis, and is crucial in ensuring that financial performance can be smoothed to address the inevitable variations in business activity across a period of years.

However, achieving the required increases in turnover and profit becomes increasingly challenging because:

- Profitability is already amongst the very highest nationally;
- Increases in day visitor income rely wholly on price increases as visitor volumes are at their maximum level;
- Expansion of secondary spend is constrained by restrictions in physical space;
- Increased investment is required to underpin price increases;
- Fixed costs increase, including capital charges related to capital investment.

The table at Figure 7 below demonstrates likely performance in each year based on the updated, detailed financial model that underpins this Business Plan. This shows that targets should be marginally exceeded in the first four years of the Plan, but will not be achieved in year 5. The over-achievements illustrated in years 1 to 4 represent only c.1% of turnover in any year and are therefore within the margin for error on such a model.

All assumptions will be fully monitored and reviewed as usual over the coming year and will be reflected in future revisions of this Plan.

Figure 7: Heritage Services: key financial and visitor targets						
	2014/15 (budget)	2015/16 (proposed)	2016/17 (proposed)	2017/18 (proposed)	2018/19 (proposed)	2019/20 (proposed)
	000	000	000	000	000	000
External turnover (income excluding internal charges)	£14,073	£15,467	£16,191	£16,697	£17,120	£17,293
Net Profit	£4,581	£5,031	£5,468	£5,718	£5,882	£5,745
Profit target	£4,581	£4,931	£5,281	£5,531	£5,781	£6,031
Surplus (shortfall) against target		£100	£187	£187	£101	(£286)
Cumulative surplus		£100	£287	£474	£575	£289
<i>Net profit per Council Tax payer</i>	<i>£60</i>	<i>£64</i>	<i>£70</i>	<i>£73</i>	<i>£75</i>	<i>£73</i>
<i>Profit as a percentage of external turnover</i>	<i>33%</i>	<i>33%</i>	<i>34%</i>	<i>34%</i>	<i>34%</i>	<i>33%</i>
Roman Baths visitors	948	1,010	1,010	1,010	1,010	1,010
Fashion Museum visitors	95	97	100	100	100	100
Victoria Art Gallery visitors	91	149	149	149	149	149
Roman Baths average income per visitor (admission income plus gross retail profit and café / restaurant commission)	£11.94	£12.28	£13.06	£13.47	£13.80	£13.91

The year-on-year increase in profit of £450k in 2015/16 will be produced by a significant increase in admission, retail and other trading income together with the increases in staffing and other investment required to sustain and continue to grow these income streams, as illustrated in the table at Figure 8 below.

Figure 8: Increase in income, costs and profit from 2014/15 budget to 2015/16		
Area	Increase £000	Rationale
Increase in trading income	£1,280	External turnover less non trading income
Less:		
Increase in employee costs	£310	Pay award + step change to sustain higher visitor volumes
Increased marketing + improvements in the visitor experience and facilities	£220	To sustain higher visitor volumes
Increase in maintenance and dilapidations	£120	Assembly Rooms lease (legal requirement) and inflation
Increased retail purchases	£90	Cost of retail sales included in trading income above
Increases in debt charges; utilities; business rates, and inflation	£90	Fixed and other unavoidable costs
Total increase in costs	£830	
Additional net profit	£450	Included in Table B above

6. Business Strategy 2015-2020.

To achieve these targets, it will be necessary to:

- Keep Roman Baths visitor numbers at unprecedentedly high levels;
- Keep admission charges amongst the highest in the country;
- Provide a step-change increase in staffing and investment to improve visitor satisfaction and support large price increases
- Generate an extra profit of £350k next year, made up of:
 - o £250k p.a. already in the Council MTSRP for 2014/15, less £100k related to the Victoria Art Gallery
 - o £200k p.a. to replace the saving assumed from a Tourism Leisure & Culture trust;
- Generate an extra profit of £350k p.a. in 2016/17 and a further £250k p.a. in each subsequent year.

This may be summarised as ‘the five highs’:

- High volume
- High price
- High yield
- High investment
- High risk

The detailed proposals in the Business Plan include:

Roman Baths:

- Significantly increase admission charges in 2016, with further large increases in three of the other four years;
- Expand the combined ticket to include the Victoria Art Gallery, with increased prices and additional promotion to increase sales and income;
- Sustain visitor numbers at the current record levels of over 1 million in each financial year, including the current record numbers of group visitors;
- Assume no increase in visitor numbers and achieve 99% of the planned increase in admission income from increases in admission prices;
- 99% of the planned increase in admission income will come from increases in admission prices; no increase in overall visitor numbers is assumed;
- All price increases will be monitored and reviewed in detail to assess possible impacts on price resistance and yield and inform future Business Plans.

Fashion Museum:

- Similar increases in prices as for the Roman Baths;
- A modest increase in visitor volumes achieved via the promotion of the expanded combined ticket and improvements in the core visitor offer;
- A focus on improving levels of secondary spend, supported by the extension of free admission to the Assembly Rooms for National Trust members.

Victoria Art Gallery:

- A significant increase in visitor numbers and admission income via the expanded combined ticket;
- Free admission to charging exhibitions for residents (ie Discovery Card holders).

Feasibilities for future developments:

- A feasibility study to examine options for the further off-site retail activity has indicated that such a project would not provide a commercial return;
- A further feasibility study is underway to examine options for the development of the Victoria Art Gallery site to improve its financial sustainability.

Both studies are based on recommendations contained in the recent WS Options Review.

7. Investment.

Staffing and investment are currently relatively low when compared with other visitor attractions and are insufficient to support the current record numbers of visitors. To sustain and grow visitor numbers, satisfaction levels and income it will be necessary to make further investment in the quality of the visitor experience and associated marketing.

Keeping Roman Baths visitor numbers at unprecedentedly high levels will also require a step change in staffing costs, which will still remain amongst the lowest of any major visitor attraction in the UK.

Recent research by Visit Britain and others has emphasised the importance of developing the visitor experience and emotional engagement with the visit. Investment in the visitor 'product' over the next five years will therefore include not only physical improvements but also new developments in digital interpretation. The award of a new audio guide contract in 2016 is likely to include multi-media rather than purely audio content.

Revenue: proposed increases in on-going investment (reflected in the table at Figure 8 above) include:

- Increased customer-facing, marketing and associated support staffing to cope with record visitor volumes and increases in opening hours – an additional £219k p.a. in 2015/16, rising to £253k in 2016/17;
- Increased marketing activity: an additional £100k p.a. to deliver continued record visitor numbers and attract new off-peak markets; increases in spend and increased marketing activity, including incentives to encourage visitors to come off-peak to reduce overcrowding;
- Improvements in the visitor experience and facilities, including interactive and interpretative devices and continued increased levels of security – an additional £110k p.a. in 2015/16, rising to £256k p.a. in 2016/17.

Capital: the two major projects during the life-time of the Business Plan 2015-2020 will be:

- The upgrading of the **East Baths** to the standard of presentation and quality achieved throughout the rest of the visitor experience. This will involve engineering works to prevent water flooding the monument when the River Avon is in spate which will, in turn, allow the monument to be properly cleaned and conserved. This will be accompanied by dramatic new interpretation and lighting.

- The development of the **Archway Centre**, subject to a Round 2 Heritage Lottery Fund grant and to a corporately funded contribution by the Council of up to £750k in order to pump prime the anticipated HLF grant. While this will not directly underpin or develop existing income streams, it will be a long-term investment in the audiences of tomorrow.

No other significant changes are proposed in the capital investment programme previously outlined for the five year period to 2018/19. However 2019/20 will mark the start of a further cycle of improvements on the Roman Baths site. Large parts of the last refurbishment are already five years old, and the site will require another cyclical programme of works phased over several years, in order to both allow the attraction to remain open and to avoid the adverse VAT impacts that will be suffered if significant investment takes place in any one year.

8. Marketing.

The range of opportunities for marketing and the need for market research have both increased significantly over the ten-year period since 2004, particularly in the fields of social media, viral marketing and remote / advance ticket sales. Emerging markets, in particular from the Far East, have replaced the dominance of North American visitors. This requires not only additional marketing capacity but a new set of staff skills to realise the potential of these opportunities.

The Business Plan 2015-2020 contains ever more challenging financial targets and levels of risk. The level of profit required by the Council demands that Roman Baths visitor numbers remain at c.1 million p.a. In order to protect visitors' quality of visit and the Council's reputation, it will be necessary to significantly redistribute some of this volume out of the peak months of July and August and into the 'shoulder months' of the spring and autumn by attracting new people who are able to travel off-peak.

The WS Options Review recognised the high performance of Heritage Services' commercial activities, but advocated better and bolder marketing campaigns to national and international markets.

To address these challenges, a discrete Marketing Team will be established alongside those for Retail, Venue Hire and Catering (externalised), to be headed up by a new post of Heritage Marketing Manager. The Heritage Marketing Manager will bring together all sales, marketing and publicity activities into one co-ordinated team and will have a full deputising role for the Commercial Manager. This will also reduce the number 'direct reports' to the Commercial Manager (excluding external contracts) from eight to five.

In addition, the investment allocated to marketing campaigns will be increased and bolder, carefully-targeted campaigns will be directed towards the markets with most potential, making full use of new media.

9. Risk.

The risk inherent in the Service’s business activities has grown exponentially with its success. As a result even relatively small variations in visitor numbers and business activity can produce a relatively large effect upon both income and profit in any year, as almost all costs are fixed in the short term.

This risk is reflected in the Council’s General Reserves via the Robustness of Estimates calculation for the Place Directorate and the Heritage Services profit reserve. In view of the increase in risk over the next 5 years this Plan recommends that the total net risk provision be increased from the current net level of £950k to at least £1.1 Million (c. 7% of income), consisting of the £206k currently hypothecated to Heritage Services in the profit reserve plus a further £900k within General Reserves.

Maintaining Roman Baths’ visitor numbers at around 1 million p.a. is uncharted territory and therefore carries a significant risk. The graph at Figure 9 below illustrates visitor numbers over the last 30 years, and shows that the underlying trend has grown to c. 900,000 p.a. over the last 20 years.

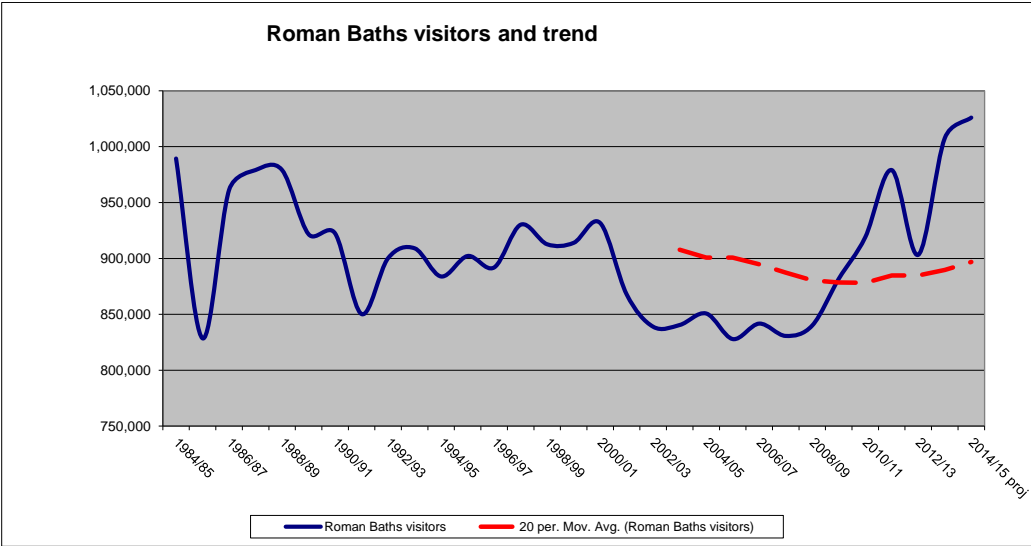


Figure 9: Roman Baths’ visitors and trends 1984 to 2014.

This is substantially lower than the numbers experienced in 2013/14 and 2014/15 as well as the numbers assumed for each of the next five years.

The table at Figure 10 below illustrates key trends in visitor volumes and the shortfall in annual income should Roman Baths visitor numbers reduce to those levels. These shortfalls would translate into reductions in profit in any financial year as the majority of costs within that period are fixed.

Figure 10: Roman Baths visitor numbers: trends and risks		
Visitor trend	Visitor numbers	Income shortfall in 2015/16
1 – 2 year trend	c.1 Million	£0 - £120k p.a.
5 year trend (2005 –2015)	c.950,000	c.£750k p.a.
20 year trend	c.900,000	c. £1.4 Million p.a.
Seven years to 2009/10	c.840,000	c. £2.1 Million p.a.

Visitor numbers in any year can also be influenced by common, but influential factors such as the weather, the timing of major sporting and political events, and transport issues. The table at Figure 11 below illustrates a small number of scenarios and the impact on income and profit that could result from even very small variations.

Figure 11: Roman Baths visitor numbers: illustration of variations		
Factor	Visitor numbers	Value of 10% variation in 2015/16
Easter weekend	c. 17,000	c.£20k
Busy summer Saturday and Sunday	c. 11,000	c.£14k
Busy summer weekday	c.5,000	c. £6k

In addition to the risk inherent in the business the other key areas of risk for the next five financial years are in the following areas:

External events – the Business Plan assumes that there will be no significant geo-political, security, economic, environmental or meteorological events in the next five years that will inhibit people’s willingness to travel or visit UK attractions. The table in section 3 above shows that every year since 2000 has brought an unexpected event or set of events that have had an adverse effect on business.

Customer resistance – continued above-inflation price rises increase the risk of customer resistance. Long queues at the entrance will increase the likelihood of walkaways by dis-satisfied tourists. These factors are estimated, but the effect can be somewhat different in practice.

Reputation – record visitor numbers are highly likely to detract from the quality of the visitor experience. Falling visitor satisfaction and above-inflation price rises will lead to a loss of reputation with negative publicity by word-of-mouth and social media.

Financial – expenditure to support the Service’s successful growth of income will be an increasing proportion of overall Council expenditure, particularly as the Council’s finances shrink. This will pose an increasing risk to the Council’s ‘partial exemption’ VAT position that could incur an additional VAT cost of c.£800k p.a. if the 5% threshold is reached. The Plan assumes that rates of interest and inflation will continue at their recent, historically low levels.

Systems and processes – financial pressures on the Council have led to increasing standardisation of process and systems. These changes focus on supporting shrinking local authority services aimed at a local client base, and are often not appropriate for a business like Heritage Services that is required to grow and sell its services commercially to a national and international customer base. The WS Options Review highlighted the imperative for the Service to be able to use industry standard, fit-for-purpose commercial systems and procedures if it is to remain competitive. In order to successfully deliver the continued increases in income and profit required by this Plan it is essential that the Service is empowered to employ appropriate systems and processes to achieve the commercial objectives that the Council has set. This includes the ability to specify and control investment projects to ensure that they are fully aligned with commercial and marketing objectives.