

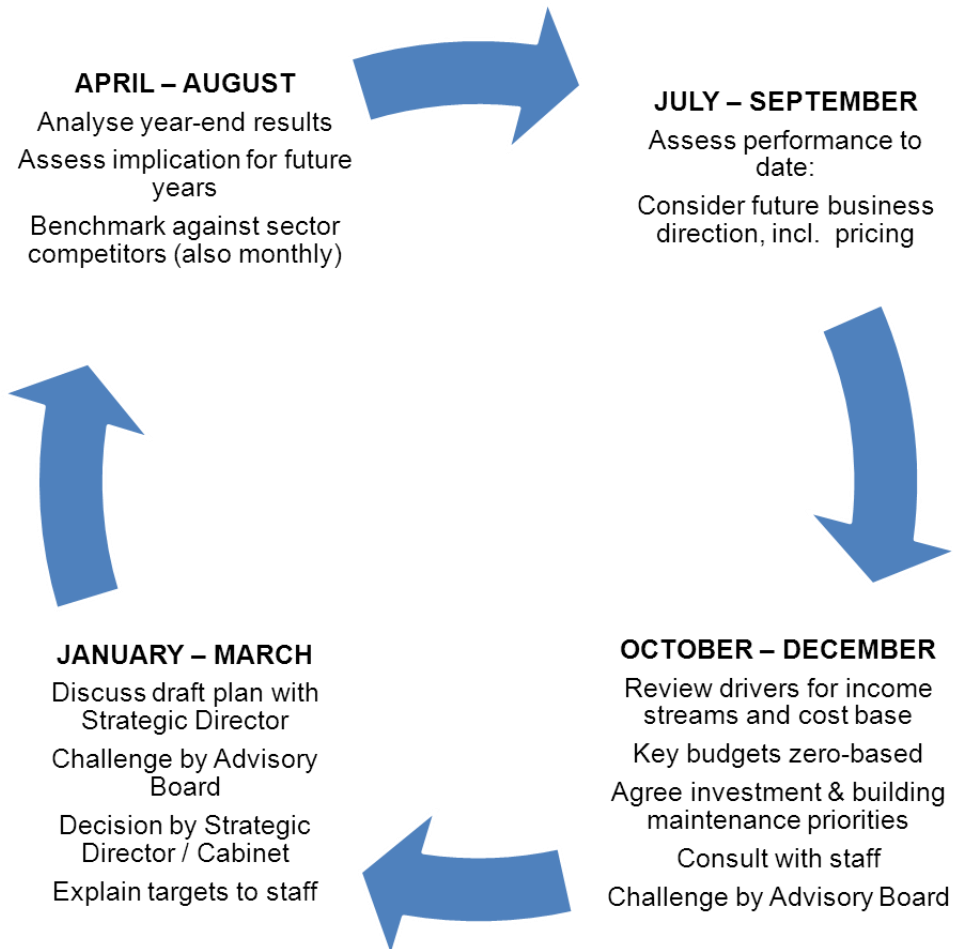
**Bath & North East  
Somerset Council**

# Heritage Services Business Plan

*a medium term plan for sustainability, continuity and development*

2013–2018

# The Heritage Services annual business planning cycle



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## List of Updated Appendices

The appendices to this Plan are not attached for reasons of size and confidentiality, but they but can be made available on request.

1. Heritage Services: 5 year Financial Summary to 2017/18
2. Heritage Services management accounts, Financial Year to March 2013
3. Spend per visitor: Roman Baths and Fashion Museum
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# Key points

## 1. Business performance:

- 2006-2013 business strategy increased annual profits by 60% (£1.4 Million p.a.)
- Full absorption profit of £4 Million p.a. in 2013/14 (31% return on external turnover) will rise to £5.1 Million p.a. (34% of turnover) by 2017/18
- External turnover of £13.2 Million p.a. has grown by 45% since 2006
- External turnover totals £18 Million p.a. including catering
- Admissions income to grow to £11.2 Million p.a. by 2017/18
- Admission charges consistently in top 25% of all charging visitor attractions

## 2. Current developments to sustain growth and profitability:

- Further investment in the Roman Baths visitor experience
- Annual capital investment in asset infrastructure, including Assembly Rooms
- Holistic, targeted approach to investment, including building maintenance
- New Learning and Hospitality facilities planned for 2016-18
- Roman Baths Development Trust in preparation

## 3. Business sensitivity and Risk:

- Increased visitor, turnover and price assumptions significantly increase profit sensitivity
- Projects to improve returns from secondary spend will stretch managerial resources
- Future investment severely constrained by the Council's VAT position
- Pressure for incremental increases in annual profit limits the ability to finance investment
- Future year profit increases will also be sensitive to:
  - volatile global and national market conditions
  - inflation and interest rate movements
  - geo-political, security and environmental concerns
- Increased risk and profit reserve provision recommended to reflect increased risk

## 4. Year on year profit increases increasingly difficult to achieve due to:

- Rising fixed costs including debt charges, utilities and business rates
- Pressure to increase building maintenance due to increased visitor numbers
- The need to maintain new interpretative media
- Full exploitation of all available sources of revenue, with limited options for diversification

## 5. Visitor volumes:

- Roman Baths visitors to stabilise at between 900,000 and 925,000 p.a. over next 5 years
- Fashion Museum visitor numbers to stabilise at c.95,000 p.a.

# 1. Introduction: focus on results

This Business Plan covers the five financial years from 2013/14 to 2017/18 and focuses on achieving the returns required by the Council's Medium Term Service & Resource Plan (MTSRP). It continues the series of rolling 5-year plans that have produced consistent and sustained growth in revenues and profitability as a result of a significant increase in planned investment since this approach was first adopted in 2005.

The Plan continues this successful strategy in order to provide the increased profits expected by the MTSRP, finance further investment and sustain revenues and profitability into the future.

The Plan has been prepared following the annual in-depth and zero-based review of business activity and includes an analysis of the risk involved. It is not an exhaustive analysis of the Service's business position.

## 2. Executive summary.

### **Business performance to 2012.**

2.1 The three financial years to 2011/12 saw the Roman Baths perform well above target levels due to a significant increase in visitor volumes, which reached a 10-year high in 2010/11 and a 25 year high in 2011/12. Increased visitor volumes were driven mainly by:

- Increased domestic visits (the “stay-cation effect”);
- The positive effect of increased marketing spend;
- Recent and continuing investment in the ‘heritage asset’ and ‘visitor experience’;
- Unexpected national PR exposure through success with awards, particularly the Art Fund Museum Prize 2011.

2.2 Visitor numbers in 2012/13 will fall 8% below the levels achieved in 2011/12. A reduction of 5% had been forecast and budgeted for due to the anticipated effect of the Olympics and economic factors. This effect was deeper than anticipated and was accompanied by a particularly wet summer. Nevertheless, visitors in 2012/13 are likely to total c. 900,000, the third highest result in the last 10 years.

2.3 Over the last eight years the Service has implemented a strategy of:

- sustained increases in investment in interpretation, conservation and access measures at the Roman Baths, to improve the ‘visitor offer’ and keep the site at the forefront of UK attractions;
- price rises in excess of inflation to finance the investment and sustain and grow the profit required by the Council’s Financial Plan.

2.4 This approach has been highly successful. It has generated external income totalling £88 Million and profits of £26.5 Million over the last eight years, with profits consistently maintained at c.30% of a substantially increasing level of turnover.

2.5 The Roman Baths has consistently performed in the top 25% of all leading UK visitor attractions for profitability and income generation, and in the lowest 25% for costs. Visitor spend (income) per hour of visit is amongst the highest in the country, indicating that the management of the attraction is amongst the most commercially successful of its type.

### **Business strategy 2013-2018.**

2.6 The Plan demonstrates how the existing successful strategy can be modified and extended in the next 5 years to sustain and improve the returns to the Council.

However it also demonstrates how consistently achieving year-on-year increases in profitability will become increasingly difficult and will involve a significant increase in risk to assumptions on turnover and profit. The Plan anticipates the net return on turnover to increase from the level of 30% consistently generated in previous years to c.34% of turnover.

2.7 The Plan adopts a revised strategy, outlined below, which assumes that:

- The 5-year pricing strategy reviewed in detail last year will be stretched further in order to increase Roman Baths prices in 2014 beyond the level previously assumed;
- Roman Baths visitor volumes will be maintained above the 900,000 level previously set as the maximum desirable level to maintain an enjoyable visitor experience;
- The Roman Baths visitor base will recover in 2013 following the impact of the London Olympics and adverse weather conditions in 2012, and then stabilise over the next three years;
- The ongoing effects of the recession are forecast in the Plan for the foreseeable future. In particular, no growth is expected in the next three years. The Plan does not allow for a continuing decline in the economy.

2.8 Specific action plans will seek improved financial performance in a number of key areas:

- turnover and profitability from day visitor catering at the Roman Baths;
- significantly reduced costs for the Victoria Art Gallery;
- improve other areas of visitor-related secondary spend, including retail;
- improve turnover and reduce costs at the Assembly Rooms site;
- further develop income from corporate hospitality and functions.

2.9 The increased assumptions on visitor volumes require a continued although minor step-change in operating costs, including marketing. These costs are variable in nature and can be 'flexed' downwards should visitor volumes reduce, although not in the very short term.

2.10 The level of growth required over the next 5 years will involve both:

- maximising income and profit from existing business activities; and
- developing and implementing action plans to reduce costs or further increase income via additional activities.

2.11 This added complexity will add significant strain to the limited managerial capacity already under pressure from the overriding requirement to invest and continually increase profit levels year-on-year.

- 2.12 The increased levels of turnover produced will become even more sensitive to relatively minor variations in visitor numbers. For example, in 2013/14 a 2% variation in Roman Baths' visitor volumes would reduce or increase gross turnover by £280k. As the cost base is relatively fixed in the short term, such a variation would directly affect net profit, which in this instance would reduce by £210k.
- 2.13 Should Roman Baths' visitor numbers return to pre-2010 levels (i.e. 880,000 or below p.a.), gross turnover would reduce by at least £750k p.a. and net turnover (and profit) by c. £650k p.a. This level of risk will be included in the Place Directorate 'Robustness of Estimates' register.
- 2.14 The Plan assumes a restrained but stable level of 'revenue' investment in the visitor experience, building maintenance and marketing over the next five years. It also provides for capital investment over this period generating debt charges rising to £630k p.a. by 2017/18. Further debt charges would be incurred if the Hospitality Suite and Learning Centre developments proceed, but these will be financed from commercial activity. All of these costs will add to the fixed cost base for the Service and any further increase would prove difficult to finance.
- 2.15 The business scenarios modelled demonstrate that further capital expenditure on VAT-exempt areas of activity, including the Roman Baths and Assembly Rooms sites, would probably cause the Council's VAT limit to be breached, with a cost of £1 Million+ in any year that this occurs.
- 2.16 Advice was obtained from taxation experts on reducing the VAT impact of the development of the Roman Baths Learning Centre. This advice could reduce the risk of this project putting additional pressure upon the partial exemption limit.
- 2.17 The Plan sets out the marketing strategy designed to achieve the ambitious targets it contains in respect of pricing policy, market penetration, market development and visitor management.



## 3. Heritage Services.

- 3.1 Heritage Services is a business unit in the Tourism Leisure & Culture directorate. It is unique in the UK in operating at no cost to the local taxpayer. The Service returns a net surplus of c.£4 million p.a. to the Council, measured on a full cost basis (i.e. including all costs, including both corporate overhead and debt finance charges).
- 3.2 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.
- 3.3 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.
- 3.4 The Service does not seek simply to maximise income to the exclusion of all other considerations. It seeks to ensure the ongoing and long-term sustainability of its three main areas of activity: Conservation, Customer care and Commercial activity. This is represented as the 'tripod of sustainability' (figure 1.)

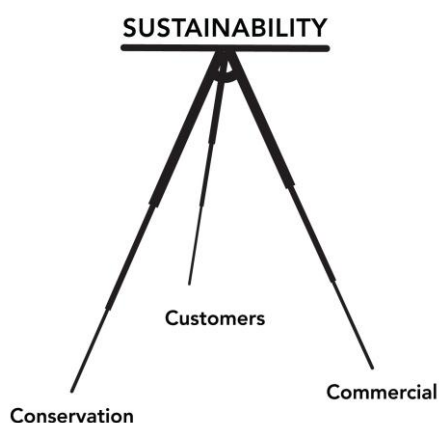


Figure 1. The Tripod of Sustainability.

- 3.5 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.
- 3.6 The three Cs represent the three main areas of activity in the Service. These are:
- 3.7 **Conservation:** the Service cares for the unique museum and archive collections, ancient monuments and historic public buildings held in trust by the Council on behalf

of the public. It provides the expertise to document, conserve, exhibit and interpret them to the high standard expected of a local authority. The collections in the Roman Baths, Fashion Museum and Bath Record Office are all Designated by Government as being of national / international importance.

- 3.8 **Customers:** the Service meets the needs of a diverse range of local, national and international audiences and deals with c.1.4 million service users in person each year. These range from daytime visitors, school groups, students, researchers and shoppers to concert-goers, corporate guests, conference delegates, restaurant diners and wedding parties. Virtual users run to a further one million plus p.a.
- 3.9 **Commercial:** the Service seeks to maximise the commercial opportunities offered by its heritage assets, in particular through admission charges, museum shops, corporate hospitality and catering commission.
- 3.10 The business model indicates that the three legs of the tripod are inter-dependent. Investment in conservation gives a better quality of experience and leads to more customers; more customers create more commercial activity; and more commercial activity leads to a greater sum available for re-investment in all three areas: conservation of the historic fabric, customer services via the visitor experience and commercial imperatives such as marketing, retail product development and shop refurbishment.
- 3.11 A major restructuring of the Service in 2005 established three core teams of equal status to deliver these three key areas of activity. Customer-facing and back-of-house operational teams work closely to ensure a seamless 'visitor experience' and a fully-integrated approach to business planning and project management. The new structure has been successful and proposals to reorganise it should be resisted. The business model has been cited as best practice nationally by the Audit Commission (2010) and recognised as an exemplar by heritage professionals elsewhere in the UK and abroad.

## 4. Performance in 2012/13.

### Profitability.

- 4.1 The Service is on target to generate a profit of £3.7 Million, equivalent to a reduction in each B&NES Council Tax bill of £49 per annum. This is £1.3 million higher than in 2005/06, when the Service introduced its fully-integrated approach to business planning.
- 4.2 The Service monitors the key drivers of the trading position in detail throughout the year. It took mitigating action mid-year when it became clear that the impacts of the Olympics and poor weather would be greater than had been planned for. The Service reduced commitments in the year by c. £469k (4% of external turnover) by:
- Reducing or deferring revenue investment, including planned and responsive building maintenance, by £243k;
  - Reducing in-year provision for costs associated with the renewal of the Assembly Rooms lease by £128k;
  - Making use of one-off savings totalling £39k achieved from a review of business rates for the Assembly Rooms and of debt finance charges for the Roman Baths;
  - Drawing down £60k from the Service's profit reserve established by the Council for the purpose in 2005 and built up in the succeeding years, subject to Cabinet agreement.
- 4.3 Accurate forecasting of both turnover and profit is crucial to allow the Service to respond to fluctuations in the trading position, both in-year and when planning for the future. The Service has a consistent record of success in this area.
- 4.4 The increase in profit over the last eight years was achieved by planned increases in prices, improved performance in secondary spend and reductions in the cost base, together with increased visitor numbers achieved as a result of investment in improving and marketing the visitor experience. Table 1 below outlines the key features of financial performance in 2012/13 and the three previous years.

<b>Table 1: Heritage Services' financial performance in the last four financial years</b>				
	2009/10 (£ million)	2010/11 (£ million)	2011/12 (£ million)	Proj.2012/13 (£ million)
Turnover (All income)	<b>12.384</b>	<b>13.335</b>	<b>14.204</b>	<b>13.583</b>
Variable costs	6.708	7.091	7.120	6.954
Fixed costs	2.475	2.737	2.756	2.894
Total costs	<b>9.183</b>	<b>9.828</b>	<b>9.876</b>	<b>9.848</b>
<b>Net Profit</b>	<b>£3.201</b>	<b>£3.507</b>	<b>£4.328</b>	<b>£3.735</b>
<b>Return on external income</b>	<b>29%</b>	<b>29%</b>	<b>33%</b>	<b>30%</b>

Roman Baths admission income	£7.35m	£8.03m	£9.04m	£8.6m
Roman Baths visitors	882,000	919,000	979,000	901,000
Fashion Museum visitors	91,000	125,000	133,000	109,000

4.5 Performance peaked in 2011/12 due to:

- Significantly increased Roman Baths visitor volumes, the highest for 25 years;
- A marginal increase in Roman Baths admissions spend per head, up 6% on 2010/11;
- Additional marketing spend to promote the Roman Baths Development to regional families and summer evening opening;
- Success in the Art Fund Museum Prize 2011, which generated much national publicity.

4.6 Profit was expected to reduce in 2012/13 following the 'spike' in 2011/12 and this was reflected in the target for the year. Roman Baths' visitor volumes in particular were expected to reduce by c. 5% to 925,000 due to the Olympics, although this would still represent the second highest total in the last 11 years.

4.7 The pressure on the profit target in 2012/13 was as a result of:

- Roman Baths' visitor volumes projected to fall 3% below target (8% below 2011/12), with a consequent effect on admissions income and secondary spend. This has been offset by a small improvement in average visitor admission spend;
- Reductions in visitor and hospitality related income and an increase in operating costs at the Assembly Rooms site. Remedial action already taken includes the withdrawal of free admission to the Fashion Museum for National Trust visitors.

4.8 Despite the challenging economic conditions and the effect on tourism of both the Olympics and extremely poor weather, the Service will achieve its profit target for 2012/13, subject only to drawing down £60k from the profit reserve created for such occasions. This level of profit will be achieved despite meeting significant increases in fixed costs, including debt charges, and continuing to invest in facilities in order to generate revenues and reduce costs in future years. This is illustrated in Table 1 above.

#### **Visitor Numbers and Admissions Income.**

4.9 Roman Baths admission numbers in 2011/12 totalled 979,000, the highest in 25 years. Visitor numbers in 2012/13 are likely to total c.901,000, the third highest total in the last 10 years. Visitor numbers at the Fashion Museum were also well above target in 2011/12 as a result of giving National Trust members free admission, and were at their highest annual level since 2003. Visitor numbers in 2012/13 are likely to fall to c.109,000, partly as a result of ending the trial to admit National Trust members free of charge. Visitor trends are illustrated at Annex 9.

4.10 Admissions revenue in 2012/13 is likely to total c. £9 Million, c. 2% below the budgeted level, with above-inflation price increases offsetting the reduction in visitor numbers. The reduction in visitor numbers in 2012/13 is reflected in both “group” and “individual” visitors at the Roman Baths site:

- As forecast, the ‘Olympic effect’ was most profound on the group market. Group visitors are likely to be 12% less in 2012/13 on 2011/12 and 2% less than budgeted. Group visitors will still generate admissions income of c. £2.2 million in the year and a total income, including net secondary spend, of c. £2.6 million p.a.
- Individual visitors are likely to be down 6% on 2011/12 and 3% down on budget.

4.11 Visitors who do not pay at the point of entry are likely to be 12,000 (24%) lower than budgeted, largely as a result of extremely low sales nationally of the Hudson Explorer Pass, a new venture following the demise of the Great British Heritage Pass.

### **Secondary Spend – Retail.**

4.12 All areas of secondary spend, mainly retail and visitor catering, have suffered due to the reduction in visitor volumes, the ongoing policy to increase admission prices at above inflation rates, and the squeeze on visitors’ propensity to spend caused by more general economic factors.

4.13 Retail sales targets were set at a challenging level for 2012/13. The aim has been to increase turnover by improving the conversion of visitors to customers and increasing the average spend per visitor. Although the high gross profit margin on sales and tight control of costs have continued to be achieved, sales overall are likely to fall 6% below 2011/12.

4.14 Retail sales per customer have been significantly higher than planned at both the Roman Baths and Fashion Museum. However, both sites have seen a significantly lower than expected number of customers as a proportion of visitors. At the Roman Baths there are constraints on the capacity of the shops, particularly during the summer season.

### **Secondary Spend – Catering.**

4.15 Income (commission) targets are agreed with the Caterer each year as part of the business planning process and, in 2012/13, include for the first time the new café and restaurant facilities at the Roman Baths Kitchen. This has significantly increased both the facilities for visitors and the catering spend overall, which is likely to total c.£700k in 2012/13, an increase overall of £133k on 2011/12.

4.16 Despite difficult economic conditions, the ‘Olympic effect’ and the poor weather, turnover at the Pump Room restaurant is likely to be within 2% of the level planned for 2012/13. However function sales, which are closely aligned with room hire sales and dependent upon the corporate market, are likely to fall 5% below target for the year. Function sales at the Assembly Rooms have been harder hit by economic conditions, with turnover likely to be 17% lower than planned.

4.17 The additional new Roman Baths Kitchen café opened in late May 2012. Summer sales in the outdoor catering area were severely affected by the poor weather. An action plan has been developed in consultation with the Caterer to ensure that the business grows to meet planned targets in future years.

#### **Room Hire.**

4.18 Income in 2012/13 from Room Hire, particularly corporate clients, has been severely affected by the economic downturn and is likely to be 12% lower than in 2011/12 and 13% below budget.

4.19 The Pump Room complex has performed relatively well, with turnover falling by only 7% against 2011/12 and 8% below target. However sales at the Assembly Rooms have closely mirrored those for function catering and are on course to fall 16% below 2011/12 sales and below budget.

#### **Investment.**

4.20 Regular detailed and accurate forecasting of all areas of business activity allows the Service to review its performance with confidence as the year progresses, and to make in-year decisions on expenditure and investment programmes in line with anticipated returns. Decisions on changes to levels of investment are subject to on-going review and challenge by the Strategic Director and the Heritage Services Advisory Panel, as well as via the Council's capital control arrangements.

4.21 The pressure on both turnover and profit targets in 2012/13 was recognised early in the financial year and the Service deferred and / or reduced revenue-funded investment totalling £243k in:

- projects to improve visitor facilities and the visitor product at the Roman Baths: £82k
- shop refit and equipment expenditure at the Assembly Rooms: £27k
- One-off reduction in market research and product development: £14k
- planned and responsive maintenance of the fabric of the attractions: £120k.

4.22 This approach is not sustainable on a medium or long term basis without directly affecting the business sustainability of the Service.

#### **Cost Base.**

4.23 Significant savings in the cost base have been made in previous years to mitigate the pressure on profits due to increased utility and staffing costs in particular. Further stringent controls on expenditure have mitigated the impact of these continuing pressures on profitability.

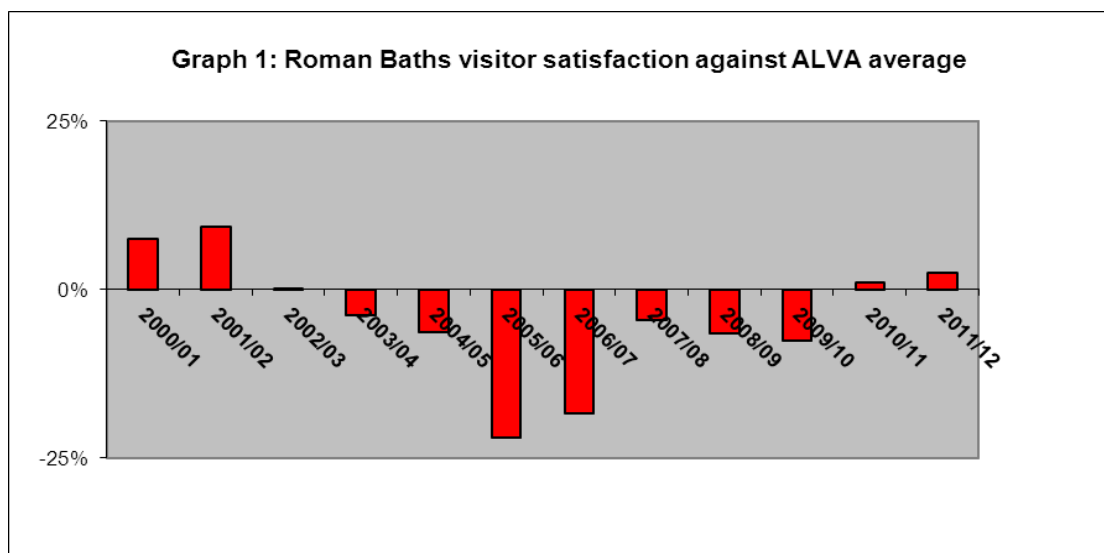
4.24 In addition to the increases in profit required via business activities, the Council's MTSRP required further additional savings totalling £135k in the 2011/12 and 2012/13, including reductions in staffing and grants to voluntary organisations.

4.25 Staff costs have increased significantly since 2007/08 due to the implementation of the Single Status agreement. Although the profit target was adjusted to reflect this, the overall profitability of the Service was adversely affected. Ongoing increases from inflation, back-pay and on-costs are now funded by the Service, adding to the pressure on the cost base in future years.

**Value for Money Benchmarking.**

4.26 Results from the ‘research year’ October 2011 to August 2012, the most recent available, show that visitor perceptions of value-for-money at the Roman Baths have significantly improved over the last two years, following a period of stability over the previous three years preceded by several years of decline.

4.27 Graph 1 below illustrates movement in the combined perceptions of both ‘value for money’ and ‘enjoyment’ over the last 12 years as measured against the ALVA average.



4.28 The majority of visitors continue to find value-for-money ‘OK’ or ‘good’ rather than ‘excellent’ although the scores for value-for-money continue to improve. This is a welcome change from the unacceptably low ratings in 2005-2007. For the first time in recent years, the Roman Baths has reached the average score for ‘Heritage Attractions’ and ‘Attractions’ generally, as shown below. Since prices have increased (even after allowing for inflation), the improvement in perceptions of value-for-money reflects the improved visitor experience achieved by investment in the visitor experience.

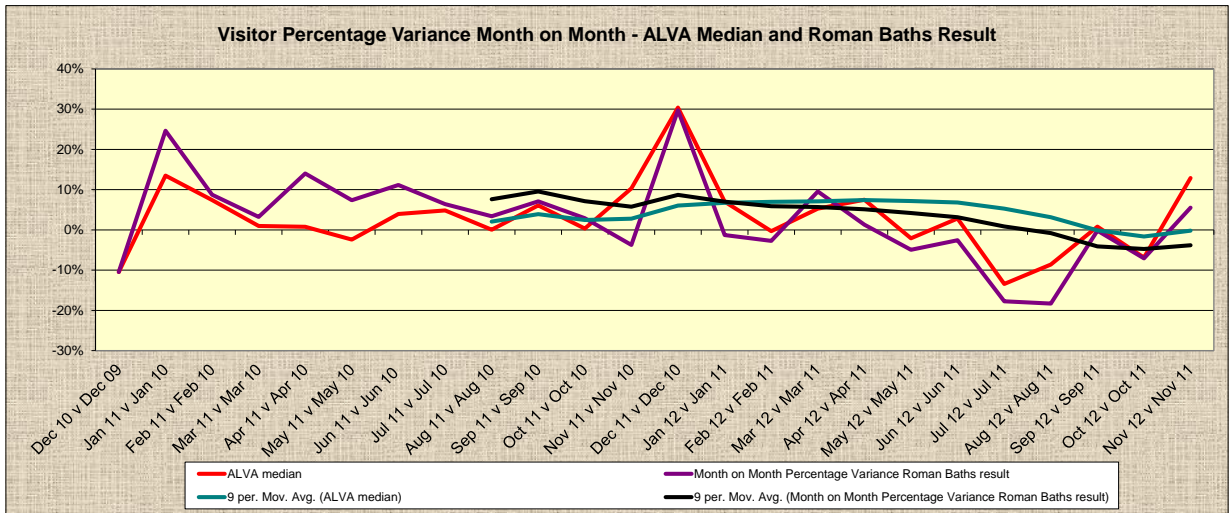
4.29 As illustrated at Annex 6, visitor perceptions of both ‘value for money’ and ‘enjoyment of visit’ improved at both the Roman Baths and the Fashion Museum in 2011/12, continuing a trend over the last three years.

**Visitor Volume Benchmarking.**

4.30 Visitor volumes, together with the associated admission and secondary spend achieved per visitor, are the key indicators of commercial performance for Heritage Services. The Service plans and monitors these performance measures in detail, and compares its performance with that of its peer group of leading visitor attractions.

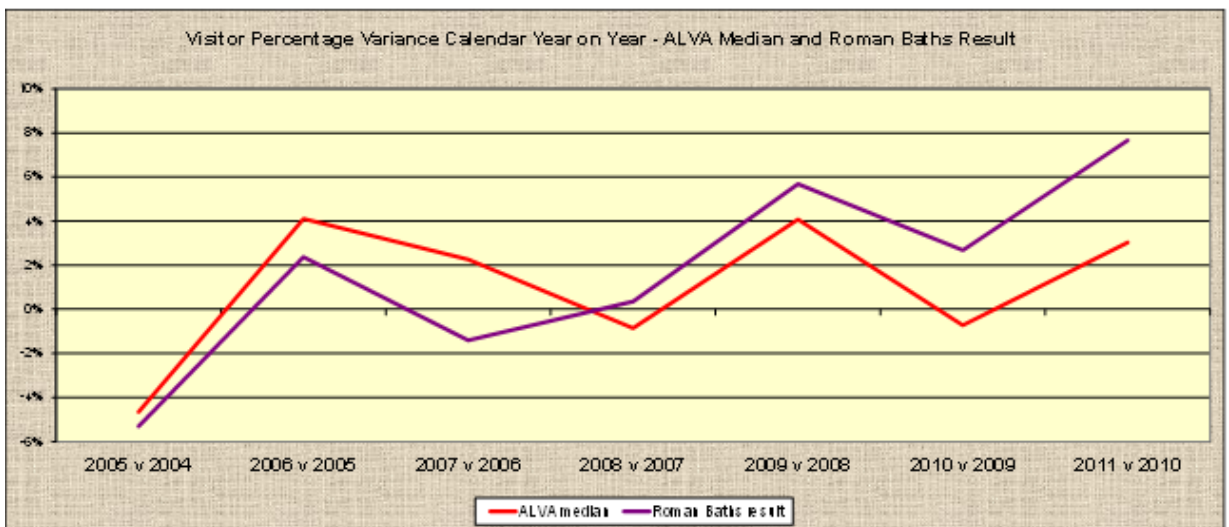
4.31 Heritage Services monitors monthly movements in visitor volumes nationally on behalf of the Association of Leading Visitor Attractions (ALVA). This provides key up-to-date market intelligence that benefits our own management and forward planning.

4.32 Graph 3a below illustrates that the Roman Baths (black line) followed a trend broadly similar to, and consistently above, the average ALVA position (green line) throughout most of 2011. However, the Roman Baths' position fell below the average ALVA position very early in the current calendar year 2012, and its downward trend has mirrored the decline in the average ALVA position in each month since.



Graph 3a: National visitor trends, monthly.

4.33 The next graph (3b) illustrates the position on an annual basis and puts the downturn in the last four quarters in context. It shows that the Roman Baths (purple line) has outperformed the ALVA median in each of the last four calendar years, reversing the previous decline. However, when the information for the final quarter of 2012 is analysed, it is likely that the performance of the Roman Baths in 2012/13 will fall below the ALVA median on a year-on-year basis for the first time since 2008, highlighting the need to continue to invest in the visitor experience.



Graph 3b: National visitor trends, annual.



## **Business and Profitability Benchmarking.**

- 4.34 Heritage Services again performed well above the median level of performance of all ALVA attractions in 2012 in all areas of visitor revenue and activity other than secondary spend (retail and catering). The Service as a whole again performed in the top quartile for:
- Average spend / transaction catering
  - Income generated per employee
  - Labour costs as a % of total income (lowest)
  - Net contribution (profit) per member of staff
  - Retail sales per square metre (floor-space)
- 4.35 The Roman Baths & Pump Room has performed in the top 25% of ALVA attractions for all five key indicators of profitability in each of the last 14 years, including 2012.
- net contribution (profit) per visit
  - net contribution as % of total income.
  - net contribution per member of staff
  - labour costs as a percentage of total income (lowest 25%)
  - direct labour cost per visit (lowest 25%)
- 4.36 The site was again in the top quartile for the following additional measures:
- Total attendance
  - Total income and admission income per visit
  - Average spend / transaction catering
  - Income per employee
  - Retail sales per square metre
- 4.37 The Roman Baths is a high-priced destination. Its average admission price is consistently in the top 25% of all attractions nationally, and the income generated per hour of visit is also amongst the highest in the country for both primary (admissions) and secondary (retail and catering) spend. This is in line with the business strategy for the site.
- 4.38 Admissions income per paying visit (average admission price) in 2012 was just outside the top 25%, indicating limited scope for an increase higher than was planned for 2014.

## 5. Business Strategy 2013-2018.

### Strategic direction:

- 5.1 The Roman Baths Development Plan 2006-2011 set out to improve visitor perceptions and satisfaction levels, and thereby continue to increase revenues and profitability. The evidence is that this investment has been successful, and further improvements are expected in future years.
- 5.2 The travel trade industry, both nationally and internationally, has become increasingly volatile over the last 12 years. The pricing strategies applied by the Service have also seen a substantial increase in admission charges and in average visitor spend to the levels illustrated at Annex 3. Several detailed scenarios are therefore modelled in detail each year to assess the likely impact of changes in price and visitor assumptions over the next five years.
- 5.3 This Plan continues the change in strategic direction begun in 2013/14, and incorporates targets for visitor numbers and income that are both challenging and sensitive to relatively small fluctuations in the tourism market. This provides sufficient profit to marginally exceed the targets required by the Council's MTSRP in each of the next 5 financial years.
- 5.4 This strategy assumes a level of Roman Baths visitors above the 900,000 threshold previously set as the maximum desirable level for an enjoyable visitor experience. Key assumptions include:
  - Roman Baths visitor numbers held between 900-950,000 p.a.;
  - Increased annual investment to maintain and market the visitor experience;
  - Increased building maintenance to deal with greater attrition caused by higher visitor numbers;
  - Increased seasonal and casual staffing levels and perimeter security arrangements to handle extra visitors;
  - A state-of-the-art visitor management system to improve the active management of both visitor and revenue flows.
- 5.5 However, it has been necessary to adapt the strategy due to the increasing difficulty of achieving the profit targets required by the MTSRP. In particular, it will be necessary to limit the additional on-going investment made to support the more ambitious visitor volume assumptions. This includes:
  - restricting building maintenance and annual revenue investment
  - deferring the introduction of improved perimeter security

5.6 This adaptation of what is already a higher risk strategy may not be sustainable in the medium to long term, as the options currently available for revenue generation will not be fully exploited over the period of this Plan. The strategy also assumes that no adverse economic, geo-political or environmental incidents will take place to inhibit visitor volumes and depress income streams.

### **Profitability.**

5.7 The 'Place' Directorate Service Plan and the Council's MTSRP currently assume that Heritage Services will increase annual profit by c.£250k (over 6%) each year. This Business Plan is therefore required to produce a cumulative increase in the target annual profit of £1.27 Million (33%) over the next five years.

5.8 This will involve the generation of income from external sources of £15 million p.a. by 2018. Overall turnover, including sales generated by the catering contractor, will total almost £20 million p.a.

5.9 The average net spend per Roman Baths visitor (including both admissions and net secondary spend) is expected to grow by a further 20% over the next five years, as illustrated at Annex 3.

5.10 As shown in Table 2 below, it will become increasingly difficult to achieve the required increase in profitability towards the end of the 5-year period of the Plan. This is due to:

- constraints on visitor volumes caused by market conditions, price sensitivities and capacity issues;
- cumulative increases in debt finance charges to finance previous and on-going capital investment;
- the need to continue to invest in the visitor product and market it to sustain visitor volumes;
- the need to sustain investment in building maintenance, repair and replace state-of-the-art interpretative media and deal with the attrition caused by increased visitor numbers;
- continued increases in utility and business rate costs well in excess of normal inflation rates.
- the likelihood of a significant economic, geo-political or environmental incident happening within the lifetime of the plan.

5.11 To mitigate these constraints, the Plan **already** assumes:

- Significant increase in secondary spend on catering at the new Roman Baths Kitchen café, which will also help to sustain visitor volumes;

- the net cost of the Victoria Art Gallery will reduce by £50k in 2013/14 with the introduction of charges for temporary exhibitions and a reduction in building maintenance. The on-going reduction of the Gallery's budget by a further £50k year-on-year required by the MTSRP is assumed within this Plan but carries a very high risk of not being achieved;
- Increased admissions and retail spend as a result of the significantly improved ability to trade over the internet via the Visitor Management System that will go live in the autumn of 2013;
- Restrictions on revenue investment and building maintenance in each of the next 5 years;
- savings required by the MTSRP in 2011/12 and 2012/13 totalling £135k will continue to be achieved;
- Corporate overhead charges will be reduced to reflect efficiencies generated in support activities, including additional support required during the implementation of the visitor management system and cash collection arrangements;
- The lease and service charge arrangements for 4 Circus will be renegotiated to eliminate the subsidy for parts of the building not used by the Council from 2014/15;
- Reductions in utility and rates costs at the Assembly Rooms as a result of the installation of new boilers and review of business rates liabilities;
- Exploring opportunities to reduce management and consultancy fees related to the building maintenance programme, in partnership with colleagues in the Council's Property Services Division

5.12 In addition to these actions, further plans will be developed over the coming year to sustain the increased levels of profitability that are required. The effect of these initiatives will be reflected in the next version of this Plan:

- a) A review of turnover and costs at the Assembly Rooms and Fashion Museum, to ensure that the site makes a positive contribution to overhead following the award of a new lease by the National Trust;
- b) A review of visitor-related secondary spend to improve the conversion of visitors to customers and spend per customer;
- c) A review of room hire and corporate hospitality, including functions catering, to improve turnover via a sustained and coordinated re-focusing of sales and marketing activity by the Service and its Caterer.

5.13 Table 2 shows the annual profit, admissions income and visitor targets for 2013-2018 and illustrates the return that this will provide to each resident and Council Tax payer over the next 5 years.

<b>Table 2: Annual profit, admission income and visitor targets.</b>						
	2012/13 Budget	2013/14 Planned	2014/15 Planned	2015/16 Planned	2016/17 Planned	2017/18 Planned
<b>Annual profit:</b>						
Profit target	£3,795m	£4,054m	£4,314m	£4,564m	£4,814m	£5,064m
Profit (shortfall) / excess v target		0	103k	71k	56k	6k
<b>Return for local people</b>						
Profit per Council Tax payer	£49.51	£52.59	£55.96	£59.20	£62.44	£65.68
Profit per B&NES resident	£21.10	£22.54	£23.98	£25.37	£26.76	£28.15
<b>Admission income &amp; prices:</b>						
Admissions income, both sites		£9.716m	£10.135m	£10.565m	£10.906m	£11.240m
Headline Roman Baths price	£12.25 (2012)	£12.75 (2013)	£13.50 (2014)	£14.00 (2015)	£14.50 (2016)	£15.00 (2017)
	£12.75 (2013)	£13.50 (2014)	£14.00 (2015)	£14.50 (2016)	£15.00 (2017)	£15.50 (2018)
<b>Visitor targets:</b>						
Roman Baths	925,000	925,000	920,000	925,000	920,000	920,000
Fashion Museum	115,000	95,000	95,000	95,000	95,000	95,000

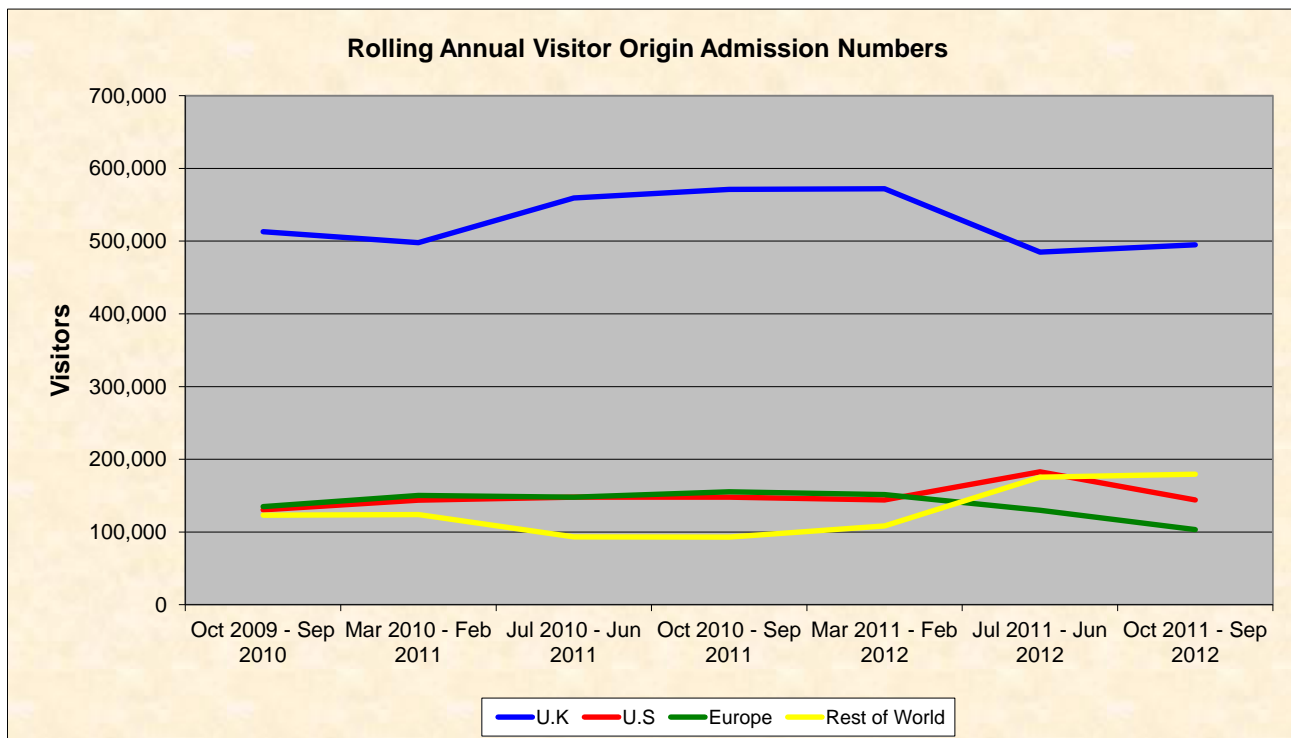
### Visitor Numbers.

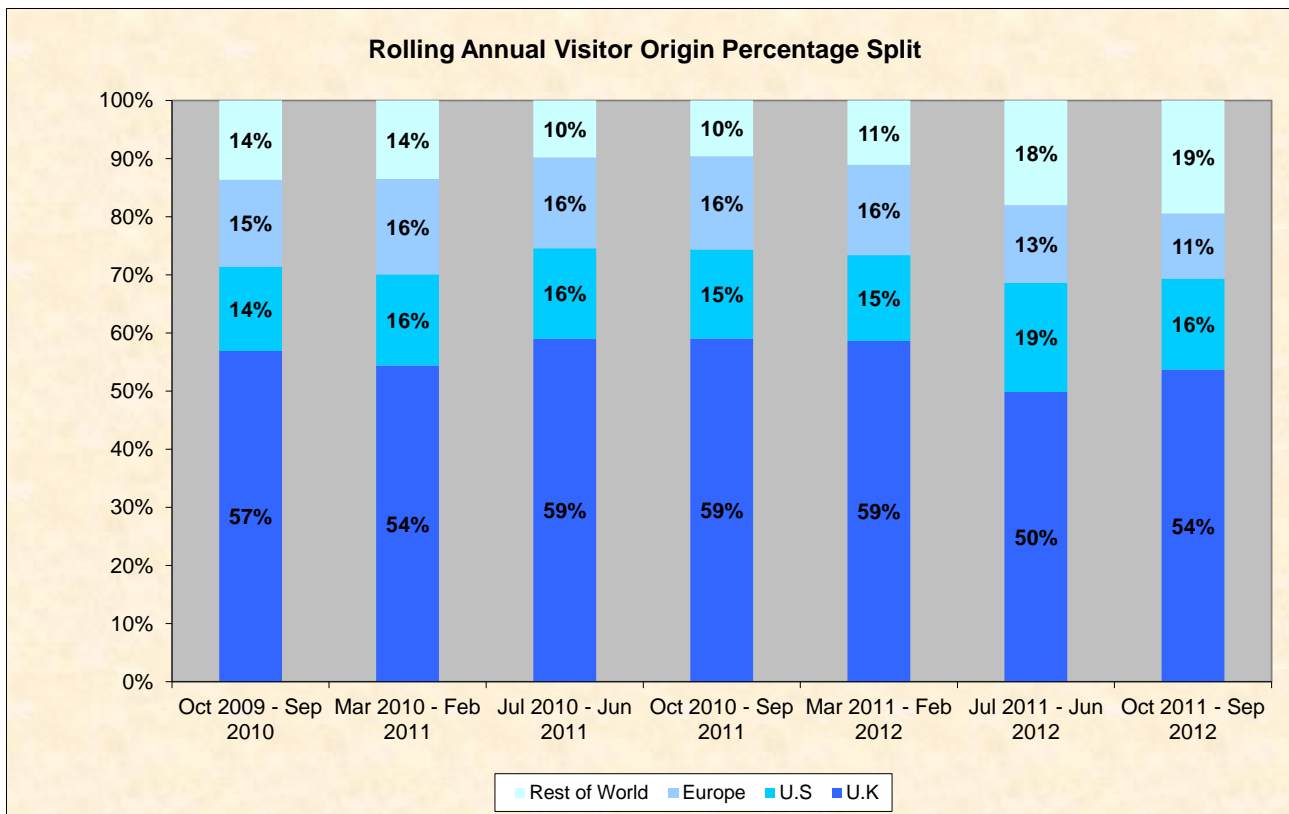
- 5.14 The Plan aims to sustain visitor numbers by providing a good quality visitor experience at a price that provides good value for money. Increasing visitor numbers beyond a tolerable level, particularly in peak months, will be counter-productive to this strategy. As noted above, the Plan seeks to sustain a step change in the optimum balance by maintaining an increased number of Roman Baths' visitors in each year (900-950,000), and adopting a pricing strategy to realise this.
- 5.15 Multiple scenarios were constructed and reviewed for both visitors and admission prices for the coming five years, taking into account likely price sensitivity, known world events and economic factors, and the expected positive effect of promotion and ticket sales over the Internet. This analysis indicates that it would be prudent to plan in 2013/14 for a level of visitors to the Roman Baths just above that achieved in 2010, which was the highest for 10 years, but below the level achieved in 2011, which was the highest for 25 years.
- 5.16 Investment in the Roman Baths' visitor experience and new café and supporting marketing activity should sustain overall visitor numbers. This sustained increase in the visitor base will be in both the higher value "individual" and group sector of the market, but no significant effect on the sale of the 'saver ticket' to the Fashion Museum is currently expected. The Visitor Management System that will be introduced for admissions in the autumn of 2013 will produce a small increase in overall sales in subsequent years, although most web sales will involve a transfer of payment method.
- 5.17 Assumptions on visitor volumes at the Fashion Museum have been adjusted to reflect the effect of the reduction in non-paying visitors due to the admission without charge of

National Trust members. The level of paying visitors will be sustained and modestly improved, partly as a result of investment in the annual programme of popular summer exhibitions. The future of this nationally-important museum in this location is dependent upon the development of income streams at the Assembly Rooms site following the award of a new the lease by the National Trust.

5.18 The importance of the domestic market is demonstrated in the following two graphs, which show that domestic visitors consistently total at least c.500,000 visitors p.a. and are currently c. 55% of our market. This is a continued shift from the market distribution prior to the recent difficult economic conditions, and reflects the impact of the ‘stay-cation’ effect. The visitor patterns for 2012 were so distorted by bad summer weather and the Olympic effect that they will not be repeated in 2013. The wet weather in 2012 will influence some UK residents to take holidays abroad in 2013, although the worldwide coverage of the Olympics will encourage visits to the UK by overseas visitors. We therefore expect the proportion of overseas visitors to increase in 2013 over 2012.

**Graphs 4 and 5: Visitor origins**





5.19 This Plan assumes that the worldwide tourism economy will emerge from recession in a different form from that of pre-recession markets, and that quality of visit and value for money will remain important factors in visitors’ decision-making. The substantial number of northern European visitors will continue to reduce as the Pound strengthens against the Euro. The long-haul market will continue to recover in line with the worldwide economy, being dependent on the value of the US Dollar in particular, although the current strength of the Pound will influence the rate of recovery of this sector. Long haul visitors from countries such as Australia and New Zealand will be relatively unaffected by the recession, as evidenced by results in the last two years.

5.20 The Service will continue to build on opportunities in the Far East, particularly in mainland China. In 2011, numbers of Mandarin speaking visitors to the Roman Baths exceeded 50,000 for the first time. These visitors travel mainly in the winter and have therefore helped the Roman Baths to achieve visitor numbers of more than 900,000 in the last three years without undue crowding. Japanese visitors declined as a result of recession in their country followed by natural disaster, but are now recovering, although they are not expected to return to peak levels in the near future.

5.21 The continued achievement of visitor and revenue targets will depend on adequate provision being made for visitor needs, including coach drop-off points and car parking facilities. It will also depend on Bath being marketed effectively against stiff competition from other national and international destinations.

**Admission Charges Pricing Strategy.**

5.22 Admissions income generated by the Roman Baths represents over 70% of Heritage Services’ income and is the key driver of the financial performance of the Service. The

admission pricing policy for both the Roman Baths and Fashion Museum aims to continue to increase the income generated each year by:

- Keeping the Roman Baths headline price per visitor in the top 25% of all admission charges for major attractions nationally;
- Setting headline prices at a level perceived as acceptable “value for money” in the current recession;
- Giving all visitors the same inclusive experience for their money;
- Protecting the headline price and avoiding excessive discounts;
- Offering distance purchase at the same price as on-site.

5.23 Improvements to the visitor experience via the Roman Baths Development Plan and on-going investment should allow potential customer resistance to be managed successfully, although the price increase in 2012 was subject to a further ‘pause’ to reflect a pause in this sustained period of investment.

5.24 The headline Roman Baths and “saver” (combined) admission prices will be increased beyond the level previously assumed for 2014 in order to ensure that the average admission price remains in the top 25% for all attractions nationally. This increase has been spread across all other price points in a way that should minimise price resistance.

5.25 Premium summer pricing in the peak months of July and August will continue, and will be subject to continual evaluation, in particular because of the potential effect on customer price resistance and propensity to spend on secondary activities (retail and catering). This seasonal pricing also gives a useful indication of price sensitivity in advance of the annual price increase.

5.26 The discounting structure has been reviewed in detail, and no significant changes are proposed. The average level of discount provided per Roman Baths visitor has reduced from 24.7% to 23.6% over the last 3 years, contributing to the increase in admissions revenue.

5.27 The Fashion Museum headline price was increased in 2011 and again in 2012 following three years held at the same price, and this Plan provides for an increase each year until 2018. Efforts will continue to concentrate on improving the visitor experience and this will include investment in popular exhibitions.

5.28 The procurement of an integrated visitor management and till system in 2013/14 will improve the efficiency of both front-of-house and back office systems, will help us to manage timed group entry and will enable web-based sales to be promoted much more effectively. Web sales are likely to form an increasingly important component of overall sales over the next five years.

### **Secondary Income Streams – Retail.**

5.29 The ability to improve the conversion rate of visitors to retail customers is severely constrained by the physical capacity of the shops at the Roman Baths, particularly in high season. In addition, visitor propensity to spend on retail items is affected by the drive to increase income from primary (admission) spend. Sales are currently planned to maintain



pace with inflation, increasing to a modest degree once web sales can be launched using the Visitor Management System.

- 5.30 Retail sales per square metre at the Roman Baths site are consistently amongst the highest of all ALVA attractions. The shops on the site were increased in size as part of the recent Roman Baths Development, but further expansion is not physically possible. Further improvement in sales will be dependent upon an improvement in the conversion of visitors to customers and an increase in the average spend per customer, and will be the subject of a review over the coming year for all sites. An improvement in conversion rate will be difficult in the peak summer months due to physical constraints and so efforts will be targeted at non peak months.
- 5.31 Performance by the shop at the Victoria Art Gallery will be adversely affected by the introduction of charging for exhibitions, which will reduce the propensity to spend on retail items, and also the size of the retail area. This effect, together with the likely impact on other sources of income (including donations) has been provided for within the budget proposed for 2013/14.
- 5.32 Retail margins are under continued pressure from increases in carriage and haulage costs and in the price of raw materials. However, judicious purchasing decisions will continue to be taken to maintain gross margins at the previously high level of 46%-53% of turnover, although these will be under pressure if there are further increases in the rate of inflation.
- 5.33 Web-based ticket sales went on-line in January 2011 but plans for an online shop were dropped due to complications caused by VAT on international sales using the Council's provider. This function has therefore been included in the procurement exercise for the new Roman Baths visitor management system, and the retail module is likely to be installed during 2014/15.

#### **Secondary Income Streams – Catering.**

- 5.34 The contract for catering at the Pump Room and Assembly Rooms, awarded in February 2010, has enabled the Service to achieve the highest ever net income (commission) from catering activity, both functions and café / restaurant, at the Roman Baths & Pump Room and Assembly Rooms. Targets for future years continue to reflect the improved concession terms achieved through the tendering exercise due to the increased size of the contract and its importance to the Caterer, with the inclusion of the new opportunity provided by the Roman Baths Kitchen.
- 5.35 Targets for the next five years are agreed in detail with the Caterer and are based on a prudent assessment of likely returns under the contract. The increase in revenues as a result of the opening of the Roman Baths Kitchen café and restaurant has been the subject of a detailed review and action plan agreed with the Caterer, and the anticipated turnover and commission has been reflected in this Plan.

#### **Secondary Income Streams – Room Hire.**

- 5.36 Room Hire income, like the functions catering business, has been under severe pressure due to the impact of the economic downturn and consequent pressure on prices. The

effects of the recession on corporate customers, for example the move of the MOD from Bath to Abbey Wood, continue to have an effect on sales.

- 5.37 Targets in this Plan already assume that the number of events will be sustained and modestly increased following the injection of additional marketing & sales investment from 13/14, but that greater flexibility on price will be required to retain and grow this level of business. As a result, the base level of turnover from Room Hire is not expected to grow significantly during the period of this Plan.
- 5.38 A review of corporate hospitality, including both function catering and room hire sales, will be carried out over the coming year. The review will aim to further improve sales via increased efficiency and joint marketing. The effects of the review will be reflected in future Plans.

#### **Cost Base.**

- 5.39 The cost base was increased in 2012/13 as a result of the plan to sustain a significant increase in visitor volumes and admissions income at the Roman Baths. Increased investment was planned in visitor management, the visitor product and marketing totalling c. £240k p.a. Such costs were intended to “flex” from year to year, in line with visitor volumes, and to reduce if required.
- 5.40 The assumptions within this Plan will not sustain the full level of additional investment, which has been reduced by £80k p.a. as a result and no longer includes additional support for visitor perimeter management and increased building maintenance to counter attrition at the Roman Baths site.
- 5.41 The cost base has been subject to a zero based review, as in previous years. As a result, further steps have been taken to significantly reduce the cost base including those outlined in Section 5 above.
- 5.42 The Service will continue to absorb within its profit target all cost increases, including the effects of inflation. However, significant increases are expected in utility costs, particularly energy, totalling £72k p.a. (36%) by 2018. This increase is governed by corporately negotiated contracts that aim to minimise the costs to the Council generally. During the same period business rates, including those for the Roman Baths Kitchen, are likely to increase to c. £500k p.a. overall, net of reductions achieved via business rate reviews.
- 5.43 The Service is also required to meet annual financing charges to support investment through the first (completed) and second phases of the Roman Baths Development Plan, including the Beau Street coin hoard; Temple Precinct; East Baths and Visitor Management System. The Service must also meet financing charges for investment in infrastructure projects at the Roman Baths site and capitalised dilapidation costs for the Assembly Rooms, together with the costs of refurbishing the Roman Baths Kitchen. These debt finance charges will total £630k by 2018, and do not include similar costs associated with the proposed Roman Baths Learning Centre and Pump Room Hospitality Suite.

- 5.44 This level of finance charges represents a significant increase in the fixed cost base, and will only be restricted to this level by:
- Financing all future costs of acquiring and displaying the Beau Street Hoard from grants or public appeal, other than the £50k capital contribution already made by the Council;
  - Financing £100k of the capital cost of the Infrastructure capital project in 2012/13 from a grant already secured from the Wolfson Foundation.
- 5.45 The base level of staff costs will also increase beyond the levels previously planned, due mainly to the incremental growth in costs caused by Single Status. The potential impact of an increase in employers' pension contributions in future years has not been provided for as this is as yet unknown.
- 5.46 The Service has also made a series of reductions in its cost base totalling £135k p.a. over two years (2011-13) in order to contribute to the Council's MTSRP. These savings include reductions in staffing costs, the introduction of volunteer guides at the Victoria Art Gallery, and reduced building maintenance. All of these savings have been made in a way that minimises the impact on front-of-house services.

#### **Key Uncertainties and Sensitivities.**

- 5.47 Visitor volumes and propensity to spend: The economic outlook in the UK is highly uncertain, and the strength of the Pound is likely to affect inbound tourism from both the Eurozone (a market that has grown recently) and North America.
- 5.48 Inflation: This Plan is sensitive to changes in assumptions on major areas of expenditure, principally employee costs and building costs (business rates; maintenance; utilities.) Inflation in these areas is extremely difficult to predict, and, other than employee costs, has been subject to severe fluctuations in the last three years. The Plan provides for a year-on-year increase in non-staff costs in line with the current inflation indices. Utility and business rates increases are assumed at higher levels, in accordance with current expert advice. Pay inflation has also been assumed at a low level beyond 2013.
- 5.49 Admission price increases, the principal income stream for the Service, can be altered more slowly and are subject to price resistance and other market forces. As a result they may not be able to absorb the impact of cost inflation above that already anticipated.
- 5.50 Interest rates: debt charges on capital schemes are assumed at the current corporate rate of 4-5%. Even at this rate debt charges will increase to c. £630k p.a. by 2018 for the projects assumed in this Plan.
- 5.51 VAT: the Plan assumes that the Council will continue to enjoy the ability to exempt admission charges from VAT, which is currently under review by the EU.
- 5.52 Assembly Rooms: the Plan assumes that most dilapidation costs will be funded from trading activity (revenue), with larger items treated as capital expenditure. The financial model supporting this Plan provides for annual dilapidation costs as well as

debt charges associated with capitalised costs, together with the annual rent payable to the National Trust.

## **Reserves.**

- 5.53 The Heritage Services Profit Reserve was established as part of the Council's decision to retain the Service as an in-house business unit, and is specifically included within the Council's budget management scheme. The Reserve consists of profits generated by the Service in excess of the annual profit target, and can be reduced by any shortfalls in annual targets, as is likely to be the case in 2012/13. This reserve also forms part of the Council's provision for the financial risk associated with its commercial activities.
- 5.54 In line with best business practice, the Service aims to retain adequate funds in the Profit Reserve to meet both expected and unforeseen fluctuations in levels of visitors and revenues. However, the level and value of risk have increased due both to the success of the business and the higher assumptions on visitor volumes and revenues contained within this Plan.
- 5.55 Reviews will be undertaken over the coming year to provide greater resilience by boosting secondary spend. However, on-going economic and geo-political uncertainties, including those affecting the Eurozone, further increase the level of uncertainty and risk that are inherent in our assumptions.
- 5.56 The performance of the Service in two of the last three financial years has exceeded expectations due to an even greater increase in visitor volumes than had been expected. It would therefore be prudent to provide for a risk not only of under-performance but also the (smaller) risk of performance in excess even of the more optimistic and challenging assumptions included in this Plan.
- 5.57 The level of risk provision included within the Council's reserves via the Robustness of Estimates statement for the Service Delivery Directorate will therefore be increased to total £500k net (c. 4% of turnover), reflecting a spread of risk:
- A "high" risk of under-performance of c.6% of turnover: £750k
  - A "medium" risk of over-performance of c.2% of turnover: £250k
- 5.58 The provision of c.£146k likely to remain in the Service Profit Reserve at the end of March 2013 increases the total risk provision by the Authority to an appropriate level of c. £650k, or 5% of turnover.
- 5.59 Table 3 shows the level of profit the Service is expected to generate in 2013-2018, and the surplus or shortfall against the target in each year. The table assumes that increases or shortfalls in profit in each year are either added to or drawn down from the Reserve as required, as specified in the Council's budget management scheme.
- 5.60 This should produce a gradual increase in the balance available to mitigate the escalating level of risk inherent in the current strategy, which requires year on year growth in both turnover and profit. The amounts involved are marginal in terms of the turnover and profit generated by the Service and cannot be guaranteed.

<b>Table 3: Proposed use of profit reserve.</b>					
	2013/14	2014/15	2015/16	2016/17	2017/18
<b>Annual profit:</b>					
▪ Profit target	£4,054m	£4,314m	£4,564m	£4,814m	£5,064m
▪ Likely profit generated	£4,054m	£4,417m	£4,635m	£4,869m	£5,069m
▪ Excess / (shortfall)		£103k	£71k	£56k	£6k
<b>Reserves:</b>					
▪ Balance b/f	£146k	£146k	£249k	£320k	£376k
▪ Added / (drawn down)		£103k	£71k	£56k	£6k
▪ Balance c/f	£146k	£249k	£320k	£376k	£383k

## 6. Investment and Development 2013-2018.

### Investment Strategy.

- 6.1 The Council has a statutory duty of care for the nationally important monuments and heritage assets in its care, to ensure their survival for future generations to enjoy. Such investment could be part of broader investment in the business of running a major visitor attraction. However it can be distinct from it and is, nonetheless, a legal obligation. It is unlikely that this could be funded from significant new borrowing.
- 6.2 In September 2004 the Council Executive agreed that an increase in investment in the Roman Baths and Pump Room was overdue and that on-going investment in the visitor experience would be essential in today's competitive visitor attractions sector. The Executive further agreed that the Service should borrow to finance the major capital investment necessary to improve and sustain visitor perceptions of value for money and justify the planned price increases upon which income assumptions relied.
- 6.3 The first five-year investment programme, the Roman Baths Development Plan, sustained income streams, won a string of awards for the Council and led to the busiest year for 25 years in 2011. The recent capital investment programme has also included the new Roman Baths Kitchen café development opposite the Baths' main entrance in Abbey Church Yard.
- 6.4 The next five-year phase of capital investment has been set out in the last two updates of the rolling five-year business plan and the proposals within this Plan have been reviewed and supported by both the Heritage Advisory Panel and Capital Strategy Group.
- 6.5 The successful and sustainable on-going development of the Service is dependent upon investment in four key areas:

### KEY AREA 1:

- 6.6 **Roman Baths Development Plan 2:** on-going investment to maintain, refresh and update the 'visitor offer' and extend step-free access throughout the museum. This includes the following developments:
  - a) Beau Street Hoard: acquisition, conservation and display of this nationally important find including new step-free public access arrangements to it, financed largely from Heritage Lottery Fund grant;
  - b) Temple Precinct: new step-free walkway across the site and new interpretation to the quality standard achieved in the 2006-2011 development;
  - c) East Baths: new interpretation to the quality standard achieved in the 2006-2011 development;

- d) Visitor management system: a system to manage all aspects of the visit and all income streams, including admissions and retail spend. This expenditure now has to be capitalised to meet accounting regulations introduced in the last year.

#### **KEY AREA 2:**

- 6.7 **Roman Baths Learning Centre**: this new development in Swallow Street and York Street, with a dramatic under-street link through into the Roman Baths, will be the subject of an application to the Heritage Lottery Fund, with whom interest has already been registered. The Learning Centre will provide state-of-the-art educational facilities, sustaining the school group market and income stream in the short term but, in the longer term, building the audiences of tomorrow. The centre will be available for community group use and will be a place where the 'City of Bath' World Heritage Site can be studied.

#### **KEY AREA 3:**

- 6.8 **Pump Room Hospitality Suite**: this will take the form of a lightweight single storey infill in a void at first floor level over the existing kitchens. It will re-open blocked-up windows that survive from the Victorian spa that once stood in that location to reveal spectacular views across the Great Bath to Bath Abbey and across the King's Bath to the Pump Room. It will extend and complement the existing range of city-centre facilities. A separate business case is in preparation for this.

#### **KEY AREA 4:**

##### **6.9 Investment in the Infrastructure:**

- a) Roman Baths: continuation of the on-going annual programme of works, including monument conservation and the replacement and renewal of major items of plant and equipment. The amount invested and the amortisation period depends upon the works required each year.
- b) Assembly Rooms dilapidations: The Council is required to finance a programme of dilapidations at the Assembly Rooms, at least part of which can be treated as capital expenditure. These works will be phased over the first ten years of the new lease for the site.

- 6.10 This Investment Strategy is augmented by a programme of further cost base reductions to divert resources into investment. It concentrates on investment in Key Area 1 above, and provides for specific capital investment in Key Area 4.
- 6.11 Investment in Key Area 1 – the “visitor offer” – will be reinforced by continuing the programme of on-going revenue investment in the interpretation, commercial development and marketing, building maintenance and monument conservation for all sites.
- 6.12 As shown in Section 4 above, such investment has improved visitor satisfaction, particularly perceptions of value for money, and has supported admission price increases and the increases in profit they have realised. However, benchmarking with other visitor

attractions (also at Section 4 above) demonstrates that the visitor trend for the Roman Baths has begun to fall behind that of other attractions for the first time since 2008. This highlights the need to complete the refurbishment and invest in further development of the site.

- 6.13 This programme aligns building maintenance closely with other on-going investment in order to both maximise efficiency and ensure the seamless delivery of improvements for the visitor. This holistic approach to investment has proven of significant benefit following the integration of building maintenance within the base budget for the Service, and allows the profit generated to be assessed on a “full cost” basis.
- 6.14 Table 4 below illustrates the key investment streams proposed for the next 5 years. The projects included in Key Areas 1 and 4 have been reviewed by the Council’s Capital Strategy Group, and included provisionally within the Council’s draft capital programme. Individual business cases and project plans will be provided to the Capital Strategy Group in order that these projects can be considered for final approval and full inclusion in the capital programme.
- 6.15 The financing of the Roman Baths Learning Centre and Pump Room Hospitality Suite will rely upon external funding of c. £2.9 Million being achieved, together with the generation of sufficient additional revenues to meet the capital finance charges and operating costs that they incur. On current assumptions both projects cannot be operated at a nil subsidy, although the operating costs of the Learning Centre will reduce significantly after the first year. Further work will be undertaken during 2013 to investigate the viability of the Hospitality Suite and prepare Lottery grant applications, pending further review by the Capital Strategy Group and Heritage Services Advisory Panel during 2013/14.
- 6.16 Raising external funds to finance the above projects will be facilitated by the establishment of a ‘Roman Baths Foundation’, a fundraising development trust to support conservation and education in the Roman Baths. This vehicle has been used to great effect by Bristol City Council as a vehicle for funding its new M-Shed museum development.

**Table 4: Proposed investment: 2013 - 2018**

	2013/14 Planned £000	2014/15 Planned £000	2015/16 Planned £000	2016/17 Planned £000	2017/18 Planned £000	Total £000
<b>Revenue investment:</b>						
Investment programme (gross of grant income)	515	530	535	540	555	2,675
Planned building maintenance	408	421	435	448	463	2,175
Responsive building maintenance	236	244	251	260	268	1,259
<b>Total</b>	<b>1,159</b>	<b>1,195</b>	<b>1,221</b>	<b>1,248</b>	<b>1,286</b>	<b>6,109</b>



<b>Capital investment (gross)</b>						
<b>Key Area 1. Roman Baths Development</b>						
- Beau Street Hoard	270	153				423
- Temple Precinct	750					750
- East Baths			500	500		1,000
- Visitor Management System – phases 1 & 2	100	100				200
<b>Key Area 2. Roman Baths Learning Centre</b>				500	2,700	3,200
<b>Key Area 3. Pump Room Hospitality Suite</b>				1,600		1,600
<b>Key Area 4. Infrastructure</b>						
- Roman Baths	200	100	100	200	100	700
- Assembly Rooms dilapidations	120					
<b>Total:</b>	<b>1,440</b>	<b>353</b>	<b>600</b>	<b>2,800</b>	<b>2,800</b>	<b>7,993</b>
<b>Capital investment funded by:</b>						
Service-supported borrowing – Roman Baths Development & infrastructure	1,170	200	600	700	100	3,760
Service supported borrowing – Learning Centre & Hospitality Suite				1,750	150	1,900
Grants and public appeals	270	153		350	2,550	3,323
<b>Total</b>	<b>1,440</b>	<b>353</b>	<b>600</b>	<b>2,800</b>	<b>2,800</b>	<b>7,993</b>

6.17 Capital works will be funded via a mixture of external borrowing, contributions from grant-giving bodies and public appeals, as illustrated at Table 5 above. Each project will be subject to a detailed business case that allows for the cost of borrowing and for the VAT implications.

6.18 The Service will absorb and finance both the direct costs of investment and the repayments of external loans required to fund the major capital project, although these costs form an increasing level of fixed cost that will total £630k in 2017/18. This process will be subject to on-going challenge and review from the Heritage Services Advisory Panel and the Capital Strategy Group (CSG).

#### **The Assembly Rooms and Fashion Museum.**

6.19 The Service has reviewed its use of this building in the light of the expiry of the lease in March 2012. The site currently meets the direct costs of its operation, including building maintenance, and provides a significant contribution to managerial and corporate overhead, as illustrated in Table 5 below. However, the impact of dilapidations and rental charges required under the new lease will remove the contribution to overhead over the

coming years. A review will be undertaken over the next year to formulate an action plan that will ensure that the site makes a positive contribution in each year.

<b>Table 5: Assembly Rooms and Fashion Museum.</b>					
	2013/14 Planned	2014/15 Planned	2015/16 Planned	2016/17 Planned	2017/18 Planned
Turnover	£1,067k	£1,110k	£1,146k	£1,178k	£1,205k
Less: Operating costs	£829k	£851k	£876k	£901k	£921k
Less: On-going investment and building maintenance, including dilapidations	£210k	£222k	£328k	£314k	£289k
<b>Contribution to overhead / (Net deficit)</b>	<b>£28k</b>	<b>£37k</b>	<b>(£58k)</b>	<b>(£37k)</b>	<b>(£5k)</b>
Managerial and corporate overhead	£268k	£274k	£280k	£285k	£291k
<b>Net Profit / (Deficit)</b>	<b>(£240k)</b>	<b>(£237k)</b>	<b>(£338k)</b>	<b>(£322k)</b>	<b>(£296k)</b>

- 6.20 The lease expired in March 2012 and negotiations are almost completed to draw up a mutually acceptable lease following a formal Decision on this issue.
- 6.21 Subject to that Decision, this Plan contains the working assumption that the building will continue to be operated after 2012 under the terms of the new, draft lease. This involves the introduction of an annual rent based on a percentage of the turnover of the site, and a programme of dilapidation works over the next nine years that will be partially capitalised, with the majority of projects treated as planned maintenance. The debt charges to finance capitalised costs and the on-going increase in planned maintenance are reflected in the table above.

#### **VAT Impacts.**

- 6.22 The effect of Heritage Services' investment on the corporate VAT position has again been fully reviewed. This investment, together with expenditure in other areas across the Council, will put pressure on the corporate VAT position. The partial exemption position is itself subject to uncertainty, but all of the scenarios modelled demonstrate that further expenditure on exempt areas of activity, including the Roman Baths and Assembly Rooms sites, would be highly likely to cause the Authority's limit to be breached, with a cost of £1 Million+ in any year that this occurs.
- 6.23 The effect of Heritage Services' investment and operating costs on the corporate VAT position was fully reviewed as part of the Heritage Services Business Plan 2012-2017. Advice was also obtained from taxation experts on reducing the VAT impact of the development of the Roman Baths Learning Centre. This advice could reduce the risk of this project putting additional pressure upon the partial exemption limit.
- 6.24 On current estimates the proposed investments by Heritage Services in 2013/14 and 2014/15 do not create a serious risk of breaching the partial exemption limits. However the Council will need to take care especially if taxable spending is less than estimated or if

there is additional spending in relation to museums and 'exempt' property sales and lettings.

- 6.25 The position will alter in 2015/16, as the Keynsham and Bath Transport Package projects will have ended. In the absence of any new schemes, the Council's overall partial exemption limit will fall. The estimates for these years are subject to significant revisions, especially if new capital projects are approved. On current data however the Council seems likely to breach the corporate partial exemption limit in 15/16 and in the two subsequent financial years, even with a small Heritage Services capital programme.
- 6.26 The VAT dilemma is subject to continuous modelling and review, but is likely to continue into the foreseeable future. The VAT implications of all new proposals therefore need to be reviewed at an early stage. Heritage Services will continue to liaise with the Corporate Finance Team and the S151 Officer on the partial exemption outlook and on how the investment programme may proceed without significantly adding to the risk of breaching the limit.

### **New Developments.**

- 6.27 This Plan provides for a second phase of Roman Baths Development as well as investment in necessary infrastructure works and in the acquisition of the Beau Street Hoard, together with associated debt financing costs. Any development work above and beyond these items will generate costs beyond the level provided within this Plan.
- 6.28 Assumptions on secondary spend also take into account the recent development of additional revenue sources, with little room for further expansion. Any significant further growth, including the expansion of retail and catering facilities, would therefore require new developments to be planned and implemented in order to yield additional revenues.

### **Environmental Plan.**

- 6.29 During the next five years the Service will continue to explore means of reducing its carbon footprint. Work will build on measures taken in recent years to minimise energy consumption, and will bring forward proposals for Council funding under its 'invest to sustain' and 'invest to avoid' schemes to explore the feasibility of harnessing solar energy and capturing heat from kitchen vents. The Service will work with the Council's consultants to capture yet more energy from the thermal springs, ensuring that the maximum possible energy is retained for use on site.

## 7. Marketing Strategy.

7.1 2013/14 is year two of a five year plan to maximise the benefit of the new offer at the Roman Baths while it is still a fresh experience, to ensure that the revived attraction receives as much coverage as it would have had if it had been closed and re-opened as a brand new facility. Marketing investment is therefore planned to fluctuate on a two year cycle until 2016/17 and then to stabilise in 2018/19 at a level necessary to sustain the offer.

### **Pricing policy.**

7.2 The policy is to pitch the headline price at each attraction to a level perceived as value for money and to avoid excessive discounting. This approach is appropriate to a stand-alone public-sector business, and is particularly effective in a recession. It does not require the extensive promotional partnerships and sophisticated reporting and admissions systems that are needed by those who set an exceptionally high headline price and then discount heavily.

7.3 The pricing objectives for 2013-14 are:

- to pitch the headline price as perceived acceptable value for money in the current recession;
- to give all visitors the same inclusive experience for their money;
- to protect the headline price and avoid excessive discounts; and
- to offer distance purchase at the same price as on-site, using fast-track entry as the main incentive.

7.4 Like all attractions, the Roman Baths would benefit from more advance purchases. However, the site is relatively weather-proof and most of our visitors make their decision to come when they first plan their visit to Bath, so we do not want to have to offer discounts for pre-purchase. We also have capacity issues in the summer, so we believe that fast-track entry is incentive enough and that we should instead protect the headline price and avoid large discounts.

7.5 Unfortunately the current on-line ticket sales module, delivered through the Council's e-sales provider, BucksNet, is being switched off, and therefore from March 2013 the Service will be unable to provide online ticket sales. However, during 2013 we will re-introduce integrated online ticket sales through our new Visitor Management System, which will go live before the end of 2013. We are also fast-tracking the web module for the System, the objective being to have an adequate on-line sales system from summer 2013, in advance of introduction of the full Visitor Management System. The new web sales system will have more potential than the Council's previous system and is forecast to recover to higher sales levels in 2014-15.

## **Market penetration:**

- 7.6 The Service will continue to maximise the opportunities for encouraging visits by our core markets. The buoyant domestic market has given us new opportunities for effective regional campaigns. The 'summer evening' campaign in summer 2012, directed towards independent adults, many of whom will stay overnight, was again the most memorable campaign of 2012 and will be repeated in 2013 to encourage people to come at a time during our peak season when there is capacity at the Roman Baths.
- 7.7 Following extensive investment to make our sites more accessible in recent years, Heritage Services will work with Visit Britain to front an international campaign to promote Bath as an accessible tourist destination. This will involve an audit of our accessibility at the Roman Baths, Fashion Museum and Victoria Art Gallery, and staff training to address any weaknesses. A moderate amount of expenditure by Heritage Services will be matched by Visit Britain's national investment.
- 7.8 The Roman Baths Development has been particularly well received among visitors and critics alike, giving us enviable word of mouth recommendation. This can be encouraged by harnessing the power of social media and by making advocates of local people in particular. The Roman Baths worked with Visit Bath in autumn 2012 on a mixed online and print regional media campaign to promote the Roman Baths regionally as a family-friendly site. The Roman Baths spring campaign 2013 will feature the strap line "rub shoulders with history" and will reach regional families who are free to visit at Easter.
- 7.9 The Spas Ancient and Modern package continues to thrive and a small amount of targeted advertising is undertaken in co-operation with Thermae Bath Spa, as in previous years. Opportunities to establish similar packages with other organisations will be actively pursued.
- 7.10 We will develop other "close encounter" experiences that offer enhanced visits at a premium price, some of them in co-operation with other agencies, or, for example, including a meal in the Roman Baths Kitchen. These will be communicated through our websites. The most successful will be sold on-line from 2014.
- 7.11 The power of social media is constantly growing and new initiatives will increase traffic across all of our sites. The Service is active on Twitter and Facebook and in sending e-newsletters to interested customers. We have discontinued the Digital Visitor feedback forms that were used on our websites for several years and will instead encourage more use of Trip Advisor and similar on-line customer feedback mechanisms. We will actively monitor and manage these for misleading content and will respond where appropriate.
- 7.12 The Service has received further awards in 2012-13, most recently Gold Award winner in the Large Visitor Attraction of the Year South West Tourism Excellence Awards. The Service will identify further opportunities in future years, and make the most of these through the use of endorsements and social media campaigns.
- 7.13 E-newsletters continue to be sent out 21,000 subscribers every eight weeks. These are an invaluable way of promoting a wide range of special activities and events organised by the

Service every year. The most popular e-newsletter is especially for Residents Discovery Card holders, keeping them up to date with holiday activities, special offers and events for local people. The last of these newsletters will be moved to a new platform in 2013-14 to make them more appealing and flexible.

- 7.14 The majority of visitors now look on the Roman Baths website before coming and effective websites are essential to sales and good after-sales service. We will move the websites to another new platform to make them easier to manage, because the current software will only be supported until the end of 2013. In order to rationalise the number of platforms used by the Council and to achieve efficiency savings, we intend, if at all possible, to move to the Drupal system that is used for the main Council website.
- 7.15 We have delayed the introduction of an on-line retail shop until the effective introduction of e-tickets. The introduction of a new Visitor Management System in 2013 will enable us to introduce an on-line shop in 2014.
- 7.16 In addition to these campaigns and new media presence, the Service continues to produce leaflets distributed to hotels and guest houses and tourism outlets across the region. It also advertises in carefully selected tourism publications. Leaflets are still widely used by visitors, despite the increasing popularity of websites and new media. This is gradually changing, however, as hand-held devices become more popular. We are therefore optimising our websites for iPhone and android phones and will also consider investment in Apps on a case-by-case basis.
- 7.17 Press releases are issued weekly through the Council's press office to maximise the potential for editorial coverage in the local and national media and to maintain an effective presence in travel publications, especially those distributed to group organisers. The Service continues to employ a press officer from the Communications & Marketing team for an extra day per week to build sufficient capacity to benefit from press opportunities. This has proved most effective in maximising press coverage and the arrangement will therefore continue.
- 7.18 Professional photographs support all forms of marketing communication, as nearly all new media are image-hungry and few newspapers now employ their own photographers. We employ a freelance photographer for all major activities. This trend has extended to moving-image media and we often need to provide our own film footage for PR purposes. Our selection of moving images will therefore be increased in 2013-14 to allow more video clips on our websites.
- 7.19 Opportunities for attracting more domestic tourists will continue for the duration of the recession, even though the total tourism market has contracted. The Roman Baths and Fashion Museum will continue to advertise to a regional audience, encouraging day visits by families and overnight visits by adults in separate marketing initiatives.
- 7.20 However, a wet summer in 2012 will have an effect on Domestic Tourism, and there are more opportunities for inbound tourism in 2013 than there were during the Olympic year of 2012.

- 7.21 We will continue to evaluate all campaigns through independent exit surveys and adjust new campaigns accordingly.
- 7.22 There is a new opportunity to sell the Fashion Museum in its 50<sup>th</sup> anniversary year on the back of its “Fifty Fabulous Frocks” exhibition and the fiftieth anniversary celebrations that we are planning with the local community. This museum has become well established in the fashion world and among young adults in particular, whose preferred methods of communication include Facebook and Twitter. We are therefore supporting Fifty Fabulous Frocks with a tweet about each dress, working with companies such as Burberry who are keen to re-tweet our news. The first tweet, in January 2013, reached more than 20,000 subscribers.
- 7.23 The market penetration strategy is therefore to:
- Implement the second year of a five year policy of promoting to the domestic market on the back of the Roman Baths Development Plan;
  - Support the Roman Baths with substantial regional advertising
  - Support the Fashion Museum exhibitions and 50<sup>th</sup> anniversary, in particular to young adults and regional visitors;
  - Enhance the brand name with award applications and positive public relations activity worldwide;
  - Maximise viral media opportunities and digital marketing campaigns;
  - Encourage repeat visits, in particular by regional families;
  - Encourage visits in the shoulder months and in the evening in summer.
  - Upsell the Fashion Museum as part of the overall experience
  - Use local marketing and the Discovery Card to build support among residents of Bath & North East Somerset.

**Market development:**

- 7.24 The Roman Baths Development Plan has made the site much more inclusive and accessible. As a result, the experience has been opened up to a new range of visitors:
- primary school children, young people of secondary school age who speak English, French or German, and to a lesser extent even to toddlers and pre-school children;
  - the elderly, including a large number of people with limited mobility;
  - those with hearing or visual impairments and people who use wheelchairs
  - native speakers of Mandarin and Russian.
- 7.25 Improved access encourages overall visitation because often a whole group is influenced by the access issues of one member. There is a major opportunity in 2013 to advertise this internationally through Visit Britain, as one of only five cities covered in their “accessible Britain” marketing campaign.
- 7.26 New ‘family friendly’ campaigns will encourage a wider age range of visitors in response to these developments. Another ambitious spring campaign in 2013 will be repeated at Autumn 2013. They will be supported by regional advertising in magazines such as Parent

Talk and Schools Out, encouraging repeat visits by families, often influenced by a previous school trip.

- 7.27 The Service continues to seek popular summer exhibitions to increase numbers to the Assembly Rooms and Fashion Museum. 2013 is the 60<sup>th</sup> anniversary of archetypal British designer Laura Ashley and this will be celebrated with a summer exhibition in the Ball Room celebrating the 'golden years' ; a nostalgic theme that will appeal to domestic visitors who were young in 1960 – 1980. The success of *Jubilee: Dressing the Monarchy on Stage and Screen* in 2012 has prompted the early planning for a similar exhibition on the subject of the First World War in 2014.
- 7.28 The exhibitions in the Fashion Museum galleries are now a significant draw in their own right and the 50<sup>th</sup> anniversary exhibition in 2013 *Fifty Fabulous Frocks* will replace the highly acclaimed *Sport and Fashion* exhibition mounted during Olympic year 2012.
- 7.29 There are currently new opportunities in the growing markets of the 'BRIC' countries (Brazil, Russia, India and China), replacing the reduced potential of southern Europe and the United States.
- 7.30 The introduction of audioguides in Mandarin and then Russian will be supported by website presence in these languages and, where feasible, agents in the relevant countries to help promote the new services. The Service will continue to work in collaboration with Destination Management Organisations and consortia that have links in these countries.
- 7.31 There continue to be new opportunities in emerging markets and the service has been exceptionally successful in recent years in attracting independent Chinese travellers. A spring advertising campaign in the UK Chinese –speaking press, established with Visit Somerset, will support new tours of the region developed by our group customer China Holidays.
- 7.32 The market development strategy for 2013-14 is therefore:
- To promote the new inclusiveness to children who speak English, French or German;
  - To promote to elderly people and those with access issues, or visual or hearing impairments;
  - To promote to the growing 'BRIC' countries, prioritising first China and then Russia;
  - To continue to develop an appropriate website presence for the large majority of our international visitors.

### **Visitor management.**

- 7.33 The success of the Roman Baths in 2011-12 in reaching record visitor numbers for a generation was heavily dependent on the management of groups. Although the Olympics in 2012 meant that these large numbers were not repeated, group visitors remained a similar proportion of the total. This was due to the management of timed entry for groups, helped by penalties imposed if a group did not visit during its agreed timed slot.



- 7.34 We will continue to change the behaviour of major tour operators to encourage off-peak visits and to avoid excessive crowding at peak times.
- 7.35 Our efforts to encourage long haul visitors will also assist in visitor management, because these people usually travel in groups in the winter months.
- 7.36 In 2013-14 we will introduce a new Visitor Management System to replace the simple tills that we currently use. This will have the following benefits:
- The tills will be quicker and more able to cope with a wide range of tickets;
  - Reporting will be integrated and more effective;
  - There will be an e-commerce module connected to the system;
  - Timed ticketing will be possible through the tills rather than as a stand-alone system;
  - The system will have the potential to undertake retail sales and even room hire and catering operations in the future;
  - Invoicing will be integrated with the bookings and ticket redemption systems.
- 7.37 Following a full tendering process, a supplier was chosen in autumn 2012. Implementation was postponed until 2013-14 on the instruction of Elected Members so that it could be agreed as part of this Business Plan. In addition to front-of-house ticket sales, this system will also replace the system currently used to manage group sales, and will include an e-commerce module to be introduced after the main system has been installed.
- 7.38 The essential admission system will be rolled out during the winter of 2013-14. E-commerce will be fast-tracked in 2013 because the Council's BucksNet system was switched off early in 2013 and is no longer be available for e-ticket sales. The retail module is due to be rolled out in 2014-15 and integration with the room hire system will also take place at that time. A module for season tickets is also available and will be rolled out in due course in order to provide an integrated, holistic revenue and customer management system for the Service. The current room hire system is sufficient for our current needs and will be maintained in the short term, but it will be more closely integrated with the Visitor Management System and with the Council's new Civica system.
- 7.39 We communicate regularly with Discovery Card and season ticket holders and want to develop this relationship and devise new methods of encouraging repeat visits, especially during half terms and winter holiday times. The Discovery Card software was upgraded in autumn 2012, correcting some software issues and making it easier to track sales and identify repeat visitors. The objective is to migrate this to the new Visitor Management System in 2014-15.
- 7.40 The visitor management strategy is therefore:
- To establish an efficient, integrated Visitor Management System
  - To enable greater capacity by moving student groups to off-peak times
  - To manage tour operator times to spread the daily load
  - To give fast-track entry for advance purchase
  - To encourage winter visits, both from long-haul visitors and local residents
  - To improve visitor management and reporting systems
  - To develop a relationship with repeat visitors.

## 8. Risk.

### **Planning Assumptions and Local Factors.**

- 8.1 This Plan is underpinned by extensive and integrated modelling of all key visitor, income and cost assumptions and is sensitive to normal tolerance on the business model and its assumptions. However there is a significant risk that the profit targets for 2013-2018 required by the Council's Medium Term Service and Resource Plan will not be achieved.
- 8.2 The provision made via the Director's 'Review of the Adequacy of Reserves and Robustness of Estimates' and the Heritage profit reserve allows for a net risk of c. £650k, as detailed in section 5 above.
- 8.3 However, even this combined provision may not be sufficient to cover an enhanced level of risk that could easily reach as much as £1 Million if the effects of local events on the visitor market are added to a more pessimistic assessment of the impact of world events and of the economic downturn.

### **Geo-political Events.**

- 8.4 The assessment of a £1 Million risk exposure does not address the maximum possible impact of events such as terrorist outrages, outbreaks of disease, fuel crises or extremes of weather. Nearly all major world events are reflected in the Roman Baths' visitor figures and profile. The first sudden downturn in modern times was caused by two events in quick succession in 1986. The American bombing of Libya from UK air bases and the Chernobyl nuclear accident six weeks later reduced numbers at the Roman Baths from an expected 1 million to a calendar year figure of 825,000. Similarly, the "double-whammy" of Foot and Mouth Disease and '9/11' in 2001 marked the end of a period of growth and a permanent change in the worldwide tourism market and in Roman Baths' visitor figures.
- 8.5 The possibility of a downturn in profit due to geo-political events was recognised and identified in 2004 and a possible profit shortfall of £750k p.a. was posted on the Council's Risk Register. The London bombings of July 2005 proved this to have been a prudent measure to take. Even in 2010, the volcanic ash cloud had a noticeable impact on international visitors, and the effect of the Olympics in 2012 was underestimated because the UK was more successful in winning medals than expected and attracted a larger TV and on-street audience as a result.
- 8.6 Recent events in North Africa, the Middle East and across the Eurozone are having an impact on the international travel trade. They illustrate that events can occur unexpectedly and with variable levels of impact.

### **Economic Environment.**

- 8.7 The business is also affected by the worldwide economic environment. In 2013 the forecast includes the adverse effects of a Pound that is significantly stronger against the

Euro than it was two years ago and, domestically, the prospect of increased taxes, spending cuts and increased unemployment weaken confidence further. On the positive side, the 'stay-cation' phenomenon is expected to continue at levels higher than 2008, although not as high as in 2010 and 2011.

- 8.8 Last year, the experience of the majority of people forced to take domestic holidays was positive, leading Visit Britain to believe that the increase in the domestic market was continuing. In 2013, however, Visit Britain has identified that four years of austerity and wet summer weather in 2012 is prompting an increase in UK people seeking overseas holidays again, as soon as they can afford them.

#### **Customer Resistance.**

- 8.9 From 2009 to 2011 prices returned to the practice of the previous ten years and increased by c.5% year-on-year to meet the demands of the Council's Financial Plan. The increase in the headline price for 2012 was restrained for one year in order to counter expected customer resistance, and the year-on-year increases were re-established in 2013. This policy has helped value for money ratings to return to acceptable levels.
- 8.10 The Heritage Services Advisory Panel has voiced concern at the wisdom of continued above-inflation price increases. A combination of improved visitor experience and lower price increases (in response to the new economic situation and the guidance of the Advisory Group) has turned this around and now the value-for-money ratings are acceptable, but still below average for the industry. As a result, we have a high degree of awareness of what price increases the market will stand, and we are aware that we are near the threshold in most price categories.

#### **Competition.**

- 8.11 Major developments at other leading UK attractions and regenerated cities with large marketing budgets continue to pose significant risk to Bath as a destination. In particular the new visitor centre at Stonehenge will have an adverse effect on group travel business and discussions as to how to minimise this with the leading carriers have already begun.
- 8.12 The high levels of domestic visitors, although still buoyant, will reduce over time, depending on the economic situation, the British weather and the lure of cheap overseas holidays.
- 8.13 The depression in the Eurozone and the increasing value of the pound has resulted in fewer people travelling from southern Europe in particular. In contrast, Australians and East Asians are now in a good position to travel to the UK.
- 8.14 The Olympics was successful in providing positive images of the UK worldwide, and therefore a positive legacy is expected.
- 8.15 Previous business plans did not allow for the 'double-dip recession' that we have now entered. The overall tourism market is now contracting for the first time since the massive dip in 2001 and the subsequent gradual recovery over the following decade. Lead times have reduced and price sensitivity has increased. We must therefore plan for

ongoing competition amongst service providers that puts visitor attractions under pressure to discount, package, add value or reduce prices. Good market and management information will be required to respond to these circumstances and we are investing in a customer management system partly to build our capacity in this area.

- 8.16 The winners in this competitive market will continue to be those who have been sensitive to price perceptions and who have promoted themselves extensively to domestic visitors as a value-for-money experience, while continuing to invest in top quality experiences that fulfil ever-changing customer expectations.