

**Bath & North East
Somerset Council**

Heritage Services Business Plan

a medium term plan for sustainability and continuity

update 2010–2015

Contents.

	page
1. Key Points	3
2. Heritage Services	4
3. The Council's Financial Plan	6
4. Performance in 2009-10	7
5. Business Strategy 2010-2015	13
6. Investment and Development 2010-2015	19
7. New Developments	24
8. Marketing Strategy	25
9. Sensitivity and Risk	28

List of Updated Appendices

The appendices are the same as those that supported the five year Business Plan 2006-2011 for consistency but have been updated. For reasons of size and confidentiality they are not attached but can be made available on request.

1. Heritage Services: 5 year Financial Summary to 2014/15
2. Heritage Services management accounts, Financial Year to March 2010
3. Spend per visitor: Roman Baths and Fashion Museum
4. Graphs: Heritage Services 'as a whole' performance against ALVA Members
5. Graphs: Roman Baths & Pump Room performance against ALVA Members
6. Graphs: ALVA: Visitor perceptions of 'Quality of Visit' 2001 to 2009
7. Planned Revenue Investment
8. Headline admission charges:1993 to 2015
9. Graphs: Roman Baths & Fashion Museum visitors
10. VAT Implications
11. Graph: Admission price increases compared with inflation
12. Roman Baths Development Project

1. Key points.

This updated Business Plan 2010–2015 ('the Plan') identifies changes to the planning assumptions made in the Heritage Services Business Plan 2006–11.

It has been prepared following the annual in-depth review of business activity carried out over the last seven months and includes an analysis of the risk involved.

This Plan is not an exhaustive analysis of the Service's business position. For the full picture it should be read in conjunction with the Business Plan 2006–11.

The key points to note in the updated Business Plan are:

- **2009/10 profit target of £3 million exceeded, £822k higher than in 2005/06;**
- **Annual profit to rise to £4.15 million by 2014/15;**
- **Roman Baths visitors to stabilise around 870,000 pa;**
- **Fashion Museum visitor numbers to stabilise at c.95,000 pa;**
- **Admissions income to grow by £1.5 Million pa (19%) by 2014/15**
- **Retail sales to increase by £305k pa (19%) by 2014/15;**
- **Room hire sales to continue to increase in price and volume;**
- **Profit reserve to be maintained at a minimum level of c.2% of turnover to reflect increased risk;**
- **Completion of the current Roman Baths Development work in 2010/11**
- **Capital investment in a new off-site catering development;**
- **Annual capital investment in asset infrastructure**
- **Feasibilities for further Roman Baths Development work to be planned for 2011/12 to 2015/16;**
- **Proposals for a Roman Baths educational trust to be prepared in 2010/11.**

2. Heritage Services.

2.1 Heritage Services is a business unit within the Council which operates at no cost to the local taxpayer. It returns a net surplus in excess of £3 million p.a. to the Council. 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.

2.2 The Heritage Services business plan is sub-titled 'A Plan for Sustainability and Continuity'. Herein lies its fundamental rationale. The Service does not seek to maximise income to the exclusion of all other considerations; rather, it seeks to ensure the ongoing and long-term sustainability of three key areas of activity – Conservation, Customer care and Commercial activity. This is represented as the 'tripod of sustainability' (figure 1.)

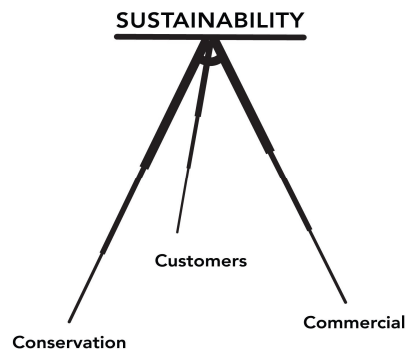


Figure 1. The Tripod of Sustainability.

2.3 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.

2.4 The three Cs represent the three main areas of activity in the Service. These are:

2.5 **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 Museum, Fashion Museum and Bath Record Office are all Designated by Government as being of national / international importance.

- 2.6 **Customers:** the Service meets the needs of a diverse range of local, national and international audiences and deals with well over one 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.
- 2.7 **Commercial:** the Service seeks to maximise the commercial opportunities offered by its heritage assets, through admission charges, museum shops, corporate hospitality and catering commission.
- 2.8 The 'tripod of sustainability' further 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 such as interpretation, public toilets and visitor seating and Commercial imperatives such as marketing, retail product development and shop refurbishment.
- 2.9 To ensure that the structure of the Service reflects the parity of these three areas of activity, a major restructuring in 2005 established three core teams of equal status to deliver them. In addition there are two support teams – Finance & Business Support and Facilities – whose purpose is to enable the three core teams to perform their primary activities. Figure 2 shows the basic structure of the Service.

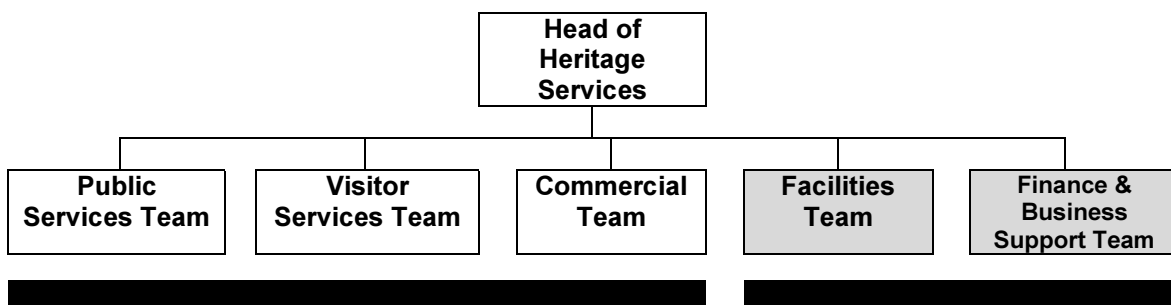


Figure 2: The basic Heritage Services structure.

3. The Council's Financial Plan.

- 3.1 The Council's decision in 2004 to retain Heritage Services in-house and invest in its facilities also required that the Service deliver a year-on-year increase in profit above the then target levels at least equal to the rate of inflation. This will require the Service to generate annual profits rising to £4.15 million p.a. by 2015 and will involve the generation of income from external sources of £13.25 million p.a. by this date.
- 3.2 The requirement for year-on-year increases in profit is a significant challenge in the context of continuing global economic uncertainty, UK recession and pressures on the national and international visitor market. The Council provides for such risks within its balances, together with the sum held within the Heritage services profit reserve (see section 5 below).
- 3.3 The profit target for 2010/11 represents a 42% increase over the profit generated in 2005/06. Over the five years to 2014/15 this is expected to increase by a further 23%. To achieve these targets, it is necessary to continue the existing business strategy of above-inflation admission price increases. Although the visitor market in 2009/10 was relatively buoyant despite the adverse economic climate, prudent visitor assumptions for 2010/11 onwards assume that only a part of this improvement will be sustained.

4. Performance in 2009/10.

Profitability.

- 4.1 Table 1 below outlines the key features in 2009/10. The Service met its profit target of £3.2 million, up £820k on 2005/06, the first year of the current Business Plan. Turnover, largely from admission sales, has increased in the same period by £1.9 million p.a., due in part to increased visitor numbers (6.5% higher) but mainly to an increase in average visitor spend, both primary and secondary, of 17%.
- 4.2 The increase has been due to planned increases in prices, improved performance in secondary spend and reductions in the cost base.

Table 1: Heritage Services financial performance in 2007/08, 2008/09 and 2009/10			
	2007/08 Actual (£ million)	2008/09 Actual (£ million)	2009/10 Actual (£ million)
Turnover (Income)	11.369	11.712	12.384
Variable costs	6.053	6.163	6.708
Fixed costs	2.214	2.431	2.475
Total costs	8.267	8.594	9.183
Net Profit	£3.101	£3.118	£3.201
Roman Baths admission income	£6.34m	£6.63m	£7.35m
Roman Baths visitors	831,000	840,000	882,000
Fashion Museum visitors	90,000	92,000	91,000

Visitor Numbers and Admission Income.

- 4.3 Roman Baths admissions were the highest since 2000/01, substantially exceeding the anticipated level of 848,000. Numbers at the Fashion Museum fell below the planned target, representing a stabilisation of hitherto declining visitor numbers at around 2006/07 levels.
- 4.4 Admissions revenue grew substantially as a result of higher visitor volumes and above-inflation price increases. Group visitor numbers of 286,000 in 2009/10 were higher than in 2008/09, but due to the greater increase in individual visitors, they totalled 32% of all Roman Baths visitors, down from 33% the year before. In

2009/10 group visitors generated admissions income of c.£1.92 million and a total income, including net secondary spend, of c.£2.25 million p.a.

- 4.5 The growth in sales of 'individual' tickets was most noticeable during the main tourist season and was consistent with the increase in domestic holidays taken by UK residents reported within the domestic (UK) market.
- 4.6 The increase in admissions income stemmed mainly from an increase in sales of both 'full priced' adult tickets and concession sales (student, senior citizens, child). The 'full priced' adult ticket accounted for 42% of admission sales income and therefore the impact on revenue of fluctuations in sales was significant.
- 4.7 Increasing numbers of travellers from the emerging markets of India and China visited the Roman Baths, despite strong competition for these markets from France and Italy. In 2009, 43,000 visitors used a Mandarin audio guide in the Roman Baths, making this the largest language group after English, French and German speakers. There has also been a substantial increase in Japanese speaking visitors, up to 37,000 in 2009 from 20,000 in 2008 when the Yen was particularly low against the Pound.
- 4.8 Since the redisplay and rebranding, The Fashion Museum has become a popular attraction in its own right and an attractive add-on for younger female visitors in particular. The proportion of female visitors to male has increased rather than reduced, but it is still difficult to attract the casual tourist whose main objective is to see the Roman Baths. In response, each year a major summer exhibition to attract the general interest visitor is mounted and in July-August 2009 '*The Supremes*' helped to bring 21,000 visitors to the Museum. Roman Baths staff have become adept at promoting the Fashion Museum through the 'saver' ticket which is also now available from the TIC.

Secondary Spend – Retail.

- 4.9 Sales performance improved against both the target for the year and the level achieved in the previous year, despite the partial closure of the main Roman Baths Shop during its refurbishment. The gross margin achieved continued to improve, and was 0.7% higher than in 2008/09 and 2.2% higher than 2007/08.

Net profitability also improved as a result, due in part to strict control of costs. A new, more powerful EPOS system installed during 2009/10 allows for more effective sales analysis by product group than ever before.

Secondary Spend – Catering.

4.10 Income (commission) targets are agreed with the caterer each year as part of the business planning process. The commission earned in 2009/10 was only £3k (0.7%) below the target of £450k for the year, despite being in the final year of a five year contract. It reflects the caterer's commitment of resources to extra investment in sales and marketing and better staff training, against a background of economic downturn. Improvements to service and food quality and a growing reputation over several years has paid off by generating more business over the five-year term and enabling the caterer to weather the recession. As a result, annual income has increased by 22% from the levels achieved by the previous contractor.

Room Hire.

4.11 Income came under pressure in 2009-10 due to the economic downturn and uncertainty on the part of clients booking catered events during the catering contract re-tendering period. However, the target of £530k was exceeded by £59k (11%) due to a combination of increased business earned through proactive marketing, and higher charges for the most popular venues.

Investment and reserves.

4.12 The improvement in turnover, particularly the growth in admissions income, allowed the Service to avoid drawing down £109k from the profit reserve in order to finance expenditure during the year.

4.13 Improvements in turnover also allowed the Service to undertake significantly more high priority investment beyond the levels included in the original budget for the year. This involved additional investment of c.£260k in three key areas:

- urgent repairs, mainly asbestos removal, identified during the final stages of the Roman Baths capital works in February / March 2010 – £140k;
- additional marketing and promotion to sustain revenues in 2010 – £60k;
- bringing forward feasibility studies and preparatory works for future investment totalling £60k.

Cost Base.

4.14 Significant savings in the cost base have been made in previous financial years to mitigate the pressure on profits due to increased utility and staffing costs in the context of relatively stable visitor volumes. Further stringent controls on expenditure, particularly on maintenance expenditure, ensured that the impact on profitability of these continuing pressures was reduced.

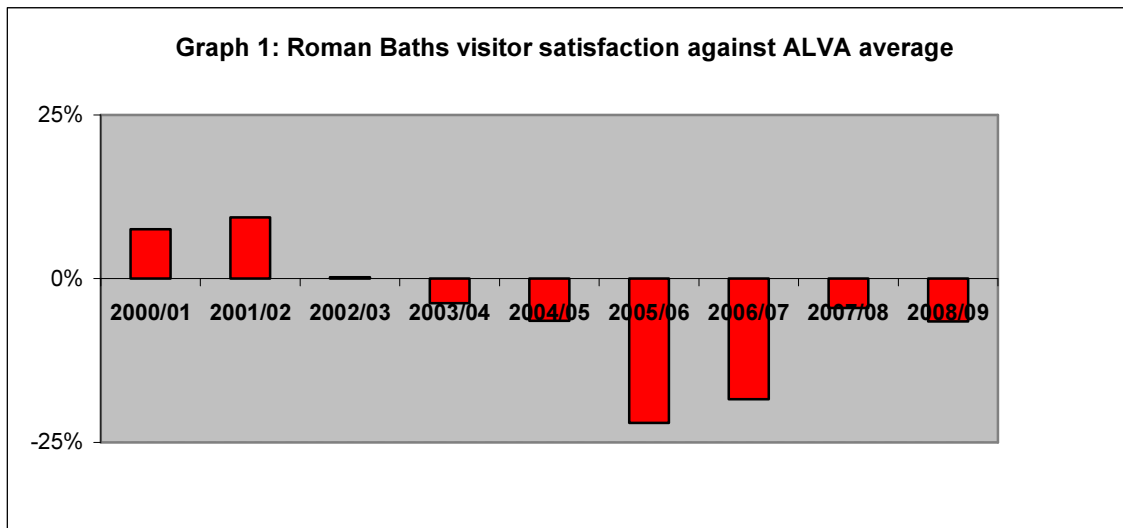
4.15 Staffing costs have increased significantly since 2007/08 due to the implementation of the Single Status agreement. Although the profit target was adjusted to reflect this, the overall profitability of the Service was adversely affected. Ongoing increases from inflation, back pay and on-costs must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

Value for Money Benchmarking.

4.16 Results from the research year October 2008 to August 2009 show that visitor perceptions of value-for-money at the Roman Baths have stabilised and are on an upward trend that began in 2007 following several years of decline. Most visitors now regard value for money as 'good' rather than either 'poor' or 'excellent'. However, the Roman Baths is still below the mean for 'Heritage Attractions' and 'Attractions' generally, as shown in Annex 6. The reduction in negative perceptions of value for money reflects the improved visitor experience provided by investment in the site.

4.17 Visitor satisfaction at the Roman Baths also improved in 2008/09, reflecting the improved visitor experience, although average satisfaction levels across other ALVA attractions increased even more.

4.18 Graph 1 below illustrates movement in the combined perceptions of both 'value for money' and 'enjoyment' over the last 9 years as measured against the ALVA average.



Further capital investment in the visitor experience through the Roman Baths Development Plan is intended to improve the trend in order to achieve and exceed the mean for 'Heritage' and 'all' visitor attractions.

Business and Profitability Benchmarking.

4.19 Heritage Services again performed well above the median level of performance of all ALVA attractions in 2009 in all areas of visitor revenue and activity other than secondary spend (retail and catering). We again performed in the top quartile for:

- net contribution per member of staff
- net contribution as a percentage of total income
- income generated per employee
- labour costs as a percentage of total income (lowest cost)
- retail spend per square metre (floorspace)
- average spend per catering transaction.

The Service was within 4% of the top quartile for 'admission income per paying visit' (admission price for both charging sites taken together).

4.20 However, as in previous years, the need to improve the conversion rate of visitors to customers is highlighted for both areas of secondary spend (retail and catering). Average retail spend also required improvement and, in order to address this need, the Roman Baths Shop was extended as part of the 2009/10 Development Plan.

4.21 Average catering spend per visitor in the Pump Room restaurant equals the maximum across all ALVA organisations, reflecting the unique, high value dining experience provided to c.150,000 people p.a., many of whom do not visit the Roman Baths. Provision for and income from the majority of visitors will be addressed via the off-site catering development during 2010/11 and 2011/12.

4.22 The Roman Baths & Pump Room has performed in the top 25% of ALVA attractions for 5 of the 6 key indicators of profitability in each of the last 11 years. This performance was repeated in 2009. These 5 key indicators of profitability are:

- labour costs as a percentage of total income (lowest 25%)
- direct labour cost per visit (lowest 25%)
- net contribution per visit
- net contribution per member of staff
- net contribution as % of total income.

4.23 The site fell marginally outside of the top quartile for 'net contribution per paying visit' due to a significant change in the composition of the sample of attractions. However it was in the top quartile for the following additional measures:

- admission income per visit (average admission price)
- average catering transaction spend
- income per employee

4.24 Retail sales per square metre in the Roman Baths shops were the highest of all ALVA members for the second time in the last 3 years, reflecting both the lack of capacity to meet visitor demand and the opportunity for increased sales levels.

5. Business Strategy 2010-2015.

- 5.1 The Heritage Services business philosophy is that sustainability depends upon maintaining a balance between Commercial, Conservation and Customer care activity. The successful financial performance in 2009/10 above has been achieved alongside a further improvement in visitors' perceptions of enjoyment and value for money at the Roman Baths, indicating that this balance has been maintained as a result of investment in the facilities and visitor experience.
- 5.2 The Roman Baths Development Plan 2006-2011 set out to improve visitor perceptions and continue to increase revenues and profitability. The evidence so far is that this investment has been successful. It is intended to support further improvements in future years.
- 5.3 Despite the economic downturn, the Council's Financial Plan still assumes an incremental increase in net annual profit. This amounts to an increase in profit of 30% over the next five years, from £3.2 million in 2009/10 to £4.15 million in 2014/15. Table 2 shows the annual profit and visitor targets for 2010-2015.

Table 2: Annual profit and visitor targets.						
	<i>2009/10 Actual</i>	2010/11 Planned	2011/12 Planned	2012/13 Planned	2013/14 Planned	2014/15 Planned
Annual profit:						
▪ Profit target / actual	£3,201m	£3,373m	£3,553m	£3,741m	£3,941m	£4,149m
▪ Profit per Council Tax payer	£42.19	£44.49	£47.44	£48.73	£51.98	£54.76
▪ Profit per B&NES resident	£17.75	£18.72	£19.96	£20.51	£21.87	£23.04
Visitor targets:						
▪ Roman Baths	881,757	865,000	870,000	859,000	870,000	870,000
▪ Fashion Museum	90,859	95,000	95,000	93,000	95,000	95,000

Visitor Numbers.

- 5.4 The Updated Plan anticipates that in 2010-2015 the increase in Roman Baths visitors in 2009 will be partly sustained, although the 'stay-cation' effect will not be as marked as it was in 2009. A further small increase is assumed as a result of investment in the Roman Baths Development Plan and the off-site catering development, reflecting the impact of improvements to the visitor experience and associated marketing activity.

This increase is anticipated in the higher value, non-group sector of the market, and no effect on the sale of the 'saver ticket' to the Fashion Museum is expected.

5.5 Visitor volumes at the Fashion Museum will be sustained and modestly improved, partly as a result of investment in *The Diana Dresses*, the 2010 'blockbuster' summer exhibition. The performance of the Fashion Museum is linked to the decision to be taken on the Assembly Rooms lease.

5.6 Current signs are that the substantial increase in domestic visitors during 2009 will not be sustained in 2010, but nor will domestic visitor numbers reduce to pre-recession levels. Group visitors are not expected to rise either in number or as a proportion of overall visitors, in line with experience in the last two years. Visits to both attractions are expected to be adversely affected by the 2012 Olympics, although only for the period of the Games.

5.7 The substantial number of visitors from northern Europe will gradually reduce as the Pound strengthens against the Euro. The long-haul market will recover in line with the worldwide economy, being dependent on the value of the Dollar in particular. This Updated 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 decision making.

5.8 The continued achievement of visitor and revenue targets will depend on adequate provision being made for visitor needs including coach and car parking facilities. It will also depend on marketing Bath effectively against stiff competition from other tourism cities nationally and internationally.

Admission Charges Pricing Strategy.

5.9 To meet the increasing profit targets required by the Council's Financial Plan, Roman Baths admission prices will continue to rise annually by above-inflation rates. The price increases in 2007 and 2008 were held at the level of inflation to allow a 'pause' in the rate of increase made in previous years and to address visitors' worsening 'value for money' perceptions. Improvements to the visitor experience should allow potential customer resistance to be managed successfully

in subsequent years, although the price increase in 2012 will be subject to a further 'pause' to reflect the end of this sustained period of investment.

5.10 This strategy will be implemented whether or not VAT is increased. An increase in VAT will help to make the Roman Baths admissions, which are exempt from VAT, competitive against other charging attractions, but will put pressure on secondary spend, which is not exempt.

5.11 Premium summer pricing will continue. In 2010 it will rise to a level between that charged in 2008, when customer resistance was evident, and that charged in 2009 when significant resistance was not experienced. These charges will continue to be subject to further evaluation as circumstances change.

5.12 The discounting structure has been reviewed, and no further significant changes are proposed. The average level of discount provided per visitor has reduced over the last 3 years (from 25.9% to 24.7%), reflecting changes in the visitor base and contributing to the increase in admission revenue.

5.13 The Fashion Museum headline price has been held in 2010 for the third year in succession as visitor feedback has shown it to be poor value for money. Discounted prices for individuals have also been held, with increases only for some group prices. This should also help to sustain and improve visitor volumes. Efforts will continue to concentrate on improving the visitor experience and this will include investment in 'blockbuster' exhibitions in the peak season.

5.14 Following a price reduction in the 3-year Season Ticket in 2009, the uptake suddenly increased, showing that the offer was now appropriately priced to attract repeat regional visitors. Following this success, an advertising campaign through regional family magazines at Easter 2010 has resulted in higher sales in the first four months of 2010 than in the whole of 2009. This promotion will therefore be extended to school holiday periods in 2010 and 2011.

5.15 The headline admission prices for both attractions that were introduced in January 2010 were equal to or lower than those highlighted and agreed in the Business Plan 2006–2011 with only two exceptions:

- The adult premium price, which will be £12.25 in July and August 2010
- The combined ('saver') family ticket, which is £43.00 from January 2010.

5.16 The increases in prices, combined with assumptions on visitor volumes, should generate an annual admissions income from both sites c. £1.5 Million (19%) higher in 2014/15 than that achieved in the last financial year (2009/10).

Secondary Income Streams – Retail.

5.17 Sales are planned to increase above the level achieved in 2009/10 by £305k (19%) p.a. over the next five years, achieved by an improved conversion of visitors to customers following the refurbishment and expansion of the Roman Baths Shop as part of the Roman Baths Development Plan. Spend per visitor is also expected to increase at a modest rate above the assumed level of inflation.

5.18 Retail margins are under pressure from increases in carriage and haulage costs and in the price of raw materials. However, judicious purchasing decisions will 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.

5.19 Web-based ticket sales and an e-shop have been delayed for technical reasons but are due to begin in 2010/11, and will be developed over the next five years. The shop will sell a limited range of high-value products that are suitable for posting, most of which are unique to the site.

Secondary Income Streams – Catering.

5.20 A new contract for catering at the Pump Room and Assembly Rooms was awarded in February 2010. Income targets for 2010/11 onwards reflect the improved concession terms achieved through the tendering exercise due to the increase in the size of the contract, and of its importance to the caterer, with the inclusion of the new catering facility in Abbey Church Yard.

5.21 Targets for the next five years are based on a prudent assessment of likely returns under the new contract, and allow for the increase in revenues as a result of the anticipated opening of the new catering facility in 2011. The catering contract at both sites will be affected by the review of the future retention and use of the Assembly Rooms post 2012.

Secondary Income Streams – Room Hire.

5.22 The increase in external sales over the last five years is expected to be sustained. Targets in this Updated Plan assume that increases in both price and volume will be achieved. These offer a significant level of growth against existing targets and reflect extra resource devoted to promotion and the continued effects of changes to pricing policy.

Cost Base.

5.23 The Service will continue to absorb within its profit target all cost increases, including the effects of inflation. However, significant increases in hitherto unforeseen costs are now expected that were not included in the original Business Plan 2006–2011, mainly utility and staffing costs.

5.24 Utility costs, particularly energy, are expected to increase by £70k p.a. (34%) by 2015. This increase is governed by corporately negotiated contracts that aim to minimise the costs to the Council generally, and is under review.

5.25 During the same period business rates are likely to increase to over £450k p.a. The Service will also be required to meet annual financing charges to support investment through the Roman Baths Development Plan, further capital investment and the new catering development, totalling £568k p.a.

5.26 Staff costs will also increase beyond the levels previously planned, due to the incremental growth in costs caused by Single Status and an increase in National Insurance contributions in 2011. However, the most significant impact will come from a substantial increase in pension contributions following the revaluation of the Council's Pension Fund in 2011.

5.27 The Council has increased its annual provision for the likely impact of this revaluation, and the annual profit target for Heritage Services was increased by c. £80k p.a. in 2009/10 as the first contribution to the provision. The profit target for 2010/11 and each successive year will also be increased by £80k+ each year, amounting to a total annual increase of c. £510k p.a. by 2015.

Reserves.

5.28 The profit reserve for Heritage Services was established as part of the Council's decision to retain the Service as an in-house business unit. The reserve consists of profits generated by the Service in excess of the annual profit target, and will be reduced by any shortfalls against annual targets. The previous Business Plan update identified a potential requirement to draw down c.£100k from the profit reserve in the financial year 2009/10. This was not required as a result of the successful trading results in that year, and as a result the balance on the reserve totalled £206k at the end of 2009/10.

5.29 The Service aims to retain adequate funds in the profit reserve to meet unforeseen fluctuations in levels of visitors and revenues, which it has previously assessed at c.1% of turnover (c.£110k). However, the increased risk to trading created by both economic uncertainty and world events means that the level of the reserve should be increased to c.2% of turnover (£220k). The current level of the reserve is therefore adequate for this purpose. Table 3 shows the level of profit the Service is likely to generate in 2010-2015, and the surplus or shortfall against the target in each year. The increased profit in 2011/12 will be used to offset the anticipated profit shortfall in 2012/13.

Table 3: Planned use of profit reserve					
	2010/11	2011/12	2012/13	2013/14	2014/15
Annual profit:					
▪ Profit target	£3,373m	£3,553m	£3,741m	£3,399m	£3,501m
▪ Likely profit generated	£3,373m	£3,599m	£3,695m	£3,351m	£3,485m
▪ Excess / (shortfall)		£46k	(£46k)		
Reserves:					
▪ Balance b/f	£206k	£206k	£252k	£206k	£206k
▪ Added / drawn down to meet profit target	-	£46k	(£46k)	-	-
▪ Balance c/f	£206k	£252k	£206k	£206k	£206k

6. Investment and Development 2010-2015.

Investment Strategy.

- 6.1 The Council has a duty of care for the nationally important 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 The successful and sustainable development of the Service is dependent upon investment in four key areas of activity. These are:
- a) **Visitor offer:** ongoing investment to maintain, refresh and update the 'visitor offer' and to sustain the standard of recent investment in improvements at the Roman Baths and Fashion Museum;
 - b) **Roman Baths Development:** investment in the next development, after the current programme is completed in 2011. Developments in subsequent years may require funding from external sources such as the National Lottery;
 - c) **The broader Heritage offer:** this includes the Victoria Art Gallery and Assembly Rooms / Fashion Museum, where a strong business case can be made or where clear public benefit can be demonstrated from it;
 - d) **Public Realm:** investment in the Council's heritage assets which will contribute to the Vision for Bath and make an impact on the public realm around them.
- 6.3 This Updated Plan provides the Business Strategy necessary to meet the Council's financial planning assumptions of a sustained increase in profit, augmented by a programme of further cost base reductions to divert resources into investment. It therefore concentrates on investment in 5.2 a) and b) above, and provides for specific capital investment in category (d).

Investment Proposals.

- 6.4 Central to the current Business Strategy is the implementation of a number of key investment projects which are addressed below and detailed in Table 4.
- 6.5 In September 2004 the Executive agreed that an increase in investment in the Roman Baths and Pump Room was essential and that the Council should borrow to finance major capital investment through the Roman Baths Development Plan. This investment is essential to improve visitor perceptions of value for money and justify the planned price increases upon which income assumptions rely.
- 6.6 Between 2010 and 2015 the business strategy provides for the following key investment streams, illustrated in Table 4 below:
- a) Ongoing revenue investment in the visitor experience, commercial development, building maintenance and monument conservation for all sites totalling £2.4 million. This revenue investment will involve further “mini projects” each year to refresh areas of the Roman Baths not covered by the main capital development programme;
 - b) Completion of the ongoing Roman Baths Development Programme at a cost of £300k in 2010/11(illustrated at Annex 12), together with capital works of £1 million to establish the off-site catering development in Abbey Church Yard;
 - c) Capital investment of c.£100-200k p.a. in the infrastructure of the two main attractions, principally the Roman Baths. Works will include monument conservation and the replacement and renewal of major items of plant and equipment. The amount invested and the amortisation period will depend upon the works required each year;
 - d) Capital investment totalling £2.5 million in 2013–15 to further develop the Roman Baths site by developing:
 - 1. **Roman Baths education centre:** including a World Heritage information facility and associated shop;

2. **Meetings and Hospitality suite:** a lightweight single storey addition to the Pump Room complex over the existing kitchens.

Table 4: Annual investment								
	2007/08 Actual	2008/09 Actual	2009/10 Actual	2010/11 Planned	2011/12 Planned	2012/13 Planned	2013/14 Planned	2014/15 Planned
Revenue investment:								
▪ Revenue investment programme (gross of grant income)	£514k	£402k	£707k	£490k	£495k	£430k	£540k	£480k
▪ Planned building maintenance	£104k	£108k	£301k	£358k	£375k	£394k	£413k	£433k
▪ Responsive building maintenance	£322k	£420k	£219k	£208k	£244k	£256k	£270k	£284k
Total	£940k	£928k	£1,227k	£1,056k	£1,114k	£1,080k	£1,223k	£1,197k
Capital investment:								
▪ Roman Baths Development Plan	£0.816m	£1.325m	£2.03m	£0.30m				
▪ Off site catering				£0.47m	£0.33m	£0.20m		
▪ Infrastructure (new)				£0.10 - £0.2m	£0.10 - £0.2m	£0.10 - £0.2m	£0.10 - £0.2m	£0.10 - £0.2m
▪ Roman Baths further development (new)							£1.25m	£1.25m

6.7 Capital works will be funded via external borrowing and will be subject to a detailed annual business case that allows for the cost of borrowing and for the VAT implications. The two new proposals will require investment in feasibility studies during 2010/11, funded by the revenue investment programme. These proposals do not currently include provision for external funding, and these additional sources of finance will be reviewed as part of the feasibility process.

6.8 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 £568k p.a. by 2015. This process will be subject to ongoing challenge and review from the Heritage Services Advisory Board and the Proposed Investment Development (PID) Group.

Off-site Catering Opportunity.

6.9 The current catering offer in the Pump Room principally services the higher end of the market but does not meet the needs of most visitors. The Pump Room is a visitor

attraction in its own right, appealing to sociable ABC1 adults with time to spare and attracting a high proportion of repeat visits from regional visitors, especially off-peak. The cross-over between Pump Room diners and Roman Baths visitors is low, at only 8% of Roman Baths visitors.

- 6.10 Benchmarking with other major attractions consistently shows that a market exists for a less formal and more contemporary catering offer for families and busy tourists, which would complement rather than compete with the Pump Room restaurant. Independent qualitative market research and a competitor review have defined the nature of the offer required and the price flexibility of the target market.
- 6.11 A joint Cabinet Member decision in December 2008 authorised the development of a new catering outlet along these lines in a Council-owned property close to the Roman Baths. The use of this building by Heritage Services will enable the existing level of return to continue and for all other costs to be met by the income it generates.
- 6.12 The project will enable the Roman Baths to influence the quality and use of the public realm around its main entrance. To minimise the level of risk to the Council, ensure that the service is operated to the highest industry standard and achieve economies of scale, the facility will be operated by the same specialist caterer as that in the Pump Room and Assembly Rooms.
- 6.13 The successful completion of this project depends on the timely termination of the current lease and essential listed building consents, which will also affect the timescale under which the project is completed. Assumptions on both the cost of this project and the revenue that it would generate have now been built into the Updated Plan.

The Assembly Rooms.

- 6.14 The Service is reviewing its use of the Assembly Rooms site in the light of the expiry of the current 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.

Table 5: Assembly Rooms site.					
	2010/11 Planned	2011/12 Planned	2012/13 Planned	2013/14 Planned	2014/15 Planned
Turnover	£1,065k	£1,103k	£1,123k	£1,166k	£1,200k
Less: Operating costs	£663k	£679k	£700k	£713k	£737k
Less: Ongoing investment and building maintenance	£174k	£192k	£210k	£222k	£219k
Contribution to overhead	£228k	£232k	£213k	£231k	£244k
Overhead	£280k	£283k	£286k	£290k	£294k
Net Profit / (Deficit)	(£52k)	(£51k)	(£73k)	(£59k)	(£50k)

6.15 This Updated Plan contains the working assumption that the building will continue to be operated post 2012 under terms similar to those of the current lease.

However, in the light of the uncertainty surrounding its future use, all commitments to investment, maintenance and operating expenses are under continual review.

Negotiations continue with the National Trust to assess the scope for a new lease.

VAT Impacts.

6.16 The level of investment during the period of this Plan could put pressure on the Council's VAT position. The effect on the corporate VAT position has again been fully reviewed and, on current assumptions, it is likely that it will not cause the Council to exceed its 5% partial exemption limit. The costs of financing a VAT penalty would effectively be met by additional borrowing, with a commitment for repayment over a 25 year period.

7. New Developments.

- 7.1 Benchmarking has revealed that there are opportunities to improve the visitor experience and increase income by improving areas of secondary spend. The Roman Baths Development Plan has already expanded the main Roman Baths Shop and refurbished the Lower Museum shop. The separate off-site catering development will provide an alternative café experience; both developments are fully funded via this Plan, including the financing costs of capital expenditure.
- 7.2 This Updated Plan provides for a second phase of Roman Baths Development as well as investment in necessary infrastructure works, together with associated debt financing costs. Any further development work will generate costs, including debt finance charges, beyond the level provided within this Plan. As shown above, admission charges, especially at the Roman Baths, are already at or above the level of the top 25% of all major UK attractions, despite the visit duration being half a day or less.
- 7.3 To meet the demands of the Council's Financial Plan, price increases are planned at levels that already exceed inflation. Assumptions on secondary spend also allow for the development of additional revenue sources, with little room for further expansion. Any further growth would therefore require new developments to be planned and implemented that would yield additional revenues.

Environmental Plan.

- 7.4 During 2010/11 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.

8. Marketing Strategy.

Current and Ongoing Strategy.

- 8.1 The Marketing Strategy 2010-11 will communicate the changes made by the Roman Baths Development Plan widely to key target markets. Extra investment of £147,000 is being made in 2010/11 to maximise the benefit of the new offer while it is still a fresh experience. The objective is to ensure that the re-developed attraction receives as much coverage as it would have had if it had been closed and re-opened as a brand new facility.
- 8.2 Significant regional campaigns in the spring and summer of 2010 will boost the potential for attracting domestic visitors. Since admissions spend and secondary spend are both higher among these individual visitors, a consequent increase in the average spend per head has been incorporated into future planning.
- 8.3 The strategy for 2010/11 will be to sell the new 'offer' to families at peak times, and to adults at off-peak times and during the shoulder months:
- promote the Roman Baths as a new family-friendly experience, especially at school holiday times;
 - encourage repeat visits, as only 20% of current visitors have been before;
 - sell the summer evening experience;
 - promote to domestic adults without children in the shoulder months;
 - up-sell the Fashion Museum.
- 8.4 Repeat visits by families: Now that the season ticket is priced appropriately for a regional family wishing to make repeat visits, this is being advertised in family magazines circulated to parents through schools regionally. Early indications are that this has trebled the take-up of family season tickets.
- 8.5 In contrast to the family-friendly peak times, adults can enjoy relative peace at the Roman Baths on summer evenings. The "most romantic Building in Britain" vote in the RIBA 2009 Poll makes 2010 the ideal time to attract couples who can visit in the evening. New images of the Roman Baths at night have been used to create a

new 'Pure Romance' out-of-home campaign that will be rolled out regionally in July 2010, using £22,000 of the investment money.

- 8.6 A campaign to appeal directly to the retired couples market has been developed in partnership with Thermae Bath Spa. The Thames Valley area was identified as a prime catchment area for retired couples taking short breaks and a TV advertisement has been developed to promote the 'Spas Ancient and Modern' package offered by the two sites. This is being shown on daytime TV in the Thames Valley area during the May Bank Holiday period. Daytime TV is mainly watched by retired people and is the least expensive form of TV advertising; Heritage Services has only needed to invest £6,000 in this campaign and its effect will be accurately monitored through post-code analysis.
- 8.7 The Service has dynamic and up-to-date websites that make the most of new media opportunities. There are *Find us on Facebook* pages for the Roman Baths, Fashion Museum, Victoria Art Gallery and Bath's Historic Buildings. A new Visitor Review feature was added to three websites in early 2010, allowing visitors to upload their videos or photographs and leave comments. This is being used for a *Photographing Fashion* competition that has proved to be popular among Fashion students nationally and internationally.
- 8.8 E-newsletters continue to be sent out to at least 15,000 subscribers and interactive 360° photography of the museums and historic buildings has been added to the websites, to be completed in 2010 following on-site changes to the Roman Baths. Aspirations for 2010/11 include starting Museum Blogs and using Twitter.
- 8.9 The websites have been future-proofed by migrating them to a new content management system. This provides easy editing, helps achieve high search engine rankings and reduces the risk of the sites becoming obsolete. All have a new look and feel and structure, branded within the Council's corporate identity.
- 8.10 We are working with Council colleagues to provide an e-ticket solution linked to the Council's other uses of e-purchasing. E-ticket sales were not introduced as hoped in 2009/10 due to technical difficulties integrating the system Council-wide. We intend to start with web-based ticket sales in 2010, followed by a retail e-shop.

- 8.11 In addition to these campaigns and new media presence, the Service continues to produce leaflets distributed to hotels and guest houses and tourism outlets throughout the region and to advertisements in carefully selected tourism publications. Leaflets are still widely used by visitors, despite the increasing popularity of websites and new media.
- 8.12 Press releases are issued weekly through the Council's press office to maximise the potential for editorial coverage in the national media and to maintain an effective presence in travel publications, especially those distributed to group organisers. These are supported by an extensive selection of professional photographs taken annually to support all forms of marketing communication.
- 8.13 The Fashion Museum will be up-sold at the Roman Baths by highlighting *The Diana Dresses* exhibition at point of sale, on posters in the Bath area and in leaflets and other pre-visit publications regionally and nationally.
- 8.14 The effectiveness of all marketing campaigns will be evaluated through an independent exit survey conducted in the Roman Baths during 2010. Early results show that the Easter out of home campaign has been influential, confirms that the Roman Baths website is widely used and shows that leaflets distributed regionally to hotels and guest houses are also effective.

9. Sensitivity and Risk.

Planning Assumptions and Local Factors.

- 9.1 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 Financial Plan profit targets for 2010-2015 will not be achieved, both due to the sensitivity of planning assumptions and to national and international economic factors.
- 9.2 The Director's 'Review of the Adequacy of Reserves and Robustness of Estimates' assesses the potential exposure to risk at approximately £370k in 2010/11, and has provided £185k within Council reserves to mitigate this risk. The Heritage Services profit reserve provides a further £206k of mitigation, ensuring that the total provision is adequate to meet a 'normal' level of risk. However, the level of risk exposure could be higher than the £370k identified above, and could reach as much as £750k 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.

World Events.

- 9.3 The assessment of a £750k risk exposure does not, however, address the maximum possible impact of other significant world events such as terrorist outrages, outbreaks of disease, fuel crises or extremes of weather.
- 9.4 The possibility of a downturn in profit due to world events was recognised and identified in 2004 and a possible profit shortfall of £750k p.a. was posted on the Council's Risk Register at that time. The London bombings of July 2005 proved this to have been a prudent measure to take.
- 9.5 The Icelandic volcanic ash cloud is a major new influence in 2010 and has already discouraged leisure travel to and around northern Europe. In April 2010 UK flights reduced by 22% due to the ash cloud. Even if this is now over, some people will change their travel plans a consequence.

Economic Environment.

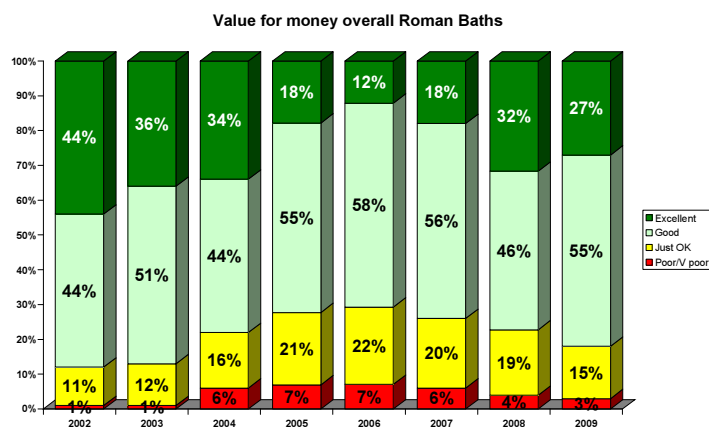
9.6 The business is also affected by the worldwide economic environment. In 2010 the forecast includes the adverse effects of a low Dollar against the Euro, a Pound that is higher against the Euro than it was a year ago, the expectation of increased taxes, spending cuts in the UK and increased UK unemployment. However, the Plan does not allow for a 'double-dip' recession. On the positive side, the 'stay-cation' phenomenon is expected to continue, although not at a level as high as in 2009.

Customer Resistance.

9.7 Since 2006 it has been recognised that admission charges have been pushed to the limit of customer tolerance. As a result, the headline price increases in 2007 and 2008 were set at no more than the rate of inflation. However in 2009 and 2010 prices have resumed the practice of the past ten years and increased by c.5% year-on-year to meet the demands of the Council's Financial Plan.

9.8 The sustainability of this rate of increase was questioned by market surveys showing that the Roman Baths is seen as an expensive attraction and below average 'value for money'. In 2009 the Heritage Services Board, which advises the Cabinet on the Service's business plan and investment proposals, voiced concern at the wisdom of above-inflation price increases.

9.9 The Service has concentrated on improving the visitor experience, and early indications are that the Roman Baths Development Plan improvements have raised visitors' value for money perceptions. Additional investment has also been made in targeted marketing campaigns in order to reinforce these perceptions. The strategy started in 2009 will therefore be continued in 2010 and will be reviewed again for 2011 in the light of visitor research this season.



Graph 2. Roman Baths value for money ratings 2002 to 2009.

Competition.

9.10 Major developments at other leading UK attractions and regenerated cities with large marketing budgets continue to pose significant risk to Bath as a destination. The lure of cheap overseas holidays and competition from shopping, leisure and home entertainment, continue to make the market more competitive than ever.

9.11 Despite the benefits of the 'stay-cation' market in 2009, the economic downturn has caused the overall tourism market to contract for the first time since 2001, increasing competition amongst service providers and putting visitor attractions under pressure to discount, package, add value or reduce prices. Lead times have reduced and price sensitivity has increased. The winners in this competitive market have been those who have held their prices and have promoted themselves extensively to domestic visitors as a value for money experience.

Inflation.

9.12 The present uncertain economic climate makes assumptions on inflation difficult to assess. This Updated Plan makes prudent assessments of likely inflation levels based on industry and in-house specialist advice, but is sensitive to changes in assumptions on major areas of expenditure, principally employee costs and building costs (utilities; business rates; maintenance). The effect of a possible VAT increase is also expected to be inflationary. Inflation in these areas is extremely difficult to predict, and was subject to severe fluctuations in 2009/10.