

Bath & North East Somerset Council

MEETING:	Cabinet	
MEETING DATE:	10 February 2016	EXECUTIVE FORWARD PLAN REFERENCE:
		E2811
TITLE:	Heritage Services Business Plan: 2016-2021 update	
WARD:	All	
AN OPEN PUBLIC ITEM		
List of attachments to this report:		
Annexe 1 – Heritage Services <u>Business Plan 2016-2021</u>		

1 THE ISSUE

1.1 This is the first update of the Heritage Services Business Plan 2015-2020 that was approved by Cabinet in February 2015. It covers the five financial years from 2016/17 to 2020/21, and has been prepared following the annual in-depth review of business activity. The revised Plan includes an analysis of the risk involved.

2 RECOMMENDATIONS

The Cabinet agrees to:

- 2.1 Approve the Heritage Services Business Plan 2016-2021;
- 2.2 Confirm that it wishes Heritage Services to continue to work to the business principles agreed by the Council Executive in 2004, as amended;
- 2.3 Approve the capital investment outlined in this report and note that the Budget report also on the agenda for this meeting recommends:
 - 1) Full approval and inclusion in the Approved capital programme of the following projects:
 - a) The Archway Centre project at a total cost of £5.317 Million in 2017/18 and 2018/19, including a contribution by the Council of £1 Million, (£750k from corporate borrowing and £250k from service-supported borrowing), as detailed in this report
 - b) The Roman Baths Infrastructure projects totalling £100k planned for 2016/17
 - c) The Victoria Art Gallery air conditioning project, costing £150k in 2016/17, subject to completion of the Project Implementation process

- 2) Inclusion in the provisional capital programme of the block of Roman Baths infrastructure projects totalling £600k from 2017/18 to 2020/21
 - 3) Inclusion of information around emerging capital programme items, to be brought forward for inclusion in the capital programme in future years, for the investment of £1.15 Million per annum in both 2019/20 and 2020/21 in order to begin a further major refurbishment of the entire Roman Baths site
 - 4) Re-phasing of £100k currently included in Approved the capital programme to develop the second phase of the Visitor Management System project from 2015/16 to 2017/18.
- 2.4 Note the investment contained within the Business Plan and approve the procurement of goods and services necessary to carry out this investment, including new contracts for security and further digital interpretation during the period of the Plan.

3 FINANCIAL IMPLICATIONS

- 3.1 The financial information contained within the Business Plan supports the Council's current Medium Term Service and Resource Plan (MTSRP) and the proposed Council Budget for 2016/17.
- 3.2 The Plan demonstrates how Heritage Services will attempt to increase its profit in order to meet savings targets required by the Council budget in 2016/17 and to generate further increases in return to the Council in each of the following four financial years to 2020/21.
- 3.3 The Plan demonstrates how annual profit will increase by £1.6 Million (32%) over the next five financial years, so that by 2020/21 annual profit will be £6.65 Million. Profit will increase by £600k in the financial year 2016/17, and by a further £250k p.a. in each of the subsequent financial years.
- 3.4 As a Business Unit working to business principles already approved by the Council Heritage Services absorbs all costs, including those cost increases that are funded corporately for all other Council services. In 2016/17 Heritage Services will fund an increase in National Insurance and pension contributions in excess of £100k p.a. that will be funded corporately for other Services.
- 3.5 The Plan incorporates and updates all of the assumptions made in the Heritage Services Business Plan 2015-2020, with three significant additions:
 - An increase in admission prices in 2018 similar to that made in 2016;
 - Visitor numbers will increase to match current year (2015/16) performance;
 - The visitor "mix" is amended to match current year performance.
- 3.6 The Plan identifies the level of risk associated with assumptions on visitor numbers and spend (income), together with the increasing difficulty that will be experienced in achieving further increases in profit in future years.

- 3.7 Heritage Services generates external income for the Authority of over £15 million p.a. This is planned to increase to £19 Million p.a. by 2020. This income is a strategic resource for the Authority, and represents a direct contribution to its finances from the local tourism economy. There are also indirect contributions via parking fees and the impact on rental values of Commercial Estate shops. The economic impact survey undertaken by the University of Bath in 2012 indicated that the Roman Baths levers £107 Million p.a. into the local economy.
- 3.8 This Authority is unique in the country in operating its museums service at a net surplus ("profit"). The net surplus earned for the Council by Heritage Services since the inception of Bath and North East Somerset Council has totalled c.£67 Million.
- 3.9 In financial year 2016/17 the target profit of £5.6 Million represents a reduction in each Council Tax bill in the district of c.£71. For example, the average Band D Council Tax bill would be £89 higher without this contribution to the Council's finances.
- 3.10 The annual profit targets contained within the revised Business Plan 2016-2021 are challenging, and their achievement is subject to a range of sensitivities and risks, including both local factors and world events.
- 3.11 The revised Business Plan 2016-2021 continues the on-going investment programme designed to improve visitor perceptions of value for money and thus continue to increase revenues and profitability. This includes both capital and revenue financed projects, including the refurbishment of the East Baths and the cyclical refurbishment of the Roman Baths, including its retail outlets. Subject to the success of a Round 2 HLF application, the Archway Centre will create a World Heritage Centre and Roman Baths Learning Centre, amongst other benefits.
- 3.12 The debt charges generated by capital investment are funded by planned increases in income generated by Heritage Services and are included in the financial projections that underpin the revised Business Plan. The increases in income generated by these projects are similarly included.
- 3.13 The investment proposed in the Plan does add pressure to the Council's VAT position. Based on current forecasts it is likely that the Authority could exceed its "partial exemption" limit at some point in the five years to 2020/21. The Heritage Services Investment Programme will at all times be managed with the Council's VAT advisors to ensure the Council does not breach the partial exemption limit.
- 3.14 The figures reflected in the plan are incorporated in the Council's financial planning process.

4 CORPORATE

4.1 Heritage Services supports the Council Priorities in the following ways:

4.2 **Tackling waste and increasing efficiency:** the Service –

- runs at no cost to the local tax payer and returns a profit to the Council;
- reviews its cost base and staff establishment annually;
- works in partnership with others where possible.

4.3 Delivering new homes and jobs: the Service –

- employs 223 staff and invests in their development;
- promotes apprenticeships and other employment initiatives;
- informs and assists the planning process with Record Office resources;
- the Roman Baths levers £107 Million p.a. into the local economy.

4.4 Improving local transport: the Service –

- promotes use of Park & Ride and public transport in its publicity;
- encourages people to walk between our attractions.

4.5 Investing in our area's young people: the Service –

- gives local schools free admission to the Council's museums;
- organises formal and informal learning opportunities;
- plans to create a major new Roman Baths Learning Centre;
- works with local schools, colleges, universities, independent museums and heritage bodies.

4.6 Supporting cleaner, greener and healthier local communities: the Service –

- uses energy from the hot springs to heat the Pump Room complex;
- minimises delivery miles of food and retail merchandise;
- actively recycles everything it can;
- promotes museums and archives as agents of wellbeing and social cohesion;
- participates in the Bath Business Crime Reduction Partnership.

4.7 Promoting greater choice and independence for older people: the Service –

- makes concessions for seniors in its admission charges;
- ensures there is adequate public seating in its buildings;
- consults with Age UK and the U3A on new developments;
- offers volunteering opportunities for older people in the Museums and Record Office.

5 THE REPORT

5.1 In September 2004 the then Council Executive decided that Heritage Services should be retained as an in-house service and should operate as a business unit with substantially improved operating arrangements focused upon:

- Sustaining and improving the annual profit generated for the Council;
- Improving the visitor experience; and
- Conserving the historic assets for present and future generations to enjoy.

5.2 This approach has been highly successful, with annual profit growing by over 100% in the years from 2005/06 to 2015/16.

5.3 The approved operating arrangements included the introduction of rolling 5-year profit targets for the Service, to be set by Council and included in the Corporate Financial Plan, with financial performance presented in fully inclusive accounts outside normal local authority conventions. This operating model ensures that a holistic approach is taken to decision-making and that all resources required to sustain and generate income flows are fully aligned.

- 5.4 The approved operating model allowed the Service to embark upon a long-term programme of development work on the site to conserve the ancient fabric, enhance the visitor experience and protect and develop the income streams to the Council. All such investment is subject to a detailed annual business case including prudent provision for the costs of borrowing and VAT implications. The Executive also approved the convening of an informal Advisory Board to validate the business case for the investment proposals.
- 5.5 Annual profit is calculated net of all costs, including capital charges, all investment streams (including the maintenance and development of assets) and a full allocation of corporate overhead. In order to deliver the operating model, the Service carried out a restructure in January 2005 to ensure that front-of-house operational and back-of-house building-related activities are fully integrated so as to provide a high-quality experience to daytime and evening customers. This structure remains appropriate to the Council's business requirements today.
- 5.6 The Council's Budget Management Scheme provides flexibility for Business Units to address profit targets on a medium term basis, rather than within individual financial years. The Heritage Services profit reserve that is hypothecated within General Reserves can therefore be used to carry forward surpluses or deficits from year to year in order to achieve the increases in profit required across the five financial years covered by this Plan.
- 5.7 The previous business plan provided for a "step change" in investment to achieve and sustain a significant increase in trading income. The current plan provides for this level of investment to be sustained and modestly increased, including the necessary procurement processes. This will include the procurement of a new security contract and further digital interpretation during the period of the Plan.
- 5.8 The 2016-2021 Business Plan summarises how the Service has performed when benchmarked against other leading visitor attractions. Detailed commercially-sensitive information is provided in the exempt appendices which will be available to Cabinet Members upon request. The Plan assesses the risk associated with assumptions on visitor volumes, including the threats posed by the development of competing visitor attractions, and sets out a business, pricing and marketing strategy to maximise income earned from the visitor market. The Plan also outlines the investment required to achieve and sustain income and profit levels on an on-going basis. Unlike many attractions that have a large local visitor base with many repeat visitors, the Roman Baths must attract one million different visitors each year.
- 5.9 The Council's Senior Management Team (SMT) has recognised that Services operating commercially should be empowered to use systems and processes that are fit for purpose, rather than those designed purely for traditional municipal services.
- 5.10 All systems and processes, including procurement processes, will be reviewed and amended to ensure that they support and enable the effective delivery of Business Plans by Business units across the Council. The Commercial Board will oversee this review in the first half of 2016/17. The Heritage Services Advisory Board will provide expert input to support this review.

- 5.11 There will be a further review of the service operating model in support of the Administration's Spending Review programme over the course of the business plan's life.
- 5.12 A new post of Facilities Technical Officer will be created in 2016/17 to increase capacity for planning and delivering the investment programme included in this Plan. This post, together with additional in-house payroll support, will enable Heritage Services to address the increasing demands of corporately-managed processes.
- 5.13 The joint 'saver' ticket to the Roman Baths and Fashion Museum was extended in 2015/16 to include admission to the Victoria Art Gallery's large temporary exhibition programme. The extension will continue, along with the extension of free admission to the Victoria Art Gallery for Discovery Card holders.

Capital investment will continue to be made in five key areas:

- 5.13 **The next phase of Roman Baths Development** to maintain, refresh and update the 'visitor offer' and extend step-free access throughout the attraction. This will involve:

- a) investment of £750k in the East Baths project, with £250k invested in 2015/16 and a further £500k in 2016/17. This project involves essential conservation work as well as state-of-the-art interpretation and lighting. This project is already included in the Approved Capital Programme.

A budget of £500k was provided for these works in 2015/16, of which £250k is no longer required as planned flood protection works were completed from other Council budgets. Approval is sought for this amount to be transferred to increase the Council contribution to the Archway Centre project.

- b) Investment of £2.3 Million (1.15 Million p.a.) in 2019/20 and 2020/21 in order to refurbish the main Roman Baths shop and begin a further major refurbishment of the entire Roman Baths site. This is highlighted in the emerging capital items for inclusion in the capital programme for next year. Further capital investment will be required to complete this project in the following financial years, phased in order to ensure that the attraction remains open and in order to minimise any impact on the Council's VAT position.

- 5.14 **Investment in the infrastructure of the Roman Baths site;** the works planned for 2016/17 will cost £100k and include conservation of the King's Bath area of the site, together with tanking and fitting out of two vaults beneath Stall Street. These works are recommended for full approval. The projects from 2017/18 to 2019/20 totalling a further £600k are recommended for inclusion in the provisional capital programme. Further details are provided in the attachments to Annexe 1 to this report.

- 5.15 The development of **the Archway Centre**, funded mainly from grants. The project, which has already received £168k of HLF Round 1 funding, will refurbish run-down former spa buildings and give them a new lease of life by creating in them a World Heritage Centre and Roman Baths Learning Centre. For the first time there will be one city-centre base where residents and visitors will be able to learn why Bath is a World Heritage Site and then go out and explore it for themselves. The Roman Baths Learning Centre will bring the site's educational

offer up to the standard now expected of a major visitor attraction, with state-of-the-art facilities and four times the present capacity. It will be used not just by schools but by learning and community groups of all ages. The construction process will offer skills development opportunities for apprentices and engagement opportunities for volunteers. Once it is up and running, the Service will work with partner bodies to deliver programmes for a range of new audiences. The project will also open up to public view an area of the Roman Baths that has never before been seen by daytime visitors.

- 5.16 The total cost of this project is currently estimated at £5.317 Million, which will be funded from grant and other contributions, primarily from the Heritage Lottery Fund, and a Council contribution of £750k corporately-supported borrowing and £250k service-supported borrowing, the latter to be transferred from this project from the East Baths project, subject to approval (as above). This project is recommended for full approval in the capital programme, subject to the receipt of Round 2 HLF funding.
- 5.18 Heritage Services has been successful in gaining a Round 1 HLF award to fund the main Round 2 application, which will be made in June 2016.
- 5.19 Investigations have revealed that the **Victoria Art Gallery air conditioning system** requires urgent replacement, at a cost of c. £150k. These works will need to be carried out as a new capital project as early as possible in 2016/17 in order to ensure that the Gallery can remain open and attract high quality exhibitions. Approval is sought for this new project to be added to the full capital programme, subject to completion of the Project Implementation (PID) process.
- 5.20 Installation and development of an integrated **Visitor Management System**, which is already included in the Approved Capital Programme. Re-phasing of the project will require expenditure of £100k on the retail and discovery card elements of the project to be deferred from 2015/16 to 2017/18.
- 5.21 These developments, along with all other capital projects, will be subject to the Council's project implementation and capital review processes, together with planning processes as appropriate.
- 5.22 This Plan provides the business strategy necessary to meet the Council's financial planning assumptions of a sustained increase in profit and incorporates a programme of further cost base reductions to divert resources into investment.

6 RISK MANAGEMENT

- 6.1 The report author and Lead Cabinet member have fully reviewed the risk assessment related to the issue and recommendations, in compliance with the Council's decision making risk management guidance.
- 6.2 The 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 risk that the profit targets for 2016-2021 will not be achieved, both due to the sensitivity of planning assumptions and to national and international economic factors. The Robustness of Estimates statement for the Place Directorate will include provision for this risk in the financial year 2016/17.

7 EQUALITIES

- 7.1 An Equalities Impact Assessment of the Heritage Service Business Plan was undertaken as part of the wider Service equalities impact action plan that looked at all business and non-business activities across the Service.

8 RATIONALE

- 8.1 Heritage Services operates as a business unit, with annual profit targets and investment levels agreed corporately on a rolling basis. The business strategy to achieve these targets is detailed in a Business Plan ('The Plan'), reviewed and revised each year. The Plan provides a fully integrated approach to income generation and the investment necessary to achieve it, and is aligned with the Council's corporate aims and objectives.
- 8.2 In 2010 the Audit Commission commended Heritage Services for its achievements in value-for-money and for the business systems that enable these to be made as part of their assessment of the Council's 'Use of Resources'. A review of governance by the Council's internal audit service in 2013/14 rated the current arrangements as 'excellent'.

9 OTHER OPTIONS CONSIDERED

- 9.1 During 2014/15 the s151 Officer and Strategic Director (Place) commissioned an options review to consider the best governance model for the Service and to identify any areas where business performance could be enhanced yet further. The review recommended that Heritage Services remain an in-house service and that its operating freedoms granted in 2004 be restored in order to enable it to continue to thrive in the competitive visitor attractions market.
- 9.2 The process of revising and updating the Business Plan has involved consideration of a number of different pricing, marketing and investment options. The financial and business effects of these options were modelled and evaluated. The business strategy attached recommends a coherent and integrated series of decisions that are most likely to enable the Service to meet the targets required of it by the Financial Plan and sustain this level of performance in future years.
- 9.3 Another option would be for Heritage Services to cease functioning along the business lines of the past ten years and return to being a conventional local authority museum service. The absence of investment would lead to a loss of focus and competitiveness and result in falling revenues to the Council. This course of action is not recommended.

10 CONSULTATION

- 10.1 Cabinet members; Scrutiny Panel; Staff; Service Users; Local Residents; Section 151 Finance Officer; Monitoring Officer.
- 10.2 Work on the Business Plan has involved consultation with a number of people and agencies:
- 10.2.1 The Strategic Director 'Place' and Divisional Director 'Community Regeneration' have been consulted; the Heritage Services Advisory Board was consulted, in

particular on investment plans. The Panel advises the Cabinet Members for Finance and Efficiency and Economic Development and the Chair of the Planning, Housing and Economic Development Policy Development and Scrutiny Panel.

10.2.2 Ongoing sectoral liaison and benchmarking through the Association of Leading Visitor Attractions (ALVA) has ensured the best possible market intelligence;

10.2.3 Colleagues in Finance were also fully consulted and involved;

10.2.4 Visitor feedback is gathered and analysed during the year to inform the decision making process.

11 ISSUES TO CONSIDER IN REACHING THE DECISION

11.1 Customer Focus; Economic Development; Sustainability.

12 ADVICE SOUGHT

12.1 The Council's Monitoring Officer (Divisional Director, Legal and Democratic Services) and Section 151 Officer (Divisional Director, Finance) have had the opportunity to input to this report and have cleared it for publication. The Section 151 Officer has made a number of amendments to the report.

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Sponsoring Cabinet Member	Councillor Patrick Anketell-Jones (Economic Development)
Background papers	Report of the Council Executive, Thursday 14 th October, 2004 Report to Cabinet, Heritage Services Business Plan 2015-2020 and Museum Forward Plans, 11 February 2015
Please contact the report author if you need to access this report in an alternative format	