

## Heritage Services Business Plan 2016–2021

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#### Attachments:

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

## I. The business unit.

The Council established Heritage Services as an internal business unit in 2005. It approved bespoke financial arrangements to give the Service the freedom and agility to plan and to implement investment, pricing and marketing decisions.

The Service is unique in the UK in operating at no cost to the local taxpayer. It returns a net surplus of over £5 Million p.a. to the Council, measured on a full cost basis. Within the Council it is unusual in self-funding **all** cost increases, including increases in employer on-costs and other fixed costs. As a result, in 2016/17 the Service will return a net surplus of £5.6 Million, having first funded staff-related cost increases in excess of £100k p.a. that will be met corporately for other Services.

Through its rolling 5-year business plan, the Service maximizes the commercial opportunities offered by the Council's world class heritage assets. Using 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 streams earned through them.

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

This business plan continues to address the key issues identified by the high-level options review of Heritage Services' governance arrangements and development opportunities led by Winckworth Sherwood (WS) in 2013/14. It also progresses the Forward Plans for the Roman Baths, Fashion Museum and Victoria Art Gallery that have been approved by Cabinet over the last two years.

The financial pressures faced by the Council require a more commercial approach to be taken across many Services. The Council's Senior Management Team has agreed in principle that all such Services, including Heritage Services, should be empowered to use systems and processes that are fit for purpose, rather than the systems and processes designed purely for traditional public sector services.

This includes the processes available to procure goods and services. Heritage Services' procurement requirements are consistent with those of other operators of major UK visitor attractions. The procurement of goods and services of the appropriate quality and within the necessary timescales is extremely difficult within a municipal framework. The Council's Head of Procurement recognises the difficulties that this causes and has undertaken to work with the Service to achieve improvements and efficiencies.

Achievement of the financial targets within this Plan will depend heavily upon the availability systems and processes that are fit-for-purpose, including procurement processes tailored to the requirements of a Service required by the Council to succeed commercially in the competitive visitor attractions sector.

## 2. Business philosophy.

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

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

This business philosophy is characterised as the ‘tripod of sustainability’ in Figure I below.



Figure I. The Tripod of Sustainability.

This model 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. It demonstrates that the more one disturbs this balance by unduly extending or contracting any one of the tripod legs, the less sustainable the Service becomes.

The philosophy also applies to the city of Bath, where authenticity and integrity are hallmarks of its World Heritage Site status.

### 3. Business performance 2005-2015.

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

Since 2005 Heritage Services has:

- earned income (turnover) of £117 Million;
- made a total net profit of £37 Million – a return of 32% on annual turnover;
- more than doubled annual profit to over £5 Million p.a.

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

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

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

Admission charges across this period have risen by well above the rate of inflation. One would expect this to reduce demand, but visitor numbers have still increased significantly due to improvements in the visitor experience.

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

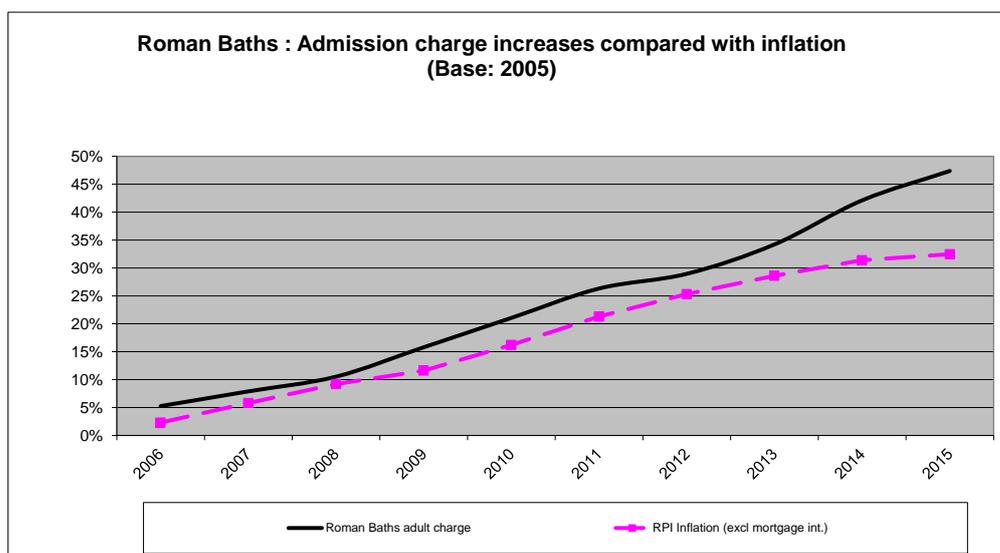


Figure 2: Roman Baths' admission charge increases compared with inflation (2006-2015).

In Figure 3 below the continuous line on the graph shows the growth in Roman Baths' total visitor numbers. The dotted line illustrates the 5-year trend which currently stands at just over 950,000 visitors p.a.

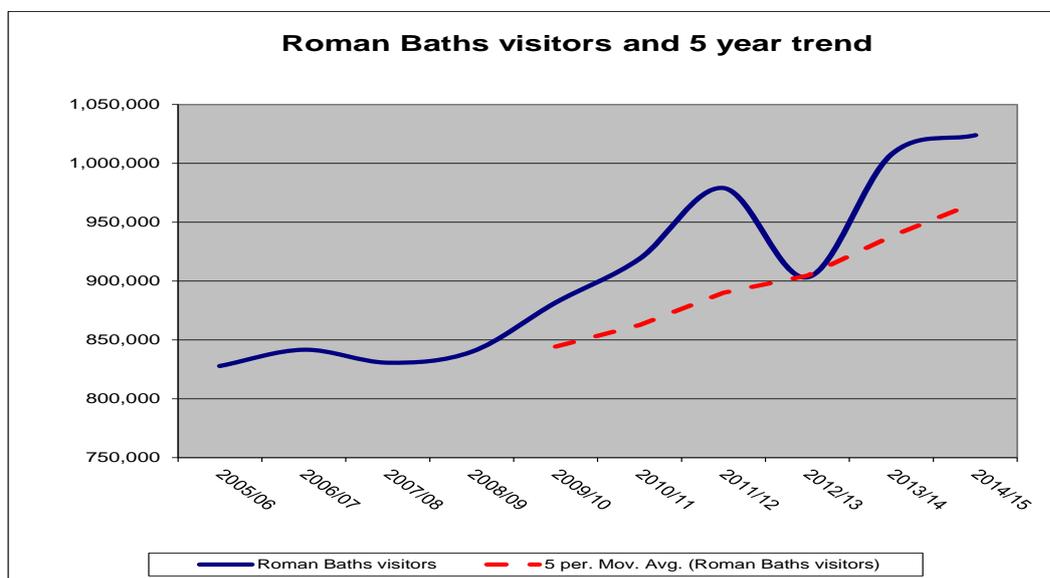


Figure 3: Roman Baths' visitors 2005-2015 showing the 5-year trend line.

### Threats to the business.

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

- 2000** Mad Cow Disease (BSE);
- 2001** Foot-and-Mouth Disease (FMD); 9/11;
- 2002** War in Afghanistan; Bali bomb;
- 2003** Wars in Iraq and Afghanistan; SARS scare; Bath Spa not open;
- 2004** Wars in Iraq and Afghanistan; Madrid bombs; Bath Spa not open;
- 2005** Wars in Iraq and Afghanistan; London bombs; Bath Spa not open;
- 2006** Wars in Iraq and Afghanistan;
- 2007** Wars in Iraq and Afghanistan; FMD; Glasgow Airport attack; West Country flooding;
- 2008** Wars in Iraq and Afghanistan; Credit crunch;
- 2009** Wars in Iraq and Afghanistan; Recession; Swine 'flu;
- 2010** War in Afghanistan; Recession; Ash Thursday;
- 2011** War in Afghanistan; Recession; Bombing of Libya; Japan earthquake/tsunami;
- 2012** War in Afghanistan; Recession; London Olympics; wettest summer in 100 years;
- 2013** War in Afghanistan; Unrest in Egypt and Syria;
- 2014** War in Afghanistan; Unrest in Egypt, Syria and Iraq; Stonehenge; West Country flooding; ebola; Malaysian Airlines' disasters;
- 2015** Islamic State; terror attacks in North Africa, Paris and Belgium; migration crisis.

#### 4. Performance in 2014/15 and 2015/16.

Visitor numbers at the Roman Baths hit record levels in 2013/14 (1,008,000) and 2014/15 (1,024,000), and are expected to marginally exceed even these levels in 2015/16 (1,033,000 projected). This followed several years of investment in the visitor experience, new marketing to support it and the emergence from recession.

The budgets for 2014/15 and 2015/16 assumed overall visitor numbers that were:

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

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

The profit target was increased significantly for 2015/16, when performance has been very close to budget. On current projections profit is likely to marginally exceed the annual target by c. £248,000 (1.6% of turnover).

The table at Figure 4 below illustrates the total income and profit generated in 2014/15 and currently forecast for the financial year 2015/16.

<b>Figure 4: Heritage Services financial performance: 2014/15 and 2015/16</b>						
	2014/15 Actual	2014/15 Budget	Increase / (Decrease)	2015/16 Forecast	2015/16 Budget	Increase / (Decrease)
	£000	£000	£000	£000	£000	£000
External turnover (income excluding internal charges)	15,034	14,073	962	15,848	15,477	370
<b>Net profit</b>	<b>5,293</b>	<b>4,581</b>	<b>712</b>	<b>5,243</b>	<b>4,995</b>	<b>248</b>
Roman Baths visitors	1,024,000	948,000	76,000	1,033,000	1,010,000	+23,000
Roman Baths average spend (income) per visitor*	£11.84	£11.94	-£0.10	£12.15	£12.28	-£0.13
* (admission income plus gross retail (& other sales) profit and café / restaurant commission)						

## Trend analysis.

The increases in income and profit since 2013/14 have been driven almost entirely by record increases in Roman Baths' visitor volumes. Budgets have been adjusted upwards to assume the continuance of these record visitor numbers. The resultant convergence of "actual" and "budgeted" performance is illustrated in the graph at Figure 5 below, which charts the 1-year trend in average monthly visitor volumes and day-visitor-related income.

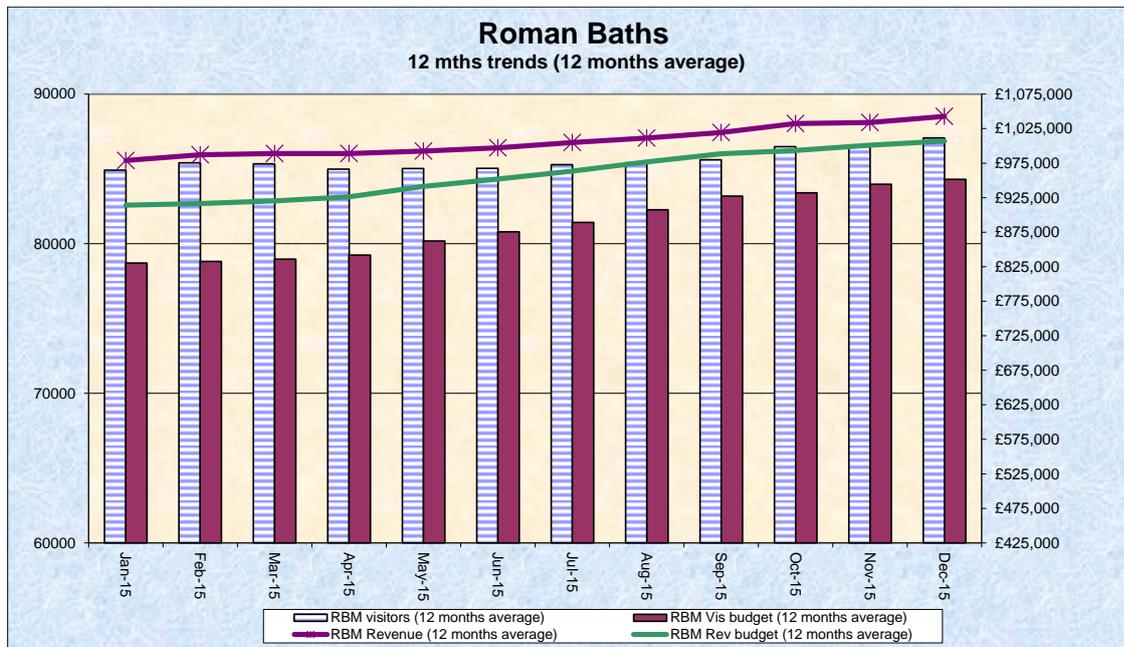


Figure 5: 12 month trend in average monthly visitor volumes and day-visitor-related income.

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

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

Figure 5 shows that, at December 2015, actual average monthly income has grown to c.£1.04 Million (c. £12.5 Million p.a.) as a result of c.87,000 visitors per month (1 million + p.a.). This is just above the average budgeted level of income of c.£12.1 Million p.a., based on a rolling average of just over 84,000 visitors per month.

The short term trends illustrated in this graph are reliant upon sustaining visitor numbers at the current, record levels. The budget proposed for 2016/17 and subsequent years assumes that these trends will be sustained at unprecedentedly high levels over the next five years. Section 9 on Risk below illustrates the financial impacts should these record short term trends not be sustained.

Visitor numbers have increased marginally following the implementation of the Visitor Management System in March 2015. This system records family visits differently from the previous system. As a result, non-paying child visitor numbers recorded in 2015/16 are higher by c.10,000 (1%). The visitor numbers assumed for future years have been adjusted to reflect this change in methodology.

The Roman Baths will face severe congestion on a more sustained basis than in previous years. In 2015/16 the attraction has received more visitors than the maximum capacity (5,000) on 20 days, as against 18 days in 2014/15. The attraction was close to capacity throughout the peak season.

Overcrowding at peak times of year is starting to impact on customer satisfaction levels, as illustrated in the graph at Figure 6 below, which measures Roman Baths performance (in the columns) against the ALVA average (the 0% line. ALVA = Association of Leading Visitor Attractions). This shows that visitor satisfaction has declined in each of the last three financial years alongside the record numbers of visitors.

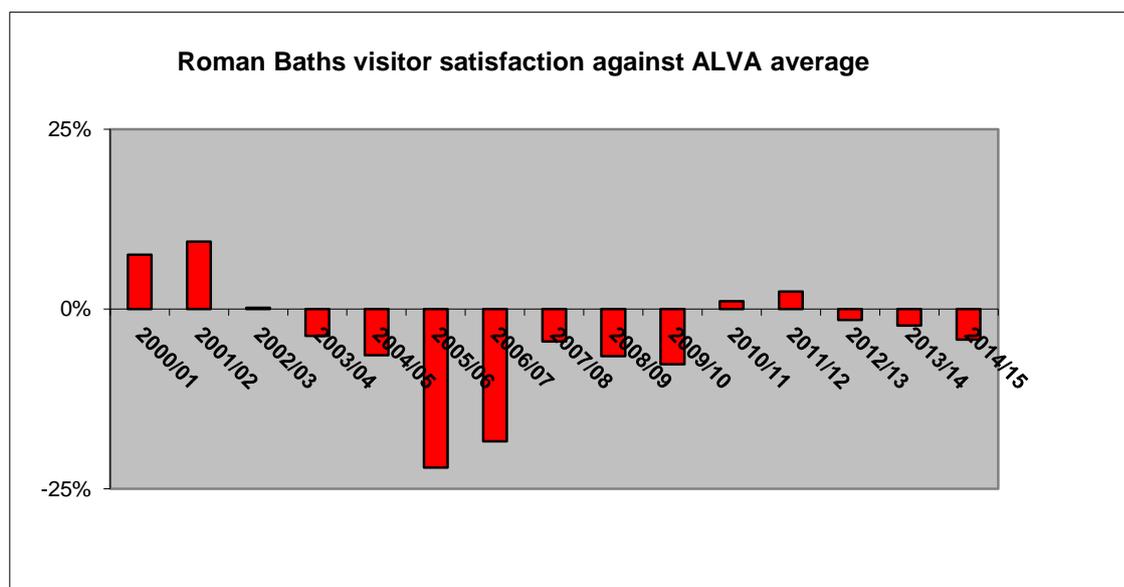


Figure 6: Roman Baths' visitor satisfaction against the ALVA average.

The majority of the increase in income achieved from 2005/06 to 2015/16 has been because of increases in prices and average visitor spend. Only 24% of it has been as a result of increases in visitor numbers. Annual budgets have assumed exceptionally high levels of visitor numbers, especially in the last three financial years. When budgets have been exceeded in these years it has been because actual visitor numbers in each year have surpassed even these unprecedentedly high assumptions.

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

## 5. Business targets 2016-2021.

The targets in this Plan aim to grow annual profit by £1.6 Million (32%) over the next five financial years, so that by 2020/21 annual profit will be £6.65 Million p.a.

The Business Plan 2016-2021 proposes measures that will achieve the increase in the first year (2016/17). The increase required over the cumulative five year period will be achieved by using the Heritage Services hypothecated profit reserve to carry forward cumulative surpluses or deficits, illustrated at Figure 7 below.

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

- Profitability is already amongst the very highest nationally;
- Increases in day visitor income rely wholly on price increases as visitor volumes are at their maximum level;
- Expansion of secondary spend is constrained by restrictions in physical space;
- Increased investment is required to underpin price increases;
- Increase in fixed costs, including capital charges related to capital investment;
- Increases in Superannuation and National Insurance costs and implementation of the living wage, together with consequent effects on wage differentials;
- Increases in costs due to changes in corporate processes, including payroll and project management.

The table at Figure 7 below demonstrates likely performance in each year based on the updated, detailed financial model that underpins this Business Plan. This shows that the targets should be marginally exceeded across the 5 years of the Plan. The over and under-achievements each year are well within the margin for error on such a model. All assumptions will be fully monitored and reviewed as usual over the coming year and will be reflected in future revisions of this Plan.

<b>Figure 7: Heritage Services: key financial and visitor targets</b>						
	2015/16 (budget)	2016/17 (proposed)	2017/18 (proposed)	2018/19 (proposed)	2019/20 (proposed)	2020/21 (proposed)
	000	000	000	000	000	000
External turnover (income excluding internal charges)	£15,460	£16,485	£17,012	£17,753	£18,385	£18,971
<b>Net Profit</b>	<b>£4,995</b>	<b>£5,595</b>	<b>£5,763</b>	<b>£6,115</b>	<b>£6,362</b>	<b>£6,553</b>
Profit target	£4,995	£5,595	£5,845	£6,095	£6,345	£6,595
Surplus (shortfall) against target		£0	(£82)	£20	£17	(£42)
Cumulative surplus	B/F: £206	£206	£124	£144	£161	£119
<i>Net profit per Council Tax payer</i>	£63	£71	£73	£77	£80	£83
<i>Profit as a % of external turnover</i>	32%	34%	34%	34%	35%	35%
Roman Baths visitors	1,010	1,035	1,035	1,035	1,037	1,038
Fashion Museum visitors	97	100	100	100	100	100
Victoria Art Gallery visitors	149	144	144	144	144	144
Roman Baths average income per visitor*	£12.28	£13.00	£13.47	£14.12	£14.58	£15.05
* (admission income plus gross retail (& other sales) profit and café / restaurant commission)						

The year-on-year increase in profit of £600k in 2016/17 will necessitate a significant increase in admission, retail and other trading income, offset by increases in staffing costs and the sustained investment required to sustain and continue to grow these income streams, as illustrated in the table at Figure 8 below.

<b>Figure 8: Increase in income, costs and profit from 2015/16 budget to 2016/17</b>		
Area	Increase £000	Rationale
Increase in trading income	£1,025	External turnover less non trading income
<b>Less:</b>		
Increase in employee costs	£365	Superannuation and NI; Pay award; National Living Wage; new corporate processes; balance of investment introduced in 2015/16, adjusted for grant-funded staff
Increased marketing + improvements in the visitor experience and facilities	£120	To sustain higher visitor volumes
Increase in maintenance and dilapidations	£40	Inflation and Assembly Rooms lease (legal requirement)
Increased retail purchases	£59	Cost of retail sales included in trading income above
Increases in debt charges; utilities; business rates, and inflation	£29	Fixed and other unavoidable costs, net of saving achieved in interpretation costs
Reduction in grant expenditure	(£188)	End of grant funded projects
Total increase in costs	£425	
<b>Additional net profit</b>	<b>£600</b>	<b>Included in Figure 7 above</b>

## 6. Business Strategy 2016-2021.

To achieve the business targets above, it will be necessary to continue the strategy contained in the Heritage Services Business Plan 2015-2020. This will mean:

- Keeping Roman Baths visitor numbers at unprecedentedly high levels;
- Keeping admission charges amongst the highest in the country;
- Sustaining staffing and investment to improve visitor satisfaction and support large price increases;
- Generating an extra profit of £600k next year, and an extra profit of £250k p.a in each subsequent year.

This may be summarised as 'the five highs':

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

The detailed proposals in the Plan include:

### **Roman Baths:**

- Significantly increase admission charges in 2018, with further large increases in the other four years; these increases follow a significant price increase in 2016;
- Sustain visitor numbers at the current record levels of over 1 million in each financial year, including the current record numbers of group visitors;
- 90% of the planned increase in admission income will come from increases in admission prices; no significant increase in overall visitor numbers is assumed;
- All price increases will be monitored and reviewed in detail to assess possible impacts on price resistance and yield and inform future Business Plans.

### **Fashion Museum:**

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

### **Victoria Art Gallery:**

- Sustained visitor numbers and admission income via the expanded combined ticket, introduced in 2015;
- Increase in opening hours to cover 7 days a week in order to be consistent with the other sites covered by the expanded combined ticket;

- Continued free admission to charging exhibitions for residents (ie Discovery Card holders) introduced in 2015.

**Feasibilities for future developments:**

- Suitable premises are still needed for a one-stop-shop History Centre for the Council's 'Designated' archives collections;
- A feasibility study has examined options for the development of the Victoria Art Gallery site into the adjacent void to improve its financial sustainability; the findings will be reviewed over the coming year;
- A further feasibility study has examined options for the re-location of the Fashion Museum when the current Assembly Rooms lease expires in 2022; potential sites for re-location have been identified and these will be reviewed further in 2016/17.

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

## 7. Investment.

Staffing and investment continue to be relatively low when compared with other visitor attractions. To sustain and grow visitor numbers, satisfaction levels and income, the increased level of investment in the quality of the visitor experience and associated marketing will be sustained.

Recent research by Visit Britain and others has emphasised the importance of developing the visitor experience and emotional engagement with the visit. Investment in the visitor 'product' over the next five years will therefore include not only physical improvements but also new developments in digital and virtual interpretation. The award of a new audio guide contract in February 2016 includes multi-media as well as audio content, together with the introduction of a smartphone "app".

**The Archway Centre:** the Plan also provides for the operating costs of the Archway Centre, which should open during 2018/19. The project, which has already received £168k of HLF Round 1 funding, will refurbish some 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; and, 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. The net operating costs of between £150k and £200k p.a. represent an investment of c. 1% of annual turnover to sustain future audiences and income flows.

**The Assembly Rooms site**, incorporating the Fashion Museum, has seen increased fixed costs, in particular the dilapidations programme and a downturn in all income streams. In order to reverse this trend investment on the site will focus on:

- enhancing the visitor experience to achieve the visitor numbers planned for 2016/17 onwards; and
- preparing the Fashion Museum for relocation at the end of the current Assembly Rooms lease in 2022.

Investment in exhibitions and displays at the Fashion Museum will be reviewed alongside planned dilapidation works at the Assembly Rooms site to ensure the efficient use of resources and to contain costs within the overall level included in the Business Plan 2015-20.

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

- Full-year effect of increased customer-facing, marketing and maintenance staff to cope with record visitor volumes and extended opening hours – an additional £30k in 2016/17;
- Marketing activity: a small (£80k) further increase in the enhanced level of investment established in 2015/16, to deliver continued record visitor numbers and attract new off-peak markets;
- Improvements in the visitor experience and facilities, and continued increased levels of security – an additional £50k p.a. in 2016/17 and a further £60k p.a. from 2018/19.

**Capital investment:** the three major projects during the life-time of the Plan will be:

- **East Baths Development:** environmental protection work, conservation, new display lighting and the very latest virtual interpretation techniques to raise the standard of presentation and quality achieved throughout the rest of the museum and Baths. This project will be completed in 2016/17.
- **The Archway Centre:** this is subject to a Round 2 Heritage Lottery Fund (HLF) grant and a capital contribution by the Council of £1 Million (of which £750k will be corporately funded). While the Learning Centre will protect existing income streams, its principal benefit will be as a long-term investment in inspiring the audiences of tomorrow. This project is currently planned for 2017/18 and 18/19.
- **Roman Baths development:** parts of the last development programme are over five years old, and the site requires another cyclical programme of works

phased over several years. This cycle will both allow the attraction to remain open and avoid the adverse VAT impacts that will be suffered if significant investment takes place in any one year. It is anticipated that c.£2.3 Million will be invested in this project in 2019/20 and 2020/21.

The core programme of capital investment in the **infrastructure** of the Roman Baths will continue as in previous years at a level of £100-£200k p.a. Individual projects will continue to be reviewed annually by the Heritage Services Advisory Board and via the corporate capital approvals process.

Capital investment of £100k in the second phase of the **Visitor Management System** to develop the retail and Discovery Card modules has been postponed. This phase of the project will require at least one year to plan and implement, and will therefore be deferred to 2017/18.

**Victoria Art Gallery:** recent investigations have revealed that the Gallery's air conditioning system requires urgent replacement, at a cost of c.£150k. These works will be carried out as a new capital project as early as possible in 2016/17 to ensure that the Gallery has the necessary environmental conditions to attract top quality exhibitions. This is particularly important now that the Gallery forms part of a joint offer to customers with the Roman Baths and Fashion Museum.

## 8. Marketing.

Achieving and sustaining target visitor numbers of more than 1 million p.a. requires a major change to marketing strategy and an increase in marketing activity. The team has been strengthened to increase its capacity and its digital skills. It will embark on a series of substantial out-of-home marketing and promotional campaigns for the Roman Baths. These will encourage off-peak and evening visitors and help to reduce crowding at peak times.

The WS Options Review recognised the high performance of Heritage Services' commercial activities, but advocated better and bolder marketing campaigns to national and international markets. In response, the highly successful summer evening campaign undertaken for the past three years will be bolstered by spring and autumn Roman Baths campaigns in 2016 to encourage adult visitors at off-peak times. This will tap into emerging trends such as short breaks by young couples and empty-nesters. The summer campaign will be extended to the London underground network to reach some of the substantial potential market in the south east of England. Recent accessibility improvements at the Roman Baths also give opportunities to reach the increasing number of people taking holidays with family members of different generations.

Mobile-optimisation has transformed the visibility of our websites. They are now being enhanced to make the most of video streaming, supported by social media messaging and active digital engagement as part of larger marketing campaigns. We have increased our capacity to create, manage and monitor good press and public relations stories, both on-line and in traditional media.

2016 will see the introduction of on-line ticket sales for individuals, following the integration of credit card sales with the Council's other financial systems. On-line ticket purchase is already in place for some of our agents and resellers.

Emerging markets, in particular from the Far East, continue to replace the dominance of North America. Additional marketing capacity, native speaker assistance and new staff skills are being developed to realise the potential of these opportunities. It is the success in reaching long-haul markets, in particular Mandarin-speaking visitors, which has sustained large visitor numbers in the winter months in recent years.

Developments in the Roman Baths include interpretation in four new languages in 2016, the redisplay of the East Baths in 2017 and opening up of never-before seen Roman remains in autumn 2018. The building of the Archway Centre will be supported by a communications plan for the new schools' programme and life-long learning opportunities, running from 2017 to a major launch in autumn 2018 and beyond.

A complete redisplay of the Fashion Museum will be supported by a step-change in marketing and promotion designed to sustain current visitor numbers. Victoria Art Gallery promotion will also be increased, in particular by encouraging sales of three-way saver tickets.

## 9. Risk.

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

This risk is reflected in the Council's General Reserves via the Robustness of Estimates calculation for the Place Directorate and the Heritage Services profit reserve. In view of the increase in risk over the next 5 years, the total net risk provision was increased to £1.1 Million (c. 7% of income), consisting of the £206k currently hypothecated to Heritage Services in the profit reserve plus a further £900k within General Reserves. This Plan recommends that the total net risk provision should be maintained at that level for 2016/17, and increased in future years.

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

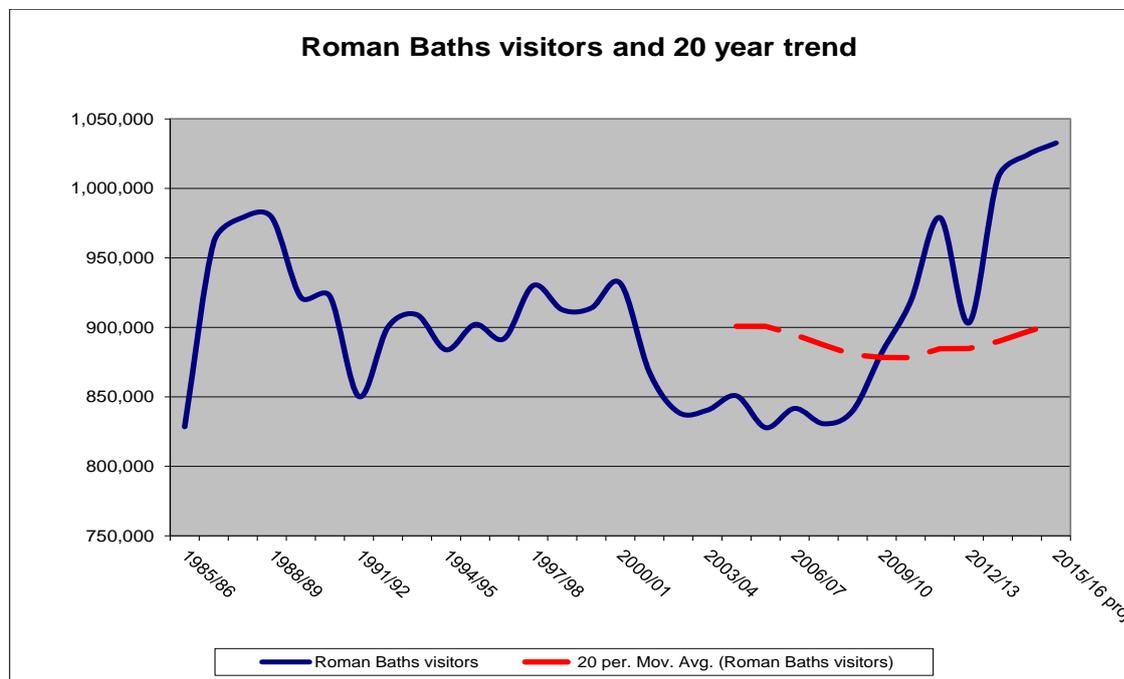


Figure 9: Roman Baths' visitors and trends 1985 to 2015.

The numbers assumed for each of the next five years are substantially higher than this underlying trend.

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

<b>Figure 10: Roman Baths visitor numbers: trends and risks</b>		
Visitor trend	Visitor numbers	Income shortfall in 2016/17
3 year trend (2012– 2015)	c.980,000	£0 - £700k p.a.
5 year trend (2010 –2015)	c.965,000	c.£900k p.a.
20 year trend	c.900,000	c. £1.75 Million p.a.
Seven years to 2009/10	c.840,000	c. £2.5 Million p.a.

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

<b>Figure 11: Roman Baths visitor numbers: illustration of variations</b>		
Factor	Visitor numbers	Value of 10% variation in 2016/17
Easter weekend	c. 17,000	c.£22k
Busy summer Saturday and Sunday	c. 11,000	c.£14k
Busy summer weekday	c.5,000	c. £7k

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

**External events:** the Business Plan assumes that there will be no significant geo-political, security, economic, environmental or meteorological events in the next five years that will inhibit people's willingness to travel or visit UK attractions.

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

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

**Financial:** expenditure to support the Service's successful growth of income will be an increasing proportion of overall Council expenditure, particularly as the Council's finances shrink. This will pose an increasing risk to the Council's 'partial exemption' VAT position that could incur an additional VAT cost of around £1m p.a. if the 5% threshold is breached. The Plan assumes that rates of interest and inflation will continue at their recent, historically low levels.

**Systems and processes:** financial pressures on the Council have led to increasing standardisation of process and systems. These changes focus on supporting shrinking local authority services aimed at a local client base, but are often not appropriate for a business that the Council expects to grow and sell its services commercially to a national and international customer base.

The WS Options Review highlighted the imperative for the Service to be able to use industry standard, fit-for-purpose commercial systems and procedures if it is to remain competitive. In order to successfully deliver the continued increases in income and profit required by this Plan it is essential that the Service is empowered to employ appropriate systems and processes to achieve the commercial objectives that the Council has set. This includes the ability to specify and control investment projects to ensure that they are fully aligned with commercial and marketing objectives.