

Bath & North East Somerset Council

MEETING	Cabinet	
MEETING DATE:	7 February 2018	EXECUTIVE FORWARD PLAN REFERENCE:
		E 3024
TITLE:	Heritage Services <u>Business Plan 2018-2023</u> update	
WARD:	All	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Annexe 1 – Heritage Services Business Plan 2018-2023 Annexe 2 – Business Plan financial summary		

1 THE ISSUE

- 1.1 This is the third update of the Heritage Services five-year Business Plan 2015-2020 that was approved by Cabinet in February 2015. It covers the five financial years from 2018/19 to 2022/23 and has been prepared following the annual in-depth review of business activity. The revised Plan includes an analysis of the risk involved.

2 RECOMMENDATION

The Cabinet is asked to;

- 2.1 Approve the Heritage Services Business Plan 2018-2023 (“The Plan”);
- 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.

3 RESOURCE IMPLICATIONS (FINANCE, PROPERTY, PEOPLE)

- 3.1 **Finance:** The Plan proposes a budget for 2018/19 that consists of £23.39m of income, £15.60m of expenditure, resulting in a profit of £7.79m returned to the Council.
- 3.2 **Investment:** The Plan proposes £1.46m of revenue investment in 2018/19, a reduction of £29k from level forecast in the 2017/18 business plan update. Potential “exit costs” from the Assembly Rooms have been built into the Investment Plan in 2020/21 and 2021/22.

- 3.3 **Property:** the first two years of The Plan will see the completion of the £5m HLF-supported Archway Project in York Street and Swallow Street.
- 3.4 **People:** Within the Service each team's structure, both front-of-house and back-of-house, has been reviewed to ensure the most efficient and resilient staff arrangements are in the plan for 2018/19. Some structural changes have been made and their financial consequences built into the plan, saving a total of £82k p.a. in staff costs and a further £50k p.a. of contractor costs.

4 STATUTORY CONSIDERATIONS AND BASIS FOR PROPOSAL

- 4.1 **Equalities:** 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.
- 4.2 **Heritage legislation:** all investment proposals for maintenance and conservation of historic fabric will be subject to consent via a Listed Building application or a Scheduled Ancient Monument application.

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 Following this approach, annual profit to the Council has grown by **214%** in the years from 2005/06 to 2017/18.
- 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. 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.
- 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 income streams and the profit returned to the Council from them. 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 is periodically reassessed but 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 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.
- 5.8 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. All systems and processes, including procurement processes, are reviewed and amended by SMT to ensure that they support and enable the effective delivery of business plans by business units across the Council. When required the Heritage Services Advisory Board will provide expert input to support this review.

Summary of The Plan:

- 5.9 **Business strategy:** the Plan will continue to seek sustainability in the Service's three key areas of activity: Conservation (sustaining our heritage for the future); Customers (sustaining the audiences who come to enjoy it); and Commercial (sustaining the income streams they bring).
- 5.10 **Pricing policy:** to achieve the level of profit required by the Council's Financial Plan, admission charges will continue to rise by above the rate of inflation, while Roman Baths' visitor numbers will remain at the historically high level of 1.2m. This strategy assumes no appreciable increase in customer resistance and no major security or economic events. Investment in staff 'engagement training' and the quality of the visitor experience will continue, to improve visitor satisfaction levels despite the congestion caused by record attendances.
- 5.11 **Marketing:** the marketing strategy will continue to promote shoulder months and summer evening opening to reduce high season daytime congestion. Digital marketing campaigns will encourage people to book on-line using the website. The Residents' Discovery Card has been rebranded and will be promoted both to encourage use by card-holders in Bath and North East Somerset and to grow the visiting friends and relatives (VFR) market.

Overseas marketing will focus on three areas:

- **Brexit:** the weak Pound continues to encourage inbound tourism and will retain the 'staycation' effect in 2018. However ease of travel between the Schengen Zone and Britain after 2019 is uncertain.
- **US Market:** the weak Pound continues to offer opportunities to US travellers market, possibly assisted by the election of a controversial president.
- **China:** 2017 was the first year that independent Chinese travellers outnumbered those travelling in groups. The Roman Baths has attained a high profile in Chinese outbound tourism. Chinese visitors now represent 11% of total visitors to the Roman Baths.

5.12 Group business: from January 2018 the Service is starting a long-term strategy to reduce its dependence on the coach-borne group travel business, which currently accounts for 32% of visitors to the Roman Baths. Phased over three years, the discount given to groups will reduce from 38% to 30% to bring it in line with industry practice. Although this sector brings over £3.5m p.a. of admission income to the Service, spend-per-head is significantly lower as group travellers have less time to spend in the shop and no time to use the restaurant. With visitor numbers at record levels, groups can significantly contribute to congestion within the confined spaces of the Roman Baths site. This strategy also reflects the reduction in coach parking in Bath and ongoing concerns about traffic congestion and diesel emissions. The strategy aims to reduce the proportion of group visitors from 32% of the total to 25% by 2023.

5.13 Investment: revenue investment will continue in the areas of Standards & Conservation; Visitor Experience; Commercial Development; and the Future Offer. From 2018 the Service will aim to move from capital to revenue investment to minimise the amount of Service-supported debt charge taken on. Key investment projects over the lifetime of The Plan will include:

- 2018/19: York Street public realm improvements; completion of Victoria Art Gallery air-conditioning unit; spa water energy capture scheme;
- 2018/19 + 2019/20: continuation and conclusion of the Archway Project;
- 2019/20 + 2020/21: Roman Baths monument conservation works;
- 2020/21: Assembly Rooms air-handling plant;
- 2022/23: Visitor Management System, next phase.

5.14 Cost base: the Service will continue to zero-base its budgets on an annual basis.

5.15 Contingency: from 2018/19 The Plan will include a £350k (2%) contingency to help mitigate the impact of unforeseen, external or internal events.

6 RATIONALE

6.1 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 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.

- 6.2 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'.

7 OTHER OPTIONS CONSIDERED

- 7.1 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.
- 7.2 Another option would be for Heritage Services to cease functioning along the business lines of the past twelve 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.

8 CONSULTATION

- 8.1 Cabinet members; Heritage Services Advisory Board; Staff; Service Users; Local Residents; Section 151 Finance Officer; Monitoring Officer.
- 8.2 Work on the Business Plan has involved consultation with a number of people and agencies:
- (1) The Strategic Director 'Place' and Divisional Director 'Community Regeneration' have been consulted; the Heritage Services Advisory Board was consulted.
 - (2) Ongoing sectoral liaison and benchmarking through the Association of Leading Visitor Attractions (ALVA) has ensured the best possible market intelligence;
 - (3) Colleagues in Finance were also fully consulted and involved;
 - (4) Visitor feedback is gathered and analysed during the year to inform the decision-making process.

9 RISK MANAGEMENT

- 9.1 A risk assessment related to the issue and recommendations has been undertaken, in compliance with the Council's decision making risk management guidance.
- 9.2 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 2018-2023 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 2018/19.

- 9.3 Significant economic, environmental or geo-political events during 2018/19 could cause a drop in visitor numbers with an adverse impact on income and therefore profit returned to the Council.

Contact person	Stephen Bird, Head of Heritage Services: 01225 477750
Background papers	Report of the Council Executive, Thursday 14th October, 2004 E2745 February 2015 Report to Cabinet, Heritage Services Business Plan 2015-2020 E2944 April 2017 Report to Cabinet, Heritage Services revised Business Plan 2017-2022
Please contact the report author if you need to access this report in an alternative format	