



**Tour de France
City of York Council
Internal Audit
Memorandum**

For: *Chief Executive; Director of CBSS*
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1.0 INTRODUCTION AND SCOPE

- 1.1 The three stages of the Tour De France (TdF) Grand Depart were hosted in England in July 2014, with Stage Two starting in York.
- 1.2 The event was a great success, generating additional income of £8.3 million into the York economy and was delivered safely with an estimated 200,000 spectators lining the route in York on the day. Overall delivery against strategic objectives is set out in the report “Delivery of the Tour de France in York and Yorkshire 2014”, taken to Cabinet by officers on 20 January 2015. The report details the provisional financial outturn of the event as £1,815k against an original budget of £1,664k. There were significant increases in cost during the project – for example those arising from regional procurement of services such as stewards, barriers and medical supplies which were outside of the council’s control. These cost increases were mitigated by a later allocation of regional funding, resulting in a provisional outturn of a £49k¹ overspend. This is a good outcome given the overall complexity of the event. However, there were issues identified with commercial aspects of the project, and events and festivals (specifically the Grand Départy concert) resulting in a net cost of £252k for these activities. In December 2014 Veritau were asked to complete a review of this element of the project to highlight lessons to be learnt for the future.
- 1.3 The audit included a review of decision making processes and budget monitoring in relation to:
- the ‘Grand Départy’ concert held on 4 July 2014 at Huntington Stadium
 - other commercial aspects of the project including the sale of merchandise and camping.
- 1.4 The audit did not look at:
- the wider TdF project
 - the detailed operational plans for the Grand Départy (for example health and safety, traffic management and marketing)

¹ This was the figure presented in the report to Cabinet on 20 January 2015. Officers report that the situation has improved again, and the final outturn is a £39k overspend.

2.0 FINDINGS

Background

- 2.1 York began its bid to host stage 2 of the 2014 Tour de France in 2012 as part of a regional collaboration. Confirmation of the success of Yorkshire's bid was received in December 2012. York's bid to host stage 2 was confirmed in January 2013. The Cabinet gave approval to proceed with planning for the event in February 2013. Stage 2 of the race started in York on 6 July 2014.
- 2.2 The focus of project planning was the delivery of the core race Grand Depart, in partnership with the regional team. However, there seems to have been a belief by officers from a relatively early stage that the council could also generate revenues from commercial activities, alongside the main event.
- 2.3 The idea of a cultural festival (Yorkshire Festival – 100 days), running alongside the Grand Depart, also developed during the planning of the programme. This was a Yorkshire wide initiative, with the council developing a local programme of events for York. This ultimately resulted in the hosting of the Grand Départy concert on the night of 4 July 2014.
- 2.4 Very little documentary evidence was available to the auditors conducting the review. In addition, officers who were working directly on commercial activity and the Grand Départy are no longer employed by the council. There was also a lack of any formal approvals or minutes of meetings where commercial activity was discussed. Much of the findings below are therefore anecdotal, based on interviews with officers and others about their role in the project. Some of the accounts given were contradictory.

Commercial Activity

Where did the idea of commercial revenue generation come from and the belief that significant sums could be made?

- 2.5 No documentary evidence has been seen which shows where the idea of generating income from commercial activity first came from. There were no plans initially to include a commercial element outside the delivery of the core TdF project². The council does not have specific expertise available internally in this area and no advice was sought externally. No one interviewed was aware of anyone having contacted other authorities in areas hosting previous Grand Departs (or similar events) to seek their experience.
- 2.6 Anecdotally, it is suggested that a senior council officer³ was a key driver in instigating the idea of revenue generation from commercial activity. From a number of discussions, it seems that a figure of a £500k surplus was circulating by mid to late 2013. The cabinet was said to be keen on the

² For example, the report to Cabinet on 12 February 2013 seeking approval for hosting stage 2 of the Grand Depart makes no reference to commercial activities.

³ No longer employed by the council.

prospect of generating income to re-invest into front-line services. However, there are no records of meetings where this was discussed.

- 2.7 No evidence has been seen which confirms that it was realistic to expect to achieve a surplus from commercial activity linked to the TdF, or what a realistic surplus may have been. And no expert advice appears to have been taken.

Was any formal approval for commercial operations sought?

- 2.8 Organisations invest money to generate revenues from commercial activity. For example direct investment in merchandise to sell, expenditure on marketing, licensing, safety; also more general investment in resources needed to manage the planning and delivery of projects. Accounting and budget management good practice suggests that explicit decisions should be made about the level of risk that will be tolerated, for example the loss that would be accepted compared to potential returns, and a clear budget set (detailing both income and expenditure). This enables projects to be taken forward on a clear business footing, and empowers officers with the ability to make decisions on a commercial basis – eg withdrawing from an activity if it becomes apparent that this will minimise future losses, regardless of sunk costs.
- 2.9 Appendix 1 shows our findings from a review of reports to members. We searched ModGov for other reports or decisions by members or officers relating to commercial activities or the Grand Départy, but there were none. There are also no records of any detailed discussions of commercial activity at CMT. We are also not aware of any formal virement to reflect income and expenditure for commercial projects.
- 2.10 It is clear from reports to Cabinet (appendix 1), and their decisions, that there was an intention to undertake commercial activity. However, no specific budget approval or guidance on risk appetite was given. There is no evidence of any other decision (formal or otherwise) by members or officers about the amount of investment or exposure to risk. Anecdotally, we understand that the Cabinet were enthusiastic about the prospect of generating income from the event to contribute to front line service delivery. However, it is understandable that the council would not formally commit to a policy which might result in the loss of public funds. Publically funded organisations must have regard to their role in safeguarding the public purse, which inhibits most commercial activity⁴.
- 2.11 It is clear that no formal decisions on resources to be invested in commercial activity and risk appetite were made. The consequent lack of a clear framework to guide officer decisions fundamentally undermined the viability of commercial activity. At the same time, it seems that members were keen to generate surpluses from commercial activity to be used to fund council

⁴ Unless the activity is virtually risk free ie it can be guaranteed that a surplus could be made. Or it is undertaken through an arms length commercial operation with appropriate safeguards to protect the public body.

services – and officers were working to try to meet this expectation. It is concerning that officers were expected to undertake inherently risky commercial activity without a formal member decision.

Development of commercial activity

- 2.12 A range of ideas for commercial type activity were being generated internally by council officers. This was around the same time that senior officers were suggesting opportunities for revenue generation to members. As a result of this it was recognised that there was a need to bring the planning of any commercial activities under the ambit of the TdF planning team to avoid any conflicts. For example one proposal was for a market to be staged that would have been located in an area designated as an evacuation zone. Planning of commercial activities therefore became more centralised and a Commercial Innovator role was created to support this activity.
- 2.13 In a Cabinet report on 1 October 2013, it was stated that *“we have also identified various strands of commercial activity that may directly benefit the council and businesses in the city. In order to have the capacity to secure this benefit we are working with Partners on a secondment opportunity for a Commercial Innovator.”* An external consultant was brought in to fill this role – initially on a part-time basis, but full time towards the end of the TdF project.
- 2.14 There is some anecdotal evidence that there were personality clashes within the TdF planning team, and there were some changes in personnel. There also seems to have been a lack of clear responsibility for overseeing commercial activity.
- 2.15 There were no detailed working papers provided to show detailed proposals for commercial activities. For example activity logs, risks, detailed budgets and related work. In the absence of this information we are unable conclude whether the plans for commercial activity were robust or subject to sufficient challenge.
- 2.16 It is clear that some commercial activities would be limited. For example Armaury Sports Organisation (ASO), the TdF organiser strictly limits and controls all marketing and branding opportunities. It became clear around January or February 2014 that there was essentially no scope for generating revenues from merchandise due to the ASO’s control⁵.
- 2.17 The viability of some aspects of commercial activity also seem to have been affected directly by adverse comment in the press and public response. Specifically in relation to Monk Stray, that was intended to be a campsite and spectator hub. Camping was advertised at the site from early 2014, before

⁵ As an example the council purchased fan packs containing a bag, t-shirt, lanyard and bandana for resale from ASO for a wholesale price of £20.83. ASO stipulated that these should be sold for a retail price of £55.00. However, on the day, ASO’s own merchandise sellers were selling the same packs for £20.00.

any public consultation. This was subsequently highlighted as a concern by a councillor, and reported in the press. It does not seem that sensitivity over the use of the stray was clearly identified as a risk. The problems at Monk Stray led to wider issues as a key partner, the Caravan Club, subsequently withdrew their involvement from camping activity.

- 2.18 There is evidence of budget monitoring in the run up to the TdF but this does not appear to have been effective in relation to commercial activity. Officers stated that it was difficult to obtain a clear statement of the financial position.
- 2.19 Updates to the project board were regularly submitted as part of highlight reports, which showed commercial activities (classified under supporting projects) as consistently being red (based on a red, amber green rating). However, we understand that there was little detailed scrutiny of this aspect of the project at board meetings. The meetings instead concentrated on the delivery of the overall event.
- 2.20 Although early revenues failed to materialise, the auditors were told that the prevalent view amongst officers was that there would be a 'hockey stick' income profile – with revenues rapidly increasing just before the event. It doesn't seem that detailed research was undertaken to support this view. Ultimately the anticipated revenues failed to materialise. No evidence has been seen to suggest clear, objective decisions (based on financial data and accounting and commercial expertise) were taken about whether to continue / not continue with loss making activities at key points during the run up to the event.
- 2.21 Based on all of the interviews undertaken, we think it likely that there was a lack of capacity to deliver successful commercial activity. The time available to deliver commercial activity was also probably too short. Some plans seen suggest that detailed plans needed to be in place by 31 December. It is not clear that this was the case and ideas were still being formed in early 2014.

Grand Départy

- 2.22 The Grand Départy concert was held on 4 July 2014 and took place at York's Huntington Stadium. It featured performances from several musical artists and bands. It was not included as part of the initial budget for the TdF (see appendix 1) and was separate from the commercial activity streams.
- 2.23 We understand that the idea of a concert was first raised in July 2013 at an event to discuss the cultural programme to run alongside TdF. However, it appears that this was still not a firm proposal even in early March 2014 (see A1.8). Detailed planning seems to have started in April 2014, only three months before the event. This seems to be far too short a lead time to be able to successfully plan and deliver a concert of this scale (initial proposals required the sale of 10,000 tickets to generate a modest surplus of around £30k).

2.24 There were significant issues during the planning and promotion of the concert. This was an event with significant public safety risks and the application for a licence was therefore considered by the council led multi-agency Safety Advisory Group. The licence application for the concert was submitted on 8 May 2014, approximately two months before the concert. This was too late. This point is made by the Safety Advisory group in its feedback report after the event, which noted that the licensing process can take up to 8 weeks. Safety issues and licensing issues haven't been reviewed in detail for this report, but it is clear these issues impacted significantly on the commercial viability of the concert. For example:

- The concert was granted a licence for only 7,000 people. It was planned for 10,000 to generate a relatively small surplus (£30k).
- The late consideration of the event, and consequent last minute discussions and changes to arrangements to meet the SAG's recommendations, were subsequently reported in the media as concerns over safety arrangements. This resulted in local media not publicising the event and significantly undermining the marketing campaign.

2.25 Marketing and sales in general seems to have been problematic. For example:

- The late start to the concert project meant that marketing was also delayed.
- Key officers were on leave when marketing was due to start which led to further delays in the release of banners, leaflets and other promotional materials.
- Some sales options were considered too expensive, which led to other cheaper, less well-known alternatives being found.

2.26 Ultimately ticket sales were low, and the concert was poorly attended. The event made a net loss of £187k (gross cost £206k, income £19k). From the information seen, it is not clear what the basis for the original projections was, and whether these were in any way realistic or subject to challenge. We have also seen nothing to indicate that there were formal objective reviews of the financial position during the run up to the concert. For example whether the possibility of cancelling the concert was properly considered so as to minimise further losses (comparing sunk costs, future costs and potential revenues). It was also noted that the council didn't comply with its own procedures, in procuring a promoter for the event.

3.0 Conclusions

- 3.1 The purpose of this review was to highlight lessons to be learnt for the future in relation to commercial aspects of the TdF project and the Grand Départy. Specifically in relation to decision making and budget monitoring.
- 3.2 Little documentary evidence was available to the auditors conducting the review. In addition, officers who were working directly on commercial activity and the Grand Départy are no longer employed by the council. There was also a lack of any formal approvals or minutes of meetings where commercial activity was discussed. The majority of evidence obtained was therefore anecdotal. This has made it difficult to identify the precise chain of events and the details of activity undertaken. However, there are a number of overarching conclusions we have been able to draw, which are set out below. No specific recommendations are made, although it is expected that the conclusions be used to inform future projects.
- 3.3 There are few records available that show the basis for decisions around commercial activity or the Grand Départy. This is bad practice – there is little transparency, members and officers cannot be held to account, and the council is unable to learn lessons.
- 3.4 There was a belief that the TdF represented an opportunity to generate significant amounts of income from commercial activities running alongside the main event. However, the council has little expertise or experience in managing activity of this nature, and did not seek outside expertise at the start of the project. It's neither clear whether the belief that surpluses could be generated was realistic, nor what revenues might reasonably have been expected. The thinking of senior officers seems to have driven members' expectations around revenue generation, and there was insufficient scrutiny and challenge of this thinking.
- 3.5 There was no understanding of the risks and potential returns from commercial activity. Cabinet decisions acknowledged the potential for revenue generation, and members were said to be enthusiastic about the opportunity. However, no clear guidance was given to officers about the types of activity that would be appropriate, levels of investment, or the exposure to risk the council was willing to accept. Members encouraged officers but left them to carry the risk if commercial activity was unsuccessful. In reality it is unlikely that the council could approve any commercial activity unless the risks were minimal; in which case the returns are also likely to be low.
- 3.6 There were a number of weaknesses in the overall arrangements for the development and delivery of the commercial activity streams and Grand Départy. Issues to consider for the future include the following.
- Ensure there is sufficient capacity, and time to deliver discretionary projects – the commercial element of the TdF programme was ultimately a lower priority than the delivery of the TdF itself and therefore always at risk

of receiving less management attention – for example the lack of detailed scrutiny of commercial activity by the TdF board.

- Research should be conducted and expert advice sought where necessary, to fully understand the nature of the market being entered – for example to avoid risks that became apparent around merchandise in the case of TdF, with opportunities being limited by the strict control of ASO.
- Records of working papers and information used to support management and decision making must be retained throughout the project, and for a suitable time afterwards.
- There should be a clear understanding of risks to commercial activities – clear plans should be developed at an early enough stage, with decision points clearly highlighted. Plans should include a strategy for communication and consultation, to mitigate risks around potentially sensitive issues.
- Responsibilities should be clearly defined, including senior management and the project board; contingency plans should be in place to ensure that the absence of key officers doesn't undermine communication and delivery of the project.
- Clear budgets (income and expenditure) should be developed for each work stream or area of activity. Underlying assumptions should be challenged and progress against budgets monitored. Tolerances should be set and decisions about continuing or not continuing made if actual income and expenditure moves significantly from projections. Decisions should be based on maximising future revenue / minimising costs (ignoring sunk costs) within levels of acceptable risk.

3.7 Initial ideas around holding a concert as part of the TdF event were first raised approximately a year in advance in July 2013. However, detailed plans only seem to have been started to be formulated in April 2014 – three months or less before the event. This was far too short a lead time to organise an event of this size and complexity, particularly given the significant risks involved. The council also had no track record in organising such a large scale event. Concerns around safety and consequent marketing issues appear to have been a direct result of the short lead time and lack of relevant experience.

Appendix 1 - relevant reports to members

Cabinet 1 October 2013

- A1.1 On 1 October 2013 the council's Cabinet set a budget for the Tour de France of £1,664k. This covered the costs of planning and running the event, legacy event costs, and a contribution to the regional project.
- A1.2 The report stated that the council would be working to maximise its own opportunities for income generation, and, depending on the extent to which the Council was willing to explore innovative options, the direct impacts on the Council's budgets would be felt through the potential for the Council to generate income. This report also stated that the council was working with partners on a secondment opportunity for a Commercial Innovator, responsible for ensuring that the council maximised the opportunity offered by Tour de France. It is therefore clear that there was an intention to undertake commercial activity. However, no request was made to approve specific areas of activity, or a budget for this work.

Cabinet Member 21 January 2014

- A1.3 In January 2014, a report was taken to the Cabinet Member for Leisure, Culture and Tourism who was asked to approve principles for York's programme of events for the Yorkshire Festival. The report provided the following overview of the festival:

"The Yorkshire Festival 2014 is based on the successful York 800 model with commissioned and existing projects; with a range of new activities, events and projects being added to the programme throughout the festival period. It runs parallel to the Tour de France event and is seen by ASO [Armaury Sports Organisation – the TdF organiser] as a separate but complementary event. It has its own regional branding, YF14 and its own sponsor, Yorkshire Water, which was announced 13 January."

- A1.4 No specific reference was made to the Grand Départy in this report, although it does suggest that entertainment might be a feature: *"As plans develop for the spectator hubs we will look to work closely with the commercial development team. In particular offering potential content for the big screens and the provision for family activities and entertainment. Funding and resources for this has not been included or identified within our budget"*. It is clear that there were no detailed plans for a concert at this point, even if it was being considered as an idea.
- A1.5 The report does identify funding for the events programme (ie non commercial aspects) of £39.5k, from existing (non TdF) budgets.

Cabinet 4 March 2014

- A1.6 The Cabinet report on 4 March 2014 provided an overall update on TdF planning. Under commercial activity, it included the following in a list of outcomes of commercial activity:

- *"Some of the costs of hosting the event to the York taxpayer are mitigated through commercial activities"*

- *“The City of York benefits from trialling commercial model to operate viable and cost neutral events and festivals in the future”*

A1.7 The recommendations sought approval for “outcomes” in the report. However this is fairly vague – there is no approval of specific commercial activity or a budget for it. The report does confirm the budget approved for the TdF at October’s Cabinet as £1,664k and states that *“It is currently anticipated that the costs of the event will be contained within this budget”*⁶.

A1.8 The report does contain a brief reference to a Grand Départy in the table in Annex 1, listing events for the York Festival Programme. This is in the final section under “YORK COMMUNITY PROJECTS - DETAILS TO FOLLOW”. There is no indication that this was to be a council led or organised event.

Cabinet 20 January 2015

A1.9 The report included the provisional outturn with the final cost of the overall event. This totalled £1,815k. The increase was offset by some additional funding through Leeds City Region, though this has still resulted in a net shortfall in funding of £49k.

⁶ There were later increases in contributions to the regional team resulting from joint procurement of services such as stewards, barriers and medical supplies. This was subsequently offset by a distribution of Leeds City Region NDR surpluses (£189k for York), in recognition of cost pressures on authorities due to hosting the TdF.