

20 January 2015

Cabinet

Report of the Cabinet Members for Leisure Culture and Tourism, Transport, Planning and Economic Development and the Leader of the Council

Delivering Marketing, Culture, Tourism and Business Development – MAKE IT YORK.

1. Summary

- 1.1. This report follows reports to cabinet in November 2013 and July and October 2014, in which members agreed the need to develop a new approach to delivering marketing, culture, tourism and business development in the city. Later members agreed the business case for the new organisation and the outline of the draft Business Plan.
- 1.2. This report asks cabinet to agree the financial elements of the business plan and to continue to work towards establishing the legal framework of the company when a further report will be issued. It will also update members on progress made to date.

2. Background

2.1. Objectives for this new way of working are:

- To achieve a stronger co-ordination and promotion of the city's profile and cultural offer.
- To deliver greater inward and indigenous investment from business, and thus market share for York and its key growth sectors, particularly life science-related industries, high-tech industries and business services.
- To increase the value of the visitor economy through promoting innovation and higher quality in the existing offer, encouraging high value visitor economy investment and attracting higher spending visitors.

2.2. Specific outcomes sought are:

- Develop a National/International profile of high quality cultural events
- Increase in business investment in the city – as measured by growth in existing business and inward investment by companies locating into the city
- Increase in spend by tourists – as measured by increase in average length of stay and average spend per visitor
- Increased profile for the city as a destination for living, visiting, studying, and doing business

2.3. Progress since the Cabinet in October includes:

- Work is underway to establish the legal framework for the wholly owned company. It is expected that this will be in place from April 2015
- The chair is working with CYC to establish a new board of directors, the directors will be drawn from the relevant sectors and it is agreed that the two nominees from the Council will be the Leader and the Chief Executive.
- Work is well underway to establish the new team at 1 Museum Street.
- Further engagement with stakeholders has taken place through December and January.
- The Managing Director of the new company has been appointed and came into post on the 5th January 2015.
- The Board of Visit York at their AGM agreed that Visit York would become part of the new organisation.
- The membership of the Shareholder body has been agreed
- The new company name is MAKE IT YORK

3. **Development of Financial elements of Business Plan**

- 3.1. The high level specification for commissioning the new company was agreed at Cabinet in July 2014. A process has been underway, led by the Chairperson of the new organisation, to develop a business plan. The draft business plan was agreed in October by Cabinet. Further work has been underway in relation to the financial elements of the plan.

3.2. The headline business plan for 2015/16 to 2017/18 is shown below – the more detailed plan is included in Annex 1

| | 2015/16 £'000 | 2016/17 £'000 | 2017/18 £'000 |
|--------------------------------|------------------|------------------|------------------|
| Income | -3,699 | -3,839 | -3,998 |
| Cost of Sales | 2,450 | 2,556 | 2,665 |
| New Income Streams (Net) | -40 | -40 | -100 |
| Salaries | 1,034 | 1,020 | 1,075 |
| Overheads | 239 | 252 | 264 |
| Net (Surplus) / Deficit | (15) | (51) | (93) |
| Opening Reserves | 221 | 236 | 297 |
| Closing Reserves | 236 | 287 | 380 |

3.3. The business plan shows that whilst the company is forecasting a profit of £15k in 2015/16 increasing to £93k in 2017/18. The Business Plan includes prudent assumptions for both income and expenditure in that no significant new income generation is assumed and cost reductions will be delivered in reasonable timescales.

3.4. The income assumptions for Make it York total £3,699k in year 1. Approximately half the income comes directly from council contributions or income that the council currently receives. The table below details the direct contributions from the council that will be made to Make it York.

| | £'000 |
|--|------------|
| Visit York Contribution | 232 |
| Science City Contribution | 100 |
| Ec Dev Staffing and Contributions | 337 |
| City Centre, Events and Markets Staffing | 229 |
| Contribution to Managing Director (2015/16 only) | 20 |
| Council Contributions | 918 |

3.5. These contributions are included within current council budgets. Future years contributions match current budgets without inflation however will need to be formalised within the budget process.

3.6. The Council is also forgoing a number of net income streams to Make it York surrounding the City Centre activities. These are summarised below:

| | Exp £'000 | Inc £'000 | Net £'000 |
|------------------------------|--------------|--------------|--------------|
| Shambles Market | 241 | -526 | -285 |
| Other Markets and Events | 93 | -195 | -102 |
| Christmas Lights | 26 | | 26 |
| City Centre | 66 | -55 | 11 |
| Food & Drink | 0 | -8 | -8 |
| Cultural / Visitor Events | 183 | -149 | 34 |
| Addn'l Income Target 2015/16 | | -50 | -50 |
| Total | 609 | -983 | -374 |

3.7. It is proposed in the business plan that the net surplus that the council currently generates from these activities is paid to the council by Make it York.

3.8. A significant element of the new company is formed by the activity of Visit York. This organisation has in the past been profitable (£40k profit in 2013/14) based on £2.1m turnover and has built up reserves totalling £161k.

3.9. The incorporation of Science City York is relatively low risk given that there are a number of vacancies within the service. Whilst external funding has dropped significantly over the last year the council can support the cost of the staff transferring and there are opportunities to further develop the service and opportunities for further external funding.

3.10. The balance of the turnover is assumed to come from a continuation of business activity within Visit York and external funding from Science City York. Many of these items have links between costs and income and therefore if income levels reduce costs can also be reduced.

3.11. The reserves for the organisation equate to c 6% of the organisation's turnover.

Financial Risks

3.12. There are a number of risks that need to be highlighted that may impact the business plan which will need to be managed between the council and the company

- 3.13. The business plan assumes that staffing costs remain constant across the business plan period other than assumed pay awards. Further agreement with the company will be required regarding costs arising due to TUPE including staffing liabilities or potential costs relating to the pension fund contributions. These issues will be managed as part of the TUPE transfer arrangements.
- 3.14. Shambles Market – The redevelopment of Shambles Market assumes that half of the capital cost will be repaid from future increased rental levels. This increased income requirement is still to be built into the business plan and will be considered following a period of the operation of the new facility. There is a risk that income levels do not reach those assumed in the refurbishment business plan which would need addressing. This can be managed through discussion with Market Traders working together with how the market will achieve additional income.
- 3.15. External funding – there are a number of assumptions of increased external funding to support the company in a number of areas (particular Science City York). This will need close review and costs amended if income levels are not maintained. There may be opportunities however to exceed the assumed income levels once the organisation is fully consolidated.
- 3.16. Set up costs – there are additional costs anticipated in accommodating the three organisations together in Museum Street. Changes will be required to the accommodation including the purchase of new desks and changes to IT infrastructure. It is anticipated that the council will fund the costs prior to the company being in operation however the company will repay the council through a loan agreement. The details have not been finalised although are not anticipated to be significant and will be included in the follow up report.
- 3.17. Cash Flow – Work is required to detail the cash flow of the organisation and agreement will need to be made regarding when payments from the council / company are made. This can be mitigated by means of when the council contributions are paid.

Financial Conclusions

- 3.18. The Make it York business plan shows that the company can trade profitably and is based on prudent assumptions and realistic income projections based on historical activity levels. The contributions from the City Council are included in the budget. There are a number of potential risks identified that will impact the assumptions on the business plan however these are unlikely to have material

consequences. The council will need to work closely with the company to ensure these can be managed within overall budgets. The future income projections from new income streams are prudent and there may be opportunities to be exceeded when the organisation becomes fully consolidated.

4. Council Plan

- 4.1 The new agency will bring together a number of services, organisations, and partners and will work at arms length across the wider York area to improve the delivery of Marketing, Culture, Tourism and Business Development. This supports achieving the ambitions set by the Council Priority 'Create Jobs and Grow the Economy'.

5. Implications

6. Financial

- 6.1 The financial implications are considered in section 3 of the report.

7. Human Resources

- 7.1 There are ongoing discussions and consultation with Council staff who are affected by the outlined proposals, and with trade union representatives.
- 7.2 The proposed staffing implications will be implemented in accordance with Council policies and guidelines.
- 7.3 Science City York senior management is undertaking discussion and consultation with their staff, in line with their policies and procedures.
- 7.4 Visit York will consider a review of its staffing structure in preparation for a merge with the new company in line with its policies and procedures.

8. Equalities

- 8.1 A Community Impact Assessment has been completed and is kept under review as part of the progress. The new agency is expected to play a role in the delivery of city wide equality priorities.

9. Legal.

9.1 Legal due diligence work is still being undertaken and along side this Legal Services are working with external Solicitors on the preparation of a number of documents in readiness of the formation and operation of the new company. These include Articles of Association, Member Agreement, Services Agreement, Services Support Agreement, Business Transfer Agreements for Visit York and Science City York, Contract Novation Agreements, and property documents for the Company premises.

10. Recommendations

Members are recommended to:

- i Agree the financial elements of the of the Business Plan (Annex 1), as a basis for establishing the new company 'MAKE IT YORK'
- ii Require the Director of Communities and Neighbourhoods and the Director of Customer and Business Support Services, in consultation with the Leader to produce a further report on the governance and outcomes of the legal process in March 2015.

Reason: To provide Members with a follow up to earlier Cabinet reports and the financial details of the business plan to ensure that Members are aware of the progress to date in respect of the new organisation.

Contact Details

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| | Report Approved | √ | Date 12 January 2015 |

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| Wards Affected: All | √ |
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| For further information please contact the author of the report |
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Annex

Annex 1 – Proposed Budget for Make It York for 2016 to 2018