Appendix B. New Company - Business Case and Options Appraisal

1. **Overview**

2. Below is the business case for creating a new company for delivering marketing and business development for the city of York.

3. **Objectives**

4. The objectives of the work to create a new way of working are:

    - To deliver greater inward investment, and thus market share for York and its key growth sectors, including those sub-sectors in which the city has a strength of assets, 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 and encouraging high value visitor economy investment.
    - To achieve a stronger co-ordination and promotion of the city's profile and cultural offer.

5. Specific outcomes sought are as follows:

    - 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
    - Increase in city centre footfall
    - Increased profile for the city as a destination for living, visiting, studying, and doing business

6. **Reasons**

7. The principal reason for establishing a marketing and business development company for the city of York is the need for greater

effectiveness across these areas of activity – as set out in the original November Cabinet report.

8. As a destination for business and tourism, the city of York performs relatively strongly against UK cities and comparators, having been named one of the top five places for **business investment** and having a robust international brand related to its **visitor economy**.

9. At the heart of this relatively vibrant economy is a unique and dynamic **cultural offering**, rich in both the heritage that is so central to the York brand, as well as the more cutting edge and modern creative and cultural industries that are one of the fastest growing sectors in the city.

10. There is evidence to suggest that **the city is not capitalising effectively on these assets** – and indeed, there is a growing sense amongst the city's business and wider communities and stakeholders that York could be attracting much more investment – both through businesses growing or locating in, and visitors to the city – and thus further boosting the city's overall economic prosperity.

11. As a result, despite the wealth of the city's economic assets, York's average productivity rate ranks 26^{th} out of 64 cities in the country measured by the Centre for Cities, Cities Outlook index.

12. Recent inward investment successes of attracting Hiscox and 500 high value professional jobs, John Lewis Partnership and the continued attraction of new retail and leisure brands has demonstrated that the city has the ability to react effectively to opportunities created through its inherent asset base. However, the city currently lacks the capacity to proactively "prospect" for inward investment leads, which puts it at a disadvantage vis a vis cities with proactive inward investment teams and activities in place (examples include Opportunity Peterborough).

13. At the same time, the latest econometric modelling undertaken to support the development of the city's new Tourism Strategy to be

launched shortly (see Annex for Interim Strategy) suggests that despite the city's strong performance in terms of visitor numbers and high levels of visitor satisfaction, the *value* of the visitor economy has remained relatively static in recent years.

14. More fundamentally, the connection between the city's cultural, visitor and business experience cannot and should not be underestimated – and to date, it has not been maximised. However, there is a sense that the city is missing opportunities to capitalise on its unique and diverse cultural offering and consequent quality of life, which provide benefit to indigenous business and residents, and use this cultural offering to boost the visitor economy and business investment into the city.

15. As a result, the Council has been working with partners including Visit York, Science City York and the Universities, as well as York Economic Partnership and York@Large (the city's cultural partnership) to explore options and develop proposals for a new way of working to deliver a coordinated and thus more effective approach to marketing and business development.

16. The objectives in endeavouring to create a new approach to these services would be three-fold:

- To deliver **greater inward investment**, and thus market share, for York in its key growth sectors, including those sub-sectors in which the city has a strength of assets, 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 and encouraging high value visitor economy investment
- To achieve a **stronger coordination and promotion of the city's profile** and **cultural offering** underpinning that profile

17. Specific outcomes sought are as follows:

- 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
- Increase in city centre footfall
- Increased profile for the city as a destination for living, visiting, studying, and doing business

18. **Options**

19. There are a range of options for achieving the proposed outcomes, some of which were explored in high level in the November Cabinet report, but which are explored more fully in this report. These options are explored in detail below:

20. **Option 1: Status Quo**

21. The first option would be to maintain the current structures, with some services being undertaken in-house, and some functions being carried out by other external agencies, such as Visit York, Science City York and others where appropriate.

22. This model differentiates audiences and markets, providing a different service and offer to each. Although there is communication and partnership working across the agencies and organisations in question, there are different management structures and budgets operating, and potentially duplication and in some cases conflicting messages in the delivery of services.

23. In addition, to "do nothing" at this stage would see:
    - A reduction in the funding available to both Council services and Visit York in providing for the visitor and cultural economies as budget reduce
    - Continued fragmentation of effort resulting in second best services to visitors and investors
    - A failure to support the city's cultural sector
    - Inward investment remaining a largely reactive role

24. As a result, a change will be forced upon the city regardless of whether status quo is the initial option chosen. By opting for status

quo, the city will thus be simply postponing an inevitable decision about the way in which it resources the marketing and business development activities of the city.

25. Thus, although the status quo option ostensibly does not involve an up front cost, the medium term cost would be the loss of the function altogether given the cost savings that need to be made in the running of Visit York and the running of the Council's in house culture, leisure and tourism functions.

26. More importantly this option forces a loss of opportunity in not taking the chance to consider how to deliver a wider suite of services associated with city marketing and business development more generally in a more joined up way.

27. Further, the current budget of £893K annually for this activity will be unsustainable in the medium to longer term. Without change to the current approach – either consolidating or reviewing services – there will be little opportunity for making savings.

28. **Option 2: Provision of services by Council directly**

29. An alternative would be to bring the scope of the service identified entirely in-house. This option would mean winding down grants to relevant agencies externally and investing that resource in internal staff and operations.

30. This option would create a more joined up resource and team for the delivery of the full remit of services identified at **Appendix A**.

31. The principal benefit of this option is that it achieves the joined up approach to and thus an amount of efficiencies achieved through the delivery of services identified.

32. However, by bringing services into the Council, the likelihood of the services being delivered in a truly market-facing way is diminished. As a service meant to be facing customers, there will be a need for

the services to be seen to be independent from the Council to the extent possible.

33. By bringing services in house, there is little flexibility in innovating and developing new ways of working.

34. **Option 3: Procurement**

35. The Council could consolidate funding spent on the services identified above and go to market to seek an external provider. This option may see the Council going to tender for services required via a process which complies with EU and UK procurement rules.

36. CYC go to the market with a Services Agreement requiring provision of the Relevant Services. Arrangement would be time limited; on expiry there would need to be exit provisions allowing for retender or service to go back to the Council.

37. There would be a TUPE transfer contained in such agreement unless specific opting out arrangements were implemented.

38. A contract would specify the outputs and outcomes, and a services agreement put in place to enable the Council to hold the selected agency to account.

39. Whilst there is appeal in this option in ultimately limiting the risk of the Council in providing services directly, as well as the benefit of being provided by the market, the procurement option does ultimately limit the amount of innovation that could be introduced to the development of these services. With a contract in place, the ability of the Council to work with the agency contracted to change/evolve the offer would be limited.

40. The procurement also introduces the likelihood of further fragmentation of relevant services in York, especially if a new agency or contractor is introduced to the market – and thus not

delivering the efficiencies of joining up activities originally sought by this new approach.

41. Finally, there is cost associated with the procurement process, which is likely to take no less than several months.

42. **Option 4: Wholly owned company**

43. The final option is for CYC to establish a company which is wholly owned by CYC.

44. Although under the Teckal exemption, the Council would be able to purchase services from the new agency without having to run a procurement in accordance with the procurement regulations, the wholly owned model would restrict the extent to which the new company would be able to trade outwith the Council.

45. However, the Council has significant ambition to transform delivery of these services, and as such, there is a need to enable (a) sufficient flexibility within the contracting of these services, and (b) sufficient public sector seed funding to enable this transformation.

46. As such, the wholly owned option is the only legal option that enables the Council to achieve both the join up of existing services and activities, building on current capabilities, whilst enabling a more market-facing approach to many of the activities the Council has been delivering to date.

47. The option enables a consolidation of public sector-funded elements of these agendas, which will ultimately lead to cost savings in respect of back office and common functions across the many services currently provided by multiple agencies and Council services. At the same time, by consolidating these functions, there will be an opportunity to achieve greater value for money in efforts to promote a more joined up approach to marketing of the city, generating leads/interest, and responding effectively to those leads.

48. **Preferred option**

49. Based on the legal advice provided and the objectives and principles set for the establishment of the new company, the preferred option is the establishment of a wholly owned company.

50. This option achieves the objectives most effectively whilst enabling the Council to bring together fragmented services currently operating in an environment where duplication of efforts is common.

51. **Expected Benefits**

52. The expected benefits are as follows:

- Greater efficiency of services provided
- Greater flexibility in services provided
- An increase in outputs and enhanced delivery of objectives

53. **Affordability**

54. The proposals represent an investment in generating greater returns over the medium to long term, with increased investment and visitor numbers having a direct and indirect impact on Council Tax and business rates. The fundamental case for the new company approach is the greater value for money in the services provided by a more joined up approach to these agendas.

55. Although initially, the proposals will incur set-up costs of c. £140k, the preferred option will ultimately deliver a more efficient and cost-effective delivery of current activities in marketing and business development.

56. The current budget for these activities includes, and totals £720k:

- Contribution to Visit York: £232k
- Contribution to SCY: £100k

- CYC staff delivering inward investment, business development and festivals: total current cost: £338k
- Promoting York Budget £50k

In addition to these budgets over time it is proposed to transfer budgets direct to the new company that funds Cultural Events, City Centre Management and Events as well as operational and special market events. These budgets equate to gross expenditure of £528k along with anticipated income of £805k. It will be for the new company to seek to deliver further income opportunities in such areas.

57. Along with the intention to review its contribution to SCY, the Council will review its contribution to Visit York with an intention to redirect this funding to the new company. The intention will be for the new company to work closely with Visit York to ensure continued provision of value to visitors and businesses serving the visitor economy.

58. Through amalgamation of back office and shared services/skill sets, the new company will minimise overheads and unnecessary duplication. As a result, there is an immediate albeit modest annual budget saving of just over £10k. The proposed budget for the new company is £710k.

59. In following years, the company will aim to achieve further savings and efficiencies through generating new sources of funding and new more efficient ways of working. The agreed budget for 2015/16 targets a further saving of £50k against the new company and this will need to be built into budget allocations.

60. **Risks**

61. The risks associated with the proposals set out in this report are as follows:

- With a wholly owned company, the Council will need to ensure compliance with Teckal exemption if it is not to procure services provided by the company. In order to avoid this risk, the Council will need to monitor as will the new company that services provided to the Council's ends make up 80% or more of the company's activities.

- As with any venture of this nature, there is a risk that the company is unable to deliver the aims and objectives set for the new company. As such a service level agreement put in place with the company will enable the Council to monitor performance and provide adequate accountability for public funding.

62. **Dependencies**

63. The key dependency for creation of the new company will be that a sustainable business plan is produced by the chair of the new company to be brought back to Cabinet in the Autumn 2014.

64. **Critical success factors**

65. Critical success factors for the new company include:

- Increased inquiries from target audiences (e.g. business, visitors, students and residents)
- Increased visitor numbers
- Increased business investment

66. **Procurement**

67. The wholly owned company will provide services to the Council under the Teckal exemption. Under the Teckal exemption, any services required would need to be procured if they amounted to more than 20% of the company's functions. The company would be restricted both in its procurement of external services and in provision of services itself in this way to ensure that it remains within the Teckal exemption.