Review of heritage services in Wales

Feasibility study for the creation of a new organisation responsible for commercial functions

pwc

Objectives

The requirement is to prepare a feasibility study which:

1. Examines the scope for the creation of a separate commercial organisation serving the heritage sector in Wales
2. Provides specialist professional advice on the legal, financial and HR aspects of creating such an organisation
3. Examines the potential for Cadw to increase its commercial income through greater synergies and increased collaboration with other cultural / heritage organisations
4. Takes account of the recommendations of a recent study into the potential for increasing commercial income at Cadw
5. Takes account of recent comparable developments elsewhere in the UK including the creation of English Heritage / Historic England and Historic Environment Scotland
6. Includes a realistic and achievable implementation plan with an indicative timetable for the creation of the separate organisation.

Project progress

Mobilisation w/c 18 Jan	• Understand requirements • Agree stakeholder and project meetings • Agree organisations in scope • Draw up long list of options • Draw up criteria for success • Diarise stakeholder and project meetings
Data gathering and analysis 25 Jan – 5 Feb	• Map heritage services in Wales • Statistical and financial analysis • Document review • First line removal of unworkable options • Initial stakeholder meetings • **Milestone meeting 1 12 Feb**
Interview and challenge 8 Feb – 11 March	• Complete stakeholder meetings • Refine the list of options to a core list of viable possibilities • **Milestone meeting 2 26 Feb** • Complete the analysis of each option against the success criteria • Further exploration of options for improving commercial performance
Reporting By 31 March	• Consolidate findings • Draft report • Present draft findings • **Milestone meeting 3 18 Mar** • Obtain comments on draft and finalise report

Organisations in scope – 'the group'

- Cadw – Welsh Government department
- Royal Commission on the Ancient and Historical Monuments of Wales (Royal Commission) - Up to 10 Royal Commissioners and a Chairman who are Crown appointees
- National Museum Wales (NMW) - Registered charity founded by Royal Charter
- National Library of Wales (NLW) - Registered charity founded by Royal Charter

Other stakeholder organisations

- National Trust
- Local authorities
- WLGA
- National park authorities
- Private heritage asset owners
- Other heritage organisations in the UK
- English Heritage
- Historic Environment Scotland
- Canal River Trust
- Civic Trust

Overview of the group

Welsh Government

Cadw

- Welsh Government historic environment service, working for an accessible, well-protected historic environment.
- Part of the Welsh Government's Economy, Science and Transport Department
- Aim to conserve Wales's heritage to the best possible standard, have responsibility for some of the most significant sites in the world. Help to sustain the distinctive character of Wales's landscapes and towns and help people understand and care about their place and history.
- Business-minded – accountable to Welsh Ministers and the people of Wales for how we use resources, so we are committed to securing best value from those resources and to generate income through business activities to reduce the call upon the public purse.

National Museum Wales

- Aim to inspire people through museums and collections to find a sense of wellbeing and identity, to discover, enjoy and learn bilingually, and to understand Wales' place in the wider world.
- Independent chartered body, a registered charity and a Welsh Government Sponsored Body.
- Invested time, effort and expertise in developing commercial activities, increasing trading profits £0.5m p/a. However this is exposed during difficult economic conditions, and will be reduced if visitor numbers are not sustained.

National Library of Wales

- Aim to collect, preserve and give access to all kinds and forms of recorded knowledge, especially relating to Wales.
- Incorporated by Royal Charter, a charity and a Welsh Government Sponsored Body.
- Aim to diversify sources of income. Choosing the right partnerships to belong to, will be even more important. With diminished funding available globally the use of some new internet business models may be required.

Royal Commission

- Has a leading role in developing and promoting understanding of the archaeological, built and maritime heritage of Wales.
- Established by Royal Warrant in 1908
- Funded by the Welsh Assembly Government and is an executive Assembly Sponsored Public Body.
- Emphases on improving capacity for income generation and attracting grant aid

Income and expenditure of group organisations by type (from 2014-15 annual reports)

Organisation	Total income £k	Grant income £k	Commercial income £k	Pay expenditure £k	Non pay expenditure £k	Average FTEs
Cadw	14,016	8,738*	5,278	7,461	6,555	170
NMW	35,291	27,627	2,923	20,063	14,717	552
Royal Commission	2,122	1,986	65	1,313	812	33
NLW	18,297	16,313	572	8,882	6,639	255
Total	**69,726**	**54,664**	**8,838**	**37,719**	**28,723**	

*Note: Cadw within government – assume total income and grant income figures are DEL

Cadw commercial income Dec YTD

The breakdown of this performance by income stream is :

Income Stream	December Budget £	December Actuals £	Over/ (Under) £	%	Year to Date Budget £	Year to Date Actuals £	Over/ (Under) £	%
Total Admissions	77,989	68,939	(9,050)	(11.60%)	2,868,382	2,993,745	125,363	4.37%
Total Retail	46,522	57,900	11,378	24.46%	1,360,726	1,411,008	50,282	3.70%
Total Membership	29,085	20,352	(8,733)	(30.02%)	337,724	351,240	13,516	4.00%
Commercial Hire	8,994	9,607	612	6.81%	161,142	119,002	(42,140)	(26.15%)
Estate Income	3,818	6,375	2,557	66.96%	34,362	54,052	19,690	57.30%
Other	1,300	248	(1,052)	(80.95%)	11,700	20,526	8,826	75.43%
TOTAL	167,708	163,420	(4,288)	(2.56%)	4,774,037	4,949,574	175,537	3.68%

Cadw – contribution by site Dec YTD

Site	Income YTD £	Custodian Salaries YTD £	Indirect Salary Allocation £	Retail Stock £	Other Costs £	Net Contribution £
Conwy	997,865	(165,522)	(100,127)	(125,465)	(170,845)	435,906
Caernarfon	840,186	(166,897)	(94,833)	(89,763)	(233,267)	255,426
Tintern	398,238	(141,205)	(36,818)	(100,267)	(65,793)	54,155
Beaumaris	305,565	(86,968)	(46,740)	(39,622)	(79,285)	52,950
Criccieth	122,958	(47,214)	(23,527)	(11,075)	(41,097)	44
Raglan	243,320	(115,806)	(32,658)	(49,158)	(59,177)	(13,479)
Castell Coch	292,550	(167,076)	(36,760)	(42,555)	(70,757)	(24,597)
Harlech	273,861	(126,758)	(41,341)	(59,345)	(72,463)	(26,046)
Caerphilly	361,361	(162,367)	(58,302)	(62,100)	(124,601)	(46,009)
Chepstow	163,259	(114,179)	(31,093)	(25,694)	(54,045)	(61,752)
All Other Sites	950,409	(755,600)	(146,160)	(96,336)	(290,700)	(338,387)
Total	4,949,574	(2,049,594)	(648,359)	(701,378)	(1,262,031)	288,212

Shortlisted options

Option 1 Continue with the current organisational structure

This option explores the possibilities within the current organisational structures of Cadw, NMW, the Library and the Commission. This is not a standstill option, rather it looks at the possibilities for the improvement of commercial performance within the current structures. For example, the NMW has a trading subsidiary which could perhaps be developed further, as could some of the existing joint working arrangements.

This option also acts as a baseline to identify the restraints within the current structure for achieving the objectives of the review.

This option retains the current organisational structures but explores how a unifying 'Welsh Heritage' brand could be created and promoted by heritage organisations working together more formally. This option will explore the potential of a commercial or contractual joint venture, partnership and other federated models of working together. This option also explores the opportunities for working within a federated model with private sector partners.

Option 2 – Creation of a new charity

This option explores the feasibility of the creation of a new charitable body with heritage charitable objects but with the ability to operate commercially (directly or with a trading subsidiary passing profits under gift aid) in order to increase income from heritage sites to support their preservation and promotion. This option will be developed from the understanding of existing heritage charities, e.g. the National Trust and English Heritage Groups.

Option 3 – Creation of a new executive agency

This option explores the feasibility of the creation of a new executive agency. The option will be developed from the understanding of the recent changes in Scotland resulting in the creation of Historic Environment Scotland.

Option 4 – Merger of existing heritage organisations

This option will explore the scope to merge existing heritage organisations where there is common purpose and duplication of activity.

Options assessment criteria

- Protects and preserves heritage for future generations
- Creates a stronger, unified identity for the Welsh heritage sector
- Improves the commercial performance of heritage sites and the contribution of the wider heritage sector to the Welsh economy
- Realises synergies in key areas
- Accountability and governance
- Financial considerations
- HR and pension considerations
- Taxation (CT, VAT and SDLT) considerations

Emerging views – general themes

- Sector is unified in purpose but fragmented in delivery
- There is unanimous support for improvement
- Open approach of stakeholders
- Agreement that a unified approach will bring benefits to the sector
- Organisations are working together but could do more
- Group is underfunded following devolution
- General view that investment and/or more resources needed whichever option is taken forward
- Lack of scale is an issue, particularly against rest of the UK – inherent limitations

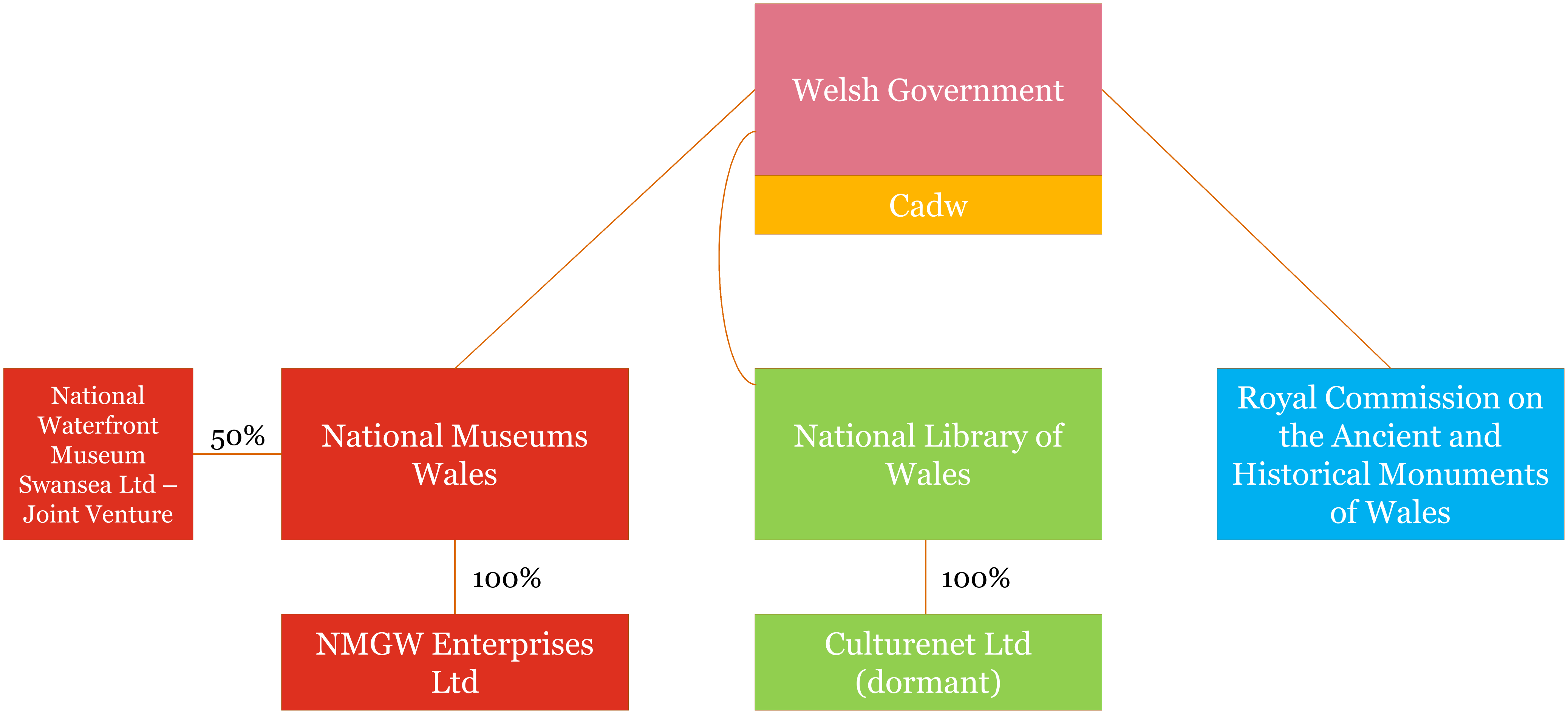
Emerging views – general themes

- Visitor experience and footfall are key contributors to success
- No single view of what commercial success looks like or commercial strategy for the group
- Different policies eg free admission restricts opportunity for growth in some areas
- Exploiting the value of collections is starting to be explored
- Digitisation is a challenge and also an opportunity – expertise needed to realise value, ie when can on-line content be charged for?
- Cafes and shops have the role of enhancing the visitor experience and have little scope for real commercial growth – focus on new income streams

Emerging views – general themes

- Preference appears to be for an organisation which could focus on the following:
    - Visitor experience
    - Commercial expertise
    - Marketing
    - Media relations
    - Attracting additional sources of funding
    - Joint procurement
    - Website development and maintenance

Option 1 - Current 'group structure' by funding



Option 1 - Emerging views

- Cadw as government department has a lack of freedom to operate commercially – main restrictions:
    - Commercial flexibility
    - Business planning
    - Procurement
    - Recruitment and retention
    - Recognition and reward
- Many existing examples of the group working together and there is a will to expand this
- Commercial group is a good starting point for the group working together and could be taken further in existing structure

Option 1 - Emerging views

- Organisations have different objectives and should be free to pursue them
- Lack of freedom to retain and re-invest surpluses from commercial activity in current structure
- Tension between WG direction and pursuit of commercial strategy for individual organisations
- Subsidiaries of NMW or NLW could be expanded with agreements for pursuing commercial opportunities for the group

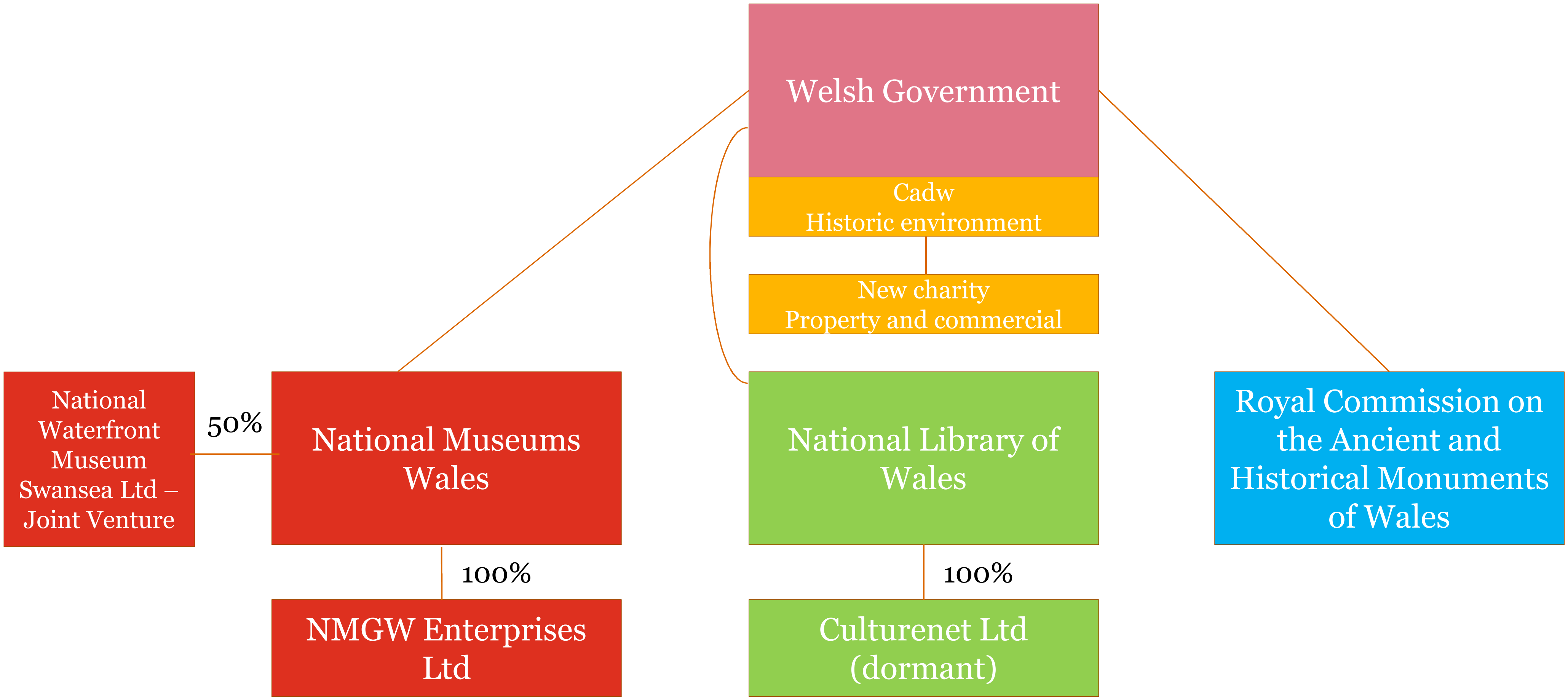
Option 1 - Emerging views

- Government departments can recover VAT on certain costs relating to non-business activities under the contracted out services rules but in similar circumstances such VAT would represent a cost for a charity.
- The NMW and NLW recover VAT under a refund scheme as these bodies and their premises are specifically listed in a Statutory Instrument. Care therefore needs to be taken to preserve this benefit.
- There are different levels of generosity of staff pension benefits across the 4 bodies. Cadw and the Commission who are in the unfunded Civil Service Scheme recently reformed to Career Average and a higher Normal Retirement age. The Museum and the Library are in funded Trust schemes which have yet to reform but are subject to HMT challenge

Option 1 - Emerging views

- All bodies effectively benefit from a government pensions guarantee but taking different forms. The Civil Scheme has an ongoing UK government guarantee whereas the Museum and Library have either a Welsh Government Guarantee or Welsh Assembly Guarantee the terms of which we have not seen and could potentially be withdrawn

Option 2 – Creation of a new charity



Option 2 - Emerging views

- Property transfer to charity ‘linked’ to Cadw but independent from government or scheme of delegation
- Charity Commission registration should be obtainable
- Or could be established as a NDPB as per NMW and NLW
- Greater freedom to operate commercially
- Trustees must operate in the interests of the charity and its beneficiaries
- Cadw commercial and property staff may transfer
- English Heritage model involved parachute payment with transfer of assets – some scepticism about sustainability
- May require a trading subsidiary to gift aid profits from commercial activity up to charity

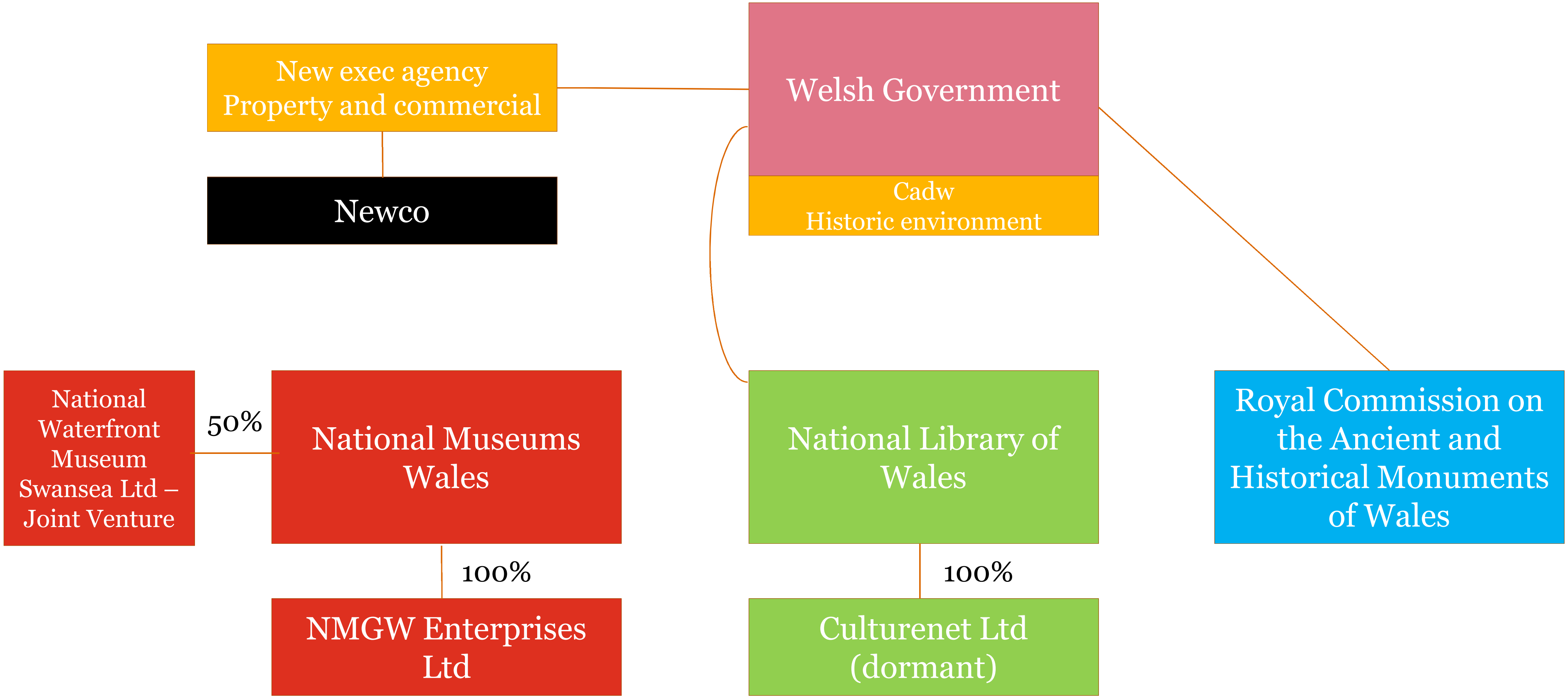
Option 2 - Emerging views

- Could have agreements with other heritage bodies for joint promotion, procurement etc.
- Should be focussed on expertise in core areas and scalable in time
- Example of Exhibition Road Cultural Group as a successful charity with multiple members with a common purpose
- CADW charges VAT on entrance fees but if these activities are undertaken by a charity the availability of the cultural exemption could be explored, which might improve the net VAT position.
- Some other VAT reliefs are also available for charities that are not available to Government departments.

Option 2 - Emerging views

- If the separate Cadw charity is to be staffed by recruiting marketing professionals, they may not have an expectation of access to a public service style pension.
- It may be appropriate to consider the balance between pay and pension such that pay is competitive for the marketing industry and pension design is also benchmarked against the industry norm. This may suggest defined contribution provision which is less risky and costly from an employer perspective.

Option 3 – Creation of a new executive agency



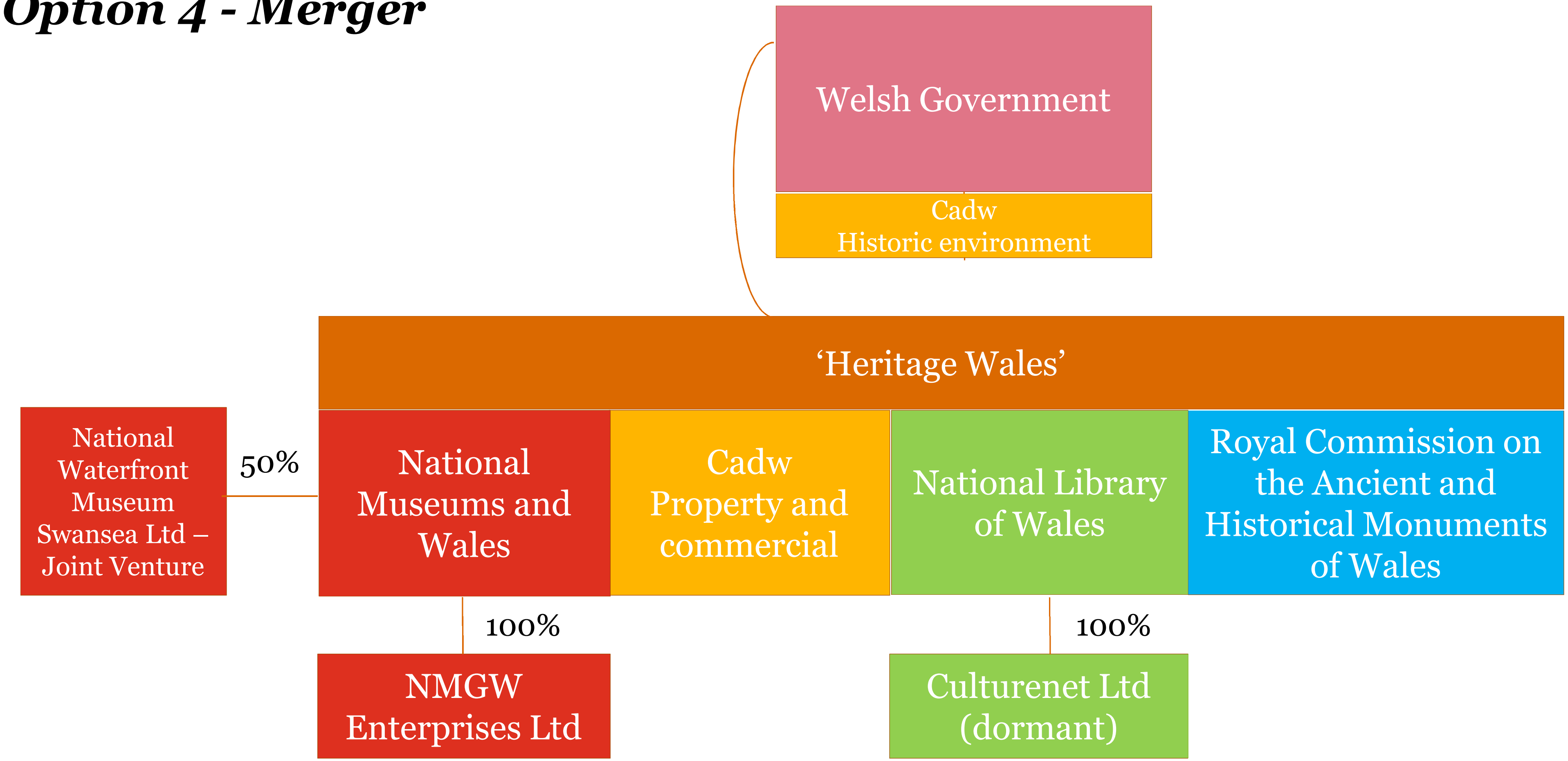
Option 3 - Emerging views

- Establishment of an executive agency with optional trading subsidiary for transparency of commercial operation
- Historic Environment Scotland (HES) appears a good model but is specific to the merger of two organisations rather than a wider group and with a small number of high income generating assets
- HES has charitable status specific to Scottish charity law – would not be possible in Wales due to proximity to government
- Royal Parks is another example with a charitable foundation and commercial subsidiary
- Ministers retain guardianship, delegating to the executive agency

Option 3 - Emerging views

- Civil service staff remain on existing terms and conditions including pension
- Public procurement rules still apply
- Could have agreements with other members of the group and other organisations in the sector
- Potential cap on commercial success built in which should be modelled

Option 4 - Merger



Option 4 - Emerging views

- Generally not supported
- Institutional change is a long term option – HES took 3 years
- Different roles of organisations may mean lack of strategic fit
- Merger of the Commission into Cadw and/or Library may be re-considered or other part mergers
- Overlap in some 'back-office' areas – savings could be made on merger to re-invest
- Does provide more scale
- Pension fund deficits in NMW and NLW need to be explored as could be major barrier to change
- Different terms and conditions and wider impact on employees

Option 4 - Emerging views

- It would be a complex task to rationalise pension benefits should the aim be to rationalise staff terms and conditions on merger. Some staff may be subject to benefit underpins to satisfy Fair Deal type protections
- Subject to the trust deed and rules of the Museum Scheme and the Library Scheme and their respective Welsh Assembly/Government guarantees (not yet reviewed), the merger could trigger scheme wind ups or accelerate funding i.e. large exit/debt payments into these schemes. However there may well be actions which can be taken in advance to avoid such a trigger.
- Any staff not currently in a pension scheme are likely to have to be enrolled into a scheme on day one of the merger which would increase pension costs.

Stakeholder interviews

- Baroness Randerson
- Manon Antoniazzi - Director Tourism, Heritage and Sport
- Kate Clark - Deputy Director - Strategy, Pol & Historic Environment, Historic Environment Service (Cadw)
- David Anderson - National Museum Wales
- Christopher Catling - Royal Commission on the Ancient and Historical Monuments of Wales
- Linda Tomos - National Library Wales
- Katie Antippas - Trade Union Side Chair
- Richard Williams & Justin Albert - National Trust
- Peter Gomer & Steve Cushen - WLGA
- Local authority representatives – Cardiff, Caerphilly and Gwynedd
- National park authority - Snowdonia representative also key representative of World Heritage Site steering group
- Private heritage asset representatives – WMC, Portmerion, Bodelwyddan, St David’s Cathedral
- Other heritage organisations in the UK
- Terry Stevens - Chair of Ministerial Commercial Panel
- Cadw officers – Estates and Finance

Sources of evidence

- Stakeholder interviews
- Final report of Cadw commercial panel
- Minutes of meetings of Cadw/NMGW commercial partnerships
- Reports on recent changes to English Heritage and Historic Environment Scotland
- Welsh Government statistics
- Organisational structure charts of each organisation
- Breakdown of commercial income and expenditure for each organisation
- Breakdown of staff by organisation
- Any key reports for organisations in scope
- Details of types of asset ownerships