



Llyfrgell Genedlaethol Cymru  
The National Library of Wales

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The National Library of Wales  
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8 March 2018

Dear Nick

Thank you for the Committee's report which has been discussed by the Board of Trustees and management. I enclose a response to the three recommendations relating to the National Library of Wales. We welcome the Committee's acknowledgement that the National Library has made good progress in addressing the issues identified in the Wales Audit Office Governance and Performance Report (2016) and, indeed, this reflects our own very positive discussions with the Wales Audit Office on progress since 2015.

However, the Trustees were disappointed with recommendation PAC 21 relating to the management of the Library's Pension Scheme. Whereas the Board has always acknowledged that the viability of the scheme requires constant vigilance and may require future changes, as advised by the Library's actuaries, the recommendation does not appear to recognise that there is no direct equivalence between the management of pension scheme liabilities and future costs and the level of funding received from the Welsh Government.

The decision whether the current scheme is sustainable is reviewed every three years by the Library's actuaries. Their subsequent advice informs the decisions made by the pension trustees. Welsh Government funding is not central to this ongoing management process. If the level of funding from the Welsh Government fell substantively in the future, the existing pension scheme would close and a new defined contributions scheme would replace it. I have provided a detailed explanation with this letter outlining the position which I hope will be helpful for members of the Committee.

With regard to recommendation PAC 22, you may wish to note that the Wales Audit Office has supported the four year planning process undertaken by the Library to produce the current Strategic Plan. All forward planning processes are required to make planning assumptions and, in the case of the National Library, the current plan approved by the Cabinet Secretary for Economy and Transport outlines the objectives to be achieved with the current revenue baseline which has been indicatively agreed until 2020. If funding is reduced during 2020/21, the Library will need to agree with the Welsh Government which core services would not be delivered and the level of the associated compulsory redundancies to be implemented. The Library already leads the sector in developing the National Digital Library, supporting public and other library services and willingly accepts the role of acting as a national archive in the absence of a strategic service. However, if Wales is to support a vibrant and efficient National Library service going forward, there is an associated cost.

The Library has been managing a declining level of grant from the Welsh Government for a period which predates the current period of austerity. In cash terms, it now receives the same amount as in 2006, a decrease of between 30% and 40% in real terms. Through cutting its costs and raising its income, it has still succeeded in balancing its annual budget.

As was noted at the Committee meeting, the Library has lost a third of its workforce since 2014. The Board and I consider that the work to continue to develop ambitious digital services for the people of Wales in a challenging financial environment demonstrates commendable management of existing resources by the Executive. The following table provides a funding comparator with the National Library of Scotland which has fewer core responsibilities than NLW and smaller collections.

<b>Government Funding 2017/18</b>	<b>NLW</b>	<b>NLS</b>
Grant in Aid (Revenue Funding)	£9.585m	£13.180m
Purchase Fund	£200k	£1m

In relation to recommendation PAC 23, I enclose an outline timetable of activities to complete our Workforce Development Plan which is being progressed in co-operation with the Library's three recognised Trade Unions, FDA, PCS and Prospect. As outlined in the Library's Strategic Plan, this is scheduled to be completed by December 2018.

I would welcome an opportunity to discuss the report's recommendations with you as Chair of the Committee.

Yours sincerely



Rhodri Glyn Thomas

President, National Library of Wales

## **Recommendation PAC 21**

**We recommend that the National Library of Wales reviews its pension scheme as a matter of urgency and provide assurances to the Committee that it can operate a Scheme that is sustainable in the longer term given the continued austerity and pressure on public funds.**

### **Background**

The Library's pension Scheme is a Defined Benefit (DB) and Final Salary scheme. It has been in operation since 1975 when it replaced the previous pension arrangements and took on its liabilities. The Pension Scheme is operated as a trust and governed by an independent board of trustees appointed from the membership and from the Library's Board. The Scheme is a "funded" scheme, which means that it holds investments which it uses to pay pension benefits. This is different to many public sector schemes that are "unfunded" (such as the Principal Civil Service Pension Scheme (PCSPS)) where no assets are held.

### **Scheme sustainability**

The Scheme's financial position is subject to a triennial valuation by its independent Actuary. The Actuary's responsibilities and duties are set out in statute (Pensions Act 1995). The last valuation was carried out at 31 March 2016, and for monitoring purposes interim calculations are performed every six months subsequently. At 31 March 2016 the Scheme was assessed as being 99.4% funded; previously at 31 March 2013 this was 100%. The interim valuations carried out since the 2016 valuation indicate that the Scheme continues to be at or around fully funded, and slightly in surplus at September 2017.

In the 2016 valuation the Actuary identified two main issues: historic liabilities and the cost of future service.

### **Historic Liabilities**

The Scheme's funding level had declined slightly from 100% to 99.4% and the historic liabilities slightly exceeded the assets held by £400K. The Library agreed to make deficit contributions of £32K per annum for the 3 years until the next triennial valuation. With every funded defined benefit pension scheme the employer is exposed to the risk that historic liabilities will grow faster than its assets and a deficit will arise. The two main risks affecting the value of assets and liabilities are investment returns and longevity of members. Therefore, in addressing the PAC's recommendation that the Scheme is "sustainable in the longer term", the Library cannot change the historic liabilities that have accrued for more than 40 years, and it will continue to address this liability by making deficit payments in order to fund this gap if liabilities exceed assets. However the Scheme trustees, in agreement with the Library's Board, have recently made changes to the management arrangements for the Scheme's assets, currently worth around £70M. Blackrock have been appointed following a competitive process to operate a fiduciary management arrangement. Although the Scheme's assets had grown by over a quarter since the 2016 valuation, the outlook for future growth had changed and a fiduciary management arrangement should be better placed to manage the Scheme's assets in the more volatile circumstances that are anticipated.

## **Cost of future service**

The Actuary identified in the 2016 valuation that the cost of accruing service in future would increase and a total contribution of 30.2% would be required. The Trustees considered the actions which could be taken and, in consultation with the Library, offered staff the option of either paying 3% more into the Scheme to retain a retirement age of 60, or the rest of their service would increase to a retirement age of 65. Just over half of staff opted to pay increased contributions. As part of this exercise the Trustees also considered moving the Scheme from final salary to career average revalued earnings (CARE). However the cost reduction in doing this of around 1% would not have met the increase in costs that the Actuary had identified in the triennial valuation, and it would also have made the Scheme more complex (and therefore costly) to administer.

The next Scheme valuation is due at 31 March 2019 and at present there are no indications that the financial position of the Scheme has moved significantly to cause the Library to take action. However, if the valuation indicated a further worsening in the cost of future accrual then there are a number of options that the Library could present to the staff to manage the costs: increasing retirement age further, increasing staff contributions, or changing the accrual rate.

## **Review of the Scheme by the Library's Board**

At various times during the past, the Library has considered how it can best manage the risks of the pension scheme, many years before the Hutton report was commissioned. Over the past 20 years the Library has improved the funding position from just over 60% to around fully funded, making it currently one of the better funded public pension schemes. The funding assumptions behind the scheme are relatively prudent in comparison to the generality of public pension schemes, but relatively optimistic in relation to many private sector schemes. It should be noted that the Scheme obtained a Crown Guarantee in 2003 which gives a degree of assurance regarding future funding risks. In the early/mid 2000s the Library also opened negotiations with the Treasury to see if it was possible to move the Scheme members into the PCSPS. However at the time, the plan failed to progress any further because of the relatively large deficit which existed in the Scheme at the time.

The Library's Scheme is a fairly standard public sector scheme operated on an 80ths accrual basis with 3/80ths lump sum: its benefits are not particularly unreasonable in the public sector context and are certainly not excessively generous. One of the changes made after the Hutton report to the PCSPS was to reduce the accrual rate to 60ths, but with a lump sum buy-out. The Library considered this change for its own Scheme, but the assessment was that this would at best be cost-neutral, or more likely to marginally increase costs. Therefore in this respect, the Scheme is actually probably less generous than the PCSPS.

The Library's Board has consistently monitored the risks of the Pension Scheme and considered the option of closing the Scheme to new entrants in 2017. If the Library chose to do this, then the costs of operating the Scheme would increase over time as the aging membership approached retirement age, and this had to be weighed against the risks of keeping the Scheme open and allowing new entrants to accrue service. The Library decided to adopt the latter given that, if it decided for the former, then it would have to introduce a Defined Contribution (DC) scheme at much lower cost in order to offset the increase in contributions for a closed Scheme. Furthermore, this would have been contrary to an instruction in the Library's 2017/18 Remit Letter from the Welsh Government for the



Library to consider the issues associated with aligning as far as possible the terms and conditions of the staff with those of the Civil Service.

### **Conclusion**

No employer operating a DB scheme is in a position to guarantee that the funding is totally secure. However, the Library's scheme:

- is a funded scheme, unlike many of the major public sector schemes;
- has relatively high funding levels for a public sector scheme;
- has used reasonable assumptions to assess its financial position;
- has recently negotiated significant changes to the Scheme with the members to reduce the cost of future service;
- has proactively managed the risks of the Scheme in relation to its substantial investment portfolio and associated investment risk;
- is ready to act on any recommendations resulting from the next triennial valuation at 31 March 2019 as regards future service accrual, and
- has been regularly reviewed by the Library's Board in relation to its sustainability at various times during the last few years, most recently in the autumn of 2017.

Regarding the reference to continued austerity and pressures on public funding, this is a somewhat different issue to the sustainable long term funding of the Scheme in relation to its assets and liabilities. In a situation where the Library's Grant-in-Aid was cut significantly by the Welsh Government, then it is likely that the Library would close the current DB scheme and move staff to a Defined Contributions option where the employer's contribution cost would be considerably lower, and all the investment and longevity risks are transferred to the membership. This would be a radical move that would be difficult to agree with the staff, and again, would be in contravention of the Government's stated aim to support an alignment of employment terms with the Civil Service and wider public service.

### **PAC recommendation 22**

**We are concerned that the National Library for Wales has not fully recognised the challenges and implications of declining future funding and we recommend that the National Library clearly set out its scenario planning for the future how it intends to respond to this decrease in funding.**

### **Background**

The Library, more than most bodies in the public sector, has had experience over a long period of reducing budgets, predating the current period of "austerity" by several years. The challenge of reducing budgets is not a new experience for the Library. Revenue Grant-in-Aid (GIA) is now £9.585M – the same cash level as it was in 2006; effectively a 30%-40% reduction in real terms. The austerity cuts reduced the capital budget by 40% and the Collections Purchase Grant by 50%. These are cuts which have been extremely difficult to cope with, but the Library has managed to reduce its costs – principally by reducing staff numbers – to be commensurate with its income.

## **Financial Management**

Apart from the reduction in budgets, one of the greatest challenges for the Library has been the inability of the Welsh Government to provide any form of medium term indicative budgets. For 4 years, the Library was only provided with budgets for one year at a time: this has made even planning for the medium term very difficult (as was noted in the WAO Report). The Library has been provided with indicative budgets up to 2019/20, and these indicate that the GIA will remain flat over this period. The Library has therefore based its plans on the reasonable assumption of a flat GIA. Any substantive change to the budget in 2020/21 will require prior discussion with the Welsh Government of which core services will be lost and the level of associated compulsory redundancies.

As pay is 75% of the Library's revenue budget, operating costs are particularly sensitive to any changes. It is therefore disappointing to note that the Welsh Government's arrangements for the Library's Pay Remit continue to be very late. For example, the Pay Remit due from 1 April 2017 was not given to the Library until October 2017, and rather than the 1% per annum cost which the Library had initially expected, the overall cost to the Library of a 2% uplift or £1k over 2 years will be in the region of 4.5%. If the Welsh Government expects the Library to follow the Welsh Government's Pay Remit then it is apparent that it will need to change the current planning mechanism. The Library has recently been awarded temporary funding to cover the current pay award, and has requested further discussions with the Welsh Government regarding the timescale for receiving any further forward planning advice related to the next public sector pay award due on 1 April 2019. In comparison, the National Library of Scotland has been provided with additional baseline Grant in Aid during this financial year to provide a 3% uplift for staff.

## **Cost Reductions**

If future funding was to decrease significantly, then the focus of cost reductions would have to be made on the largest element of cost, staff pay. Staff pay is relatively low in the Library, as was noted in the Committee meeting, median pay is £23K as opposed to £35K in the Welsh Government. The difference in the median pay is caused by the fact that about 40% of the Library's staff earn £20K or less, and that there are very few staff in middle or senior management posts. The Library's staffing structure resembles a very flat pyramid, whereas the Welsh Government has a more equivalent number of staff at all salary grades. The consequence of the Library's staff structure in comparison to the Welsh Government is that there are fewer options for restructuring solely at middle and senior management, and staff losses would have to be made at all levels, but with higher losses likely at the lower grades where there are greater numbers of staff. This would have a direct impact on public services as many of these staff are concerned with providing frontline services.

The Library has arrived at this position because it has been under such a long period of financial pressure. The flat pyramidal structure which remains has extremely limited options for further slimming down in response to further budget cuts which would not directly affect core services. Defending services to the public has been a priority in the Library's planning as it has reduced staff numbers from 300 to 230.

The Library is therefore in a position with extremely limited options for cost reductions which would not directly affect its status as a national institution. There is a minimum level of funding required if the Welsh Government requires national institutions with impact and reach.

### **Pensions and Non-Government income**

Paragraph 170 of the report again refers to the issue of the pension scheme. As has been noted, the only way of reducing pension costs as a response to a significantly reduced budget would be to close the current Defined Benefit (DB) scheme, and move to a lower cost Defined Contribution (DC) scheme. The implications for the staff in this would be profound, and would almost certainly result in damaging industrial action. However the move from DB to DC would have to be a serious consideration if a cut in GIA precipitated a funding crisis.

The Library has relatively few options as far as increasing non-Government sources of income, particularly to cover core revenue costs. It has been successful in increasing commercial income to £700K per annum and has set an ambitious target of raising income from commercial activities, research grants and charitable donations to £1m by 2021. The Library has also successfully managed its charitable funds investments from a value of £3m in 2009 to over £11m in 2018. The Library has committed up to £2.5m to finance its bid for £5m to the Heritage Lottery Fund to establish the National Broadcast Archive, as well as drawing on the £300K income created by the investments to fund other developmental projects. However, by now, the capacity of charitable funds to finance additional costs without affecting long term sustainability is now close to its limit for long term commitments.

### **Conclusion**

Had the Library not been planning for and recognising the challenges of future reductions in GIA then a financial crisis would have inevitably occurred a number of years ago. The future funding from GIA is a risk that continues to be managed and it has been acknowledged as the most important strategic risk for over 10 years. The options to respond to future cuts in GIA are limited: staff numbers would have to be reduced, and overheads such as the DB pension would be under threat. In addition to its current management, the Library requires longer term GIA budget planning from the Welsh Government, as well as revised mechanisms for the Pay Remit if it is to be in a position to manage its future financial risks successfully.

### **PAC 23**

**We are concerned that the pace of change and timescales for delivery of the National Library for Wales' Work force plan are insufficient. We recommend that the National Library set out explicitly its plan of action for delivering its plan as a matter of urgency and share this with the Committee at the earliest opportunity.**

## Workforce Development Plan Timeline

Task	Progress to date	Responsibility	Key dates
Work towards harmonising key human resources policies with those of the Welsh Government, in consultation with recognised trade unions.	<p>The policies below have been written in line with the Welsh Governments policies.</p> <ul style="list-style-type: none"> <li>• Annual Leave</li> <li>• Temporary Responsibility Payments</li> <li>• Career Break</li> </ul> <p>(Shared with Partnership Council – November 2017)</p> <ul style="list-style-type: none"> <li>• Maternity / Adoption Leave</li> <li>• Shared Parental Leave</li> <li>• Paternity Leave</li> <li>• Parental Leave</li> </ul>	Executive Team Human Resources and Partnership Council	<p>Await response from Partnership Council to:</p> <ul style="list-style-type: none"> <li>• Annual Leave</li> <li>• Temporary Responsibility Payments</li> <li>• Career Break</li> </ul> <p><b>Response to be received by 31/03/2018</b></p> <p>Ready to be presented to Partnership Council:</p> <ul style="list-style-type: none"> <li>• Maternity / Adoption Leave</li> <li>• Shared Parental Leave</li> <li>• Paternity Leave</li> <li>• Parental Leave</li> </ul> <p><b>Response to be received by 30/06/2018</b></p>
	Changes to Staff Superannuation Scheme were implemented following a period of consultation with the Partnership Council which gave members the option to pay additional member contribution at a rate of 3% of Pensionable Salary and retain the NRD 60 benefits. Staff who did not elect the NRD 60 benefits have NRD65 Benefits for future service.	Executive Team Human Resources	Implemented as of 1 July 2017.
	As part of the Pay Remit 2017 – 2019 discussions the Library has agreed to sign the Dying to Work Charter by April 2018.	Executive Team Human Resources and Partnership Council	April 2018.



	The Library has also agreed to set up a task and finish group to look at the possibility of adopting the Wellbeing Hour for staff.	Executive Team Human Resources and Partnership Council	June 2018.
Make an initial assessment of the terms and conditions of National Library staff and the implications of bringing those into line with Welsh Government terms and conditions (WG Remit Letter 2017/18)	HR Unit conducted an assessment of terms and conditions at the National Library and National Museum in comparison to those of Welsh Governments.  Copy of the assessment was shared with WG in October 2017.	Executive Team / Human Resources	Completed - July 2017.
Continue to improve the relationship between management, staff and union representatives	Bi-monthly meetings between NLW Executive Team and Partnership Council  A monthly meeting between the Library's Human Resources Unit and Partnership Council continues to meet to discuss policies, terms and conditions.  Librarian/Chief Executive disseminates a regular all staff blog  Librarian/Chief Executive conducts quarterly meetings with all staff.  President and Librarian/Chief Executive holds quarterly meetings with national Trade Union representatives  Monthly all staff core brief disseminated	Executive Team Human Resources Partnership Council          Librarian/Chief Executive       Librarian / Chief Executive Partnership Council   Librarian/ Chief Executive	Ongoing.          Ongoing.       Ongoing.   Ongoing.

Ensure staff receive appropriate training to provide high quality services and any key skills gaps are identified and addressed strategically in your workforce development and succession planning	All staff Skills Audit conducted and analysed.  Report on any current skills gap and future needs commissioned.	Executive Team Delivery Group Human Resources	To be completed by 30/03/2018.  Report of Skills Audit findings and training programme to be presented to Executive Team by 31/05/2018.  Report on Skills Gaps and Future Needs to be presented to the Executive Team by 30/09/18  NB The Library and TUs are members of the Historic Wales Strategic Partnership Skills mainstreaming group who is looking to adopt a structural approach to skills across the organisations and heritage sector as a whole. The Library is the only partner to have commissioned a Skills Audit to date.
	Succession Planning Policy – shared with Partnership Council – December 2017.	Executive Team Human Resources Partnership Council	Response from Partnership Council to be received by 9 March 2018.
	Stress Audit The Library and Partnership Council have conducted two separate stress audits (in order to benchmark against previous year results).	Executive Team Human Resources Partnership Council	Completed. Action Points from both audits will be presented jointly with Human Resources and Partnership Council to Executive Team by 31/03/2018.
	Contribute to the Public Service Staff Commission's workforce planning exercise.	Executive Team Human Resources	Completed 30/7/2017.
	Draft People Strategy/Workforce	Executive Team Human	Early October 2018 meeting

	<p>Development Plan discussed with Partnership Council.</p> <p>Final Draft Plan</p>	<p>Resources Partnership Council</p>	<p>To be presented to Board of Trustees – 23 November 2018.</p>
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**Recommendation 3: We recommend that the National Library of Wales financial planning does not assume current levels of public funding and addresses a range of scenarios including reductions in the resources available to it.**

The Library refers the Committee to its response to Recommendation 22 which outlines its planning processes to address aspects of ongoing and future funding risks. In response to Recommendation 3, the Library would make the following points:

The Library's President has articulated the Board's view on several occasions that if Wales requires strong national institutions, then these have to be adequately funded to ensure their continued ability to function effectively and efficiently. In this context, substantial cuts in Grant-in-Aid have already been experienced for over a decade and staff numbers have reduced by a third. If Grant-in-Aid (GIA) is reduced further, then this will result in the Library having to cut its underlying costs commensurately which will also affect its capacity and capability to raise income. The inevitable further loss of staff will directly impact on core services limiting the Library's ability to function as a National Library, collecting, preserving and making available the national collections to current and future generations, increasingly in a digital format.

An important factor in the Library's ability to plan for the future is the availability of information on future budgets. For the last 4 years, this information has not been provided. The Library therefore welcomes the fact that it now has indicative budgets for 2019/20, and rebuts the description of it being "complacent" (as described in minute 34) in its financial planning, as plans need to be based on the information available in relation to GIA.

The Library has identified that it needs to make savings of 2% of revenue expenditure each year until 2020/21 in order to balance its budget – this would mean losing 4 or 5 posts each year. In February 2018, the Library's Board referred the issue of ongoing financial commitments to its Financial Planning Committee in light of the latest pay remit information from the Welsh Government. The Board Committee will be considering the issue in April 2018 as part of its continuous review of forward financial planning.

Over the period to 2020/21, the Library believes it will be able to reduce costs to match income through natural wastage of staff and some cuts to non-staff budgets, however this is likely to impact on services to a certain extent. The Library will soon have reached the point where fundamental changes will have to be made if it is to remain financially stable if GIA continues to be frozen or to fall. This will probably result in the closure of some core functions which the Library currently performs, and to do this would require financial support from the Welsh Government to implement compulsory redundancies. The Library acknowledges that compulsory redundancies would be something that the Welsh Government would wish to avoid, however it is hard to see how this would not be a consequence of significant cuts in GIA.

Cutting levels of pay would also reduce the Library's cost base. There is, however, virtually no scope for this, as:

- The Library is committed to paying the Living Wage, in line with Welsh Government policy, and 45% of staff will be earning a figure that is either at this level, or barely above it

- Average levels of pay are already low in comparison to other organisations (£23K median salary compared to £35K in the Civil Service)
- The number of staff in management functions has been reduced significantly over the last decade or more leaving an organisational structure that is extremely light.

Cutting pay levels would also be in direct contradiction of the stated aim in the Library's 2017/18 Remit Letter from the Welsh Government to consider ways of aligning staff terms and conditions with those of the Civil Service.

The Library has always taken a proactive approach to managing its costs and protecting services to the public, however it has now arrived at the de-minimis number of staff for its current level of activities. The Library is fully engaged in the discussions between the Welsh Government and the Welsh Government Sponsored Bodies Heads of Resources Group in relation to possible collaboration and sharing of resources. The successful project to co-locate the Royal Commission for Ancient and Historical Monuments in Wales at the Library's building is an example of recent collaboration to save costs and improve service delivery. Following the move, the Library now manages the Royal Commission's payroll.

In conclusion, the Library continues to monitor its financial risks and considers that there is limited scope for any further efficiency gains to protect front line services if it is to balance its budget as a result of cuts to GIA. The Library awaits indicative budgets beyond 2019/20 from the Welsh Government as a matter of urgency, as well as guidance on future pay remits. Reducing staff numbers is the inevitable consequence of reduced GIA and this will directly impact on core services.