

Archwilydd Cyffredinol Cymru
Auditor General for Wales

National Library of Wales – A Review of Governance



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU



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Mae'r ddogfen hon hefyd ar gael yn Gymraeg.

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Summary report

Summary

- 1 The National Library of Wales (the Library) was established by Royal Charter (the Charter) in 1907. Its object, as set out in the Charter, is to, 'collect, preserve and give access to all kinds of forms of recorded knowledge, especially relating to Wales and the Welsh and other Celtic peoples, for the benefit of the public, including those engaged in research and learning'. The Library's vast collection is of both national and international importance.
- 2 External correspondence to the Auditor General during 2014 and 2015 reflected concerns about aspects of the Library's leadership and governance, including tensions in staff relations and publicity about specific concerns relating to the outcome of an employment tribunal, which found that two members of staff were dismissed unfairly. As a result, the Auditor General indicated in 2015 to the Library, Welsh Government and the Public Accounts Committee that he would undertake a review of the Library's governance arrangements.
- 3 In March 2015, the Library's Board of Trustees commissioned Pricewaterhouse Coopers to review the implementation of the Library's disciplinary policy. The Auditor General decided to await the outcome of this work and to allow the Library time to respond to it before undertaking his review.
- 4 Staff of the Wales Audit Office, on behalf of the Auditor General for Wales, undertook this review in early 2016. Our methodology is set out in more detail in [Appendix 2](#). The objectives of our review were to provide:
 - assurance to the National Assembly for Wales with regard to the governance of the Library; and
 - insight to the Library's Board of Trustees and senior management at a time of significant change in both its executive and non-executive leadership.
- 5 We found that, following a difficult period between 2013 and 2015, the Library has improved important aspects of its governance and management arrangements, but that further work remains necessary to place the Library on a sustainable footing.
- 6 In support of this conclusion, Part One of this report sets out that the Library has experienced a turbulent period in its distinguished history during which the need to reduce costs became its main focus and over-riding priority. We report that:
 - The Library has a long and distinguished history of collecting and preserving information and knowledge for the benefit of future generations.

- Between 2013 and 2015, the Library made significant financial savings in order to remain viable, but its financial planning was not well enough integrated with the Strategic Plan. In the face of year-on-year reductions in its grant-in-aid from the Welsh Government, which represents over 80 per cent of the Library's annual income, the Library focused its attention successfully on finding the necessary savings by reducing the number of staff it employs. However, and despite Trustees' concerns, the impact of the staffing reductions on other aspects of the Strategic Plan were not considered in sufficient detail.
- The consequences of a fire in 2013 and the issues arising from the poor handling of two disciplinary cases also contributed to the loss of focus on the Library's strategic priorities.

7 In Part Two of the report, we conclude that, since July 2015, the Library has improved important aspects of its governance and management, but it faces challenges and opportunities as it seeks to remain sustainable. We report that:

- The Library's positive response to the recommendations of the PwC report¹ has helped to improve governance and created a closer working relationship between the executive and the Board.
- Trustees have a broad set of skills and experience, but the Library could exploit their roles more fully and improve decision-making and the effectiveness of Board meetings. Prior to April 2016, the Board's reluctance to discuss potentially sensitive issues in open session both reflects and has contributed to an erosion of trust between staff and the Library's leadership.
- The Library recognises that change is essential in order to maintain its financial viability. In particular, the Library recognises that the use of reserves to balance the budget cannot be sustained and that it will need to generate additional income or continue to deliver further savings. We note, however, that the Library's ability to take a longer-term view of its finances is constrained by aspects of the Welsh Government's current funding arrangements.
- The development of a new Strategic Plan and the implementation of the Well-being of Future Generations Act provide opportunities for the Library to better integrate the planning of its resources, including its staff and the condition and suitability of the Library building.

8 We set out our recommendations below.

¹ Independent external review of the National Library of Wales, PricewaterhouseCoopers, July 2015. The PwC Report is available on the National Library of Wales website alongside the agenda and minutes of the July 2015 meeting of the Board.

Recommendations

Recommendations	Reference
<p>R1 We recommend that the Welsh Government clarifies its position in response to the Public Accounts Committee's recommendations that:</p> <ul style="list-style-type: none"> • there should be greater clarity around the Library's insurance arrangements; and • those insurance arrangements should be reviewed. 	Paragraph 1.29
<p>R2 In order to increase the level of mutual understanding of the roles of staff and the Board, the Library should:</p> <ul style="list-style-type: none"> • create both formal and informal opportunities for Trustees and staff to meet regularly; and • establish protocols to ensure that engagement between Trustees and staff does not undermine the Library's line-management structures. 	Paragraph 2.16
<p>R3 In order to improve the effectiveness of its meetings, the Board should:</p> <ul style="list-style-type: none"> • in formulating and scheduling agenda items, give priority to those items requiring a decision; • focus discussion on reaching a decision where such a decision is required; • record decisions clearly in the minutes; and • establish and maintain an action log, and review its status at each Board meeting. 	Paragraph 2.21
<p>R4 In order to enhance the quality of decision-making at Board meetings, the Board should establish further committees with clear terms of reference, and whose remits might include matters relating to:</p> <ul style="list-style-type: none"> • the workforce, including staff remuneration; and • the Library estate. 	Paragraph 2.26
<p>R5 In order to increase the level of trust and co-operation between staff and the Library's leadership:</p> <ul style="list-style-type: none"> • the executive team should engage the Trades Unions when considering the structure, content and frequency of a single staff perception survey, and seek the support of the Trades Unions in encouraging full participation by all staff; and • the results of future staff surveys should routinely be reported to the Board. 	Paragraph 2.30

Recommendations	Reference
<p>R6 In order to increase the transparency of Board meetings, the Library should publish on its website:</p> <ul style="list-style-type: none"> • papers supporting agenda items in open sessions; and • brief reasons supporting the decision to restrict the public from those items to be discussed in closed session. 	Paragraph 2.33
<p>R7 As part of future financial planning, the Board should consider establishing targets for the upper and lower limits of its balance of unrestricted private funds and set out clearly the reasons for its decision.</p>	Paragraph 2.41
<p>R8 In order to support the Library in fulfilling its statutory duty to plan for a sustainable future, the Welsh Government should consider:</p> <ul style="list-style-type: none"> • notifying the Library of its annual funding allocation at the earliest opportunity in the preceding financial year; and • resume the practice of providing indicative budgets to the Library once the UK Government confirms indicative levels of future funding to the Welsh Government. 	Paragraph 2.45
<p>R9 In implementing its income generation strategy, the Library should ensure a consistent approach to the implementation and monitoring of departmental business plans that includes a rigorous analysis of income generated and the associated costs.</p>	Paragraph 2.48
<p>R10 In developing its new Strategic Plan to succeed 'Knowledge for All', the Board should adopt a three-year business plan, to be updated annually, that:</p> <ul style="list-style-type: none"> • enables the more timely production of the annual Operational Plan, thereby allowing sufficient Board engagement; and • establishes a suite of projects and accompanying budgets and governance arrangements that, together, will deliver its Strategic Plan. 	Paragraph 2.53
<p>R11 In producing its Workforce Development Strategy, implement a two-phased approach to managing workforce planning by:</p> <ul style="list-style-type: none"> • assessing the current workforce arrangements in order to inform a strategic review of the Library's functions and future delivery; and • once the strategic direction is clear, develop a 'People Strategy' that reflects the corporate plan and which includes the elements of workforce planning, succession planning, and talent management. 	Paragraph 2.63

Recommendations	Reference
<p>R12 In developing its asset management planning, the Library should:</p> <ul style="list-style-type: none"> • align the plan with its medium-term strategic planning, taking account of the agreed vision for the nature and volume of services that the Library will offer from its site in Aberystwyth; • assess the current condition of its estate assets, identifying how well they are serving the needs of the Library, and the costs of the action needed to bring them up to the required standards to deliver the Library's Strategic Plan; • establish a realistic baseline for future routine maintenance costs; • prioritise the assets that need attention, demonstrating how planned improvements will contribute to delivering the Library's strategic objectives and the risks associated with not carrying out the work; and • work alongside Welsh Government to identify the sources of the funding needed to develop and maintain the assets. 	<p>Paragraph 2.70</p>

Part 1

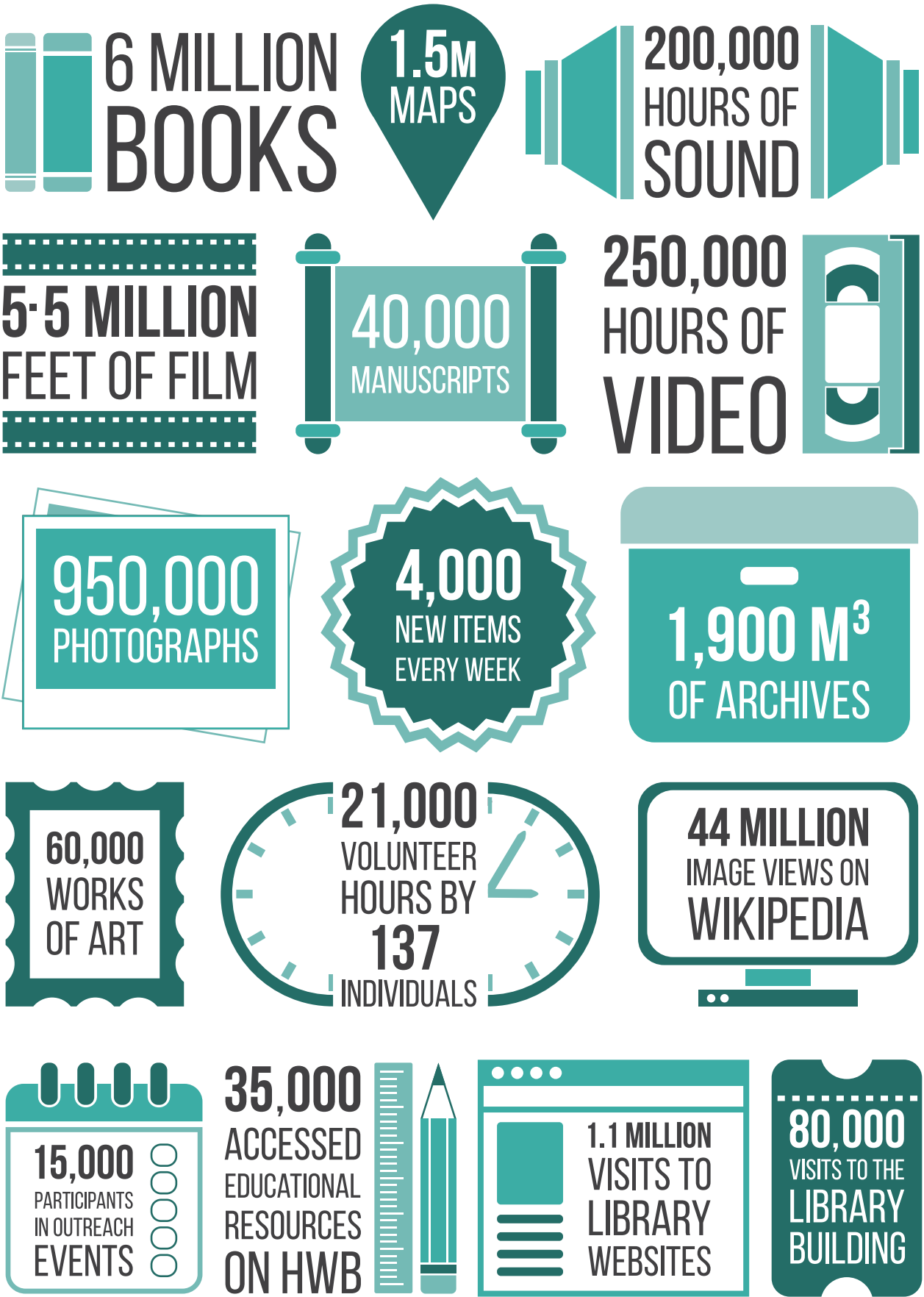
The Library has experienced a turbulent period in its distinguished history during which the need to reduce costs became its main focus and over-riding priority



The Library has a long and distinguished history of collecting and preserving information and knowledge for the benefit of future generations

- 1.1 The National Library of Wales (the Library) was established by Royal Charter (the Charter) in 1907. Its object, as set out in the Charter, is to, 'collect, preserve and give access to all kinds of forms of recorded knowledge, especially relating to Wales and the Welsh and other Celtic peoples, for the benefit of the public, including those engaged in research and learning'. The Library's vast collection is of both national and international importance.
- 1.2 Since moving into its current building in 1916, the Library has evolved and adapted to technological changes and to legal requirements, particularly during the last 30 years. The Library is one of only five legal deposit libraries in the British Isles and, under the Legal Deposit Libraries Act 2003, is entitled to claim from every publisher a copy of any and all printed works published in the UK and Ireland. Since the Legal Deposit Libraries Act came into effect, the Library has also been working jointly with other similar institutions to establish a system for depositing electronic and microform publications. This and other legislation, along with a range of agreements with other libraries and organisations, contribute to the fact that the Library adds over 4,000 items to its collections every week in implementing its Collections Development Policy. [Exhibit 1](#) seeks to summarise the scale and diversity of the Library's collection.

Exhibit 1 – The Library preserves and makes accessible to the public a vast and continuously-growing range of print, visual, audio-visual and electronic resources



Source: Adapted from the National Library of Wales

- 1.3 The Charter sets out the Library's core purpose. Supplemental Charters were granted in 1911 and 1978, revising aspects of the Library's constitution. In 2006, a further Supplemental Charter changed the constitution significantly by replacing the former Court of Governors and Council with a non-executive Board of 15 Trustees (the Board). Trustees are able to claim reasonable expenses but are not remunerated for their work. The Charter also establishes the role of President, who chairs meetings of the Board. The Board delegates the day-to-day running of the Library to the Librarian, who is also the Chief Executive and Accounting Officer for the Library, and the executive team.
- 1.4 The Library is also a registered charity. As such, the Library's Trustees and managers must abide by the requirements of the Charities Act 2011 and are accountable to the Charity Commission for ensuring that all the Library's activities are conducted for the benefit of the public, and with due regard to guidance published by the Charity Commission.
- 1.5 In addition to the duties set out in the Charter and by virtue of its charitable status, the Library is also a Welsh Government Sponsored Body, and therefore accountable to the Minister nominated by the First Minister². A Framework Document, prepared by the Welsh Government in consultation with the Library in 2011, sets out the broad context within which the Library operates and details the terms and conditions under which Welsh Ministers provide grant-in-aid to the Library. The Framework Document specifies that it should be reviewed at intervals of no less than five years.
- 1.6 The Framework Document sets out clearly and concisely the roles and responsibilities of key individuals in relation to the Library's governance, both within Welsh Government and at the Library. Where relevant, the Framework Document refers to and takes account of the Library's powers and duties under the Charter and its responsibilities as a registered charity.
- 1.7 The Framework Document also summarises the business planning and performance management arrangements to which the Library must adhere. We summarise these arrangements in [Exhibit 8 on page 20](#). All plans and strategies required by the Framework Document, together with the Library's annual reports and quarterly performance reports, are available on the Library's website³ alongside the Minister's annual remit letter.

² In 2011, when the Framework Document was compiled, the Minister for Housing, Regeneration and Heritage was responsible for the oversight of the Library and generally exercised the functions of Welsh Ministers in relation to the Library. Following a reorganisation during 2011, this responsibility passed to the Minister for Business, Enterprise, Technology and Science. Since May 2016, the Cabinet Secretary for Economy and Infrastructure is responsible for oversight of the Library.

³ [National Library of Wales' Corporate Documentation](#)

Between 2013 and 2015, the Library made significant financial savings in order to remain viable, but its financial planning was not well enough integrated with the Strategic Plan

Welsh Government revenue grant-in-aid, which represents over 80 per cent of the Library's annual income, has been declining year-on-year

1.8 The Library receives revenue income from:

- Welsh Government grant funding, which consists of core grant-in-aid revenue support, and additional grant-in-aid on occasion for specific purposes;
- grant funding from other bodies;
- trading income, consisting of sales, catering, car parks and other miscellaneous income;
- donations and bequests; and
- investment income.

1.9 **Exhibit 2** below shows the Library's revenue income for each of the six financial years since 2010-11. Whilst income from donations and bequests has increased significantly in each of the last three financial years, total revenue income for 2015-16 is only marginally higher than it was in 2010-11. We calculate that, in real terms at 2010-11 prices, total revenue income has decreased by about 6.7 per cent. Furthermore, income received in the form of donation and bequests is, by its nature, unpredictable and cannot be relied upon as a basis for financial planning. The Welsh Government also provides capital grants to the Library. We refer separately in Part 2 of this report (paragraphs 2.64 – 2.70) to the Library's use of capital funding.

Exhibit 2 – Despite increases in the volume of donations and bequests, the Library’s total revenue income was only marginally higher in 2015-16 than in 2010-11

Income source	2010-11 £000	2011-12 £000	2012-13 £000	2013-14 £000	2014-15 ⁴ £000	2015-16 £000
Welsh Government revenue grants ⁵	10,933	10,523	10,345	10,591	11,439	10,481
Other grants	266	629	1,106	1,469	739	462
Trading income	555	502	458	506	572	569
Donations and bequests	60	305	74	588	1,434	572
Investment income	143	167	171	184	188	204
Total	11,957	12,126	12,154	13,338	14,372	12,288

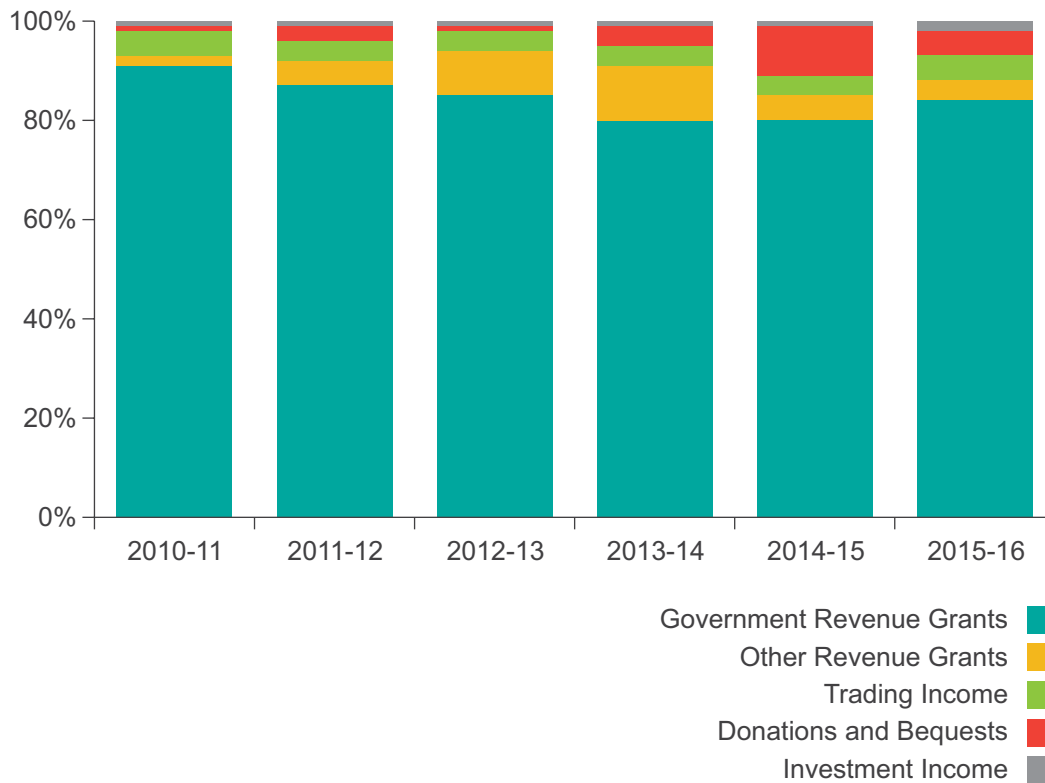
Source: Annual accounts, National Library of Wales

1.10 The Library depends heavily on Welsh Government grants, and predominantly on grant-in-aid, to fund its day-to-day work. Exhibit 3 shows that the level of the Library’s dependency on Welsh Government grants fell from 91 per cent in 2010-11 to a little below 80 per cent in 2013-14 and 2014-15, mainly because of an increase in other sources of grant funding and as a result of an increase in donations and bequests. However, dependency on Welsh Government grants has increased to 85 per cent in 2015-16.

⁴ Figures for 2014-15 are based on the restated figures in the 2015-16 accounts where a number of ‘other grants’ totalling £898,000 have been reclassified as Welsh Government grants. The corresponding figure for 2015-16 is £767,000

⁵ Welsh Government revenue grants include core grant-in-aid and additional grant-in-aid for specific purposes.

Exhibit 3 – The Library remains heavily dependent on Welsh Government revenue grants in order to fulfil its duties

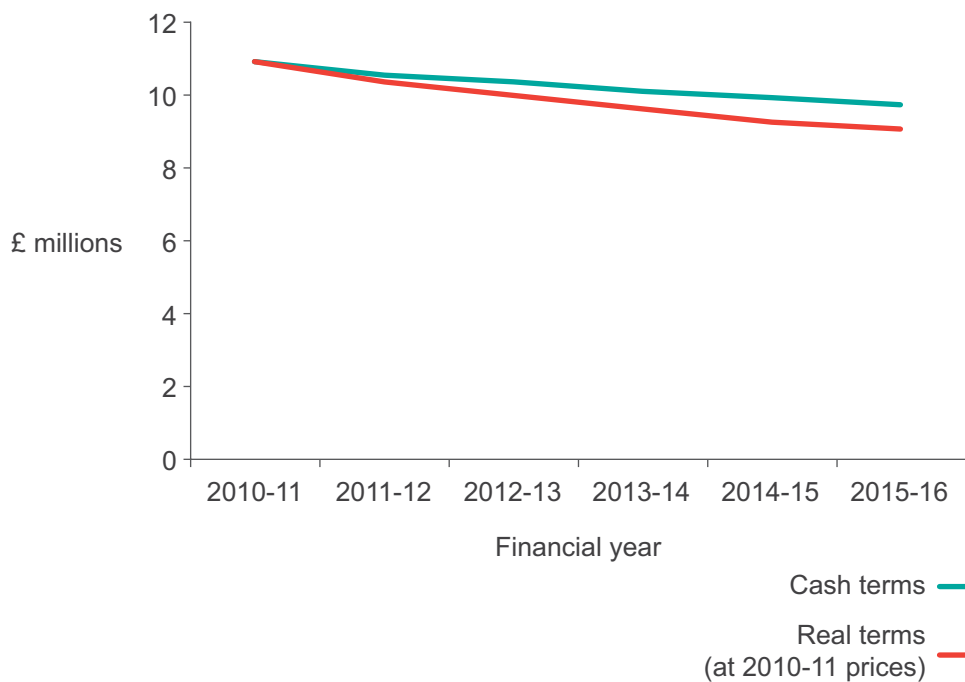


Source: Annual accounts, National Library of Wales⁶

1.11 Core grant-in-aid forms by far the greatest proportion of the Welsh Government’s revenue grant funding. In 2015-16, for example, grant-in-aid formed 93 per cent of the £10.5 million revenue support from the Welsh Government. The remaining £0.776 million was allocated to support a range of specific projects such as the Library’s work on The Great War. Exhibit 4 shows that the Welsh Government’s core grant-in-aid to the Library has fallen year-on-year from £10.9 million in 2010-11 to £9.7 million in 2015-16. We estimate that, based on prices in 2010-11, this 11 per cent reduction in cash terms represents a fall of some 17.2 per cent in real terms.

6 Figures for 2014-15 are taken from the restated position shown in the 2015-16 accounts.

Exhibit 4 – Welsh Government Revenue Grant-in-Aid for core running costs has fallen year-on-year since 2010-11



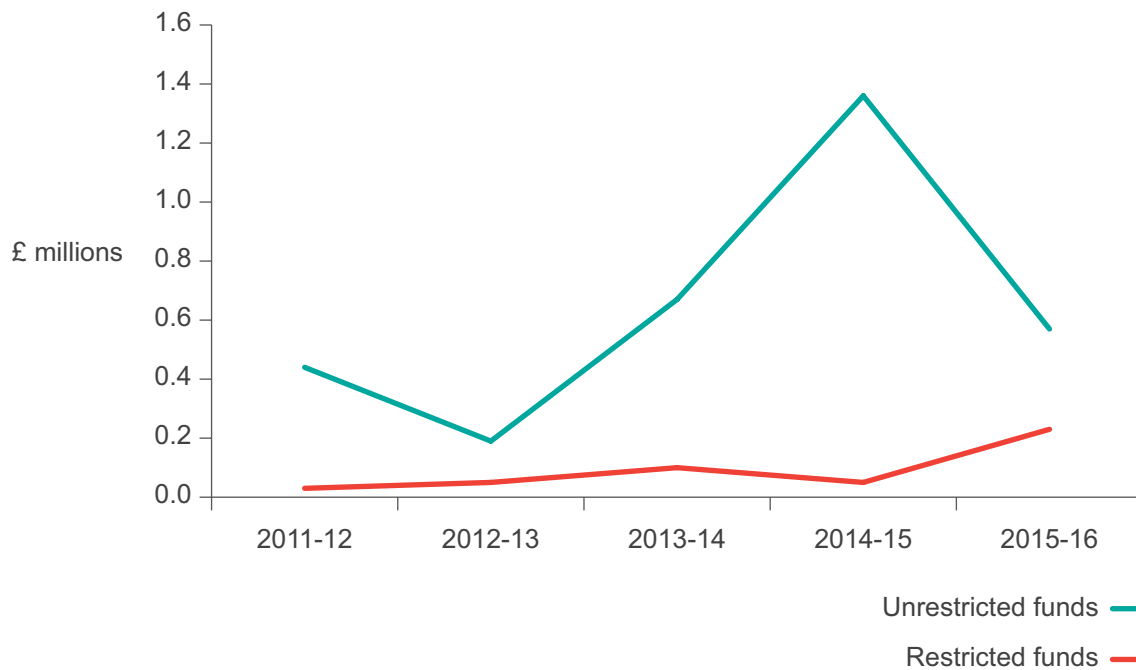
Source: Annual accounts, National Library of Wales, and Welsh Government remit letters

1.12 The Library secures grant income from sources other than Welsh Government. The Heritage Lottery Fund, for example, supported the purchase of the Boston Manuscript⁷ in 2012 and is the largest contributor to the Cynefin project, which aims to repair and digitise around 1,200 tithe maps and transcribe over 30,000 pages of index documents. However, income such as this forms only a small proportion of the Library's income; importantly, such funding pays for work that is specified in grant conditions and is additional to the duties and functions set out in the Library's Charter. Furthermore, grant income linked to specific projects is time bound. The Library therefore depends on Welsh Government grant-in-aid to fulfil its statutory duties.

⁷ The Boston Manuscript is a rare medieval manuscript of the Laws of Hywel Dda

1.13 Private funds in the form of donations, bequests and the investment income that they generate represent a small but important part of the Library’s annual income. Some private funds are subject to restrictions; donors may, for example, specify that their contributions may only be used to add to the Library’s collection. Total income in the form of private funds for the five year period 2011-12 to 2015-16 was £3.7 million. There were no restrictions placed on £3.2 million of the income, of which some £1.2 million was received as a significant bequest in 2014-15. Exhibit 5 shows that, during the five years 2011-12 to 2015-16, annual private funds income has varied between £245,000 in 2012-13 and £1.41 million in 2014-15. At the end of 2015-16, the Library held unrestricted private fund balances of about £7.9 million. We comment further on the Library’s use of unrestricted private funds in Part 2 of this report (paragraphs 2.34 – 2.41).

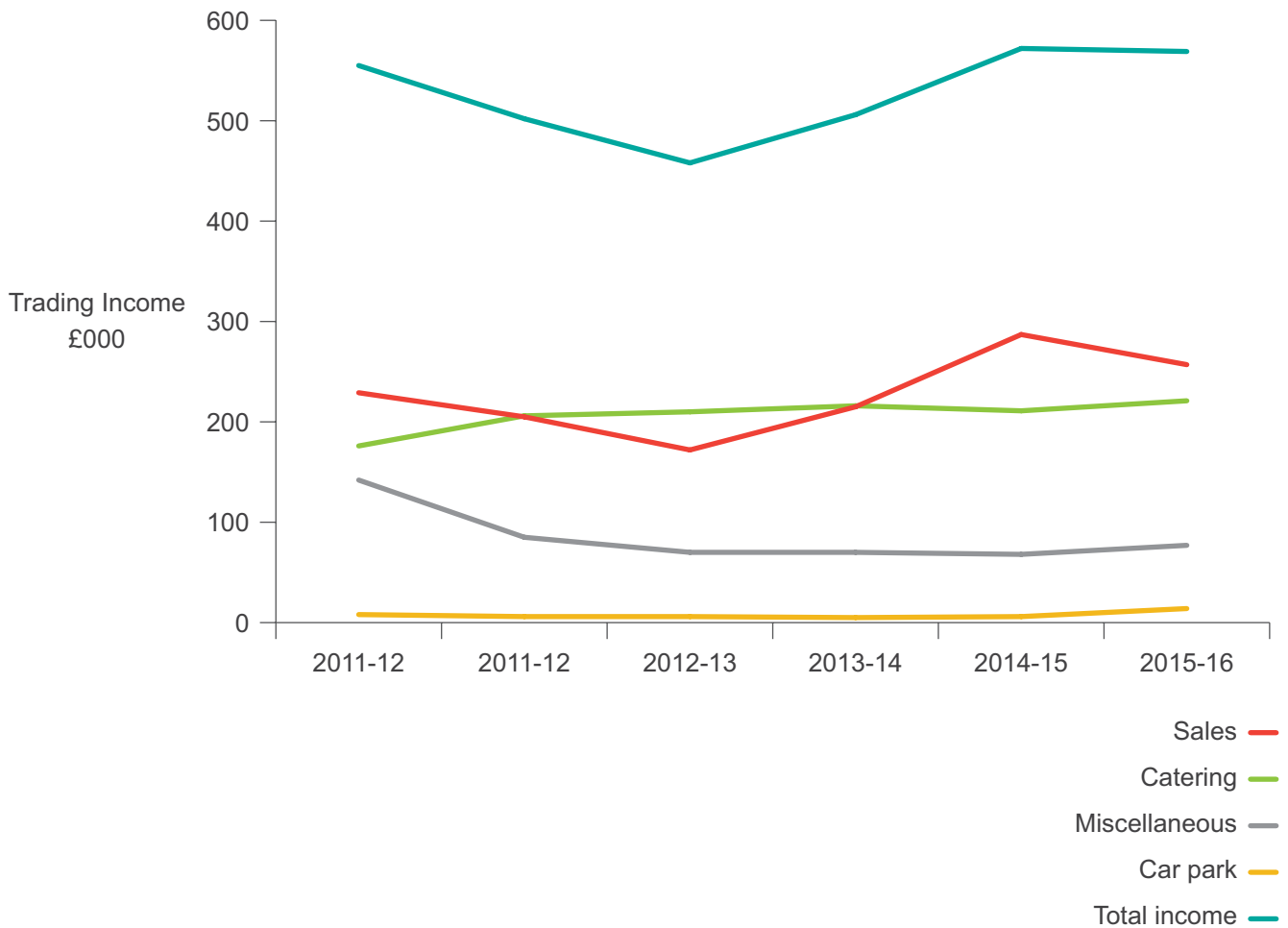
Exhibit 5 – Private funds income is variable and, over the five years between 2011-12 and 2015-16, has fluctuated between £245,000 and £1.41 million



Source: Annual Accounts, National Library of Wales

1.14 Trading income provides the fourth source of income to supplement Welsh Government funding. In recent years, trading income has represented only about three per cent of the Library’s income, fluctuating between about £460,000 in 2012-13 and £570,000 in 2015-16. Exhibit 6 shows that sales and catering contribute the bulk of the Library’s trading income, with the Library’s shop and Pendas, its onsite restaurant, together contributing almost half the total.

Exhibit 6 – Trading income of about £500,000 per annum consists mostly of Sales and Catering



Source: Annual Accounts, National Library of Wales

1.15 Although the last two years have seen slight increases in trading income, revenue from sales and catering continues to make only a small contribution to the Library's total income. Opportunities to increase such revenue are limited; the Library does not attract casual visitors in the way that other heritage attractions do but, instead, depends largely on those who wish to use its collection for research. As the Library increases the digital availability of its collection, the number of users visiting the site in Aberystwyth is declining and is likely to continue to do so. Even though the Library seeks to raise its profile by, for example, hosting lectures and events for schools, the trading income generated by such events does not, in all cases, cover the costs of staffing the shop and restaurant.

The Library made significant financial savings in order to remain a going concern in the face of reductions in grant-in-aid

1.16 The Board approved its current Strategic Plan 2014-2017, 'Knowledge for All,' (the Strategic Plan) in February 2014. 'Knowledge for All' sets out the Library's mission, vision, values and strategic priorities. **Exhibit 7** shows two extracts from the Strategic Plan's introduction which articulate clearly the need to make significant changes in response to the worsening financial climate. The Strategic Plan succeeded the previous three-year plan, 'The Agile Library', adopted in February 2011, which also recognised the need for change in the context of reducing levels of public expenditure.

Exhibit 7 – The Strategic Plan 2014-2017, 'Knowledge for All', clearly identifies the need to make significant changes in response to reductions in public expenditure

Extracts from the Librarian's introduction to 'Knowledge for All'

' Reductions in public expenditure are likely to continue throughout the period of this Strategic Plan. Since the Library does not undertake activities that are marginal to its purposes, it follows that it must respond either by finding more cost-efficient ways of carrying out its core functions, or by reducing its range of services'.

' Resources, or the lack of them, will be a central concern during 2014-2017. Revenue funding for core services and capital funding for new developments and building maintenance are likely to decrease. The search for diverse funding streams will become increasingly important, as will active fundraising and income generation'.

Source: 'Knowledge for All': National Library of Wales Strategic Plan 2014-2017, pages 3-4

- 1.17 The Board also approved a Medium Term Financial Plan in February 2014. The minutes of the Board’s meeting on 21 February 2014 record that, ‘...the Library was in a situation where the loss of substantial numbers of staff in the next two years would be the only way that it could maintain its financial sustainability... the period from 2014 onwards looked extremely bleak and that there was a significant risk of financial failure by 2016-17 that should be addressed urgently.’ The Medium Term Financial Plan estimated that £1.25 million, a sum equivalent to about 40 posts (about 14 per cent of the workforce at that time), needed to be taken out of the Library’s base budget. As a result of this bleak but uncertain financial prognosis, the Library embarked on a restructuring programme, based on voluntary early severance, that was intended to:
- support the delivery of the new Strategic Plan; and
 - create substantial savings in the base budget.

We refer in more detail to the impact of the restructuring programme in [paragraphs 2.54 – 2.63](#).

Plans to deliver substantial savings in the base budget were insufficiently well integrated or aligned with other aspects of the Strategic Plan

- 1.18 We refer in [paragraph 1.16](#) to the Library’s Strategic Plan, which forms part of a business planning and performance management cycle required by Welsh Government and set out in the Framework Document. [Exhibit 8](#) summarises the requirements set out in the Framework Document.

Exhibit 8 – The Framework Document sets out the business planning and performance management arrangements to which the Library must adhere

Every three to four years	‘ The Library will produce a Corporate Plan or Strategy... reflecting the aims and objectives as set out in the Library’s Charter, and... reflecting the Welsh Government’s strategic agenda’.
Annually	‘ The Library shall prepare an annual operational plan setting out the level of service to be achieved in key areas...The operational plan will be informed by the Minister’s remit letter, the Welsh Government’s strategic agenda and the Library’s Strategy, and Charter objectives’. ‘ ..the Library shall publish a report of its activities to permit the National Assembly, other clients and the public to judge its success in meeting its targets’.
Quarterly	‘ ..the Library shall provide a report to the sponsor department which sets out the progress towards meeting the key targets set out in the operational plan’.

Source: [The National Library of Wales: Framework Document, 2011](#)

1.19 The production of the Strategic Plan 2014-2017, 'Knowledge for All', was timely, and complied with the requirements of the Framework Document. The Strategic Plan is an engaging document that sets out a total of 23 commitments, arranged under each of five Strategic Priorities:

- Access;
- Expertise;
- Collaboration;
- Sustainability; and
- Forward Thinking.

The Strategic Priorities are consistent with and well-aligned to the Welsh Government priorities set out in the 2014-15 Remit Letter. We set out the commitments under each Strategic Priority in [Appendix 1](#).

1.20 However, the Strategic Plan provides only a direction of travel. It does not, for example, seek to quantify the scale of change necessary under each of the 23 commitments, nor its cost. The Strategic Plan offers no information about the likely sequencing of the commitments across its three-year duration.

1.21 The Library's Board of Trustees recognised that a more detailed business plan was necessary in order to underpin the Strategic Plan, linking it to the Medium-Term Financial Plan and the staffing reductions that were already underway. Despite regular requests for clarification, the Board was unable to satisfy itself that there was a clear relationship between the delivery of the new strategy and the staff restructuring programme. Between November 2014 and July 2015 the Board regularly requested a 'business plan' in respect of the restructuring programme and expressed concerns over the content and quality of the information it was receiving about the programme. For example, the Board held a special meeting on 23 January 2015 specifically to consider the Operational Transformation Plan in relation to the Corporate Restructuring Programme. The minutes of the meeting record Trustees' concerns that the paper presented did not show the Library's medium or long-term vision and that a three-year business plan was necessary. Trustees wanted to understand how reductions in the Library's budget would affect services and which services would be delivered differently as a result of the budget cuts.

- 1.22 At this meeting in January 2015, the Board asked the then Librarian to prepare a three-year business plan along with appropriate financial projections for the next Board meeting. However, neither the plan presented in March nor a further iteration presented in July 2015 met the Board's expectations, and they were not approved.
- 1.23 In the meantime, the Library had submitted its annual Operational Plan for 2015-16 to Welsh Government, as required. The Board is responsible for determining the content of the Operational Plan, in consultation with the sponsor department. The Board discusses and approves the Operational Plan each year, but the extent of the Board's involvement in producing and challenging the plans has, in recent years, been inappropriately limited. In approving the 2015-16 Operational Plan, the Board acknowledged that it had not set aside sufficient time to discuss the plan in greater detail.
- 1.24 The Framework Document states that the Library's Operational Plan, 'will be informed by the Minister's remit letter, the Welsh Government's strategic agenda and the Library's Strategy, and Charter objectives'. The Framework Document makes clear that the Library's Operational Plan should accommodate the requirements of the remit letter within the context of the Library's statutory and charitable duties. The annual Operational Plan should therefore perform a dual role of:
- setting out the framework for delivering those aspects of the commitments set out in the Library's Strategic Plan that are to be addressed during the year, and the key actions and targets that relate to those commitments; and
 - providing accountability to the Welsh Government by means of a summary of the main activities and developments that will deliver the Welsh Government's strategic priorities as set out in the remit letter.
- 1.25 In practice, the Library's operational plan has met the requirements of the Framework Document in most respects. However, the planning and implementation of the staffing changes made necessary by reductions in grant-in-aid have not been sufficiently well-integrated with the Library's wider ambitions as set out in the Strategic Plan, 'Knowledge for All'. For example, it has been unclear how staffing reductions might impact on the Library's strategic ambition to, 'Expand our presence across Wales', and to 'Investigate new income streams'. Better alignment of operational planning would contribute directly to improving the Library's sustainability, which is one of the Library's own Strategic Priorities and also a requirement of the Welsh Government's Remit Letter for 2014-15.

The consequences of a fire in April 2013 and the issues arising from the poor handling of two disciplinary cases contributed to the loss of focus on the Library's strategic priorities

- 1.26 A roof fire in April 2013 caused extensive damage to the structure of the Library building. The accommodation affected by the fire and by the water used to extinguish it was mostly office space, and swift action by staff helped to ensure that damage to the collections was limited. There were no injuries to staff or to visitors; despite one of the Library's main server rooms being destroyed by the water from the fire, the Library's digital services and operations remained available.
- 1.27 Under the terms of its Welsh Government sponsorship, the Library is covered for insurance purposes by Crown Guarantee. Welsh Government contributed £2.47 million of additional capital grant during 2013-14 for the repair of the building, and made a further £470,000 revenue contribution to the core grant-in-aid in recognition of the costs associated with the fire.
- 1.28 With Welsh Government financial support, the Library has dealt with the direct consequences of the fire. However, discussions continue as to whether the Library might instigate a successful legal action against a contractor in order to recover some of the expenditure incurred. The Crown Guarantee does not cover the financial risks associated with such a course of action, and the Board and its legal advisers discussed 'matters relating to the fire' at most Board meetings between the start of 2014 and late 2015, taking up time that might otherwise have been used to focus on the Library's strategic priorities.
- 1.29 In its Scrutiny of Accounts 2014-15⁸, the National Assembly for Wales Public Accounts Committee expressed the view that, 'the fire of 2013 raises questions regarding the National Library's insurance arrangements.' The Committee recommended (Recommendation 3) that the Library's insurance arrangements, 'be reviewed as a matter of urgency to ensure future arrangements are cost effective and minimise losses to the public purse.' We endorse this view and that of the Public Accounts Committee (Recommendation 4) that, 'there is a need for greater clarity around the National Library's insurance arrangements and we recommend that discussions take place with Welsh Government to address this.' In her response to the Public Accounts Committee in February 2016, the Librarian stated that, 'The Board has repeatedly sought further clarification from the Welsh Government regarding the scheme, however, ultimately, this is an issue for the Welsh Government to consider in the broader context of its relationship with its sponsored bodies.'

8 Scrutiny of Accounts 2014-15, National Assembly for Wales Public Accounts Committee, Recommendations 2-4, December 2015

- 1.30 In March 2015, the Board agreed to commission an independent external review in relation to the implementation of the Library's disciplinary policy which had led to an Employment Tribunal finding against the Library during the autumn of 2014. PricewaterhouseCoopers were appointed to undertake the review and reported to the Board in July 2015 (the PwC Report⁹).
- 1.31 The key findings of the PwC Report state that, '...the disciplinary process and subsequent claims and Employment Tribunal could have been handled more effectively. There are matters identified in the review that relate to the governance and culture of the Library which, unless addressed, may inhibit the Library's ability to move forward'. The PwC report makes 11 recommendations.
- 1.32 The disciplinary process and the subsequent task of responding to the 11 recommendations in the PwC Report have been time-consuming for both the executive and the Board, diverting time and energy away from the Library's priorities. Part 2 of this report refers in more detail to the progress that the Library has made in addressing the recommendations and key findings of the PwC report.

⁹ Independent external review of the National Library of Wales, PricewaterhouseCoopers, July 2015. The PwC Report is available on the National Library of Wales website alongside the agenda and minutes of the July 2015 meeting of the Board.

The Library's positive response to the recommendations of the PwC report has helped to improve governance and created a closer working relationship between the executive and the Board

- 2.1 Leadership at the Library has undergone a period of significant change. The former Librarian stepped down from his post in August 2015 after only two years in post and his replacement, the eleventh person to hold the post since 1909, took up post in November 2015 on an interim basis. The new Librarian brings to the post significant valuable experience, having previously led the team representing the Welsh Government's Sponsor Division in its dealings with the Library.
- 2.2 The Librarian is supported by an Executive Team that has halved in size from four officers in early 2015 to only two a year later. The Executive Team is supported, in turn, by the Delivery Group, a team of nine senior managers that includes the Librarian and two Directors.
- 2.3 There was no President in office at the time of our fieldwork, the previous President having reached the end of his term of office in December 2015. The Vice-President led the Board until the new President took up post in April 2016, and subsequently stepped down in July 2016
- 2.4 The Board acted swiftly and decisively on receiving the PwC report in July 2015. It made public the full report on the date of receipt, and established a governance taskforce consisting of Trustees and senior managers to produce and implement an action plan. The Library has reported progress against its action plan regularly and we conclude, in summary, that:
 - there has been good progress in addressing the numerous policy deficiencies identified in the PwC report, drawing on appropriate specialist advice as necessary;
 - the Vice-President took active and effective steps to engage regularly with the new Librarian and to monitor her performance; and
 - leaders at the Library acknowledge and understand the limitations of the Library's small HR team, and recognise the need to engage specialist advice to deal with complex but rare issues such as those that led to the Employment Tribunal.

- 2.5 The key findings of the PwC report refer to the need to address ‘matters ...that relate to the governance and culture of the Library’. Such matters are, by their nature, issues that must be tackled over the medium and longer term. Nevertheless, we found that the process of responding to the recommendations in the PwC report has helped to forge a closer and more productive working relationship between the Trustees and senior managers. Close working between the new Librarian and the Acting President and much improved communication within the executive team have been significant contributory factors. Prior to the appointment of the new President in April 2016, weekly meetings or telephone conversations between the Vice-President and Librarian were of mutual benefit in achieving a shared understanding of priorities and progress. The new President has continued this valuable practice since his appointment. In addition, the Librarian has, since her appointment, sought to improve engagement with staff by, for example, the production of a weekly news bulletin.

Trustees have a broad set of skills and experience but the Library could exploit their roles more fully and improve decision-making

Trustees bring to the Library a broad set of skills and experience

- 2.6 Trustees bring to the role a rich breadth of experience and expertise covering both public and private sectors. The fact that Trustees usually serve fixed terms of four years in office (and a maximum of eight consecutive years) ensures a regular turnover, bringing new blood and fresh ideas to the Board. There remains scope to increase the Board’s diversity in terms of both its gender balance and age profile; at the time of our fieldwork in January 2016, only three of the 14 Trustees in post at that time were women.
- 2.7 The fact that the role of Trustee is unremunerated is one indicator of Trustees’ commitment to the Library. Our interviews with Trustees confirmed that, in keeping with the requirements of charity law, they are committed to acting in the Library’s best interests. Under the terms of its sponsoring agreement, the Welsh Government appoints eight of the 15 Trustees to the Board, including the President and Vice-President. However, we found no difference in the level of Trustees’ commitment to the Library between Trustees who are Welsh Government appointees and those appointed by the Library.

2.8 The PwC Report refers to a 'lack of consultation of the Executive Team'¹⁰ between the autumn of 2013 and the issuing of their report in July 2015. However, we found that, under the current Librarian, the executive has worked well together to provide good support to Trustees in developing and maintaining their understanding of their role. Newly appointed Trustees attend a valuable induction process that raises their awareness of their roles as Trustees and, importantly, the nature of the work that occurs from day to day at the Library. Trustees also receive a copy of the 'Trustees Companion', last revised in November 2015, which provides a well-organised compendium of relevant documents that include:

- the 2006 Supplemental Royal Charter and Statutes;
- a Code of Conduct, agreed by the Board in 2007 and which enshrines the 'Nolan Principles'¹¹;
- 'The Essential Trustee', issued by the Charity Commission in 2015;
- the Framework Document compiled by the Welsh Government, in consultation with the Library, and finalised in 2011; and
- a Corporate Governance Framework produced by the Library in 2013, which summarises the key responsibilities of the Board and the Library's Executive Team; the Board's powers of delegation; the conduct expected of the Board; and the proceedings of the Board in delivering services to the people of Wales.

There is scope to exploit more fully the role of the Trustee, both within the Library and externally

2.9 The primary role of Trustees lies in their contribution to decision-making at Board meetings. The Board has met formally on five occasions in each of 2014 and 2015. Some Trustees also serve on the Audit Committee which, typically, meets four times a year. We discuss in paragraphs 2.22 – 2.33 the role and conduct of Board meetings and the Board's committee structure.

2.10 However, the role of Trustees as external ambassadors for the Library has, to date, not been exploited as well as it might. There is a growing understanding at the Library that, despite the increasing availability of its collection in a digital form, the level of awareness of the Library's work across Wales and beyond is limited. Until recently, the Library has had little understanding of the perceptions of those using its services and even less understanding of how it might engage more effectively with those with scant knowledge of the Library, its work and the services it offers.

¹⁰ Independent external review of the National Library of Wales, PricewaterhouseCoopers, July 2015

¹¹ The Nolan Principles are the basis of the ethical standards expected of holders of public office. They are set out in 'The Seven Principles of Public Life', published by the Committee on Standards in Public Life in 1995.

- 2.11 The 2014-2017 Strategic Plan includes a number of commitments that aim to increase the Library's physical and online presence across Wales, and to engage more effectively with service users. The annual operational plan for 2013-14 includes a pledge to 'continue to increase the Library's profile' and the equivalent plans for 2014-15 and 2015-16 include, as actions, the development and implementation of strategies and policies for marketing and outreach. The pace of development has been slow, but the Library has recently appointed an interim head of external relations, who is making progress. The operational plan for 2016-17 pledges to implement new strategies for Marketing and for Outreach and Engagement by September 2016. We understand that these plans are progressing as planned.
- 2.12 New Trustees have brought additional expertise in marketing to the Board. The Vice-President of the Body has met with the Library's Advisory Body, a potentially valuable group of service users, which has met infrequently in recent years and whose role currently lacks clarity. More generally, however, the potential for Trustees to promote the Library within their broad and diverse networks has not been exploited systematically and managers have not always supported efforts by individual Trustees to do so. Such engagement by Trustees carries a risk that Trustees may, in promoting the Library, find themselves in a position of conflicting interests. However, the Board has clear arrangements in place which, if applied diligently, should mitigate this risk.
- 2.13 New Trustees receive a valuable induction that includes presentations by departmental managers. The process helps Trustees understand the range and scale of the work undertaken at the Library and introduces them to some of those delivering the work. Once the induction process is over, however, most Trustees engage only with members of the executive team. Board meetings have, in the past, included oral updates by departmental managers, but this process has recently been replaced by a set of written reports that reflect recent events across the Library. The reports are generally informative but they take up valuable time during Board meetings.
- 2.14 Staff have limited awareness of the role of Trustees and little opportunity to engage with them. However, the new Governance and Performance Committee has recognised in a discussion paper that the attempt in the 2006 Regulations to, 'draw clear boundaries between the functions of the Trustees and the functions of the Executive Team... has resulted in confusion'. In formulating amendments to the Regulations, the paper goes on to state that, '..the role of the Trustees as set out in the Charter and Statutes (and elaborated by the Charity Commission) requires overlap between internal executive functions and the role of the Trustees and Board'. The discussion paper goes on to suggest that, '..a fluid exchange of information and comment is essential'.

- 2.15 In essence, the paper recognises that the role of Trustee has, hitherto, been confined too rigidly to their attendance at and contribution to formal meetings of the Board and, in some cases, the Audit Committee. Instead, the paper proposes that Trustees should be able to, ‘..communicate freely on issues relevant to the effectiveness of the Library’s functions, development and external relationships at appropriate stages’.
- 2.16 We recognise that other demands may limit the additional time, over and above formal meetings, that some Trustees are able to devote to their roles at the Library. However, in order to fulfil successfully the more fluid role envisaged in the paper produced by the Governance and Performance Committee, the Board requires a greater awareness of the Library’s work and the issues faced by its staff in carrying out their functions. We acknowledge the concerns, expressed by a few Trustees, that close engagement with staff poses a risk of undermining the Library’s management structure. However, through the development of appropriate protocols and controls, we consider that the Library is well-placed to manage the risk successfully.

The Board receives timely and clear supporting papers, though agendas are often too long and decisions are not always clearly recorded

- 2.17 As part of our fieldwork, we have reviewed the agendas, papers and minutes of all Board meetings held over the last two years. We also attended one meeting of the Board as observers. We found that papers are generally well-presented and clearly written in both Welsh and English. Trustees receive their agenda packs in good time and, based on the evidence of the meeting that we observed, prepare thoroughly for the meetings. The Vice-President chaired the meeting well, ensuring that all Trustees took part, including some new Trustees that were attending their first Board meeting. Contributions and questions were constructive, appropriately challenging of management, and generally pertinent to the topics being discussed.
- 2.18 Regulations for the Board¹² specify that it, ‘...will normally meet seven times each year’. As noted in paragraph 2.9, Board meetings during 2014 and 2015 have been less frequent. Partly in consequence, typical agendas are weighty. The agenda for the open session of the February 2016 meeting, for example, includes 22 substantive items, with a further five items scheduled for the closed session. Items to be discussed during the open session included the Operational Plan for 2016-17 and the 2016-17 budget, as well as new fundraising and procurement strategies.

¹² Regulations made by the Trustees pursuant to the Supplemental Charter and Statutes, 2006

- 2.19 Of the 27 agenda items scheduled for the open session, 18 were supported by papers. The Board made clear at the meeting that, in future, it requires supporting information to inform discussion about the Library's restructuring programme. For those items supported by papers, Trustees' agenda packs include a helpful single introductory page that states clearly the purpose of the item and what action, if any, is required of the Board. However, 10 of the 18 papers are 'for information' or for the Board to note, with only eight requiring the Board's approval. Two of the scheduled three hours for the open session had elapsed before the Board began to discuss key matters relating to the Library's finance and governance.
- 2.20 The minutes of the meeting provide a succinct summary of the Board's discussions. They also helpfully record any actions required as a result of those discussions. Past agendas and minutes suggest that there is no rigorous follow-up of action points at subsequent meetings to ensure that they have been completed to the Board's satisfaction.
- 2.21 Discussions relating to items requiring a decision tend not to focus clearly enough on reaching such a decision. As a result, the minutes are inconsistent in the clarity with which they record whether or not the Board gave its approval for those items requiring such a decision. At the February 2016 meeting, for example, the Executive requested that the Board approve a new procurement strategy for the Library. However, the minutes record only that 'Members were pleased to note the Strategy'.

The new Governance and Performance committee, reporting to the Board, has the potential to bring clearer focus to discussion at Board meetings

- 2.22 The 2006 Supplemental Charter permits Trustees, '...from time to time to appoint such Committees (which must include an audit committee) as they deem expedient and consisting of such Trustees as they think fit and either with or without any other person or persons.....'. The Charter makes clear the extent to which Trustees may delegate their functions to such committees and allows the Board to determine the extent to which the minutes of such committees should be laid before the Board.
- 2.23 In recent years, the Audit Committee has been the only committee reporting to the Board. The Audit Committee includes two independent members and meets four times each year. As the Library's external auditor, Wales Audit Office staff attend most Audit Committee meetings; they are, on the whole, well run and regularly consider a pertinent range of matters such as reports by both internal and external auditors, and the contents of the Library's risk register. The Board receives Audit Committee minutes for information during its closed sessions.

- 2.24 In addition to the Audit Committee, the Board has also established various ad hoc 'task and finish' groups, comprising both staff and Trustees, to consider specific issues. Receipt of the PwC Report, for example, led to the creation of a Governance Taskforce, led by the Vice-President, to drive the Library's response to the recommendations of the report. The success of the Governance Taskforce has led to the establishment of a Governance and Performance Committee, which held its inaugural meeting in early February 2016 and reported to the Board later that month.
- 2.25 The Governance and Performance Committee's first meeting was productive. In particular, they recommended that the Board approve:
- a paper on the roles of, and relationships between, the Board and the executive team;
 - a revised version of the Library's Governance Framework;
 - revised Regulations; and
 - performance indicators for the quarter preceding the meeting.
- 2.26 Recommendations to the Board, such as those made by the Governance and Performance Committee, have the potential to expedite the transaction of business at Board meetings. Detailed discussions take place in committee rather than at the Board meeting, allowing the Board to concentrate on the recommendations and its response to them. The Board has recognised that a similar approach with regard to other major issues facing the Library is likely to further enhance the Board's decision-making and, since our fieldwork, has established a Financial Planning Committee.

The Board's reluctance to discuss potentially sensitive issues in open session both reflects and has contributed to the erosion of trust between staff and the Library's leadership

- 2.27 Events since 2013 resulted in a fall in staff morale and in declining trust and confidence in the Library's leadership at both executive and Board level. During our fieldwork, staff focus groups and Trades Union representatives referred to a number of negative perceptions, including that:
- the continuing restructuring process has resulted in excessive workloads for certain staff, and that those staff have had insufficient guidance in order to be able to prioritise effectively;
 - changes in responsibilities have not been communicated well enough, with the result that some staff are no longer clear about where certain responsibilities lie;
 - a lack of pay progression has led to the erosion of the value of salaries; and
 - the Library's handling of the disciplinary cases that led to the employment tribunal judgement was unfair.

- 2.28 These perceptions are largely reflected in the results of staff surveys. The HR team conducts a biennial survey on behalf of management, enabling the Library's executive to gauge staff morale and to identify issues. The latest survey, conducted in November 2015, attracted a much lower response rate than in 2013, when 240 staff completed the survey. Even though staff were required to complete the survey in 2015, only 120 staff (48 per cent) did so. The much-reduced response rate undermines the validity of a comparative analysis of the two sets of results. Nevertheless, the 2015 survey suggested that significant issues remain in relation to:
- dissatisfaction with the level of consultation about organisational policies and decisions;
 - the supportiveness of senior managers;
 - the strained quality of relationships at work; and
 - low morale within the organisation.
- 2.29 Separately from the management survey, the Trades Unions jointly conduct an annual evaluation of members' perceptions about a range of issues, many of which are similar to those covered in the HR survey. As with the HR survey, the number of responses to the Trades Unions' survey in February 2016 fell to 84, a little less than half the membership. Responses again tended to confirm the negative perceptions we heard during our fieldwork, although there are some signs of slow improvement. The Trades Unions' survey reports, for example, that:
- almost three-quarters of respondents felt that stress levels had increased during the last 12 months;
 - a similar proportion disagreed that their personal morale was high; and
 - very few respondents agreed that the Library was well led.
- 2.30 Until very recently, the Trades Unions have not shared the results of their surveys with the Library's executive team. Although the Trades Unions have raised the survey outcomes in informal meetings with HR, there have been no formal discussions between management and Trades Unions about the survey results. Similarly, the executive has not engaged in formal dialogue with the Trades Unions about the results of the biennial management survey. The Board has not been briefed about the results of either sets of surveys.

- 2.31 Most Board agenda items are discussed in sessions that are open to the press and public. Agendas for these sessions are published on the Library's website in good time and the minutes follow, once approved at the Board's subsequent meeting. However, the Library does not publish the papers that support agenda items. This practice makes it impossible for any members of the public planning to attend a Board meeting to read papers in advance and makes it more difficult for them to follow the Board's discussions when present at a meeting.
- 2.32 Until April 2016, most Board meetings also included 'closed sessions'. Executive members attended these sessions but the press and public were excluded, as were the Library's Trade Union representatives. Prior to the July 2016 meeting, the Library published no details of the agenda items for closed sessions but, typically, they included items such as the minutes of previous Audit Committee meetings and matters relating to the restructuring process.
- 2.33 We acknowledge that certain items are legitimately exempt from public scrutiny. Items that will necessarily involve the discussion of contractual details, for example, may be exempt on the grounds of commercial sensitivity, and some matters relating to the restructuring process may necessarily focus on the futures of readily identifiable small groups of staff. However, the absence, until recently, of a publicly available agenda and a justification of why certain items were considered to be too sensitive for discussion in open session both reflects and has contributed to an erosion of trust between staff and the Library's leadership.

The Library recognises that change is essential in order to maintain its financial viability

The Library has risen to the challenge of further reducing its revenue costs for 2016-17 but is clear that its approach to balancing the budget cannot be sustained

- 2.34 Significant reductions in grant-in-aid continue. Welsh Government revenue grant-in-aid for 2016-17 is £9.26 million, some £460,000 less than in 2015-16. In addition, the Welsh Government removed from the Library's capital grant allocation the dedicated Collections Purchase Grant of £305,000. However, this grant was subsequently re-instated.
- 2.35 In setting its revenue budget for 2016-17, the Library planned to use £480,000 from its unrestricted private funds to cover the projected deficit in the Library's running costs as a result of reduced grant-in-aid. A report to the Board on the 2016-17 budget in February 2016 set out long-term financial projections based on a far-from-certain standstill level of grant-in-aid, and assumptions of no staff reductions, fixed budget and a one per cent pay increase. Based on the Library's projections, and taking a decision to carry out a number of identified projects and fund the deficit, the Library's private funds would reduce from £8.6 million to just £1.7 million by 2019-20.
- 2.36 Trustees and senior managers are clear, therefore, that, unless invested in order to generate further income or increased efficiency, the use of reserves to contribute to the Library's day-to-day running costs is an unsustainable strategy.
- 2.37 The Library's private funds derive from charitable donations and their subsequent management, rather than from any savings or surpluses arising from the Library's operational activity. Private funds consist of two categories: restricted private funds and unrestricted private funds. We referred in paragraph 1.13 to the fact that the Library held about £7.9 million in unrestricted private funds at the end of 2015-16. In addition, the Library held a further £7.8 million in restricted private funds, almost 90 per cent of which is in the form of donated assets whose cash value cannot be realised.

2.38 The Library sets out its Reserves Policy in its annual accounts and in its return to the Charity Commissioner. The Library's private restricted funds may only be used in accordance with the terms of each specific bequest. However, the Library's unrestricted private funds reserves are available for use at the discretion of the Board in furtherance of the general objectives of the Library. The Reserves Policy makes clear that unrestricted private funds have three main objectives:

- to contribute to the revenue costs of running the Library;
- to supplement the Collections Purchase Grant to enable the Library to fulfil its collections policy; and
- to finance the acquisition of capital assets including equipment, buildings and computer hardware and software.

2.39 References to the Library's Reserves Policy in the 2015-16 annual accounts provide more clarity than before about the distinction between the Library's reserves and the nature of the restrictions associated with each category. The policy objectives for the use of unrestricted private funds are clear. However, they provide limited guidance to steer the Board's decision-making. There is a lack of agreement and clarity amongst Trustees about what unrestricted private funds reserves should be used for, when they can be used, and how much can be used. The Library's intention to use unrestricted private funds to support the Library whilst it arrives at a more sustainable medium-term financial solution is not unreasonable or contrary to the reserves policy. However, some Trustees feel that unrestricted private funds should not be used to fund the Library's day-to-day running costs.

2.40 The current level of reserves in the form of unrestricted private funds represents less than a year's grant-in-aid and is therefore not excessive. Furthermore, receipts in the form of bequests are, by their nature, unpredictable; the Library cannot rely in its financial planning on receiving regular donations in future.

2.41 The Library's approach to managing unrestricted private funds to date has been to maximise the value of the funds, rather than to set a target range for the level of reserves it holds. Charity Commission guidance¹³ states that, 'There is no single level of reserves, or even a range, that is right for all charities'. However, deciding appropriate thresholds for the maximum and minimum levels of free reserves is an important part of financial management and forward planning; a specified level of reserves would support decisions about, for example, how new projects or activities might be funded, and whether reserves need to be drawn down or built up. Agreed maximum and minimum thresholds for reserves should be reviewed regularly and should not be static or inflexible. However, targets based on a clear rationale may be valuable in justifying that the reserves levels are appropriate, and to support the case for additional funding or to explain decisions that lead to changes to service delivery.

¹³ 'Charity reserves: building resilience' (CC19): Charity Commission, January 2016

The ability to plan and manage the Library's service delivery in the medium term is hindered by the lack of clarity over future funding arrangements and restrictions on carry-forward of grant-in-aid

- 2.42 Robust medium-term financial planning and a degree of clarity about future funding arrangements are prerequisites for sustainable and effective service delivery planning. As a Welsh Government Sponsored Body (WGSB), the Library receives notification of its annual core grant-in-aid funding late in the preceding financial year. In each of the last three financial years, Welsh Government has also provided additional grant-in-aid late in the year, with the proviso that the subsequent year's core funding will be reduced to offset some of the additional funding. The additional funding was as follows:
- In 2013-14, additional revenue grant of £470,000 in recognition of the costs resulting from the fire,;
 - In 2014-15, additional grant-in-aid of £600,000 to support the Library's voluntary severance programme, with a reduction of £300,000 in grant-in-aid for 2015-16;
 - In 2015-16, additional grant-in-aid of £270,000, with a reduction of £170,000 in 2016-17.
- 2.43 In common with other WGSB, the Framework Document permits the Library to hold no more than two per cent of its gross annual grant-in-aid – currently about £200,000 – as cash balances at the financial year-end. Carry-over of sums in excess of this amount may be agreed in writing in advance with the Welsh Government on a case by case basis and the Welsh Government has, in the past, approved the carry-over of unspent cash balances exceeding the two per cent limit. However, the restrictions placed on end-of-year unspent cash balances limit the Library's ability to take a longer term view in managing its finances. The limits on carry-over present particular difficulties with regard to the prudent use of additional funding received late in the financial year.
- 2.44 Since 2015-16, the Library's annual funding settlement, as set out in the Welsh Government's remit letter, has included no indicative funding levels for future years. This lack of indicative future funding levels hinders the Library's ability to effectively plan its service delivery in the medium term. In particular, budget planning based on an over-optimistic assumption may result, in due course, in the need for further rapid, non-strategic staffing reductions in order to yield the unanticipated level of budget savings. On the other hand, budget planning that is based on too bleak a view of the future can lead to unnecessary uncertainty among staff, and to the erosion of morale.

2.45 The Welsh Government also faces uncertainty in its future income projections, particularly following the result of the June 2016 referendum that the United Kingdom should leave the European Union. We accept the argument that, under these circumstances, the Welsh Government cannot offer certainty about future funding levels for a Welsh Government Sponsored Body such as the Library. However, we consider it reasonable that the Welsh Government should notify the Library of its annual budget allocation at the earliest opportunity in the previous financial year, and that it should resume the practice of providing indicative budgets once the UK Government has confirmed future levels of funding to the Welsh Government.

The Library recognises the need to generate additional income or deliver further savings

2.46 The Library's Strategic Plan 2014-2017, 'Knowledge for All', recognises the need for the Library to diversify its funding base and to identify opportunities to increase the income that it generates, whether by fundraising or by trading. The Operational Plan for 2016-17 reflects the Strategic Plan and includes a target for increasing commercial income by 10 per cent, and recent Welsh Government remit letters have included targets for income generation. The 2016-17 remit letter includes an income generation target for the Library of £660,000, for example, which is about 16 per cent higher than the level of trading income reported in the Library's accounts for 2015-16. The recent relocation of the Royal Commission on the Ancient and Historical Monuments of Wales to the Library building will, from 2016-17, make a valuable contribution by providing annual rental income of £95,000.

2.47 To encourage the generation of income, Welsh Government has reserved the right to withhold an element of the Library's grant-in-aid funding in 2016-17 if it is not satisfied with the progress that the Library is making to increase income. However, the Library is rightly concerned that the emphasis is on increasing income, rather than on the profitability of income-generating events. Significant increases in net income will require the investment of scarce resources.

2.48 There is nevertheless an increasing recognition within the Library of the need for all departments to adopt a more business-like approach and to consider income alongside the costs incurred in generating it. Senior managers are also clear that the Library may need to consider whether some services to the public that are currently free may, in future, incur charges. The Delivery Group is developing a new income generation strategy which is intended to align with the business restructuring programme and the marketing strategy.

The development of a new Strategic Plan and implementation of the Well-being of Future Generations Act provide opportunities for the Library to better integrate the planning of its resources

The requirement to develop a new Strategic Plan offers the Library an opportunity to support delivery more effectively than before with an integrated, resourced and widely-owned set of underpinning plans

- 2.49 The Operational Plan for 2016-17 represents the third and final such plan in the life of the Strategic Plan, 'Knowledge for All', spanning 2014-2017. The Librarian presented the draft Operational Plan for 2016-17 to the Board in February 2016, acknowledging that it was, at that stage, incomplete and a 'work in progress'. Though perhaps understandable for 2016-17 because of the changes in the Library's leadership, the Library's annual planning cycle begins too late in the year to enable it to produce a finalised and agreed annual Operational Plan for implementation at the start of the new financial year.
- 2.50 Nevertheless, the Operational Plan for 2016-17 represents a considerable improvement in comparison with previous years. In particular, the plan integrates more effectively than before the Library's plans for addressing Welsh Government priorities, the Library's published Strategic Priorities and its duties under its Royal Charter. Furthermore, the Operational Plan includes a number of specific dates and targets over and above those agreed with the Welsh Government, and supporting the role of Trustees in monitoring progress during the year.
- 2.51 Most strands of the Operational Plan will require more detailed project planning for their effective delivery. Some may be delivered by individual staff or departments, but many others – such as the implementation of a new internal and external communications strategy – will demand a consistent corporate approach. The Executive Team and Board acknowledge that the Library has, in the past, lacked coherent arrangements to ensure the effective delivery of those elements of the operational plan that require such a corporate approach, spanning the Library's departmental structure.
- 2.52 A key strand of the restructuring programme has been the development of the Delivery Group, consisting of senior managers across the Library. Though not yet fully realised, the Delivery Group has the potential to bring greater consistency to departmental leadership, and in fostering a corporate approach in tackling the significant internal and external challenges the Library faces. The need to develop a number of key strategies in areas such as marketing; income generation; and outreach and engagement, has featured in successive Operational Plans, but progress has been limited prior to 2016-17. The Delivery Group will be instrumental in developing such strategies and leading their teams in delivering their contributions to the implementation of those strategies.

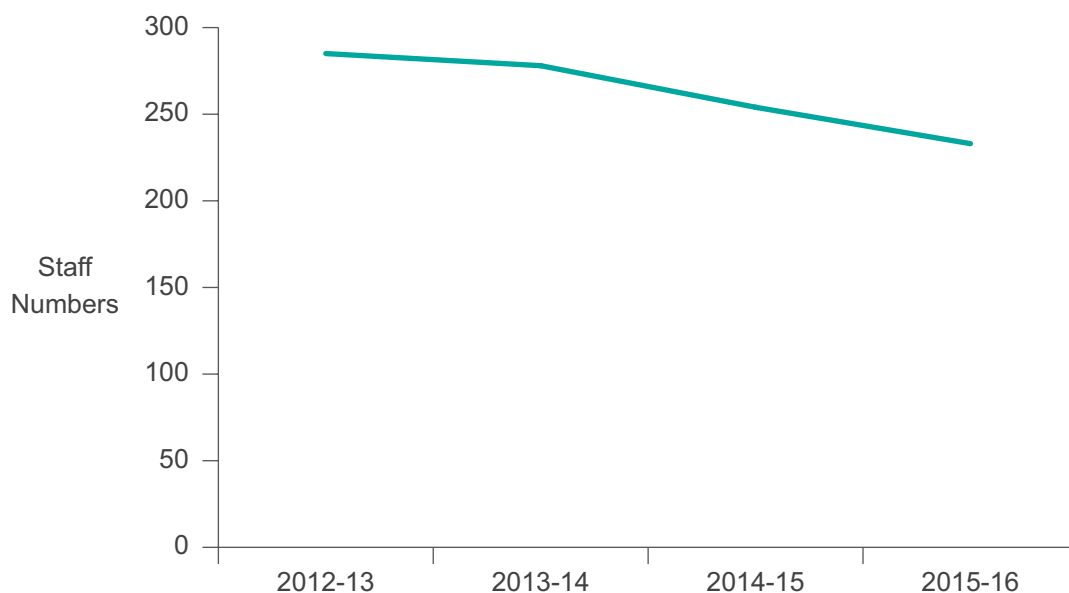
2.53 As the period covered by 'Knowledge for All', the Strategic Plan for 2014-2017, draws to a close, the Library has begun to discuss how best to consult and to engage with its key stakeholders in order to refresh its direction for the next three or four years. The process of redefining its strategy provides a valuable opportunity for the Library, in addition, to underpin its strategic planning with more timely and rigorous operational planning arrangements.

The Library needs to re-assess the range and scale of services it provides and the quality standards it seeks to achieve in response to the reductions it has experienced in funding and staffing

2.54 Staff at the Library are proud of the range and quality of the services that they deliver, whether responding directly to enquiries from the public or through their work in conserving and making accessible the Library's collection.

2.55 Staff reductions continue to provide the main source of financial savings. **Exhibit 9** shows that, as a result of the staff restructuring programme that began in 2013-14, full-time equivalent staff numbers have fallen by nearly 20 per cent between 1 April 2013 and 1 April 2016. Forty-five full-time equivalent posts have been lost since 1 April 2014, in line with the proposals in the Medium-Term Financial Plan agreed in February 2014.

Exhibit 9 – The number of full-time equivalent staff employed at the National Library of Wales between 2012-13 and 2015-16 has reduced by nearly 20 per cent



Source: Annual accounts, National Library of Wales

- 2.56 The restructuring programme has achieved its aim of reducing the number of staff in order to make financial savings and balance the budget. In doing so, all departures have come about through the non-replacement of staff who retire or who leave for posts elsewhere, or through voluntary redundancy, thereby avoiding compulsory redundancies. In total, the 27 voluntary severance packages agreed during 2014-15 and 2015-16 cost a little over £1.35 million, all of which is accounted for in the 2014-15 accounts. The Welsh Government contributed £500,000 of additional grant-in-aid to support the Library's redundancy costs during 2014-15, repaid through reduced grant-in-aid in 2015-16.
- 2.57 In its Scrutiny of Accounts 2014-15¹⁴, the National Assembly for Wales Public Accounts Committee commented that, '...the National Library appears to operate a generous pension and severance scheme compared with other Welsh public service organisations' and that 'the sustainability of the scheme needs examination'. The Committee recommended that the Library should review the sustainability of its pension scheme.
- 2.58 In its letter of response to the Public Accounts Committee, the Library noted that it, 'currently is operating a fully funded pension scheme, in sharp contrast to other similar organisations. The Board of Trustees regularly reviews the pension scheme and a separate Board of Pension Trustees provides oversight.' The letter also states that, 'The arrangements for severance are being actively reviewed by management and a commitment for management and Trades Union representatives to discuss existing arrangements formed part of the pay offer for 2015-2017 which was agreed in December 2015.'
- 2.59 We understand that these discussions about the Library's pension arrangements continue. Several staff we spoke to acknowledged that the Library operates a generous pension scheme. However, we also acknowledge that, following a long pay freeze prior to the December 2015 agreement, any attempt by management to reduce pension benefits would have further undermined the already fragile morale among staff. Furthermore, the benefits associated with voluntary severance have helped the Library to balance its budget in the face of reducing grant-in-aid.
- 2.60 However, the Library has not monitored closely enough the impact of the staffing reductions on different parts of its business. The Library has sought to absorb the reductions in the size of its workforce whilst continuing to offer its full range of services to the public. Managers and senior managers have tried to minimise the impact of the loss of expertise from their departments by making handover arrangements before staff left, and by planning the redistribution of responsibilities among remaining staff.

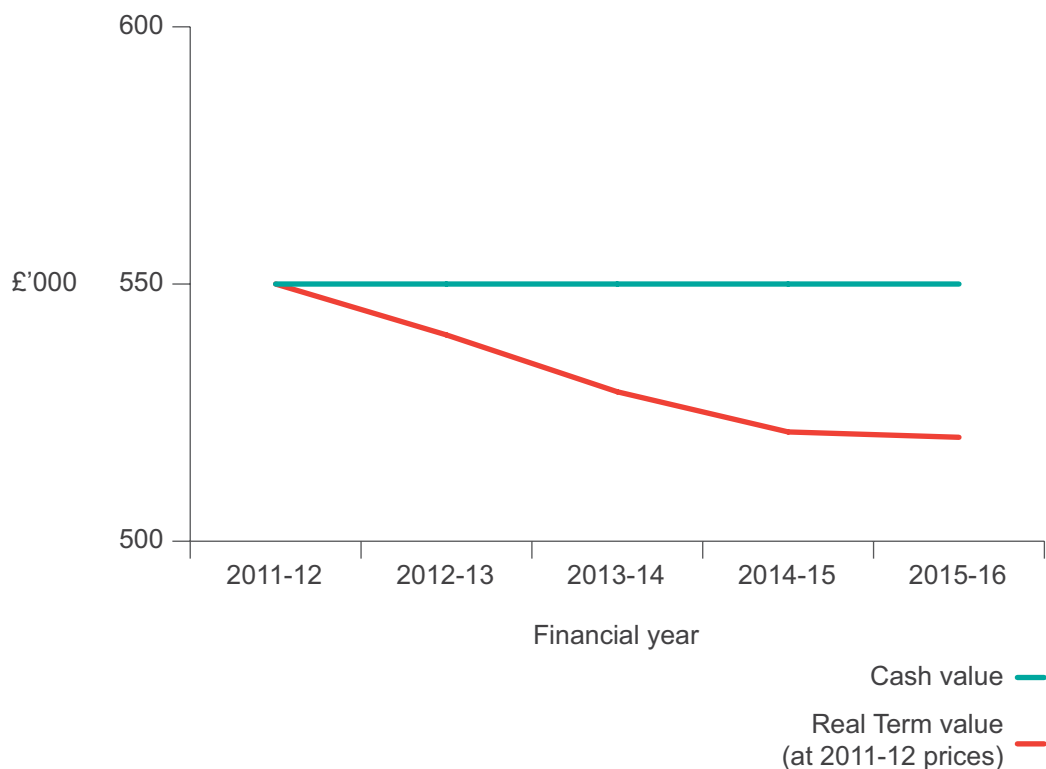
14 Scrutiny of Accounts 2014-15, National Assembly for Wales Public Accounts Committee, December 2015

- 2.61 The Library has also refreshed its volunteer scheme, enabling those interested in the Library's work to contribute both on-site in Aberystwyth and online from their homes. Between August 2015 and June 2016, the Library's Newsletter reports that the number of volunteers increased from 37 to 48, while the number of hours of service they provided over the preceding three months increased by 70 per cent to about 2,400 hours.
- 2.62 However, the increase in the number of volunteers cannot, and is not intended to, compensate for the loss of a large number of staff, many of whom were specialised. Any further reductions in funding will inevitably, therefore, have an impact on the range and volume of services that the Library can provide. The Library must fulfil its core objectives and statutory responsibilities; however, the Library has not yet adequately assessed and prioritised the range of services it provides, considering whether, alone or in collaboration with other bodies, it:
- has the skills and capacity to continue to provide them;
 - needs to provide them at all; or
 - can deliver them in a different way.
- 2.63 The Board and Executive Team have identified as a key challenge the need to develop a flexible workforce to respond to the financial challenges it is facing, and the loss of staff and specialisms arising from the restructuring programme. The Library has made a commitment in its operational plan for 2016-17 to complete the organisational re-structuring programme and to produce a new Workforce Development Strategy by December 2016.

The Library is committed to developing a robust asset management plan that covers the condition of the building and the use of space within it

- 2.64 The Library building, set in a prominent position overlooking Cardigan Bay and the town of Aberystwyth, was first opened in 1916. The central block, completed in 1937, is a Grade II* Listed Building. The third Library building opened in 1996, doubling the Library's storage capacity.
- 2.65 The Library receives capital grant-in-aid funding from the Welsh Government that it uses for investment in the building, equipment and information technology. **Exhibit 10** shows that core capital grant-in-aid funding has remained static in cash terms, at £550,000 per annum for a number of years. However, in real terms this means that the value of the 2015-16 allocation has fallen by some 5.4 per cent to about £520,000 since 2011-12.

Exhibit 10 – Baseline capital grant-in-aid has fallen in value in recent years



Source: Welsh Government remit letters to the National Library of Wales

2.66 In addition to the core capital grant-in-aid allocation, the Welsh Government has also provided substantial additional capital investment for specific projects and to enable essential remedial and development work on the Library's building and infrastructure. The Welsh Government provided a grant of £2.47 million in 2013-14, for example, to fund restoration work following the fire in 2013. The Welsh Government provided a further £3.5 million (£3.3 million in 2014-15 and a further £0.2 million in 2015-16) for the 'Courtyard Infill' project in order to provide appropriate accommodation for the Royal Commission on the Ancient and Historical Monuments of Wales and the National Monuments Record. However, the decreasing value of core capital funding is likely to result in the maintenance backlog increasing over time. A lack of investment in the building will create issues for the long-term sustainability of the Library's collections, services and the building itself. The Library considers it a significant risk, for example, that parts of the building do not meet modern fire regulations.

- 2.67 Managers and Trustees have, for some time, expressed concern that the level of investment in the maintenance of the building is insufficient to halt the deterioration in its condition and to address health and safety issues. In June 2015 the Library submitted a document to Welsh Government summarising the main priorities for capital funding. The total value of the work required was estimated at £26.55 million over the five years to 2020-21. This estimate drew mainly on a previous list of capital projects, valued at £24 million, and included within the 2013-14 operational plan.
- 2.68 In addition to the issues concerning the condition of the Library building, staff and Trustees recognise that there are also problems with regard to its sufficiency and its suitability. In its capacity as a legal deposit library, the Library receives and stores, on average, over 4,500 new items each week. Some items require specialist conditions in order that they will be preserved for future generations. The Library's performance indicators for both 2014-15 and 2015-16 show that 65 per cent of the collection is stored in appropriate environmental conditions. Although this figure is in line with the Library's own targets, the Library will eventually lack sufficient appropriate storage space for its collection. An internal audit review of 'Collections Space Management' in 2015-16 identified that there were no formal arrangements in place to manage and plan for the needs placed on the Library's space.
- 2.69 Trends in the ways in which the public gains access to the Library's collections are also changing and have implications for the future of the Library building. Over the two years 2014-15 and 2015-16, for example, the Library's performance indicators show that almost 380,000 new items from its collection became accessible digitally. Over the same period, the number of visits to the Library's website increased by 16 per cent to 1.26 million, while use of the reading rooms fell by a similar percentage to 20,330.
- 2.70 The appointment in August 2015 of the Head of Estates and Support Services has begun to deliver a more strategic approach to the management of the Library building, focusing attention on health and safety, maintenance and business continuity issues. However, the Library's operational plan for 2016-17 commits to developing a new asset management plan for the Library's estate.

The implementation of the Well-being of Future Generations Act provides a timely and valuable opportunity for the Library to address its future sustainability

- 2.71 Sustainability is at the heart of the Library's core purpose. Its Object, as defined in the Supplementary Royal Charter of 2006, is, 'to collect, preserve and give access to all kinds of forms of recorded knowledge, especially relating to Wales... for the benefit of the public'. Its role, therefore, is to ensure that future generations are able to benefit from the knowledge and information produced by past and present generations. However, we have found that decision-making about the use of resources of all kinds has not, thus far, been sufficiently well-integrated to ensure the Library's sustainability in the face of dwindling public funding.
- 2.72 The Well-being of Future Generations (Wales) Act 2015¹⁵ (the Act) applies to all Welsh Government Sponsored Bodies, including the Library. The Act requires public bodies that fall under its remit to 'carry out sustainable development' by maximising their contribution to each of the seven Wellbeing Goals defined in the Act. In carrying out sustainable development, the Act requires the Library to set wellbeing objectives for change over the long term, and to take all reasonable steps to meet those objectives. In doing so, the Library must apply the sustainable development principle by taking account of the five 'sustainable ways of working':
- looking to the long-term;
 - taking an integrated approach;
 - involving people;
 - collaborating with others; and
 - prevention.
- 2.73 The Board is at an early stage in its understanding of the requirements of the Act. However, the Welsh Government's remit letter for 2016-17 requires the Library to develop its response to the Act by March 2017. This requirement provides a timely and valuable opportunity for the Board to develop a new strategic plan to succeed 'Knowledge for All', ensuring that all its planning is aligned with and contributes to its new wellbeing objectives.

¹⁵ More information about the requirements of the Act is available in 'Shared Purpose: Shared Future', Welsh Government statutory guidance on the Well-being of Future Generations (Wales) Act, 2015.

Appendices

Appendix 1 – Commitments made in the
2014-2017 Strategic Plan,
'Knowledge for All'

Appendix 2 – Our methodology



Appendix 1 – Commitments made in the 2014-2017 Strategic Plan, ‘Knowledge for All’

Strategic Priority	Commitments
Access	We will: <ul style="list-style-type: none"> I Facilitate access and use, and repurpose collections II Expand our presence across Wales III Develop and preserve collections to ease access IV Maintain, develop and provide access to the national collection including legal deposit material V Encourage and gather feedback from users VI Maintain and support research, increasing impact on the collections
Expertise	We will: <ul style="list-style-type: none"> I Share skills and knowledge II Lead by setting standards of good practice III Develop the Conservation and Digital Preservation Service for Wales’ Documentary Heritage Project IV Nurture and preserve competencies and skills
Collaboration	We will: <ul style="list-style-type: none"> I Engage with users and allied groups II Collaborate with the private sector III Develop a Community Partnership Programme with partners in the public sector IV Collaborate with other bodies within and outside Wales V Contribute to international research VI Play a leading role in the culture and heritage sectors
Sustainability	We will: <ul style="list-style-type: none"> I Investigate new income streams II Encourage a culture of continuing improvement III Measure and monitor the value and impact of the Library IV Promote, develop and sustain environmental efficiency
Forward Thinking	We will: <ul style="list-style-type: none"> I Lead a national debate on the potential for establishing a National Archive for Wales II Lead and collaborate in developing an information base for Wales III Be proactive in developing commercial opportunities

Source: ‘Knowledge for All’, National Library of Wales, February 2014

Appendix 2 – Our methodology

External correspondence to the Auditor General during 2014 and 2015 reflected concerns about aspects of the Library's leadership and governance, including tensions in staff relations and publicity about specific concerns relating to the outcome of an employment tribunal, which found that two members of staff were dismissed unfairly. As a result, the Auditor General indicated in 2015 to the Library, Welsh Government and the Public Accounts Committee that he would undertake a review of the Library's governance arrangements.

In March 2015, the Library's Board of Trustees commissioned Pricewaterhouse Coopers to review the implementation of the Library's disciplinary policy. The Auditor General decided to await the outcome of this work and to allow the Library time to respond to it before undertaking his review.

In conducting the review, we considered a wide range of documents. We refer to these documents as necessary in the report. They include:

- frameworks, Charters, Welsh Government remit letters and other documents that set out the external requirements governing the Library;
- the Library's strategic and operational plans;
- the Library's annual accounts;
- the PwC Report and the Library's action plans and monitoring reports;
- the minutes of meetings of the Board and Audit Committee, and the papers submitted to those meetings from 2015; and
- data from staff surveys conducted by the Executive and by Trades Unions at the Library.

Between January and March 2016, we held discussions with relevant Welsh Government officials and attended the February meeting of the Board as observers. We also conducted two focus groups with randomly chosen staff at the Library and interviewed:

- 11 of the Trustees who were, at that time, members of the Board;
- the four members of the Library's Executive team;
- a sample of heads of department at the Library;
- Trades Union representatives; and
- the Library's internal auditors.

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