

## Historic Wales and future of CADW

**Cabinet is invited to note the outcome of the business case to consider the future of Cadw, and agree the next steps of retaining Cadw within Government, putting in place a number of business improvements for its future operation.**

### The Issues

1. Cabinet previously considered the recommendations of the steering group report (Historic Wales – A roadmap towards Success, Resilience and Sustainability for the Heritage of Wales) on 21 March. The report included a specific recommendation that Cadw should become “a charitable body or an executive agency outside of Welsh Government” and that a business case should be taken forward to identify the best option.
2. I indicated that next steps would see the development of a robust options appraisal for the future of Cadw which would consider whether it would be more appropriately constituted as an executive agency, charity or in another form such as a Welsh Government Sponsored Body, and the options would be tested against the status quo of retaining Cadw within Government. The business case would also need to consider lessons learnt from the experience of other organisations such as Natural Resources Wales, Transport Wales and Finance Wales.
3. In preparing the business case, I asked that the values and aspirations of our national strategy *Prosperity for All* should feature prominently. *Prosperity for All* sets out our vision to work collaboratively, break down silos and make a bigger difference for people in Wales. Culture and the historic environment can make a direct contribution to the themes of our strategy, as well as being important to Welsh identity in its own right.
4. I am now returning to Cabinet with the preferred option.

### Impact

5. The full business case is attached at Annex 2 and summarised as follows:
  - Section One sets the background to the business case, including an overview of issues raised in previous reviews of Cadw
  - Section Two reviews the functions of Cadw as a baseline for the options appraisal and developing the case for change
  - Section Three explores the drivers for change. Based on interviews with stakeholders and staff, it identifies things that are working well within government, and areas where there might be potential business improvements that could help deliver more efficient and effective services.
  - Section Four reviews the lessons learned from the establishment of other organisations in Wales and other parts of the UK.

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- Section Five is an Options Appraisal that identifies the different options for Cadw, and undertakes an options appraisal based on the Treasury 5 case business model.
- Section Six sets out a vision for the new organization, drawing on earlier analysis. It involves retaining Cadw within government, but addressing some of the operating challenges through a series of business improvements
- Section Seven revisits the initial options appraisal in the light of the preferred model.

### Summary of findings

6. The business case highlights that Cadw is unusual as it is in effect a 'medium-sized enterprise' operating within government. This is based on the size of its workforce (249 staff), the size of its budget (£14.3m revenue and £3.26m capital including £8.75m of procured goods and services), the size of its property portfolio (129 properties, 29 of which are staffed) and the scope of its responsibilities (1.4m visitors to staffed properties alone, and a variety of functions from income generation through to regulation).
7. Cadw is also unusual within government as it provides policy advice (including developing new legislation) and public services; it has a need for expertise from commercial skills through to specialist technical heritage skills, but also requires core civil service competencies in supporting Ministers. It generates some commercial income, but also remains dependent upon government to support the £18m backlog of repairs to properties in care, and also to provide support to heritage across Wales.
8. The analysis of drivers for change in Section 3 shows that some aspects of the status quo work well. For example Cadw was successful in working with teams across Welsh Government to help deliver a new Historic Environment Act last year, and commercial income is rising – up by 6.52% in 2016/17. However there are also challenges – annualised budgets, the lack of a board structure and challenges in procuring conservation services for example, can make it more complex to deliver services from within government.
9. A review of other organisations has identified a wide range of different structures for delivering services associated with Welsh Government, including WGSBs, Executive Agencies and Teckal-exempt organisations. In relation to heritage services, both England and Scotland have put in place reforms to heritage bodies that deliver services at greater arms length from government than is the case in Wales.
10. The options appraisal uses the Treasury 5 case model to assess different options for Cadw. In relation to a new WGSB, there is a good strategic case for some Cadw services to be delivered at greater arms-length from government but an equally good strategic case for policy functions to remain within government. The economic case suggests that the non-quantifiable benefits of operating at greater distance from government need to be set against the marginal quantifiable benefits of generating more income.

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11. The commercial and financial cases hinge on the affordability of creating a new organisation. In 2016 PWC indicated that if Cadw was set up as a separate External Agency there would be set up costs of £1.3 to £3m and additional operating costs of £0.7m to £1.7m; or for the WGSB option, set up costs of £1.3m to £3.1m and additional operating costs of £1.1m to £1.9m. These figures also took into account the likely additional income generated as a result of the change in status.
12. The management case is predicated on the achievability of creating a new organisation with major legislative and HR challenges at a time when the Welsh Government is facing other significant legislative issues, for example relating to Brexit.
13. The option of splitting the functions of Cadw was also explored, but the relatively small size of Cadw in relation to the areas of responsibility, and the number of shared functions would mean that a separate properties organisation would need to recreate roles that would still be needed in government.

**Conclusion**

14. The business case considered very carefully the steering group recommendations that Cadw should become a charitable body or an executive agency outside of Welsh Government. The business case also measured this against the status quo, as requested by Cabinet, undertaking a new in depth analysis of the functions of Cadw and the drivers for change.
15. The arguments for and against Cadw being inside government were relatively evenly balanced. However, in the current climate there are financial, legal and HR challenges to creating a new organisation at this time. Cadw has already been very successful in increasing its income levels within Government. The key issue is the additional costs of setting it up as a separate organisation. Remaining within government also enables Cadw to make a greater contribution to our central goal of prosperity for all.
16. Nevertheless, in examining the case for retaining Cadw within government, the business case recommended a series of business improvements that will be an important way of addressing issues identified by previous reviews, staff and stakeholders.
17. The business improvements are set out in Annex 1. They would enable Cadw to function better whilst responding to the very real issues raised in recent reviews, including the need to generate further increases in income and to work more effectively within public sector governance requirements. These improvements will help maximise the contribution that culture and the historic environment can make to the prosperity of Wales.
18. These business improvements have potential implications for other functions within government and have been discussed with senior officials. Therefore it is suggested that they are implemented as a pilot scheme, to be evaluated after two years with appropriate checks and balances put in place to report on them

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during this period. In addition to these business improvements at a strategic level, the process of completing this report has indicated a range of potential improvements at a more operational level that will also be pursued in consultation with staff.

19. I support the recommendation in the business case that Cadw stays in government, but with a series of business improvements to enable it to operate more effectively. On the basis that those business improvements are put in place, I do not believe that there are clear and demonstrable benefits in proposing any change to Cadw's status as part of government. I also propose a period of stability in which to put in place the business improvements and review their effectiveness before revisiting the structure of Cadw again.
20. I am confident that retaining Cadw within government will achieve the aspirations of *Prosperity for All* with the vision to work more collaboratively and make a bigger difference for people in Wales. Embedded into the options appraisal is Cadw's ability to continue to deliver, with its partners, its contribution to the well-being goals. Realising such ambitions will require a strategic cultural heritage presence inside government, working closely with, and across, other parts of Welsh Government and engaging with wider sector partners and organisations in order to maximise the contribution that culture and the historic environment can make to the prosperity of Wales.

### Next Steps

21. Subject to Cabinet's agreement, a structured implementation programme for the business improvements will be put in place. Cadw has a strong role in raising awareness of the value of the historic environment in Wales. However, in implementing the business improvements there is an opportunity to look beyond its current focus and for Cadw to work more collaboratively across government to contribute to the delivery of the objectives within the national strategy. This could include supporting priorities around early years, housing, mental health, resilient communities, skills and employability and economic growth.

### Finance Requirements and Governance Implications

22. There are no additional financial requirements arising as a result of agreeing the recommendations set out in this paper.
23. Cadw has already been very successful in increasing its income levels within Government. Whilst it may have greater freedom to increase revenue outside government, the business case concludes this would be outweighed by the additional costs of setting up and maintaining it as a separate organisation. The business case recommends that Cadw stays within the Welsh Government but with a series of business improvements.
24. The proposals set out in the two year pilot of business improvements as set out at Annex 1 will have financial implications to implement; however, no additional financial support will be required as the pilot will be delivered through existing budgets within BEL 2700 including the budget for staff costs. The improvements

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will be delivered through organisational innovation and improvement, and re-prioritising and doing things differently.

25. It is envisaged that some components of the proposed pilot, such as the setting of two-year budgets, will apply for two consecutive financial years in 2018-19 and 2019-20, some more procedural elements may be brought on line earlier.
26. EST Corporate Finance has cleared the financial implications set out in this paragraph under number EST/CF/540. When read in conjunction with the business plan, CGU are content that sufficient information has been supplied in order that an informed decision can be made, clearance reference is AS/09/17/02. Clearance from SB is SB0290/5

### **Legal Advice**

27. Whilst no legal advice has been sought on the Cabinet Paper or the business case, legal services are aware of the content..

### **Research and / or Statistics**

28. There is no reference to research or statistics which would require clearance by Knowledge & Analytical services.

### **Communications and publication**

29. A written statement on the future of Cadw will be made and this paper can be published in the normal 6 weeks.

### **Cross Government working**

30. During the formulation of the business case, officials have discussed with senior officials across Welsh Government, including David Richards and Peter Kennedy. The papers have also been considered by the ESNR Directors board three times.

#### **Recommendation:**

##### **Cabinet is invited to:**

- **note the outcome of the business case to consider the future of Cadw; and**
- **agree the next steps of retaining Cadw within Government, putting in place a number of business improvements for its future operation.**

**Ken Skates AM**  
**Cabinet Secretary for Economy and Infrastructure**  
**October 2017**

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## Annex 1 CADW REMAINS WITHIN THE WELSH GOVERNMENT BUT WITH TEN KEY BUSINESS IMPROVEMENTS

Business Improvement	Rationale
<p><b>1. An internal operating board for Cadw</b></p> <p>An internal operating board, comprising civil servants from the Welsh Government, external expertise as well as staff representation, delegated by the Cabinet Secretary to support the chief executive/deputy director and oversee work of Cadw.</p>	<ul style="list-style-type: none"> <li>• Meets <i>Prosperity for All</i> ambition for more collaborative working by retaining Cadw within government whilst still delivering the benefits of an Executive Agency</li> <li>• Builds stronger links within ESNR and across Welsh Government inline with the Permanent Secretary's ambitions for <i>Future, Engage, Deliver</i></li> <li>• Can take decisions that benefit Cadw.</li> <li>• Acknowledges and helps address scale and operating issues of Cadw within the Welsh Government and can help resolve internal governance issues</li> <li>• Can be implemented as a pilot and reviewed after two years</li> <li>• Has implications for other areas of the Welsh Government</li> </ul>
<p><b>2. A formal system of delegation and internal freedoms</b></p> <p>A formal scheme of delegation to the Cadw board and officers including financial, operational, HR, procurement and other delegations that enable Cadw to function effectively and efficiently within the proper internal control framework, and with full accountability to the Welsh Ministers. The control measures will ensure that no additional staff are employed until sufficient additional revenue has been generated</p>	<ul style="list-style-type: none"> <li>• Provides greater clarity for all by ensuring that key strategic decisions remain with Ministers and day-to-day operations with officials.</li> <li>• Enables Cadw to improve operational outcomes and address business challenges within the internal control framework for issues such as human resources (including the need for the removal of current headcount restrictions), information technology and finance.</li> <li>• Creates an opportunity for operating freedoms to be incremental – 'earned' on the basis of demonstrating effective performance.</li> </ul>
<p><b>3. A two-year budget and business plan for Cadw</b></p> <p>A two-year year budget, delegated to the Cadw board by the Welsh Ministers, tied to a three-year business plan, setting out operating and investment goals and parameters for the organisation as a whole.</p>	<ul style="list-style-type: none"> <li>• Allows for better planning of capital works, particularly in relation to conservation, in line with <i>Prosperity for All</i></li> <li>• Provides flexibility on recruitment within budgets.</li> <li>• Can be tied to commercial and income generating strategies.</li> <li>• Allows strategic projects to be funded over several years with a proper rationale for</li> </ul>

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Business Improvement	Rationale
	investment
<p><b>4. Make best use of the Strategic Partnership between national organisations</b></p> <p>A partnership between Cadw, the TUS, Amgueddfa Cymru/National Museum Wales, the National Library and the Royal Commission on the Ancient and Historical Monuments of Wales.</p>	<ul style="list-style-type: none"> <li>• Delivers on the commitment by the Cabinet Secretary to ensure that the sector works together</li> <li>• Brings together Trades Union Side, Welsh Government and national bodies in line with the new ways of working in the <i>Well-Being Objectives</i></li> <li>• Provides greater flexibility as partners have access to structures such as charitable status and established trading subsidiaries</li> </ul>
<p><b>5. Continue to explore innovative service models</b></p> <p>Whilst the overall structure of Cadw should remain stable, there will continue to be a need to explore opportunities to deliver some services differently or in partnership with others, internally and externally.</p>	<ul style="list-style-type: none"> <li>• Meets the Permanent Secretary's ambition to drive a culture of innovation and new ways of working through <i>Future Engage Deliver</i></li> <li>• Ensures that Cadw remains open to new opportunities to continue to build synergies across the Welsh Government.</li> </ul>
<p><b>6. Develop heritage skills inside and outside government</b></p> <p>Develop heritage skills in Wales that enables Welsh Government to recruit and retain heritage skills, and supports the developing vital skills that contribute to <i>Prosperity for All</i>.</p>	<ul style="list-style-type: none"> <li>• Skills and employability are one of the key goals of <i>Prosperity for All</i></li> <li>• Heritage skills play a vital role in the wider Welsh economy including tourism and hospitality, construction and the digital economy</li> <li>• In order to meet targets and deliver statutory Ministerial responsibilities within government, Cadw needs the ability to recruit and retain specialist commercial, property, conservation, marketing, engagement and other heritage skills</li> <li>• In order to support the sector in delivering on <i>Prosperity for All</i>, Cadw also needs to work with other parts of Welsh Government develop new skills initiatives for heritage such as degree apprenticeships and partnerships with industry.</li> </ul>
<p><b>7. Raise awareness of the value of the historic environment in Wales</b></p> <p>Supporting the sector to develop an Action Plan to shows how the historic environment can contribute to <i>Prosperity for All</i> and the well-being goals.</p>	<ul style="list-style-type: none"> <li>• Delivers on <i>Light Springs through the Darkness</i> – the Cabinet Secretary's vision for Culture in Wales</li> <li>• Shows how the historic environment can contribute to <i>Prosperity for All</i> priorities including early years, housing, mental health, resilient communities, better environments, skills and employability as well as the wider economy</li> </ul>

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Business Improvement	Rationale
	<ul style="list-style-type: none"> <li>Shows how the historic environment can deliver on <i>Well-being Objectives</i>, including the goal for culture, for a global Wales and other goals</li> </ul>
<p><b>8. A stronger policy and strategy presence for culture and the historic environment within Welsh Government</b></p> <p>A stronger senior policy presence will be put in place to promote culture and the historic environment across Welsh Government as one of Wales' key economic assets and sectors.</p>	<ul style="list-style-type: none"> <li>Provides an opportunity to embed the role of wider culture and the historic environment in <i>Prosperity for All</i> and the <i>Well-being Objectives</i></li> <li>Builds better connections across Economy, Sciences &amp; Natural Resources, with the marine and natural environment, place-making, planning, education and skills, and with Welsh Government more widely</li> <li>In line with the Permanent Secretary's ambitions for <i>Future, Engage, Deliver</i></li> </ul>
<p><b>9. A stronger Cadw</b></p> <p>Cadw will be united as a single entity, but with a stronger operating structure, that will look to strengthen heritage and commercial skills, customer services and public engagement, based on a workforce plan developed in consultation with staff</p>	<ul style="list-style-type: none"> <li>Makes best use of resources by capitalising on shared functions between Properties in Care and Historic Environment, including governance, education, public programmes and information technology.</li> <li>Need to strengthen areas such as visitor experiences and customer service</li> <li>Will build on the successful growth in commercial income without losing sight of core historic environment functions.</li> </ul>
<p><b>10. A period of stability</b></p> <p>A period of five years in which to enable Cadw to put in place the new structure and business improvements through a phased implementation plan which includes opportunities for evaluation and review.</p>	<ul style="list-style-type: none"> <li>Provides an opportunity to address issues identified in previous reviews</li> <li>Ensures there will be a structured implementation programme in consultation with staff</li> <li>A period of stability allows time to implement improvements properly</li> <li>The implementation plan will include a realistic timescale to evaluate and review improvements</li> </ul>