

# **THE COUNTY COUNCIL OF THE CITY AND COUNTY OF CARDIFF, COUNTY BOROUGH COUNCILS OF BRIDGEND, CAERPHILLY, MERTHYR TYDFIL, RHONDDA CYNON TAF AND THE VALE OF GLAMORGAN**

**11 December 2020**

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## **MEDIUM TERM FINANCIAL PLAN**

### **REPORT OF THE TREASURER TO THE GLAMORGAN ARCHIVES JOINT COMMITTEE**

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#### **Reason for this Report**

1. To provide the Glamorgan Archives Joint Committee with a draft Medium Term Financial Plan (MTFP) for the next 4 years, providing a revised budget proposal in a time of ever increasing budgetary constraints.

#### **Purpose of the Medium Term Financial Plan (MTFP)**

2. The MTFP will assist in forecasting the future financial position of the Glamorgan Archives and ensure that future financial challenges are identified and can be addressed. It will identify key budgets and assumptions for future years and will be used to support business planning.
3. Through forecasting and projecting future income and expenditure, realistic budgets can be set that will both ensure service continuity and ensure that a minimum reserve balance is maintained to allow for unforeseen or unexpected circumstances.

#### **Glamorgan Archives Budget**

4. Historically, an incremental budget has been set each year, using the previous year's budget as the basis for building the next. Expenditure and income are reviewed each year and adjusted accordingly, to account for any expected changes such as inflation, pay awards and future commitments.
5. Due to increased costs and reduced income in recent years, the financial outturn has resulted in a deficit position and the budget gap has had to be funded from Reserves. In order to ensure a realistic position moving forward, a zero based budget has been proposed, taking into consideration the outturn position from the last four years and projecting accordingly. Further detail on individual budgets is provided below.

## **Employee Budget**

6. The employee budget is based on 17 FTE staff, one of which is funded through external contributions. The 2020/21 pay award has now been finalised at 2.75% and this took effect from October 2020 onwards, including back pay owed from 1 April 2020. Pension contributions have also increased because of the pay award, although the level of contribution has not changed and remains at 20.7% as of April 2020.
7. Moving forward, projections have been based on a 2.5% increase year on year in line with expected potential pay increases but will be dependent on agreed future pay awards. Where staff have yet to reach the top of a pay grade, these incremental increases have also been built in as necessary.

## **Premises Related Budget**

8. This budget is in place to maintain the building together with all utilities and contracts. Now that the building is over ten years old, it is important to ensure that a budget is in place both for ongoing maintenance and for any unforeseen circumstances that may arise. The budget line for repairs, alterations and maintenance remains at £20,000 over the medium term to ensure that any such costs can be addressed.
9. The majority of costs within the premises budget including security, grounds maintenance, fire protection and office cleaning show an increase of 2% over the medium term, in line with general inflation.
10. The largest single annual cost to the Archives is the National Non-Domestic Rates (NNDR), which continue to rise each year and currently utilise almost one third of the budget. Despite numerous attempts to challenge this cost and argue a status similar to museums, there is no control over this statutory annual cost. As previous years have seen an increase of more than an inflationary 2%, the medium term plan projects a 3% increase each year for NNDR to ensure that these costs are covered.
11. Utility costs for electricity and gas show an increase of 4% year on year based on analysis of recent trends.

## **Transport Budget**

12. This budget is in place for any transport and travel expenses that may be incurred by staff and includes both public transport and car travel. This budget has seen a decrease year on year in line with reduced travel because of required savings.
13. The recent Covid-19 pandemic has meant a significant decline in travel across all sectors as people are forced to work remotely and undertake meetings and appointments via digital platforms. Whilst staff are beginning to return to the

workplace, it is very unlikely that the work situation will return to a pre-Covid environment and as a result, it is envisaged that travel will become less of a necessity. Given the nature of the Archives work however, it is important that a budget be maintained, albeit considerably smaller. Due to a minimal inflationary increase, the transport budget will remain constant over the medium term but will continue to be monitored.

### **Supplies & Services Budget**

14. This budget is in place for all supplies required to allow the Archives to deliver their services and operate commercially. It includes materials for the box-making machine, which is pivotal for the generation of income as well as conservation costs, telephone and internet charges, insurance and most recently, personal, protective equipment (PPE) to ensure the safety of both staff and customers.
15. As with premises, most costs within this budget show an increase in line with inflation over the medium term. Catering sundries have been significantly reduced in line with room hire bookings as these costs are only incurred to cater for such events. Due to the current uncertainty of when meetings can safely resume, the cost is projected to remain at £1,000 over the medium term. This however will be monitored moving forward.
16. Whilst currently closed to the public, the gradual reopening of the building following Government guidelines will incur spend in terms of PPE and cleaning materials such as hand sanitising stations. In line with similar services that have reopened to the public, a cost has been projected for such equipment and this too shows an annual increase of 2% over the medium term.
17. Public liability insurance shows an increase of 10% over the medium term due to anticipated premiums and is a cost outwith the control of the Archives service.

### **Support Services Budget**

18. This budget covers staff recharges from within Cardiff Council for work undertaken in connection with the Glamorgan Archives and includes statutory functions such as finance, payroll, human resources and ICT. Over the medium term, these costs have been increased in line with staff salaries at a projected 2.5% increase per year to cover estimated pay awards. There is a larger increase of 20% in 2021/22 however for ICT charges due to an anticipated increase in costs. As these are all predominantly recharges, there is little control over such costs.

### **Income Budget**

19. This section of the budget looks at the projected income that will be generated and is the most difficult to assess, particularly for the future given the current circumstances. Income is generated predominantly from room hire, either through the letting of rooms for external meetings or space within the strong

rooms for archive purposes. Annual contracts have previously been in place for weekly and monthly use of meeting rooms but the onset of Covid-19 has greatly affected this income stream as all meetings to date in 20/21 have been cancelled due to social distancing restrictions. As more and more meetings become digital, it is unlikely that room hire will return to previous levels and as such, the service is likely to see a significant decrease in this area of income.

20. The strong rooms to date have been utilised by Carmarthenshire Archives whilst their own facility is built, generating an annual income of approximately £21,000 but they have now given notice that this will end in the near future. Work is ongoing to replace this contract and there is confidence that another will be found but it is difficult to project when, given the current budgetary constraints of many organisations and until this is the case, this too will add to a considerable decrease in income.
21. Another significant income stream for the Archives is the receipt of grants. Many grants have certain conditions of expenditure and therefore are offset by the corresponding costs but one major grant that has been beneficial in recent years is the New Burdens Grant, which is awarded based on public record accessions taken into the Archives for the previous year. Whilst the service can expect such a grant this year in respect of 2019/20 accessions, the closure of the building in 2020/21 will almost certainly have a detrimental impact on the level of funding received in 2021/22. It should also be noted that this grant is only due to continue for approximately another two years, after which it will be unavailable.
22. Whilst grants applications continue to be pursued, the MTFP does not include such grant income as it cannot be guaranteed and would therefore not be prudent. Any grant income that is received however would be offset by expenditure linked to the terms and conditions of receipt and will therefore have a net nil impact on the budget.
23. Income from commercial activities including search fees, publication sales and photocopying is projected to increase by 2% each year in line with inflation. Income from royalties includes contracts with Find My Past, The Genealogist and Ancestry, costs for which will remain constant throughout the contract.
24. A contribution from reserves has been included to supplement the budget over the last five years. Drawdowns have been included for the next two years, albeit reduced, but this will not be feasible in the long term. It was initially included to reduce the level of reserves to a more prudent level with the intention that the drawdown would cease in 2019/20. However, due to reduced income and increased expenditure, the drawdown has remained in place in order to balance the budget. The 2020/21 budget includes a drawdown of £50,000 but the projected outturn position suggests that a further £52,297 may be required to meet the deficit, taking the Reserve below the prudent level of approximately £100,000.

## **Covid-19**

25. The Glamorgan Archives, like most organisations, has been greatly impacted upon by the outbreak of the Covid-19 virus. The doors of the building were closed on 19<sup>th</sup> March 2020 and whilst staff have started a phased return, the building remains closed to the public.
26. Whilst expenditure has been largely unaffected, there has been a considerable impact on income because of the closure of the building. Room booking cancellations have resulted in significant lost income and closure to the public means that services such as searches, publication sales and conservation work have all ceased. As stated above, there may also be further impacts of lost income realised next financial year when any potential grants received in relation to accessions are reduced because of the closure. Work is ongoing and applications have been made to recover lost income for 2020/21 but this will only be in relation to this financial year.
27. Whilst it is hoped that business will return and begin to increase in 2021/22, it is important to understand that normal service has changed dramatically because of Covid-19 and certain income streams such as room hire may not recover for a long time, if at all. Grants will also be affected as budgetary pressures continue to increase across all sectors. In parallel to this however, expenditure has been largely unaffected and will increase in line with both pay awards and non-pay inflation as we look towards the medium term.

## **Local Authority Contributions and General Reserve Balance**

28. Local Authority contributions were last reviewed in 2014/15 ahead of setting the 2015/16 budget at £681,690. They were then reduced to £661,000 in 2016/17 and further to £654,000 in 2017/18.
29. Contributions have remained at £654,000 since 2017/18. Whilst this budget was initially achievable, the past two years of increasing expenditure and decreasing levels of income have required additional use of reserves to supplement the budget, therefore reducing the overall balance. Whilst it could be argued that this is the purpose of a reserve, it is important that a certain level be maintained in case of unforeseen circumstances in the future, which require additional funds that are not built into the budget.
30. It is therefore recognised that further use of reserves should be minimal and contributions must be increased in order to meet the rising costs of expenditure and to enable the Archives service to continue. It is proposed that contributions increase by 16% in 2021/22 and then by a further 10% and 5% in 22/23 and 23/24 respectively as set out in the following table.

**Table 1: Proposed Local Authority Contributions**

Local Authority	%	2020/21	2021/22	2022/23	2023/24	2024/25
		Current	16%	10%	5%	-
Bridgend	14	91,560.00	106,209.60	116,830.56	122,672.09	122,672.09
Cardiff	32	209,280.00	242,764.80	267,041.28	280,393.34	280,393.34
Merthyr Tydfil	6	39,240.00	45,518.40	50,070.24	52,573.75	52,573.75
Rhondda Cynon Taf	25	163,500.00	189,660.00	208,626.00	219,057.30	219,057.30
Caerphilly	11	71,940.00	83,450.40	91,795.44	96,385.21	96,385.21
Vale of Glamorgan	12	78,480.00	91,036.80	100,140.48	105,147.50	105,147.50
	<b>100</b>	<b>654,000.00</b>	<b>758,640.00</b>	<b>834,504.00</b>	<b>876,229.20</b>	<b>876,229.20</b>

31. In parallel to this, it is proposed that £40,000 will be drawn down from Reserves in 2021/22 to supplement the increase and a further £10,000 in 2022/23, after which there will be a balance of £22,087.06 as set out in the following table.

**Table 2: General Reserve Balance**

	£
<b>Current Reserve Balance as at 31.03.2020</b>	<b>174,384.06</b>
Budgeted Drawdown 2020/21	(50,000)
Projected Deficit (as at Month 7)	(52,297)
<b>Balance as at 31/03/2021</b>	<b>72,087.06</b>
Budgeted Drawdown in 2021/22	(40,000)
<b>Balance at 31/03/2022</b>	<b>32,087.06</b>
Budgeted Drawdown in 2022/23	(10,000)
<b>Balance as at 31/03/2023</b>	<b>22,087.06</b>

32. Based on the proposals above and as set out in Appendix 1, it is projected that the Archives service will begin to generate a surplus in 2022/23, which will be added back to the Reserve in order to begin to build it back up for future years and any unforeseen or emergency expenditure.
33. Whilst increased contributions and use of Reserves will balance the proposed budgets, in order to keep these as low as possible, certain savings have had to be found including the deletion of a budget for ICT equipment and a freeze to

the repairs and maintenance budget. It must be noted that should there be a need for unexpected, additional expenditure not included in the budget, this may need to be funded from further increased or in year contributions from member authorities if necessary.

## **Summary**

34. Balancing the budget has become more difficult over recent years with increased expenditure and decreased income and whilst reserves have been used in the past to fund the budget gap, now that the reserve balance is projected to fall below £100,000, this will not be a feasible option for the longer term. The recent Covid-19 pandemic has put increasing pressure on the budget in 2020/21 and as a result, income levels have decreased significantly and may continue to do so in the aftermath. Inflationary pressures and increasing costs, most notably for NNDR, are also adding to the burden and therefore the budget cannot be balanced with the current level of contributions.
35. Whilst the service has been able to avoid increasing local authority contributions in recent years by absorbing inflationary pressures, increasing income generation and use of reserves, this is no longer viable. It is therefore deemed necessary to increase local authority contributions, supplemented with a drawdown from reserves in order that the service be able to continue and remain financially sustainable.

## **Financial Implications**

36. The General Reserve as at 31st March 2020 stands at £174,385. The budget for 2020/21 determined that £50,000 would be used from reserves to balance the budget. Based on current outturn projections, there will be a deficit for 2020/21 and the General Reserve balance will decrease to approximately £72,087 without further mitigations. This will then decrease further to £22,087 having taken account of the proposed drawdowns for the next two years but anything further risks decreasing the Reserve to an insufficient level.
37. Increased local authority contributions coupled with the use of the General Reserve will allow the budget gap to be bridged in 2021/22 and it is projected that a surplus will be generated from 22/23 onwards in order to build the reserves back to a suitable level.

## **Legal Implications**

38. The Committee approved a draft budget, which was submitted to each of the parties for approval. Each of the parties confirmed that their contribution was approved under Section 5(a)(ii) of the agreement dated the 11<sup>th</sup> of April 2006; the Committee shall only have the power to spend within the agreed budget within any given year.

## **RECOMMENDATION**

39. It is recommended that Members:

- a) Note the current position of the General Reserve balance and the proposed Medium Term Financial Plan.
- b) Note that a potential annual or in year increase to Local Authority contributions may be required moving forward upon approval from S151 Officers.

**Christopher Lee**

**Treasurer to the Glamorgan Archives Joint Committee**

**11 December 2020**

## **Appendices**

Appendix 1 – Proposed Medium Term Financial Plan for 2021/22 Onwards