Birmingham Community Libraries

Towards a Mutual for Community Library Services in Birmingham

Business Plan

Birmingham City Council

This report was produced with assistance from

Kevin Ford

Towards a Mutual for Community Library Services in Birmingham

Business Plan

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Owner:	Liz Parkes – Mutual Development Manager: Community Libraries
Email:	Liz.Parkes@birmingham.gov.uk
Telephone:	0121 303 9846

Contents

1 Executive Summary

1.1 Introduction

This business plan sets out clear and costed proposals for a new, independent, mutual organisation- the Birmingham Community Libraries Mutual (BCLM) - which will deliver a vibrant and effective Community Library Service across Birmingham for many years to come.

Our vision is for a network of Community Libraries which will be Birmingham's community powerhouses for ideas, imagination, learning, networking and local enterprise. The Community Libraries will free individuals to develop their potential, connect and coordinate services and bring communities together.

The City Council is at a crossroads in respect of its highly valued Community Library provision. Does it keep the service in-house where it will continue to be subject to increasingly severe financial constraints with consequent negative impact on both staff and service users? Or does the Council free the staff and communities they serve to work together to build a new Community Library Service which meets their needs through innovation and enterprise?

It is time for a new way of providing Community Libraries in the City.

"Libraries store the energy that fuels the imagination. They open up windows to the world and inspire us to explore and achieve, and contribute to improving our quality of life." (Sidney Sheldon – US writer)

1.2 Our Vision for BCLM

We will establish a new mutual organisation – the Birmingham Community Libraries Mutual (BCLM) – which will deliver a comprehensive and efficient community library service for the whole of the city. Libraries are vital centres for learning, innovation, enterprise and information. Our citizens need and deserve a full network of local points of access to library services.

The organisation will be owned and governed by Library users, communities, citizens, staff and interested organisations. It will work in close partnership with Birmingham City Council, with funding provided through a grant agreement . It will be a service of the communities and for the communities of Birmingham.

The Mutual combines skilled, professional staff, with the energy of the community. It will create a more dynamic culture where staff take the initiative. Community engagement is built in to the governance of the Mutual, and we will recruit and engage a new cadre of community volunteers in the running of our services, alongside, not replacing, our professional staff.

Our staff will be re-motivated through becoming co-owners of the new services. There is strong evidence from public services which have formed new

mutual's that staff morale rises, staff are more able to innovate and develop new ways of working; sickness and absenteeism rates fall and service quality rises[1].

The new BCLM will be a social enterprise and will use any profits it makes to improve the Library Service. It will not distribute profits to shareholders or members.

1.2.1 BCLM vision statement

BCLM will provide an inclusive service for all of the people of Birmingham with local access to safe and supported spaces in which they will find:

> ## Inspiration, Imagination, Innovation

The vision will be delivered through a strong network of local Library hubs of energy and enterprise where people can find the ideas and information which will allow their imaginations to be set free; where they can access books for pleasure, learning and recreation, where they can find out about things that can improve their lives or build new contacts and networks in their communities.

It will be a modern, efficient and comprehensive library service built into the fabric of the city that partners, funders, communities and individuals see as vital and relevant to their lives.

BCLM will deliver this vision:

- through a **maintaining a minimum of 35 local Libraries** and maintaining local access points in areas where Community Libraries have been lost
- whilst **retaining a core of approximately 100 professional staff** working with community volunteers,
- **delivering in full the £1.865 million of savings** from the current operational budget over the next three years,
- and generating **new income in excess of £3.95 million** through trading and enterprise in its first five years.

We aim to transform Community Libraries into vibrant local hubs for learning, personal and community development, support and enterprise.

BCLM will:

- Put Community Libraries on a **strong and sustainable** footing for the future – keeping them **open and relevant**

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[1] See (KF to add reference)

- Ensure BCC maintains its **statutory duty** under section 7 of the Public Libraries and Museums Act 1964 and minimises any risk of legal challenge.
- Maximise the **engagement of stakeholders**, maintaining the influence of the Districts and giving local people more say through the governance structure of the organisation
- Enhance **public service values** with the deep rooted philosophy of co-ownership and mutual self-help.
- Operate in a close and beneficial **partnership** with the Council, and the Library of Birmingham.
- Form new dynamic local partnerships with social enterprises, businesses, community groups and others to develop new ways to provide library services
- Encourage civic entrepreneurialism and will **stimulate jobs and growth** within Birmingham's diverse communities.

Above all the new Mutual will have the flexibility and freedom to **innovate, generate income and to provide the services that its customers want**.

The approach fits very closely with the City Council's strategy of supporting "new public service providers, including voluntary and community organisations and social enterprise".

1.3   The Business Plan

This Business Plan outlines:

- The **policy and market challenges** faced by the current service.
- The **opportunities** offered by the changing environment.
- Our proposed **strategy**.
- How a Mutual could be **governed and run** the so it maintains quality of service to customers and commissioners.
- The **legal implications** of setting up a Mutual.
- Projections of **costs and benefits** - including potential efficiencies available to Birmingham.
- Proposed **next steps**, including an implementation plan and our assessment of associated costs.

1.4   The Financial Case

The financial argument for doing this is central in the current climate. BCLM will provide a new and flexible way to deliver Community Library services that:

- Enables **additional income** to be drawn in (using the flexibility that an independent social enterprise has, which a local authority does not).

- Helps meet the **financial challenges** facing the Council by delivering sustained savings totalling 11.25 million over six years, against the current (2014/15) budget.
- **Keeps a minimum of 35 libraries open (and maintains coverage in those areas where old facilities are to be lost) and maintains quality** for customers by maintaining opening hours.
- Protects **local, professional employment** and career opportunities.

In our financial modelling we have:

- Set out a viable financial plan which will sustain the Libraries and return a small surplus to the Mutual
- Identified the **individual cost of running and managing each Library,**
- Identified and modelled the **financial impact** of becoming a social enterprise.
- Identified which **a comprehensive income pipeline** which is open to the new social enterprise and will enable it to generate £3.95 million of new revenue over five years.
- **Compared** the financial projections for the social enterprise with the **'do nothing' alternative**.

The results of our modelling point to the following conclusion:

- The Mutual will deliver cumulative **savings against the current budget to the Council of £11.25 million** over the next six years**.**
- Generate a cumulative total of **new income of £3.95** million over the next six years
- The social enterprise is **financially more attractive than the 'do nothing' option or a modified "in house" alternative**.

These figures are still provisional as we have not reached any agreement on the cost of corporate support services supplied by Birmingham City Council, including ICT provided via Service Birmingham. We have included a notional budget for overhead balanced by expenditure on the same. This will require further negotiation with the council. Failure to agree an acceptable overhead is in our view a deal breaker.

1.5 Assets

The present estate of Community Libraries has been mapped. The buildings are either owned or leased by the City Council. There is potential for a process of gradual asset transfer to be made to the mutual. This will need to be arranged on a case by case basis and involves detailed negotiation.

For this reason we have not set out an asset transfer plan at this stage. We are working on the assumption that the costs of premises will be as at present and that leases and title will remain with the City Council.

The Mutual itself is in a position to attract investment (most likely in the form of debt capital rather than equity through social bonds). There is potential to raise finance to improve stock, equipment (e.g.IT) and assets. We see this as

alter stage of development as debt capital needs to be repaid and is consequently dependent on securing viable income streams in the mutual.

1.6 Working Capital and Cash Flow

As a result of restructuring staff and premises in the year prior to spin out, alongside a significant saving in business rates in year one, the new Mutual will have a supply of working capital. It is essential that the Council agrees to allow this working capital to transfer to the Mutual, as this will cover contingency and unforeseen transition costs.

Our cash flow modelling assumes that the Council will pay the annual grant in instalments in advance. This will enable the Mutual to sustain a positive cash flow through each year.

1.7 The Legal Case

We commissioned a report from Anthony Collins Solicitors. Their findings are:

- The Council's preference to structure the arrangement between the Council and the Mutual using the award of a grant and thus avoid a formal procurement exercise for the provision of community library services will require careful consideration in order to set up the Mutual on a sustainable footing.
- There is also the potential for any grant funding to be considered to be State Aid, and this would need to be assessed in further detail once the detail of the transaction/proposed structure was known.
- The Council will need to determine to what extent it is continuing to discharge its statutory duties though retaining the Library of Birmingham and ensuring that all of the Libraries within Districts are appropriately linked into that.
- The Council has a principal power on which to rely in making arrangements for provision of Library services by the new Mutual and it can discharge its statutory duty through this vehicle.

1.8 Risks

This proposal is **not without risks**, and both the Council and the Mutual will want full clarity on both the risks and measures that will be taken to mitigate them. Our report identifies risks to the social enterprise, the council as well as the status quo.

The main areas of risk should the proposal go forward have been identified as:

- **Political and financial fallout** should the social enterprise fail: Appropriate governance processes will be put in place, and management will be strengthened with Council representatives and external non-executive directors who bring in the right skillsets and expertise to minimise this risk.
- **Staff and community engagement** in the proposals**:** The transition phase should put in place a comprehensive stakeholder engagement plan, including relevant consultation with staff and other stakeholders as necessary.
- **Burden of pension fund deficit**: Appropriate risk-sharing between Council (for historic deficit) and social enterprise (for potential future deficits) are to be agreed.
- **TUPE transfer risks:** we are expecting the Council to underwrite any future costs arising from the employment by the Council, of the staff who transfer.
- **Prudential debt repayments:** the Mutual expects the council to cover the costs of repayment of prudential debt for IT upgrading and installation of self service equipment, as these agreements were made prior to the establishment of the mutual.

Despite the risks inherent in setting up a Mutual, doing nothing has significantly higher risks attached. The key one being that the cost of service would continue to increase - due to inflation and pay pressures - which could lead to significant cost savings operations and/or funds being diverted from other needy areas.

1.9   Next steps

To **maintain the current momentum** we recommend approval to be followed by a Transition and Launch phase. In planning the next stage with its associated project governance arrangements, we have given priority to the following requirements:

- Appropriate sign-off of Community Libraries business plan
- Clear segregation of Council (as commissioner and employer) and Provider side. Both have different processes to go through.
- Convene a 'shadow' board of directors for the Mutual early in the process
- Timelines and milestones to maintain momentum
- Build in opportunities to reflect on and refine business planning
- Independent due diligence for Mutual Board
- Continued communications with stakeholders. Engagement with the community will be fundamental
- Property, corporate services and TUPE will be major aspects

In order to maintain momentum, various steps will be carried out in parallel, with a target date for launch of 1 April 2016.

1.10 Conclusions and Recommendations

The development of a multi stakeholder community benefit society – BCLM - is a **viable alternative** to Council provided services.

Operating **with the engagement of the community built in**, and with the support of the Council, the Mutual will be well placed to deliver flexible, innovative services for the residents of Birmingham.

The new Mutual will be dependent on the core grant from BCC. It aims to work in close partnership with the Council and hopes that it will be given a firm pledge of continuing support.

The new Mutual will offer the following key benefits:

- The development of a culture of enterprise among staff and users, who are co-owners and have a real stake in its future

- Mutual organisations have proven increases in productivity, reductions in sickness and absence, increased morale. This contrasts with the culture of austerity which will exist in the Council – with associated loss of purpose and morale

- The engagement of users and communities to support the Mutual as a new co-owned enterprise, including direct financial support through supporter memberships. The supporters will be able to gift aid donations – bringing additional revenue not open to the Council.

- Increased capacity to attract grants from trusts and foundations

- Savings on business rates

2   The Service

2.1   Introduction and background

Birmingham, along with many other Local Authorities across the country is facing an enormous financial challenge in the years ahead. The City Council will have made cuts of £800m, or 60% of its controllable budget by 2018. Community Libraries saved £2.2m from their budget in 2012/13 prior to implementing the current operating model. We will have saved a further £1.1m from our budget in 2014/15. By 2015/16 the City will be looking at what minimal statutory requirements will mean for the Library Service and will be modelling a service based on 33% of its 2014/15 budget or 67% of its 2014/15 budget.

The scale of this challenge means that Birmingham must make some very difficult decisions about who will deliver public services in the city and which services will continue to exist. In the words of the Leader of Birmingham City Council, it will be "the end of local government as we know it".

Although Libraries are a statutory service, budget cuts are reducing access to Library Services when they are needed most. The previous localised and devolved management model in Birmingham has split the service into 10 geographical districts with 10 District Managers and 10 individual budgets: it does not enable the council to deliver the Leaders vision of investing resources in areas of highest deprivation. The localised and devolved model prevents flexibility in staff deployment, a strategic overview of service developments, maximising the use of the available budget or the sharing of resources that are key to a successful Library Service.

In 2014, West Heath Library was temporarily closed due to Health and Safety concerns, Bloomsbury Library is delivering service from a mobile unit and Castle Vale Library moved to the management of a third sector organisation. If the third sector delivery model gains traction, there is the potential for the service to move to a myriad of delivery models over the coming years as opportunistic groups of volunteers or 3rd sector organisations take on the running of libraries that are scheduled for closure. This will create a patchwork of provision without a cohesive, co-ordinated or integrated vision for Community Libraries.

Maintaining the status quo is not an option. If we do nothing, the service will fragment investment in Community Libraries will continue to decline, closures will become the norm and staff morale will be at rock bottom. The community will lose one of its greatest assets: its local hub supporting literacy, supporting digital inclusion at a time it is most needed with the imminent move to online

Universal Credit, support for job-seekers and learners and local access to culture.

If this is the end of something, it must also be the beginning of something new. We are determined to see this situation as an opportunity as well as a threat. The service is at a crossroads: do we continue managing the decline of a narrowly defined service or do we look for an innovative, dynamic solution that sees community libraries as sustainable, growing and delivering an expansive vision for the people of Birmingham.

2.2   The Statutory Duty to Provide Library Services

Birmingham City Council is a Library Authority, with the statutory responsibility of ensuring the provision of a *comprehensive and efficient* library service under the section 7 of the Public Libraries and Museums Act 1964. This statutory duty is a fundamental driver for all our work, and must be carefully considered in all that we do with our services. The Act says:

1.   It shall be the duty of every library authority to provide a comprehensive and efficient library service for all persons desiring to make use thereof, …

    Provided that although a library authority shall have power to make facilities for the borrowing of books and other materials available to any persons it shall not by virtue of this subsection be under a duty to make such facilities available to persons other than those whose residence or place of work is within the library area of the authority or who are undergoing full-time education within that area.

2.   In fulfilling its duty under the preceding subsection, a library authority shall in particular have regard to the desirability:

    (a) of securing, by the keeping of adequate stocks, by arrangements with other library authorities, and by any other appropriate means, that facilities are available for the borrowing of, or reference to, books and other printed matter, and pictures, gramophone records, films and other materials, sufficient in number, range and quality to meet the general requirements and any special requirements both of adults and children; and

    (b) of encouraging both adults and children to make full use of the library service, and of providing advice as to its use and of making available such bibliographical and other information as may be required by persons using it; and

(c) of securing, in relation to any matter concerning the functions both of the library authority as such and any other authority whose functions are exercisable within the library area, that there is full co-operation between the persons engaged in carrying out those functions.'

What that means is, that anyone who lives, works or studies in Birmingham is entitled to:

- Free access to book borrowing
- Access to the holdings of the library service via the web catalogue
- Expect the library service to arrange for them to borrow materials which are not in the local, or city stock.
- Expect that their information needs are met through free access to the internet
- Help with the online resources which support their reading, learning, citizenship, and community needs.

2.3 Key Statistics: Locations

There are 40 Community Libraries, situated in locations across the city, as shown on the map in figure 1 below: Wylde Green Library closed 2014, West Heath Library closed 2014, Castle Vale Library moved to management via a 3rd sector organisation and Bloomsbury Library is currently operating from a mobile vehicle.
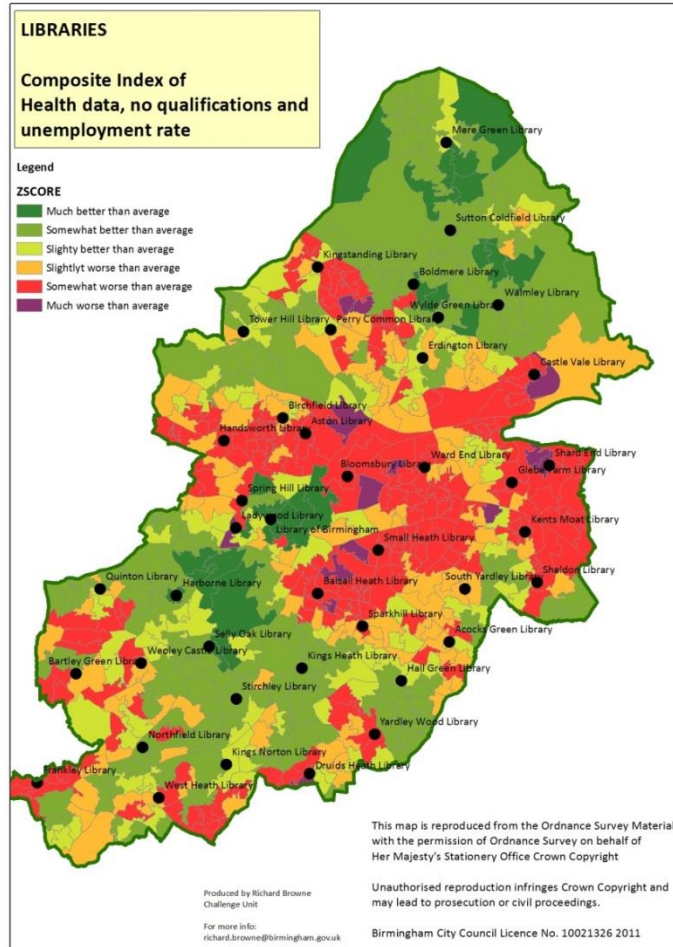
Figure 1: Map of Community Library location showing deprivation data

2.4   Key Statistics: Customer Usage

For the "Be Heard" consultation carried out in 2014, Library users were asked "For what purposes do you use your library?" The responses are shown in figure 2 below. This demonstrates the diverse range of reasons why customers use our services. We see customers seeking access to information, learning, entertainment or just a social space when they walk through our doors.
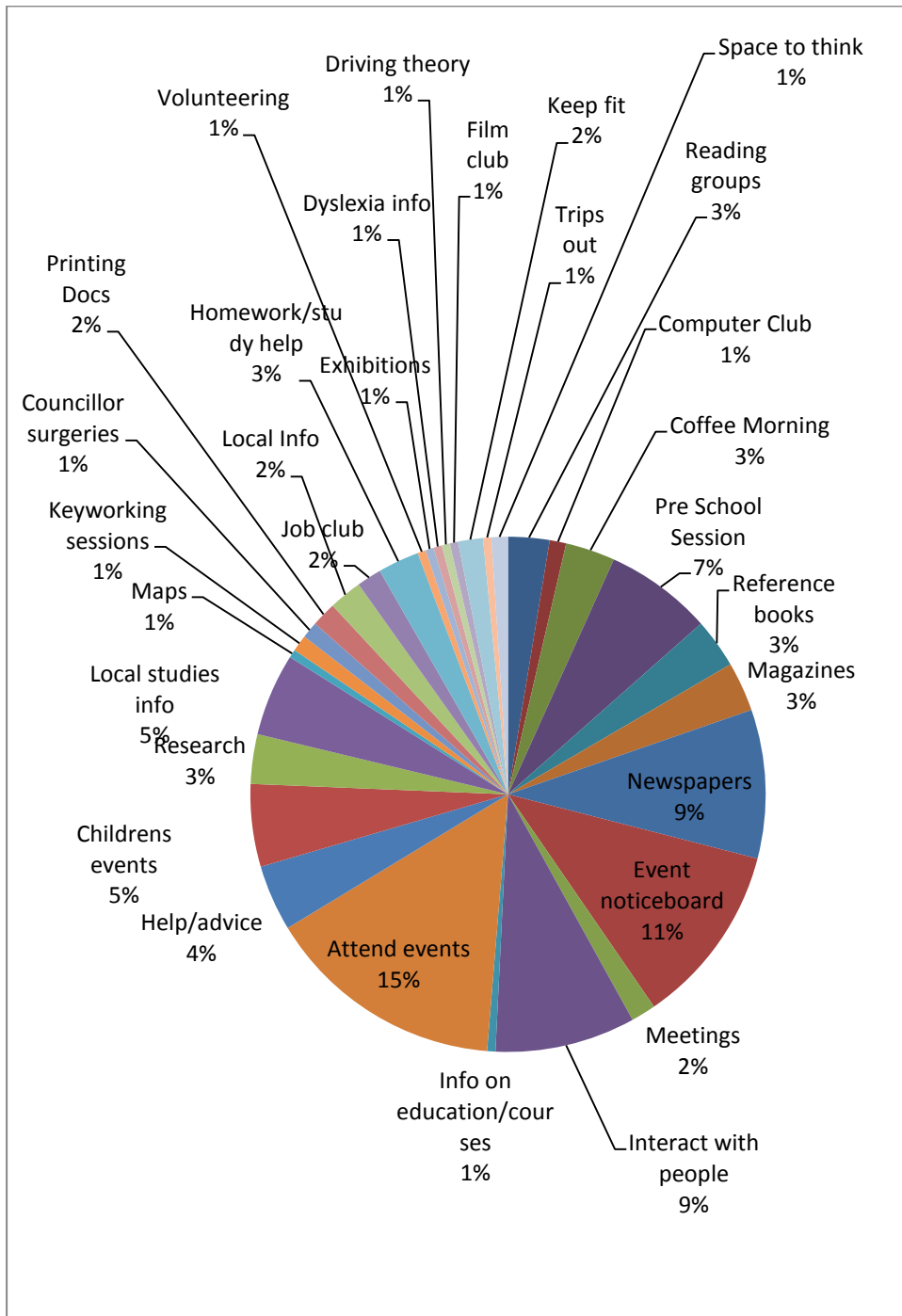
Figure 2: Survey data indicating service usage

2.5 Key Statistics: Service Volumes

Service performance is measured in terms of volumes of visits and issues. This shows a decline in the volume of service usage over the past 5 years. The decline can be explained by the continued reduction in investment in these services. Libraries have closed and opening hours have reduced. Section 4 sets out more reasons for a decline in usage and how Community Libraries will reverse this trend.
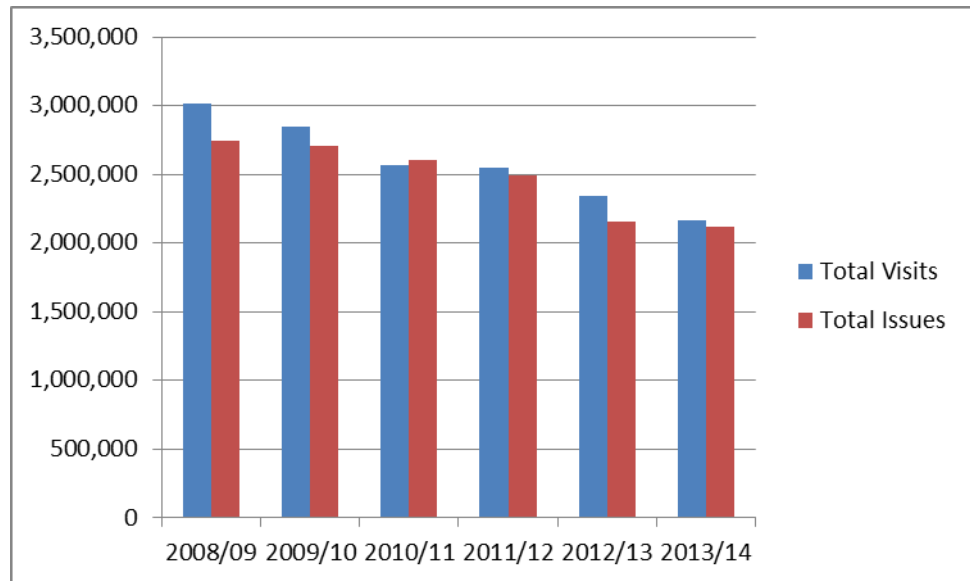
Figure 3: Service Volumes

2.6   Key Statistics: Staffing

There are currently 127.43FTE Community Library staff employed across 10 Districts. This information was collated in March 2015.

2.7   Where are we now? Strengths and Weaknesses

An exercise to identify current service strengths and weaknesses, drawing on managers and other stakeholders input has provided a baseline analysis from which to consider the future of Community Libraries in Birmingham. The exercise identified services which have many strengths and opportunities to build on. These are shown in Figure 5.

Strengths	Weaknesses
Service Offer • Excellent **reputation** • High quality **services** • Well **valued by customers** • A statutory service, **free at the point of delivery** gives USP over competition **People & Relationships** • Professional, skilled and committed **staff** • Good relationship with politicians **Infrastructure & Support** • Some **well located** buildings and good **geographical spread**	**Service Offer** • Lack of recognisable **brand** • Lack of available capacity for **development and investment** • **Stock management** could be improved • Barriers to **income generation** (see section 2.9) **People & Relationships** • **Losing experience** and unable to recruit new staff highlighted in Kerslake report • Limited opportunities for **staff development** • Lack of **commercial and entrepreneurial skills** **Infrastructure & Support** • Poor **ICT infrastructure** • Some **poorly maintained buildings** • Lack of **control over suppliers**

Figure 5: Strengths and Weaknesses

2.8   Barriers to income generation

In Birmingham, Community Libraries generate approximately 12p per visit. This is against a national average of 17p per visit. A number of important barriers to income generation have been identified – most notably:

1. Real and perceived charging and trading restrictions upon local authorities;

2. The lack of incentives to pursue income generation – specifically, linked to the inability to ring-fence and/or reinvest surpluses;

3. Legal uncertainty surrounding core and non-core services, and what can be charged for in the context of the Public Libraries and Museums Act (1964);

4. Asset-related issues, including: change of planning use, business rate status and limited space for diversification;

5. Political and community acceptance of the concept of enterprise in libraries; and

6. A perceived lack of enterprise skills, competencies and experience as well as capacity amongst staff and volunteers and much-needed access to 'invest to innovate' funds.

3 Introducing a Birmingham Community Libraries – A Mutual

3.1 Our Vision for a Birmingham Community Libraries Mutual

> **Inspiration, Imagination, ,Inclusion.**

A modern, efficient and comprehensive library service built into the fabric of the city that partners, funders, communities and individuals see as vital and relevant to their lives.

3.2 Our Values

We believe a mutual model can bring together a skilled, professional staff, with the energy of the community. We believe that a newly-independent Mutual will unlock the potential of our library professionals and the team as a whole, to create a more dynamic culture where staff take the initiative. Community engagement will be built in to the governance of our organisation, and we expect to reap the benefits of directly involving community volunteers in the running of our services, alongside, not replacing, our professional staff members.

3.3 Strategy
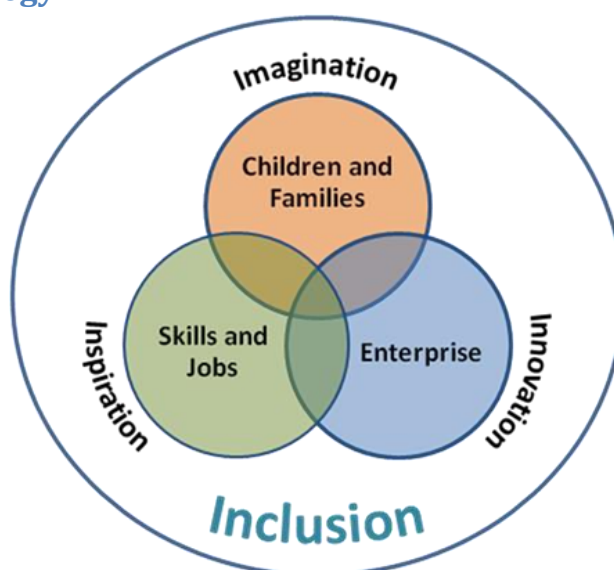
Figure 6: Our 3 core service priorities

We will place **paramount importance on needs of the citizen**, focussing our service around 3 core service priorities:

Children and Families: the Mutual will:

- Inspire learning, literacy and access to information, knowledge and opportunities.
- Delivering high quality, innovative and creative storytelling sessions. This will improve literacy, confident listening, speech and language and an enjoyment of reading for pleasure.
- Deliver focussed work with primary schools aimed at raising literacy attainment levels.
- Support families with their needs and focussing on offering personalised learning opportunities.

Skills and Jobs : the Mutual will:

- Train staff in all needs to understand the different requirements of Birmingham residents and how we can help them.
- Offer learning opportunities and support with CV writing and life skills, in a safe and welcoming environment.
- Support the most vulnerable residents to improve their digital skills and help support them into becoming more employable and engaged citizens.

Enterprise: through 'Enterprise Centres', the Mutual will:

- Offer a base and resources to support local working within Districts, the mutual will develop partnerships with agencies offering resources and dedicated support for emerging enterprises / businesses.
- Offer a menu of services aimed at the independent professional. Enterprise Centres provide a flexible workspace in addition to home working. The space supports networking which strengthens local entrepreneurs, in a space where they can meet bounce ideas, work and learn in a professional environment, connecting with regional and national agencies and resources.
- Supports Birmingham's green agenda by enabling more flexible working around the city and helps stagger the pressure on the regions road network.

3.4 Why libraries matter in the 21st century[1]

Community Libraries play a vital role in local neighbourhoods, empowering citizens with free access to literature, information and learning. Libraries

enable people to become independent: it moves them from a state of reliance on others to one that is self-reliant and resilient.

- **Community and Regeneration** – Libraries should act as a focus for community life.
- **Social Justice** – Libraries are ladders to improve social mobility.
- **Education and literacy** - One in six UK adults is functionally illiterate, costing the economy an estimated £81 billion a year.
- **Digital Exclusion** – 23% of households still do not have internet access nationally, which translates to 94,469 households in Birmingham. This rises to 43% who do not have internet access in the poorest 10% of households. Internet access was used in Birmingham Community Libraries for over 350,000 hours last year.
- **Business and Employment** – Libraries provide job/enterprise clubs, IT advice, CV workshops.

A trusted space and partner for co-location or anchoring of other services – services in libraries can be run by the council, other businesses or other organisations providing a greater range of services for users, increased footfall and additional revenue for the library.

Birmingham's Triple Devolution model of city government sees a clear role for local hubs in providing services. This role was also recognised in Envisioning Libraries of the Future[2] which saw the following priorities for the Public Library Service:

- Place the library as the hub of a community
- Make the most of digital technology and creative media
- Ensure that libraries are resilient and sustainable
- Deliver the right skills for those who work for libraries

3.5   Why a mutual?

Community Libraries are under threat from additional service reductions as the Council manages unprecedented budget pressures for 2015 and beyond.

Whilst we have staff with the commitment to make a difference, what community libraries have lacked in recent years is the capacity to deliver. A new model of service delivery is required that realises the benefits of a single city-wide, co-ordinated service that is specified by Districts in response to local need and delivered under a service level agreement.

It should have clear outputs focusing on improving the life chances of Birmingham citizens and community involvement embedded in its governance. A model that:

- Can equalise savings across the city and avoid significant service reductions being disproportionately borne by some neighbourhoods.
- Has the capacity to focus on the key priority of the council in helping the most disadvantaged to improve their life chances.
- Realises the benefits of managing a single budget, a single staff and a single book stock and recognises that innovation and creativity in service delivery needs to be achieved in partnership with others.

We believe a Mutual model can:

- Put Community Libraries on a **strong and sustainable** footing for the future – keeping them **open and relevant**
- Ensure BCC maintains its **statutory duty** under section 7 of the Public Libraries and Museums Act 1964
- Maximise the **engagement of stakeholders**, maintaining the influence of the Districts and giving local people more say through the governance structure of the organisation
- Free the service from the bureaucracy of a large organisation and create a service **responsive to customer need**
- Remove barriers to **income generation** (see section 2.9)
- **Deliver savings** to the council, while remaining a **viable business**
- Combine **socially responsible values** with the entrepreneurship and drive that come with **staff ownership**

Finally, we are very much aware that the investments required for the improvement of our services can be accessed more easily when operating independently, and that additional income streams and certain grants can be generated more readily if we are operating from within the Third Sector.

3.6 A connected service for the whole of Birmingham

The city is defined by boundaries, geographic and political - neighbourhoods, wards, districts. The citizen is not. They are free to roam, accessing services at their convenience. Whilst local discretion on the delivery of library services is to be embraced, the needs of the citizen should be paramount in delivering a consistent, efficient and affordable service.

The service a customer receives should 'feel' the same, whichever library outlet they visit. In much the same way that you can tell which supermarket you are shopping in, without seeing the name above the door, community libraries should have the same identity across the city. Opening hours, periods of closure and charges for services should all be consistent.

We believe that working collectively gives strength to the service by:

- Sharing of **knowledge, best practice and resources**.
- Ensuring that a **consistent approach** to staff training and development is in place that will support the acquisition of new skills; responding dynamically to changes in technology and changing customer demand.
- Enabling the best response to national initiatives.
- Enabling Districts to shape the service in **response to local need** within a consistent framework of service provision.
- Recognising the inter-dependencies of a **shared technology, a shared stock and a shared staff** and this is most effectively managed through a single budget.

Our service offer will ensure users receive consistent access anywhere in the city to:

- Books from (and transported to) any city library (and through the inter-library loans service, anywhere in the country)
- The library management system and public internet computers so service users can borrow from the entire stock of Birmingham's libraries
- Bibliographic services for the acquisition and cataloguing of new stock
- The discounts associated with being part of the Central Buying Consortium
- Collections HQ, providing intelligent stock management data to get best value from the books purchased
- Performance data on loans, membership, IT usage etc
- Trained, knowledgeable and supportive staff

3.7   Why leave the Council now?

Why would we consider leaving the Council at this point? We have set out the key advantages of becoming a Mutual, however, it is worth addressing the reasons why we believe leaving the Council now is good for its clients, citizens and other stakeholders, its staff and ultimately the Council.

The right political climate

Establishing community-based social enterprises in order to bring innovative solutions to public sector challenges is strongly supported by Central Government (as well as most opposition parties). This has been substantiated through the adoption of the Localism Act 2011; the Public Services (Social Value) Act 2012; the Right to Provide policy adopted by the Department of Health; and the creation of Big Society Capital, established to provide access to new sources of finance to organisations that tackle major social issues to help them thrive and grow.

More and better services for those in Birmingham

With freedom to operate in Birmingham, especially the ability to access new income streams, Community Libraries can develop and provide more services to more people, as well as expand and innovate to deliver more and improved outcomes.

Staff to gain more control

Academic research from Cass Business School shows greater organisational control and influence by the staff increases productivity. The management team has expressed strong support for establishing a Mutual, and have communicated frequently with staff regarding the potential options for the future of the services, including the Mutual model. The staff:

- Understand the challenges faced by the organisation and the wider moves in the delivery of social care
- Relish the idea of having a bigger say in the direction of the organisation and having this formalised in the organisation's governance structure.

Outside investment to be secured

Being outside the LA and operating as a Mutual will allow Community Libraries to attract additional funds to invest in its services. A wide array of funds is available, focused on increasing the role of social enterprise in the provision of public sector services. These sources of funding are simply not available to Council services. The financial projections included within this business plan do not require such investment, however it is entirely possible that in order to take up previously unforeseen opportunities, or due to some other change of the environment or plan, Community Libraries may need to access external investment.

Access to wider networks of support for Mutual delivery

With continuously growing awareness of the potential for Public Service Mutual delivery, it is a positive time to be taking forward this proposal. There is:

- Funding and best practice information in the shape of the Cabinet Office Mutuals Support Programme (MSP).
- A growing network of organisations that have already been set up as social enterprises to deliver public services that can be used as mentors, for networking and advice. Some of these connections have already been made through Stepping Out, during the development of this business plan.

3.8   Becoming a Mutual – and doing it legally

Setting up a new social enterprise and then transferring staff, assets, and services to it is clearly a matter of some complexity.

We **commissioned a study into the legal implications for the Council of setting up a mutual**. The report by Anthony Collins Solicitors concentrates on how such a transfer can take place while remaining compliant with the law. The full report is available in Appendix 1.

This section reflects the studies' highlights and main conclusions, which concentrate in particular on the **Council's powers, implications of Procurement Law, State Aid and to what extent the Council can subcontract its statutory obligations to a social enterprise**.

3.8.1   Contract / Procurement options

The Council has indicated that it does not wish to carry out a formal procurement exercise for the provision of community library services. The Council's preference has been to structure the arrangement between the Council and the Mutual using the award of a grant. Council Officers have prepared advice on this approach, with a potential Community Assets Transfer ("CAT") alongside. The CAT route has been adopted in the case of library services at Norden Old Library, Rochdale. This was a transfer to a Community Trust set up by a group of local people. This is also a structure that was adopted for many of the transactions relating to the transfer of leisure services to leisure trusts.

This would require the Council to provide grant funding to the Mutual for the continued operation of the libraries, and, potentially, to transfer the assets to the new organisation. Of course, as part of this model, the Council would need to assess how it would satisfy itself that its statutory duties were being discharged if no services contract has been put in place. The way that this has been achieved elsewhere is through entering into long term leases with the new organisation and having an outcomes based grant funding agreement.

From the perspective of the Mutual, the primary issue with a grant mechanism – as opposed to the award of a contract – is the desirability of securing a long term funding relationship going forward. Traditionally, the award of grant funding has been for a maximum guaranteed period of up to three years, whereas a properly awarded contract can be put in place for much longer and contain provisions on the control of change. As a Mutual, we will, therefore, want to negotiate for as long a grant award as possible, to make business planning feasible moving forward.

3.8.2 Satisfying the Statutory Duty

As we discussed in Section 2.3, with regard to satisfying its statutory duties, Section 7 of The Public Libraries & Museums Act 1964 ('the Act') confirms that it is the duty of every library authority to provide "a comprehensive and efficient library service for all persons desiring to make use thereof".

The Council will need to determine to what extent it is continuing to discharge its statutory duties though retaining the Library of Birmingham and ensuring that all of the libraries within Districts are appropriately linked into that.

The overall authority in relation to the duties under the Act is the Secretary of State (now for culture, media and sport) who is responsible for superintending the library authorities and making sure that their duties are appropriately discharged.

The last (and only the second) time that the Secretary of State intervened formally in library matters was in the local inquiry into the provision of library facilities by Wirral MBC, in 2009. The inquiry found that Wirral MBC was in breach of its statutory duties, in relation to the proposed re-structuring of library services. The reasoning given is instructive in providing an interpretation of the general duty as it was applied at the time. There has also since been an Inquiry into library closures which the Government has responded to in January 2013.

Our proposal for the delivery of 35 libraries through a Mutual, would ensure that Birmingham City Council maintains its statutory duty. Any adjustment to the number and range of libraries delivered would need careful consideration.

3.8.3 Local authority powers

Section 7 (2) of the Act provides that library authorities are to secure that library facilities are available "by arrangements with other library authorities, and by any other appropriate means" (our emphasis). This latter wording gives a principal power on which to rely in making arrangements for provision of library services by the new Mutual.

It is therefore considered unlikely that any alternative delivery arrangements authorities may put into place are likely to raise any vires issues.

However, if a service contract will not be in place and if the Council ceases to have any control over how (or, indeed, whether) a library service continues to be provided at the facility – or elsewhere – it must be assumed that the library authority can no longer consider the transferred asset to be part of its strategy to meet its duties under the 1964 Act.

If, however, the terms of the transfer require the recipient to continue to provide a library facility, then this may well mean that the library authority is able to include the facility in its assessment of whether or not it is meeting its statutory duties, particularly if there is a continued relationship of monitoring or accountability between the authority and the Mutual and in this case the crucial links with the Library of Birmingham. The terms of any lease or transfer agreement will be key here.

The Council can also provide grants on the basis of the powers available to it pursuant to Section 9 of the Act and so this would be a legitimate way for it to proceed. Section 9(1) provides that "a library authority may make contributions towards the expenses of another library authority or of any other person providing library facilities for members of the public". Section 9(2) also states that "The Secretary of State may make grants to any body which maintains book catalogues or indexes to which all library authorities are permitted to refer, or otherwise makes available to all library authorities likely to assist them in the discharge of their duty under section 7(1)".

There is a residual risk that depending upon how structured, it may mean that the authority is, in substance if not in name, procuring a service rather than simply transferring assets, which again raises the issue of an appropriate procurement process. The Council will therefore need to be very clear on the nature of the proposed arrangements and the consequent structure.

3.8.4   State Aid

There is also the potential for any grant funding to be considered to be State Aid, and this would need to be assessed in further detail once the detail of the transaction/proposed structure was known. Our initial assumptions though are that this is likely to be a situation where the Dorsten swimming pool case is likely to apply. That case related to annual grant of DM 2 million to a private operator to subsidise the running of the pool. It was determined that it did not affect trade between Member States. Here too, the libraries will be used by local residents and the surrounding area and so there is practically no likelihood of intra-Community trade being affected in this case.

3.9 Legal Form

There are a number of legal structures that could be adopted for the new Mutual. The choice of structure will be affected by the following factors:

- Whether the new enterprise will generate surpluses from its ongoing activities and, if so, how these will be dealt with (in particular, whether they will be retained by the new enterprise or distributed out to the members).

- Whether the new enterprise wishes to adopt a structure which would generally be recognised as a "social enterprise".
- To what extent, and in what way, any of the staff wish to participate in the ownership of the new enterprise.
- To what extent the new enterprise will need to raise finance, and from whom.

We have considered the relative merits of eight options for legal form:

1. A company limited by shares
2. A Limited Liability Partnership
3. A community interest company ("CIC") limited by shares
4. A co-operative
5. A company limited by guarantee
6. A CIC limited by guarantee
7. A community benefit society
8. A charitable incorporated organisation ("CIO")

3.9.1 Key principles of the Birmingham Community Libraries mutual model

We have identified a number of key principles on which our legal structure will be based. We believe that a legal form should:

1. Allow some form of staff ownership.
2. Facilitate the involvement of other community stakeholders or partners as part of the structure.
3. Establish the organisation as a non-profit distributing entity, with a preference for charitable status.

3.9.2 Legal Form Options Appraisal

Given our clear preference for the Mutual to be established as a non-profit distributing entity, we have therefore discounted four options, since they don't comply with this preference:

1. A company limited by shares
2. A Limited Liability Partnership
3. A community interest company ("CIC") limited by shares
4. A co-operative

Our analysis of the remaining four options is shown in the table below:

Legal Structure	Suitability as potential structure	Key challenges
Profit distributing:		
Company limited by guarantee	Flexible, easily recognised structure. Can facilitate staff ownership. Outside investment only possible through debt finance, not equity. Can be recognised as a social enterprise because surpluses are retained. Staff can serve as directors if this is permitted by the constitution. Can be charitable in nature; if so staff ownership will need to be minority. Should get mandatory relief on business rates and other tax reliefs.	No tax advantages although may get discretionary rate relief depending on Council policy (unless charitable). Raising finance may be difficult if equity is required by funders. If charitable, may be restricted by charity law and by Commission regulation.
CIC limited by guarantee	Flexible, easily recognised structure. Can facilitate staff ownership. Outside investment only possible through debt finance, not equity. Strong social enterprise brand. Staff can serve as directors if this is permitted by the constitution.	No tax advantages although may get discretionary rate relief depending on Council policy. Raising finance may be difficult if equity is required by funders.
Community benefit society	Can be charitable in nature but need not be. Can facilitate staff ownership but not in the majority if charitable in nature. Strong social enterprise brand. Staff can serve as part of board but should have additional directors. Able to issue shares for investment, limited to £100,000 per share and one vote to each shareholder. Should get mandatory relief on business rates and other tax reliefs.	Less familiar form to some investors / third parties. Can be less flexible than company. More expensive to set up initially.
Charitable incorporated organisation	Charitable in nature. Can facilitate staff ownership but not in the majority. Strong philanthropic brand. Staff can serve as minority part of board. Should get mandatory relief on business rates and other tax reliefs.	Raising finance may be difficult if equity is required by funders. Restricted by charity law and by Commission regulation.

3.9.3 A multi stakeholder community benefit society would meet our aspirations for our organisation

At this stage our recommendation is the formation of the Mutual as a multi stakeholder community benefit society. This allows staff to be minority owners (with protected rights) and benefit from the advantages of charitable status, whilst preserving the possibility of community share investment and broader involvement from library users and the wider community. There may also be a role for a subsidiary trading company, owned by the Mutual, to facilitate commercial enterprise development without the constraints of charitable status.

Further explanation of the implications of charitable status is given in the legal report attached in Appendix 1.

4   The Market

4.1   National Policy Background

Libraries across the country are facing enormous financial challenges in the years ahead: this combined with greater public demand creates huge potential for new libraries to emerge that find alternative ways to fund themselves and therefore can continue to deliver services to a high standard.

The definition of what a statutory library service entails may be clarified, enabling local authorities to develop different delivery models in response to the ongoing budgetary pressures. A commissioning model may be part of this and volunteers and 3rd sector organisations are likely to play an increasing role.

The future of Public Libraries is currently being reviewed by the DCMS and DCLG under the leadership of William Seighart. The review is asking the following questions:

- What are the core principles of a public library service into the future?
- Is the current delivery of the public library service the most comprehensive and efficient?
- What is the role of community libraries in the delivery of a library offer?

Sieghart's report published in December 2014 outlined his vision for the modern library. His view of libraries included not only offering books and digital, but a place for old people to meet; a place for children to enjoy nursery time and stories; a place for adult education and literacy; for students; and for the unemployed to register for benefit and apply for jobs. Libraries are one of the last safe, non-judgemental places we have, said Sieghart, and we need to protect them.

In summary, Sieghart's vision for modern libraries[3] is:

1. Establish a professional library body to focus on solutions and best practice.
2. Set up a national taskforce to make changes and work with local authorities.
3. Commit to Wi-Fi across the UK – and maybe also coffee.
4. Provide digital training for librarians.
5. Move to one Content Management System to celebrate best practice.
6. Gain Trust and Foundation involvement and support.
7. Involve community stakeholders in library governance.
8. Ensure library cards work in all libraries.

9. Enable library loans across the UK.
10. Establish a national marketing strategy.
11. Consider the ability to buy books from libraries.
12. Work alongside library campaigners.

4.2   The service Birmingham citizens want

Analysis of the Be Heard Survey conducted in 2014 for the 2014-15 savings proposals confirmed the high regard that the people of Birmingham people have for the library service. They wanted:

- to retain all libraries and avoid closures.

- 56% of respondents viewed community library services as a "very important service with a big impact on the life of me or my family" and 38.51% viewed it as a "very important service I regularly use". Only 0.62% of respondents thought the service was "not very important".

- 94% of respondents used the library to borrow books, 28% to loan children's books, 19% to loan talking books, 7% to loan e-books, 21% to loan DVDs/Music, 41% to use computers and 22% to attend classes/workshops.

- 65% used on-line library services to check opening hours etc, 19% accessed digitised collections, 62% renewed their items on loan, 63% used it to check the library catalogue.

- 70% of respondents thought the reduction to the bookfund would have a significant impact on the service.

Further analysis of the survey identified the following as the areas that the service should concentrate on and improve:

- Increased opening hours

- New books and a wide range of reading materials

- Children's services

- Community events and courses

- Improved IT services and support in their use

- Trained staff

4.3 Demographics

Over 1 Million people live in Birmingham. The latest estimate is 1,085,400, (based on the 2012 mid-year population estimate).

Key facts about Birmingham, which will have an impact on the provision of library services are below.

4.3.1 Birmingham is a youthful city, but with growing numbers of older people.

Birmingham has more people in the younger age groups, while England as a whole has a greater proportion of older people. The 'bulge' around the 20-24 age group is mainly due to students coming to study at the City's Universities.

45.7% of Birmingham residents are under 30, compared with 36.8% for England. In contrast 12.9% of the City's residents are over 65, compared with 16.9% nationally.
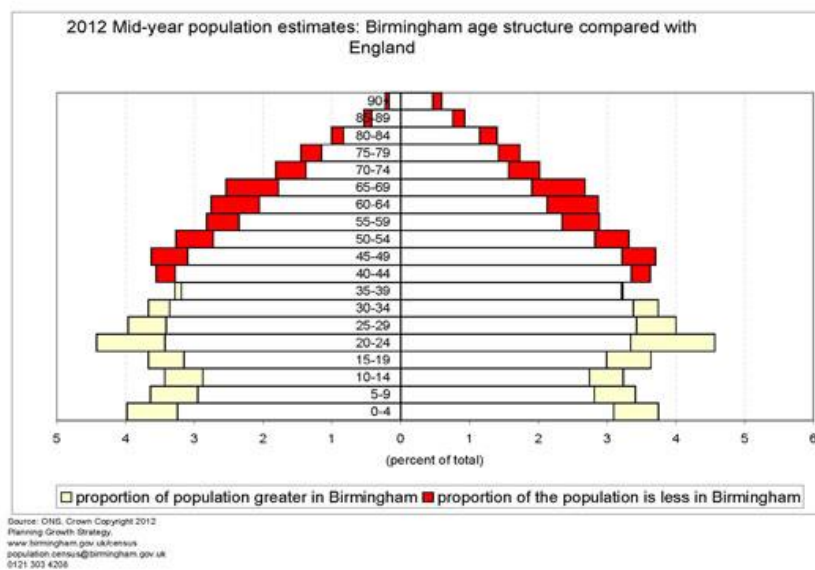
Figure 7: Birmingham's age structure compared with the English average.[4]

Children and pensioners in Birmingham are each projected to grow by 11%, while the working age population is thought to increase at a more modest rate (6.3%). People aged 65 and over are expected to grow at half the national rate.
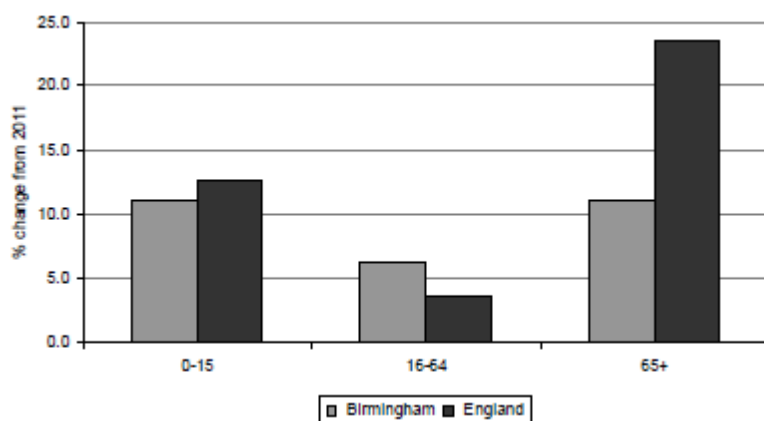
Figure 8: Population change by broad age groups percentage change in Birmingham and England 2011 to 2021

Birmingham is lagging behind the national average in children's literacy. 1 in 5 primary school children in Birmingham are leaving school unable to read properly. 18% of the city's 11 year olds did not reach the expected standard in their reading tests last year. Community Libraries have a vital role to play in supporting the literacy needs of children and adults and promoting free access to books and the range of events on offer to encourage people to develop a love of literature and reading.

The needs of an ageing and active population will need consideration and is a potential growth market for libraries who may be able to develop charged services around reminiscence, family history, IT training, wellbeing etc.

4.3.2   Birmingham is a diverse city

Around 42% of Birmingham residents are from an ethnic group other than White. 46.1% of residents said they were Christian, 21.8% Muslim and 19.3% had no religion. 22% of residents were born outside the UK, compared with 14% in England and 11% in the West Midlands region.

The move to digital by default offers great potential for libraries to support those without access to IT or the skills required to use it. Universal Credit coupled with a reduction in city council advice services means Community Libraries may be the only remaining site in many neighbourhoods able to support the most disadvantaged of Birmingham's diverse residents to access benefits, job opportunities, training and advice.

4.3.3 Birmingham is a growing city

Since 2001 the population has increased by almost 100,000 (10.2%). This is an average rate of 0.9% per year. The population increase over the last decade is associated with more births, fewer deaths and international migration. Overall, between 2011 and 2021

Birmingham's population is projected to grow by 85,800 to 1,160,100 between 2011 and 2021, an increase of 8.0%. Projected growth is above the region (6.8%) but below the England average of 8.6% (figure 1)
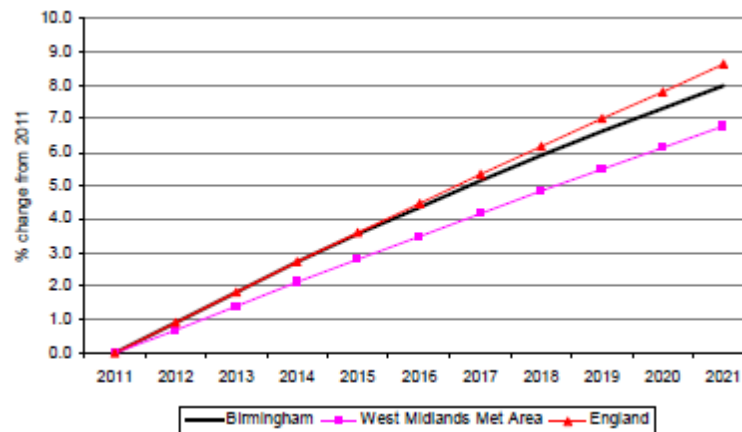
Figure 9: Projected percentage change in Birmingham population 2011 to 2021

4.4 Analysing the external environment

Our prospective PESTLE analysis identifies several external factors that might impact on the market in which the social enterprise would operate. The main points are summarised in the following table:

Political	Economic
• Needs to meet Social Value agenda • Meet agenda for commissioning services, and Cabinet Office programme for encouraging co-operative delivery of services • Contribute to the priorities within the Leader's policy statement • Ensures value for money • (Lack of) Internal capacity to tender through a procurement process • Give citizens what they want	• Deliver services within reducing budgets • Clarity on what the budget is • TUPE and pension • Corporate centre management overheads. • Improved income generation and better business planning • Costly procurement process • More demand on services
Social	**Technological**
• Engagement with Communities Enables better strategic fit to BCC aims and objectives • Possible media issues. • Better fit with other Council services providing pathways for customers with care/support needs • Enable wider achievement of broader outcomes (broader than literacy – i.e. benefit advice, community clubs, access to leisure) • Increase in ageing population • Support Lifelong learning Information hub for the community and gateway to BCC services	• Greater co-ordination of service delivery – shared media and materials • Synergy between systems • Improved control of data, demand and strategic intelligence • Information sharing responsibility and experience • Responsibility for all data reverts to one accountable body • Self service technology • Wifi • Greater presence on social media • E-government • Gaming opportunities and updating technologies
Legal	**Environmental (all other)**
• Statutory Obligation • Legal issues associated with TUPE • Risk of legal challenge from other providers. • Governance arrangements for any new organisation (separation from Council) • Legal duties –duty of care towards service users	• Lack of a mature market • Continuity of service alongside delivering budget cuts • Capabilities of existing staff compared with lack of Knowledge and experience from non-library staff • Need to build commercial awareness • Potential for different solutions in different districts leads to fragmented approach that undermines the greater city-wide benefit Individual libraries doing 'their own thing'.

4.5 Competition

Libraries have a wide range of competitors. People have a multitude of reasons to go into a library in the first place, so equally there are many more opportunities to go somewhere else. There are a multitude of places people will go for the services offered by libraries: for books, for access to information and to use social spaces.

Figure 10: Just a few competitors to libraries…

As we saw in section 2.4, usage of libraries in Birmingham has been decreasing for the past 5 years. Therefore, rather than a detailed analysis of individual competitors, we will explore underlying reasons for use of alternatives in the remainder of this section, in order to draw conclusions on how libraries can compete in a crowded market.

Research shows 25% of lapsed users and non-users in our survey said that one of their main reasons for not using library services was that they prefer to buy books from a shop or online - suggesting that while they may be readers, they prefer alternatives to libraries.

Others said that there is nothing of interest for them in the library (11%), or that they have the Internet at home and do not need to go (11%). This suggests that for some, the service offer simply doesn't feel relevant because it doesn't give anything they can't access elsewhere, or they simply prefer to do other things with their time.
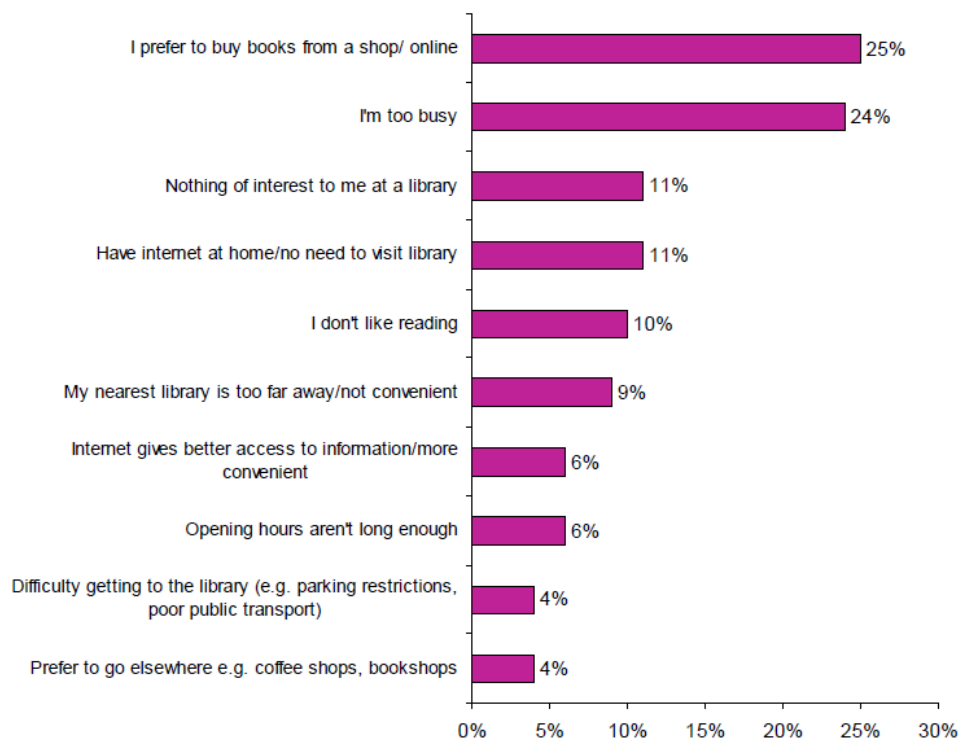
Figure 11: Main reasons for not using public libraries - top ten responses to What do people want from libraries (IPSOS MORI)[5]

It would appear that there are three core factors for library services to take into account when considering how to compete:

- Convenience (of opening hours or location)
- Environment (real and perceived)
- Service (range and availability)

4.5.1   Convenience

While a love of reading is often an incentive to library use, a large proportion of those who read for pleasure do not use libraries. Data from Taking Part[6] shows that 38.1% of respondents, equivalent to 414,000 people in the Birmingham population, say they read for pleasure, but had not visited a public library in the last 12 months. This was in fact a larger group than those who read for pleasure and had visited a public library (28.5% of respondents). Meanwhile, 24.9% of respondents did not read for pleasure, and had not visited a public library in the last 12 months.

Taking Part shows that around 11% of those who have not used a library in the last 12 months cite 'preferring to get books elsewhere' as their main reason for non-usage.

Some 9% of lapsed and non-users responding cite 'inconvenience' or 'library is too far away' as a reason for not using libraries, while 6% cited 'opening hours aren't long enough'.

Distance is not always 'barrier' as such – some of these participants could get to the library if they really wanted to - but because it was no longer convenient, the incentive to use libraries had been taken away. For example, if the library is not located close to where people shop or work.

Research has shown that book buying and borrowing are not mutually exclusive and that more people do both than borrow or buy only[7] . However, more people buy than borrow, and expanding household income has made it easier to buy books.

Community Libraries have to compete with the convenience of buying books online, at high street bookstores or in supermarkets, if those who read, but do not currently use libraries, are to be attracted to the service in future.

4.5.2   Environment

Users show a preference to spend leisure time in different sorts of environments than most libraries offer, or are perceived to offer.

A number of studies show that non-users comment that the library environment seemed poor quality, or 'low value'. Libraries are sometimes described by nonusers as "shabby", "down-at-heel" and "not inviting".[8] Birmingham's Community Libraries are themselves in varying states of repair (see Section 5.2), and therefore continuing investment in the built environment is imperative.

For others, the issue is less that libraries themselves are unappealing, but simply that they do not see the library as a social space. For example, younger people without children, and people who work full-time, were less likely to see the library as a place to spend time, and less likely to value the library 'space'. They prefer alternative environments, such as coffee shops, if they were going to relax and read. Research with young people found that they did not, on the whole, see libraries as a place where they would go to hang out with friends[5], seeing them as a place where they would not be able to make noise - and a place that was not 'cool'.

4.5.3   Service

There are examples of people who say that they no longer use libraries because they could not find anything that they wanted to read, or could not find specialist reference books that they wanted.

Analysis of Taking Part survey data has shown that visits to libraries are more sensitive to quality of experience that many other cultural and sporting activities. 'Supply-side' factors, in particular falling book stock, are cited as a key reason for falling book borrowing. Research with 14-35 year olds found that stock being out-of-date or of limited interest, and there being insufficient copies, were mentioned as reasons for no longer using services by people who used to be library users[5].

Community Libraries must ensure that it continues to invest in stock and ensures that it is relevant to the modern user.

4.6   Opportunities for growth

A review of evidence by Locality[9] from national and international library services have identified 5 potential areas of income generation:

1. **Charged for services** (e.g. room hire, managed workspace, research services)

2. **Non-library service public contracts and grants** (e.g. for public health, training and employment, police service commissioners)

3. **Private sector service contracts** (e.g. parcel pick up and drop off points);

4. **Direct trading through the sale of complementary products** (e.g. children's book merchandise, local art work)

5. **New/Emergent ICT services** (e.g. 3D printing)

We look in more detail at each opportunity for growth below.

4.6.1   Charged for services

Our evidence review highlighted paid for services and, in particular, mixed commercial and low-cost community room hire as perhaps the most common approach to income generation on the part of library service providers. The

term 'paid for services' is used here to refer to those services that fall outside the scope of a library's core activities and public/private sector service contracts.

Examples we found in the course of our research include:

- Research Services
- Room Hire
- Managed Workspace Provision
- Internet Access
- Vanity Press Use

There is considerable scope for library service providers to charge for a range of services, in addition to those that must be provided free at the point of use in keeping with the statutory duty applicable to library authorities.

Case Study: Fresh Horizons, Huddersfield

Fresh Horizons is a social enterprise based in Huddersfield. It acts as community anchor with a focus on skills development and the creation of sustainable employment opportunities in deprived neighbourhoods. Integral to its activities, staff and volunteers deliver a local library service, commissioned by Kirklees Council, and generate additional revenue from the organisation's mixed-use facility in Deighton – the Chestnut Centre. The service is open 60 hours a week, enabled by the diverse range of services that staff support.

Staff supporting the library engage in income generation activities that include: community facilities management (on site and remote), meeting room bookings and events management. The organisation is also in the early stages of exploring the potential to establish a hacker / maker space integral to the library.

Website: http://www.freshhorizons.org.uk/

4.6.2   Non-library service public contracts and grants

The term 'non-library service public contracts' is used here to refer to those instances where public bodies commission library service providers to deliver services that are not part of the core library service offer.

There are numerous examples in England of library services generating income by delivering other, complementary, public services. They include publically managed libraries being commissioned by council departments and other public agencies as well as social enterprises that deliver a range of services from the same building through the same staff.

Some of the most significant opportunities in this regard relate to:
- Health and Well-Being
- Education
- Assisted Digital Interventions
- Training
- Employment Support

Library staff are particularly well-placed and skilled to deliver other public service contracts with their access to the community, customer service and signposting skills. Moreover, libraries tend to function as appropriate places to do so – both in terms of their location and opening hours.

Case Study: Northamptonshire Library Services

Northamptonshire Library and Information Services (NLIS) has been commissioned by the County Council to deliver universal elements of Children's Centres. The current contract generates income for NLIS of circa £400,000. This provides funding for NLIS to deliver an ongoing programme of family-focused activities, every week in every library (e.g. rhyme time sessions), as well as financing a programme coordination and longitudinal tracking capacity. Although it is not expected to deliver a surplus for reinvestment in the service, the arrangement is of real strategic importance - helping deliver the Library Plus service throughout the community, attracting families and extending opening hours. NLS is currently developing a vision for Library Plus Children's Centres – which is intended as a mutually beneficial fusion of services in future.

Website:
http://www.northamptonshire.gov.uk/en/councilservices/leisure/libraries/

4.6.3   Private Sector Service Contracts

The term 'Private Sector Service Contracts' is used here to refer to those instances where arrangements with private sector organisations provide a library service with an additional source of income - whether this is in relation to a service provided by the library under contract or the use of its space/resources.

Although a number of library service providers deliver services for the private sector, Locality's research revealed relatively few examples of such arrangements in England. Nonetheless, there is evidence from overseas that such activities could add value to income generation efforts.

Opportunities in relation to private sector service contracting are broad-ranging, but could relate to, for example, advertising and marketing revenue streams or supporting commercial services such as parcel collection or banking services. Indeed, the range of private sector opportunities with which libraries might engage is considered 'endless', save insofar as careful thought is required where 'fit' with the library ethos/purpose and functions is concerned.

This perhaps signals the potential for libraries to become more outward-looking with regards to income generating opportunities. However, the relatively low precedent of commercially supported income generation is also thought to flow from attitudes towards 'straying' overly from the core ethos, purpose and functions of a library in a UK context.

> **Case Study: West Sussex**
>
> A number of libraries in West Sussex have been fitted with Amazon Lockers as an alternative delivery solution for their online purchases. The lockers have been installed in Chichester, Horsham and Crawley libraries. Customers can now order online and pick up their delivery from a locker using a six-character pick-up code, which is sent to them via secure email upon delivery, instead of having parcels delivered to homes or businesses.
>
> Lesley Sim, Information Services Manager for Libraries, said: "The new lockers securely store items bought online in convenient locations that can only be opened once the customer has entered the code. They have already been welcomed by readers and nearby residents - some who do not currently belong to a library – who collect deliveries at a time that is convenient for them."
>
> Website: http://www.westsussex.gov.uk/leisure/libraries.aspx /
>
> http://www.amazon.co.uk/locker

4.6.4 Direct Trading

The terms 'direct trading' and 'retail' are used here to refer to the sale of goods by libraries, specifically, where they are complementary to the current core library service offer and/or utilise library space to enable retail activity (such that there may be some overlap here with 'room hire' - below).

Public libraries often occupy prime high street locations, and can provide an appropriate base for retail based trading. Many libraries already offer some low-level ancillary trading of related products, whilst some have a more established and commercially focussed retail offer intended to generate income to support the library service. Common examples of direct trading within libraries in England include the sale of:

- Surplus books, CDs, DVDs and stationery
- Food and drink
- Local arts and crafts

If local authorities want to carry out retail activity to generate surplus income, this will often constitute "trading" and, therefore, not possible for an in house service without a specific trading vehicle. A Mutual model does not have this barrier to trading.

Case Study: Brighton and Hove

Brighton and Hove Library Service (BHLS) operates the Booklover Store in Jubilee Library. Goods on sale range from Tin Tin merchandise to note books and artists greeting cards. Library staff manage the shop at the entrance to the library – ensuring it's the first point of contact for visitors, and allowing them to signpost to other library resources as well. At £125,000 a year, the income generated through the Booklover Store makes up 25% of the total income generated by BHLS. The average daily footfall is 3,500, with customers spending an average £4-£5, something which they are working on increasing.

BHLS identified specific retail knowledge as being key to developing a successful retail unit, requiring someone with experience to set up and put down the foundation for a successful unit. Expertise is required, for example, in the design of the shop/displays but also in relation to stock. Most librarians didn't have the requisite retail experience to begin with, but have worked hard to learn along the way.

Website: http://www.brighton-hovepml.org.uk/Libraries/sites/Jubilee/Pages/BookloverStore.aspx

4.6.5 New/emergent ICT services

The term 'new/emergent ICT services' is used here to refer to those services that currently fall outside the scope of a library's core activities where they are reliant upon access to some form of Information and Communications Technology. Whilst there are clear synergies with libraries and encouragement from key stakeholders to render libraries digital hubs within communities, as well as efforts to effect a step-change in digital leadership skills amongst library service commissioners, there is little evidence of them having capitalised upon this as a significant revenue stream to benefit libraries in England to date.

Nonetheless, our evidence review pointed to numerous overseas examples in support of a 'digital trajectory' for library service enhancement where their overall resilience and sustainability is concerned.

New/Emergent ICT Services could afford library service providers an opportunity to generate income over the years to come, notwithstanding the need for debate about how this might fit with the library 'ethos' and current expectations vis-à-vis the provision of free and/or low-cost services. Government is, for example, investing significant funds in the roll-out of next generation broadband, as well as exploring the growth potential of big and open data, the Internet of Things, cutting-edge technologies and Smart Cities (amongst many other potentially relevant initiatives where libraries are concerned). However, at this stage, the potential for that income to be significant cannot be determined without more detailed work.

In order to implement, there is need for support and investment in market research, business modelling, planning and implementation if such services are to be designed and developed on a sustainable footing. Moreover, the approach to capital investment to facilitate development of New/Emergent ICT services within a library context is considered critical.

Given the work and investment required, this is not considered an immediate opportunity for Birmingham Community Libraries, but should be considered in the longer term, once the Mutual has become established.

Case Study: FabLab Exeter

The multi-million pound Exeter Library recently reopened, following substantial refurbishment, and with it a preview of the first 'Fab Lab' ever to open in a UK public library.

The Fab Lab, or fabrication laboratory, is a low-cost digital workshop equipped with laser-cutters, 3D printers and scanners, Computer Numerical Control (CNC) router, 3D milling machines, electronics bench and programming and design tools, where users can "make almost anything".

Fab Lab Exeter utilises a ground floor room in the library, adjacent and complementary to the new Business and Information Hub, which provides business information and intellectual property (IP) support for local businesses. It enables users to develop or refine a product or object from first idea to a formed and working prototype. Advice and further business support is also available to help develop the business proposal to ensure a route to market.

Devon County Council has invested £90,000 capital funds in the Fab Lab, with up to a further £30,000 of investment from the ACE Bridge Challenge Fund run by the Real Ideas Organisation and £30k from the Digital Makers Fund (run by Nesta and Nominet Trust, in partnership with Autodesk).

Website: http://www.devon.gov.uk/community/libraries.htm & http://fablabdevon.org/

4.7 Emerging Commercial Strategy

Our long list of potential opportunities for development and growth has been classified using the following methodology. Options for our growth strategy related to existing markets (customers) or moving into new markets. Growth can come from the current range of services or from new services. The four classifications for strategic options are therefore:

> › **Quadrant I: Market penetration:** more existing services provided to current customers
> › **Quadrant II: Market development:** new customers targeted with existing services
> › **Quadrant III: Service development:** existing customers targeted with new - albeit related – services
> › **Quadrant IV: Innovation/diversification:** new services and new routes to market to target new customers.

Taking into account our research into the market, and knowledge A Commercial Strategy for a Mutual would seek:

- To **increase income generated by existing service provision** by setting a consistent charging strategy and developing our capacity to attract new grant funding streams. This will include a large expansion of income generated through room hire.
- To develop **new services to market to other areas of the Council & the wider public sector**, e.g. consultation and events, Council access points.
- To develop **growth opportunities with services for new users**, including private sector contracts and those in receipt of social care personal budgets.

We have plotted these in figure XX below:
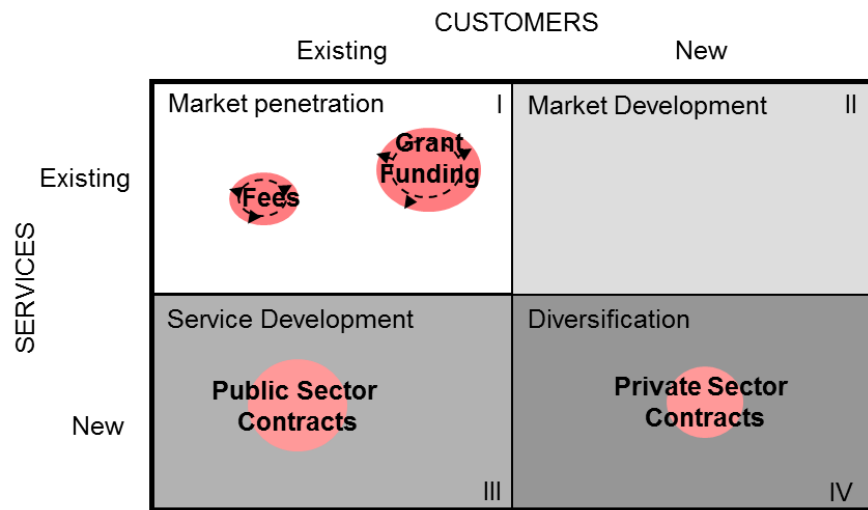
Figure 12: Emerging Commercial Strategy

The size of the bubbles represents the projected revenues involved. Note that in general terms, moving from quadrant I to IV represents an increase in risk and, usually, additional investment requirements. As is shown by the opportunities shown above, the current development stage of services and the growing existing markets for current services mean increased market penetration is the main source of growth for the organisation.

Further detail on the level of income expected is given in chapter 6.

5 Our Organisation

5.1 Operating structure and management

5.1.1 Structure

The new operating structure will combine the professional and specialist competences within the team with the desire to work closely alongside communities, elected members and BCC.

5.1.2 Proposed staffing model

The proposed staffing model is based on the overriding principle of maintaining a professional staff presence. Volunteers will be recruited to specific support roles to assist users, they will not be substituting staff but working as champions within the community to advocate the value of the library service. Each Library will have day to day staff supervision and building management provided by a paid staff member at grade GR3.

In order to make the best use of our resources, we will allocate each library a 'strategic focus' based on the needs of the community in which they operate. This will determine how we deliver our core service priorities (described in section 3.3) where they are most needed, and at other sites offer basic 'demand led' access to library services. This is described in the table below.

Figure 13 core services

Strategic Focus		Description
C&F	Children & Families	Inspire learning, literacy and access to information, knowledge and opportunities for children and their families.
D	Demand led	A location offering basic access to library services
EC	Enterprise Centre	A base and resources to support local working offer a menu of services aimed at the independent professional
S&J	Skills & jobs	Support the most vulnerable residents to becoming more employable and engaged citizens
RH	Room Hire	Focus on generating income through opportunities to rent room space

Libraries will be open and available to residents in four modes:

1. A site open for 40 hours offering a full menu will have a staffing level of 2 FTE grade 2 staff. Supervision through a FTE GR3, plus support from a .05 GR1 member of staff. Staff will be expected to work alongside volunteers therefore lone working will be avoided. Staff will be trained to deliver priority needs services targeted to local priority need.
2. Buildings offering one or two priority need services and opening 20 hrs per week will be staffed on a 22.5 hr post GR2 and support through a 22.5 GR3 plus GR1 4.5 hours. Volunteers will mitigate lone working.

The proposed core values for each library is shown in the table below, this is to be finalised with BCC .

District	Library	Strategic Focus
Edgbaston	Bartley Green	C&F
	Harborne	D, EC
	Quinton	D
Erdington	Erdington	C&F, S&J,RH, EC
Hall Green	Balsall Heath	C&F, S&J
	Hall Green	C&F, EC
	Kings Heath	C&F, EC
	Sparkhill	S&J, EC
Hodge Hill	Shard End	C&F, S&J
	Ward End	C&F, EC
Ladywood	Birchfield	C&F, EC
	Bloomsbury	D
	Small Heath	C&F, S&J, EC
	Spring Hill	C&F, S&J
Northfield	Frankley	C&F, S&J
	Kings Norton	C&F, S&J
	Northfield	C&F, S&J
	Weoley Castle	C&F, S&J
Perry Barr	Handsworth	C&F, S&J, EC
	Kingstanding	C&F, S&J
	Perry Common	C&F, S&J
	Tower Hill	C&F, S&J
Selly Oak	Druids Heath	C&F, S&J
	Selly Oak	C&F
	Stirchley	C&F
	Yardley Wood	C&F, S&J, EC
Sutton	Boldmere	C&F
	Mere Green	C&F, EC
	Sutton	C&F, EC
	Walmley	C&F
Yardley	Acocks Green	C&F, S&J
	Glebe Farm	C&F

	Kents Moat	C&F
	Sheldon	C&F
	South Yardley	C&F, S&J, EC
TOTAL		**35**

Figure 14: Library Strategic Focus

5.1.3   Corporate and support services

As it is currently organised, Community Libraries benefits from corporate and central functions provided by Birmingham City Council. These include functions such as, Human Resources, staff development, training, Finance, Estates, Compliance and governance. The functions are provided by a variety of Council departments and ICT is delivered under contract by Service Birmingham.

As an independent mutual organisation, Community Libraries will need to source and manage its own corporate and central functions. Some functions such as corporate governance, strategy and policy the Mutual will need to prepare for and manage from the start. The choices for other functions are broadly as follows:

- Utilise existing capacity and skills (DIY).
- Enhance existing skills through training of existing staff.
- Recruit to create new in-house capacity.
- Buy-back from the Council.
- Buy in capacity/outsource from another provider.

We propose that the social enterprise will buy-back Central and Corporate Services, for at least a year, and longer in some cases. Savings on corporate services have been incorporated into the financial model to reflect these changes.

Figure 15: Strategies for filling skills/expertise gaps

5.1.4   New roles, skills and experience

We believe that current staff within the organisation bring valuable experience to the running of a social enterprise. Direct experience of running a business is often limited in proposals such as this. It is not of itself a barrier to being able to lead the business. Drive and commitment are vital, and in this case there is plenty of experience in running services, managing large budgets, contract management, restructuring services and maintaining consistency across the organisation.

To bring the necessary leadership and business skills, we have identified a number of additional (or reconfigured) senior roles that will need to find a place in the new social enterprise. In the next phase of the project we will start our active search for possible non-executive directors, who can play an early role in the shaping of the social enterprise. Recruitment of employees into new roles will take place in the later part of the Transition stage.

Chief Executive:

This role is the equivalent of the Head of Service. The Chief Executive will be responsible for the day-to-day performance management of the organisation, the devising of the strategy, business development and general representation of the organisation.

Operations Managers:

With an increased emphasis on the Chief to adopt an outward looking role it is essential that the internal operations and governance are managed tightly. This is especially relevant whilst the organisation is getting used to its new existence as a social enterprise.

 The plans for a Mutual assume that all staff are able to 'step up' to the challenge of the new business, and in some cases this will require a broadening of responsibility. Notably, the current managers will continue to have operational responsibility for an expanded number of libraries, and additionally, they will be heavily involved internally in drawing links across service offers and externally in identifying and responding to new business opportunities.

Finance and Resources Manager (new role):

The Finance and Resources will be responsible for all corporate services, including the financial management of the organisation. He/she ensures that financial and non-financial performance reporting processes are in place. He/she has an important role in supporting the Chief Executive and Board in making strategic and investment decisions.

Business Development Manager (new role)

To augment the existing appetite, and provide dedicated capacity and expertise, we will appoint a Business Development Manager. This individual will report to the Chief Executive, and bring a strong knowledge of the business, market and commissioning processes. This individual will be responsible and accountable for enterprise development and income generation. It is anticipated that this role can be filled through the existing service managers.

Central Support Unit (new role)

This new role focuses on recruiting, training and supporting volunteers across the city. As well as developing ICT Strategy and supporting community groups. This role will be appointed from existing Community Library staff.

5.2   Organisational Governance

The Mutual will aspire to be a model employer, build on the strengths of its staff, ensuring that there is a motivated, energised and skilled workforce united in its social mission and vision, and capitalise on the energy of our community. Strong links between staff, customers, and the organisation will be built into the formal governance structure.

5.2.1   Ownership

We concluded that, as a general principle, Community Libraries staff and community members should be owners of the Mutual.

 A key motivator for establishing a mutual from a public sector service is the potential to increase the involvement of staff and the community in the running of the business.

There is ample evidence for the productivity benefits of employee ownership. Staff do not gain financially – it is about being a part of the successful running of the company, and the responsibilities this brings. Difficult decisions about levels of staffing and new ways of working still get made; the evidence suggests this becomes easier.

We also want to give the community a real role in the governance of our organisation, and want to do this by offering membership to the public.

Further work on defining the ownership arrangements will happen at the next stage.

5.2.2   The Board of Directors

In considering the make-up of the Board we will seek to achieve a balance of control of the Mutual across stakeholders. Directors take full legal and financial

responsibility for the organisation. The Board sets the strategic direction of the organisation, monitoring its performance and development. We propose that the governance model will include key groups represented on the board, including staff and the community.

5.3   Accommodation

Community Libraries delivers services at units of accommodation across Birmingham. This section describes the property used currently, and the configuration of property use and management that will be transferred to the Mutual.

5.3.1   Current accommodation arrangements

The existing accommodation used by Community Libraries is shown in the table below. The condition of the properties was last assessed in 2011, which is also shown in the table. Although, this is obviously some time ago, it is understood that there has been minimal repairs and maintenance carried out in the 3 years since the review. Therefore, we would anticipate the picture to be worse than shown here.

District	Library	Age	Sq. M.	Condition
Edgbaston	Bartley Green	1905	72	OK
	Harborne	1892	375	In good condition
	Quinton	1973	236	In good condition
Erdington	Erdington	2006	600	Not in good condition
Hall Green	Balsall Heath	1896	435	Not in good condition
	Hall Green	1962	587	Not in good condition
	Kings Heath	1905	572	In good condition
	Sparkhill	1923	413	Not in good condition
Hodge Hill	Shard End	1966	420	In good condition
	Ward End	1930	690	In good condition
Ladywood	Aston	1900	667	Lease due to expire 2015
	Birchfield	N/a	482	In good condition
	Bloomsbury	1890	577	Mobile Library unit
	Small Heath	1977	386	In good condition
	Spring Hill	1893	372	OK
Northfield	Frankley	1981	490	In good condition
	Kings Norton	1906	323	Not in good condition
	Northfield	1914	819	In good condition
	Weoley Castle	1991	730	In good condition
Perry Barr	Handsworth	1890	575	In good condition
	Kingstanding	1964	381	OK
	Perry Common	1934	893	Not in good condition

	Tower Hill	1960	323	OK
Selly Oak	Druids Heath	1993	450	In good condition
	Selly Oak	1905	364	Not in good condition
	Stirchley	1905	357	OK
	Yardley Wood	1935	945	In good condition
Sutton	Boldmere	1950	102	In good condition
	Mere Green	2003	N/a	In good condition
	Sutton*	1974	2591	In good condition
	Walmley	2003	N/a	In good condition
Yardley	Acocks Green	1932	863	In good condition
	Glebe Farm	1952	159	OK
	Kents Moat	1960	160	OK
	Sheldon	1956	290	OK
	South Yardley	1939	988	In good condition

* Sutton Library is leased by Birmingham City Council. It is understood that this is a long and inflexible lease.

Figure 16: Accommodation Condition Survey 2011

5.3.2   Future accommodation requirements

Initially, the Mutual will continue to occupy the same premises as it does now to provide the Services. Eventually, the Mutual may wish to secure its own premises.

Until then, the social enterprise will need to lease the premises from the Council where they are Council-owned. Thought will need to be given to the premises not owned by the Council. The Council will need third party consents to let those premises to the Mutual.

5.3.3   Accommodation planning during transition

The property arrangements for the Mutual are both diverse and complex. Transition planning will require a full understanding of all the properties, any extant property agreements, and investigation of the best means of formalising the Mutual's continued use of the properties. We will obtain property valuations, arranging leases and agreeing property management arrangements.

5.4   ICT

Within the limitations of timescale for this integrated business plan, a full review of equipment, usage costs and future requirements for the Mutual was not achievable.

Birmingham Community Libraries currently receive service provision via contract from Service Birmingham. We have been advised that Service Birmingham will not be accepting any business from non-Council organisations.

However, the physical ICT infrastructure is very much embedded into the estates' infrastructure and for the social enterprise to take on the maintenance and service of the ICT infrastructure immediately is considered both a diversion from its core business and at the start of a new enterprise, potentially too onerous.

We would recommend that a solution is found at the transition stage, to allow phased divestment and continuity of this service, along with data housing, from the Service Birmingham contract for a fixed period of time. Furthermore, the Mutual will need access to certain systems shared with the Library of Birmingham. These include the Library Management System (Spydus) reservation system (Netloan).

We recommend that all small ICT assets are transferred to the social enterprise at current book value. In our financial modelling, we have assumed that the value of any assets transferred in this way to be zero.

The Mutual will need to budget for insuring all the equipment and the purchase of any new equipment. Maintenance and service for any additional systems over and above those provided within the ICT buy-back contract would be charged as an addition at a unit rate.

As with all current support service costs, current costs have not been identified and thus have been ignored in our modelling. Further detailed work will be carried out in the transition phase as set out in section 8.

5.5   Employment philosophy and terms and conditions

5.5.1   Philosophy and culture

The Birmingham Community Libraries Mutual intends to be a progressive local employer. We want to sustain good quality jobs locally and maintain and develop our professional library staff. We also intend to utilise volunteering in an effective and rewarding way.

5.5.2   Approach to people development

We want to draw attention to this specific area of the new organisation in terms of its key role in supporting the development of a new culture, where staff understand the meaning of key features of the new organisation, such as their ownership stake, and the values, and are able to behave and act accordingly. We have specifically allocated funds in our projection for team building and training for everyone. It would be vital for the success of a Mutual that staff understand the opportunities presented by the independence of the smaller, nimbler organisation and can take advantage, to the long-term benefit of customers and the community.

5.5.3   Staff terms and conditions

As an independent business, Birmingham Libraries will accept a transfer in of staff from the Council under TUPE and intends to continue to maintain terms and conditions of employment of those staff. We also intend to ensure continued access to the Local Government Pension Scheme, subject to permissions from the Pension's Administrator and the Council. We have held initial planning meetings with the Council's pensions team.

As the organisation develops, both staff turnover and development of the new service lines will present the need to employ new staff.

We have considered two options for the terms and conditions of staff. The two options are:

- **'One-tier option'**: New employees contract are employed on the same terms and conditions as TUPE'd staff.

- **'Two-tier option'**: All new employees are employed on terms and conditions nearer to market levels but equal to the current living wage.

Our vision for the Mutual is to be a **socially responsible employer** in Birmingham. From the outset of our planning process we have sought to involve both staff and Unions, as we consider the implications, fairness and desirability of a two tier workforce.

There are advantages and disadvantages in each option. Furthermore, the option chosen will determine the best form of contract between the social enterprise and the Council. These considerations are summarised below:

	ONE TIER	TWO TIER
Advantages	› Entire contracted workforce retains Council's T&Cs	› Mutual can offer additional services for a more competitive price. › Benefit of reduced costs can be shared with

		Council.
Disadvantages	› Efficiencies not incentivised. › Mutual fails to address its major cost pressure.	› Erosion of salaries in service. › T&Cs less attractive to new recruits. › Potential staff relations difficulties with two tiers in a staff owned organisation.

The vast majority of the current total cost of the organisation are staff costs, expected to rise as a mutual, so the required level of improved efficiency cannot be achieved without reducing staffing numbers or adjusting terms and conditions for new staff at some stage.

However, a two tier workforce will only deliver benefits when staff leave or the organisation is expanding. Staff turnover at Community Libraries is very low. Indeed, measures such as closing the pension scheme to new entrants can add additional costs initially (pensions actuaries can assess this as a higher risk, and thus set a higher employer contribution rate).

Therefore, given that the length of time before any benefit can be gained, and the disadvantages set out above of two tier workforce, we have concluded that we will maintain staff terms and conditions for all staff under a one tier structure.

6   The Financial Case

6.1   Introduction and key assumptions

A detailed analysis of the financial prospects for a mutual has been developed, in co-operation with the Council's finance team. The projection covers five years from April 2016, the date proposed for launch of a Mutual. A summary is provided here, with further detail provided in Appendix 2.

The biggest single cost is staff and BCLM is very vulnerable to any change in staffing which would push up costs.

6.2   Financial projection

The table and notes below summarise the financial projections on income and expenditure for the new mutual.

7   BCL Mutual Business Plan

7.1   Financial Assumptions (Final)

Projections for the income and expenditure of the BCL Mutual are given in the table below. The paragraphs which follow explain the basis on which each row of figures has been calculated.

The projections assume that the mutual is operational in 2015/16 (to fit in with the competitive process adopted by the council). It will be helpful if there is agreement that year 1 eventually becomes 2016/17. The projections can then be made for three plus 2 years from 1st April 2016.

It is assumed that the staff restructure to fit the new model of delivery can be achieved within the council between now and April 2016, with the Council underwriting all associated redundancy costs.

7.1.1 Final financial projection: Income and expenditure

	Note	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Income	Note						
Grant/Budget from BCC (excluding capital financing)	1	**4,150,463**	**3,850,463**	**3,462,463**	**3,375,901**	**3,291,504**	**3,209,216**
Overhead contribution from BCC	2		703,000	667,850	634,458	602,735	572,598
Value of services from Library of Birmingham	3		600,000	600,000	600,000	600,000	600,000
Self generated income	4	291,650	692,524	804,351	861,033	904,224	949,435
New income generated from contracts	5		50,000	150,000	165,000	181,500	199,650
Rates exemption(80% reduction for mutual)	6		208,000	197,600	187,720	178,334	169,417
Total Income	7	**4,442,113**	**6,103,987**	**5,882,264**	**5,824,112**	**5,758,297**	**5,700,317**
Expenditure							
Employees	8	2,740,612	2,840,806	2,811,830	2,783,149	2,754,761	2,726,663
Cost of services provided by Library of Birmingham	9		600,000	600,000	600,000	600,000	600,000
Cost of delivering new income generating services (85%)	10		42,500	127,500	140,250	154,275	169,703
Cost of delivering new grant projects (75%)	11		112,500	157,500	112,500	168,750	168,750
Premises	12	974,642	798,742	758,805	720,865	648,778	583,900

Transport	13	8,946	8,946	8,946	8,946	8,946	8,946
Supplies and Services	14	582,191	553,081	542,020	531,179	520,556	510,145
Overhead expenditure inlcuding recharge	15	135,722	703,000	667,850	634,458	602,735	572,598
New mutual overhead	16		167,000	145,000	145,000	145,000	145,000
Volunteers training, insurance, travel and subsistence	17		50,000	50,000	55,000	60,500	66,550
Total expenditure	18	4,442,113	5,876,576	5,869,451	5,731,347	5,664,301	5,552,254
Projected surplus/deficit	19		227,411	2,813	92,765	93,996	148,063

Notes

1. Income from Birmingham City Council is through a grant agreement. The figures are based on the agreed current budget envelope for libraries for the three years from 2015/16 to 2017/18.

   The figures reflect a grant which absorbs the required savings (£1.5 million), as well as the step up saving of £.365 m, over the first three years of the mutual's life. This is a saving against the community libraries budget in 2014/15.

   For each of years 4, 5 and 6 we have assumed a further 2.5% cut.

   Capital financing has been excluded from both income and expenditure on the basis that the City Council will continue to pay this cost, as it relates to capital expenditure prior to the formation of the mutual.

The grant income does not include the costs of the central support unit, council overheads and community library services provided through the Library of Birmingham. These appear separately in the next two rows.

The figures do not include **repayments for prudential borrowing** to repay loans of 150k (for improvement to public access internet) and 1.5 million for self service installation. The annual repayments for these loans would be £252k pa for years 1-5. It is assumed that the Council will cover the costs of repayments as the agreement for the loans predates the setting up of the mutual. If the burden of these loans were to fall on the fledgling mutual it would render the project non viable.

The reducing grant for BCL will yield a total saving to BCC of £10.55 million over the first five years of the mutual's life (against what would have been spent on community libraries at 2014/15 levels).

During this period the proportion of income to the mutual coming from the Council will fall from 93% in year 1 to 80% in year 5.

2. The Overhead Contribution from BCC has been included (as income in addition to the Grant) to cover the real overhead costs incurred in running the community library service but not shown in its operational budget. It has proved difficult to obtain an accurate figure for the overhead and we have therefore estimated overheads based on recent public sector and public library spin outs. The overhead estimate includes a significant sum to cover IT. The overhead also includes £136,000 of recharge expenditure which is listed in the operational budget. The estimated overhead figure covers the costs of IT, HR and payroll, legal, democratic accountability, corporate management etc.

   The overhead income is matched by overhead expenditure (largely consisting of buy back services from the Council) making the item cost neutral to the mutual. However the overhead comprises real activities and services. It is imperative that the Council agrees a realistic budget to cover it. If not, the mutual will find it is having to pay for non operational costs from its operational budget. This would threaten its viability.

   An illustration of where the overhead costs are likely to fall is provided in the table (based on an existing library spin outs). The IT costs reflect the large number of computers in use in libraries.

Corporate Overhead	Estimated Cost (£k)
Finance and accounts	£45,000
HR, payroll and legal	£25,000
Other (including potential penalties to Service Birmingham)	£15,000
IT	£290,000
Accommodation for central team	£30,000
Property	£50,000
Central CL Team	£248,000
Total Overhead	£703,000

When comparing the mutual option to an in-house model there will need to be transparency about overheads, otherwise the in-house model has a built in advantage of receiving significant hidden support from the council.

If the mutual can find more efficient ways to secure these services it should be free to do so. This would have implications for the contracts held with Service Birmingham. There is a need for further work with BCC to clarify the current council overhead and how this will be represented in the final BCLM business plan.

3. We have included an estimate to represent services presently provided by the Library of Birmingham. The services are significant. These estimated costs are balanced by expenditure of the same amount. However if LoB did not provide these services the new mutual will still have to cover them (i.e. it would incur the costs without any income). This would jeopardise the viability of the mutual. There is a need for further work with BCC and LoB to clarify the current service provision by LoB and how it will be provided in future.

4. Self generated income is the total amount the mutual expects to raise from its income pipeline. The 2015/16 income is based on actual figures. The table below sets out our projections for the income pipeline over the first six years of the mutual's life. We have adjusted the income to reflect an estimated likelihood of securing each income stream. The income from winning and running contracts is covered in note 5.

Income for 2020/21 has been projected at a 5% increase from 2019/20.

Income pipeline source	2013/14 Actual	2015/16	Likelihood	2016/17	Likelihood	2017/18	Likelihood	2018/19	Likelihood	2019/20	Likelihood
Fees and charges - reservations and fines Additional income from reintroducing charge of 100p for reservations (100,000 reservations per year)	150,000	150,000		250,000	0.90	250,000	0.90	250,000	0.90	250,000	0.90

Description											
Traded services - coffee vending Base on selling average of 7 cups of coffee per hour, at £1.00, per cup, in 10 district and 10 branch libraries. Figure is profit.				135,560	0.90	142,338	0.90	149,455	0.90	156,928	0.90
Traded services - other vending alongside coffee Sweets, cakes, tea etc. Based on sales of £15 per day at 20 libraries with margin of 20%	11,000	11,000		18,000	0.90	18,900	0.90	19,845	0.90	20,837	0.90
Room hire and rents Increasing current revenues by 5% per year	84,000	84,000		88,200	0.90	92,610	0.90	97,241	0.90	102,103	0.90
Rent space to Adult Education (Harbourne)				20,000	0.75	20,000	0.75	20,000	0.75	20,000	0.75
Café (at Sutton library) Based on York café returns at 20% margin. £200 gross income per day. Figure is profit				9,600	0.90	10,080	0.90	10,584	0.90	11,113	0.90
Traded activity with the public: story telling for children's parties, Genealogy groups, literature events, tea dances etc. Figure is profit. Includes two local history hubs (north and south) generating income by charging for photographs and materials from local collections)				4,500	0.90	6500	0.90	7,000	0.90	8,500	0.90
Photocopying and printing Based on current revenues increasing gat 2.5% per year	25,000	25,000		26,250	0.90	26,906	0.90	27,579	0.90	28,262	0.90
Total trading income				**552,110**		**567,334**		**581,703**		**597,749**	

Expected figure (at 90% likelihood)				496,899		510,601		523,533		537,974	
Trusts and foundations Including Cadbury Family trusts, Tudor Trust and relevant national foundations e.g. Wolfson and Carnegie				300,000	0.30	400,000	0.30	450,000	0.30	450,000	0.30
Big Lottery – heritage fund				100,000	0.30	150,000	0.30	150,000	0.30	150,000	0.30
Arts council – digital libraries				100,000		150,000	0.30	150,000	0.30	150,000	0.30
Total trusts and foundations				500,000	0.30	700,000	0.30	700,000	0.30	700,000	0.30
Expected trusts and foundations (at 30% likelihood)				150,000		210,000		225,000		225,000	
Membership income via gift aided donation Supporter member category £4.00 per year. 5,000 donors from year 2. Includes Gift Aid benefit (25%)				25,000	0.75	50,000	0.75	75,000	0.75	100,000	0.75
Donation boxes				2,500	0.75	5,000	0.75	5,000	0.75	5,000	0.75
Friends groups fundraising Based on 10 effective groups raising £2500 per year each.				20,000	0.75	30,000	0.75	30,000	0.75	30,000	0.75
				47,500		85,000		110,000		135,000	
Expected membership and donor income				35,625		63,750		82,500		101,250	

Contracts with Housing Associations											
Contracts with PCC	BCLM will actively approach a wide range of public agencies to establish partnerships to best meet the needs of the various communities of Birmingham. We anticipate this will lead to opportunities to bid for new contracts which the mutual is able to deliver. The estimates are very modest to take account of the climate of austerity. However, libraries are an essential part of raising awareness of services and issues, and early intervention in respect of e.g. mental health, well being. They are also well placed to provide early information and advice on skills and learning related to enterprise, apprenticeships etc BCLM will develop this strand of its work slowly so as not to be drawn away from its core mission. The likely contribution towards the overhead of BCLM has been estimated at 25%.										
Contracts with CCGs											
Consultancy service to schools											
Local enterprise partnership											
Public Health											
BCC children and families									.	-	
Skills Funding Agency											
Total income from contracts				50,000		100,000		110,000		121,000	
Total expected contract income (contribution to overhead)	This is shown as a separate line in the income projections.										

Birmingham Community Libraries

Commercial partnerships **Post Offices in libraries, libraries in Cooperative stores;** **advertising; Amazon drop off points etc**				**10000**		**20000**		**30000**		**40000**
Total likely income				**692,524**		**804,351**		**861,033**		**904,224**

The income for year 5 (2020/210 is estimated as a 5% increase on year 4, through uplifts across the whole spectrum of income sources.

The income pipeline provides a diverse range of income sources some of which are under the direct control of the new mutual, others are dependent on success in winning grants and contracts. We have allowed for a reasonable lead in time (assuming work starts on this in 2015/16) to develop the relationships needed to generate income, and our estimates are cautious. To secure new grant income will require work to start on income generation for the new mutual during 2015/16. There is a lead in time for new contracts and grants – often of several months. Most grants for 2016/17 will be decided during 2015/16, and if this window is missed the new mutual will not be able to secure the income until the following year.

The diversity of income streams will serve as a hedge against risks of some sources not delivering to plan.

There is every reason to believe that the new mutual will develop a culture of enterprise and that many of the targets in this pipeline will be exceeded. This has been demonstrated in other public service mutuals, and in newly independent libraries (e.g. see Locality report "Income Generation for Public Libraries").

The Birmingham library service has a history of attracting grants from a wide variety of bodies. In 2014/15 these amounted to £145,000 to Community Libraries (and an additional £250,000 from the Wolfson Foundation is held in the LoB budget) .

The projected income could change significantly with winning one or two substantial grants or contracts, spread over two to three years. However prudent planning requires that this risk is spread. Contracts and grants take time to build up and provide a relatively small yield to the core overhead. It is however a vital further source of income.

The BCL service has 553,290 registered users. It seems reasonable to estimate that 5000 people each year will be willing to sign up to spending £4.00 to support the mutual. 20,000 supporters would represent only 4% of the user base. These donations can be structured so that they are eligible for Gift Aid – generating an additional 20%.

5. The new income from contracts is shown as a separate line. The new mutual will need to be careful about taking on too many contracts as too much contract delivery could divert it from its core purpose. We have kept the contract income at a very modest level. The Library service has previously had Verification officers based in Libraries this service could be delivered for BCC.

6. This line shows the savings the mutual will make as a result of the 80% reduction in business rates to which it will be entitled. This is income offset against the costs of premises.

7. Overall income shows a small decline over the six years (£404,000 or 7%). This figure is slightly distorted by the high income figure in year one (which is important to enable the new mutual to build a small fund of working capital). If this is discounted then the new mutual shows a capacity to sustain the income for the community libraries service at a more or less stable level, enabling it to sustain service levels and retain its professional staff. Over the first five years the proportion of income from the Council will fall from 93% in 2015/16 to 80% in 2020/2021. The new mutual remains dependent on the BCC grant but this level of income generation will represent a significant achievement for BCLM. Historically local authority public libraries have generated less than 8% of their income – a figure that has changed little in the last five years.[2]

8. The assumption for staffing the mutual is that all redundancies will have been made prior to spinning out. Staff who transfer will be secure in their jobs. The year 1 figure for staffing is calculated on the 2015/16 staff costs (after restructuring to bring the complement down to 101 staff, with an estimated

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[2] See Income Generation for Public Libraries 2015, Locality for Arts Council England. P4.

wage cost taken as the top scale point on all scales). The mutual has developed a detailed staffing model and workforce plan which, alongside the involvement of volunteers will enable it to keep 35 libraries open across the city.

From year 2 we have assumed a natural wastage of 2% of staff (retirement and leaving). This means the staff complement will reduce by approximately 10 people by year 5. This will be managed within ongoing restructuring and remodelling of the local libraries, alongside deployment of new staff taken on to deliver grant funded programmes and contracts.

Staff costs are inflated by 1% each year to reflect pay increases in line with inflation.

9. The expenditure on services provided by LoB is equal to the income for these services. The mutual will need to hold discussion with LoB about these services, but it is assume that the impact of the discussions will be cost neutral (i.e. income will still balance expenditure).

10. New services and activities for which contracts are won will carry with them a requirement to deliver new work, with consequent costs. We have estimated the direct costs of new activities as 85% of the contract. This means that new income generating activity is expected to produce a 15% contribution to the overhead.

11. The costs of delivering grant funded projects have been estimated at 75% as they are assumed to be closer to the core business of the mutual, with consequent use of existing staff and resources. New grants will therefore contribute 25% to the overhead.

12. The costs of premises start with actual figures for 2015/16. The premises costs reduce by £150k in year 1. This is made up from the movement out of Sutton library's current premises and into cheaper ones with consequent savings, together with saving s form other planned library closures. Premises costs are then projected forward with a reduction of 5% each year. To achieve this, libraries will have to find new and cheaper premises to work from and new flexible ways of working. Plans to do this are already developed.

It is assumed that there will be a saving of 80% on the business rates paid by libraries. This gives a substantial saving in year 1 which provides the working capital to enable the mutual to get started. The rates fall further as libraries find new buildings and arrangements for their work.

13. Transport costs have been kept static.

14. Supplies and services have been reduced by 5% in year one then by 2% per year.

15. We have estimated the total overhead currently provided by the council in note 2 above. The overhead is cost neutral to the mutual, but would become a real cost if it has to cover the present overhead form its own resources.

16. The overhead associated with establishing a new independent organisation has been kept static. The expenditure drops in year two as the marketing budget is reduced from 50k to 30k. This allows for a front end loading of marketing needed for the new start up.

17. We have introduced a notional budget for volunteers' costs. It is vital that the real costs of volunteers are seen in the expenditure, particularly as the services will be depending on volunteer input. The costs rise by 10% per year to reflect the use of more volunteers.

18. The total expenditure row shows a small but steady drop over the five years, reflecting prudent cost control and efficiency savings.

19. On this projection the mutual will operate with small surpluses from year one. The saving associated with 80% rate reduction in year one provides the new mutual with small working fund to cater for contingencies. BCLM will be able to build a small reserve over the five years of £575,000 (or 10% of annual turnover). The reserve will be available to cover contingencies and to re-invest in the improvement and development of the library services.

7.2   Reserves policy

It is usual for not for profit organisations to develop a reserves policy. The reserves are funds that are freely available and can be used to cover operating contingencies. Many charities seek to have a reserve that would cover three months running costs (which for BCLM would be £1.25 million). In most cases not for profit organisations aim to produce a surplus of between 5 and 10% per year to build up the reserves. The surplus generated by BCLM is lower than this level – rising to 3% by year five. The mutual's board will need to make a decision about what is an appropriate annual surplus and level of reserves.

7.3   Conclusion

The figures shown represent prudent projections which are the mid-point between an optimistic set of projections and a pessimistic one (which have also been modelled).

The projections can be flexed further based on refining the information and changing the assumptions.

On the pessimistic projections the mutual would not be able to sustain the level of services across the city. The only way to stay afloat would be to cut the number of library hubs, reduce staff numbers (and sustain the challenging income targets).

The prudent projections suggest BCLM is viable. There is limited room for contingencies and any short fall in income or increases in expenditures will only be manageable by reducing the level of services (closures and staff reductions)

BCLM is heavily dependent on the core grant from BCC. It will need a firm pledge of continuing support. BCLM also relies heavily on a programme of sharply cutting the amount spent on premises alongside the generation of significant new income.

The new mutual incurs some new costs (which are offset by the potential to attract new income).

The business case for the mutual (as opposed to an in-house service) rests on the following things:

- The development of a culture of enterprise among staff who are co-owners and have a real stake in its future, which will generate new income.

- Mutual organisations have proven increases in productivity, reductions in sickness and absence, increased morale. This contrasts with the culture of austerity which will exist in the Council – with associated loss of purpose and morale

- The engagement of users and communities to support the mutual as a new co-owned enterprise, including direct financial support through supporter memberships. The supporters will be able to gift aid donations – bringing additional revenue not open to the Council.

- Increased capacity to attract grants from trusts and foundations

- Savings on business rates

7.4   The impact of a mutual model

Spinning out council services into a mutual typically sees the cost of service increase in the short term, but decrease after the first year or two as the organisation matures and is able to generate savings from the benefits associated with being a mutual.

On start-up, the new organisation incurs additional management costs and may lose some economies of scale associated with being part of the Council. Over time the Mutual will generate savings from increased staff productivity and its impact on agency spend, and building new business and income generating opportunities. We also believe that there may be additional savings from reconfiguring operational and corporate / back office services. However, since these costs are unable to be identified by Birmingham City Council we have been unable to quantify this belief.

Key to the success of the Mutual is how quickly it can generate these benefits. Each of these aspects is considered below.

7.4.1   Additional Costs from Mutualisation

Management and corporate / back office services

The new organisation will need certain skills and services that the in-house services do not, and that add incremental cost to the corporate / back office services currently demanded. The Mutual plans to recruit non-executive and senior management resource with business and commercial skills, as well as business development expertise and materials. There will also be services, such as external audit, that are new costs, and an inevitable result of independence. These costs will are estimated at £167k as shown in the table below.

Tax and VAT

The corporation tax position of a mutual is dependent upon the legal structure of the business and how much of the savings accrue to the business rather than the Council. This will be examined further at the next stage, and is not included in this analysis.

With regard to VAT, the position of a mutual is different to the Council. If a grant funding model is used as intended by the Council, then careful consideration of the arrangements will be needed to ensure that the Mutual can recover input VAT. However, we have assumed that a route is found, such that there is no loss of VAT.

New Expenditure	£	Notes
Finance & Resources Mgr	67,500	New position
Insurance	0	Assumed insurance costs remain as current
Audit	10,000	
Bank	7,000	
Governance	12,000	
ICT	0	Assumed ICT costs remain as current
Training	18,500	
Marketing	50,000	
Business Development Manager	0	Assumed this post is filled with existing manager
Travel	2,000	
less TUPE from Council	0	
VAT lost	0	
Total	**167,000**	

Figure 17: New costs associated with mutualisation

7.4.2   Additional efficiencies from mutualisation

Staff productivity

As an independent business, the Mutual will accept a transfer in of staff from the Council and intends to continue to maintain terms and conditions of employment, including pensions, of those staff. This will be facilitated by becoming an Admitted Body for pensions purposes. Given that the pension scheme is remaining open, we have assumed that there will be no uplift in the employer's pension contribution rate as a result of mutualisation. An actuarial valuation will be commissioned to confirm the situation at the next stage.

One of the most widely noted benefits for social enterprise is the impact that the cultural change has on staff absenteeism, brought about by, amongst other things, staff-ownership. The absenteeism rate for the service is currently 15.5 days per person per year. There are examples of social enterprises, such as Sandwell Community Care, where absenteeism is less than three days per employee / year, compared to an average for the care sector of 15 days.

A reasonable expectation would be for the Mutual to improve attendance to reach the average for the sector, although this can only be achieved through cultural shift and substantial management effort over time. For modelling purposes this saving has therefore been phased in equally over five years.

The Mutual expects that this increased productivity will result in the need for less agency staff, rather than a reduction in full time staff. Therefore it will have minimal impact on the permanent workforce.

Management and back office

One means of cost reduction brought about by the transition to an independent mutual arises from the new organisation's ability to purchase support services from where it chooses rather than having to pay for Council-provided services through recharges. Part of this saving comes no longer having to 'buy into' functions or services that might be important for the Council as a whole but are not relevant for the specific service. For example, IT requirements can be more tightly specified.

However, at the time of writing the cost of support services cannot be identified, and thus we cannot quantify the value of these savings.

7.4.3   New income generated through mutualisation

One of the key drivers for the formation of an independent mutual is the removal of barriers to income generation as described in Section 2.9. We have assessed a realistic and conservative level of income generation possible at each library site, based on delivering the activities described in Section 4.7. We have then phased this income generation in over a two year period and assumed growth in future years.

Our figures are necessarily conservative, in order to not overstate the benefits and risk financial failure of a Mutual. However, if the Mutual is allowed to reinvest some surplus in business development, and then can deliver some greater growth opportunities as outlined in Section 4, then there are greater benefits available in later years.

7.5 Overall financial benefits of mutualisation

The new mutual is capable of providing a significant financial benefit to the Council. It will:

- Deliver all the required savings over the first three years (£1.865 million)
- Deliver further savings on the grant budget of £422,000 from year 3.
- Provide a saving on what would have been spent at 2014/15 levels, of £11.5 million over six years
- Sustain coverage of the whole city through providing 35 local library services
- Generate new income if £3.95 million
- Increase the productivity and motivation of its staff
- Engage more effectively with the community

8 Risks

8.1 Introduction

This initiative is not without risks. However, its benefits are numerous and likely to far outweigh the potential downsides. The risks attached to the status quo mean that doing nothing is an undesirable option.

We have identified the risks faced by the Mutual and appropriate measures to mitigate those risks. Similarly there are risks for the Council, which can be minimised through a number of mitigating actions.

8.2 Risks to the Mutual

Risks to the Mutual	Impact	Likelihood	Mitigating action(s)/factor(s)
Council contract stifles organisational development & growth e.g. Financial savings are too stretching	High	Low	› Proper modelling of growth opportunities › Negotiation of mutually beneficial contract terms, with built in flexibility
Pensions deficit (future) for the account of social enterprise	High	Medium	› Investigate feasibility of Council indemnity › Obtain and provide bond (under investigation) › Obtain alternative pension scheme
Management team/ Board not up to the job	High	Medium	› Current management team has excellent track record. › Strengthen the team through a newly recruited Commercial Director and leadership development. › Attract additional Non-Executive Directors with valid - commercial - experience.
Mutual services not attractive → customers not buying/using	Medium	Medium	› Transform the service offering › Rebrand, re-launch and actively promote the service lines › Adopt appropriate pricing

			strategy / reduce unit costs › Negotiate transfer of risk from Council to mutual over time rather than from day 1
Policy shifts undermining mutual's pricing/service strategy, e.g. future funding reductions	Medium	Medium	› Appropriate controls to be built in the services contract. › Aim for mutually beneficial arrangement between Council and mutual
Support services purchased from Council are not fit for purpose/competitively priced	Medium	Medium	› Identify key services which should/should not be obtained from Council › Agree - where possible - tapering over time › Design safeguards in contract. › Agree SLAs and build in efficiency targets where services obtained from Council
Staff not bought in to strategy	Medium	Medium	› Extensive engagement has taken place and will continue. › Staff will be given a strong say in the organisation through ownership and Board representation.
Local community groups mounting legal challenge	High	Low	› Continue open communication regarding the mutual plans › Extensive engagement/ consultation (as appropriate) will take place
Loss of key individuals	Medium	Low	› Specify grant funding agreement for as long as possible to give staff reassurance › Generate environment where staff have job satisfaction and investment in success of the organisation

8.3   Risks to the Council

Clearly there are risks to the Council too, associated with the creation of a Mutual.

Risks to the Council	Impact	Likelihood	Mitigating action(s)/factor(s)
Political fall-out/ reputational impact as a result of Mutual failing	High	Low	› Realistic business plan demonstrating viability › Grant funding arrangements so that Mutual is not set up to fail › Council to provide support to develop Mutual › Appropriate contract performance management and governance arrangements should provide early warning signs for the Council to act.
Lack of commissioning experience and capacity both on Council's and Mutual's part	Medium	Medium	› Council to put in place effective client side arrangements › Build on positive elements of Council brand
Mutual distracted by business development opportunities	Medium	Low	› Build in assurance that core outcomes are not affected by new developments.
Council and social enterprise challenged by other providers	Medium	Low	› Contract should not infringe any State Aid or procurement rules; legal advice will be taken to ensure this is the case › Contract and any other arrangements involving Council support should be of temporary nature
Local groups mounting legal challenge	High	Low	› Continue open communication regarding the mutual plans › Extensive engagement/ consultation (as appropriate) will take place
Mutual not achieving savings	Low	Low	› Grant funding should reflect realistic expectations and allow the Mutual flexibility to grow and develop its

			business
Approach to buy-back of council support services adds to Council financial pressure	Medium	Low	› Approach will be negotiated to allow a phased reduction in buy-back of services enabling the Council to make savings

9 Transition and Implementation Plan

Introduction

The development of the new Mutual will require a transition of Community Libraries from its current home as part of Birmingham City Council to its new independent existence.

This process cannot begin until the Council has given its approval to the creation of the new Mutual – which in turn is contingent on the acceptance of this Business Plan as a viable way forward.

Transition will require negotiation between the emerging Mutual and the Council to sort out a range of practical issues. In other spin outs the main practical issues have included:

- Establishment of the new legal entity (as a Community Benefit Society) and its registration with relevant authorities

- Establishment of a shadow board and process to populate the new governance structures

- Agreement of core grant and the grant agreement including monitoring and reporting arrangements)

- Agreement of the level of overhead and buy-back of council back office services

- Staff transfer under TUPE, including underwriting of employment liabilities incurred as employees of the council

- Agreement of pension arrangements, and any underwriting of pension deficits by the council

- Asset transfer

- Working capital and cash flow

- Setting up offices, telecoms etc for the new Mutual' s management and administration team

Some of these issues have cost implications, although most can be dealt with in house. The council will need to decide whether the transition costs should be borne by the new Mutual or will be paid for by the Council itself. The former is more complicated as the new Mutual has no bank account or means to raise money (as it does not yet exist). In most other transition processes the Local Authority has set aside funding to cover the transition costs rather than burden the new organisation with immediate debt.

As transition progresses the Mutual will take on a greater sense of its own independent identity, and will need to negotiate with the Council as an independent equal, within what we hope will be a positive partnership approach to providing Community Library Services. At times the mutual will need access to its own independent counsel, which may incur costs.

Finally we must stress that a Mutual enterprise is made up of the stakeholders of the Mutual. It is therefore essential that the leadership group is free to communicate and engage with staff, users, stakeholders (including the trades unions) and communities at the earliest opportunity to explain the proposals, answer questions, win support and commitment.

9.1 Transition Governance

We propose the following project governance structure for the transition stage (depicted in Figure 19 below).

We propose a Transition Board with a wide membership in order to marshal resources and remove roadblocks. Individuals from Corporate Services, Commissioning and Community Libraries will be members of this board and responsible for specific work streams within the Transition.

From BCC Corporate

- TUPE transfer from the Council and pension arrangements
- Practical and contractual arrangements for buy-back of central and corporate services.
- Arrangements for hand-over of any central functions being released to the social enterprise.
- Property valuations, leases and property management arrangements and agreements.

From Commissioning

- Commissioning and procurement process.
- Service specification.
- Contract management arrangements.
- Contract form and negotiation.

From Community Libraries

- Legal/Governance.
- HR & TUPE.
- Finance.
- Marketing.
- Enterprise Development.
- Communications.
- Policy and Process.

As the Mutual Board is assembled and starts to operate in shadow form, it will assume executive responsibility for the Provider Services work streams, and start to represent the Provider in the Client/Provider relationship.
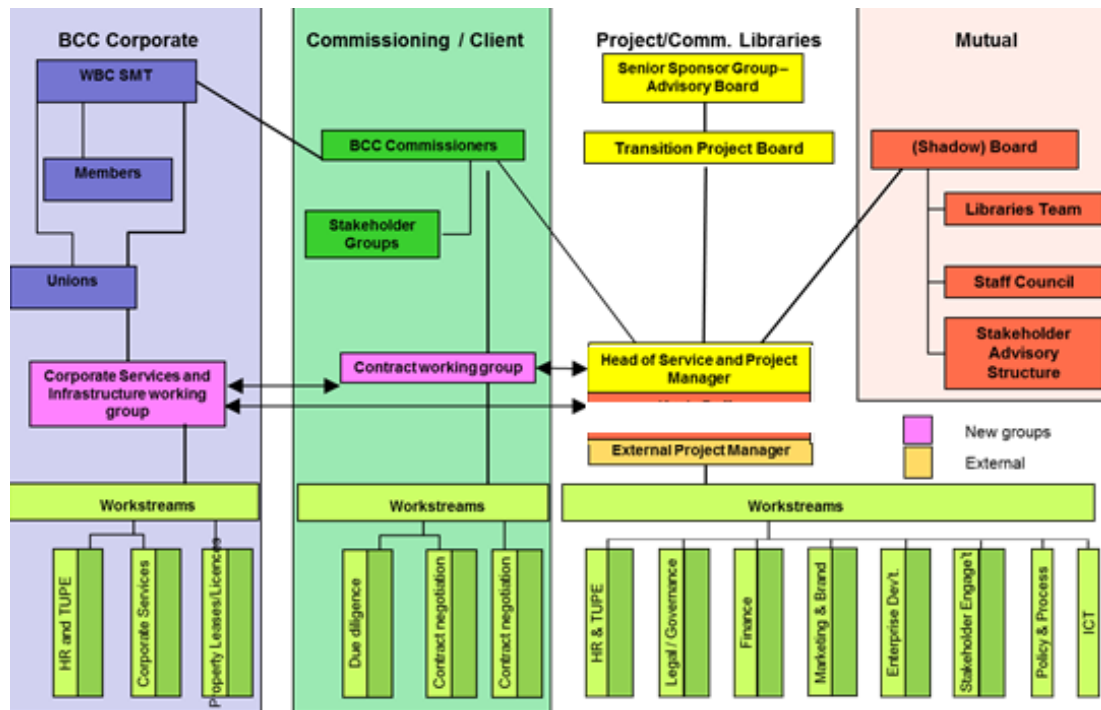
Figure 19: Transition Governance Arrangements

9.2 Transition Timeline

The timeline for transition is dependent on the date of a decision to allow the Mutual project to proceed.

We are working to an assumption that the Council will decide by the end of August 2015. This means the transition will start in September 2015. We aim to be ready to start operations as a mutual in April 2016. This gives 6 months for the transition, which is challenging but possible.
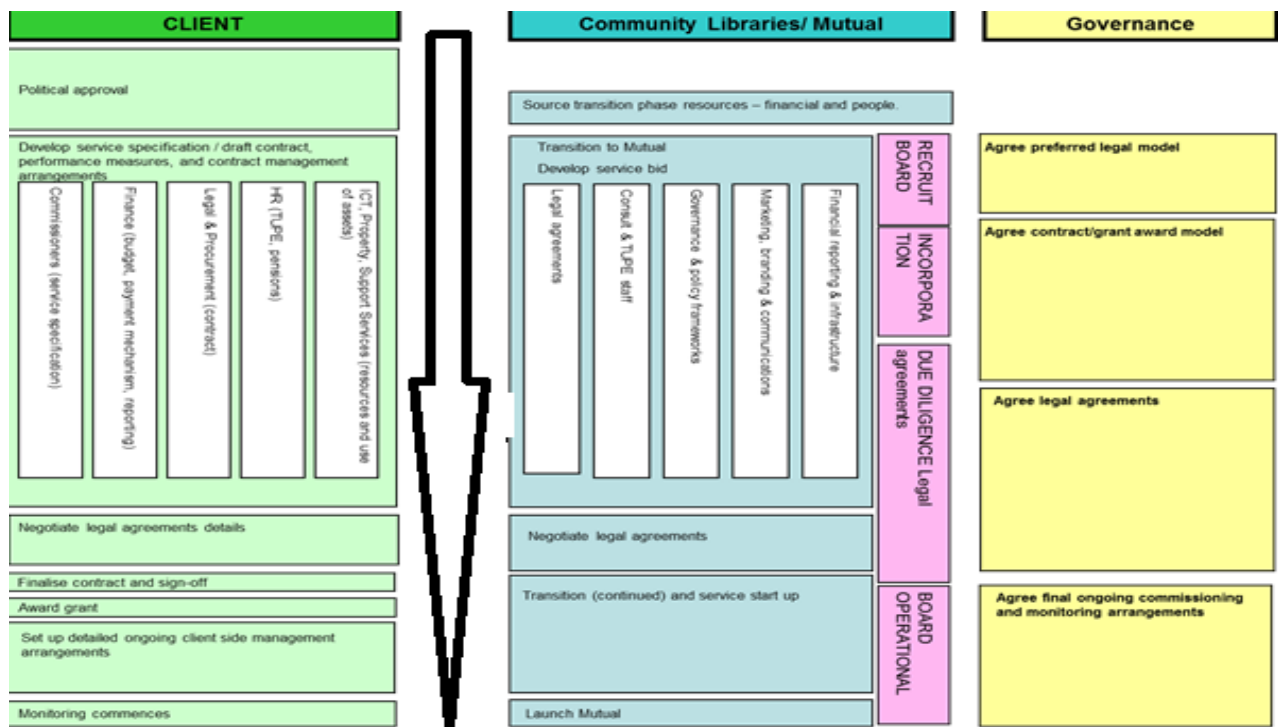
Figure 20 Proposed timeline

9.3 Proposed Next Steps

9.3.1 Agreement on resourcing transition

Once the decision has been made to proceed the Council will need to agree how best to meet the costs of transition to the new Mutual.

The transition costs are not huge. The main areas of work are listed below with an estimate of external costs alongside where relevant:

- Drafting constitution

- Registration of new entity (£2000 approx)

- Independent advice (re employment, finance, tax, legal etc)

- Consultation with stakeholders

The main costs of transition will be in staff time (both for the Council and the new entity). The emerging group of high level supporters of the Mutual is well placed to provide advice and support.

If the Council is unable to underwrite the costs of transition then we recommend that it loans the money to the Mutual. The Mutual would agree to repay the costs from its first three or five years of trading.

9.3.2 Agreement on overhead and assets

A vital work stream will bring the Mutual and Council together to agree:

- The amount of overhead relating to the current Community Library Services and how it will transfer
- Costing, negotiation and administration of buy-back of central and corporate services from the Council or sourcing alternative arrangements.
- The arrangements for property and assets for the new Mutual
- Arrangements for hand-over of any central functions being released to the Mutual.
- Identifying and implementing a solution for continued access to ICT infrastructure and systems and putting a transition plan in place for handover from Service Birmingham.
- Identify and arrange suitable insurances.
- Obtaining property valuations, arranging leases and agreeing property management arrangements.

9.3.3 Staff consultation and TUPE transfer

We have engaged with our staff in the course of developing our proposals, in the following ways:

- On-going informal engagement with all staff members
- Issuing frequent communiques to all staff to keep them abreast of developments.
- Staff involvement in workshops to develop this Plan.
- Launch of staff website to communicate about the Mutual.

The management team has been engaging with staff on their possible transfer into a new organisation and, from feedback, many are open and receptive to the idea. However, we regard staff engagement and consultation as an on-going process, and our consultations will continue throughout the transition process:

- We will hold Staff and Union road show events to include a staff ballot.
- We will continue to conduct regular briefing meetings with staff and arrange consultation opportunities for staff to meet with HR staff confidentially.
- We will secure specialist HR advice for the TUPE process and to assist us in the organisational development work
- We will develop HR policies and procedures for the new Mutual and publish a staff handbook.

- We will develop a staff council and introduce a democratic process for electing staff representation to the social enterprise management team .
- We will keep the unions informed throughout and seek their advice.
- Birmingham City Council will need to conduct a full TUPE consultation and transfer process.

9.3.4 Development and training of staff

The new enterprise will require staff to develop new skills and knowledge. We aim to start building these skills as part of the engagement process above, and as an integral part of the new Mutual' s operations.

8.3.5 Marketing, branding & communications

The development of a professional brand for the new Mutual will be an early priority once it is formed. Initial discussions have taken place with Marketing Birmingham, who would like to support the Mutual with their expertise.

We will instigate a proactive communications strategy to reach all our stakeholders in the run up to and following the launch of the new enterprise. We will also create our own website and other communications materials (brochures, posters), as another mechanism for keeping stakeholders and the general public informed of developments and changes with regards to Community Libraries services.

9.3.6 Policy Frameworks and Reporting Requirements

The new Mutual will continue to use all the relevant policies, quality and performance frameworks currently in operation as part of the council.

We aim to review the policies with a view to retaining those that apply, developing new policies and improving existing ones where needed.

We will agree reporting requirements with the Council as part of the new grant agreement. Reporting to other regulators and bodies will continue as is now – unless it can be improved.

The new Mutual will develop new arrangements for reporting to HMRC, the FCA and other bodies as required by its new independent status.

- **Outline transition plan**

We will develop a detailed outline transition in collaboration with BCC during the consultation phase if the Mutual option progresses.

This will set out the tasks that will need to be completed to enable the new enterprise to start in April 2016.

These tasks will require staff time but we believe them to manageable given a shared commitment to the project from both the Council and the Mutual team.

9   Conclusions

This Business Plan has laid out the **current challenges** for the provision of Community Libraries in Birmingham.

Against this background, it presents the creation of a multi stakeholder community benefit society, as a **viable alternative** to Council provided services.

Operating **with the engagement of the community built in**, and with the support of the Council, the Mutual will be well placed to deliver flexible, innovative services for the residents of Birmingham.

We **recommend support for this proposal in order to move onto the next stage**, involving mobilising the necessary resources for Transition and - ultimately - Launch of Birmingham Community Libraries as an independent mutual.

10 Appendix 1 – Legal Report

Legal issues for
outline business case

11 References

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