

# Birmingham Community Libraries Mutual Financial Assumptions Appendix 2.



## BCL Mutual Business Plan

### 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 1<sup>st</sup> 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.

#### Final financial projection: Income and expenditure

		2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
<b>Income</b>	Note						
<b>Grant/Budget from BCC (excluding capital financing)</b>	1	4,150,463	3,850,463	3,462,463	3,375,901	3,291,504	3,209,216
<b>Overhead contribution from BCC</b>	2		703,000	667,850	634,458	602,735	572,598
<b>Value of services from Library of Birmingham</b>	3		600,000	600,000	600,000	600,000	600,000
<b>Self generated income</b>	4	291,650	692,524	804,351	861,033	904,224	949,435
<b>New income generated from contracts</b>	5		50,000	150,000	165,000	181,500	199,650
<b>Rates exemption(80% reduction for mutual)</b>	6		208,000	197,600	187,720	178,334	169,417
<b>Total Income</b>	7	4,442,113	6,103,987	5,882,264	5,824,112	5,758,297	5,700,317
<b>Expenditure</b>							

<b>Employees</b>	8	2,740,612	2,840,806	2,811,830	2,783,149	2,754,761	2,726,663
<b>Cost of services provided by Library of Birmingham</b>	9		600,000	600,000	600,000	600,000	600,000
<b>Cost of delivering new income generating services (85%)</b>	10		42,500	127,500	140,250	154,275	169,703
<b>Cost of delivering new grant projects (75%)</b>	11		112,500	157,500	112,500	168,750	168,750
<b>Premises</b>	12	974,642	798,742	758,805	720,865	648,778	583,900
<b>Transport</b>	13	8,946	8,946	8,946	8,946	8,946	8,946
<b>Supplies and Services</b>	14	582,191	553,081	542,020	531,179	520,556	510,145
<b>Overhead expenditure including recharge</b>	15	135,722	703,000	667,850	634,458	602,735	572,598
<b>New mutual overhead</b>	16		167,000	145,000	145,000	145,000	145,000
<b>Volunteers training, insurance, travel and subsistence</b>	17		50,000	50,000	55,000	60,500	66,550
<b>Total expenditure</b>	18	4,442,113	<b>5,876,576</b>	<b>5,869,451</b>	<b>5,731,347</b>	<b>5,664,301</b>	<b>5,552,254</b>
<b>Projected surplus/deficit</b>	19		<b>227,411</b>	<b>2,813</b>	<b>92,765</b>	<b>93,996</b>	<b>148,063</b>

## 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
<b>Total Overhead</b>	<b>£703,000</b>

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

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	6,500	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
<b>Total trading income</b>				<b>552,110</b>		<b>567,334</b>		<b>581,703</b>		<b>597,749</b>	
<b>Expected figure (at 90% likelihood)</b>				<b>496,899</b>		<b>510,601</b>		<b>523,533</b>		<b>537,974</b>	
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
<b>Expected trusts and foundations (at 30% likelihood)</b>				<b>150,000</b>		<b>210,000</b>		<b>225,000</b>		<b>225,000</b>	
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	
<b>Expected membership and donor income</b>				<b>35,625</b>		<b>63,750</b>		<b>82,500</b>		<b>101,250</b>	
Contracts with Housing Associations	<p>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</p> <p>BCLM will develop this strand of its work slowly so as not to be drawn away from its core mission.</p> <p>The likely contribution towards the overhead of BCLM has been estimated at 25%.</p>										
Contracts with PCC											
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		150,000		165,000		181,500	
<b>Total expected contract income (contribution to overhead)</b>	This is shown as a separate line in the income projections.										
<b>Commercial partnerships Post Offices in libraries, libraries in Cooperative stores; advertising; Amazon drop off points etc</b>				10000		20000		30000		40000	
<b>Total likely income</b>				692,524		804,351		861,033		904,224	

The income for year 5 (2020/2021) 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 which is held by LoB).



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.<sup>1</sup>
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 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. The mutual will open the 18” *highest level of viability and need* “scoring Libraries for 40 hours per week and the remaining 17 Libraries for 20 hours per week.

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.

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<sup>1</sup> See Income Generation for Public Libraries 2015, Locality for Arts Council England. P4.

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 assumed 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 savings from 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 from 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.

## 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.

## 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