

Public Consultation into Library Savings Proposals**Analysis of Mutual/3rd Party Providers**

1. As part of the current public consultation, proposals have been put forward for the creation of a mutual, or other suitable 3rd Party 'not for profit' provider for library services.
2. This proposal has been put forward as an alternative to the current proposals for library services which is based upon 16 County Council maintained libraries and an infrastructure support package that would support local communities to manage their local community library.

Evaluation assumptions

3. The assumptions used when evaluating this proposal include:
 - a) That the proposals put forward for a Mutual/3rd Party Provider is for all Leicestershire's Libraries (including mobile libraries);
 - b) That the mobile library service would continue based upon current levels of service.
4. The proposal only suggests the proposed legal vehicle, an Industrial Provident Society (IPS) for operating the service. It does not detail who is being proposed to take over the management of the service and how the service would be operated. Hence it is not possible to assess the potential impact upon other County Council services or the level of continued support and oversight required.

Evaluation

5. The evaluation is split into financial and non-financial:
 - a) Financial - examines the contribution towards savings that implementing a Mutual/3rd Party Provider would make towards MTFS targets;
 - b) Non-Financial - indicates the differences in management and provision of service that would need to be considered before making such a decision.

Financial evaluation

6. It should be noted that the creation of a trust would require specialist expertise and have one off costs to set up, however savings achieved from the implementation of a Mutual/3rd Party Provider could be by:
 - a) Direct savings received from a reduction in NNDR costs;

- b) In-direct savings arising from a reduction in centrally managed overheads from sourcing support costs (Payroll, HR, Invoice payments etc.) from organisations outside of the County Council;
 - c) Direct Savings in the management of libraries.
7. The following paragraphs explore the potential for savings to be achieved through implementing a 3rd Party 'Not for Profit' model.

Reduction of NNDR

8. The savings under this proposal are identical to what would be expected to be achieved under the community partnership library option, albeit the scope and hence the total value has been expanded to include all libraries.
9. Whilst NNDR savings reduce the direct running cost of a library, the impact upon the local funding position is less beneficial as 50% of the tax receipts are received by Leicestershire authorities. A lower proportion (9%) is received directly by the County Council. This overall position could be impacted by the reforming of a business rate pool as was present in the last financial year.

Centrally Managed Overheads

10. The largest elements of central overheads are property and ICT costs, and as the proposal does not indicate any changes in these areas it is not possible to appraise any savings. If there was underinvestment in these areas it would be a concern, as higher costs would be likely in the longer term.
11. Other centrally managed overheads cover a combination of direct support to allow the service to function and governance for the organisation.
12. For a saving to be made on the direct support element it is not sufficient for the new provider to be cheaper than the average cost per person employed by the County Council, it must lead to an actual cost saving. As the County Council is a very large organisation, benefiting from economies of scale, this limits the potential for significant savings. Indeed there is a potential for costs to increase, for example the County Council's financial strength allows it to undertake significant amounts of self -insurance and spread risk over a large estate. A mutual (or similar) is unlikely to be able to replicate this.
13. The governance aspect has the potential to introduce new costs, for the mutual and the County Council. Whilst a similar argument could be made for the community library option, the mutual proposal is wider in scope and includes much more significant undertakings. For example the building and contents of Loughborough library are valued at £5.5 million, which would need to be safeguarded.
14. For both of these categories of overhead it is already assumed that cost savings of 30% will take place. This leads to the conclusion that whilst some savings may be possible through adopting a mutual approach, they would be minimal.

Management of Libraries

- 15 When considering local authorities which have implemented a Mutual such as Suffolk County Council, it can be seen that the savings in Suffolk's IPS, as outlined in their Cabinet paper dated November 2011, were to come from: reductions in NNDR; a contribution from reduced central support services costs; a reduction in service management costs; and reduced funding to community libraries; with any shortfall being made up by the community contributing towards the costs of their local library. This final part, is in effect like a subscription charge to be a member of the larger library network, in exchange for which, they have a degree of control over the running of their local library.
- 16 In 2012/13, the CIPFA reported net costs indicate that Suffolk's funding was 15.22% higher than Leicestershire's when they decided to implement this model:

Authority	Total Libraries (including Mobiles)	Net Budget £	Average Net budget per service point
Leicestershire	60	7,909,549	131,825
Suffolk	50	7,774,765	155,495

- 17 Leicestershire Library Service's Management view is that it is unable to generate any further savings from the costs of managing its libraries (infrastructure costs) whilst it still has to directly provide services to its large network of libraries. Therefore no further contribution could be found from infrastructure savings as a result of an IPS unless the size of the network was to be reduced. In addition to this, the current MTFs requires further reductions from overall Communities and Wellbeing infrastructure costs (including libraries) to meet future savings targets. It therefore has to be assumed there was more opportunity within Suffolk's higher funding (15.22%) to consider management reductions than those available to Leicestershire.
- 18 Leicestershire's library partnership approach is, in some senses, similar to that operating in Suffolk's IPS, in that it requires the community to 'make' a contribution to the running costs of their local library. The suggested proposal would mean setting a defined contribution and subscription (as agreed by a Board) - but the adoption of a similar approach and/or appetite for such an approach cannot be assumed for Leicestershire. The other potential difficulty with implementing an IPS might be the size of the contribution that would be needed from communities if they had to find not only a contribution towards the local library direct costs, but also a contribution towards the wider library management overhead costs and premises costs as well.

Non-Financial evaluation of a Mutual/3rd Party Provider

- 19 From an operational perspective, the day to day management of services would be undertaken by an arms-length organisation, but the statutory responsibility for

services would remain with the County Council and which would need to ensure that services are maintained in line with a service level agreement.

20 Experience from other local authorities suggests that devolving delivery to Mutual/3rd party providers is being implemented to safeguard the long term viability of important authority wide services and can be in agreement with Councils' objectives, particularly in respect to:

- Transforming the relationship between citizens and services;
- Delivering social innovation in the face of cuts;
- Creating local value;
- Commissioning on the basis of community strengths and assets.

21 However there are many factors that need to be considered before such radical change is considered:

- a) The process of 'spinning out' requires significant investment from the County Council and this can include financial support, officer and staff time, various types of business support as well as significant emotional investment. There is a risk of complex internal and external negotiations which could lead to long, drawn out and ultimately unsuccessful projects. As public money is essentially being used to incubate such an enterprise, it is crucial that the mutual/IPS is able to reciprocate this support and with limited information presented, this cannot be assumed nor anticipated;
- b) The purpose of a mutual/not for profit provider that distinguishes it from other potential providers is the 'added social value' they create and the achievement of a wider set of outcomes. This has not been made explicit within the proposal and to that effect, does not distinguish it from our current proposals or any other proposals;
- c) Experience from other councils reveals that such ventures come with a complex set of challenges and pressures over and above the need for cultural change and a strong business case. Even mutualising a small service can often encounter intractable problems and most local authorities' have had real difficulty understanding, preparing for, accurately costing and anticipating the impact of the withdrawal of a small part of large organisation;
- d) Some cases for mutuals are predicated on an assumption that they will be able to generate trade/private sector income to close the funding gap created by the reduction of council budgets. Whilst this has not been made clear in this proposal, if it is assumed, with the continuing austerity and recession, this will be a challenge;
- e) Mutualisation needs to be informed by a clear purpose and vision that fits with the broader objectives and aspirations of the Council. In isolation, it may not fit into the wider strategic transformation vision that the County Council currently has;
- f) There are a number of issues that surround service restructuring such as: Transfer of Undertakings (Protection of Employment) regulations, TUPE, Pensions, VAT, retention of staff terms and conditions that would need to be

addressed as part of such as a proposal. Such complex issues involve time and cost and will impact potential savings further unless costs are shared;

g) The timescales associated with implementation of a third party/mutual.

Conclusion

22 Implementing an IPS or other 3rd Party 'not for profit' provider for library services will not reduce the operating costs and contribute new savings towards the current MTFS targets above the level identified in the current proposals. Due to lack of detail in the proposal it is not certain that savings identified would be secured. Therefore it is not considered a viable alternative to the existing proposal to support local communities in managing local libraries.

Background/research papers

Informed by RSA2020 Public Services enterprise solutions research paper titled "new approaches to commissioning and public service mutuals: lessons from co-operative councils" published May 2013

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