



Cabinet

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Appendix 13

Libraries Strategic Commissioning Strategy

Technical Appendix 7

Delivery Model Initial Options Appraisal

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1 Purpose of the Technical Appendix

- 1.1 The purpose of this Technical Appendix is to identify the different possible ways (known as ‘delivery models’) in which the Libraries Strategic Commissioning Strategy could be implemented. It assesses the relative advantages, disadvantages and risks of different delivery model options and the ability to effectively deliver the Strategy, including a financial assessment and a consideration of other relevant factors. This Technical Appendix presents the findings of an Initial Options Appraisal of delivery models. It is based on work that was undertaken by an independent consultant, Mutual ventures, as well as our additional considerations based on discussions with other local authorities that have adopted alternative delivery models, and an assessment of the local context in East Sussex.
- 1.2 This is one of a number of documents, Technical Appendices (TA), which form the evidence base that supports the draft Libraries Strategic Commissioning Strategy. These documents are as follows:

Draft Libraries Strategic Commissioning Strategy						
Appendix 1 Rationale and Impact Assessment for the Proposed Needs Based Library Service						
Appendix 2. Equality Impact Assessment.						
Appendix 3 Summary of Technical Appendices						
Technical Appendix 1 National and Local Context	Technical Appendix 2 Needs Assessment	Technical Appendix 3 Service Description and Analysis	Technical Appendix 4 Property Assessment	Technical Appendix 5 Accessibility Analysis	Technical Appendix 6 Strategic Outcomes and Gap Analysis	Technical Appendix 7 Delivery Model Options Appraisal

- 1.3 The Initial Options Appraisal did not aim to identify a single preferred option, rather its goal was to assess the sustainability of several potential delivery models and identify their relative strengths and weaknesses from a variety of perspectives.
- 1.4 The following possible delivery models were considered during the Initial Options Appraisal:
- Remain in-house with re-engineering;
 - Establishing a Local Authority Trading Company (LATC);
 - Establishing a Public Service Mutual (PSM);
 - Outsourcing the service (to a ‘for profit’ or third sector provider); and

- Establishing as a joint venture (JV) between the Council and the library service staff group.

1.5 The Initial Options Appraisal is formed of four key stages:

- Review of the key characteristics of the five possible delivery models and their main benefits and disadvantages;
- An appraisal of the ability of each of these models against a set of criteria to determine their suitability to deliver the draft Libraries Strategic Commissioning Strategy;
- A financial differences model to identify which of the delivery models would generate a surplus over the five year duration of the Strategy, and to estimate the size of the surplus;
- An overall assessment of the combined appraisal and financial differences modelling, taking into account the limitations of the options appraisal process and other factors which are relevant to the context in which the Library and Information Service operates.

2 National context

- 2.1 These are challenging times for councils as they manage ongoing, and in many cases increasing, demands for services like adult social care with significantly reduced budgets and changing expectations from local communities. Many local authorities are considering different approaches and solutions to these challenges, including steps to investigate new models of service delivery
- 2.2 Investigating new delivery models provides a range of stakeholders with an opportunity to consider the services currently offered by a library service. In partnership with communities and public bodies, a number of library service delivery models are developing innovative, needs led and sustainable services across a range of agendas.
- 2.3 New delivery models can, in the right circumstances, be an effective way of promoting sustainability, resilience and innovation across the library sector and beyond. Chapters 3 to 7 of this Technical Appendix describe the characteristics of a selection of different delivery models that are potentially suitable for library services, and examine the pros and cons of each. It should be noted that the advantages and disadvantages described in these chapters are generic to any library service, and indeed in many cases any public service that may move to a different delivery model. They are not specific to the East Sussex Library and Information Service.
- 2.4 Chapter 8 evaluates the five delivery models against a selected range of assessment criteria and presents the overall findings of the assessment and chapter 9 presents a 'financial differences' model, which considers the additional financial surpluses that different delivery models could potentially generate.
- 2.5 Finally, chapter 10 presents the conclusions of the Initial Options Appraisal.

3 Option 1: Remain in-house with re-engineering

3.1 Should the Council intend to retain delivery responsibility for the library service, two main alternative delivery model options may be considered:

a) Remaining within the 'host council'

3.2 Where 'doing nothing is no longer an option', this option is considered to be the 'do the minimum' alternative to establishing the service as an external delivery model. In the context of the East Sussex Library and Information Service, 're-engineering' is effectively the implementation of the draft Libraries Strategic Commissioning Strategy. Service re-design would be undertaken to improve systems, realise efficiencies, transform existing services or develop new services to meet the evolving needs of local communities. This could potentially be in conjunction with increased community involvement. Examples of local authorities that have taken this approach include the Warwickshire Library Service – Globe House, Alcester¹ and the Hampshire Library Service².

Potential advantages

- The 'do the minimum' option is likely to require lower levels of resource (when compared to the establishment of other delivery model options) and will not require a procurement process;
- Depending on the scale of the re-engineering, the required level of change may be achieved relatively quickly and at (potentially) lower cost than other options; and
- One-off savings and efficiencies could be realised in the short term.

Potential disadvantages

- Remaining in-house leaves the Service under the complete control, including budgetary control, of the local authority. With this delivery model there is the theoretical potential for a library service's budget to be reduced to an unsustainable level, to the extent that it finds it difficult to meet the needs of the population. However, this is unlikely in a situation where the authority adopts a needs-based approach, as East Sussex is doing;

¹ <https://www.gov.uk/government/case-studies/warwickshire-library-service-globe-house-alcester>

² <https://www.gov.uk/government/case-studies/hampshire-county-council-strategic-library-plan>

- The decision to remain in-house may result in the Library and Information Service not being able to benefit from increased freedom to trade etc. that would help to improve the service's sustainability and flexibility to innovate, potentially threatening the long term sustainability of the service.

b) Partnership across two or more councils

- 3.3 Two or more councils may be in a position to work together to deliver public library services. There are varying degrees of partnerships, from local authorities working together in areas where there is mutual benefit (which East Sussex currently does) to a fully shared service. Where there is a contract in place for one council to deliver the service for the other, this tends to fall more within the definition of an outsourcing arrangement rather than a partnership, although there are no hard and fast rules. Partnership working between the councils could potentially involve the sharing of staff and other resources. It could also potentially involve the joint procurement of back office services and support systems, in addition to the sharing of best practice.
- 3.4 The option would not necessarily involve the establishment of a new delivery model, but would instead be based on a partnership agreement between councils. One of the councils could act as the host for the 'shared service' with staff and service delivery responsibility transferred. Examples of local authorities that have taken this approach include Libraries West³ and London Libraries Consortium⁴.
- 3.5 The East Sussex Library and Information Service currently operates a number of shared services with other local authorities. The community information service ESCIS is a joint service for Brighton and Hove and East Sussex and is funded by both councils working together.
- 3.6 East Sussex is part of a central book buying consortium (CBC), one of the largest local government procurement organisations in the UK. The CBC started in 1991 and is a non-profit making federation of 18 local authorities based broadly across the southern half of England. Members' collective procurement spend is currently in excess of £5 billion with the authorities involved representing over 20% of the population in England. West Sussex is the lead authority for the parts of the consortium which we buy into. The benefits to East Sussex are the discounts and spending power of the consortium and the reduced costs and combined skills of the members to shape specifications, as well as more standard servicing of books that reduce costs and the sharing of best practice and networking with colleagues. We pay 1% of turnover to the West Sussex procurement team to participate in the contract and to pay for contract management and administration. In return, they provide a dedicated officer who manages the relationship with suppliers and deals with any customer issues, provide monitoring reports for the contract, and manage the procurement and tender processes.

³ <https://www.gov.uk/government/case-studies/librarieswest>

⁴ <https://arena.yourlondonlibrary.net/web/home/>

- 3.7 We also currently provide the Schools Library and Museum Service (SLAMS) to schools in both East Sussex and Brighton and Hove, although as discussed elsewhere in the Technical Appendices and draft Libraries Strategic Commissioning Strategy, the current funding model for SLAMS has become unsustainable.

Potential advantages

- The ability to tap into expertise and intellectual property held across a number of councils;
- The potential for reduced duplication and the development of efficient shared services across a number of councils;
- Potential for savings depending on the degree of sharing across councils;
- The ability to realise increased purchasing power across a number of councils; and
- In-house services are not required to pay VAT or corporation tax.

Potential disadvantages

- The potential inability of councils to agree on the scope and scale of the partnership;
- The potential differences in operating systems and organisation cultures across the councils involved in the partnership; and
- The need to agree the terms of the partnership, particularly in relation to the level of investment and the sharing of risks and rewards.

4 Option 2: Establishing as a Local Authority Trading Company (LATC)

- 4.1 Local Authority Trading Companies (LATCs) are bodies that are free to operate as commercial companies, but remain wholly owned and controlled by the 'parent' council(s). As trading bodies, LATCs are in a position to provide their services to a wider market than a council department.
- 4.2 LATCs are contracted by the parent council (or councils) to provide services back to the council(s) via a service contract. The council may decide to apply the 'Teckal' or 'in-house' exemption which allows the authority to establish a LATC without the requirement for a procurement exercise. It is based on case law, but has recently been codified in the *Public Contracts Regulations 2015*⁵. In general, the terms of exemption requires:
- The Council to control the vehicle as if it were an internal department, with there being no direct private share or ownership participation in the company (this is known as the control test); and
 - More than 80% of the vehicles activities to be with its 'parent' council (this is known as the function test).
- 4.3 If the council decides to undertake an open procurement, the 'Teckal' requirements would not need to be in place.

Potential advantages

- A clear commissioner/provider split exists, meaning that the Council can incentivise the LATC to realise efficiencies, develop service offerings etc. (as it does for the Public Sector Mutual, outsourcing and joint venture options);
- Two or more councils can work together to establish a library service LATC, potentially offering opportunities to realise efficiencies;
- The Council can retain a high degree of control over the organisation, which may be a more politically palatable option than for example the PSM or outsourcing options;
- An LATC can transition into alternative forms of delivery (for example a PSM) in the future;
- Despite certain restrictions on the type and level of commercial activities, LATCs possess greater freedom than in-house library services to develop

⁵ <http://www.legislation.gov.uk/ukxi/2015/102/contents/made>

and trade services, including the development and delivery of new non-statutory services which can generate a surplus for the organisation. Depending on how the LATC has been set-up, the Council may be in a position to 'claw back' surpluses from the service; and

- An LATC may be able to achieve social enterprise status.

Potential disadvantages

- The process of establishing an LATC can be complicated, resource intensive and time consuming. The process would be undertaken 'on top of the day job' by library service staff, while it requires close working with a number of council departments (i.e. legal, finance, HR, property/premises etc.) and support from external experts;
- As a 'Teckal' LATC needs to be owned and controlled by one or more council, there is limited potential for other stakeholders (such as staff, community groups, Friends Groups etc.) to influence the strategic direction of the company. A 'non-Teckal' LATC would not experience these limitations;
- Should a 'Teckal' LATC wish to develop new service lines, the income from these services is limited to 20% of the LATC's total turnover. An in-house library service may be generating this level of income already, meaning that there is limited potential for an LATC to generate further levels of revenue outside of the core contract held with the council;
- Due to its close association with the Council, a 'Teckal' LATC is unlikely to achieve charitable status;
- The ability of a 'Teckal' LATC to access external funding is limited because it is owned by a public body;
- As it is owned and controlled by the Council, there is the risk that the creation of a LATC result in 'more of the same' being delivered;
- The LATC may be required to transfer surpluses back to the Council, limiting the LATC's ability to develop new services. Should the LATC be able to retain a proportion of the surpluses it has generated, these would be subject to corporation tax; and
- Like any company, LATCs are required to pay VAT.

5 Option 3: Establishing as a Public Service Mutual (PSM)

- 5.1 The Department for Culture Media and Sport defines a PSM as an organisation:
- That has left the public sector (also known as ‘spinning out’);
 - Which continues to deliver public services; and
 - Which has a significant degree of employee control, influence or ownership.
- 5.2 Typically a PSM would involve an element of employee-ownership (or at the very least a significant level of employee control). The model also allows for the involvement of a range of other stakeholders, possibly including community groups and the Council.
- 5.3 Depending on the intended ownership and governance arrangements, stakeholders (e.g. staff, community groups, Friends Groups and the Council) may own part of the PSM and sit on the board of directors. Several advisory groups could be established to ensure that a diverse range of stakeholders are effectively represented and able to influence the PSM’s strategic direction.
- 5.4 PSMs have significant commercial freedoms and flexibility to deliver differently. As staff will play an important role within the new entity, they (along with community stakeholders if included within the PSM’s governance structure) are well placed to influence the PSM’s strategic direction and the type of services delivered. Staff and communities can play an important role in shaping services to reflect local needs, piloting innovative services through the re-investment of surpluses generated by the PSM, where these exist.
- 5.5 PSMs are typically established by a staff group ‘spinning out’ of the Council. This requires the support of councillors and council commissioners, as well as broad support from library staff.
- 5.6 Councils can make use of a number of procurement routes, from the Council directly awarding the contract to the PSM, through to undertaking a public procurement exercise. Examples of local authorities that have taken this approach include York⁶, Nottinghamshire⁷, Devon⁸ and Suffolk⁹.

⁶ <https://www.gov.uk/government/case-studies/explore-york-libraries-and-archives>

⁷ <https://www.inspireculture.org.uk/>

⁸ <https://librariesunlimited.org.uk/>

⁹ <https://www.suffolklibraries.co.uk/>

Potential advantages

- Establishing as an independent PSM can provide the library service with the opportunity to break from the past and establish an organisation with a single focus on libraries. The business plan would demonstrate how the strengths of the organisation can be maximised, while at the same time developing plans to address areas of weakness;
- Establishing as a PSM may increase the level of freedom and autonomy experienced by staff and managers, enabling them to be more creative within their roles. A new organisational culture can be established, leading to staff playing an increasing role in making decisions at an operational level, which in turn can increase levels of staff engagement and motivation;
- Depending on the ownership and governance model assumed by the PSM, staff, community groups and Friends Groups (as well as other relevant stakeholders) can be in a strong position to influence the strategic direction of the organisation. In this situation, stakeholders would be involved in the decision making process, providing them with the power to address issues;
- Decision making processes may involve fewer layers of bureaucracy, resulting in more timely decisions being made which benefit staff and communities, while at the same time increasing the sustainability of the library service;
- As PSMs experience a high degree of commercial freedom, they are able to explore new areas of service growth. The PSM may be incentivised to generate income from new sources to offset reductions in the level of funding received from the council;
- By empowering employees and communities to design and improve their services, PSMs are well placed to encourage innovation. In particular, PSMs may be in a position to pilot new services (designed by staff and communities) on a small scale. Should these prove successful, and show significant social impact and value, they can be scaled up and potentially procured by public bodies;
- As an independent entity, the PSM will be in a position to reinvest profits back into the organisation, fuelling innovation and a needs-led approach to service delivery;
- Some PSMs appear to demonstrate greater levels of efficiency, particularly in terms of lower levels of absenteeism and staff turnover. They may also be in a position to procure services in a more cost effective way (for example back-office support services); and
- Depending on the chosen legal form and constitution, a library service PSM may qualify as a social enterprise or charity, meaning that it may be

eligible for grant funding opportunities not available to in-house council services.

Potential disadvantages

- The process of establishing a PSM can be complicated, resource intensive and time consuming. The process is often undertaken 'on top of the day job' by library service staff. It requires close working with a number of council departments (i.e. legal, finance, HR, property/premises etc.) and support from external experts;
- The costs of change need to be understood by all parties. It should also be accepted that changes to the way services are delivered may take time. The immediate challenges for PSMs once established usually involve ensuring business continuity and stabilising the service after significant reductions in funding and the move to a new organisational entity;
- While PSMs may realise significant efficiencies, the decision to establish a PSM should not be primarily motivated by making efficiencies. Councils investigating the PSM model from a cost cutting perspective risk 'setting the organisation up to fail'. Equal (if not more) attention needs to be paid to ensuring the sustainability of the service through delivering differently, modernising the library offer and diversifying income streams;
- Initially at least, most PSMs are reliant on their core contract held with the council. This over reliance is a significant business risk. The challenge for PSMs is to diversify their income streams and reduce their dependence on the core contract;
- Ensuring the involvement of staff, community groups and Friends Groups in the process can be a challenge. While it may be widely accepted that 'doing nothing is not an option', there is often resistance to change. The challenge of engaging with a wide range of stakeholders is significant, although it also presents the opportunity of meaningfully involving these groups in designing the service's future function and strategic direction;
- The staff group transferring to the PSM often does not possess all of the skills and capabilities needed to operate a commercially disciplined business. While training and development can help, PSMs may be required to employ new staff at a management level or recruit non-executive directors to the board to make sure the organisation has the necessary skills, experience and expertise to be sustainable; and
- Like any independent company, PSMs are required to pay VAT and corporation tax.

6 Option 4: Outsourcing

- 6.1 The process of outsourcing a council's library service involves the procurement of a third party to deliver the library service on behalf of the council via a contract. The outsourcing of library services may take several forms, including:
- Procuring an existing social enterprise or charity to deliver the service on behalf of the council;
 - Procuring local community groups to deliver library services on behalf of the council (with funding, professional library services and back-office support and systems);
 - Procuring another council to deliver part or all of the service; and
 - Procuring a for-profit provider to deliver the service on behalf of the council.
- 6.2 Examples of local authorities that have taken this approach include Hounslow¹⁰ Lincolnshire¹¹ and Libraries West¹² – a partnership of 7 public library authorities in the south west of England.

Potential advantages and disadvantages

- 6.3 Due to the large number of outsourcing options available to a council, it is difficult to be specific in terms of the potential advantages and disadvantages that could be realised.

Potential benefits associated with outsourcing include:

- The ability to tap into expertise (e.g. digital) to deliver an improved service;
- The potential for increased purchasing power, shared systems and intellectual property;
- The potential for savings and efficiencies to be realised, as a result of the library service being part of a wider organisation; and
- Savings can be underwritten in the contract.

¹⁰ <http://www.ccslibraries.com/libraries/hounslow-libraries>

¹¹ <https://www.lincolnshire.gov.uk/news/recommendation-given-to-outsource-library-services-to-gll/127998.article>

¹² <https://www.gov.uk/government/case-studies/librarieswest>

Potential disadvantages associated with outsourcing include:

- The potential for opposition to the move from staff, councillors, friends groups, library users and communities;
- The risk of the council realising 'stranded costs' if the outsourced provider accesses their back office support from an alternative provider (i.e. other than the council);
- Risks associated with the provider not fulfilling the requirements of the contract (e.g. poor performance against contractual requirements); and
- The risk that the procured provider may not reinvest operating profits back into the library service.

7 Option 5: Joint venture

- 7.1 The term joint venture can describe a range of different commercial arrangements between two or more separate entities. Each party contributes resources to the venture and a new business is created in which the parties collaborate together and share the risks and benefits associated with the venture.
- 7.2 A party may provide land, capital, intellectual property, experienced staff, equipment or any other form of asset. Each party generally has an expertise or need which is central to the development and success of the new business which they decide to create together. It is also vital that the parties have a 'shared vision' about the objectives for the joint venture.
- 7.3 In the case of libraries, a joint venture may involve the Council and one or more third party (possibly including the staff group) establishing a new entity. Ownership of the joint venture would conventionally be split across each of the parties involved. Typically this would be determined by the appetite of the Council to share ownership, and the level of investment and risk taken on by each party.

Potential advantages and disadvantages

- 7.4 Due to the large number of joint venture options available, it is difficult to be specific with regard to the potential advantages and disadvantages that may be realised. HM Treasury has provided a guidance note¹³ on joint ventures and provides an overview of the advantages and disadvantages associated with each legal form for a joint venture.

Status – social enterprise or charity

- 7.5 A further consideration relates to whether the new delivery model is suited to either social enterprise or charitable status.
- 7.6 A social enterprise is defined as a 'business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximise profit for shareholders and owners'. A charity is 'an institution which is established for charitable purposes only, where charitable purpose is a purpose which is for the public benefit.' Both statuses may restrict the commercial flexibility of the delivery model, although both provide a recognisable and trusted 'brand' that could potentially benefit the new delivery model.

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https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/225321/06_joint_venture_guidance.pdf

8 Analysis of longlisted options

- 8.1 Informed by the longlist of delivery models outlined in chapters 3–7 an Initial Options Appraisal was undertaken.
- 8.2 This process was undertaken during the development of the draft Libraries Strategic Commissioning Strategy at which stage the draft Vision, Strategic Outcomes and draft Gap Analysis had been identified. By definition, therefore, it was not possible to base the Initial Options Appraisal on a complete draft Strategy. However, it should be borne in mind that this appraisal process is a snapshot at this point in time. The range of delivery models, their benefits and advantages may change over time. We may, following consultation on the draft Libraries Strategic Commissioning Strategy, or at some other point in the future, seek to deliver a different vision and outcomes for the Library and Information Service, which might give a different conclusion to the options appraisal process contained in this Technical Appendix.
- 8.3 For this stage, each longlisted option was developed into a tangible proposition (rather than a general concept) to allow for an objective analysis to take place for the East Sussex Library and Information Service using the application of assessment criteria. The assessment criteria used to inform this Initial Options Appraisal were developed to inform each of the following tiers of investigation:
- Desirability - To what extent does each option provide the council and service with the ability to achieve a range of strategic priorities?
 - Viability - To what extent does each option provide the service with the ability to reduce dependence on council income (e.g. the core contract) and promote the sustainability and resilience of the model?
 - Feasibility - Can each option be established within the preferred timescales and within acceptable levels of cost?
- 8.4 Specific criteria were then developed and a scoring mechanism and weighting for each criterion was developed. The criteria can be seen in Annex 1.

Overall findings

- 8.5 The results of the scoring of the Initial Options Appraisal can be seen in Table 1.

Table 1 Final Scoring Initial Options Appraisal

Final scoring	Score	Points available	% Score	Position
Remain in-house with re-engineering	651	970	67%	2nd
Local Authority Trading Company (LATC)	720	970	74%	1st
Public Service Mutual (PSM)	547	970	56%	3rd
Outsource (to a 'for profit' or third sector provider)	472	970	49%	5th
Joint venture	482	970	50%	4th

- 8.6 The LATC option scored well (74%); the in-house and PSM options scored moderately (67% and 56% respectively); and the Joint Venture and outsourcing options scored less well (50% and 49%).
- 8.7 The LATC option achieved the highest mark (74%). This option avoids the need for competitive tender and increases the opportunity to generate income, while allowing the Council to retain control over the service. The assumption here is that the LATC would be directly awarded the contract via the Teckal exemption, which eliminates the risk of competition but places restrictions on the service in terms of external stakeholder influence and the level of revenue that can be generated outside of the core contract to the Council. The LATC would be highly unlikely to achieve charitable status due to the Teckal 'control' test, however, which states that the local authority must have the power to exert control, and which stands in opposition to the Charity Commission's requirement to be 'independent from outside control'.
- 8.8 The option to retain the service in-house with re-engineering scored 67%. This option scores well as it maximises council control over the service, and does not incur any implementation costs or procurement costs. However, it does not provide the Library and Information Service with full commercial freedom and has a limited ability to grow revenue streams and realise an ongoing surplus. The option also limits the ability of stakeholders to influence the service in a formal capacity. Charitable and direct award options do not apply to this option.
- 8.9 The PSM option achieved 56%. This option scored highly among the desirability factors, reflecting its ability to gain buy-in from staff and other stakeholders while also exploiting commercial opportunities. The PSM scored relatively less well in the viability criteria. This may in part be due to the assumption that the PSM option could not be established until Year 2 due to the period of time required post adoption of the Libraries Strategic Commissioning Strategy by Cabinet in March 2018 for such an alternative delivery model to be established. If the model was implemented in 18/19 the

cumulative surplus may be greater, and the option would therefore in turn achieve higher scores in the viability and feasibility groups of criteria.

- 8.10 The joint venture option scored 50%. While a joint venture will bring several advantages (mainly relating to accessing commercial expertise and the benefits associated with a range of stakeholders assuming ownership and decision making roles), the complexity of establishing the model and the associated timescales represent a risk to the Council. As with the PSM option, if the model could be implemented in 18/19 the cumulative surplus may be much greater, and the option would therefore in turn achieve higher scores in the viability and feasibility groups of criteria.
- 8.11 The outsourcing option scored 49%, 10% points lower than the joint venture model. Outsourcing scored highly within the feasibility group of criteria as it offers the same degree of council influence and control as the PSM and joint venture options, although would certainly require a procurement process, with the financial and time implications that carries with it. Specific risks to the Council associated with this option include the likelihood of the provider re-investing surpluses back into the Library and Information Service and the ability of stakeholders to influence the strategic direction of the service (both currently unknown). The provider is also likely to request that the Library and Information Service sources its back-office support from the provider (rather than the Council).

Limitations of the Initial Options Appraisal

- 8.12 The Initial Options Appraisal did not aim to identify a definitive single preferred option as many of the steps that are required to do so in a robust and evidence-based way are lacking. These include:
- Shortlisting - The use of gateway criteria to rule out options based on high priority strategic considerations provides an additional level of confidence that the detailed assessment criteria are being used to compare options that are all strategically appropriate for the Council.
 - Stakeholder mapping and engagement - This ensures that all relevant stakeholders' views and priorities are reflected in the assessment criteria, and that there would be buy-in from key stakeholders;
 - Portfolio analysis - In many cases there are other services with similar business requirements and objectives that can be grouped together with the target service, resulting in additional financial and service benefits;
 - Growth model and strategy - A robust and evidence based strategy for the growth of the service, taking into consideration plans for income generation as well as cost reductions, strategic commercial opportunities, and research to assess the market conditions; and

- Financial model - A detailed financial model for each of the shortlisted delivery model options that represents a full picture of all costs and income, and which enables a clear view of the relative financial strengths and weaknesses of each approach.

9 Financial differences modelling

- 9.1 A high level financial forecast has been developed for each option, apart from the outsourced option. It is not possible to forecast the potential viability of the service should it be outsourced. Interested providers will have their own business models and will structure their service proposal in different ways. It is impossible therefore to assess the viability of a provider's proposal until it has been received as part of the procurement process. For the other options the financial forecast is informed by a range of assumptions. Some of these assumptions are common to all options, while others relate specifically to a single option. Table 2 provides, for each option, the financial difference from the option of an in-house service with re-engineering through the draft Libraries Strategic Commissioning Strategy.

General assumptions

- 9.2 There are some important assumptions to note in terms of the financial forecasts for each option:
- **Achievement of savings targets** – The Council is currently committed to realising MTFP savings of £1.25 million between 2016/17 and 2018/19, and there is a further savings target of £750,000 for the Libraries Strategic Commissioning Strategy. The financial differences model assumes that the £750,000 of savings from the Strategy can be delivered irrespective of which delivery model option is identified or established. As such, the financial analysis and scoring of each option via the assessment criteria focusses on the sustainability of each option and its ability to generate a surplus, rather than its ability to realise the intended level of savings.
 - **Timescales** – If a PSM or joint venture option was identified as the preferred alternative delivery model, the Council would not be able to implement either of these models until 2019/20 due to the fact that adoption of the amended Libraries Strategic Commissioning Strategy by Cabinet is not expected until March 2018. Other options (LATC and outsourcing) would require shorter timescales and could be implemented within 2018/19.
 - **Set-up costs** – It is accepted that each option will require a different level of set-up costs. To ensure that the financial forecasting undertaken within this section (and the relevant assessment criteria relating to sustainability) focus solely on testing the perceived sustainability of each option, the anticipated set-up costs for each option have not been included within the financial calculations. It is often difficult to establish the true set-up costs from other local authorities who have changed their delivery models. This can be due to a number of factors including confidentiality, and also the way in which set-up costs are calculated, for example if they include costs which the authority was planning to incur anyway as part of a savings programme, irrespective of the delivery model chosen. The process of

establishing any new delivery model can be complicated, resource intensive and time consuming. The process would be undertaken 'on top of the day job' by library service staff, and requires close working with a number of council departments (i.e. legal, finance, HR, property/premises etc.) and support from external experts.

Table 2: Summary of high level financial forecast

Financial modelling – Option 1: Remain in-house with re-engineering through the draft Libraries Strategic Commissioning Strategy

As stated above, the financial analysis of this option assumes that the in-house service, through delivery of the draft Libraries Strategic Commissioning Strategy, would achieve the full £2 million of savings identified in the Council's Medium Term Financial Plan. On this basis there would be no surplus.

A more in-depth analysis of the Service's growth strategy would be required to assess whether further revenue generation can be realised and the robustness of the assumptions relating to increasing income through improved partnership working.

Financial modelling – Option 2: Local Authority Trading Company (LATC)

This option has been calculated based on the following assumptions:

- the LATC would be established on 1st April 2018; in reality this is unlikely to be achievable as the LATC would need to be set up, and therefore the surplus below is likely to be slightly lower. The impact of a later start date on the first year of surplus is not significant, as the LATC is expected to generate around £50,000 per year of surplus after tax. Therefore an implementation date half way through the year would result in a net surplus over five years some £25,000 lower than that stated below.
- the LATC would be directly awarded the contract via the Teckal exemption;
- traded income would increase by 5% per annum, ensuring that this does not breach the Teckal 'function' limit of 20% of income being generated outside of services delivered to the council;
- a profit margin of 5% on all new traded income generated in Year 1, increasing by 1% per annum as the LATC realises delivery efficiencies;
- an irrecoverable VAT liability is assumed (£5k in Yr1, increasing by £1k each year to reflect increase in traded income activity);
- no increase in employer pension contribution assumed, as actuarial assessment not yet undertaken. This would also require an indication as to whether the pension scheme would be 'open' or 'closed';
- no reduction in costs associated with back-office services, as it is assumed that the LATC will be required to continue to access the Council's back-office support services; and
- 25% of the LATC's surpluses are returned to the Council (in the form of dividends or service charges).

Based on these assumptions, the financial analysis has indicated that the LATC represents a viable option. Surpluses are forecasted to be generated each year post-establishment.

Net surplus after tax, five year period 18/19 – 22/23 : £267,157

Financial modelling – Option 3: Public Service Mutual (PSM)

This option has been calculated based on the following assumptions:

- The PSM would be established on 1st April 2019 (Year 2);
- 15% increase in traded income per annum;
- A profit margin of 10% has been assumed on all new traded income generated, increasing by 1% per annum as the PSM realises delivery efficiencies;
- A £25k annual increase in the level of external grant funding is assumed, although no profit is forecasted to be realised from this funding;
- An irrecoverable VAT liability is assumed (£7.5k in Yr1, increasing by £1k each year to reflect increase in traded income activity);
- No increase in employer pension contribution assumed, as actuarial assessment not yet undertaken. This would also require an indication as to whether the pension scheme would be 'open' or 'closed'; and
- Assumes an immediate 10% reduction in costs associated with back-office services. The level of income received (from the Council) is assumed to remain the same as 17/18.

Based on these assumptions, the financial analysis has indicated that the PSM established in Year 2 represents a potentially viable option. Surplus levels are at a low but grow over the 4 year period.

Net surplus after tax, four year period 19/20 – 22/23 : £56,427

Financial modelling – Option 4: Outsource the service to a 'for profit' or third sector provider

It is not possible to forecast the potential viability of the service should it be outsourced. Interested providers will have their own business models and will structure their service proposal in different ways. It is impossible, therefore, to assess the viability of a provider's proposal until it has been received as part of the procurement process.

Financial modelling – Option 5: Joint Venture

The assumptions used to inform the joint venture financial forecast are the same as for the PSM option above.

Based on these assumptions the financial analysis has indicated that the joint venture established in Year 2 represents a potentially viable option. The financial forecast is identical to the PSM forecast, with surplus levels starting at a low level but growing over the 4 year period.

Net surplus after tax, four year period 19/20 – 22/23 : £56,427

9.3 The financial modelling shows that surpluses over and above the £2 million savings assumed to be delivered through the Libraries Transformation Programme range from £56,427 over five years for both the Public Sector Mutual and joint venture options to £267,157 over five years for the LATC. This is before any set up costs.

10 Conclusions

- 10.1 The Initial Options Appraisal aims to identify the different possible ways or 'delivery models' in which the draft Libraries Strategic Commissioning Strategy could be implemented. It consists of an appraisal of the ability of five possible delivery models against a set of criteria to determine their suitability to deliver the draft Libraries Strategic Commissioning Strategy. Following this a financial differences model was created to identify which of the delivery models would generate a surplus over the five year duration of the Strategy, and to estimate the size of the surplus. Finally, an overall assessment of the combined appraisal and financial differences modelling was undertaken, taking into account the limitations of the options appraisal process and other factors which are relevant to the context in which the Library and Information Service operates. The assessment of the delivery models against the suitability criteria and the financial differences model were undertaken by an independent consultant, Mutual Ventures.
- 10.2 The five delivery models considered were:
- Remain in-house with re-engineering;
 - Establishing a Local Authority Trading Company (LATC);
 - Establishing a Public Service Mutual (PSM);
 - Outsourcing the service (to a 'for profit' or third sector provider); and
 - Establishing as a joint venture (JV) between the Council and the library service staff group.
- 10.3 The Initial Options Appraisal did not aim to identify a single preferred option, rather its goal was to assess the sustainability of several potential delivery models and identify their relative strengths and weaknesses from a variety of perspectives.
- 10.4 The process was undertaken during the development of the draft Libraries Strategic Commissioning Strategy at which stage the draft Vision, Strategic Outcomes and draft Gap Analysis had been identified. By definition, therefore, it was not possible to base the Initial Options Appraisal on a complete draft Strategy. However, it should be borne in mind that this appraisal process is a snapshot at this point in time. The range of delivery models, their benefits and advantages may change over time. We may, following consultation on the draft Libraries Strategic Commissioning Strategy, or at some other point in the future, seek to deliver a different vision and outcomes for the Library and Information Service, which might give a different conclusion to the options appraisal process contained in this Technical Appendix.
- 10.5 The first option considered, keeping the service in-house with 're-engineering' through the draft Libraries Strategic Commissioning Strategy, scored second highest at 67% against the assessment criteria, mainly because it maximises council control over the service, and does not incur any implementation costs

or procurement costs. The changes could be implemented quickly and one-off savings and efficiencies achieved in the short-term. Its limitations are that it does not provide the Library and Information Service with full commercial freedom and has a limited ability to grow revenue streams and realise an ongoing surplus. It also limits the ability of stakeholders to influence the service in a formal capacity, such as a board of directors would do in a Public Service Mutual (PSM). There may be opportunities to extend further the Council's partnership working with other library authorities, but the potential for savings is considered to be low as the Council has already implemented a major cost reduction and efficiency programme through the Libraries Transformation Programme to reduce the costs of management and back office services. Further opportunities for joint working would need to be considered on a case by case basis.

- 10.6 The Local Authority Trading Company (LATC) option achieved the highest mark (74%) against the assessment criteria and would generate the highest surplus, estimated at around £267,000 over five years. LATCs are companies set up by councils specifically to trade at a profit, and this is their key advantage over an in-house service, which is also fully controlled by the local authority. LATCs possess greater freedom than in-house library services to develop and trade services, including the development and delivery of new non-statutory services which can generate a surplus for the organisation. However, only up to 20% of the revenue of the LATC can come from outside of the 'parent' council.
- 10.7 Although the LATC option comes out well overall, for an LATC to become financially viable, there would need to be a developed market in which our Library and Information service could trade at a profit. At present the opportunities for us to do that are limited as most councils are not outsourcing their library services. Taking this into account, and also the likely set-up costs, which have not been estimated at this Initial Options Appraisal stage, and which would in all likelihood erode a significant proportion of the estimated surplus, it is not recommended that an LATC is considered at present.
- 10.8 The PSM option scored third highest (56%) against the assessment criteria, reflecting its ability to gain buy-in from staff and other stakeholders while also exploiting commercial opportunities. A PSM is an organisation that has left the public sector and is either wholly or partly owned by its employees. There is usually a board of directors, which may include community representatives. Some PSMs, such as Libraries Unlimited in Devon and Suffolk Libraries have charitable status, which means they have trustees. PSMs can increase the level of freedom and autonomy experienced by staff and managers, enabling them to be more creative within their roles, within a new organisational culture, and this can make the PSM less bureaucratic.
- 10.9 PSMs can have a high degree of commercial freedom to explore new areas of service growth. However, as with the LATC option, these opportunities need to exist within the market place. The estimated surplus for the PSM option in this Initial Options Appraisal was low, with a surplus of just over £56,000 over five

years, excluding set-up costs. Discussions which we have had with other councils who have established PSMs for their library service show that this surplus would certainly be wiped out by the set-up costs, and there is likely to be a net deficit at the end of the five year period of the draft Libraries Strategic Commissioning Strategy.

- 10.10 Many PSMs have business models which include the kinds of measures that we have already implemented or propose as part of the Libraries Transformation Programme during the three-year period from 2016/17 to 2018/19. Over and above this, potential savings associated with a PSM are often predicated on achieving charitable status, which can reduce the PSM's liability for business rates. Local authorities currently retain a proportion of the business rates they collect and there are proposals for councils in future to be reliant solely on business rates and council tax for their funding. A business rates saving for a PSM for the East Sussex Library and Information Service would therefore mean that we were diverting resources away from one or more local authorities to the PSM. For all of the reasons above it is not recommended that a PSM is the right delivery model for the East Sussex Library and Information Service.
- 10.11 The outsourcing option scored 49% against the assessment criteria. Outsourcing involves the procurement of a third party to deliver the library service on behalf of the Council via a contract, including potentially through a social enterprise or charity, a 'for-profit' provider or another local authority. Outsourcing offers a high degree of council influence and control, as the Council would specify in the contract what it wanted to be provided. The other key benefits are the ability to tap into expertise to deliver an improved service from an external provider and the potential for savings and efficiencies to be realised as a result of the library service being part of a wider organisation.
- 10.12 Outsourcing would certainly require a procurement process, with the financial and time implications that is carried with it unless outsourced to another local authority under legislation which avoids this requirement. Specific risks to the Council associated with this option include the unknown likelihood of the provider re-investing any surpluses back into the Library and Information Service and the risks around service delivery if the provider does not meet the required level of performance. It is not possible to forecast the potential viability of the service should it be outsourced. Interested providers will have their own business models and will structure their service proposal in different ways. It is impossible therefore to assess the viability of a provider's proposal until it has been received as part of the procurement process. The low score against the assessment criteria and the inability to undertake a financial differences model for this option mean that there is no clear evidence to recommend it as a preferable delivery model for the draft Libraries Strategic Commissioning Strategy.
- 10.13 Finally, the joint venture option scored 50%. The term joint venture can describe a range of different commercial arrangements between two or more separate entities. Each party contributes resources to the venture and a new business is created in which the parties collaborate together and share the risks and benefits associated with the venture. Each party generally has an expertise or

need which is central to the development and success of the new business which they decide to create together. It is also vital that the parties have a 'shared vision' about the objectives for the joint venture.

- 10.14 While a joint venture will bring several advantages (mainly relating to accessing commercial expertise and the benefits associated with a range of stakeholders assuming ownership and decision making roles), the complexity of establishing the model and the associated timescales represent a risk to the Council. The surplus for the joint venture is estimated to be the same as the PSM option at just over £56,000 over five years, excluding set-up costs. This surplus would certainly be eradicated by the set-up costs, and there is likely to be a net deficit at the end of the five year period of the draft Libraries Strategic Commissioning Strategy.
- 10.15 The Initial Options Appraisal does not identify an evidence base for recommending an alternative delivery model as the most suitable means of implementing the draft Libraries Strategic Commissioning Strategy. It is therefore recommended that the current in-house service, with re-engineering through the Libraries Strategic Commissioning Strategy is retained.

Annex 1 Assessment Criteria

1. Desirability:

- Ability for ESCC to have on-going strategic control over the service and to implement the Council's library strategy and commissioning themes:
 1. Reading and literacy
 2. Digital inclusion
 3. Economic development
 4. Health and well-being
- Ability of the model to offer staff ownership/control, to achieve buy in and retain staff, and ability to incentivise staff.
- Ability of the model to offer control/influence to users and the community, to achieve buy in and involvement with users and the community
- Ability to achieve joint working with external partners
- Ability to operate in a commercially focussed and flexible way
- Reversibility of the model

2. Viability:

- Cumulative net surplus generated over the 5 year period from 18/19 onwards
- Ability of option to establish within the required cost envelope identified (<£100k)
- Level of ongoing contract management costs to ESCC
- Ability to bid for external contract and access external funding
- Ability of model to realise surpluses and reinvest them wholly or in part

3. Feasibility:

- Ability for model to be implemented within required timeframe
- Requirement for a procurement process to be undertaken
- Ability of ESCC to influence the decision on purchasing business support services
- Ability of ESCC to manage reputational risks