

# **Hertfordshire County Council**

## **Outline Business Case Hertfordshire Libraries Alternative Delivery Model Project**

**March 2018**

**Version 1.0**

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## **Purpose**

The purpose of this document is to establish whether there is a business case for Hertfordshire County Council (HCC) to adopt an alternative delivery model for the Hertfordshire Library Service. This paper sets out the business case, including:

- Case for change
- Options appraisal
- Benefits of a Public Service Mutual
- Implementation
- Financial model
- Risks
- Project management
- Conclusion

## **Recommendation**

Following the various considerations outlined in this document, it is recommended that HCC should adopt a Public Service Mutual as the preferred model for the future delivery of Hertfordshire Library Service. This would be subject to the agreement of a Full Business Case and detailed Business Plan to be developed for presentation to the Education, Libraries and Localism Cabinet Panel in the autumn of 2018.

# 1. The Case for Change

## 1.1 Inspiring Libraries Strategy – the story so far

In July 2014, the County Council adopted '[Inspiring Libraries](#): a new strategy for Hertfordshire Library Service 2014-2024' to set the vision and direction for the service over the next ten years, and provide a framework for future decisions about service priorities.

### **Inspiring Libraries Vision and Values**

Our vision is to create inspiring library services that enable Hertfordshire citizens to enrich their lives.

- Hertfordshire Libraries will enable individuals to access knowledge, information and cultural resources for themselves, and provide support for those who may need more help.
- Hertfordshire Libraries will provide safe spaces (both physical and virtual) where anyone can go, without judgement, to read, to borrow, to learn, to access information and online resources.
- Hertfordshire Libraries will enrich communities by fostering local culture and heritage, and providing opportunities for citizens to participate actively in community life.

The strategy is based on three main themes:

- The library as a vibrant community asset – shaped with local people and partners to reflect local need, support sustainability and enrich communities.
- The digital library – a service that is ambitious in its use of technology and digital formats for the benefit of residents.
- The library as an enhanced gateway to reading, information and wellbeing.

'Inspiring Libraries' is designed to ensure that the library service remains relevant to changing community needs and customer demands, and sustainable within a reducing local government budget. It set the following ambitions for the service in 2024:

- To have a network of libraries that are valued local assets at the very heart of the communities they serve.
- To attract more visitors (physical, virtual and outreach).
- To be open to residents for longer hours.
- To cost the taxpayer less.

Over the last three years, the implementation of the strategy has led to significant changes in the library service. Savings have been made in the revenue budget, but continuing investment in library buildings and technology has ensured that the service is equipped to meet future demands.

## 1.2 Inspiring Libraries Strategy – the next phase

In November 2017, the County Council agreed ambitions and priorities for the next phase of the 'Inspiring Libraries' Strategy from 2018 to 2021, including:

- **Improving library buildings** – continuing the programme of improving Hertfordshire library buildings to ensure that they are bright, attractive, welcoming, flexible, tech-enabled spaces in convenient locations.
- **Extending access to library services** - seeking opportunities to extend self-service access to libraries by rolling out swipe-card access and supported self-service initiatives.
- **Developing technology** - continuing to invest in the development of technology to improve service delivery, to support digital inclusion, and to empower citizens.
- **Maintaining service delivery** - continuing to deliver high quality services to contribute to the seven key outcomes identified in the national 'Libraries Deliver' document. This will be achieved through a workforce of skilled and trained library staff, supported, where appropriate by volunteers from the local community.

Ongoing pressures on the County Council budget mean that the library service is now required to make a further reduction of £500,000 in the annual revenue budget by 2019/20, over and above the £2.5 million in revenue savings already identified from the original 'Inspiring Libraries' proposals. This financial pressure on libraries budget is likely to continue in future years.

## 1.3 National Context

Under the Public Libraries and Museums Act 1964, the County Council has a statutory duty “...to provide a comprehensive and efficient library service for all persons desiring to make use thereof.”

[Libraries Deliver: Ambition for Public Libraries in England 2016-2021](#), published by the Department for Digital, Culture, Media and Sport (DCMS) in December 2016, and endorsed by the Local Government Association, sets out a vision for public library services in England. It describes how modern public library services contribute to 7 'Ambition' Outcomes that are critical to individuals and communities.

Hertfordshire Libraries have a strong record of delivering social value, and contributing to the 7 'Ambition' outcomes:

**Reading and Literacy** – More than 20,000 children participate in the annual Summer Reading Challenge. 98% of Hertfordshire babies receive a Bookstart pack through the library service. Hertfordshire Libraries support more than 450 reading groups across the county.

**Digital Access and Literacy** - All Hertfordshire Libraries offer self-service public access to computers and printing, including Wi-Fi printing. Libraries offer tablet taster sessions for people who lack skills and confidence in using ICT. 82 volunteer IT champions are available to assist members of the public in accessing digital services.

**Learning** - CreatorSpace and coding clubs enable people to develop new skills in a supportive environment. Libraries offer guided class visits for reception and year 6 classes to introduce children to the service. Libraries provide access to online courses and learning resources, including academic journal articles through 'Access to Research'. Larger libraries provide valuable study space for students.

**Health and Wellbeing** - Reading Well: Books on Prescription collections offer medically approved titles to help people suffering from long term conditions and mental health problems to manage their own health. Reminiscence collections support dementia sufferers and their carers. Libraries provide venues for health events, advice sessions and promotions, such as Slipper Swaps for older people.

**Prosperity** – The Business Information service at Welwyn Garden City Library offers access to company information, market research and British Standards. Large libraries offer access to online business advice for SMEs. Scam awareness sessions in libraries help vulnerable people to protect themselves from online fraud.

**Cultural and Creative Enrichment** – Hertfordshire's annual LitFest offers a programme of more than 40 author talks and library events for adults and children. Libraries provide venues for cultural activities from theatre performances to 'knit and natter' groups. The Performing Arts Service loans music scores and play scripts to choirs, orchestras, music and drama groups across the county.

**Stronger, More Resilient Communities** – Local Library Managers act as 'the face of the library' in the local community, engaging with partners and stakeholders to help to embed libraries as local community hubs. Libraries offer space for community groups and activities, such as PCSO desks, and councillor surgeries. Services such as the Home Library Service, Carer's Cards and 'Borrowing without taking' for homeless people help to combat social exclusion and isolation.

The Society of Chief Librarians (SCL) has developed a framework of six Universal Public Library Offers – Reading, Information, Digital, Health, Learning and Culture – that directly support the 'Libraries Deliver' outcomes. Hertfordshire Libraries are signed up to all these offers.

## 1.4 Hertfordshire Context

The 'Inspiring Libraries' strategy supports all four of the ambitions of Hertfordshire's Corporate Plan 2017-2021, offering residents opportunities to thrive, to prosper, to stay healthy and safe, and to participate in the life of their communities.

'Inspiring Libraries' also supports the 'prevention' agenda, enabling citizens to improve and enrich their lives through reading, learning, access to information and technology, and participation in community life, thus reducing dependence on expensive public-sector support.

## 1.5 Meeting the needs of Hertfordshire residents

The development of the Inspiring Libraries strategy was informed by an extensive public consultation on 'The Future of Hertfordshire Libraries' in the autumn of 2013. A total of 15,487 people participated in this consultation through questionnaires, public meetings, focus groups and drop-in sessions in local libraries.

The results of the consultation reflected the value placed on library services by Hertfordshire residents. Key messages included:

- The importance of retaining traditional services, such as hard copy books and quiet areas to study.
- The importance of embracing and developing new technologies to support digital inclusion.
- Libraries are considered safe places; trusted for their inclusive, impartial and non-judgmental service.
- Libraries are seen to have a vital role to play in education, literacy and lifelong learning and to contribute to the health and wellbeing of individuals.
- In addition to providing traditional services, libraries are community hubs, providing access to local information and space for wider community activities and events.
- Libraries are particularly valued in smaller communities as local amenities and social venues, combating social isolation.
- Many library users want longer and more convenient opening hours.
- There is broad support for libraries to increase income to support services.

Most respondents supported the need for libraries to evolve to meet changing demands, and many expressed a willingness to accept quite significant change if this would guarantee the sustainability of the service.

Library usage figures since 2013 demonstrate the continuing popularity of library services, with the total number of library visits increasing by 11% since 2014.

*Figures in thousands*

|                        | 2013/14      | 2014/15      | 2015/16      | 2016/17      | 2017/18<br>Projected |
|------------------------|--------------|--------------|--------------|--------------|----------------------|
| <b>Physical visits</b> | 3,832        | 3,842        | 3,665        | 3,574        | 3,551                |
| <b>Online visits</b>   | 1,279        | 1,549        | 2,045        | 2,055        | 2,162                |
| <b>Total Visits</b>    | <b>5,111</b> | <b>5,391</b> | <b>5,710</b> | <b>5,629</b> | <b>5,713</b>         |

**Table 1**

Online Library visits include visits to the Libraries website, the library catalogue and online functions, the e-Library and the Online Reference Library.

## 1.6 Challenges facing library services

In common with library services across the country, Hertfordshire faces significant financial challenges.

- The requirement to save a further £500,000 by 2019/20 means that without a radical change in the way the service is delivered, the County Council would be forced to contemplate significant service reductions. This may include library closures, reductions in opening hours, further reductions in the materials fund, and staff reductions that would reduce the capacity of the service to deliver the Universal Public Library Offers and contribute to the 'Ambition' outcomes.
- Looking further ahead, the financial pressure on the County Council budget seems certain to continue, and the focus is likely to be concentrated on higher risk areas, such as social care and development, which could leave limited capacity to invest in the development of well-regarded, but lower risk services, such as public libraries.
- There are also opportunities for the development and improvement of library services. Technological advances allow the extension of library opening hours through self-service options, and the trend towards creating public service hubs, such as The Forum in Hemel Hempstead, may allow the modernisation of library buildings through co-location with other services. However, exploiting such opportunities requires ongoing investment in the service.
- Budget reduction measures taken during the Libraries Transformation in 2011/12, and the implementation of 'Inspiring Libraries' mean that the Libraries' budget has been reduced by 35% since 2011, and total revenue expenditure on public libraries in Hertfordshire (including property costs and recharges) has been reduced by 25%. Nevertheless, the service is predicting an overspend of around £300,000 in the current financial year.

- The implementation of 'Inspiring Libraries' was expected to save £2.5 million from the annual revenue budget over a three-year period from 2015/16. £2 million of this saving has been achieved, and the final £500,000 saving will be made by completing the roll-out of 16 volunteer-supervised community libraries across the county. This is progressing, but in order to get it right there is a need to build the trust and support of volunteer groups in each community, which has been a slower process than originally anticipated. To date, five Community Libraries are fully operational; five more are currently in transition; leaving six libraries where the transition process has yet to be started.
- Of the total Library Service revenue budget of £9.4 million, around 10% is expected to be contributed by income generation. A number of new revenue streams have been explored as part of the Inspiring Libraries strategy, including commissioned services, charges for the hire of library space, and donations for early years activities. However, this has to be balanced against the sharp decline in traditional sources of library income. Income from overdue charges is reduced because it is so much easier for customers to renew their items online, and income from DVD charges is falling as this is becoming an increasingly obsolete format. As a result, any income generated from new revenue sources is serving to offset the decline rather than raising additional money, and the service is predicted to fall short of its income target by around £140,000 in the current financial year.

## 1.7 An alternative delivery model?

These challenges were anticipated from the outset of the Inspiring Libraries strategy, and reflected in the cabinet paper '[Delivering the Inspiring Libraries Strategy](#)' in September 2014, which stated *"Beyond the next three years, there will be a continuing need for libraries to respond to demographic and social change. This will mean continuing to invest in technology to ensure that the Library Service remains relevant and up to date. The service will also consider the best operating models to deliver the strategy within a reduced budget."*

The national 'Libraries Deliver' document challenges local authorities *"to explore alternative forms of delivery and financing for library services before making any reductions in library services."*

In Hertfordshire, we now need to consider the best operating model to achieve the ambitions of the 'Inspiring Libraries' strategy within a reduced budget.

In March 2017, the DCMS published an [Alternative Delivery Models Toolkit](#), designed to support councilors, commissioners, library service managers, and other stakeholders to consider the desirability, viability and feasibility of a range of alternative delivery models for their library services.

The government has also stated its belief that "Public Service Mutuels have an important role to play in public service reform and in creating a more inclusive economy. It sees potential for these organisations *"to drive more innovative, responsive, efficient and better quality public services, enhancing social outcomes in our communities"*.

There are a number of local authorities, similar to Hertfordshire, which have successfully created independent, not for profit organisations with charitable status to deliver library services under contract to the council; for example:

**Libraries Unlimited South West**: launched in April 2016 as a company limited by guarantee – social enterprise with charitable status – to run Devon Libraries. See case study [here](#).

**Suffolk Libraries**: an Industrial and Provident Society, established in 2012, made up of friends groups and member organisations supporting each of the county's 44 Libraries has just had its contract extended for a further five-year period.

**Inspire Nottinghamshire**: launched in April 2016 as an independent Community Benefit Society with charitable status to deliver cultural services on behalf of the county council, including libraries, archives, arts, music services and community learning. See case study [here](#).

**York Explore**: an Industrial and Provident Society, one third owned by staff and two thirds owned by community members, spun out from York City Council in May 2014. See case study [here](#).

## 2. The Options Appraisal

Over the last few months a multidisciplinary group has been conducting a full options appraisal to identify which delivery model offers the greatest scope to deliver an affordable, sustainable, and responsive Library Service. It is recommended that HCC should adopt a Public Sector Mutual (PSM) as the preferred model for the future delivery of Hertfordshire Library Services.

HCC applied successfully for support from the DCMS Mutuels Support Programme, in exploring the viability of an alternative delivery model. The first stage of this support was a review of the extensive options appraisal. The outcome of this review validates the result of the options appraisal and confirms that a PSM is the model that scores highest in desirability, feasibility and viability.

**Table 2 - Summary of options analysis outcome**

| Option                                                                                                                                                                                          | Place           | Ranking          |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|------------------|
| <b>Public Service Mutual</b> - To 'spin out' the whole library service from the Council by establishing a PSM as an independent organisation and commissioning it to deliver the whole service. | 1 <sup>st</sup> | <b>Preferred</b> |
| <b>In-house</b> - To retain delivery of the existing service in-house, but restructured to meet the savings target.                                                                             | 2 <sup>nd</sup> | <b>Next Best</b> |
| <b>Joint Venture</b> - To establish a Joint Venture (JV) partner to help deliver the service.                                                                                                   | 3 <sup>rd</sup> | <b>Discount</b>  |
| <b>Local Authority Trading Company</b> - To set up a Local Authority Trading Company (LATC) to deliver the service.                                                                             | 4 <sup>th</sup> | <b>Discount</b>  |
| <b>Outsource</b> - To outsource to a 'for profit' or third sector provider to deliver the service.                                                                                              | 5 <sup>th</sup> | <b>Discount</b>  |

There were five key stages in the options appraisal process:

- Stage 1** Identify a long list of options.
- Stage 2** Develop an agreed set of criteria and weighting to assess each of the long list options.
- Stage 3** Develop a high level financial summary for each long list option.
- Stage 4** Conduct an appraisal of each of the long list options against the agreed criteria, to determine their suitability to deliver the Inspiring Libraries Strategy. Short list the two options with the highest scores.
- Stage 5** Conduct an appraisal of each of the shortlisted options by undertaking a PESTLE Assessment and evaluation of their detailed propositions, to determine the final scoring for the preferred and second-best option.

## Stage 1 Long List of options

Five delivery models were identified as having the potential to deliver Hertfordshire Libraries. These models were identified from the [Libraries Alternative Delivery Models Toolkit](#) provided by DCMS, and learning from other library service business cases. The following five delivery models formed the options appraisal long list:

**Option 1: In-house** – To retain delivery of the existing service in-house, but restructured to meet the savings target.

**Option 2: Outsource** - To outsource to a 'for profit' or third sector provider to deliver the service.

**Option 3: Joint Venture** - To establish a Joint Venture (JV) partner to help deliver the service.

**Option 4: Local Authority Trading Company** - To set up a Local Authority Trading Company (LATC) to deliver the service.

**Option 5: Public Service Mutual** - To 'spin out' the whole library service from the Council by establishing a PSM as an independent organisation and commissioning it to deliver the whole service.

The preferred option must be able to deliver HCC's **statutory obligation under the Public Libraries and Museums Act 1964 to "...to provide a comprehensive and efficient library service for all persons desiring to make use thereof."**

The model also had to clearly demonstrate that it had the potential to deliver Hertfordshire's '[Inspiring Libraries](#)' Strategy, and the specific ambitions and priorities set out in '[Inspiring Libraries – the next phase 2018-21](#)', at a reduced cost.

## Stage 2 Develop an agreed set of criteria and weighting

The five longlisted options were evaluated by the project group, against nine criteria designed to assess desirability, feasibility and viability:

1. Enables the service to deliver the vision and values of 'Inspiring Libraries'.
2. Enables the service to deliver the strategic aims of the 'Inspiring Libraries' Strategy.
3. Enables the County Council to retain sufficient influence to fulfil its statutory obligations.
4. Promotes a sense of ownership and engagement in Hertfordshire communities.
5. Promotes a positive organisational culture, where staff feel they have a sense of ownership, confidence and commitment.
6. Can be implemented by April 2019.
7. Can deliver required savings in the short term (2-3 years).
8. Demonstrates financial sustainability over the long term (5-10 years).
9. Enables the service to develop commercial behaviors and access external funding.

### Stage 3 A financial summary for each of the options.

In addition to a financial summary for each option, where possible options were assessed for their potential to generate a surplus over the next five years, with an estimate provided on the size of the surplus. The results from the high-level financial modelling on savings, is summarised below:

**Option 1: In-house** – Savings target of £500,000 per year would be met through restructuring the service. Therefore, savings over a five-year period 2019/20 – 2023/24: £2,500,000.

**Option 2: Outsource** – At this stage it is not possible to forecast the potential scale of savings and overall viability of the service should it be outsourced. A procurement process would invite tenders that delivered savings in addition to delivering the Inspiring Library Strategy. Therefore, we have assumed some savings from this option in the Options Appraisal scoring.

**Option 3: Joint Venture** - Net surplus after tax, five-year period 2019/20 – 2023/24: £2,340,487.

**Option 4: Local Authority Trading Company** - Net surplus after tax, five-year period 2019/20 – 2023/24: £113,059.

**Option 5: Public Service Mutual** - Net surplus after tax, five-year period 2019/20 – 2023/24: £2,340,487.

Of the five options considered, only the PSM and JV options can make significant savings (with no impact on services) at approximately £400k per annum net saving; based on these two models being constituted as a charity and consequently receiving 80% relief on rates payments. The in-house model could make the required £500k per annum saving, but this would only be achieved through service reductions.

### Stage 4 Appraisal of the longlist of options against the agreed criteria

As part of the assessment the main advantages and disadvantages of each option were considered, using the assessment criteria and the financial summaries highlighted above.

The scoring of each model is summarised below.

| Final scoring                   | Score | Points Available | % Score | Rank            | Position    |
|---------------------------------|-------|------------------|---------|-----------------|-------------|
| Public Service Mutual           | 604   | 760              | 79%     | 1 <sup>st</sup> | Preferred   |
| In-house                        | 514   | 760              | 68%     | 2 <sup>nd</sup> | Second Best |
| Joint Venture                   | 471   | 760              | 62%     | 3 <sup>rd</sup> | Discounted  |
| Local Authority Trading Company | 463   | 760              | 61%     | 4 <sup>th</sup> | Discounted  |
| Outsource                       | 433   | 760              | 57%     | 5 <sup>th</sup> | Discounted  |

A summary of the appraisal for each of the longlisted options is included as Appendix A.

## Public and staff consultation – Impacts on the Options Appraisal

A consultation document was published on the principle of creating an alternative delivery model for Hertfordshire Libraries to seek feedback on the idea from customers, partners, stakeholders, library staff and volunteers. 2060 members of the public responded to the consultation. Their feedback has been fully considered within the options appraisal.

The findings from the public consultation indicate a strong endorsement of the ambitions of the 'Inspiring Libraries' strategy.

Opinions regarding the adoption of an alternative delivery model for library services were more mixed. More people (41.7%) disagreed with the proposal than agreed with it (30.6%), but the large number who expressed no preference (27.7%) meant that there was no majority either in favour or against the proposal.

Opinions among staff are similarly mixed. 33% of respondents disagreed with the proposal, 25% agreed, and 42% either expressed no preference or felt they had insufficient information to make an informed decision. Many staff expressed anxieties about reductions in pay and pensions, inferior terms and conditions of employment, and reduced job security in an alternative delivery model, which would need to be addressed if this was the preferred option.

A clear majority of both public and staff who agreed with the proposal to adopt an alternative delivery model preferred the PSM option.

It is fair to conclude that the principal concern for both staff and library customers is maintaining the quality of the library service. The model that is best able to achieve this in both the short and the long term is the model that is most likely to win support.

## Stage 5 Appraisal of shortlisted options

The result of the above appraisal exercise determined the preferred and second-best options to be shortlisted:

- **Preferred Option** – Public Service Mutual
- **Second Best Option** - In-House with re-engineering

A PESTLE (Political, Economic, Social, Technological, Legal and Environment) analysis was completed to understand the context that Hertfordshire Libraries operates within. The two short-listed options were assessed against the PESTLE analysis, to see which is best suited to cope with the external factors identified. The results of the scoring of the Shortlist Options PESTLE Assessment can be seen in Table 3 below.

**Table 3 - Shortlist Options PESTLE Assessment Scoring Summary**

| Final scoring               | Score | Points available | % Score | Rank            |
|-----------------------------|-------|------------------|---------|-----------------|
| Public Service Mutual (PSM) | 92    | 150              | 61%     | 1 <sup>st</sup> |
| In-house (restructured)     | 85    | 150              | 57%     | 2 <sup>nd</sup> |

For each of the two shortlisted models, a detailed proposition was developed, to further understand the implications of each of these models. The propositions contained the following information:

1. Key Characteristics – A description of how the model would operate including governance, management, ownership, control, the impact on staff, contract management arrangements, assets and back office services and in-scope services.
2. An analysis of the advantages and disadvantages of the model overall, and in the context of Hertfordshire Libraries Service.
3. High-level Financial Differences and Considerations.

These propositions were then used to quality assure and finalise the scoring for the two shortlisted options, alongside the findings from the Public and Staff Consultation. The results of the scoring of the Shortlist Options Appraisal can be seen in Table 4 below.

**Table 4 - Shortlist Options Appraisal Final Scoring Summary**

| Final scoring                  | Score | Points available | % Score | Rank            |
|--------------------------------|-------|------------------|---------|-----------------|
| <b>PSM (PSM)</b>               | 604   | 760              | 79%     | 1 <sup>st</sup> |
| <b>In-house (restructured)</b> | 521   | 760              | 69%     | 2 <sup>nd</sup> |

The key findings of the short list options appraisal were as follows:

### Preferred Option – PSM

This option ranks first as this model offered the greatest scope to continue to deliver an affordable, sustainable, and responsive service. A summary of the key reasons for choosing this as the preferred option is highlighted below:

The key benefits of this model are as follows:

- If the legal form and constitution of the PSM qualifies it to register for charitable status, then it will enable immediate savings to be made through NDR rate relief, without the need to reduce services. The PSM would also be eligible for grant funding opportunities not available to in-house council services.

- Relieved of the need to make immediate service reductions to meet short term budget targets, a PSM would be well placed to deliver the ambitions of the 'Inspiring Libraries' strategy, and the six-universal public library offers.
- A PSM would have a high degree of commercial freedom, allowing it to develop new sources of funding, such as sponsorship, donations and payment for value added services. It would also be able to work more easily with partners across county borders and the cultural sector, which could bring efficiencies, enable growth and provide opportunities for diversification.
- Independence from HCC and a clear single focus on libraries may enable the service to be more flexible and responsive to customers, communities and partners. Being one step removed from the local government structure may enable quicker decision making, encouraging greater innovation and more rapid response to market opportunities and changes in customer demand.
- Depending on its legal form and governance structure, a PSM may provide an opportunity for community stakeholders to have a more direct voice in the development of the service, leading to greater engagement. In the public consultation process, those respondents who supported the proposal for an alternative delivery model clearly identified the PSM as their preferred option.
- Similarly, depending on its legal form and governance structure, a PSM may provide an opportunity for library service staff to have a more direct voice in service development, promoting a positive organisational culture, and a greater sense of ownership, confidence and commitment. In the staff consultation process, those respondents who supported the proposal for an alternative delivery model clearly identified the PSM as their preferred option.

## Second Best Option – In-house

The option to remain in-house ranks as the second highest scoring option for both the long-list and short-listed options appraisals, with similar scoring for many characteristics to the PSM model.

- The in-house option scored well as it maximises council control over the service, and does not incur any implementation costs or procurement costs, freeing up service managers to focus on other aspects of the 'Inspiring Libraries' strategy. However, this option does not provide the Library 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.
- Additionally, as the ability to apply for charitable status does not apply to this option, to achieve the necessary budget savings through the in-house option, it would be necessary to make significant service reductions.
- The implementation of the 'Inspiring Libraries' strategy since 2014 has included remodelling the service and re-profiling staff at all levels to achieve savings targets, so there is limited room for further restructuring.

- Financial pressures on local government are likely to continue in future years, and if further savings were required from the libraries budget, then under the in-house option, the Council would be forced to consider a combination of library closures, reduced opening hours, reduced staffing, and a reduced materials fund, which would make it difficult to meet the objectives of 'Inspiring Libraries' and to deliver the universal public library offers.

### **Options Appraisal Recommendation**

The extensive options appraisal process identified, through the assessment of the long list and then the short-listed options, that the PSM model offered the greatest scope to continue to deliver an affordable, sustainable, and responsive service. It is therefore recommended that HCC should adopt a Public Sector Mutual (PSM) as the preferred model for the future delivery of Hertfordshire Library Services.

### 3. The benefits of a Public Service Mutual

The potential benefits of adopting a Public Service Mutual (PSM) for the delivery of library services are as follows:

#### **Maintaining services while reducing costs**

- Creating a PSM with charitable status would enable the service to make some immediate savings in non-domestic rates (NDR). This would negate the need to make significant service reductions in order to meet short term budget targets, jeopardising the ability of the service to deliver the ambitions of the 'Inspiring Libraries' strategy and the Universal Public Library Offers.
- The County Council would continue to meet its statutory duty to provide a 'comprehensive and efficient' library service.
- Detailed scrutiny of all aspects of the service and support costs during the due diligence of 'spinning out' is likely to lead to greater knowledge of costs and processes, giving new insight into potential efficiencies.

#### **Increasing resilience and flexibility**

- Independence from the County Council and a clear focus on libraries may enable the service to be more flexible and responsive, for example in taking advantage of partnership opportunities.
- Being one step removed from the local government structure may enable the service to be more innovative and respond more rapidly to market opportunities and changes in customer demand.
- A PSM may provide an opportunity for library service staff to have a more direct voice in service development, promoting a positive organisational culture, and a greater sense of ownership, confidence and commitment.

#### **Generating more external income**

- A PSM would enable the library service to access grants and other sources of funding. For example, three of the four library services currently operating as PSMs successfully bid to become National Portfolio Organisations in the latest Arts Council funding round. Some potential sources of grant funding may not be available to the County Council.
- A PSM would have a high degree of commercial freedom, allowing it to develop new sources of funding, such as sponsorship, donations, and payment for value added services. Feedback suggests that people may be more willing to make donations or to pay for added value services provided by an independent not-for-profit organisation.

#### **Potential for growth and diversity**

- A PSM may be able to work more easily with partners across county borders, enabling growth and potentially bringing efficiencies. For example, Libraries Unlimited (the PSM in Devon) is now delivering library services for Torbay.

- A PSM may also be able to diversify by working more easily with partners across the cultural sector. For example, Suffolk Libraries works in partnership with Creative Arts East to use public library space to present digital screenings of arts performances.

#### **Increasing community engagement**

- A PSM may provide an opportunity for community stakeholders to have a more direct voice in the development of the service, leading to greater engagement. In the public consultation process, those respondents who supported the proposal for an alternative delivery model clearly identified the PSM as their preferred option.
- The PSM would have an independent Board, providing an opportunity to bring in new experience, insight and skills into the library service as needed.

#### **Maintaining democratic control**

- County Council Members would continue to set the strategic direction for the library service, and would maintain influence and scrutiny through the constitution of the PSM and through the contract.

## 4. Implementing a Public Service Mutual

### 4.1 Governance and Commercial Considerations

If the Library Service is to operate outside the direct control of the Council, HCC will have a strong interest in ensuring both the service's continued success and delivery of core objectives.

HCC will need to ensure that it continues to meet its own statutory duty to provide a 'comprehensive and efficient library service for all persons desiring to make use thereof' through a Public Service Mutual.

As part of the Full Business Case (FBC) to be produced and presented to Cabinet later this year, appropriate governance arrangements for the proposed organisation will be considered. This will include consideration of how the different PSM governance models can best achieve appropriate strategic and policy alignment, as well as potential implications of charitable status.

Governance and commercial matters which will require greater exploration are likely to include:

- Service requirements
- Management/ stakeholder engagement
- Leadership
- Avoidance of Conflicts of interest
- Transfer arrangements, including property and other assets
- Transitional arrangements, including shadow boards, service provision
- Commissioning / contract management/contractual relationship between HCC & the PSM (including compliance with the Public Contracts Regulations 2015 – where applicable).
- Grant funding from HCC
- Ability to access new opportunities for income generation
- Provision of support services by HCC to the PSM
- Funding, incl. charging mechanisms
- TUPE and Pension provision
- Compliance with competition rules
- State Aid compliance
- Data ownership and transfer
- Residual liabilities, incl. any county-wide contracts
- Tax implications
- Consequences (and appropriate mitigations) in the event of failure

## 4.2 Proposed Transfer Arrangements

### 4.2.1 Property

Libraries operate from 49 buildings. The proposed arrangements for the property assets are that the library estate will be leased/sub-leased to the PSM at an appropriate rental rate, with break and termination clauses to mirror any service contract or delivery term. HCC Property will need to review each property to determine how this can be best managed, and further details will be worked through in the FBC.

As occupier, the PSM will be responsible for paying Business Rates (NDR) for the premises and will therefore benefit from any rate relief obtained.

### 4.2.2 Corporate Support Services

Libraries currently pay approximately £2.6million in central recharges to cover the costs of Corporate Support Services such as HR, Finance, ICT, Legal Services etc. The final scope of corporate support arrangements for the alternative delivery model is being developed.

A range of options would be available to the new PSM in terms of ongoing support services. The new PSM will need sufficient freedom to determine this to operate autonomy, but without unduly undermining the current HCC arrangements.

### 4.2.3 Staffing Arrangements

Employees currently assigned to the Library Service (whether that be directly employed by that department or those whom the majority of their work is undertaken for the service) would transfer to the PSM with their employment conditions protected by Transfer of Undertakings (Protection of Employment) regulations ([TUPE](#)). The TUPE staff would be directly employed by the new organisation.

This process would include a period of formal consultation with staff and trade unions in advance of any transfer. Staff joining the new organisation once set up may be employed on new terms and conditions.

### 4.2.4 Potential Charging Mechanism

A potential model that could be used is that the PSM is paid for the services contracted in the specification for the delivery the Library Services via a quarterly management fee.

## 4.3 Financial Arrangements

### 4.3.1 Financial Summary

The key issues to be considered are:

- The achievement of the £500k savings target for the Library Service.
- Long term viability of library service delivery.
- The liabilities remaining with the Council.
- The costs of change.

Initial modelling shows that the option to form a PSM achieves more savings when compared to the other alternative delivery models. However, the outline business case suggests that the savings achieved through a PSM do not fully cover the annual £500k savings target in the Integrated Plan (IP).

A detailed financial analysis for the operation of the new organisation will be part of the next stage of the project and FBC.

### 4.3.2 Capital and Revenue Requirements

Revenue funding could be provided by a management fee payable from HCC to the PSM, quarterly in advance to provide cashflow to the new organisation. Any additional cashflow requirement could be funded by a loan from HCC, re-payable at commercial rates.

An 'Invest to Transform' (ITT) bid will be prepared to request funding for set up costs, repaid from savings by adopting the PSM.

Funding for future capital requirements needs to be considered and agreed in the FBC.

Cash flow, reserves and working capital will need to be factored into negotiations around contract arrangements in the FBC.

| Description             | Value | Start date | End date   |
|-------------------------|-------|------------|------------|
| Set up costs (estimate) | £300k | May 2018   | April 2019 |

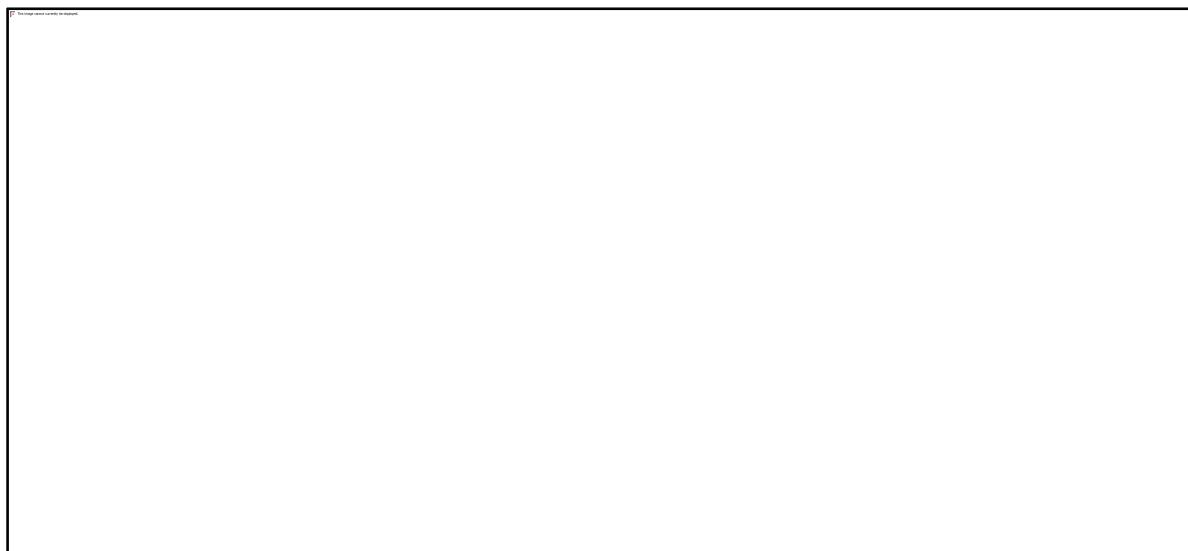
### 4.3.3 Impact on income and expenditure account

The impact on the income and expenditure accounts of both HCC and the PSM depends on the agreed management fee payment but the net effect across both organisations (excluding set up costs) is shown here, with a more detailed breakdown of savings/costs shown in section 4.3.4.

| PSM           | 2019/20         | 2020/21         | 2021/22         | 2022/23         | 2023/24         |
|---------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| <b>Saving</b> | <b>-419,962</b> | <b>-408,867</b> | <b>-415,683</b> | <b>-417,534</b> | <b>-419,423</b> |

#### 4.3.4 Financial Costs/Benefits

The table below shows the net financial benefits over the first five years when compared to HCC's current financial baseline.



##### Notes

1. Contract Monitoring – Additional cost for HCC to monitor the contract once in-house expertise has transferred to PSM.
2. Loss of NDR – HCC retain a percentage of rates collected so any rates saving achieved by the PSM will be offset by a proportionate loss of income for HCC. There would also be an impact on NDR income for the District Councils.
3. Additional Management Staffing – one full time Finance / Business Manager.
4. Governance Costs – legal and statutory costs of PSM – audit etc.
5. NDR saving – A charitable organisation is eligible to claim 80% rates relief.

#### 4.3.5 Additional Funding / Income to be realised

The PSM model can provide significant commercial freedoms and flexibility to 'deliver differently' which could include increasing income generation. Depending on the chosen legal form and constitution, a library service PSM may qualify as a social enterprise or charity; if so, it would be eligible for grant funding opportunities not available to in-house council services which it may wish to exploit (although there is no guarantee of funding applications being successful). Independence from the Council as a PSM could potentially heighten the appeal of the service to potential partners and further funding streams (such as corporate sponsorship or public donations).

Libraries currently obtain funding from Adult Care Services (ACS) and Children's Services (CS) for services which deliver corporate objectives. Libraries have also been commissioned to provide a visitor information service in Royston: - there may be similar opportunities available that the PSM could seek to exploit, but this would be subject to building sufficient staff capacity and competencies within the new organisation.

Additionally, Hertfordshire is signed up (through the Society of Chief Librarians) to the Government Digital Services framework, which may attract commissioning for work to assist the roll-out of new government digital services, but the scale of these opportunities is uncertain.

The financial model assumes growth in traded income of 5% in 2020/21 with a further 2% per annum after this. Grant/commissioning income is forecast to increase by approximately £35,000 in 2020/21. These are both gross figures, before deducting any costs associated with the additional income.

#### 4.3.6 Sensitivity Analysis

Some of the greatest levels of uncertainty are around the ability of the new organisation to raise additional income/grant funding, granting of charitable status and future government policy on rates retention. When rates are collected they are shared between the Government, County and District councils (currently 50%, 10%, 40% respectively) so any saving made by the PSM will lead to a loss of income for HCC of 10% of the value of the saving. The Government is moving towards greater rates retention for Counties/Districts with consequent greater loss of income, but it is too early to say what effect this will have.

The following options have been modelled as shown in the table below:

- No additional income.
- Rates retention increases to 100%, maintaining the current split between HCC & districts.
- Charitable status not granted so the PSM is unable to benefit from savings due to NDR relief.

| <b>Sensitivity Analysis</b>                                                       | 2019/20  | 2020/21  | 2021/22  | 2022/23  | 2023/24  |
|-----------------------------------------------------------------------------------|----------|----------|----------|----------|----------|
| Revised saving (no additional income)                                             | -419,962 | -389,545 | -389,545 | -389,545 | -389,545 |
| Revised saving (NDR retention increases to 100% and HCC/district split unchanged) | -419,962 | -378,450 | -385,265 | -387,117 | -389,006 |
| Revised cost (charitable status not granted)                                      | 127,550  | 108,228  | 101,412  | 99,561   | 97,672   |

#### 4.3.7 Requirements to realise savings

For the new model to deliver the required savings and long-term viability the following are required:

- New delivery model qualifies for charitable status – to achieve NDR savings. The PSM is not financially viable if this is not achieved.
- Future Government changes to NDR retention don't negatively impact on value of HCC retention.
- Additional trading and grant income is deliverable.

- The existing budget gap is closed in 2018/19. In 2017/18 there is a predicted overspend of around £300k – if this gap is not closed then the savings generated through a PSM will be reduced.

#### 4.3.8 Options to realise future savings

- Longer term review of back office services, this will be undertaken as part of the next stage of the project from April 2018.
- Review of pension scheme provision in PSM.
- Review of terms and conditions for new staff.

#### 4.3.9 Assumptions

These financial calculations have been created based on the following key assumptions:

1. Charitable status achieved so NDR relief applies and continues at 80%.
2. NDR – Retention of 75% from 2020/21 with current split between HCC / Districts maintained.
3. Additional income growth assumes there is the capability to deliver this through the existing team and the additional staff member.
4. No savings made from back office services – paid for by PSM at cost to HCC.
5. PSM operates as an Agency of HCC so there would be no change to current VAT implications.

#### 4.3.10 Dependencies involved in creating a successful Public Sector Mutual

##### **The future of Non-Domestic Rates**

- The immediate financial savings from the creation of an alternative delivery model for the library service are predicated on relief from non-domestic rates for library buildings. The government has indicated that local authorities could in future retain 100% of NDR. If implemented, this could negate the benefit of these savings, depending on the future split of rates income between county and districts, and the treatment of charitable reliefs.

##### **The complexity of the transition process to alternative delivery model**

- The Integrated Plan proposes a reduction of £500,000 in the library service budget from 2019/20. The process of transition to an alternative delivery model is complex, as there are significant financial, legal and HR issues to work through in the implementation stage, such as VAT, TUPE and pensions liability. Achieving the budget saving is dependent on this work being completed in time for the new model to be launched from April 2019.

### **Maintaining a positive organisational culture and engaging staff**

- Public libraries have always relied on a high level of dedication, flexibility and good will from staff to provide an effective service. The success of a Public Service Mutual would depend on promoting a positive organisational culture where staff feel a sense of ownership and commitment, and have confidence that the model supports the long-term interests of the Library Service. This may restrict the potential for an independent library service to reduce staffing costs by diverging from local government terms and conditions, pay settlements, pensions etc.

### **Third party support to transition to the new organisation**

- There are costs involved in the transition to a new organisation, which would need to be met by the County Council. We have successfully applied to the DCMS Mutual Support Programme for independent support and advice on the establishment on a PSM, but there is an expectation that the County Council will contribute 25% in matched funding for this support.

### **Secure funding to support the business planning and transition phase**

- The ITT fund was created in HCC to provide up-front investment for changes that deliver service improvement and savings. The Project Team will be applying for ITT funding to support the business planning and transition phases of this project. The estimated funding requirements discussed above and payback period through an ITT have been factored into the Financial Case.

## 4.4 Managing Risk

A risk assessment for the development of the preferred option has also been undertaken, with the key considerations outlined below.

| Key Risks                                                                                                                                                                                                                                       | Mitigation                                                                                                                                                                                                                                                                                                                                                                                           |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| The PSM may not achieve charitable status and benefit from the charitable business rate relief, hindering the Finance Case.                                                                                                                     | Legal support will advise on set up / application costs to apply for charitable status and what the criteria for achieving charitable status is, and whether the new organisation can meet these requirements.                                                                                                                                                                                       |
| HCC may not be ready to mobilise an effective project team to deliver a complex implementation of this nature.                                                                                                                                  | A resource profile to estimate the resource requirements for implementation has been undertaken. External advice is being sought through Mutual Ventures to support the implementation process.                                                                                                                                                                                                      |
| A third party may wish to challenge the decision or the process.                                                                                                                                                                                | Internal legal input is being provided throughout the process to limit the likelihood of this. External specialist legal is also being provided through Mutual Ventures.                                                                                                                                                                                                                             |
| There is a risk that future liabilities inc pension and redundancy liabilities are not apportioned, and appropriate transfer arrangements are not in place in time.                                                                             | The mitigation is to work with Mutual Ventures to ensure that the PSM can reach the best solution for future arrangements, taking into consideration the long-term sustainability of the new organisation as well as affordability and value for money for the Council.                                                                                                                              |
| The PSM may make it more difficult to access the capital bidding process within HCC, and to Section 106/CIL funding that is allocated for the improvement of library services to support future investment in library buildings and technology. | Future responsibility for Section S106/CIL funding arrangements will remain with the Council; how this is to be coordinated with the PSM will need to be set out in the Full Business Case.<br>Albeit dependent upon the property arrangements, applications for capital funding to enhance library buildings are likely to follow the same process as Hertfordshire Libraries currently undertakes. |
| None of the additional funding opportunities available to the PSM is guaranteed, and there is a risk that the long term financial viability of the service would be threatened by a failure to meet income targets.                             | The mitigation is to work with Mutual Ventures to ensure that any growth model for the new organisation is robust and realistic. This will need to include growth plans to diversify its income base (such as winning new contracts and/or developing new services) and make the service less susceptible to public funding cuts.                                                                    |
| To be successful in delivering library services, the PSM would need to retain key library service skills, and to develop or recruit new skills in financial and business management and fundraising.                                            | The mitigation is to work with Mutual Ventures to identify how staff buy-in has been achieved in other library service PSMs, and to maintain staff engagement throughout the process.                                                                                                                                                                                                                |

## 5. Project Management

### 5.1 Setting up a Public Service Mutual

Over the coming months more work needs to be done to develop a full business case and detailed business plan for the chosen alternative delivery model.

Although the County Council has not had experience in setting up a Public Service Mutual, it has experience in developing, promoting and implementing other significant incorporation projects, including:

- [Hertfordshire Catering Limited](#) – an Educational Catering Company Limited by Shares wholly owned by HCC.
- [Herts for Learning \(HfL\)](#) - the largest not for profit Schools' Company in the UK with a 19% shareholding by HCC.
- Shared Internal Audit Service (SIAS) and Shared Anti-Fraud Service (SAFS) have both been established as partnerships between HCC and the District and Borough Councils.

The County Council has also made a successful application to the revised DCMS Mutual Support Programme, securing access to the experience of consultants [Mutual Ventures](#) to provide independent support and advice in drawing up a robust business case and implementation plan. Mutual Ventures supported both Explore York and Libraries Unlimited to establish as independent PSMs, providing support during the business planning and transition/implementation stages.

### 5.2 Project Governance

#### The Board

The project will continue to be overseen by a multi-disciplinary working group chaired by the Sponsor, Taryn Pearson-Rose, the Assistant Director Customer Engagement and Libraries, and attended by senior managers from Libraries and Corporate Services.

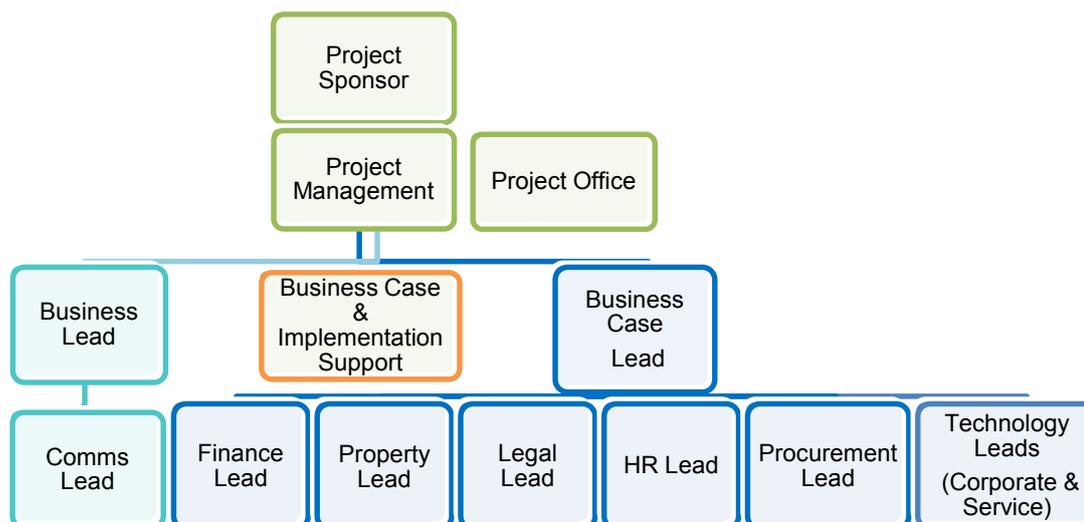
The Governance Board's role is to:

- Make strategic decisions relating to all aspects of the business case
- Oversee delivery of the Full Business Case, business plan and implementation plan
- Determine recommendations for Cabinet
- Monitor project progress based on project objectives and plan
- Manage relationship with third parties
- Monitor and address business interdependencies with other projects / activities
- Sign off complete deliverables incl. FBC

#### The Delivery Team

The Project Delivery Team is responsible for undertaking activities in the Project Plan to deliver the business case. See Project Delivery Team structure below.

**Table 5 - Project Delivery Team Structure**



The above structure is based on what the project team currently know is required for the next phase. Project Delivery Team membership will be reviewed to ensure it has sufficient resource to the meet the requirements of each phase.

### 5.3 Project Management Planning

#### Project Approach

This project is being run in accordance with best practice through the use the following Project Portfolio Management (PPM) Assurance tools including **PRINCE2** methodology for project delivery.

#### Project Reporting

The Project Management will develop programme controls supported by robust reporting processes that align with the chosen PPM approaches, integrating key stakeholder requirements, facilitating continuous monitoring, and incorporating accurate performance measurement. The purpose is to provide accurate project information in a timely way to ensure well informed decisions are made and appropriate action is taken.

### 5.4 Timetable

In the event of receiving Cabinet approval, the programme is working to the following timetable, based on a 1<sup>st</sup> April 2019 launch date for the Public Service Mutual:

- Outline Business Case to Cabinet - seeking approval to progress to a Full Business Case for establishing a Public Service Mutual. - **23<sup>rd</sup> April 2018**
- Full Business Case development – **April to August 2018**
  - Undertaking all the different activities required to design the chosen model, including defining the ownership and governance structure, identifying the appropriate legal form, defining leadership roles and board membership.
  - Defining growth strategy, required operating model, approach to assets, pensions and TUPE requirements, review of corporate support services and contract value/specification.

- Developed Business Plan and Implementation Plan.
- Full Business Case to Cabinet - seeking approval to establish a Public Service Mutual based on the FBC's recommended Legal Form, Business Plan and Implementation Plan – **September 2018**
- Set up the organisation to deliver the contract, including the transfer of assets and TUPE process for transfer of staff - **September 2018 to March 2019**
- Commencement of contract management arrangements between the PSM and HCC, with the PSM Board taking over strategic and operational control of the organisation – **1<sup>st</sup> April 2019**
- Close project management function, including end of project report and lessons learnt – **April to May 2019**

## 5.5 Implementation Plan

A number of workstreams will need to be set up to develop the new organisation. An implementation plan has been developed, based on the Council's previous experience of setting up new organisations.

Subject to the business case being approved further work will be required to:

- Identify all of the key tasks to be carried out in advance of the PSM's proposed commencement date on 1 April 2019.
- Convert the Implementation plan into a detailed task plan that will be used to deliver the project.

**Table 6 - Implementation Plan**

| Workstreams    | Key Tasks                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
|----------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Finance</b> | <ul style="list-style-type: none"> <li>- Agree financial year end</li> <li>- Agree how opening position and any accruals will be calculated</li> <li>- Agree any loans to new company</li> <li>- Agree financial reporting requirements</li> <li>- Appoint external auditors</li> <li>- Agree Company tax structures and impact - VAT, Corporation tax SDLT</li> <li>- Agree process for filing accounts with Companies House</li> <li>- Develop business plan</li> <li>- Budget for and monitor set up costs</li> <li>- Agree transfer of any existing HCC reserves to the new organisation</li> </ul> |

|                                 |                                                                                                                                                                                                                                                                                                                                                                                                                     |
|---------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Capital</b>                  | <ul style="list-style-type: none"> <li>- Capital Charges of HCC assets used by the new organisation</li> <li>- Capital Accounting Requirements</li> <li>- Transfer assets to the new organisation from HCC</li> <li>- Set up lease agreements for any assets to be leased</li> <li>- Leasing Accounting Requirements</li> <li>- Monitoring of Capital Spend</li> </ul>                                              |
| <b>Treasury Related</b>         | <ul style="list-style-type: none"> <li>- Identify bank account requirements</li> <li>- Agree use of Imprest Accounts</li> <li>- Agree any Treasury Management requirements</li> <li>- Agree the monitoring of cash flows forecasting which is essential to the needs of the new organisation</li> <li>- Agree new VAT processes</li> <li>- Register for income tax collection and BACS payment with HMRC</li> </ul> |
| <b>HR &amp; Pensions</b>        | <ul style="list-style-type: none"> <li>- Agree final organisational structure</li> <li>- Agree whether changes are required to Terms &amp; Conditions and Pensions for new staff</li> <li>- Source Pension Scheme</li> </ul>                                                                                                                                                                                        |
| <b>SAP Systems</b>              | <ul style="list-style-type: none"> <li>- Create change requests to implement changes to payroll, finance &amp; procurement</li> <li>- Create request for master data changes for finance codes and HR organisational structures</li> </ul>                                                                                                                                                                          |
| <b>Business Process Mapping</b> | <ul style="list-style-type: none"> <li>- Ensure all key business processes for the new organisation are mapped and document findings and identify areas for further efficiency</li> </ul>                                                                                                                                                                                                                           |
| <b>Website</b>                  | <ul style="list-style-type: none"> <li>- Review how current website will operate with the PSM's arrangements</li> <li>- Map any process / system changes required</li> </ul>                                                                                                                                                                                                                                        |
| <b>Communications</b>           | <ul style="list-style-type: none"> <li>- Prepare &amp; deliver communications plan/s</li> </ul>                                                                                                                                                                                                                                                                                                                     |

## 5.6 Resource Plan

A proposed resource plan has been developed to provide an indication of what roles will be needed to deliver the implementation plan, and at what point in the process their input will be needed.

Cost estimates for the roles that require either internal backfilling or external support have been included as part of the set-up costs in the Financial Model, and will be detailed further in the full business case.

## 5.7 Risk Monitoring

A risk register has been developed for this project and is reviewed on a regular basis. The project team are mitigating these and other risks with a robust governance and decision-making framework, stakeholder engagement, and strong assurance and change control arrangements.

## **5.8 Post Implementation Evaluation Arrangements**

The Council is committed to ensuring that a thorough and robust post project evaluation is undertaken to ensure that positive lessons can be learnt. The lessons learned will be of benefit when undertaking future schemes.

## **5.9 Contingency Arrangements / Exit Strategy**

In the event of this project failing to proceed, the library service would be retained in-house by the County Council in order to meet the Council's statutory requirements. The County Council would then need to review ongoing arrangements and alternative options.

## **5.10 Communications and Stakeholder Management**

The Project Sponsor will liaise with key internal and external stakeholders on behalf of the project. A Stakeholder Engagement Strategy has been prepared for the project and provides a brief on the objectives of the stakeholder engagement, target audience and methodology.

## **5.11 Change Management Arrangements / Requirements**

As part of the next stage the planning for change management activities will be established together with the change management process.

The aim of these activities is to manage the proposed changes to the culture, structure, systems, processes and people required to establish a Public Service Mutual. Change management focuses on the actions that are necessary to make the Public Service Mutual a working success.

Timescales for carrying out such actions, and the resources required will also be determined in the next stage as part of the Full Business Case.

## 6. Conclusion

Following the various considerations outlined in the business case above, it is recommended that Hertfordshire County Council should adopt a Public Service Mutual (PSM) as the preferred model for the future delivery of library services, subject to the agreement of a Full Business Case and detailed Business Plan in the autumn of 2018.

Hertfordshire has a strong record, through 'Inspiring Libraries' of investing in the development of library services. The County Council's primary aim is to identify the best way to deliver its continued ambition for high quality, successful services in the future.

A PSM offers the greatest scope to continue to deliver an affordable, sustainable and responsive public library service to Hertfordshire residents now and in the future. The key benefits of this model are as follows:

- If the legal form and constitution of the PSM qualifies it to register for charitable status, then it will enable immediate savings to be made through NDR rate relief, without the need to reduce services. The PSM would also be eligible for grant funding opportunities not available to in-house council services.
- Relieved of the need to make immediate service reductions in order to meet short term budget targets, a PSM would be well placed to deliver the ambitions of the 'Inspiring Libraries' strategy, and the six universal public library offers.
- A PSM would have a high degree of commercial freedom, allowing it to develop new sources of funding, such as sponsorship, donations and payment for value added services. It would also be able to work more easily with partners across county borders, which could bring efficiencies and enable growth, and with partners across the cultural sector in order to diversify.
- Independence from HCC and a clear focus on libraries may enable the service to be more flexible and responsive to customers, communities and partners. Being one step removed from the local government structure may enable quicker decision making, encouraging greater innovation and more rapid response to market opportunities and changes in customer demand.
- Depending on its legal form and governance structure, a PSM may provide an opportunity for community stakeholders to have a more direct voice in the development of the service, leading to greater engagement. In the public consultation process, those respondents who supported the proposal for an alternative delivery model clearly identified the PSM as their preferred option.
- Similarly, depending on its legal form and governance structure, a PSM may provide an opportunity for library service staff to have a more direct voice in service development, promoting a positive organisational culture, and a greater sense of ownership, confidence and commitment. In the staff consultation process, those respondents who supported the proposal for an alternative delivery model clearly identified the PSM as their preferred option.

In order to maximise these benefits, it is recommended that the County Council should seek to establish a PSM model, which is constituted in such a way that it could register for charitable status and ensure community and staff representation on its governing body.

In order to achieve this, it is recommended that a full detailed business case for the establishment of a PSM should be drawn up for presentation to Panel and Cabinet in the autumn of 2018.

## APPENDIX A

### Summary of the appraisal for each of the long list options

| Public Sector Mutual – Preferred Option                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
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| Advantages                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | Disadvantages                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| <ul style="list-style-type: none"> <li>• The PSM provides significant savings without having to reduce the level of service experienced by library users.</li> <li>• HCC Members would be able to set the strategic direction of the library service, and would retain influence and scrutiny through the constitution of the PSM and/or through the contract.</li> <li>• Independence from HCC and a clear single focus on libraries may enable the service to be more flexible and responsive to customers, communities and partners.</li> <li>• The opportunity to establish a new organisational culture, with increased staff and community engagement, ownership and motivation, and the opportunity for a more direct voice in decision making.</li> <li>• A PSM may be able to access other sources of funding, such as sponsorship, donations and payment for value-added services, which may be more difficult for HCC.</li> <li>• As PSMs experience a high degree of commercial freedom, they can explore new areas of service growth. The PSM may be incentivised to generate income from new sources to offset reductions in funding received from HCC (however if it holds charitable status there may be certain restraints.)</li> </ul> | <ul style="list-style-type: none"> <li>• The process of establishing a PSM is complex, resource intensive and time consuming.</li> <li>• There may be significant one-off costs, and changes to the way services are delivered may take time.</li> <li>• To qualify for some of the benefits of a PSM, this may require a reduction of the level of control and influence which HCC Members can retain.</li> <li>• HCC would still provide most of the funding for the PSM through the core contract, so the service would still be vulnerable to future budget reductions.</li> <li>• There is a need to ensure that the management group possesses all the skills and capabilities required to operate a commercially disciplined business. While training and development can help, the PSM may be required to employ new staff at a management level or recruit non-executive directors to the board to ensure it has the necessary skills.</li> <li>• A PSM would be a smaller organisation and therefore its buying power and economies of scale may be reduced.</li> </ul> |

| In House – Second Best                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
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| Advantages                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | Disadvantages                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| <ul style="list-style-type: none"> <li>• HCC Members would retain full control over library service policy and scrutiny of service delivery.</li> <li>• There is no need for an implementation process, freeing up service managers to focus on other aspects of the 'Inspiring Libraries' strategy. Although much of this time would need to be spent on finding other ways to make the required savings.</li> <li>• The service would be well placed to work with other HCC departments to deliver corporate priorities.</li> <li>• As a large customer, HCC may wield more influence with external suppliers than a smaller organisation benefiting Libraries.</li> <li>• Libraries would remain as a key service in delivering against HCCs wider corporate priorities.</li> </ul> | <ul style="list-style-type: none"> <li>• As the service would not have charitable status, there would be no NDR rate relief savings. As a result, the required £500k in savings would have to be made through service reductions, which would make it difficult to achieve the 'Inspiring Libraries' ambitions.</li> <li>• There is limited scope for the service to undertake further re-engineering due to the amount of transformation already undertaken as part of the existing 'Inspiring Libraries' Strategy.</li> <li>• The library service's opportunity to increase income and secure external funding is limited, thereby increasing the negative impact of any future reductions in council funding.</li> <li>• The service would still be managed within the framework of local government decision-making, limiting the opportunity to increase flexibility and responsiveness.</li> </ul> |

| Joint Venture                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
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| Advantages                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | Disadvantages                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| <ul style="list-style-type: none"> <li>• The ability to tap into expertise (e.g. commercial), additional resources and potentially new ideas to deliver an improved service.</li> <li>• The potential for increased purchasing power, shared systems and intellectual property.</li> <li>• The potential for savings and efficiencies to be realised, because of the library service being part of a wider organisation.</li> <li>• Savings can be underwritten in the contract. However, the level of savings required would impact the service levels that could be delivered.</li> <li>• Risks can be shared with the JV partner (and in return benefits would be divided as well).</li> </ul> | <ul style="list-style-type: none"> <li>• Depending on the legal structure of the JV there is a risk that the new organisation may not have charitable status, which would be required to achieve the NDR rate relief savings. The absence of charitable status would minimise the savings that could be achieved without reducing the level of services experienced by library users.</li> <li>• The risk that the partner may not reinvest operating profits back into the library service or there may otherwise be a breakdown in the relationship which cannot be recovered.</li> <li>• The potential for opposition to the move from staff, councillors, library users and communities.</li> <li>• Feedback from staff is that they want to work for a public organisation. If the Service JV's with a private Company then some staff may not want to engage with the new organisation, and it could make ongoing retention and recruitment harder.</li> <li>• As it is not known who the joint venture partner would be with, it is difficult to know how they would promote the sense of ownership and engagement. The JV Company could also have a different set of priorities and ways of working.</li> <li>• If a procurement exercise was required (depending upon the nature of the intended JV relationship) then this is likely to be complex, thereby making this option undeliverable in the timeframe required.</li> </ul> |

| Local Authority Trading Company                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
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| Advantages                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | Disadvantages                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| <ul style="list-style-type: none"> <li>• The Council can retain a high degree of control over the new organisation.</li> <li>• Despite certain restrictions on the type and level of commercial activities, 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 and, depending upon the structure of the new organisation, may be returned to the Council or re-invested into delivering services.</li> <li>• It is possible that no procurement exercise is required. A LATC can transition into an alternative form of delivery (e.g. PSM) in the future</li> </ul> | <ul style="list-style-type: none"> <li>• This option does not come close to making the required annual £500k savings in the timescales available, without significantly reducing library services.</li> <li>• Depending on the legal structure of the LATC there is a risk that the new organisation may not be able to fully deliver the Inspiring Libraries Strategy, as due to its close association with the Council, a LATC is unlikely to achieve charitable status, which would be required to achieve the NDR rate relief savings.</li> <li>• The process of establishing a LATC is complex, resource intensive and time consuming.</li> <li>• There is limited potential for staff or wider stakeholders to influence the strategic direction of the company through this model.</li> <li>• The ability of a LATC to access external funding is limited because it is owned by a public body.</li> </ul> |

| Outsource                                                                                                                                                                                                                                                                                                                                                                                                                                                            |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
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| Advantages                                                                                                                                                                                                                                                                                                                                                                                                                                                           | Disadvantages                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| <ul style="list-style-type: none"> <li>• The potential for savings and efficiencies to be realised, because of the library service being part of a wider organisation.</li> <li>• Savings can be underwritten in the contract. However, the level of savings required could impact the service levels and result in reductions in service.</li> <li>• The potential to tap into expertise (e.g. commercial) to deliver an improved service and new ideas.</li> </ul> | <ul style="list-style-type: none"> <li>• The Council would have greatly reduced influence on the service, which would be limited to contract management controls.</li> <li>• Depending on the legal structure of the outsourcing provider there is a risk that the new organisation may not be able (or willing) to fully deliver the Inspiring Libraries Strategy, as it may not have charitable status, which would be required to achieve the NDR rate relief savings.</li> <li>• Feedback from the public consultation indicates significant opposition to outsourcing the delivery of the service to a private sector organisation, as the perception is that the focus on making a profit would prevent any surplus being reinvested to improve the service.</li> <li>• Feedback from the staff consultation is that they want to work for a public service organisation. If the Service is outsourced then some staff may not want to engage with the new organisation, and it could make ongoing retention and recruitment harder.</li> <li>• The Council would be contracting out the service to another organisation, and therefore the level of staff and community engagement would be dependant in part on its priorities. Any discussion with a third party would require compromise on both sides.</li> <li>• The time required for a complex procurement exercise means this option could not be delivered in the timeframe required.</li> </ul> |