



KIRKLEES LIBRARY AND INFORMATION SERVICE

PUBLIC SERVICE MUTUAL FEASIBILITY STUDY

Version 2.0

January 2018



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Document Control Sheet

Document Title	Kirklees Library and Information Service - PSM Feasibility Study
Version	v2.0
Author	Mutual Ventures
Date	January 2018

1. Executive Summary

Introduction - This feasibility study is designed to provide the Kirklees Library and Information Service (hereafter referred to as 'the service') and Kirklees Council (hereafter referred to as 'the Council') with an early indication as to the perceived desirability, viability and feasibility of establishing the service as an independent Public Service Mutual (PSM).

This report considers 'the art of the possible', with evidence from existing library sector PSMs used to inform assumptions and demonstrate what has been achieved elsewhere. The intention is to consider whether (and how) establishing as a PSM could potentially empower the service to unlock value that is currently unrealised. Potential risks and costs associated with establishing the service as a PSM are also identified and considered, from the perspective of the service and Council.

Given the upcoming public consultation exercise that will define the future shape of the service, significant uncertainty currently exists in terms of the service's future operating model. It is not therefore possible (at this early stage) to consider the impact of a range of technical issues associated with the establishment of the PSM. This report does not therefore seek to quantify or address these technical issues, but instead identifies the issues that would require resolution should the service and Council wish to proceed to the next stage of the investigation process.

Potential function and benefits - The significant pressures facing councils and library services have led many to start considering whether their current delivery model is the right one. While library services may be able to redesign their in-house service to meet immediate pressures, their positioning within the council may make them less able to sustain future funding reductions or react to changes in customer expectations.

In consultation with the project group, an outline proposition has been developed to describe the characteristics of the potential PSM. If established, the PSM would operate on a not-for-private-profit basis. As an independent entity with (potentially) charitable objectives, the PSM may qualify for social enterprise or charitable status.

While the potential PSM's ownership arrangements require further thought, initial discussions suggest an appetite for staff and community ownership. The PSM would be governed by a Board of Directors or Trustees (if a charity) and would potentially include elected representation from staff, friends/reader group members and third sector organisations.

As an independent entity, the PSM would have the commercial freedoms to trade in accordance with its articles. The core contract held with the Council would require the PSM to deliver prescribed service requirements/outcomes and meet performance standards. The PSM would also be in a position to develop service offerings outside of the core contract. Given that the PSM would have the autonomy to decide how best to allocate resources, whether to bid for contracts and/or how to reinvest surpluses, the PSM would have considerable freedoms that it currently does not possess. Given the PSM's governance structure and independence, the ability to make timely commercial decisions aligned to emerging trends and/or unmet need would also be expected to increase.

As an independent organisation, the PSM would be able to apply for new sources of external funding currently not available to the in-house library service. The PSM would also have the freedom to establish or join partnerships which offer joint working opportunities across the library sector and beyond, supporting the PSM to position library services at the heart of the community offer.

Potential costs and risks - As an independent (socially focussed) business, the PSM would incur a range of new costs. For example, as the PSM would operate outside of the Council, it would incur an irrecoverable VAT liability. The ambition to reduce the service's dependence on Council income would require the potential PSM's leadership to possess the expertise and acumen required to lead a commercially disciplined and innovative organisation, potentially requiring the creation of new posts (e.g. a Commercial & Innovation Manager).

The PSM would also be expected to assume responsibility for numerous liabilities and risks which are transferred from the Council. The level of Employer Pension Contribution may increase or decreased from current levels. The treatment of current and future pension deficit liabilities requires careful consideration, as does the treatment of redundancy liabilities associated with the staff group that would transfer to the PSM.

Until the service's future premises footprint is known, it is not possible to assess the property maintenance liabilities that may be incurred by the PSM, while the level of Council funding allocated to the PSM to cover such liabilities requires careful consideration.

The potential PSM is required to demonstrate that it has the ability to offset these new costs and liabilities with new sources of income. The ambition to develop a portfolio of diversified income streams needs to be supported by robust market analysis evidence to demonstrate that demand exists for the proposed services.

Main findings - The PSM proposition demonstrates an ability to meet over half of the assessment criteria defined by the Council and service. The PSM's growth strategy aligns closely with the priorities outlined by both the Council and other public sector commissioners. The ability of the PSM to promote partnership working would result in it being well positioned to play an active role in designing and delivering services on a regional basis, as well as across outcome areas and service user pathways.

Work is still required to nurture elected member support for a comprehensive assessment of the PSM proposition's desirability, viability and feasibility. In addition, the skills needs analysis undertaken as part of this study has identified several areas for development in terms of the current Senior Leadership Team's collective capability to manage a commercially disciplined independent organisation.

The financial viability of the PSM (informed by a number of initial assumptions) requires further consideration, as the proposition is currently forecast to realise operating losses in the first two years post-establishment. As this feasibility study represents a very early stage analysis of the PSM's forecasted viability, the fact that operating losses are forecast should not be taken as a reason to consider the proposition as unviable. Further work is however required to ensure that future sources of income outweigh the new costs to be incurred by the PSM.

Recommendations - It is recommended that the Council and service consider the technical and salient issues identified within this report (see sections 7.11 and 12). Once the service's future operating model is defined (informed by feedback from the public consultation exercise taking place in early to mid-2018), further work is required to update the assumptions and growth strategy that inform this study. Once this work has been completed, a further assessment of the potential PSM's viability can be undertaken - possibly via a business planning process, should Council officer and elected member support allow.

2. Introduction and context

The service currently operates within the Council's Corporate Directorate and delivers services to communities throughout Kirklees from 24 town and community libraries. It has established a reputation as a high performing service and has retained proportionately higher numbers of professional librarians (particularly when compared with neighbouring local authorities). The service is well used, with Huddersfield Library experiencing the highest footfall for any town library in the country. During 2016/17 the service issued over 964,000 books to library users.

Regional context - Commissioning bodies across the region are currently considering how regional working could achieve efficiencies while enabling better outcomes for communities. Public services are now being procured across outcome areas or service user pathways, as opposed to the procurement of outputs or activity. While the region does not have an agreed devolution deal, the regional collaborative working agenda is developing in a number of areas/sectors (e.g. Sustainability and Transformation Plans and various Local Enterprise Partnership priorities).

National context - The function of modern libraries is changing, as demand for traditional book lending declines and the role of libraries as community hubs continues to grow. Libraries are increasingly supporting local and regional priorities including improving people's health and wellbeing, supporting skills development and economic growth.

The [Libraries Deliver - Ambition for Public Libraries in England document](#) emphasises collaboration and the development of library services based on the needs of local people. In order to adapt to the changing needs of communities, commissioners and library services are encouraged to develop new service offerings focused on achieving community outcomes, including digital inclusivity and economic prosperity.

Alternative delivery models across library services - The significant pressures facing councils and library services have led many to start considering whether their current delivery model is the right one. While library services may be able to redesign their in-house service to meet immediate pressures, their positioning within the council may make them less able to sustain future funding reductions or react to changes in customer expectations.

Across the library sector, a range of delivery models have been established. Some Councils have established a PSM model which involves services 'spinning-out' of the public sector and continuing to deliver public services, while also allowing staff a significant degree of control, influence or ownership. Some current examples of the PSM model across the library sector include:

- ▼ [Explore York Libraries & Archives Mutual Limited](#) (previously York City Council Library & Archive Service);
- ▼ [Libraries Unlimited](#) (previously Devon County Council Library Service);
- ▼ [Suffolk Libraries IPS](#); and
- ▼ [Inspire Culture, Learning and Libraries](#) (previously Nottinghamshire County Council Library Service).

The requirement for councils to reduce the level of funding allocated to services has often been the driving force behind the development of these new models. However other issues such as encouraging increased engagement with staff and communities, promoting innovation and reducing

dependence on council funding have also encouraged library services to investigate and establish new models.

3. Case for change

The following drivers for change have been identified, leading to a strengthening case for change:

Financial drivers - The [Council's Efficiency Plan 2017-21](#) outlines the scale of the financial pressures currently placed on the Council and service. The service must deliver savings of £1.9million within the next twelve months.

Strategic drivers - The 'New Council' strategy outlines the Council's ambition to move away from service deliver, instead moving towards creating and facilitating environments where individuals and communities can help themselves and thrive. There is an emphasis on innovation and delivery models which are responsive to the needs of local communities. Libraries are at the heart of Kirklees communities (geographically and figuratively) and will be an essential element of wholesale change across public service provision. The challenge facing the service and Council relates to how best to empower the service to ensure it maximises its impact and potential in supporting communities. Ensuring the service operates via the most appropriate delivery model is central to this challenge.

Legislative and policy drivers - In addition to the statutory duty ([Public Libraries and Museums Act 1964](#)) placed on local authorities to provide 'comprehensive and efficient' library services, the positioning and perception of library services is changing. The opportunities to develop and integrate library provision to improve the health and wellbeing of communities and support economic growth are important elements driving the case for change.

Service level - Working with members of the service, a review of the potential advantages and disadvantages associated with the service operating within the confines of the Council was undertaken. A summary of this analysis is provided below:

Benefits	Disadvantages
<ul style="list-style-type: none"> ▼ Close working with other public services – The service's association with the Council brings benefits including the ability to freely share information with other public bodies. ▼ Supporting infrastructure - The Council has well-established business support functions which enable the service to deliver core functions. The service can access professional communications, procurement and other business support functions. ▼ Corporate scope and scale - The Council is a large corporate body and as such is able to utilise its buying power to achieve economies of scale. ▼ VAT and tax benefits - As part of the Council the service does not incur VAT costs. ▼ Member involvement and oversight - Elected members bring public accountability and external insight. As part of the Council the service remains accountable to elected members who are representatives of their communities. 	<ul style="list-style-type: none"> ▼ Impact of funding reductions upon the service - Given previous and future reductions in funding, the service requires commercial and decision making freedom/autonomy to make best use of resources and generate income to offset funding reductions. ▼ Lack of investment - As a result of budgetary pressures facing the Council, there is currently insufficient budget to invest in new services. ▼ Ability to develop and maintain the required IT infrastructure - ICT does not allow sufficient capacity, reliability and flexibility to provide a modern digital experience for customers. An independent organisation would be free to select the software, hardware and applications that the service most needs, thus providing 'enabling support' for the service. ▼ Ability to access external funding - The service is currently unable to bid for a range of opportunities. ▼ Ability to generate operating surpluses - Underspends or surpluses are currently used by the Council to cover overspends elsewhere. As an independent entity, the service would be in a position to re-invest some or all surpluses realised to support service growth in line with social objectives.

4. Assessment criteria & scoring mechanism

Assessment criteria were developed in consultation with the project team to form the basis for the feasibility study, with the PSM proposition being appraised against each criterion. The criteria were designed to reflect the objectives of both the Council and service, including those identified within the [Kirklees Library Service Vision 2018-20](#). Other criteria were informed by a knowledge of the capabilities and characteristics of other PSMs operating across the library sector.

Each of the criterion align to one of the three key strands of investigation:

Desirability	Tests whether the PSM's service profile, growth strategy, vision and mission would support the strategic objectives and social purpose of the Council. Assesses the extent to which the PSM would contribute towards the delivery of these strategic priorities.
Viability	Tests whether the PSMs proposition is commercially and financially viable within the context of the local and regional marketplace. Assesses the extent to which the PSM can generate new income streams, reduce reliance on Council funding and develop as a sustainable independent business.
Feasibility	Tests whether the PSM could realistically be established within agreed timescales and cost limits.

Full details of the assessment criteria and scoring mechanism used to inform this study are provided within Appendix A. Section 9 provides the scoring and analysis of the proposition's performance against each of the criteria developed to inform this study.

5. Market analysis

A high level analysis of the local, regional and national library sector has been undertaken to inform the development of a number of evidence based assumptions that inform this study.

5.1 Commissioners intentions

The Council's target operating model (TOM) - Recent developments across local strategic planning will significantly impact the way services are commissioned and designed. These themes are reflected within the Council's TOM and are likely to form the basis for the core contract with the PSM.

The 'New Council' approach has also informed the creation of a 'Front door design and process blueprint' which demonstrates how the Council intends to design access around the principle of early intervention and prevention and improved access channels. In order to support the delivery of these strategic aims the PSM must position itself to empower people and communities. This will mean (in some instances) enabling/facilitating rather than providing services.

Local CCG intentions - CCGs operating within the Kirklees area are increasingly working in partnership to deliver better health outcomes across the region. The recent appointment of a single Chief Officer is reflective of this approach to collaboration. The [West Yorkshire and Harrogate STP](#) covers one of the largest STP footprints nationally, covering a population of 2.64 million people. The plan sets out the intention to establish an accountable care system by 2018. The intention is for health services to be commissioned at a regional level with an increasing emphasis on wellbeing, early intervention and prevention. If established, the PSM would be well positioned (e.g. operating via numerous accessible and well used community locations) to support the delivery of these

outcomes, potentially working with partners to deliver contracts on behalf of the accountable care system.

5.2 Market conditions

PESTLE analysis - A summary of the PESTLE forces impacting on the current library services is provided below:

Political	Economic
<ul style="list-style-type: none"> ▼ The risks associated with continued changes in the political landscape, in addition to the unknown pace of change associated with regional and city devolution. ▼ The Department for Digital, Culture, Media and Sport (DCMS) and Minister support the creation of PSMs across the library sector, including support for potential PSMs from early 2018 onwards. ▼ The Council is currently considering increasing the number of Parish Councils, with the potential for such councils to be important library service customers in the future. 	<ul style="list-style-type: none"> ▼ The ability of the service to realise 1.9m in efficiency savings over the coming 12 months. ▼ Operating as a PSM would provide opportunities to generate income through traded services, accessing external funding and securing public sector contracts (including those for health, education and social care, either acting independently or as part of a wider public sector consortium). ▼ The ability of the PSM to retain some or all of the surpluses generated, for reinvestment into the service and the organisation's social objectives.
Social	Technological
<ul style="list-style-type: none"> ▼ Increasing numbers of people living within the area, with the largest population increase being amongst older people who proportionally use library services more than other demographic groups. ▼ Changing preferences amongst library users (e.g. a move away from traditional book lending and more towards digital). 	<ul style="list-style-type: none"> ▼ Digital inclusion acting as a key strategic priority for commissioners. ▼ The service's delivery of innovative digital services e.g. code clubs (which could be expanded). ▼ Growth in the local 'digital economy'.
Legal	Environmental
<ul style="list-style-type: none"> ▼ Statutory duty to provide library provision. ▼ Local authority's duty to commission for best/social value. 	<ul style="list-style-type: none"> ▼ Library services currently delivered via a number of listed or part listed buildings which are expensive to operate and adapt. ▼ Grants and resources may be available to the PSM in order to improve and maintain buildings (e.g. insulation).

SWOT analysis - A SWOT analysis was undertaken to identify the service's current positioning within the local market sector:

Strengths	Weaknesses
<ul style="list-style-type: none"> ▼ Well placed to deliver against many of the Council's objectives & contributing to the objectives of other public service commissioners (e.g. CCG). ▼ The service has a footfall of approximately 0.5 million people per annum, demonstrating the potential reach of the service in terms of face to face engagement with the public. ▼ Comparatively high number of professionally qualified staff. 	<ul style="list-style-type: none"> ▼ Limited capabilities in relation to demonstrating social impact and quantifying the impact of preventative interventions. ▼ Limited commercial capabilities and experience. ▼ ICT systems and infrastructure are in need of modernisation.

Opportunities	Threats
<ul style="list-style-type: none"> ▼ To establish a PSM with a single focus. ▼ To access external funding, grants and contracts. ▼ To benefit from 'first mover advantage', in terms of positioning the service as a forerunner/vehicle to promote integrated regional working. 	<ul style="list-style-type: none"> ▼ Public and commissioner perceptions that libraries are only about 'books and buildings'. ▼ A public procurement exercise being undertaken to identify the preferred provider of the Council's library services ▼ Potential for negative publicity and opposition from Trade Unions.

Partnerships - Evidence from establish library service PSMs indicates that the development of meaningful partnership with public and third sector organisations is considered as a critical success factor for any new sustainable organisation. The service has a number of established or developing partnerships which it intends to nurture in the future.

Informed by the market analysis that indicates that commissioners across the public sector are seeking to commission collaborative models to deliver regional services across outcome areas and/or service user pathways, the service is required to undertake further work to identify and nurture new partnership opportunities. Undertaking such work would leave the service well positioning to work collaboratively with a range of other partners to deliver such opportunities. Evidence from the existing library service PSMs indicates that membership of collaborative models is easier to secure once the service operates outside of the local authority, as the service can benefit from speedy decision making, commercial freedom and the autonomy to take quick decisions in relation to opportunity appraisal and resource allocation.

A summary of current and potential partnership opportunities is provided below:

Existing partnerships (to be developed further)	Key partnerships to nurture should the PSM be established
<ul style="list-style-type: none"> ▼ Universities, including the University of Huddersfield ▼ Local friends groups. ▼ Local schools and education settings. ▼ Related Council services, including: <ul style="list-style-type: none"> - Museum Service - Community Languages Service - Sensory Team - Book Plus ▼ Arts Council. ▼ Huddersfield Literature Festival. ▼ Economy, Regeneration and Culture Team. 	<ul style="list-style-type: none"> ▼ Kirklees Council - developing an effective contractor/commissioner relationship. ▼ Public Health. ▼ Council Adult Social Care - providers and commissioners. ▼ Further Education providers (colleges). ▼ Professional and semi-professional sports clubs. ▼ Tourism organisations. ▼ CCG and health organisations. ▼ Kirklees Active Leisure. ▼ The Lawrence Batley Theatre. ▼ Existing third sector organisations delivering health & wellbeing services, including members of the Health & Wellbeing Partnership LLP. ▼ Large local employers. ▼ Small & medium sized enterprise networks.

Competitors - Operating within a competitive marketplace, the PSM would face competition for contract opportunities and traded income. Large national providers (e.g. Greenwich Leisure) continue to develop their presence across the library sector and represent a considerable competitive threat. Other competition may develop overtime from neighbouring local authority library services (either in-house or spin outs).

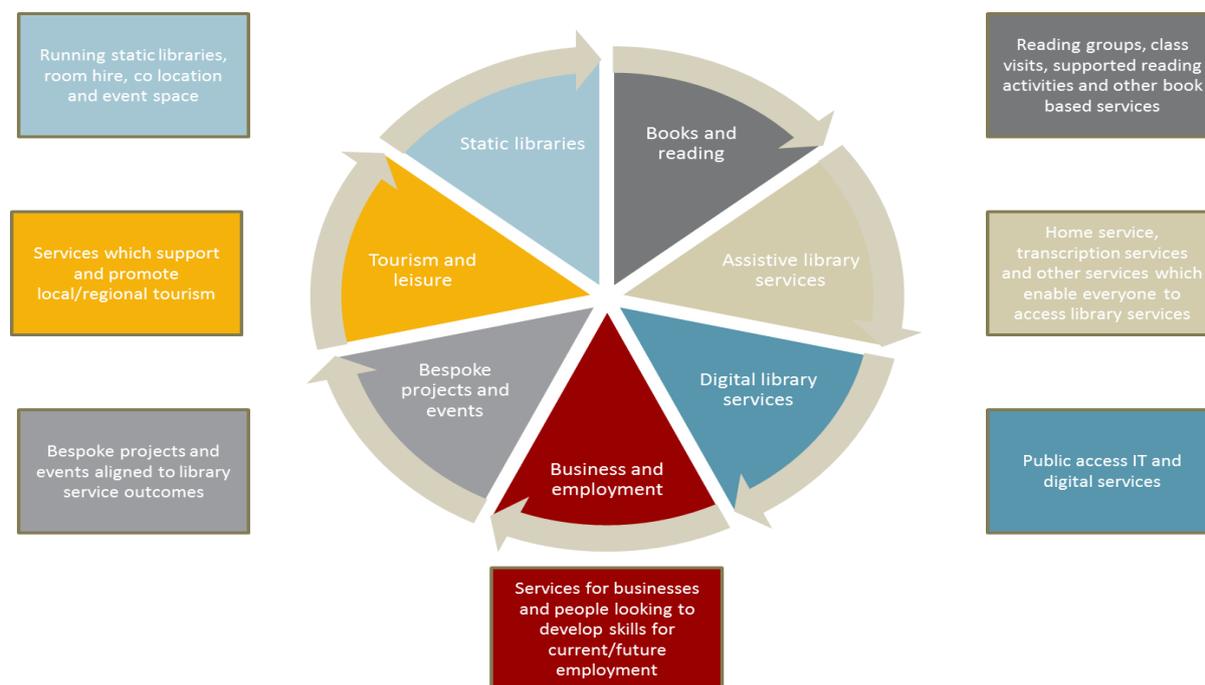
USPs and differentiators - Like the current library service, the PSM would offer a range of services for communities and individuals. Building on the vision, mission and strategic objectives developed by the service, a number of unique selling points (USPs) and differentiators have been identified.

USPs	Differentiators
<ul style="list-style-type: none"> ▼ Trusted by communities, commissioners, businesses and library users. ▼ Delivered via a high proportion of professionally qualified librarians. ▼ Offers open access high-quality information, advice and guidance. Information is provided in a way which enables and empowers people based on their needs and goals. ▼ Reach across Kirklees communities and well positioned to facilitate community resilience, growth and wellbeing. ▼ Offers free and welcoming open access in a socially inclusive and safe environment. 	<ul style="list-style-type: none"> ▼ Supported by a large volunteer base, enabling the service to deliver greater impact, reach and value. ▼ Offers a program of innovative, creative and socially inclusive events across community settings. ▼ Maintains a very high standard of book stock. ▼ Performs to the highest standards of quality, scope of services and resources achieved through maximising value and delivering services efficiently.

6. Current services and the potential PSM’s growth strategy

6.1 Current services

An overview of the service’s current service profile is provided below.



Informed by the findings from the market analysis exercise, work was undertaken to define the potential PSM’s proposed function. This involved identifying current services that would remain at current levels, expand or contract, as well as identifying new services that could be developed over time.

6.1.1 Static libraries

Current services

- ▼ The service already provides room hire and community spaces, but could adopt a more commercial model and promote room rental to new customers;
- ▼ Offer event space for cultural, music and other events. The service already hosts events but could adopt a more commercial model, utilising the estate outside of core opening hours; and
- ▼ Increasing the offer to local history/reference groups, including supporting/providing research, providing space and access to materials including subscription based websites.

Future services

- ▼ Offer colocation spaces across the service's estate to generate income and develop partnerships. Offer would need to be developed in partnership with community groups (where buildings are owned by the community as a result of community asset transfer); and
- ▼ Deliver library services for neighbouring local authorities. This would require the PSM to compete for contracts. If successful, the PSM would assume responsibilities for the staff, resources and liabilities associated with the contract.

Restrictions and areas for consideration

- ▼ The Council is committed to empowering communities to do more for themselves. Communities have made it clear that in order to do more they need access to assets and resources. Subsequently there is an emphasis on readily available 'civic space'. The service would need to carefully consider a fair but commercial approach to room rental which does not conflict with this need to ensure the availability of civic space;
- ▼ Upgrading rooms and spaces would initially incur costs, particularly if marketed to in business users and new customer as a professional product would need to be delivered; and
- ▼ As the Council and other public organisation reduce their estates, the supply of community/hireable spaces will reduce. Demand for high quality rooms is anticipated to rise.

6.1.2 Books and reading

Current services

- ▼ Provide and facilitate reading groups, funded as part of the core contract to promote learning, enjoyment and wellbeing (NB. this would represent an expansion of the service level agreement/specification currently in place between the service and Council);
- ▼ Offer story time and rhyme time to children, families and community groups. Demand for this service is high and the service could adopt a fair but more commercial approach to charging; and
- ▼ Continue to offer high quality lending service, maintaining a collection based on the needs of local communities and library users.

Future services

- ▼ Offer education settings/bespoke and targeted activities including reading groups, topic/book specific events;
- ▼ Offer supported learning activities for individuals and businesses looking to develop their skills/skills of employees. This would include the development of an offer for personal

budget/personal health budget holders who may be willing to use part of their personal budget to achieve outcomes through learning new skills; and

- ▼ Delivering school library services in Kirklees and surrounding areas.

Restrictions and areas for consideration

- ▼ While demand amongst schools (including academies) for class visits and targeted activities is high, there is a risk that the willingness to fund external services is limited;
- ▼ In order to develop an offer for individuals with personal budgets/health budgets, the service will need to engage with local user voice organisations e.g. (Healthwatch). This will enable the service to develop an attractive offer and assess demand within the market; and
- ▼ The service has the skills and expertise to deliver professional services to schools and academy chains. Developing this service would require time, resources, assets and staff.

6.1.3 Assistive library services

Current services

- ▼ Offer home library services to individuals with specific needs and requirements, including those who require support to engage with literature due to health and care needs. This service could be developed as an offer to commissioning bodies and personal budget holders; and
- ▼ Offer transcription services for individuals and organisations on a commercial basis. The current model regularly incurs a loss.

Future services

- ▼ Develop the Community Language Service. The existing model is based on brokering interpretation services. There exists an opportunity to deliver services more effectively and efficiently, and to explore viability of the service as a commercial service offering.

Restrictions and areas for consideration

- ▼ Representatives from the service highlighted the commissioning proposal to procure home library services from the voluntary and community sector. Subsequently the opportunity to deliver home visiting services is limited to individuals with specialist needs. The service will engage with the successful provider and identify opportunities to work in partnership; and
- ▼ Demand for transcription services and community language provision is high. The service currently provides services at below the market rate. As a PSM it would be required to deliver commercially viable services. As such, there is a risk that customers will seek alternative services as costs are likely to increase.

6.1.4 Digital library services

Current services

- ▼ Offer public access ICT (hardware) throughout the library estate. Open access digital provision to act as a platform for other service offerings. There are opportunities to reduce the cost of this service through innovative and efficient purchasing;
- ▼ Offer public access wi-fi throughout the library estate and enabling users to access wifi via their personal devices. Offer premium internet access to businesses e.g. higher bandwidth for a fee in addition to free 'standard access'; and

- ▼ Offer access to digital libraries, archives and other sources of information. The service already offers access to subscription services, but could adopt a more commercial approach (see below).

Future services

- ▼ Develop offer for individuals and organisations to access subscription websites and archives. In particular offer access to education institutions, groups and businesses;
- ▼ Offer advertising space on self-issue ticketing machines; and
- ▼ Offer additional code clubs and other activities for young people and adults.

Restrictions and areas for consideration

- ▼ Introducing charges for subscription services may mean individuals use these services at home rather than accessing via the library service. It will be important to assess the impact of charging for services and the anticipated impact on demand; and
- ▼ Growing the digital economy and local skill base is a key priority for the LEP and Council. Developing digital access and services will position the service to bid for contract opportunities and developed traded service offerings.

6.1.5 Business and employment

Current services

- ▼ Offer of employment information, advice and signposting services, including developing links with skills agencies, employers; and
- ▼ Offer open access space and digital access to local businesses and home workers.

Future services

- ▼ Offer professional advisory support to small businesses, including business planning advice and access to resources;
- ▼ Offer services to large employers (e.g. domiciliary care providers) and regional skills agencies who support people into employment;
- ▼ Develop 'employability skills' training offers e.g. interview techniques, CV writing and literacy/numeracy for work, to be marketed to individuals, employers and skills agencies;
- ▼ Targeted support for unemployed people, potentially working in partnership with Job Centre Plus and other agencies. Targeted support could include room hire and employing tutors to deliver 'back to work programmes'; and
- ▼ Provide opportunities for apprentices within the library service, this will enable the library service to achieve growth and provide employment/development opportunities for local people.

Restrictions and areas for consideration

- ▼ To deliver business advisory services, the service will need to develop the commercial capabilities of staff and volunteers;
- ▼ Economic growth and supporting businesses is a key outcome for the Council and funders throughout the region. Requirements which support these objectives are likely to be included as contractual requirements; and
- ▼ This service grouping potentially brings elements of the service into 'competition' with the Kirklees Business Hub and adult education services. When developing service offerings, the

service should consider partnering opportunities, to avoid duplication the creation of unnecessary competition.

6.1.6 Bespoke projects and events

The service has the skills and capabilities to deliver a range of public events. Further work is required to develop this service offering.

6.1.7 Tourism and leisure

Current services

- ▼ Offer visitor information services, potentially working with local hotels and leisure providers in order to market venues, events and services.

Future services

- ▼ Organising and providing local history walks and talks for tourists and residents;
- ▼ Offer services, events and information e.g. hosting 'meet the player events' or developing services based on local sporting heritage e.g. The George Hotel, 'birthplace of Rugby League'; and
- ▼ Partnerships with hotels, tourism organisations and leisure attractions.

Restrictions and areas for consideration

- ▼ The Council already provides tourism information and advice on behalf of businesses. The service would need to be developed in partnership, so as to avoid duplication and unnecessary competition.

6.2 Priority sectors for service development

Two new market sectors were identified as areas for service development. These sectors would provide the PSM with opportunities for growth and service diversification.

Health, wellbeing and early intervention

- ▼ Develop a social prescription offer for Public Health commissioners and GPs;
- ▼ Develop service offerings to improve mental health e.g. bibliotherapy, reminiscence therapies, marketed to CCGs, health trusts/care providers;
- ▼ Offer services to personal budget/personal health budget providers; and
- ▼ Work in partnership with care and support organisations to develop service offerings to adult carers, young carers and other people with care and support needs.

Training, learning and economic resilience

- ▼ Working in partnership with universities, regional skills agencies and the Local Enterprise Partnership develop business start-up and advice services;
- ▼ Offer professional training and skills services to other library services, including neighbouring libraries and potentially nationally; and
- ▼ Develop training and learning packages for individuals and businesses based on existing skills e.g. professional information, advice and guidance and other traded offerings valued by business.

6.3 Opportunities for savings

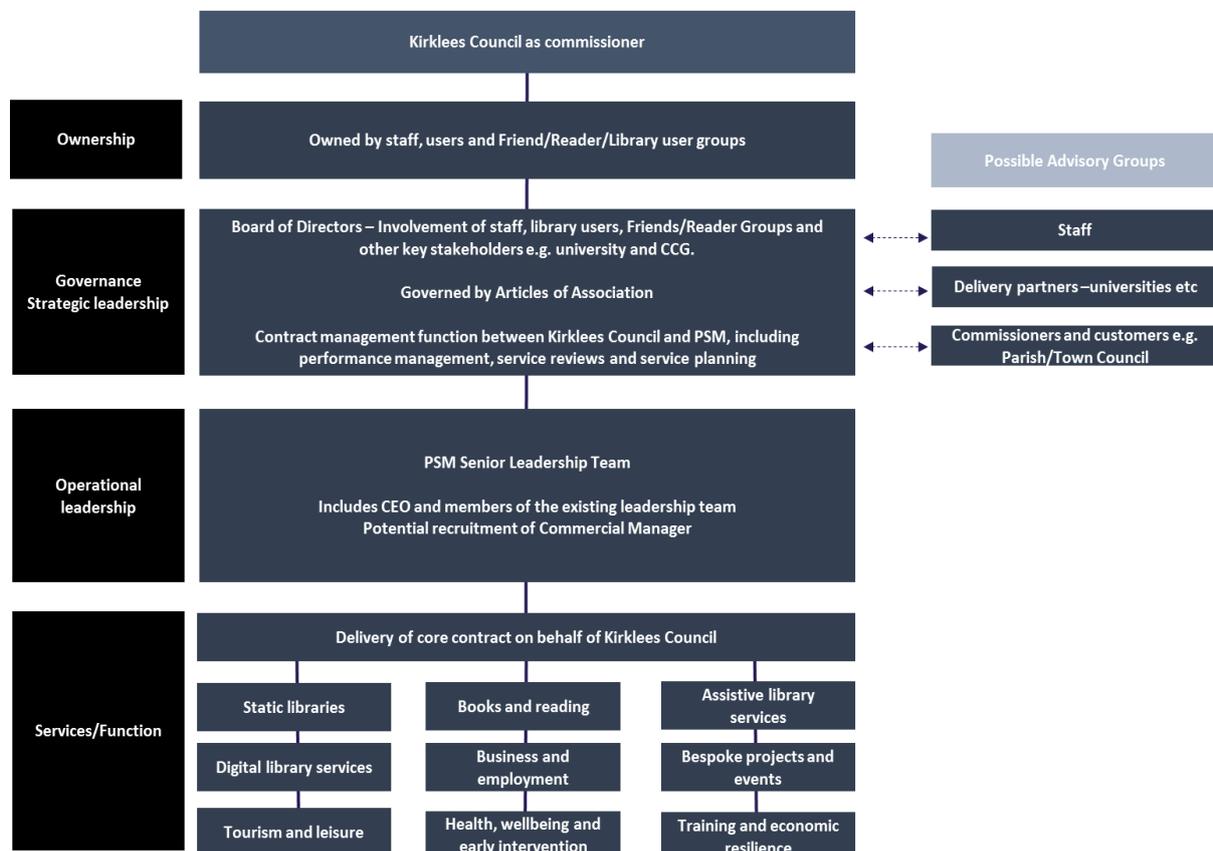
A number of areas for potential savings have been identified, reflecting the abilities of establish PSMs across the library sector to realise savings once established as independent organisations:

Financial Management System	The existing system is complicated and requires significant staff time to operate. As a PSM the service may have the opportunity to procure a bespoke finance system enabling it to effectively manage income and expenditure. Other spin outs have reported significant financial savings as a result of procuring a bespoke financial management system, reflecting the ability to closely monitor expenditure through improved access to financial and management information.
Management systems and support	Representatives from the service reflected that processes for recruitment, HR etc are standardised across the Councils and do not always meet the service’s needs. Procuring specialist recruitment support to aid in the process is forecasted to realise improved results, while also requiring less time from service staff.
ICT infrastructure and systems	Existing ICT infrastructure is outdated and in some instances inefficient. Maintaining and operating ICT resources requires significant staff time, while the opportunity cost of managing inefficient services would be reduced. ICT infrastructure that enables the service to achieve
Procurement and purchasing processes	Procurement and purchasing processes are considered to be resource and time intensive, and are often focused on cost rather than value. As a PSM the service would have the opportunity to streamline procurement processes and commission support services that meet the needs of the organisation. This would provide the service with the opportunity to procure library specific support that is bespoke/aligned to the functions of the service.

7. Proposition

7.1 Proposition overview

Developed in consultation with the project group, a PSM proposition was developed to provide a tangible outline of the potential PSM’s characteristics (e.g. potential ownership, governance and the contractual arrangements that would exist).



The proposed functions of the PSM are also outlined, in addition to a demonstration of how staff, friends/reader groups and other external stakeholders could be positioned to influence the strategic direction of the new entity. The proposition outline is provided below, while the remainder of section 7 provides further details in terms of how the proposition would be structured.

7.2 Procurement route and contract arrangements

Assuming the potential PSM is established and contracted by the Council to deliver Library and Information Services, a clear commissioner/provider split would emerge.

The Council would be required to consider whether a procurement exercise is required to identify the preferred provider of library services. Should the Council decide to procure the core contract via a public procurement exercise, it is possible that other organisations (in addition to the PSM) would also bid for the opportunity. The Council could enact the 'Reserve Contract' route (see 2015 Procurement Regulations, Regulation 77) which would allow the Council to specify the type of organisation that would be considered as an appropriate provider. Such characteristics would include any organisation whose:

- ▼ Objective is the pursuit of a public service mission linked to the delivery of services referred to in paragraph (2);
- ▼ Profits are reinvested with a view to achieving the organisation's objective, and any distribution of profits is based on participatory considerations;
- ▼ Structures of management or ownership of the organisation are (or will be, if and when it performs the contract):
 - Based on employee ownership or participatory principles, or
 - Require the active participation of employees, users or stakeholders; and
 - The organisation has not been awarded, pursuant to this regulation, a contract for the services concerned by the contracting authority concerned within the past 3 years.

Alternatively, the Council could directly award the contract to the PSM. Should an established market exist for the provision of library services, there is a risk that the Council may receive legal challenge from a provider (or providers) who feel in a position to deliver the service.

7.3 Vision and mission

The PSM would adopt a socially focussed vision and mission that focusses on the development of new services and the promotion of a new organisational culture that supports the service's impact management framework.

The proposed outline vision and mission for the PSM are outlined below. Both require further refinement, but provide an indication of the PSM's priorities should it establish:

Draft vision

(i) Empowering individuals and communities to feel healthy, safe and better off;

or

(ii) Working in partnership with communities and individuals to inform, enable good health and keep people safe.

Draft mission - The PSM would:

- ▼ Offer opportunities for cultural and creative enrichment for all;
- ▼ Support people to live happy and healthy lives through the provision of information, diverse opportunities and places to grow;
- ▼ Provide safe neutral space where people can access learning resources, develop skills and build social network;
- ▼ Support local business and start-ups by providing information, resources and connections;
- ▼ Enable communities and individuals to engage with the digital by default through improving digital literacy and providing access to technology; and
- ▼ Proactively work to develop community resilience and supporting the most vulnerable to access enabling information and support services.

7.4 Legal form

While the potential PSM's legal form requires further consideration (the service is strongly advised to access specialist legal advice), discussions with the project group have identified several requirements for any legal form:

- ▼ It must be an incorporated legal entity;
- ▼ It must support the viability and sustainability of the new entity, and support the PSM to achieve its intended function and objectives;
- ▼ It must have the branding of a social enterprise or charity – e.g. community/public benefit/purpose – and be 'not-for-profit';
- ▼ It must be able to accommodate a relatively wide membership;
- ▼ It must be able to accommodate a small number of advisory groups for staff, friends/reader groups and community delivery partners etc.;
- ▼ It should offer the PSM the potential to benefit from available tax reliefs.

Based on the above preferences, the following legal forms were identified as being potentially suitable:

- ▼ Company Limited by Guarantee (with either social enterprise or charitable status);
- ▼ Community Interest Company (limited by guarantee);
- ▼ Community Benefit Society; or
- ▼ Charitable Incorporated Organisation.

For further information on each legal form, please refer to [the overview of legal forms](#) held within the DCMS/Libraries Taskforce Toolkit.

7.5 Governance

The PSM would be governed by a Board of Directors or Trustees (if a charity). The Board would be independent of the Council and would potentially include elected representation from staff and friends/reader group members and third sector organisations. Board members including elected

and appointed members would be required to act in the best interest of the company rather than their respective representative groups.

The Chief Executive Officer of the PSM would act as an ex-officio board member, while elected staff representatives would fulfil the role of 'Staff Directors'. Representatives from friends/reader groups and representatives from third sector organisations could also sit on the Board, as 'community representatives'.

Prior to establishment, the majority of library sector PSMs recruit Non-Executive Directors to their Board. The intention is to secure skills and expertise in areas such as finance, commercial growth, HR or legal. These areas are commonly where the transferring leadership team identifies weaknesses in their capabilities and experience.

From an operational governance and leadership perspective, the PSM would be run on a day-to-day basis by a Senior Leadership Team. While the roles that make up this team vary between library service PSMs, positions would conventionally cover the following roles and responsibilities (as a minimum):

- ▼ Chief Executive Officer;
- ▼ Finance Manager;
- ▼ Operations Manager; and
- ▼ Commercial & Innovation Manager.

7.6 Status

If established, the PSM would operate on a not-for-private-profit basis. As an independent organisation with charitable objectives, the PSM may qualify for social enterprise or charitable status.

In order to achieve charitable status, the PSM must ensure its activities fall within the descriptions of charitable purposes and are for the public benefit. Providing the PSM can meet these requirements, obtaining charitable status would enable the organisation to benefit from rate relief and tax benefits.

Should the PSM establish as a Community Benefit Society, the PSM would have the opportunity to apply for exempt charitable status. Should the PSM establish as a Charitable Incorporated Organisation, it would automatically assume charitable status.

Alternatively, should the PSM establish as a Community Interest Company, it would automatically qualify as a social enterprise (but is unlikely to benefit from tax exemptions or rate relief).

7.7 Leadership

The PSM's Board of Directors and Senior Leadership Team would be required to possess the skills and commercial disciplines required of any business.

As is common amongst a large number of public sector spin-outs, the skills and expertise possessed by the (pre-spin out) Leadership Team focusses heavily on operational and professional library service, and less on commercial acumen. To address any skills gaps, additional posts are often created (e.g. Commercial & Innovation Manager). Although this represents an additional cost to the PSM, the organisation's ability to successfully implement an ambitious growth strategy and

embed a new organisational culture often requires the additional capacity and capabilities brought by such a post-holder.

Members of the service’s current Senior Leadership Team undertook a skills needs assessment as part of this study, the results of which are provided below:

Theme	Competency	KLS score (%)	KLS theme score (%)	Industry benchmark (%)
Business strategy and commercial awareness	Strategic planning	75%	74%	75%
	Market analysis	69%		
	Customer, competitor and partner analysis	63%		
	Service planning	69%		
	Developing a culture of innovation	88%		
	Stakeholders	81%		
	Communication	75%		
Assessing and responding to opportunities	Assessing opportunities	50%	69%	65%
	Bid writing	63%		
	Presentations and pitches	81%		
	Partnership delivery models and collaborative bidding	81%		
Financial management and investment	Financial statements: Profit & Loss, Cashflow, Balance sheet	81%	71%	65%
	Financial forecasting	75%		
	Identify and attract investors / external funding	56%		
Operational management	Building a positive culture	88%	88%	85%
	Effective people management	88%		
	Gathering feedback	88%		

The results indicate that the service’s current Senior Leadership Team self-report that they possess the majority of skills required to manage the PSM. Weaknesses do however exist in particular areas including market analysis, customer/competitor/partner analysis, service planning, assessing opportunities, bid writing and identifying/attracting investors and sources of external funding. This would suggest that, like many library PSMs, the service could look to recruit a Commercial & Innovation Manager, while also providing training to the Senior Leadership Team to address these areas for development.

While the service may feel it has sufficient existing expertise ‘in-house’ to meet the demands of running a new and independent organisation, the issue of capacity should be considered (e.g. does the existing Senior Leadership Team possess the capacity to meet the demands of running a commercially disciplined organisation?). Given the potential skills gap and the need to create additional capacity, the service should consider the shape of the potential PSM’s Senior Leadership Team.

7.8 Commercial freedoms

As an independent entity, the PSM would have the commercial freedoms to trade in accordance with its articles. While delivering the core contract on behalf of the Council would require the PSM to deliver prescribed service requirements/outcomes and meet performance standards, the PSM would be able to develop service offerings outside of the core contract. Given that the PSM would have the autonomy to decide how best to allocate resources, whether to bid for contracts and/or how to reinvest surpluses, the PSM would have considerable freedoms that it currently does not

possess. As decisions would be taken by the Board or Senior Leadership Team, the speed of decisions should also improve, allowing the PSM to make timely commercial decisions.

Depending on the PSM’s status as a social enterprise and/or charity, the PSM may be able to access new sources of external funding not currently available to the in-house service. The PSM would also have the freedom to establish or join partnerships which offer joint working opportunities across the library sector, service user pathways and/or outcome areas. Such partnerships may take the form or incorporated vehicles such as a Joint Venture or Limited Liability Partnership, or more informal arrangements via a partnership agreement.

7.9 Portfolio analysis findings and opportunities

A portfolio analysis that considered grouping the library service with other related services as part of a new alternative delivery model was undertaken prior to this feasibility study. The study concluded that several potentially desirable grouping may exist:

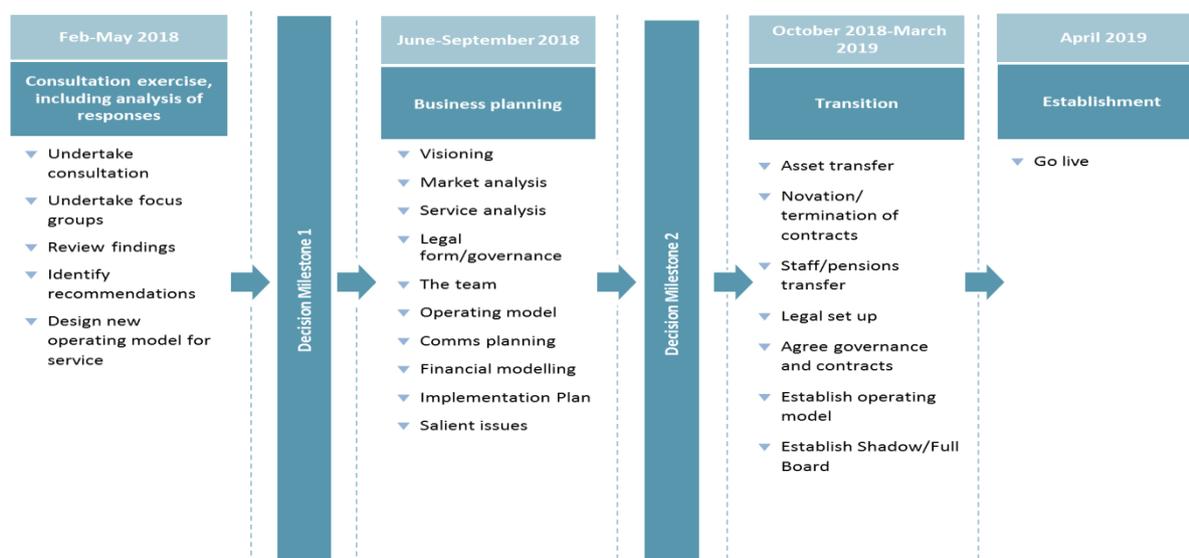
- ▼ Library Service and Sensory Team;
- ▼ Library Service and Books Plus;
- ▼ Library Service, Museum and Sensory Team; and
- ▼ Library Service, Museum, Sensory Team and Books Plus.

In essence, the majority of groupings that involve both the Library Service and Sensory Team performed well through the analysis, so this is one logical line for further investigation.

While it has been assumed (for the purposes of this feasibility study) that the library service would be the only service that may establish itself as a PSM, the opportunity exists to include other services within the new delivery model.

7.10 The journey to establishment

Informed by the requirement to undertake a public consultation exercise in early 2018 to identify the service’s future operating model, the diagram below demonstrates a suggested staged approach and timescales associated with the journey to establishment. The assumed timescales are informed by the experiences of numerous library sector PSMs.



The costs associated with the establishment of a PSM varies between projects. The following are an indication in terms of the cost of external support that other now established PSMs have incurred:

- ▼ Business planning stage (business planning, financial, legal, VAT and marketing advice) = c£60k
- ▼ Implementation stage (business planning and legal advice) = c£40k

In addition to the above, the following costs would be incurred when setting up the new organisation:

- ▼ Establishment of company (including set-up costs) = £30k

It is not possible to provide a value for the costs associated with the in-house support required from Council partners (e.g. legal, procurement, HR, Pensions, Premises, business support services). The Council should consider the cost of such support and ensure it is included within the overall 'costs of change' associated with the investigation and establishment of the PSM.

The service and Council are encouraged to keep DCMS informed of developments in relation to this project. DCMS are in the process of designing new programmes to support services/Councils intending to establish PSMs, meaning that some of the costs associated with any required external support could potentially be funded via the new programme which will launch in early 2018.

7.11 Technical issues that require consideration

The remit of this feasibility study does not include an analysis of numerous important technical issues associated with the establishment of a PSM. These issues are important and will need to be considered, should project progress to the business planning stage.

The approach assumed for each of these issues will have a significant impact on the sustainability of the PSM. Without a fair sharing of risk, there exists the risk that the PSM would be 'set up to fail'.

Premises transfer arrangements - The service currently operates from a number of buildings. Each premise is either owned and maintained by the Council, or by community groups. Should the PSM be established, it would continue to require access to some or all of these buildings (depending on the outcome of the consultation exercise and re-design process). The terms of the PSM's access to the required premises will require careful thought – particularly in relation to the allocation of maintenance liabilities and responsibilities. Should the PSM (for example) be awarded access to a library on a fully repairing and insuring lease, the state of the building needs to be considered (via a condition survey). Any works required to the building would need to be paid for – it is unlikely the PSM would be in a position to sustain significant costs associated with major works. In such a circumstance, the council and PSM should consider the value of additional funding to be awarded to the PSM to cover the costs of such work, in addition to funding being made available by the Council to cover the cost of the PSM maintaining each building going forward. The costs of insuring the building should also be considered, in terms of whether this additional cost to the PSM should be covered by the Council.

Other important considerations include any conditions associated with the transfer (e.g. restricted use) and leasing arrangements (e.g. rent at market rate etc.).

Transfer of other assets (e.g. book stock, equipment etc) - In order to deliver the core contract and other services, the PSM would require access to a range of assets including ICT hardware, book stock

and other items. The Council and PSM would need to determine which assets would transfer to the PSM, and on what basis.

Staff - Where staff members belong to an organised grouping and are assigned to delivering activities on behalf of that grouping, staff would transfer to the PSM on their existing terms and conditions under TUPE regulations. Consideration should be given as to whether all full and part time staff are part of an organised group and assigned to delivering services within the scope of the contract with the Council, as if not they may not fall within the TUPE remit.

Pensions - Staff who transfer to the PSM are likely to be members of the Local Government Pension Scheme (LGPS). The PSM would be able to apply for Admitted Body Status, so as to maintain transferring staff's pension arrangements.

The service should identify whether any staff identified for transfer are members of the Teachers' Pension Scheme, as this would require the PSM to apply for 'function provider' status with the Department for Education.

Three important issues need careful consideration in relation to the LGPS. The staff who transfer to the PSM would have built up a pension deficit liability during their time as Council employees. A decision needs to be reached as to how this deficit liability is to be treated. The usual approach is for the Council to take ownership of all pension deficit liabilities incurred up to the point of establishment, meaning that the PSM operates a fully funded pension scheme from the point of establishment onwards.

Establishing as an Admitted Body requires the PSM to put in place a bond or indemnity to cover any future default on pension deficit liabilities accrued from the point of establishment onwards. As the PSM would not have a trading history or a significant balance sheet, it is unlikely that the new entity would be in a position to secure a cost effective bond. PSMs that have received quotes for bonds regularly state that the cost of the bond is equivalent to the forecasted level of pension deficit liability, which on occasions has resulted in a quote of £200k. A more cost effective approach is for the Council to provide the PSM with an indemnity, which the PSM would pay the Council for, at a cost of c£5k per annum.

The third important consideration relates to the new level of Employer Pension Contribution (EPC) that the PSM would be required to pay. An actuarial assessment is required to ascertain the EPC rates for an open and closed scheme. Until this assessment is undertaken, it is not possible to assess whether becoming an independent body would result in the PSM being required to pay a higher (at additional cost) or lower (as a saving) level of EPC. Should the PSM decide to offer a closed scheme, the new organisation would be required to operate an alternative pension scheme for new joiners.

Redundancy liability - Staff transferring to the PSM are likely to have built up a redundancy liability whilst employed by the Council. Although this liability represents a 'paper based liability', responsibility for this liability needs to be agreed. Common approaches include the liability being transferred incrementally to the PSM over a 5 year period, or for the Council to take responsibility for any redundancy liabilities incurred as a result of a decision it makes (e.g. the Council deciding to reduce the value of the contract with the PSM, resulting in the PSM being required to make redundancies).

Business support and corporate services - The Council would need to identify the value of business support services currently provided to the library service. Business support includes Finance, Payroll, Human Resources, Facilities Management and Legal Services etc. The Council and PSM would need

to agree a mechanism for transferring these functions and the associated budget. Options include the PSM purchasing services from the Council for an agreed time period and/or giving the PSM the freedom to purchase business support from the market.

8. Financial model

A high level financial ‘differences’ model has been developed to inform this feasibility study. Rather than develop a full Income & Expenditure financial model for the potential PSM, a financial model that compares and contrasts the financial performance of the current service and the potential PSM has instead been developed.

The financial differences model focusses on the addition costs and income that could be generated by the PSM, given the potential PSM’s growth strategy, commercial freedoms and evidence from existing library sector PSMs.

The model is informed by numerous assumptions, based on the PSM’s proposition and growth strategy, and evidence from how other library sector PSMs have performed since establishment. Where baseline financial information is required, this has been informed by information forwarded by the service.

8.1 Assumptions

Income

- ▼ A new operating model would be designed for the service, informed by the results of the public consultation exercise. This new operating model would be delivered within the revised service budget of £2.238 million per annum. The desired operating model would be achieved before the PSM is established;
- ▼ It is unlikely that the PSM would be in a position to start generating income from all new or expanded services during Year 1. As such, growth in income has been assumed on an incremental basis, as outlined below:

	Yr1	Yr2	Yr3	Yr4	Yr5	Total income
	2019/20	2020/21	2021/22	2022/23	2023/24	
Growth in existing traded income	20%	40%	60%	80%	100%	£200,000
Growth in new traded income	10%	25%	50%	75%	100%	£300,000
Grant income	10%	35%	55%	75%	100%	£250,000
Apprenticeship Levy rebate	100%	100%	100%	100%	100%	£15,000

- ▼ It has been assumed the value of the service contract would be maintained over a 5 year period (e.g. no increases or decreases to the contract value).

NB. While the PSM may be required to apply an inflationary uplift to salaries, it is assumed that the contract value would increase by the same amount. As such, it has been assumed that any increase in salary costs or contract value would have a ‘zero-sum gain’ impact on the PSM’s viability.

- ▼ For all growth in traded income currently generated by the service, this is assumed to realise a profit margin of 10%;
- ▼ A profit margin of 15% has been assumed for all new sources of traded income generated by the PSM;
- ▼ A profit margin of 5% has been assumed for all new sources of grant income generated by the PSM; and

- ▼ The PSM would be eligible to access the apprenticeship levy rebate, assumed as £15k per annum.

New costs to service (in-scope technical issues)

As an independent entity the PSM would incur a range of new costs. These include:

- ▼ The potential PSM would create a new Commercial & Innovation Manager post. This cost has been assumed as £40k per annum including on-costs;
- ▼ The appointment of the Commercial & Innovation Manager, along with other addition staff, may result in the PSM's salary costs exceeding £2 million. This would result in the PSM passing the threshold for the apprenticeship levy, calculated as 0.5% of the total annual salary bill. This would result in the PSM incurred a cost of £15k per annum. It would however receive a rebate for the same amount, meaning that the levy would be 'cost neutral';
- ▼ The PSM would be required to arrange appropriate insurance cover required of any business, including public liability, employers' liability, professional indemnity insurance, director indemnity insurance and business interruption insurance. This represents a new cost to the PSM – generating an assumed cost pressure of £20k per annum;
- ▼ To successfully implement the PSM's growth strategy, the new organisation would require a marketing budget. A realistic budget to operate the PSM's marketing functions is assumed as £15-25k per annum; and
- ▼ As the PSM would be operating outside of the Council, it would be likely to incur an irrecoverable VAT liability. This has been assumed as £7k-10k per annum, although expert VAT advice would be required during the business planning stage to identify the amount of irrecoverable VAT the PSM is likely to incur.

New costs to service (out of scope technical issues)

A number of technical issues require resolution prior to the PSM being established. These technical issues have the potential to result in the PSM realising additional costs or savings. These technical considerations are beyond the scope of this work but would need to be considered should the Council decide to continue exploring the PSM option.

- ▼ Should the PSM intend to achieve charitable status, it would be in a position to secure 80% mandatory NNDR, while a further 20% discretionary relief may also be available. Should the PSM benefit from rate relief, an agreement would need to be reached with the Council in terms of whether none, some or all of this rate relief is subtracted from the contract value, as otherwise this would result in a cost to the councils which administer the rate schemes.

For the purposes of the financial differences model, it has been assumed that each of the cost centres associated with the following technical issues are fully funded by the Council, meaning that the Council would provide the PSM with the level of funding required to cover the full costs for each of the following:

- ▼ A decision would be require in terms of whether the PSM would be required to access the Council's business support services (e.g. HR, Payroll, Legal, HR, ICT etc.) once it has established, or whether the PSM would be free to purchase some or all of the service's back office functions from the market. The value of support services currently delivered by the

Council to the service needs to be understood, with this budget being added to the contract value between the Council and PSM;

- ▼ The Council and PSM would need to agree the transfer of risks in relation to staff pensions. Any deficit liabilities would need to be identified and risk sharing arrangements agreed. A bond or indemnity would be required to insure against any default in covering future liabilities; and
- ▼ The PSM would be eligible to apply for Admitted Body Status to the LGPS. Once the cohort of staff who would transfer to the PSM has been identified, an actuarial assessment would be required. This assessment would determine the revised Employer Pension Contribution rate for staff transferring to the PSM and may represent a new cost (increased rate of contribution) or saving (decreased rate of contribution).

NB. Once assumptions in relation to the out of scope technical issues have been defined, further potential savings and costs to be incurred by the PSM should be identified and the financial differences model updated.

Areas for savings

Section 6.3 identifies a number of potential areas for savings, as identified by the project group and evidenced by other library sector PSMs.

Established PSMs report an increased ability to realise efficiency savings across their operating models. Through improved access to accurate and timely management and financial information, PSMs are able to procure more efficiently and make changes to ways of working that were previously embedded within the service. While it is difficult to calculate the likely level of financial benefit associated with such efficiencies, we have assumed a prudent annual value of £40k (Yr1), £50k (Yr2) and £60k (Yr3 onwards).

8.2 Financial differences model

Financial benefit to the PSM

The table below demonstrates the level of financial advantage/disadvantage that the potential PSM would experience post-establishment.

Based on the analysis below, the PSM would incur an operating loss during Yr1 and Yr2. As growth accelerates from Yr3 onwards, the PSM is forecast to generate increasing levels of surplus. The above analysis indicates that the service should consider (during the business planning stage) how the pinch-points during the two years post-establishment could be addressed. At present the new costs associated with operating as an independent organisation outweigh the level of surplus generated through new sources of income.

	Yr1 2019/20	Yr2 2020/21	Yr3 2021/22	Yr4 2022/23	Yr5 2023/24
Income					
Growth in existing traded income	£40,000	£80,000	£120,000	£160,000	£200,000
Growth in new traded income	£40,000	£100,000	£200,000	£300,000	£400,000
Growth in grant income	£30,000	£105,000	£165,000	£225,000	£300,000
Apprenticeship Levy rebate	£15,000	£15,000	£15,000	£15,000	£15,000
Total forecasted additional income	£125,000	£300,000	£500,000	£700,000	£915,000
Costs					
Cost of delivery - growth in existing traded income	£36,000	£72,000	£108,000	£144,000	£180,000
Cost of delivery - growth in new traded income	£34,000	£85,000	£170,000	£255,000	£340,000
Cost of delivery - grant income	£28,500	£99,750	£156,750	£213,750	£285,000
Commercial & Innovation Manager	£40,000	£40,000	£40,000	£40,000	£40,000
Apprenticeship Levy	£15,000	£15,000	£15,000	£15,000	£15,000
Insurance	£20,000	£20,000	£20,000	£20,000	£20,000
Marketing budget	£15,000	£20,000	£25,000	£25,000	£25,000
Irrecoverable VAT liability	£7,000	£8,000	£9,000	£10,000	£10,000
Total forecasted additional costs	£195,500	£359,750	£543,750	£722,750	£915,000
Savings					
Efficiency savings	£40,000	£50,000	£60,000	£60,000	£60,000
Total forecasted savings	£40,000	£50,000	£60,000	£60,000	£60,000
Net difference					
Forecasted net difference	£30,500	£40,250	£16,250	£37,250	£60,000

9. Scoring & analysis

Each of the assessment criteria have been applied to the proposition in order to assess whether it is deemed desirable, viable and feasible. Each criterion has been scored as either red, amber or green, based on the perceived extent to which the PSM meets the requirements as defined by the assessment criteria (see Appendix 1 for full list of criteria and the associated scoring mechanism).

9.1 Desirability

D1 - The ability of the PSM to meet the strategic objectives and priorities of the Council (e.g. Ambitions for Kirklees Libraries 2017 – 2021, the council's 'The front door: Design and process blueprint' and the New Council Target Operating Model)

Green

The potential PSM's service profile and growth strategy align with specific priorities outlined within the 'New Council' strategy. The themes included within the PSMs draft vision, mission and strategic objectives indicate the organisation would share a number of socially focused values and objectives with the Council (and other commissioning bodies).

The service profile reflects the [Ambitions for Kirklees Libraries 2017-2021](#). For example, the PSM's growth strategy focuses on the development of services that would improve the health and wellbeing of people living in Kirklees and encourage local economic development, while also offering safe, welcoming and accessible facilities where other public services can be based.

The creation of a commissioner/provider split and a strategic relationship between the Council and PSM would enable the Council to influence the PSMs' objectives and priorities. Given this ongoing relationship, the PSM would be well placed to support the delivery of the 'New Council' approach and front door design/process blueprint, particularly in relation to digital inclusion and enabling people to access the information they need.

The commercial and decision making freedoms experienced by the PSM would encourage a move towards designing services to meet local need. Given the PSM's proposed ownership and governance structure, significant potential exists for these opportunities to be identified by staff and community members, while both would be involved in the design, delivery and evaluation of these services.

D2 - The ability of the PSM to ensure strategic partners (e.g. staff, community groups, library users, universities, schools, NHS organisations and the Society of Chief Librarians) can exercise influence over service provision and the governance of the PSM	Green
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The proposition's proposed governance structure involves a Board of Directors being made up of a wide range of stakeholders, while the PSM would establish various advisory groups. Both have been designed to ensure the views of external and internal stakeholders inform both the strategic direction and operations of the new organisation. In addition, the PSM would be owned by staff, library user and friends/reader groups.

Informed by the market analysis that indicates that commissioners across the public sector are seeking to procure collaborative models to deliver services across regions, outcome areas and/or service user pathways, the PSM would be well placed to establish joint ventures, collaborative models and partnership agreements with a range of organisations.

Evidence from the existing library service PSMs indicates that membership of collaborative models is easier to secure once the service operates outside of the local authority, as the service can benefit from commercial freedom and the autonomy to take quick decisions in relation to opportunity appraisal and resource allocation.

Establishing such models would potentially help the PSM and Council to ensure an integrated approach to delivery, while also reducing duplication of services across the public and third sector.

D3 - The ability of the PSM to establish a strategic partnership and effective contracting relationship with the Council	Green
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The creation of a commissioner/provider split and a strategic relationship between the Council and PSM would enable the Council to influence the PSMS' objectives and priorities. As the commissioner, the Council would be in a position to manage the contract with the PSM, involving joint working between both parties to agree annual service delivery plans and undertake regular (e.g. quarterly) performance reviews and contract monitoring.

D4 - The extent to which the PSM proposition is supported by elected members	Amber
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At this stage there is no consensus across elected members in relation to the desirability of establishing a PSM. Once the results of the public consultation exercise are known, members would be in a stronger position to consider the desirability of a range of alternative delivery models, in terms of the ability of each to deliver the required priorities/outcomes within the available resources.

D5 - The ability of the PSMs leadership team to ensure the new organisation's sustainability, based on their perceived commercial capabilities	Amber
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The results of the skills needs analysis indicate that the service's current Senior Leadership Team self-report that they possess the majority of skills required to manage the PSM (scoring more than 70% in 3 of the 4 areas assessed). Weaknesses do however exist, in particular areas including market analysis, customer/competitor/partner analysis, service planning, assessing opportunities, bid writing and identifying/attracting investors and sources of external funding.

These findings would suggest that, like many library PSMs, the service could look to recruit a Commercial & Innovation Manager, while also providing training to the Senior Leadership Team to address specific areas for development. The PSM would be in a position to recruit Non-Executive Directors who would provide access to additional skills, experience and networks.

D6 - The ability of the PSM to position the service effectively in readiness for future collaboration across library services e.g. Combined Authorities	Green
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As a PSM, the service would benefit from a degree of first mover advantage. Assuming it is the first library service PSM in the region, it would be well placed to pursue regional opportunities should market conditions allow. Such a step would likely be taken 2 or more years after establishment, as evidence from established library sector PSMs indicates that the first year post-establishment requires a particular focus on extracting the service from the Council’s infrastructure (e.g. back office) and ensuring business continuity.

The PSMs service profile and growth strategy indicates the service is well placed to develop service offerings that would be attractive to regional commissioning bodies. This is supported by the commissioning intentions described in the market analysis (section 5) which highlight a regional focus on collaboration, economic prosperity and supporting people into employment.

The PSM service profile and growth strategy includes services e.g. social prescription, transcription services and bibliotherapy that could be delivered regionally either independently by the PSM or in collaboration with neighbouring services. The library service is currently developing a growing network across the region and is building relationships with library services on a regional basis.

D7 - The ability of the PSM to develop services which can be marketed to employers, skills agencies and local enterprises	Amber
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The PSM’s service profile and growth strategy outline the service’s commitment to developing service offerings which would support the businesses and skills agendas. These services, once developed, could be marketed to employers, skills agencies and local people, supporting the delivery of local, regional and national objectives.

To increase this score to ‘green’, the PSM would be required to provide clarity in relation to the link between the Kirklees Business Hubs and the new organisation, in addition to forming clear plans that would allow the PSM to develop the internal capabilities and capacity to deliver the services that would contribute to the skills agenda.

D8 - The ability of the PSM to involve staff and key stakeholders in the design, delivery and evaluation of services through co production, engagement and collaboration	Green
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The PSM’s proposed governance structure would result in staff (via the CEO and Staff Directors) and community representatives (via Community Directors) sitting on the organisation’s Board. In addition, the Senior Leadership Team would manage the organisation on a day to day basis, while staff, friends/reader groups and third sector organisations would be in a position to influence the PSM’s strategic direction and service offerings via a number of advisory groups.

In additional to the structural characteristics of the PSM’s governance, both of the PSM’s vision statements imply that effective stakeholder engagement would form a key foundation of the new organisation’s culture.

9.2 Viability

V1 - The ability of the PSM to exercise the commercial freedoms necessary to generate revenue through contracts, external grants and trading

Green

The characteristics of the delivery model and legal form that would be assumed by the new entity indicate that it would have significant commercial freedom and decision making autonomy. Although activities would need to align to any charitable purpose and/or the entity's socially focussed strategic objectives, this still provides significant scope for the development of traded services and access to external sources of funding (e.g. grants and contract income).

The PSM's governance structure would allow timely decision making, meaning that the new entity would be in a position to move quickly to address unmet need, allocating resources or funds to grow the business while also creating social impact.

V2 - Evidence of existing opportunities that could result in the PSM generating contract, grant and traded income

Amber

The PSMs service profile and growth strategy has identified a number of new service offerings that could be developed. However, at this stage there is limited evidence as to the existence of contracts, grants or traded service opportunities within the local market place that align to the PSM's service development aspirations. It should be noted that the lack of identified opportunities is reflective of the high-level nature of this study and the fact that it has been developed before the service's future operating model has been agreed.

V3 - The forecasted ability of the PSM to realise an operating surplus each year post-establishment (over a 5 year period)

Amber

The potential PSM is forecasted to realise operating losses in Yrs1 and 2, before realising a growing level of surplus from Yr3 onwards. Please refer to section 8.2 for further details.

V4 - The ability of the PSM to re-invest surpluses to further its social objectives and ensure its ongoing financial sustainability

Green

The PSM would operate as a not-for-private-profit business, re-investing any surpluses into achieving its social objectives. Operating as either a social enterprise or charity would ensure any surpluses are used to further social purposes, the PSM is not expected to pay dividends to members.

The PSM would take a democratic approach to deciding how surpluses would be re-invested. This is expected to involve bottom-up discussions that would involve staff, library users, community groups and local partners.

The PSM would also be in a position to channel a proportion of surpluses to reserves, providing the new entity with working capital and funds to offset against any liabilities.

9.3 Feasibility

F1 - The ability of the PSM to be established by April 2019

Green

The transition plan provided within section 7.10 demonstrates the stages required to establish the PSM by 1st April 2019. Based on the experiences of other current library sector PSMs, the target date for the establishment of the PSM appears reasonable.

This rating is based on the assumption that the operating model (informed by the results of the public consultation) will be agreed during the summer of 2018, in time for the final model to inform the business planning process. Any significant delays to the consultation or key decision's will impact

on subsequent project timescales e.g. if business planning does not start until late 2018 this criterion would be revised to ‘amber’ or ‘red’.

F2- The likelihood of investigating and establishing the PSM within a total cost of £200k, including all internal and external support costs	Green
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NB. On the basis that the Council are currently unable to confirm the existence of a transition budget to fund the costs of change associated with the establishment of a PSM, we have assumed a cost limit of £200k.

The costs associated with the establishment of a PSM varies between projects. Informed by the costs of establishing library service PSMs, the assumed cost for external support during the business planning and implementation stages is £100k.

The cost of setting up the new entity is estimated to be £30k. The cost of the in-house support required during both stages is unknown and requires the consideration of the Council.

Assuming that the Council and service are successful in a further bid to DCMS to cover at least part of the external support costs, and that the costs of in-house support do not total more than £70k, it is likely that the PSM would be established within the £200k cost limit.

10. Summary of main findings

A summary of the potential PSM’s performance against the assessment criteria is provided below:

Theme	Description	Rating
Desirability	Tests whether the PSM’s service profile, growth strategy, vision and mission would support the strategic objectives and social purpose of the Council. Assesses the extent to which the PSM would contribute towards the delivery of these strategic priorities.	Green/Amber
Viability	Tests whether the PSMs proposition is commercially and financially viable within the context of the local and regional marketplace. Assesses the extent to which the PSM can generate new income streams, reduce reliance on Council funding and develop as a sustainable independent business.	Amber
Feasibility	Tests whether the PSM could realistically be established within agreed timescales and cost limits.	Green

11. Recommendations

It is recommended that the Council and service consider the technical and salient issues identified within this report (see sections 7.11 and 12) and the implications for both parties of adopting various approaches to resolving these issues. Once the service’s future operating model is designed (informed by feedback from the public consultation exercise taking place in early to mid-2018), further work is required to update the assumptions and growth strategy that inform this study. Once this work has been completed, a further assessment of the potential PSM’s viability can be made - possibly via a business planning process, should officer and elected member support allow.

12. Salient issues and future considerations

Through conversations with representatives from the service and our analysis a number of salient issues have been identified. Should the Council continue its investigation of a PSM or any other new model (outside of the Council) the following issues would need to be considered. The treatment of each may have an impact on the desirability, viability and feasibility of the PSM. As such, the findings within this report should be revisited once more clarity is available.

12.1 Operating model

Issue	Description
Results of the public consultation exercise	The results of this engagement will be used to inform the design and development of the library service operating model. Until the results of this engagement have been known, it will not be possible to complete a robust business plan. Subsequently any delays to this consultation or associated decision-making process will potentially impact on the ability of the PSM to establish by April 2019.
Develop/implement operating model	Based on the results of the public consultation and the subsequent report to Cabinet, the service's new operating model must be developed and defined. Defining the future operating model is essential as the services function must be established before a full business plan could be developed.
Service specification	Should the Council decide to continue the development of the PSM or any other new model, it is recommended that an outline service specification is developed. This specification should set out the outcomes and outputs required from the library service provider and will enable the Council to assess the PSMs capacity to deliver against core requirements and priorities.
Service groupings	The portfolio analysis highlighted the potential for the service to combine with other services (e.g. Books Plus and/or the Museum Service). Increasing the scope of services delivered by the potential PSM or other new delivery model has the potential to generate greater opportunities for growth and grouped operational efficiencies. The Council and service should consider and confirm the preferred service grouping prior to undertaking the business planning stage.

12.2 Technical considerations

Please refer to section 7.11 for details of the technical issues that would require consideration/resolution during the business planning stage.

13. Appendix A - Assessment criteria and scoring mechanism

Desirability

D1	The ability of the PSM to meet the strategic objectives and priorities of the Council (e.g. Ambitions for Kirklees Libraries 2017 – 2021, the council's 'The front door: Design and process blueprint' and the New Council Target Operating Model)
High score	Clear alignment exists between the potential PSM's aspirations and growth strategy and the objectives and principles set out in Ambitions for Kirklees Libraries 2017-2021, 'The front door: Design and process blueprint' and the New Council Target Operating Model
Medium score	Some alignment exists between the potential PSM's aspirations and growth strategy and the objectives and principles set out in Ambitions for Kirklees Libraries 2017-2021, 'The front door: Design and process blueprint' and the New Council Target Operating Model
Low score	No alignment exists between the potential PSM's aspirations and growth strategy and the objectives and principles set out in Ambitions for Kirklees Libraries 2017-2021, 'The front door: Design and process blueprint' and the New Council Target Operating Model

D2	The ability of the PSM to ensure strategic partners (e.g. staff, community groups, library users, universities, schools, NHS organisations and the Society of Chief Librarians) can exercise influence over the PSM's future strategic direction
High score	The PSMs proposition demonstrates that strategic partners would be able to influence the strategic direction of the new organisation via the holding of membership or other forms of influence within the PSM's governance structure (e.g. positions on the Board/advisory groups)
Medium score	The PSMs proposition demonstrates that strategic partners will be able to influence the decisions via advisory groups
Low score	The PSMs proposition demonstrates that strategic partners will have very limited/no ability to influence the decisions of the PSM

D3	The ability of the PSM to establish a strategic partnership and an effective contracting relationship with the Council
High score	The establishment of a PSM would create a clear commissioner/provider split, while also offering the potential of a 'strategic partnership' between both parties
Medium score	N/A
Low score	The establishment of a PSM would not create a clear commissioner/provider split and would limit the ability of both parties to work in partnership.

D4	The extent to which the PSM proposition is supported by elected members
High score	The PSMs proposition is universally supported by elected members
Medium score	The PSMs proposition is generally supported in principle by elected members
Low score	The PSMs proposition is poorly/not supported by elected members

D5	The ability of the PSMs leadership team to ensure the new organisation's sustainability, based on their perceived commercial capabilities and experience
High score	The current Senior Leadership Team score above 70% in all elements of the skills needs assessment
Medium score	The current Senior Leadership Team score above 70% in between 2-4 elements of the skills needs assessment
Low score	The current Senior Leadership Team score above 70% in one or none of the elements of the skills needs assessment

D6	The ability of the PSM to position the service effectively in readiness for future collaboration across library services e.g. Combined Authorities
High score	Strong alignment exists between the potential PSM's growth strategy and the priorities held by commissioners, particularly in relation to their preferred approach to the delivery of services (e.g. on a regional basis, or across service user pathways and/or outcome areas)
Medium score	Some alignment exists between the potential PSM's growth strategy and the priorities held by commissioners, particularly in relation to their preferred approach to the delivery of services (e.g. on a regional basis, or across service user pathways and/or outcome areas)
Low score	No alignment exists between the potential PSM's growth strategy and the priorities held by commissioners, particularly in relation to their preferred approach to the delivery of services (e.g. on a regional basis, or across service user pathways and/or outcome areas)

D7	The ability of the PSM to develop services which can be marketed to employers, skills agencies and local enterprises
High score	The potential PSM's growth strategy includes the aspiration to develop services for employers, skills agencies and local enterprises within one year of establishment. This aspiration is supported by strong existing links to partners who would play an important role in supporting the PSM to design and deliver services
Medium score	The potential PSM's growth strategy includes the aspiration to develop services for employers, skills agencies and local enterprises within one year of establishment. This aspiration is however only supported by limited existing links to partners who would play an important role in supporting the PSM to design and deliver services.
Low score	The potential PSM's growth strategy does not include the aspiration to develop services for employers, skills agencies and local enterprises within one year of establishment.

D8	The ability of the PSM to involve staff and key stakeholders in the design, delivery and evaluation of services through co production, engagement and collaboration
High score	The potential PSM proposition demonstrates the structures and intent required to ensure that there will be opportunities for staff and key external stakeholders to become involved in service design, delivery and evaluation
Medium score	N/A
Low score	The potential PSM proposition does not adequately demonstrate the structures and intent required to ensure that there will be opportunities for staff and key external stakeholders to become involved in service design, delivery and evaluation

Viability

V1	The ability of the PSM to exercise the commercial freedoms necessary to generate revenue through contracts, external grants and trading
High score	The characteristics of the proposed PSM indicate that it would have the commercial freedom required to generate income through contracts, external grants and traded services
Medium score	N/A
Low score	The characteristics of the proposed PSM indicate that it would not have the commercial freedom required to generate income through contracts, external grants and traded services

V2	Evidence of existing opportunities that could result in the PSM generating contract, grant and traded income
High score	Strong evidence is provided of opportunities that would enable the PSM to bid for and generate new sources of income via contracts, grants and traded income
Medium score	Some evidence is provided of opportunities that would enable the PSM to bid for and generate new sources of income via contracts, grants and traded income
Low score	No evidence is provided of opportunities that would enable the PSM to bid for and generate new sources of income via contracts, grants and traded income

V3	The forecasted ability of the PSM to realise an operating surplus each year post-establishment (over a 5 year period)
High score	The PSM is forecasted to break even in each year post-establishment
Medium score	The PSM is forecasted to break even in 3 of the 5 year post-establishment
Low score	The PSM is forecasted to break even in less than 2 of the 5 years post-establishment

V4	The ability of the PSM to re-invest surpluses to further its social objectives and ensure its ongoing financial sustainability
High score	The characteristics of the proposed PSM indicate that it would be in a position to independently decided how surpluses are to be invested
Medium score	N/A
Low score	The characteristics of the proposed PSM do not indicate that it would be in a position to independently decided how surpluses are to be invested

Feasibility

F1	The ability of the PSM to be established by April 2019
High score	Informed by the experiences of other PSMs and the required level of work required to completed the staged approach to establishment, the service is likely to establish as a PSM by 1 st April 2019, should the decision be taken to establish the new entity
Medium score	N/A
Low score	Informed by the experiences of other PSMs and the required level of work required to completed the staged approach to establishment, the service is unlikely to establish as a PSM by 1st April 2019, should the decision be taken to establish the new entity

F2	The likelihood of investigating and establishing the PSM within a total cost of £200k, including all internal and external support costs
High score	The cost of establishing the PSM is likely to result in a cost of <£200k to the Council
Medium score	N/A
Low score	The cost of establishing the PSM is likely to result in a cost of >£200k to the Council