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CAMBRIDGESHIRE COUNTY COUNCIL

Evaluation and Business Case for Externalisation Options for the Libraries, Learning and Culture Directorate

EXECUTIVE SUMMARY

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EXECUTIVE SUMMARY, RECOMMENDATIONS AND THE WAY FORWARD

Executive Summary

1. Léonie Cowen & Associates has been instructed to carry out an evaluation of the options for the future of Cambridgeshire County Council's ("the County Council") Libraries, Learning and Culture Directorate. The evaluation included the services currently within the Libraries, Learning and Culture Block of the Community and Adult Services together with the Adult Learning Services.
2. The options which have been evaluated are:
 - 2.1 a procured solution;
 - 2.2 a Mutual with Social Enterprise; and
 - 2.3 a Charitable Wider Cultural Trust.
3. Evaluation of the status quo was not required because it had already been established that this is not viable.
4. The key criteria against which each option was evaluated are maximised savings and sustainability. We evaluated each option against a range of criteria which were focussed around the key criteria identified above. We considered:
 - 4.1 whether each option would enable the County Council to continue to ensure that these services are delivered in a proper manner in accordance with best value and in accordance with statutory and other requirements (i.e. whether the solution would provide sustainable service delivery;
 - 4.2 the property implications (particularly from the perspective of achieving non-domestic rate relief ("NNDR") and thus maximising taxation based savings);
 - 4.3 the wider financial issues;
 - 4.4 the proposed governance arrangements for each option and the preferred legal structure to be adopted;
 - 4.5 the impact on staff;
 - 4.6 whether each solution was readily achievable, the timetable for achievement and likely costs of implementation; and
 - 4.7 how far each option provided a sustainable solution which could deliver further year-on-year benefits for the County Council and its communities including savings.

The Procured Solution

5. The procured solution would require the County Council to carry out an open market procurement with a view to letting a contract to the preferred bidder based on a contract length (suggested as being) of 10 - 15 years and with a robust specification and set of contract conditions.
6. It is dependent on there being an external market which is evaluated as being able to deliver the services in a manner which meets the County Council's key criteria.
7. We have concluded that, whilst this is an immediately attractive option because it enables the County Council to contract with an existing organisation with an appropriate commercial strength and market expertise, it would be risky and expensive to deliver without any certainty as to whether or not it can be delivered. The key reasons for this are:
 - 7.1 the existing market is not developed;
 - 7.2 there are only two examples in the UK of this model being delivered. One is about to start and the other has been in existence since July 2008. Neither are for a service as large as the County Council's core Libraries and Culture and Adult Learning is not included in either.
 - 7.3 it is unclear whether any savings have been delivered and, if so, the level of these.
 - 7.4 the level of community involvement and engagement is unclear.

Mutual with Social Enterprise

8. This model is a partnership between the County Council and a community or staff group whereby the partners take over the delivery of the services. The County Council would engage with the community and staff with a view to letting a contract to the preferred bidder based on a contract length (suggested as being) of 10 - 15 years and with a robust specification and set of contract conditions.
9. It is dependent on there being a willingness by a partner to come forward with an offer which is evaluated as being able to deliver the services in a manner which meets the County Council's key criteria.
10. We have concluded that, whilst this is an immediately attractive option which is consistent with Government policy and the Localism Bill, it is unclear whether or not it can be delivered and is probably the most risky model because of this. The key reasons for this are:
 - 10.1 there is no existing market;
 - 10.2 it is unclear who would fund the community/staff's costs, either any savings could be delivered from rate relief or otherwise and if so the level of these savings.

Charitable Wider Cultural Trust.

11. This model is a partnership between the County Council and the community whereby a charitable company (“the trust”) is formed as a company limited by guarantee to take over the delivery of the services. The County Council would let a contract to the trust based on a contract length (suggested as being) of 10 - 15 years and with a robust specification and set of contract conditions.
12. It is dependent on there being a willingness by trustees to be recruited from local communities with a wide range of skills to be prepared to sit on the board. This is not likely to be a practical problem (although achieving a skilled board will need care).
13. We have concluded that this is the preferred option. The key reasons for this are:
 - 13.2 the trust would be in rateable occupation of the buildings and thus achieve NNDR relief. It can achieve immediate taxation-based savings of approximately £450,000 and further savings thereafter through improvements in overheads and wider business development and thus achieve a sustainable business base from which to expand within the County Council’s area and outside;
 - 13.3 it can and should produce community engagement, meet the County Council’s core prevention and localism agendas and be able to offer wider partnerships with the best elements of the mutual solution;
 - 13.4 it does not depend on an existing market;
 - 13.5 there are examples of where this model has been successful in England and Scotland and therefore sustainable;
 - 13.6 any surpluses would be wholly re-invested for public benefit;
14. Thus it should deliver year-on-year benefits and should therefore protect the service provision more effectively than that alternative options as set out above.
15. The “SWOT” analysis (an analysis of the strengths, weaknesses, opportunities and threats) attached to this Executive Summary compares the implications of this option with the alternatives. This demonstrates that there is no easy or risk free solution and that, of the three options, one is entirely untried (mutual option), one has a very limited existing market with only one example which has been delivering services for more than two years (procurement option) and only the last has any track record, albeit relatively limited in England (trust option). It is only this last option where there is any track record of an organisation delivering a sustainable future allied to year-on- year savings. Hence, we concluded that, of the three options, the charitable trust option scores more highly and that the alternative solutions are more risky and costly to implement, even if they are capable of being implemented in a manner which meets the Council’s key requirements.
16. This solution should therefore:
 - 16.1 protect front line services, the majority of which are either statutory or of

acknowledged value to the County Council and the community;

- 16.2 deliver significant cashable savings in the short term and thereafter;
- 16.3 provide a sustainable basis for future development which will enables the new Trust and its staff to further develop entrepreneurial opportunities within the County area and outside;
- 16.4 supports the Community and Adult Services Directorate's and the County Council's priorities with regard to prevention and localism and the current vision for libraries as a community resource and has the potential to bring additional educational, cultural, social and economic opportunities to the County via the social enterprise route;
- 16.5 is flexible and enables the County Council to deliver its future services strategies, working with the communities which make up the County area.

Recommended Solution

- 17. An early transfer of the County Council's Libraries, Learning and Culture Directorate to a newly formed charitable educational, cultural and social enterprise trust.

Way Forward and Next Steps

- 18. The next step is to obtain Cabinet approval for the recommended solution and thereafter to implement the solution.
- 19. The aspiration for the solution to be achieved by 31 March 2012 is achievable providing:
 - 19.1 the implementation can commence promptly after the Cabinet and Council meetings in January and February 2011;
 - 19.2 there is active internal corporate support or purchased support to assist in the steps required to implement and effective teamwork from officers and external advisors; and
 - 19.3 appropriate external assistance including legal, financial and business planning is provided to the in-house team.
- 20. As part of our research and evaluation we identified that there are a number of matters which it would be prudent for the County Council to address as part of the pre-implementation process. These are as follows:
 - 20.1 consider how to increase income and further develop sustainable income generation as soon as possible. We identified a number of possible options for this within the research (which is part of our report) and we recommend that these should be developed to achieve improved income generation in the short and medium term;

- 20.2 carry out a comprehensive and urgent review of the ICT needs of the proposed trust and ensure that, wherever necessary, these are procured during 2011/12;
 - 20.3 carry out further work between the Community and Adult Services Directorate and LGSS on establishing clarity with regard to the corporate overheads with a view to resolving how these should be addressed as part of the externalisation.
21. There are a number of detailed issues to be addressed and we set out an indicative draft timetable as part of this Executive Summary.

SWOT Analysis

Option	Strengths	Weaknesses
Procurement	<p>Best method of testing the market and demonstrating best value.</p> <p>TUPE applies to core staff.</p> <p>Can specify service, quality and other requirements in robust documents.</p> <p>Risk transfer achievable.</p> <p>Commercial capital investment may be possible.</p>	<p>Not a mature market unclear if procurement would succeed in a manner which meets required outcomes including savings.</p> <p>Outcome may not be certain until significant way through procurement. Relatively costly to deliver and costs may be wasted i.e. if not delivered.</p> <p>Extent of (or any) NNDR benefit unclear. Likely to achieve limited or no NNDR savings.</p> <p>Any capital investment would be costly and may not be able to easily access grant funding.</p> <p>Unclear what range of experience is available within market and thus even with robust contractual terms whether the service quality can be maintained and enhanced especially if core staff leave.</p> <p>Unclear if TUPE will apply to all core support staff and will not apply to wider CCC or partners' staff and therefore redundancy costs to be met by CCC.</p> <p>May require committed and costly client side management throughout the contract period.</p>

Opportunities	Threats
<p>Possibility of CCC being seen as a very good opportunity and thus “loss leader” and so achieve value for money outcome.</p> <p>May have ICT and other skills or services which can add expertise and value.</p> <p>May obtain other contracts which add value by way of reduction in cost via open book and/or cross fertilisation of ideas</p>	<p>May not know if achievable until a significant way through the procurement and thus there could be wasted upfront cost and service risk.</p> <p>If not achieved, unplanned salami slice reduction in services, potential failure to fulfil statutory service and risk of challenge because of service user and public dissatisfaction.</p> <p>The sustainability and stability of the market is unclear, particularly in the current economic climate. If the contractor does not achieve further profitable contracts it may either wish to sell (to get out of the market) or even fail commercially.</p>

Option	Strengths	Weaknesses
Mutual with some social enterprise	<p>Should have local focus and should be able to develop and grow.</p> <p>NNDR savings achievable for any charitable elements.</p> <p>Initial savings could grow if the Mutual is successful and grows.</p> <p>Could retain and develops existing high quality services.</p> <p>Could encourage culture of the entrepreneur.</p> <p>TUPE applies to core and directorate support staff. Allows “soft landing” for wider CCC and partners’ support staff.</p> <p>May protect future of services.</p> <p>Some limited risk transfer which should increase in time as mutual develops wider partnerships, expands services and reduce costs to CCC.</p> <p>Can specify service, quality and other requirements in robust documents.</p>	<p>No existing market. Unclear what expertise is available or whether staff or local people have appetite for model.</p> <p>Unclear if market would emerge for all services or in a manner which meets required outcomes including savings. County may be left with some unattractive services.</p> <p>Mutual may be sold and lose local focus.</p> <p>Extent of (or any) NNDR benefit unclear.</p> <p>Does not test the market and necessarily demonstrate best value.</p> <p>Unsure if can achieve inward investment or if so, the cost either via a venture capital company or through a business “angel” or “dragon”.</p> <p>Any capital investment would be costly and may not be able to easily access grant funding.</p> <p>Unclear whether core staff will be retained. Thus unclear whether even with robust contractual terms the service quality can be maintained and enhanced. May require committed and costly client side management throughout the contract period.</p> <p>Unclear what range of experience is available within market.</p>

Opportunities	Threats
<p>Unclear.</p> <p>Possible payment to the County if the business or businesses are subsequently sold on.</p>	<p>Challenge as potential breach of European Law.</p> <p>May not be achievable or deliver required outcomes.</p> <p>May not know if achievable until a significant way through the procurement and thus there could be wasted upfront cost and service risk.</p> <p>If not achieved, unplanned slice reduction in services, salami slicing, potential failure to fulfil statutory services and risk of challenge because of service user and public dissatisfaction.</p> <p>Mutual may not succeed and may fail with consequential service risk and cost to the County.</p>

Option	Strengths	Weaknesses
Set up wider cultural trust.	<p>Local focus and can develop and grow. Opportunity to engage with the communities in the County and for them to participate.</p> <p>Maximises NNDR savings. Initial savings should grow through efficiencies and growth of business base.</p> <p>Retains and develops existing high quality services by partnering and inward investment. Encourages entrepreneurial culture and investment.</p> <p>TUPE applies to core and directorate support staff. Allows “soft landing” for wider CCC and partners’ support staff.</p> <p>Protects future of services especially if a larger range of services is externalised to trust thus providing a more robust business base.</p> <p>Some limited risk transfer which will increase in time as trust develops wider partnerships, expands services and reduce costs to CCC.</p> <p>Opportunity to achieve grants and in time, inward investment.</p> <p>Can specify service, quality and other requirements in robust documents and robust documents and relationship protect against risk of failure.</p>	<p>Need to ensure that this demonstrates best value.</p> <p>Lack of commercial skills.</p> <p>Need to recruit and retain competent board with wide range of skills and effective management team with commercial skills and this may not be achievable.</p> <p>Limited risk transfer initially.</p> <p>Set-up costs, cost of initial reserve and central overhead costs significant and take time to be recoverable through future savings.</p> <p>May not be as efficient as a commercial provider, especially in early years.</p> <p>May not be fully VAT efficient and needs to be structured with care.</p> <p>No opportunity to borrow or achieve commercial inward investment at an affordable cost, especially in early years.</p>

Opportunities	Threats
<p>Wider partnerships and engagement with the community.</p> <p>Can be structured in a manner which fulfils principles of “Big Society” and “Mutuals” agenda.</p>	<p>Challenge as potential breach of European Law.</p> <p>May not be achievable or deliver required outcomes.</p> <p>May fail or not deliver value as envisaged.</p> <p>Relationship may not be one of equals and County may “bully” the trust.</p> <p>Potential tension between County and trust over commercial issues and especially if County require unrealistic savings.</p>

Indicative Timetable for the Trust Solution

This is just an outline at this stage. We have included one Cabinet meeting and assumed it will not be necessary to go back to full Council.

Task	Suggested Completion Date	Comments
Identify Business Case needs for ICT and prepare business plan to ensure a procurement can be delivered in time.	31.1.11	This is a critical set of tasks but outside our terms of reference.
Appoint key advisors	15.2.11	It is difficult to see how the project can commence before this has taken place.
Appoint Project manager	15.2.11	This is a key task and ideally should be an officer who understands the way the County functions.
Set up project implementation team.	28.2.11	This should be a multi-disciplinary team which is sufficiently senior to effect delivery and consist of internal and external resource. At first meeting consider split of “client/contractor” roles and propriety.
Agree on additional resource requirements and thereafter commission any required resource.	30.3.11	Additional resources potentially to include Business Planning, financial and VAT.
Preparation of full project plan, with tasks identified and allocated and delivery timescales identified. Key tasks include the specification, HR/pension matters, property (condition surveys, costs), title issues, inventories, robust financial disaggregation, IT requirements, collections.	30.3.11	This is a key requirement. Each piece of information and each task must be identified and its implications understood. If information is not provided this will have an impact on the ability to delivery. There must be corporate ownership for the production of information.
First drafts of the business plan and legal documents.	15.5.11	Intrinsic in this is that there is robust information to inform these and that decisions on key issues are made. The overall financial envelope, direct and central support costs plus the impact of the transfer on the Council must be understood and agreed.
Discussion of business plan and legal documents and further drafts. Consider disaggregation of budgets.	30.09.11	If there are any potential deal breakers they need to be worked through and resolved. These are tasks which need to be carried on during 2011.

Preparation of Trustee Pack, advertisement and recruitment process.	30.8 11 - 31.10.11	Recruiting high quality trustees is a key requirement for a successful trust. This is a complex and time consuming set of tasks and the new trustees should be in place by Christmas.
HR/Pension issues. Identifying who will transfer, their terms and conditions of service, obtaining actuarial valuation and admission arrangements to the LGPS, consultation with staff and TUs.	31.3.11 - 31.03.12	There are a number of sequential tasks to be completed. Skilled HR advice is needed
Condition surveys, landlord and tenant split, title searches.	31.12.11	Property risk and ensuring appropriate risk transfer plus considering future strategic property issues are commercially critical.
Further drafts of the business plan and legal documents including the constitutional document for trust (Memorandum & Articles).	15.11.11	There must be a virtually complete set of documents before the November Cabinet.
Final discussion of business plan, legal and constitutional documents with trustees, negotiate any issues with Council and obtain agreement to changes. Agree financial arrangements/payments to Trust.	15.11.11	The trust company cannot be formed until the trustees are relatively happy with the deal offered by the Council. This is a potential break point!
Obtain Final Cabinet approval to transfer	30.11.10	This assumes the deal is struck and final approval is achievable.
Form the trust company and any trading subsidiary	31.12.11	Without a vehicle, there can be no transfer. The next set of tasks cannot be started until the vehicle has been formed.
Prepare for transfer, finalise business plan for trust, VAT/HMRC approval of document, open bank account, VAT registration, finalise LGPS admission, finalise, engross and execute legal documents, finalise and agree inventories, finalise TUPE consultation and transfer payroll, agree support services (including ITC), obtain insurances, etc etc. Prepare press release.	31.01.12	There are a mass of operational and other detailed issues to be dealt with. It can take up to two months to arrange these. The list is indicative.
Transfer	31.03.12	