Income Generation for Public Libraries
A Practical Guide for Library Service Commissioners and Providers in England

Commissioned by Arts Council England - June 2014
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Introduction

Locality has worked with Arts Council England over a six month period to explore existing good practice and assess the potential to further enable income generation to support and enhance as well as to improve the overall resilience and sustainability of library services.

The aim of the project was to support library service commissioners and providers to intensify or widen their area of operations in an enterprising way - without losing or compromising their ethos and core objectives. This guidance note builds upon earlier research about ‘Enabling Enterprise in Libraries’ which identified a range of opportunities as well as challenges perceived to be limiting income generation in a public library context.\(^1\)

A key finding emerging from the research was that there is considerable uncertainty about legal and technical issues relating to trading, charging and investment which is preventing further innovation in this regard. There is, then, an identified need for better access to information about examples of income generation and routes to securing investment in library service enhancement.

Drawing on legal and investment expertise as well as contributions from library service commissioners and providers themselves, what follows seeks to provide a clear, concise guide to clarify how library services can practically develop and implement income generating activities to benefit library services. We hope that it proves useful in helping to stimulate debate, encourage innovation and overcome perceived barriers amongst library leaders and front-line staff.

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It should be noted that, whilst in each area the relevant local authority will retain the statutory responsibility for delivering library services, the actual delivery of services can be carried out by other bodies including social and community enterprises. Similarly, there are various entities that can engage in income generating activities for the benefit of public libraries. This guidance note is, then, aimed at a range of providers in this sense - including social enterprises and public authorities.

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About this Guide

This guide is presented in three sections. Section A provides a narrative, illustrated with case studies, to highlight key considerations surrounding income generation in libraries. It also cross-references section B, which focusses specifically on the key legal issues, delivery models and factors associated with local authority decision-making, as well as routes to securing investment in libraries. Section B has been produced by Anthony Collins Solicitors LLP. Section C summarises the guidance in the form of Top Tips for library service commissioners and providers, and points towards what next steps are liable to be required in the light of our work.

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**Section A: An Overview of Income Generation in Libraries**

**Context**

Locality’s research and consultation conducted in Spring 2014 revealed that the majority of public sector library practitioners consulted were comfortable with the idea of income generation or ‘enterprising’ activities undertaken within a library context where the aim is library service enhancement or innovation. Furthermore, many local authority employees regarded income generation as essential to maintain acceptable levels of service in the context of public sector funding cuts, and underlined the challenges they face as a result of declining revenues from ‘traditional’ value add services.

Those we spoke to saw greater flexibility and tangible additional benefits flowing from creative income generation efforts, although most could not identify any one single activity capable of generating the significant potential income they thought could be possible. The research also revealed disparity between the potential for income generation perceived by many, and the fairly limited evidence of significant income generation revealed by the literature review and survey undertaken. Notably, understanding of the routes to secure investment in income generating activities to facilitate library service enhancement was found to be limited.

A number of important barriers to income generation were identified – most notably:

1. Real and perceived charging and trading restrictions upon local authorities;
2. The lack of incentives to pursue income generation – specifically, linked to the inability of some library services to ring-fence and/or reinvest surpluses;
3. Legal uncertainty surrounding core and non-core services, and what can be charged for in the context of the Public Libraries and Museums Act (1964);
4. Asset-related issues, including: change of planning use, business rate status and limited space for diversification;
5. Political and community acceptance of the concept of enterprise in libraries; and
6. A perceived lack of enterprise skills, competencies and experience as well as capacity amongst staff and volunteers and much-needed access to ‘invest to innovate’ funds.

This Guidance Note provides clarification and explores the first four of these in more depth, as well as making some outline recommendations where (5) and (6) are concerned.
The Role of Income Generation in Public Libraries

Whilst some may argue that income generation should have no place in a public library service, which should and indeed must provide some services free at the point of use to the public, there are a range of motivations for exploring this agenda in the prevailing context:

- Library service commissioners and providers can secure investment to innovate and generate additional income to facilitate service enhancement and/or improve their overall resilience.

- An entrepreneurial approach to developing new paid-for products, services and facilities could improve footfall and impact trends in library usage, appealing to new audiences.

- Income generation could support the diversification and evolution of services beyond the current legal definition of statutory library services – for example, to facilitate access to new digital technologies and sources / types of information.

- Enterprising activity can provide an income stream to support the overall sustainability of community-led libraries that often do not benefit from a contract for the provision of services or consistent grant funding from local government.

In addition, recent research undertaken by the Local Government Association highlights that further spending cuts will have a direct impact on front-line services such as libraries.\(^2\) This is in keeping with Locality’s own research - suggesting that the scope for further savings to flow from efficiencies is increasingly limited.

\(^2\) Local Government Association, Under Pressure: How Councils are Planning for Future Cuts, May 2014.
The Opportunity for Income Generation in Libraries

Current trends point towards the importance of additional income generation as library service commissioners and providers seek to keep pace with user demand and develop new services, whilst also maintaining a comprehensive and efficient library service against a backdrop of fiscal austerity.

In addition to more traditional fundraising activities and encouraging philanthropy, our review of existing practice in England revealed a range of approaches to income generation that could be deployed and/or scaled in a public library context – specifically:

- Non-Library Service Public Service Contracts
- Private Sector Service Contracts
- Direct Trading and Retail
- Paid for services
- New / Emergent ICT Services

However, to date, the scale and significance of income generation from each of these was found to be relatively modest, suggesting that a single approach could not be relied upon where any income generation strategy for public libraries is concerned, unless a concerted effort were made to up-scale one or more of them significantly and beyond what can be demonstrated from current practice in England.

Any development of income generation in a library context in future will need to take account of the legal framework set out in the second part of this Guide. In particular, there is an important distinction for local authorities between what the law calls "charging" (recovering the cost of providing a particular service) and "trading" (activity specifically designed to generate a profit). The latter generally requires local authorities to set up a separate company through which to trade. There are different legal permissions and restrictions, in a library context, which apply to either activity, and they are covered fully in Section 2 of this Guide. There are also opportunities – and challenges – around securing investment to enable this activity, and the legal note highlights how the choice of model affects the investment possibilities. Notably, new forms of investment such as crowdfunding might also offer routes to service enhancement and development.

Eco Communities

Eco Communities is a social enterprise that began life as an IT recycling project. Nowadays, it manages three community libraries in Lewisham alongside its other community and environmental projects. The organisation is a registered Charity, and benefits from a trading subsidiary in the form of a Company Limited by Guarantee.

The organisation works in partnership with the London Borough of Lewisham and deploys entrepreneurial thinking to complement and sustain the traditional library offer with a diverse set of integrated services that
Eco Communities (continued)

Currently include: a Local History Project, Craft Workshops, Mathematics and English Classes, a Crèche, Computer Training, and the provision of career development opportunities.

Its training provision has increased significantly since it assumed responsibility for the management of its community libraries, and specialist courses now include a Café Academy (teaching others the basics of running a café) and Childcare Academy (training single mothers and nursery employees as child minders to help them to earn an income whilst caring for their own children). Eco Communities otherwise specialises in the reuse and recycling of computer equipment, and is exploring how it might build upon its expertise in this regard to establish an integrated hack/maker space in one or more of its libraries.

Its income is derived from a mix of contracts (including some payment by results contracts), project grants, direct trading (books, recycled IT, and other donated goods), as well as donations. Local housing associations support several of the training services for the benefit of their residents. All of the profits generated are then reinvested into community projects, including the maintenance of public libraries in Lewisham.

Website: http://www.ecocom.org.uk/

Non-Library Service Public Contracts

The term ‘non-library service public contracts’ is used here to refer to those instances where public bodies commission library service providers to deliver services that are not part of the core library service offer.

There are numerous examples in England of library services generating income by delivering other, complementary, public services. They include publically managed libraries being commissioned by other public agencies as well as social enterprises that deliver a range of services from the same building through the same staff.

Some of the most significant opportunities in this regard relate to:

- Health and Well-Being
- Education
- Assisted Digital Interventions
- Training
- Employment Support

Library staff are particularly well-placed and skilled to deliver other public service contracts with their access to the community, customer service and signposting skills. Moreover, libraries tend to function as appropriate places to do so – both in terms of their location and opening hours.
Northamptonshire Library and Information Services (NLIS) has been commissioned by the County Council to deliver universal elements of Children’s Centres. The current contract generates income for NLIS of circa £400,000. This provides funding for NLIS to deliver an ongoing programme of family-focused activities, every week in every library (e.g. rhyme time sessions), as well as financing a programme coordination and longitudinal tracking capacity. Although it is not expected to deliver a surplus for reinvestment in the service, the arrangement is of real strategic importance - helping deliver the Library Plus service throughout the community, attracting families and extending opening hours. NLIS is currently developing a vision for Library Plus Children’s Centres – which is intended as a mutually beneficial fusion of services in future.

Website: http://www.northamptonshire.gov.uk/en/councilservices/leisure/libraries/

Warwickshire Direct and Libraries deliver front-desk services for the local police service from a range of sites across the County as part of a wider network of one-stop-shop services. At the outset, a comprehensive manual was developed for staff and supported by training. Nowadays, a range of specific services are provided - ranging from crime and incident reporting to lost and found property support. The service was originally provided on a payment-per-contact basis, and subsequently a block service contract across the County.

Website: http://www.warwickshire.gov.uk/libraries

There are also numerous examples of public health commissioners engaging library service providers to deliver schemes such as Information on Prescription, where health professionals prescribe information or library professionals help people to self-prescribe information, and libraries can dispense the required information.

In terms of legal permissions, local authorities have a range of powers to provide services to other local authorities, which are distinct from their powers to charge or trade. These points are covered in more detail in Section Two. The delivery of public service contracts also raises the question of whether or not the European procurement rules apply. This is primarily a matter for the public sector body that is commissioning the activity, but local authorities or third sector providers should also take this into account.

Private Sector Service Contracts

The term ‘Private Sector Service Contracts’ is used here to refer to those instances where arrangements with private sector organisations provide a library service with an additional source of income - whether this is in relation to a service provided by the library under contract or the use of its space/resources.

Although a number of library service providers deliver services for the private sector, Locality’s research revealed relatively few examples of such arrangements in England. Nonetheless, there is evidence from overseas that such activities could add value to income generation efforts.
This perhaps signals the potential for libraries to become more outward-looking with regards to income generating opportunities. However, the relatively low precedent of commercially supported income generation is also thought to flow from attitudes towards ‘straying’ overly from the core ethos, purpose and functions of a library in a UK context.

Opportunities in relation to private sector service contracting are broad-ranging, but could relate to, for example, advertising and marketing revenue streams or supporting commercial services such as parcel collection or banking services. Indeed, the range of private sector opportunities with which libraries might engage is considered ‘endless’, save insofar as careful thought is required where ‘fit’ with the library ethos/purpose and functions is concerned.

West Sussex County Council

A number of libraries in West Sussex have been fitted with Amazon Lockers as an alternative delivery solution for their online purchases. The lockers have been installed in Chichester, Horsham and Crawley libraries. Customers can now order online and pick up their delivery from a locker using a six-character pick-up code, which is sent to them via secure email upon delivery, instead of having parcels delivered to homes or businesses.

Lesley Sim, Information Services Manager for Libraries, said: “The new lockers securely store items bought online in convenient locations that can only be opened once the customer has entered the code. They have already been welcomed by readers and nearby residents - some who do not currently belong to a library – who collect deliveries at a time that is convenient for them.” Each Amazon locker has 44 units and buyers have three working days to pick up deliveries - before they are returned to Amazon for refunds.

Website:  [http://www.westsussex.gov.uk/leisure/libraries.aspx](http://www.westsussex.gov.uk/leisure/libraries.aspx) /  [http://www.amazon.co.uk/locker](http://www.amazon.co.uk/locker)

Again, where such activity is undertaken to make a profit, then local authorities may need to treat the activity as “trading” and set up a separate incorporated body to carry it out.

**Direct Trading and Retail**

The terms ‘direct trading’ and ‘retail’ are used here to refer to the sale of goods by libraries, specifically, where they are complementary to the current core library service offer and/or utilise library space to enable retail activity (such that there may be some overlap here with ‘room hire’ - below).

Public libraries often occupy prime high street locations, and can provide an appropriate base for retail based trading. Many libraries already offer some low-level ancillary trading of related products, whilst some have a more established and commercially focussed retail offer intended to generate income to support the library service. In other instances, a library function or service is ancillary to what is primarily a retail outlet such as with the Library Links located within co-operative shops in North Yorkshire. However, in the latter example, efficiencies and accessibility are the primary drivers as opposed to income generation.
Common examples of direct trading within libraries in England include the sale of:

- Surplus books, CDs, DVDs and stationery
- Food and drink
- Local arts and crafts

Where local authorities want to carry out retail activity to generate surplus income, this will often constitute "trading" and, therefore, will need to be carried out through a separate company.

**Brighton and Hove Library Service**

Brighton and Hove Library Service (BHLS) operates the Booklover Store in Jubilee Library. Goods on sale range from Tin Tin merchandise to note books and artists greeting cards. Library staff manage the shop at the entrance to the library – ensuring it’s the first point of contact for visitors, and allowing them to signpost to other library resources as well. At £125,000 a year, the income generated through the Booklover Store makes up 25% of the total income generated by BHLS. The average daily footfall is 3,500, with customers spending an average £4–£5, something which they are working on increasing. BHLS identified specific retail knowledge as being key to developing a successful retail unit, requiring someone with experience to set up and put down the foundation for a successful unit. Expertise is required, for example, in the design of the shop/displays but also in relation to stock. Most librarians didn’t have the requisite retail experience to begin with, but have worked hard to learn along the way. After 10 years, staff are now considered very knowledgeable. Nonetheless, BHLS continues to draw upon external expertise, for example, to monitor the business and further develop the store.

Website: [http://www.brighton-hove-rpml.org.uk/Libraries/sites/Jubilee/Pages/BookloverStore.aspx](http://www.brighton-hove-rpml.org.uk/Libraries/sites/Jubilee/Pages/BookloverStore.aspx)

**Paid For Services**

Our evidence review highlighted paid for services and, in particular, mixed commercial and low-cost community room hire as perhaps the most common approach to income generation on the part of library service providers. The term ‘paid for services’ is used here to refer to those services that fall outside the scope of a library’s core activities and public/private sector service contracts.

Examples we found in the course of our research include:

- Research Services
- Room Hire
- Managed Workspace Provision
- Internet Access
- Vanity Press Use
New/Emergent ICT Services

The term ‘new/emergent ICT services’ is used here to refer to those services that currently fall outside the scope of a library’s core activities where they are reliant upon access to some form of Information and Communications Technology. Whilst there are clear synergies with libraries and encouragement from key stakeholders to render libraries digital hubs within communities, as well as efforts to effect a step-change in digital leadership skills amongst library service commissioners, there is little evidence of them having capitalised upon this as a significant revenue stream to benefit libraries in England to date.

Nonetheless, our evidence review pointed to numerous overseas examples in support of a ‘digital trajectory’ for library service enhancement where their overall resilience and sustainability is concerned. In particular, Eli Neiburger’s contributions at VALA 2012 and LIANZA 2013 are considered noteworthy3, and a recent article in the New York Times verifies the impact that digital developments and innovation can generate in respect of library visitor numbers4. Therefore, we are inclined to agree that a prerequisite of any library service of the future is liable to be underpinned by digital developments.

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3. To access the video footage, visit: http://webcast.gigtv.com.au/Mediasite/Play/1e065b11e6924a0a908cebb76d7917c71d
   & http://www.librarycamp.co.uk/2014/01/eli-neiburger-delta-ahead-diversifying.html
The multi-million pound Exeter Library recently reopened, following substantial refurbishment, and with it a preview of the first ‘Fab Lab’ ever to open in a UK public library.

The Fab Lab, or fabrication laboratory, is a low-cost digital workshop equipped with laser-cutters, 3D printers and scanners, Computer Numerical Control (CNC) router, 3D milling machines, electronics bench and programming and design tools, where users can “make almost anything”. Fab Lab Exeter utilises a ground floor room in the library, adjacent and complementary to the new Business and Information Hub, which provides business information and intellectual property (IP) support for local businesses. It enables users to develop or refine a product or object from first idea to a formed and working prototype. Advice and further business support is also available to help develop the business proposal to ensure a route to market.

A key plank of the Fab Lab project is to develop an outreach programme to take Fab Lab activities to other parts of Devon via Devon’s library network, Work Hubs and schools, under the banner of #FabLabDevon. The University of Exeter and Exeter College are also supporting the Fab Lab. Devon County Council has invested £90,000 capital funds in the Fab Lab, with up to a further £30,000 of investment from the ACE Bridge Challenge Fund run by the Real Ideas Organisation and £30k from the Digital Makers Fund (run by Nesta and Nominet Trust, in partnership with Autodesk).


New/Emergent ICT Services could afford library service providers an opportunity to generate income over the years to come, notwithstanding the need for debate about how this might fit with the library ‘ethos’ and current expectations vis-à-vis the provision of free and/or low-cost services. Government is, for example, investing significant funds in the roll-out of next generation broadband, as well as exploring the growth potential of big and open data, the Internet of Things, cutting-edge technologies and Smart Cities (amongst many other potentially relevant initiatives where libraries are concerned). However, at this stage, the potential for that income to be significant cannot be determined without more detailed work.

Our research highlighted the need for support and investment in market research, business modelling, planning and implementation if such services are to be designed and developed on a sustainable footing. Moreover, the approach to capital investment to facilitate development of New/Emergent ICT services within a library context is considered critical, and will need to apply to the range of library service providers if a two-tier library service isn’t to emerge over the coming period.
Setting Out Your Stall: Developing New Services Within a Library Context

Although the mechanisms and focus for income generation within a public library context can be varied and wide in scope, some common features and stages of development are identifiable in relation to developing and scaling income generation where it pertains to the development of new services.

Getting Ready to Deliver other Public Services

If you seek to generate additional income by delivering Non Library Public Service contracts, the steps outlined in this section still apply:

- You should still undertake market research, although you will need to consider the relevant department of the local authority (or other public body) rather than (or as well as) the end user in the course of thinking about your ‘customers’.
- You may still want to trial your services in a small way (test-trading) before pursuing substantive commissions – indeed you may need to do this in order to develop a track record and/or demonstrate competency if you’re intention is to explore new territory.
- You will still need to produce a business plan, track your financial performance and continuously refine and improve your services.

However there are may be additional things that you need to consider in order to become ‘Contract Ready’. These will vary according to the size of the commission or contract you are targeting, and there may be implications for the structure you choose to adopt to go for these services – principally whether to bid in-house or spin-out. These decisions should be made in consultation with others as part of Step 3 (Approval).

Help is at hand to help you plan for ‘Contract Readiness’:

- You can assess how far you have to go here: www.contractreadinesschecker.org.uk
- You can find additional guidance for each step of the business development process as it pertains to public service contracting here: www.mycommunityrights.org.uk/community-right-to-challenge/resources

The following diagram indicates some of the key stages involved in the process of researching, developing, testing and scaling activities that are designed to generate an income for reinvestment in library services. Clearly, the degree to which a library service provider follows such a process depends on the scale and ambition in relation to the opportunity. For example, one would not expect a scheme designed to sell a modest number of DVDs to require the same investment of time and resources as a strategy designed to generate significant income from the introduction of a new service.
1. Scoping

There is a range of factors that should be considered when seeking to identify income generating opportunities. A good starting point for any venture is to undertake a strategic analysis of the operating environment, and the current position. Input from both staff, service users (existing and potential), and others is key to identifying new opportunities.
Some useful activities to undertake at this stage include:

**An Internal Review of Opportunities**

Engaging both front line and managerial staff and/or volunteers in a structured conversation about opportunities can be a useful starting point to identify routes to income generation. It will also help engage staff early on, enabling issues concerning skills and capacity to be considered from the outset. As with most strategic planning exercises, a range of views and group discussions will serve to foster genuine buy-in for new initiatives. Creating a space for conversation where staff from all levels feel comfortable putting forward ideas without criticism will aid creativity. Independent facilitation can also add value to this process and enable managers to participate alongside other employees, volunteers and service users.

Use of suggestions boxes or discussion forums, and a proactive approach to inviting ideas will also invite broad-ranging input.

Some useful frameworks for conducting initial discussions are PEST and SWOT analyses.

**A PEST analysis** is an analysis of the external environment and changes that may have an impact on the library service. PEST stands for - Political, Economic, Social, and Technological. These terms provide the prompts to aid discussion about different types of external influences. A PEST analysis could reasonably be undertaken on an authority wide basis, although there may be some particular issues to flag up in relation to specific sites. Sometimes Legal, and Environmental issues are considered separately in addition to these headings (a PESTLE analysis).

Key issues (both positive and negative) are simply recorded under these headings, to aid thinking about opportunities. An example is provided below.

<table>
<thead>
<tr>
<th>POLITICAL</th>
<th>• Increasing support for income generation within the service</th>
</tr>
</thead>
<tbody>
<tr>
<td>ECONOMIC</td>
<td>• Ongoing pressure on core authority budgets, further service cuts anticipated</td>
</tr>
<tr>
<td>SOCIAL</td>
<td>• Ageing population in some parts of the authority</td>
</tr>
<tr>
<td>TECHNOLOGICAL</td>
<td>• Increasing ownership in e-readers and tablets amongst certain groups</td>
</tr>
<tr>
<td></td>
<td>• Broadband infrastructure improvements</td>
</tr>
</tbody>
</table>

**A SWOT analysis**, when undertaken thoroughly, can provide a sound basis for the development of ideas and a business plan. A PEST analysis is a useful precursor in stimulating thinking about the wider context. A SWOT analysis considers the Strengths and Weaknesses as well as Opportunities and Threats. It can be undertaken to consider a service as a whole, or to perform a more detailed analysis of particular service areas or branches. If income generation is the intention, try and focus the discussion around income generation within a library context.
The SWOT analysis below highlights some of the key issues that Locality identified in the course of its research and discussions with library service providers.

<table>
<thead>
<tr>
<th>STRENGTHS</th>
<th>WEAKNESSES</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Well located, accessible public buildings benefitting from high footfall and good transport links</td>
<td>• Lack of incentive to innovate and be “entrepreneurial”</td>
</tr>
<tr>
<td>• Trust capital: people see libraries as somewhere they can go for impartial, unbiased information and facilitated access to information</td>
<td>Inability / unwillingness to take risks, to try something different and see if it works within local authority structures</td>
</tr>
<tr>
<td>• Infrastructure: reasonable ICT infrastructure</td>
<td>• Lack of business / entrepreneurial skills and knowledge within existing staff</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>OPPORTUNITIES</th>
<th>THREATS</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Under-utilised space within libraries. Use of space in evenings when libraries are ordinarily closed</td>
<td>• Competition from other public/private service providers located in proximity to libraries</td>
</tr>
<tr>
<td>• Assisting access to new/emergent digital services</td>
<td>• Trends in declining visitor numbers</td>
</tr>
<tr>
<td>• Asset rationalisation, withdrawal of local bases among other services</td>
<td>• Online services reducing demand for library services.</td>
</tr>
<tr>
<td>• Changing work practices, demand for agile working bases</td>
<td>• Trading or commercial activities could impact on trust and reputation of libraries</td>
</tr>
<tr>
<td>• New and emerging forms of social finance present opportunities to test out new approaches in a social enterprise context</td>
<td>• Activities may impact on ambiance or desirability of library spaces to visitors</td>
</tr>
<tr>
<td>• Crowdfunding and Community Shares</td>
<td></td>
</tr>
<tr>
<td>• Potential to align services with others such as adult education, youth services, and social care</td>
<td></td>
</tr>
<tr>
<td>• Diversification of mobile fleets, potential asset for other service providers and companies</td>
<td></td>
</tr>
</tbody>
</table>

Many library services benefit from a fleet of mobile vehicles that allow for a wide range of services to be delivered direct to library users. This access to often isolated communities is a valuable commodity, and one that is exploited to good effect and community benefit in other areas. For example, the Biblioservicebus in the Netherlands offers a mix of 25 public and private services that range from banking to travel and postal services.
Barnet Libraries

Barnet Libraries encourage staff to engage in the generation of new ideas, recognising that its Senior Management Team doesn’t have all the answers.

For example, recently, all staff were asked to submit suggestions in the form of mini bids for funding (£500 - £2000) on x1 A4 page with a view to attracting new library users and/or generating additional income to support the service.

Library leaders in Barnet received a total of 15 bids from colleagues over the course of a 12 month period, and the successful bids are now being actioned. They include modest proposals to improve the look, feel and layout of libraries to render them more attractive to users and prospective users.

Website:  http://www.barnet.gov.uk/libraries

External Consultation and Market Research
In parallel with internal strategic reviews, obtaining wider views from the public including both existing and potential users can help generate fresh ideas. Following an initial scoping exercise, testing ideas more widely and undertaking related research will help to refine ideas and provide a reality check on the viability of any proposals.

Most library providers or authorities will routinely undertake consultation exercises and solicit user feedback, but they may not incorporate exploration of the potential for new income generating services, and they may be limited in scope to existing library users.

Some useful activities to undertake at this stage could include:

- An analysis of previous consultations, user feedback and evaluations to identify any key points that may help to flesh out the PEST or SWOT analysis.

- Primary research, consultation or questionnaires to test feedback about new ideas and, if appropriate, help identify suitable pricing strategies. This may focus on those not currently accessing library services.

- Research into providers of any similar services or products that may be competing for the same or similar markets in a locale.

Peer Learning
Learning from the experience of other authorities or social enterprises that have explored and/or undertaken comparable initiatives can add real value – allowing for key lessons to be learned the easy way. Visiting in person can help spark ideas to inform the visioning process early on, or to help refine plans if you are further down the line. The value of any peer learning visits is increased when a structured approach is taken. This may involve:
Research to identify most relevant and suitable visit (often, this isn’t the most proximate)

Developing a brief to clarify key learning points and questions you would like answered (may relate to the business model, political support, staff development etc.). Are there key documents you want to see or take copies of if others are in a position to share them with you?

Agreeing a fee - if appropriate. Whilst many organisations may be happy to host a visit without charge, they are more likely to invest time and effort to prepare and host a useful session if their time is remunerated.

2. Concept Proposal

Once scoping of opportunities has been undertaken, the next logical step is to define a proposal or, possibly, a range of options. For simple ideas, this may be the bulk of the business planning process. But, for more significant endeavours, it might entail developing an outline business plan and identifying where further work will be required to develop a more robust business plan at a later stage.

An outline business plan may only be a few pages long but should cover:

- Identify **purpose or aim** of the activity (e.g. income generation, or engaging the library with new audiences). How does the proposed service fit within the library context or contribute to the mission or aims of the service?
  - Consider whether the purpose or aims relate to statutory functions, or would be regarded as charitable objects. This may have an impact on the model for delivery going forward. Section 4 of the legal note provides further detail.

- **Describe the Business Proposition**
  - Define the activity: What will you sell (products or services), who will you sell to (maybe direct trading with customers, other service commissioners, or private sector)
  - Analyse the need and demand (reference SWOT, and PEST analysis and summarise key finding from market research and consultation)
  - Identify and analyse competitors. Who else is doing the same or similar work, what makes you distinct? Do you have a unique selling point (USP) to distinguish you from other providers?
  - Cash Flow Forecast: Identify income and costs related to the activity and plot a cash flow forecast over a defined period of time (perhaps 3 years, or less if it is a pilot project). Identify what levels of trading or charging activity are required to break-even.
  - Sensitivity analysis: Test the viability of the proposition by modelling a range of scenarios (e.g. based on different volumes of sales and increases in supply or operating costs).

- **Identify Resource Requirements**
  - What are the implications for governance / legal vehicles for trading (see section 4 of legal note)
- What levels of staffing are required, are there implications for existing staff? What training or development requirements are there?
- What are the implications for the library premises. Refer to section 5 and 6 of the legal note in the appendix for more on implications for library buildings in relation to enterprise activity – including, impact on planning and business rates.
- Consider all the resources required to feed into the cash flow forecast. It may be necessary to apportion some overhead and staffing costs from the library service to a trading activity to fully understand its viability. Don’t forget marketing and development costs.

- **Capital Finance Plan:**
  - What up-front investment is required
  - Is specialist equipment required?
  - Are new buildings required, or refurbishment works?
  - Is working capital required to cash flow the operation and purchase of stock during early stages of trading?
  - What sources of capital are available? (Refer to section 4 of the legal note for implications of delivery models on sources of investment).

- **Evaluation Framework:**
  - Are there particular social or economic outcomes you want to monitor and evaluate?
  - How will the impact of the activity on the library service be monitored?
  - Have key performance indicators been identified relating to both the financial and social impacts of the activity?

- **Risk Analysis:** Developing a risk analysis requires some objective reflection on the proposal to think about what might go wrong. As with the scoping stages, the process is strengthened by having the input of several people here. Peer learning from similar enterprises can help develop a more comprehensive and deeper understanding of the potential risks. It may help thinking to consider risks under key heading such as: Financial, Political, Impact on Service.

A sample risk matrix is provided below:

<table>
<thead>
<tr>
<th>RISK ITEM AND POTENTIAL IMPACTS</th>
<th>PROBABILITY</th>
<th>IMPACT</th>
<th>STRATEGY FOR ADDRESSING RISK</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lower than anticipated sale volumes</td>
<td>Medium</td>
<td>High</td>
<td>Pilot sales in one branch initially Obtain stock on sale or return basis</td>
</tr>
<tr>
<td>Retail counter has negative impact on library service use.</td>
<td>Medium</td>
<td>High</td>
<td>Consult library users on proposals; position sales counter away from reading areas; monitor library figures and user comments on a weekly basis.</td>
</tr>
</tbody>
</table>

See: Section 9 of the legal note for further considerations in relation to risk management.
3. Approval

If income generating activity is to be undertaken by a local authority, it may well fall outside of normal delegated decision-making in relation to the day to day running of the service. If a local authority is considering enterprise activity across its libraries, then it may be helpful to take a strategic report to the Cabinet / Executive body, to approve the principles behind such activity and allow for swifter decision-making about specific proposals.

Without such delegated authority, it may be very difficult for individual library managers, or even officers with service responsibility, to take decisions around enterprise activity.

Consideration of legal powers, and the most appropriate vehicle for undertaking the activity might also need to be considered at this stage. A separate trading entity would have more autonomy over income generating activity, but less direct control by the local authority. Section 4 of the legal note provides guidance on the implications for a range of potential models and Section 9 provides further consideration to matters of risk.

4. Developing and Testing

Before seeking to implement an idea for income generation at scale, testing the idea and trialling the approach is always worthwhile.

Although some basic market analysis will have been considered at scoping stage, a more thorough analysis of demand and the likely market for any product or service may be required at this stage to test any early assumptions.

Test trading allows for the trialling of different products or services in a controlled way, and hopefully without significant up-front investment to worry about recovering. Market research gets you so far, but in the end you only fully understand the market when you start to try to sell things. What people say they will buy (and for what price) and what they actually will, are often two different things. During this process it is important to test different assumptions to really understand the potential of what you are trialling – different products, different marketing, different pricing. Test trading is only really useful if you remember it is a research phase and treat it as such – record, report and learn from what you have done, and use that to refine your product/service, your marketing and your financial plans.

It is also important to clarify the distinction between trading and charging and give due consideration to the most appropriate vehicle for implementation of any pilot activity (See section 4 of legal note). If there are connected social enterprises or charities such as “Friends of” groups, they may be able to access funds to trial new initiatives if the Local Authority has not already established an appropriate trading arm.
In Northamptonshire, 26 of 36 libraries have Friends groups, their core activities are fundraising for their specific library and strengthening links to the community. Their fundraising activities range from coffee morning and cake sales to monthly charity pop-up shops and catering activities, where a proportion of the income goes to the library.

The authority encourages and supports Friends groups, providing a framework for these relationships. Whilst income generated represents a relatively small proportion of the overall service budget, it is a much valued contribution with the potential to grow from its current base. Friends groups also bring other benefits to the service – the strong links they help forge with the community notable among these.

NB: investment may be required at this stage, in terms of start-up capital for equipment or stock, as well as for development time and appropriate training for staff.

5. Refining the plan

Depending on the scale of the proposed activity, further refinement and adaptations may need to be made to the outline plan. This stage may involve testing assumptions with more thorough market research and taking on board learning from test trading. External review or scrutiny of plans may be helpful, and may be required in order to ensure sufficient due diligence, particularly if the activity or business development is outside the usual experience of staff involved.

6. Start up and Implementation

Once a business plan has been developed, and perhaps piloted, external investment may be required for a variety of reasons:

- Feasibility funding (to build capacity, test assumptions, and trial ideas)
- Capital (to invest in resources required to enable trading)
- Working Capital (to purchase stock and cash-flow activity during start up)

This raises several issues for Local Authorities, as well as third party service providers and enterprises. Any new organisation will need to ensure that it is "investment ready", and able to win the confidence of potential funders or investors, demonstrating credibility and a track record; for this reason, there may be value in exploring partnership arrangements with existing social enterprises that have a track record as opposed to establishing a new entity from scratch. A key consideration here, also, is where the most appropriate balance lies between control of the activity by the local authority, and the supporting of independent entities capable of adding value to existing library services.

A number of schemes exist at present to stimulate social investment and provide development support to independent social enterprises seeking to develop viable social business models. Examples include: "Big Potential" and the "Investment and Contract Readiness Fund" managed by Social Investment Business.
Sources of Investment and Finance

Investment to support new income generating activities or enterprises may flow from a range of sources including:

- Commercial finance, bank loans
- Grants & Donations
- Social Finance (debt, or equity investment), via a range of social finance intermediaries or specialist schemes such as Art Council England’s Creative Industry finance
- Community share issues
- Crowdfunding

Section 4 in the legal note sets out the implications for capital investment of different models for generating income. Particular care needs to be taken where local authorities or charities are investing in trading vehicles to ensure that public or charitable funds are applied in the right way. Section 2 of the legal note provides further guidance on this matter.

7. Review

During implementation of any income generating activities, it is important that the viability of particular activities can be monitored, and effectively summarise to inform management decisions.

Key considerations include:

- What systems are required to ensure that income and expenditure from trading activity can be separated from charging (see section 3 in the legal note).
- What are the implications for staff roles? Will a recharge mechanism be required if staff are working across statutory and trading activities? (See section 10 in the legal note)
- What is the exit strategy, particularly if the business fails? (See section 9 in legal note)
- What systems are in place to monitor and evaluate the impact of activities on library service provision and users?
The Challenge: Income Generation within a Library Context

Locality’s research and consultation in early 2014 revealed several common barriers to the development and scaling up of income generating activities.

- Political and community acceptance of the concept of enterprise in libraries
- Charging and trading restrictions upon local authorities
- The lack of incentives to pursue income generation – specifically, linked to the inability of some library services to ring-fence and/or reinvest surpluses
- Legal uncertainty surrounding core and non-core services, and what can be charged for in the context of the Public Libraries and Museums Act (1964);
- Asset-related issues, including: change of planning use, business rate status and limited space for diversification; and
- A perceived lack of enterprise skills, competencies and experience amongst staff and volunteers.

Whilst this document goes some way towards clarifying some of the technical issues, significant challenges continue to surround staff skills and capacity as well as political and organisational support to encourage a culture of enterprise within the context of public libraries. Some of the digital leadership skills requirements will be addressed by a forthcoming publication commissioned by the Society of Chief Librarians.
Delivery Models for Enterprise Activity in Libraries

A number of factors may point towards a need to explore new delivery vehicles for the purposes of raising investment and income generation to enhance or develop new library services and, with them, library services themselves:

- The restrictions on charging and trading for local authorities
- The availability and access to investment that could benefit library services
- The capacity and skills required to establish enterprising activity within a library context
- The balance of local authority control versus autonomy and the ability to react to opportunities
- The geographic footprint / scale of any markets for new services or products
- The extent to which trading activity could or should be pursued by a public library service, with consideration to staffing, accommodation and other resources
- Public perceptions and the ability to raise funds from the local community

The legal note in section b considers some of these matters in more detail.

It should be noted that not all libraries will be eligible for charitable status. Further guidance on this matter is provided in a separate note produced by Locality and the Charity Commission 10.

Manchester

In Manchester, the Central Library Development Trust was established in 2012 to enhance aspects of the library’s major transformation for public benefit. To date, it has raised funds that will help provide additional capital items such as new furniture and fittings for the children’s library, the media lounge and the reading room, as well as equipment for the performance space. Manchester’s Central Library provides a world class information service. It is projected that over 2 million annual visitors will access the recently transformed venue.

The Trust is now working to secure funds to support exciting new educational and cultural activities and, with that, helping to develop innovative library services and resources accessible to all on a sustainable footing. It has been successful in raising funds from a combination of Charitable Trusts and Foundations business partners and sponsors and individual donors. Any future investment the Trust secures will help the library to remain dynamic and fresh for many years to come by funding new acquisitions conservation work educational and cultural programmes and new key features of the library like Archives+ 11.

Website: http://www.manchesterlibrarytrust.org

11. http://www.archivesplus.org/
Northamptonshire

Northamptonshire County Council have established a charity that is set to launch this year: Library Plus Trust. Its stated purpose is: “to support Northamptonshire public libraries and in doing so, enhance opportunities for the people of Northamptonshire to achieve prosperity and wellbeing for themselves and their communities”.

Unlike other ‘library Trusts’, this charity is not intended to deliver services on behalf of the local authority, but to support and complement the work of Northamptonshire libraries – owned and run directly by the County Council.

In order to do this, LibraryPlus Trust plans to:

- Set up a ‘Library Guardians’ scheme where people could pay an annual fee and to obtain modest rewards.
- Apply for grants for complementary activities
- Pursue individual bequests from among supporters of the library service

LibraryPlus Trust is registered as a Charitable Incorporated Organisation (CIO). The Trust is independent from the council and governed by a Board of Trustees. Officers hope that this approach will be more effective in harnessing community support through charitable donations and giving than comparable activity promoted by the Council.

York

Explore York is a recently established Community Benefit Society, an Industrial and Provident with exempt charitable status set up with the support of the Cabinet Office’s Mutual Support Programme. The initiative was staff led as they refused to accept the possibility of library closures. The business model is aimed at reducing the impact of decreasing core funding over time through the development of income-generating services. It has been granted an initial 5 year contract to deliver libraries and archives based on existing budgets, leasing buildings from the council on a peppercorn basis. The organisation is seeking alternative income linked to a range of trading services including cafes, events, room hire, merchandise, and business and employment (work pods).

Explore York is 1/3 owned by staff, and 2/3 by Explore Community Members. Library membership does not automatically include an Explore membership due to legal restraints on share ownership. Anyone can become a library member (to make use of the library service), but you can only be an Explore Community Member if you are aged 16+. Every Member gets voting rights and is entitled to stand for election as a Community Director (2), as well as to contribute to a number of advisory groups. All surpluses are reinvested into the delivery of York’s libraries and archives.

Whilst there have been some challenges during transition, perhaps the most important difference is the change it has made for staff themselves. The transition has led to staff becoming more enterprising, conscious of savings costs and re-energised efforts to engage with the community to raise funds and deliver the Explore vision.

Website: [http://www.exploreyork.org.uk](http://www.exploreyork.org.uk)

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12. Northamptonshire County Council does have representation in the Board through an ex-officio Trustee
Section B: Legal Issues Note

Prepared by Anthony Collins Solicitors LLP

1. Introduction

This second part of the Guide sets out some of the legal issues in relation to income generation in libraries. It covers:

- models of delivery and the legal implications, including the powers of library authorities to charge and to trade, and the restrictions on those powers;
- other trading issues, including planning permission and business rates;
- factors in local authority decision making, including the ability to delegate decisions, and the management of risk.

PART A: Models Of Delivery and the Legal Implications

2. Models of delivering income generation in libraries

2.1. Income generation in libraries can be delivered via a number of different models. This is also true, of course, of the provision of the library service itself. Where the delivery of the library service is carried out by another body on behalf of the library authority, then that body may also be engaged in income generation alongside the provision of the “core” service.

2.2. The table at section 4 below identifies a number of different models for delivering income generation. They include activity carried out:

- by the library authority itself;
- through a local authority trading company;
- by an independent charitable body;
- by a (non-charitable) social or community enterprise; or
- through a private sector commercial organisation.

2.3. Library authorities may already be using any one of those models for the delivery of the library service.

2.4. The ability of library authorities to financially support such bodies depends on the form that investment takes. Whilst the general power of competence would appear, on the face of it, to enable local authorities to support any type of organisation financially, in practice any such proposal will be subject to the overriding fiduciary duties that local authorities have to their tax payers.

2.5. Other forms of investment are also reviewed in the table. There are clearly also opportunities around new methods of securing investment such as crowd funding, which is not so much an investment type as a platform for obtaining investment. Crowdfunding falls into a number of potential investment types:
2.5.1. donations sourced via crowdfunding, which have no regulatory implications;
2.5.2. donations with a "reward" element, which similarly are not specifically regulated;
2.5.3. securing equity funding in a venture, which is regulated under the Financial Services and Markets Act 2000;
2.5.4. peer-to-peer lending which is regulated under the consumer credit regime.

2.6. The use of a community benefit society to secure equity funding can be helpful here, as the same permissions that apply to community share issues would assist a crowdfunding solution.

Procurement and State Aid

2.7. Support from local authorities to other entities raises the possibility that it could constitute either a procurement "by the back door", or illegal state aid.

2.8. Grant aid provided by an authority to a charitable or social enterprise is not a procurement, as there is no contract for services, although care must be taken on this point. Services provided by a company wholly owned by the local authority, which provides services back to the authority, are also exempt from the procurement rules under the "Teckal" case.

2.9. In a situation where a library authority is creating a new organisation then if that new body will provide services either to the authority itself, or to other public sector bodies (including other library authorities), then the authority will have to consider whether or not the procurement rules apply. The exact nature of the services will be relevant, as if the services to be provided fall into the category of "Part B" services – or at least the major part of the services in terms of value – then the full tendering rules may not apply.

2.10. If the total value of the individual contracts with any new organisation is less than the threshold amount then, again, there may be no requirement to tender according to the EU rules. If, however, the full procurement rules apply, then any contract will need to be tendered with no guarantee that the relevant new organisation will succeed in any bid it makes. The rules and the thresholds are changing in the near future as the new EU procurement directive comes into effect.

2.11. If a library authority exercises its ability to form a company to provide services to third parties under the power to trade (see below), then there should be no procurement implications as the company will not be providing services directly to the authority. If, however, the company does provide some services "back" to the authority then these may need to be procured, depending on the relationship between that company and the authority in question.

2.12. There is nothing to prevent library authorities setting up collaborative arrangements in relation to their powers to generate income, including setting up jointly controlled companies. Such joint venture bodies may be still be treated as exempt from the procurement rules under the "Teckal" case, provided that each library authority involved has some involvement at member and board level.

2.13. This is not the place for a full exploration of the possible application of state aid, but in essence illegal state aid arises where there is aid which:

2.13.1. is granted by a Member State or through State resources – which would include any aid granted by library authorities;
2.13.2 favours certain undertakings, or the production of certain goods; 
2.13.3 distorts (or threatens to distort) competition; and 
2.13.4 has an effect on trade between Member States.

2.14. Such aid can be repayable if it is found to have taken place, with interest on the period since the time the aid has been given. Given that models of income generation will vary widely, it is difficult to generalise about how these rules might apply in any given case, but local authorities ought to consider taking advice on the specific situation if they are concerned.

3. Library Authority Powers to Charge and Trade

3.1. As highlighted in Part 1, there is a distinction between the ability of local authorities to charge for services related to their functions, and to trade in order to generate a surplus (under their trading powers).

3.2. The ability of library authorities to themselves carry out income generation activity which is directly related to their statutory duties under the Public Libraries and Museums Act 1964 (“the Act”) is further restricted by the restrictions on their ability to charge under the Act and the Library Charges (England and Wales) Regulations 1991 (the “Regulations”).

3.3. The library charging rules predate the “main” charging power for local authorities, which was introduced by section 93 of the Local Government Act 2003. This general charging power supplements, rather than replaces, pre-existing powers. The restriction set out in section 93 on the power to charge is that, “taking one financial year with another, the income from charges … does not exceed the costs of provision” (s93(3)). While this wording is not mirrored in the Library Charges (England and Wales) Regulations 1991, they are illustrative of the approach taken to local authority charging, and as section 93 supplements the pre-existing power, should be considered to apply in the context.

3.4. As a contrast, trading must be done through a company (section 95 Local Government Act 2003). The specific power is “to do for a commercial purpose anything which they are authorised to do for the purpose of carrying on any of their ordinary functions”. That power “shall only be exercisable through a company”.

3.5. So, while a “charge” must relate to the cost of provision (although only over the course of the financial year, not necessarily on a case by case basis), “trading” is done for commercial purposes (i.e. with a view to profit or to generate a surplus).

3.6. The Act and the Regulations set out a fundamental prohibition on charges being made to those who live or work in the area of a particular library authority, or who are studying there full time, for the lending of written material. It also prohibits those people from being charged for reviewing reference works in the library, provided that those works can be reviewed without the use of “electronic or other apparatus”. The way that these prohibitions are set out in the Regulations means that our assumption is that the prohibitions apply whoever is actually providing the statutory library service.

3.7. By implication, therefore, library authorities could charge users who do not fall into those categories for borrowing. Library authorities are also permitted to charge for the use of “electronic or other apparatus”, which would include computers. However, authorities cannot charge for the reading of microform material under the Regulations.
The Regulations set out in greater details further matters for which library authorities may charge. These matters include:

- making reservations;
- the late return of borrowed items;
- making “library apparatus” available;
- charges for damaged or lost items;
- computer training;
- research or information collation;
- supplying material that becomes the property of the person that it is supplied to (including catalogues, indexes, and copies);
- exclusive use of rooms for work or study; or
- any other services or facilities that “go beyond those ordinarily provided” as part of the library service.

For example, library authorities have the ability to charge for printing or copying where such documents then become “the property of the person” to whom they are supplied. The use of new technology (e.g. 3D printing) in general would, in our view, come under the category of services or facilities that “go beyond those ordinarily provided” as part of a library service, and therefore could also be charged for.

Because the Act and the Regulations give the power to charge only, the charges for the above matters are only permitted to be a reflection of the cost of providing those services, not with any additional income element.

The charging powers are positively expressed to apply to library authorities. Other bodies providing library services will not have the same restrictions on their ability to charge, but it is safe to assume that they could apply the charges in the same way.

As mentioned above, the ability to charge is in contrast to the power to trade, which can be carried out to generate a surplus, but which must be carried out through a company. “Company”, for these purposes, includes:

- a share company;
- a guarantee company;
- a co-operative; or
- a community benefit society.\(^{14}\)

This would include community interest companies, but not charitable incorporated organisations.

Given that the power to trade must be exercised through a company, as defined above, this raises the question of what kind of corporate entity – and what kind of approach – should be used for income generation. We have set out in the table below the different models of trading entity mentioned above, and the implications of each model on a number of key factors.

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\(^{14}\) Defined for these purposes by reference to section 67 of the Local Government and Housing Act 1989
4. **Models of enterprise delivery and implications**

The table below sets out some of the key implications of each model mentioned above, as they apply to income generation within a library context.

<table>
<thead>
<tr>
<th></th>
<th>LOCAL AUTHORITY SERVICE</th>
<th>LOCAL AUTHORITY COMPANY</th>
<th>CHARITABLE BODY</th>
<th>SOCIAL OR COMMUNITY ENTERPRISE (NOT CHARITY)</th>
<th>PRIVATE SECTOR TRADING PARTNER</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>TRADING ISSUES</strong></td>
<td>Can only charge to</td>
<td>Able to trade to</td>
<td>Able to trade</td>
<td>Able to trade without restrictions</td>
<td>Able to trade without restrictions</td>
</tr>
<tr>
<td></td>
<td>recover costs</td>
<td>generate surplus</td>
<td>but only to</td>
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<td>meet charity’s</td>
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<td>own “primary</td>
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<td>separate</td>
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<td>trading vehicle</td>
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<td>within</td>
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<td>small scale</td>
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<td>trading</td>
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<td></td>
<td></td>
<td>exemption</td>
<td></td>
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</tr>
<tr>
<td><strong>OTHER INVESTMENT / GRANT INCOME IMPLICATIONS</strong></td>
<td>Unlikely to be able to generate external investment though authority may be able to borrow - e.g. from the Public Works Loans Board</td>
<td>Able to secure commercial investment dependent on business plan; may also be able to secure grant funding depending on legal structure, or local authority may be able to “on lend”</td>
<td>Able to secure grant investment from charitable sources. May also be able to borrow commercially, or from social finance providers. If community benefit society used, may be able to secure community share investment</td>
<td>Able to secure commercial or social finance investment dependent on business plan; may also be able to secure grant funding. If community benefit society used, may be able to secure community share investment</td>
<td>Able to secure commercial investment dependent on business plan. Unlikely to be able to secure community investment unless as a full “commercial” offering under the Financial Services and Markets Act 2000. May be able to secure grant funding depending on terms or sources of funds.</td>
</tr>
<tr>
<td><strong>TREATMENT OF SURPLUSES AND TAX</strong></td>
<td>Unable to “ring fence” income generated due to local authority accounting framework. May be able to ring fence donations. As not able to generate surplus, unlikely to create tax liability</td>
<td>Able to reinvest surplus in service or LA may take out profits. Potential tax liability on surpluses if goes over Corporation Tax threshold</td>
<td>Able to reinvest surplus in service. Profits may not be taken out by owners. Exempt from most forms of Corporation Tax.</td>
<td>Able to reinvest surplus in service or to distribute to investors, or both depending on specific legal form. Potential tax liability on surpluses.</td>
<td>Able to invest surplus in service if desired. May take out profits instead. Potential tax liability on surpluses.</td>
</tr>
<tr>
<td><strong>BUSINESS RATES</strong></td>
<td>Local authorities liable for business rates</td>
<td>Liable for business rates unless able to obtain discretionary relief</td>
<td>Able to obtain 80% mandatory relief if occupying for charitable purposes, and potentially more at authority’s discretion</td>
<td>Liable for business rates unless able to obtain discretionary relief</td>
<td>Liable for business rates</td>
</tr>
<tr>
<td><strong>SECURING BENEFIT OF SURPLUS FOR LIBRARY SERVICE</strong></td>
<td>Any income generated through charges locked in to local authority general fund</td>
<td>May be secured for investment in service through Community Interest Company (CIC) structure</td>
<td>Secured through charitable structure; locked in for community benefit</td>
<td>Could be secured through legal structure in CIC or benefit society</td>
<td>Unlikely to be able to “lock in” through structure</td>
</tr>
</tbody>
</table>
PART B: Other Trading Issues

5. Planning Matters

5.1. Income generation in library premises may require planning permission, depending on the nature of the enterprise. The issue will depend on how the proposed use is categorised for planning purposes. Different types of use are categorised into "classes" by the Use Classes Order 1987 (the UCO). The planning issues that apply to premises that are used for library facilities will be the same irrespective of who is delivering the library service.

5.2. Libraries come under use class D1 for the purposes of the UCO. This class also covers clinics, health centres, crèches, day nurseries, day centres, schools, art galleries (other than for sale or hire), museums, halls, places of worship, church halls, law courts, non residential education and training centres. This means that use of library premises for any of these other purposes will not require planning permission, because the use would fall into the same UCO class.

5.3. If uses which fall outside this class are proposed, then whether planning permission is needed or not will depend on whether the enterprise use is "ancillary" or incidental to the use as a library, and whether it is involves the creation of a separate "planning unit". This is not always a straightforward issue, and will be a matter of judgement in each case.

EXAMPLE 1: Conversion of one part of the library building to form a coffee bar or small gift shop would not require planning permission, as this would be ancillary to the continued main purpose as a library (although clearly this would depend on how extensive the coffee bar or shop was in terms of space occupied).

EXAMPLE 2: Renting out part of the library building to a training provider for computer literacy courses would not require planning permission, as this would fall within the same use class under the UCO.

EXAMPLE 3: Leasing part of the library to an entirely different user, unconnected to the library service, such as a commercial enterprise seeking office space, might well require planning permission, as this would involve the creation of a distinct "planning unit" and a change of use class.

6. Business rates

6.1. Local authorities generally pay business rates on the premises that they own. This would include library authorities.

6.2. Where library premises are occupied by charitable bodies, then those bodies may be eligible for the mandatory 80% reduction in business rates which will result in a cost saving.

6.3. Where part of the library premises are let, then this will probably result in the creation of a new separate "hereditament" (business rates unit) for business rates purposes, and again there will be a saving in relation to that part.

6.4. If library premises are occupied by social enterprises that are not charities, then those enterprises may be able to get discretionary relief. However this is not automatic and the awarding criteria will vary from local authority to local authority.
EXAMPLE 1: The County Council leases the whole of a library building to a charity to run the library from that building. The charity will be able to claim the mandatory 80% reduction in business rates.

EXAMPLE 2: A library authority lets one part of its premises to a charity to run IT training for the unemployed. A separate rateable “hereditament” will be created of that part, and the charity will be able to claim the mandatory 80% reduction in business rates.

EXAMPLE 3: A library authority lets part of its building to a non-charitable social enterprise to run literacy sessions for pre-school children. The social enterprise may be able to claim discretionary rate relief but this will depend on the policy of the local authority that is responsible for rates collection in the area.

7. Tax

7.1. Given that local authorities may only exercise their power to trade (as opposed to any powers to charge) through a company, any such company will be liable for Corporation Tax on its profits in the normal way. The question of taxation is dealt with in the summary of legal models in Part A.

PART C: Factors in Local Authority Decision Making

8. Ability to Delegate

8.1. In relation to decisions about income generation in libraries, each local authority will have a set of standing orders that will govern both day to day and strategic decision making. This will probably include:

8.1.1. day to day decision making delegated to officers;
8.1.2. decisions which may be taken by individual heads of service or by individual cabinet members;
8.1.3. decisions outside of that framework of delegations, normally to be taken by the Cabinet or Executive body, or even occasionally by the full Council.

8.2. Income generation and the development of it may well fall outside the normal delegated decision making in relation to the day to day running of the service. If a local authority is considering income generation activity across its libraries, then it may be helpful to take a strategic report to the Cabinet / Executive body, to approve the principles behind such activity and allow for swifter decision making on specific proposals.

8.3. Without such delegated authority, it will be very difficult for individual library managers, or even officers with service responsibility, to take decisions around income generation activity, as if they did so they would be at risk of acting beyond their powers.

9. Risk Management

9.1. Any enterprise route that is chosen will naturally have some risks attached to it, as well as benefits. Some to consider include:

9.1.1. the extent to which the library authority retains control over, or is involved in, the new activities. There is a contrast between a “Teckal” company (where the authority will retain the
same degree of control over the company as it does over its internal departments) and a commercial trading company or separate social enterprise (where the authority will, inevitably, need to relinquish more control to allow the trading company to make commercial decisions, and to interact fairly with the marketplace);

9.1.2. using or creating a separate trading entity in a library context may lead to internal conflicts of opinion, and those involved will need to manage those differences in opinion;
9.1.3. those involved should be confident that the activity being traded through an external company can succeed in that environment, and there will be a need for a business case and good business planning to mitigate this risk.

9.2. A trading or services company is an independent entity and, in the worst case scenario that the business fails entirely, the immediate liability for the library authority involved would be limited to the extent of its investment in the company (the value of its shares or guarantee). If a Council invests significantly, a suitable exit strategy will be vital - both to realise its investment (e.g. by winding up the company in the future) and to protect its investment if the company fails to delivery.

9.3. The library authority and those it is working with, as part of any business planning process, will want to consider a detailed risk assessment.

9.4. For any of the models mentioned there are issues to consider:

9.4.1. the resource implications of setting up and running any new company – what space does the company need to use, what facilities and equipment, and what staff?
9.4.2. the potential costs to the authority should there be a breach of contract in relation to trading activities, given the overall responsibility that the authority will have for its premises – what guarantee will the authority give for the company’s actions, and what liability will it take on?
9.4.3. any employee issues that might arise, in particular should the trading activity diminish over time;
9.4.4. any investment that will be needed from the Council to start the activity running.

9.5. There are additional considerations for local authority companies:

9.5.1. the implications of the company’s activity for the library authority’s statutory duties, remembering that the power to trade does not extend to functions where the Council has a duty to provide that function, and the restrictions on what the library authority may charge for;
9.5.2. the impact on the authority’s own services – such as any back office functions that the authority and any the company will both need to utilise (as discussed above)

9.6. The financial costs of set up are broadly similar for the different models of enterprise. These will include:

9.6.1. the costs of preparing and approving the business case and business plan (and their validation) (internal costs in the main);
9.6.2. the costs of drafting and agreeing the constitution of any new company (which will likely include legal costs and internal time/costs);
9.6.3. the costs of incorporation, which include Companies House fees (paper incorporation of a CLG or share company is £40).
9.7. On a practical level, there are risks involved for the authority in any situation that leads to a staff transfer under TUPE.

9.8. The authority will want to manage the transition process carefully, and the most important element of this will be to put in place an appropriate services / management agreement that will govern the relationship between the authority and the company. This can put in place mechanisms which set out any decisions the company can make where the Council may require a say.

9.9. Clearly strong business planning will be the key way of mitigating any risk in relation to income generation, to ensure that new enterprises are:

9.9.1. ready for the market in which they will be active;
9.9.2. given the best possible chance of success;
9.9.3. most likely to give a return on investment.

10. Staffing

10.1. Library authority staff are unlikely to have income generation activity in their current job descriptions, so there may be a process of discussion and consultation needed if they are to be asked to become involved.

10.2. If staff do become involved in carrying out some tasks for any separate entity, there may also need to be a method of recharging that time spent or dealing with the question of costs recovery, which is likely to need to be on an “arms length” basis.

11. Gifts and donations

11.1. A local authority has the power to accepts gifts of property (real or personal) “for the purpose of discharging any of their functions” that are “made for that purpose”. This is set out in section 139 Local Government Act 1972.

11.2. It would seem prudent, therefore, for any gift or donation to specify the function that it is being given/donated to serve. This would require the local authority to hold and administer the gift for the purpose of discharging that function (rather than discharging any function).

11.3. This power does come with the limitation that a local authority cannot accept any property which would be held in trust for an ecclesiastical charity, or for a charity for the relief of poverty (s139(3)). This does imply, however, that holding a gift in trust for another charitable purpose would be acceptable.

We would wish to underline our starting point here:

- Library service commissioners and providers can secure investment to innovate and generate additional income to facilitate service enhancement and/or improve their overall resilience.
- An entrepreneurial approach to developing new paid-for products, services and facilities could improve footfall and impact trends in library usage, appealing to new audiences.
• Income generation could support the *diversification and evolution* of services beyond the current legal definition of statutory library services – for example, to facilitate access to new digital technologies and sources / types of information.

• Enterprising activity can provide an *income stream to support the overall sustainability of community-led libraries*, which often do not benefit from a contract for the provision of services or consistent grant funding from local government.

Therefore, whilst it is entirely *appropriate* that community-led libraries should seek to use a wide range of mechanisms to raise funds to cover their operating costs, the same should not be inferred from this note as applying to local authority run library services. That is, our research and discussions with library leaders pointed towards the potential for income generation efforts to be used simply to make up for reductions in core council budgets. This would not achieve the aims of income generation set out above and, indeed, could prove counter-productive to the extent that staff resource would then be diverted from core service delivery without generating any of the advantages we’ve sought to highlight here in relation to library service enhancement and innovation.
Section C: Summary Note
Top Tips for Library Service Commissioners & Providers

- Reflect upon the assets you already have at your disposal - tangible and intangible - and consider how these resources can be applied to supporting income generation that is synergistic with the library service.

- Consider carefully, when working with trading arms or other social enterprises to support income generation, whether it makes sense to charge them with responsibility for delivery of the statutory library function or to keep the two things entirely separate – in particular, given the Charity Commission’s guidance about the independence of charities.

- You are liable to have to break new ground and pilot initiatives to test alternative approaches. You should reflect on your ability and capacity to prototype new ways of working, and accept an element of risk in order to develop different operating models that could support library service enhancement going forward. As this note sets out, although there are some barriers to income generation for libraries, most can be overcome if approached in the right way.

- If you are considering enterprise activity across a number of libraries, then it will likely be helpful to take a strategic report to your Cabinet / Executive body to approve the principles behind such activity and, thereby, allow for swifter decision making about specific proposals.

- You should consider how to support and encourage income generation amongst your staff - proactively inviting ideas and establishing a resource to implement them could help to establish a more entrepreneurial culture. Peer learning amongst service providers and across sectors, with input from relevant social enterprises and the private sector, might also be worthwhile.

- You should look at new and emerging opportunities, not least in relation to emergent ICT services, where examples from overseas suggest there may be significant potential in terms of increasing visitor numbers.

- You should pro-actively engage with property services to explore opportunities to strategically align asset management strategies with library service development.

- Providers seeking to diversify income through the development of new activities, such as retail, should seek expert advice from relevant industry practitioners at an early stage in order to maximise the prospect of establishing a viable operation.

- Mechanisms for engaging library users - both existing and potential - should be introduced to ensure that feedback informs the development of new and existing services.

- Learning from others is one of the most effective ways of generating ideas, and avoiding potentially costly mistakes when establishing a new venture.

- Existing social enterprises may be able to offer support to local authorities and enhance or compliment provision. Broad-ranging support and advice is available in the form of investment.
readiness and feasibility funding to help enable this. Social enterprises can offer a range of benefits - for example, agility, access to different funding and investment opportunities, entrepreneurial skills, or existing networks of volunteers.

- Library authorities may wish to build upon the good practice identified in Northamptonshire and Manchester, and consider whether to establish a dedicated Library Investment for Innovation Vehicle in the future.

- Social enterprises seeking to establish a role in public service delivery should reflect on their contract readiness in order to develop their capacity and ability to meet required criteria of public sector contractors.

Looking Ahead

There remains only very limited information about either existing good practice or the potential for income generation within a library context. In the UK, the situation is not unique to libraries, since significant planned-for income generation on the part of local authorities or ‘enterprising councils’ is, in many respects, the product of fiscal austerity and underpinned by relatively recent flexibilities. However, the established library ‘ethos’ and public funding regime for libraries perhaps renders discussion of the subject particularly challenging, to the extent that they have resulted in an ‘expectation’ of broad-ranging services being made available ‘free at the point of use’ through the library service.

Respondents to our earlier questionnaire, interviewees and workshop participants were asked about the support they would welcome to increase income generation within a library context in future. In summary, they called for:

- **Good practice** to be made more readily available and, in particular, ideas about what to do about declining income streams and/or what alternatives they might usefully pursue.

- **Feasibility studies** for services to be made available where the business case wasn’t considered viable, to test the transferability of some ideas to other locations as well as to reduce duplication of effort.

- **Time, space and peer support** – in particular, opportunities to come together as peers, to support one another as well as to encounter ‘creative input’ from other sectors/disciplines - to aid the design and development of new enterprising services.

- **Access to expert support** – in particular, in relation to business development, finance, retail, marketing and commissioning/contracting.

- **Opportunities to learn** more about agile service design, incentivise enterprise within a library context, and access to investment as well as endorsement to develop services in more of a ‘Prototyping Environment’.

As such, we will explore the potential to establish a demonstrator programme with relevant agencies that reflects the learning from the initial Research Phase as well as taking into account the good practice and recommendations outlined in this Guidance Note over the months ahead. We will also explore with Arts Council England the potential to offer library service commissioners support, where they opt to establish dedicated Library Investment for Innovation Vehicles.
Locality has developed this guidance note to stimulate thinking about the role of enterprise and income generation in enhancing and improving the resilience of public library services.

Locality is the leading nationwide network of community enterprises, development trusts, settlements and social action centres.

We are extremely grateful to everyone who has contributed to the production of this guidance note and our earlier research by participating in our surveys, interviews, working groups, and debates.

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