

Geelong Regional Library Corporation

Comment re GRLC Financial Position & Industry Standing

November 2010

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Executive Summary:

The Geelong Regional Library Corporation (GRLC), like other Victorian regional library services, has a unique relationship with its member councils in that they are both owner and client. This places GRLC in the position of not only being a provider of high quality library services, but being required to justify funding levels and demonstrate value for money to their owner/client member councils. This review of GRLC's financial position and industry standing relative to other Victorian public library services aims to facilitate and inform GRLC's process of negotiating service levels and the corresponding funding support with its member councils. The key findings include:

- ◆ When measured against a basket of twenty measures, GRLC's composite score indicated that it would rank nineteenth among Victoria's forty-four library services. (The measures related to supply, demand, productivity, collections and funding.)
- ◆ GRLC was found to rank above the statewide median on four measures; represent the median on two measures; and rank below the median on fourteen measures.
- ◆ Four of the five supply measures were ranked below the median, with per capita staffing and collection holdings ranked within the bottom quartile of library services. Given that staffing and collections are major expenditure areas within library services, their bottom quartile ranking is consistent with GRLC's equivalent bottom quartile ranking on the per capita funding measures.
- ◆ The four demand measures similarly ranked below the median, albeit to a lesser degree, which suggests effective use of available resources by GRLC to generate patronage. Nevertheless, demand will continue to be influenced by supply and it was a concern to find that per capita visitation and borrowing had fallen since the previous exercise undertaken in 2005.
- ◆ Whilst it is a positive that GRLC ranks on or above the median for all four productivity and cost effectiveness measures, these must be viewed in context. The costs per visit and loan are close to the industry's best (i.e. lowest), but are more a reflection of low funding than high productivity. On the other hand, the high ranking for collection turnover (33 from 44) indicates that GRLC's collection revitalisation initiatives are succeeding.
- ◆ Of the five collection measures, only audio-visual holdings per capita rank above the median, which is consistent with recent growth within this collection area. The other collection areas are below the median and it is a concern that GRLC ranks in the bottom quartile for print items per capita. Whilst this is partly attributable to GRLC's aggressive and appropriate deselection program to eliminate old and non-performing items, it nevertheless signals that this and other collections are under-sized.
- ◆ The delivery of high quality library services is dependent on adequate funding levels, thus GRLC's bottom quartile ranking for each of the two funding measures is effectively acting as a barrier to GRLC's achievement of a stronger profile and higher industry ranking. In fact it is commendable that for fifteen of the other eighteen measures, GRLC ranks higher than the equivalent standings for the two funding measures.
- ◆ When compared to a similar profiling exercise undertaken in 2005, GRLC's ranking has improved on two measures; remained static on one measure; and fallen for the other thirteen measures where a comparison was available. In general terms, this suggests that GRLC's low funding levels have contributed to its failure to keep pace with its industry peers. However, it must also be noted that its aggressive approach to collection revitalisation has involved going backwards on some measures in order to move forward in the longer-term.
- ◆ To gain a more detailed view of library funding, a separate Financial Ranking Profile of seven measures (including two from the Industry Ranking Profile) was developed. This reinforced the

earlier findings with all but one measure below the industry median and four of the seven measures within the bottom quartile. Maintaining this financial profile is likely to consign GRLC to a permanent low ranking among Victorian public library services.

- ◆ *Of specific concern was the finding that GRLC is the fourth lowest in terms of staff costs per capita – a bottom decile position. Such a finding is inconsistent with GRLC operating the most service points and having the highest total weekly opening hours of any Victorian library service.*
- ◆ *Four library branches (Barwon Heads, Chilwell, Grovedale and Queenscliffe) were found to exhibit some indication of non-viability, where non-viability was assessed in relation to visits, loans, stock holdings and collection turnover.*
- ◆ *The most serious was the Barwon Heads Library, which was found to be non-viable across all four measures. This confirmed a similar finding from the 2005 exercise, thus positioning the library as long-term non-viable.*
- ◆ *Chilwell Library is non-viable on three measures, albeit marginally on two of the measures. This marginality combined with its improvement since 2005, where it was clearly non-viable on all four measures, indicates that the library has responded to GRLC's improvement initiatives. Accordingly, the appropriate action would be to closely monitor its ongoing performance.*
- ◆ *Grovedale Library was previously found to be non-viable across all four measures, yet the recent exercise found it to be non-viable on only one measure. However, the result would appear to be illusory, with the recent improvement attributable to greatly increased usage during Belmont Library's closure for refurbishment. Over the longer-term, one should expect Grovedale to exhibit renewed signs of its long-term non-viability.*
- ◆ *A watching brief is suggested for the Queenscliff Library, which showed marginal non-viability on three measures. However, it would appear the measures are trending downward, hence the need to closely monitor branch performance.*
- ◆ *Although GRLC's regional membership penetration of 35.8% considerably lags the state average of 47.3%, its ranking of eighteenth for active membership is well above its ranking of ninth for membership penetration.*
- ◆ *A further positive is the growth in membership penetration since 2005 from 32% to 35.8%, which is counter to the industry trend where statewide membership fell from 51.5% to 47.3%.*
- ◆ *Nevertheless, 35.8% is unacceptably low and further effort is required to attract greater membership penetration, with only the Borough of Queenscliffe's 79% representing an acceptable rate – indeed an exceptional rate. One would expect a boost in membership from the planned expansion of the branch network, particularly the establishment of a library at Bannockburn to address the Shire of Golden Plain's very low membership rate of 8.0%.*
- ◆ *This review did not focus on library collections given the recent completion in July 2010 of the "Collection Revitalisation" report, which found that to bring the collection to the required level and standard would require a one-time revitalisation cost of \$4.3 million and recurrent expenditure of \$1.44 million.*
- ◆ *In more specific terms, the current collection is undersized at 1.36 items per capita rather than the targeted 2.0 items per capita; is being replenished on a ten year rather than an eight year cycle; is progressively moving towards a demand based collection mix; and makes inadequate provision to accommodate emerging collections, thus requiring emerging collections to compete for funding with established collections.*
- ◆ *GRLC has achieved considerable success to date in gaining member councils' support for its collection revitalisation strategies. However, funding bodies are being increasingly exposed to*

information that can be used to justify a reduction in collection funding, hence the need for GRLC to be prepared to counter such interpretations.

- ◆ *Reservations have grown as a percentage of loans from 5% in 2005 to 12.8% in 2009-2010. Indeed the online catalogue ranks as the sixth of fifteen branches in terms of loans and only two libraries (Belmont and Geelong) generate more regular in-house loans than GRLC's total reservations of 333,178. Given that reservations incur a higher unit cost than self-selected loans and the potential for further growth in this area impacting on the branch network, it is suggested that GRLC reviews the strategic implications and considers the introduction of a reservations charge.*
- ◆ *Although member councils' contributions will remain below the median level for 2010-2011, the gap has reduced dramatically in recent years and GRLC should expect to face increased scrutiny when proposing future initiatives. It thus becomes increasingly important to link future strategies to improving GRLC's industry standing and to engage the GRLC Board and key executives within the member councils as partners in the pursuit of a higher standing within the industry.*
- ◆ *Given the trend away from the regional library model over the past decade, it would be prudent to remain alert to the potential of a similar challenge from one or more of the member councils – most likely the City of Greater Geelong as the dominant member. History has shown that the catalyst for withdrawal from or dissolution of regional libraries is usually a perception that the funding arrangements are inequitable. When combined with a general unwillingness to consider changes to funding arrangements, the resultant outcome is often withdrawal/dissolution. It is, therefore, important for GRLC to carefully monitor this risk and, if necessary, act proactively to lessen the risk and protect the current structure.*
- ◆ *Consideration should also be given to the strategic implications of employee costs becoming an increasingly dominant component of overall costs. For example, from 56% of total costs in 2008-2009, they are projected to increase to almost 66% by 2013-2014.*
- ◆ *Whilst the projected bookvote for the four years from 2010-2011 is of an appropriate level, the progressive increase will still result in under-spending for the first two years of this period and the later periods will be partly eroded by inflation.*
- ◆ *GRLC should plan to continue operating in a cost constrained environment for the foreseeable future. Accordingly, it is suggested that a contingency plan be prepared to ascertain where and how costs would be reduced in the event that it becomes necessary. Such a plan will involve making predetermined decisions that will inevitably compromise service levels and/or quality. However, the absence of a plan will mean that such decisions are made on a more emotional and less rational basis.*

Overall, this review has found that GRLC has made significant progress in the past five years in key areas such as collection development, access to on-line services and branch improvement. However, its industry standing has declined, primarily due to its bottom quartile funding levels. To maintain its change momentum and advance its industry standing will, therefore, require a commitment from the member councils to provide adequate funding.

1.0 BACKGROUND:

As an independent legal entity owned by and operated for the benefit of its four member councils, the Geelong Regional Library Corporation (GRLC) faces the ongoing challenge of negotiating with its member councils for capital and operating funds. A characteristic of this funding process for regional library services such as GRLC is that relative to council operated library services, there is a greater need to justify funding levels and demonstrate value for money.

To facilitate GRLC's ability to secure and maintain appropriate funding support from its member councils, this review will comment on GRLC's financial position relative to other Victorian library services. The review also incorporates comparisons against key operational measures at both the industry level and for GRLC's branch libraries. Given that a separate review on Collection Revitalisation was undertaken in July 2010, minimal comment is made herein on the library collection.

2.0 COMPARISON WITH INDUSTRY BENCHMARKS:

Each of Victoria's forty-four library services are required to submit statistical information annually to the Department for Planning and Community Development (DPCD), with the most recent results published as the *Annual Survey of Victorian Public Libraries 2008-2009*. The *Annual Survey* data thus provides a means to benchmark GRLC against its industry peers and an objective base against which to assess GRLC's relative industry standing in general and specific terms.

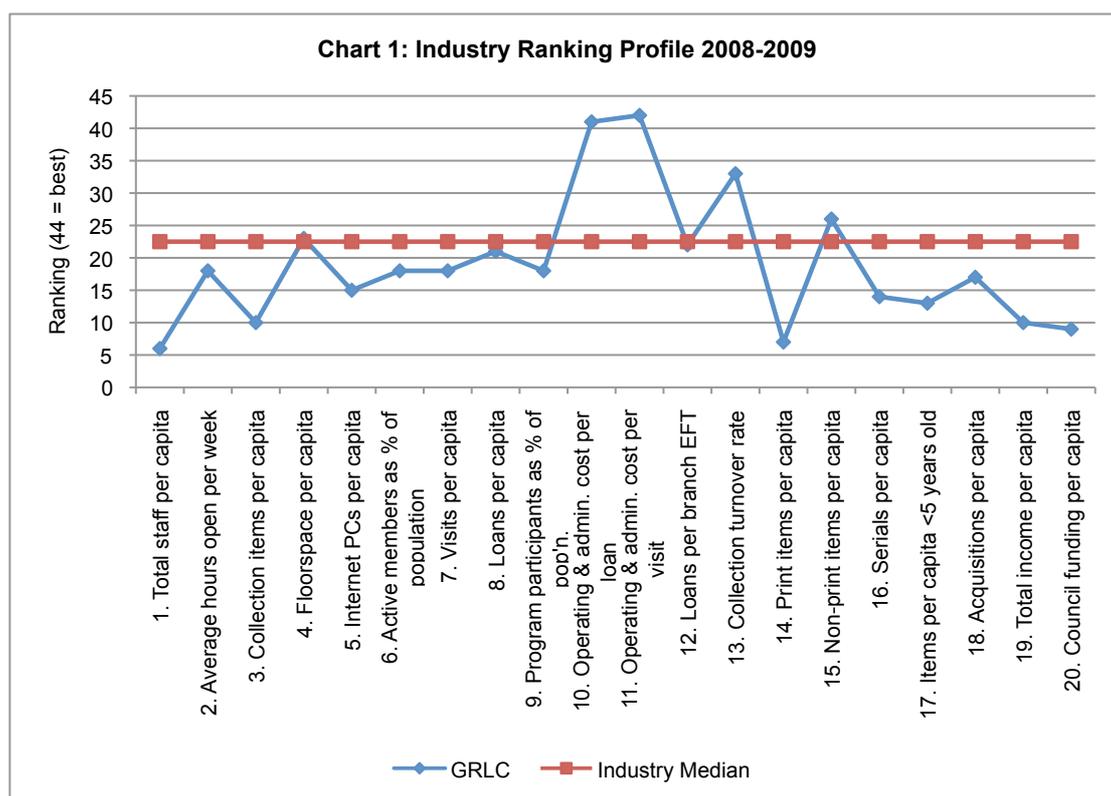
A normative approach has been adopted herein, whereby for selected measures GRLC's position is ranked against a worst to best scale. For example, a ranking of 44 would indicate industry best practice for a particular measure, whereas a ranking of one would denote the industry low. This approach is well suited to the graphical presentation shown at Chart 1 and provides an effective summation of GRLC's standing relative to the median position (22.5). Based on experience from similar engagements, it has been observed that strategic planning for library services is influenced by a service's relative standing, particularly where the current standing differs from stakeholders' perceptions and/or expectations.

For the purpose of this exercise a total of twenty specific measures will be utilised to provide insights into five key aspects of GRLC's operations. These are:

1. Supply of library services to the community, measured via:
 - a. Total staff per capita.
 - b. Average hours open per week (per branch).
 - c. Collection items per capita.
 - d. Floorspace per capita.
 - e. Public access Internet PCs per capita.
2. Community demand for library services, measured via:
 - a. Active members as a percentage of the population.
 - b. Visits per capita.
 - c. Loans per capita.
 - d. Program participants as a percentage of the population.

3. Productivity and cost effectiveness, measured by:
 - a. Operating and administrative cost per loan.
 - b. Operating and administrative cost per visit.
 - c. Loans per branch EFT (equivalent full-time employee).
 - d. Collection turnover rate.
4. The library collection, measured by:
 - a. Print items per capita.
 - b. Non-print items per capita.
 - c. Serials per capita.
 - d. Items per capita purchased in past five years.
 - e. Acquisitions as a percentage of the collection.
5. Library funding measured by:
 - a. Total income per capita.
 - b. Council funding per capita.

Chart 1 ranks GRLC relative to other Victorian public library services.



Of the twenty measures profiled at Chart 1, GRLC ranks above the median on four measures; represents the industry median on two measures; and ranks below the median on the other fourteen measures. Closer evaluation reveals that an upper quartile ranking (34 to 44) is achieved for three measures and a lower quartile ranking (1 to 11) for five measures. There is some correlation between the upper and lower quartile ranked measures in that two of the three upper quartile measures (items 10 and 11) represent low per unit operating and administration costs, which is consistent with the lower quartile ranking for the two funding measures (items 19 and 20).

An indicative composite ranking can be calculated by summing the rankings for each measure, which of course assumes that all measures are evenly weighted. GRLC's composite score would be 381, which, when compared to the composite median of 450, would rank GRLC overall in nineteenth position from forty-four library services. This would, therefore, rank GRLC slightly below the median, which is consistent with the profile suggested by Chart 1.

Although the above observations are of a high-level and generalised nature, they immediately pose the question of whether the industry ranking profile is consistent with stakeholders' current and long-term expectations. Whilst it is not the purpose of this project to answer this question, one would expect Chart 1 to be a useful tool in assisting GRLC to determine its desired industry standing and associated strategic direction.

To facilitate GRLC's considerations, the following observations are offered:

1. Public library services essentially adopt a supply-side approach to service delivery. In other words, a network of branches provides facilities and services for use by community members at their discretion. Measures 1 to 5 can, therefore, be seen as the key elements that are used to attract library users, thus it is of concern that four of the five measures are below the median. More specific observations include:
 - a. Per capita staffing levels are indicative of a lean library service.
 - b. Average hours open per week is consistent with GRLC's maintenance of an extensive branch network and suggests that the planned branch expansion program may result in a lower ranking.
 - c. A contributing factor to the bottom quartile ranking for items per capita is GRLC's aggressive deselection of obsolete and non-performing materials in response to the findings from the *2006 Strategic Asset Audit of Victorian Public Libraries*. However, even allowing for GRLC's more aggressive approach relative to industry norms, GRLC would still rank well below its current short- and medium-term strategic objectives.
 - d. Whilst the median ranking for floorspace per capita contrasts with the lower ranking for collection items per capita, it is consistent with GRLC's strategy of maintaining an extensive network of small library branches. Nevertheless, a branch rationalisation program could be expected to yield improved floorspace effectiveness and a higher ranking on this measure. It should also be noted that the current branch network strategy places upward pressure for higher per capita collection holdings to allow for duplication across branches.
 - e. Internet PCs per capita are similarly below the median, which, at face value, may constrain access to on-line and electronically based materials. However, other factors such as the community's access to private resources and access to wireless networks within branch libraries must be considered when evaluating this particular measure.
 - f. Given that staffing, collections and information technology are each significant components of GRLC's Budget, their low rankings are consistent with the bottom quartile rankings for the financial measures shown as items 19 and 20. For such key supply elements, the available funding naturally drives the scale of services supplied.

2. The demand measures 6 to 9 provide an insight into the community's demand for library services and should be viewed in conjunction with the supply measures discussed above. As one would expect from the below-median supply profile, the four demand measures are similarly below the median, albeit to a lesser degree. This relatively higher demand profile suggests that GRLC is effectively utilising its available resources to generate usage of its library services. Other observations include:
 - a. Although GRLC's enrolled membership is, at 36.5%, well below the statewide average of 47.3%, the more relevant measure is active usage where GRLC approximates the median. This suggests that GRLC's low membership base is relatively more active and indicative of a strong underlying demand for library services regionally.
 - b. Although visits and loans per capita approximate the median, it is noted that each measure ranked above the median in a similar exercise undertaken in 2005. Delving more deeply into the base data found that although total visits and loans grew over the period, per capita visits fell from 5.7 to 4.6 and per capita loans from 9.9 to 8.2. It is acknowledged that branch closures due to refurbishment programs may have contributed to these trends, or they may reflect the impact of the supply-side issues discussed earlier. A more detailed analysis is beyond the scope of this project, but it would seem appropriate to closely monitor these key measures to ascertain the reasons for the downward trend.

3. GRLC is on or above the median for each of the four productivity and cost effectiveness measures 10 to 13, which is consistent with its sub-median supply (items 1 to 5) and funding (items 19 and 20) profiles. More specifically, it can be seen that:
 - a. In terms of operating and administration costs per loan and per visit, GRLC ranks within the top decile at 41 and 42 respectively, thus establishing GRLC as a low-cost service provider.
 - b. The median ranking for loans per branch EFT is somewhat inconsistent with the ranking for cost per loan and per visit, which suggests that administration staffing levels are relatively leaner than branch staffing levels.
 - c. The collection turnover ranking of 33 positions GRLC just below the upper quartile and indicates that although the collection is under-sized, the recent initiatives to revitalise the collection are succeeding.

4. The collection measures 14 to 18 are arguably the most critical given that library collections are the key determinant of a library service's quality and ability to attract and maintain high patronage levels. However, a more comprehensive discussion of GRLC's collection is provided in the *July 2010 Collection Revitalisation* report, thus only minimal comment on the collection measures is made herein. Key observations include:
 - a. The bottom quartile ranking for print items per capita reflects, in part, GRLC's aggressive deselection program in response to the *2006 Collection Audit* findings. Whilst the aggressive approach was justified in order to revitalise the collection, acquisition strategies are now required to build the collection size to at least the median level.
 - b. Non-print items per capita show greater strength, with the above median ranking reflecting the growth in GRLC's audio-visual collections since 2006.
 - c. An important characteristic of a relevant and appealing collection is its age and although the *2010 Collection Revitalisation* report found GRLC's collection to be relatively young,

the finding was influenced by the revitalisation strategies of increased bookvote and aggressive deselection. When viewed in per capita terms as shown by item 17 at Chart 1, GRLC's low ranking of 13 confirms that it continues to lag the industry on this key measure, which, if not addressed through increased spending on new materials, will continue to exert negative pressure on GRLC's industry standing.

- d. Although acquisitions per capita are lowly ranked at 17, GRLC's performance on this measure can be considered as equivalent to the industry median due to minor differences in acquisition rates around the median. Nevertheless, to achieve GRLC's strategic target of two items per capita and an average effective life of eight years, it will be necessary to lift the acquisitions rate per capita from the current level of 0.2 to 0.25.
5. Funding levels have been discussed indirectly in relation to other measures and, as can be seen from measures 19 and 20, GRLC ranks in the bottom quartile on both measures. At \$17.40 per capita, funding by the member councils considerably lags the industry median of \$23.09. It is commendable that for fifteen of the other eighteen measures shown at Chart 1, GRLC ranks higher than the equivalent standings for the two financial measures. Nevertheless, the overall shape of the Industry Ranking Profile is that of a profile anchored by the relative funding levels, thus if GRLC is to improve its industry position, additional funding will be required.

To complement the occasional references to previous rankings, Table 1 provides a summary of how GRLC's rankings have changed since the earlier exercise based on 2002-2003 data.

Table 1: Change in GRLC Rankings from 2002-2003

Statistical Measure	2002-2003	2008-2009	Change
1. Total staff per capita	9	6	-3
2. Average hours open per week	14	18	+4
3. Collection items per capita	18	10	-8
4. Floorspace per capita	29	23	-6
5. Internet PCs per capita	8	15	+7
6. Active members as % of population	n.a.	18	n.a.
7. Visits per capita	26	18	-8
8. Loans per capita	33	21	-12
9. Program participants as % of population	n.a.	18	n.a.
10. Operating & admin cost per loan	43	41	-2
11. Operating & admin cost per visit	42	42	0
12. Loans per branch EFT	37	22	-15
13. Collection turnover rate	37	33	-4
14. Print items per capita	18	7	-11
15. Non-print items per capita	30	26	-4
16. Serials per capita	28	14	-14
17. Items per capita <5 years old	31	13	-18
18. Acquisitions per capita	28	17	-11
19. Total income per capita	n.a.	10	n.a.
20. Council funding per capita	n.a.	9	n.a.

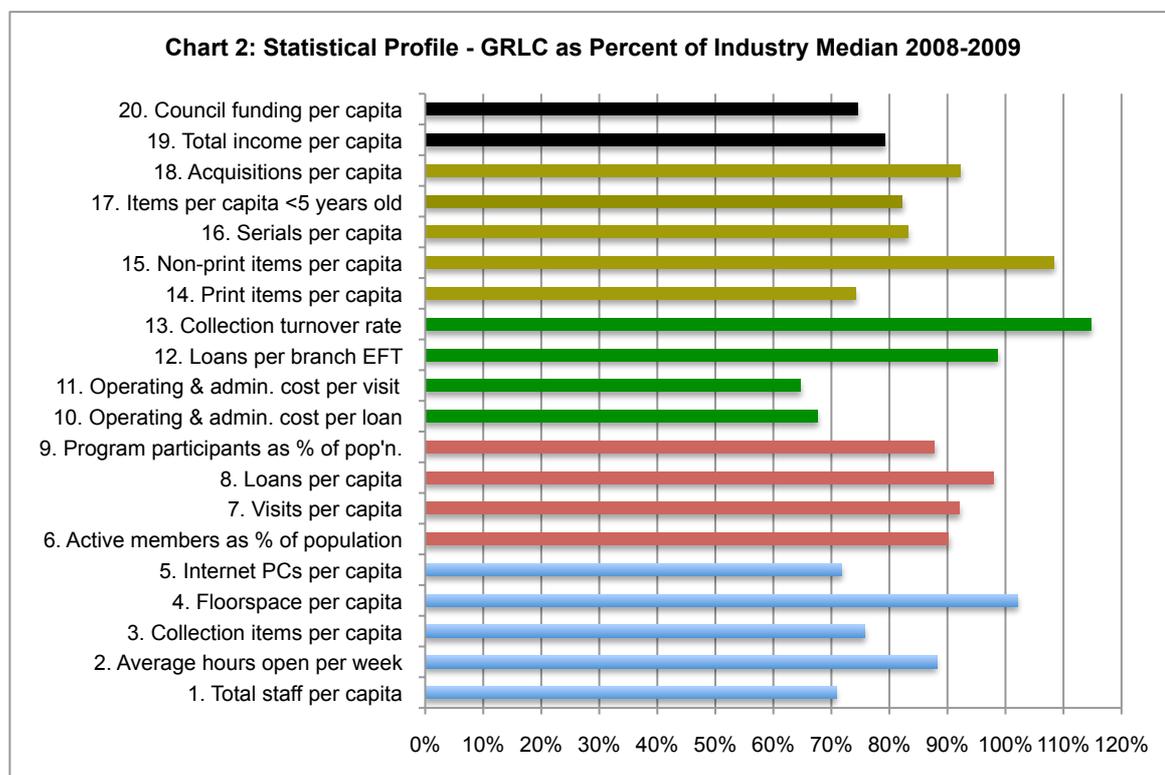
It is advised that the 2002-2003 rankings are based on 43 library services compared to 44 services for 2008-2009. It should also be noted that there has been some changes to the measures included and that changes to DPCD's definitions over the period covered by Table 1 may impact on the relative rankings.

Nevertheless, the snapshot shows that GRLC's position has improved on two measures; remained static on one measure; and fallen for the other thirteen measures where a comparison was available. Detailed analysis of the comparative rankings is beyond the scope of this project, although three questions must be posed, namely:

1. Has GRLC failed to keep pace with its industry peers?
2. Has GRLC's aggressive approach to collection revitalisation, particularly its deselection strategies, contributed to a number of the lower rankings?
3. Has GRLC's low funding levels contributed to the above changes?

The questions are essentially rhetorical, yet each could be answered affirmatively – particularly questions one and three. Similarly, the answer to question two would appear to be “yes”, although in this instance it can be argued that it was necessary to go backwards in order to move forward. However, moving forward in terms of achieving a higher industry ranking will depend primarily on funding levels.

Whereas Chart 1 profiles GRLC's position relative to other Victorian public library services, Chart 2 shows each measure as a percentage of the median, thus indicating the change required to achieve a desired position.



It should be noted that the median is represented by the gridline running vertically from 100% on the horizontal axis and that the measures have been constructed to denote positions less than and more than the median as unfavourable and favourable respectively.

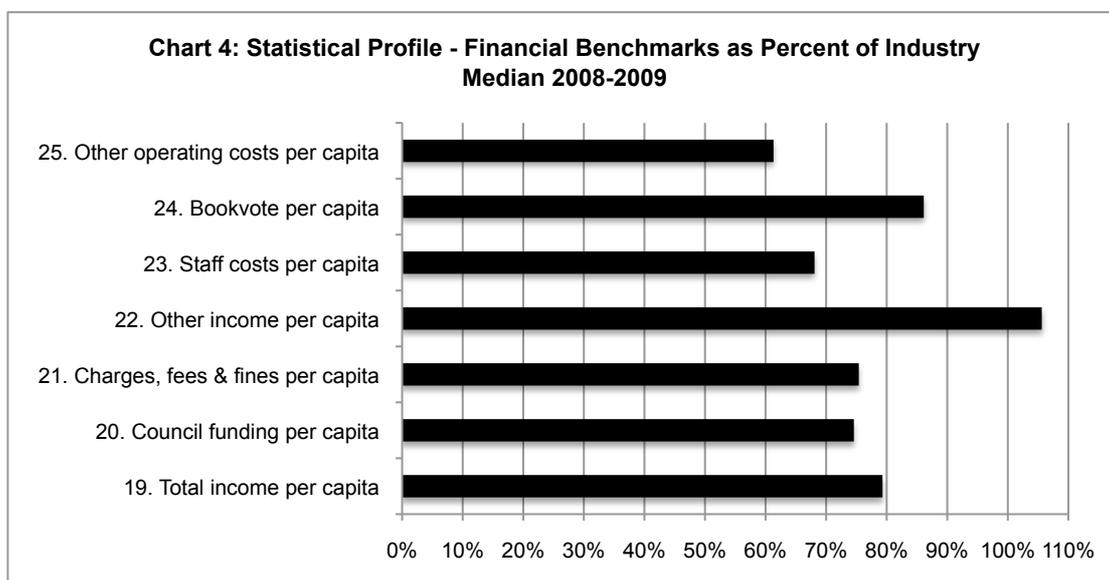
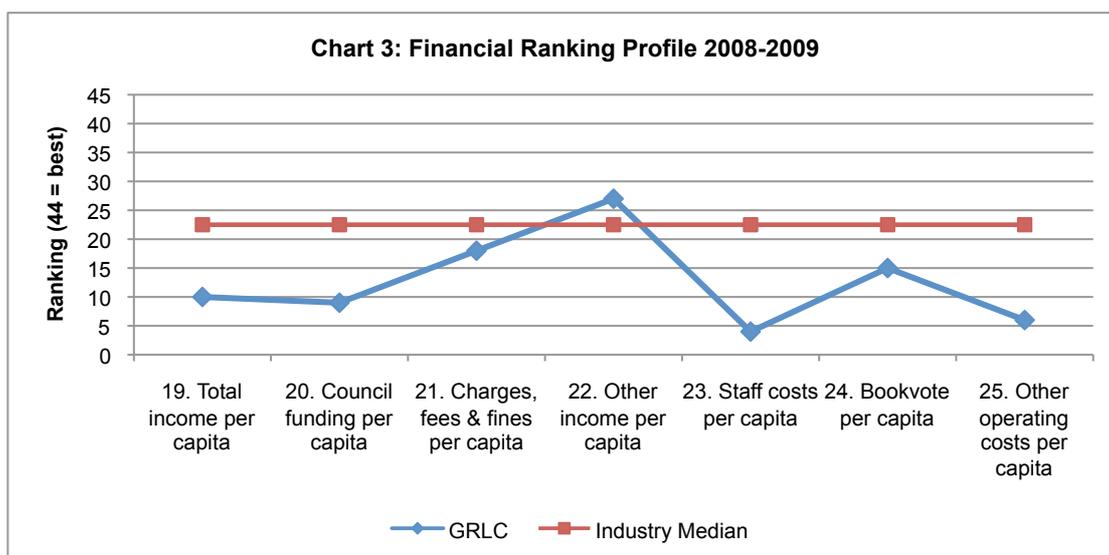
As suggested earlier in this report, Charts 1 and 2 provide an objective means for stakeholders to:

- ◆ Test their perceptions of GRLC's industry standing.
- ◆ Determine their expectations.
- ◆ Gauge the level of improvement necessary to achieve their expectations.
- ◆ Develop appropriate improvement strategies.
- ◆ Monitor progress.

It is not the role of this project to recommend specific change strategies, although it is proposed that this comparison of industry benchmarks has demonstrated the need for positive change strategies to move GRLC's profile upwards.

3.0 FINANCIAL BENCHMARKS:

Comment was made on high-level financial benchmarks in the previous section, whereas the following Charts 3 and 4 offer a more detailed insight into those areas where financial benchmarking is possible. It should, however, be noted that limited financial data is available at the industry level and that the data is somewhat unreliable due to differences in accounting practices between library services. Caution is, therefore, suggested when drawing comparisons.



Measures 19 and 20 are repeated from the previous charts and given that they reflect GRLC's overall funding position, the expanded profile shown at Chart 3 is to be expected; with all but one measure below the industry median level and four of the seven financial measures within the bottom quartile. Specific observations include:

- Given that charges, fees and fines incorporate both fee for service and penalty charges, they are not entirely within GRLC's control. For example, income from fines is influenced by borrowers' adherence to loan periods and to their use of the "renewals" system. Fines income may also be

influenced by GRLC strategies and staff discretion in applying fines. Indeed, considering GRLC's low membership penetration, rigid application of penalties may detract from the library service's community appeal.

One would expect GRLC's ranking on this measure to fall from 2009-2010 onwards following the decision to remove borrowing charges for some audio-visual items, thus it may be appropriate to identify alternative income sources. One potential source is to impose charges for reserving materials, which, as discussed at section 4.4, is showing considerable growth and thus adding to GRLC's operating costs.

2. Other income, which includes income from services such as photocopying and hiring of library meeting rooms, is the only financial measure where GRLC achieves above median level performance.
3. It must be seen as a concern that staff costs rank lowest among the financial measures. Indeed, on this measure, GRLC is the fourth lowest of Victoria's forty-four library services, with its per capita expenditure of \$13.20 representing 68% of the median level expenditure of \$19.39. Whilst the ranking may reflect some economies of scale, it is nevertheless inconsistent with GRLC's position of operating the most service points and having the highest total weekly opening hours of any Victorian library service. One would not expect such characteristics to be associated with a bottom decile ranking for staff costs per capita and it begs the question as to whether or not there is a causal link to the region's low membership penetration.
4. As stated previously, a more comprehensive discussion of GRLC's collection is provided by the July 2010 *Collection Revitalisation* report. However, to follow-on from the preceding observation, an extensive branch network creates the need for above average bookvote funding, thus GRLC's ranking of fifteenth and per capita funding equivalent to 86% of the industry median will, if maintained, impede the service's development and appeal to library users.
5. Consistent with the overall funding level, other operating costs per capita rank sixth and at \$2.71 per capita is equivalent to 61% of the industry median. Whilst one would expect regional library services to achieve economies of scale in this area, the ranking is inconsistent with GRLC's operational scale and further characterises it as a lean operation.

Further to the above observations, the financial profile shown at Chart 3 is consistent with the broader industry ranking profile at Chart 1. It also confirms that innovation and creativity alone will not enable GRLC to significantly improve its profile, particularly in the key areas of staffing and collection development where additional funding is required for GRLC to acquire or exceed median level status.

4.0 COMMENT RE OPERATIONAL STATISTICS:

A similar review undertaken in 2005 utilised the following four key operational measures to assess the viability of GRLC's branch libraries:

1. Visits per hour open as a broad measure of a library's appeal.
2. Loans per hour open as a measure of how well a library performs its core function.
3. Items per member to measure the quantum of collection resources available to library users.
4. Stock turnover as the primary measure of a library collection's relevance, appeal and performance.

Applying the above measures in 2005 identified four branch libraries as being non-viable, namely; Barwon Heads, Chilwell, Grovedale and Newtown. The Newtown Library was subsequently closed and repeating the exercise based on 2009-2010 data will provide a means to monitor the current viability of the above and other GRLC branches.

The process is, of course, subjective and must be considered in conjunction with other less tangible measures of branch performance. Nevertheless, the statistical summary shown at Attachment 1 provides a useful starting point and a means to quickly compare relative performance across the branch network.

4.1 Branch Viability:

For the purpose of this exercise, non-viability within the chosen measures was deemed to be:

- ◆ Visits per hour open of less than 26, which equates to approximately 50% of the GRLC average. As can be seen from Attachment 1, visitation ranges from 9.7 to 76.3 visits per hour and whilst individual branches are advantaged or disadvantaged by factors such as location and general accessibility, it is appropriate to strive for visitation rates within a compressed range and to explore major variances for improvement opportunities.
- ◆ Loans per hour open of less than 47, which is again approximately 50% of the GRLC average. One will note that the selected visits and loans indicators yield a ratio of 1.81 loans per visit (47/26), which is consistent with the working benchmark of two loans per visit.
- ◆ Items per member of more than 5.7, which is 50% above GRLC's average holdings of 3.8 items per member. On the subject of the average holdings approximating the desired level of four items per member (based on two items per capita and average membership of 50%), it should be noted that this statistic is potentially misleading due to GRLC's low membership penetration of approximately 36%. Accordingly, it should not be interpreted as an indicator of adequate per capita holdings, which, at 1.36 items per capita, are considerably below the target level.
- ◆ A turnover rate of less than four turns per annum, which is consistent with the rate applied in the earlier 2005 exercise. It is also advised that a minimum turnover rate of five turns per annum was nominated in the Library Board of Victoria's June 2008 *Draft Collection Management Standards for Victorian public libraries*.

Table 2 identifies branch libraries with one of more indicators of non-viability.

Table 2: Non-Viability Indicators

Branch	Visits per hour open	Loans per hour open	Items per member	Stock turnover
Barwon Heads	9.7	24.5	10.9	2.6
Chilwell	24.8	41.2	8.5	5.0
Grovedale	60.6	127.8	8.9	9.5
Queenscliff	25.0	53.9	5.9	3.8
GRLC Average	51.9	93.7	3.8	7.4

(Shaded data denotes non-viability.)

It will be noted from Attachment 1 that the mobile libraries' visitation rate of 16.9 per hour open is below the level of 26 used to identify non-viable performance. However, given their unique operational environment, the mobile libraries were not included in Table 2. As shown above, four branch libraries demonstrate varying degrees of non-viability, each of which are discussed below.

Barwon Heads Library:

Barwon Heads is the only GRLC branch to indicate non-viability across all four measures – a similar finding to that from the 2005 exercise, thus positioning the branch as long-term non-viable. Such non-viability is reinforced by each of the four measures representing the worst performance across GRLC's branch network.

Since 2005, visits per hour open declined from 12.4 to 9.7 and loans per hour open from 28.4 to 24.5. Whilst these falls reflect an increase in opening hours per annum from 510 to 650, the increased hours have failed to attract significantly increased activity levels. Although items per member has fallen from 12.5 to 10.9 as a result of GRLC's deselection program and turnover has thus improved from 2.1 to 2.6, each measure continues to be unacceptable. Holdings of 10.9 per member is almost three times the GRLC average, with the turnover rate of 2.6 turns per annum approximating one-third of the regional average. These measures alone characterise the branch collection as high-cost/low performance.

Barwon Heads Library is clearly non-viable, which one could argue is to be expected for a library with holdings of only 6,060 items. There is a minimum collection size necessary to create appeal and J.L. Management Services has expressed the view in other statewide reports that static libraries are not viable with collections of less than 12,000 items. Accordingly, the performance of the Barwon Heads Library from 2005 to 2010 is not surprising and should be expected to continue if the library is maintained.

Chilwell Library:

Although the Chilwell Library rates as non-viable for three of the four measures, the data requires careful interpretation. For example, the turnover rate of 5.0 turns per annum is acceptable despite excessive holdings of 8.5 items per member. Furthermore, the visitation rate of 24.8 per hour open is only marginally below the non-viable level of 26 per hour and loans per hour of 41.2 are similarly within reach of the designated level of 47 per hour. The current data thus suggests that the branch may be seen as borderline viable and capable of responding to GRLC initiatives.

Comparison to the equivalent 2005 findings where the Chilwell Library was clearly non-viable on all four measures indicates that branch performance has improved markedly, presumably due in part to its refurbishment and repainting. Since 2005, each measure is improved. Visits per hour have risen from 11.2 to 24.8; loans per hour from 21.4 to 41.2; items per member are down from 14.9 to 8.5; and turnover has improved from 2.2 to 5.0. Notwithstanding the branch's technical non-viability, the improvement over the past five years is impressive and encouraging, including membership growth from 870 to 1,483.

There is, however, the question of whether Chilwell Library has benefitted from a short-term response to its refurbishment and is once again in decline when one considers recent trends. Since 2007-2008 the branch has shown a fall in membership from 1,739 to 1,483; visits from 44,235 to 37,780; and loans from 66,490 to 63,879.

In conclusion, the data shows cause for optimism and for concern. Chilwell Library has demonstrated an ability to make significant improvements, albeit still within the veil of non-viability, yet recent trends indicate the branch slipping further into the non-viable zone. Given the mixed signals, the most appropriate strategy would be to closely monitor branch performance and to retrospectively attempt to ascertain what changes have contributed to the upward and downward trends of the past five years.

Grovedale:

The findings showing the Grovedale Library to be non-viable only in relation to items per member would appear to be misleading. The above average performance for the other three measures reflects increased short-term use of the library during the Belmont Library's refurbishment and should not be expected to continue. For example, total visits in 2009-2010 of 45,475 were almost treble the previous year's visits of 15,288.

It would, therefore, appear that the 2005 finding that Grovedale Library was non-viable across all four measures is still relevant and that the City of Greater Geelong's resolution to "*close the Grovedale Library on the opening of the Waurin Ponds Library*" continues to be an appropriate strategy.

Queenscliff:

With the exception of loans per hour open, the Queenscliff Library triggered the non-viable criteria for the other three measures. However, each of the measures triggered is marginal and it would be appropriate to interpret the data accordingly. For example, visits per hour open of 25 is just below the designated level of 26; items per member of 5.9 is just above the non-viable trigger of 5.7; and at 3.8 turns per annum, turnover is marginally below the base level of 4.0. Nevertheless, comparison with the equivalent 2005 findings will show that branch performance has trended slightly downwards on all measures except items per member.

Given that it is the only static library within the Borough of Queenscliffe and the finding of marginal non-viability, the most appropriate action would be to monitor branch performance more closely to identify the factors contributing to the slight downward trend.

Summation of Branch Viability:

This assessment of branch viability has confirmed that the Barwon Heads Library is not viable and despite its short-term improvement due to increased use during Belmont Library's refurbishment, it would appear that the Grovedale Library is similarly non-viable. Given that the same finding was made in 2005, the Barwon Heads and Grovedale libraries can be characterised as long-term non-viable branches. Chilwell Library also can be characterised as long-term non-viable, at least in technical terms. However, it has shown significant improvement since 2005 and despite more recent downward trends, the branch shows signs of revigoration. Finally, the Queenscliff Library is on the cusp of being non-viable, hence the need for careful monitoring of its performance to better understand the contributing factors to its downward trend.

4.2 Membership:

As shown at Charts 1 and 2, GRLC ranks eighteenth of Victoria's forty-four library services in terms of active membership per capita, with its level of active membership approximating 90% of the state median level. However, as shown below at Table 3, GRLC's registered membership is comparatively low.

Table 3: Registered Members by Municipality (as at July 2010)

Municipality	Members	Population	Membership penetration
Borough of Queenscliffe	2,560	3,256	78.6%
City of Greater Geelong	81,265	211,841	38.4%
Golden Plains Shire	1,379	17,681	8.0%
Surf Coast Shire	6,895	24,442	28.2%
Regional Total	92,099	257,220	35.8%

Source: GRLC Annual Report 2009-2010 (page 6).

By comparison to statewide norms, GRLC's penetration rate of 35.8% considerably lags the statewide average of 47.3% and, based on 2008-2009 *Annual Survey* data, ranked ninth of forty-four library services. Nevertheless, there are positives in that:

- ◆ GRLC's ranking of 18 from 44 for active membership is well above its ranking of 9 from 44 for base membership penetration.
- ◆ Membership penetration has grown from 32% during the 2005 exercise to 35.8%, during which time the statewide penetration rate fell from 51% to 47.3%. GRLC's positive growth is, therefore, counter to the industry trend over this period.
- ◆ Membership penetration has trended upwards for each member council since 2005. For example, Queenscliffe has grown from an already high 64% to 78.6%; Greater Geelong from 34% to 38.4%; Golden Plains, albeit still low, from 6.5% to 8.0%; and Surf Coast from 27% to 28.2%.

The key question must continue to be whether 35.8% is an acceptable membership rate. One would suggest that it is unacceptable and is certainly inconsistent with GRLC's vision and strategic objectives. However, as was stated in 2005, *"if membership levels are to be increased, additional funding will be required to initially finance the research to understand the current position and to more effectively promote the library service to its regional community."* One would further extend this observation to

include the need for additional funding in key areas such as collection development to enhance the appeal and relevance of GRLC's core service area and to maintain consistency with the planned redevelopment of GRLC's branch infrastructure.

4.3 Library Collections:

When considered from a financial perspective, library collections can be characterised as being fundamentally straightforward, but subject to complex and sometimes conflicting influences. The financial planning for collections is straightforward in that the required funding level is a function of four factors, namely:

1. The size of the collection to be maintained, which is primarily determined by population size. GRLC's current Library Plan recognises the need to provide two items per capita – a level consistent with industry standards.
2. The effective shelf-life of collection items, which naturally varies based on the type of item and other factors. Once again, GRLC's current Library Plan of an eight-year replenishment cycle is consistent with industry standards.
3. The collection mix to be maintained – a factor that is critical in determining collection appeal, yet is influenced by product and population trends. GRLC's Library Plan seeks to accommodate such dynamism by adopting a demand driven approach to collection mix and selection of library materials.
4. The incorporation of emerging collections. Experience has shown that demand for new collections tends to be of a complementary rather than a replacement nature. Accordingly, if emerging collections are to be added to the collection mix, it is important for additional funding to be made available. Only in this way can library collections retain their appeal to the users of established and emerging collections.

Reference to the more comprehensive July 2010 *Collection Revitalisation* report will show that in relation to the above factors, the GRLC collection:

- ◆ Is undersized at 1.36 items per capita.
- ◆ Is being replenished on a ten-year cycle rather than an eight-year cycle.
- ◆ Is progressively moving towards a demand based collection mix.
- ◆ Is required to accommodate emerging collections at the expense of existing collections, as evidenced by the relative growth between the audio-visual and print collections.

The *Collection Revitalisation* report found that to comply with GRLC's current collection targets would require an increase of 189,920 items – equivalent to 54% of current holdings. The equivalent one-time revitalisation cost would approximate \$4.3 million (exclusive of processing costs) and would require recurrent expenditure of \$1.44 million at current conditions. In per capita terms, recurrent bookvote funding would need to be increased from \$4.75 to \$6.25 to comply with industry and GRLC standards. (It should be noted, however, that the 2010-2011 bookvote inclusive of the \$450,000 allocated to establish a collection for the new Lara Library is equivalent to \$6.50 per capita.)

As can be seen, building a strong, viable collection can be achieved by adherence to the four factors discussed above and given the consistency of survey findings that greater than 90% of library visits are to use the collection, the case for adherence is compelling.

There are, however, influences described earlier as complex and sometimes conflicting that tend to act as barriers. Such influences include:

1. The misperception among funding bodies that collection budgets can easily accommodate varying year-to-year funding fluctuations. Indeed, it may be said that collection budgets are generally regarded as the most convenient means to achieve short-term cost savings. In part this is due to library collections being classified (quite correctly) as capital items, hence the perception that there is scope to defer investments as often applies to other items of capital equipment. This perception fails to recognise that in practical terms, collection management is of an essentially recurrent nature, where the effect can be likened to that experienced by orchardists in drought conditions. Whereas irregular watering during droughts results in discoloured fruit, fluctuating collection budgets progressively erode the strength and appeal of library collections.
2. Inappropriate library infrastructure. This may take the form of inadequate library floorspace to house an appropriately sized collection, thus requiring collection budgets to be framed in relation to infrastructure limitations rather than population. One could compensate by replenishing collections more frequently, thus trading-off collection depth for collection freshness. Inappropriate infrastructure may also take the form of an over-supply of typically small branch libraries. Under the latter scenario, there is greater pressure to duplicate collections and in order to maintain collection quality it would be necessary to have higher per capita holdings and, of course, incur higher costs. Given the unlikelihood that higher per capita holdings will be funded, one generally finds that collection quality is compromised under this scenario.
3. The public library sector's promotion of other library services. Whilst the need for public libraries to perform diverse roles is not challenged herein, non-collection services and roles attract more discussion and attention than collections. This particularly applies to "*libraries of the future*" type discussions, which can result in key stakeholders and funding bodies forming the view that collections are of declining relevance. To counter this risk, library services should more clearly communicate that increased role diversity requires additional rather than reallocated funding.
4. Unrealistic expectations in relation to on-line and electronically delivered services. There has certainly been a marked shift in recent years from print to non-print for reference materials and whilst that particular shift has been functionally and economically viable, one must guard against the perception that it will be replicated across the broader collection. Indeed, there is a counter argument that private access to on-line information has reached the point where public libraries should be developing strategies to scale-down rather than scale-up their provision of on-line services.
5. Unrealistic expectations regarding the impact of consortia arrangements such as the Municipal Association of Victoria's SWIFT program and the Public Libraries Victoria Network's Library Link. Notwithstanding that each succeeds in providing access to broader collections, they carry the associated risk that funding bodies and key stakeholders will link such access to an opportunity to reduce collection funding at the local level. To date, it is the writer's understanding that loans generated through Library Link are relatively low and incur a higher unit cost than regular loans.

Furthermore, the case for collection sharing has not been rigorously researched and it would seem prudent to remember that public libraries are predominantly seen as local institutions. It should also be remembered that the primary catalyst for SWIFT was cost saving and there is a very real risk that Library Link is being similarly viewed, with obvious consequences for collection quality.

6. Finally, collection funding is subject to the influences of market forces and exchange rate fluctuations beyond GRLC's control.

It is acknowledged that a number of the views and arguments presented above run contrary to general industry positions and may even be seen as somewhat negative. However, all views expressed are supported by the writer's observations and direct experience from conducting consulting engagements within the public library sector. As stated earlier, the *Collection Revitalisation* report provides a more comprehensive discussion of GRLC's collection and the main purpose of this section was to focus on the complexity of collection funding. By commenting on some of the key current and potential influences, it is hoped that GRLC will, through appropriate policies, strategies and advocacy be able to guard against potential barriers to adequate collection funding.

4.4 Reservations:

In the corresponding 2005 report, it was identified that approximately 5% of loans in 2002-2003 originated from reservations and that the practice was forecast to increase. It was further commented that reserved loans incurred a higher unit cost than regular loans and, given that reservations were provided free of charge, there was a need to monitor the financial impact on GRLC's operations.

Attachment 2 confirms that the practice has increased, with reservations accounting for 13.2% of total loans in 2008-2009 and 12.8% in 2009-2010. Other key observations from Attachment 2 include:

- ◆ A generally consistent reservations rate across the branch network, with ten of the fourteen branches reporting reservations as a percentage of total loans within the range of 5% to 7%. Overall, reservations ranged from a low of 3.8% at the Corio Library to a high of 9.1% at the Drysdale Library.
- ◆ For 2009-2010 the ratio of online to branch reservations was 54/46 compared to 51/49 for 2008-2009.
- ◆ Consistent with the previous point, the year-to-year growth in online reservations was 31%, double the growth of 15.5% for branch reservations - a trend one would expect to continue.
- ◆ Branch based growth over the past year was strongest at Barwon Heads (38%), Geelong West (65%), Grovedale (265%), Highton (86%) and Newcomb (22%). However, the Grovedale and Highton growth is primarily related to the short-term increase in branch patronage during the Belmont Library's refurbishment.
- ◆ If one classified the online catalogue as a branch, it would rank sixth of fifteen in terms of total loans.
- ◆ In terms of regular loans (total loans minus reservations), only Belmont Library (432,044 annualised loans) and Geelong Library (360,648 loans) generated more loans in 2009-2010 than the total of 333,178 reservations. Given that Geelong Library's total was only 8.2% ahead of total reservations, one would expect only Belmont Library to out-perform total reservations in 2010-2011. Furthermore, if reservations continue to grow at an annual rate of 20%, they will out-perform self selection at all branches within the next two to three years.

It is not the role of this project to recommend changes to GRLC's policies and strategies. Nevertheless, it is evident from the above findings that the practice of offering reservations free of charge should be regularly reviewed and justified. It is undeniable from its growing popularity that the service offers added convenience to library users. However, are the added costs justified? Could those costs be more effectively applied elsewhere within the library service? What are the implications over the longer-term for the current branch network? Addressing these key questions will ensure that GRLC's ongoing position on reservations is justified and supportable.

5.0 COMMENT RE 2010-2011 BUDGET:

As discussed at sections 2 and 3, GRLC can be characterised as a financially lean library service, thus one would not expect to find significant rationalisation opportunities within the 2010-2011 Budget. Accordingly, in this section, the comments are predominantly subjective, with an emphasis on identifying areas of potential risk and opportunity.

5.1 Revenues from Library Operations:

The State Government Funding Agreement limits public libraries' ability to generate revenue through service provision, hence GRLC's reliance on member and government contributions for approximately 96% of total budgeted revenue. Of the total budgeted revenue of \$8.182 million, only \$341,845 is otherwise generated. Furthermore, this amount is less than the \$381,342 generated in 2008-2009 due to GRLC's policy change to cease charging for audio-visual loans.

A means to offset the revenue lost from audio-visual loans would be to introduce a reservations charge as discussed at section 4.4. It is understood that this could be seen as compromising customer service and convenience, although it is the writer's view (as previously stated) that the issue should be strategically addressed for other reasons. A relevant consideration would be to revisit the introduction of the reservations service to ascertain the projected transaction volumes. Was it expected that reservations would account for 12.8% of loans in 2009-2010 and still be trending upwards? Reference to the *Strategic Asset Audit* findings will show that this level has been greatly exceeded at other library services and it is only a matter of time before the implications of this trend on library infrastructure is questioned by non-library stakeholders.

This is an opportunity that will require careful consideration, including the determination of an appropriate fee if adopted. However, even if a nominal charge of \$1.00 per reservation was applied and this resulted in a 50% reduction in the number of reservations, GRLC would generate additional revenue of approximately \$160,000 per annum.

5.2 Member Contributions:

Earlier sections of this report have demonstrated that GRLC is lowly ranked relative to other Victorian library services and that achieving an improved ranking will require higher funding levels. This, in turn, will depend on the member councils' ability and willingness to increase their contributions. The projected increases for the next four years of 20%, 13% and 6% thereafter indicates strong but somewhat reserved support and to facilitate consideration of ongoing funding levels, this section views member contributions from a variety of perspectives.

- ◆ In 2008-2009 the GRLC member councils contributed \$17.40 per capita, which was equivalent to 75% of the statewide median of \$23.09 per capita. This positioned GRLC within the bottom quartile, ranking ninth of the forty-four Victorian library services.
- ◆ Since the 2006 Census the regional population has grown by approximately 3.3% from 249,000 to 257,220. In the same period, member contributions have increased from \$3.08 million to the budgeted level of \$6.19 million for 2010-2011, an increase of 101%.

- ◆ Since 2005-2006, the increase in member contributions of 101% has significantly outpaced the corresponding increase of 14.2% in the consumer price index. (Based on the Australia wide CPI from December 2005 to June 2010.)
- ◆ In per capita terms, the budgeted contributions for 2010-2011 are equivalent to \$24.05. Industry data for 2010-2011 is not known and it is likely that the budgeted level will continue to lag the industry median, but by a lesser amount. This is supported by the 2010-2011 budgeted contribution representing 3.3% of budgeted rates for the same period – still below the last known statewide comparison for 2008-2009 of 4.1% of rates.

As can be seen from the above comparisons, GRLC's member councils have significantly increased their contributions over the past five years and one would expect the 2010-2011 budgeted contribution to rank within the lower-middle quartile – an improvement over the last known ranking of ninth. Nevertheless, at 3.3% of rates, contributions continue to lag the (most recent) statewide average of 4.1%. The comparisons also clarify the reserved support apparent in the projected budget increases for the next four years and point to the likelihood that future requests for significant funding increases will be more vigorously challenged.

It further suggests that GRLC's recent approach of developing strategies relative to industry norms should be given greater emphasis. The essentially homogenous nature of public library services is well suited to such a normative based approach, but it must be recognised that norms are dynamic in that they incorporate industry improvements and adoption of emerging trends. Accordingly, there will be a need for increased spending to maintain position and even greater spending to achieve higher industry standing. Building ownership at Board level and within the executive levels of the member councils thus becomes critical, hence the suggestion to more strongly promote the normative approach to strategy development.

5.3 Funding Formula:

Under GRLC's funding formula, member contributions are based on each council incurring GRLC's direct costs to operate their local branches plus a share of regional overheads apportioned on a per capita basis. Table 4 shows the relative contributions for the 2010-2011 Budget compared to other key indicators.

Table 4: Member Council Contributions v Other Key Indicators

Council	Contribution	Population	Members	Loans	Hours Open
Golden Plains	1.9%	6.9%	1.5%	1.8%	1.6%
Greater Geelong	88.6%	82.3%	88.2%	89.8%	84.5%
Queenscliffe	3.0%	1.3%	2.8%	2.2%	3.7%
Surf Coast	6.5%	9.5%	7.5%	6.2%	10.2%

Given Greater Geelong's size relative to the other regional members, there is merit in adopting a straightforward funding formula and accepting that it will result in inherent cross subsidies. Nevertheless, one must recognise a trend away from the regional model over the past decade – with the primary catalyst for this trend being concern over inequitable funding arrangements and the subsequent inability or unwillingness of regional libraries to modify their funding formulae accordingly.

In services with a dominant regional member, such as Greater Geelong in this instance, a general finding is that the dominant member has been willing to bear a disproportionate share of regional costs in recognition of their regional responsibility and the economic benefit derived from their regional neighbours. It is, however, more difficult to place a value on regional responsibility and the trend away from regional libraries suggests that dominant councils are becoming less inclined to financially support their smaller member councils. From a risk management perspective, it is suggested that GRLC should monitor the equity of the funding arrangements on an ongoing basis, thus ensuring its ability to act proactively on this matter if necessary.

Comparison of the data in Table 4 with the equivalent data for 2003-2004 will reveal that Greater Geelong's dominance remains strong. For example, whilst its share of regional population declined slightly from 83% to 82.3%, membership fell marginally from 88.3% to 88.2% and loans rose from 89.3% to 89.8% of the regional totals. However, it should be remembered that loans reflect branch-based data, which would include usage of the Geelong branches by residents from the other member councils. Finally, Geelong's contribution has increased from 88% to 88.6%, with small offsetting falls for the other member councils.

Although the changes are subtle, such is the nature of how dissatisfaction with regional funding arrangements develop. An example is the effect of progressive population change not being accommodated within the funding arrangements of the (then) Yarra-Melbourne Regional Library Corporation – a factor that contributed to that Corporation's dissolution. By monitoring the risk of dissatisfaction with the funding arrangements and acting proactively to raise and discuss the matter at Board level if required, GRLC can minimise this risk to the Corporation's longevity.

5.4 Recurrent and Capital Expenditure:

Given GRLC's historically lean funding levels, there would appear to be little scope to identify cost improvement opportunities. However, the following observations may inform future strategic planning.

1. As shown at Attachment 3, the dominant recurrent expense is employee costs, which is budgeted to be \$4.76 million for 2010-2011 or 62.9% of recurrent expenditure. Furthermore, it is noted that the proportion is trending steadily upwards from 56.1% in 2008-2009 to a projected 65.6% in 2013-2014.

Leaving aside the previous finding that GRLC's staffing levels are low by industry standards, is it appropriate that employee costs should be such a dominant expense? Does it suggest that the current decentralised branch model may not be sustainable, particularly if opening hours are expanded further? Does it suggest that the contemporary library model with an emphasis on diverse services and more customer-facing roles may place further pressure on bookvote by forcing library managers and funding bodies to prioritise? Alternatively, will the traditional and contemporary elements both be compromised? How would ratepayers react to the knowledge that library services are approaching the point where two-thirds of costs are staff related?

The questions relate to the industry in general, as well as GRLC and may not present as important at this time – if at all. Nevertheless, it may be prudent to consider the questions in the event that they are asked.

2. At 16.5% of budgeted recurrent expenditure in 2010-2011, depreciation is the second highest expenditure category. Whilst the budgeted amount of \$1.248 million would be predominantly depreciation of the library collection, the amount is clearly insufficient given that the July 2010 *Collection Revitalisation* report found that recurrent expenditure of \$1.44 million is required to maintain the collection at the targeted level of two items per capita with an eight-year replacement cycle. A related issue is that depreciation is based on historical costs, whereas replacement assets must be purchased at current costs. Accordingly, consideration should be given to budgeting for depreciation on the basis of replacement cost.
3. Further to the above comment on depreciation, it is noted that the capital budget for lending materials makes adequate provision over the four years commencing 2010-2011. Nevertheless, the progressive increase will be eroded by inflation and the budgeted bookvote for the next two years remains below the recommended level of \$1.44 million. Whilst the budgeted amounts will maintain GRLC's momentum towards revitalising its collection, it nevertheless represents a gradual approach to building the collection to the target level of two items per capita. It is, therefore, critical to the revitalisation process that a firm commitment is made to basing the annual bookvote on a replacement rate of 0.25 items per capita.

Finally, it is acknowledged that library services have an ongoing obligation to minimise costs, which, given GRLC's historically low funding levels has been a characteristic of its operational approach. However, when viewed more fundamentally, cost minimisation exercises within public libraries are limited to the options of reducing the quality of the library collection; reducing staffing levels; reducing programs and services; reducing hours open; and in the longer-term, reducing the number of branches. Such choices are not easy and in order to guard against emotional and short-term decision-making, it is suggested that GRLC prepare a contingency plan to ascertain where and how costs would be reduced in the event that it becomes necessary.

5.5 Auditor General Ratios:

The only area of concern would appear to be that the budgeted liquidity ratios for 2010-2011 to 2013-2014 will fall below 1.0 and will, therefore, be deemed as high risk by the Auditor General. It is understood that the risk is somewhat illusory due to the classification of long service leave provision as a current liability, yet will require additional contributions to build cash reserves to the level necessary to avoid a high risk rating.

Considering that library services do not operate in financially volatile conditions, there would seem to be a good argument for the industry to request a reassessment of the Auditor General's rating on this ratio. In the immediate term, it would be appropriate to complement the official ratio by also measuring liquidity with only the current year exposure to long service leave included as a current liability. Reference to the complementary measure would thus provide GRLC with a more practical measure of its liquidity.

6.0 CONCLUSION:

In commenting on GRLC's financial position, the approach has been to replicate, where possible, that taken to a similar review conducted in January 2005. In the event that the findings are compared, readers are advised to consider the findings in their entirety rather than be selective.

Although the Industry Ranking Profile has deteriorated since the earlier exercise, there are indications that it may reflect the need to go backwards in order to move forward. Since 2005 GRLC has developed and worked towards the implementation of its *Library Plan 2008 to 2013*, which has provided a clear direction and, most importantly, gained increased financial contributions for the member councils.

A key strategic initiative has been to revitalise the library collection and improvements in this area are evident, including the recent decision to move to a supplier-aided selection and shelf-ready model for collection improvement. Other initiatives have included the closure of the non-viable Newtown Library; rationalisation of the Mobile Library schedule; refurbishment of several branches; increased opening hours at several branches; the elimination of charges for some audio-visual loans; and improved access to on-line and electronic services.

Nevertheless, the findings demonstrate that there remains significant scope for improvement and that GRLC continues to lag the industry in terms of per capita funding. It is hoped that this report will assist GRLC and its member councils to maintain the current change momentum over the coming five years and beyond.

John Liddle

Director

J.L. Management Services Pty. Ltd.

November 2010

ATTACHMENTS

**Geelong Regional Library Corporation
Key Operational Statistics: 2009-2010**

Attachment 1

Library Branch	Hours open per annum	Annual visits	Stock	Members	Loans	Visits per hour open	Loans per hour open	Items per member	Stock turnover
Barwon Heads	650	6,288	6,060	555	15,924	9.7	24.5	10.9	2.6
Belmont (a)	3,700	247,695	52,348	14,198	461,094	66.9	124.6	3.7	8.8
Chilwell	1,525	37,780	12,610	1,483	62,879	24.8	41.2	8.5	5.0
Corio	2,500	163,343	37,046	10,262	258,635	65.3	103.5	3.6	7.0
Drysdale	2,125	152,327	18,091	5,510	159,466	71.7	75.0	3.3	8.8
Geelong	2,775	211,799	64,923	19,503	384,251	76.3	138.5	3.3	5.9
Geelong West	2,450	150,812	31,002	8,570	297,742	61.6	121.5	3.6	9.6
Grovedale (b)	750	45,475	10,076	1,135	95,876	60.6	127.8	8.9	9.5
Highton (b)	1,500	91,134	11,476	2,775	156,520	60.8	104.3	4.1	13.6
Newcomb	2,125	95,623	23,255	7,138	181,731	45.0	85.5	3.3	7.8
Ocean Grove	1,975	101,078	28,471	7,756	200,788	51.2	101.7	3.7	7.1
Queenscliff	1,075	26,829	15,154	2,560	57,948	25.0	53.9	5.9	3.8
Torquay	1,900	60,480	16,483	4,873	121,299	31.8	63.8	3.4	7.4
Mobile libraries	2,650	44,771	23,632	5,336	139,040	16.9	52.5	4.4	5.9
Other		1,412		445	3,159				
Total (c)	27,700	1,436,846	350,627	92,099	2,596,352	51.9	93.7	3.8	7.4

(a) Actual visits and loans were 82,565 and 153,698 respectively due to branch closure for refurbishment. Full year estimates based on GRLC estimate.

(b) Visits and loans are inflated due to increased short-term use by Belmont Library patrons during that library's refurbishment.

(c) Full year visits & loans differ to actual reported data due to the adjustment at (a) above to express Belmont data in annualised terms.

(Shaded data denotes non-viability.)

Geelong Regional Library Corporation
Reservations: 2008-09 & 2009-10

Attachment 2

Library Branch	2008-2009			2009-2010			Percent growth in reservations
	Reservations	Total Loans	Reservations as % of total	Reservations	Total Loans	Reservations as % of total	
Barwon Heads	784	12,768	6.1%	1,078	15,924	6.8%	38%
Belmont (a)	27,688	439,481	6.3%	29,050	461,094	6.3%	5%
Chilwell	3,514	42,574	8.3%	3,376	62,879	5.4%	-4%
Corio	10,565	200,284	5.3%	9,738	258,635	3.8%	-8%
Drysdale	13,796	138,319	10.0%	14,494	159,466	9.1%	5%
Geelong	22,060	337,604	6.5%	23,603	384,251	6.1%	7%
Geelong West	8,555	184,821	4.6%	14,091	297,742	4.7%	65%
Grovedale (b)	1,554	28,181	5.5%	5,666	95,876	5.9%	265%
Highton (b)	5,208	68,482	7.6%	9,692	156,520	6.2%	86%
Newcomb	9,344	144,820	6.5%	11,381	181,731	6.3%	22%
Ocean Grove	9,459	164,437	5.8%	9,994	200,788	5.0%	6%
Queenscliff	4,244	51,528	8.2%	4,579	57,948	7.9%	8%
Torquay	6,980	103,372	6.8%	7,405	121,299	6.1%	6%
Mobile libraries	8,133	130,716	6.2%	8,221	139,040	5.9%	1%
Branch total	131,884	2,047,387	6.4%	152,368	2,593,193	5.9%	16%
Online catalogue	137,950			180,810			31%
Total	269,834	2,047,387	13.2%	333,178	2,593,193	12.8%	23%

(a) Actual reservations and loans for 2009-10 were 9,547 and 153,698 respectively due to branch closure for refurbishment.

Full year loans based on GRLC estimates and reservations prorated from prior year.

(b) Reservations & loans are inflated due to increased short-term use during Belmont Library's refurbishment.

(c) Total 2009-10 reservations & loans differ to actual reported data due to the adjustment at (a) above to express Belmont data in annualised terms

Geelong Regional Library Corporation

Attachment 3

Standard Income Statement: 2010-2011 Budget

	Actual 2008/2009	Actual 2009/2010	Budget 2010/2011 (a)	Plan 2011/2012	Plan 2012/2013	Plan 2013/2014	2010/11 O/(U) 2009/10
RECURRENT INCOME							
Member Contributions	\$ 4,476,722.0	\$ 5,158,070.0	\$ 6,187,218.0	\$ 6,991,556.3	\$ 7,411,049.7	\$ 7,855,712.7	\$ 1,029,148.0
Government Grants	\$ 187,664.0	\$ 88,437.0	\$ 78,321.0	\$ 80,670.6	\$ 83,090.7	\$ 85,583.5	\$ (10,116.0)
User Charges	\$ 152,341.0	\$ 67,882.0	\$ 85,354.0	\$ 87,914.6	\$ 90,552.1	\$ 93,268.6	\$ 17,472.0
Other Fees and Charges	\$ 135,900.0	\$ 157,399.0	\$ 136,491.0	\$ 140,585.7	\$ 144,803.3	\$ 149,147.4	\$ (20,908.0)
Interest on Investments	\$ 93,101.0	\$ 95,876.0	\$ 80,000.0	\$ 80,000.0	\$ 80,000.0	\$ 80,000.0	\$ (15,876.0)
Sundry Income		\$ -	\$ 40,000.0	\$ -	\$ -	\$ -	\$ 40,000.0
Grants Member Municipalities	\$ 1,380,868.0	\$ 1,517,235.0	\$ 1,575,049.0	\$ 1,622,300.5	\$ 1,670,969.5	\$ 1,721,098.6	\$ 57,814.0
Total Recurrent Income	\$ 6,426,596.0	\$ 7,084,899.0	\$ 8,182,433.0	\$ 9,003,027.8	\$ 9,480,465.3	\$ 9,984,810.8	\$ 1,097,534.0
RECURRENT EXPENDITURE							
Employee Related							
Salaries	\$ 3,116,160.0	\$ 3,705,595.0	\$ 4,364,591.0	\$ 4,582,820.6	\$ 4,896,539.6	\$ 5,477,588.6	\$ (658,996.0)
Workcover / Superannuation	\$ 279,944.0	\$ 330,397.0	\$ 400,178.0	\$ 420,186.9	\$ 447,371.2	\$ 503,822.8	\$ (69,781.0)
	\$ 3,396,104.0	\$ 4,035,992.0	\$ 4,764,769.0	\$ 5,003,007.5	\$ 5,343,910.8	\$ 5,981,411.4	\$ (728,777.0)
Goods and Services							
General Works - Materials	\$ 101,528.0	\$ 83,310.0	\$ 66,842.0	\$ 68,847.3	\$ 70,912.7	\$ 73,040.1	\$ 16,468.0
General Works - Plant, Vehicle Costs	\$ 71,270.0	\$ 75,027.0	\$ 77,304.0	\$ 79,623.1	\$ 82,011.8	\$ 84,472.2	\$ (2,277.0)
General Works - External Services	\$ 410,257.0	\$ 560,732.0	\$ 598,616.0	\$ 616,574.5	\$ 635,071.7	\$ 654,123.9	\$ (37,884.0)
Administration	\$ 151,294.0	\$ 260,604.0	\$ 225,147.0	\$ 231,901.4	\$ 238,858.5	\$ 246,024.2	\$ 35,457.0
Professional Services	\$ 297,191.0	\$ 273,643.0	\$ 249,930.0	\$ 257,427.9	\$ 265,150.7	\$ 273,105.3	\$ 23,713.0
Utilities	\$ 248,553.0	\$ 316,165.0	\$ 342,748.0	\$ 353,030.4	\$ 363,621.4	\$ 374,530.0	\$ (26,583.0)
Depreciation	\$ 1,357,376.0	\$ 1,187,749.0	\$ 1,247,749.0	\$ 1,307,749.0	\$ 1,367,749.0	\$ 1,427,749.0	\$ (60,000.0)
(Gain)/Loss on Sale of Plant & Equipment	\$ 19,381.0	\$ 100,807.0					
Total Recurrent Expenditure	\$ 6,052,954.0	\$ 6,894,029.0	\$ 7,573,105.0	\$ 7,918,161.1	\$ 8,367,286.6	\$ 9,114,455.9	\$ (679,076.0)
NET SURPLUS / (DEFICIT)	\$ 373,642.0	\$ 190,870.0	\$ 609,328.0	\$ 1,084,866.7	\$ 1,113,178.7	\$ 870,354.9	\$ 418,458.0
(a) Incorporates revised member contributions finalised in August 2010, with flow-on effect for forward year contributions.							