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# *London Public Library*

Revenue base and fee structure

September 19, 2013

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## ***Rating Scale – Opportunities for Improvement***

- **Satisfactory**

Controls are present to mitigate process/business risk, however an opportunity exists for improvement.

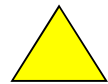
Satisfactory



- **Needs Improvement**

Existing controls may not mitigate process/business risk and management should consider implementing a stronger control structure.

Needs  
Improvement



- **Unsatisfactory**

Control weaknesses are significant and the overall exposure to risk is unacceptable. Immediate attention and oversight from management is required.

Unsatisfactory



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# ***London Public Library – Revenue base and fee structures***

# ***Summary of Risks & Scope***

## ***London Public Library – Revenue base and fee structures***

### **Scope**

- A review of the London Public Library’s (“LPL”) revenue sources and fee structures, with the objective of:
  - Understanding and evaluating controls over LPL’s revenue and collections processes, including controls addressing the risk of revenue slippage;
  - Exploring opportunities to increase LPL’s existing revenue streams;
  - Identifying new potential revenue streams for LPL; and
  - Evaluating LPL’s establishment of short- and long-term targets for revenue growth.
- The Wolf Performance Hall has been excluded from analysis as this space is currently being reviewed by a third-party consultant.

### **Potential Risks**

- Risk that revenue to which LPL is entitled is not collected/recorded (i.e. revenue slippage)
- Risk of failure to monitor and collect outstanding fines/fees
- Risk of failure to monitor and maximize utilization of rental space and collect outstanding rental revenues
- Pricing of services and charges may be too low relative to comparable sources
- Opportunities to generate new sources of revenue may be over-looked
- Revenue strategies may not be aligned with organizational strategies

### **Processes Operating Effectively**

- Management at LPL stay current with alternate revenue streams being pursued by other public libraries in Ontario
- Management at LPL compare against benchmark organizations when setting monetary charges
- LPL actively seeks sponsorship in its capital building projects and library programs

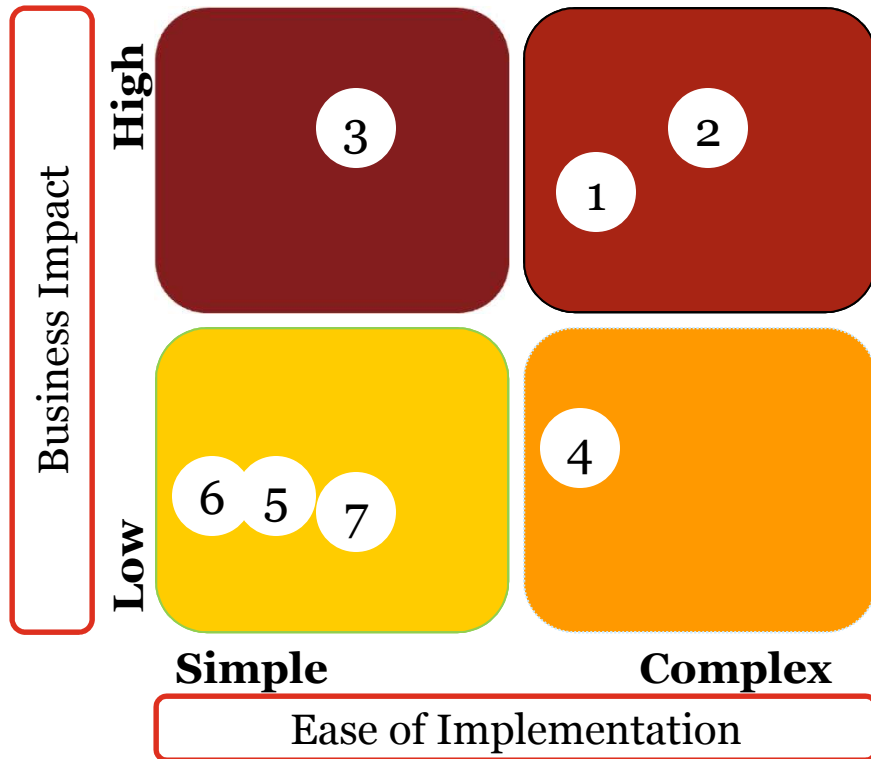
### **Value-for-Money Considerations**

- Leasing new space could potentially generate additional annual revenues of \$45k - \$185k
- Adjustment of existing rental rates could potentially generate additional annual revenues of \$15k - \$100k
- Increased utilization of rentable meeting space could potentially generate additional annual revenues of \$10k - \$30k
- Increased use of the collection agency for outstanding fines and billed items could potentially generate additional net recoveries of up to \$20k (and annual net recoveries of a smaller amount)
- Increased exam proctoring rates to between breakeven cost and the average of similar services offered by others could potentially generate additional annual revenues of \$1k - \$6k

Note that incremental (one-time or recurring) costs or additional staff time associated with generating additional revenues have not been calculated. Further analysis is required to determine the profit potential of activities noted above.

# Action Plan Summary

## London Public Library – Revenue base and fee structures



- High Business Impact, Easy to Implement
- High Business Impact, Difficult to Implement
- Low Business Impact, Easy to Implement
- Low Business Impact, Difficult to Implement

Observations	Timing	Rating
#1: Review of leased space: Internal review of capacity for leased space	December 31, 2014	Satisfactory
#2: Review of leased space: External review for potential suitable tenants	December 31, 2014	Satisfactory
#3: Review and adjustment of leased space rental rates	Commencing 2013, as leases come due 2013-2015	Needs Improvement
#4: Increased monitoring and utilization of rentable meeting room space	December 31, 2013	Needs Improvement
#5: Review of rates charged for proctoring services	October 31, 2013	Needs Improvement
#6: see Confidential Appendix to the Report		
#7: Lowered threshold for use of collection agency	January 31, 2014	Satisfactory

### Action Plan Lead

CEO and Chief Librarian, London Public Library

# Observations & Action Plans -#1

Satisfactory



## London Public Library – Revenue base and fee structures

### Observation

#### Review of leased space: Internal review of capacity for leased space

LPL is currently leasing space at 4 of its libraries in London: Central, East London, Crouch, and Sherwood. Through space reconfiguration within LPL's buildings, there is potential to create additional leased space at its Central and Westmount libraries. Management has not yet formally determined how much additional space could be created or where it would be located within the libraries.

### Business Impact

There is a potential risk that LPL is not realizing the full capabilities of its owned space and is missing out on revenues that could be derived from creating and renting additional leased space.

### Action Plan

It is recommended that LPL Management request the City of London's Facilities Division to perform a space assessment of its Central and Westmount libraries to determine:

- 1) whether additional leasable space could be created;
- 2) if so, how much could be created;
- 3) schematically, where it could be located within the libraries; and
- 4) one-time and recurring costs of leasing new space.

Management estimates that the potential additional leasable space within its Westmount and Central libraries is 624 sq ft and 4,000 – 12,000 sq ft, respectively. This space could generate between \$45k - \$185k in additional annual revenue based on the low to average range of lease rates in those parts of the city.

### Action Plan Lead

CEO and Chief Librarian, London Public Library

### Timing

December 31, 2014

## ***Observations & Action Plans -#2***

**Satisfactory**



### ***London Public Library – Revenue base and fee structures***

#### **Observation**

##### **Review of leased space: External review for potential suitable tenants**

LPL is aiming to lease additional space to tenants in the near future and has begun preliminary discussions with potential suitable tenants to ascertain their interest, space needs, and timing requirements for relocation.

Strategic Direction 2.6 of the City of London’s Cultural Prosperity Plan encourages LPL to exercise its cultural leadership through leveraging its space and assets as a cultural hub.

#### **Business Impact**

There is a potential risk that, without proper strategic planning for its leased space, LPL will not attract suitable tenants. This could result in lost opportunities for revenue and/or weaken the cultural presence of the libraries.

#### **Action Plan**

It is recommended that, in evaluating the suitability of potential tenants, LPL should explore opportunities to generate additional revenues and develop strategic alliances which will meet the growing demand for cultural programming in the City of London. LPL should also explore opportunities to lease space to City of London civic administration where it aligns with operational and strategic plans and has potential to generate cost savings for the City.

#### **Action Plan Lead**

CEO and Chief Librarian, London Public Library

#### **Timing**

December 31, 2014

# Observations & Action Plans -#3

Needs Improvement 

## London Public Library – Revenue base and fee structures

### Observation

#### Review and adjustment of leased space rental rates

Leased space rental rates charged to tenants vary from tenant to tenant and have been set without specific considerations regarding fair market value or the costs required to maintain the space. No formal policy or procedures exist to guide the rental-rate setting process.

### Business Impact

There are several potential risks that exist:

- 1) Rental rates may not cover the costs required to maintain the space, effectively resulting in subsidization of leased space for the tenant(s) and lost revenue opportunities.
- 2) Rental rates may be below fair market value resulting in lost revenue opportunities.
- 3) LPL may be locking itself into multi-year lease agreements which are favourable to the tenant but are to the detriment of LPL.

### Action Plan

It is recommended that LPL formalize a process for setting leased space rental rates which takes into consideration the type of tenant, fair market value, and costs of maintaining the space. At a minimum, it is recommended that LPL charge tenants a rate which covers the costs of maintaining the leased space in order to prevent effective subsidization of rent. In formalizing this process, LPL needs to determine the definition of ‘costs to maintain leased space’ and whether a graduated pricing system should be developed which specifies different rates for different types of tenants. As an initial starting point, it is recommended that LPL review all current lease agreements to assess whether future adjustment of rental rates is warranted.

An initial analysis of fair market values and approximate costs to maintain leased space for four of LPL’s locations in London has been performed and it is estimated that adjustment to leased space rental rates could generate additional annual revenues of \$15k - \$100k.

### Action Plan Lead

CEO and Chief Librarian, London Public Library

### Timing

Commencing 2013, as leases come due 2013 - 2015



# Observations & Action Plans -#4

Needs Improvement 

## London Public Library – Revenue base and fee structures

### Observation

#### Increased monitoring and utilization of rentable meeting room space

LPL does not formally track and monitor utilization of rentable meeting room space at each of its branch locations with the objective of seeking opportunities for increased utilization.

### Business Impact

There is a potential risk of under-utilization of rentable space, resulting in lost opportunities for revenue.

### Action Plan

It is recommended that LPL monitor the utilization of its rentable space on an ongoing basis to determine whether there are opportunities for increased rental utilization. LPL should determine a marketing strategy to promote rentable meeting space for those locations which have the capacity to accommodate increased utilization. Furthermore, it is recommended that LPL perform a review of its meeting room space to assess whether upgrades in levels of service or amenities are required prior to promoting rental of the space.

It is estimated that total meeting room rental revenues could increase between \$10k and \$30k if rental utilization increased 10% - 30%.

### Action Plan Lead

CEO and Chief Librarian, London Public Library

### Timing

December 31, 2013

# Observations & Action Plans -#5

Needs Improvement 

## London Public Library – Revenue base and fee structures

### Observation

#### Review of rates charged for proctoring services

LPL Management are unsure whether proctoring service revenues are providing incremental benefit to LPL or whether staff time could be better spent on other revenue-generating activities. The rates that LPL charges are generally lower than organizations offering the same or similar service in London.

### Business Impact

Several potential risks exist:

- 1) LPL's proctoring service rates may not be comparable with other organizations, leading to lost opportunities for revenue.
- 2) Costs of administering the service may exceed the revenues generated.
- 3) Staff time may be more effectively utilized for other revenue-generating activities.

### Action Plan

It is recommended that LPL perform a formal cost-benefit analysis over its exam proctoring revenues to ascertain whether this is a revenue stream that should be continued and/or whether adjustment to rates charged should be considered.

An initial margin and break-even analysis has been performed and it is noted that LPL is currently not generating sufficient revenues to cover the cost of the service offered. In comparing the calculated breakeven rate against competitor rates it has been identified that there may be room for LPL to increase the rate charged for its services. Assuming demand does not decrease from the increase in rates, this could generate additional revenues of approximately \$1k - \$6k annually for LPL.

### Action Plan Lead

CEO and Chief Librarian, London Public Library

### Timing

October 31, 2013

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***Observations & Action Plans -#6***  
***London Public Library – Revenue base and fee structures***

***See Confidential Appendix to the Report***

# Observations & Action Plans -#7

Satisfactory



## London Public Library – Revenue base and fee structures

### Observation

#### Lowered threshold for use of collection agency

LPL uses a collection agency to recover materials, late fees, and fines from patrons when outstanding accounts exceeding \$40 (for overdue materials and delinquent room rentals) or \$50 (for fines) are 56-60 days overdue. In those instances where the collection agency is successful in recovering the materials/late fees/fines, the collection agency's fee is passed on to the patron. Historically, use of the collection agency has generated ROIs of approximately 4:1 – 5:1 for LPL.

### Business Impact

There is a potential risk that the thresholds set by LPL for use of the collection agency are too high, resulting in lost opportunities for collection of revenue and materials.

### Action Plan

It is recommended that LPL consider lowering the thresholds on overdue accounts when soliciting use of the collection agency. The net recovery rate on these accounts should be monitored and compared against the net recovery rate experienced in prior years in order to assess whether using the collection agency at these levels results in net savings to the organization. Additionally, LPL should consider evaluating whether a further reduction in its thresholds would be advantageous since the cost of submission for accounts decreases from \$12.80/submission to \$4.95/submission for accounts under \$30. Based on an initial analysis, it is estimated that LPL may be able to collect up to \$20k in one-time net recoveries if the thresholds for collection agency use are lowered to \$25 for overdue materials/delinquent room rentals and \$25 for fines. It is also expected this will result in improved recoveries on an ongoing basis at a lower net recovery level.

### Action Plan Lead

CEO and Chief Librarian, London Public Library

### Timing

January 31, 2014