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FINANCIAL MANAGEMENT

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BLOCK 3 FINANCIAL MANAGEMENT

Introduction

This Block deals with financial management of libraries in general and budgeting in particular. You have already studied in Unit 1 of this course, that ‘budgeting’ is one of the managerial functions. Financial management or fiscal management is the study of the principles and practices involved in financial operations of an institution, industry or state. This Unit deals with the problems and procedures of acquiring, distributing and effectively utilising funds, balancing of revenues and expenditure and accounting of the entire transactions for better control and evaluation. This Block consists of three units (10, 11 and 12). The Unit 10 provides background and general picture of financial management as a whole, Units 11 and 12, respectively deal with general budgeting techniques and the process of budget preparation in libraries.

Unit 10 dealing with financial or fiscal management in libraries and information centres explains problems associated with financial management of service and not-for-profit (NFP) organisations and discusses how libraries as service institutions seldom earn revenue, but still required to be regularly funded almost entirely by their respective parent organisations or government. Grants from endowments, fees, subscriptions, sale of service, etc. are meager supplementary sources for libraries. Various heads of library expenditure to be operated within the framework of set rules, procedures and guiding principles are also explained. The Unit points out the need for costing and cost benefit analysis, economic theory of library and other financial management techniques and tools in librarianship.

Unit 11 discusses features and attributes of library budget. Budget is a financial statement which provides details of the proposed revenues and their utilisation for expenditure for a specific period, usually a year. Budget is both a plan document and a control mechanism. As a road map to guide actions, a tracking device to measure progress, budget aids orderly and progressive planning, coordination and implementation. It is also an instrument of financial control and a device for evaluating results. Though budget helps limiting expenditure to income and spend money wisely, it can also cause some problems like over-emphasis on easily observable factors, tempt one to become routine and quantify services that are not quantifiable and hence required to be used intelligently. It is an instrument of control, communication, coordination, evaluation and motivation and helps evaluating performance on the basis of the utilisation of fund.

A library, being a service institution, offering its services without any price, does not support itself financially. Funds have to be provided to a library by its parent organisation or by the government. From the appropriations of funds made, library organises and regulates its expenditures for its functions and services according to certain norms and procedures. The budgeting technique used for the purpose is usually line item budgeting. The other techniques of importance are Programme Budgeting, Performance Budgeting, Planning Programming Budgeting Systems and Zero Based Budgeting.

Budgets are usually prepared in conformity with standard norms, particularly with reference to the distribution of funds towards different competing items of expenditure. Three methods are generally considered for estimation of budget, namely, per capita method, proportional method, and method of details. Per capita method suggests a minimum sum of money per user such as students, faculty

and research scholars in the case of university and college libraries. Proportional method prescribes a percentage on the total budget of the parent organisation whereas method of details takes items of expenditure of library as the working data for allocation of funds.

Unit 12 explains how to prepare budget by presenting typical contents of a budget document, principles of budget making, ways of providing justification for expenditure, need for getting approval for the budget and handling budget excesses and budget formalities. Issues relating to allocation of funds, encumbering of funds and fund accounting to ensure proper use of funds and control of budget are also discussed in this Unit.

It is necessary that the library professionals have clear understanding of budgetary terms. Preparing budget begins with considering what the library hopes to accomplish, particularly keeping long-range plan in mind, new factors like developments in ICT, overall current economic condition of the parent organisation and in the country, service needs of users, etc. Estimates are prepared on the basis of past experience, present demands and future expectations of requirements. In other words, budget has to take into account (i) the actual expenditure of previous financial year, (ii) spillovers, if any, (iii) amount already spent up to the date of preparation of the budget during current financial year, (iv) foreign exchange (FE) requirements (if any), (v) advance commitments to be made for the next financial year, (vi) capital items, (vii) impact of inflation on cost of books, periodicals, binding, and other supplies, (viii) increase in enrolment/members, etc. Budget items have to be shown in four types, viz, actual expenditure for the last year, estimated expenditure for the current year, revised financial estimates for the current year, and estimated expenditure for the next year. Thus, the budget provides a linkage between three successive years. Every item of expenditure with reference to its past allocation and enhanced current requirements has to be noted and justified.

Complexity of budget and budgetary control system may vary depending on the nature of parent organisation. Budgetary control is the process of comparing what was planned with what has been accomplished during the period. Budget and budgetary control system have many merits like use of Rupee as a common denominator, dealing directly with efficiency of the organisation, stimulating good management practices, detecting deviations from planned expenditure, suggesting corrective actions, facilitating centralised control and availing collective wisdom of people involved.

The cardinal principle of fund accounting is that every financial transaction is charged to some account and a record consists of what the transaction involved. Fund accounting system allows for verification of all the transactions and provide accurate report so that there is neither under-spending nor over-spending. Above all keeping accurate records of money spent and knowing the balance remaining as well as carrying out expenditure audit are essential. It is a good practice to periodically reconcile the library accounts with that of finance/accounts department of the parent organisation.

Library is a spending institution and a growing organism. Naturally library expenditure is recurring and permanent in nature. As such seeking maximum aggregate benefit, advance planning, equitable allocation and economy are the principles of library expenditure. Financial audit, particularly post-audit, enables meticulous but sample scrutiny of financial transactions to have proper control over irregular, inappropriate and wasteful expenditures.

UNIT 10 SOURCES OF FINANCE AND RESOURCE MOBILISATION

Structure

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- 10.1 Introduction
- 10.2 Financial Management
 - 10.2.1 Principles of Financial Management
 - 10.2.2 Financial Management in Service-oriented and Not-for-profit Organisations
- 10.3 Sources of Funding / Finance
 - 10.3.1 Academic Libraries
 - 10.3.2 Public Libraries
 - 10.3.3 Special Libraries
- 10.4 Implications of ICT Developments: E-Procurement and E-Documents
- 10.5 Library Expenditure Planning
 - 10.5.1 Importance of Library Expenditure
 - 10.5.2 Nature of Library Expenditure
 - 10.5.3 Principles of Library Expenditure
 - 10.5.4 Classification of Library Expenditure
- 10.6 Summary
- 10.7 Answers to Self Check Exercises
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10.0 OBJECTIVES

After reading this Unit, you will be able to:

- explain the need and purpose of financial management and its application in libraries and information centres;
- identify the characteristic features of service-oriented and not-for-profit organisations, and the circumstances under which financial management system has to operate in libraries;
- describe the sources of finance for different types of libraries and ways of mobilising finance for libraries; and
- discuss the major categories of expenditure, principles and classification of library expenditure.

10.1 INTRODUCTION

Since money is most important input resource for any enterprise, proper management of funds is necessary to achieve the goals of the organisation. Libraries and information centers are no exceptions. They also need substantial financial resources almost on a continuous basis. No study of an important public activity like library services can be complete and fruitful unless it also covers

financial aspects. A basic knowledge of library finance, library expenditure, budgeting and accounting is, therefore, very important for any librarian or a student of library science. Hence, there is no need to over emphasise the need for financial management skills among library and information professionals. On the other hand, it is considered that the economic management of libraries and information centers is the most neglected area in library management. There is a general lack of 'financial literacy' among librarians. This is despite the fact that in recent years, tremendous economic and financial pressures are mounting on libraries. The way finance is managed in libraries is more akin to that of other not-for-profit service organisations, that too those in welfare economy than profit making enterprises.

Libraries are not revenue earning institutions. Most of them are service components of academic and other institutional bodies. Hence, they have a special obligation to manage their finances with great care and judiciousness. Public library service is generally free because it is supported by public funds, either through special grants from the government and/ or through a library cess. The importance of the provision of a continuous flow of adequate finance to libraries cannot be exaggerated. A few principles are required to be understood, as finance is also an instrument of control and evaluation.

10.2 FINANCIAL MANAGEMENT

Financial management is not just managing cash or providing funds. It is the study of the principles and practices involved in financial operations of an institutions, industry or state. 'Finance function' is the task of providing funds needed for the enterprise i.e., procurement of funds and their effective utilisation. It deals with the problems and procedures of acquiring, distributing and effectively utilising funds, balancing of revenues and expenditure and accounting of the entire transactions for better control and evaluation. In other words, important phases or components of financial management are:

- Financial planning
- Forecasting of receipts and disbursements
- Realisation of funds and revenues
- Allocation of funds
- Utilisation of funds
- Financial accounting
- Financial control
- Financial auditing

The task of finding money, investing funds, managing property and getting the sanction for the budget and all other related matters of finance are the responsibility of the central executive authority of the public library system or the parent organisation to which a particular type of library belongs. However, the library has a major share of responsibility in estimating its own financial requirements, preparing a budget for its functions, activities and programmes, managing the funds appropriated and spending within the specified period, maintaining accounts, and finally preparing a report.

Note: i) Write your answer in the space given below.

ii) Check your answer with the answers given at the end of this Unit.

1) What do you understand by financial management and what are its components?

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10.2.1 Principles of Financial Management

For effective financial management, knowledge/ understanding of some basic guiding principles of financial management is necessary and useful. The principles of financial management are:

- i) Effective control
 - ii) Simplicity
 - iii) Regularity and farsightedness
 - iv) Economy
 - v) Flexibility
- i) **Effective Control:** Financial management can work efficiently only when controlled properly. The method of financial control should be simple and easy. Control is also necessary for the economical use and channelisation of resources so that there is little wastage and the limited financial resources could be put to maximum use.
- ii) **Simplicity:** Procedures for financial management should be simple and easy to operate. Simplicity results in efficiency and economy.
- iii) **Regularity and Farsightedness:** Financial management programmes should have a typical timetable so as to acquaint everybody with what s/he is expected to do at a particular point of time. For example, in the preparation of the budget for a library, inputs should come from the heads of sections who would in turn expect cooperation from their staff. The preparation of budget would be time-bound and submitted to the authorities on time so that the budgetary sanctions could be obtained in time to operate it. Similarly, since payment towards subscriptions to current journals should be sent to the publishers during a particular time of the year, the required fund should be readily available by that time. Sticking to a timetable facilitates advance thinking and preparation. Not only present needs but also future requirements should also be kept in view when making provisions for finance.
- iv) **Economy:** Economy should be affected in any activity, more so in financial matters. All precautions should be taken to avoid unnecessary expenditure and wasteful use of scarce finances.

- v) **Flexibility:** Financial management should keep in mind the virtues of flexibility/ elasticity so as to adjust itself according to circumstances. Only then it can be successful in times of emergency and crisis. But this does not mean that one should take undue advantage of its flexible nature. There are provisions and practices in utilising or diverting funds appropriated for a certain item of expenditure to the purchase of other items like books or equipment. But this flexibility should be within the framework of financial rules and procedures. This type of adjustment usually is done at the fag end of the financial year when centralised funds are available in other items (or heads).

While above principles are useful in operating and managing finances in libraries, there are statutory financial rules and procedures laid down by the executive authorities and therefore libraries have no option but to follow such financial rules as well.

There are other related fields and issues of financial management, library and information professionals need to be kept in mind. They are cost accounting and economics (particularly welfare economics), various tools and techniques of financial management, economics and cost accounting like funds flow analysis, ratio analysis, break even analysis, operating and financial leverages, financial forecasting, capital budgeting, economic theory, theory of production, costing, etc. as they have adequate scope for application in library and information centre management.

In practice, as said before, economic management of library services is the weakest area of library management. Little is done to prepare a model and bring about economic management of library services within a system of financial management. Libraries are generally not independent entities and hence financial management and accounting systems of libraries are usually part of larger (parent) organisation. Financial responsibilities usually rest with head of library (librarian) and/ or accounts division of the organisation.

Self Check Exercise

- Note:** i) Write your answer in the space given below.
ii) Check you answer with the answers given at the end of this Unit.
- 2) State the principles that govern financial management.

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10.2.2 Financial Management in Service-oriented and Not-for-Profit Organisations

Libraries and Information centres are paternalistic, service-oriented and not-for-profit (NFP) organisations. Financial management in such organisations is more complex and challenging than in profit-oriented organisations. Money management in service-oriented and NFP organisation involves systematic planning, getting funds, judicious spending of funds and meticulous accounting.

There are certain difficulties in financial management of service-oriented and NFP organisations. Some important characteristics of such institutions together with difficulties are discussed below. The problem becomes more acute if budgets of such institutions are not planned as part of planning of parent body and if they worry more about accounting than planning.

Among the important characteristics of service-oriented and NFP organisations, the labour intensive as against machine and technology intensive nature of profit-making organisations, lack of inventory (as they will have no inventory of services), dominance of professionals, difficulty in inspecting and measuring the quality of service in advance of delivery (i.e., before rendering the service), etc. are important. Lack of profit measure is quite typical to service-oriented and NFP organisations. Profit-oriented organisations measure their output by amount of revenue earned based on prices charged for goods and services sold. For individual profit centres, revenue is measured by transfer prices. Service-oriented and NFP organisations either should devise similar monetary measures of output wherever possible or rely on non-monetary measures. By and large, the output measurement is a practical problem and also a challenge in service and NFP institutions. There is no single generally accepted criterion for measuring success of such organisations. Multiple objectives, lack of relation between costs and benefits and difficulties in measuring performance and comparing performance of different units of the same organisation are some peculiarities of service-oriented and NFP organisations. Due to dissimilar functions, the organisational units cannot be compared in service-oriented and NFP organisations. In the absence of monetary output measures, certain non-monetary measures could be employed by service and NFP organisations. These non-monetary output measures can be classified as subjective or objective, discrete or scalar, quantitative or qualitative. Some important non-monetary output measures are:

- i) Results measures
- ii) Process measures
- iii) Social indicators
- iv) Inputs as proxy output measures

Libraries and information centres have not given adequate attention in devising output measurements. In addition, there appears to be no direct relation between costs and benefits in service organisations. Market forces play a less significant role in service-oriented and NFP organisations. Due to lack of shareholders, there appears to be differences in ownership and power. Consequently there is a tendency for service-oriented and NFP organisations to be political organisations.

Historically, the cost accounting and other control techniques were developed for manufacturing (i.e., profit-oriented) companies and hence they are less

applicable to service-oriented and NFP organisations. Inadequate management controls have become a tradition in such institutions, which are usually relatively small and operate on a single location.

Self Check Exercise

Note: i) Write your answer in the space given below.

ii) Check you answer with the answers given at the end of this Unit.

3) Enumerate characteristics of service-oriented and not-for-profit organisations.

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10.3 SOURCES OF FUNDING/ FINANCE

The economic and financial pressures are mounting on libraries due to (i) increased cost of information materials; (ii) ever-growing and diverse demands; (iii) adoption of new technology; (iv) need for new space and infrastructure to cope up with new environment; (v) increases in wages and salaries; (vi) interlibrary loan and resources sharing; (vii) new programmes and projects to justify the existence of library.

Library finance includes both the funds appropriated to a library and its expenditure. Libraries depend heavily on continuous supply of funds for organising its activities, programmes and services. In dealing with this, ensuring a continuous supply of funds not merely on a yearly basis but over a period of time, i.e., three or five years are very important. Finance plays a very significant role in the organisation and management of any institution, more so in case of libraries which have to acquire and build their collection on a continuous basis throughout the year and even longer. With the increasing costs of books and journal subscriptions, it would be impossible to plan a collection development programme consistent with the needs of users, without an ensured supply of funds. While appropriations are made for the acquisition of books and journals, funding bodies, quite often, overlook or underestimate the necessity of funds for processing the acquired materials and make them available for use by competent persons. Further, regular flow of funds ensures the rhythm and tempo of the user services. These services have to run on a continuing basis. Unless adequate funds are provided for all these activities, libraries will either operate sub-optimally or remain ineffective.

The financial support given to libraries is of two types: i) recurring and ii) non-recurring. The recurring grants are generally given for the purchase of books and periodicals, maintenance of regular services, and for anticipated contingent expenditure. The non-recurring grants are given for specific purposes like construction of library building, purchase of furniture and equipment and sometimes for special collections. The third type of adhoc grant is given on special occasions on recommendations for specific purchase.

Different types of libraries receive funds from different sources, though some sources such as government grants are common. The greatest percentage of operating funds increasingly comes from public fund raised through taxes. A judicious estimation of funds required has to be done well in advance as funds are required on a continuing basis.

Various sources of funds for libraries can be broadly grouped as follows:

- i) The main source of finance for any library is **regular grants from parent body or National/ State Government** (some percentage of budget and/ or public fund raised through taxes)
- ii) Local **library cess** and support from municipal and other provincial authorities.
- iii) **Adhoc grants** from other departments/institutions (public fund), private national agencies, endowments and charitable institutions and certain foreign or international support.
- iv) **Fines and miscellaneous sources**: Some libraries impose fines on late return of books as well as for loss or misuse of library cards and books. Income from this source is very meager. As a matter of fact, it cannot be considered as a source of income, because the aim of fine is not to raise revenue but to compel the user to return the borrowed book in time and not to damage or lose it during her/his possession. Moreover, in some situations libraries may not have authority to re-appropriate amount collected as fine or overdue charges for other purposes. In addition, the effectiveness of imposing fine is questionable as it may create ill feelings among users and discourage use of library. Hence, the policy of levying fine itself is debatable and possible revenue is offset by potential bad effect on public relation. Miscellaneous sources may consist of money received by the sale of old library materials like waste paper, used / withdrawn books, equipment, furniture, etc.
- v) **Self-generated fund (Fee-based services)**: Libraries usually render their services on a nonprofit basis. Charging for library services is fairly a recent phenomenon. Fees, subscriptions, sale of service and miscellaneous revenues earned by the library are ad hoc, non-recurring and often meant for specific purposes with restrictions on reallocation and use. Normally, such (limited) funds are added to the general fund of the parent organisation for allocation through normal budgeting procedure.

It is generally objectionable to charge for library services when the mission is to provide free library services to all. Otherwise, public libraries in particular lose their sanctity. It is debatable that libraries can charge for their services, as charge on traditional services may deter use of library. If public libraries charge for all services and membership, like a private library, one may even demand that it has to generate the entire budget required to run the library. Hence it is necessary to continue to provide all traditional library services free of cost. Any fund generation from fee-based services is only restricted to only new services and the fund so generated should be considered as a supplementary fund. Hence, enrolment or membership fee, caution deposit, book lending fee, usage fee are to be considered with extra care depending on the type of library and the mission of the library. However, nominal overdue charges (library fine), recovery charges for not returned

books and charges for duplicate cards, etc., are well accepted in most circumstances. Sale of withdrawn books, used equipment and furniture, old newspapers, etc., are obviously realised for library fund. Similarly, charges for photocopy service and computer printouts, Internet charges, etc., are grey areas where library can price appropriately to raise its revenue.

The real impact of fee-based services should be in the areas of new services. Increased use of a particular service and changed need among users provide clue for new services. Introducing new services involves set-up cost, but services far outweigh the risk as such new services not only generate revenue but also provide many intangible benefits like enhanced public relations and boosting library image. Hence the primary motive of fee-based new services should not be generating profit or fund but gaining these intangible benefits. Some of the fee-based services could be access to research experience and services, online searching of international databases, document delivery, local and external inter-library loan delivery, internet and other resources charges.

Fee-based new services are not only required to be carefully and strategically planned, avoiding duplicating local services or competing with other local information systems but also promoted with appropriate marketing methods. Pricing of these services is a tricky issue as professional research time, local interlibrary loan and document copying, verification of citation information, translation and other documentation services, copyright charges, taxes and tariffs, staff time, etc., are involved. In addition to extensive marketing and pricing structure, care should be taken not to violate lease agreements, licenses and copyright restrictions, service tax, etc.

- vi) ***Gifts and donations (Mobilising library finance)***: In these days of pressing need for money to run library services, all possible sources of funding need to be explored and if necessary, lobbying for fund taking library clientele into confidence is not wrong. Apart from grants from Government, donations and gifts, various fund generating sources have to be tapped and fund raising activities and campaigns have to be launched. One such example is organising book exhibitions and other sales by “Friends of the library group” in the premises. Gifts and donations are excellent source of supplementing funds for special projects. Citizens are often willing to make significant donations to cover part or all the costs of a new or remodeled library building. However some care should be taken in handling gifts and donations. Firstly, library must have exclusive control over all funds collected, donated or appropriated as library fund. There should not be unusual riders on such funds, i.e., gifts and donations should be transferred unconditionally to treasurer of parent organisation or local authority or a public depository like bank or to financial secretary of the committee or Board. Secondly no gift, donations or grant from charitable institutions be used to justify reducing or replacing the community’s commitment to public funding. Otherwise, library runs the risk of disenfranchising and benefactors-donors may cease according grants to library if they see that their efforts are resulting in reduced public funding for the library instead of improving the resources.

Gifts and donations need not be in cash. Any donation of building or other investments are much better as they provide fund more regularly in the form of rent on space/ accommodation and interest on investments.

10.3.1 Academic Libraries

- a) **University Libraries:** University libraries receive their regular funds from the respective universities and special grants from both the University Grants Commission (UGC) and the State Governments. The UGC grants are mainly plan grants, whereas the State Government grants are mainly non-plan grants. However, government grants are not given to the libraries directly, but government gives grants to the university and then the university allots to the library the necessary share out of the same. The University Grants Commission grants are mainly of three types, viz., recurring, non-recurring, and ad hoc grants.

Few university libraries charge fees from their student members for the use of the library. A charge or fee for library use is not made without protest from users. These days there is a growing feeling that the university should provide library services free of charge, just as it provides lecture rooms, laboratories, and other facilities. Pros and cons of fee-based library services are already discussed on previous pages.

- b) **College Libraries:** A question often asked as “how much does it cost each year to run a good library?” The amount will vary from college to college, depending on the nature of the curriculum, the quantity and quality of services expected, and the quality of the present collection. The total student strength in a college is another criterion to be taken into consideration while allotting funds for college library. The problems of financing a library of an established college are different from those of a new college. The needs of the former are confined to acquiring materials to remedy weaknesses and to keep the collection up-to-date, whereas the latter must build up a complete basic collection.

There are three main sources of funds for college libraries. The principal source is the allocation from the current operating funds of the college. Whether the college is public (government) or privately controlled matters less in this connection than the amount of additional money the library may need during any one budgetary year. Sometimes a part of the ‘Amalgamated Fund Collection’ is given to the college library for purchase of reading materials. Occasionally some portion of the contingency grant of the college is made available to the library by the Principal. A second source of income for college libraries is grants, individual gifts, and endowments. But this is not so very popular in India. A large number of college libraries throughout the country receive grants from the University Grants Commission. Other sources of income for college libraries are subscription/membership fee charged from the students, and annual recurring and non-recurring grants from the State Governments or the governing bodies of the institution.

- c) **School Libraries:** Promoting good library service in schools depends very much on finance. In the case of primary schools, lower fee rates for library services can be fixed as there will be less expensive books needed for students of lower classes. It is necessary that the entire library fee collected from students should be spent exclusively on books and equipment.

At present there are no fixed norms for the provision of finances to school libraries in India. The library fund of school should preferably comprise of

fee collected from pupils, equal contribution from the management, matching contribution from government or local body, other gift or special grant that may at any time be received specifically for the library and donations from public.

The State Government or any education authority administering the school should meet the initial expenditure on setting up of the school library including cost of new library buildings and initial expenditure on fittings and books covering the basic stock needed as a nucleus for library activities.

Self Check Exercise

Note: i) Write your answer in the space given below.

ii) Check your answer with the answers given at the end of this Unit.

4) What are the sources of finance for university libraries?

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10.3.2 Public Libraries

Libraries in general and public libraries in particular are expenditure-inclined (or intensive) and ever growing organisations with no (or least) revenue earning capacity but with recurring nature of service and hence recurring demand for ever increasing funds. Hence a permanent assured source of income with enhanced flow of money is required. UNESCO Public Library Manifesto (1994) prescribed that the local or national government should wholly fund public libraries. Historically public libraries had the fortune of generating funds from government sources and patronage of aristocracy. The learned scholars, trusts and NGOs have always been the main source of funds for public libraries. However, during 20th century, particularly after independence, development of public library is regarded a State subject in India. Hence financial resource through levying of cess as per library legislation of State or/ and grant from State Government has become main source to public libraries. In addition, many public libraries are continued to run by voluntary organisations with or without some subscription fee. With the changed circumstances and environment particularly service orientation and diverse functions expected from public libraries, there is a greater need to adopt innovative and new approaches to explore and generate financial resources from different and new sources. The new circumstances are such that aids/assistance may not uniformly come forth as expected during financial crises and requirement may vary from year to year. Hence it may not be safe to exclusively rely on traditional sources of revenue.

Public libraries need to tap all possible sources like cultural associations, private foundations, commercial firms, philanthropists, trade unions, publishers' associations either directly from such institutions or working in co-operation with fund raising associations and organisations like 'Friends of the Library Group',

NGOs, important personalities of the locality and others. A strategic plan with well articulated mission of the library to match the donor's needs or the community requirements has to be developed for the purpose.

In addition, RRRLF and other Government departments and agencies are well known sources of funds for public libraries in India. Sometimes sources from abroad and its specialised agencies, regional organisations, bilateral aids as well as national and international organisations like UN may also provide fund in cash or kind.

Public libraries should not fall behind in generating fund from fee-based services particularly charging for non-traditional new services like demography, product, trend and travel reports, computer prints, reference service, extension classes, training programmes, internet based information services on health, travel, education (scholarship), organising exhibitions, etc.

Having relegated the responsibility of running public libraries to local community, the Government should not escape the responsibility of providing adequate financial assistance. Interestingly, the norm in USA is that Local Government, State Government and Federal Government respectively contribute 60%, 25% and 15% of budget to public libraries. Unfortunately in India, there is no national policy on library and information services and no Union library legislation, and contributions of both Central and State Governments to public library funds have been too low. Transferring 'library' from State List to local bodies by constitutional amendments (73rd and 74th, 1992) has not lead to any improvement in the financial support to public libraries. The National Commission on LIS proposed in 8th Five Year Plan is not yet a reality. However, public libraries can seek some financial support from five year plans, RRRLF, grants from Department of Culture (which runs certain libraries) and grants from National Archive of India (for preservation of rare books).

In fact as early as 1958, K.P. Sinha Committee recommended creation of Block Library Fund and Municipal Library Fund through cess, and both Central and State governments should contribute equal amount with provision to gradually increase state contribution to three times the cess amount. On the other hand, more recently in 1985, Prof D.P. Chattopadhyaya Committee on National Policy of Library and Information Services recommended for 6-10% of education budget for libraries and central government to provide fund under plan expenditure. In addition, it is also recommended that public libraries particularly in rural areas should draw resources from other official agencies like National Adult Education Programme, Agricultural Extension Programme, Distance Education Programme, etc. working at that level. It is also suggested that industrial organisations should also provide finance for libraries. It is unfortunate that compared to the target of 6-10% of education budget, States spent far less than 1% of education budget on libraries. Similarly, compared to suggested standard of more than Re. 1 per capita (1988-89), most states spend much less than that even after 20 years (despite substantial reduction of buying power of Rupee over 20 years). As mentioned earlier contributions of both central and state governments to library fund have been too low.

The main sources of public library revenue are subscriptions, library cess, grants from government and endowments. Considering library subscription as a source

of fund is widely disputed. An equally forceful opposite view is that subscription defeats the whole concept of free public library service advocated by Ranganathan. The report of the Advisory Committee for Libraries, Government of India (1957) also supported the inadvisability of considering subscription as a source of revenue. The Advisory Committee describes such subscription libraries as '*stagnating pools*'. Yet, after half a century, a bold and new review of the situation is required in the light of privatisation, private-public partnership and 'pay and use' philosophies of the time.

So far, Nineteen states in the country have public library legislation and run public libraries under the statutory system which is not uniform. Tamil Nadu, Andhra Pradesh, Karnataka, Kerala and Goa have provision for raising library cess as a surcharge on certain taxes. These states have what is termed 'pure form' of statutory system where Local Library Authority (LLA) created by the Act receives cess, grants from government, special grants for special purposes, gifts, contributions and income from endowments, fees, fines, etc. and has the responsibility to run libraries and provide library services. For example, Tamil Nadu and Andhra Pradesh Library Acts have provided for a cess in the form of surcharge on land and property tax at the rate of six per cent. The Karnataka Act has provided for a library cess in the form of surcharge at the rate of three per cent (later increased to six per cent) not only on land and house tax but also on octroi duty, vehicle tax and professional tax. In addition to the library cess, Karnataka public libraries receive a grant from the government equivalent to three percent (later six per cent) of the total land revenue collection. Other states have what is termed as 'mixed form' of statutory system, where no library cess is proposed, but the respective governments have made provision for grants-in-aid for public libraries. In addition to substantial grant-in-aid, these libraries called by different names like 'Subscription Libraries', 'Recognised Libraries', 'Grant-in-aid Libraries' and 'Affiliated Libraries' are allowed to charge subscription and run by voluntary organisations with gifts and donations. Rest of the States in the country have no legislation (not bound by law/ statutory system to provide public library services), but make direct government efforts as well as provide grant-in-aid to voluntary organisations running public libraries. Experience shows that library cess alone cannot be sufficient to meet the continuously growing needs of public libraries. Besides, the taxable capacities of various local areas of LLA differ significantly, thereby making standard and uniform public library service throughout the country a difficult task.

Just like education, public health and other welfare economy measures, ideally public library service, which is declared free to citizens, should be totally supported by regular budget grants from the government. Unfortunately, in many countries including India, this is not the position. As a result finances for public libraries have become inadequate. Only library legislation at the national level can change things for the better. It would be proper for the government to provide for initial expenditure, while recurring demands of the libraries should be met from the proceeds of library cess, etc. Moreover, the local authorities should be encouraged to collect more funds by giving them matching government grants.

Endowments, charitable trusts and private benefactions could be another source of public library revenue. In countries like USA this is a common feature, whereas in India it is rare. The financial demands of libraries are recurring in nature, whereas funds from endowments are not so. Hence, endowments and

benefactions, though welcome, should not be taken as a permanent or continuing and adequate source of income. Endowments can best be used for erecting library buildings, acquiring furniture and fittings, etc.

Other sources of public library revenue are fees and fines, gifts in cash or kind. The income from these sources is generally very meager, and cannot be considered as a significant source of revenue.

10.3.3 Special Libraries

Special libraries get their funds from appropriations made by their respective parent organisations. Whenever the parent body takes up a new project or a programme, which needs library and information support, adequate finances should be provided to the library to set up additional/ special support facilities. Special library is expected to ask for funds for any additional or special services, which are usually examined before funds are provided for such services. In addition, special libraries obtain ad hoc grants from governmental agencies for specific purposes. Of late, special libraries have been seriously considering the ways and means of generating part of their own resources.

Self Check Exercise

Note: i) Write your answer in the space given below.

ii) Check your answer with the answers given at the end of this Unit.

5) State how public libraries get their funds.

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10.4 IMPLICATIONS OF ICT DEVELOPMENTS: E-PROCUREMENT AND E-DOCUMENTS

Stupendous growth of ICT (Information and Communication Technology) during last two decades has touched every walk of life including libraries. With the advent of the Internet, e-commerce has been a great success. This development has made two broad implications on the financial management of libraries and information centers. Firstly, the way procurement and money are handled — received, paid or transferred — has substantially changed to become simple and almost instantaneous. Libraries could send their orders for documents by e-mail as well as they are allowed to search, identify the documents and order electronically by downloading order form from the websites of many international agencies. There is no need to enter bibliographic information or personal/ institutional details in such a process. Till then, it used to take months for procuring publications of societies and obscure publishers, standards, patents and technical reports and extremely urgent articles by making advance payment through bank drafts and sending the same by airmail. Along with e-mail ordering, wire transfer

of money has reduced the delay to some extent. But the real instant ordering and paying on the net for effective e-procurement necessitates use of credit cards or e-cash mode and it is still rare in Indian libraries. The parent organisations (including government) and their accounts departments are still suspicious about possible miss use of credit cards for electronic payments (or e-transfer of money) on the Internet and libraries are not provided with credit cards. As a result tremendous saving in time, efforts and cost incurred by e-procurement is not being availed by large number of libraries.

The second implication of ICT development is concerned with digitisation and procurement of e-documents. More and more libraries are becoming digital at least hybrid in terms of their collection. In fact, acquiring/ creating or subscribing to digital collection has dramatically changed the collection building process of libraries and information centers. The outright purchase of an e-document (with full rights to use and share like a printed book) is only a minor part of acquisition of e-documents. Large part of digital collection is not owned but accessed for a limited period under totally new terms of subscription or lease agreement. Such agreements of accessing digital libraries impose restrictions on repeated use for a longer (indefinite) period and for sharing with others. In this scenario, resource sharing and consortia arrangements add further complexities as member libraries need to collectively pay for such subscription to digital collections/ libraries. Normally publishers allow subscriber to access e-collection either through a password or make it IP address enabled access. Sharing an e-document not owned is difficult and sharing a password is illegal. Having realised that there is no control over possible sharing of password by libraries, over 95% of publishers offer only IP address enabled access to their e-content (like e- journals), which drastically restricts sharing with other libraries. In addition, lease agreements of such online subscriptions are one-sided and put-forth many stifling conditions on libraries. Pros and cons of such lease agreements are beyond the scope of this Unit. One important point from the angle of financial management of libraries is that when the subscription ends, library will have no access to back issues of the journals for which libraries have earlier paid. Further it is very difficult to account for collective/ collaborative payments in consortia mode. Lower usage, saving on staff time and geographical location of member libraries are favourable aspects in resource sharing and consortia. However, such joint collection development and priority access of inter-library loan provide savings if consortium deliveries can be achieved at a lower cost than alternative sources of inter-library-loan and document delivery. Further, assessment of potential utility or actual use of such e-collection is quite difficult as statistical data pertaining to access/ click/ use provided by publishers are often hyped and misleading. Even costing of e-journals is often misrepresented by bundling together a large number of e-journals of the same publisher without option to eliminate unwanted/ irrelevant ones. In some particular circumstances, the entire payment for consortia subscription is made by another (usually government) agency leading to total lack of assessment of need and cost benefit analysis.

Consortia payment: Budget and funding are thorny issues in consortia mode. As explained above, member libraries are required to transfer part of library budget for consortium and yet they will have no control over the transferred amount. Consortium libraries themselves need to have a legal entity with permission and authority to deal with such pooled money. Though resource sharing and library consortium are considered as possible solution to the financial

crunch faced by libraries, co-operative nature of resource sharing and consortium may lead to bureaucratic problems of finance and implementation. A memorandum of understanding between the host institution and the consortium regarding operational, administrative, legal, financial and programmatic requirements is necessary. The host institution is required to act as fiscal agent for the consortium with the responsibility for accepting, accounting and administering its funds, grants and contracts, maintain consortia budget and all related accounts.

Lastly, some typical general problems and issues of fiscal management in libraries are briefly listed below.

- 1) A large part (2/3 or more) of a library budget is consumed by *reading materials*.
- 2) The average *raise in prices* of reading materials is always above the average inflation rate.
- 3) Prices of *serials and journals* increase much more rapidly than that of monographs.
- 4) Some of *grey or semi-published literature* like theses, technical reports and standards are abnormally costly even though photo copies are normally supplied to libraries.
- 5) The *value of Rupee* is steeply falling against hard currencies like US Dollar, Sterling Pound and Japanese Yen.
- 6) Marginally increased *budgets* are unable to match the devaluation and increase in prices.
- 7) Even during the periods of *tight budgets*, it is the reading materials budget of a library is more vulnerable than salary and other maintenance budget.
- 8) *Allocation* of reading materials budget among different subjects or different types of documents is becoming increasingly difficult.
- 9) The *unconfirmed prices and unexpected increase* in prices of reading materials further complicate the fiscal management (for example, supplementary invoices for additional volumes of journals).
- 10) Inconsistent *conversion rates* are applied by manipulating the date of billing.
- 11) Increased *postage* also adds its might to the problem.
- 12) The process of *encumbering* the available meager budget and moving 'monies' back and forth in a manual system can lead to errors and too broad approximations of expenditures, commitments and available balance funds. The process of encumbering funds is further complicated by fiscal policy of parent organisation normally bound by the artificial year called financial year. For these reasons and also sudden windfalls during end of financial years constructing budget and creating a monetary plan is made difficult.

10.5 LIBRARY EXPENDITURE PLANNING

You now have an idea of how a library gets finances for running its library services. Expenditure is the second important aspect of financial management. Library

expenditure occupies the same place in the study of financial management as consumption does in the daily life of an individual. As consumption is the end of all economic activities, so also, library expenditure is the end of all financial activities of a library.

10.5.1 Importance of Library Expenditure

Just as you spend money on your books and studies, so do the libraries spend money on the books and periodicals, readers' services, references and bibliographical services, documentation and information services, etc. The objective behind all these is the supply of the right document to right reader at the right time. The library expenditure is generally undertaken to satisfy the intellectual requirements of the readers and provide those documents which the readers in their individual capacity cannot and do not want to purchase. Besides, no individual can purchase all the literature which comes out of the printing presses of different countries, on different subjects, in various languages, and in diverse forms. The only agency which can acquire, process and make available all this literature to readers is the library. All this means spending money and more money.

10.5.2 Nature of Library Expenditure

There are three major characteristics in the nature of library expenditure:

- a) Library is a spending institution: Libraries, unlike many government departments, are not revenue-fetching agencies. On the other hand, libraries are spending institutions, and they participate in the nation-building activities. The money spent by the library is a long term investment in human capital.
- b) Library is a growing organism: The library trinity-documents, readers and staff - always grows. It implies that the requirements of the library will always go on increasing day-by-day. All this means more expenditure.
- c) Library expenditure is recurring: Libraries are not only spending and growing institutions, but they are also permanent bodies. In an era of educational advancement, library services will have to maintain a continuous rhythm to cope up with the academic requirements of the clientele. This means that the library expenditure is recurring in nature.

10.5.3 Principles of Library Expenditure

- a) Principle of maximum aggregate benefit: The library exists for the service of different types of readers. Therefore, as a librarian, you should be neutral, and should see that no particular individual is specially benefited by your expenditure policy. You should plan your library expenditure in such a manner that majority of readers derive maximum benefit of library use.
- b) Principle of advance planning: The library expenditure should be planned in advance and a proper estimate should be made for different items so that adequate and balanced revenue may be allotted to different heads. Orders should be placed in advance so that the needed materials are acquired in time. The Librarian should avoid last minute purchases.
- c) Principle of equitable allocation: The library funds should be equitably allocated for spending on different types of reading material covering various

subject areas. For example, books on science and technology are costlier than that of other language books. Costly reference books become out of date faster in some subject areas when compared to others. All such factors are to be taken into consideration while spending money for library use.

- d) Principle of economy: It means that you should not spend more than the necessary amount on any item, and should not exceed your sanctioned grant. Unnecessary duplication should be avoided, because the extra amount thus saved could be better spent on purchasing new alternative titles covering additional subject areas.

10.5.4 Classification of Library Expenditure

Generally speaking, money spent on building, costly equipment and furniture is shown against capital expenditure, and other items which occur almost throughout the year like books and periodicals, stationery and postage, binding and contingency, salaries and wages, etc. are shown against current expenditure. However, you can classify library expenditure according to different heads, viz. (a) salaries and wages, (b) binding, (c) stationery, (d) postage, (e) contingency, (f) books and periodicals, (g) furniture, (h) building, (i) equipment, and (j) publications.

Self Check Exercise

Note: i) Write your answer in the space given below.

ii) Check your answer with the answers given at the end of this Unit.

6) State the major items of expenditure of libraries.

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10.6 SUMMARY

This Unit deals with the financial management of libraries. Financial management in service and NFP organisations has several problems attributable to the characteristics of such institutions. Libraries, being service institutions, seldom earn revenue and hence, have to be funded almost entirely by their respective parent organisations or by governments in case of public libraries. Adequate and continuous supply of funds is necessary to sustain library and information services.

There are number of different sources like regular grants from parent organisations, ad hoc grants from other organisations, grants from endowments, fees, subscriptions, sale of service, etc. through which finance for libraries flow.

Libraries spend their funds on books and journals, salaries and allowances of their staff, development of library, documentation and information services, building, equipment, furniture, etc. The expenditure is normally channeled

according to set rules and procedures, conforming to some guiding principles to get maximum benefits.

Libraries have, by and large, restricted their financial management to preparing budget and managing their operational fund that too budget for reading materials. Most of the exercises of costing and cost benefit analysis are academic in nature and have not been tried out and hence, not led to any significant changes in the decision making process of libraries. Economic theory of library is still less known phenomenon for practitioners. Vast array of financial management techniques and tools are largely unexplored in the library context.

10.7 ANSWERS TO SELF CHECK EXERCISES

- 1) Financial management is the study of principles and practices involved in financial operations of a library. Its scope includes acquisition, distribution and utilisation of funds, balancing revenue and expenditure, general control and evaluation of financial matters. Important components of financial management are:
 - i) Financial planning
 - ii) Forecasting of receipts and disbursements
 - iii) Realisation of funds and revenues
 - iv) Allocation of funds
 - v) Utilisation of funds
 - vi) Financial accounting
 - vii) Financial control
 - viii) Financial auditing
- 2) The principles that govern financial management are:
 - i) Effective control
 - ii) Simplicity
 - iii) Regularity and farsightedness
 - iv) Economy, and
 - v) Flexibility
- 3) Service-oriented and not-for-profit organisations have certain characteristics distinct from those of profit-oriented organisations. They are as follows:
 - i) Services cannot be stored and hence, there is no 'inventory' in service-oriented organisations. Services unsold are services lost.
 - ii) They are labour intensive organisations.
 - iii) There is a dominance of professionals in such organisations.
 - iv) Service-oriented organisations face the difficulty of measuring the quantity and quality of services rendered. Success of these organisations depends both on how much service is rendered and how well rendered.
 - v) Quality of service cannot be inspected and measured before rendering.

- vi) There is no single criterion (like profit) to measure success of service-oriented organisation. Multiple objectives, lack of relation between costs and benefits and difficulties in measuring performance and comparing performance of different units of the same organisation are some peculiarities of service-oriented organisations.
 - vii) Market forces play less significant role in service-oriented organisations.
 - viii) Service-oriented organisations tend to become political organisations due to lack of shareholders and differences in ownership and power.
 - ix) Inadequate management controls has become tradition in such organisations as cost accounting and other control techniques are believed to be for profit-oriented organisations.
 - x) They are relatively small and operate usually on a single location basis.
- 4) The sources of finance for university libraries are:
- i) Grants from the respective university budget
 - ii) Special grants from the University Grants Commission
 - iii) Library fees
 - iv) Fines or overdue charges
 - v) Sale of publications, etc.
- 5) Public libraries get their funds from:
- i) Library cess collected in States where Public Library Acts are in force.
 - ii) State Governments provide matching grants equal to the amount collected by way of library cess.
 - iii) In some States, the entire funds come from Government grants.
 - iv) Member-subscription is also sometimes a source but is very negligible.

10.8 KEYWORDS

- Cost Accounting** : It is a process of accounting for cost by relating expenditure to cost centre and cost activities. In management accounting, cost accounting establishes budget and actual cost of operations, processes, departments or product and the analysis of variances, profitability or social use of funds.
- CBA -Cost Benefit Analysis** : The ratio of the benefits of a given project to its cost, taking into account the benefits and costs that cannot be directly measured in Rupee. CBA has been considered as a valuable tool for increasing people's awareness of the costs and benefits of information and documentation as a production factor and to provide better basis for budgeting and strategic planning.

- CEA-Cost Effectiveness: Analysis** : A way of finding the least expensive means of reaching an objective or a way of obtaining the greatest possible value from a given expenditure. While CBA seeks to develop standards and criteria for determining how well the existing services of a library meet the requirements of its users, CEA aims at discovering new, improved procedures and devices for providing better services to the users.
- Economics** : It is the branch of social science that deals with the production and distribution and consumption of goods and services and their management. The study of how the forces of supply and demand allocate scarce resources. Subdivided into microeconomics, which examines the behaviour of firms, consumers and the role of government; and macroeconomics, which looks at inflation, unemployment, industrial production, and the role of government. It is descriptive and concerned with what is and what ought to be. It deals with relationship of inputs to the outputs and eventually to supply, demand, markets, sales, prices, value, utility, etc.
- Financial Estimation** : Estimating the amount of money required for running services of an institution.
- Financial Forecasting** : It is forecast of the expected financial position and the results of operations and cash flows based on expected conditions. It involves a systematic projection of expected actions of management in terms of financial statements, budgets, etc. using past records, funds flow behaviours, financial ratios and expected economic conditions in the industry and the firm.
- Financial Management** : Financial management encompasses the two core processes of resource management and finance operations. It is an element of management dealing with acquisition, distribution and utilisation of funds.
- Library Expenditure** : Money spent by a library on different heads such as purchase of reading materials, salaries and allowances, stationary, postage, furniture, equipment, etc.
- Library Finance** : Sources of financial flows and expenditures.
- Library Income** : Funds which accrue to a library from different sources such as grants, membership fee, endowments, fines, service charges, sale of publications, etc.

- Macroeconomics** : Industry and national level economic system with the objective of maximisation of profit.
- Microeconomics** : It is concerned with behaviour of individuals, firms and markets.
- Non-plan Grants** : Regular budgeted grants given every year.
- Non-recurring Expenditure** : Expenditure that do not repeat every year (e.g. building, equipment, machinery, etc.).
- Plan Grants** : Funds made available on projects that go under annual plans, five-year plans, etc.
- Ratio Analysis** : Single most important technique of financial analysis in which quantities are converted into ratios for meaningful comparisons, with past ratios and ratios of other firms in the same or different industries. Ratio analysis determines trends and exposes strengths or weaknesses of a firm and hence, used for evaluating the performance, setting standard and estimation.
- Recurring Expenditure** : Expenditure that repeats every year e.g. books, journals, staff salaries, etc.
- Welfare Economics** : It is a branch of economics that uses microeconomic techniques to simultaneously determine allocative efficiency within an economy. It deals with cost-benefit analysis of the allocation of resources, economic activity, and distribution of the resulting output on a society's welfare. It provides theories and techniques to analyse operations of NFP institutions.

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UNIT 11 BUDGETING TECHNIQUES

Structure

- 11.0 Objectives
- 11.1 Introduction
- 11.2 Library Budget and Financial Planning
- 11.3 Budgetary Methods and Techniques
 - 11.3.1 Line Item or Incremental or Historical or Object-of-Expenditure Type Budgeting
 - 11.3.2 Formula Budgeting
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- 11.4 Budgetary Norms and Standards
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- 11.6 Summary
- 11.7 Answers to Self Check Exercises
- 11.8 Keywords
- 11.9 References and Further Reading

11.0 OBJECTIVES

After reading this Unit, you will be able to:

- discuss library budget and its features;
- describe budgeting and financial planning processes;
- explain types of budgetary methods;
- highlight budgetary standards, norms and principles;
- apply norms and standards to work out financial estimates for different types libraries viz., academic, public and special libraries; and
- differentiate budgetary methods, prepare an outline of a library budget and maintain accounts using appropriate records conforming to audit requirements.

11.1 INTRODUCTION

In the preceding Unit of this Block, you have learnt about the financial management of libraries in general and sources of funds as well as circumstances under which budgetary system has to operate in service-oriented and not-for-profit organisations. In this Unit, you will learn what is budget, why it is required in libraries and information centres, how it is prepared and operated together with advantages and disadvantages of different budgetary methods and techniques. Library being an expenditure-oriented institution, the central aspect of financial management is the budget. Budget is a statement of income and expenditure. It

provides guidance in spending the appropriated funds through a period of time. It is also an instrument of control, communication, coordination, evaluation and motivation. In this Unit, we shall study the basic features of a library budget.

Budgeting is one of those managerial functions you would have studied as part of POSDCORB in Unit 1 (Principles and Functions of Management). In addition to being a key managerial function, budget is both a plan document and a control mechanism. It is a plan document as it provides projected futuristic plan for library in terms of money and it is a control mechanism as the budgetary control ensures checking the performance against plan and helps to correct deviations, if any, from the performance targets.

Budget being a *road map* for the delivery of library services in the subsequent years, provides a *fiscal foundation* for library operations. It provides opportunity to request necessary funding for established services as well as supplemental support for increased use and for new services. It is a way to track required revenues and reportable expenditures. It involves details and cost factor of each activity together with future growth and promises of library services. In view of cost factors involved, there is also a need for standards for operational procedures.

11.2 LIBRARY BUDGET AND FINANCIAL PLANNING

Budgeting is a planning process in which expenditure and revenue of the organisation over a specific time period are accounted for. 'Budget' is a plan document and a financial statement which provides details of the proposed revenues and their utilisation for expenditure for a specific period, usually an year. It is a means of check and control on what monies should have been received and how monies are to be spent. Budgeting need not be just confined to money. It can be expressed both in financial and non-financial terms. But it is a practice (and it is the strength of the budget) that it is expressed with a common denominator called Rupee. Hence, the budgeting is the process of quantifying all the plans of an operation to determine whether they will achieve the desired results and to adjust accordingly where they will not achieve the desired results. Budget is a quantitative expression of a plan of action, a tool in the hands of library or information centre manager, a road map to guide management actions towards the destination, and a tracking device to measure progress, highlights variations from the plan and show the need for corrective actions to put the operation back on track (Newton, 1981). In other words, budget aids orderly and progressive planning, coordination and implementation, serves as an instrument of financial control and a device for evaluating result.

It is already stated that budget is a systematically prepared statement of estimated revenue and expenditure of an institution for a period of time, usually a year. The objective of this process is to produce financial plan. Budget serves dual purpose of limiting expenditure to income and assuring wisely planned spending. Financial planning and budgeting have certain obvious advantages. They make goals clearer, assist in fixing responsibility, reveal weaknesses in the structure of the organisation, force quantification of targets and achievements, lead to most productive use of resources, pinpoint timely actions and indicate need for corrections from deviations, if any. However so budgeting in general can also cause some problems.

- i) It may lay too much emphasis on easily observable factors (e.g., circulation figures of libraries).
- ii) Budget may tempt one to become routine without improving operations.
- iii) Library services are not quantifiable in terms of Rupee.
- iv) Budget requires continuous adoption to meet changed circumstances.
- v) It does not work automatically.
- vi) Hence, budget and budgetary control are required to be used intelligently.

It is already noted that budget is a guide to incur expenditure for different activities and operations of an institution throughout the year. The general principle of this futuristic guide is that the estimated expenditure should not exceed the revenue. In other words, income and expenditure should balance each other. Budget should not be confused with annual financial reports. The latter is an official document to know as to what was achieved and what was not achieved during a given year. It is in fact, a factual record of the state of affairs of finance of an institution during a particular year. The budget, on the other hand, is only an estimate for the forthcoming year. In short, a budget is a preparation for the future, whereas financial report is an analysis and evaluation of the past.

As said before, a budget is also a very important instrument of control, communication, coordination, evaluation and motivation. It controls as it channels the expenditure according to a set financial rules and procedures. Budget estimates communicate to the staff and others concerned, the total financial outlay of the institution and allocation of funds for each major item of expenditure and regulates spending. It enables coordinating through sharing of common expenditure of different units not only to economise on expenditure but also to maximise fund utilisation. It helps evaluating performance on the basis of the utilisation of funds within the prescribed period. Above all, budget motivates staff to perform well, for funds have been provided for the activities for which they were sought, envisaging future developments. All the above attributes and merits of budget would equally apply to library budget.

11.3 BUDGETARY METHODS AND TECHNIQUES

Every library, no matter how small, has to operate with a budget. In most of the libraries, the librarian and her/his senior staff prepares the budget, according to budgetary norms issued by the authorities. The budget is scrutinised, whetted, if necessary, and approved by the Library Executive Committee before it is sent to the higher authorities for its final approval and sanction. The general practice is to follow the methods and procedures of parent organisation. Being special service of comparatively limited scope some small special libraries may be exempted from preparation of detailed budget. There are a few methods of budgeting for preparing library budgets which include traditional ones practiced by many libraries and the more innovative ones that have, in recent years, found their way, into libraries. These budgetary methods are discussed in the subsequent sub-sections.

11.3.1 Line Item or Incremental or Historical or Object-of-Expenditure Type Budgeting

Probably the most common type of budget is the one that divides items of expenditure, line-by-line, into broad categories such as books and journals, salaries and allowances, equipment, supplies, capital expenditure, contingencies, etc. with further sub-divisions for each of these broad categories. This is the usual traditional method, which by taking into account past expenditure on each item, prepares the current budget, hence it is also called *historical budgeting*. The budget is prepared with a small increase of say 5 or 10 per cent for each major item of expenditure of the previous year's allocation, assuming that all current programmes are as good and necessary and hence termed as *incremental budgeting*. The other name for line item budgeting is *Object-of-Expenditure Type Budgeting*.

The advantage of this method of budgeting is that it is relatively easy to prepare, present and understand. To some extent it ensures that the funds provided are spent for the purpose stated. This extensively practiced method has certain weaknesses. This method does not go into the performance evaluation of activities and services and also does not suggest any future projections. That is, it does not necessarily involve any review as to what amount ought to be spent in terms of activities and services. Secondly, it moves in the same manner as in the past year, without any forward push. Thirdly this tends to ossify and rigidify budget. In other words, budget funds earmarked for a particular item cannot be spent for any other purpose i.e., financial rule would not permit shifting of expenditure from one head to another. For instance, funds allotted to equipment, if unspent, cannot be shifted to acquisition of a few important titles of current journals, even if it is fully justified. It emphasises tools rather than what these tools have to achieve. It also has tendency to tempt to disguise needs and ask for more monies than needed. Above all, it lacks a forward look and does not provide accountability for performance.

11.3.2 Formula Budgeting

Based on financial norms and standards (to be discussed in the next section) this method tries to relate some inputs like users served, academic programmes supported and ratio of book stock to total funds of parent body. The formulae are used for financial estimation as well as budget justification. This appears to be a broad and quick method and hence saves lot of time. But it does not account for finer variations in respect of each library and its customers and services.

11.3.3 Programme Budgeting

This method propounded originally in Hoover Commission Report (1949) has three steps. They are: (i) statement of agency (i.e., library) objectives (ii) full consideration of alternative ways and (iii) logical selection of the best based on effectiveness and efficiency. Extended from line-item method, this method tries to answer the questions 'what purpose the money is being spent?' and 'how resources have to be deployed for each programme?' and more suitable for a contracting economy. Accordingly, financial plan is presented as programmes and subprogrammes built upon work units or workloads. Work units are assumed to be measurable and the work unit costs are building blocks of the programme budget.

The focus in this method of budgeting is on the library's activities and the funds are to be earmarked for programmes or services that the library plans to provide. For instance, if a library decides to provide a Current Awareness Service, the cost of that service (like staffing, materials, publication, overheads, etc.) is calculated and the expenditure estimated. The budget is thus prepared on the basis of the cost of programmes and whether a programme has to continue, get modified or deleted.

A library may also group its major programmes or functions, which may correspond to the organisational structure of the library like administrative services, technical services, readers services, etc. Each of these services may be organised through departments such as acquisition, classification and cataloguing, reference and bibliographical services, documentation and information services, together with summary descriptions of these functions or programmes and comparative figures of current and proposed expenditure. In this type of budget, provision is made for various activities of each department. This method gives an opportunity to the heads of various departments to gauge their requirements and watch their expenditures.

11.3.4 Performance Budgeting

This budgeting method is similar to programme budgeting but the emphasis shifts from programmes to performance. The expenditure is based on the performance of activities and the stress is laid upon operational efficiency. This method requires careful accumulation of quantitative data on all the activities over a period of time. Management techniques such as cost-benefit analysis are used to measure the performance and establish norms. For example, data on the number of books acquired, classified and catalogued, actual man-hours for doing the entire processing work, etc. are collected to determine manpower and materials to perform the tasks.

It emphasises performance and operational efficiency of the programmes. Like programme budgeting starting with statement of agency objectives, full consideration to alternate ways of achieving the objectives and a logical selection of the best is made based on effectiveness, efficiency and cost-benefit analysis. Unit cost for specific operations multiplied by volume of operations anticipated would give the budget.

The advantage of the method is the emphasis on service mission of library. However, it is difficult to quantify service quality and activities. In other words, this method measures only quantity not quality, which is rather difficult to measure in terms of money. In fact, budget allocation for a service institution like a library has little direct relationship to the degree of satisfaction users receive from library services. Measuring benefits of libraries in Rupees, complex interrelationship of costs of different operations and nonlinear variation of cost for every unit output (marginal/incremental cost) are some of the hurdles in working out budget by this method. It may look too humble and begging for a review of each operation every year by authorities.

11.3.5 Planning Programming Budgeting System (PPBS)

This method of budgeting was first proposed by USDOD (United States Department of Defence) (1961). Two key elements of PPBS are budgeting and systems analysis. As an extension of programme budgeting, PPBS involves systems analysis, OR (Operation Research) and other cost-effectiveness processes to provide a more systematic and comprehensive comparison of costs and benefits of alternative approaches to a policy goal or programme objective. This establishes a rational basis to enable decision maker to choose between alternative programmes.

This method combines the best of both programme budgeting and performance budgeting. The focus in this method is on planning. It begins with the establishment of goals and objectives and ends with formulation of programmes or services. The controlling aspect of measurement, which is central to performance budgeting, is also an important part of PPBS. This method combines the functions of planning activities, programmes and services, translating them into tangible projects and finally presents the requirements in budgetary terms.

Great disparities do exist in practice and lack of standards for measuring programme effectiveness/performance are the difficulties of implementing PPBS. It also suffers from other implementation problems and some critical gaps like (i) focusing on what will be done rather than how to do it, (ii) failing to provide an operating tool, (iii) lack of mechanism to evaluate the impact of various funding levels, (iv) focuses on new programmes or major increases on ongoing programmes rather than forcing continued evaluation of existing programmes, and (v) cost calculation is based on the decisions made in the planning and programming steps.

11.3.6 Zero-Based Budgeting (ZBB)

The method, developed by Peter Phyrre during early 1970s, requires thorough knowledge of the organisation, lot of time, effort and training. Having much in common with PPBS and opposite to historical budgeting, it emphasises current activities and the necessity to justify each part of the programme every year. It assumes a budget of 'zero' for each programme until one convinces the appropriating authority that the programme is worthwhile and deserving support at a specified level. It does not allow for incremental growth in budget. ZBB is an operating, planning and budgeting process which requires each manager to justify her/his entire budget request in detail from scratch (hence zero-base) and shifts the burden of proof to each manager to justify why s/he should spend at all. This approach requires that all activities be identified and developed as "decision packages" and systematic evaluation and ranking of these "decision packages" preferably using a computer. It does not take into account of what happened in the past but places emphasis on the current activities. Every programme and activity is spelled out in detail and the financial requirements are worked out without any reference to the past. In other words, request for financial support has to be established afresh every year. No activity, in fact, could continue simply because that activity was undertaken in the previous year. In other words, the entire budget is justified from scratch.

Steps involved in preparation of ZBB are:

- Activities/ programmes are grouped to lowest level entity,

- Objectives and activities of each programme examined and alternative methods evaluated,
- Programmes are then grouped into a series of ‘decision packages’ with their statement of purpose,
- Ranking of the ‘decision packages’,
- Cut-off point corresponds to the total budget allocation.

ZBB improves plans and budgets of libraries and helps to develop good management teams. It also helps to accrue follow on benefits over the years. Yet the serious problem of enormous time and efforts required together with other administrative problems as well as problems of developing and ranking ‘decision packages’ prevents its adoption in libraries.

Some Observations: Some of these budgetary methods are of recent origin and present a more readily understandable view of budgetary requirements of activities and services. A more objective justification for them makes them better instruments for purposeful spending. In practice it is necessary to understand the ‘politics’ of the budget process within the parent organisation and look for opportunity for personally participating in the final negotiations/ deliberations as well as using personal informal contacts effectively.

In India, almost all libraries follow the conventional historical method of budgeting. It is only in recent years that some attention is given to other newer methods. One aspect that needs careful examination is that most library functions and services are of a continuing nature and cannot be discontinued on any account without reference to its past. While it is necessary to evaluate performance and bring improvements to ensure quality of service, discontinuity of existing services would prove undesirable, particularly if conditions do not warrant. It is, however, possible to make a more objective assessment of these methods of budgeting, only if Indian libraries start making their budgets by these newer methods and gain sufficient experience in their operations.

Self Check Exercise

Note: i) Write your answers in the space given below.

ii) Check your answers with the answers given at the end of this Unit.

1) List the different methods of preparing library budgets.

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2) Explain briefly the features of Zero-based Budgeting.

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11.4 BUDGETARY NORMS AND STANDARDS

For the purpose of financial planning and budgeting, standards and norms have been set/proposed by professional experts, committees and bodies. They are quite useful in estimating budget, seeking and justifying funds as well as allocating budget among various items of expenditure.

Having got some idea on the methods of budgeting, let us now discuss the standards and norms that form the basis of estimating library funds required and also the distribution of funds to major items of expenditure within the total library budget. We will discuss the basis for estimating financial requirements of libraries in the next section with three important methods of estimating funds, namely, i) per capita method, ii) proportional method and iii) method of details. These methods make use of established standards and norms. However, the other aspect of budgetary norms and standards that needs attention in this section is the actual distribution of budgetary funds to different competing items of expenditure. The major items of expenditure in libraries are books and journals, salaries and allowances, both of which are to be combined to generate services. Ranganathan has suggested that the proportion of expenditure of a university library on these two major items be as follows:

Staff	:	50%
Books and other reading materials	:	40%
Miscellaneous	:	10%

The University Grants Commission Library Committee (1957) has suggested that a university library with 5,000 students and 500 teachers and research fellows should have a budgetary provision of Rs.3,50,000 out of which Rs.1,75,000 would be spent on books, journals and other kind of reading materials, and a similar amount on staff, implying thereby that the expenditure on books and staff may be equal. But general trend on expenditures in libraries tend to be higher for staff salaries than for books. Taking into account the recommendations of University Grants Commission, university and education commissions and library experts, the general norms appear to be as follows:

Salaries and allowances	:	50%
Books	:	20%
Periodicals	:	13%
Binding	:	7%
Others (supplies, maintenance, etc.)	:	10%

In the case of public libraries, the distribution is more or less the same for the two major items of expenditures.

Salaries and allowances	:	50%
Books	:	20%
Periodicals and Newspapers	:	5%
Binding	:	5%
Others	:	20%

Some Observations: Current thinking on library and information services, library budgeting and related aspects, is on the following lines.

- i) Library and information services are to be totally oriented to user needs, irrespective of the types of libraries. User needs must be systematically assessed and obtained, on the basis of which libraries should organise their services.
- ii) Library budgets, consequently, are to be in tune with need-based services.
- iii) Unit costs of every operation in a library have to be worked out and budgetary estimates have to be built on this data. Cost of library operations and services, particularly in India, is not attempted. Libraries mostly operate on appropriated funds by the parent organisations without any scientific basis for allotment. Cost accounting is essential for fixing budgetary estimates.
- iv) With tremendous increase in the cost of books, journal subscriptions, staff salaries, library and information services, etc. the question very often arises, whether library services should be continued to be given without any charge. Some of these services like literature search, document supply, compilation of bibliographies, SDI, CAS, etc. can be priced. Of course, in the context of Indian conditions these services may be subsidised partially.

On the whole, a more scientific basis for library expenditure has to be evolved in view of the importance of library services. Library budgeting has to be more innovative and in tune with the new demands.

Self Check Exercise

- Note:** i) Write your answer in the space given below.
 ii) Check your answer with the answers given at the end of this Unit.
- 3) State attributes of library budget.

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11.5 METHODS AND TECHNIQUES OF FINANCIAL ESTIMATION

By now you have realised the fact that the success of any institution depends upon the adequate and regular flow of finances. This is true with libraries also. The foundation of proper financing depends upon the correct and effective estimation. Just like government, institutions, individuals, and families attempt at making financial estimations of their needs and resources, libraries also have to prepare financial estimates. How to estimate, on what basis, and how much finance a library requires depend upon the age, jurisdiction, quantity and quality

of reading material, number of readers, and other factors relating to that particular library.

Some important bases for financial estimation for budget of libraries are:

- i) User population and its composition,
- ii) Material to be acquired (media, nature and type of information sources),
- iii) Services to be provided vis-à-vis objectives,
- iv) Unsatisfied service pressures, if any (the most frequently used factor in determining the financial needs of a library),
- v) Established national and international standards for quality in services often expressed as minima of materials, personnel and operational funds for a given size of library,
- vi) Increase in prices of reading materials and inflation.

Three methods generally used for estimating library finances are percapita method, proportional method and method of details. These methods are discussed in the following sub-sections.

11.5.1 Per Capita Method

In this method, a minimum amount per head is fixed which is considered essential for providing standard library services. The educational and cultural standards of a community, the expectations of its future needs, the per capita income of the society, the average cost of published reading material, and the salary levels of the library staff are the common factors that go to determine the per capita library finance. The per capita estimate can be based either on the number of literate persons or adults. However, the safest method is to calculate library finance per head of population.

The University Grants Commission Library Committee (1957) recommended that a university should provide Rs. 15 per student and Rs. 200 per teacher for acquiring reading material for its library. The Kothari Education Commission in 1964-66, however, recommended that “as a norm, a university should spend each year about Rs. 25 for each student and Rs. 300 per teacher”. Ranganathan suggested that per capita expenditure on university and college libraries should be Rs.20 per student and Ps. 300 per teacher. In schools, per student appropriation at the rate of Rs. 10 should be made available for the libraries. For public libraries, Ranganathan suggested, 50 Paise per capita expenditure, way back in 1950. All these per capita norms are old and obsolete. Now, the per capita figures must be much higher than that prescribed decades ago and this is the inherent limitation of the method as it does not provide for inflation and devaluation. It may be better to relate per capita to cost of living index or any suitable index so that the per capita norm automatically gets revised.

11.5.2 Proportional Method

This method presupposes that the authorities provide adequate finances to the libraries out of their regular budget, and that a particular minimum limit is fixed. A generally used measure of adequate support is the percentage of the institutional

budget which is allocated for library purposes. Various standards have been recommended for deciding this limit in India. The University Education Commission had recommended that 6.5 per cent of a University’s budget would be a reasonable expenditure for its library. The Commission suggested that “this expenditure could vary from 6.5 to 10 per cent, depending on the stage of development of each university library”. In practice, majority of the universities in India hardly spend three per cent of their total budget on their libraries. It is generally agreed by most authorities that a college should allocate to the library four to five per cent of its total expenditure. Ranganathan suggested that 6 to 10 per cent of the total budget should be earmarked for public library purposes. This proportional method of budgeting is likely to lead to a high disparity in case of special libraries as the budgets of high technology and capital intensive organisations are much larger than pure research, social science and humanities institutions.

11.5.3 Method of Details

According to this method all items of expenditure of a library are accounted for while preparing the financial estimates. These are of two types, viz., i) recurring or current expenditure and ii) non-recurring or capital expenditure.

For estimating public library finances, Ranganathan suggested the circulation of reading material be used for recurring/current expenditure and nonrecurring/capital expenditure. The Government of India Advisory Committee for Libraries (1957) followed almost similar method for estimating the financial requirements for establishing a countrywide public library system.

The UGC Library Committee (1957) in its report suggested a staff formula for finding out the quantum of library staff members of various categories required for college and university libraries. It has also laid down their respective pay scales. The total amount required for meeting the cost of the staff can be calculated by this formula. For cost of books and other reading materials, the Committee has suggested a per capita expenditure formula.

Lastly, a suitable combination of above methods may be ideal in some situations.

Self Check Exercise

Note: i) Write your answer in the space below.

ii) Check your answer with the answers given at the end of this Unit.

4) List the methods of estimating funds for libraries.

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11.6 SUMMARY

In this Unit, we have discussed library budget, its features and attributes. A library, being a service institution, offering its services without any price, does not support itself financially. Funds have to be provided to a library by its parent organisation or by the government. From the appropriations of funds made, library organises and regulates its expenditures for its functions and services according to certain norms and procedures.

Methods of budgeting like line item budgeting, Programme budgeting, Performance budgeting, Planning Programming Budgeting Systems and Zero-Based Budgeting are briefly introduced in this Unit. In Indian libraries, the conventional line item budgeting is quite common. Budgets are usually prepared in conformity with standard norms, particularly with reference to the distribution of funds towards different competing items of expenditure. The proportion of funds for staff salaries is generally more than that of books and journals in any library.

Three methods are generally considered for estimation of budget, namely, per capita method, proportional method, and method of details. Per capita method suggests a minimum sum of money per user such as students, faculty and research scholars in the case of university and college libraries. Hence, population is an important factor while working out funds for public libraries. Proportional method prescribes a percentage on the total budget of the parent organisations for libraries, whereas method of details takes items of expenditure for libraries as the working data for allocation of funds.

11.7 ANSWERS TO SELF CHECK EXERCISES

- 1) The methods of budgeting are: (i) Line item budgeting (ii) Formula budgeting (iii) Programme budgeting (iv) Performance budgeting (v) Planning programming budgeting system (vi) Zero- based budgeting.
- 2) Zero-based Budgeting (ZBB) is a new concept in budgeting which bases its expenditure estimates on specific programmes and their performance without any reference to their past expenditure. It requires fresh estimates to be made for every activity. Commencing from point zero, each activity has to be justified. Infact, the entire budget has to be justified from scratch.
- 3) A library budget is a record of funds appropriated to it and the estimated expenditure for a financial year. This record serves as a guide to the library's functions, activities, programmes and services throughout the year. The appropriations of funds and the estimated expenditure should balance each other. It is an instrument of control, communication, coordination, evaluation and motivation.
- 4) The methods of estimating library funds are:
 - i) Per capita method whereby a minimum sum of money is determined for every student, faculty member or research scholar in the university and college libraries.

- ii) Proportional method prescribes a fixed percentage on the total budget of the parent organisation's research budget, or education budget of states.
- iii) Methods of details take into account the actual amount of expenditure spent on each item.

11.8 KEYWORDS

- Budget** : A financial and/or quantitative statement prepared and approved prior to a defined period of time of the policy to be pursued during that period for the purpose of attaining a given objective.
- Budget Centre** : A section or area of an organisation under the responsibility of a manager for which budgets are prepared; these budgets are compared with actual performance as part of the budgetary control process. A budget centre may be a function, department, section, individual, cost.
- Cost-Analysis (Analysis of Cost Behaviour)** : Knowledge of the reaction of individual costs (i.e., fixed, variable and semi-variable costs) and expenses to changes in the volume of activity. Cost- analysis helps (i) planning the amount of costs to be incurred in future periods (ii) estimating profits from future activities; and (iii) determining whether costs have been adequately controlled by those responsible for their incurrence.
- Cost Centre** : A location, person or item of equipment, or a group of these in or connected with an undertaking in relation to which costs may be ascertained and used for the purposes of cost control or product costing. Cost Centre is a non-revenue-producing element of an organisation, where costs are separately figured and allocated, and for which someone has formal responsibility. The personnel function is a *cost centre* in that it does not directly produce revenue.
- Financial Estimation** : Estimating the amount of money required for running services of an institution.
- Financial Forecasting** : It is forecast of the expected financial position and the results of operations and cash flows based on expected conditions. It involves a systematic projection of expected actions of management in terms of financial statements, budgets, etc. using past records, funds flow behaviours, financial ratios and expected

economic conditions in the industry and the firm.

- Flexible Budget** : A budget that recognises the difference in behaviour pattern of fixed and variable costs and which is designed to change in relation to the level of activity actually attained.
- Operating Statement** : A summary of the operating costs (and, where appropriate, of the revenues and profit margins) of the whole or part of the activities of an enterprise for a given period. A detailed periodic report of the financial results of a firm's operations, as compared with budgeted and previous period's figures.
- Profit Centre** : A kind of responsibility centre in which the manager is held responsible for both revenues and costs, and hence for the resultant level of profit.
- Prospective Pricing** : Setting price prior to the performance of the service is called prospective pricing.
- Responsibility Centre** : A personalised group of cost centres under the control of a 'responsible' individual.
- Restricted Funds** : Restricted funds do not allow flexibility in use of funds. Like grants for specific purposes, restricted funds cannot be used for purposes other than that specified. Grants or donations that require that the funds be used in a specific way or for a specific purpose. They can be considered a contract between the donating party and the receiving party. Restricted funds are often associated with non-profit organisations, since a donation might be made to the organisation for a specific use only. If the funds are used for something other than what was stipulated, the organisation could be required to pay the funds back. For example, a restricted funds gift to a university could indicate that the funds only be used for scholarships in a specific department.
- Unit Cost** : Expenditure incurred in producing one unit of a good or service, computed usually as average cost. Cost of a single unit of operation, e.g. cost of cataloguing a single book.
- Unrestricted Funds** : Unrestricted funds allow flexibility in use of funds and reallocation of funds from one head to another.

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UNIT 12 BUDGET PREPARATION

Structure

- 12.0 Objectives
- 12.1 Introduction
- 12.2 Preparation of Library Budget
 - 12.2.1 Contents of a Budget Document
 - 12.2.2 Principles of Budget Making
 - 12.2.3 Justifying the Budget Request
 - 12.2.4 Approval of the Budget
 - 12.2.5 Notification of the Budget of the Library
 - 12.2.6 Budget Excess
- 12.3 Use of Funds, Financial Control and Accounting
 - 12.3.1 Allocation of Funds
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 - 12.3.4 Fund Accounting
 - 12.3.5 Financial Records
 - 12.3.6 Financial Audit
- 12.4 Summary
- 12.5 Answers to Self Check Exercises
- 12.6 Keywords
- 12.7 References and Further Reading

12.0 OBJECTIVES

You already know that library budget serves as an instrument of control, communication, coordination, evaluation and motivation. Studying this Unit will enable you to prepare an outline of a library budget and maintain accounts using appropriate records conforming to audit requirements.

After reading this Unit, you will be able:

- explain the process of budget preparation;
- highlight contents of budget document;
- justify budget;
- describe budgetary control process; and
- discuss the use of funds, financial control ,accounting and auditing.

12.1 INTRODUCTION

In the preceding Unit of this Block, you have learnt about the budgeting techniques and principles in general and certain standards and norms for preparation of budget. This Unit deals with the important phase of financial management, namely, budgeting, financial control and accounting. Library being expenditure oriented institution, the central aspect of financial management is the budget, which is a statement of income and expenditure, providing guidance in spending the appropriated funds through a period of time. In this Unit, we shall study the basic features of a library budget.

Preparation of library budget is a major responsibility of the librarian and her/his staff. The budget in fact, is a reflection of the current and future activities, programmes and plans of the library. It has to be prepared with the cooperation of all senior members of the staff and within the framework of rules, procedures and guiding principles. It is necessary to justify expenditure on every item, particularly when more funds are to be earmarked for any running activity or proposed new programme. Accounting, as a means of recording library expenditure, as per established rules and procedures and maintenance of necessary financial records in conformity with audit requirements are very important.

As described earlier, budget is a *road map* for the delivery of library services in the subsequent years and provides a *fiscal foundation* for library operations. It involves details of each activity and considering cost factor involved in each activity together with future growth and promises of library services.

12.2 PREPARATION OF LIBRARY BUDGET

Library budget preparation is not just the responsibility of librarian but it is the responsibility of everybody involved in running the library. Inputs need to freely flow from bottom most line and front end soldiers to unit/section heads and from section heads to librarian. Budget preparation has to follow certain budget calendar, guidelines, characteristics and costing inputs. Budget should have clarity, accuracy, consistency and comprehensiveness. In other words, there should not be any ambiguity in projection and no vagueness in cost and other estimates used. Budget is a good comparative assessment device and hence, it should reflect consistency with what happened in the past. Above all budget should provide a total/complete picture of all fiscal activities of the library.

Even though budget activity in libraries is oversimplified as an annual affair, in the strict sense budget work should take place throughout the year. Activities in the budget calendar deals during beginning and mid of the year (often, financial year is from 1st April to 31st March of the succeeding year). While reviewing annual report and previous years data takes place at the very beginning of the year to ascertain trends, patterns and changes, the mid-year peak activity includes review of expenditure and revenues to determine whether the current budget is on track. Usually a new Budget Estimates (BE) for the next year and a Revised Estimate (RE) for the current year (i.e., RE of previously estimated BE) are prepared once in a year around mid of the year so that the same is reviewed, adjusted and finally approved by the authorities well before completion of the financial year.

Budget activity of the library presupposes the type of budgetary technique adopted by the parent organisation. Even though there are several budget types like Program Budgeting, PPBS and Zero-Based Budgeting, it is the traditional Line Item Budgeting is widely used in reality. Similarly, the financial year (FY) followed by the parent organisation has to be invariably followed by the library. In addition, several guidelines of the organisation in consultation with finance and accounts department have to be followed. Generally the Accounts Department of the parent organisation parallelly maintains broad accounts relating to library as part of total accounts of the organisation. Accounting of sanctioned budget along with gifts, donations, earnings, special funds, etc., if any, are maintained by library with greater details than that maintained in accounts department to monitor how funds are used. It is a good practice to periodically reconcile the library accounts with that of finance/accounts department of the parent organisation.

It is necessary that the library professionals have clear understanding of budgetary terms like revenue item, expenditure item, foreign exchange, operating cost, capital cost, etc. Operating activities recur regularly and can be anticipated from year to year whereas capital activities occur irregularly and require special fund raising efforts. Normally, new or remodeled library building, major upgrades of technology, purchase of expensive equipment or furnishings fall under capital activities. It is very important that operating and capital activities are kept separately in the budget. All revenues should be broken down by the source of funding and expenditures are usually grouped in categories with similar products or services tied together.

Another important set of guidelines to be followed while preparing budget of library is whether expansion or growth is desired. If so rate and areas of growth have to be kept in mind. It is necessary to have inputs and guidelines from the authorities, library committee or board, finance committee, etc. Some of the broad guidelines/ indicators usually set by authorities are steady state, controlled growth, selected growth, overall reduction and selective reductions. 'Steady state' is a case of cost to continue and it assumes no changes in the budget or allows only an increase for inflation. On the other hand, 'controlled growth' guideline establishes a determined percentage for the total increase in expenditures. 'Selected growth' tries to establish targeted or permitted increases with no personnel but wage and other expenditure increases for existing personnel are taken care. An 'overall reductions' guideline sets a percentage for total decrease in expenditures of the library. Another possibility is to have 'selective reductions' guideline specifying targets for specific decreases in expenditure. It is also possible that management provide a unique combination of guidelines and the same need to be kept in view while preparing budget for the library.

The process of preparing budget begins with considering what the library hope to accomplish in the next year. It is necessary to have current long-range plan in mind with necessary adjustments/revision made to update it. An important aspect in budget preparation, in recent years, is to note the current and new factors like developments in ICT, resource sharing, networking, consortia, etc. affecting the library. The overall current economic condition of the parent organisation and in the country has also to be kept in view while preparing the budget for library.

Budget estimates depend much on what users require. Hence, it is necessary to document library service needs of users and the library activities necessary to meet those needs. Head of library should widely invite suggestions from library staff on possible new services, additional material and personnel required for 'new services'.

The total financial resources required has to be determined taking into consideration estimated approximate increase for regular budget items, expected revenues, increase in cost, increase in usage, the need for new services, change in number and composition of user community, etc. However, any anticipated resource constraints have to be spelled out how inadequate resources are likely to affect goals of the library.

After drafting the library budget (both BE and RE) each item is reviewed with Finance Committee, Library Committee/Board/Director before submitting for approval. The required funds are secured once the budget document is approved with or without modifications. Occasionally, budget document may need changes during the budget year due to unexpected developments.

The preparation of the budget is the responsibility of the chief librarian who also has the responsibility for allocating and administering funds within the overall activities and services of the library. This responsibility can be delegated to the next level, i.e., department or section heads, but the overall coordination and accountability still rests with the chief librarian. Adequate discussion should take place between the chief librarian and her/his section heads. When the information needed for making the estimates for the library budget has been assembled the next step is the preparation of the budget itself. Preparation of a budget takes substantial time and efforts. Generally during the middle of the current financial year, Budget Estimates (BE) for the next financial year and Revised Estimates (RE) for the current financial year are called for by the office concerned. Estimates are prepared on the basis of past experience, present demands and future expectations of requirements. The estimates should take into account the actual expenditure of previous financial year, spillovers, if any, amount spent up to the date of preparation of the budget during current financial year, foreign exchange requirements (if any), advance commitments to be made for the next financial year, capital items, etc. No set of rules can be given for preparing this statement, but the librarian should bear in mind the impact of inflation on cost of books, periodicals, binding, and other supplies. The increase in enrolment, the probable need for annual salary increases at least comparable to those of the past five years and the possible impact of new technological developments on library economy and efficiency are some of the factors to be kept in mind. Head of the library has to discuss the budget proposal with the section or department heads before the final consolidation. Budget requirements are filled up in a proforma approved by the institution. The proforma commonly used for a historical budget in academic libraries is of two types: i) Schedule of expenditure on pay and allowances of staff ii) Schedule of expenditure on all other items. The above-mentioned two schedules of expenditure usually are made under the following heads.

Schedule of expenditure on staff salaries:

It is usually prepared under the following heads:

- 1) Serial number
- 2) Designation of staff member
- 3) Pay scale
- 4) Basic pay on 1st April
- 5) Total for twelve months
- 6) Date of increment
- 7) Rate of increment
- 8) Total amount of increment (rate x months)
- 9) Dearness pay rate and amount
- 10) Dearness allowance rate and amount
- 11) House rent rate and amount
- 12) Contribution to GPF/CPF rate and amount
- 13) Any other honorarium rate and amount
- 14) Interim relief rate and amount
- 15) Total of amount of columns 5, 8 to 14

Schedule of expenditure on all items:

This contains, inter alia, the following heads:

- Establishment
- Salaries
- Allowances
- Contribution to provident fund, gratuity
- Other recurring expenditure
- Binding
- Stationery
- Postage
- Contingency
- Books, periodicals and back sets
- Other non-recurring expenditure
- Construction or expansion of library building
- Maintenance of library building
- Purchase or repair of furniture
- Equipment
- Employing additional staff for specific time and purpose, such as processing of books needed for special purposes
- Special collections

As mentioned earlier, all the above items are to be shown in four types, viz. actual expenditure for the last year, estimated expenditure for the current year, revised financial estimates for the current year, and estimated expenditure for the next year. Thus, the budget provides a linkage between three years.

12.2.1 Contents of a Budget Document

The budget document is an official document, seen or circulated to several administrative and financial officials of the parent organisation. Hence, it should be self-contained with regard to the activities and services of the library, self-explanatory, well organised and neatly presented. Every item of expenditure with reference to its past allocation and enhanced current requirements must be clearly stated with justification for the extra funds.

The format of contents of a budget document is given below:

- Title page indicating the budget estimates for the year...
- Contents
- Executive summary
- A synopsis of the budget
- Budget at a glance

Part I Goals and objectives of the library in brief together with activities and accomplishments of the previous year

- Anticipated activities and proposed targets for the budgeted year
- Future perspectives

Part II Budgetary estimates: a total view

- Estimates by items on separate page
- Salaries and allowances
- Books and journals
- Library, documentation and information services
- Equipment
- Stationery, postage, etc.
- Building maintenance
- Contingencies
- Miscellaneous

12.2.2 Principles of Budget Making

The budgets of different libraries vary considerably. Nevertheless, there are some elements which are essential and common for different library budgets. They may be reduced to a few guiding principles and applied in the preparation of any library budget. Some of these guidelines are discussed below.

The librarian should be invited by the authorities to submit the library budget. The librarian in turn must consult her/his departmental heads about book funds, and the library staff members about personnel and other administrative costs. The final choice of what goes into the budget and how much to ask for should rest with the librarian.

The librarian should request sufficient funds in each head of the budget to support a sound programme of library development. It is very important to calculate the

expenditure by anticipating income, inflation rate, foreign exchange rates, salary increases, insurance rate, public utility charges, etc. as well as time-delay.

The budget should be prepared and submitted in time. This facilitates recruitment of additional staff, ordering of materials, etc. in a proper way.

The academic library budget should represent library planning in terms of educational goals and not be simply a “crisis” operation in which urgent current needs are hastily converted into Rupee estimates to meet a budget deadline. Planning to meet educational goals implies that the library will take into account proposed new curricular changes, the impact of new courses on library books and personnel, the effect of price increases in binding and like.

The budget should be reasonably flexible in its execution. Classification of the budget categories should enable the library to check its financial records easily against the periodic balance statements.

Some important sources of finance for a library or information centre, as discussed in Unit 10, include (i) regular grants from parent organisation and/or governments, (ii) adhoc grants or subsidies (iii) fines, fees and services charges. Important heads of expenditure of information centre or library (as explained earlier) are (i) collection building and updating (books, journals, reports, etc.) (ii) binding and other maintenance costs, (iii) furniture and equipment, (iv) building, (v) salaries and wages (vi) stationery, postage, etc.

Depending on the size of library or information centre and nature of its parent organisation the complexity of budget and budgetary control system may vary from a simple fairly fixed (constant) voted grant of budget from parent organisation for books, journals and other reading materials to a most complex situation where grants are received from parent institution and other agencies in addition to certain revenues earned. These sources of finance may have several restrictions in their deployment. Allocation has to be done to all heads as explained above and by type of material (i.e., books, journals, reports, etc.), subjects, or by departments, etc. An “effective budgeting can display endless variety” in terms of material (Newton, 1981). The budgeting method used by a library or information centre is normally decided by the parent institution.

Self Check Exercise

Note: i) Write your answer in the space given below.

ii) Check your answer with the answers given at the end of this Unit.

1) State the contents of a budget document.

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12.2.3 Justifying the Budget Request

The chief executives of the parent organisation often take the final decision about library budget. The officials who are responsible for providing library funds will quite naturally want to know why the funds are required. They will consider critically the merits of the library request in relation to those of other departments or agencies and the total financial resources at their disposal. It is probable that funds will not be sufficient to meet all the requirements in full and that budget allocations may be affected accordingly. The library budget request should state separately and clearly the purposes for which funds are requested and explain why additional funds may be required in certain categories. The supportive documentation and justification for the budget has to be developed through out the year. Justification for the library's budget will already have been made if the arguments for services have been well presented in detailed and timely reports throughout the year. In other words, budget preparation should not become once-a-year crisis. As stated earlier, it is also necessary to understand the 'politics' of the budget process and build up effective rapport with the key members of the team or committee.

Sometimes the librarian may think it expedient to present an inflated budget, considering the fact that the authorities usually sanction less than what is asked for. This is not a good practice. Padding the budget is not only ethically questionable, but also unwise and inadvisable because it is difficult to justify amounts in excess of proven needs. The librarian is also a part of the college, university or such other parent bodies and, as such, must realise that there are many demands and constraints on the limited resources in majority of institutions. The librarian should neither minimize the requirements of the library, nor be unduly discouraged if the library committee or finance committee is unable to give all that he asks for because of other pressing and urgent requirements of the parent institution. The best that can be done is to present an honest picture of the cost of running a library, in terms of material needed and of services expected for the clientele. After making an honest budget, the budget request must be accompanied by a free, clear, and forceful argument proving the need for the amount asked. Remember that there is no better way of sowing suspicion in the minds of usually hard-headed finance authorities than presenting an unrealistically inflated budget.

While preparing the budget you should remind yourself that, regardless of other values it may have, the budget document must be easily understood and so convincing in its arguments that the appropriating authority will be persuaded to accept it and provide the necessary funds. To produce such a document, you should use all the techniques and supporting data that are available with you.

12.2.4 Approval of the Budget

The librarian presents the budget to the library committee or any other authority for discussion and approval. The library budget, with the approval and recommendations of the committee, is sent to the university office or any appropriate office to be incorporated in the total university or organisation budget. The Executive Council/ Syndicate of the university passes the entire university budget. The visiting committee of the University Grants Commission assesses plan requirements of the university library. The visiting committee visits the

library and discusses the library requirements with the librarian. The approved recommendations are consolidated and submitted for sanction to the University Grants Commission.

In a college, usually the principal of the college approves the library budget, after taking into account the requirements and opinions of the heads of different teaching departments, and the requirements in different subject areas. In public and special libraries, similar procedures are there to get the budget approved and sanctioned by appropriate authorities.

12.2.5 Notification of the Budget to the Library

When the budget is passed, the same is communicated to the library. This includes both plan and non-plan budget. The university authorities in consultation with the State Government approve plan budget wherever necessary (especially when matching grant is involved). After the budget notification, the university librarian informs the different academic departments regarding the budget allocations. These allocations, in fact, are funds in the names of different departments placed at the disposal of the university librarian. Money is spent by the librarian on items recommended by the heads of the departments. The library committee does the subject-wise allocations for books and periodicals. This is purely an internal arrangement of the library after the passing of the budget. If there are differences of opinion on allocations to different subjects, they are usually adjusted, erased and balanced by the library committee.

12.2.6 Budget Excess

Bill or library commitments which exceed the sanctioned budget, if any, for the library are usually adjusted in two ways, i.e., (i) by adjustment of the excess amount in next year’s budget and/ or (ii) by additional allocation subject to approval by the authorities. However, it has been observed in practice, that the second alternative is not only theoretical but also a doubtful and remote possibility. Budget excess adversely affects on the attitudes and awareness of the management towards the library.

Self Check Exercise

Note: i) Write your answer in the space given below.

ii) Check your answer with the answers given at the end of this Unit.

2) If there is excess in library spending beyond the budgeted allotment, state the methods of adjusting the excess.

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12.3 USE OF FUNDS, FINANCIAL CONTROL AND ACCOUNTING

Most of the practitioners are much concerned and are more serious about the phase of actual use of funds, accounting, auditing and financial control. This phase in itself involves allocation of funds as envisaged in the budget, encumbering funds under each head, fund accounting and financial audit. Let us briefly discuss some of these aspects in this section.

12.3.1 Allocation of Funds

Allocation of funds might have been based on past practices and performance, differential publication rate and inflation rate, level of demand, actual use and the total programme of the library or information centre. Actual allocation could be by departments/units, by subjects, by type of material, by users, by language or by format. Such an allocation of funds provides better control and more effective way to monitor funds and has best chance to achieve fair balance in development of programmes and services. However, a rigid allocation, particularly for collection development, may lead to difficulty in transferring fund from one account to another and consequently under spending may occur in some cases when the other heads starve for funds. In addition to such ineffectiveness, approval, blanket and standing order plans as well as development of reference, general and special collections may not fit into any heads. Further, matching the needs and monies available becomes complicated, time consuming and it may be difficult to develop models even after massive efforts. However, it may be noted that such formal allocation of funds may not be necessary in a small libraries.

12.3.2 Encumbering Funds

The most difficult task in budgetary control process in libraries and information centres is encumbering funds. Encumbering funds is a complex process that allows one to set aside monies to pay for ordered items. The process of encumbering funds is difficult and complicated for various reasons. Firstly, it is common that there will be other under spending and/ or overspending in some heads. Secondly, there are some uncertainties about supplies (delayed supplies and non-supplies). Libraries make several orders for documents under many heads in a given financial year and supplies are received continuously at no fixed intervals. Generally there is no automatic cancellation of non-supplied or unbilled orders and hence no disencumbering done automatically. It is very common that prices, discounts and handling charges of documents as well as exchange rates for foreign currencies keep changing frequently causing variation in the value of funds encumbered. Lastly, moving 'monies' back and forth by encumbering and disencumbering in a manual system can lead to errors.

12.3.3 Financial Control

It is already stated earlier that budget is a tracking device to measure progress, highlight variations from the plan and show the need for corrective actions to put the operation back on track. Nobody has the luxury of working without financial restrictions. Nobody gets money without justifying its requirements. Above all, one should be prepared to face both sudden windfalls as well as severe cuts in budgets. Budgetary control system is an example of a system (particularly,

the monetary and evaluation techniques of systems analysis) as well as a widely recognised control function of the management.

Budgetary control is one of the oldest and transitional control techniques used by managers. Budgetary control is the process of comparing what was planned with what has been accomplished during the budget period. It is not a past-oriented or post-action control but a future-oriented control system. It is not a post-mortem type assessment but a continuous examination of the progress made and comparing it with the cost standards and time lapsed so that the manager is able to make adjustments in operation on a day-to-day, week-to-week, or month-to-month basis for rest of the period of the budget.

As budget is only a futuristic plan, how far the actual operations of the library or information centre have, conformed to the budgeted programme will be known only after completion of the budget period (i.e., financial year). Knowing post-facto how much deviation or under spending or ineffective utilisation of resources has taken place is like discussing the ways of avoiding accident after the accident has occurred. Hence, continuously monitoring the operations to examine how the operations are carried out, whether there are any deviations, the causes for deviations and ways to rectify deviations within a week or a month will be of immense help. Though budget is prepared once in a year, the budgetary control process is a day-to-day, week-to-week, fortnight-to-fortnight, month-to-month and quarterly-to-quarterly activity for a check of all revenues and expenditures budgeted and stated before hand.

The three basic steps in the control process are: establishing standards, comparing results with standards and taking corrective action. Preparation of budget is nothing but establishing cost standard. This process begins with top management setting goals and objectives and the lower level managers developing budgets for their units and the same successively reviewed and integrated at each higher level. Unlike profit-oriented organisations where budget for marketing expenses can influence the amount of revenue, the service-oriented and not-for-profit organisations should have different kind of simple matching of revenues and expenses.

Statements relating to commitments and actual expenditure should be regularly checked and continuously reviewed to control the budget. In the actual practice of budgetary control system, operating statements have to be prepared for each of the budget centres (or heads or items) involved. These statements should form part of the management information system (MIS) used to control the performance of library or information centre against the budget plan. A good budgetary control system should follow the theory of 'management by exception' and focus its attention on matters that are adverse or that show an unusual variance in addition to providing full details of budget statements.

In practice, it may be suffice to have monthly reporting in the beginning of financial year and changing the periodicity to fortnightly during later part of the year. However, the unit heads may have data on daily or weekly basis throughout the year to facilitate operational control and the same need not be sent to head of the library or information centre. Appendix 1 exhibits a simple proforma operating statement for budgetary control.

- Note:** i) Write your answer in the space given below.
ii) Check your answer with the answers given at the end of this Unit.
- 3) Why do we need a budgetary control system?

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12.3.4 Fund Accounting

Accounting means a systematic maintenance of the income and expenditure flow on records. A properly conducted accounting system is a basic prerequisite of efficient financial administration. Its main purpose is to ensure that the library funds are spent correctly, properly and within limits. It also helps in planning the future budgets and for making special studies. In other words, the purpose of fund or financial accounting for not-for-profit organisation is to assure proper use of monies provided and to make it possible to track expenditure.

The major part of the fund in a library is operating fund. For fund accounting purpose operating fund can be divided into restricted fund and unrestricted fund. Unrestricted fund allows flexibility in use for purposes other than that specified where as restricted fund cannot be used for other purposes.

The cardinal principle of fund accounting is that every financial transaction is charged to some account and a record consists of what the transaction involved. Fund accounting system allows for verification of all the transactions and provide accurate report. Proper fund accounting by allowing one to know how much money is spent, how much is left and how is encumbered or committed aids budgetary control process and enables continuous checking and reviewing of the situation and examination of the need for reallocation or reappropriation of funds. It makes clear to the spender how much amount s/he has spent and how much is left, so that there is neither under-spending nor over-spending. It helps the administration to remain alert against misappropriations and maladjustments. Before setting up a book keeping system, the librarian should result the finance section to determine the procedure of accounting so as to serve best their mutual purposes.

12.3.5 Financial Records

All institutions that want to survive must meet certain standards of business organisations and the library is no exception to the general rule. Its financial records, like its budget should be set up in accordance with the main accounting procedures of the parent office. It is no longer considered a good practice to maintain a separate library account, handled directly by the librarian. In most institutions, all library payments are made through a central office. The finance section of the organisation maintains the library account while the library

maintains the records of detailed accounts including outstanding orders, bills forwarded, etc.

As stated earlier, the main purpose of library accounting is to keep expenditures within the budget. In addition, accounting helps in the preparation of the annual report and budget, provide the factual monetary basis for making decisions, assist the departments in making a wise and systematic use of fund and provide information for library reports, studies and surveys.

Most of the libraries keep their financial records according to a single-entry system. Though certain amount of diversity is found in the maintenance of financial records in different libraries, one main point to be kept in mind is that these records should be the simplest possible, consistent with efficiency and should permit rapid and convenient checking against office ledgers. Some of the records libraries normally maintain are explained below.

- a) **Cash Book:** The cash book is a record in which details of daily cash transactions regarding income and expenditure of an institution are entered. But in many libraries, the librarian does not maintain a cashbook, because the financial transactions generally take place through the accounts/administrative office, and not directly through the librarian. However, the libraries which take some amount towards contingency expenditure do maintain a record in the form of cashbook. The specimen of cashbook of a library is as under.

Receipts					Expenditure				
Date	Particulars	No. & Date of voucher	Head of account to be credited	Amount Rs. Ps.	Date	Particulars	No. & Date of voucher	Head of account to be credited	Amount Rs. Ps.
Total					Total				

- b) **Ledger:** A ledger is a book in which the budget provision or income is given at the top and expenditure on all items and subjects is entered one after the other. The specimen of a ledger is as under:

Name of the library : Year:

Budget provision : Rs. Head:

S.No.	Name of vendor	Bill No. & Date	Amount	Amount passed for payment	Progressive total	No. of Books	Subject	Signature of librarian
1	2	3	4	5	6	7	8	9

- c) **Allocation Register or Allotment Registers:** In allocation register expenditure head-wise and subject-wise accounts are maintained. Separate financial records are maintained in the library for books, periodicals, binding, stationery, contingency, postage, etc. under approved budget heads. It helps us in knowing, at any point of time, how much money under what head and on which subject is spent or committed/ encumbered and how much balance remains to be spent. Technically speaking, though ledger and allocation register are two different records, their purposes are the same. The specimen of an allocation register is as under:

Name of library: _____ Year: _____
 Head of demand: _____ Provision of amount allotted: Rs. _____

S.No	Name of vendor	Bill No. & date	Amount	Amount passed	Progressive total	Bal-ance	No. of books	Sub-ject	Sign of in charge	Sign of librarian
1	2	3	4	5	6	7	8	9	10	11

- d) **General invoice register or bill register**

The specimen of bill register is as under.

Name of library: _____ Year: _____

S.No	Bill No. & Date	Name of firm	Amount	Sign of librarian	Sign of bill receiver	Remarks
1	2	3	4	5	6	7

In this register the serial number given in column one are termed as the voucher number of this bill. The office copy of each bill is arranged in serial number in separate file after the same has been processed and paid for. This arrangement helps the library staff in finding out any information regarding any item at any time as the voucher number of the bill links it to all registers in library sections and relevant records.

- e) **Monthly Expenditure Statement:** This statement helps the operator of each head of expenditure to know the latest position of the grant at the end of every month. A specimen of the monthly expenditure statement is as under:

Name of library: _____ Year: _____

Allocation: Rs. _____

Month	Expenditure	Cumulative expenditure	Balance	Sign	Remarks
April					
May	etc.				

- f) **Salary Bill Register:** The salary bill register of the library staff is a detailed document of the salaries during a particularly year. It contains information relating to salary and deductions of library staff. In this register all the entries are made by the accounts section except the leave record of the library staff, which is filled in by the librarian.
- g) **Record of Petty Cash:** In general, petty cash accounts are handled in two ways: (i) Turning fine and replacement monies into petty cash directly, (ii) Fine and replacement monies are collected directly by the accounts office and this amount is made available to the library in the form of petty cash. In some cases, separate amount is drawn and used as petty cash and fine being a revenue cannot be used by the library.
- h) **Equipment Record or History Card:** Another useful record for the library is a card file of major equipment. This should be made in duplicate, one copy to be kept in the main administrative office and the other in the library’s files. It should indicate the name of the item, the date of purchase, the cost, and such information as serial numbers (e.g. PCs). This record facilitates equipment purchasing and replacement, makes possible a more considered judgment in placing replacement orders or in deciding repair versus replacement, and also provides an accurate inventory for insurance and other purposes. Many problems of legacy accounting system are solved in automated accounting system.

Self Check Exercise

Note: i) Write your answers in the space given below.

ii) Check your answers with the answers given at the end of this Unit.

4) State the reasons for keeping financial records.

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5) Give the headings of an invoice register.

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12.3.6 Financial Audit

Lastly, financial audit part of the process enables meticulous but sample scrutiny of financial transactions to have proper control over irregular, inappropriate and wasteful expenditures. Auditing is a scrutiny of the financial transactions of government and semi government bodies. It is deemed necessary from the authority's point of view for their satisfaction.

Libraries and information centres normally have post-audit by external/central/statutory auditors, who usually look into loss of reading materials, irregularities in procurement processes and outstanding advance payments and supplies. Even though two types of audit *systems* are prevalent in their country, government departments and libraries generally follow post-audit. Post-audit means that the drawing and disbursing officer prepares the bills, signs them and sends them to the treasury/ bank/ principal for payment. The drawing and disbursing officer is responsible for the correctness of the bills. The officer or the librarian must satisfy herself/himself fully before signing the bill. In post-audit system, only random audit is resorted to, after the financial year comes to a close. Every item is not checked, but some months are selected at random. Payment items occurring during these selected months are thoroughly and minutely verified. Mistakes, if any, are pointed out. The person concerned is advised and warned to be cautious in future.

Pre-audit system is generally followed in autonomous bodies in which the audit is under local fund account. In case of pre-audit, no item can be passed for payment unless it has been first audited. Pre-audit system reduces the responsibility of the drawing/dischursing officer in the sense that all the necessary verifications such as checking of items, accessioning of items, charging of approved rates, correctness of calculations, debiting to proper head of account, etc. have already been done by the audit section in advance. Here instead of the drawing officer, the auditors satisfy themselves before the bills are passed for payment. Auditing is carried out both by internal audit team as well as external/statutory audit team. The problem of correcting and noting for future do not arise in pre-audit procedures. This simplifies matters somewhat and reduces the auditing responsibility of the librarian.

Self Check Exercise

Note: i) Write your answer in the space given below.

ii) Check your answer with the answers given at the end of this Unit.

6) State why auditing is necessary in libraries?

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12.4 SUMMARY

This Unit has explained how to prepare budget with typical contents of a budget document and few helpful guidelines for preparing budgets. The contents of the budget document, principles of budget making, justification for expenditure, getting approval for the budget and handling budget excesses and other usual budget formalities are also explained in this Unit.

Issues relating to allocation of funds, encumbering of funds and fund accounting as a preparation to proper use of funds and control of budget are discussed. While budget is a financial statement which provides details of the proposed revenues and their utilisation for expenditure for a specific period, the budgetary control is the process of comparing what was 'planned with what has been accomplished during the period. Libraries and information centres have certain peculiarities as service-oriented and not-for-profit organisations and hence implementation of budgeting and budgetary control system in such institutions is more difficult than in profit-oriented organisations. Budget and budgetary control system have many merits like use of Rupee as a common denominator, dealing directly with efficiency of the organisation, stimulating good management practices, detecting deviations, suggesting corrective actions, facilitating centralized control and availing collective wisdom of people involved.

The final aspect of financial management is that of keeping accurate records of money spent, and remaining balance. There are standard procedures and rules for maintaining different types of records of expenditure, which are described with examples. Library expenditure is subject to audit to ensure that the expenditure has been according to norms, rules and procedures.

12.5 ANSWERS TO SELF CHECK EXERCISES

- 1) The contents of a budget document, besides the title page and contents, includes the following: budget at a glance; goals and objectives of the library in brief; activities and accomplishments of the previous year; activities and proposed targets of the budgeted year; detailed statement of expenditure estimated for the budgeted year along with the past year, on all the activities or items of expenditure.
- 2) Excess expenditure beyond the estimated expenditure is adjusted in the following ways:
 - i) The excess amount is shifted to the next year's budget, subject to the approval of the financial and administrative authorities
 - ii) Making a special request for funds for the extra expenditure, subject to the approval of the financial and administrative authorities.
- 3) Budget is a futuristic plan. Actual performance may or may not conform to the budget due to various reasons. Instead of knowing whether actual performance varied from the budgeted target after the budget period, it is better to periodically monitor and know the deviations from the set budget so that wherever possible necessary adjustments can be effected during the subsequent periods to make actual performance to become close to budgeted targets. It is exactly for this purpose a budgetary control system is needed.

- 4) Financial records are necessary as they serve the following purposes:
 - i) Help in the preparation of the annual report and the budget of the following year,
 - ii) Provide factual monetary basis for making decisions on books, periodicals and other expenditures;
 - iii) Assist the departments, in case of universities, in making a wise and systematic use of their book fund allotment;
 - iv) Provide information for annual reports, studies and surveys.
- 5) Generally invoice register has the following headings; Serial Number; Bill Number and date; Name of Firm; Amount; Signature of the Librarian; Signature of bill receiver; Remarks.
- 6) Audit is necessary in libraries to check whether the allotted budgetary funds are spent according to financial procedures, rules and norms. It seeks to control irregular, inappropriate and wasteful expenditure. Every administrative and financial authority consults audit reports in order to satisfy themselves that the allocated funds have been spent properly and lawfully invariably.

12.6 KEYWORDS

- Accounting** : A systematic maintenance of income and expenditure flow on records. It is a systematic process of identifying, recording, measuring, classifying, verifying, summarising, interpreting and communicating financial information. Accounting provides information on the (i) resources available to a firm, (ii) the means employed to finance those resources, and (iii) the results achieved through their use
- Audit in relation to Accounting** : Systematic examination and verification of a firm's books of account, transaction records, other relevant documents, and physical inspection of inventory by qualified accountants (called auditors).
- Auditing** : Official examination of accounts and scrutiny of financial transactions of a government or non-government body/institution.
- Budget** : A financial and/or quantitative statement prepared and approved prior to a defined period of time of the policy to be pursued during that period for the purpose of attaining a given objective.

- Budget Centre** : A section of the organisation or the undertaking defined for the purpose of budgetary control.
- Cost Centre** : A location, person or item of equipment, or a group of these connected with an undertaking in relation to which costs may be ascertained and used for the purposes of cost control or product costing.
- Cost-Analysis (Analysis of Cost Behaviour)** : Knowledge of the reaction of individual costs (i.e., fixed, variable and semi-variable costs) and expenses to changes in the volume of activity. Cost analysis helps (i) planning the amount of costs to be incurred in future periods (ii) estimating profits from future activities; and (iii) determining whether costs have been adequately controlled by those responsible for their incurrence.
- Financial Estimation** : Estimating the amount of money required for running services of an institution.
- Financial Forecasting** : It is a forecast of the expected financial position and the results of operations and cash flows based on expected conditions. It involves a systematic projection of expected actions of management in terms of financial statements, budgets, etc. using past records, funds flow behaviours, financial ratios and expected economic conditions in the industry and the firm.
- Financial Records** : Documents which keep track of library expenditure i.e., cash book, ledger, salary bill register, allocation register, etc.
- Flexible Budget** : A budget that recognises the difference in behaviour pattern of fixed and variable costs and which is designed to change in relation to the level of activity actually attained.
- Library Expenditure** : Money spent by a library on different heads such as purchase of reading materials, salaries and allowances, stationary, postage, furniture, equipment, etc.
- Non-plan Grants** : Regular budgeted grants given every year.

- Non-recurring Expenditure** : Expenditure that do not repeat every year (e.g. building, equipment, machinery, etc.).
- Operating Statement** : A summary of the operating costs (and, where appropriate, of the revenues and profit margins) of the whole or part of the activities of an enterprise for a given period.
- Plan Grants** : Funds made available on projects that go under annual plans, five-year plans, etc.
- Profit Centre** : A form of responsibility centre in which a manger is held responsible for both revenues and costs, and hence for the resultant level of profit.
- Prospective Pricing** : Setting price prior to the performance of the service is called prospective pricing.
- Recurring Expenditure** : Expenditure that repeats every year e.g. books, journals, staff salaries, etc.
- Responsibility Centre** : A personalised group of cost centres under the control of a 'responsible' individual.
- Restricted Funds** : Restricted funds do not allow flexibility in use of funds. Like grants for specific purposes, restricted funds cannot be used for purposes other than that specified. Grants or donations that require that the funds be used in a specific way or for a specific purpose. They can be considered a contract between the donating party and the receiving party. Restricted funds are often associated with non-profit organisations, since a donation might be made to the organisation for a specific use only. If the funds are used for something other than what was stipulated, the organization could be required to pay the funds back. For example, a restricted funds gift to a university could indicate that the funds only be used for scholarships in a specific department.
- Single Entry** : Entries showing only expenditure.
- Single Entry Bookkeeping** : An accounting method in which transactions are recorded as a single entry, rather than as both a debit and a credit as in double-entry bookkeeping.

- Unit Cost** : Expenditure incurred in producing one unit of a good or service, computed usually as average cost. Cost of a single unit of operation, e.g. cost of cataloguing a single book.
- Unrestricted Funds** : Unrestricted funds allow flexibility in use of funds and reallocation of funds from one head to another.

12.7 REFERENCES AND FURTHER READING

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