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SI 626 – Management of Libraries and Information Services

Class Ten: Financial Management II

Overview

- Budgets and budgeting.
- Financial challenges.
- Financial statements.
- Conclusion.
- Feedback on Assignment #3.

Budgets & Budgeting

- Learning Objectives
  - To develop an understanding of theories and principles of budget preparation.
  - To develop skills in the budgeting functions in libraries and information services.
  - To promote critical thinking and reflexivity about the practice of budgeting.

Budgets – last week

- Types of budgets.
  - Capital.
  - Operating.
  - Cash flow.
- Budget formats:
  - Line item (Lump sum).
  - Formula.
  - Program.
  - Performance.

Library budgets

- Varied autonomy due to frequent location of libraries in parent institutions.

- As non-profits, many differences from for-profit companies:
  - Costs tend to be more discretionary.
  - Often more predictability – annual cycles, etc.

Budgeting

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- Determine programs and priorities.
- Establish timing and responsibilities.
- Establish guidelines, policies and procedures .
- Estimate revenue.
- Estimate expenses (costs).
- Combine all estimates in an overall budget.
- Preparation of budget justification.
- Submission and approval of budget.
- Ongoing monitoring (budgeted/actual).

(Anthony & Young, 2002; Dropkin, Halpin & La Touche, 2007; Evans & Ward, 2007; Prentice, 2005; Stueart & Moran, 2007)

Budget Guidelines

- Strategies for organization-wide budget:
  - Top-down:
    - Set outcome goals and performance measures.
    - Set income and expense targets.
  - Bottom-up:
    - Request three draft budgets from units that reflect priorities.
      - E.g., 3% increase; no change; 3% decrease
    - Zero-based budgeting.

(Anthony & Young, 2002; Dropkin, Halpin & La Touche, 2007)

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Budget Guidelines

- Creation of new services or positions.
- Personnel costs: salary increases, benefits.
- Budget templates.
- Number of draft budget scenarios.
- Income and expense projection procedures.

(Anthony & Young, 2002; Dropkin, Halpin & La Touche, 2007)

Zero-based budgeting

- *"If this activity were not here today, would we start it?"*

  Peter Drucker, 1964

- No assumptions - every activity must be justified or re-justified.

(Dropkin, Halpin & La Touche, 2007)

Zero-based budgeting

- Steps:
  – Identify and evaluate major activities.
  – Ask questions about activities.
    - Should this activity continue, or would other activities be more important or appropriate?
    - Should it continue operating as is, or should it be changed?
    - If it should be changed, how and when should this happen?
    - How much should the organization spend on this activity?

(Anthony & Young, 2002; Dropkin, Halpin & La Touche, 2007; Stueart & Moran, 2007)

Zero-based budgeting

- Steps:
  - Create alternatives based on answers.
  - Project revenues and expenses based on these alternatives.
  - Rank activities; choose a cut-off point.
  - Decisions:
    - Abandon activity.
    - Change activity.
    - No change to activity.

(Anthony & Young, 2002; Dropkin, Halpin & La Touche, 2007; Stueart & Moran, 2007)

Zero-based budgeting

- Discussion:
  - What are the strengths of zero-based budgeting?
  - What are its potential weaknesses?

(Anthony & Young, 2002; Dropkin, Halpin & La Touche, 2007)

Zero-based budgeting

- Discussion:
  - What are the strengths of zero-based budgeting?
    - A broader range of options are considered.
    - More adaptive to change.
  - What are its potential weaknesses?
    - Resources required.
    - May feel threatening.
    - Availability of detailed cost data may be a problem.

(Anthony & Young, 2002; Dropkin, Halpin & La Touche, 2007; Stueart & Moran, 2007)

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Estimate revenue

- Revenue-first policy.
  - Expenses <= anticipated revenues.
  - Careful estimate of total revenues.
  - Commitment to cost-cutting if needed.
  - Hard vs. soft money.

- Uncertain income – a conservative approach.

(Anthony & Young, 2002; Dropkin, Halpin & La Touche, 2007)

Estimate revenue

- Sources and types of revenue.
  - Unrestricted funds.
  - Contract or grant agreement funds.
  - Restricted contributions.
  - Matching funds.
  - Income generated from productive enterprise or donations.
  - Asset-generated income.

(Anthony & Young, 2002; Dropkin, Halpin & La Touche, 2007)

Estimate revenue

- Income indicators
  - Parent organization's finances.
    - Economic situation.
  - Taxes, grants or contracts.
    - Previous income and estimates.
    - Payment schedules.
    - Contact with funders.
  - Productive enterprise.
    - Prior year's revenue plus small increase.

(Anthony & Young, 2002; Dropkin, Halpin & La Touche, 2007)

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Estimate revenue

- Income indicators.
  - Fees and fines.
    - Prior year's revenue.
    - Expected service levels and changes in fees/fines.
  - Investments.
    - Financial advisor.
    - Delay spending.

(Anthony & Young, 2002; Dropkin, Halpin & La Touche, 2007)

Estimate expenses

- Steps:
  – (Estimate income)
  – (Goals and work plan for unit)
  – Identify all resources needed for reaching goals.
  – Estimate expenditures for all resources.
    - Issues to consider.
    - Full cost accounting.
  – Prepare budget.

(Anthony & Young, 2002; Dropkin, Halpin & La Touche, 2007)

Estimate expenses

- Identify resources needed:
  - *Last week:* exercise regarding expenses for libraries
  - Categories of expenses to consider:
    - Parent body’s accounting system
    - Personnel costs
      - Administrative and financial staff; supervisory; direct service; clerical; consultants or professional services.
      - FTE or hourly allocation.
      - Benefits (FICA, state unemployment insurance, worker’s compensation, health, dental, vision, pension, etc.)

(Anthony & Young, 2002; Dropkin, Halpin & La Touche, 2007)

Estimate expenses

- Identify resources needed:
  - Categories of expenses to consider:
    - Materials and supplies
    - Facilities and equipment
    - Insurance
    - Travel and transportation
    - Printing or copying
    - Communications (etc.)
    - See National Center for Charitable Statistics - Unified Chart of Accounts (UCOA) for non-profits

(Anthony & Young, 2002; Dropkin, Halpin & La Touche, 2007)

Estimate expenses

- Issues to consider:
  - Changes in Salaries and wages.
    - List of authorized positions.
  - Changes in benefits.
  - Unusual spending in past year?
  - Projected changes in:
    - Prices – inflation or absolute price increases.
    - Operations – leading to changes in expenses.
  - Line-item contingencies.

(Anthony & Young, 2002; Dropkin, Halpin & La Touche, 2007)

Estimate expenses

- Fixed costs.
  - Cost does not change with usage levels.
    - E.g., An open library building.
- Variable costs.
  - Change depending on number activities or users.

(Anthony & Young, 2002; Dropkin, Halpin & La Touche, 2007; Prentice, 2005)

Estimate expenses

- Unit costs - amount of resources needed for a specific purpose.
  - Unit cost = Cost of producing N units / N
- Unit costs within academic libraries:
  - Items added to collection.
  - ILL & circulation.
  - Number of individuals instructed.
  - Time per reference question type.

(Anthony & Young, 2002; Dropkin, Halpin & La Touche, 2007; Prentice, 2005)

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Estimate expenses

- Hidden costs in libraries:
  - Building and maintenance costs.
    - Utilities, cleaning and security.
    - Insurance and disaster control.
    - Collection maintenance and preservation.
  - Growth costs.
    - New equipment, buildings or space.
  - Equipment.
    - Ongoing maintenance, training or repairs.
    - Impact on other activities.

(Dunn & Martin, 1994)

Estimate expenses

- Hidden costs in libraries:
  - Administrative overhead.
  - Leases and contracts.
  - Value maintenance.
    - Maintaining current value – upkeep.
    - New programs, changes in curricula, etc. - renewal.
  - Depreciation
    - Annual amount = purchase price – salvage value of item when replaced / years btwn purchase & replacement

(Dunn & Martin, 1994; Prentice, 2005)

Estimate expenses

- Small group discussion (10 min):
  - You work at an academic library which is considering expanding a current service. Currently, the library offers expedited, free, digital document delivery services for faculty members. However, it is now considering offering this service free to doctoral students.
  - What new categories of expenses might be introduced as a result of this service?
    - Are these costs fixed or variable?

Combine estimates

- Secondary reviews
- An iterative process; balancing
- Allocation techniques:
  - Entrepreneurial budgeting.
  - Allocation Decision Accountability Performance (ADAP).
  - Best, Optimistic, Pessimistic (BOP).
  - Responsibility center budgeting.

(Anthony & Young, 2002; Dropkin, Halpin & La Touche, 2007; Stueart & Moran, 2007)

Budget justification

- Budget justification, budget detail, budget narrative.
- Explanation of line-item costs:
  – What you will spend money on.
  – How you arrived at amount.
  – Purpose of expense.

(Anthony & Young, 2002; Dropkin, Halpin & La Touche, 2007; Prentice, 2005)

Budget justification

- Example:
- Transcription - $1,380
  - We plan to conduct 23 semi-structured interviews; each will last approximately an hour. We expect each interview hour will require 3 hours to transcribe, translating to 23x3=66 transcription hours. At a rate of $20 per hour, the total dollar value required will be $1,380.

Budget submission

- Components:
  - Organization-wide budget summary.
  - Program, unit or activity budget summaries.
  - Detailed organization-wide, line-item budget.
  - Individual program, unit or activity budgets.
  - Other items:
    - Glossary; Summary of financial and budget policies.
    - Summary of strategic goals and objectives.
    - Organizational structure.

(Dropkin, Halpin & La Touche, 2007)

Budget submission

- Remember: budgeting is a **political** process.
- Prepare your budget while anticipating the need to justify and defend it.
- Do not take other's challenges to your budget personally.
- Know your organization's planning & approval processes.

(Philips, 2000)

Budget submission

- Market and build support for your budget year round, but choose your champions wisely.
- Make your case: outcomes, financial savings, anecdotes, letters.
- Present a budget as a solution to challenges.
- Use standards judiciously.

(Philips, 2000)

Budget submission

- Dealing with governmental decisions:
  - – Visibility.
  - – Advocacy/lobbying.
  - – Contact with legislators.

(Marcum, 2007; Evans & Ward, 2007)

Budget submission

- Sample:
  - Buffalo and Erie County Public Library System
    - 2009 Budget Request
      - http://www.buffalolib.org/aboutthelibrary/2009_BECPL_Operating_and_Grants_Budget_Request_08_15_2008.pdf
  - Handouts.

(Dropkin, Halpin & La Touche, 2007)

Monitoring

- Regular, timely financial reporting.
- Planning and taking corrective action.
  - Variance reporting.
- Modification of budget.
  - Reasons: changes in funding
  - Need policies and procedures.
    - Timing, request formats.
    - Review process.
    - Clear lines for responsibility and authority.

(Dropkin, Halpin & La Touche, 2007)

Financial challenges

- When your budget is cut....what can you do?

(Jacobs & Strouse, 2002; Moyer, 2005)

Financial challenges

- When your budget is cut....there are two options:
  - – Increase revenue
    - Cost-recovery.
    - Fundraising.
    - Strategic partnerships.
  - – Decrease expenses

(Jacobs & Strouse, 2002; Moyer, 2005)

Financial challenges

- Decrease expenses.
  - Salary increases as of anniversary dates.
  - Competitive bidding.
  - Service agreements.
  - Economies of scale in purchases – such as centralizing multi-office purchasing.
  - Administrative expense review.
  - Defer/eliminate purchases.
  - Deferred maintenance or replacement.

(Anthony & Young, 2002; Dropkin, Halpin & La Touche, 2007; Prentice, 2005)

Financial challenges

- Decrease expenses.
  - Consolidate subscriptions.
  - Evaluate expenses, particularly eliminating under-utilized products.
  - Consolidated purchasing – e.g., purchasing consortia.
  - Heavy negotiations with vendors.
  - Control expensing to your budget.
  - Stick to collection development policy.

(Seer, 2004; Stephens, 2005)

Financial challenges

- Decrease expenses – more drastic options.
  - Postpone filling vacant or new positions.
  - Hiring freezes.
  - Delay activities.
  - Reduce programs and services.
  - Eliminate programs and services.
  - Early retirement or layoffs.
  - Strategic partnerships.

(Anthony & Young, 2002; Dropkin, Halpin & La Touche, 2007; Prentice, 2005)

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Financial statements

- Governed by Generally Accepted Accounting Principles (GAAP)
- Non-profit accounting standards set by: Financial Accounting Standards Board; Governmental Accounting Standards Board; Federal Accounting Standards Board

Financial statements

- Types of financial statements:
  - Operating statement
    - E.g., annual report
    - Report Income and expenses
    - Usually audited
  - Balance sheet
  - Cash flow statement

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Conclusion

- Budgeting
- Financial challenges