

# Fiscal Responsibility and Control



## Overview

James Fielding, the director of the Avondale Public Library, is facing a budget crisis. Because of increasing costs, the library's budget was overspent before the end of the fiscal year, and Fielding had to make deep cuts in the acquisition budget to avoid laying off staff and decreasing service hours. Now Fielding is pondering a different approach as he prepares for the next budgeting cycle. He is popular and well respected in this affluent town and carries some clout with the board that reviews the libraries' budget. Yet he knows that solving the developing problem without posing a severe challenge to information services will not be easy and that any solution is likely to produce unhappiness in some part of the community. Still, he is resolved that something must be done to ensure that the current year's experience is a one-time fiscal disaster.

Facing that stark fiscal reality, he tries to think of a way to present the new budget to the town's mayor and budgetary committee. Until now, there has been little guidance from the administration as to the type of budgetary presentation that would be most desirable. He knows that in order to solve the problem without harming the library's fine reputation of service delivery he must make a case for supporting a different budgetary approach, one that the funding authorities can buy into but one that will bring the library more funding. Fielding is preparing to present his ideas for discussion next week. This will entail a proposal for a different approach to budget allocation. He has been boning up on various budgetary systems, one or two of which have been used successfully by other libraries in the consortium to which the library system belongs. Because

the town has not adopted a specific budgeting model for operations, he is determined to make a case for a best model for information services. But he wonders, "Which is best for this community? Which will garner the necessary support for the library?"

Library managers in every type of library are in charge of budgets that range from those in the thousands of dollars to those in the millions. Often managers face budget shortfalls similar to the one described in this scenario. This chapter discusses the importance of budgetary control and introduces the several applicable budgetary processes.

## **BUDGETS—PLANNING AND EVALUATION TOOLS**

One of the most important of all planning activities is to determine how resources will be allocated among the various alternatives competing with one another within the operation of an organization. Therefore, the budget can be considered a plan set forth in financial terms. Budgets, when viewed as evaluation tools, are commitments or contracts with funding authorities for services and programs to be rendered, and they can facilitate the process of evaluating how successfully the goals and objectives are being addressed. In that sense, it is also a political document, expressing policy decisions about priorities of programs. Budgeting is that part of the total planning equation that assures that resources are obtained and then used effectively and efficiently in accomplishing objectives. The vital link that exists between planned activities and financial outcomes becomes even more important when libraries advance initiatives by employing new tools and techniques.

The budget pulls together the various pieces of the operational plan and relates them to the services plan in monetary terms. This process, having set goals for the organization and priorities for services, ultimately employs a budgetary component in the planning cycle. This tool translates goals into controllable parts and ties performance to financial requirements. The budget, then, is the library's operating plan for a designated fiscal period allowing resources to be allocated, ensuring that programs are successfully delivered.

Budgets, in detail, lay out a direction for allocating and maximizing the use of resources. In addition, the budget gives staff specific directions for achieving identified goals. The budget also is used by management to gauge operational performance. An effective budget establishes criteria that alert management if change is needed or if a course of action should be refined or altered. In that sense it also serves as a necessary monitoring device, because accountability is implied in the budgeting process.

"Which comes first, planning or budgeting?" is a question often asked. "Neither," of course, because they are inextricably tied and neither can proceed without the other. Cost predictions must be based upon a realistic view of service objectives and what financial resources are available to accomplish those service objectives.

Because some objectives already will be in place, and others being newly planned, they must be based upon what monies are likely to be available.

Planning and budgeting also are linked in the preparation and presentation to funding authorities because the adoption of a planning and budgeting framework has to reflect the organization's commitment to effective planning and resource allocation, as well as accountability. This process must be viewed as a whole, with the equally important parts being linked through the goals and objectives of the organization. In essence, the budget is the monetary expression of the strategic plan.

Therefore, in the preliminary stages of developing a strategic plan for the library, each potential goal, when it is financially analyzed, can be assigned a monetary figure based upon projected resources necessary to accomplish it. A preliminary budget for each of those goals should be developed so that benefits can be compared with costs before finally choosing among the various potential goals.

Libraries and information centers usually budget on a yearly cycle, although it is sometimes necessary to construct operational plans that project two or three years into the future. The budget for any current cycle, or even for future ones, inevitably will be affected by past commitments, established standards of service, existing organizational structure, and current methods of operations, as well as future changes. If changes are proposed, consideration must be given to preparing the organization for change and altering the budgetary justification and allocation. The three phases of a budgeting cycle include:

1. Preparation of the budget (some forms are included here; access to others is given on the Web site at <http://www.lu.com/management> to illustrate this phase).
2. Presentation to funding authorities, with full justification linking inputs (financial) with outputs (results).
3. Implementation of the actual beginning of the phase for which the budget has been allocated.

There are several different types of budgets. For libraries and information centers, the operations budget is the primary type of budget with its focus on revenue and expenses. In addition, a second type of budget, a capital budget, involves capital investments. The capital expense type of budget is developed to reflect expenditures over the estimated period of a project's development. Examples of that capital type of budget requests include major renovations, new buildings, or substantial technology requests or other expensive equipment requirements. The capital budget has less relevance in this discussion because needs are occasional rather than periodic. Capital costs are large-expense items to be planned for in projected future budgets. After capital costs are funded, yearly expenses are calculated and transferred to the operations budget as deposits and are then charged against that budget. For instance, approval and installation of a mainframe computer system would be considered a capital expense, requested separately and budgeted in the capital budget. Expenditure of funds to pay for the mainframe would be reflected, most probably, in a separate account. The two types of budgets discussed here are presented as distinct; however, a combination of budgeting systems often is used.

Some other types of budgets relate primarily to for-profit organizations. Some components, which are typically taught in accounting courses, such as the financial budget, with subsets of cash flow, capital expenditures, and balance sheets, are important, and detailed discussions can be found in textbooks relating specifically to financial accounting.



### **What Do You Think?**

In many organizations, budgets are prepared by managers with little input from staff on the ground. Do you think it is necessary to involve everyone in the budget planning process? If so, how would you go about doing that as it relates to budgeting in an organization you hope to join? If that involvement is not necessary, how would you convince your colleagues that it is not only unnecessary but also unproductive? Justify your response with specifics.

## **THE FUNDING PROCESS**

The budgetary process is not just a controlling mechanism conducted on the inside by a stereotypical armbanded, green-visored accountant, hovering over huge, figure-laden tomes in a dimly lit back room. Libraries and information centers are accountable for their actions and charged with wisely expending allocated monies. External forces—political, economic, social, and technological—are constant factors that affect the budget and the process of budgeting. In other sections of this volume, factors—including values, organizational culture, commitment, and vision—are discussed, and they also affect the budgetary process. Primarily they influence priorities within the monetary allocations arena.

Funds may come directly to the library or information center or to the parent organization, with designation for library use. Within the income categories for libraries, funds come from a variety of sources: from the larger organization's (university or college, city or town government, school district, company, foundation, or another type of business) operating budget; from local taxes; from local, state, regional, provincial, federal, and/or national government support; from private foundation or other philanthropic organization grants; from Friends of Libraries groups, gifts, fund drives, or endowments; from fees or fines; and so on. Noninstitutional funding is likely to fluctuate more widely than institutional support, and institutional support can depend on the parent organization's commitment to seeking the various types of funds that are then funneled to the library and on the projected fiscal year's budget outlook. Therefore, the budget is not a stable, sure thing, and staffs of many library organizations are deeply involved in fund-raising efforts.

The greatest amount of budgetary support in most institutions comes from the parent body. Determination of the actual amount usually is based

on expressed needs, which are justified by services offered or projected and, to a lesser extent, on standards that have been established for particular types of libraries or information centers, such as the American Library Association (ALA) and the International Federation of Library Associations (IFLA) standards for public, school, junior college, college, and university libraries that often are used by accrediting authorities as they consider the quality of institutions. These needs often are defined on budget forms such as those included on this volume's Web site (<http://www.lu.com/management>).

### **Fund-Raising Efforts**

Financial challenges are steadily compounded by the reality of inflation, reduced budgets, and the information explosion, and some libraries are finding themselves turning to nontraditional sources of funding to supplement their operating budgets. One area of funding, which traditionally has not been thought of as revenue generating but has been part of many library operations for years, is that of fees and fines. Many libraries traditionally have charged fines and fees for services ranging from fines for overdue items to fees for copying services or space rental. Those funds either go directly into the library's budget or into a general fund within the parent institution. In addition, external sources such as gifts and grants are becoming more vital, and sought after, by library staffs as direct financial support sometimes is not adequate to meet new initiatives and continuing needs.

Fund-raising has become a necessary part of many libraries' activities. In recent years, all types of libraries and information centers have engaged in fund-raising activities, tapping nontraditional areas for budgetary support for special projects and for capital expenditures. A new political role, with extensive public relations requirements, is being forced on libraries and librarians. Many types of libraries now depend on private-sector support to expand the monies available for their budgets. Special projects and capital budgets often are supported by outside funding sources. Fund-raising for special projects or for supplementing the budget in specific areas often is done by the library, by friends groups, or via legally established entities such as foundations or endowments. The scope of fund-raising done by or for a library depends upon the need for supplemental funds and the time and effort required for fund-raising activities.

Both such ongoing annual fund-raising activities and major capital campaigns are becoming integral parts of library programs. Fund-raising, through lobbying and direct solicitation, has become a way of life for enhancing budgets. Libraries have become innovative and assertive in seeking funds outside normal budgeting sources and channels. Development and fund-raising are challenges facing management of libraries and have become a major factor in budgeting information services in many library and information services organizations. They recognize the need for seeking supplemental financial support from individuals, governments, corporations, foundations, individuals, and other philanthropic sources.<sup>1</sup> The position of development officer, as part of a management team, is now common in many large library organizations.<sup>2</sup> Friends groups, alumni of educational institutions, community

leaders, foundations, and government agencies are funding many library and information services initiatives. Such fund-raising initiatives, seeking new sources of financial support, require clear expression of the goals and objectives of the process, and it should be tied into the broader marketing objectives discussed in chapter 6.



### **Try This!**

Identify at least one fund-raising activity that would be beneficial for a type of library of your choosing and detail the kind of program that might be presented to an organization you identify as being supportive of libraries for their consideration. What chance does such a proposal have for consideration and what steps will you need to take to justify the request and persuade the funding authority of its worth?

## **THE BUDGETING PROCESS**

The budget is a powerful management and public relations tool and essential for explaining goals and objectives. As a total process, the budgeting concept involves several discrete steps, from the guidelines that are issued by upper management in the larger organization or unit of which the library is a part to the execution of the budget through the fiscal year's appropriation and expenditures to the point when an audit is conducted to determine, in retrospect, how the allocated funds were actually spent. In between are the most important parts of the process: preparation of the budget, with justification for amounts and categories being requested, and review and approval by funding authorities. Preparation, defense, and maintenance of the budget represent a significant part of a management's time. Although planning the budget may be a seasonal activity, its effects are felt throughout the year.

The budget represents one of the most important documents to guide in achieving the library's overall objectives. Justification means convincing funding authorities that a certain development makes sense and that it should be supported. The concept of moving beyond information provision toward one of knowledge management is an example of developments needing justification and requires additional effort to educate funding authorities. The latter step provides the best opportunity for the library to present its case, to enlighten authorities about not only what is being requested but, more importantly, why it is being requested. However, this excellent marketing opportunity is a delicate session in which a balance must be achieved between just the right amount of information and information overload. Some authorities may not understand; others may not really care. To strike that balance and to educate, librarians can employ various public relations gambits to get across their program objectives. Budgets are presented not only in writing but sometimes orally as well, in a variety of settings.

One great danger in budgeting is the problem of disguised needs. Librarians often are accused of asking for more than they actually need and basing current budget justifications on past budgets. Such an incremental approach

is no longer valid in the fast-changing environment of today's information services. However, in all fairness, the approach frequently is encouraged by the budgeting technique being employed by the parent institutions in which the incremental mentality can prompt automatic reductions in library budgets by those who hold the purse strings, whether they are city managers, college or company presidents, or school superintendents.

The budgeting process is a time-delayed process. A budget usually is prepared one year or, in a few cases, two or three years in advance. In the latter instances, it is extremely difficult to project what the needs will be even with a strategic-thinking mentality. Still, the budget is expected to forecast realistically expected revenues, support, and expenses for the period of time covered by the budget request. In most cases, a library must follow the budget system and budgeting cycle used by the larger system, whether that is the university, college, city government, school district, corporation, or board. Usually, guidelines for the preparation of the budget come from the school committee, the state or local funding agency, the college or university administration, or the corporation's fiscal officer.

Although many libraries have a separate financial staff concerned primarily with budgets and the accounting process, most involve a number of employees in budget planning. Some larger libraries and information centers have internal budgeting committees composed of representatives from various units of the organization. Budget requests for programs or units frequently originate from the supervisor or a team most familiar with a particular unit, program, project, or other aspect of the operation. A coordinating agent or group—either the director, his or her representative, or a committee—is responsible for pulling the various budget requests together and presenting a comprehensive budget to the funding authority. Timetables for budget preparation, presentation, and overview are essential so that wide support can be gained. Two principles guide the development and presentation of budgets: effectiveness and efficiency, involving what sources of funds will be tapped and how maximum benefit at minimum cost will be accomplished.

The budgetary aspect of control has become more concerted as costs have risen, requiring greater attention to library and information center budgets, with the determination and justification of budget allocations taking on new meaning and urgency. More and more, as greater financial constraint is exercised, librarians find themselves spending more time on budget review, analysis, evaluation, and presentation. With rising costs, librarians are forced to prepare comprehensive reports on the library's financial status so that effective allocation, as well as accurate projections for future funding, can be made. Most often, the librarian is required to make a formal budget presentation that is substantiated by backup documentation, such as an index of inflation for library materials, technological impact, or trends in higher education that affect libraries. The Web site for this textbook (<http://www.lu.com/management>) includes a number of budgets and budgetary activities.

## **BUDGETING TECHNIQUES**

Budgeting techniques in libraries include traditional approaches used by many types of organizations and several more innovative techniques that

recently have found their way into libraries. The former are more fixed in their approach, whereas the latter are more flexible. The shift in focus, just as in the planning process, has taken place as budgets are presented in terms of output, or performance, rather than as input. The most traditional types of budgeting, to be discussed, include line-item allocation, in which expenses are divided into categories such as salaries, benefits, materials, equipment, and so on, and lump-sum allocation, based primarily on an incremental approach in which percentage increases are related to the previous year's budget. An interim view of budgets is represented in such techniques as performance budgeting, in which performance measures are instituted to support justifying input costs as a factor of output measures. The Planning, Programming, and Budgeting System (PPBS) and zero-based budgeting (ZBB) are budgeting approaches that look at programs, objectives, and benchmark costs, respectively. Each approach has advocates who promote advantages of the various approaches. A library or information center considering a switch to another process must be clear about the advantages and disadvantages before it decides to switch from one to another. Every budget system, even rudimentary ones, comprises planning, management, and control processes.<sup>3</sup>

### **Line-Item Budgeting**

The line-item or incremental budget approach is a process whereby categories of the budget are increased or decreased by a percentage. In such a process, the library assumes its prior year's base allocation. Discussion of funding is based upon the amount of the increment, or in some cases decrease, that is to be applied in this next cycle. It basically treats existing services as preapproved, subject only to increases or decreases in financial resources to be allocated. The focus is on the changes anticipated over or under last year's statistics.

This is probably the most common type of budget because of its simplicity. The line-item budget divides objects of expenditure into broad input classes or categories, with further subdivisions within those categories. This classification of expenditures on the basis of categories is called objects of expenditure (personnel services, contractual services, capital outlay, etc.), and within each category are more detailed line items (salaries, travel, telephones, etc.). This type of budget focuses attention on how much money is spent and for what purpose, rather than the activity affected or its outcomes.

It is often referred to as the historical approach, because expenditure requests are based upon historical data, or the lump-sum approach, because the attitude is one of "Here it is, do with it what you will," or incremental, in which funds increases are based upon last year's expenditures and, typically, just a small amount of funding is added each year.

The underlying theory or rationale is that the basic aspects of programs and activities do not change significantly from one year to the next and the change in resources in any given year is probably a small percentage of the base budget. This appears to be a widely practiced model in many large not-for-profit organizations in which the need for efficiency in some administrative areas overrules effectiveness. This system does not involve serious examination of what is being accomplished through the base budget, and it avoids the question of whether there are better uses for some of the resources. With this approach,

difficult policy choices are circumvented and planning is relatively unimportant. When resources are allocated through an across-the-board approach, there is no need to identify priorities. Of course, this approach is simple to implement and easier to apply. It certainly minimizes conflict within the larger organization because all institutional components are treated equally.

The budget is a series of lines, each of which represents a different item of expenditure or revenue. This classification of expenditures is on the basis of categories called objects of expenditure (salaries, benefits, materials, etc.) and, within each category, as has already been mentioned, more detailed line items (salaries, travel, telephones, technology, etc.). This type of budget focuses attention on how much money is spent and for what purpose rather than the activity affected or its outcomes; therefore, there is no relationship between that budget request and the priorities of the library. It tends to project the past into the future.

Critics believe this approach is no longer effective because such an incremental approach is based upon maintaining the status quo, with no real review of accomplishments. Its primary disadvantage is that items within those various established categories can be designated to such a degree that it becomes difficult, if not impossible, to shift them, thus being inflexible. For example, within the broad category of materials and supplies, it may become desirable to add subscription money for new online periodicals after the budget has been set. One might wish to accomplish this by transferring money from equipment because it has been determined that the library can do without an additional personal computer, and the subscription can be justified as technology applicable. However, budgeting authorities might frown upon this kind of transfer. If it is not completely discouraged, it is often made very difficult to accomplish because of the paperwork and red tape involved. Line-item budgeting, or incremental budgeting, tends to assume that all currently existing programs are good and necessary. That approach usually requires no evaluation of services and no projection of future accomplishments.

The greatest disadvantage to the line-item approach is that there is almost no relationship between the budget request and the objectives of the organization. Using the line-item approach simply projects the past and present into the future. In recent years, there has been a sharp rise in what is categorized as "other" (i.e., software, contracts, etc.) because of the increased costs of implementing technological innovations, from the purchase of computer equipment to telecommunications and online database searching charges.

There are, however, a few advantages to the line-item approach. For one thing, line-item budgets are easy to prepare. Most are done by projecting current expenditures to the next year, taking cost increases into account. This type of budget is easy to understand and to justify because it can be shown that the allocated funds were spent in the areas for which they were budgeted. The funding authority can understand a request to add a new position or to increase the communication and supplies budgets by 10 percent because that is the average amount that postage, telephone charges, and other supplies rose last year.

A more primitive variation on the traditional line-item approach is the lump-sum approach. In this form of budgeting, a certain dollar amount is allocated to the library, and it becomes the responsibility of the library to decide how that sum is broken into categories that can be identified. These categories are usually the same ones mentioned under line-item budgeting: salaries and wages, materials and supplies, equipment, capital expenditures, and miscellaneous or overhead.

**Figure 19.1—The Line-Item Budget, with Expenditures Assigned to Broad Categories**

<b>BUDGET REQUEST FORM I</b>				
<b>SUMMARY</b>				
<b>Department or Program: LIBRARY</b>				
<b>Department No.: 02876</b>				
<b>For Fiscal Year: 2008–2009</b>				
<b>Control Number</b>	<b>Expenditures</b>	<b>Actual Prior Year 2006–2007</b>	<b>Budget Current Year 2007–2008</b>	<b>Budget Request 2008–2000</b>
	<b>SALARIES</b>			
100	Full-time employees	730,000	784,750	809,500
101	Part-time employees	27,050	27,860	29,200
102	Hourly wages	34,000	35,360	40,000
	<b>STAFF BENEFITS</b>			
103	Social Security	54,750	58,855	60,700
104	Retirement Acct.	65,700	70,625	72,850
105	Unemployment Comp.	4,675	5,025	5,200
106	Worker’s Comp.	4,160	4,475	4,600
107	Life Insurance	3,505	3,765	3,900
108	Health Insurance	39,600	42,250	49,175
109	Accident Ins.	400	470	485
110	Disability Ins.	5,250	5,600	6,300
	<b>MATERIALS</b>			
120	Books	120,000	127,200	137,375
121	Serials	180,000	165,500	180,400
122	Binding	36,000	37,800	40,450
123	Media	86,500	92,300	97,650
124	Inst. Materials	17,000	17,850	18,750
125	Technology	90,000	135,000	200,000
	<b>OTHER</b>			
150		39,000	40,150	42,150
151	Utilities	25,500	26,500	27,825
152	Supplies	22,000	22,880	23,950
153	Telephone	19,200	19,975	20,975
154	Travel	9,500	9,975	10,475
155	Postage	8,000	8,450	8,900
156	Insurance	23,700	36,500	38,300
157	Equipment	17,600	18,850	19,800
158	Vehicle cost	15,800	16,600	17,450
159	Service contracts	3,700	3,850	3,850
	Consultants			
	<b>TOTAL</b>	<b>1,682,590</b>	<b>1,818,415</b>	<b>1,970,210</b>

This might seem more flexible than line-item budgeting, but it still does not relate the objectives to services. Libraries using this technique are forced to develop programs within the dollar figure allocated, instead of the other way around.

## **Formula Budgeting**

Formula budgeting uses predetermined standards for allocation of monetary resources. In the past, this approach has been adopted by regional or state library agencies or in school districts and even university systems for appropriating state or regional funds. One reason it is popular among larger funding authorities is that, after the criteria for budget requests has been established, they can be applied across the board to all units within the library system. The popularity of a formula budget is reflected in several factors:

1. A formula budget is mechanical and easy to prepare.
2. The formula budget process applies to all institutions in the political jurisdiction.
3. Governing bodies have a sense of equity because each institution in the system is measured against the same criteria.
4. Fewer budgeting and planning skills are required to prepare and administer a formula budget.

Additional advantages of formula budgets are that they:

1. facilitate interinstitutional comparison;
2. facilitate comparisons from year to year;
3. reduce paperwork in the budgeting process;
4. eliminate extraneous details;
5. provide a systematic, objective allocation technique;
6. connote mathematical infallibility.<sup>4</sup>

The formulas, which usually are expressed in terms of a percentage of the total institutional cost, focus primarily on input rather than activities and, therefore, are more applicable to specific aspects of library operations. For instance, in collection development, percentages of budgets can be allocated, in the case of academic libraries, to the number of programs and number of faculty teaching in each program. This factor determines what the library will get. In that sense, formula budget allocations may be thought of as a combination of the lump-sum and formula approaches.

Such formulas, when used in education institutions, have applied a fixed dollar figure per full-time equivalent student and faculty or have attached collection and staff figures to programs offered. Sometimes formulas are used for programs or faculty numbers. Most libraries have tended to move away from strict formula budgeting, except when outside funding is tied to established formulas or specifically for materials allocation.<sup>5</sup> One distinct disadvantage to formula budgeting is that some functions cannot be related to those formulas

and must receive separate justification. Perhaps the biggest fallacy in such an approach is that it assumes a relationship between the quantity being expressed and the quality of service; that is, output measures. There are now attempts to tie in output measures.<sup>6</sup>

## **Program Budgeting**

The program budgeting process is concerned with identifying all of the organization's activities and performance, as opposed to the traditional line-item budget system that allocates resources based on line-item expenses. Every activity in the organization is linked through the all-inclusive programs. Those programs link the activities of the organization to the objectives and financial requirements that can be identified for each program.

The program budget approach identifies the total cost of each service unit/component and sets spending levels and priorities accordingly. In that regard, it is similar to the Planning, Programming, and Budgeting System (PPBS), discussed in a following section, but is somewhat more flexible. Its approach maintains that it is possible to relate programs to the accomplishment of time/action objectives or activities that are stated in output terms in the strategic planning process. Therefore, a program budget displays a series of minibudgets, which then show the cost of each of the activities within the organization. In a way, it can be said that program budgeting developed along with strategic planning because that type of planning process is based upon establishing costs of individual programs, which requires accounting as well as budgeting. Having identified each library's activity unit, monetary figures can be assigned to the various programs or services provided.

For example, if a public library system provides bookmobile service for the community, the total cost of that service (staffing, materials, maintenance, overhead, etc.) can be calculated. In this way, one can see exactly what, for example, the bookmobile service costs. See figure 19.2.

## **Performance Budgeting**

In a way, the performance-budgeting approach could be called "outcome budgeting," because actual performances are measured in terms of service effectiveness and efficiency.

It classifies expenditures on the basis of specific activities, the number of units performed, and their costs. It concentrates attention on what each work unit does, how frequently it does it, and at what cost rather than a simple, line-item accounting of expenditures. It is easiest to build performance-based budgets on the foundation of a program-based budget system. Under performance, or outcome-based budgets, each major program or function is measured using a set of benchmarks. Benchmarks are snapshots of particular activities or functions at a beginning date and time. These benchmarks are used for comparison purposes to measure progress in attaining specific program or functional goals over periods of time (i.e., six months, a year, or several years). Programs, activities, and functions also may be measured quantitatively and qualitatively against other internal and external comparables.

**Figure 19.2—Program Budget Sheet**

Organization: COUNTY LIBRARY	
Program: BOOKMOBILE SERVICE	
Objective: This service is offered to county residents who reside more than three miles from a public library. Specific services offered include providing basic reference collection of encyclopedias, hand-books, and dictionaries and a rotating collection of circulating materials on a variety of subjects for all levels of readers. Makes two stops per day, covers seven miles, five days per week.	
Costs:	
<b>Personnel Service</b>	
Librarian	\$28,500
Driver	20,000
Stocker (to load, unload truck, 4 hrs. per week @ \$6.00 x 52 weeks)	1,248
Benefits	9,700
SUBTOTAL	<u>\$59,448 (1)</u>
<b>Materials</b>	
Books (2,000 volume collection x \$36 average + \$10.20 processing costs)	\$72,000
Periodicals (15 subscriptions @ \$40 each)	600
Repairs, binding, etc.	175
SUBTOTAL	<u>\$72,775 (2)</u>
<b>Other</b>	
Vehicle depreciation	\$1,600
Maintenance, gasoline (30 mi. per week x 52 weeks x 26¢ per mile)	405
Insurance	600
SUBTOTAL	<u>\$2,605 (3)</u>
<b>TOTAL (Subtotals 1 + 2 + 3)</b>	<b>\$134,828</b>

Recently, measures of performance have been expanded to include more subjective evaluations focused on overall quality of programs and their direct benefits, meaning outcomes. It links revenue to resource allocation and service performance in measurable terms and, as such, serves as an important policy tool. This approach is a combination of program budgeting and performance budgeting.

Based on the cost of a program and its outcome objectives, or benefits, one can decide whether to continue, to modify, or to delete the service. Program budgeting is an effective method of explaining needs to funding authorities. The focus is on consideration of all priorities and alternatives for service.<sup>7</sup> For instance, other than simply withholding funds from the lower-ranked services in a priority list, other alternatives can be explored, including trying to reduce the cost of providing a certain level of services for those already

chosen, thereby allowing the next listed priority to be funded. Another alternative might be to increase charges, say for value-added services to individuals and organizations, thereby adding to the pool of nondirect sources of funds, which might in turn support the next level on the priority list.

The upside is that all programs can be identified and valued, whereas the downside is that it is time consuming to establish and maintain the system and programs tend to overlap between departments and units, which can make collecting data difficult.

Performance budgeting measures quantity rather than quality of service offered. The classification of expenditures is based upon specific activities, the number of units performed, and their costs. This type of budget concentrates attention on what a work unit does, how frequently it does it, and at what cost rather than a detailed, line-item accounting of expenditures. Recently, measures of performance have been expanded to include more subjective evaluations focused on overall quality of programs and their direct benefits to users.

This approach requires the careful accumulation of quantitative data over a period of time. Techniques of cost-benefit analysis are required to measure the performance and to establish norms. Performance budgeting has been criticized because the economic aspect overshadows the service aspect. This approach is sometimes called function budgeting because costs are presented in terms of work to be accomplished. A good example of this is processing materials—from submission of an order until the time that the volume is on the shelf and the bibliographic information is in the online or print catalog. All activities involved (verifying the author, title, and so forth; ordering, receiving, cataloging, and classifying; providing book pockets, call number, and catalog cards or electronic data; filing cards in the catalog or the information in the database; and placing the volume on the shelf) can be analyzed as to average time for the activity and average cost per item. Therefore, careful cost and work measurements are applied to each activity. Fixed costs of building maintenance, heating, lights, equipment, and other items that are variable but are directly related to the work being done also must be added to the final cost. With such detailed budgeting activity, benefits of awareness and participation may be overshadowed by the costly time and efforts involved in maintaining the process. Two techniques, Planning, Programming, and Budgeting System (PPBS) and zero-based budgeting (ZBB), are spin-offs of program budgeting.

### **Planning, Programming, and Budgeting System (PPBS)**

Planning, Programming, and Budgeting System (PPBS) was developed by the Rand Corporation and introduced by the U.S. government in 1961. At the height of its popularity, many complex organizations all over the world were, at some point, using PPBS or some modification of it. These include state and local governments, college and university systems, and industry. It is basically a refinement of the program approach discussed previously. Like management by objectives (MBO), which has lost its popularity in recent years, PPBS is not currently as widely promoted as it once was.

PPBS differs from traditional budgeting processes because it focuses less on an existing base, with consideration of annual incremental improvements, but

more on objectives and purposes with long-term alternative means for achieving them. As a result, PPBS brings together planning and budgeting by means of programming, a process that defines a procedure for distributing available resources fairly among the competing or possible programs.

The PPBS approach combines the best of both program budgeting and performance budgeting. The emphasis is on planning. Like program budgeting, it begins with the establishment of goals and objectives, but the controlling aspect of measurement, which is paramount in performance budgeting, is also part of PPBS. It emphasizes the cost of accomplishing program goals set by the library instead of stressing objects, which the more traditional budgets highlight. This approach forces one to think of the budget as a tool to allocate resources rather than to control operations. The steps important in PPBS are:

1. Identifying the objectives of the library.
2. Presenting alternative ways to achieve those objectives, with cost-benefit ratios presented for each.
3. Identifying the activities that are necessary for each program.
4. Evaluating the result so that corrective actions can be taken.

In essence, PPBS is a scientific approach to budgeting that improves the decision-making process by calling for a systematic analysis of alternative ways of meeting objectives. The crux of PPBS is the selection of appropriate criteria for evaluating each alternative against relevant objectives; it combines the functions of planning (identifying objectives), translating that to a program (staff and materials), and, finally, stating those requirements in budgetary terms (financing). Headings for a PPBS summary sheet are shown in figure 19.3.

The PPBS approach allows one to enumerate programs and assign costs to those programs. The figures that are the outcome of PPBS are “extremely useful in determining future priorities and direction, in requesting funds, and in justifying the value of libraries and their services.”<sup>8</sup> It also allows funding

**Figure 19.3—Headings for a PPBS Summary Sheet**

County of:	Program Summary
Operating Budget: (Year)	
Program: (Title of program)	
Goal: (Brief operational goal)	
Description: (Brief description of program)	

agencies to place programs into perspective and to evaluate the effects of cutting monies from or adding monies to the budget. As one can imagine, the required detailed examination of every aspect of the operation is not only time consuming but cumbersome as well. It requires goals, objectives, and activities to be stated in measurable terms and then mandates the follow-up activity of measuring the results. Despite these drawbacks, some modification of the intent of this approach is being used in some libraries today.



### **Try This!**

Develop a budget for a type of library using the information you have identified in the PPBS budgeting, including costs for the major categories of online services, collection development, and staffing, and present the budget, using all appropriate costs for those categories.

## **Zero-Based Budgeting (ZBB)**

The zero-based budgeting (ZBB) approach is not a strict procedural one but rather an approach that annually requires the organization to review and to reevaluate each of their service programs and activities on the basis of both output measures and costs. Each line item or program is examined in its entirety, regardless of prior funding. Detailed measurement of performance and costs of the activity are identified. Those items that cannot be justified are subject to elimination or significant reduction. Efficiency and effectiveness are key considerations, because each program is justified and its priority identified according to its level of importance in achieving the mission of the organization. This process requires stating the reason for the activity as well as the consequences of not implementing the package.

Each activity is expressed in a decision package that is reviewed and ranked in priority order in relation to all other identified decision packages. With all of the decision packages developed and gathered, using objectives as guides, they are ranked in priority order and are presented for approval or rejection, depending upon a package's position in the hierarchy and on affordability. At some level in the hierarchy of priorities is a cutoff level, and decision packages that fall below it are not funded. Because setting priorities at the organization level involves every unit within the organization, clear guidelines for ranking must be established. The process of priority formulation helps the manager rank and, in some cases, delete activities because of obsolescence, inefficiency, or change of policy or objectives.<sup>9</sup>

Ranking decision packages, or setting priorities within each unit of the organization, forces decisions about the most important activities within that unit of the organization. The technique allocates limited resources by forcing decision makers to concentrate on identifying the most important programs and projects to be funded. Each unit of the organization conducts the same process. After each unit identifies its priorities, the priorities of all units are

amalgamated into one pool, and the process is repeated in light of the decision packages' importance to the total organization. Each decision package relates to some extent to others, and this interrelationship must be considered in ranking them because related decision packages share costs of personnel and resources. For example, ready reference is dependent upon an up-to-date, fully processed reference collection, which depends upon the selection, acquisition, and processing of materials, and technological access to others, involving staff and materials budgets in those units.

The most important initial steps in ZBB are:

1. Identifying decision packages or units.
2. Ranking of those packages.
3. Determining the cutoff point below which packages cannot be supported.
4. Preparing operating budgets that reflect those units.

In identification of decision packages, a package should be the lowest unit for which a budget can be prepared. A unit may be described along functional lines (e.g., circulation), by smaller units in larger organizations (e.g., reserve function of circulation), or as a special program of the organization (e.g., outreach services to the underserved). However, care must be exercised so that decision units are large enough to reflect major portions of a person's time; smaller distribution probably would be meaningless because it might, for instance, eliminate only a small fraction of a full-time salary. This process of description requires the identification of goals and objectives of the package and how they relate to the mission of the organization, a statement of alternatives, the reason for the activity, consequences of not introducing the package, detailed measurement of performance, projected outcomes in the implementation process, and the costs of the activity. Of course, the size and complexity of the organization determines the number of units that can be identified and supported.

When ZBB budgets are first introduced into an organization, the process of reviewing current activities must be broken into units and placed in a hierarchy of importance. In this examination, duplication of efforts can be more easily detected. Options for reviewing those existing activities include:

1. Should the activity be kept as it is or, perhaps, expanded?
2. Should it be eliminated altogether or, perhaps, reduced in support?
3. Should it be centralized or decentralized?
4. Should it be integrated into other programs or broken down into more finite units?

Analysis in this ranking process of establishing priorities also allows for the selection of the alternatives that have the greatest potential for achieving the objectives in each of the decision packages. Therefore, the process of specifically identifying decision packages also focuses on the best way of doing

things, either through cost savings or efficiency of service. The last processes of ZBB, just as should be the case in any budgeting process, are monitoring and evaluation. Adjustments may be essential during the budgeted time period in order to achieve the decision package objectives, and there is a need to know whether the goals of the various packages are being accomplished and at what level. The monitoring and evaluation process of ZBB requires establishing measures of performance and reporting. Specifically relating to costs, quantitative measures must be established to monitor output, which is expressed in financial terms.

ZBB is more concerned with what is required in the future, rather than what happened in the past. In this approach and in its development, ZBB is very similar to PPBS; it requires careful analysis of activities that should take place in the library and requires justification for each unit of work identified. By forcing an organization to identify areas of greater and lesser importance, ZBB emphasizes planning and fosters an understanding, by all units, of the total organization. It helps maintain vitality in the organization by constantly assessing and questioning programs.<sup>10</sup> It forces each unit manager and the unit workers to identify priorities within their unit of the organization. Identifying priorities and stating them in terms of cost force the unit to answer the questions: "Is it really worth it?" and "Are there alternatives to achieving this objective?" The ZBB approach requires that justification for each program start at point zero, and it requires that this be done each year. Of course, after a decision unit has been identified, that particular unit does not need to be reidentified each year; it needs to be further described only if changes occur, although it still must be considered in the list of priorities and costs must be recalculated.

The ZBB process should provide an indication of the real cost of various library activities, an estimate of the minimum cost level necessary to provide each service, a ranking of library functions to facilitate support, a discovery of unnecessary duplication of effort, and a framework for the establishment of criteria for continuous evaluation of performance.

It is assumed in the ZBB model that the sum of those units receiving top priority status is less than the current budgeted amount and that a cutoff will occur at some point. This attitude allows for a reduced level at which activities can be carried out to meet the essential objectives of the organization. Figure 19.4 illustrates, in an abbreviated way, the process involved in establishing a decision package statement and how that package might fit into the priorities of the organization. This approach requires effective communication and efficient training of personnel involved in the approach.



### **Try This!**

Select one of the budgeting techniques reviewed. Consider its best application to a type of library. Write a justification for selecting it and defend it to a group of colleagues as a best practice.

**Figure 19.4—Form for Decision Package Statement**

<b>DECISION PACKAGE STATEMENT</b>	<b>Prepared by:</b>
	<b>Date:</b>
<b>Program Name:</b>	<b>Priority Rank:</b>
<b>Department:</b>	<b>Level:</b>
<p align="center"><b>Statement of Purpose: Goals and Objectives – What is to be accomplished:</b></p> <p><b>Description of Activity:</b></p> <p><b>Benefits Desired Results:</b></p> <p><b>Related Activities:</b></p> <p><b>Alternatives, Other Options (to achieve same or partial results):</b></p> <p><b>Consequences (if activity is not approved/is eliminated):</b></p> <p><b>Cost Resources Required</b>                      <b>Prior Period</b>                      <b>Budgeting Period</b></p> <p><b>Personnel</b></p> <p><b>Operations:</b></p> <p><b>TOTAL</b></p>	

## TECHNIQUES FOR FINANCIAL ALLOCATION

Various techniques have been developed to manage the financial aspects of library and information services organizations. With the application of technology to the budgetary process, many spreadsheet options have been successfully integrated into the accountability process in libraries. A few are mentioned here to give some indication of ongoing accountability measures.

### Entrepreneurial Budgeting

Entrepreneurial budgeting is a relatively recently developed attitude toward budgeting that continues to be experimented with in both the public and the private sectors. It differs from traditional techniques in that the ultimate controlling authority decides beforehand what the budget base will be; for example, not more than last year’s budget plus 5 percent. Initially, this appears to be the same as an incremental budget, but in fact it is quite different. Simply stated, it allocates a pool of money to the unit or organization that is then

responsible for managing it within the program priorities identified. If there are funds left over at the end of the year, they are rolled forward, thus avoiding the usual rush at the end of a fiscal year when the “use it or lose it” mentality takes over. It is reported that this so-called profit-sharing approach improves morale and supposedly management.<sup>11</sup> It decentralizes decision making with incentives to be more innovative.

### **Allocation Decision Accountability Performance (ADAP)**

Allocation Decision Accountability Performance is an innovative technique that is only mentioned because there is little experience with its use in libraries and information service agencies. A budgetary hybrid, it combines aspects of both PPBS and ZBB. It has received awards worldwide and is being adapted by a number of local government agencies. The key aspect is that three budgets must be submitted: the first requesting an increase, the second recognizing a modest decrease, and the third presenting a budget below which the organization cannot function. Administrators are asked to identify whole programs that could be eliminated if necessary. Budgeting authorities can compare the current year’s budget with preceding years, and if the same programs are identified as expendable with some frequency, they become candidates for elimination. Despite this pitfall, it is an acceptable way to budget because it allows the administrator to eliminate programs that have relatively poor performance.

### **Best, Optimistic, and Pessimistic (BOP)**

Rolling budgets, variable budgets, contingency budgets, and flexible budgets are all based on varying revenue projections, again applying primarily to for-profit organizations. Sometimes the set of assumptions in this approach are called best, optimistic, and pessimistic (BOP) assumptions. Best assumes normal operating conditions; optimistic assumes there will be problems, but the problems can be surmounted; and pessimistic assumes “if everything goes wrong.”<sup>12</sup> By participating in such exercises, management becomes aware of the broad range of possibilities, in both possibilities and coping strategies. In these economic times, that is not a useless exercise.

### **Responsibility Center Budgeting**

Rising costs and tightening budgets have forced greater accountability among institutions of higher education. Responsibility center budgeting is the approach of “each tub on its own bottom” and is being implemented in several large universities, having found its way into higher education through the corporate sector. It forces institutions to identify their units that are capable of self-support, including all academic units with tuition- and fee-paying

students; faculty capable of bringing in contracts and grants; and other central administrative units as well as academic support units, including libraries and information centers. Direct institutional support is augmented by other sources of funding: appropriations from governments, contracts, endowments, and contributions. Again, fund-raising on the part of libraries is an important component in this mix. Basically, this approach forces decision making down into all of those units in which costs are directly related to academic priorities. Heated debates revolve around how the central administration allocates funds to units. For example, "how charges for space, libraries, and other services [will] be allocated; and how the hardware and software needed to run the new information systems [will] be configured."<sup>13</sup> It requires that the administration recognize and support units that exist for the "public good—such as the physical plant, technology, and the library [and that they] must receive funding that is adequate, but at taxation levels that the academic units can support financially and intellectually without seriously attenuating RCM's [Responsibility Center Management] underlying incentives."<sup>14</sup>

### **Bracket Budgeting**

Bracket budgeting is an analytical procedure that complements conventional budgeting techniques. It is a combination of modeling and simulation in which the computer performs an integral role. The computer must be programmed to perform various calculations, which requires considerable computer expertise and probably is much too complex to be beneficial in most library situations. It is most useful in for-profit organizations, in which uncertainty can wreak havoc on the profits.

### **Software Applications**

Many libraries use computer software in preparing budgets. Indeed, budgetary control was one of the first functions to make use of computers in libraries. Several financial modeling, budget, financial planning, and data manipulation software packages are applicable to library budgeting. These have been developed both commercially and in-house for specific organizations. Electronic spreadsheet applications are being used to overcome the limitations of manual record-keeping systems. They easily manage numbers and calculations. Electronic spreadsheets are responsive and creative in applying formulas that automatically update data. As the name implies, a spreadsheet is an electronic version of the columnar worksheet used for years. They are available for purchase or license or, sometimes, are in the public domain. Budgeting makes use of electronic spreadsheet software, including, as examples, both Mariner Calc and the Cruncher for Macintosh; Excel 2003, Lotus Improv, Lotus 1-2-3, GS-Calc, SuperCalc, MultiPlan, Perfect-Calc, Context MBA, SAS, Oracle, ClarisWorks, SQL Server, SPSS for Windows, and others. Most are powerful decision tools in the controlling process for libraries.

There are also software packages for forecasting, including Forecast! GFX, Tomorrow, Forecast Pro, and Forecast Plus.<sup>15</sup> Because spreadsheets make number crunching easy, libraries now are able to adjust or revise budgets and projections without expending great amounts in terms of personnel and time. Some libraries even use computer modeling and forecasting to prepare financial plans. However, software tools are only one part of the budgeting process—the mechanical part. Thought and imagination also are needed to prepare successfully and to defend a budget.

## **ACCOUNTABILITY AND REPORTING**

The final aspect of budgeting to be mentioned here is keeping accurate records of what has been disbursed, what has been encumbered, and what remains. Before the budget has been approved by the proper authority, a mechanism for keeping track of both expenditures and encumbrances must be in place to keep track of not only what has been spent but also to set aside funds for items ordered but not yet received so that funds will be reserved and available for their payment when they do arrive. Established account categories and numbers play a vital role in this process to identify such items as salaries, materials acquired or ordered, equipment installed, and so forth. Periodic statements of expenditures and an audit of the expenses at the end of the year provide important feedback to the budgetary process. An accounting process allows for efficient and effective adjustments to the process when and where they are needed. The process has been greatly enhanced by the use of those previously mentioned electronic spreadsheets and other software packages available for financial planning on microcomputers and other equipment. These systems have aided the auditing process, reduced the need for double bookkeeping records, and facilitated reporting by allowing projections of cost activities. Reporting usually is accomplished through monthly records prepared by the accounting office, either of which usually is a part of the library or as a part of the larger organization, such as the city government. Monthly statements, or on-demand electronic reporting, can act as benchmarks to inform the library staff how they are progressing, financially, toward the library's objectives and, at the same time, alert them to potential problem areas (i.e., overexpenditures). This monthly summary statement or balance sheet, electronic or in print form, is typical in most organizations.

Because accounting is an independent function, many large libraries employ budget analysts in staff positions; their primary responsibility is to report facts as they exist or have existed. Such budget officers are not normally responsible for making decisions that affect the operations of the library. However, they are most helpful in collecting relevant cost data for anticipated decisions and in making cost studies that might be keys to decision making.

Along with accounting goes the important element of reporting—reporting to the funding authority, reporting to the staff, and reporting to the public, however that might be defined. Reporting procedures can take a variety of forms: formal written reports, electronically accessed or in printed form, with

detailed statistical documentation, or informal reports, such as memos, staff meetings, board meetings, or newspaper articles. In reporting, the librarian's public relations responsibility becomes most evident. Only by conscientiously selling the library and its services can the librarian hope to maintain a high level of activity and funding. The purpose is to be so convincing that support for library activities will increase or, at minimum, remain the same. As detailed in chapter 6, public relations for librarians is an art through which information and persuasion solicit public support for the causes that are set forth in the goals of the library. Public relations is an integral part of the goals and objectives and the budgeting procedure in a library. This is the library's primary means of gaining and holding the support necessary to develop programs. It is also a way of expanding that support through new financial initiatives.

## CONCLUSION

Budgeting is the ultimate controlling operation because it is the monetary expression of a plan of information services in libraries and other information centers. Various types and levels of budgeting are used to plan for information services. Some are more applicable to not-for-profit organizations than others, but all are being used, in one form or another, in libraries and information centers. The process of budgeting is important because it is the way organizations remain financially accountable.

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