SI 626 - Management of Libraries and Information Services, Winter 2009

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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

- 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)
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)*
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)
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)
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
  – 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)
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
Conclusion

• Budgeting

• Financial challenges