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Unit-IV

Financial Management

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FINANCIAL MANAGEMENT

- Financial Management means planning, organizing, directing and controlling the financial activities including procurement and utilization of funds of the information organisation.
- It refers to applying general management principles to financial resources of any organisation.
- Library and information organization use it to oversee and manage their income and expenditure with the chief objective of providing satisfying services to their users.



An effective financial management system enables:

- achievement of short- and long-term goals
- improves performance of the information organisation
- streamlines payments for acquired resources
- ensures efficient billing procedures for sale of products and services
- eliminates accounting errors
- minimizes record-keeping redundancy
- enables compliance of accounting regulations
- helps library staff to quantify budget planning, and
- offers flexibility and expandability to accommodate change



BUDGET OF LIBRARY / INFORMATION CENTRE

- Budgeting is a planning process in which the expenditure and revenue of the organisation over a specific time period are accounted for.
- Budgeting is the basic tool of financial management.

A budget can be used to:

- provide a plan stated in monetary terms;
- identify costs associated with accomplishing specific goals;
- supply a basis for negotiation and subsequent authorization; and
- monitor progress toward goals.



- Budgeting is essential to the financial management process. It is the most basic tool for any librarian for communicating his/her plans and goals in financial terms. It is a very useful management tool.
- Budgets can be developed at almost any organizational level, from that of a particular product or service to the master budget for the organization as a whole.
- Most librarians and information professionals usually deal at the level of a departmental budget, made up of the costs for one or more specific services or activities.
- A budget must be realistic, reasonable, and attainable.



BUDGETARY ITEMS IN LIBRARIES MAY INCLUDE:

1. Salaries
2. Training and continuing professional development
3. Capital items
4. Overheads
5. Operational costs
6. Acquisitions
7. Subscriptions



DIFFERENT KINDS OF BUDGETS

These are

- Line Item Budget
- Lump Sum Budget
- Formula Budgets
- Performance Budget
- Programme Budget
- Planning Programming Budgeting System (PPBS), and
- Zero Based Budgeting (ZBB)



Line Item Budget

- The most common type of budget is the line item budget and it consists of a series of lines, each of which represents a different item of expenditure. The first line may be salaries, followed by cost of materials, equipment and machinery, contingencies, etc.
- The chief advantage of this method is that it is very simple and easy to prepare and for subsequent years by marginally increasing the amounts the budgets can be prepared.
- This method, however, has several drawbacks. These are, its inability to inform how money will be spent, there are no future projections and lastly, it is very rigid as money allocated for one head cannot be shifted to another head.



Lump Sum Budget

- In this approach, the authorities provide adequate funds to the parent body of the library and out of which the parent body fixes a certain amount for the library.
- Usually as a norm, a certain percentage of the whole budget is fixed for the library and the library has to manage out of that amount.
- In this manner, the budget for the library appears to be lump sum in the organizational budget of the parent organization.



Formula Budgets

- The formula budget describes a situation in which the distribution of funds to various organizations performing a similar or a parallel function is based on some formula.
- For example, a state may distribute funds to libraries within the state university or college system based on a particular formula, input for which might be the number of full-time registered undergraduate students, postgraduate students, faculty members, the extent of collection at hand and to be maintained, or any other such factor.



Performance Budget

- In this case, the budget is based presumably on what the organization does and what services it proposes or is required to perform. For each item, a unit cost could be developed.
- A drawback of this method is that it measures only quantity and not quality which is rather difficult to measure as user satisfaction depends on it.



Programme Budget

- A programme budget usually sets forth the library's proposed expenditures as they are related to each function.
- The advantage of such a budget is that one can see what the money expended is doing and one also get an idea of what will suffer if the budget is cut or what resources will be needed to increase the scope or extent of particular services or functions.



Programme Planning and Budgeting System (PPBS)

- A sophisticated and revised version of programme budgeting is referred to as the Programme Planning and Budgeting System (PPBS), which combines the best of programme budgeting and performance budgeting.
- The chief feature of this approach is that the objectives to be accomplished are defined before the resources are allocated to carry out the activities/programmes.
- After the objectives are defined, the various alternatives for accomplishing those objectives are examined and costs estimated.



Zero Based Budgeting (ZBB)

- The latest technique of budgeting, which has been primarily used in industry and government but now also in all types of libraries is the Zero-Based Budgeting (ZBB).
- ZBB is defined as a method of budgeting in which all expenses must be justified for each new period.
- Zero-based budgeting starts from a "zero base" and every function within the organisation is analysed for its needs and costs.
- Budget is then built around what is to be done in the coming year, regardless of whether the budget is higher or lower than the previous one.
- Zero-based budgeting thus is not concerned with what happened previously but with what is required in the future.
- Also it is very similar to PPBS as careful analysis of activities what are required for the library and their justification has to be identified.
- The ZBB process also enables an indication of the real costs of the various activities with an estimate of the minimum cost level necessary to provide each service.
- All the above factors makes the zero- based budgeting the best technique for budgeting especially in Indian libraries.



BUDGETARY STANDARDS AND NORMS

As you are aware, the chief items of any budget are:

- Salaries of staff
- Cost of materials including books and periodicals
- Stationery, equipment, supplies
- Maintenance expenditure
- Miscellaneous and contingency charges



Ranganathan has suggested the following norm for expenditure for a university library:

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

The University Grants Commission Library Committee has also suggested similar n

- Salaries and Allowances 50 %
- Books 20 %
- Periodicals 13 %
- Binding 7 %
- Others (including maintenance, Stationery and contingencies) 10 %



Similarly, in the case of public libraries, the norms are as below:

- Salaries and Allowances 50 %
- Books 20 %
- Periodicals 5 %
- Binding 5 %
- Others (including maintenance, Stationery and contingencies) 20 %

For the special libraries, the following norms can be applied:

- Salaries and Allowances 30 %
- Books 20 %
- Periodicals 30 %
- Binding 10 %
- Others (including maintenance, Stationery and contingencies) 10 %



SOURCES OF FINANCE FOR LIBRARIES

Different types of libraries receive funds from different sources. However, the government grant is the common source for all the libraries except a few special libraries belonging to private organizations.

The sources of finance for libraries are as below:

1. Regular grants from parent body
2. Ad hoc grant from other organizations
3. Grants as gifts/endowments
4. Earned income from membership fees, subscriptions, sales or services or otherwise earned by an organization
5. Miscellaneous sources like sale of publications, sale of waste materials, from reprographic services, etc.



The financial grants usually given to libraries are of two kinds, namely, recurring and non-recurring.

- The recurring grants are given for purchase of library materials like books, journals, operation of regular/continuing services or activities of the library besides the salaries and wages to the library staff members. These are made available every year.
- On the other hand, the non-recurring grants are given for specific purposes like building construction, setting up of library automation activity, renovation of existing facilities, purchase of furniture or computer systems or other equipment, etc. These are usually one time grants and may be made available in one or 2-3 instalments.
- Besides, the recurring and non-recurring grants, a third type of grant known as the ad hoc grant is also given at times to the libraries. This is usually a one time grant given on special recommendation and for setting up a specific facility or a service.



SOURCE FOR PUBLIC LIBRARIES

- The chief sources of finance of public libraries are:
- **Government grants:** In our country, the public libraries are partially supported by funds provided by the state governments or the local authorities. In states which have proper library legislation, funds by the government are made available which are usually certain percentage of the annual budget of the state government.
- **Subscription:** It is considered as the main source of income by most of the public libraries. But as the public library system is supposed to be supported by the government, subscription as the main source of funding defeats the purpose as services of public library should be free for all the users. Anyway, in India the practice of receiving the subscription from users is there and thus this remains as the main source of funding.
- **Library Cess:** Some Indian States that have library legislation, have the provision of raising library cess alongwith various taxes charged from people of the state. This library cess too contributes towards the funding of public libraries.
- **Endowments:** Some private benefactors and charitable institutions have provision of bestowing funds to public libraries. Although these kind of grants are not permanent but are usually quite helpful at times to build up a specific facility or collection in a public library. At times, the



ACADEMIC LIBRARIES

○ **School :**

- The school libraries usually receive a certain percentage of total funds received for the school from the school authorities.
- Besides that, library fee is charged from the students annually which is the main funding sources.
- There may also be contributions from the local or state government and at times the school libraries may also receive gifts and endowments.

○ **College :**The various sources or finance for college libraries include

- allocation from the current operating funds of the college, library fees charged annually from students
- gifts and endowments,
- fines of overdue books and
- grant from state/local authorities.
- Besides this a large number of colleges which are part of the Universities under the Central Government also receive funds from the University Grants Commission of India.

○ **University:** The university libraries usually

- receive financial support from their parent university which has special provision of budget allocation for the library. This forms the chief source of funding for the university libraries.
- Besides this, the university libraries also get grants from the University Grants Commission of India and the state governments which are passed on the library.
- In some universities, fee are charged from student members for the use of the library and some special services are priced for research scholars and other users.
- Other sources of finance in university libraries are sale of publications, sale of waste paper, reprographic services, etc.
- University libraries usually have all kinds of financial support, that is, recurring, non-recurring and ad hoc grants.



SPECIAL LIBRARIES

Unlike the academic and public libraries,

- the special libraries are completely dependent on the parent organization for receiving funds as they exist for the sole purpose of giving information support to the parent organization.
- Here besides the annual allocation of funds, special provisions are usually made when the parent organization takes some new project or activity and special material is required to support the activity.
- In case of special libraries attached to large government organizations, a certain percentage of the budget of the parent organization is made available to the special library.
- However, when major revamp of library activities is to be undertaken, the authorities as a special case may provide huge funding which are one time grants.



COST ANALYSIS APPROACH



COST EFFECTIVENESS

- Cost effectiveness analysis refers to the study of the alternatives in relation to their cost and effects to achieve certain goal or outcome.
- The focus is, therefore, on the achievement of certain objectives or goals.
- The cost effective solution is the one which provides maximum output with the minimum cost possible.
- The cost effectiveness approach has various advantages,
 - the most important among them is the fact that it requires the cost and effectiveness data which are easily available in systems like library and information centres.
 - Moreover, it takes into account the alternative solutions for a particular goal, making the study more exhaustive.
 - However, the major disadvantage is that it can take into account only those alternate solutions which have similar goals or objectives. It cannot compare alternatives with different goals or objectives. Moreover, one cannot judge the usefulness of the programme in relation to the benefits derived over the costs involved..



COST BENEFIT ANALYSIS

- Cost benefit analysis is an important tool used by the welfare economists. It refers to the evaluation of alternatives in relation to their cost and benefits measured in monetary terms.
- Thus it tries to evaluate social costs and benefit of a particular project and helps in deciding whether to go ahead with the project or not.
- Cost benefit analysis tries to measure the value of cost and benefit of each alternative.
- The alternative that provides the maximum cost-benefit may not necessarily be the most cost effective solution.
- The emphasis is more on the social benefit rather than-on economic benefit.
- Cost benefit analysis is an essential tool for long term decision making as it is not confined to the immediate impact of the production of goods and services.



The advantages of cost benefit analysis are that it helps in:

- ascertaining if any particular alternative has benefits exceeding its costs;
- identifying the set of alternatives with different objectives which have the lowest cost benefit ratio;
- determination of the set of alternatives among different programme areas
- The only disadvantage of this system is that it is difficult to measure the costs and benefits in monetary terms.

