

DRIC Seminar (11)(1974). Paper B.

BUDGETING IK SPECIALIST LIBRARIES.

S SEETHARAMA, Documentation Research and Training Centre,  
Indian Statistical Institute, Bangalore 560005.

[The objectives of budgeting the attributes necessary for a budget, and the factors to be considered in the formulation of a budget are briefly mentioned. The different types of budgets, and allocation of funds to different budgetary items is discussed. The methods that can be employed for determining the annual financial requirements, for efficient and effective library service in a specialist library are given]

## 0 INTRODUCTION

libraries and documentation centres are essentially non-profit making service organisations, attached to one institution or another. Their financial plans were part of the general budget, and as such the library staff were exempted from preparing their budgets. However, with the recognition of the fact that a budget was both a financial plan as well as a control mechanism, it has become essential for libraries to prepare annually library budgets. To begin with, the budgets generally reflected objects of expenditure — such as, staff salaries, documents, etc. It was more an "On What" budget. The purpose of the expenditure was purely a secondary consideration, and sometimes, it did not find a place in the budgetary statement. But with growing concern of costs, there developed a tendency to either reduce expenditure or to justify what was being spent. In this situation, the library was hard hit and was subjected to frequent

budget cuts, as it was considered essentially a non-profit making organisation. This put considerable pressure on the librarians to justify the expenditure incurred on the libraries. It was surprising that they came out with plans which justified effectively the expenditures, which made Townsend observe "A tight budget brings out the best creative instincts in man. Give him unlimited funds and he won't come up with the best way to a result. Kan is a complicating animal : He only simplifies under pressure. Put him under some financial pressure . . . then he will come up with a plan which, to his own private amazement, is not only less expensive, but also faster and better than his original proposal which you sent back!" (17). The outcome of such an effort was Programmed budgeting, a method which is largely used in USA, and some other countries of the world.

#### 01 Scope of the Paper'

In this paper, an attempt is made to present the objectives of budgeting, the factors to be considered in the formulation of a budget, different types of budgets, and the methods of financial estimation for budgeting.

#### I DEFINITION AND OBJECTIVES OF BUDGETING

##### II Definition

The term 'Budget' has been defined in various ways:

1 A budget is a financial statement of the estimated revenues and expenditures for a given period of time (13, 18).

2 A budget is not only a financial plan, but a forecast of the means of carrying the plan into effect, a current guide, cost summary of operations, and historical record and basis for the formulation of future policy (20).

3a A statement of the financial position of a sovereign body for a definite period of time based on detailed estimates of planned or expected expenditures during the period and proposals for financing them.

3b A plan for the coordination of resources (as of money or manpower) and expenditures covering a definite period of time.

3c A plan of the amount of money available, required, or assigned to a particular purpose (19).

The import of these definitions bring to light the fact that the budget apart from being a financial plan of the estimated revenues and expenditures for a given period of time, is a forecast of the means of carrying the plan into effect and basis for the expenditures, and also is an indicator of the amount of money assigned to a particular purpose.

## 12 Objectives of Budgeting

The objectives in preparing a budget are:

1 To present a statement of estimated revenues and expenditures — financial situation — for a given period of time;

2 To serve as a plan for the efficient and effective coordination of resources and expenditures during a particular period of time;

- 3 To present details regarding the services that are to be given at a future date;
- 4 To serve as a basic financial control mechanism;
- 5 To serve as a device for evaluating results;
- 6 To serve as a barrier for unwise expansion (3):
- 7 To serve as a forecast, of the means of carrying the plan into effort, a current guide, cost summary of operations, etc (20);
- 8 To serve as a tool for the management;
- 9 To form the basis for the formulation of future policy.

### 13 Attributes Necessary for a Budget

- 1 Flexibility and elasticity to meet the challenge of change.
- 2 Simplicity of procedure for budgetary control.
- 3 Facility of effective communication of the objectives of the budget among the people who are going to execute the plan.

### 14 Factors to be Considered in the Formulation of a Budget

In the formulation of a budget for a specialist library, the following factors have to be considered as they have either a direct or an indirect relevance.

- 1 The type of organisation—industrial, research — of which it is a part;

- 2 The size of the organisation;
- 3 Whether the library budget is independently prepared or whether it forms part of the general budget for the organisation;
- 4 The type of users of library service;
- 5 The document collection;
- 6 The services offered by the library, etc; and
- 7 Adherence to budgetary plans unless otherwise warranted.

## 2 TYPES OF BUDGETS

In a specialist library, three types of budgets are possible. They are:

- 1 The revenue and expense budget;
- 2 Capital expense budget; and
- 3 Balance sheet budget.

### 21 Revenue and Expense Budget

This budget is a statement of estimated revenues and expenditures for a given period of time, say one year. This may be considered as the operating budget of the library which shows the annual recurring expenditure. This would include expenditure in relation to staff salaries, documents, such as books, periodicals, etc, equipment (that which is not a part of capital expenditure), and other expenditure, such as binding, printing, distribution of documentation lists, etc.

It should be noted here, however, that provision should be made by the Management to allot the unspent amount in an year as an addition to the normal allotment

the next year. However, this should not in any way deter the efficiency, by caking the library staff slack. Further, it is desirable that a separate library account be maintained to prevent library fund being diverted to purposes other than library purposes.

#### 22 Capital Expense Budget

The capital expense budgets are of the non-recurring type since items in this budget do not find a place in the annual budgets. They may be considered as part of long-range plans of the organisation. The items included under this are the costs in relation to buildings, furniture and equipments which are considered as assets. Though books, periodicals, and other publications can be considered as assets, they are not included under Capital expense budgets because the cost incurred on them is of the recurring type.

#### 23 Balance Sheet Budgets

Balance sheet budgets are those that give information pertaining to the amount spent, and the amount still available for use for achieving particular goals on a stated date. In other words, it can be said that these budgets serve as aids in the management of the operating and capital expenses budgets.

### 3 ALLOCATION OF FUNDS IN A BUDGET

#### 31 Standards for Allocation

In the preceding Section, the items of a budget, depending upon the type of the budget, have been enumerated. Broadly speaking, they may be classified under three heads — staff salaries, documents, and other expenditures. The question often asked is as to what should be

the allocation for each of the three major items — that is, what proportion of the total annual budget should be allocated to each. On the basis of a survey conducted in USA on specialist libraries, Leonard found that about 67 to 72 per cent of the total budget was allocated to the staff salaries, about 25% on documents, and the remaining on other items of expenditures (7). In an Aslib survey (1) conducted as early as 1960 in UK on Specialist libraries, it was found that the expenditure on staff salaries was about 76% and that on documents and other expenditures was as low as 24%. Barbara Kyle has suggested a formula, wherein she states that greater the proportion of Periodicals and Services to the books, the higher will be the proportion of salaries to the whole budget (6). In India, unfortunately, the proportion is just the reverse with staff salary being 25% and the expense on documents etc, being 75%. However, the situation is gradually improving. Though the ideal in India would be 60% on Staff, and 40% on documents, etc, perhaps a 1:1 ratio would be satisfactory. Between documents and other expenditures (binding, printing, etc) in an annual budget, the ratio should be 4:1. In other words, the proportion should be Staff 5: Documents 4: Binding, etc 1. For a model of the Annual Budget, See Sec 2 of Paper G, submitted to this Seminar (12).

### 32 Allocation of Funds for Documents

#### 321 Equitable distribution

On the question of allocation of funds for documents, there seems to be a lot of controversy on the methodology to be adopted. However, one point of common agreement is that funds should be equitably distributed

to the different disciplines or areas of interest, as allocation should primarily be governed by the needs of the clientele and the collection. Further, within a subject, a major proportion of the amount should be allocated to micro-documents such as periodicals, technical reports, etc, and the remaining portion to macro-documents. On the whole, in a specialist library, about 70% of the document fund are likely to go to the periodicals, as indexing and abstracting periodicals are costly. In order to derive maximum benefit from the document collection, it is desirable that the specialist libraries in a region follow a policy of cooperation and coordination in document selection and acquisition, apart from liberalising interlibrary loan facilities among themselves. This would necessarily imply the maintenance of an union catalogue among the participating libraries.

322 Responsibility in the utilisation of allocated funds

The responsibility\_\_of\_utilisation of allocated funds rest primarily with the librarians. It is unfortunate, however, that many a librarian shirks from exercising his responsibility. This is essentially a decision-making process and involves control of selection policy. On the other hand, if this is left to the specialists concerned, it would mean specialist control of selection policy. Muller (11) supports the latter view as he feels that

1 Apportionment ensures the obtaining of an evenly distributed and well rounded document collection;



2 There would be active participation by the users; and

5 It provides a safe-guard against unreasonable demands.

Bach, on the contrary, feels that these are the very reasons why the librarian has to assume responsibility in expending the document fund (2), since his experience and knowledge of selection tools, the needs and levels of the clientele and the collection would stand him in good stead. Schac (15) also holds a similar view, and observes that Program budgeting is better than the traditional budgeting which focuses on objects of expenditures and is marked by attitudes of inertia and control. However, it should be mentioned here that no perfect or satisfactory formula for division of funds is available. Hence, it is suggested that document funds be expended on the basis of a selection policy arrived at by the library with the aid of specialists and not vice versa,

#### 4 STANDARDS FOR BUDGETING

The indirect role played by Standards of library science and documentation, in the preparation of a budget in a specialist library needs no emphasis, as it is quite obvious. The simplified staff formula used in estimating the staff required, the standards adopted in estimating the furniture-required for the collection and staff, and the standards used for calculating the space required to house the collection and the staff are helpful

in determining the costs to be incurred in relation to staff salaries, furniture and building, retails regarding the standards are discussed in another paper submitted to this seminar (4).

## 5 METHODS OF FINANCIAL ESTIMATION FOR BUDGETING

The following are some of the methods that can be employed for calculating the annual financial requirements, for efficient and effective library service in a specialist library.

- 1 Per Capita Method
- 2 Cost of additions method
- 3 Method of details
- 4 Method of proportion
- 5 Programmed budgeting.

### 51 Per Capita Method

A realistic and equitable approach to the quantum of the annual finance necessary for a specialist library is based on the Per capita Method. This is especially helpful in an organisation where data on the annual total expenditure is not available. In this method, a minimum amount per user, depend-  
 nd upon the type of user -- Top/Middle management personnel or operator/worker, is fixed which is considered essential for providing library service. For example, if there is an organisation with 500 persons in the top and middle management level, and about 2000 workers — workers who are able to use documents, the annual total expenditure can be calculated by the Per Capita Method using the following formula.

Expenditure on documents per person in top and middle management level	Rs	100.00
Expenditure on books per worker		10.00

Thus,

1 For 500 B. Management personal	Rs	50,000.00
2 For 2000 workers	Rs	20,000.00
		70,000.00
Salaries of staff	Rs	80,000.00
Binding, etc		10,000.00
		1,60,000.00
Total annual expenditure		

Note.- The total annual expenditure has been worked out on the basis that 50% should be allocated to documents, binding etc, and the remaining 50% to staff salaries. The figures may have to be considerably reviewed due to the present inflationary conditions.

## 52 Cost of Additions Method

In this approach, the total annual expenditure is estimated on the basis of the cost of the documents that are added per year. Here, it is assumed that there is a plan which gives the total number of documents which are expected to be added at the end of five years. This method is helpful like the Per Capita Method in an organisation where data on the total annual expenditure is not available. For example, if there is an organisation which purchases 600 books, 200 periodicals, 100 technical reports, etc, the total annual expenditure for the library can be calculated in the following manner,

## Assume

Average cost of a book	Rs 70.00
Average cost of a periodical	Rs 150.00

## Thus, cost of

1 600 books	Rs 42,000.00
2 200 periodicals	Rs 30,000.00
3 100 technical reports, etc	Rs 1,000.00
	<hr/>
	Rs 73,000.00
Salaries of staff	Rs 63,000.00
Binding etc	Rs 10,000.00
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Total annual expenditure	Rs 1,66,000.00

Note.- The example worked out for this method, as well as that of the Per Capita Method refer to the same organisation. It should be noted that both the approaches more or less result in the same total annual expenditure.

## 53 Method of retails

In this approach, the total annual expenditure is estimated on the basis of all items of expenditure — salaries of staff, cost of documents, binding, photocopying services, etc, and other overheads incurred on the library. This approach would imply that due weightage is to be given to past expenditure while estimating the annual financial requirements. While this method may be dependable and authentic, it may not always be good with the changing situations in the library.

#### 54 Method of Proportions

In this approach, the financial estimation is based on a purely arbitrary principle, that a certain minimal proportion or percentage of the total budget incurred by the organisation should be allocated to the library for its annual expenditure. This method necessarily implies that the provision of library finance is the responsibility of the management concerned. Since, generally specialist libraries are attached to industrial organisations, and research and development institutions, the library budget should be related either to the sales turnover, if an industrial organisation keeping a minimum to meet the situations of a very low sales turn over, or to the total research budget, if a research institution. The recommended library budget is: 2% of total sales turn over, in the case of an industry; and 6 1/4% of research budget in the case of research institution. As a matter of fact, the Seventeenth All-India Library Conference (1968) recommended that in the case of Specialist libraries, the allocation should be 6 to 10 per cent of the total annual expenditure ( 8 ). Comparable figures for USA are that the proportion of research budgets spent for information services lies within the range of 2 to 10% ( 5 ) . No doubt, the proportion allocated to the library will depend on the attitude of the management and the services that have been provided by the library concerned.

#### 55 Programmed Budgeting

The importance of demonstrating effectiveness of information needs no emphasis, especially in an

Industrial organisation where the management would expect a reasonable return for every penny spent. But, as yet, there is no dependable method of measuring the value of information given, leave alone costing the same. This situation has put the library in a difficult situation, and perhaps this is the reason why the management treats the library as a 'Cinderella'. One of the recent methods developed for demonstrating cost-effectiveness of information services is by Programmed budgeting.

Programmed budgeting is a technique of establishing library priorities and forms part of "Planning-Programming-Budgeting Systems" (PPES), which in its turn is a technique for organising and displaying information about the activities or programmes of an organisation and their resource allocations ( 11 ). The purpose of PPSS, was to serve as a means of providing policy makers with an analytic evaluation of existing and proposed activities, supported, whenever possible, with quantitative measures of performance — that is, with costing of library operations (9,10). In other words, PPBS is a method of budgeting which aims at analysing expenditure in relation to purpose and not by items of expenditures (salaries, documents, etc), and relates it to the results achieved. According to this method of budgeting, the components would be

- 1 Objectives of the organisation;
- 2 Activities (and analysis of procedures) which relate to the objectives;
- 3 Costs;

- 4 Benefits and by-products; and
- 5 Analysis of alternatives (9, 10, 11).

Mason considers activities in libraries to be of two kinds — operational such as selection, acquisition and processing; and service activities such as current awareness, information retrieval etc. The next step is to calculate the full cost of each activity — that is, by costing the amount of staff time, both professional and clerical involved — direct costs, and the costs of any equipment rental, materials or services involved in the activity. Both, operational and service activities are costed in this manner. However, since the operational activities are supports for the service activities, the operational costs have to be transferred to the appropriate services as associated costs. This transfer to a particular service is dependent on the proportion of use of the operational activity concerned. Thus, the cost of an Information service would include

- 1 Direct costs (D) = Salaries of Professional and clerical staff of the service (S) + A percentage which is variable, of the salary of Operational Staff (O)
- 2 Associated costs = A percentage, which is variable of the cost of materials or services.

$$\begin{aligned} \text{Therefore total cost (TCS) of a Service} &= D + A \\ \text{TCS} &= (S+O)+A \end{aligned}$$

The same methodology should be followed in relation to each service. This would aid the management in taking the right decisions, as it gives an idea as to how the money is being spent. Further, it helps in the so called "Crosswalk" technique. For example, if all the direct costs (D) are added they would give the staff salaries as shown in the traditional budget. Similarly, with other categories of expenditure.

However, a word of caution — though the idea of costing each activity is good, there is considerable difficulty in estimating the same. This is due to the fact that standard unit costs for different operations are not available, since the cost is dependent on the type of organisation, the amount of effort, time, materials, etc involved. However, for each organisation, unit costs can be calculated on the basis of the cost of the operation and the resultant output.

The next step in this procedure is to assess each activity and quantify its value. It will be possible to show cost benefits on some operational activities which can be transferred proportionately to the different services just as the associated costs. Similarly, all the services can be assessed for their benefits. However, for certain services, it will not be possible to quantify the benefits. In such a situation, one should look **for** cost-effectiveness — that is, what would it cost the users if they do it themselves — instead of cost-



benefit analysis. This would necessarily be difficult, as the data arrived at will be more subjective than objective, that is, it will be based on guess rather than any workable hypothesis. A paper presented to this seminar has applied the PPSS technique in the costing of a Current Abstracting Service ( 14 ).

In conclusion, it can be said that programmed budgeting is a combination of the "On what" budget (traditional budget), and "To what purpose" budget and consists of a basic plan — Statement of Mission, Guiding Principles, Continuing objectives —, and an action phase wherein specific projects are defined in terms of costs, tasks, responsibilities, timetables, etc followed by a re-evaluation of the basic plan (16). Such a systematic procedure of budgeting would give to the Management an acceptable and an understandable financial plan than a conventional, traditional budget. As essentially, this procedure is dependent on past expenditures, the cost estimates for different activities for the next 5 years should be increased appropriately — say by 8% per annum on staff costs, and 12% per annum on material costs etc.

## 6 CONCLUSION

Budgeting — preparation of a budget — is a very important and useful process in a specialist library. But, for budgeting to be a successful process, planning of the activities and services of the library, in detail, is an essential pre-requisite. Among

the various methods of financial estimation for budgeting, Programmed budgeting which is a technique of establishing library priorities and which forms part of "Harming - Programming - Budgeting - System" (PPBS), seems to be the ideal approach as it demonstrates cost-effectiveness of information services. It serves as a means of providing policy makers with an analytic evaluation of existing and proposed activities, supported, whenever possible, with quantitative measures of performance — that is, with costing of library operations (9, 10). Further, this approach rightly focusses on the attention that **the** library staff has to pay in regard to the preparation of a budget. No doubt, there is as yet no dependable method of estimating the actual value of information, and the costing of the same. However, a beginning has to be made, and in programme budgeting we find the beginning.

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