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Paper No : 06 Management of Libraries and Information
Centres and Knowledge Centres

Module : 16 Financial Planning (sources and generation of
income)



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MODULE 16

FINANCIAL PLANNING (SOURCES AND GENERATION OF INCOME)

I. Objectives

The objectives of the module are to:

- Discuss the importance of financial management in libraries;
- Identify the sources of finance for libraries and explain how income is generated in all kind of libraries;
- Workout the methods of financial estimation for various kinds of libraries and highlight the major categories of expenditure in libraries.

II. Learning Outcomes

After going this unit you will learn the concept of financial management, importance of financial management in libraries, the sources of finance for libraries and generation of income from various sources. You would also learn about the methods of financial estimation for various kinds of libraries; and the major categories of expenditure in libraries.

III. Structure

1. Introduction
2. Financial management
 - 2.1 Principles of financial management
3. Library/information centre finance
4. Sources of finance for libraries
 - 4.1 Public libraries
 - 4.2 Academic libraries
 - 4.3 Special libraries
5. Library expenditure
 - 5.1 Principles of library expenditure
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6. Methods of financial estimation
7. Financial responsibility
8. Summary

1. Introduction

For any organization to sustain and grow, finance is the most vital requirement. The libraries and information organizations, being service organizations, have a national obligation especially with regard to those attached to academic and public service organizations. It is, therefore, important that there should be provision of adequate funds to manage various activities of the organization. As finance like other management activities also requires regular control and evaluation, a few principles are required to manage it.

In this module, we bring you the various aspects related to financial planning in libraries. These include the sources of funding in various kinds of libraries, major items of expenditure in libraries and norms and methods of financial estimation in libraries. The above mentioned aspects will be examined with reference to academic, public and special libraries. The libraries usually spend on reading materials (books, periodicals, audio-visual materials, CD-ROMs, etc.), staff salaries, user services, building, furniture and fittings, maintenance, equipment and machinery and consumable items.

In this module, we will discuss sources of finance, methods of financial estimation, major items of expense and the principles, norms and standards on the basis of which library funds could be estimated.

2. Financial Management

As managers, librarians and information professionals are faced with decisions similar to those facing managers of other units within an organization. It is important that they too know about various aspects of financial management. Many of these decisions require the use of basic financial management techniques. For example, library managers are typically responsible for a broad range of activities that rely on financial data, including:

- managing day-to-day operations;
- maintaining expenditures in accordance with their budgets;
- selecting optimum approaches for offering a service;
- determining prices to charge for services;
- requesting funds for a capital project;
- justifying projects and/or staff; and
- justifying the existence of the library or information center

Finances are thus essential for every human activity and success in planning various activities is often dependent on the amount of finance available and the manner in which it is

to be utilized. A basic knowledge of library finance, library expenditure, budgeting and accounting is, therefore, very important for any library and information science professional.

Financial management can be defined as the study of principles and practices involved in the financial operations of an organization. Libraries too are included here as financial management also deals with various aspects of acquisition, distribution and utilization of funds besides balancing of revenue and expenditures. In addition to the above, the general control and evaluation of financial affairs is also within the purview of financial management.

Besides the above, it is the responsibility of parent organization of the library to take care of financial issues involving raising of funds, investing of funds, preparation and approval of budget and other finance related matters. The role of the library is to estimate its own financial requirements; preparation of budget for its functions, activities, programmes; managing and spending of funds within the stipulated time frame; maintaining accounts and preparation of financial statements and reports.

2.1 Principles of financial management

For accomplishing the library's mission to promote various services and activities in an effective manner, it is required that all library professionals and other officials carefully manage financial resources in a prudent and cost-effective manner. Accordingly, each official is responsible for adhering to the following principles and responsibilities:

- a) Effective control
- b) Simplicity
- c) Economy
- d) Regularity and farsightedness
- e) Flexibility

Let us know some details of these principles.

a) Effective control

Financial activities in an organization work very well when they are controlled properly. The finance should be controlled in a simple manner with proper economy, minimum of wastage, proper channelization of resources and achieving the maximum with minimum of resources.

b) Simplicity

As simplicity leads to economy and efficiency, the various financial procedures should be minimum, simple and easy to operate.

c) Economy

As in all other activities, in financial matters too economy should be exercised to the maximum extent possible by taking precautions to avoid unnecessary expenditure, duplication of efforts/activities and wasteful use of resources.. But it is to be remembered here that economy should not be at the cost of efficiency.

d) Regularity and farsightedness

Funds must be expended in accordance with the relevant policies, rules and regulations of the organization and its parent body. Actual financial results must be compared to the budget on a regular basis to ensure that transactions are reasonable, accurate and adequately reported and that unnecessary costs are being avoided. When actual financial results vary significantly from the budget, library officials must determine the cause, evaluate the activity and take suitable corrective action.

Also essential is sticking to the time schedules especially with regard to preparation of budget, subscription of journals, etc. The information professionals should also project future requirements besides the present requirements of the information organization.

e) Flexibility

With the framework of financial rules and procedures, flexibility should be exercised. Financial rules can be made flexible keeping in view the emergent nature or crisis situation of a particular activity and making adjustments according to circumstances. Besides the above, when time is short for utilizing and funds are in excess, they may be diverted to certain type of useful collection or may be for some latest equipment. But all this has to be with proper approval of authorities.

3. Library/Information Centre Finance

Promoting good library services depends on adequate finance and efficient library organization and management depends on adequate financial provision in the library's budget. For libraries, finance plays a very important role as they are service organizations and usually there is more of expenditure involved than income. Libraries usually require capital funds for physical facilities like building, furniture, fittings, equipment and machinery. Besides this, libraries also require recurring funds year after year for collection building, salaries and wages, maintenance and operating the services for satisfying the requirements of their users. Regular flow of funds ensures smooth and quality services to the users. The fund required for operating the library has to be available to the library authorities every year which is based on pre-submitted budget of the library. Besides this, the libraries require finance on continuing basis and the estimation of the required funds has to be done at least

one year in advance. It has to be remembered here that the sources of finance for academic libraries, public libraries and special libraries are different in each case.

Libraries and information organizations are service organizations and most of the times not-for-profit organizations. The managing of finances in this kind of organizations requires proper planning and accounting as there is usually no earning but only spending most of the times. The services which are to be offered to are to be meticulously planned as majority of services may have to be subsidized.

Library finance thus involves financial planning, tapping the right sources for realizing funds, financial estimation, and allocation of funds for various activities, proper utilization of funds, financial accounting and lastly financial auditing. Like other organizations, library finance too requires complete financial control.

4. Sources of Finance for Libraries

As already mentioned above, 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.

As already mentioned above, different types of libraries receive funds from different sources. Discussed below are the sources of finance for each type of library.

4.1 Public libraries

The chief sources of finance of public libraries are:

a) Government grants

In western countries, the public libraries are usually fully supported by funds provided by the government. 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 percentages of the annual budget of the state government.

b) 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.

c) Library Cess

Some Indian States that have library legislation, have the provision of raising library cess along with various taxes charged from people of the state. This library cess too contributes towards the funding of public libraries.

d) Endowments

Some private benefactors and charitable institutions have provision of bestowing funds to public libraries. Although these kinds 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 endowments may not be in monetary terms but gifting of private and personal collection of some prominent individuals.

Besides the above, public libraries may also raise funds by means of fines for overdue books, sale of wastage or receiving free publications.

4.2 Academic libraries

Academic libraries can be school, college and university libraries and each one has varied sources of funding.

a) School libraries

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 are 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.

b) College libraries

The various sources of 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.

c) University libraries

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 to the library. In some universities, fees 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 old newspaper, reprographic services, etc. University libraries usually have all kinds of financial support, that is, recurring, non-recurring and ad hoc grants.

4.3 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.

5. Library Expenditure

As already mentioned in the previous sections, libraries require finances to operate their services. In this section we will discuss the aspect of expenditure in libraries. Libraries spend money on reading materials (books, journals, pamphlets, CD-ROMs, etc.), user services, consumables and other utilities. The main aspect of library expenditure is to take care of the fact that users are given maximum benefit by spending the minimum amount possible.

The chief characteristics of library expenditure are:

- Library is a spending organization.
- Library is an organization that keeps growing all the time.
- Library expenditure is recurring.

5.1 Principles of library expenditure

The principles of library expenditure are:

- Principle of economy
- Principle of maximum aggregate benefit
- Principle of advance planning
- Principle of equitable allocation

Let us know a few details of these principles.

Principle of economy

This means that economy be exercised in all expenditures. By all means unnecessary duplication, wastage and extra spending are avoided. Also the expenditure should not exceed the approved budget.

Principle of maximum aggregate benefit

As libraries are service organization, they exist for the sole benefit of the users. Therefore, the librarian should, while selecting the reading materials, take extra care to select only those materials which will be really of maximum benefit to the users. Also the services should be planned in such a manner that maximum numbers of users are able to utilize them.

Principle of advance planning

It is desired that the library expenditure be planned in advance so that when the time comes to actually carry out an activity, there are no problems. This also helps in balancing the incoming funds and expenditure. In case of journals, advance orders should be placed to avoid unavailability at a later date.

Principle of equitable allocation

Library funds should be suitably/equally distributed for various kinds of reading materials and care should be taken that all subjects are suitably covered. The balance while building collection is very much desirable for smooth operation of the library. Similarly for modern services more funds are allocated than the traditional and already continuing services.

In libraries, there are two competing principles, namely the need to sustain funding to the library system and the need to protect the resources required by various units or the library for their own ongoing activities. Additionally, meeting the needs of professional staff of library in the present day technological world will also have to be taken care of. The decisions regarding the library's priorities too are required to be taken into account all the time and it has to be not just on annual basis but to be carried out as an on-going activity.

5.2 Classification of library expenditure

In the previous section we have seen that 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. Keeping in view this aspect, library expenditure can be classified into several heads which vary from library to library.

In some organizations, we just see expenditures listed only as recurring and non-recurring but in some cases it may be listed in details as below:

- Books and journals
- Salaries and wages
- Stationery and other consumables
- Binding of books and journals
- Postage and telecommunication charges
- Vehicles
- Equipment (including maintenance)
- Furniture
- Maintenance (includes building upkeep, security, cleaning, electricity, water, etc.)
- Printing and publishing

- Miscellaneous and contingency

In some large libraries, the above may be listed under programme, institutional and capital budget components. There is not hard and fast rule regarding budget heads and it may vary from organization to organization.

6. Methods of Financial Estimation

The future of any information organization depends upon the adequate and regular flow of funds. It is thus essential that the financial estimation may be carried out correctly and properly so that financing is proper. As is done by other kind of institutions, libraries too need to carry out financial estimation of their future resources and activities. The best way to correctly prepare the financial estimation is to make a thorough study of the next year expected activities and the resources required to carry out these activities. Then against each resources, the expected costs can be calculated and thus in this manner an error free financial estimation can be carried out.

Financial estimation, if carried out scientifically and logically also lends support to the financial requests as these provide documentary and solid support to the amounts requested for. Besides this, the amount of finance depends on the size of the information organization in terms of collection and staff size, type of services provided, quantities and quality involved, number of users and the individualizing factors of the particular information organization. In the present technological era, the hardware and software requirements, annual increase in prices of reading materials, established standards and available volumes and variety of information resources are also to be taken into consideration.

The chief methods of financial estimation are:

- Per capita method
- Formula method
- Proportionate method, and
- Method of details.

Let us study some details of each of these methods in the sections given below:

a. Per Capita Method

In libraries it is a well known fact that instead of grants given on ad hoc basis, allotment of funds should be made on the basis of per capita method to maintain and improve the standards of the library services. In this method, minimum financial appropriation is made on

per head basis which is considered essential for providing proper or standard library services. This method is found to be quite suitable in academic and public library. Some of the common factors that help in determining the per capita financial amount are:

- Average cost of the reading materials
- Average income of the community/society using the library services
- Future requirements of the library
- Levels of library staff, and
- Applicable technologies for providing library services

In this method, usually the library users are categorized and for each category appropriate amount is appropriated. Then calculation is made for all the users in each category and in this manner it is the safest method to calculate the library finance based on per head of the library users.

In this method it is vital that some standard be established with proper approval of the authorities otherwise it becomes difficult to convince the financial dispersion agencies to approve grants. Many years ago, the University Grants Commission Library Committee had recommended that a university should provide Rs. 15 per student and Rs. 200 per teacher for acquiring reading materials for its library. The Kothari Education Commission in 1964-66 had also recommended that as a norm, a university should spend Rs. 25 for each student and Rs. 300 per teacher. Similarly, Ranganathan had also given suggestions for providing funding based on per capita method for the university, college and public libraries.

In the present day context, as the costs of reading materials and salaries of library personnel have risen so much, it is required that some national agency may take steps to conduct a study and establish some norms for all kinds of academic and public libraries. The per capita method is the best, safest and most easy method for financial estimation.

b. Formula Method

The formula method describes a situation in which the distribution of funds to a library is based on some formula. For example, a state government may distribute funds to libraries with the state university or college system based on a particular formula, input for which might be the number of undergraduate students, postgraduate students, researchers, faculty members, the extent of the collection already available, or other such factors. Such a formula could determine the precise amount of money to be allocated to each institution or the relative size of the whole budget which each organization gets. This method is considered to be very similar to the per capita method for financial estimation.

c. Proportionate Method

The proportionate method is based on the presumption that authorities provide adequate funds to the parent body of the library and out of which the parent body fixes a certain fixed 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 method, usually the institutional budget component of the library is used as a measure to determine the percentage of the budget which should be allocated to the library. For this, in India, various standards have been recommended. The University Education Commission had recommended that 6.5 % of a University's budget be considered as a reasonable amount to be spent on its library. The Commission further suggested that based on circumstances, the expenditure could vary from 6.5 to 10 %. The circumstances can be, for example, planning of new services, collection building in a special subject area, going in for library automation or any other activity.

Similarly, for special and public libraries too suitable norms can be established and thus financial estimation be carried out. For special libraries, there is no limit and percentage can be quite high as they are for the sole purpose of supporting the activities of the parent institution and many times, major projects are dependent on timely availability of information. In case of public libraries, Ranganathan had suggested either 10 % of the total budget or 6 % of the education budget of the local or state government.

d. Method of Details

In this method, all the items of expenditure are to be taken into consideration for the purpose of preparing financial estimates. The recurring, non-recurring including the capital expenditure is also to be taken into consideration. Detailed analysis of each item is carried out with proper justifications and supporting documents. This method requires that all activities and the resources required for carrying out each activity is highlighted with cast requirements in each case, in other words, showing financial realities. The details are thus put up to the authorities with request for finances. This is the best method of financial estimation and is many times also followed by a presentation.

7. Financial Responsibility

Lastly, there is the issue of who should take over the responsibility of financial management. Various studies related to financial management of library and information organizations has revealed that the librarian or the information professional has to be responsible for the financial management of the library. The following procedures are recommended for efficient financial management.

- a) Preparation of estimates for the fiscal year
- b) Presentation to the parent organization
- c) Approval by the parent organization
- d) Responsible for management of funds for the fiscal year

8. Summary

Financial management is a key tool in controlling and directing the resources of any business organization. Managers--not only financial professionals but also managers whose responsibilities are largely non-financial--can use this tool to generate and analyze the financial information that is essential to decision making in business. Understanding the principles of financial management helps all managers, from line supervisors to senior executives, to use this tool more effectively to support the organization's goals.

In this lesson we have seen the various aspects of financial management. The sources of finance vary from library to library, that is, for academic, special and public libraries the sources will vary. The methods of financial estimation too vary from library to library. The nature of library expenditure is different from other types of organizations as libraries being service organizations are basically spending organizations with very few sources of earning.

Proper financial management leads to preparation of a sound budget that management of funds in the most appropriate manner. In libraries if funds are managed properly, good quality reading materials can be acquired and quality services can be offered. All this thus enables the libraries to carry out their mandate and meet user requirements.

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