

# BIALL

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34<sup>th</sup> Annual Study Conference

June 2003

Pre-Conference Seminar



## **Financial Planning and Management**

Presented by Jules Winterton

2.00pm to 3.30pm  
Friday 13<sup>th</sup> June 2003

City Hall, Cardiff

## Aim of session

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## Structure

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To provide an understanding of the context, basic practicalities, and limitations of financial planning and management in libraries and information services.

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- Quotes
- Overview of financial planning
- Context of financial planning
- Estimates / Budgets with group work
- Resource allocation
- Financial monitoring
- Things to do

This document also includes checklists and suggested reading

## Quotes

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- Competencies

*“Plans, prepares, and controls budgets and manages all financial resources.”* American Association of Law Libraries, Competencies of Law Librarianship – specialized competency 2.2

- Planning ahead

*“... critical importance of financial management to strategic planning and the perceived weakness of this area in information services.”* Corral, p.165

- Hindsightology

*“Life it can only be understood backwards, but it must be lived forwards”* Kirkegaard, advert on Tube

- Everything

*“Everything costs money. Everything costs money. Absolutely everything costs money.”* Janis Johnston, President-Elect, American Association of Law Libraries

## Overview of financial planning 1 of 2

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### Why plan and manage finances?

- to predict future expenditure
- to keep within agreed financial limits
- to react to changes affecting the budget
- to maintain probity
- to maintain accountability

BUT most importantly...

- to turn ideas into reality



## Overview of financial planning

2 of 2

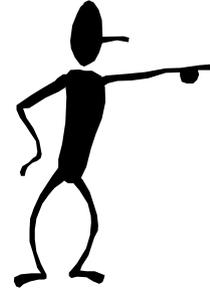
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- Budgets are not isolated financial exercises
- Money is the common measure of resources
- Holistic assessment of resource deployment
- Budgets can empower as well as constrain
- Budgets can enable change
- Budgets require dialogue
- Budgets depend on strategic plans

## Context of financial planning

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*Where do we want to go?*



Financial planning takes place in the context of:

- Government policies
- Prevailing financial conditions
- Strategic aims of the institution
- Strategic aims of the library service

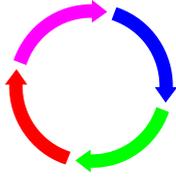
## Estimates / Budgets Terminology

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*So what do we want to do with the money?*

‘Budget’

- Is prepared to cover a defined period of time
- Is approved in advance of that period
- Combines qualitative, quantitative and fiscal information
- Defines processes to adopt to achieve organisational goals



## Estimates / Budgets The annual cycle

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### 'Budget' as process

- Deciding what you want to spend
- Negotiating to agree the amounts
- Keeping within the agreed budget

Estimates → Budget → Monitoring & analysis → Estimates

- Financial management is a continuous process
- Timetables will be fixed by management
- Know the budget timeline and be prepared
- Strategic planning will follow parallel timetable
- Guidelines will be provided by management



## Estimates / Budgets

### Budgeting methodology

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- Line budgeting see example A
- Programme budgeting see example B
- Performance budgeting
- Programme-planning budgeting
- Zero-based budgeting
  
- Styles of budgeting: directive / participative

Estimates / Budgets  
Models of library funding

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- Single grant for all non-pay costs / all costs
- Formula funding
- Core funding and negotiated funding according to service level agreements
- Multiple sourcing

## Estimates / Budgets Categories of income

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- Recurrent grant
- Project income
- Contract income
- Income generation/ revenue earning
- Fundraising

⇒ White, Brenda. Maintaining the balance: external activities in academic libraries. [London]: British Library Research and Development Dept., 1992. British Library research paper; 100.

⇒ Webb, Sylvia P and Winterton, Jules. Fee-based services in library and information centres. Taylor & Francis, 2003

## Estimates / Budgets

### Categories of expenditure

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#### Patterns of financial behaviour

(See definitions of costs in Corral, Appendix 3)

- Direct (prime) / Indirect (overhead)
- Fixed / Variable (operating) / Stepped
- Capital / Recurrent
- Unit / Marginal
- Pay / Non-pay

#### Costing:

- Activity-based (policy on overheads)
- Life-cycle (policy on depreciation)

Electronic information / IT costing: Capital and recurrent costs, hardware costs, technical support, software licences, institutional / site licensing, copyright licensing, consortial purchasing, training, demand generation, delivery options.

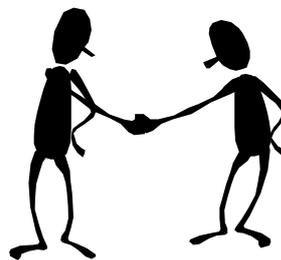
*“Costing information is complex and different from costing other types of goods and services; unlike other commodities, information can be shared without diminution, it can be jointly consumed, and it can also generate benefits and costs for those who are not direct users or producers. In addition, costing information is complicated by the range of different elements that must be included to arrive at the total cost of a product or service, which has been exacerbated by information technology developments....”* (Corral, p.180)

## Estimates / Budgets Presenting the budget

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How should we go about putting the case to the institution?

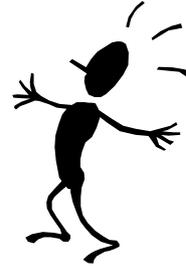
- Keep it simple and clear
- Relate budget and aims to those of institution
- Provide explanations for changes from previous years
- Be aware of the institutional picture - pitch the bid correctly
- Use performance indicators – sparingly
- Sell the service - talk to people, win people over
- Be optimistic!



## Estimates / Budgets Adjustments after the allocation

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How do we deal with outcome of the presentation and negotiation, when the allocation is different from (i.e. less than) the amount requested?



- Determine a strategy & priorities
- Timing is important
- Know the areas of flexibility in the budget
- Have contingency plans ready
- Act quickly

## Resource allocation

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*Who gets what to spend?*



- Finance codes
- Need for sub-allocations
- Use of formulae
- Devolved budgeting
- Contingency

⇒ Lyon E, Streatfield D, Haynes D, and Joyce N. Impact of devolved budgeting on library and information services in universities in the UK. British Library Research and Innovation Centre Report, 138. London: BLRIC, 1998.

## Financial monitoring

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- Financial regulations
- Recording of payments
- Management accounts – monthly reports  
See example C
- Recording of commitments
- Phased expenditure
- Virement

## Things to do

1 of 2

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### **Learn about the political fiscal environment - money is a political tool**

- Where does the money come from, how stable is it, how are the major clients of your firm doing?
- Are you a line item in your parent institution's budget or do they have a lump sum which they distribute?
- Are there major expenditures on the horizon which will affect funding priorities, merger, reworking of IT structures, new building?

### **Are you considered an essential and integral part of the parent institution's operation or just another operating expense?**

- Does the managing partner consider the library to be a contributor to the organisation's success or a necessary and expensive evil?
- Get the institution's strategic plan. See where you fit into it. Is the library mentioned? It is the vision for the future and if library does not feature, it will not be a funding priority.
- What else does the institution fund? Are you in competition for finite resources? Make an organisational chart of other units and if possible get hold of their budgets so you can see how you fit in and where the competitors are in the institution's strategic plan. If they are high on the agenda, look for partnerships.

### **Do everything you can to help in the goal of making the library an essential part of the organisation.**

- Engage in the daily life of the organisation, ensure every department sees the value of the library whether it is continuing professional development, marketing, fundraising and development, careers – aid their strategic goals, win friends.
- Selling the budget is selling the library every day. Aim for high quality in the smallest transactions which are the ones remembered. Document the value in hard data.
- No one is a better advocate for your library's needs than you. Introduce new services and publicise them so people remember you are doing really good work.

### **Create your strategic plan to mirror parent institution's strategic plan.**

- Your institution's strategic plan is a valuable source for you; use it to demonstrate how your library helps the institution achieve its goals.

### **Keep the budget clear, short and straightforward to get attention.**

- Think how it tells your story.
- Consider programme budgeting rather than line item to show how money translates into services.
- Use comparative statistics from peer organisations.

## Things to do

2 of 2

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- A graph may be all you need to get the message across.
- Preface it with how the library fits in to the institution's long-term plan.
- Craft every report or request with how your library furthers the goals of your organisation.
- If your sales pitch does not go directly to the decision-maker but to a gatekeeper, is there an appropriate way around? Make sure the person who does make the decisions has heard about the value of your library during the year.
- Submit an executive memo or summary to the decision maker. Choose an appropriate way but ensure your story gets to the decision maker rather than be submerged as a line item in a giant spreadsheet.

### **Be realistic and accept that the library does not always make it to the top of the list of priorities.**

- Be ready to recognise that there may on occasion be more pressing institutional needs but don't make it too easy. But there is nothing wrong in reminding the administration that you stepped aside last year for the good of the institution.

### **Give accurate information**

- Give honest answers if asked to give best and worst case scenarios, if funds are increased what would you do with them, if cut, what would be the implications?
- Be honest about the effects of an increase or decrease in funds would entail.
- Once your integrity is called into question in relation to the budget process you have a real battle to restore trust in your judgment in what will happen to the library.

### **Understand how much it really does cost to run your library services.**

- Learn to cost services and projects.
- Understand the full costs of transactions you provide.
- Understand the overhead charged on your services and how is it calculated.

(Borrowing from *How money works – maximizing your library's financial resources*, a presentation at AALL annual meeting 2002 by Janis Johnston)

## Health Check

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### Are your finances under control?

(directly from Corral pages 199-200)

#### *Authority.*

Do you have authority to vary expenditure between budget heads?  
Do staff control budgets related to the activities for which they are responsible?

#### *Development.*

Have your staff received training in financial planning and management?  
Are you actively seeking new income streams to fund service development?

#### *Costing.*

Is cost analysis an ongoing or regular activity?

#### *Budgets.*

Is planning and budgeting integrated and co-ordinated with organisational processes?  
Can your service / product costs be derived from your annual budget statement?

#### *Accounts.*

Do your financial reports take account of depreciation and inflation?  
Does your coding system relate expenditure to particular programmes or clients?

#### *Control.*

Have principles and procedures for internal control been established and explained to staff?  
Does your list of authorised signatories and spending limits reflect current responsibilities?

## Key Messages

Deborah Herrera, West Group

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- No one knows more about your budget than **you**
- Understanding your organisation's strategic plan for the coming year is **essential** to your planning process
- Understanding your financial target for the coming year is the first step in formulating your budget
- Prioritise your library's needs for the coming year
- Gain support from your user community – same vision?
- Know where you have flexibility in your budget
- Plan for contingencies where possible

Your challenge is to balance the needs of your department with the financial reality of your organisation

## Key Steps in the Budget Process

Ann Matthewman, AALL Treasurer

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- Know your organisation's strategic plan and take every opportunity to provide input and feedback
- Know your organisation's financial plan and policies and take every opportunity to provide input and feedback
- Consult with the stakeholders in your organisation to understand budget priorities
- Make a formal request to organisation's entities, e.g. library departments, for budget requirements for the forthcoming year
- Review quarterly reports and trend data for the current year.
- Develop annual budget guidelines for each category of the budget based on the strategic plan, financial plan, stakeholder priorities and budget requirements
- Following on the budget guidelines, previous financial reports and trend data, develop a detailed draft budget
- Make sure you have a plan for selling your budget to the organisation
- Discuss the draft budget with stakeholders and entities in order to refine it and re-define priorities as necessary
- Prepare a final version of the budget for presentation and approval
- Prepare and assess financial reports on a regular basis throughout the year – know what is happening with the budget
- Get ready for the next budget cycle

## Reading

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Baker, David ed.

*Resource management in academic libraries.*  
Library Association, 1997. [about 250 pages]

Corrall, Sheila.

'Money matters'. In *Strategic management of information services: a planning handbook.* Aslib, 2000. [chapter 5, p.156-206]

McKay, Duncan

*Effective financial planning for library and information services.* 2<sup>nd</sup> edn. Taylor and Francis, 2003 - forthcoming. [about 100 pages]

Roberts, Stephen A.

*Financial and cost management for libraries and information services.* 2<sup>nd</sup> edn. Bowker-Saur, 1998. [about 400 pages]

*Thank You!*

