UNIT 11  BUDGETING TECHNIQUES

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11.0 OBJECTIVES

After reading this Unit, you will be able to:
• discuss library budget and its features;
• describe budgeting and financial planning processes;
• explain types of budgetary methods;
• highlight budgetary standards, norms and principles;
• apply norms and standards to work out financial estimates for different types of libraries viz., academic, public and special libraries; and
• differentiate budgetary methods, prepare an outline of a library budget and maintain accounts using appropriate records conforming to audit requirements.

11.1 INTRODUCTION

In the preceding Unit of this Block, you have learnt about the financial management of libraries in general and sources of funds as well as circumstances under which budgetary system has to operate in service-oriented and not-for-profit organisations. In this Unit, you will learn what is budget, why it is required in libraries and information centres, how it is prepared and operated together with advantages and disadvantages of different budgetary methods and techniques. Library being an expenditure-oriented institution, the central aspect of financial management is the budget. Budget is a statement of income and expenditure. It
Financial Management provides guidance in spending the appropriated funds through a period of time. It is also an instrument of control, communication, coordination, evaluation and motivation. In this Unit, we shall study the basic features of a library budget.

Budgeting is one of those managerial functions you would have studied as part of POSDCORB in Unit 1 (Principles and Functions of Management). In addition to being a key managerial function, budget is both a plan document and a control mechanism. It is a plan document as it provides projected futuristic plan for library in terms of money and it is a control mechanism as the budgetary control ensures checking the performance against plan and helps to correct deviations, if any, from the performance targets.

Budget being a road map for the delivery of library services in the subsequent years, provides a fiscal foundation for library operations. It provides opportunity to request necessary funding for established services as well as supplemental support for increased use and for new services. It is a way to track required revenues and reportable expenditures. It involves details and cost factor of each activity together with future growth and promises of library services. In view of cost factors involved, there is also a need for standards for operational procedures.

11.2 LIBRARY BUDGET AND FINANCIAL PLANNING

Budgeting is a planning process in which expenditure and revenue of the organisation over a specific time period are accounted for. ‘Budget’ is a plan document and a financial statement which provides details of the proposed revenues and their utilisation for expenditure for a specific period, usually an year. It is a means of check and control on what monies should have been received and how monies are to be spent. Budgeting need not be just confined to money. It can be expressed both in financial and non-financial terms. But it is a practice (and it is the strength of the budget) that it is expressed with a common denominator called Rupee. Hence, the budgeting is the process of quantifying all the plans of an operation to determine whether they will achieve the desired results and to adjust accordingly where they will not achieve the desired results. Budget is a quantitative expression of a plan of action, a tool in the hands of library or information centre manager, a road map to guide management actions towards the destination, and a tracking device to measure progress, highlights variations from the plan and show the need for corrective actions to put the operation back on track (Newton, 1981). In other words, budget aids orderly and progressive planning, coordination and implementation, serves as an instrument of financial control and a device for evaluating result.

It is already stated that budget is a systematically prepared statement of estimated revenue and expenditure of an institution for a period of time, usually a year. The objective of this process is to produce financial plan. Budget serves dual purpose of limiting expenditure to income and assuring wisely planned spending. Financial planning and budgeting have certain obvious advantages. They make goals clearer, assist in fixing responsibility, reveal weaknesses in the structure of the organisation, force quantification of targets and achievements, lead to most productive use of resources, pinpoint timely actions and indicate need for corrections from deviations, if any. However so budgeting in general can also cause some problems.
1) It may lay too much emphasis on easily observable factors (e.g., circulation figures of libraries).

2) Budget may tempt one to become routine without improving operations.

3) Library services are not quantifiable in terms of Rupee.

4) Budget requires continuous adoption to meet changed circumstances.

5) It does not work automatically.

vi) Hence, budget and budgetary control are required to be used intelligently.

It is already noted that budget is a guide to incur expenditure for different activities and operations of an institution throughout the year. The general principle of this futuristic guide is that the estimated expenditure should not exceed the revenue. In other words, income and expenditure should balance each other. Budget should not be confused with annual financial reports. The latter is an official document to know as to what was achieved and what was not achieved during a given year. It is in fact, a factual record of the state of affairs of finance of an institution during a particular year. The budget, on the other hand, is only an estimate for the forthcoming year. In short, a budget is a preparation for the future, whereas financial report is an analysis and evaluation of the past.

As said before, a budget is also a very important instrument of control, communication, coordination, evaluation and motivation. It controls as it channelises the expenditure according to a set financial rules and procedures. Budget estimates communicate to the staff and others concerned, the total financial outlay of the institution and allocation of funds for each major item of expenditure and regulates spending. It enables coordinating through sharing of common expenditure of different units not only to economise on expenditure but also to maximise fund utilisation. It helps evaluating performance on the basis of the utilisation of funds within the prescribed period. Above all, budget motivates staff to perform well, for funds have been provided for the activities for which they were sought, envisaging future developments. All the above attributes and merits of budget would equally apply to library budget.

### 11.3 BUDGETARY METHODS AND TECHNIQUES

Every library, no matter how small, has to operate with a budget. In most of the libraries, the librarian and her/his senior staff prepares the budget, according to budgetary norms issued by the authorities. The budget is scrutinised, whetted, if necessary, and approved by the Library Executive Committee before it is sent to the higher authorities for its final approval and sanction. The general practice is to follow the methods and procedures of parent organisation. Being special service of comparatively limited scope some small special libraries may be exempted from preparation of detailed budget. There are a few methods of budgeting for preparing library budgets which include traditional ones practiced by many libraries and the more innovative ones that have, in recent years, found their way, into libraries. These budgetary methods are discussed in the subsequent sub-sections.
11.3.1 Line Item or Incremental or Historical or Object-of-Expenditure Type Budgeting

Probably the most common type of budget is the one that divides items of expenditure, line-by-line, into broad categories such as books and journals, salaries and allowances, equipment, supplies, capital expenditure, contingencies, etc. with further sub-divisions for each of these broad categories. This is the usual traditional method, which by taking into account past expenditure on each item, prepares the current budget, hence it is also called historical budgeting. The budget is prepared with a small increase of say 5 or 10 per cent for each major item of expenditure of the previous year’s allocation, assuming that all current programmes are as good and necessary and hence termed as incremental budgeting. The other name for line item budgeting is Object-of-Expenditure Type Budgeting.

The advantage of this method of budgeting is that it is relatively easy to prepare, present and understand. To some extent it ensures that the funds provided are spent for the purpose stated. This extensively practiced method has certain weaknesses. This method does not go into the performance evaluation of activities and services and also does not suggest any future projections. That is, it does not necessarily involve any review as to what amount ought to be spent in terms of activities and services. Secondly, it moves in the same manner as in the past year, without any forward push. Thirdly this tends to ossify and rigidify budget. In other words, budget funds earmarked for a particular item cannot be spent for any other purpose i.e., financial rule would not permit shifting of expenditure from one head to another. For instance, funds allotted to equipment, if unspent, cannot be shifted to acquisition of a few important titles of current journals, even if it is fully justified. It emphasises tools rather than what these tools have to achieve. It also has tendency to tempt to disguise needs and ask for more monies than needed. Above all, it lacks a forward look and does not provide accountability for performance.

11.3.2 Formula Budgeting

Based on financial norms and standards (to be discussed in the next section) this method tries to relate some inputs like users served, academic programmes supported and ratio of book stock to total funds of parent body. The formulae are used for financial estimation as well as budget justification. This appears to be a broad and quick method and hence saves lot of time. But it does not account for finer variations in respect of each library and its customers and services.

11.3.3 Programme Budgeting

This method propounded originally in Hoover Commission Report (1949) has three steps. They are: (i) statement of agency (i.e., library) objectives (ii) full consideration of alternative ways and (iii) logical selection of the best based on effectiveness and efficiency. Extended from line-item method, this method tries to answer the questions ‘what purpose the money is being spent?’ and ‘how resources have to be deployed for each programme?’ and more suitable for a contracting economy. Accordingly, financial plan is presented as programmes and subprogrammes built upon work units or workloads. Work units are assumed to be measurable and the work unit costs are building blocks of the programme budget.
Budgeting Techniques

The focus in this method of budgeting is on the library’s activities and the funds are to be earmarked for programmes or services that the library plans to provide. For instance, if a library decides to provide a Current Awareness Service, the cost of that service (like staffing, materials, publication, overheads, etc.) is calculated and the expenditure estimated. The budget is thus prepared on the basis of the cost of programmes and whether a programme has to continue, get modified or deleted.

A library may also group its major programmes or functions, which may correspond to the organisational structure of the library like administrative services, technical services, readers services, etc. Each of these services may be organised through departments such as acquisition, classification and cataloguing, reference and bibliographical services, documentation and information services, together with summary descriptions of these functions or programmes and comparative figures of current and proposed expenditure. In this type of budget, provision is made for various activities of each department. This method gives an opportunity to the heads of various departments to gauge their requirements and watch their expenditures.

11.3.4 Performance Budgeting

This budgeting method is similar to programme budgeting but the emphasis shifts from programmes to performance. The expenditure is based on the performance of activities and the stress is laid upon operational efficiency. This method requires careful accumulation of quantitative data on all the activities over a period of time. Management techniques such as cost-benefit analysis are used to measure the performance and establish norms. For example, data on the number of books acquired, classified and catalogued, actual man-hours for doing the entire processing work, etc. are collected to determine manpower and materials to perform the tasks.

It emphasises performance and operational efficiency of the programmes. Like programme budgeting starting with statement of agency objectives, full consideration to alternate ways of achieving the objectives and a logical selection of the best is made based on effectiveness, efficiency and cost-benefit analysis. Unit cost for specific operations multiplied by volume of operations anticipated would give the budget.

The advantage of the method is the emphasis on service mission of library. However, it is difficult to quantify service quality and activities. In other words, this method measures only quantity not quality, which is rather difficult to measure in terms of money. In fact, budget allocation for a service institution like a library has little direct relationship to the degree of satisfaction users receive from library services. Measuring benefits of libraries in Rupees, complex interrelationship of costs of different operations and nonlinear variation of cost for every unit output (marginal/incremental cost) are some of the hurdles in working out budget by this method. It may look too humble and begging for a review of each operation every year by authorities.
11.3.5 Planning Programming Budgeting System (PPBS)

This method of budgeting was first proposed by USDOD (United States Department of Defence) (1961). Two key elements of PPBS are budgeting and systems analysis. As an extension of programme budgeting, PPBS involves systems analysis, OR (Operation Research) and other cost-effectiveness processes to provide a more systematic and comprehensive comparison of costs and benefits of alterative approaches to a policy goal or programme objective. This establishes a rational basis to enable decision maker to choose between alternative programmes.

This method combines the best of both programme budgeting and performance budgeting. The focus in this method is on planning. It begins with the establishment of goals and objectives and ends with formulation of programmes or services. The controlling aspect of measurement, which is central to performance budgeting, is also an important part of PPBS. This method combines the functions of planning activities, programmes and services, translating them into tangible projects and finally presents the requirements in budgetary terms.

Great disparities do exist in practice and lack of standards for measuring programme effectiveness/performance are the difficulties of implementing PPBS. It also suffers from other implementation problems and some critical gaps like (i) focusing on what will be done rather than how to do it, (ii) failing to provide an operating tool, (iii) lack of mechanism to evaluate the impact of various funding levels, (iv) focuses on new programmes or major increases on ongoing programmes rather than forcing continued evaluation of existing programmes, and (v) cost calculation is based on the decisions made in the planning and programming steps.

11.3.6 Zero-Based Budgeting (ZBB)

The method, developed by Peter Phyr during early 1970s, requires thorough knowledge of the organisation, lot of time, effort and training. Having much in common with PPBS and opposite to historical budgeting, it emphasises current activities and the necessity to justify each part of the programme every year. It assumes a budget of ‘zero’ for each programme until one convinces the appropriating authority that the programme is worthwhile and deserving support at a specified level. It does not allow for incremental growth in budget. ZBB is an operating, planning and budgeting process which requires each manger to justify her/his entire budget request in detail from scratch (hence zero-base) and shifts the burden of proof to each manager to justify why s/he should spend at all. This approach requires that all activities be identified and developed as “decision packages” and systematic evaluation and ranking of these “decision packages” preferably using a computer. It does not take into account of what happened in the past but places emphasis on the current activities. Every programme and activity is spelled out in detail and the financial requirements are worked out without any reference to the past. In other words, request for financial support has to be established afresh every year. No activity, in fact, could continue simply because that activity was undertaken in the previous year. In other words, the entire budget is justified from scratch.

Steps involved in preparation of ZBB are:

– Activities/ programmes are grouped to lowest level entity,
– Objectives and activities of each programme examined and alternative methods evaluated,
– Programmes are then grouped into a series of ‘decision packages’ with their statement of purpose,
– Ranking of the ‘decision packages’,
– Cut-off point corresponds to the total budget allocation.

ZBB improves plans and budgets of libraries and helps to develop good management teams. It also helps to accrue follow on benefits over the years. Yet the serious problem of enormous time and efforts required together with other administrative problems as well as problems of developing and ranking ‘decision packages’ prevents its adoption in libraries.

**Some Observations:** Some of these budgetary methods are of recent origin and present a more readily understandable view of budgetary requirements of activities and services. A more objective justification for them makes them better instruments for purposeful spending. In practice it is necessary to understand the ‘politics’ of the budget process within the parent organisation and look for opportunity for personally participating in the final negotiations/deliberations as well as using personal informal contacts effectively.

In India, almost all libraries follow the conventional historical method of budgeting. It is only in recent years that some attention is given to other newer methods. One aspect that needs careful examination is that most library functions and services are of a continuing nature and cannot be discontinued on any account without reference to its past. While it is necessary to evaluate performance and bring improvements to ensure quality of service, discontinuity of existing services would prove undesirable, particularly if conditions do not warrant. It is, however, possible to make a more objective assessment of these methods of budgeting, only if Indian libraries start making their budgets by these newer methods and gain sufficient experience in their operations.

**Self Check Exercise**

**Note:**

i) Write your answers in the space given below.

ii) Check your answers with the answers given at the end of this Unit.

1) List the different methods of preparing library budgets.

2) Explain briefly the features of Zero-based Budgeting.
11.4 BUDGETARY NORMS AND STANDARDS

For the purpose of financial planning and budgeting, standards and norms have been set/proposed by professional experts, committees and bodies. They are quite useful in estimating budget, seeking and justifying funds as well as allocating budget among various items of expenditure.

Having got some idea on the methods of budgeting, let us now discuss the standards and norms that form the basis of estimating library funds required and also the distribution of funds to major items of expenditure within the total library budget. We will discuss the basis for estimating financial requirements of libraries in the next section with three important methods of estimating funds, namely, i) per capita method, ii) proportional method and iii) method of details. These methods make use of established standards and norms. However, the other aspect of budgetary norms and standards that needs attention in this section is the actual distribution of budgetary funds to different competing items of expenditure. The major items of expenditure in libraries are books and journals, salaries and allowances, both of which are to be combined to generate services. Ranganathan has suggested that the proportion of expenditure of a university library on these two major items be as follows:

<table>
<thead>
<tr>
<th>Item</th>
<th>Proportion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Staff</td>
<td>50%</td>
</tr>
<tr>
<td>Books and other reading materials</td>
<td>40%</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>10%</td>
</tr>
</tbody>
</table>

The University Grants Commission Library Committee (1957) has suggested that a university library with 5,000 students and 500 teachers and research fellows should have a budgetary provision of Rs.3,50,000 out of which Rs.1,75,000 would be spent on books, journals and other kind of reading materials, and a similar amount on staff, implying thereby that the expenditure on books and staff may be equal. But general trend on expenditures in libraries tend to be higher for staff salaries than for books. Taking into account the recommendations of University Grants Commission, university and education commissions and library experts, the general norms appear to be as follows:

<table>
<thead>
<tr>
<th>Item</th>
<th>Proportion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries and allowances</td>
<td>50%</td>
</tr>
<tr>
<td>Books</td>
<td>20%</td>
</tr>
<tr>
<td>Periodicals</td>
<td>13%</td>
</tr>
<tr>
<td>Binding</td>
<td>7%</td>
</tr>
<tr>
<td>Others (supplies, maintenance, etc.)</td>
<td>10%</td>
</tr>
</tbody>
</table>

In the case of public libraries, the distribution is more or less the same for the two major items of expenditures.

<table>
<thead>
<tr>
<th>Item</th>
<th>Proportion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries and allowances</td>
<td>50%</td>
</tr>
<tr>
<td>Books</td>
<td>20%</td>
</tr>
<tr>
<td>Periodicals and Newspapers</td>
<td>5%</td>
</tr>
<tr>
<td>Binding</td>
<td>5%</td>
</tr>
<tr>
<td>Others</td>
<td>20%</td>
</tr>
</tbody>
</table>
**Some Observations:** Current thinking on library and information services, library budgeting and related aspects, is on the following lines.

i) Library and information services are to be totally oriented to user needs, irrespective of the types of libraries. User needs must be systematically assessed and obtained, on the basis of which libraries should organise their services.

ii) Library budgets, consequently, are to be in tune with need-based services.

iii) Unit costs of every operation in a library have to be worked out and budgetary estimates have to be built on this data. Cost of library operations and services, particularly in India, is not attempted. Libraries mostly operate on appropriated funds by the parent organisations without any scientific basis for allotment. Cost accounting is essential for fixing budgetary estimates.

iv) With tremendous increase in the cost of books, journal subscriptions, staff salaries, library and information services, etc. the question very often arises, whether library services should be continued to be given without any charge. Some of these services like literature search, document supply, compilation of bibliographies, SDI, CAS, etc. can be priced. Of course, in the context of Indian conditions these services may be subsidised partially.

On the whole, a more scientific basis for library expenditure has to be evolved in view of the importance of library services. Library budgeting has to be more innovative and in tune with the new demands.

**Self Check Exercise**

**Note:**

i) Write your answer in the space given below.

ii) Check your answer with the answers given at the end of this Unit.

3) State attributes of library budget.

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**11.5 METHODS AND TECHNIQUES OF FINANCIAL ESTIMATION**

By now you have realised the fact that the success of any institution depends upon the adequate and regular flow of finances. This is true with libraries also. The foundation of proper financing depends upon the correct and effective estimation. Just like government, institutions, individuals, and families attempt at making financial estimations of their needs and resources, libraries also have to prepare financial estimates. How to estimate, on what basis, and how much finance a library requires depend upon the age, jurisdiction, quantity and quality
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of reading material, number of readers, and other factors relating to that particular library.

Some important bases for financial estimation for budget of libraries are:

i) User population and its composition,

ii) Material to be acquired (media, nature and type of information sources),

iii) Services to be provided vis-à-vis objectives,

iv) Unsatisfied service pressures, if any (the most frequently used factor in determining the financial needs of a library),

v) Established national and international standards for quality in services often expressed as minima of materials, personnel and operational funds for a given size of library,

vi) Increase in prices of reading materials and inflation.

Three methods generally used for estimating library finances are percapita method, proportional method and method of details. These methods are discussed in the following sub-sections.

11.5.1 Per Capita Method

In this method, a minimum amount per head is fixed which is considered essential for providing standard library services. The educational and cultural standards of a community, the expectations of its future needs, the per capita income of the society, the average cost of published reading material, and the salary levels of the library staff are the common factors that go to determine the per capita library finance. The per capita estimate can be based either on the number of literate persons or adults. However, the safest method is to calculate library finance per head of population.

The University Grants Commission Library Committee (1957) recommended that a university should provide Rs. 15 per student and Rs. 200 per teacher for acquiring reading material for its library. The Kothari Education Commission in 1964-66, however, recommended that “as a norm, a university should spend each year about Rs. 25 for each student and Rs. 300 per teacher”. Ranganathan suggested that per capita expenditure on university and college libraries should be Rs. 20 per student and Ps. 300 per teacher. In schools, per student appropriation at the rate of Rs. 10 should be made available for the libraries. For public libraries, Ranganathan suggested, 50 Paise per capita expenditure, way back in 1950. All these per capita norms are old and obsolete. Now, the per capita figures must be much higher than that prescribed decades ago and this is the inherent limitation of the method as it does not provide for inflation and devaluation. It may be better to relate per capita to cost of living index or any suitable index so that the per capita norm automatically gets revised.

11.5.2 Proportional Method

This method presupposes that the authorities provide adequate finances to the libraries out of their regular budget, and that a particular minimum limit is fixed. A generally used measure of adequate support is the percentage of the institutional
Budgeting Techniques

A budget which is allocated for library purposes. Various standards have been recommended for deciding this limit in India. The University Education Commission had recommended that 6.5 per cent of a University’s budget would be a reasonable expenditure for its library. The Commission suggested that “this expenditure could vary from 6.5 to 10 per cent, depending on the stage of development of each university library”. In practice, majority of the universities in India hardly spend three per cent of their total budget on their libraries. It is generally agreed by most authorities that a college should allocate to the library four to five per cent of its total expenditure. Ranganathan suggested that 6 to 10 per cent of the total budget should be earmarked for public library purposes. This proportional method of budgeting is likely to lead to a high disparity in case of special libraries as the budgets of high technology and capital intensive organisations are much larger than pure research, social science and humanities institutions.

11.5.3 Method of Details

According to this method all items of expenditure of a library are accounted for while preparing the financial estimates. These are of two types, viz., i) recurring or current expenditure and ii) non-recurring or capital expenditure.

For estimating public library finances, Ranganathan suggested the circulation of reading material be used for recurring/current expenditure and nonrecurring/capital expenditure. The Government of India Advisory Committee for Libraries (1957) followed almost similar method for estimating the financial requirements for establishing a countrywide public library system.

The UGC Library Committee (1957) in its report suggested a staff formula for finding out the quantum of library staff members of various categories required for college and university libraries. It has also laid down their respective pay scales. The total amount required for meeting the cost of the staff can be calculated by this formula. For cost of books and other reading materials, the Committee has suggested a per capita expenditure formula.

Lastly, a suitable combination of above methods may be ideal in some situations.

Self Check Exercise

Note: i) Write your answer in the space below.

ii) Check your answer with the answers given at the end of this Unit.

4) List the methods of estimating funds for libraries.

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11.6 SUMMARY

In this Unit, we have discussed library budget, its features and attributes. A library, being a service institution, offering its services without any price, does not support itself financially. Funds have to be provided to a library by its parent organisation or by the government. From the appropriations of funds made, library organises and regulates its expenditures for its functions and services according to certain norms and procedures.

Methods of budgeting like line item budgeting, Programme budgeting, Performance budgeting, Planning Programming Budgeting Systems and Zero-Based Budgeting are briefly introduced in this Unit. In Indian libraries, the conventional line item budgeting is quite common. Budgets are usually prepared in conformity with standard norms, particularly with reference to the distribution of funds towards different competing items of expenditure. The proportion of funds for staff salaries is generally more than that of books and journals in any library.

Three methods are generally considered for estimation of budget, namely, per capita method, proportional method, and method of details. Per capita method suggests a minimum sum of money per user such as students, faculty and research scholars in the case of university and college libraries. Hence, population is an important factor while working out funds for public libraries. Proportional method prescribes a percentage on the total budget of the parent organisations for libraries, whereas method of details takes items of expenditure for libraries as the working data for allocation of funds.

11.7 ANSWERS TO SELF CHECK EXERCISES

1) The methods of budgeting are: (i) Line item budgeting (ii) Formula budgeting (iii) Programme budgeting (iv) Performance budgeting (v) Planning programming budgeting system (vi) Zero-based budgeting.

2) Zero-based Budgeting (ZBB) is a new concept in budgeting which bases its expenditure estimates on specific programmes and their performance without any reference to their past expenditure. It requires fresh estimates to be made for every activity. Commencing from point zero, each activity has to be justified. Infact, the entire budget has to be justified from scratch.

3) A library budget is a record of funds appropriated to it and the estimated expenditure for a financial year. This record serves as a guide to the library’s functions, activities, programmes and services throughout the year. The appropriations of funds and the estimated expenditure should balance each other. It is an instrument of control, communication, coordination, evaluation and motivation.

4) The methods of estimating library funds are:

   i) Per capita method whereby a minimum sum of money is determined for every student, faculty member or research scholar in the university and college libraries.
ii) Proportional method prescribes a fixed percentage on the total budget of the parent organisation’s research budget, or education budget of states.

iii) Methods of details take into account the actual amount of expenditure spent on each item.

### 11.8 KEYWORDS

| **Budget** | A financial and/or quantitative statement prepared and approved prior to a defined period of time of the policy to be pursued during that period for the purpose of attaining a given objective. |
| **Budget Centre** | A section or area of an organisation under the responsibility of a manager for which budgets are prepared; these budgets are compared with actual performance as part of the budgetary control process. A budget centre may be a function, department, section, individual, cost. |
| **Cost-Analysis (Analysis of Cost Behaviour)** | Knowledge of the reaction of individual costs (i.e., fixed, variable and semi-variable costs) and expenses to changes in the volume of activity. Cost-analysis helps (i) planning the amount of costs to be incurred in future periods (ii) estimating profits from future activities; and (iii) determining whether costs have been adequately controlled by those responsible for their incurrence. |
| **Cost Centre** | A location, person or item of equipment, or a group of these in or connected with an undertaking in relation to which costs may be ascertained and used for the purposes of cost control or product costing. Cost Centre is a non-revenue-producing element of an organisation, where costs are separately figured and allocated, and for which someone has formal responsibility. The personnel function is a cost centre in that it does not directly produce revenue. |
| **Financial Estimation** | Estimating the amount of money required for running services of an institution. |
| **Financial Forecasting** | It is forecast of the expected financial position and the results of operations and cash flows based on expected conditions. It involves a systematic projection of expected actions of management in terms of financial statements, budgets, etc. using past records, funds flow behaviours, financial ratios and expected |
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economic conditions in the industry and the firm.

Flexible Budget : A budget that recognises the difference in behaviour pattern of fixed and variable costs and which is designed to change in relation to the level of activity actually attained.

Operating Statement : A summary of the operating costs (and, where appropriate, of the revenues and profit margins) of the whole or part of the activities of an enterprise for a given period. A detailed periodic report of the financial results of a firm’s operations, as compared with budgeted and previous period’s figures.

Profit Centre : A kind of responsibility centre in which the manager is held responsible for both revenues and costs, and hence for the resultant level of profit.

Prospective Pricing : Setting price prior to the performance of the service is called prospective pricing.

Responsibility Centre : A personalised group of cost centres under the control of a ‘responsible’ individual.

Restricted Funds : Restricted funds do not allow flexibility in use of funds. Like grants for specific purposes, restricted funds cannot be used for purposes other than that specified. Grants or donations that require that the funds be used in a specific way or for a specific purpose. They can be considered a contract between the donating party and the receiving party. Restricted funds are often associated with non-profit organisations, since a donation might be made to the organisation for a specific use only. If the funds are used for something other than what was stipulated, the organisation could be required to pay the funds back. For example, a restricted funds gift to a university could indicate that the funds only be used for scholarships in a specific department.

Unit Cost : Expenditure incurred in producing one unit of a good or service, computed usually as average cost. Cost of a single unit of operation, e.g. cost of cataloguing a single book.

Unrestricted Funds : Unrestricted funds allow flexibility in use of funds and reallocation of funds from one head to another.
11.9 REFERENCES AND FURTHER READING


