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Autor: Häkli, Esko

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Kontakt/Contact

[Digizeitschriften e.V.](#)
SUB Göttingen
Platz der Göttinger Sieben 1
37073 Göttingen

✉ info@digizeitschriften.de

From Detailed Grant-in-Aid to Single Line Budget

ESKO HÄKLI
*National Library of Finland, Helsinki**

The traditional budget

In the past, state institutions had a limited freedom in the use of their annual recurrent grants. The purpose of the grant was prescribed in great detail by the financing bodies. Additionally, the money had to be spent within one fiscal year. The institutions' rights to earn money and to keep it were restricted. Thus, libraries received separate allowances for different purposes. It was not possible to transfer money from one expense heading to another.

The fiscal regulations were accompanied by other, equally detailed, regulations. In many countries for example, the staff structure was regulated by the government or was based on a law covering the whole public administration. Requirements on staff qualifications were strictly controlled and here the trade unions often played a dominant role. Thus the hands of the library directors were bound in many ways.

Regulations and control executed centrally have long-standing traditions in public administration. Seen against the background of responsibilities the old practice was both convenient and

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inconvenient. It limited the freedom of the managers by restricting their rights to reconsider the needs of the resources and to reallocate their budgets. It was not the fault of the manager if the money was not reallocated appropriately for different purposes. To make things run smoothly, managers often had to develop creative accounting, sometimes questionable from the legal point of view. On the other hand, the old budget system did not set any requirements, either qualitative or quantitative, on the managers, other than to spend the public money sparsely. Goals were set by the institutions themselves and usually based on continuity and some increase of the volume of their activity. In other words, there was quite a lot of freedom in the actual use of the budget.

Services: From control to shopping

Many countries are at the moment in the process of adopting new budget principles for public administration. Governments want to improve productivity and reduce costs. The remodelling mainly follows the patterns of private economy and will take place gradually. Whereas the old budget principles controlled spending, the new practices emphasise achievements and price.

At the same time, many state activities have been privatised or turned into state owned companies (e.g. in Finland, the PTT). Parts of the remaining duties are liable to be contracted out. That means that even if the government still feels itself responsible for such services, it prefers to buy them, often from the private sector.

In a country where single line budgeting has been introduced, state institutions receive as their recurrent grant-in-aid a sum of money for which the precise use is not specified but from which all expenses have to be covered. In many countries, institutions are entitled to transfer money from one year to another. They are also encouraged to earn revenue. In some countries, libraries would not be able to fulfil their duties without income to supplement their grant-in-aid.

In this new era the financing bodies are buying services from their institutions. They are very interested to know in what they will receive for their money. Arriving at a budget requires annual negotiations between the institutions and their financing agencies.

Being accountable is not only a fiscal issue; it brings about the need for major changes in the structure and management of institutions. It requires management to have freedom of action. It consequently requires new ways and conditions of working.

It is unfortunate that the present need to cut public spending has coincided with the introduction of the single line budget which is interpreted as a new way of imposing cuts. The adoption of the new budgetary practice has therefore not been welcomed. This has overshadowed the opportunities which reform could offer.

How the change takes place

In my country the process has been lengthy. The change has been introduced step by step:

- a number of budget accounts for different types of expenses were merged together, giving institutions more flexibility in the use of the money.
- institutions were given the right to transfer money from one year to the next.
- money granted for maintenance of buildings and renting of premises was amalgamated with other expenditure; as a result, institutions now have to pay rent for their premises which they had hitherto not been charged to use.
- allocations for salaries were also put into the same block sum, in a two-staged process: 1) money from the salaries budget can already be transferred to other functions, but the number of permanent staff is

restricted by the government; 2) as the next step, salaries will be paid out of the same purse as all other expenses and the money can be reallocated freely. It goes without saying that institutions have to calculate their long-term staff costs with great care.

At the same time, the legislation was revised in several other ways, e.g.

- the old law on civil servants was replaced by one which limits the number of permanent posts. Every time a post becomes vacant, the continuing need for it has to be reconsidered.
- laws and statutes regulating staff qualifications were changed and the requirements relaxed; with few exceptions institutions are allowed to appoint the staff they feel are best fitted to their needs; the new practice emphasises the needs of the employer more than the rights of individuals.
- laws and statutes on the internal structure of the institutions have been relaxed and universities will within the next two years be governed by new legislation common to all universities. The new legislation will be very general and the future of faculties will be left to the discretion of individual universities.
- a new law on charging for services of state institutions was enacted.

Consequences

The new budget principles enable institutions to decide how to achieve their goals and allocate their money. At the same time,

financing agencies are becoming very interested in the results of the work and in prescribing the goals. These controls are more noticeable than the fiscal restrictions that they replace. The new controls are, however, an integral part of accountability.

The institutions can:

- deliver services itself or contract them out
- freely choose and appoint the staff they need; libraries can also engage staff with qualifications other than librarianship
- revise the staff structure without permission from the government
- reallocate funds
- earn and keep revenue earned
- borrow money from the government for bigger investments; there are, however, restrictions to accumulate money in advance during a longer period of time.

In today's climate, when funds are reduced, the single line budget has put a new type of pressure on management. As far as financing is concerned, all activities compete with one another. There are no protected areas. This is one of the biggest changes. We are not used to comparing and contrasting totally different types of activities with one another. In the case of my Library it has also proved difficult to accept the fact that the Library has to be treated as one organisation and not as a conglomerate of several organisational units each with its own priorities.

The second big change is that the new budgeting principles aim to persuade the institutions to deliver only those services which are absolutely essential. In principle it is the paymaster who will decide what services are needed. At least in Finland we have

not reached that stage and I cannot imagine that the selection of the services would be done single-handedly by the Ministry of Education. The final selection must be the result of a dialogue. This means, however, that everything will be questioned and it is up to us to succeed in convincing our paymasters that the tasks and activities we propose are all worthwhile.

From a strategic point of view it is important to analyse the core functions of the library and determine their costs. A continuity in key service provision is essential. Because the annual grant-in-aid is to be allocated on the basis of government requirements, measures will be needed to assess unit costs of service provision and other activities. Quantitative measures will also be needed not only to calculate the annual funding requirements but also to compare annual achievements from one year to another. Comparisons between institutions, however, will be problematic.

In this situation my Library is in the process of re-stating its mission. It has proved to be a tough task although one could assume that everybody knows what the tasks of the Library should be. The aim of the exercise is to identify the core services which the Library must provide. The next step will be to calculate the costs of the services, including all procedures and routines (mainly internal technical services and overheads).

After having defined the core services we believe we shall be able to look at the priorities to be assigned to those services more closely. It is already apparent that a new hierarchy of routines will emerge. Much of the traditional library work will belong to auxiliary, supporting routines, the costs of which have to be reduced. However, this conflicts with the traditional values of librarianship and is undermining the self-esteem of the profession. Technical services, including cataloguing, have traditionally been seen as the core of librarianship. In an output orientated library, however, they are simply costs which have to be minimised. Some would claim that all functions other than core services could be

outsourced. For a national library cataloguing may be one of the key services but it could not be classed in that way for most other libraries.

The traditions of the library profession are not supporting this type of change which is questioning core values. In connection with quality criteria, the conflict is even greater. Quality has traditionally been defined by using the criteria and traditions of the library profession. The values have strongly supported perfectionism in technical services. We can, however, no longer afford a level of quality which is not essential for users. A new question arises as to who is entitled to determine the quality requirements of library services. Even if this is a task for library management, it will have to be based on the real needs of the users. Easier said than done!

From my own experience I can say that librarians resist management interference. Heads of departments consider themselves to be the best authorities to decide what is necessary and individual experts jealously protect their own positions against their superiors as well as their peers and subordinates.

Performance measurement may prove to be a good tool for controlling everyday activities. It may be an appropriate tool for management if it helps the institution to achieve its goals. However, there are several problems connected with performance measurement. Not all indicators are relevant from a management point of view because they often seem to have been developed on the basis of traditional librarianship. Also performance measurement can too easily focus on technical processes and neglect the user aspects. Some American experts in organisational matters claim that services which can be measured are no longer core services and that they, therefore, can be outsourced. It is easy to overstate this but it is necessary to be aware that performance measurement has a limited value for library management. Managers have to be able to identify the key products of their institutions, based on a clearly formulated business idea.

Managers have to analyse the costs of these products in a realistic way, taking into account all cost factors, just as if they were operating a private business. Management need not put too much effort into detailed performance measurement but should concentrate on the analysis of the work chains necessary for the key products.

Assuming that we know what our library should be doing as top priority activities, we still have to look at the question of costs. Our paymasters are interested in cutting the costs. In addition to cutting non-essential services the reduction of costs is one of the few ways in which managers can increase the flexibility of their budgets. Overhead costs, which also include accommodation, are increasing and may lead to contracting out.

As to the costs:

- time has to be used efficiently by streamlining processes and eliminating unnecessary tasks
- time has to be used for activities in support of the library's key products
- work has to be done by adequately qualified and adequately paid staff; this calls for a new staff policy as well as a revised staff structure.

I have pointed out some difficulties and shortcomings in my Library's effort to adopt the new principles. We all have reasons to be self critical and to analyse the problems carefully. The traditional library training has not made libraries strong in business thinking and management. The same applies to directors. However, several projects have been launched in my Library. The aim is to eliminate internal barriers in the Library and to create a new type of team organisation, e.g. the acquisition and cataloguing routines of the different departments are being amalgamated into one internal service unit, which in the long run may also include

the National Bibliography. The aim is to create a unit which works like an internal service company, i.e. its services have to become cheaper and faster than the traditional ones. This requires substantial retraining. Several other rearrangements are going on. Common to all our efforts in this connection is the emphasis on horizontal work flow and the reduction of the traditional hierarchy.

One of the most difficult tasks, however, is to create a new hierarchy of values and get it accepted in the whole library.

Earning money

It sounds attractive that state institutions are encouraged to earn money and that they are allowed to keep their earnings. It is, however, not as simple as that. All costs associated with the products which are sold have to be covered fully, all overhead costs included, by income. The charged services cannot be subsidised from government grant. This is certainly the case in Finland and it has caused conflicts with the traditional view of the library profession that information provision should be free and indiscriminating. In my own library, staff influence the prices set by streamlining work processes and reducing the production costs. The Library is entitled to reduce prices accordingly.

Local versus common interests

The single line budget has been applied in Finland for only a short time and the experiences are still limited. Libraries are not yet accountable in the way that universities are accountable. Library budgets have been cut severely and arbitrarily because no pricing principles have yet been developed. The National Library is also a university institution and that means that the Library signs its annual agreement with the University. In order to solve the conflict between the local financing and the University's

national responsibilities, a special arrangement will be made with the Ministry of Education. Some university institutions, the National Library included, will receive special financing for their national tasks. The National Library thus receives the main part of its recurrent grant as a result of a decision made by the Ministry.

Within the framework of a single line budget, new problems have arisen with the wide range of duties expected of individual institutions. University libraries are the cornerstones of the research library network in Finland. During the last twenty years, a national scheme, with national resource libraries in different fields of science and learning, has been developed. Several university libraries have received additional national responsibilities. Hitherto, universities were proud of the national status of their libraries. Today, they feel it is an additional burden because their budget requirements have been assessed according to local needs. The conflict between national responsibilities and local financing will, in the most pessimistic case, only be resolved for the National Library. The single line budget is, in other words, fostering the egocentricity of individual institutions which may start to compete with one another. It is at least a good sign that the new government seems aware of the threats to state activities.