



Date : 09/06/2008

Measuring performance through financial information: a case study

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Meeting: 160. National Libraries with Statistics and Evaluation
Simultaneous Interpretation: Not available

WORLD LIBRARY AND INFORMATION CONGRESS: 74TH IFLA GENERAL CONFERENCE AND COUNCIL

10-14 August 2008, Québec, Canada
<http://www.ifla.org/IV/ifla74/index.htm>

The National Library of Australia (the Library) reports annually to the Australian Government on its performance against a set of high level indicators. Our performance reporting is based on an agreed outcome

Australians have access to a national collection of library material to enhance learning, knowledge creation, enjoyment and understanding of Australian life and society

Our outcome is made up of three outputs that reflect the key ways in which we will achieve our outcome: *Collection; Information Services and Collaborative Services*. Each output has its own performance indicators for effectiveness, quality and quantity. We also report to Government on a unit cost for each output. Libraries are becoming increasingly accountable to Government and the community they serve and there is an expectation that budgets will be well managed, costs contained as far as possible and that services will deliver value for money. Libraries also need to be able to justify the cost of their existing activities in order to convince governments and donors to fund new activities.

Financial performance indicators are often viewed in terms of whether a library has over or under expended its budget allocation. While it is important for libraries to demonstrate that they can manage their budgets, coming in on budget is a meaningless financial performance indicator if viewed in isolation. Libraries need to be able to demonstrate that they understand the cost drivers behind their budgets and that they are taking active steps to reduce or manage costs accordingly. For many years libraries have been affected by increasing costs associated with purchasing collection resources. More recently a new challenge, that of finding funds to develop new online services and purchase electronic resources while maintaining traditional core activities, has put additional strain on budgets. It therefore seems timely for libraries to

develop financial performance indicators which will assist us in our day to day decision making.

Traditionally, libraries have costed those activities that are more readily measured through processing quantity, for example, cataloguing and library loans. Benchmarking studies reveal that even in areas like these there is wide variation between libraries in what constitutes these activities, as well as the existence of a vast array of costing models used within organisations. The difficulty of developing comparable cost data across national libraries due to differences in task and functions has been acknowledged in discussions of the draft International Standard Organisation (ISO) performance indicators for national libraries under development by the ISO working group chaired by Roswitha Poll. The draft standard incorporates efficiency measures from ISO 11620, with two direct financial indicators, cost per title catalogued and cost per item lent and a third indicator for the amount of off-budget funding¹ generated by libraries. As each library's understanding of what is encompassed in activities such as cataloguing can differ substantially, it is important that clear definitions and methodologies are in place if future comparisons are to be made. To this end, the Heads of Cataloguing group representing the Library of Congress, British Library, Library and Archives Canada, Deutsche Nationalbibliothek and the National Library of Australia are developing a joint costing model for cataloguing in order to compare costs across the group. While it is good to see work progressing internationally on shared costing models, it is also important for national libraries to share information with each other about their internal financial performance indicators in order to establish and promote best practice.

In 2000-2001, the Library implemented the Balanced Scorecard (BSC), which is a strategically focussed performance management tool. The BSC is the key performance management tool for the implementation of the Library's strategic directions <http://www.nla.gov.au/library/directions.html> . Performance is measured from five different perspectives: Customer; Stakeholder; Financial; Process and Learning and Growth. As its name suggests, the BSC is designed so that an organisation can measure itself from a holistic point of view. The Library has implemented a wide range of efficiency and effectiveness measures that reflect the five key perspectives. These measures, together with significant initiatives whose progress is tracked through the BSC, are reviewed and revised annually. Through the BSC the Library is better able to:

- Focus on implementation of strategic directions
- Focus on achieving longer term objectives
- Link strategic directions with the budget process
- Measure achievement of strategic directions

¹ Funds received in addition to the normal government appropriation, usually through revenue raised by the library from donations or grants.

Complementing the BSC, the Library has a sound financial management and reporting regime. As an independent statutory authority we are subject to rigorous financial regulations and have a strong program of internal and external audits. Financial reports are regular agenda items for meetings of the Library's Executive Management Group and Council. Our Council has an audit sub-committee that works to ensure the Library complies with its financial obligations and reviews policies relating to internal financial controls and the management of risk. While a member of the Executive Management Group is designated as the Library's Chief Financial Officer, in practice all members of the Executive take joint responsibility for budget policy and critical budget decisions affecting the Library's policy and programs. We have a system of monthly budget review meetings involving staff directly responsible for managing budgets, including forecasting revenue and expenditure for particular activities. Staff discuss budget issues and are given guidance on budget matters at these meetings. They are also supported by a well-documented set of policies that address things like charging for goods and services and by detailed documentation on government financial regulations, processes and requirements.

However, while we have good financial management procedures and practices, like most libraries we have not spent much time evaluating our performance from a financial point of view. A fundamental revision of the BSC was conducted in 2004 to ensure it reflected the Library's priorities. One of the decisions from the review was that the Library should use the financial aspect of the BSC to greater effect. At the time of the review, the Library was measuring the amount of off-budget funds we earn against our annual targets [Example 1] and the direct cost of our fundraising activities [Example 2]. It was this perspective in which we had the least number and least developed measures. In developing new indicators in this area, one aim was to gain a better understanding of the cost of discrete functions and activities through targeted costing reviews. This information could then be used to assist in future decision making processes which would be enhanced by knowledge of costs over time.

While we are continuing to develop a strong set of financial measures, the Library has made a start on implementing more rigorous internal financial performance measures through the BSC. In particular, we are developing measures that help us improve the cost-effectiveness of our operations by regularly undertaking and reporting on:

[1] A rolling program of costing key areas of activity [Example 3]

[2] Variations in our high level Output unit costs across a three year period [Example 4], and

[3] Variations in our revenue budget for key chargeable services [Example 5]

[1] The costing of key activities is particularly useful in providing managers with a better understanding of what is driving costs and with a benchmark for future comparative purposes. Most library work is staff intensive and it is not a surprise to find that staff costs are often the major component of any activity. However, it is often revealing to see exactly where the major costs lie in any operation and this information can be used in a variety of ways, for example it can highlight areas that may benefit from greater scrutiny in terms of efficiency or effectiveness. We have found that an understanding of the cost of discrete activities highlights areas for potential change or review and gives managers a useful tool for improving workflows and refocussing efforts in some areas. As each discrete activity is different to another, the Library's finance staff work with managers to create an appropriate cost model for the activity under examination. The basis of this is a 'job and process costing model' that the Library has developed for predicting staff and project costs. The model encompasses direct costs (such as salary and superannuation costs), indirect costs (such as power, floor space) and other factors including depreciation costs (such as furniture, equipment). Key areas of activity that have been costed in this way cover a diverse range of areas including our public and specialist reading rooms; in-house publishing program; exhibitions; oral history collecting; building management and security; internal audit and digital collecting and preservation. Recently we have built on our activity costing work by examining workflows and linkages across the Library using a tool known as Business Process Modelling Notation which enhances our understanding of internal business processes in order to maximise efficiencies and minimise costs.

[2] Like all performance measures, the challenge with financial indicators is to come up with something that can be readily and accurately measured and at the same time yields useful information. The Library has found it difficult to derive a wholly satisfactory methodology for determining unit cost across the diverse range of activities that make up each of our three outputs. For example, the unit cost of our Information Services output is determined by the number of 'transactions' which include the use of both traditional and online services. Measures for online library services remain unreliable and volatile due to search engine activity and a lack of agreed standards. Moreover, online services in general are much cheaper per unit to deliver than traditional on-site user services and tend to skew results when grouped together. The Library, therefore, has found it necessary to look beyond its measure of unit cost to derive useful information. We are now measuring variation in the unit cost of our three outputs by comparing unit costs across a three year period. This alerts us to any major variations which can then be examined to determine if any issues, such as the need for workflow redesign to eliminate duplication of effort or churn, need to be addressed as a result.

[3] We have also introduced a measure into the BSC to track the revenue we are earning from key chargeable services. While progress with revenue from chargeable services is also regularly highlighted through our financial reporting systems and discussed at budget meetings, the BSC process allows us to view an easily digestible overall picture of the performance of the Library's main revenue earning services. Maintaining or exceeding revenue

forecasts is critical for the Library as the amount of revenue forecast for each year is factored into our annual budget allocations across the Library. By regularly examining our progress in achieving our revenue targets issues are quickly identified and addressed.

In addition, significant new BSC initiatives, requiring an investment of staff and/or financial resources beyond available existing resources, must have a clear statement of cost estimates so that both the immediate and long-term impact on the Library's budget is understood at the time the initiatives are agreed to by the Library's Executive Management Group. By including and monitoring the cost of new initiatives the Library is also more easily able to monitor the level of its investment in innovation in an environment where we are struggling to find the funds required to continue with traditional library activities and develop new online service models to meet the rapidly changing needs of our users.

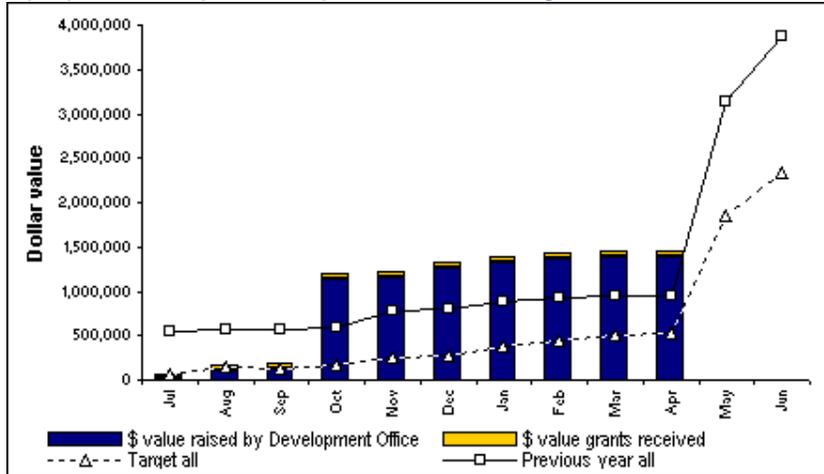
In addition to the measures in the BSC we also use an annual Budget Trend Analysis, which is presented as a series of graphs, in order to examine trends that impact on our financial performance by highlighting particular aspects of our budget that we have elected to compare across time. For example, we track our expenditure on general running or 'supplier' costs which, together with salaries and depreciation, make up the Library's three major expense categories. We look at this from several different perspectives, such as variations across financial years [Example 6] and variations in what we spend on major categories within our supplier budget [Example 7]. Some graphs indicate the rise and fall in expenditure on specific activities such as those targeted for a reduction in expenditure [Example 8] or a deliberate increase in expenditure [Example 9]. The budget trend analysis is both a simple and effective financial performance measurement tool. It alerts managers to critical trends impacting on the Library's financial performance and allows us to monitor our progress in achieving Government and Library policies, such as targeted reductions in the cost of utilities (water and electricity) and legal costs.

Information derived from financial performance indicators can make a significant contribution to strategic planning and policy development in libraries. They complement information derived from other performance indicators and alert managers both to critical issues that need to be addressed immediately and areas that would benefit from future examination and review. The financial indicators in use at the Library have served these purposes for us and we are keen to continue to use financial performance indicators as part of a strong commitment within the organisation to on-going continuous improvement and effective resource management.

Example 1

The value of off-budget funds raised is monitored through the BSC, as is the cost of raising those funds [Example 2 below].

(8.b) Value of sponsorships, donations and grants received

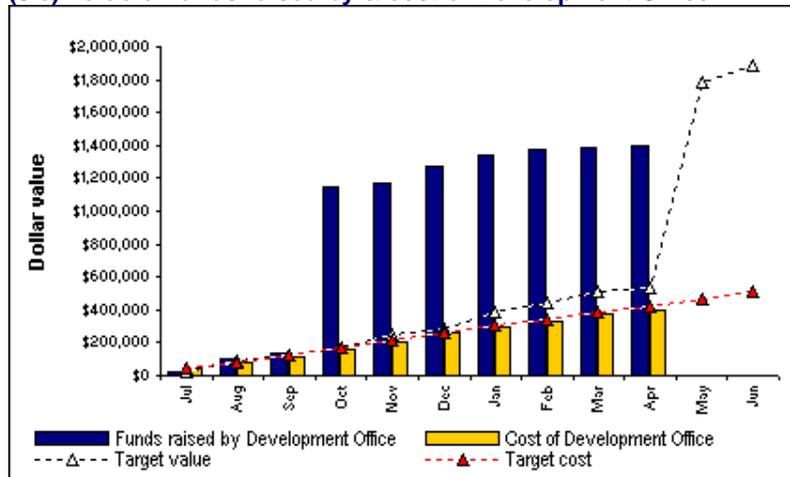


Target: \$2,340,176 (39% decrease on previous year's \$3,867,262)

Cumulative

Example 2

(8.c) Value of funds raised by & cost of Development Office



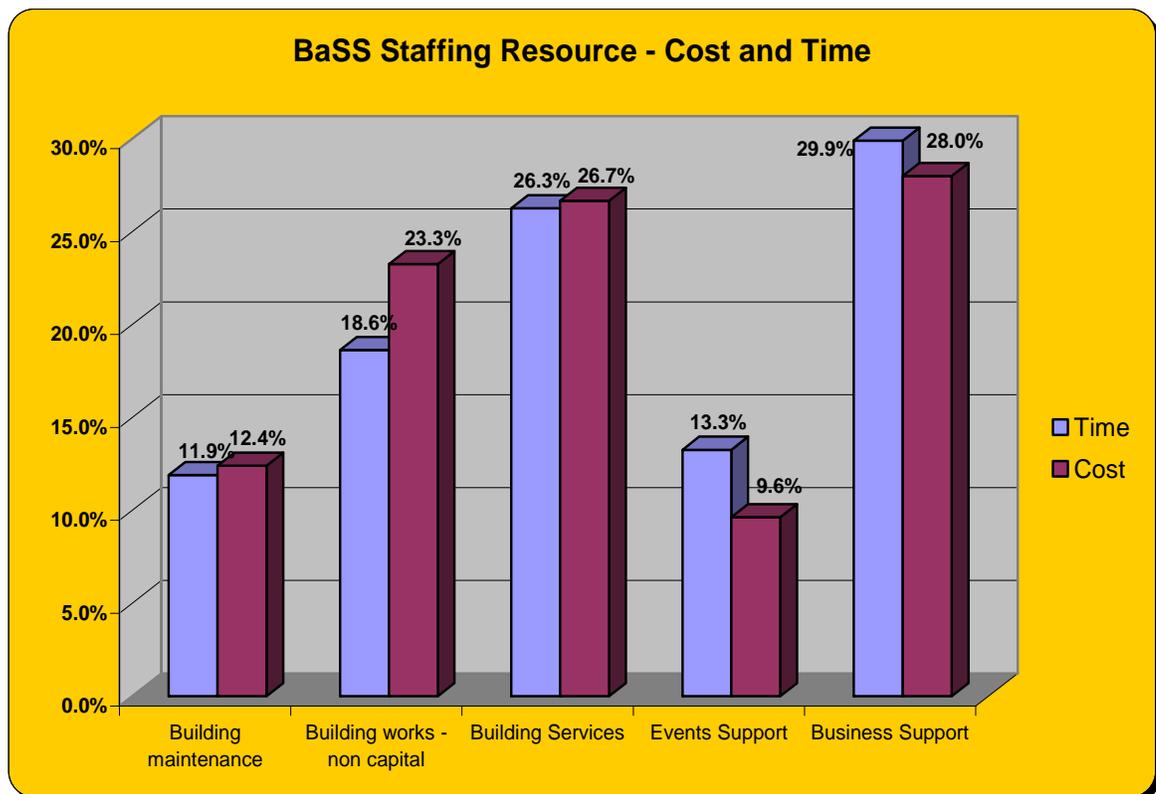
Target funds raised: \$1,885,176 (44% decrease on previous year's \$3,363,262)

Target cost: \$507,594 (similar to previous year's \$502,739)

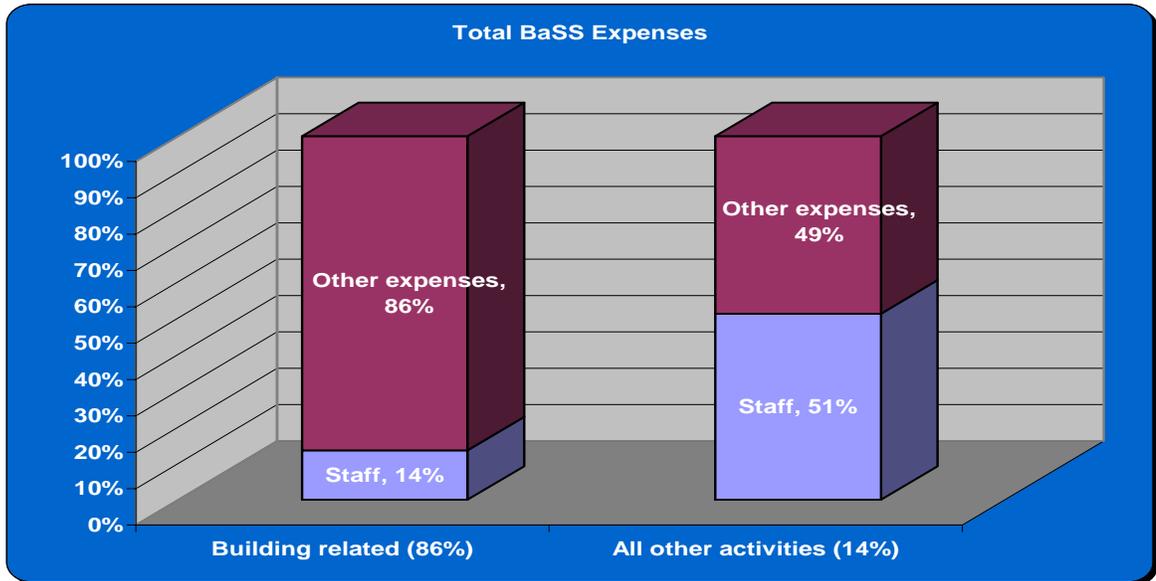
NB
Cumulative

Example 3

Discrete functions are costed and the results reported through the BSC as part of a rolling program of costing key areas of activity. The methodology for each costing is developed by managers in collaboration with finance staff. The Library has established a 'job and processing costing model' which forms the basis of the calculation of staff costs. Each costing exercise is accompanied by a thorough analysis of the results. The graphs below, which come from a costing of the Library's Building and Security Service, demonstrate that the financial information gained from the costing discrete activities can be presented in a variety of ways to assist managers in their analysis of the costing.



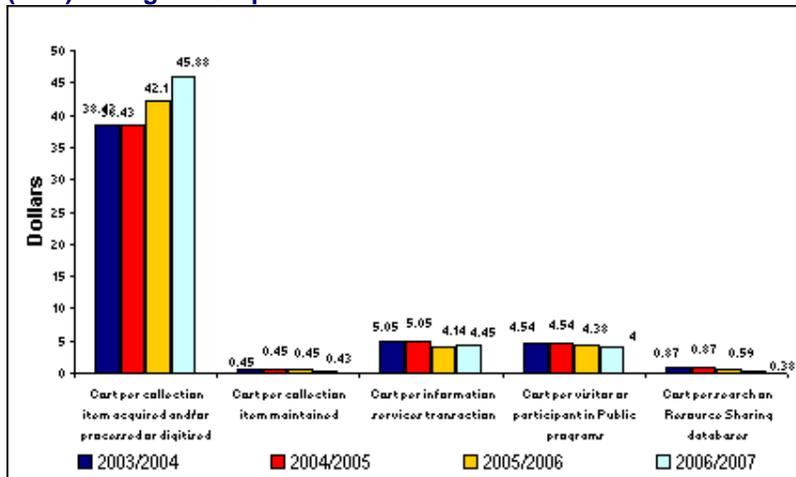
Example 3 continued



Example 4

The Library reports to Government on the unit cost of the agreed outputs funded by Government. Through the BSC we measure variations in unit costs across financial years. Variations can be affected by changes in Government accounting policy and changes in the elements used to calculate unit cost.

(11.b) Change in Output unit costs



Targets: \$49.33 \$0.45 \$4.83 \$5.24 \$0.54
 NB Cumulative, reported quarterly.

Example 5

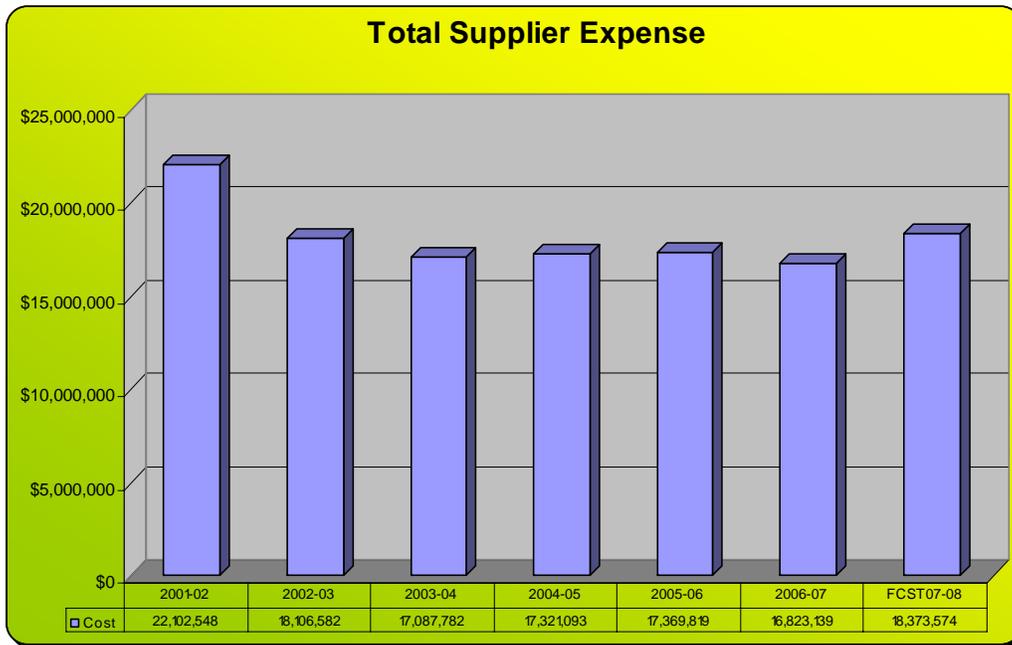
The Library reviews progress in achieving our key revenue targets through the BSC. This ensures that all senior managers are aware of any issues that might arise if we do not achieve our forecast revenue.

(9) Achievement against revenue budget for key chargeable services year to date

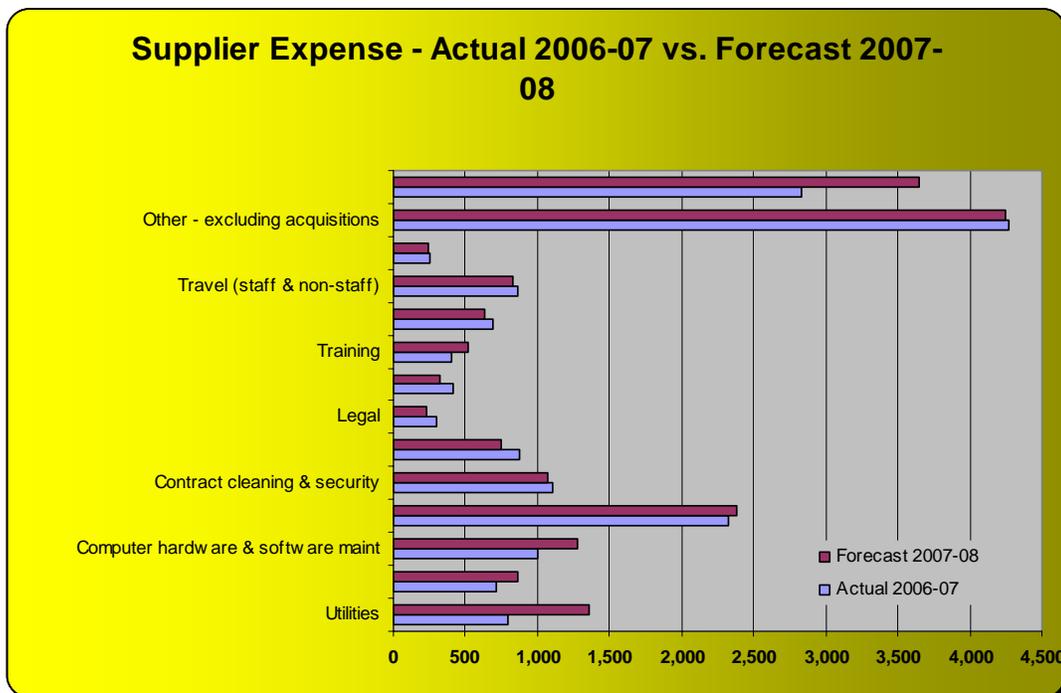
Area	Budget YTD	Actual YTD	% variation	\$ variation	Comment
Libraries Australia (\$3.927m)	\$3,265,000	\$3,433,870	5.17%	\$168,870	
Library Shop (\$0.805m)	\$685,200	\$723,423	5.58%	\$38,223	
Document Supply (\$0.500m)	\$375,000	\$386,488	3.06%	\$11,488	
Publications (\$0.494m)	\$426,700	\$497,987	16.71%	\$71,287	
Database Royalties (\$0.337m)	\$246,000	\$276,150	12.26%	\$30,150	
Reproduction Services (\$0.270m)	\$197,800	\$259,601	31.24%	\$61,801	
Hire of Facilities incl Bookplate (\$0.288m)	\$236,600	\$223,403	-5.58%	-\$13,197	

Example 6

Through its annual Budget Trend Analysis the Library examines its financial trends and performance from many different perspectives through a series of graphs that chart variations over time. For example, we examine variation in our supplier expenses in several different ways including across financial years (below) and expenditure on specific supplier categories [Example 7 below].



Example 7



Example 8

Our Budget Trend Analysis provides an opportunity for managers to view progress in achieving policies aimed at either reducing costs (see below, reducing expenditure on work performed by contractors and consultants) or increasing expenditure to meet specific targets or objectives [Example 9: here the Library is tracking its policy of increasing expenditure on staff training].



Example 9

