

Public Libraries in New South Wales

Financial Reporting

Spencer Steer
Chartered Accountants
Revised 20 December 2004 –
Minor changes 15.8.07

Reviewed Aug 2014
by LG Solutions

<http://www.sl.nsw.gov.au/pls/statistics/>

Public Libraries in New South Wales

Financial Reporting

Table of Contents

1. INTRODUCTION.....	1
2. DEFINITIONS	2
3. SOME ESSENTIALS FOR DETERMINING COSTS	2
3.1. Employee Costs	3
3.1.1. Unpaid and Voluntary Work.....	3
3.2. Core Activity Costing	3
4. THE EFFECT OF AASB116 ON PUBLIC LIBRARY ASSETS	4
4.1. Library Materials	4
4.1.1. Categorisation of Collection	5
4.1.2. Indicative Lives of Library Material Collection.....	5
4.1.3. Depreciation of Library Material Collections	5
4.1.4. Valuation of Collections not recorded as an asset.....	7
4.2. Furniture and Equipment	8
4.3. Replacement of Library Material Stocks and other assets	8
4.3.1. Benchmarks for the Replacement of Furniture & Equipment	9
4.4. Revaluation of Library Assets	9
5. LIBRARY COUNCIL OF NSW REPORT FORM	10
5.1. FORM A: STATEMENT OF LIBRARY OPERATIONS – COUNCILS	10
5.1.1. Operating Expenses	10
5.1.1.1. Contributions to Regional Library Service	10
5.1.1.1.1. Library Subsidy	10
5.1.1.1.2. Other Contributions	10
5.1.1.2. Contributions & Donations to other parties	11
5.1.1.3. Overhead Costs	11

5.1.1.4.	<i>Telecommunications Charges</i>	11
5.1.1.5.	<i>Staff Salaries and Wages</i>	11
5.1.1.6.	<i>Employee Leave Entitlements</i>	11
5.1.1.7.	<i>Training Costs</i>	12
5.1.1.8.	<i>Collection Maintenance</i>	12
5.1.1.9.	<i>Depreciation of Library Collection</i>	12
5.1.1.10.	<i>Licensed Access to Electronic Resources</i>	12
5.1.1.11.	<i>Non-Book Resource expenses not capitalised</i>	12
5.1.1.12.	<i>Periodical, newspaper, journal and magazine expenses not capitalised</i>	13
5.1.1.13.	<i>Information and Communication Technology Costs</i>	13
5.1.1.14.	<i>Council Rates</i>	13
5.1.1.15.	<i>Depreciation of Computer Systems</i>	13
5.1.1.16.	<i>Depreciation of Motor Vehicles</i>	14
5.1.1.17.	<i>Depreciation of Mobile Library</i>	14
5.1.1.18.	<i>Depreciation of Plant, Office Equipment and Furniture</i>	14
5.1.1.19.	<i>Minor Equipment (under \$1,000)</i>	14
5.1.1.20.	<i>Insurance</i>	14
5.1.1.21.	<i>Motor Vehicle Running Expenses</i>	15
5.1.1.22.	<i>Mobile Library Running Expenses</i>	15
5.1.1.23.	<i>Operating Lease Payments</i>	15
5.1.1.24.	<i>Library Management System Maintenance</i>	15
5.1.1.25.	<i>Program Costs</i>	15
5.1.2.	Operating Income	15
5.1.2.1.	<i>Contributions under S.94 Environmental Planning & Assessment Act</i>	15
5.1.2.2.	<i>Contributions received</i>	16
5.1.2.2.1.	<i>Library Subsidy</i>	16
5.1.2.2.2.	<i>Other Contributions</i>	16
5.1.2.3.	<i>Grants for Capital Purposes</i>	16
5.1.2.3.1.	<i>Library Development Grants</i>	17
5.1.2.3.2.	<i>Local Priority Grants</i>	17
5.1.2.3.3.	<i>Other Capital Grants</i>	17
5.1.2.4.	<i>Fundraising Income & Donations</i>	17
5.1.2.5.	<i>Sponsorship Income</i>	17
5.1.2.6.	<i>Other Income</i>	18
5.1.3.	Capital Expenses	18
5.1.3.1.	<i>Library Materials – Non-Print Resources</i>	18
5.1.4.	Capital Income	18
5.1.4.1.	<i>Loans raised</i>	18
5.2.	FORM B: STATEMENT OF LIBRARY OPERATIONS – EXECUTIVE / ADMINISTERING COUNCIL OF A REGIONAL LIBRARY	18
5.2.1.	Operating Expenses	19
5.2.1.1.	<i>Contributions & Donations</i>	19
5.2.2.	Operating Income	19
5.2.2.1.	<i>Contributions under S.94 Environmental Planning & Assessment Act</i>	19
5.2.2.2.	<i>Contributions from constituent Councils</i>	19
5.2.2.2.1.	<i>Library Subsidy</i>	19
5.2.2.2.2.	<i>Other Contributions</i>	19
5.2.2.3.	<i>Contributions from other parties</i>	19
5.3.	Rate Income	20
6.	ACCOUNTING FOR OVERHEADS	21
6.1.	Costing Overhead to Core Library Functions	21

6.1.1. Labour Overhead	21
6.1.2. Other Administrative Overheads.....	22
7. NATIONAL COMPETITION POLICY.....	25
7.1. General	25
7.2. Imputed Costs & Subsidies	25
7.3. Costs of Governance.....	26
8. NARRATIVE STATEMENT OF LIBRARY OPERATIONS	28

1. INTRODUCTION

This report has been prepared and updated at the request of the State Library of New South Wales for the purpose of addressing issues of valuation and accounting in accordance with the Australian Accounting Standards and the Local Government Code of Accounting Practice and Financial Reporting Guidelines.

The intention of the Public Library Services division of the State Library is to maintain and improve consistent financial reporting by local government on public library services throughout New South Wales.

The basic concept followed throughout this report is that the accounting and financial reporting should be kept as simple as possible, consistent with achieving the desired standard of reporting.

We are also conscious that detailed costing outside the council costing system would involve significant additional staff resources which would probably not be available.

Library managers should therefore draw the attention of the responsible accounting staff at their council to the reporting requirements of this report, particularly in respect of asset recording and depreciation and request that they produce the desired reports and information.

This revision has taken into account comments provided by officers of the State Library and various local government libraries in New South Wales. The assistance and co-operation of those people is acknowledged.

2. DEFINITIONS

AASB116	Australian Accounting Standard AASB116 “Property, Plant & Equipment”
Assets	means a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity (<i>Framework paragraph 49a</i>).
Depreciable Amount	means the cost of an asset, or other amount substituted for cost, less its residual value (<i>AASB116 paragraph 6</i>).
Depreciation	is the systematic allocation of the depreciable amount of an asset over its useful life (<i>AASB116 paragraph 6</i>).
Expenses	means decreases in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrences of liabilities that result in decreases in equity, other than those relating to distributions to equity participants (<i>Framework paragraph 70b</i>).
Framework	“Framework for the Preparation and Presentation of Financial Statements”
Income	means increases in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in equity, other than those relating to contributions from equity participants (<i>Framework paragraph 70a</i>).
Library Materials	includes book, periodical, newspaper and any other printed matter and also includes map, music, manuscript, picture, photographic plate and film and any other matter or thing whereby words, sounds or images are recorded or reproduced (<i>Library Act, 1939, Section 2</i>).
National Competition Policy (NCP)	framework aimed at encouraging efficient public sector service provision by exposing public business functions to competition, where appropriate. Underpinning NCP is the principle of competitive neutrality.

Overhead Costs	those elements of indirect cost necessary in the carrying out of works or providing services that are of such a nature that the amount applicable to a work or service cannot be determined accurately or readily. Usually they relate to those objects of expenditure, which do not become an integral part of work or service, such as management, supervision and labour on-costs.
Regional Library	a public library service where a council is a signatory with another council(s) in a formal agreement under the Library Act 1939 for the provision of library services. The Executive or Administering Council of a regional library is the Council that manages library services on behalf of the other Councils party to the agreement.
Residual Value	means the estimated amount that an entity would currently obtain from the disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life (AASB 116 paragraph 6).
Stand-alone Library Service	a public library service provided solely by a council to its local government area.
Straight-line Method	a method of allocating depreciation which is based on the same percentage each year of the original cost (or substituted value) of the asset. The depreciation charge is equal from year to year.

3. SOME ESSENTIALS FOR DETERMINING COSTS

While it is not difficult to determine the overall costs of operating a library service, it can be quite another matter to accurately determine the costs of operation of a part of the library.

Libraries establish what it costs to operate parts of the library service, such as -

Administration

- General Management
- Budget control and financial reporting
- Meetings
- Public Relations
- Staff Training
- Reception and Clerical

Computer Operations

- System operating costs
- Maintenance of catalogue

Technical Services

- Purchasing
- Processing
- Collection Maintenance

Circulation Services

- Borrowing
- Mobile Library Service
- Home Service
- Reprographic Facilities

Other Client Services

- Reference & Information Services
- Community Services

Many of the direct costs attributable to a library will be able to be costed to one or more of the above cost centres.

Some libraries may also wish to have a form of sub-program costing/budgeting set up within the Council's program budgeting framework. Consultation with accounting staff will ensure the ledger is structured so that the desired reports can be produced in, if necessary, different formats.

3.1. Employee Costs ¹

One of the largest costs is employee costs. Unless there is an accurate method of distributing the salary cost and the attendant overhead, any attempt at program costing will be ineffective. Obviously, the most accurate method of allocating salary and other employee costs is through the use of timesheets. All Councils use timesheets to some degree and enquiries should initially be made of the accounting department with a view to utilising the existing time costing system. However, while the continuing use of time sheets is the most accurate method of allocating employee costs, it would probably suffice to keep time sheets for, say three or six months for the purpose of establishing a trend, and thereafter, cost salaries on the basis determined by the trial.

3.1.1. Unpaid and Voluntary Work

This work could represent unpaid overtime worked by paid staff or voluntary work carried out by outside volunteer assistants. This work should not be costed in the operating costs of the library. It may be appropriate to record the information and, perhaps, report it in the annual report, but it should not be costed as there is no cost actually incurred by the organisation.

3.2. Core Activity Costing

For core activities of library operations to be costed successfully, those activities have to firstly be clearly identified and their component parts defined. A chart of accounts should then be drawn up allocating costs and income to the various components of the defined activities.

Procedures should then be put in place to ensure costs are captured for the various activities. Salary costs were discussed earlier and a cost effective means of allocating time and therefore salary cost to component activities needs to be put in place.

Costs which can be reliably attributed to each activity should be so costed. In this regard, a purchasing system which comprises an official order should be used. The order should state what the purchase is for and the centre to which it is to be costed. When the invoice eventually arrives it should be matched with the order thus ensuring accurate costing occurs.

Costs which cannot be directly attributable to an activity are overhead costs and are considered in Section 6 below.

¹ For detailed costing methodologies, refer to **Public Library Costings**, Barry McIntyre

4. THE EFFECT OF AASB116 ON PUBLIC LIBRARY ASSETS

The definition of assets in AASB116 looks at the future economic benefits which are controlled by the entity. However, in order to be recognised as an asset in the financial statements it must meet the recognition criteria set out in AASB116, viz

The cost of an item of property, plant and equipment shall be recognised as an asset if, and only if:

- (a) *it is probable that the future economic benefits associated with the asset will flow to the entity; and*
- (b) *the cost of the item can be measured reliably.*²

4.1. Library Materials

Library materials undoubtedly fit into the category of an asset by having a future economic benefit. It is the second part of the recognition criteria that frequently presents a problem.

There is very little written about valuing library collections and most of those writings look at the “priceless” through to “valuable” collections rather than the general collections kept by most public libraries throughout New South Wales.

In looking at specific valuation methods for library collections, the NSW Treasury suggests -

*It should be possible to arrive at a reliable assessment of the value of the whole collection, either by individual valuations or by sampling. A typical program would include valuation of particular works which were unusual or valuable and assessing a part of the remainder internally each year on a rotating basis with random independent checks.*³

The Treasury guidelines then go on to discuss costs and benefits.

A similar approach has been adopted by other organizations, for example the Council of Australian University Libraries (CAUL) in their draft report on valuation of library collections.⁴

We are of the view that the cost of valuing a library collection in this manner would far outweigh any possible benefits. We therefore suggest the following procedures for reporting library collections as a cost effective method of complying with the Standard.

² AASB116, paragraph 7

³ Guidelines for the Valuation of Land and Heritage Assets in the NSW Public Sector, NSW Treasury, May 1995, page 14

⁴ www.caul.edu.au/caul-doc/library_valuation_unison2002.doc

4.1.1. Categorisation of Collection

Library materials should be categorised in the asset register into

- Valuable (rare items) collection
- Lending and Reference collection

and within each category, recorded in total dollars by year of purchase.

4.1.2. Indicative Lives of Library Material Collection

The Local Government Asset Accounting Manual sets an indicative life of 5 years for library materials. While reference collections may have a shorter life than non-reference collections, for the purposes of consistency of reporting, the following useful lives should be followed -

- Valuable (rare items) collection indefinite life - revalue every five years
- Lending and Reference collection 5 years

It is appreciated that some collections could have a useful life in excess of 5 years. However, this useful life could be unique to an individual council.

The Annual Return is used for several purposes and is dependent on the return being prepared on a consistent basis, comparable from council to council. For that reason, library material collections should be depreciated over 5 years.

4.1.3. Depreciation of Library Material Collections

Depreciation should be provided annually on library material collections that have been capitalised, e.g. books, E-Books, downloadable audio books that the library purchased in perpetuity, DVDs, CDs. The system of accounting requires that a Provision for Depreciation is created and the amount written off each year is credited to this account. The total of the provision is deducted from the cost of the library materials purchased to give the current written down value of the collection.

Depreciation should be provided at the following rate -

- Valuable (rare items) collection should not be subject to depreciation
- Lending and Reference collection 20% p.a.

It is appreciated that library material stock at different libraries and in different parts of the State, have different lives and hence, different depreciation rates. However, in the interests of providing consistent information and reports, the rate prescribed in the Local Government Asset Accounting Manual has been used.

Depreciation should be provided on each year's total cost of purchases rather than on the total cost of the library collection. Under these circumstances, after five years of depreciation, the cost of library material purchases made five years ago will be fully written off. A transfer should therefore be made between the asset account for library materials and the provision for depreciation in an amount equal to the cost of the library materials purchased five years ago. This entry prevents both the asset account and provision account continually escalating without taking into account those library materials which have been written off. This process would also cover library materials weeded from the collection because they are no longer required.

It is appreciated that some reference library materials will be replaced within the five years, but the separate accounting for these library materials is not warranted nor material to the end result.

Table 1 illustrates the manner of calculating the annual depreciation charge. Years 5 and 6 are the normal years where 5 years of library material purchases are being depreciated, the totals being the annual charge in the Operating Statement. It can be seen from this example that Council is maintaining its collection by reinvesting approximately the depreciation charge.

TABLE 1

Year	Book Purchases by Year	Depreciation expense 20% p.a.							Total
		Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	
1	146,387	29,277	29,277	29,277	29,277	29,277			146,387
2	150,897		30,179	30,179	30,179	30,179	30,179		150,897
3	135,986			27,197	27,197	27,197	27,197	27,197	135,986
4	142,890				28,578	28,578	28,578	28,578	114,312
5	157,543					31,509	31,509	31,509	94,526
6	160,853						32,171	32,171	64,341
7	161,385							32,277	32,277
	1,055,941	29,277	59,457	86,654	115,232	146,741	149,634	151,731	738,726

Table 2 summarises the depreciation and purchases as shown in Table 1. The total charge for depreciation over 7 years is \$738,726 and has been credited to a Provision for Depreciation which is shown as a reduction in value of the library material stock.

TABLE 2

Year	Book Purchases by Year	Total Prov'n for Depr'n	Written Down Value
1	146,387	146,387	-
2	150,897	150,897	-
3	135,986	135,986	-
4	142,890	114,312	28,578
5	157,543	94,526	63,017
6	160,853	64,341	96,512
7	161,385	32,277	129,108
	1,055,941	738,726	317,215

It will be seen from Tables 1 and 2 that after five years of depreciation, the provision equals the original cost. Unless adjustment is made by writing the provision back against the cost of the stock, the total cost and depreciation provision will continue to rise each year.

Table 3 summarises the position after this adjustment has been made in Years 1, 2 and 3.

It can now be seen that, while the net value of the collection is unchanged at \$317,215, the reported "cost" of \$622,671 now only represents that stock still current and not the \$1,055,941 spent on library materials over the past 7 years. Similarly, the provision for depreciation is reduced to that applicable to the asset still held.

TABLE 3

Year	Book Purchases by Year	Total Prov'n for Depr'n	Written Down Value
1	-	-	-
2	-	-	-
3	-	-	-
4	142,890	114,312	28,578
5	157,543	94,526	63,017
6	160,853	64,341	96,512
7	161,385	32,277	129,108
	622,671	305,456	317,215

4.1.4. Valuation of Collections not recorded as an asset

Some libraries (or Councils) have in the past treated the purchase of library materials as an expense and do not have the collection recorded as an asset. To physically take stock and value the collection would be an enormous task with great attendant cost.

A more simple solution which will enable the collection to be brought to account as an asset would be to -

- ascertain from past years (past 5 years if depreciation rate is 20% p.a.) annual financial statements or the general ledger, the cost of library material purchases made over the past five years;
- depreciate each year's total purchases at the rate of 20% per annum (e.g. the earliest year will be depreciated to 20% of cost, the next year to 40% of cost with the last year not depreciated);
- total the written down annual values which represent the written down current cost of the collection;
- bring this to account as an asset by debiting the asset account with the gross value of library material purchases, crediting the Provision for Depreciation with the aggregate depreciation, and crediting accumulated surpluses of the Council with the net value.

The Standard requires assets brought to account for the first time to be valued at written down current cost, hence the necessity to calculate the depreciated amount.

4.2. Furniture and Equipment

Furniture and Equipment used in the provision of library services meets the definition of an asset under AASB116. All councils would capitalise such furniture and equipment, but may not have a policy on writing off "low cost" stand alone assets (costing less than \$1,000 – refer also 5.1.1.19 below).

Such furniture and equipment assets should be shown at cost (revaluation is not permitted) less the appropriate provision for depreciation.

The Local Government Asset Accounting Manual prescribes a useful life of 10 years for such assets, the appropriate depreciation rate being 10% per annum on a straight-line basis.

4.3. Replacement of Library Material Stocks and other assets

Depreciation has no impact on the decisions of councils to renew or replace assets. This decision is a budgetary one generally based on demonstrated need and available funds. Libraries should develop long term plans which address their needs for library material purchases and furniture and equipment purchases or replacement. In developing these plans, need will be of fundamental importance. Need will be demonstrated where it can be shown that the purchase of the materials or equipment are necessary to provide the library service demanded by Council and the community.

Library Managers need to appreciate that depreciation is a non-cash expense which represents the dollar value attributable to the consumption of library resources in the form of library material stock life. Unless an amount at least equal to the depreciation in real terms is reinvested in library material stock, the library collection is being depleted.

Utilisation of the resources of the library should be documented as such statistics are an invaluable way of demonstrating to Council the community use made of their library services.

4.3.1. Benchmarks for the Replacement of Furniture & Equipment

It is not possible to set out benchmarks for the replacement of library furniture and equipment. Although such assets are said to have a useful life of ten years, in many instances, the items will be serviceable for a longer period. Libraries should ensure that their assets are suitable for fulfilling their needs and should have in place equipment replacement plans setting out the need for the replacement, the indicative time frame (by year) and the estimated cost, so that the replacement programme can be incorporated in Council's Management Plan.

4.4. Revaluation of Library Assets

The Local Government Code of Accounting Practice and Financial Reporting Guidelines require that Councils continually revalue (over a 5 year period) non current assets in accordance with the Revaluation Model (AASB116 paragraph 31).⁵

For all library assets, Councils assess at each reporting date whether there is any indication that a revalued asset's carrying amount may differ materially from that which would be determined if the asset were revalued at the reporting date. If any such indication exists, Councils determine the asset's fair value and revalues the asset to that amount.

The Office of Local Government has stated that Councils should undertake the revaluation of assets at every five years: ⁶

- Infrastructure assets, buildings and land will be fair valued by external or internal valuation.
- Plant, furniture, equipment and **library materials** are able to be fair valued using their depreciated historical cost (ie. There is no need to perform a full revaluation at all).

⁵ Local Government Code of Accounting Practice and Financial Reporting Guidelines, page A-77, paragraph 9

⁶ Local Government Code of Accounting Practice and Financial Reporting Guidelines, page A-78, paragraph 11

5. LIBRARY COUNCIL OF NSW REPORT FORM

All Councils are to complete Form A *Statement of Library Operations – Councils*.

The Executive or Administering Council of a Regional Library Service must also complete Form B *Statement of Library Operations – Executive/Administering Council of a Regional Library* on behalf of the regional library.

This section provides background information to assist Councils to complete the form(s). Information specific to Form B (to be completed by the Executive or Administering Council of a Regional Library Service) is provided in Section 5.2 below.

5.1. FORM A: STATEMENT OF LIBRARY OPERATIONS – COUNCILS

5.1.1. Operating Expenses

5.1.1.1. Contributions to Regional Library Service

This is only relevant to Councils that are part of Regional Library Services. Stand-alone libraries should move straight to Section 5.1.1.2 below.

It is important that contributions are properly classified into the different categories as listed below.

5.1.1.1.1. Library Subsidy

Every Council receives a Library Subsidy from the State Library of NSW. If a Council is part of a Regional Library and forwards this subsidy (completely or part thereof) to the Executive or Administering Council of the Regional Library Service, it will be shown under this item.

5.1.1.1.2. Other Contributions

Any other contributions (other than the Library Subsidy) made to the Regional Library Service by a Council should be disclosed under this category.

5.1.1.2. Contributions & Donations to other parties

Contributions and Donations to parties other than a Regional Library Service are shown here.

5.1.1.3. Overhead Costs

These are contributions allocated by Council towards the general operating overheads of Council. There should be some reliable basis for determining that the overhead is attributable to the library operations. Costs should not be included under this heading where reliable allocation can be made to other expense headings. Details should be provided as to what makes up the allocation.

Note: Details should be provided as to what makes up the allocation.

The use of a method of arbitrary determination of overhead contribution is generally inaccurate, and to be discouraged. The National Competition Policy Pricing and Costing Guidelines require accurate costing of overheads to activities.

5.1.1.4. Telecommunications Charges

Telecommunications Charges should include telephone and facsimile costs, email and internet access charges.

5.1.1.5. Staff Salaries and Wages

Include all allowances paid through the payroll system.

5.1.1.6. Employee Leave Entitlements

This amount represents the **increase/(decrease) in the entitlement** for each employee for the year for annual leave, long service leave, sick leave (where payable on termination) and gratuities (where payable). In respect of each of the categories of entitlement, the amount to appear in total on this line should be calculated in accordance with the following method -

Total of Entitlements due at Balance Date	\$
Plus Cash payments for leave entitlements	\$
Less Total of Entitlements at beginning of year	\$
Increase/(Decrease) in Entitlements for Year	\$

5.1.1.7. Training Costs

The salaries of training course participants should not be included here, but under staff salaries. Payments made to external providers should be included. Where a staff member carries out staff training, their salary cost should be charged to training rather than salaries.

5.1.1.8. Collection Maintenance

Should include all costs of repairs to library materials. It should also include costs incurred in cataloguing and preparing new releases.

5.1.1.9. Depreciation of Library Collection

This item should include depreciation of books, E-Books, downloadable audio books that the library purchased in perpetuity, DVDs, CDs etc. (refer Section 4.1.3 above). Items such as E-Books, downloadable audio books purchased in perpetuity, DVDs and CDs should be accounted for in a similar manner to books.

The Local Government Asset Accounting Manual⁷ sets the indicative life of library materials as 5 years, representing a straight-line depreciation rate of 20%.

5.1.1.10. Licensed Access to Electronic Resources

Libraries subscribe to external electronic resources such as databases and information available through the Internet. In many cases these electronic resources replaces bookstock. Include E-Books here that are acquired for the library on a subscription or licensed basis.

However, unlike the bookstock which these resources replace, the access license in most cases is an annual licence and therefore is an operating expense rather than an asset.

This item should not include E-Books and downloadable audio books where they have a useful life greater than one year (refer 5.1.3.1 below).

5.1.1.11. Non-Book Resource expenses not capitalised

Includes material received on digital storage mediums (such as CDs and DVDs) having a useful life of one year or less.

⁷ Local Government Asset Accounting Manual, Update No. 4, July 1999, Department of Local Government NSW, Appendix 5

5.1.1.12. Periodical, newspaper, journal and magazine expenses not capitalised

The definition of “library material” in Section 2 of the Library Act clearly includes periodicals, printed newspapers, journals and magazines. However, the Statement of Library Operations is being drawn up to comply with the underlying basis of preparation required by AASB116.

In order to be recognised as an asset under AASB116, the item in question must have a future economic benefit (greater than one year) which is reliably measurable in dollar terms.

The approach taken in this manual is that monthly or other periodical publications and subscriptions, both printed and electronic, to periodic reporting services have a questionable future economic benefit which would be very difficult to measure and that they should therefore be treated as a period expense.

5.1.1.13. Information and Communication Technology Costs

This item should NOT include equipment purchases. All computer equipment usually forms part of a larger system and should be capitalised and depreciated. Amounts to be charged to this item will vary depending on the establishment of the system. Where a library operates as part of a council mainframe system, a proportion of costs will normally be charged by council to this cost centre and will cover hardware and software costs, system maintenance and a proportion of DP staff salaries and overheads. Where a library (or library network) operates its own computer system, this cost centre should include lease payments (if an operating lease), interest cost (on a finance lease), maintenance charges, employee operators costs, electricity etc.

5.1.1.14. Council Rates

While rates on Council’s own properties are legally required to be levied, the definition of revenues & expenses within the Framework for the Preparation and Presentation of Financial Statements does not recognize their inclusion in Council’s General Purpose Financial Report (the annual financial statements). However, the cost is included here as the rates do equate (to some extent) to rent on the premises occupied by the library.

5.1.1.15. Depreciation of Computer Systems

The Local Government Asset Accounting Manual⁸ prescribes 5 years as the useful life of computer systems which is an annual depreciation rate of 20% each year of the cost on the straight-line method.

⁸ Local Government Asset Accounting Manual, Update No. 4, July 1999, Department of Local Government NSW, Appendix 5

Computer systems frequently have additions to system added regularly (such as additional terminals, memory upgrades) and each of these should be accounted for separately in the asset register system. Each component part of the system should be depreciated over 5 years.

5.1.1.16. Depreciation of Motor Vehicles

The Local Government Asset Accounting Manual⁹ sets out 5 years as the useful life of motor vehicles, an annual rate of 20% of cost.

5.1.1.17. Depreciation of Mobile Library

The Local Government Asset Accounting Manual does not set out the useful life of a mobile library. However, by using comparable items (larger and heavier vehicles such as trailers, graders, garbage collection trucks, street cleaners, etc.) we recommend to use an annual rate of 15%.

5.1.1.18. Depreciation of Plant, Office Equipment and Furniture

Office Furniture and Equipment is depreciated at the rate of 10% of cost. Separate asset records should be kept for each asset and they should be depreciated separately.

5.1.1.19. Minor Equipment (under \$1,000)

Items of equipment and furniture costing less than \$1,000 **and** which do not form part of a larger asset, should be written off when purchased. It is, however, desirable that a record of the asset is maintained for insurance purposes and to ensure that it is not lost or stolen. Examples of such items may be calculators or a small display stand.

Items such as a computer monitor, while it may cost less than \$1,000, is part of a larger asset - the computer system - and should not be written off.

5.1.1.20. Insurance

Should include proportions of public risk, fire and burglary and fidelity guarantee. Insurance for Motor Vehicle and Mobile Library should be reported under Motor Vehicle Running Expenses (refer 5.1.1.21 below) and Mobile Library Running Expenses (refer 5.1.1.22 below) respectively.

⁹ Local Government Asset Accounting Manual, Update No. 4, July 1999, Department of Local Government NSW, Appendix 5

5.1.1.21. Motor Vehicle Running Expenses

All running costs of the vehicle, including maintenance, tyres, fuel, registration and insurance should be charged to this item.

5.1.1.22. Mobile Library Running Expenses

All running costs of the mobile library, including maintenance, tyres, fuel, registration and insurance should be charged to this item.

5.1.1.23. Operating Lease Payments

Operating lease means a lease under which the lessor effectively retains substantially all the risks and benefits incident to ownership of the leased asset (*AASB117 paragraph 8*).

All payments made under operating leases should be shown under this heading.

5.1.1.24. Library Management System Maintenance

Library Management System refers to the automated system which includes the library catalogue, circulation system, OPAC, membership database and related modules. Any maintenance costs related to this system should be charged to this item.

5.1.1.25. Program Costs

All costs related to public programs (programs that attract an audience) such as author talks and storytimes should be charged to this item.

5.1.2. Operating Income

5.1.2.1. Contributions under S.94 Environmental Planning & Assessment Act

Many Councils levy contributions upon developers under S.94 EPA to pay for amenities to be provided by Council to the increasing population. They are usually received from many contributors over a significant period of time to accumulate sufficient funds to carry out the planned work.

While Councils are required to recognise such contributions when they are received, it would not be helpful to include such income in this Statement until such time as the funds are spent on a library asset as envisaged by the S.94 Plan.

The Income item in the Statement should therefore only recognise S.94 expenditure during the year. The expenditure will normally appear as an asset under Capital Expenditure.

Note: This item does not apply to the Executive or Administering Council of a Regional Library Service as it cannot levy contributions under S.94 EPA.

5.1.2.2. Contributions received

Any Contributions received by a Council are to be disclosed here. It is important that contributions are properly classified into the different categories as listed below.

5.1.2.2.1. Library Subsidy

Each Council receives annually the Library Subsidy contribution from the State Library of NSW. These contributions are to be disclosed by each Council as income here.

When Councils forward this contribution (or part thereof) to a Regional Library Service, the Council has also to disclose this item as operating expenses (refer 5.1.1.1.1 above).

Note: Library Development Grants and Local Priority Grants should not be included in this item. Refer 5.1.2.3.1 below and 5.1.2.3.2 below respectively for separate disclosure.

5.1.2.2.2. Other Contributions

Any other contributions received by a Council should be disclosed here, e.g. any Australian Government contributions.

Note: Library Development Grants and Local Priority Grants should not be included in this item. Refer 5.1.2.3.1 below and 5.1.2.3.2 below respectively for separate disclosure.

5.1.2.3. Grants for Capital Purposes

Grants to fund the construction or acquisition of assets are sometimes called “Capital Grants” and treated as capital income. This is particularly so in local government budgeting where it is necessary to match the revenue with the expenditure. However, AASB1004 and the Code of Accounting Practice and Financial Reporting Guidelines treat such grants as ordinary operating income which is recognised when Council obtains control of the grant - usually upon receipt of the funds.

In some cases, substantial grants for capital purposes could be received in advance of work being carried out. The expenditure for such grants is not at any time reflected in the Operating Statement - it is a case of converting one asset (cash) into another (say, a building). It is therefore important that grants and subsidies are properly classified into “Grants for Capital

Purposes” and into the categories as listed below, so that readers understand that the grant for capital purposes is a one-off grant, not intended to subsidise operating costs.

5.1.2.3.1. Library Development Grants

Library Development Grants received from the State Library of NSW are usually of capital nature and should be included under this heading.

5.1.2.3.2. Local Priority Grants

Local Priority Grants received from the State Library of NSW are usually of capital nature and should be included under this heading.

5.1.2.3.3. Other Capital Grants

Any other Grants of capital nature, which are not received from the State Library of NSW, should be disclosed as income here, e.g. any Australian Government grants.

5.1.2.4. Fundraising Income & Donations

Income related to fundraising activities and donations should be disclosed here, including:

- Fundraisers (including cash donations and bequests),
- Funding provided by the private sector (e.g. project support from philanthropic trusts)

but excluding:

- Investment or interest income from unspent bequests received in previous years,
- Extraordinary income attributable to events or transactions that are both outside the normal operations of the library and of a non-recurring nature,
- Income generated from the sale of goods and services,
- Any non-cash donations and bequests

5.1.2.5. Sponsorship Income

Sponsorship income should be disclosed here, including:

- Any sponsorships both cash and non-cash

but excluding:

- Annual allocations from related private sector organisations,
 - Items donated or bequeathed,
 - Extraordinary income attributable to events or transactions that are both outside the normal operations of the library and of a non-recurring nature
-

5.1.2.6. Other Income

Any income not included in any of the items above should be disclosed here, including:

- Library fees and charges (including fines),
- Printing and photocopying charges,
- Income generated from the sale of goods and services (including ticket sales),
- Investment or interest income from unspent bequests received in previous years,
- Income from hire of library buildings (e.g. meeting rooms, exhibition space),
- Any other income not listed

5.1.3. Capital Expenses

5.1.3.1. Library Materials – Non-Print Resources

Includes items having a useful life of longer than one year such as:

- digital storage mediums (CDs and DVDs)
- E-Books and downloadable audio books that the library purchased in perpetuity

but does not include licensed access to electronic resources such as off-site databases or E-Books, downloadable audio books that the library has “subscription only” access to (refer 5.1.1.10 above).

5.1.4. Capital Income

5.1.4.1. Loans raised

Loans raised should only be included in the Statement as Capital Income in circumstances where Council has raised a loan specifically for library purposes.

5.2. FORM B: STATEMENT OF LIBRARY OPERATIONS – EXECUTIVE / ADMINISTERING COUNCIL OF A REGIONAL LIBRARY

The Executive or Administering Council of a Regional Library Service must also complete Form B on behalf of the Regional Library. See below for information specific to this form.

This section only includes information on the items in Form B which are treated differently to those in Form A. For all other items refer to Section 5.1 above.

5.2.1. Operating Expenses

5.2.1.1. Contributions & Donations

Any contributions and donations paid by a Regional Library Service to other parties should be included here.

5.2.2. Operating Income

5.2.2.1. Contributions under S.94 Environmental Planning & Assessment Act

A Regional Library Service cannot levy contributions under S.94 EPA (refer 5.1.2.1 above). Hence, this item will not apply to a Regional Library Service.

5.2.2.2. Contributions from constituent Councils

Any contributions received from the constituent Councils of the Regional Library Service are to be disclosed here. It is important that contributions are properly classified into the different categories as listed below.

5.2.2.2.1. Library Subsidy

When a Council forwards the Library Subsidy (completely or part thereof) to a Regional Library Service (refer 5.1.1.1.1 above), the Regional Library Service has to include the received contribution as income under this item.

Note: The Regional Library Service shall also attach a list that shows the Library Subsidy received from each individual Council.

5.2.2.2.2. Other Contributions

Any other contributions (other than the Library Subsidy) received from a constituent Council should be disclosed here.

Note: Please attach a list that shows contributions by each Council.

5.2.2.3. Contributions from other parties

Contributions received from parties other than a constituent Council should be shown as income here, e.g. any Australian Government contributions.

5.3. Rate Income

No “income” from Rates is shown in the Statement as the library does not levy rates. Rather, the Council levies rates to fund various community services including the deficit from library operations. The Statement is therefore drawn up to reflect the operating result rather than a “balanced or NIL” result which would occur from inclusion of the council subsidy in the Operating Statement.

6. ACCOUNTING FOR OVERHEADS

Costs may be categorised as follows -

□ Direct Costs

Those costs which can be clearly and specifically identified with particular activities and can be attributed thereto on a determined basis.

□ Indirect/Overhead Costs, which include -

Those costs which, while they cannot be specifically identified with particular activities on a determined basis, can be allocated to activities on a reliable basis.

Overheads are costs of the administrative infrastructure which are not charged directly to activities providing a service - they are necessary for the services to be provided. Commonly, overheads might include such costs as:

- accommodation costs
- general administrative salaries and oncost
- printing, photocopying & stationery
- computer costs
- postage, telephone and facsimile
- insurance
- payroll services and security
- cleaning
- electricity
- interest

6.1. Costing Overhead to Core Library Functions

Overheads may generally be divided into two categories -

- ❖ labour overhead, and
- ❖ other administrative overhead.

6.1.1. Labour Overhead

Labour overhead costs would generally include -

- sick leave
 - long service leave
-

- annual leave
- gratuities (where payable)
- public holidays
- superannuation
- compensation on termination
- medical examinations
- workers compensation insurance
- fringe benefits tax
- staff training

Some of the above “overhead” expenses may be able to be costed directly where an employee is dedicated to one activity. For example, the annual leave, sick leave, long service and public holidays of a City Library Manager whose work was 100% administration, could all be charged to that activity. However, where a staff members carries out a number of functions that is not possible. Generally, where labour overhead cannot be directly attributable to an activity, total overhead should be apportioned to activities on the basis of total direct salary cost.

6.1.2. Other Administrative Overheads

Examples of other administrative overheads are set out above in 6 above. It should be emphasised that overhead costs are those costs which cannot be allocated to a function or activity on a reliable basis. They thus are a group of costs attributable to the library operations as a whole, and in fact could also be a proportion of the Council overhead costs which have been charged against the library operations by Council treasury. It is incumbent on the Library Manager to ensure that there is an acceptable basis for charging library operations with a contribution to Council overhead.

The equitable distribution of overhead to core activities is probably the one accounting issue on which very few people will agree. The very nature of overhead (expenses which cannot be reliably attributed to an activity) makes it difficult to set down adamantly how overhead should be accounted for in respect of core activities.

However, if each item of overhead is examined separately, it is often possible to determine an equitable method of allocating it to activities. Set out below are some such methods -

Accommodation Costs (rent and rates)

Allocate on the basis of the approximate square area (floorspace) occupied by the various activities.

General Administration

Administration should be an “activity” of the library. It is reasonable that this activity should be reported as such and not distributed to other activities as an overhead cost. In many

instances, the administrative effort is not related to other core activities (e.g. attendance at council meetings, formulation of the annual budget, reporting to Council).

Photocopying

To account for photocopies use the counter facility on your copier or a manual log.

Payroll Services

Could be allocated to activities based on the direct labour cost.

Cleaning

Allocate on the basis of the approximate square area (floorspace) occupied by the various activities.

Electricity and Gas

Allocate on the basis of the approximate square area (floorspace) occupied by the various activities.

Interest

Interest on loans borrowed will generally relate to a major library project such as the building or purchase of a new branch or central library facility and will not usually be able to be attributable to one or more activities. In that case, it should form part of the administration function.

Telephone

Costs of local telephone calls can be allocated based on the numbers of handsets in activity locations. STD and overseas calls should also be accounted for.

Facsimile Costs

Costs include line rental and calls and machine costs such as maintenance and depreciation in addition to paper. All machines print a log of incoming and outgoing faxes. Incoming faxes only represent a minor cost (paper and small machine cost) whereas outgoing faxes involve call costs. Costs can be allocated on the basis of the machine log or alternatively, on the basis of a manual log kept.

General Printing and Stationery

In most cases, this cost will be an administrative cost. In certain situations, the cost may be able to be directly attributable (e.g. paper used in a photocopier) and allocated by other means (such as an operating log).

Computer Costs

Most computer systems have an operating log which records some levels of usage, including general enquiries to databases and the catalogue.

If the library records activity on a statistical basis which provides a reasonable basis for allocating such a cost, then that basis should be used to allocate computer costs.

Building Maintenance and Repairs

Some costs may be able to be allocated directly to an activity (e.g. administration) if the expenditure relates to the part of the building where this is carried out. However, general costs such as air conditioning maintenance should be allocated on the basis of floorspace occupied.

Promotions and Public Relations

Library promotions will generally be directed towards a particular activity or facet of library operations. The cost should therefore be attributed to that activity.

7. NATIONAL COMPETITION POLICY

This section is only relevant if a Council has determined that library operations are a business activity.

7.1. General

In April 1995, the Council of Australian Governments ratified the National Competition Policy (NCP) and executed the *Competition Principles Agreement*. The major effect of this action was to apply the Trade Practices Act to government and local government business activities.

In June 1996, the NSW Government released a Policy Statement on the Application of National Competition Policy to Local Government and this was followed in July 1997 by the Pricing and Costing Guidelines for Council Businesses. These guidelines are a Guide to Competitive Neutrality - the theme of the NCP.

Put simply, the Guidelines -

- require Councils to examine their activities and determine which of them are “business activities”; and
- require Councils to accurately cost their business activities.

Business activities are classified according to gross turnover. Category 1 businesses are those with turnover in excess of \$2M, Category 2 businesses are those with turnover less than \$2M.

7.2. Imputed Costs & Subsidies

A requirement of the Guidelines is that business activities should operate on the same basis as private sector competitors, and hence, local government should impute costs of operation similar to that of the private sector.

Page 4 of the Statement of Library Operations deals with such imputed costs and revenues. ***It should be emphasised that where any Council determines that its library operations are NOT a business activity, then this section will not apply.***

However, in respect of those Councils which determine that libraries **are** a business activity, the following comments may be useful -

Payroll Tax

There is a general exemption of \$750,000 in wages and salary cost below which payroll tax is not payable. The rate for payroll costs above the general exemption is currently 5.45%.

Financial Institutions Duty (FID)

Should be provided for as an estimate on bank transactions.

Land Tax

There is a general exemption of \$412,000 in land value below which land tax is not payable (only once applicable - not on each parcel of land). From \$412,001 to \$2,519,000 the rate is 1.6% + \$100. For the remaining combined land value that exceeds \$2,519,000, a premium marginal rate of 2.0% applies.

Land Tax should not be provided in respect of rented premises.

Loan Guarantee Fees

Would only be applicable if a Council borrowed money specifically for the purposes of the library. It is the difference between the current local government borrowing rate and a comparable rate available to the private sector.

Return on Capital Invested

Would normally be calculated in respect of total assets employed at the 10 year bond rate.

Subsidy from Council

The subsidy from Council would normally be the amount which Council has determined in its budget to be the subsidy it is prepared to allocate to the library operations. It should not include capital expenditure as that represents an investment in library services.

7.3. Costs of Governance

The Guidelines recognise that the costs of governance are indirect costs which should not be allocated to any specific activity. The cost would exist even if the services were contracted out.

There is general agreement that the scope of democracy costs would include ¹⁰

- ❖ meetings of the council and of corporate policy making committees, and attendance at them, as long as they are not responsible for the management of specific services;
- ❖ the salaries and expenses of elected members;
- ❖ chief executives, except for any time they spend on specific services or direct service operations for which they are specifically responsible;
- ❖ general accounting work, including the preparation and publishing of statements of accounts, corporate budgets and annual reports, FOI and other public accountability requirements;

¹⁰ Pricing & Costing for Council Businesses, Department of Local Government, July 1997, Page 32

- ❖ subscriptions to local authority associations and attendances at conferences and meetings;
- ❖ the cost of local elections;
- ❖ the staff, accommodation and services needed to support all the meetings, personnel and activities described above.

Libraries should ensure that costs of governance are properly segregated from library operations particularly in respect of senior library staff.

8. NARRATIVE STATEMENT OF LIBRARY OPERATIONS

In many circumstances, the financial statements do not provide the reader with a “picture” of library operations and activities.

In order to make the financial statement more meaningful, Councils are requested to attach relevant information on the operations of the library service. Matters which could be covered are set out below.

Note: Please present in dot point form and limit to one page.

- use of technology
- Internet facilities
- innovative projects
- community access
- special acquisitions during the year
- research and development activities undertaken by library staff
- promotional programs
- local community projects or displays
- building enhancements or expansion programs
- introduction of new collections and/or formats
- services / assistance provided for people with a disability
- major infrastructure changes eg new branches/mobile libraries, or reduced branches/mobile libraries
- major changes to the library management system
- significant service changes eg hours of opening, home library services etc.