

Educational finance

Introduction

- The National policy on education 1986 has aptly observed, 'education develops manpower for different level of the economy. it is also the substrate on which research and development for flourish, being the ultimate guarantee of national self reliance'
- India in comparison too many e countries of the world spends much less on education in term of the proportion of GNP spent on education. In many developed countries it ranges around 6 to 8% whereas in India it is only slightly more than 3% .
- The education commission 1964 66 had recommended that this proportion should be increased to the level of 6% as early as possible. The national policy on education 1986 has also suggested it will be ensured that from the eighth five year plan onwards it uniformly exceeds 6% of the national income.

Sources of income

- educational finance involves huge amount of the resources and expenditure.
- The sources of income are broadly divided into two part public and private.
- the funds drive from government or local bodies are called public funds and funds received from students parents and other persons are called private funds.

A. PUBLIC FUNDS

- Government-centre and states

Government funds are received obviously from the central government and its various agencies like UGC NCERT and others. In the countries with federal system of administration e.g. in USA, educational financing is mostly a local responsibility. But in the countries like UK and India this responsibility is borne both by the central as well as local authorities. The government of India however financed various Centrally sponsored schemes and projects in education and also subsidized educational development in the states and union territories. The union government either gives grants directly or through autonomous bodies like UGC for higher education. These Central government Grants and state government grants for education are separately shown in the budgets of financial statement.

- Education cess

The sources of finance to the local bodies were the taxes levied by the local bodies, the share of the taxes collected by the government and the grants given by the state government. This income was spent on providing the public utility services as mentioned above. Although a good portion of it was also spent on education it was fund quite inadequate. Therefore separate tax called educational cess was imposed and the whole of it was utilized for maintaining and improving educational facilities in the other jurisdictions. It was generally collected as the percentage of land revenue in the rural areas and of houses tax in urban areas. This rate of education cess varied from one state to another and the mode of its collection was the main head of expenditure.

- Grant in aid

The financial assistance given by government to various educational institutions is called grant or grant in aid. Sometimes by government units gives grants to smaller government unit for educational purpose. The grant-in-aid usually called financial contribution in the form of periodic payments by the government to an organization or agency or individual for specific educational purpose.

The other kinds of grants are deficit grants, salary grants and capitation grants. If the same additional amount is incurred due to price rise or on account of certain unforeseen expenditure over and above the total admissible expenditure, this extra amount is paid by government as deficit grants. The advantages of this grant is that the extra financial burden is borne by the government.

But the disadvantage in the system is that it encourages extravagance on the one hand and reduces the local initiative for financial support. The salary grants provide a portion or whole of the expenditure on payment of regular all or enhanced the salaries of the staff, particularly of teachers. This grant safeguards in the interests of the teachers and increases with the rise in salaries. The capitation grants are given to educational institutions on the basis of students attendance. it does not meet the increasing expenses of educational institution .

The grants in aid system aims at encouraging improvement as well as expansion of education. the educational institution which are in existence for a period of 3 years or and have record of a good work are eligible for getting these grants. The grants in aid generally contribute to part of the total expenditure for education in general or any specific programme in particular. The remaining part of the expenditure is borne by the institutions.

The grants are distributed to the agencies and individuals through various statutory bodies set up by the government for the purpose of coordinating the programs and maintaining the standard at a particular stage of education. for example the government of India grants for higher education are made available through UGC

- Fee

Fee constitute an important component of private income. These includes all kinds of charges levied on the students for tuition and other services rendered to them. These fee are generally admission, tuition fees, library fees, examination fees, magazine fees, games fees etc. The amount reimbursed by the government towards free ships and other financial concession given to certain category of students are also included under this head fees.

In 1957 after the three universities Calcutta, Bombay and Madras were established, they started collection of fee like for admission, examinations, conferring degrees etc. The educational institutions began to provide some facilities to students by charging fees for library, medical, games and building fees. Thus fee were multiplied in courses of time and fee now have a constituted the second important source of income next to state government grants. Gradually in some educational institutions managements released excessive amount as various fee, which created grievance and complaints among the parents and guardians. Therefore, maximum amount of fees that could be charged in an educational institutions for a particular class and purpose was fixed by the government.

But at present a good number of the private institutions are realizing higher amount from students than prescribed by the government for providing education some fields like engineering, medical, teachers training etc. this is called capitation fee which is against the principles of equitable educational opportunities and as such governments are taking step for banning and controlling the same

- Endowments

Some religious and charitable institutions set aside some portion of their income for educational purposes. Generally a sum of money is maintained intact as the principal, the income of which is used for education. Endowed schools and colleges are supported largely from such income from the endowment. Income from endowments include endowment funds, gifts, donations and other kinds of voluntary contributions from individuals as well as from firms, factories, churches, temples and so on.

- Other sources of income

After independence, receipts from endowments began to be shown separately and the other receipts were called as income from other sources. From the point of view of educational financing these sources have been relatively less. In India the latest trend in educational finance is the increasing dependence on government funds and the reducing importance of all other sources of finance for education. For instance, the contribution from the government funds has shot up. During the same period the share of local bodies funds, fee and endowments with other private sources has decreased

Principles of educational financing

- The following principles are adopted for distinctions of resources between the Centre and state and distribution of resources by the Centre among the states
- The principle of equity

All states and union territories as well as all areas in a particular state, even all educational institutions throughout the country should flourish equally. There should not be any discrimination on the ground of race, religion, location and political affection. That is genuine needs of an educational institutions or a particular sector of education in any part of India should be fulfilled or be considered with full sympathy and equality. The resources available for education should be distributed or allocated to various states or different sectors of education with equity in order to enable the educational system to develop on the whole more or less equally.

- The principle of ability

Allocation or distribution of resources should be done according to the principle of ability, that is the responsibility of financing education should be borne by the central and state in proportion to their ability. The Centre should take the largest burden of the educational finance if it can afford and states might take that more responsibility if they can share more resources.

The principle of ability should be considered for distribution of resources among various sectors of education throughout the country. Poor states deserve more financial assistance than rich state for promotion of education and the centre should give more financial support to the state for all round development of the education in the country.

- Principle of equality

allocation of resources should be done among various states of the country in such a way that all states and all sectors of education should develop equally that is regional or sectoral imbalance should be removed as far as possible by giving matching grants or more financial assistance to the deserving state or particular sector of education e.G. If university education is undeveloped or backward more assistance should be extended to that sector of education.

- The principle of efficiency

educational resources should be distributed among various states and sectors of education according to the principle of efficiency. That is, those states which can utilize the allotted funds more efficiently, should be given more financial assistance. Such efficiency can be determined objectively with measurements like cost benefit analysis or cost benefit ratios.

If the unit cost is found more in comparison to benefit in a particular sector or area, there should be adequate constraint in allocation of resources. If the unit cost is less in comparison to benefit derived by a particular state or in a specific sector, then more resources need to be allocated to that states or sector of education.

- The principle of effectiveness

according to this principle there should be the devaluation of resources to the various states or various sectors of education on the basis of effectiveness or success of educational programs. More resources should be allocated to those states which show or have showed effectiveness are accomplishments in implementing various projects and programs, that is adequate motivation might be taken into account while giving financial assistance to states. Of course, in this context the constraints or handicaps of the states might be considered and attempts need to be made for their removal.

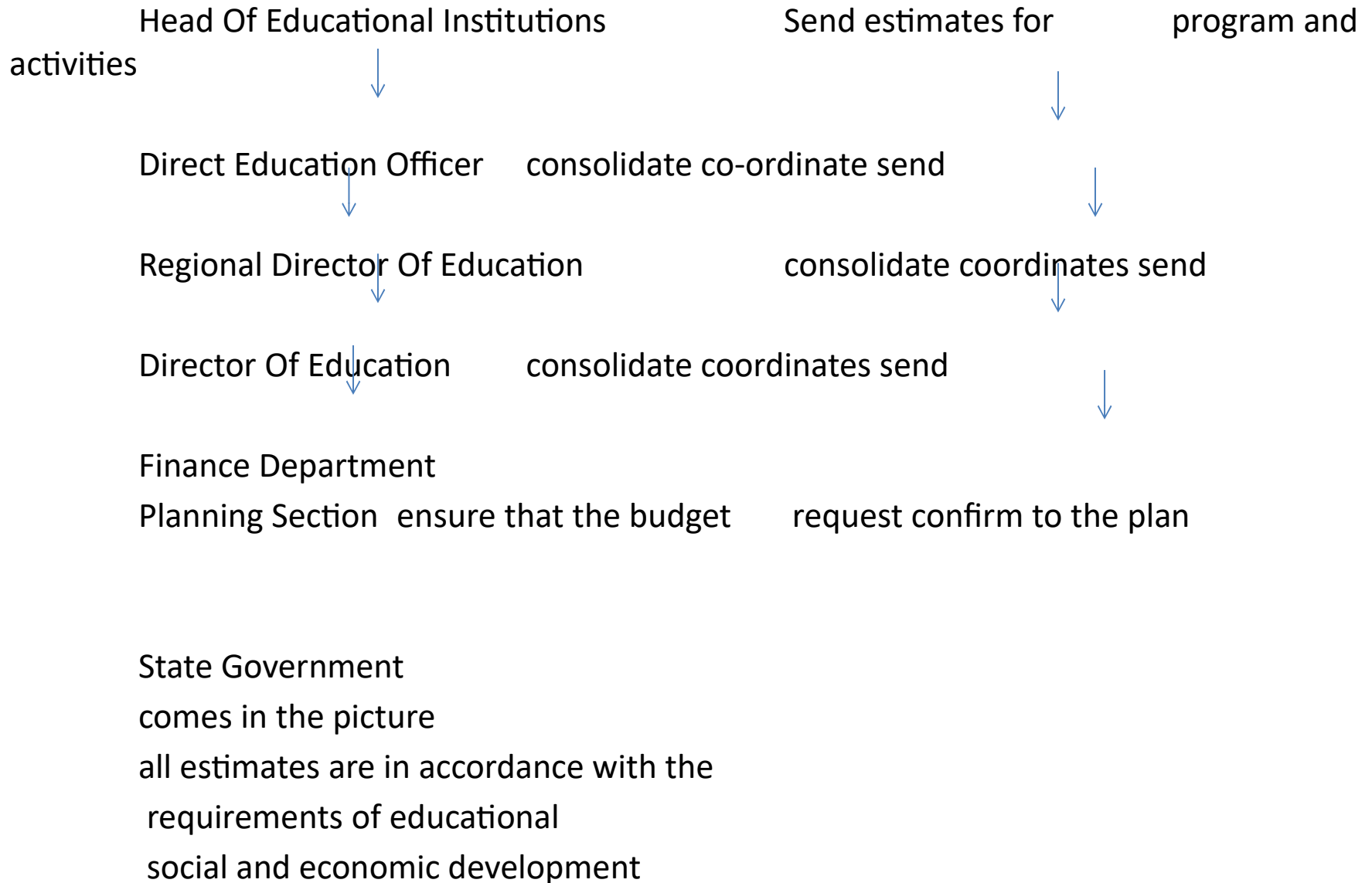
Budget

- Education is mainly carried on with the finance from the government and as such the process of formulation of government budgets and the procedure of for drawing up the budget and authorization of expenditure occupy an important place in the management of educational finance in india.
- The process of preparing budgets is a major administrative task for the head of any educational institution or a district education officer to the department of education either in the state or at the central government. Of course, at each level there are supporting officers concerned with financing and budgeting and in charge of section who are responsible for formulation and coordination of the budgets received from the numerous office subordinate to them.
- The planning finance and education departments are involved in the preparation of the budget for education in different ways. The formulation of the budget necessarily has to be in accordance with the plan which is drawn up for the country as well as for different states of india once in every five years.

- Even since planning for social economic development started in fifties in India, there has been a two fold direction between plan and non plan under which certain items of expenditure are shown as plan expenditure which are mainly development in nature like putting up new school buildings or introducing a new program in university. The non plan expenditure is generally to take into account of expenditure for maintenance of the on-going programs as well as the physical assistance created like the buildings, furniture and equipment.
- One can have the idea that direction between plan and non plan expenditure corresponds to recurring and capital expenditure which however is not entirely true. There can be both recurring and capital expenditure either in the plant side of the budget or on the non plan side of the budget.
- Further in the mechanism of transfer of financial resources from the Centre to the states, the plant side of the expenditure is generally taken care of by planning commission of India which is an executive body and it is done ever year on the basis of Annual plan.

- But the transfer of resources of non plan activities which are of a maintenance nature are taking place through the finance commission of India which has been set up by the Indian constitution and once in every five years the finance commission of India has two recommended transfer of non-plan resources requirements for every state of India for education and other development departments.
- In the recent years the transfer of resources on plan account has been increasing and perhaps the mechanism of transfer envisaged in the constitution of India is increasingly becoming unsuited to the situation where the volume of transactions for the plan of the country are increasing and of course, non plan expenditure is also increasing .
- One of the difficulties that is being experienced is in a regard to the transfer of non plan financial resources for education to the state through the finance commission of India which is not found to be adequate to meet the needs of educational development .
- This is one of the difficulties created by the two fold direction between plan and non plan in the budget of the central and state governments. at the end of a plan period all the plan expenditure in education for a certain five years plan becomes committed in next plan. consequently the non plan expenditure on education has been going up and plan expenditure as a percentage of the total in education is getting reduced.

Process of Budget



Question

- What are the different sources of finance for secondary or higher education. Explain with examples as a headmaster. How will you utilize different types of grant in proper and effective manner?
- Explain the concept of finance management. What are the different sources of finance of educational institution?
- Principles of educational finance
- Principles of finance management