CHAPTER II

PERPECTIVE

2.1. Introduction.

2.1.1. Financial management

About two decades ago the term Financial Management referred to only raising of funds and no significance was attached to financial decision-making and problem-solving. Later the emphasis shifted to wise utilisation of funds. Today the term Financial Management does not simply refer to a passive role of a storekeeper of accounting information and arranging funds. Rather it occupies a key position in top management process and plays a dynamic role in solving complex management problems. The person dealing with Financial Management is responsible for shaping the fortunes of the enterprise and is involved in the most vital decision of allocation of capital. Financial Management process is responsible to ensure that the funds are raised economically and used in the most efficient and effective manner. Management perspective of financial decision has provided the basic conceptual framework for analysis of management process in the organisation.

Financial Management is that managerial activity which is concerned with planning and controlling of the financial resources of the organisation and is considered as vital and integral part of overall management. The Financial Management has to play a major role in planning the organisation’s need for funds; raising the funds and then putting them to effective use.

In business enterprises, the scope of Finance Management covers areas of investment (asset mix) decisions, financing (or capital mix) decisions and dividend or profit allocation decision. The Financial Manager has to help making these decisions in the most rational way. These decisions have to be made in such a way that the funds of the firm are used optimally.

‘Financial decisions are unavoidable and contentious’. Clarity on objectives and goals of investment is critical for making rational decisions.
The underlying philosophy of Financial Management which deals with mobilisation of financial resources and utilising them efficiently, optimally and rationally has universal application. Cutting across nature of organisation, in all organisations, among the most crucial functions are those which relate to finance that decide the efficiency of performance and achievement of goals.

In a nutshell the Financial Management deals with mobilisation and effective utilisation of resources. Conceptually there needs to be a relation between input and output, cost and benefit. All investment decisions need to be directed, after a proper analysis, towards achieving best returns.

In this backdrop, the performance of Chennai Corporation (CC) with particular reference to Financial Management in Primary Education sector is the subject matter of the study.

Financial Resources are scarce and has alternative uses and therefore competing demand for resources is a natural phenomenon. Financial Management process in CC involves raising of funds for promoting primary education and deploying them in an appropriate manner with the objective of achieving best returns. Financial problem has to be approached analytically and rational decision taken. “In this broader view, the central issue of financial Policy is the wise use of funds, and the central processes involved are rational matching of advantages of potential uses against the cost of alternative potential so as to achieve the broad financial goals which an enterprise sets for itself” (Solomon, 1969).

Clarity on objectives and goals of primary education is a prerequisite for better financial management and efficient deployment of resources. Efficient financial management is the key; it complements good planning and helps expeditious and smooth implementation. A vibrant and active organisational structure, a simple but clearly laid out rules and procedure facilitates better financial management practices. Monitoring and review mechanism is a vital link in the hierarchy of financial management practices. A proper feedback on the performance and periodical reporting enable taking corrective action and for directing the resource application for achieving desired results. There is a need to review the planning process.
“Planning is a systematic exercise of determining a future course of action in accordance with identified objectives, needs and priorities within a given time frame”. Planning helps and guides the direction of future actions in order to achieve the desired objectives within the time frame. Resource allocation as determined by rational decision making process on the deserved areas are the benefits accrue out of planning. There is no scope for adhocism and it precludes delay and inconsistency, inefficiency and therefore prevents wastage of resources. Economy, Efficiency and Effectiveness are the three concepts associated with sound financial management practices. Economy implies that the inputs are cost effective and they adhere to certain standards. Efficiency denotes that ratio between input and output and effectiveness is concerned about achievement of desired results. Inputs involving financial implication in promoting primary education include provision of infrastructure like classroom buildings, toilet, water supply, playground, compound wall etc. appointment of teachers, supporting teaching aids, periodic training for enhancing the capacity of teachers/Head teachers, creation of appropriate supervisory mechanism, cost of various incentives like noon meal, text book, uniform, bus pass etc. This list is not exhaustive and many other interventions like community involvement, mutual trust and team spirit among members of school community which involve time and effort but are not quantifiable.

The thrust, quantum and mix of these various inputs are governed by the purpose and goals of education that are accepted.

All children learn to speak their mother tongue fluently well without undergoing formal schooling process and without any one teaching. Children learn on their own and the capacity of children to learn is natural and universal. Every human being has the tendency to learn inherently. The learning process involves effort, and time, which has financial implications. The learning process may either be well organised or poorly managed implying either best use or wasting of financial resources. Amount of investment that is necessary is largely the result of quantum and quality of education needed on the one side and efficient usage of resources required on the other side.
The need for additional resources and efficient use of resources are two variables mutually influencing each other. Allocation of additional resources without efficient usage leads to wastage and results in greater demand for additional resources. Effective and efficient usage of resources will reduce the need and demand for additional resources. Financial Management is a process that governs both the variables, the need for additional resources and using resources wisely.

Optimal utilisation of resources warrants, systematic planning, implementation and careful evaluation of outcomes to determine to what extent the investments have resulted in bonafide improvements. For successful performance and achievement of objectives accountability of functionaries is a critical issue. Especially the management process of planning and implementation necessitate that various functionaries fully assume their responsibility and feel accountable.

Clarity of objectives and goals, indicators to measure output, appropriate organization structure with well laid out systems and procedures are the factors that make the concept of accountability meaningful. The study will explore the presence and functioning of these elements in the Financial Management of primary education in Chennai Corporation.

2.2. Primary Education in India – A Historical Review

2.2.1. Historical Perspective of Primary Education

The Charter Act of 1813 Clause 43 was the first legal provision of British Government in the year 1813 directing the East India company that after meeting all expenses to set apart to use not less than one lakh rupees for “the revival and improvement of literature and the encouragement of learned natives in India and for the introduction and promotion of knowledge of the sciences among the inhabitants of the British territories in India”.

Consequent on this direction East India Company had to evolve its policy of providing education in the country. Between the two views that emerged viz promoting western education through English language as propounded by Lord Macaulay and promotion of Indian education through Sanskrit, Arabic and Persian languages, Lord William Bentinck, then Governor General of India preferred the former view. Lord Macaulay marshalled his arguments vociferously bringing out the
maladies of promoting oriental system of education (Macaulay Minute on education 1935) (H.Sharp (Ed.)).

During March 1835, Lord William Bentinck resolved to accept the recommendation of Lord Macaulay and eventually the aim, content the medium of instruction in India were the result of this historical and momentous resolution. British Government acknowledged promotion of western sciences and arts as its declared objective.

After the Charter of East India Company in 1853, Sir Charles Wood the President of the Board of Control evolved for the first time a comprehensive scheme of Education highlighting the objectives, organization of Education Policy. The scheme contemplated transfer of Government Institutions to management of Local Bodies, Grants-in-aid to them and considered the role of Voluntary Religious Education in Government Institutions, training of teachers, education of women, establishment of Universities and expansion of mass education. The highlight had been that issues like mass education, education of women and training of teachers did find a mention even in those days, as it was a matter of concern for them.

A major shift suggested by Sir Charles Wood was transferring of the management of all Government Institutions to the management of Local Bodies under the control of, and aided by the State.

The Indian Education Commission (1882) headed by Sir William Hunter recommended encouragement to indigenous education, promotion of primary education, women education etc. Among various recommendations, Hunter observed that “it is desirable in the present circumstances of the country to declare the elementary education of the masses, its provision, extension and improvement, to be that part of educational system to which the strenuous effort of the state should now be directed in a still larger measure than here to before”. It is interesting to note that Hunter observed “the female education is still in an extremely backward condition and that it needs to be fostered in every legitimate way - ........ that public funds of all kinds – local, municipal and provincial – should be chargeable in an equitable proportion for the support of Girls schools as well as Boys schools. Another landmark Policy initiative was accepting the role to be played by private enterprise under the general guidance of the Department. The grants-in-aid policy had to be in tune with this private partnership in the promotion of educational system.
It was during Lord Curzon’s time the major initiatives were taken for the improvement of systems of education in India. Lord Curzon organized an educational conference in Simla in 1901 and one of the important resolutions passed in the Conference highlighted the active expansion of primary education as one of the most active duties of the State. When the National Education Movement gained momentum between 1890 and 1905 the urgency of the introduction of the mother tongue as a medium was strongly advocated. Sri Rabindra Nath Tagore around same time pleaded for the acceptance of Bengali as medium of instruction. It was a landmark achievement of Gopalakrihsna Gokale during 1910-1912 to have introduced a Bill for Compulsory Primary Education in the Imperial Legislative Council on March 16, 1911. Even though the bill was defeated, the debate it generated created the awareness and the need for Compulsory Primary Education.

Government of India passed the Resolution on Education Policy on February 21, 1913. Government had also promised the recurring and non-recurring grants to primary education. The National Education Movement gained momentum and emphasised three points: 1. Indian control of education 2. Teaching the love of Motherland and 3. No survival imitation of West. In May 1928 the Simon Commission appointed a sub committee known as Hartog committee which highlighted the waste and ineffectiveness taking place in primary education. It also highlighted despite increase in numbers in primary schools, there is no commensurate increase in literacy. Thus the quality was an issue right from that time. It was Government of India Act 1935 which made the education as a subject to be dealt by State or Province Dr.Zakir Hussain Committee appointed in pursuance to the resolution passed in the conference of National Workers at Varadha under the presidency of Mahatma Gandhi made elaborate recommendation on the various subjects to be taught and the importance the craft education. The report of John Sargent Educational Advisor the Government of India during 1944 reiterated that “a systems of universal, compulsory and free education for all boys and girls between the ages of 6-14 should be introduced as speedily as possible…………”.

Historically primary education has been receiving the attention of the Rulers from 1813 onwards. Whether it received the impetus needed and whether the implementation of the Policy was taken up seriously was a mute question.
Constitution of India, when it was enacted in 1950, mandated through Article 45 making free and compulsory elementary education within a period of 10 years from its commencement. Constitution has since been amended during 2002 making primary education a fundamental right. Acts to implement to this constitutional mandates is yet to be enacted.

A committee went into the relationship between State Government and Local Bodies in the administration of primary education in 1951. It spelt out clearly how it would be advantageous to associate the local bodies with the administration of primary education in some form. The committee also highlighted the need for formation of a school committee by the local body and delegating the task of supervising the school to it. It suggested a mechanism of the supervision of schools for different Local bodies to Village Panchayat to Corporation. It also suggested the ways and means of sanctioning grant by the Union Government and State Government and Local Bodies for administering primary education.

Sixth Education Commission during the year 1964-66 comprehensively reviewed the educational system and offered elaborate recommendations dealing with the objectives of the education basic components of education and many more including a suggestion that allocation of funds to education should rise to 6% in 1985-86 from 2.9% in 1965-66. National Policy on Education 1968 (NPE) was the result of the recommendation of Educational commission. Indian Government elaborately dealt with various issues mentioned in the report of the Commission and stressed that “strenuous efforts should be made for the early fulfillment of the directive principles and article 45 of the constitution seeking into provide free and compulsory education for all children up to the age of 14, NPE 1968 also wanted “suitable programmes to be developed to reduce the prevailing wastage and stagnation in schools and to ensure that every child who is enrolled in school successfully completes the presented course”.

National Policy on Education 1986 is another landmark in reorienting the goals and components of Educational System. Education for All and Equality of education were the basic issues underscored as the essence of Educational policy. It was further resolved that by 1995 all children must be provided free and compulsory education up to 14 years of Age. NPE 1986 was followed up by Programme of Action 1986 which setout strategy for implementation of the national policy.
Revised National Policy on Education 1992 reiterated the commitment given in NPE 1986 by suggesting “New Education Policy will give the highest priority to solving the problem of children dropping out of school and will adopt an array of meticulously formulated strategies based on micro-planning, and applied at the grass root level all over the country, to ensure children’s retention at school … … … It shall be ensured that free and compulsory education of satisfactory quality is provided to all children upto 14 years of age before we enter the twenty first century”.

The report of Prof. Yash Pal committee titled Learning without burden 1993 is a watershed in the history of elementary education as he highlighted the burden of non-comprehension by the children as a core issue ailing the system.

Saikia committee, 1997 made recommendations on making elementary education a Fundamental Right suggesting that no central legislation is necessary and recommended appropriate legislation by the concerned states.

The total additional financial requirements for Universalizing Elementary Education over the next 10 years was estimated to be around Rs.1,37,000 crores by the expert group on Financial Requirements for making Elementary Education a Fundamental Right by the constitutional Amendment Act Elementary Education has become a Fundamental Right and through flagship programme of SSA, Government have planned to make huge investments to provide elementary education to all children in the country.

2.3. History of Chennai

City of Chennai was founded in the year of 1639 during the reign of Charles I of England. A group of small villages of fishermen grew to its present size after the advent of British to our country during 17th century. East India Company acquired a small piece of land from one of the local Chieftains, built a fort and named it after St. George who was England’s patron saint. In honour of the local Nayaks father, Chennappa, this settlement around the Fort, as distinct from the older settlement of Madraspatnam, was called Channapatnam. The place later was called as Madras Pattanam by the English, which became Madras. This was later changed as Chennai in 1997.
2.3.1. Profile of Chennai

The city encounters all the common problems of rapid urbanization. People are engaged in multifarious jobs, industries, business, profession etc. All type of industries small, medium, and industries of various natures viz. manufacturing, service and tertiary exist in the city. Nearly one third of city’s population live in more than 2000 slums. 11.40 lakh people living in 2.61 lakh households out of 15.90 lakh slum people in Chennai are below poverty line and have an income of about Rs.500/- per month.

Spread over 174 square kilometers in area, Chennai city has a population of about 4.2 million people (2001 census). Languages spoken are Tamil, Telugu and Urdu. 80% of them are literates as on 2001 (census). The sex ratio was 951 as against the state average of 986.

Density is an important demographic character, which has a direct and definite bearing on social, cultural, economic and political behaviour of the people living in an area. City has a density of 24231 persons per square km. as against the state average of 480.

2.3.2. Chennai Municipal Corporation

Corporation of Chennai, a 300 year old institution, established during 1688 is one of the oldest municipal institutions in the country. Geographically its 155 wards are grouped into 10 zones for administrative convenience. The corporation has 155 councilors representing 155 wards who constitute the council presided over by the Mayor. All policy making powers and approval of budget vest with the council. Six statutory standing committees of councilors assist the council in discharging its supervisory function. Standing Committee on education is one among them which has an overall supervisory role of over seeing the working and implementation of various schemes and programmes of education.

Commissioner is the chief executive assisted by a Deputy Commissioner Education, 5 Assistant Education Officers and 10 Supervisors in implementing the schemes relating to Education department.
2.3.3 Primary Education in Chennai Corporation

Within Chennai Corporation limits there are 321 Primary schools, 202 Upper Primary Schools, **123 High schools and 353 Higher Secondary Schools** managed by various agencies like Chennai Corporation, Private aided, private unaided and by State government etc.

Corporation of Chennai managed 329 Primary and Upper Primary Schools during the year 1995-96 which mainly serve the economically disadvantaged children in the city.

The Deputy Commissioner of Education administers the education subject in City Corporation. She is assisted by an Education Officer, mostly deputed by government in the cadre of a Chief Educational Officer. Three Assistant Educational Officers and one Supervisor for every geographical zone is the managerial hierarchy. The supervisors of zones have the responsibility of overseeing the performance of primary and upper primary corporation schools.

Supervision is an important component in improving the performance of schools. Besides number of schools, their geographical spread, easy access and transport facilities influence the capacity and efficiency of managerial systems. In an urban setting like Chennai, all the three elements are most favourable to managerial cadre.

The decennial growth rate of population was 9.76 as against the State figure of 11.8. Decline in birth rate witnessed after 1980 has a bearing on school age population. A substantial reduction in school age children and low birth rate reduced the pressure on the demand side.

The gross enrollment rate of children in schools was approaching 100 in the beginning of the decade implying that all school age children excepting a small percentage are in schools. With nearly 321 primary schools including unaided private primary schools in corporation area access is not a problem in city. There are 298 primary schools in corporation area other than private unaided schools. The school age population of 6 to 10 during 2005-06 was 3,67,412 and the gross enrollment rate for the year was more than 100.
Table 17
Gross Enrollment Ratio

<table>
<thead>
<tr>
<th>Year</th>
<th>2002-03</th>
<th>2003-04</th>
<th>2004-05</th>
<th>2005-06</th>
</tr>
</thead>
<tbody>
<tr>
<td>GER</td>
<td>95</td>
<td>102</td>
<td>102</td>
<td></td>
</tr>
</tbody>
</table>

Source: Chennai corporation

The dropout rate, which was 31% during 2002-2003, was 21% during 2003-2004 and finally it was 8.86% in 2005-2006. It is seen that neither enrollment nor dropout is an issue in Chennai district. Whereas achievement test results which is an indicator of quality leaves lot more to be desired. The achievement test conducted during April 2006 indicated that 50.17% children in language, 35.69% in English and 26.22% in Mathematics have secured pass percentage. It is evident that inspite of best efforts the quality of education does not present a desirable picture.

The quality of primary education in Chennai city is not different from that of the rural areas of Tamilnadu as the achievement level indicates the same percentage.

Table 18
Pupil teacher ratio 1995 to 2008

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Year</th>
<th>Age Group of 6-14</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Students</td>
</tr>
<tr>
<td>01</td>
<td>1995-1996</td>
<td>85072</td>
</tr>
<tr>
<td>02</td>
<td>1996-1997</td>
<td>86853</td>
</tr>
<tr>
<td>03</td>
<td>1997-1998</td>
<td>85890</td>
</tr>
<tr>
<td>04</td>
<td>1998-1999</td>
<td>87188</td>
</tr>
<tr>
<td>05</td>
<td>1999-2000</td>
<td>88814</td>
</tr>
<tr>
<td>06</td>
<td>2000-2001</td>
<td>91561</td>
</tr>
<tr>
<td>07</td>
<td>2001-2002</td>
<td>94766</td>
</tr>
<tr>
<td>08</td>
<td>2002-2003</td>
<td>91907</td>
</tr>
<tr>
<td>09</td>
<td>2003-2004</td>
<td>90446</td>
</tr>
<tr>
<td>10</td>
<td>2004-2005</td>
<td>85259</td>
</tr>
<tr>
<td>11</td>
<td>2005-2006</td>
<td>83561</td>
</tr>
<tr>
<td>12</td>
<td>2006-2007</td>
<td>71937</td>
</tr>
<tr>
<td>13</td>
<td>2007-2008</td>
<td>66970</td>
</tr>
</tbody>
</table>

Source: Chennai corporation
Number of children in corporation elementary schools varied from 85072 to 94766 between 1995-96 and 2001-02. Subsequently it dropped to a level of 85259. Teacher Pupil ratio has been favourable from 1995-96 onwards, mostly it was 1: 30 and it gradually deteriorated to 1:38.

**Table 19**

Primary and Middle Schools in Chennai Corporation

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Year</th>
<th>Primary Number</th>
<th>Middle Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>01</td>
<td>1995-1996</td>
<td>185</td>
<td>144</td>
</tr>
<tr>
<td>02</td>
<td>1996-1997</td>
<td>163</td>
<td>134</td>
</tr>
<tr>
<td>03</td>
<td>1997-1998</td>
<td>158</td>
<td>131</td>
</tr>
<tr>
<td>04</td>
<td>1998-1999</td>
<td>156</td>
<td>132</td>
</tr>
<tr>
<td>05</td>
<td>1999-2000</td>
<td>152</td>
<td>120</td>
</tr>
<tr>
<td>06</td>
<td>2000-2001</td>
<td>170</td>
<td>117</td>
</tr>
<tr>
<td>07</td>
<td>2001-2002</td>
<td>163</td>
<td>119</td>
</tr>
<tr>
<td>08</td>
<td>2002-2003</td>
<td>149</td>
<td>121</td>
</tr>
<tr>
<td>09</td>
<td>2003-2004</td>
<td>159</td>
<td>122</td>
</tr>
<tr>
<td>10</td>
<td>2004-2005</td>
<td>149</td>
<td>115</td>
</tr>
<tr>
<td>11</td>
<td>2005-2006</td>
<td>138</td>
<td>113</td>
</tr>
<tr>
<td>12</td>
<td>2006-2007</td>
<td>141</td>
<td>111</td>
</tr>
<tr>
<td>13</td>
<td>2007-2008</td>
<td>138</td>
<td>109</td>
</tr>
</tbody>
</table>

Source: Chennai corporation

The number of Primary schools has been coming down gradually and came down to 138 in 2005-06 from 185 in 1995-96. The reduction in number may be due to reduction in number of children enrolled in corporation schools. It may either be due to reduction in school age population consequent in reduced birth rate and partly due to exodus to private nursery schools/convents or combination of both.

2.4. **Financial Management – A Conceptual Framework**

2.4.1 Financial Management Function

Financial Management function for primary education becomes one of the job responsibilities for the Commissioner of Corporation being the Chief Executive. He functions under the overall supervision of the council. Satisfactory discharge of Financial Management function is a collective as well as individual responsibility of both political and administrative executives. Raising of funds, its deployment,
systematic planning, implementation, evaluation, achievement of objectives are various elements of financial function. Performance of the organisation in delivering education service largely depends upon efficient discharge of this responsibility. With regard to accountability, every functionary in the hierarchy at various levels and every subunits in the system, right from top position both political and administrative upto the smallest level to that of school are responsible consistent with the role assigned to them.

Objectives of Primary Education have already been dealt with in the chapter dealing with Primary Education in the State. Within Corporation limits, Corporation is vested with the responsibility of providing primary education and to do all that is necessary for ensuring the fulfillment of the objectives. Corporation of Chennai discharges this responsibility by formulating and maintaining a school system with various components like establishment and running of schools, variety of schemes to attract and retain children in school etc. The main component of Financial Management function is raising resources for maintaining the Education System and to ensure its best performance by the optimal usage of resources deployed.

2.4.2. Source of Revenue

Bulk of the revenue for Elementary Education fund is sourced from Elementary Education Tax levied under section 34 of the Tamil Nadu Elementary Education Act 1920. Education tax is an annual tax, payable half yearly along with property tax. Education tax is collected along with property tax in one lump sum and 23% of property tax collected being the share of Education tax is credited to the Education Fund. Service charges and fines collected from students and others if any, revenue grant and contribution from government and miscellaneous charges comprising rents, rates etc are other sources of income for the fund.

2.4.3. Financing Procedure

The top brass of Educational bureaucracy and Political executives vested with power of allocation of resources have direct responsibility for achievement of results and for optimum utilizations of resources. Annually, in a routine exercise subordinate bureaucracy suggests the areas of intervention for the next year in the month of October/November. These consolidated reports are discussed in the standing committees of Education and Taxation and Finance in the month of January and approval of the council is obtained in February as a budget proposal for the next
financial year. The approved budget proposals are implemented during the next financial year.

Certain investments like teachers salaries, cost of incentives like expenditure on noon-meal, uniform etc. are tied up funds directly disbursed to the beneficiaries. The salary component for the teacher is received directly from Government and Corporation management has no role, whereas the deployment of teacher is purely a matter within the domain of Corporation Management. Elementary Education Fund is completely at the disposal of Corporation Management and the authorities can use their discretion and expend it in the manner of their choice.

An insight into processes and mechanism of decision making in corporation of Chennai is necessary before attempting to analyse its appropriateness and usefulness with regard to efficient deployment of resources. Similarly, knowledge on the system of obtaining feedbacks, reviews and to what extent these information directs future course of action is also essential.