Chapter VIII

Budgetary Allotment
and
Grants-in-Aid Procedure
BUDGETARY ALLOTMENT AND GRANTS-IN-AID PROCEDURE

The Process of Budgetary Allotment of Funds

Allotment of budgetary funds for higher education is unfortunately not based on any objective criteria. The format of the budget and the procedure itself is in accordance with the administrative conveniences of the government rather than a manifestation of some basic economic principles. Before resources are made available it has to be decided on whether to consider education as consumption or investment. If it is regarded as investment the focus turns towards returns to education vis-à-vis physical investment. Returns to education involve a lot of spillover effect which is difficult to identify leave alone be quantified. Compelled with this is the long gestation period of education. These may result in a tendency to under-invest. Further, if containing inflationary pressure is an important consideration, there will be a temptation to give preference to quick maturing schemes, which give concrete results. However, if the long-term benefits of education covering successive generations are kept in mind more resources will be made available for education.

Budgetary Allotment for Education

The State budget for education is prepared by the Department of Education of the Government of Uttar Pradesh. It receives budget estimates for different levels of education from their respective administrative heads, which, after necessary adjustments are forwarded to the Department of Finance for incorporating in the general budget of the State government. The budget estimates are prepared in the following three parts:

(a) The standing charges which are of a permanent nature, e.g., salaries of permanent establishment and ordinary contingency expenditure.
(b) Charges which are fluctuating from year to year but are not new objects of expenditure.
(c) New items of expenditure.

Of these the first two items are shown together in the item-wise estimates of expenditure while new items of expenditure are shown separately. The breakup of the expenditure into plan and non-plan categories is in accordance with the by now standard practice of transferring to the non-plan side of plan expenditure over the course of a five year plan. With the progress of planning, the amount of non-plan expenditure would swell continuously and carrying as it does the property of committed expenditure becomes less and less amenable to curtailment. As of now, a little over 94 percent of the expenditure on education is classed as non-plan.

Budget Preparation for Higher Education

Provision for financing of higher education is made in the budget. The State universities are autonomous bodies set up under the State Legislative Act. They are governed by the Uttar Pradesh Universities Act, 1973 (as amended from time to time). Provisions are made in the Act for financing of both their capital and recurrent costs from Government funds. They also have the power to raise other funds by way of fees, donations and endowments, raise loans and receive grants, etc. The main responsibility of financing lies with Government. Capital requirements are covered from the development funds in the form of subventions. Contribution to recurrent costs are met from annual grant which takes care of expenditure not covered by university, normal revenues or by other sources (subventions and grants are paid in advance in the form of account payments). Budgets of universities are prepared by their Finance Officer and form the basis for allotment of funds by the Government.

Regarding degree colleges and other institutions of higher learning under State control, budget estimates are prepared by them according to certain laid
down conditions and passed onto the State's Education Department. There is no theoretical criterion, which forms the basis of higher education finance, the overall policy being laid down by the UGC. The State government's Education Department enjoys very little discretionary powers with respect to allotting funds for higher education.

The normal recurring and non-recurring expenditure of the university is met out of grants from the State government. For financing development schemes such as introducing a new subject or course of study, creation of new teaching posts and undertaking research projects, for the duration of the Plan the UGC shares the responsibility of financing these development programmes with the State government and the university. After the expiry of the Plan period such expenditure becomes the committed expenditure under the budget and the full responsibility of the State government. Grants from Central government to universities are also provided for scholarships and for activities ancillary to education like National Service Scheme (N.S.S.), etc. The budget also provides for grants to private degree colleges to cover their recurring expenditures while building grants are provided by the UGC. To check misuse of resources, non-government degree colleges are required to maintain proper accounts and vouchers of utilization of funds received by them from government under different heads.

Several recommendations requiring the State government to observe scientific principles of resource allocation to education, keeping in mind economic needs, have been turned down. Opening of new schools, colleges and even universities or upgrading them is often based on political considerations. In this set up switching over to a better system seems to be a remote possibility.

Higher education in Uttar Pradesh is largely dependent on government grants. Of the two types of universities, viz., Central and State, the financing of the latter is largely the responsibility of the State government. Similarly, of the two types of degree colleges, viz., government and private aided, the burden of
financing the former falls directly on State government and of the latter almost entirely on the State budget. Financing of universities and colleges in Uttar Pradesh is managed through grants-in-aid from the State government to educational institutions. Institutions of higher education in Uttar Pradesh also receive grant from the University Grants Commission, New Delhi, but its share is relatively marginal in its total financing.

Deficit and Block Grants

The grants-in-aid are final payments in the nature of donations or subscriptions made by Central or State governments and other authorised funding agencies to an organization to run their activities. Grants-in-aid play a predominant role in the management of University finances. The grants to University institutions are governed by either of the systems, namely (1) deficit grants and (2) block grants. Block grants may be statutory, adhoc or based on past expenditure with or without allowance for normal increase. Under the system of deficit grants, maintenance grant is worked out on the basis of estimated approved expenditure, subject to adjustment in subsequent years, on the basis of actual income and actual expenditure. The block grant is based on criteria for fixation and frequency of its revision. This is comparatively more flexible and is therefore more preferable to deficit grants.

In a study undertaken by MM Sharma (1992) on Financial Management of Universities in India, the following points regarding grants have emerged:

(1) Not only is the grant to universities inadequate, the periodicity and the release of grants were also far from satisfactory.

(2) All the sampled Central Universities favoured block grants and specific grants to the university. None were in favour of matching grants. While 69% of State general universities were in favour of block grants, some also favoured specific, matching and deficit grants.
Regarding adequacy of grants, 50% of Central universities felt that the block/maintenance grant was adequate while only 6% of the State general universities felt so.

As to whether grants should be lapsable or non-lapsable, all the Central Universities and 81% of State general universities were in favour of non-lapsable grants. The Central universities were of the view that revenue grants should be lapsable with the close of the financial year and capital grants should be non-lapsable. However, only 31% of the State general universities felt that the revenue grant should be lapsable while 63% felt that capital grants should be non-lapsable.

50% of the Central Universities and 69% of State general universities were of the view that the system of release of grants was defective. The last installment of grant is released to most of the University institutions at the fag end of the financial year and cannot be utilized properly.

The problem of inadequacy and untimely release of grant was overcome by the State general universities as follows:

(a) 44% of the Universities resorted to borrowing from nationalised banks.
(b) 75% of the Universities deferred or postponed contingent and other payments.
(c) 19% of the Universities delayed payment of salary of staff.
(d) 6% of the Universities had to resort to mortgaging property of University institutions.

Educational grants to institutions of higher education in countries like U.K. are based on certain objective criteria and that is the reason that grants are more rationally allocated in those countries. In Uttar Pradesh on the other hand,

---

though the Government tried to base the disbursement of grants on some criteria, those could never be used in a transparent manner. Actual disbursement of grants has always been subject to manipulation. For example, enrolment of students, which is a condition for allocation of grants, and deciding its level, often remained on paper. Sometimes actual enrolment much exceeded the rational requirements and sometimes it fell much short of the minimum recommended strength. Grants-in-aid rules vary from one university to another. The Uttar Pradesh Government has stipulated the condition that the grant is to be spent only on items approved by the government. Its utilization, even temporarily, on items not approved by the government is not permitted.

There are inter-State disparities in the system of grants-in-aid to higher education. The system tends to favour certain institutions that are capable of adhering to the required norms and procedures, while it is detrimental to others. However there is no under-pinning of any basic principle among all the States. This is the reason that higher education financing in India is subject to political pulls and pressures than to any specific economic criteria.

Emergence of Educational Grants-in-aid

The genesis of the system of grants to educational institutions can be traced back to Wood's Despatch of 1854, which outlined Government of India's policy relating to financing of education. The two main objectives of the colonial government in this regard were:

(a) Gradual withdrawal of the Government from the educational field and

(b) Encouragement of private enterprise through a system of grants-in-aid.

However, the first ever grant-in-aid to the universities was sanctioned much later. In 1905 the Government sanctioned Rs. 25 lakhs for universities and colleges, to be given at the rate of Rs. 5 lakhs per year. By 1918-1919, the quantum of grants was raised to Rs. 43 lakhs. Subsequently upward revisions took
Throughout the colonial rule by the British in India, the Government provided financial subsidies to the institutions of higher education without any direct involvement in their establishment. With the coming to power of a national Government after Independence, a direct and constructive role came to be played by the Government in all fields of activity including higher education. Education was conceived as an important input in the process of development. The existing policies and procedures of grants-in-aid to institutions of higher education were modified. The Government, Central and State, have emerged as the main source of financing of educational programmes in general and higher education in particular.

The discussion on grants is dealt with in three sections. The first section deals with Central Government grants to universities and colleges. Development grants to State Universities, primarily in the form of matching grants is discussed separately. The second section discusses State government grants to different institutions of higher education, namely colleges of general education, colleges of technical education, and State Universities. The third section gives a critical evaluation of the system of grants.

A. CENTRAL GOVERNMENT GRANTS

Though the bulk of resources for higher education are provided by the State governments, the contribution made by Central Government is also quite significant. The Central Government works through various ministries and departments, for example the Ministry of Health and Family Welfare, the Ministry of Agriculture etc. The Ministry of Health and Family Welfare, the Ministry of Agriculture etc. The Ministry of Human Resource Development (HRD) is, however, responsible for the maintenance and development of the largest number of institutions of higher education and research which it finances.

---

through organisations set up by it, like the University Grants Commission, the Indian Council of Social Science Research (ICSSR), the All India Council for Technical Education (AICTE) etc. The University Grants Commission is by far the largest body created by the Central Government that has the responsibility of co-ordination and determination of standards of higher education. The University Grants Commission drew up a Policy Frame in 1978, for development of higher education in the next ten to fifteen years. The salient features of the policy frame are:

(a) Linking admissions to higher education to talent and aptitude, adopting policies of selective admissions.

(b) Vocationalisation at secondary stage to reduce pressure on the University system, delinking most of the jobs from degrees.

(c) Making undergraduate courses more relevant and significant.

(d) Ensuring that University departments satisfy the norms as viable units of teaching and research.

So far as implementation of the policy frame is concerned, their operation rests with the State governments, universities, colleges, etc. The University Grants Commission can only provide guidance and assistance.

A review committee set up by the University Grants Commission in 1981 has noted that the recommendations of the University Grants Commission have not been implemented in spite of financial assistance in the form of grants to colleges and universities being under its control. The policy of selective admissions, linking admissions to talent and aptitude have not been given much thought by State governments and institutions of higher education. There has also been an increase in the number of colleges "at an alarming pace and good proportion of them (colleges) are not assured of adequate financial support."\(^3\) Nor

---

\(^3\) Review Committee on University Grants Commission Programmes, University Grants Commission, p.45, 1981.
have relevant courses been introduced or syllabi revised except in the case of some institutions of higher education.

Patterns of Assistance

The pattern of financial assistance provided by the University Grants Commission to different educational institutions is discussed below:

Universities: The UGC gives assistance to universities for the development of under-graduate and post-graduate departments. It gives 100% assistance for additional staff, equipment, books and journals and faculty improvement programmes. For buildings, health centres, university press, etc., the UGC shares 50% of expenditure, for women's hostels 75% of expenditure is borne by the UGC. In the case of Central universities, financial assistance provided by the UGC is to the tune of 90% and above of their requirements.

Colleges: The University Grants Commission provides financial assistance to degree and post-graduate colleges for their development whose pattern is discussed below:

a) Colleges that have at least 150 students in degree classes and above and have 5 permanent teachers excluding the principal and physical training instructor are eligible for financial assistance on 100% basis for (i) faculty improvement (ii) books and journals and (iii) equipment.

b) For development of under graduate education in colleges which have at least 300 students and above in degree classes financial assistance is given. There must be at least 4 departments with a minimum of two teachers in each of the departments and at least 10 permanent teachers excluding the principal and physical training instructor. The limit of assistance varies from Rs.4 lakhs for a college with student enrolment between 300 to 600 to Rs.7.5 lakhs for a college with enrolment in degree classes exceeding 2000. The enrolment criteria is relaxed for women's colleges and colleges catering to needs of scheduled castes/tribes.
c) For development of post-graduate education in colleges the Commission provides Rs. 1.5 lakhs for humanities and social science departments and 2 lakhs for departments in physical and life sciences.

d) The Commission provides financial assistance to universities for faculty improvement programmes to enable teachers to avail of travel grants, national lectures, visiting professorships and fellowships, so that they can exchange ideas with experts in their field and keep abreast of modern developments in their field of study. Scholarships and fellowships are also awarded by the University Grants Commission to bright students for independent research work.4

Matching Grants

The University Grants Commission provides development grants to universities and colleges for which a matching grant needs to be provided by either the State governments or the management of the institutions concerned. The compulsion of providing a matching grant is responsible for lower utilization of these grants. Quite often State governments and the management of the institutions concerned have either been unwilling or unable to make available matching provisions. Hence their lower utilization. The University Grants Commission Review Committee (1981) has also commented on this fact. In his study on higher education mentioned earlier, (1988) J.L. Azad highlights the following points regarding matching grants.

(i) In order to fulfill their obligations under matching grants the State governments were many a time required to change their programmes and schemes of financing institutions thus distorting their priorities.

(ii) It was difficult for the economically weaker States and institutions to provide matching funds. They failed to avail of the benefits provided under the scheme.

(iii) It required the State government and institutions to take over the full responsibility of the scheme after the expiry of the stipulated period of University Grants Commission assistance, which they were either unwilling or unable to do.

(iv) Some State governments complained that at the time of initiating new schemes of assistance the University Grants Commission did not consult them. They were therefore not able to provide matching assistance for such schemes. To make the schemes of matching contribution from State governments effective, proposals could be submitted to the concerned Governments, so that its administrative and financial implications could be fully examined, and the visiting committees apprised of the extent to which the State governments would be willing to share the financial burden.

(v) Introducing fewer schemes with 100% assistance from the University Grants Commission, it is felt, would be of greater value than a large number of schemes with matching assistance. The University Grants Commission should also offer maintenance grants for continuance of the schemes in the case of the economically weaker States and institutions. In other cases also, absence of maintenance grants renders unfit equipment purchased earlier, even during its useful life.

Commenting on the system of grants with respect to Central universities, the Punnayya Committee has observed "There is a need for the UGC and the universities to develop openness in respect of development grants both in regard to their operations and funding."

---

It is felt that an integrated view of the Plan and non-Plan requirements of universities and colleges should be taken to be able to effectively tackle their financial problems. Under the present system only Plan expenditure is subjected to critical scrutiny while the entire expenditures should be thoroughly reviewed to study the problem of financing in its proper perspective, and find suitable remedies to tackle the same. Other central organisations like the Indian Council of Social Science Research (ICSSR) Indian Council of Historical Research (ICHR), etc., also provide financial assistance for research in their respective areas through project grants, fellowships, publication grant, etc. The main beneficiaries are the universities while colleges very often are not even aware of schemes of assistance provided by these organisations. Greater publicity should be given to such schemes so that colleges can also avail of the benefits provided by these organisations.

B. STATE GOVERNMENT GRANTS

The bulk of financial resources for the maintenance and development of institutions of higher education are provided by the State governments in spite of the fact that the item of education is on the Concurrent List of the Indian Constitution. To be eligible for State assistance, colleges have to meet certain conditions imposed by the State governments. These are given below:

(a) Administrative: To check unplanned growth of colleges, some State governments (e.g., Gujarat, Haryana) have framed regulations for opening of colleges. Permission has to be obtained from the competent authority for opening a college duly registered.

(b) Managing Body: All States insist on regularly constituted managing committees.

(c) Participation in political activities: Most states prohibit teachers and students to take active part in politics.
(d) Religious Neutrality: Colleges are required to strictly adhere to religious neutrality.

(e) Financial: To be able to become eligible for full assistance, colleges in a number of states have to undergo a period of probation which may extend to as long as 9 years. The colleges are also required to create a reserve fund.

(f) Fees: The States generally insist on government approval regarding the rate of fee. In some states higher than the approved fee can be charged, but the extra amount has to be utilized for development.

(g) Academic: The State government generally lays down the qualifications and general conditions of service including the age of retirement.

(h) Enrolment: Most State governments have fixed minimum and maximum enrolment for different types of colleges.

Patterns and Procedures

State government grants to universities and colleges can be broadly classified as

(a) Maintenance grants
(b) Development grant
(c) Non-recurring grants for buildings, equipment, etc.

Maintenance grants are given for routine day to day functioning of the institutions. Development grants are given on a matching basis to enable the institutions to avail of various development schemes offered by federal agencies like the University Grants Commission, ICAR, etc. For various development projects in universities and colleges, part of the financial assistance is provided by Central government agencies and a matching contribution from the State government/institution concerned is needed for implementation of the project/scheme. Non-recurring lump sum grants are given for buildings,
equipment, etc. In the following section, grants to colleges and universities are dealt with separately.

I. Grants to Colleges of General Education

There are considerable variations in the grants provided by different states. Following are broad features of different types of grants to colleges of general education.

> Maintenance Grants: The practice followed by different states with respect to maintenance grants are given below:

(a) Maintenance grants vary from less than 50% of the net deficit in West Bengal to 100% of the net deficit in Andhra Pradesh, Assam, Jammu and Kashmir, M.P. and West Bengal (for government sponsored colleges only).

(b) In Tamil Nadu, Tripura, Punjab and Rajasthan grants vary between 70% to 95% of approved expenditure.

(c) Orissa Government's grants to colleges increase from 33% after 5 years to 100% after 9 years of the colleges being brought on the list of government assisted institutions.

(d) Seven states-Andhra, Gujarat, Karnataka, Kerala, Maharashtra, Orrissa and Uttar Pradesh have introduced the system of paying salaries direct to the teachers. The practices, however, vary from state to state.

(e) In Rajasthan, private colleges have been classified into four categories-A, B, C and D which are given grants-in-aid of 80, 70, 60 and 50% respectively, of previous year's expenditure, plus likely increments to staff. There is a special category of colleges which are given 90% of the deficit as grant.

(f) Gujarat has introduced a system of pay packet grant besides development grant for schemes sponsored by University Grants Commission. Of special mention is "performance grant" introduced by the State government. On the basis of a comprehensive assessment of progress in academic field as well as extra-curricular activities, evaluated by a special board, the first three colleges
are entitled to performance grant of Rs. 1,00,000, 75,000 and 50,000. Special
grants for encouraging scheduled castes and tribes are also given. All grants
are subject to student enrolments as specified by the Government.

➤ Building Grants: Generally 50% of the expenditure on buildings is met by the
State governments. A financial limit for building grant has been laid down by
the government. For example, both Andhra Pradesh and Tamil Nadu have
fixed a limit at Rs. 75,000 for first grade colleges and Rs. 50,000 for second
grade colleges. Tripura has fixed the limit at Rs. 2 lakhs. In some states there
is no provision of grants for building and equipment. These are Assam, Bihar,
Haryana, Himachal Pradesh, Kerala, Karnataka, Nagaland and Uttar Pradesh.

II. Grants to Colleges of Technical Education

➤ Maintenance Grants: The assistance provided by most State governments
varies from 75% to 100% of the approved expenditure. Andhra Pradesh gives
65% of approved expenditure for boys' Polytechnics. Kerala and Uttar
Pradesh have introduced a system of direct payment to teachers.

➤ Building and equipment: Grants vary, from less than 50% as in Andhra and
Haryana to more than 50% as in Karnataka and Tamil Nadu. Some states have
placed maximum limits, e.g., Karnataka gives Rs. 50,000 for Engineering
colleges and Rs. 20,000 for Polytechnics. Uttar Pradesh gives assistance for
contingent expenditure at the rate of Rs. 165 per student.

III. Grants to Universities

The State governments provide grants to State universities, which can be
categorised into:

- Statutory grants like foundation fund, endowment fund etc.
- Maintenance grants or block grants, given on an annual basis for
  routine expenditures
• Development grants including those given as matching contribution for University Grants Commission schemes.

➤ **Statutory Grants:** These grants vary from state to state. They were as low as Rs. 2 lakhs each in the case of Berhampur and Sambalpur Universities in Orissa while in the case of Pantnagar Agriculture University in Uttar Pradesh grants were Rs. 226 lakhs. Only in the case of 3 other universities, namely, Meerut (in U.P.), Punjab and Kerala Agricultural, statutory/foundation grant exceeded Rs. 50 lakhs.

➤ **Maintenance Grants:** These grants are determined by the State governments for a specified period of 3 or 5 years and are given on an annual basis. The grants are subject to increase on account of raising costs and are determined on the basis of:

   (a) The net deficit of the university on approved expenditure for the previous year plus an increase on account of rising costs, and
   (b) The budgetary constraints of the respective State governments.

➤ **Development Grants:** Development grants are given by the State governments to universities as matching contribution for schemes sponsored by the UGC or from the Ministry of Health in respect of departments of medicine, or the Indian Council of Agricultural Research in the case of department of agriculture. The State governments also give development grants for schemes sponsored by them.

**Block and Earmarked Grants**

Block grants are generally for maintenance of the institutions while earmarked grants are for specific purposes. Block grants are generally fixed and are determined on the basis of the difference between estimated income and estimated expenditure. The problems with block grants are:

(i) The estimate of expected income may not be correct and is especially a problem when actual income falls short of this.
(ii) Similarly actual expenditure may be in excess of estimated expenditure on account of cost escalation, etc.

(iii) Frequent increase in allowances to staff may upset calculations of block grants.

The earmarked grants are fixed on the basis of specific requirements of the institution concerned. These grants cannot be diverted to any other use and are given for a specific purpose and have to be spent accordingly. They are not subjected to the whims and wishes of University officials. In both the above systems there are merits. The block grants give freedom to the institutions to rearrange priorities without waiting for permission from outside thus avoiding unwanted delays. Earmarked grants on the other hand, though rigid, ensure implementation of the project for which they have been sanctioned. A judicious combination of both block and earmarked grants would be in the best interest of the institutions of higher education.

C. CRITICAL REVIEW OF GRANTS-IN-AID

Government grants play a crucial role in the development of higher education. With the passage of time universities and colleges have come to depend heavily on government assistance. Though the genesis of grants can be traced back to colonial times, the emergence of India as a free and sovereign State has ushered in a new era of hope and aspirations for the people of India. Education has been viewed as an important input in the process of development. This is reflected in the government's policy towards financial assistance to education in general and higher education in particular. The principles and policies governing grants-in-aid to higher education have duly been modified. To be an effective instrument of integrated development of university institutions, certain basic principles need to be satisfied. These are discussed below:
Equity

The principle of equity implies that the system of grants-in-aid should not be discriminatory. It should be applicable to all types of institutions. However, it has been observed that the system of grants-in-aid as it is practiced by states, is somewhat inequitable. The result has been that even in smaller states glaring inter-university inequalities in financial situation exist. It has also been observed that in giving grants, both State and Central governments give preference to universities and professional colleges as against colleges of general education. Besides discrimination, wide variations exist in the practices followed by different states. Grants vary from meeting one-third of approved expenditure of collegiate institutions in some states to 100% of the deficit expenditure in other states. In still other states the system of salary grants has been introduced. There are also variations in the interpretation of approved expenditure by State governments. Essential items like telephone charges, repairs of buildings, etc., are not eligible for assistance, as some states do not include these in their "approved" items of expenditure.

Specificity

The system of grants as practiced by State governments lacks specificity on account of the following factors:

a) Many State governments like Bihar, Haryana, Himachal Pradesh, Nagaland and Punjab have not laid down any specific proportion of expenditure to be paid as State grants, which are determined by the bureaucracy.

b) The terms 'approved' income and expenditure are not clearly defined. The quantum of assistance is determined on adhoc basis.

c) Even when grants-in-aid are clearly specified, the actual assistance available to institutions of higher education is subject to availability of funds rather than the needs of the institutions concerned.
d) For many schemes of assistance is provided by the government. However, imposition of ceiling limit, for example, Rs. 75,000 for first grade colleges in Andhra Pradesh gives an incorrect impression of the extent of assistance provided.

e) There is lack of co-ordination between different grant giving bodies, which work in isolation without consulting each other. This also results in overlapping of schemes. Sometimes it is difficult for State governments to make adjustments to accommodate new schemes announced by UGC without consulting them. Lack of demarcation of financial responsibility between Central and State governments exists in spite of there being constitutional provision for the same. Programmes of a local character should be financed by the State governments while those having inter-state or inter-university implications like improvement of standards of higher education, creation of research facilities requiring heavy expenditure on sophisticated equipment etc. should be the responsibility of the Central government.

(iv) Adequacy

As has been mentioned earlier there is inequality in the distribution of grants. While the Central Universities get assistance to the extent of 90% and above of their financial requirements from the University Grants Commission, most of the State universities are facing grave financial crisis. University Grants Commission assistance varies for different schemes of development. For many schemes State universities are not able to procure 50% of matching grants and are not able to avail of many University Grants Commission schemes. So far as colleges are concerned, professional and science colleges are given preference over colleges of general education. Thus finances for State universities and for colleges of general education are inadequate. Almost all studies undertaken in different states have repeatedly emphasized on inadequacy of State grants. Lakdawala and Shah, for instance, have noted that a decline in the relative share
in grants has taken place in higher education as against other levels of education while expansion in enrolments is comparatively much faster. Per capita money grant has fallen as a result. 

In a study conducted by J.L. Azad on 29 universities the following facts regarding adequacy of grants were brought out:

(a) 57% of collegiate institutions testified to inadequacy of maintenance grants.

(b) Only 16% of universities reported in favour of adequacy of State grants for their maintenance.

(c) Only 16% of universities considered development grants from Central government to be adequate.

(d) Regarding development grants from State government, only 12% of universities and 18% of colleges regarded them as adequate.

The steps taken by universities to meet budgetary deficits and to overcome inadequate State grants were:

i. keeping posts vacant
ii. not taking up development plans
iii. restricting expenditure on buildings and equipment and
iv. reducing expenditure on games and sports.

The above clearly reflects how in the absence of adequate grants the smooth functioning of institutions of higher education is adversely affected.

(c) Elasticity

Higher education has been under considerable financial strain as the system of grants-in-aid is inelastic and has not responded satisfactorily to growing needs of institutions of higher education. This is specially so in the case of State

\[\text{6 Lakdawala, DT and Shah, KR.: "Optimum Utilization of Educational Expenditure in Gujarat", Ahmedabad, Sardar Patel Institute of Economic and Social Research, 1978.}\]
universities and colleges of general education. Due to the inelastic nature of grants, development plans have been adversely affected.

(d) Promotional Role

The promotional role of the system of grants-in-aid can be measured in terms of the following parameters:

i. building up of physical infrastructure

ii. encouraging the institutions to mobilise financial resources.

In the study conducted by J.L. Azad (mentioned earlier), the majority of the colleges felt that grants-in-aid failed to play a promotional role in terms of the parameters mentioned above. Some States have now realised the need for giving incentives for better performance. Rajasthan and Gujarat, for example, have worked out a system, which gives higher grants to institutions classified as better institutions in terms of their progress in academic and extra curricular activities.

Regarding mobilization of resources by institutions of higher education, grants-in-aid rules do not give any incentive to institutions which are able to observe financial discipline and manage their expenditure. For example, in Maharashtra no grant is paid to a college which has a surplus or balance in hand of Rs. one lakh or more. Further, many states do not allow a raise in tuition fee.

(e) Efficiency

The disbursement of grants and other aspects related to their administration have a direct impact on the effectiveness of the system. In the above mentioned study more than 50% of the institutions were not satisfied with the administration of grants and complained about delays in assessment, sanction and release of grants. Nanjundappa has also commented that absence of any proper time schedule with respect to release of grants has been felt, and which is detrimental to development. Cumbersome formalities have to be gone through before grants were released. Inordinate delays in release of grants or grants being

---

released at the fag end of the financial year resulted in inefficient use of grants. It has been observed by Panchmukhi that more than half of the grant is received in the last quarter of the year, while financial difficulties are maximum after the end of September every year, at least for about three months. To overcome this problem and to cover the gaps, universities often draw upon surpluses accumulated in previous years, which are rarely available. More frequent method adopted is to resort to overdrafts from banks. This increases the financial burden on the universities as they have to make heavy payments of interests on overdrafts. Lakdawala and Shah point out that this is often due to uncertainty regarding payment of final block grants or delay on the part of the State government in meeting its matching share in development schemes.

The period of probation of one to five years, which an institution has to go through before it becomes eligible for State grants, is considered unwarranted, as it is in the initial years of establishment that an institution is very much in need of State support and assistance. To add to these problems is the leisurely and indifferent attitude of State bureaucracy in dealing with the institutions of higher education. Undue interference by State governments in appointments of teaching and non-teaching staff, their policy of reservation in admissions and appointments are also an undesirable part of the system.

Grants in aid policies of the UGC have also come up for criticism. The UGC finances only the Plan requirements of the universities. Even these needs are not fully taken care of. Only the capital expenditures on account of equipment and building is financed, while their maintenance becomes the responsibility of the universities. In the case of matching grants, states are very often not able to provide their share. Hence full advantage of UGC assistance can not be realized. Another problem is that in the case of new departments, UGC's assistance is

---

confined to teaching staff only. Non-teaching staff except the laboratory attendants is not covered. Expenditure on these staff is not approved even for State grants. To add to the problem, funds are released by the UGC after submission of accounts and the university has to meet expenditures from its own resources during this period. Grants are received much later. Another defect relates to inter-university and inter-state disparities, which are not taken into account when providing financial assistance.

Still another problem faced by the universities is with respect to internal allocation. The universities have no prerogative in reallocation of funds if the need so arises. Continuation of development programmes, initiated during a Plan period depends on the level of State grants and the UGC cannot ensure their continuance. Thus while capital needs are satisfied by the UGC the revenue needs are met by the State governments. The division of responsibilities between the UGC and State government appears to be based on no rational criteria and has not been found to be conducive for university development. Further, lack of co-ordination between the UGC and the State government is also detrimental to the progress of university education.

To conclude, the system of grants-in-aid is an essential pre-requisite for sustained development of higher education. It should not be viewed as an instrument of control of the system of higher education. It should facilitate development of higher education rather than act as a hindrance. An efficient system of grants-in-aid can be made an effective instrument to promote the growth and development of institutions and help to bring about the desired changes in the system of higher education. The socio-economic needs of the States being of a varied nature, a rational and flexible approach in dealing with institutions of higher education is called for keeping in view their specific requirements. In the case of matching grants given by the University Grants

---

Commission (Central Government grant), a better alternative would be a 100% grant for fewer projects rather than 50% grant for a wide variety of projects.

Uttar Pradesh being the State with the highest population in India, and having to support the largest system of higher education among all States, has to learn from the British and Japanese experience. For that matter, the aim should not be to emulate the British and Japanese system, but try to evolve our own, incorporating the salient main positive features of the above-mentioned systems on grants, which are noted world wide on the subject of grants-in-aid.

**Formulae for Grants**

State government grants to universities and colleges are very important. The mechanism of providing grants to institutions of higher learning comprises of the following two types of grants as mentioned in detail above:

(a) recurring, and

(b) non-recurring

Of these the recurring grants are given under one or more of the following heads:

1. Maintenance grants
2. Block grants
3. Supplementary grants
4. Salary grants
5. Ad-hoc grants

The non-recurring grants are normally given under the following heads:

1. Building grants
2. Hospital grants
3. Equipment grants
4. Books and journals (library) grants
5. Additional grants
Among these, the most important source to universities and colleges is the block/maintenance grants, which are expected to cover the total maintenance expenditures. This grants-in-aid is released by the State government to the universities imparting general and professional education. There are three formulae for calculating grants:

(a) deficit basis
(b) incremental basis
(c) Ad-hoc basis

(a) Deficit Basis:

The deficit is usually calculated on the basis of excess of admissible expenditure over income. But universities do not appear to have one standard method of estimating deficit for calculating the expected amount of grant. While Meerut University (now known as Chaudhary Charan Singh University) calculates its amount by deducting approved expenditure from approved income, Gorakhpur University (now Deen Dayal Upadhyaya Gorakhpur University) deducts admissible expenditure from revenue, and Roorkee University calculates it as the difference between estimated income and estimated expenditure. The items of admissible expenditure have a tendency to differ from one university to another and sometimes within the university from year to year! Thus the deficit method suffers from ambiguity, which can be expected to give rise to a situation in which the amount of grant will tend to be influenced by the bargaining and persuasion powers of a university. Besides, discounting the positivism, it also has an in-built tendency to increase the extent of deficits because the financial discipline cannot be enforced unless the items of admissible expenditure are clearly defined at the beginning of the budget period.

(b) Incremental Basis:

The second formula to give grant-in-aid is to allow a specified percentage increase over the grants given in the previous period. The formula mainly suffers
from arbitrariness, as there is no relationship between the permissible percentage increase and the price rise in the related period.

(c) Ad-hoc basis:

This formula of grants to universities is not based on the basis of financial requirements of institutions, but on the basis of resources available with the State government. The standard practice is to fix grants on the basis of price-index prevalent at the time of the inception of a university/institution and some time allow some net percentage increase (over and above the price rise). This formula takes a static value of the university and hardly considers the changes which have had occurred. Agra University had often been given grants on this basis despite deficiencies in it.

Procedure of Grants

An important aspect in the financing of higher education through grants-in-aid involves three main steps:

i. The submission of budget by the universities

ii. Sanctioning of grants at the State level, and

iii. Releasing entire or part of the sanctioned grant as an installment.

It is important to note that there is no time frame adhered to in these three stages. This delay aspect, however, is debatable, for the State government and the universities differ as to the main reasons of delay. This is one of the reasons that financing of universities in the State is not efficient. Universities generally take a view that their budgetary requirement for the next financial year, even if sent well in advance, are kept pending at the State level and there is considerable delay in sanctioning and release of grants-in-aid. The universities further maintain that the shortage of funds (because of time lag in the release of funds) are then resolved by them by taking up one or more of the following measures:
o Availing over drafts from banks (usually from that Branch in which university accounts are maintained),
  o Drawing upon bank deposits,
  o Curtailing or postponing expenditure on some items,
  o Transferring funds from one account to another,
  o Deferring payments of outstanding bills,
  o Seeking supplementary grants from the government to be released urgently.

Of the above measures, universities in U.P. often resort to overdrafts from Banks. But using this facility is further detrimental as it implies payment of interest to banks, which is not an admissible expenditure item. Whereas the State officials claim that the delay stems from the fact that the universities themselves do not submit their budgetary proposals in time.

The universities are also often accused of by the State government that:
  o Budgets of universities are over-estimated.
  o The exact requirements of universities are often not verified by the university authorities.
  o There is a lack of financial discipline in universities, which is the main cause of resorting to overdraft facility.
  o Projected estimates of expenditures differ widely and the university itself is not sure of the exact requirement.

Thus, universities and State governments hold different opinions about each other as mentioned above. Opposite views are also held on the following issues:

i. Adequacy of grants.
ii. Flexibility of the financing mechanism.
iii. Efficiency in sanctions and release of funds.
iv. University autonomy in taking financial and other internal
decisions (for instance, creation of posts and equity in
terms of per student expenditure, etc.).

It has rendered the financing of higher education in Uttar Pradesh very
inefficient.

Programmes and Performance Budgeting System (PPBS) for Higher
Education in U.P as an Alternative to Accounting Budgeting

Performance budgeting in education is a system of presentation of public
expenditure in terms of functions, programmes and performance units, viz.,
activities, projects, etc., reflecting primarily output and its costs. Often the
traditional accounting budgeting is applied to education, through which money is
spent but results are often elusive. But in accordance with functional classification
the term programme related to higher level of educational organization embraces
a number of performance units. In the new budgetary parlance the terms
‘programme’ and ‘performance’ are often used interchangeably.

Introduction of performance budgeting system in education will be
beneficial in many ways. PPBS tends to highlight the needs for clearly defined
objectives, choice between alternative programmes based on their cost-benefit
implication, spelling out of the future cost repercussions of financial
commitments, etc. In a way it may be said that programme budgeting emphasizes
on the need for overall programme management in the light of long term
objectives.

The keynote of the performance budgeting on the other hand has been an
improvement of internal management on the basis of the volume of work to be
accomplished (during a financial year) and its costs. Thus, performance budgeting
involves the development of more refined management tools, such as work
measurement, performance standards and unit cost, etc. In other words if
performance budgeting technique is applied to education, it will represent the
educational objectives and purposes for which funds are required, the cost of the programmes proposed for achieving those objectives and quantitative data measuring the accomplishment and work performed under each programme.

Under the performance budgeting system if applied to education will be divided into functions based on the major purpose of the government and then subdivided into educational programmes and academic activities. Under this system funds are granted for doing a specific quantity of work, because performance budgeting implies that the budget estimate should indicate the actual achievement expected by government over a period of time from certain amount of expenditure.

Thus viewed, the process of performance budgeting is not merely a bridging technique in the narrow sense of the word, it constitutes a new approach to budget formation and execution. Since costs and benefits are indicated side by side, this technique helps in decision making regarding allocation of funds.

Performance budgeting, if applied to higher education will require the following:

- Work measurement and the application of performance standards
- Record keeping along functional lines
- Integration of budgeting and accounting classification
- Organization of programme management
- Proper classification of public expenditure on various heads of higher education.

Although in a sense, the Education Department of Uttar Pradesh has started preparing "performance budget" for education since 1980-81, it is basically of the nature of recasting the proposed budgetary figures. The programme performance budgeting system needs to be implemented in true sense.

\[^{10}\text{The so-called performance budget of the Education Department of U.P Government is titled as "Shiksha Vibhag ka Karyapurti Digdarshak" (Performance Guide).}\]
of the word in order that resources are fruitfully utilized and desired results are obtained in the field of higher educational advancement of the State.

Summary and Conclusions

Allotment of budgetary funds for higher education is not based on any objective criteria or set economic principles. It is in accordance with the administrative convenience of the government. The Department of Education of the Government of Uttar Pradesh receives budget estimates for different levels of education, which after necessary adjustments, are forwarded to the Department of Finance for incorporation in the general budget of the State government. The overall policy in the case of higher education is laid down by the UGC. The normal recurring and non-recurring expenditure of the universities is met out of grants from the State government. For development schemes, the UGC shares the responsibility. The budget also provides for grants to private degree colleges.

The genesis of grants-in-aid can be traced back to the colonial period when government provided financial subsidies to institutions of higher education without any direct involvement in their establishment. With the coming to power of a national government it has emerged as the main source of financing of higher education.

In Uttar Pradesh major part of grants is obtained from the State government, a small amount of grant from Central government agencies, most important being the UGC. Grants are of two broad categories – deficit grants and Block grants. Deficit grants are based on estimated approved expenditure, subject to adjustment on the basis of actual income and actual expenditure. Block grants are statutory, ad hoc or based on past expenditure with or without allowance for normal increase. Block grant, being more flexible is preferable.

The government of U.P. has stipulated that grants be used only for the purpose for which they have been sanctioned. No objective criteria for grants exist. Even if it exists, actual disbursement is subject to manipulations.
The UGC gives assistance to universities for development of undergraduate and post-graduate departments. 100 percent assistance is given for some purposes like additional staff, equipment, books and journals, 50 to 75 percent assistance is given for other purposes. In the case of degree colleges the amount of grant varies with enrolment and number of teaching staff. For development of post-graduate education in colleges, the grant varies from Rs.1.5 lakhs in humanities and social sciences to Rs.2 lakhs for physical and life sciences. UGC also provides development grants to universities and colleges for which a matching grant needs to be provided by the State government or management of the institution concerned.

State grants to universities and colleges can be classified as:

a) Maintenance grant given for routine functioning of the institutions.

b) Development grants given on matching basis to UGC and other Central grants.

c) Non-recurring grant for building, equipment, etc.

Regarding maintenance grants to colleges of general education practices vary from state to state. Uttar Pradesh and six other States – Andhra, Gujarat, Karnataka, Kerala, Maharashtra and Orissa have introduced the system of paying salaries direct to the teachers. For colleges of technical education also, U.P adopts the same practice.

As regards building grants, unlike other States, there is no provision of grants for building and equipment in Uttar Pradesh. However, for colleges of technical education, assistance is given for contingent expenditure at the rate of Rs.165 per student.

State grants to universities are classified into:

a) Statutory grants like foundation fund: These grants vary from state to state, from a low of 2 lakhs as in Orissa to more than 50 lakhs as in the case of Meerut in U.P. For Pantnagar Agriculture University in U.P. this grant was Rs.226 lakhs.
b) Maintenance or block grants given on annual basis: This is determined by (1) Net deficit of the university on approved expenditure for the previous year plus an increase on account of rising costs and (2) Budgetary constraints of the respective State governments.

c) Development grants including matching contributions for UGC schemes or for schemes sponsored by the Ministry of Health, or ICAR, etc.

Grants may also be block or earmarked. Block grants meant for maintenance are generally fixed. Earmarked grants are for specific purposes and cannot be diverted to any other use while block grants give freedom to institutions to rearrange priorities. Earmarked grants, though rigid, ensure implementation of the project for which they have been sanctioned.

A critical evaluation of grants-in-aid brings out the following position with respect to the established principles of grant allocation:

i. Equity: The system of grants-in-aid should not be discriminatory. However, as it is practiced it is found to be inequitable. Inter-university inequalities are glaring. Preference is given to universities and professional colleges against colleges of general education.

ii. Grants should be specific. In practice it is seen that grants in many States are determined by bureaucracy rather than specifically defined. Often the quantum is determined on ad hoc basis.

iii. Grants should be adequate. Almost all studies undertaken in different States point to their inadequacy. Universities overcome this problem by resorting to measures like keeping posts vacant, not taking up development plans, restricting expenditure on building, equipment, games, etc., sometimes even mortgaging university property.

iv. Grants should be elastic and promotional. The system of grants has been found to be inelastic, as it has not responded satisfactorily to growing needs. Nor have they found to play a promotional role in terms of
building up of physical infrastructure or encouraging institutions to
mobilize financial resources.

Apart from the above, delays in assessment, sanction and release of grants
are responsible for inefficient use of grant. In spite of constitutional provisions,
lack of demarcation of financial responsibilities between State and Central
government exists. In order to properly assess the financial needs of institutions,
both Plan and non-plan requirements must be taken care of, while at present only
the former are subject to critical scrutiny. Regarding development grants given by
UGC on a matching basis, States have difficulty in providing matching provisions
or are required to change their priorities. It is felt that 100 percent assistance for
fewer schemes is preferable to a large number of schemes with matching
assistance.

Grants may be recurring or non-recurring. Recurring grants are for
maintenance while non-recurring grants are building grants, hostel grants,
equipment grants, library grants and additional grants.

There are three formulae for calculating grants but none is found to be
fully satisfactory. These are:

(a) Deficit basis - There is however, no standard method of estimating
deficit for calculating the amount of grant. There being ambiguity in
calculation, amount of grants tends to be influenced by the bargaining
and persuasion powers of a university and is also responsible for
financial indiscipline, as items of admissible expenditure are not
clearly defined.

(b) Incremental basis - The incremental basis formula suffers from
arbitrariness, as there is no relationship between the permissible
percentage increase and rise in prices during the period.

(c) Ad hoc basis - The ad hoc basis is unsatisfactory, as the requirements
of institutions are not taken care of.
State governments and universities blame each other for delays in sanction and release of grants. The universities maintain that even when requirements are sent well in advance they are kept pending with the government and there is considerable delay in sanctioning and release of grants. The State officers on the other hand claim that delay stems from the fact that universities themselves do not submit budgetary proposals in time and that the budgets of universities are over-estimated. Besides this, lack of financial indiscipline is the main cause or restoring to overdraft. There are also differences in the viewpoints regarding adequacy of grants, their flexibility and efficiency.

On the whole the system of grants-in-aid as practiced has rendered the financing of higher education in Uttar Pradesh very inefficient.

An alternative to traditional Accounting Budgeting is Programme and Performance Budgeting, which involves the development of more refined management tools, such as work measurement, performance standards, etc. Applied to education it will represent the objectives and purposes for which funds are required, the cost of the programmes proposed for achieving these and quantitative results obtained from such expenditure. The technique is helpful in decision making regarding allocation of funds.

**********