University Finances
(A Study of Karnataka State Universities)

KARNATAKA JNANA AAYOGA
(KARNATAKA KNOWLEDGE COMMISSION)
GOVERNMENT OF KARNATAKA

AUGUST 2011

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KARNATAKA JNANA AAYOGA

(Karnataka Knowledge Commission)

Government of Karnataka

Dr. K. Kasturirangan

Chairman

University Finances

(A Study of Karnataka State Universities)

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A report submitted to
Karnataka Jnana Aayoga (Karnataka Knowledge Commission)
Government of Karnataka

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Government of Karnataka.

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Executive Summary

University Finances
(A Study of Karnataka State Universities)

In the field of higher education, universities are entrusted with the responsibility of building human assets by inducting knowledge and skills necessary for active and effective participation of the people in the country's development. Conventional state universities deal with disciplines such as humanities, basic and social sciences and cater to the higher educational requirements of a large population who cannot afford professional education in private colleges. These state universities are mainly dependent on the state government for their financial requirements and possess limited avenues to attract alternate resources. To increase access to higher education, the state government has started new colleges and universities, thus enhancing its financial burden as well as the tax payer's. Finances are absolutely necessary for any improvement, even to maintain the existing system; and inadequate funding affects the quantity as well as quality of education. In this context, this study assumes importance in analyzing financial resources, expenditure pattern, cost and fee structure of state universities, and offers recommendations to both the state government and to universities for improving the overall financial management of state universities. Financial management is not an isolated issue but is linked to the quality of education being offered and the governance of universities. Hence, our recommendations address financial issues, systems improvement, academic and governance-related matters.

Financial Issues

Currently, the state government has been providing non-plan grants mainly to meet the salary requirements of the teaching and non-teaching staff; and plan grants for meeting capital expenditure requirements. The allocation of these funds to various universities seems to be very arbitrary and often less than the budgetary estimates of the universities. On the basis of the revenue-generating capacities of the universities, we suggest that 60% of the total salaries and allowances of the permanent staff of the three established universities (Mysore, Karnatak and Bangalore) may be funded by the state government. Further, we recommend 75% funding of the budgeted pay and allowances in the other three universities (Gulbarga, Mangalore and Kuvempu) and full funding of the non-plan requirements of the remaining universities. Alternatively, the state government may adopt direct student centric finance (SCF) against the current practice of faculty- and staff-based funding. Such a system-built accountability is needed from all the departments while structuring courses to attract students. A matching grant method for the six long-standing universities and an MOU-based method for other universities have been suggested for disbursing plan grants. A proper blend of

maintenance grants and research and development grants has to be evolved to promote excellence in research. The state government has to introduce performance budgeting or performance funding systems while extending plan and non-plan grants.

Apart from plan and non-plan grants, two other important sources of finances for universities are funds from UGC and other central government agencies; and internal sources in the form of affiliation fees, examination fees, and tuition and other fees paid by the students. UGC has structured multiple schemes to fund the capital and revenue expenditure requirements of state universities. Universities have to be proactive by submitting suitable projects to obtain funds. Every university should insist that the permanent faculty must work on at least one funded major research or consultancy project in a span of three years.

We recommend that the university finance committee should perform three important functions: partnership, trusteeship and innovation against the current role of just preparing budgets and other accounting statements. Such active finance committees should explore resources from industry, alumni and philanthropists to meet the capital expenditure requirements and to establish a core fund for providing scholarships.

The current fee structure varies across universities; established universities charge less than the new universities. We recommend that all the universities have to announce a 'sticker –price' for each course on the basis of all direct and allocated costs. All concessions and discounts may be offered to various categories of students on the basis of this sticker price. The state government should introduce a wide range of scholarships and facilitate financing of education through subsidized loans.

To attain the target gross enrollment ratio of 21% in higher education by the end of 12th Five Year Plan, universities have to increase their capacities by creating more academic blocks and hostels apart from other quality improvement programmes. To meet the huge capital expenditure requirements, the state government should constitute a coordination committee of banks/financial institutions and universities to structure suitable products and mechanisms. The government can explore the possibility of creating an infrastructure for universities in PPP mode or by leveraging on huge land resources of the universities, where the students may pay fees/rent to the company responsible for the infrastructure.

To meet the challenges of higher education-access, quality and inclusive education; the state government has to gradually move towards 20% allocation of education budget to universities and higher education against the current practice of 12%. This enhancement

is needed to provide subsidized educational loans and to introduce a wide range of scholarships to meet the educational requirements of various categories of students.

Systems, Academic and Governance-related Issues

In the federated affiliation university structure, the main task of the university is to conduct examinations and award degrees. Restructuring of the current undergraduate examination system can reduce the burden of organizing and managing the undergraduate examinations on the universities. We recommend a separate state-level board for this purpose. The state government has to form a team of software professionals to explore the possibilities of using ICT solutions for management of examinations to reduce costs.

The state government should organize a performance audit of investments in higher educational projects for the last 10 years to evaluate the existing university benefits, economic benefits, social benefits and environment benefits.

The state government should improve the current accounting and disclosure practices of universities by introducing accrual accounting system, where each university has to disclose its financial position by preparing balance sheet and net surplus in the income statement. Reforms in accounting and information disclosure systems are a pre-requisite for exploring alternate funding sources.

Currently, universities are offering a wide range of courses; the number of students enrolled for a few of these courses is below the optimum number. Each university can focus on a select number of courses and consolidate its resources.

Many universities have shortage of faculty up to 50% of the sanctioned posts. Infusion of new blood is needed and fresh recruitment of faculty should be taken up on priority basis rather than to simply meet the criteria of social justice and roster system. New faculty should be selected by strictly following the UGC guidelines.

Universities can offer distance education programmes in collaboration with KSOU and IGNOU. This conserves the faculty and physical resources and also facilitates standardization across the course content and evaluation. State universities may market these courses by lending faculty and physical resources. A revenue-sharing model through which state universities can procure funds for marketing and providing services may be developed.

Indian Institute of Management Bangalore
Bannerghatta Road, Bangalore 560076, India

August 9, 2011

Ref: Office Order No 20, dated Jan 31st, 2011

Dear Professor Sridhar,

The Karnataka Jnana Aayoga (Karnataka Knowledge Commission) through its office order referred above entrusted a study to Indian Institute of Management Bangalore on **University Finances: A Study of Karnataka State Universities.** The purpose was to analyze the financial resources of the eleven Karnataka State Universities and to suggest measures for improving overall financial management.

The Study Team from IIM Bangalore looked in to wide spectrum in the context of the terms of reference given by the Commission. It consulted important stake holders of the state universities mainly Vice-Chancellors, former VCs, faculty, and senior state government officials and also analyzed data from published sources.

We firmly believe that funding education is an investment in building up of human assets and the state support is inevitable. The challenging task before the universities is widening the access of higher education and providing qualitative education. Transformation is needed in the current university system in creating overall academic ambience, designing suitable courses, managing the examination system, optimum utilization of physical and human resources, and exploiting the opportunities available for raising alternate sources of finances. Our detailed analysis and recommendations are given in the enclosed report. We suggest that the recommendations made in this report may be treated in its entirety and not on isolated basis. Interventions are required at various levels of state departments, and universities. We would like to suggest that the Knowledge Commission may take up these recommendations to the concerned authorities and an empowered group may be constituted for smooth management of transformation at university level.

We profusely thank the Commission, you and your team for giving us an opportunity and for extending all the cooperation and timely support for completion of this project.

With best personal regards,

Jayadev M

Ramesh G

Research Team

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Preface

Karnataka Jnana Aayoga (Karnataka Knowledge Commission) was constituted in September 2008 under the Chairmanship of renowned space scientist Dr. K.Kasturirangan, who is also a Member of Planning Commission, Government of India. The mandate of the Commission is to transform Karnataka into a vibrant knowledge society. To accomplish the stated mandate, the Commission identified six focus areas, submitted sixty recommendations and commissioned six research studies.

Eduction plays a key role in transforming a society into a knowledge society. The role of higher education is even more critical as it directly contributes to the progress and sustenance of a knowledge society. The role of universities offering higher education to the mass would have to adapt to the changing needs of the knowledge society. This calls for vertical and horizontal expansion of higher education. As a prelude to this, KJA commissioned a research study called "University Finances: A Study of Karnataka State Universities" to analyse the existing financial resources and to suggest innovative ways of raising funds. The study aimed-

- To examine the trends of university financial resources from all sources
- To analyze the capital and revenue expenditure trends of the universities
- To compare the financial resources of private and foreign universities
- To ascertain the unit cost of education and to make suitable recommendations for proper pricing of the courses
- To explore revenue generation through innovative ways
- To suggest framework for reporting and performance management for universities and higher education system, and
- To make policy recommendations to the Government on financing of general State universities.

Eleven state universities were studied to understand the trend among the universities of Karnataka. Observation of annual reports of universities of US, Australia, UK and New Zealand were made to learn about best financial practices. The report recommends for introducing several new practices and to strengthen the existing. KJA is very pleased to share the findings with the primary stakeholders-universities and state government for taking the recommendations forward.

I thank Prof. M. Jayadev, Associate Professor, Finance and Control Area and Prof. G.Ramesh, Associate Professor, Public Policy Area of Indian Institute of Management, Bangalore for carrying out this research study. I am equally thankful to Prof. Pankaj Chandra, Director, IIM-B and Principal Secretary and all others of Department of Higher Education, GOK, for their kind support and valuable inputs. The Vice Chancellors, Registrars and other authorities deserve our special thanks for having shared not only data but views also. My thanks also goes to all those who responded to us with their opinions.

I also thank all the staff of KJA and in particular Dr. Padmavathi B.S., Senior Research Associate, for having co-ordinated the study.

I hope and wish that this evidence based study of Karnataka Jnana Aayoga would trigger not just debate but remedy for the vexed problem of resource crunch of Universities of our state.

30th August, 2011

Prof. M.K. Sridhar, Ph.D.,
Member Secretary & Executive Director
Karnataka Jnana Aayoga.

Acknowledgements

We deeply acknowledge the cooperation extended by the Vice-chancellors, the Registrars, the Finance officers and the faculty of respective universities in providing relevant data and information.

We acknowledge the valuable help and support provided by the Knowledge Commission especially Prof MK Sridhar and his team. We are thankful to Professor Pankaj Chandra, Director Indian Institute of Management Bangalore for providing all the necessary encouragement. Mr. Guruprasad Desai's services as research assistant for this project are valuable. We also acknowledge the editorial and secretarial services of Ms Chitralekha and Ms Gowri.

Indian Institute of Management Bangalore
August 9, 2011

Jayadev M
Ramesh G

Universities should intensify their efforts to control costs and increase institutional productivity by sharing faculty resources, substituting technology applications and productive use of physical resources.

Each department has to be treated as a responsibility centre (RC). The head of a RC is responsible for generating projects and funds, enrolment, fees, expenditure, overall performance of the unit, etc. Universities should evolve a system of performance evaluation of the faculty on various criteria such as teaching, research, consultancy and academic administration; and such performance indicators should be disclosed at appropriate intranet portals. Academic performance index should be introduced. University faculty should be provided incentives for obtaining funded projects either for research or consultancy. Universities should introduce performance-based budgeting. In the current system of budgeting, there is low accountability for success or failure or meeting financial targets.

The state government should insist on NAAC accreditation, review the ratings; and efforts made by the university to improve the ratings should be considered while sanctioning grants.

Selection and appointment of Vice-Chancellor (VC) forms a crucial part of the reforms of university management. VCs provide the academic vision to the university and they should be professionally respected in the academic circle. Government should establish a process of appointment of VC purely on basis of merit. The state government in consultation with the VC should appoint the syndicate members by selecting people from the academia, industry and others who can provide a proper vision and perspective to higher education. We understand that public representations should be present in the syndicate.

The state government may review the decision of forming new universities for specialized fields such as Sanskrit, music, folk arts, etc. These disciplines may be offered in existing universities by encouraging students to pursue these courses and adequate financial support may be provided to interested students.

The challenging task before the universities is widening the access of higher education and providing qualitative education. Transformation is needed in the current university system in creating overall academic ambience, designing suitable courses, managing the examination system, optimum utilization of physical and human resources, and exploiting the opportunities available for raising alternate sources of finances.

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Chapter 1

Introduction

1.1 Terms of Reference:

The Knowledge Commission (KC), Government of Karnataka intends to introduce specific policy recommendations to improve financial resource allocation and efficiency of Karnataka State universities. Hence, the KC has requested Indian Institute of Management Bangalore to undertake a study on the 'Finances of Karnataka State Universities'. The specific objectives of the study are as follows:

- To examine the trends of university financial resources from all sources such as government grants, fees and research funds
- To analyse the capital and revenue expenditure trends of the universities
- To compare the financial resources of private and foreign universities and important lessons to be learned
- To ascertain the unit cost of education of undergraduate, post-graduate and PhD courses and to make suitable recommendations for proper pricing of the courses
- To explore the possibilities of revenue generation through innovative resources and to make recommendations to the government for improving the financial condition of universities.

1.2 Scope of the Study:

The study period suggested by the KC is from 2005–06 to 2009–10. The study is intended to cover all the state universities of Karnataka. This excludes specialized and single faculty universities. The following universities are covered in the study.

- University of Mysore, Mysore
- Karnatak University, Dharwad
- Bangalore University, Bangalore
- Mangalore University, Mangalore

- Gulbarga University, Gulbarga
- Kuvempu University, Shimoga
- Karnataka State Women's University, Bijapur
- Tumkur University, Tumkur
- Davangere University, Davangere
- Kittur Rani Chennamma University, Belgaum
- Vijayanagara Sri Krishnadevaraya University, Bellary

1.3 Data and Methodology:

Academic and financial data from the respective university annual accounts, budget estimates and annual reports have been collected. Further, interviews with current vice chancellors (VCs), former VCs, the honorable minister of higher education, the principal secretary for higher education and the secretaries of the finance department, and other interested academicians were conducted. We also visited select universities to get a field-level view and experience. No academic or accounting data were available for the three newly started universities: Davangere University, Kittur Rani Chennamma University and Vijayanagara Sri Krishnadevaraya University. However, discussions with respective university VCs were held to evolve a perspective on university finances.

Several committees were appointed from time to time, recommendations made to reform the higher education especially the university system in Karnataka. We referred the following reports;

- Report of the Karnataka Universities Review Commission, 1993 (Navaneeth Rao Committee)
- Report of the sub-sector study on collegiate education, Education Department, 2001
- Report on volume and composition of budgetary subsidies to higher education in Karnataka State, Finance department, 2001
- Shaping education in Karnataka: Goals and strategies, Government of Karnataka, February 2002

- Report of the Taskforce on Higher Education , Government of Karnataka, September 2004
- Reform and rejuvenation of the universities of Mysore and Karnataka: An agenda and road map, Karnataka Jnana Aayoga, Government of Karnataka, October 2009

However, multiple issues related to higher education and policies are always cropping up; and interventions are required to meet the challenges of the education sector and address the budgetary priorities and constraints of the state government. Thus, the current study gains importance.

1.4 Organization of the Report

This report is divided into six chapters including the present one. Chapter 2 discusses a review on state universities and provides an analytical view on academic activities, governance, and examination system and offers a few suggestions to improve the overall financial management of state universities. Chapter 3 is devoted for analysing the trends of university finances of the last five years. Here, we have also discussed capital and revenue expenditure trends and surplus under various heads. The cost and fee structure is discussed in Chapters 4 and 5 suggest alternatives for improving the financial resources and financial management of universities. Chapter 6 is a summary of conclusions with suggested actions to be adopted by the university and the state government to improve the financial management of universities.

Currently, 20 deemed and private universities in the state, excluding three universities, are offering professional education**.** We have tried to collect data from those three universities – Manipal University, Christ University and Jain University. As it is not mandatory on their part to disclose the data, the response was poor. We had discussions with the executives of Christ University.

We had discussions with executives of private universities, but were unable to offer any valuable learning for state universities. Hence, the third objective of the study is not discussed separately. However, practices of private universities have been referred wherever relevant.

Chapter 2

State Universities of Karnataka: A Review

The objective of this chapter is to provide a status quo report on the universities (excluding single faculty universities such as Technological, Medical, Sanskrit, etc.) in Karnataka, in terms of their activities and governance. We believe that finance function cannot be an isolated issue but linked with academic activities, manpower, infrastructure and location among others. Thus, this chapter provides information on the prevailing macro environment of universities and its influence on financial management.

2.1 Higher Education in Karnataka

The agenda before the country is inclusive growth and prominently education being considered as an important instrument for achieving such inclusive growth. The three important challenges of higher education are expansion, inclusion and excellence along with equity and quality. States and territories cannot attract the productive businesses they need without highly-skilled manpower. Hence, higher education is the key element of any economy's growth strategy. Higher education is being aspired by many. Investment in higher education is a long-term solution for several economic and social problems of the state. Access to or expansion in higher education is measured by the gross enrollment ratio. Currently, for every 100 students who complete schooling, only 12.5 of them pursue higher education. The government aims is to increase gross enrollment ratio to 15[1] and 21[2] respectively by the end of the Eleventh and Twelveth Five Year Plans[3]. At the all-India level, state universities are catering to around 60% of the higher educational requirements. The enrollment ratio of Karnataka in higher education according to National Sample Survey NSS Survey 2004 is 13%, which is lower than that of

[1] *The Economic Times*, February 18, 2011

[2] The Financial Express, July 27, 2011

[3] *The Economic Times*, February 18, 2011

Kerala (14%), Tamil Nadu and Punjab[4]. According to Professor Sukhadeo Thorat (former UGC chairman), enrolment in rural areas of Karnataka is 7%, while it is 21% in urban areas. The enrolment ratio for women is 10% and 14% for men. The ratio is less than 1% under the 'poor' category. However, under the 'income slab', the ratio is 57% in the highest income group in Karnataka[5]. Apart from poverty and gender issues, the other factor that affects enrolment ratio is the fee structure. As per the UGC report 2005–06, the enrollment ratio of women in Karnataka (41.45%) and is marginally higher than the all-India average (40%), but substantially lower than that of the neighboring state Kerala (60%). The main challenges in providing higher education are enabling inclusive education for all communities, expansion in access to higher education through increased institutional capacity, promotion of quality and relevant education and implementing academic and governance reforms.

2.2 Historically, Karnataka or the erstwhile princely state of Mysore has been well known for its scholars, artists and musicians. With the establishment of Mysore University in 1916 due to the perseverance of Sir M Visvesvaraya, the state gained a leading position in higher education. Mysore University is the sixth oldest university in India and it started the first engineering college (1917) and medical college (1924) in Bangalore. Subsequently, to increase access to higher education, Karnatak University was started in 1950 at Dharwad and the Bangalore University in 1964. A boom in the higher education sector was witnessed in the eighties with the formation of Mangalore and Gulbarga universities, Kuvempu University (Shimoga) and Kannada University (Hampi). Further, National Law School University was accorded the status of deemed university. Owing to the presence of national level institutions such as Indian Institute of Science, Indian Institute of Management, agricultural and medical universities, Karnataka has gained a pivotal position in the educational map of India. Students from all over India prefer higher education in Karnataka. Geographical, climatic and socioeconomic conditions of the state have also added to this.

[4] *The Times of India*, March 13, 2009

[5] *The Times of India*, March 13, 2009

The state government has added a few more universities to reduce the academic administration burden of the existing universities and also started specialized universities. Karnataka has 16 state universities; three deemed universities and a central university. The main channels for higher education are the government, and private aided and unaided colleges. Most of the private colleges have been receiving grant-in-aid from the state government to pay employee salaries (Table 2.1).

Table 2.1: Total number of government and private aided colleges under different universities

	2008–09	**2009–10**
Bangalore University	105	107
Tumkur University	25	23
Mysore University	96	97
Kuvempu University	76	75
Mangalore University	65	66
Karnatak University	179	183
Gulbarga University	101	101
Total Number of Colleges	**647**	**652**

(Source: Collegiate Education)

2.3 Budgetary Allocation

The Karnataka state government has given due importance to allocation of financial resources to the state universities. In 2005-06, the amount allocated for education, sports, arts and culture is Rs.1012 Crore which is 7.47% of total plan outlay. In 2007-08, the budget allocation was Rs.6540 Crore which is 9.5% of total plan out lay. Further boost to education sector came in 2010-11 with an out lay of Rs.10505 Crore which is 15% of budget expenditure, a substantial increase over the previous years[6].

The Karnataka State Government Non-plan Expenditure to education sector increased from rupees from Rs.3722 Cr to Rs.9045 Cr showing an annual compounded growth rate of 16%

[6] Budget speeches of respective years

(Table 2.2); the plan expenditure shows an annual growth rate of 19% with an increase from Rs.1064 Cr to Rs.3018 Cr. Allocation to university and higher education (non-plan) sector increased from Rs 491 Cr to Rs.1137 Cr with an annual growth rate of 15%; whereas the plan grant increased seventeen times during the period from Rs. 18 Crore to Rs.303 Crore indicating huge capital expenditure incurred by the government. During this period the state government has increased the capital expenditure for establishment of new colleges and universities. On the overall the allocation to university and higher education sector varies from 9 to 15 percent of general education budget (Figures 1 and 2). Although, the total revenue expenditure of the state is showing growth rate of 12% per year from the level of Rs 22972 Cr to 45438 Cr, Government made conscious efforts to increase education sector allocation from 16% to 20% over the period 2005-2011. The neighboring state Andhra Pradesh allocation to education and training is 18 % (2006-07) of total revenue budget while Karnataka is more than 19% to education and training (2005-06). However this is less than Maharashtra and Kerala allocation 24% and 22% respectively (2006-07)[7].

We recommend that the state government may come out with fixed normative ratios in allocation of funds to various subsets of higher education. The CABE Committee on Higher Education recommended a thumb rule where 50 percent of total education is allocated to elementary education, 25 percent to secondary education and the remaining to higher and technical education. Currently the Karnataka state government is allocating 12 percent to higher education. **We recommend that to increase the access and improve the quality of higher education 20 percent of education sector budget may be allocated to university and higher education.**

[7] Accessed from www. IndiaEducationstat.com

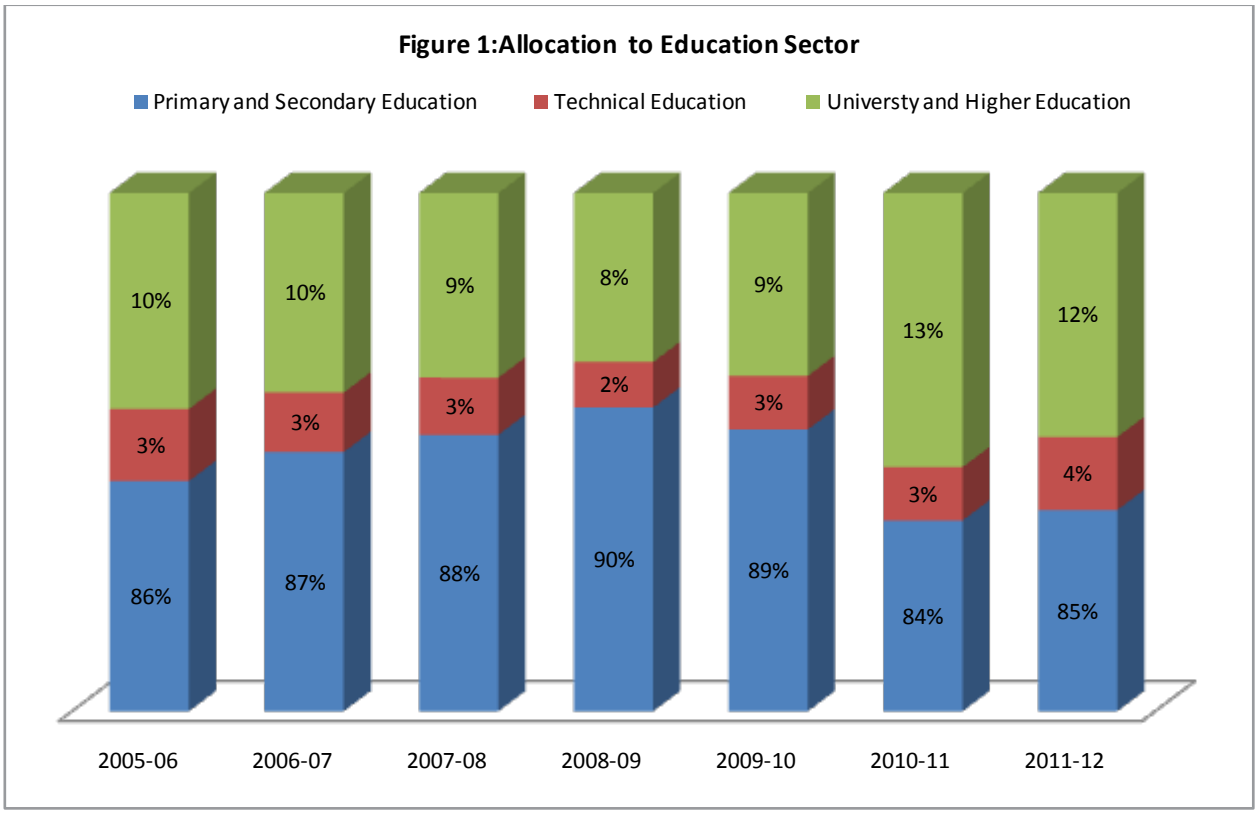
Figure 1:Allocation to Education Sector
Primary and Secondary Education
Technical Education
Universty and Higher Education
10%
3%
86%
10%
3%
87%
9%
3%
88%
8%
2%
90%
9%
3%
89%
13%
3%
84%
12%
4%
85%
2005-06
2006-07
2007-08
2008-09
2009-10
2010-11
2011-12

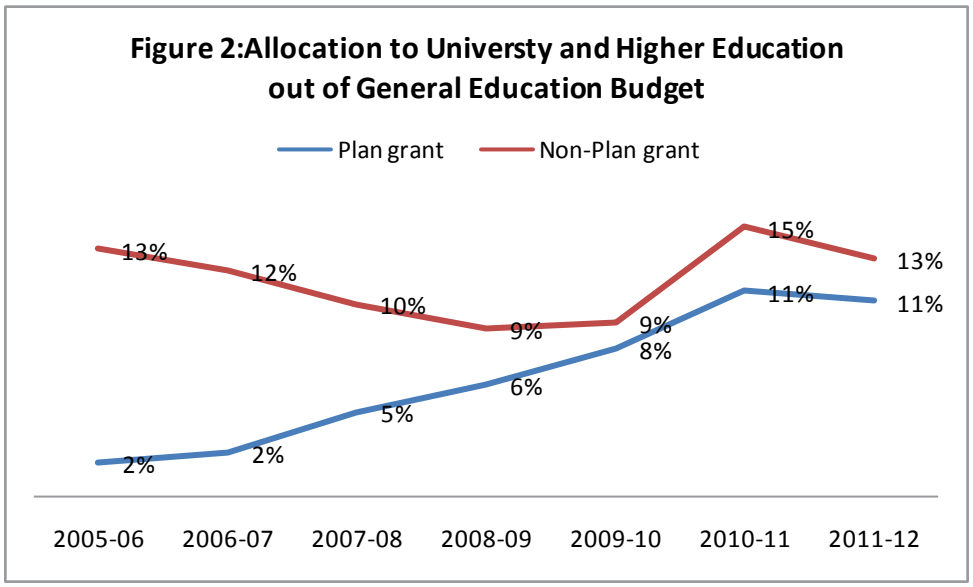
Figure 2:Allocation to Universty and Higher Education out of General Education Budget
Plan grant
Non-Plan grant
13%
12%
10%
9%
9%
15%
13%
2%
2%
5%
6%
8%
11%
11%
2005-06
2006-07
2007-08
2008-09
2009-10
2010-11
2011-12

Table 2.2: Karnataka state government expenditure towards higher education sector (Rs. in Cr)

Non-Plan Expenditure	**2005–06**	**2006–07**	**2007–08**	**2008–09**	**2009–10**	**2010–11**	**2011–12**
General education	3651	4210	5224	6433	6443	7789	8783
Technical education	71	69	83	83	110	147	262
Total allocation to education sector	3722	4279	5307	6515	6553	7936	9045
University and higher education	491	517	547	586	611	1143	1137
Revenue expenditure of the state	22972	25583	29062	35234	35234	40209	45438
Allocation to education sector out of total revenue expenditure of the state (%)	16	17	18	18	19	20	20
Plan Expenditure	**2005–06**	**2006–07**	**2007–08**	**2008–09**	**2009–10**	**2010–11**	**2011–12**
General education	965	1200	1295	1816	1754	2817	2850
Technical education	99	94	105	105	110	136	169
Total allocation to education sector	1064	1294	1401	1921	1864	2953	3018
University and higher education	18	28	59	110	141	315	303
Revenue expenditure of the state	5069	7853	8313	10530	12303	15980	19596
Percentage of university and higher education to revenue expenditure	0.35	0.36	0.71	1.05	1.15	1.97	1.54

(Source: Finance Department, Government of Karnataka)

2.4 A Brief Review of State Universities

Mysore University: The University of Mysore was established in 1916 by his Highness Maharaja of Mysore. This was the first university to be established outside the domain of British administration in India, and the first university in Karnataka. It was started with two faculties and later extended to post graduation and doctoral programmes in arts, humanities, science, engineering and technology. Four universities have been carved out of this university namely Bangalore University (1964), Mangalore University (1980), Kuvempu University (1987) and Karnataka State Open University (1996). The university has significantly contributed to oriental research, folk arts and geology; the other departments which gained significant recognition are biochemistry, physics, food science and nutrition, and biotechnology. The university has MOUs with more than 20 leading institutions and universities in India and abroad for collaborative research, faculty and student exchange programmes; 18 endowment chairs are established in various disciplines. A unique characteristic of this university is in providing global diversity with an international centre attracting around 800 foreign students from different parts of the world. The 94-year-old university has created a Vision 2025 document with the objective of making it one of the top 10 universities in the country and top 150 in the world in the next few years. The document envisages creating environment suitable for world-class education and research, creation of infrastructure and facilities and the use of e-administration in management with emphasis on accountability and transparency. It also recommends adoption of modern patterns of examinations and evaluation, computerization of all records and proposes a facility allowing students to write examination from anywhere. Private sector participation, greater focus on IT training, re-launching of correspondence courses and setting up of community radio station is among the stated priorities of the Vision document. Reaching out to rural students, bringing the youth of the backward areas into the education network and education of girls has also been emphasized. The university received five star accreditation in the year 2000 and was reaccredited with A+ grade by National Assessment and Accreditation Council NAAC. This university was identified as Institution of Excellence by Government of India and awarded a grant of Rs.100 Cr in 2010 to create a Centre of Excellence in Bio-diversity and Sustainable Development.

Karnatak University: Established initially at Mumbai in 1949, the location was shifted to Dharwad in October 1949 and was officially inaugurated in March 1950. Covering a vast expanse of 750 acres, the university has 46 departments offering arts, humanities, social sciences and sciences. Currently around 4200 students are pursuing different courses including PG centers, out of which 2000 are women. Based on a report (Karnataka Jnana Aayoga, 2009) submitted by the Karnataka Knowledge Commission, the state government has introduced a bill to restructure the Mysore and Karnatak universities as innovative universities.

Bangalore University: Bangalore University was set up in the year 1964 with 32 affiliated colleges and student population of 16,000 students. Now, it is one of the largest universities in the country with 539 affiliated colleges and student strength of about 3 Lakhs. The university received the grade of five star for quality and excellence from NAAC. The university has academic collaborations with several reputed research institutions in India and abroad.

Mangalore University: Mangalore University was established in 1980 to cater to the higher educational requirements of Dakshina Kannada, Udupi and Kodagu districts. The campus is spread over an area of about 333 acres with high elevation overlooking the Arabian Sea on one side and Western Ghats on the other. Apart from colleges and hostel for students (both men and women), the other infrastructure facilities are the university science instrumentation centre, Microtran centre and Yakshagana Kala Kendra. Mangalore University has 27 departments (including PG centre) with a student strength of 1092 and faculty strength of 133.

Gulbarga University: Gulbarga University established in 1980 caters to the educational requirement of five districts namely Bellary, Bidar, Gulbarga, Koppel and Raichur. This region has very rich cultural heritage and region was ruled by Chalukyas and Rakshtrakutas. Great literary works such as *Kavirajamarga* and mathematical works by Sri Mahaveer Acharya originated in this land. However, unfortunately this region is one of the most backward regions of Karnataka. The university is expected develop this region by harnessing skilful manpower and providing education to the socially and economically backward categories of students. The university has 37 PG courses, M Phil and PhD programmes; and has four PG centers at Bidar, Bellary, Raichur and Sandur. The main campus of the university is located on 860 acres of land;

the other infrastructural facilities of the university are the central library, learning resource centre, instrumentation and computer centre.

Kuvempu University: Kuvempu University was established in 1987 with 59 PG departments and 134 affiliated colleges; the university caters to the higher educational requirements of four districts: Shimoga, Chitradurga, Chikamagalur and Davangere. The university has been carved out of the Mysore University.

Karnataka State Women's University: The University was started in 2003 on the recommendations of Dr. DM Nanjudappa Committee. North Karnataka being a backward area, education is considered as an essential social infrastructure. Thus, in establishing this university the Government has specific agenda. The university was started in the PG centre and subsequently land was acquired. Administrative blocks and hostels are currently operating in rented premises. Initially, it started with five departments and has 30 departments at present. The state government has provided flexibility to the new university by sanctioning a grant to meet its capital and revenue expenditure. Its 160-member non-teaching staff is working on temporary basis with low salaries. Interestingly all these staff members are men. As the social contacts and networking skills of women are poor, they could not secure even a temporary job. Being a university for women, it has not given any priority to selection of women candidates, thus one of the objectives of women empowerment is vitiated.

Apart from the regular courses, two papers on Nutrition and Gender & Law are compulsory for all the students. The university has established a Technology Park and provides skill improvement training in paper recycling and other job-oriented courses. It also has an incubation centre dealing with entrepreneurial activities for women.

Tumkur University: Tumkur University was carved out of Bangalore University during the year 2004 as a separate entity to cater to the needs of thousands of young higher education aspirants of the area.

Davangere University: Davangere University (Davangere PG Centre) was recently carved out of the Kuvempu University. The university offers 20 courses in various disciplines catering to

1300 students. Commerce is one of the most popular courses. A total of 108 affiliated colleges serving 45,000 students were shifted from Kuvempu University to Davangere University. The existing manpower of the Davangere PG centre was relocated to Davangere University. The university has also started PG courses in biochemistry, microbiology and food technology, physics and chemistry. There are no physics and chemistry laboratories and the facilities of the engineering colleges are utilized for laboratory training on rental basis. Hostel facilities are required as the university is located at a distance of 15 km away from the city. Although the government has not allotted any land, two local trusts have donated land to the university, and further the university has acquired 80 acres of land at Chitradurga. As the Indian Institute of Science (IISc) and Indian Space Research Organization (ISRO) have planned to start academic and research programmes at Chitradurga, collaborative work in various science disciplines is possible; thus the acquirement of land at Chitradurga by the university has been of strategic importance. Within a very short span of time, the university has gained recognition under the UGC Act and has been sanctioned funds.

Kittur Rani Chennamma University: The university was started in August 2010 by taking over the 28-year-old PG centre of the Karnataka University at Bhutramatti. The new university, in effect, includes 296 colleges and PG centers in Belgaum, Bijapur and Bagalkot districts that were hitherto under the purview of Karnatak University. With this Belgaum has two universities, the older one being Visvesvaraya Technological University VTU. The starting of the new university has projected Belgaum as an emerging educational hub in the North Karnataka.

Vijayanagara Sri Krishnadevaraya University: Vijayanagara Sri Krishnadevaraya University, (VSKU) established in 2010 is an affiliating state university with about 100 affiliated colleges offering both undergraduate and PG programmes. The university covers the districts of Bellary and Koppal. This region is considered economically and educationally backward compared to national and state average. Hence, the university endeavors to embark on innovative means of higher education in order to make it both qualitative and affordable. VSKU has two PG campuses. The main campus, Jnana Sagara is located at Bellary and spread over an area of about

100 acres, houses all the key administrative departments of the university as well as 14 PG departments. The second campus is located at Nandihalli in Sandur taluka of Bellary district. This lush green campus has 10 PG courses with adequate hostel facilities students as well as accommodation for the faculty. The university at present has 1000 PG students.

The Eleven state universities are catering to the non-technical higher educational requirements of 30 districts of Karnataka. The state universities can be categorized into well-established universities (Mysore, Karnataka and Bangalore), moderately established universities (Gulbarga, Mangalore and Kuvempu) and recently established universities (Women's University, Tumkur, Davangere, Kittur Rani Chennamma and Vijayanagara Sri Krishnadevaraya). Our analyses and conclusions are dovetailed into these three categories.

Table 2.3: Geographic and demographic coverage of Karnataka State universities

Name of the University	Year of Establishment	No. of Districts Covered	No. of Affiliated Colleges	Population as per 2011 Census (in Lakhs)
Mysore University	1916	4	122	76.00
Karnataka State University	1949	7	528	148.00
Bangalore University	1964	2	212	105.76
Gulbarga University	1980	4	305	101.00
Mangalore University	1980	1	187	20.83
Kuvempu University	1987	2	80	28.93
Karnataka State Women's University*	2003	12	70	234.00
Tumkur University	2004	1	78	26.81
Davangere University	2008	1		
Kittur Rani Chennamma University	2010			
Vijayanagara Sri Krishna Devaraya University	2010			

*Covering all affiliated colleges for women of 12 districts

Source: Respective university reports and the population data is from Government of India Census data

Table 2.3 shows the names of district-wise universities, number of affiliated colleges and population of the districts. The per capita colleges are insignificant and to reach the target enrollment ratio of 21 percent, capacity expansion is inevitable. The Union Minister for Human Resources Kapil Sibal envisages that to meet the mismatch between economy and the potential that serve the economy, huge pool of qualified human resources are needed and India needs 800 universities against the current number of 480 to boost higher education[8]. Andhra Pradesh has 18 universities excluding technical, single faculty and open universities catering to the higher educational requirements of 23 districts. For every 47-Lakh (as per Census 2011) people, there is an university, while in Karnataka the number of people per university is 55 Lakhs.

2.5 Governance of State Universities

The governance of all state universities in Karnataka is under the preview of a single unified act, the Karnataka State Universities Act originally enacted in 1976 and amended in 2000. In accordance with the provisions of the act, the governor of the state will be the chancellor of all the state universities. The governance structure of the state universities mainly comprises the Syndicate, Academic Council, Finance Committee and the Planning, Monitoring and Evaluation Board (PMEB).

The Syndicate: Syndicate is the most powerful governing body of a state university. A syndicate consists of not less than 20 members most of whom are nominated by the state government. In addition to the deputing secretary and under secretaries of various state government departments, the state government can nominate six members of the syndicate and the nomination of four of them must be based on the principles of social justice and equity. Various policy matters related to the university are finally discussed and recommended by the syndicate for approval by the state government and chancellor. Syndicate is expected to be a body of distinguished academic persons, industry and corporate sector representatives and others working in the social sector. Many current and former VCs have agreed that topics such as vision, perspective plan and

[8] India needs 800 more universities: Sibal, *Deccan Herald*, March 25, 2010

growth of the university are seldom discussed. Government has a wrong notion that university is a place for patronizing retired academic people and politicians. Syndicate members often influence temporary appointments, promotions, admissions and other political matters. University development plan, relevant courses required for the local people, increasing the access of higher education, enhancement of job opportunities, raising of alternate sources of finance are very rarely discussed by the syndicate. Syndicate should take leadership position in growth and development of a university. Karnataka is a knowledge hub with the presence of several national level universities, centers of excellence. State universities should benefit from the faculty working in these institutions, but unfortunately most of the syndicates of universities have no such representation at all.

We recommend that improving the overall governance of a university syndicate is essential to improve the quality and financial position of universities. The syndicate should be an active body representing professional people from fields such as academics and industry. Karnataka is enriched by the presence of various national level educational and research institutions such as IISc, ISRO, IIM and others, and many well-performing companies. **The state government should nominate academic and corporate executives to university syndicates bring about relevant amendments to transform them into active bodies of governance.**

The Academic Council: The second level distinguished body in university administration is academic council with not less than fifty members. The academic council is responsible for the maintenance of, the standards of instruction, education and examinations in the University. Several matters such as course curriculum, examination pattern have to be appended by academic council.

In improving the quality of academic programs, the academic council plays significant role. The academic council has to structure the courses as per the changing requirements of industry. **Thus academic council of various universities should take up a survey on manpower requirements of Industry and structure the new courses.**

Finance Committee: Another most important committee in university governance is the finance committee. As per the Karnataka state universities Act 2000, the functions of the finance committee are as follows.

- To conduct the general scrutiny of accounts of the university, review the yearly audit reports and make recommendations thereon
- To scrutinize the annual budget estimates and make recommendations to the academic council and syndicate
- To scrutinize all proposals of the university involving expenditure for which no provision is made in the budget or involving the expenditure in excess of the amount provided for in the budget including creation, up-gradation and abolition of posts in the university
- Such other functions as may be prescribed by the statutes

Planning, Monitoring and Evaluation Board: The PMEB is responsible for planning the academic courses, research programmes, interdisciplinary activities, interaction with external agencies for training extension and research, and to periodically monitor the implementation of the programmes and activities formulated by it.

The current finance committees of state universities are loaded with state government officials. **Necessary amendments are to be made to the State University Act to broad base the finance committee and increase its significance in raising the financial resources**. In raising and management of financial resources, the finance committee and the PMEB have to work together in partnership to achieve the objectives of the university.

We expect the University Finance Committee to perform three important functions.

1. *Partnership function or Stakeholder involvement*: Involves continuous interaction with department heads, heads of constituent colleges and PG centers, staff and faculty in assessing the financial requirements, alternative avenues for raising of such resources. Includes interactions with district-level banker's committee, local industry associations, business people, respective MLAs and MPs to fund the specific capital expenditure plans of the university. Finance committee has to consider them to be fully integrated business

partners of the university. Finance committee plays a critical role in helping the state government to handle resource constraints. They have to explore opportunities for income streams and minimization of operating costs and review and challenge capital expenditure plans.

2. *Trusteeship function*: Finance committee should evolve responsible and realistic policies that safeguard the assets of a university and optimum utilization of financial resources in a cost-effective manner.
3. *Innovative function*: Finance committee should act as innovators to improve its internal processes by laying down appropriate rules, formats, procedures and application of technology.

A university has to obtain permissions for several matters from the state government. Several statutes are pending with state governments; statutes are drafts approved by the university syndicate awaiting clearance from the state government.

The VC being the CEO and leader of a university, selection and appointment of VC is critical for growth and development of a university in all aspects – increasing the access, quality, governance and finances. In performing the functions, most of the VCs are busy with routine mundane activities rather than evolving a vision and perspective plan for the university. A VC is burdened with several administrative matters such as leave applications, transfers, interdepartmental politics, approvals and permissions, student problems and issues related to hostel management. Motivating the faculty to take up academic and research activities, exploring for projects, collaborations, have taken a backseat. Although it is not the mandate of this study to review the VC positions, most of the academicians have expressed that appointment of VC has become a political decision rather than a professional one. The act has specified the process but tactfully the practices are deviated from the process giving scope for political interference. Thus, in selection of a VC, **the government should follow the process laid down in the act in spirit and set an agenda for the university to improve the quality and financial position. The VC should execute the agenda of the university and performance should be evaluated after completion of two years.**

Registrar is an important administrator of the university who assists VC in administration. Earlier state government officials such as IAS, IPS, and IFS officers were appointed as registrars. Now a senior faculty member is appointed as registrar. Finance officer in some universities is a state government employee and in other places a faculty member acts as finance officer. In the light of the above suggested functions, a finance officer has to devote more time to address the financial and accounting aspects of a university.

A state university is burdened with management of university departments, PG centers, constituent colleges, affiliated colleges and student hostels. The administration of these units has gained priority over research and academic activities.

To improve the performance of the university, the syndicate should adopt a proactive role in setting objectives for the university and formulate a perspective plan to move towards achievement of the stated objectives. In countries such as UK and US, a set of codes is evolved for governance of universities and higher educational institutions. In the UK, the CUC Code of Governance (2006) specifies the responsibility of the governing body to monitor institutional performance against plans and approved key performance indicators and benchmarked against other institutions. Universities are government-funded institutions and making them accountable to the public is very essential for improving the accountability and performance and overall governance. **We recommend that state government in consultation with the State Council of Higher Education (SCHE) should evolve a code of governance and set up key performance indicators (KPIs) to evaluate the performance of universities.** The syndicate should be made accountable for the institutional performance.

2.6 Academic Programmes, Students and Faculty

Academic programmes: The state universities offer PG and research degree courses in languages, basic and social sciences. Graduate programmes are offered by affiliated colleges and PG and research programmes are offered at university departments and constituent colleges and the PG centers. A limited number of professional courses are offered in areas such as management, computer applications, education, physical education and law. The other courses which have high job market potential are chemistry, biotechnology, food processing and other

allied areas. Students graduating in arts, humanities and social sciences look for employment opportunities mainly through competitive examinations or by pursuing professional courses. Establishment of new universities for medicine, engineering, Law has seriously crippled the university system not only academically but also in raising financial resources. More specialized universities for Sanskrit and music have been announced by the state government. In a university set-up, all these are to be integrated rather than separated. Separation or overspecialization will reduce the importance of these disciplines and also burdens the finances of the state. **The state government may review the decision of starting new universities for specialized fields such as Sanskrit, music, folk arts, etc. These disciplines may be offered in existing universities and students pursuing them may be provided adequate financial support.** The essential characteristic of a university is diversity. Diversity enriches the educational experience and promotes personal growth of the student and overall builds a healthy society. For example, premier institutions such as IISc offer academic programmes in social sciences and humanities facilitating diversity. Government should come forward to extend scholarships to native Karnataka students pursuing courses such as Sanskrit and music in other states and universities where these courses are being offered.

Faculty and Students: Faculty is an important resource of a university which helps to attract students, increase access, provide qualitative education, and procure financial resources through projects, research and consultancy activities. Faculty being the core infrastructure of a university, salaries and allowances of the faculty and support staff constitute around 80% of the recurring expenditure of a university, which is a financial commitment of the state government. As the national level regulator of higher education, the UGC sanctions the number of faculty members on the basis of specific criteria and provides funding support for a period of five years to pay the salaries and allowances of the faculty. Subsequently, the state government should provide financial grants to pay the salaries and allowances of such UGC-approved faculty. Thus salary, allowances and pension of the entire state university faculty is the financial commitment of the state government. It is not surprising that, in the last 10 years, the state government has been cautious in recruitment and appointment of faculty. Further, almost all the new universities (except single faculty and specialized universities) are created by carving out a portion of

geographical area attached to the existing university. For example, in 1980, Mangalore University was formed to cater to four districts attached to the Mysore University. Thus, a portion of the faculty and non-teaching staff of Mysore University should have been allocated to Mangalore University, which did not happen due to various reasons. Mangalore University started recruiting faculty afresh and the government considers it as a constraint on financial outflow. Kuvempu, Tumkur and other recently established universities followed likewise. Thus new universities have a continuous shortage of faculty resources while the older ones are self-sufficient.

The student–teacher ratio of various universities presented in the Table 2.4 shows that Mysore University has a low student–teacher ratio of 12 and the Women's university has the highest ratio of 31. The inter-departmental student–teacher ratios display high variance. For example, in Gulbarga University, a few departments do not have a single faculty and are run with temporary faculty. Departments of social work and women studies are run with single-member faculty. In Institute of Kannada Studies, there are five faculty members but the number of students enrolled is zero. The department of management studies which is a professional and market-oriented course has 117 students while the number of permanent faculty is just two. Similarly, computer science department with 249 students enrolled in 2009–10 has 4 permanent faculty members, indicating 1:6 teacher–student ratio. In Karnatak University, departments such as Marathi, Jainology, Kanapeethi, sericulture, polymer science have less than 20 students.

In Mangalore University, in 2005–06, there were nine departments with total student strength of less than 20, while this number decreased to just one in 2009–10. In 2008–09 it had nine students in human consciousness and yogic sciences. Bangalore University has 49 departments and one PG centre (2008–09). The number of students in 11 departments is less than 40. In seven departments, the strength is less than 30. In 2008–09, Karnatak University did not have a single student in the departments of foreign languages, Jainology and yoga studies. In more than 20 departments, number of students enrolled is less than 40. At the Kuvempu University in 2009–10, the Hindi department had 8 students, 16 in business economics, 7 in Sanskrit, 13 in Urdu and 19 in environmental science. Thirteen departments had less than 40 students. In Mysore University, a single faculty supervises around 50 researcher scholars; this raises several

questions on the maintenance of minimum standards in the quality of research. **Every university has to identify not more than ten areas of their core specialization and focus more academic and research programmes in those areas.** Additional capacities and projects are to be created in those areas only. Various language courses can be centred at one place instead of offering the course at different universities. Students interested in pursuing these courses should be given financial assistance**.** In almost all the universities, student enrollment in courses such as Kannada, Sanskrit, history, sociology and other arts and humanities is very limited and declining. **The State Council for Higher Education should facilitate a discussion on improving the enrollment and quality of courses. Instead of all universities offering these courses, universities have to consolidate resources and offer these courses at select places.**

Table 2.4: Student–teacher ratio in various State universities for the year 2008–09

	Students	Faculty	Student–teacher ratio
Bangalore University	7494	418	18
Gulbarga University	2300	123	19
Karnatak university	2904	221	13
Kuvempu University	2453	126	19
Mangalore University	1816	119	15
Mysore University	4283	354	12
Tumkur University	1127	91	12
Women's University	1378	44	31
Total	**23755**	**1496**	**16**

A university is expected to provide diversity in terms of gender, caste and culture. Diversity helps in creating a very positive learning environment and makes it more competitive. To make the university more competitive, admission to various PG and professional courses should be at least on state level. This helps each university to attract the best students. Apart from the academic inputs, the other attributes of student peer-groups have a strong influence on the

quality of the student's educational and social experience. Quality in higher education depends on the quality of students and teachers and their commitment to excel. **We recommend that to increase diversity, universities have to select the students, especially in PG and research programmes, on state-level and national-level basis; this encourages competition among the universities.**

A UGC-constituted committee under the chairmanship of Professor JAK Tareen has recommended that teacher–student ratio should be 1:10 in PG programme for science and 1:15 in humanities, commerce, management and social sciences[9]. UGC has recommended these for central universities and deemed universities. Our analysis of annual reports of universities shows that some departments have excess faculty with limited students while others are facing shortage. In the absence of permanent faculty, universities are functioning with part-time faculty compromising on quality of teaching; commitment and of course research work is beyond expectations. **We recommend that the SCHE should initiate discussion on sharing of surplus faculty with deficit units by giving an option to faculty or by introducing the concept of visiting faculty.** If a permanent faculty member has a low workload, he should extend his services to other state universities and any out-of-pocket costs may be met by the university utilizing his services. Universities have to explore the possibility of lectures through video conferencing or other virtual applications in addition to traditional contact classes. For example, Gulbarga University has excellent video conferencing facility but the usage rate of such infrastructure for lectures, seminars and other academic activities is low.

In most universities, faculty posts are vacant to the extent of 30% to 50% of sanctioned posts. To meet constitutional obligations and objectives of social justice, the vacancies earmarked for reserved category are filled up. Owing to non-availability of qualified candidates, often minimum qualification requirements are relaxed and merit is compromised. Even in newly established departments, roster system is followed meticulously and compromised with

[9] University Grants Commission, DO No: F1-1/2008(CU), dated April 22, 2010.

minimum qualifications in case of non-availability of qualified candidates. Almost all the VCs have expressed that faculty shortage is a serious problem and the state government should allow new recruitment in universities for. In contrast, government opines that recruitment should be need-based. **We recommend that there is need for infusion of new blood by recruiting new faculty without any compromise on the qualification norms specified by UGC**. Most of the universities follow the principle of "sons of the soil theory" and recruit faculty who studied from the same university. This fails to add new thinking, culture and diversity and acts as a serious limitation in the field of higher education. **We recommend that the state government has to take up faculty recruitment on priority basis; prior to that faculty resource should be reallocated and visiting faculty concept should be introduced.**

Research Activity: Research activity in a university is essential to improve the quality of teaching in addition to deriving other benefits. Many committees[10] have commented on the quality of research in university system. Most of the VCs and former VCs have expressed that enthusiasm levels of faculty are very low. Promotion is just time-based. Research activity and publications in well-rated journals is absolutely low, consultancy is further poor and faculty pursue for scholarship maximization is very low. Many firmly believe that research activity will bring funds from various agencies which will meet the requirement of books, equipments, purchase of databases, and scholarships to research scholars.

[10] For example, the latest one is Professor Yashpal Committee report (2008)

Table 2.5: Research activity of state universities for the year 2006-07					
	Number of Books Published	**Papers Published in Journals**	**No. of Funded Projects**	**Faculty**	**Faculty to Funded Projects Ratio**
Bangalore University	NA	NA	82	533	7
Gulbarga University	71	330	25	128	5
Karnatak University	74	475	65	224	3
Mysore University	63	803	116	363	3
Kuvempu University	29	68	27	127	5
Mangalore University	13	244	37	125	3
Women's University	10	26	0	15	
Source: Complied form of the annual reports of universities NA: 'information not available'					

Mysore University tops the list in number of publications and funded research activities; every three faculty members have one funded project, while the Bangalore University has one project for every seven faculty members (Table 2.5). Research activity will improve the funding especially to meet revenue expenditure and a portion of capital expenditure. **We recommend that each university should have a target of one funded project for every faculty in a period of three consecutive years.**

Placement Service: The placement services activity in many universities is very limited. Universities have to constitute placement cells to explore the employment opportunities for students of business management, computer applications, commerce, chemistry and other prospective areas. Globalization and the consequent merging of the world economy have widened the career prospects for economics students — business, education, government and consultancy are some of the fields in which they are in demand. For example, PGs with MA

(Economics) of Delhi University and JNU are in great demand for the positions of economists in banks and industry[11].

2.7 Examination System

The main objective of a university in the affiliated structure is conducting examinations for both graduate and PG courses, especially in graduate courses it is a huge activity. Setting up of question papers, evaluation, grading and issue of certificates are the main functions of the university. With gradual increase in number of affiliated colleges and students, the burden of management of examinations is increasing. Many faculty members are continuously busy with evaluation of answer sheets either as internal or external examiners. To reduce the burden of undergraduate examination on the university, granting of autonomy to colleges which fulfill certain criteria is an alternative recommended by the UGC. All the colleges are encouraged to improve according to the standards set by UGC and NACC and work towards gaining autonomy. This also increases competition in the higher education field and generates brand equity for the colleges. This reduces information asymmetries and a student will have an informed choice about the available courses. However, this is more of a long-term goal of the institution. Alternatively, universities have to explore the application of technology for management of examinations. Revamping the current graduate examination system is very essential to utilize the physical, financial and manpower resources optimally. At the graduation level, the number of specializations offered is limited and the curriculum of various universities is almost similar; hence **government may establish a state-level board to manage the examinations effectively and efficiently.**

Currently, state level boards are conducting examinations for secondary and pre-university level students; the system has gained credibility and led to uniform calendar, uniform curriculum and common evaluation and grading criteria. Similar pattern may be adopted for all standardized undergraduate courses such as BA, BSc and BCom; if any university is offering specialized

[11] The dismal science is hot, *The Telegraph*, April 9, 2006.

courses at graduation level they may conduct the examinations on their own. Thus colleges preferring to retain their identity, brand and reputation can opt for autonomy while rest of the colleges can adopt board level examinations. **Student friendly systems are to be created to minimize the administrative interface, submission of application forms; issue of exam entry passes, printing of marks memos, etc. are to be streamlined with application of Information and Communications Technology (ICT) solutions.** The examination fees collected should be reserved as a fund and a portion of it may be allocated to universities. Formation of a separate state level board also facilitates reduction of overheads. This will also facilitate uniform academic calendar and uniformity in syllabus and common evaluation and grading criteria throughout the state.

2.8 Accounting, Financial Reporting and Audit:

Currently, all state universities are following the state government accounting norms and each university is preparing receipts and payments account at the end of every financial year. These are audited by state government accounts and audit department. We found a few inconsistencies in these reports (Table 2.6).

For example, Mysore University has around 10 receipts and payments accounts categorizing primarily on the basis of function of the specific account; the examination account shows all receipts and payments relating to a particular financial year. Kuvempu University has 35 receipts and payments accounts which are all mostly categorized college-wise or PG centre-wise; the case of Karnatak University is similar. The fundamental principle of accounting is separation of capital and revenue expenditure and following accrual concept in recognition of revenue and expenses. The current university accounting system has limited discrimination of capital and revenue and accounts are maintained on cash basis. Further over a period, every university has created several assets in terms of buildings, vehicles, laboratory equipments and other fixed assets. The original cost of assets created/installed/ acquired are not known at all. There are no details about the depreciation charged. Thus, gross book value of assets of the university is neither assessed nor disclosed. Except Tumkur University, no other university has prepared

Table 2.6: Accounting information: Disclosure practices	
University	**Disclosure of Accounting Information**
Mysore University	All receipts and payments are disclosed function-wise such as general revenue account, examinations account, NSS account, grants account
Kuvempu University	Receipts and payments account – PG centre-wise and function-wise
Mangalore University, Karnatak University	All receipts function-wise and all payments department-wise
Gulbarga University	Non-plan expenditure all receipts and payments function-wise and others grant-wise
Tumkur University	Income and expenditure account and balance sheet
Source: Annual accounts of respective universities	

balance sheet to indicate the financial position. We appreciate the efforts of Tumkur University for presenting the accounting information with accrual concept and disclosing balance sheet and income and expenditure account. Christ (a private deemed) University has also disclosed such information. Our observation of annual reports of universities in US, UK, Australia and New Zealand shows that universities are reporting financial position through balance sheet and income statement data by following generally accepted accounting principles (GAAP). **We recommend that universities have to adopt GAAP and prepare annual balance sheet, income statement and cash flow statement by following accrual accounting concepts by discriminating capital and revenue expenditure. State government should make preparation, reporting and disclosure of these financial statements mandatory.** Government may also take help of ICAI to evolve a proper accounting framework. Proper accounting

framework will improve the information disclosure, transparency and accountability. It also helps in valuation of university assets and gradually facilitates an input-based performance evaluation. Disclosure of such information will also facilitate raising the financial resources through innovative structured mechanisms.

Our discussions with faculty reveals that, the current accounting manuals are very rigid, often counterproductive during working on research projects, field visits, invitation of guest faculty and purchase of equipments. Further, the state government-deputed accounting official may not understand the underlying academic spirit of making such payments. **SCHE can initiate a discussion on revision of accounting manuals to facilitate smooth administrative functioning.** Improving the existing processes will give little scope for mismanagement by any single individual and also improve accountability.

Regular annual external audit of the university has to be conducted by a qualified chartered accountant and the audit report has to be made part of annual accounts disclosure. State government should insist production of annual accounts and audit report as pre- requisite for subsequent annual funding.

Budgeting: All universities have traditional budgeting systems; each department prepares a detailed budget and estimates the revenue and capital expenditure. Often the previous year's figures form the basis for current year estimates rather than a specific agenda. Finance committee compares budget provisions of particular accounting year with actual figures and there is no other periodical accounting reporting system. The serious limitation of this traditional budgeting system is low accountability for success failure or meeting financial targets. A term plan (may be five-year) is needed to shift the university towards a goal of centralized performance-based budgeting including internal standards and external performance measurements. For this purpose, goals should be set in areas such as academic programmes, research activities, financial resources, cost control and others, and year-after-year improvements in standards should be achieved. **A strategic plan with targeted financial goals is needed for long run sustainability and improvement in quality.**

Harmonization of Information Reporting: The state universities are preparing and disclosing information to different agencies such as UGC, NAAC, different departments of state government, SCHE and many other organizations. Often the reported information is to achieve a specific purpose hence there may be a scope for manipulation of information. Shadow systems and duplication of data is evident in the absence of centralized data systems. For example, the students enrolled in a particular academic year and graduated students are not matching with various sources of disclosed information. Similarly there is no consistency in reporting of other academic information also. Each university has attempted to make their annual report as comprehensive as possible and have submitted volumes of information. **We recommend that a state-level body such as SCHE may prescribe uniform accounting and other academic information reporting and disclose systems. A centralized database on academic, accounting and financial information is needed.**

2.9 Based on review of state universities presented in this chapter, we recommend the following.

- State government should use fixed normative ratios for allocation of education sector budget to primary, secondary and higher education. We recommend that 20% of total education sector budget is to be allocated for higher and university education.
- Every university has to focus on specific courses based on physical and faculty infrastructure available to them and increase the capacities in those courses.
- The student–teacher ratios in some departments are very low and in other universities, faculty resources are scarce. Hence, universities should share faculty resources by introducing the concept of visiting faculty. Reallocation of faculty resources is essential.
- Infusion of new faculty through fresh recruitment should be taken up on priority basis rather than simply meet the criteria of social justice and roster system. The new faculty should be selected by strictly following UGC guidelines.

- Restructuring the current undergraduate examination system is warranted to reduce the burden of universities while organizing and managing the undergraduate examination activity, a separate state-level board may be floated for this purpose.
- State government has to form a team of software professionals to explore the possibilities of using high bandwidth ICT solutions in management of examinations.
- Accounting manuals are to be revised to meet the emerging expenditure requirements and reporting systems should be standardized with proper valuation of assets, capital expenditure and revenue expenditure, and recognition of surplus generated in a particular accounting year.
- Universities have to upgrade from traditional budgeting to performance-based budgeting with well-articulated internal standards and external performance measurements.
- Need for harmonization of reporting requirements for various agencies and a centralized data centre on financial and academic data.

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Chapter 3

Finances of Universities: Trends and Analysis

The objective of this chapter is to present trends and an analytical view on sources of university finances and expenditure pattern.

3.1 State Government Grants – Non-plan (Block)

The Karnataka state government sanctions a block grant to meet establishment expenses of a state university mainly for payment of salaries of all permanent staff., All state university faculty and staff are receiving salary, leave encashment, and other allowances as per the revised UGC scales which has enhanced the block grant commitment of the state government. The budget estimates of non-plan grants are presented in Table 3.1.

Table 3.1:Budget estimates of non-plan grants of select universities

University	2005–06	2006–07	2007–08	2008–09	2009–10	2010–11	CAGR
Mysore University	NA	37.17	39.03	40.98	43.03	45.19	5%
Mangalore University	14.16	15.81	16.31	18.93	19.55	43.94	25%
Karnatak University	48.04	53.50	54.00	64.21	68.00	NA	9%
Gulbarga University	14.5	15.00	16.80	24.00	38.00	NA	27%
Bangalore University	NA	NA	NA	35.00	36.45	NA	4%

NA: Data Not Available
Source: Budget estimate reports of respective universities

The three well-established universities managed a moderate growth rate of less than 9% while the demand from the Gulbarga and the Mangalore universities is very substantial with a growth rate of 25% per year.

Table 3.2 shows the amount of block grant received from the state government, on an average the block grant increases by 9% per annum. This increase is attributed to pay revision and periodical increase in DA to hedge the inflation.

Table 3.2: Block grants (non-plan) sanctioned by the state government– Rs. in Cr						
University	**2005–06**	**2006–07**	**2007–08**	**2008–09**	**2009–10**	**Annual growth rate**
Bangalore University	NA	NA	NA	35.71	27.34	
Gulbarga University	13.22	13.88	15.57	15.3	17.41	7%
Karnatak University	35.48	37.26	41.11	41.07	NA	5%
Kuvempu University	13.48	16.66	14.87	17.04	17.16	6%
Mangalore University	10.83	11.32	11.88	12.48	14.83	8%
Mysore University	35.41	37.18	39.70	40.99	43.04	5%
Tumkur University	11.00	2.61	2.61	7.39	NA	
Women's University	3.75	3.67	4.83	8.81	9.23	25%
(Source: Annual accounts of respective universities) , NA is data not available						

The block grants have ranged from Rs.41.07 Cr to Rs.2.61 Cr. The average block grant sanctioned to each university has increased from Rs.17.65 Cr to Rs.22.35 Cr over the period 2005–06 to 2008–09.

The non-plan grant per employee is highest for Karnatak University which is one of the oldest universities and lowest for Gulbarga University (Figure 3); amount per student also varies significantly from university to university (Figure 4). Karnatak University has received largest non-plan grant on per student as well as per faculty basis.

The state government often reduces the block grant amount and asks the universities to manage the remaining amount from internal resources. This reduces the flexibility of the university in using the internal income for any other development or research and academic activity. Mysore University has received the entire budgeted amount from the state government while others have managed the deficits with internal resources. The reduction in the block grant is not uniform and it varies from 7% to 54% (Table 3.3). This shows that there is no benchmark or framework for allocating block grants to universities. Government does not differentiate between established universities and the new ones. The norms are more or less similar. For newly established universities, there is flexibility to utilize block grant for meeting some capital expenditure

requirements also. However, the grants are just enough to cover the recurring expenditure. **Government should come out with a transparent budgetary allocation and targets should be set for universities well before the commencement of the financial year.**

Figure 3: Non-plan grants per Employee for the year 2009-10

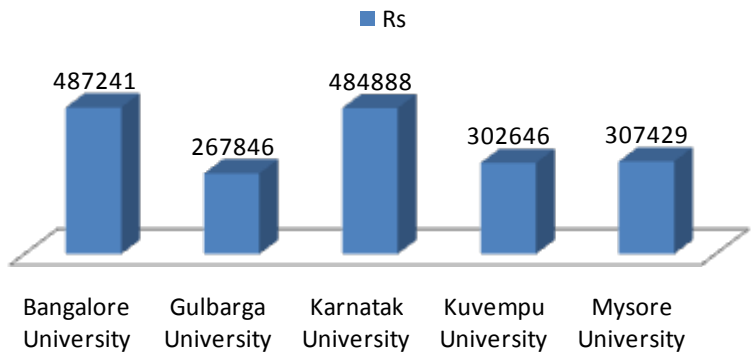
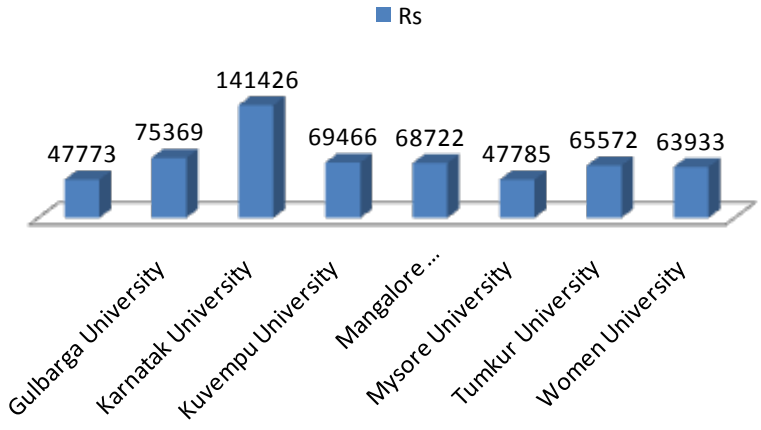


Figure 4: Non-plan grants per student for the year 2008-09



According to state government officials of Education and Finance departments, the government is committed to paying the salaries and other allowances of permanent state university employees (both teaching and nonteaching staff). Almost all the VCs have stated that this block grant is not released on a monthly basis and every month the state government has to be requested to release the block grant. **We suggest that the block grant may be released on a quarterly basis to avoid any wastage of time on routine administrative matters.**

Table 3.3: Deficit amount of non-plan requirement met by internal resources

University	2005–06	2006–07	2007–08	2008–09	2009–10
Bangalore University				0%	25%
Gulbarga University	9%	7%	7%	36%	54%
Karnatak University	26%	30%	24%	36%	
Mangalore University	24%	28%	27%	34%	24%
Mysore University		0%	-2%	0%	0%

We recommend that the three well-established universities (Mysore, Karnatak and Bangalore) may be given 60%, next three established universities (Mangalore, Gulbarga and Kuvempu) may be given 75%, and rest of the new universities 100% of budgeted pay and allowances as the Non-plan grant.

Student-centric Funding

Current method of providing non-plan grants is based on number of permanent employees on the rolls of a university. The main feature of this system is to extend financial support towards the main input cost, i.e. employee salaries constituting about 80% of the operating expenditure of a university. Government considers it as a burden on the state finances if the number of employees increase and several permissions are required to assess the financial implications of each proposal. To curtail this non-plan grant, the government is also conservative regarding recruitment of manpower. The government may instead adopt student-centered funding (SCF) to increase student enrollment and for wider access to higher education.

In the SCF method, finances from the state government flow to universities as per the resources based on individual student needs. Here, the university has to face the challenging task of

assessing the costs to graduate a student for each course. Each department has a responsibility to increase student enrollment and improve their accountability. Universities are empowered to make decisions about the use of resources and have better control on optimum utilization of resources. This method is followed by some countries such as the US especially in school-level funding. The Kakodkar Committee (2011) has recommended student-based financial grant from MHRD to meet plan expenditure for the IITs.

Based on the data for the period 2008–09, we determined that there are approximately 24000 PG and research students in the state universities (Table 2.4), while the total non-plan grant sanctioned is around Rs.180 Cr, (Rs.75,000 per student). The inclusion of all other overheads may increase the cost per student to Rs. 1,00,000.

The grant amount could be different for PG and doctoral courses. If each university is funded Rs.75,000 per student, universities enrolled with more number of students will get more funds and vice versa.

Table 3.4 : Estimated student-centric funding for the year 2008–09

University	Block-grant	No. of Students	Estimated Student-centric Funding	Difference between Staff-centric and Student-centric Funding
Bangalore University	35.71	7494	56.40	–20.69
Gulbarga University	15.3	2300	17.31	–2.01
Karnatak University	41.07	2904	21.86	19.21
Kuvempu University	17.04	2453	18.46	–1.42
Mangalore University	12.48	1816	13.67	–1.19
Mysore University	40.99	4283	32.24	8.75
Tumkur University	7.39	1127	8.48	–1.09
Women's University	8.81	1378	10.37	–1.56
Total	**178.79**	**23755**	**178.79**	

Table 3.4 shows estimation of funding by students centric method. It is clear that Karnatak University and Mysore universities whose student intake is relatively lower than others are overfunded. Except these two universities, the rest deserve better funding on the basis of SCF. The excess amount sanctioned to the university will provide flexibility to create better infrastructure and facilities for students.

We are unable to assess the exact funding requirements of each university in the absence of detailed cost information. **We suggest that the state government may seriously consider implementation of SCF instead of faculty centric funding**.

3.2 State Government Grants Plan

Karnataka government also provides grants to meet the capital expenditure of universities. This is called plan grant. Universities can use this amount for construction of buildings, purchase of laboratory equipments and meeting other capital expenditure applications. In the last five years, the grant received by various universities as plan grant was not substantial. Mysore University received Rs.2.71 Cr in 2007–08 and in the subsequent two years, Rs.30 Lakhs per year. Kuvempu University received Rs.13 Cr as plan grants in the last three years. Mangalore University received Rs.4 Cr in the last five years. Gulbarga University received Rs.23 Cr in the last five years, while the Karnatak University has not received any plan grant from state government to meet capex requirements (Table 3.5). Plan grant is provided by the state government as per the specific plans of the university. The government expects the universities to submit details of specific projects, resources requirement and the expected outcome. The plans submitted by universities are more often on construction of buildings, furnishing, purchasing of vehicles rather than any research-oriented project or targeting a specific outcome out of such project or expenditure. Many of the VCs view that government is discouraging them by not sanctioning any other grants for meeting capital expenditure requirements. Another reason for poorer allocation is emphasis on formation of new universities by carving out colleges from existing universities. These do not have physical resources and have to be created ad nova.

We did not find any criteria or rationale in allocation of plan funds to universities. Gulbarga and Mangalore universities have received significant amount of block grant. These two universities

were started at the same time but the grant received by Gulbarga University is substantially higher than Mangalore. We failed to find any rationale for budget allocations.

Table 3.5: Grants from the state government for Plan activities (Rs. in Cr)

University	2005–06	2006–07	2007–08	2008–09	2009–10	Total
Bangalore University	NA	NA	NA	1.41	0.65	2.06
Gulbarga University	1.46	1.26	4.81	8.84	7.16	16.00
Karnatak University	1.33	0	0	0	NA	1.33
Kuvempu University	0.50	0.50	5.25	5.00	3.00	8.00
Mangalore University	0.25	0.19	0.3	1.65	1.7	3.35
Mysore University	0.10	0	2.71	0.3	0.30	0.60

Source: Annual accounts of universities

We suggest that the state government should fund plan grants by entering into MOU with the university clearly stating the expected outcome in terms of increased enrollment of students, quality improvement programmes and resources mobilized. A matching grant method may also be evolved, where the university has to raise the resources and state government can provide the matching grant. **We recommend the matching grant method for funding the six established universities (Mysore, Karnatak, Bangalore, Mangalore, Gulbarga and Kuvempu) and the MOU-based method which sets specific objectives and accountability for the rest of the universities.**

Performance Funding and Performance Budgeting: Internationally, many governments adopt either performance funding or performance budgeting for evaluation of public funding to universities. Performance budgeting and funding are similar in that both programmes link institutional performance with budget allocation, but the methods differ in the way each ties institutional performance to state funding. Although, performance funding programmes link budget to institutional performance in a direct, automatic and formulaic manner, the link in

performance budgeting programmes is loose, indirect and uncertain (Burke *et al*, 2000). In the Indian context, either of them is present. The government should extend both plan and non-plan grants by following either performance funding or performance budgeting. The various indicators (Shin and Milton, 2004) commonly used in these are student enrollment, graduation rate, faculty workloads and externally funded research projects.

3.3 UGC and Other Grants

If a university is recognized under section 12(b) of the UGC Act, the UGC extends financial support to the state universities for meeting various capital expenditure requirements. A university has to fulfill certain criteria, to be recognized under section 12(b). Around 60% of UGC plan grants are sanctioned to colleges and universities for development purpose. UGC sanctions money to universities on the basis of performance, prospective plan and research proposals. Around 6% of total funds of IX plan were allocated to Karnataka state universities (Table 3.6). Under the IX plan, UGC invited proposals from universities for establishing centres with potential for excellence. Karnatak University received Rs.5 Cr grant for establishing a polymer chemistry centre. Similarly, Mysore University established a centre for history of science and received a grant of Rs.1.5 Cr. Under X plan, Kuvempu University has been identified as the Centre for South Asian Studies. Mangalore, Mysore and Kuvempu universities have been receiving significant amount of funds from UGC. UGC funding in X plan allocation was increased from Rs.13.44 Cr to Rs.20.45 Cr, a 52% increase over the IX allocation. The breakup of allocations is given in Table 3.7. The state universities have to satisfy the requirements specified by UGC and procure a major share, while the state government can focus more on funding of primary and secondary education.

Table 3.6: UGC grants sanctioned to Karnataka State universities – Rs. in Cr		
University	**IX Plan Allocation**	**IX Plan Sanction**
Bangalore University	2.70	2.43
Gulbarga University	2.70	2.43
Karnatak University	1.88	1.69
Kuvempu University	2.21	1.99
Mangalore University	2.60	2.34
Mysore University	2.85	2.57
Total	**14.94**	**13.44**
Total grants of UGC all over India	249.59	224.99
Percentage of Karnataka state universities	6%	6%
(Source: UGC)		

The UGC and central government funding have been instrumental in supporting the research activities of universities. Mysore University has received significant funds from UGC, central government and many other organizations. Often these funds are provided for research, purchase of books, provision of scholarships, laboratory equipments, organizing seminars and conferences, etc. These grants are drivers of academic and research activity at the university.

Table 3.7 : UGC grants (X-plan allocation) to state universities of Karnataka					
University	**Building**	**Equipment**	**Books and Journals**	**Staff and Others**	**Total**
Bangalore University	1.69	1.92	0.98	1.15	5.74
Gulbarga University	0.30	1.42	0.45	0.73	2.90
Karnataka University	1.20	1.25	0.64	0.60	3.69
Kuvempu University	1.27	0.59	0.08	0.00	1.94
Mangalore University	1.02	1.16	0.41	0.36	2.95
Mysore University	0.40	1.25	0.46	1.09	3.21
					20.45
Grant released during the years					
	2002–03	**2003–04**	**2004–05**		**Total**
Bangalore University	1.15	2.29	0		3.44
Gulbarga University	0.66	1.2	0		1.86
Karnataka University	0.81	0	0		0.81
Kuvempu University	0.56	1.13	0		1.69
Mangalore University	0.78	0	1.05		1.83
Mysore University	0.85	1.43	0		2.28
					11.91
(Source: UGC)					

These grants are meant for a specific purpose and generally leave no surplus. However universities spend around 30% of project funds for university overheads and purchasing office and laboratory equipments. Thus, a portion of capital and revenue expenditure of universities is taken care of by these projects. Apart from UGC and CSIR, several Government of India departments such as Science and Technology, Biotechnology, Space Research, Women and Child, Forests and Environment have been providing financial support to universities under various projects. Mysore and Mangalore universities have been successful in attracting significant funds (Table 3.8). Mysore University has received Rs.53.17-Cr funding from UGC

and various agencies and is the best example in generating resources from sources other than the state government. It is followed by the Mangalore, Kuvempu and Gulbarga universities in this regard. The recently established women's university has also received considerable funding. The funding indicates research activity, new projects, etc.

Table 3.8: UGC, central government, and other grants (Rs. in Cr)

University	2005–06	2006–07	2007–08	2008–09	2009–10	Total
Bangalore University	NA	NA	NA	9.85	3.44	13.30
Gulbarga University	0.68	0.43	2.67	5.74	8.75	14.49
Karnatak University	0	0	0	0	1.07	1.07
Kuvempu University	1.83	3.96	2.9	5.67	7.78	13.45
Mangalore University	3.54	4.1	6.97	7.59	11.25	18.84
Mysore University	13.29	15.51	27.32	34.53	18.64	53.17
Women's University	0	0	2.01	1.01	2.52	3.53
Source: Annual accounts of respective universities						

Attracting funds under various projects depends on the enthusiasm and entrepreneurship of the faculty. The universities have to be aggressive in attracting the funds. Presently, it is individual faculty driven. It has to be made systematic. Natural sciences faculties have many opportunities for raising funds under these schemes while humanities and social science faculties have limited opportunities. Some faculty members opine that the rigidity in accounting rules of the university discourages the faculty from taking up these activities. The government auditor raises several questions without understanding the purpose and nature of such expenditure. For example, rules for buying of specific equipment under a project should be simplified. **We recommend that universities should encourage every faculty member to take up project work. It should be made mandatory that every faculty member should take up one funded project in a period of three consecutive years. Universities should encourage the faculty by evolving flexible rules related to projects. The number of funded projects should be considered as part of evaluation of faculty for promotion and assigning other administrative responsibilities**. PMEB of a university should explore possibilities of raising funds from various agencies and encourage faculty to take up the projects. Research scholars under funded research projects

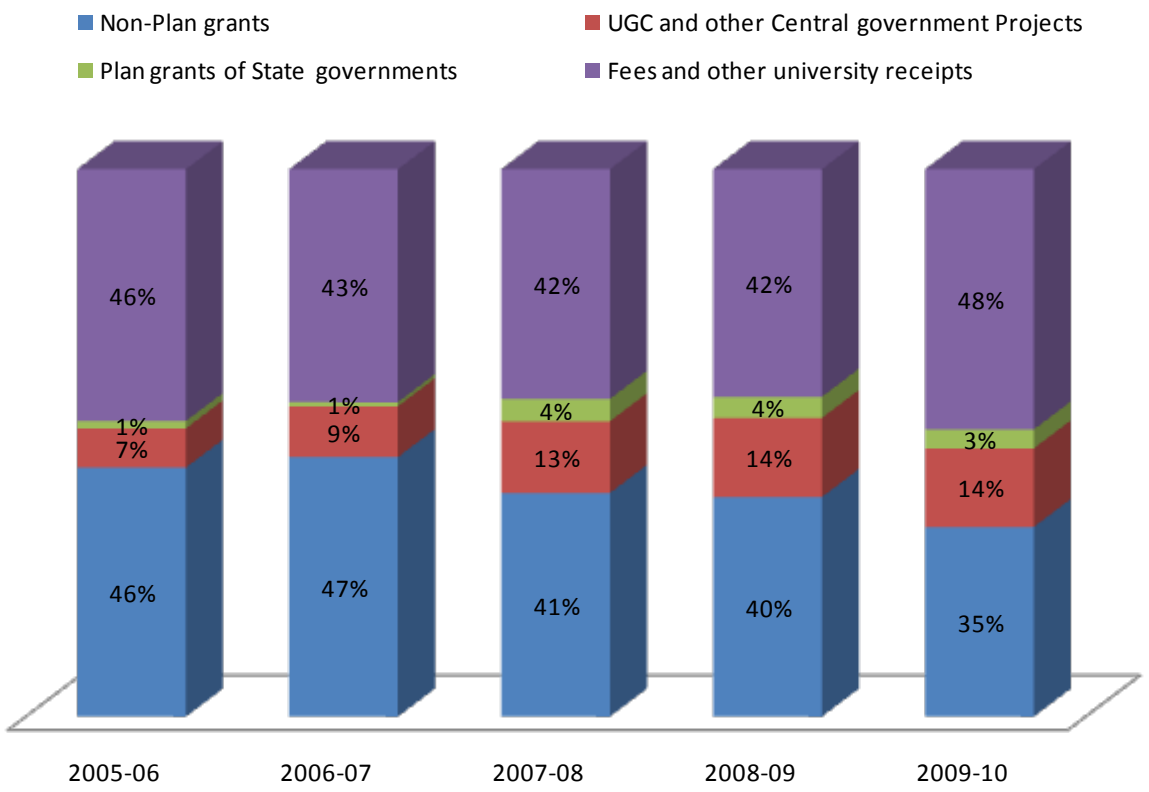
should be selected on national level basis strictly by following merit criteria. This will attract the best students to places which are otherwise not attractive.

UGC and other grants are meant for the purpose of creation of physical infrastructure and also for research projects. Often the funding agencies may be satisfied with submission of a research report which may be evaluated by the research funding evaluation committee. However, by spending money on research projects, a university creates physical facilities, appoints research scholars and increases publication in scholarly journals, registration of patents, launching of new courses etc. **To create accountability, performance audit of university research projects should be conducted by evaluating their multiple benefits such as academic contributions, industry contributions and social benefits**. Organizations such as SCHE or Knowledge Commission should audit the performance at least once in five years. Such audit will establish accountability and further funds can be attracted from various funding agencies and the industry. MK Narayanan, the governor of West Bengal and the chancellor of West Bengal universities indicated the need for 'performance audit' of research output by the sponsoring agencies of the research activities[12].

On the over all in the last five years the UGC Funding increased from 7 % to 14% of total resources, while the state government plan grant is insignificant. The non-plan grant gradually reduced from 46% of total resources to 35% and the internal resources constitute 48% of total resources (Figure 5).

[12] http://newsfromnadia.com/news-reader, July 22, 2011

Figure 5: Financial Sources of Karntaka State Universities



3.4 Capital Expenditure and Grants

We considered the payments made under the following heads as capital expenditure. Infrastructure development activities, purchase of furniture, computers, other office equipment, vehicles, sports equipment, library books, replacement of equipment, work in progress, acquiring of capital assets, computerization, construction of buildings and other developmental activity.

The capital expenditure of state universities increased from Rs.16 Cr to Rs.49 Cr over a period of five years which shows a 32% annual growth rate in creation of infrastructure, equipment and other facilities (Table 3.9). Mysore and Kuvempu universities have spent major amount of capital expenditure in the last five years followed by Mangalore and Gulbarga universities. The capital expenditure of Karnatak University was only Rs.3 Cr, the lowest among all the state universities, which is justifiable because the university is one of the oldest universities and has well-established infrastructure.

The state government grants (plan) and the other grants are expected to meet the capital expenditure requirement of universities. UGC grants are targeted at both capital and revenue expenditure. Table 3.10 shows utilization of plan and other grants for the purpose of capital expenditure. Mysore University has consistently generated surplus out of other grants and utilized this surplus for meeting the regular operating expenditure. Tumkur and Women's universities are in the process of incurring capital expenditure, thus a surplus may be noticed for a short period. Kuvempu University has also been able to generate surplus out of grants used for revenue expenditure. Thus, in almost all the universities, internal resources are used for meeting capital expenditure of the universities. All the universities have incurred higher capital expenditure than the capital grants they received by funding capital expenditure through regular recurring income.

New universities being start-ups, have to be nimble and lean, renting out inexpensive commercial space for classrooms and labs. Instead of funding dozens of departments, classroom clusters are to be developed and all the departments should have access to these classrooms.

Table 3.9: Capital expenditure of state universities (Rs in Crore)

University	2005–06	2006–07	2007–08	2008–09	2009–10	Total
Bangalore University	0.00	0.00	0.00	5.64	6.73	12.37
Gulbarga University	1.27	0.47	1.60	3.83	4.73	11.90
Karnatak University	0.60	0.59	0.77	3.56	NA	5.52
Kuvempu University	6.05	8.13	12.74	0.00	25.01	51.93
Mangalore University	0.74	0.90	1.04	5.24	6.53	14.45
Mysore University	5.56	6.44	21.60	10.63	10.75	54.97
Tumkur University	0.67	0.57	1.17	1.19	NA	3.60
Women's University	1.27	1.41	0.67	0.50	2.12	5.97

(Source: Annual accounts of respective universities)

Table 3.10: Surplus or deficits of grants over capital expenditure (Rs in Crore)

University	2005–06	2006–07	2007–08	2008–09	2009–10	Total
Bangalore University				–1.52	–2.67	–4.18
Gulbarga University	–0.20	–0.79	–3.21	–5.01	–3.50	–12.70
Karnatak University	–2.56	–3.37	–2.13	–2.11		–10.17
Kuvempu University	2.01	3.53	0.52	–12.59	10.76	4.23
Mangalore University	–12.80	–14.80	–26.58	–30.94	–13.82	–98.93
Mysore University	5.46	6.44	18.89	10.33	10.45	51.56
Tumkur University	0.67	0.57	–0.84	0.18		0.58
Women's University	1.27	1.41	0.67	0.50	2.12	5.97

Source: Researcher's calculations

The old and established universities have to manage their physical resources effectively and defer the capital expenditure plans. We appreciate the efforts of Women's University to run hostels and administrative buildings in rented premises. Davangere University has been hiring laboratory equipment from engineering colleges. **As large tracts of land are available to universities, initiatives may be taken to construct hostel buildings on a public–private partnership (PPP) mode where a private party may be allowed to construct the buildings**. Academic courses may be offered at a cost plus margin fee structure and some academic sections may be offered as per the norms of the university to facilitate education for merit and

underprivileged sections of the society. Alternatively, the private partner may build the infrastructure and the university can take it on annual lease, which is similar to annuity method adopted in toll road projects, it should offer a guaranteed return.

The total amount spent on capital expenditure for the last five years is more than Rs.160 Cr. The benefits of such huge capital expenditure are not known at all. Neither economic values nor book values of such assets are assessed. The investment performance of these assets is not known at all. Performance audit of university investment projects has to be conducted to assess the poor investment performance, serious losses and wastes, the property assets drained and repairs incurred. The performance audit can focus mainly on four perspectives: running university benefits, economic benefits, social benefits, and environment benefits. **We recommend that the state government should initiate performance audit of university investment projects. Universities have to review and challenge the capital expenditure plans and resources should be used optimally.** Every department need not own lecture halls, syndicate rooms, seminar halls, instead, a classroom cluster may be developed and by scheduling the time table in an effective way, resources may be used more optimally. We observed that every department is in the mindset of 'empire building' by owning more resources. Sharing of laboratory services with engineering colleges is also a viable alternative till the university generates adequate resources.

To fund the capital expenditure requirements, we recommend that the government should extend matching grant principle for all the six established universities, where the university prepares the capital expenditure proposal and creates a grant to meet 50% of the cost of the project while the state government should provide the remaining as plan grant. In newly established universities, where the state government has to fix performance targets and accountability for providing plan grants, MOU-based funding may be adopted.

Our discussions with VCs reveal that capital expenditure proposals are pending for a long time, in such a case **we recommend that government may provide a one-time grant to clear all the backlog proposals.**

3.5 Affiliation Fees

Every affiliated college has to pay a lump sum amount to the university every year for being affiliated to the university. The amount depends on number of students in the affiliated colleges (Table 3.11). This is a significant source of income and leaves a large surplus for the university.

Table 3.11: Affiliation fees of state universities (Rs. in Lakhs)

University	2005–06	2006–07	2007–08	2008–09	2009–10
Gulbarga University	70.28	235.26	176.16	245.02	243.44
Karnatak University	90.03	132.56	140.89	189.02	NA
Kuvempu University	43.85	80.44	75.48	107.6	47.49
Mysore University	90.58	133.84	119.79	199.57	152.35
Women's University	21.82	31.32	17.94	76.74	45.34
(Source: Annual accounts of respective universities)					

For example, receipts and payments of Kuvempu University for affiliation activity related to 78 colleges are given in Table 3.12.

Table 3.12: Surplus from affiliation services, Kuvempu University (Rs. in Lakhs)

	2005–06	2006–07	2007–08	2008–09	2009–10
Receipts(Rs. in Lakhs)	43.85	80.44	75.48	107.6	47.49
Expenses	2.91	7.57	5.95	10.82	13.22
Margin	93%	91%	92%	90%	72%
Source: Annual accounts of Kuvempu University					

The affiliation fees generates approximately 90% surplus for the universities. The expenses related to affiliation are inspection charges, DA, TA and honorarium for inspection teams. The transfer of affiliated colleges to newly formed universities transfers the income to the newly formed universities.

The expenses are low because universities do not play any enabling role to upgrade the capacities of affiliated colleges. The universities should take steps to improve the quality of the colleges through training programmes, workshops, development of materials and reviews.

Allocation of affiliation fees and fixation of affiliation fees are debatable issues. When the affiliation fee is increased, the colleges pass on the burden to students. **In the context of formation of new universities and reallocation of affiliated colleges, a policy guideline may be required on allocation of affiliated colleges and fees.**

3.6 Examination Fees

Every university being a federated affiliation structure has responsibility to conduct examinations for undergraduate and PG students. Examinations are a huge activity in all universities and also generate significant revenue. Mysore, Mangalore and Gulbarga universities have consistently generated surplus out of examination activities while the others have deficits (Table 3.13).

There is a view that state universities should be delinked from affiliation activity gradually by providing autonomy to undergraduate colleges. Once autonomy is granted to the colleges, universities are free from the burden of the activities of affiliated colleges which would save the time of university teaching and non-teaching staff. However, in the current financial condition of universities, delinking affiliation activity may result in a substantial loss of revenue which could be gained from affiliation fees and examination fees.

Table 3.13: Surplus or deficit generated out of examination fees account

University	2005–06	2006–07	2007–08	2008–09	2009–10
Gulbarga University	9%	38%	40%	–5%	2%
Karnatak University	–13%	2%	–32%	13%	NA
Kuvempu University	–17%	–16%	–22%	1%	–35%
Mangalore University	26%	30%	39%	37%	30%
Mysore University	24%	31%	37%	39%	43%
Tumkur University	NA	8%	–62%	–21%	NA
Women's University	–186%	–58%	–83%	–36%	–96%

(Source: Compiled from annual accounts of the university)

Excluding these two items, universities have very limited recurring annual income. Thus, the current model of federated affiliation university structure generates revenue for universities, which constitutes a major source of income. As discussed in Chapter 2, **we recommend application of information technology in undergraduate examination system to save the time and cost of universities in conducting the examination system.**

3.7 Fees from Self-financing Courses

Financial privatization has already taken place in public institutions through self-financing courses. Many universities are offering various self financing courses and generating revenue. These courses are often priced at full-cost basis and help the university to generate income. However, the surplus generated is not more than 20% of the collected fees.

3.8 Tuition and Other Fees

Tuition and other fees collected from students constitute approximately one-fourth of total internal resources generated by a university. Table 3.14 shows that older universities have lower growth rate in fee revenue than later formed universities. The absolute amount of fee revenue is increasing due to increase in number of students.

The new universities have increased the raising of internal resources faster than old universities. Mysore University shows lowest growth rate of 13% per year.

The contribution from fees of older universities towards the operating expenditure is very limited while the new universities are able to raise the internal resources. Kuvempu University increased its contribution to operating expenditure from 16% to 33% over a period of five years. The National Knowledge Commission (NKC) suggested that universities should raise the internal resources to meet 20% of the operating expenses. Thus older universities such as Mysore, Karnataka and Mangalore University have to evolve a plan to raise the internal resources.

Table 3.14: Fees and other university receipts (Rs. in Cr)

University	2005–06	2006–07	2007–08	2008–09	2009–10	Total	Average Receipts per Year	CAGR
Bangalore University	NA	NA	NA	19.20	22.08	41.28	20.64	15%
Gulbarga University	8.01	15.4	17.40	16.98	24.64	41.62	16.49	32%
Karnatak University	60.85	20.8	21.45	34.83	NA	34.83	34.48	29%
Kuvempu University	21.58	29.66	38.63	48.22	57.15	105.37	39.05	28%
Mangalore University	13.70	18.15	22.87	27.85	37.38	65.23	23.99	29%
Mysore University	18.13	20.96	26.83	28.81	29.71	58.52	24.89	13%
Tumkur University	1.00	2.93	4.31	5.52	NA	5.52	3.44	77%
Women's University	1.18	2.10	2.58	3.89	6.04	9.93	3.16	50%

(Source: Compiled from the annual accounts of the respective universities)

For Karnatak University, year 2005-06 is excluded for computation of CAGR.

Table 3.15: Share of student fees to total operating expenditure of the university (figures in percent)

University	2005–06	2006–07	2007–08	2008–09	2009–10
Mysore University	8.94	11.13	10.49	10.34	9.85
Gulbarga University	11.91	16.42	16.42	16.29	16.24
Karnataka University	6.29	5.61	7.50	11.35	NA
Mangalore University	11.83	17.00	11.58	12.02	22.52
Kuvempu University	16.4	17.24	20.41	30.09	33.20
Women's University	27.35	33.87	34.61	37.76	18.40
Tumkur University	NA	65.11	35.57	31.45	NA

Source: Compiled from the annual accounts of the respective universities

3.9 Other Miscellaneous Sources

Income from Publication Activities: The publication division of the universities is called as Prasaranga and is involved in publication of text books, other books and monographs. Publication activity contributes surplus revenue of around 30% to 40%. Universities can leverage on their publication capacities and explore commercial opportunities for publication.

Distance Education and Correspondence courses: Some universities have distance education activity or offer graduation and PG courses through correspondence programme. The correspondence education increases access to higher education and with the modern information technology, the outreach can be increased. Kuvempu University has around 28000 students registered for correspondence courses while the Mangalore University has only 3000 students. For Kuvempu University, correspondence education provides a good margin of around 60%. Gulbarga University intends to start correspondence education with a view to increase internal resources. The state government has instructed the universities to stop correspondence education as Karnataka State Open University (KSOU) has been exclusively established for this purpose. Universities may be permitted to take active part in correspondence courses, which will increase outreach, competition among the state universities and also provide a surplus to the university. IGNOU provides national-level distance education programmes by creating huge infrastructure capacities. State universities can play a more active role as facilitating centres instead of replicating reading material, contact classes and examination activity. Conventional model of distance education may be transformed to virtual mode. Creation of e-reading material will help the universities in saving huge printing costs of reading material. In collaboration with KSOU, and IGNOU, other state universities can widen the access to higher education. **A revenue sharing model may be designed for all distance education programmes, where the state university is involved in marketing of the programme; and IGNOU and KSOU will provide the academic inputs and reading material and conduct examinations.**

3.10 Operating Surplus

Table 3.16 shows that grants alone generate surplus revenue for the state universities. Interestingly, well-established universities have higher deficits than others, indicating higher dependency on grants and funds rather than moving towards generating internal resources.

Table 3.16: Operating deficits of universities

University	2005–06	2006–07	2007–08	2008–09	2009–10
Bangalore University				–71.75	–71.34
Gulbarga University	–13.96	–6.56	–9.08	–16.98	–10.25
Karnatak University	12.62	–37.41	–41.1	–36.77	NA
Mangalore University	–6.11	–5.44	–3.53	1.91	0.75
Mysore University	–30.93	–27.87	–27.23	–37.9	–39.85
Tumkur University	–0.05	–0.01	–0.59	0.19	NA
Women's University	–1.82	–1	–2.76	–1.04	–2.27

(Source: Annual accounts of respective universities)

3.11 Conclusion

On the basis of above analysis of receipts and payments, we recommend that the state government should clearly specify its funding plan to each university. This target may be released well in advance by sanctioning necessary permission to raise internal resources. Based on revenue generating capacities of universities, we suggest that 60% of total pay and allowances of permanent staff may be funded to the three established universities Mysore, Karnatak and Bangalore. The other three universities Gulbarga, Mangalore, and Kuvempu may be sanctioned 75% of the budgeted pay and allowances; and the remaining universities may be given full funding for non-plan requirements. Budget allocation process should be made transparent with stated objectives and should streamline the process of sanctioning the non-plan grant on a quarterly basis.

Alternatively, the state government may shift to direct SCF from the current practice of faculty- and staff-based funding. Undoubtedly, this will encourage students to join universities and select

the courses of their choice. Accountability is built on the part of every department to structure the courses to attract the students apart from. It is the responsibility of the departments to structure courses that are attractive to students.

The state government can adopt a hybrid model, where 50% of pay and allowances of the staff may be paid directly to all universities and excess of any other funding could be student centric. This gives flexibility to universities to allocate the funds to improve the facilities for students and to attract them towards higher education.

The second major financial support extended by the government is the plan grant for meeting capital expenditure requirements. Our data analysis shows that a few universities have received more amount than others and the basis is not clear. It could be an objective basis, number of students or any other factor. Such type of funding has also not established any accountability and achieving of specific tasks by a university. Established universities have received funds from other sources such as UGC and also from the state government while the new universities are more dependent on the state government alone. We recommend state government funding on the basis of matching grant method for the long-standing six universities and an MOU-based method for funding other universities.

Currently, a single plan grant is provided to meet the capital expenditure requirements. The system seems to be inelastic in meeting the multiple financial requirements of higher education and its maintenance is required to improve the quality. In the plan grants, a proper blend of maintenance grants, research and development grants has to be evolved to promote excellence in research.

The government may take up proposals from each university for meeting minimum requirement of basic infrastructure and a one-time grant may be provided to clear the whole backlog of pending capital expenditure requirements.

Capital expenditure proposals are often meant for creation of infrastructure such as buildings; more attention is to be paid for quality-related inputs in higher education, particularly research projects. A separate allocation of funds for research which is expected to improve quality and lead to excellence is needed. A special plan grant is to be earmarked to encourage research in liberal arts and social sciences. As the government is dealing with several social and economic policy issues, the state universities should be encouraged to take up research on several social issues. A separate grant of Rs.10 Cr may be created to fund the research projects.

Universities should be discouraged from incurring capital expenditure for creation of infrastructure such as quarters for faculty and staff unless they have a cushion of internal and other sources of funds. State government should provide direct incentives to the faculty and staff to find suitable accommodation. State government may provide a subsidy of 2% interest on housing loans for self-occupied houses.

Restructuring of current examination administration system should be taken up on priority basis with application of ICT solutions which will generate adequate surplus that can be shared among the universities.

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Chapter 4

Cost and Fee Structure

The objective of this chapter is to analyse unit cost of university education and review the fee structure of state universities.

4.1 Cost Structure

Identification and categorization of costs is very important in a university to understand the cost behaviour, cost drivers and to evolve a proper fee structure. Four main types of costs are identified by NACUBO (2002)[13].

Instruction and student services cost: The direct instruction cost data available is payment of salaries and other allowances of the faculty. However, a faculty member supervises research work, project work and other administrative work such as hostel administration, general administration and other student services. The time spent by the faculty for other activities is student servicing cost.

Departmental research costs: These are costs incurred on account of research activity of the departments. It may be subscription to databases, specific research journals, laboratory equipments, chemicals and other material for conducting experiments.

Institutional costs/community costs: A university creates various facilities for the benefit of students, staff and other community members. These are health centre, sports facilities plantation and maintenance of horticultural activities and maintenance of staff quarters.

Subsidy costs: Universities charge subsidized fees to various students. The revenue foregone on account of this concession is subsidy cost.

Facilities and capital costs: This is a complex and challenging issue. Universities have developed and created infrastructure such as buildings, academic blocks, laboratories, sports

[13] National Association of College and University Business Officers, UK

complex, faculty housing, and hostels over a period of time. Capital costs include both depreciation on these assets and economic costs of these assets by considering time value of money.

Average cost per student can be the sum of all the four costs divided by full-time equivalent students (FTE). In a university, different students spend different amounts of time, for example science students may need to spend additional hours on laboratory and social science students may go for a field visit. Part-time and research students may spend limited hours, thus all these are to be converted into FTE to arrive at the average cost per student.

The current accounting system in universities provides limited information on year-wise receipts and payments. To determine the per unit cost data, segregation of cost either on functional basis or on behavioural basis is difficult to ascertain with the available reported information. Further, there is no consistency in reporting across the universities, a serious limitation for comparison. However, we tried to ascertain the average cost per student data from annual accounts and budget estimate records to get an approximate idea of cost of university education. Here, we are analysing the cost structure of a PG centre and four departments of three selected universities.

4.2 Cost Structure of a PG Centre:

The PG Centre Davangere, Kuvempu University has four departments with 447 students, 12 permanent faculties, and 19 guest faculty (Table 4.1).

Table 4.1: Structure of PG Centre Davangere, Kuvempu University

Departments	No. of Permanent Faculty	No. of Guest Faculty	No. of Students	No. of Research Students
Economics	3	2	91	9
Commerce	4	8	203	12
Biochemistry	3	6	82	6
Education	2	3	39	5
Total	**12**	**19**	**415**	**32**

Source: Kuvempu University, Annual Report

The total operating cost of the PG centre is Rs.189.84 Lakhs, out of which the cost of salaries isRs.151.97 Lakhs (Table 4.2). The average annual salary paid to each permanent faculty is Rs.5.71 Lakhs, while the salary to temporary faculty is Rs.1.5 Lakhs, indicating 80% of cost is pay and allowances only. The centre is incurring a significant cost of Rs.16 Lakhs as incentive for teaching self-financing courses, which is about half of the other operating expenses. If we assume that these incentives are paid to guest faculty, the average guest faculty salary may jump to Rs.2.35 Lakhs. Alternatively, if these are paid to permanent faculty for compensating extra teaching, it raises a question on funding salary through state government grants. The expenses reported are only the directly traceable cost and exclude the allocation of capital cost incurred by the university in creation of infrastructure and also subsidy costs. The recurring operating cost per PG student is Rs.42470. The centre had spent Rs.8.23 Lakhs on equipment and books; we assumed it as capital expenditure that depreciated over a period of five years. After allocation of these capital costs, the average cost per student is Rs.42838 per year.

The fee charged by the university for a general category student is approximately Rs.20,000, which is less than 50% of the total recurring operating cost. As the PG centre is offering self-financing courses also, the average revenue per student is Rs.39680. This is the fees paid by the students for both regular and self-financing courses. Thus, self-financing courses generate surplus revenue which may offset the costs of regular subsidized courses, as the subsidy is being enjoyed by all the students. The PG centre has a deficit of Rs.4500 per student. The grant received per student is approximately Rs.14000, which generates a surplus for the centre.

Table 4.2 Receipts and payments of the PG centre		
Receipts	**Rs. in Lakhs**	**Figures in %**
University receipts	177.37	74
Block grant allocated	63.00	26
Others	0.57	0
Total	**240.94**	**100**
Payments		
Pay and allowances	68.47	36
Guest faculty salary	28.58	15
Non-teaching staff salary	43.41	23
Other support staff salary	11.51	6
Self-finance course incentives	16.17	8
Maintenance	3.79	2
Electricity charges	9.24	5
Academic resources	5.40	3
Other administrative expenses	4.92	3
Total	**191.486**	**100**

The analysis reveals that, the salary of a temporary faculty is around one-fourth of a permanent faculty salary. Even by charging market-oriented fees, the centre is not in a position to pay better salaries to attract and retain the faculty. Thus, privatization of higher education by starting the self-financing courses may increase access to education by increasing the number of students who can afford it but universities are unable to recover the costs fully. In the absence of qualified faculty it raises concerns about quality. Universities have to come out with specific objectives of

self-financing courses, revenues being generated out of the courses and method of allocation of such revenues.

4.3 Cost Structure of Select Departments

We have attempted to compute costs per student in the three universities, Mangalore, Mysore and Karnatak; by selecting four departments from each university namely Economics, English, Physics and Biochemistry. We first considered the expenditure which was directly traceable to the departments from the budget estimates of the university. Then we computed the overheads of the universities by considering all costs other than those allocated to each department. The overheads of Mysore, Karnatak, and Mangalore universities were 34%, 54% and 49%, respectively. We then add up the direct cost and the allocated overhead cost to get the total cost and divide the total cost by the number of students of each department to get the average cost per student. This is a rough estimate as the overheads have to be computed more systematically. We find that the costs of the same departments vary widely across universities and departments at each university (Table 4.3). The average cost per student for an economics course is lowest for Mangalore University and highest for Mysore University. Interestingly, Mysore University is charges a fee of Rs.3700 for the general category students (Table 4.4). Thus, it recovers only 7% of the direct costs. Mangalore University charges Rs.16810 and recovers approximately half of the direct costs from the general category students. Interestingly, English department costs are higher than the economics department. In all the three universities, physics course is costlier than all the other three courses. In Karnatak University, average cost per student for physics course is 2.67 times that of economics course while in Mysore University it is 4.56 times higher. The variations in cost structure raise an important question on how costs are determined. What are the cost drivers and how are universities allocating the overheads? Is price determined by cost, demand, or quality of infrastructure and faculty? These questions assume importance in determining the fee structure

The three-year cost estimates of these four departments raise further interesting questions (Table 4.5). Karnatak University estimates are growing at a more substantial rate than those of other universities. How are universities preparing the budgets? What is the basis for such projections?

Why is projected student strength in some departments less than that of previous years? Overall, the cost structure gives a distorted picture of university education.

Table 4.3: Budgeted estimated cost per student for the year 2009–10				
	Economics	**English**	**Physics**	**Biochemistry**
Direct cost				
Karnatak University	47897	59454	127903	107625
University of Mysore	54286	91616	247714	69600
Mangalore University	32542	51347	102702	37519
Total cost				
Karnatak University	73282	90965	195691	164666
University of Mysore	72743	122766	331937	93264
Mangalore University	48487	76506	153026	55904

Table 4.4: Current fee structure of select PG courses for the academic year 2010–11 (Rs. charged per year)						
	MA	**MCom**	**MSW**	**MSc**	**MBA**	**PhD**
Gulbarga University	19865	19865	38765	26765	36300	5580
Kuvempu University	15397	18573	53512	21573	47910	16000
Mangalore University	16810	22180	17810	15210	61560	20600
Mysore University	3700	3700	12100	17500	58265	30750
Tumkur University	22360	33296	57623	23763	NA	NA
Women's University	10156	10176	10176	10954	39600	10270
Davangere University	15346	18585	53587	21825	44986	NA
Source: Information supplied by respective universities						

Table 4.5: Cost structure of the departments			
	Economics Department (in Rs)		
Years	2007–08 (Actual)	2008–09 (Revised Estimate)	2009–10 (Budgeted Estimate)
Karnatak University			
Direct cost per student	17,654	26,867	47,897
Allocated overhead cost per student	9,356	14,239	25,385
Total per capita cost	27,010	41,106	73,282
University of Mysore			
Direct cost per student	57,589	55,120	54,286
Allocated overhead cost per student	19,580	18,741	18,457
Total per capita cost	77,169	73,860	72,743
Mangalore University			
Direct cost per student	29,908	33,721	32,542
Allocated overhead cost per student	14,655	16,523	15,945
Total per capita cost	44,563	50,244	48,487
	English Department (in Rs.)		
Karnatak University			
Direct cost per student	22,642	32,849	59,454
Allocated overhead cost per student	12,000	17,410	31,511
Total per capita cost	34,642	50,258	90,965
University of Mysore			
Direct cost per student	61,878	89,165	91,616
Allocated overhead cost per student	21,039	30,316	31,150
Total per capita cost	82,917	119,481	122,766
Mangalore University			
Direct cost per student	23,343	59,337	51,347
Allocated overhead cost per student	11,438	29,075	25,160
Total per capita cost	34,781	88,412	76,506

Table 4.5 continued…

Years	Physics Department 2007–08 Actual	2008–09 Revised estimate	2009–10 Budget estimate
Karnatak University			
Direct cost per student	74,645	84,777	127,903
Allocated overhead cost per student	39,562	44,932	67,789
Total per capita cost	1,14,208	1,29,708	1,95,691
University of Mysore			
Direct cost per student	83,313	178,160	247,714
Allocated overhead cost per student	28,326	60,574	84,223
Total per capita cost	111,640	238,734	331,937
Mangalore University			
Direct cost per student	62,971	105,237	102,702
Allocated overhead cost per student	30,856	51,566	50,324
Total per capita cost	93,826	156,803	153,026
	Biochemistry Department (Rs.)		
Karnatak University			
Direct cost per student	93,300	1,02,175	1,07,625
Allocated overhead cost per student	49,449	54,153	57,041
Total per capita cost	1,42,749	1,56,328	1,64,666
University of Mysore			
Direct cost per student	68,134	56,757	69,600
Allocated overhead cost per student	23,166	19,297	23,664
Total per capita cost	91,299	76,055	93,264
Mangalore University			
Direct cost per student	24,066	36,195	37,519
Allocated overhead cost per student	11,792	17,735	18,385
Total per capita cost	35,858	53,930	55,904

4.4 Fee Structure

A fee charged by universities has several components and a tuition fee is the main component. All universities follow state government guidelines and have a differentiated fee structure for general and reserved category students. Reserved category students pay around one-third of the fee paid by general category students. Within the reserved category also, income criteria is considered. All universities have payment seats in the PG courses and self-financing courses in various fields such as computers, biotechnology, pharmacy, industrial chemistry, management, etc. The fee structure of the payment and self-financing courses are substantially higher than other courses. All universities have payment seats in all the courses; the fee being charged is seven times higher than the general category students. However, the number of seats in payment category in a class varies from 20% to 40% of the total class.

Table 4.6 shows the fee structure of select universities for the last few years. The University of Mysore did not revise the fee for the last two years 2007–08 and 2008–09, but revised it in the subsequent two years. The fees for job-oriented courses such as MBA and MSW has been by enhanced by 10% while in other courses it is a nominal enhancement of 2%. Mysore University charges substantially lower fees for MA and MCom courses. The fees in self-financing mode is around 10 times higher than the fees charged for general category students of MA and MCom courses and five times higher than general category students of courses such as MSW. Mangalore University has revised the fees every year across all the courses. In 2008–09, a fee for MCom was increased by 23% over the previous year and in the subsequent years an 8% enhancement is evident. Women's university has been enhancing the fees by 20% every year consistently across all the PG courses, while another newly established university Tumkur University has not revised its fees in the last three years. The fees being charged for PhD course is lower than some of the PG courses. Most of the PhD students are entitled for scholarship or they must have worked for few years after the completion of PG degree. Hence, payment of fees may not be an obstacle in securing the highest degree from the university. Thus, universities can charge higher fees from PhD students, although the overhead cost in some disciplines is very low. Further, on completion of PhD, the employability of the candidate is high; hence financial support in the form of bank loans is also possible. Fee revisions are not uniform across all the

universities. Whether it is demand push or cost push is also not clear. University fee revision is a politically sensitive issue and many student unions protest immediately against any fee enhancement. A state university has autonomy to raise fees up to 5% only. One view is that fees paid by the students in the previous class may be treated as a benchmark for determining the fees. Students should be asked to produce evidence of the fees paid at graduation level with proper receipt. Tilak (2004) shows that in a sample of 39 universities, half a dozen universities raised the fees in such a way that they could recover 50% of the recurring expenditure and the other 13 universities could generate around 20%. Thus, university fee structure is not exactly decided on cost basis. The VCs and other interviewees mentioned that economic background of the students registering in university departments is generally poor and they pay even this fee in installments. Thus, fee structure should consider affordability also.

Economics defines higher education as an associative good (Hansmann, 1999). While selecting a specific university or college ,a student is interested not only the course of his choice but also look for intellectual environment, past achievements, sociability, athletic prowess, social networking of other students among other factors. The university should in a position to factor all these in the price.

Are universities considering demand factors in fixing the fees? For example, in the last few years management education (MBA) has seen a huge demand with a phenomenal growth and presence of a large number of private management institutions. Most of the private colleges are charging fees in the range of Rs. 3 Lakhs to Rs.7 Lakhs for a two-year MBA degree. Karnataka state universities are charging far below the private colleges which range between Rs.80, 000 to Rs.1, 30,000 (Table 4.4). MBA gained recognition as a market-oriented course with potential for employment immediately after completion of the course. Universities could have charged a higher fee for MBA as they have better infrastructure facilities and faculty resources. Banks are also offering loans for these courses. Courses such as MBA can be made more competitive without much incremental capital expenditure. Qualitative efforts of faculty, building up of relationships with industry, involvement of corporate executives in curriculum design and in

extension lectures and active placement cells can improve the quality of management education which may attract the students not only from the state but also from other states.

Table 4.6: Fee structure of Karnataka state universities				
Mangalore University	**2007–08**	**2008–09**	**2009–10**	**2011–12**
MCom	15410	18950	20540	22180
MSc	12910	14150	14990	15210
MA	12910	14150	14990	16810
MSW	12910	14450	15540	17810
PhD	NA	NA	NA	20600
Kuvempu University	**2007–08**	**2008–09**	**2009–10**	**2010–11**
MA	15523	15523	15523	15397
MSW	53764	53764	53764	53512
MBA	48162	48162	48162	47910
MCom	18762	18762	18762	18573
MSc	22002	22002	22002	21573
PhD	16000			
M. Phil	10750			
Tumkur University	**2007–08**	**2008–09**	**2009–2010**	
MA	22360	22360	22360	
MSs	23763	23763	23763	
MCom	33296	33296	33296	
MSW	57623	57623	57623	
Mysore University	**2007–08**	**2008–09**	**2009–2010**	**2010–11**
MBA	51800	51800	52495	58265
MCA	31800	31800	32495	33265
MSW	NA	NA	10995	12100
MSC	14450	14450	15895	17500
PhD	26850	26850	29650	30750
Women's University				
	2007–08	**2008–09**	**2009–2010**	
MA (Two Years)	7049	8465	10156	
MSc (Two Years)	7605	9126	10954	
MSW (Two Years)	7065	8478	10176	
MBA (Per Year)	50000	NA	39600	
PhD	11800	8620	10270	

4.5 Conclusion

Based on the cost and fee structure of universities, we summarize that the current direct cost per student at the PG centre is Rs.43,000 per year. The direct cost per student at department level varies from Rs.32,542 for economics to Rs.2,47,714 for physics. The overheads are substantially higher and vary across universities. Thus, the total per unit cost of education varies from Rs.48,000 for economics to Rs.3,31,000 for physics. The projected number of students is not showing significant increase but the direct costs and overheads are increasing. Thus, students may not be cost drivers for increased direct and overhead cost. **Universities have to perform detailed cost analysis and analyse the cost drivers; efforts should be made to reduce the costs by substituting several administrative functions with technology.** The current fee structure is almost stagnant and established universities have not increased the fees to cover the increased costs. **A revision is needed in the fee structure for PG and doctoral courses**. Established universities can charge a higher amount of fees while the newer ones can charge lower fees but the current structure is reverse of this. **We recommend that universities can introduce the concept of announcing 'sticker price' for each course fixed on the basis of cost of offering that course without any subsidy and all concessions and discount may be offered based on the 'sticker price'**. For example, on the basis of Table 4.3, the sticker price for economics course in Mysore university can be Rs.55,000 per year and concessions/discounts for various student categories may be announced separately. This improves the awareness among all the stakeholders of a university about the exact cost of university education. The government can offer discounts to social, economic and gender criteria on the basis of sticker price.

A detailed study should be initiated by the state governments to understand the costs of higher education at both undergraduate and PG levels. The study should come out with a methodology where every college and university can present cost and price data in standard format. The data should not be standalone but should always be accompanied by descriptive material to help stakeholders – students, parents, faculty, governing bodies such as syndicate, policymakers and community at large to understand the expenses and costs that a university or college incurs in providing higher education. Such information will also serve as a potential internal management tool allowing individual institutions to track costs and also

facilities comparison with others. Cost control can emerge as one of the KPIs in performance evaluation. Universities should intensify their effort to control costs and increase institutional productivity. Each faculty member should be conscious about administrative costs, faculty teaching loads, average class size, student–teacher ratios, and facilities management. Revising and rationalizing the fee structure at the higher education level is long overdue.

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Chapter 5

Improving the Finances: Alternatives

This objective of this chapter is to discuss various alternative sources for financing higher education.

5.1 Leveraging on Fixed Assets

To increase the capacity of intake, the universities require academic blocks and student hostels, which is a huge capital expenditure outlay. Universities may come out with innovative plans to meet this requirement**.** The state universities have a rich source of land and buildings acquired and developed over a period of time (Table 5.1). Many universities have surplus land over the built up area. As the universities are not preparing any balance sheet, the book value of these land and buildings are not known. Universities can explore the possibility of raising the resources by leveraging on fixed assets.

Table 5.1: Land resources of Karnataka state universities

University	Land in Acres
University of Mysore	739
Mangalore University	350
Karnatak University	750
Bangalore University	1100
Gulbarga University	860
Kuvempu University	230
Tumkur University	110
Women's University	281
Davangere University	73

5.2 Building Hostels and Academic Blocks in PPP Mode

Public Private Partnerships (PPPs) involve government and private players working hand-in-hand to provide public infrastructure and other services, while jointly sharing the risks, rewards,

investments and responsibility associated with the activity. Government and universities should show initiative in building hostels with support from private parties and the rent should be paid by the student. State government can explore the possibility of creating infrastructure for universities in PPP mode. PPP in social sectors such as health and education are sometimes referred to as public--social private Partnerships (PSPP). However, the returns on social sector projects are very low and private parties may not come forward, but government can explore the possibility of mobilizing low interest cost loans for such projects from international funding agencies. Under PPP mode, Royal Northern College of Music in the UK has developed about 160 study rooms, staff and guest accommodation and car parking facility (PWC Report, 2010).

5.3 Building Corpus fund through Industry Participation

Industry participation is needed to meet capital expenditure requirements and also establish corpus fund for academic and research activities. Currently, a few universities have endowments which are mainly encouraging the students to achieve merit for which a medal or memorial prize may be offered. In addition to this, endowments should be created mainly to support the students through scholarships.

Universities should establish a scholarship fund in association with many firms, alumni, corporate, etc. and offer merit awards or scholarships to students purely on merit basis. These merit awards should be sufficient enough to meet at least 20% to25% of the fees requirement. Such merit awards should be granted purely on merit and economic criteria. A university is expected to compete for best students; this is possible by offering special scholarships on merit basis to exceptionally good individual students. This can be made possible provided the university can create a good corpus fund.

Philanthropists and trusts can provide funds if suitable projects are identified with clearly specified objectives and defined expected outcomes rather than asking contribution for a core fund. For example, Mysore University has been able to obtain Rs.6 Cr from Infosys foundation for a specific project and Gulbarga University for establishing e-library resources (see Box-1).

Universities have to make a joint survey to assess the manpower requirement in various industries especially in services sector and design the courses and seek collaboration in terms of industry projects, apprenticeship, scholarships, etc. For example, Bosch has announced 22.8 million Euros higher education funding for India. It is setting up a 'Robert Bosch Centre for Research in Cyber Physical Systems', at IISc[14]. Recently, Bangalore University formed a corporate committee to raise financial resources from the corporate sector for developmental activities of the university.[15] However, encouragement and financial support from the industry is also needed for social sciences.

Box 1

Alternate Funding Sources: Practices of Karnataka State Universities

- Davangere University acquired land on donation from two private trusts.
- Tumkur University received Rs.3-Cr grant from MTR group for establishment of College of Commerce and Business Management and Rupees One Crore grant from State Bank of Mysore.
- The University of Mysore received Rs. Six-Cr grant from Infosys Foundation.
- Gulbarga University received Rs.1-Cr grant from Infosys Foundation for establishment of e-library.
- Bangalore University formed a corporate committee to explore the financial resources from the corporate for developmental activities of the university.
- Karnatak State Women's University received a grant of USD 60,000 from HP and is one of the few universities receiving funding support from HP.
- Davangere University is outsourcing laboratory facilities from local engineering colleges on rental basis.
- Kittur Rani Chennamma University is exploring the possibility of raising funds from HUDCO for infrastructure development.
- Bridge loans are raised by the Christ University (private deemed) which is repaid out of future fees.

[14] *The Economic Times*, May 17, 2011

[15] Bangalore university looks at cashing in through corporates, *DNA*, May 27, 2011

5.4 Educational Loans

Financing higher education through educational loans is a recent phenomenon. Following RBI guidelines, banks have been providing educational loans to students pursuing higher education, especially in professional courses such as medicine, engineering and management courses. Banks are considering employability of the student and the potential employment opportunities as criteria. Thus availability of educational loans to students of non-professional courses is limited. To minimize this risk factor, universities have to play a proactive role in providing data on past students and their employment in various sectors -- industry, government, social sector and education.

An idea of forming a separate educational finance corporation has been floating around since a couple of years. CABE committee (2005) and The task force committee on higher education (2004) have also endorsed this idea and recommended that Karnataka Higher Education Development Corporation should be formed with a corpus of Rs.300 Cr. The main objective of the corporation is to provide financial support in the form of loans to students pursuing university courses and also to colleges and universities to set up modern facilities for teaching, training and research. The committee has recommended educational loans with differential interest rates structure on basis of parental income. Although the central government has given tax exemptions to interest on educational loans, the educational loans are still an insignificant portion of higher education financing. With the push from the RBI, commercial banks are providing educational loans mainly to the students pursuing professional courses. Educational loans should be made as right of every student but not privilege. Government with State Level Bankers should devise a transparent policy and such information should be available to all students well in advance. Students and parents should get confidence that such loans are available to all without any discrimination provided student is eligible for admission as per the college or university criteria. Recently, the Karnataka state government has announced interest-free loans for higher education of farmers' children[16]. This is a welcome step; however the government should introduce a clear policy for providing loans to the higher education sector

[16] Budget Speech 2011--12

and analyze associated financial implications rather than treating them as populist measures. Internationally in many countries Governments extends a guarantee to education loans, these are popular in the forms of Human Capital Contracts and Income Contingent Loans (see Box 2 for details).

Banks face the problem of default on educational loans and monitoring them is a challenging task in the absence of information. Lack of depth in credit markets is another reason where banks have almost no opportunities for any innovative instruments such as securitization for educational loans. Education is considered as an illiquid investment and absence of collateral is a serious limitation to securitization of the educational loans. Employment opportunities for non-professional graduates is very minimum, thus banks consider it has high-risk factor. In the context of current technology and ICT solutions, banks and educational institutions can establish proper control systems to monitor the educational loans. For example, every student joining undergraduate course or PG course should obtain a permanent account number (PAN) card and the bank has to provide the loan on the basis of PAN card apart from other information[17]. Similarly, students who are going abroad for either higher studies or for employment purpose should get clearance for passport and visa arrangements only after repayment of the educational loans. With use of appropriate technology, both employed and self-employed can be monitored provided the banking and income tax systems exchange the information and track the cash flows of individuals. Data on educational loans is to be mined with CIBIL also, which is helpful in processing of credit card and other future loan requests of the graduated students. With the introduction of Aadhar - UID number, we see the possibility of a single bank account also. In such a case, monitoring of loan account would be much easier.

We recommend that every university has to create a separate cell to facilitate information to banks and students for better processing of educational loans. Similarly, this cell should send proposals based on student background and attract scholarships from various trusts and

[17] Similar mechanism suggested by Choudhury and Mahajan(2004) also

endowments. Information access through internet and other social network sites are helpful in this regard.

5.5 Strengthening of Alumni Network

In the Indian context, the student is mostly detached from the university once he graduates. The university tries to keep in touch with only a few successful icons and ignores the other graduates. Universities such as Mysore, Bangalore and Karnatak can leverage on their longstanding academic credibility and large alumni network. **Universities have to reactivate their alumni associations by holding suitable meetings, conventions and create a culture of donating to the university.** The culture of 'giving back to school' has to be evolved. With the access to various social networking sites such as face book, LinkedIn and yahoo groups, better networking is possible at the lowest cost.

Box 2: Financing Higher Education: International Practices

Human Capital Contracts: Friedman (1962) has proposed Human capital contracts (HCC) as a financial instrument that would enable the investor to claim a stake in a part of the student's future income. Here, investment in professional education is a form of investment in real assets. HCCs traded will indicate a stream-wise valuation of education and market expectation from the investment. In the process, rankings of universities assume greater importance and will become transparent. This may lead to competition among universities, which may encourage adoption of quality improvement measures. However, such types of innovative products are less relevant in the state university education where markets may fail to assess the value of courses such as arts and social sciences (Llers, 2005).

Income Contingent Loans Chapman (2005) has reported the status of income contingent loans (ICL) in various countries. Borrowers (students) are provided with finance for tuition and/or income support, usually funded by the government or a public sector entity (or a commercial bank). The critical characteristic of an ICL is that the collection of the debt depends on the borrower's future levels of income. Capacity to pay, and not time, defines the repayment

obligation. Yale University offered a particular type of ICL in the 1970s, but in national terms it first occurred in a very crude form in Sweden, with respect to a limited form of student income support in the early 1980s. This was followed by the adoption of a national income contingent charging mechanism in Australia (1989) where, for the first time, repayments were collected through the tax system. The concept was also introduced in Chile in 1994, with the conversion of its existing conventional bank loan scheme to an ICL form. Many countries like UK, New Zealand, Ethiopia, Thailand With encouragement from World Bank and other international aid agencies, these ideas became a major part of active debate for developing countries in the late 1990s and early mid-2000s, including Indonesia, Namibia, Nepal, Mexico, Rwanda and the Republic of South Korea. In March 2003 the World Bank sent a mission to the Philippines to explore tertiary education financing, including the viability of ICL. Further, international aid agencies and national governments are (at least in informal ways) in the process of examining possible similar avenues for higher education financing reform in Slovakia, Bulgaria, Bosnia, Germany and Colombia. However, an explicit guarantee from the government to repay the loan is critical for the success of these loans.

Graduate tax[18]*:* Under this system, graduates would start paying the costs of their university tuition when they start earning, in the form of extra 3 percent or so on income tax. A "pure" graduate tax would mean it is levied for the whole of one's working life after graduation. Supporters say graduate tax is progressive, arguing that those who have benefited most from a university education would pay most. They also say this would remove the spectre of graduating with large debts, which could deter those from poorer backgrounds from going into higher education. Opponents argue that it would be unfair, as those graduates who are most successful would be charged far more than the cost of their education, subsidizing others.

5.6 Direct Student financing by the State Government:

We firmly believe that education is an essential investment, and the price of education should not be determined by its cost. Government funding is essential to support public education system.

[18] http://www.bbc.co.uk/news/uk-politics-11946585

State government has to structure a range of scholarships to students specific from socially and economically backward students. **Every eligible student should get an assured amount of not less than 50% of fees amount as a scholarship**. Student should exercise his choice of university and course. This helps the students to select market-oriented courses and also creates a pressure on universities to perform better. The Tamil Nadu government has written off fees to the college students pursuing graduation in government and aided colleges[19] but we do not recommend such subsidized education, instead social and economic criterion should be considered in providing financial support.

5.7 Enhancement of Tuition and Other Fees

Increase in fees is justifiable on two important grounds; one is increase in per capita income of people and second is decrease in family size.. Karnataka is one of the six states which has shown fast growth during post-liberalization and also has higher per capita GSDP than the national average (Dholokia, 2009). Karnataka's economy grew at the rate of 4.8% per annum during the 1980s, that is, at a rate less than the all-India average of 5.4%. However, its growth rate picked up in the 1990s; the average annual growth rate of NSDP between 1993–94 and 2001–02 was 6.6% and exceeded the all-India average of 6.2%. The average growth rate of per capita income has been commendable at 5.29% per annum (Suryanarayana, 2009).The per capita income (per capita NSDP at factor cost) in real terms, at 1999–2000 prices, is estimated at Rs.27,526 for 2008–09 as against Rs.26,536 for 2007–08, with an increase of 3.7%. Among the 15 major states, Karnataka stands at seventh position and is above the 'all-India average' in terms of per capita income at current price (Economic Survey, 2009–10).

As per the 2001 Census, the average family sizes of rural and urban Karnataka are 5.8 and 5.4 persons, respectively, while the latest NFHS statistics shows that the average family size is reduced to 4.6[20]. The increase in per capita income and decrease in family size substantiates the

[19] Speech of Prof. K. Anbazhagan, Minister for Finance, Government of Tamil Nadu, presenting the Budget for2010-2011 to the Legislative Assembly on 19th March, 2010

[20] NFHS Survey released by the Government of India as on October 11, 2007

argument for increase in affordability of payment of higher education fees. Further, according to the *Global Education Digest 2007*, households bear 28% of the cost of primary and secondary education of their children against 14% of the cost for university education.

The 66th round of NSSO's survey carried out between July 2009 and June 2010 reveals that the spending on education has jumped up by 378% in rural areas and 345% in urban areas of India. The expenditure on education has increased by a phenomenal 162% in rural areas and 148% in urban areas during a decade (1999– 2009) despite inflation, while the expenditure on food increased by about 70%. The proportion of families spending on children's education has also shown an increase in 2004–05; 40% of rural and 57% of urban families were spending on education and the latest survey shows that 63% of rural and 73% of urban families were getting their children educated[21].

The Punnayya Committee (UGC, 1993) also suggested increasing fees so as to partly recover the cost of education. The NKC also suggested an upward revision in the fee structure so as to partly recover 20% of the expenditure of universities. Report of the taskforce, on Higher Education, Government of Karnataka (2004) has made several feasible recommendations on fee structure and revision. We suggest that established universities can differentiate their fee structure with other universities by factoring a premium for track record of quality, standards and achievements. The structured fee may be indexed to increase per capita income or salary structure of the university staff. We recommend that fee revision of PG courses is long overdue and universities have to think about increasing the fee once in two years. The fee enhancement may be indexed to salaries, inflation or to the per capita income of the state. Increase in fees is possible by taking adequate measures to ensure equal access through the provision of scholarships for all eligible students on income criteria irrespective of discipline.

[21] India Spending Heavily on education: NSSO Survey, *The Times of India*, 25 July 2011.

5.8 Self-financing Courses

Recent trend is universities are charging the differential fee structure for different courses which are mostly market-oriented courses. This trend of product discrimination is very essential to improve competition among the colleges/institutes/universities and the university can move towards branding its course on several quality parameters. Often these courses attract higher fees which aggravates inequity in the society as only the students among the privileged section can alone afford these courses which preferably promise higher stream of future income for students. To minimize the gap, the government should provide direct scholarships on the basis of merit to students of social and economic backward classes to pursue these courses. A wide range of scholarships are needed to pursue higher education. A university should be allowed to charge fees, as per the location, its reputation and its potential. The government should facilitate access to these courses for underprivileged groups through scholarships and subsidised loans.

Recently, UGC has taken initiative to provide scholarships to students to pursue MPhil and PhD courses. A university has to define eligibility criteria and cut-off scores/marks for entrance examinations. Universities should not compromise on quality, standards and benchmarks, and at the same time state Government should see that financial grant/scholarship is available to all prospective qualified students in social and economically backward categories.

5.9 Funding Education as Part of Corporate Social Responsibility

The government has made mandatory on the part of public sector units to contribute a portion of profit towards corporate social responsibility (CSR). Contribution to state universities, especially the ones offering non-professional courses should be made part of contribution towards CSR. Every state university should come out with projects ideas to explore the opportunity of CSR contributions. Education in arts, humanities, and social sciences should be encouraged by the corporate sector by providing financial support in the form of liberal contributions.

5.10 Executive Education for Corporate and Government Sectors

Universities located in places such as Bangalore, Mysore and Dharwad have opportunities to conduct the executive education programmes (may be non-residential) to the local industry and

corporate sector. Subjects such as communication, interpersonal relationships, accounting, computer applications, quantitative techniques and economics are in great demand for executive education programmes. A proactive approach is needed in identifying the educational requirements of corporate and government sectors and structured programmes are to be offered. This requires efforts from the faculty to structure and deliver the programmes in a customized fashion. The well-established universities have good seminar halls (for example, Bangalore University) and other physical infrastructure to take up such activities but rigid processes often act as barriers for such enterprising activities. Universities can devise such programs during vacation period also.

5.11 MP and MLA Grants:

Each Member of Parliament (MP) is entitled to a grant of Rs.2 Cr per year from the central government to develop the local area which is popularly called as MPLAD scheme and recently it has been enhanced to Rs.5 Cr per year. Further, a Rajyasabha member can provide funds to any part of the country irrespective of the constituency. In Punjab, Bihar and Andhra Pradesh and in other states, college and hostel buildings are constructed under MPLAD scheme[22]. Similarly MLAs are also having flexibility in using the constituency development funds for education purpose. Universities have to approach the respective MPs and MLAs with proper projects and request them for granting money for the constitutional development.

5.12 Attracting Foreign Students:

The Economic Survey 2010 recognizes India as a knowledge hub for foreign students. In Karnataka, except Mysore and Bangalore universities, others have hardly any foreign students. Students from Middle East, South Africa and South and East Asian countries come to India for university education. Hence, universities have to design courses and attract students. Osmania University in Andhra Pradesh has significantly increased the fees for foreign students and an incentive is given to faculty also to supervise the PhD work of foreign students[23]. Mysore

[22] Annual reports of MPLAD scheme, 2009-10 and 2010-11.

[23] Discussion with a Professor of Osmania University

University had 389 foreign students in 2005--06 and increased to 1397 students by 2009--10[24]. Mysore University has made conscious efforts to increase the number of foreign students, which is an achievement among Indian universities. The average fees charged to foreign students is approximately five times of general fees. Each university has to establish a centre to deal with the issues relating to attracting of foreign students. A good informative website can act as a gateway to attracting foreign students.

To sum up, we suggest universities have to strengthen their relationships with industry and corporate sector and raise funds for meeting capital expenditure requirements and also establish core fund to extend scholarships to the eligible students. Government has to explore the possibility of constructing hostels and academic blocks in PPP structure. The current scheme of educational loans have to be widened to all eligible students; banking and income tax systems may be connected well to share the information for sanctioning and monitoring up of loans.

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[24] Annual reports of the University for the years 2005-06 and 2009-10

Chapter 6

Conclusions and Recommendations

Education (primary, secondary and higher) is an important instrument to achieve inclusive growth which is the nation's priority. In the field of higher education, universities are entrusted with the responsibility of building human assets by inducting knowledge and skills necessary for active and effective participation of the people in the country's development. State universities are catering to around 60% of the requirements of higher education and are thus important.

In the process of giving greater importance to technical and professional education, the Karnataka state government has formed separate universities for specialized courses such as agriculture, veterinary sciences, engineering, medicine and law. While the conventional state universities are dealing with disciplines such as arts, languages, basic sciences and social sciences and catering to the higher educational requirements of a large population who cannot afford professional education and education in private colleges. These universities are mainly dependent on the state government for financial requirements and having limited avenues to attract alternate resources. The limited budgetary resources of the government are allocated to primary education which is of topmost priority, secondary education, technical education (often this is considered as merit-1 goods) and also to university education. To increase access to higher education, the state government has started new colleges and establishing universities enhancing its financial burden as well as the tax payer's. In this context, this study assumes importance in analysing financial resources, expenditure pattern, cost and fee structure of state universities, and offers recommendations to both universities and the state government to improve the overall financial management of state universities. Finances are absolute necessary for any improvement, even to maintain the existing system and inadequate funding affects both quantity and quality of education. Underinvestment in universities leads to risk of decline. We believe that financial management is not an isolated issue but linked to the quality of education and the governance of universities. Thus, the suggestions of the current study address the quality and governance issues also.

6.1 To the State Government

State government provides financial support and also acts as regulator in academic and administrative activities.

Financial Issues:

1. Currently, the total budget allocation to education sector is divided into primary, secondary, higher and technical education. Government should use fixed normative ratios for allocation to various sub-sectors of education. We recommend that the state government should gradually increase allocation to university and higher education 20 % of total education sector budget. The general opinion is that with availability of more engineering colleges and other professional courses, the students' preference for liberal arts and social sciences have substantially declined which causes serious imbalances in social behaviour, social dynamics and leads to improper utilization of science and technology. Thus, there is need for supporting these disciplines and faculties to evolve a balance between technical and non-technical education. We strongly believe that state government support for non-technical education is also needed as knowledgeable people are required to formulate appropriate social and economic policies.

2. The state government is providing plan grant to meet capital expenditure and non-plan grant for payment of salary and allowances of the university staff. A substantial amount of the funding is the non-plan grant. The state government often funds 60% to 100% of the salaries and allowances of university staff. This varies from university to university. If the state government funds 70% of the salaries and allowances of the university staff, the university can fund the remaining payment from internal sources by foregoing other budgeted expenditure. There is no articulated policy in allocation of non-plan grants. We suggest three alternate models to channelize the state government allocation to university.

First, the state government should clearly specify its funding plan to each university. This target may be released well in advance by sanctioning necessary permission to raise internal resources. Based on revenue generating capacities of universities, we suggest that 60% of the total salaries and allowances of permanent staff may be provided to the three established universities Mysore, Karnatak and Bangalore. The other three universities Gulbarga, Mangalore, and Kuvempu may be sanctioned with 75% of the budgeted pay and allowances and the remaining universities may be provided full funding for non-plan requirements. Budget allocation process should be made transparent with stated objectives and the process of sanctioning the non-plan grant should be streamlined on a quarterly basis against the current practice of monthly basis.

Second, the state government may shift to direct Student Centric Finance (SCF) from the current practice of faculty- and staff-based funding. For example, in 2008–09, the non-plan grant provided for the eight universities is around Rs.180 Cr, for 24,000 registered students, which work out to be Rs.75,000 per student. Undoubtedly, this will encourage students to join universities and select the courses of their choice. Accountability is built on the part of every department to structure the courses to attract the students apart from. It is the responsibility of the departments to structure courses that are attractive to students.

Third, the state government can adopt a hybrid model, where 50%of pay and allowances of the staff may be paid directly to all universities and excess of any other funding could be student centric. This gives flexibility to the universities to allocate funds to improve the facilities for students and to attract them towards higher education.

3. The second major financial support extended by the government is the plan grant for meeting capital expenditure requirements. Our data analysis shows that a few universities have received more amount than others and the basis is not clear. It could be an objective basis, number of students or any other factor. Such type of funding has also not established any accountability and achieving of specific tasks by a university. Established universities have received funds from other sources such as UGC and also from the state government while the new universities are more dependent on the state government alone. We recommend state

government funding on the basis of matching grant method for the long-standing six universities and an MOU-based method for funding other universities.

4. Currently, a single plan grant is provided to meet the capital expenditure requirements. The system seems to be inelastic in meeting the multiple financial requirements of higher education and its maintenance is required to improve the quality. In the plan grants, a proper blend of maintenance grants, research and development grants has to be evolved to promote excellence in research.

5. Capital expenditure proposals are often meant for creation of infrastructure such as buildings; more attention is to be paid for quality-related inputs in higher education, particularly research projects. A separate allocation of funds for research which is expected to improve quality and lead to excellence is needed. A special plan grant is to be earmarked to encourage research in liberal arts and social sciences. As the government is dealing with several social and economic policy issues, the state universities should be encouraged to take up research on several social issues. A separate grant of Rs.10 Cr may be created to fund the research projects.

6. The government may take up proposals from each university for meeting minimum requirement of basic infrastructure and a one-time grant may be provided to clear the whole backlog of pending capital expenditure requirements.

7. The state government should constitute a coordination committee of banks and universities to structure suitable products and mechanisms to meet the capital expenditure requirements. For example, HUDCO or other financial institutions can extend project finance loans against the cash flows of student fees; this may be a more viable option in case of self-financing courses and market-oriented courses. Securitization may be very suitable instrument for financing infrastructure, where a substantial amount of tuition fees may be securitized.

8. State government can explore the possibility of creating infrastructure for universities such as academic blocks and hostels in PPP mode. Where the student may pay fees/rent to the project company.

9. Universities should be discouraged from incurring capital expenditure for creation of infrastructure such as quarters for faculty and staff unless they have a cushion of internal and other sources of funds. State government should provide direct incentives to the faculty and staff to find suitable accommodation. State government may provide a subsidy of 2% interest on housing loans for self-occupied houses.

10. To improve the gross enrollment ratio, increasing the access and promoting equity; a wide range of scholarships are needed on basis of social, economic and gender criteria. Currently, the social welfare department is offering several scholarships; similarly the Government of India is also offering various scholarships. We recommend that more direct funding is required in the form of scholarships.

11. A revision is needed in the fee structure of the PG and doctoral courses. Established universities can charge a higher amount of fees while the new ones can charge lower fees, but the current structure is quite the opposite. We recommend that state government should permit universities to fix a 'sticker price' for each course based on the cost of offering that course without any subsidy. Any concession or discount may be offered on the sticker price. This serves as pre-requisite information for shifting to SCF. Self-financing and payment courses may be offered at a fee equivalent to the sticker price.

12. Several Committees and the NKC have recommended increase in fee so as to recover 20% of the recurring requirements of the university. This may be considered as desirable upper limit. However, this need not be uniform to all the state universities. Well-established universities such as Mysore, Bangalore and Karnatak can charge a slightly higher fee as a premium for the brand and the new universities can offer more discounts in payment of fee.

Improvement in Systems

1. Restructuring of the current undergraduate examination system is warranted to reduce the burden of organizing and managing the undergraduate examinations on the universities. A separate state-level board may be floated for this purpose. State government has to form a team of software professionals to explore the possibilities of using high bandwidth ICT solutions for management of examinations.

2. The state government has to introduce performance budgeting or performance funding systems while extending both plan and non-plan grants.

3. In the last five years, universities have received around Rs.200 Cr funds from the state government (other than non-plan expenditure), UGC and other organizations' but returns generated from these investments are not known. The state government should organize a performance audit of investments in higher educational projects for the last ten years to evaluate the running university benefits, economic benefits, social benefits, and environment benefits. Such an audit will establish accountability and attract funding from various funding agencies and the industry.

4. State government should improve the current accounting and disclosure practices of universities by introducing accrual accounting system, where each university has to disclose financial position by preparing balance sheet and net surplus in Income statement. Reforms in accounting and information disclosure systems are pre-requisite for exploring alternate funding sources.

5. State government should establish a data bank on students enrolled, graduated, resources raised by universities, and expenditure pattern. Such data bank is essential for effectively addressing critical policy matters of higher education and to assess the feasibility of quantitative and qualitative goals in higher education.

6. Higher education is to be viewed in multi dimensional perspective such as economic, social, geographical and demographical contexts. Thus a comprehensive policy is needed to avoid adhoc decisions like opening up of specialised universities in Sanskrit and Music

Academic and Governance-related Issues

1. Infusion of new blood is needed and fresh recruitment of faculty should be taken up on priority basis rather than to simply meet the criteria of social justice and roster system. The new faculty should be selected by strictly following the UGC guidelines.

2. Currently, every state university has to enroll or admit the students from specific districts and this does not create any diversity in the classroom. Although a significant number of students may be taken from local areas, a classroom of higher education should represent state and inter-state levels, which will facilitate diversity and improve competition among students.

3. The state government should insist on NAAC accreditation, review the ratings, and efforts made by the university to improve the ratings. The ratings are to be considered while sanctioning grants.

4. A centralized database on financial and student database of all state universities is needed. The state government should take up a project to update it periodically.

5. State government should appoint a liaison officer for newly started universities for undertaking all the administrative work linked with the establishment of university, land acquisition and permissions from various authorities.

6. Selection and appointment of VC forms a crucial part of the reforms of university management. VCs provide the academic vision to the university and they should be professionally respected in the academic circle. We observe that the experience has not been uniform. Government should establish a process of appointment of VC purely on merit basis.

7. State government in consultation with VC should constitute the syndicate by selecting people from the academia, industry and other people who can provide a proper vision and perspective to higher education. We understand that public representations should be present in the syndicate. First, the representatives should possess at least PG qualification and second, professionals should form the majority of the syndicate. It should be a professionally qualified body in spirit.

8. The state government may review the decision of forming new universities for specialized fields such as Sanskrit, music, folk arts, etc. These disciplines may be offered in existing universities by encouraging students to pursue these courses and adequate financial support may be provided to interested students. The essential characteristic of a university is diversity. Diversity enriches the educational experience and promotes personal growth of the student and overall a healthy society. For example, premier institutions such as IISc also offer academic programmes in social sciences and humanities to facilitate diversity. Government should grant scholarships to native Karnataka students pursuing courses such as Sanskrit and music in other states and universities where these courses are being offered.

6.2 To the Universities

Improving Financial Management

1. We recommend that the university finance committee should perform three important functions: partnership, trusteeship and innovation against the current role of just preparation of budgets and other accounting statements. The suggested multidimensional role will make the finance committee more responsible for raising the resources and cost minimization apart from regular functions such as budgeting and accounting. The finance committee has to innovate the new processes and application of technology for cost minimisation.

2. The universities can share resources. Professors from one university can take simultaneous or separate classes to students from other universities. It can be done through video conferencing also. Universities should share the faculty resources with other state universities through a MOU if the workload or demand for a course is less. Bodies such as SCHE should facilitate such discussions.

3. Universities should introduce performance-based budgeting. In the current system of budgeting, there is no accountability for success or failure or meeting financial targets. A term plan (may be five-year) is needed to shift the university towards a goal of centralized performance-based budgeting, including internal standards and external performance measurements. For this, goals are to be established in areas such as academic programmes, research activities, financial resources, cost control, etc.; and year-over-year improvement in standards should be achieved.

4. Every university should insist that each permanent faculty must work on at least one funded major research consultancy project in a span of three years.

5. Universities have to review and challenge the capital expenditure plans and resources should be used optimally. Every department need not own lecture halls, syndicate rooms and seminar halls; instead a classroom cluster may be developed and by scheduling the timetable in an effective way, resources may be used more optimally.

6. Sharing of laboratory services with engineering colleges is also a viable alternative until the university generates adequate resources. Laboratory equipments have limited life and greater obsolescence. Hence, maximum advantage of these equipments should be taken by drafting flexible rules.

7. When new universities are formed, simultaneously there should be clearly laid-out plans for staff deployment also. Otherwise, existing universities end up with excess staff. Universities have to introduce plans to reduce the non-teaching and administrative staff by replacing several

functions with technology and outsourcing rather than increasing permanent staff on university rolls. Services such as building maintenance, engineering, facilities and medical services may be outsourced by structuring the contracts with various Key Performance Indicators (KPIs). This improves efficiency and reduces cost.

8. Universities have to explore the possibilities of getting grants from UGC, ICSSR and other bodies for research projects. Faculty should be encouraged to pursue these projects by providing incentives and structuring flexible norms in utilization of project funds.

9. Universities have to strengthen their relationships with industry and corporate sector and raise resources to meet various capital expenditure requirements and also to create a core fund. Out of the core fund, universities should offer merit awards or scholarships to students purely on merit basis. These merit awards should be sufficient to meet at least 20% to 25% of the fees requirement and should be granted purely on merit and economic criteria.

10. Distance education programmes generate a good amount of surplus revenue. Universities can offer such programmes in collaboration with KSOU and IGNOU. This conserves the faculty and physical resources and also facilitates standardization across the course content and evaluation. State universities may market these courses by lending faculty and physical resources. A revenue-sharing model through which state universities will get funds for marketing and providing services may be developed.

11. With increasing demand for executive education, universities have to explore opportunities to conduct executive training for industry, government organization and service sector; and suitable incentives may be offered to the faculty.

12. Accounting manuals should be revised to meet the emerging expenditure requirements and reporting systems should be standardized with proper valuation of assets, capital expenditure and revenue expenditure, and recognition of surplus generated in a particular accounting year.

13. Cost control can emerge as one of the KPIs in performance evaluation. Universities should intensify their efforts to control costs and increase institutional productivity. Each faculty member should be conscious about administrative costs, faculty teaching loads, average class size, student–teacher ratios and facilities management.

Academic and Other Governance Issues

1. Almost all the universities offer similar types of courses and in some universities registrations for certain courses students are very less or of optimum size. Universities have to focus on specific areas only. Students should be encouraged to pursue specific courses in that university only and necessary financial support should be obtained from the government. This will ensure optimum utilization of physical and academic resources.

2. In the university, routine administrative operations can be carried out by registrars and the VC should devote more time for a leadership role in academic and research activities. VC should ensure that syndicate meetings and discussions are more development-oriented rather than a forum for discussion of routine matters.

3. Every university should announce its academic calendar well in advance and adhere to it to ensure discipline among faculty, students and other administrative staff.

4. Every university has to update their website on a regular basis and disclose information related to academic achievements of both students and faculty. Such information will attract industrial to collaboration with universities.

5. The universities should develop systems compliant with NAAC accreditation requirement; these should constantly strive for improvement in rating. The efforts made by a university in quality improvement should be considered while granting funds for development and other projects.

6. The universities have to put in conscious efforts to increase the enrollment ratio by suitably designing mainly employment-oriented courses. Liberalization of economy and growth of service sector have improved employment opportunities for courses such as English, economics and other social sciences. Courses such as physics and mathematics have wider applications in many fields such as finance, analytics, industry,etc. However, university graduates are rarely demanded by the industry. Universities have to revise the course structure so as to meet the industry requirement. There is also a need for linking of natural sciences with social sciences. This makes application of social sciences in a wider context.

7. English language has always been in demand and India has gained competitive advantage as an English language-speaking country. However, most of the English departments of the state universities are unable to offer other than traditional MA (English) courses, while there is a great demand for oral and verbal communication skills. Oral and verbal communication courses should be structured and made compulsory in all PG courses. English departments should be made responsible for offering these courses. Every PG irrespective of discipline should be given training in oral and verbal communication.

8. Various language courses can be centred at one place instead of offering the course at different universities. Students interested in pursuing these courses should be given financial assistance.

9. In almost all the universities, student enrollments in courses such as history, Kannada, Sanskrit, sociology, arts and humanities is very limited and declining. The SCHE should facilitate a discussion on improving the enrollment and quality of courses. Universities should consolidate resources and offer these courses at select places.

10. Each university has to prepare a perspective plan for a period of four to five years and indicate strategies to achieve the plan objectives. State government should clearly specify objectives for the universities and monitor them periodically.

11. Self-financing courses are an accepted practice in the field of higher education. Only departments and PG centres with excess staff and expertise should be encouraged to offer such courses. These courses are often offered at the cost of regular courses; faculty time and other resources are diverted. To maintain the quality of such programmes, temporary faculty should be paid at least 75% of the salary of a full-time faculty instead of the current practice of paying around 30% of a permanent member's salary. The SCHE should review these courses and evolve a set of norms.

12. Universities have to evolve a comprehensive plan to establish network with industry. This is needed to improve academic relevance of the programmes being offered by universities. Such linkages will yield funds, student–internship programmes and placement opportunities.

13. The universities should appoint contract-based faculty for UGC-sanctioned posts, where the funding is available for five years. Such contracts are to be structured very carefully to avoid any contingent claims by the faculty. Many national-level institutions are recruiting faculty on contract basis. With the introduction of contributory provident fund by the central government, the concept of permanent employment with pension benefits is diluted and building of career profile with diversified experience gaining significance. Many fresh doctorates may join the university for a five-year period and move on to the industry or other academic institutions later. Similarly, people from industry can take a sabbatical and join the university to pursue academic projects.

14. Each department has to be treated as a responsibility center (RC). The head of RC is responsible for generating projects and funds, enrolment, fees, expenditure, overall performance of the unit, etc. The universities should evolve a system of performance evaluation of the faculty on various criteria such as teaching, research, consultancy and academic administration, and such performance indicators should be disclosed at appropriate intranet portals. Academic performance index should be introduced. University faculty should be given incentives for obtaining funded projects either for research or consultancy.

6.3. Corporate Sector, Students and Parents

Corporate sector should recognize that skilled qualified manpower is required and availability of skillful and knowledge based human resources are needed by the society to achieve higher growth. Corporate sector should encourage education in liberal arts, social sciences, languages and other basic sciences such as physics and botany. Overemphasis on engineering and management education may develop the required manpower but result in several imbalances in the society.

Students and parents should realize that the returns on higher education investment are largely long-term oriented and should not show shortsightedness while investing in higher education. Students should demand and aim for quality in education rather than asking for concessions.

In short, the challenges for higher education lie in its extension and quality improvement. A proper balance is needed in management of both the tasks. Improvement in quality of education is essential to address the issues of finances. Too great reliance on state government funding will inevitably lead to greater governmental control and less independence for universities. The spirit of suggesting various measures to improve the financial management of universities is not to transform universities into commercial entities striving to achieve profit maximization but to support the view of Bok (2004) that the objective function of the universities is prestige maximization. Universities should compete for awards, reputation, and academic prestige and attract the best students as well as faculty.

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Annexure-1

List of Persons Contacted by the Study team

The study team has met the following people for discussions.

1. Anil Kumar Jha, Secretary Expenditure, Govt. of Karnataka
2. BM Kanahalli Finance Officer and Professor of Commerce, Gulbarga University
3. Chidhananda Gowda, Former Vice Chancellor, University of Mysore
4. ET Puttaiah, Vice Chancellor, Gulbarga University
5. Geetha Bali, Vice Chancellor, Karnataka State Women's University, Bijapur
6. HA Ranganath, Director, NAAC, Bangalore; Former Vice Chancellor Bangalore University
7. Indumathi, Vice Chancellor, Davangere University
8. J Subramanian, Registrar, Christ University
9. Kaveriappa, Vice Chancellor, Mangalore University
10. Lata Krishna Rao, Principal Secretary, Higher Education
11. M Sulochana, Professor, Osmania University, Hyderabad
12. Manjappa, Hosamane, Vice Chancellor, Vijayanagara University, Bellary
13. MK Sridhar, Member Secretary, Karnataka Knowledge Commission
14. Muniamma, Former Vice Chancellor, Gulbarga University
15. Nagarajan, Principal Secretary Finance, Govt. of Karnataka
16. Narsingh Rao, Finance Department, Government of Karnataka
17. Nayantara, Professor, Indian Institute of Management
18. NR Shetty, President, Indian Society of Technical Education, New Delhi; Former Vice Chancellor, Bangalore University
19. Pankaj Chandra, Director, Indian Institute of Management
20. RB Gaddagimath, University Librarian, Gulbarga University
21. SA Razvi, Finance Officer, Bangalore University
22. Savadatti, Former Vice Chancellor, Mangalore University
23. SC Sharma, Vice-Chancellor, Tumkur University
24. SN Hegde, Former Vice Chancellor, University of Mysore
25. VG Talvaar, Vice Chancellor, University of Mysore
26. VS Acharya, Honorable Minister for Higher Education, Govt. of Karnataka

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