

Secondary School Financing & Budgeting

FINANCING AND BUDGETING OF EDUCATION

BUDGETING?

It is already examined the process of plan elaboration as a link activity between planning and plan implementation. Once programming, regionalization (if required), project identification and project formulation are satisfactorily accomplished, the plan is ready to be implemented.

Implementation of a plan begins only when the appropriate authority grants an operational authorization for action. You may take up the position that the authorization for implementation is already contained in the approval of the plan by the appropriate authority. But this is really not so.

All plans are approved only in principle: That approval is always subject to at least one further authorization.

Those, who are constitutionally or legally empowered to authorize action, have to indicate specifically their permission to the numerous executives of the plan implementation organization to carry out the activities envisaged in the plan.

An activity, we have repeatedly defined, is something which consumes resources and/or time. So, the authorization to undertake an activity is, in reality, the permission to utilize certain resources within a certain time.

The most widely used instrument for granting that authorization to use specified resources within a specified time is the Budget. At the national level, the supreme legislature of the country considers and adopts an annual national budget, indicating in terms of men, materials and money, the total resources which the nation would utilize during the ensuing financial year for various activities.

The budget, when so adopted, becomes a piece of legislation. In some countries, its formal designation is something like the "Annual Appropriation Act."

At the institutional level (say, for example, a University) either law or convention would provide for an annual budget to be approved by a governing board.

In both cases, the budget becomes the legal authority by virtue of which all executives initiate

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and carry out various activities to achieve the objectives of the organization.

Budgeting is the process of preparing the budget. Its main phases are as follows:-

Phase I: Identification of activities to be accomplished in the course of the budget period.

Phase II: Identification of resources in terms of men, machine, and materials.

Note: These are to be expressed either in such units as Man/Machine hours/days/weeks/ months or in terms of the actual numbers of men/machines and quantities of materials.

Phase III: **Costing of resources.** (The Budget is fundamentally a financial statement. Hence costing becomes the most important activity in budgeting)

Phase IV: **Presentation of budget.** (The Budget is formulated according to a nationally accepted format. Each country has its own conventions relating to the format as well as the language of the Budget)

Phase V: **Obtaining the approval of appropriate authority.** (This final state of budgeting involves piloting the Budget through a series of conferences and reviews. It is the stage when compromises and adjustments are made).

BUDGETING AS THE FIRST STEP IN PLAN IMPLEMENTATION

For a plan to be implemented the operational authorization for action has to be first obtained in the form of a budget. Thus, budgeting becomes the first step in plan implementation.

It is important to bear in mind that a plan gets implemented only up to its objectives series of budgets bear in mind that a plan the degree and targets covering are activities gets for incorporated plan period.

This has been emphatically stated by saying that **THE BUDGET IS THE FAITHFUL SERVANT OF THE PLAN.**

The budget is not always a faithful servant of the plan. In some countries, the plan and the budget (particularly in regard to education) are not strictly correlated.

Either the authorities concerned do not make an effort to do so or else there are practical difficulties in matching the two. In either case, the net result is that the plan remains

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unimplemented.

How can this be avoided? The origin of the problem is often traceable to the fact that planning and budgeting are done by entirely different and unrelated organizations even within the same ministry. This is further confounded when the planning function is regarded as purely advisory. This situation calls for structural and procedural changes in the ministry. In some countries, the function of budgeting is assigned to the educational planning organization. In some others, channels of communication and consultation are established between the planning organization and the budget bureau. But even with these very helpful steps, certain difficulties continue to persist.

CORRELATING THE BUDGET WITH THE PLAN

One of the main facts of life which an educational planner has to bear in mind is that 80-90 % of the annual budget is already committed to:

- (a) continuing services, i.e. programs and projects in operation;
- (b) salaries, allowances and other emoluments (including regular increments) of personnel in service; and
- (c) Obligations already rose through contracts or orders for services, goods or facilities.

His freedom to act and to innovate is restricted to less than 10-20 per cent of the budget. When he tested the financial and administrative feasibility of the plan he would have detected if the plan was too ambitious. But if this has not been done, he encounters his first problem: the provisions of the budget will be inadequate to meet the plan targets. He will have no alternative but to scale down the plan unless he is able to raise more resources or effect substantial savings through cost-reduction strategies.

Another problem he would encounter in correlating the annual budget with the plan is that of costs. In planning, we tend to use standard unit costs, worked out on the basis of past trends. These, often, are gross approximations of actual costs. The budget has to be based on actual operational costs. Between planning and budgeting a refinement of costing is called for.

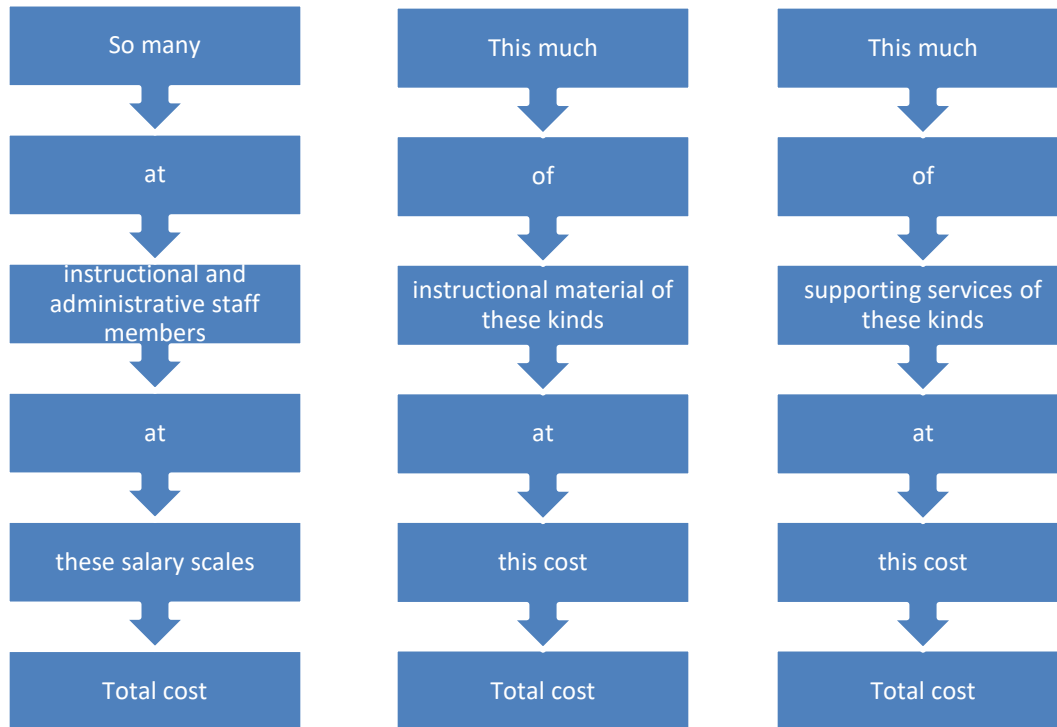
This refinement does not mean only a revision of costs to make them conform to fluctuations in wages and prices but also a detailed analysis of cost items for purposes of grouping them under

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convenient operational units (e.g. projects, institutions, programs, etc.)

Example: The plan may include a sum of money for a program like teacher education, calculated on the basis of unit costs (i.e. no. of beneficiaries or trainees x unit cost of training).

But the budget has to elaborate and distribute this over items like:



And so forth.

This process of detailed presentation can be even more comprehensive if the budget is presented according to regions and institutions. If the budget is elaborated up to the institutional level, the same list of items has to be worked out for each institution.

At the point of such elaboration, serious discrepancies may come to light. The provisions in the plan may be found to be too much or too little. When this happens, budgeting becomes an exercise in correcting the plan.

Another problem relates to changes in policy which could have taken place between planning and budgeting. The objectives as well as priorities assigned to some activity at the planning stage could undergo a change if the appropriate authority decides to vary the policy. These, in turn, will affect the targets and plan provisions. When this happens, the budget has to

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supersede the plan. But the person preparing the budget has to take steps to ensure that the change is made consistent with the rest of the activities envisaged in the plan. This requires the adjustment of all related activities and testing them for internal consistency.

We see in each solution to above problems how the budgeting process will be tantamount to a continual revision of the plan. If the plan is static for the whole of the plan period, these annual revisions will tend to minimize one's faith in planning. But the adoption of the technique of "Rolling Plans" will be a great help. With every revision at the budgeting stage, the plan for a given number of years is re-adjusted and made consistent.

BUDGETING AS A MANAGEMENT FUNCTION

Besides providing the operational cost-time frame-work for planned activities to be implemented, the budget can perform two further functions:

- (a) **It can be an instrument for delegation of implementation authority.** The budget can be designed to show the agency or institution that is responsible for a particular activity. So when the budget is approved by the appropriate authority, the delegation of functions is automatically approved.
- (b) **The budget can also be an instrument of controlling and evaluating performance.** The rate of expenditure in a given activity, when compared periodically with the budget provision, offers a simple guide to the rate of progress in that activity. If the budget is suitable designed, it will also provide data on anticipated output and costing. In such a case three elements (rate of expenditure, output and cost) are available in a ready form to serve the control and evaluation function.

In describing the management functions of the Budget above, emphasis was laid on the proper design of the budget. The reason for placing this stress is that all budgets are not designed to perform these management functions.

The most widespread budget design is the LINE-ITEM BUDGET, sometimes also called simply the LINE BUDGET. When a budget is referred to as conventional or traditional, it means that the format is that of a line-item budget.

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During the last few decades, there have been several experiments in budgetary reform. New formats for budgeting have been designed. The most important among them are:

- (a) Performance Budget
- (b) Capital Budget
- (c) Program Budget

Each is an attempt to make budgeting serve as many management functions as can be effectively built in. Each has its strong points as well as weaknesses.

Education Ministries in several Asian Member States have also begun to experiment with new budget formats. In some cases, the national budgeting format has been entirely revised as in Malaysia, where the format is called the Performance Program Budget. In India, the recommended budgetary format is that of the Performance Budget. While Sri Lanka has adopted the Program Budget for several ministries including the Ministry of Education, a number of Member States have begun to take an interest in PPBS (Planning - Programming - Budgeting - System).

FINANCIAL PROCEDURES AFFECTING PLAN IMPLEMENTATION

Once the budget is approved, the plan implementation organization is legally empowered to disburse the funds to operational units and to incur expenditure on various activities. But the conventions in each country tend to place constraints on such an automatic commencement of operations. In some countries, a warrant releasing the funds has to be issued by the Minister of Finance and the warrant contains reservations (e.g. reserve some funds for least at a later date or make the release conditional to presentation of further details of projects). In some others, there are similar procedures, which operate internally. For instance, the finance officer or accountant of the Ministry of Education may be required to approve every disbursement personally and, for this purpose, the operational units may be required to furnish detailed schemes of work and expenditure. All these procedures are normally described in the financial regulations of the country.

The financial regulations, usually, provide for procedures relating to the following:

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1) (i) **Approval of budgeted expenditure** (Who is empowered to approve what kind of expenditure? Subject to what stipulations or conditions? Within what limits? etc.)

(ii) **Approval of excesses over budget allocation**

(iii) **Approval of transfer of funds from one item or project in the budget to another.**
(Where transfer of funds is possible? How the authority is to be sought? etc.)

(iv) **Selection of contractors and suppliers** (How to call for tenders or quotations? How tenders or quotations are evaluated? Who is empowered to select? What conditions govern contracts? etc.)

(v) **Authority to purchase goods and services**

(vi) **Approval of variations from contracts** (Who is empowered to approve what kind of variations? Up to what limits?)

The efficiency of plan implementation is regulated to a very great degree by the comprehensiveness, simplicity and flexibility of these rules.

If the regulations are not comprehensive, financial officers tend to be less sure of themselves. They feel obliged to seek sanctions and instructions from higher authorities. This consumes too much time. Sometimes, it also creates further complications as authorities far removed from the scene of operation are likely to adopt less helpful attitudes.

The **simplicity of procedures** makes a direct contribution to efficiency.

Simplification of financial procedures generally involves the reduction of unnecessary bottlenecks in approval procedures.

Two aspects demand attention: First, is it necessary to install an approval mechanism involving too many officers? Second, can the limits within which approvals are granted be made as wide as possible?

In many cases, most of the difficulties in starting a project or carrying it out expeditiously are caused by excessively cumbersome approval mechanisms, which have not been subjected to review and revision frequently.

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The flexibility of rules is equally important. There should be adequate provisions in financial regulations to meet exceptional or unforeseen situations. The mechanism for suspending the operation of a particular rule in such situations should be simple. There should be appropriate provisions for the grant of covering approval after an item of expenditure is incurred under special circumstances.

What we have discussed above highlights what has to be done by the government. There is another aspect to the problem of financial regulations.

However well-prepared a set of regulations is, its operation will not be efficient, if the individual staff members :

- (a) **do not have an adequately thorough grasp** of the regulations, along with permitted exceptions;
- (b) **feel hesitant to exercise the authority** vested in them and seek shelter behind higher authorities;
- (c) **do not take advantage of built-in flexibilities in procedures** ;
- (d) **do not take the initiative** to use regulations as a help rather than a hindrance.

All these are inadequacies which can be corrected by the staff members themselves.

OTHER ASPECTS OF FINANCIAL MANAGEMENT

Financial management includes at least three more major operations, namely;

- (i) payment and handling of cash and other negotiable articles;
- (ii) accounting or book-keeping;
- (iii) auditing.

But these do not have a direct bearing on plan implementation. Besides, specialist personnel such as accountants and auditors handle these operations in most organizations. Hence, we shall not go into details about them.

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