

# Financial Management

In Academic Institutions

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# Key Questions

- How should government allocate funds- outcome-based or input-based?
- How does one allocate resources to different departments/schools?
- How does one address the issue of quality?
- How does the model address the achievement of the institution's strategic objectives?
- How does one raise revenue without burdening students?
- Is budgeting exercise important in an academic institution?

# Challenges for a modern academic institution

- Declining grant from government
- Increasing student expectations- an increasing function of fees.
- Competition between departments and also among academics within the same department.
- Providing adequate funds to support non academic activities.
- Lack of respect for the processes.

# Allocation of funds

- How should an institution allocate funds (resources) between departments/Schools?
  - Number of students?
  - Input-basis (capex and opex budget)?
  - Separate teaching and research fund?
  - Any levy for the costs of academic support services (e.g., common library, space occupancy)?

# Allocation of funds

- $\text{Net allocation} = \text{Gross allocation} - \text{Levy}$
- Once the net allocations had been determined, the costs associated with the employment of the current levels of staffing were computed, and the difference between the two was available to fund non-pay costs.
- Each department has to prepare a detailed budget and activities to justify non-pay costs.
- Any better method?

# Importance of Planning

- Strategic Planning
  - Could be an exercise every five-year to review all the activities.
- Annual Plan
  - Every department will prepare activity plans for the next two years
- Annual Review
  - Will review the performance (actual vs. target) of the immediate past year.

# Zero-based Budgeting

- No part of a budget is automatically carried forward to a future year without justification.
- In its pure form it requires authority to attach not only a cost to each of the departments' activities or planned activities, but also a valuation of the benefits accruing from that activity.
- All the activities of the organisation are then ranked in order of desirability as measured by their net benefits.
- Given that the organisation has limited resources, not all the activities will be capable of implementation and so a cut-off point must be drawn.
- This ensures that every year full consideration is given to the way in which the organisation uses resources, and ensures that only priorities are implemented.

# Revenue Generation

- Many government institutions have been provided financial and management autonomy.
- Hence, it is imperative that these institutions look for alternative sources of revenue generation.
- Possible sources:
  - Academic programmes and students
  - Research grants
  - Sponsored Chairs
  - Endowment
  - Any other?



# Fund Management

- Corpus Fund
- Endowment Fund
- Earmarked Fund
- Investment strategies for each fund

# Analysing Financial Health

- Composition of Revenue and its trend
- Operating Surplus (EBITDA)
- Non-operating income
- Funding sources of capex - Bank Loan, HEFA?
- Working capital management
- Tax compliance