



UNIVERSITY GRANTS COMMISSION

Finance Circular Letter No. 2/2010

1st July, 2010

Vice-Chancellors of Universities,
Directors of Institutes,
Rectors of Campuses.

Allocation / Absorption of Recurrent Expenditure of the Universities / Higher Educational Institutions

Introduction

Funds of public enterprises whether internally generated or received by way of Government grants, subsidies and loans allocated from the consolidated fund through the Government Budget to meet Recurrent and Capital expenditure are public funds and the management has a responsibility for the efficient utilization of these monies in the best interest of the public. Fund Management is dependent on how effectively revenue is generated and expenditure is controlled.

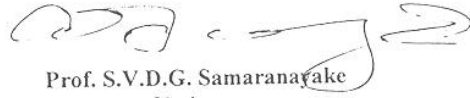
(PEG for Good Governance – p25)

1. In recent decades, demand for public funds are typically intense as government has to provide better school education, health care, transportation and agriculture, in addition to investment on Higher Education. Hence need for innovative financing mechanism to finance the universities is emphasized by the funding agencies such as General Treasury and the World Bank.
2. **Current Funding Frame work in Sri Lanka**
The determination of annual block grants is preceded with the process of issuing Budget Call by the General Treasury in June / July every year. Accordingly University Grants Commission (UGC) prepares the annual budget estimates in consultation with the Universities / Higher Educational Institutions (HEIs) and negotiates with the General Treasury for the annual block grant. This process results in provision of recurrent funds that are based on historical expenditure patterns and capital funding is determined considering the university needs and treasury expenditure ceiling.
3. **International Practices**
Many countries around the world have moved away from the negotiated budget and use number of different funding formulas to allocate recurrent expenditure among the universities / institutions. These formulas are varying on the basis of what performance indicators are used in their development and what type of organization developed it.

Funding Formulas and Performance Indicators

Country	Funding Formula	Performance Indicators
Malaysia	Modified Budget System (MBS)	Staff-student ratio, Face to face student-teacher contact hours, Library expenditure, Facility usage, PG fee-paying revenue, Cross faculty teaching index, National priorities and publications index etc.
India	Student Enrolment and faculty strength based formula	
Australia	Relative Funding Model	
Finland	Performance Contracting Formula	
France	Results Based Contracts Model	
Denmark	Danish Taximeter Model to allocate 30% - 50% of recurrent fund	
UK	Enrolment and priority Based Funding Formula	

4. University Grants Commission has principally accepted to allocate government grants among the universities / HEIs based on rational funding formulas.
5. Nowadays most of the funding formulas are based on student enrolment plus cost per student incurred on undergraduate education. It is observed that there are different basis adopted by the universities to compute cost per student of a subject disciplines. As such the proposed funding formula for financing universities / HEIs is also based on student enrolment plus cost per student of each universities / HEIs.
6. In this regard University Grants Commission decided to request from all the universities / HEIs to submit the recurrent expenditure for last three years as per the format A, B & C on or before 30th July, 2010.
7. If you need any clarification please contact, The Accountant / UGC on 011-2685021 / 011-2692968 or e-mail finance@ugc.ac.lk.
8. This circular together with all annexes are available for download at www.ugc.ac.lk.



Prof. S.V.D.G. Samaranyake
Chairman

- Cc.
1. Chairman / UGC
 2. Vice-Chairman / UGC
 3. Secretary / UGC
 4. Financial Controller
 5. Director / IDD / UGC
 6. Registrars of Universities
 7. Bursars of Universities
 8. SAR / AR / of Institutes / Campuses
 9. SAB / AB / of Institutes / Campuses
 10. Accountant / UGC
 11. Chief Internal Auditor / UGC
 12. Snr. Asst. Accountant / UGC
 13. Snr. Asst. Secretary / Supplies & Administration / UGC
 14. Auditor General
 15. Govt. Audit Superintendent / UGC
 16. Govt. Audit Superintendent / Universities