

EDUCATION AND PUBLIC HEALTH

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(1947) Department.

MS. SERIES. ①

G.O. NO. 2615 EDUCATION.

Dated 8th December, 1947. *OK-11*

[Despatch Abstract.]

GRANTS - Buildings - Aided Educational Institutions - Proposal to give aid towards the entire cost on half grant half loan basis - Not approved.

Back Papers.

G.O.	No.	Department.	Date.	G.O.	No.	Department.	Date.

Further Papers.

G.O.	No.	Department.	Date.	G.O.	No.	Department.	Date.

EDUCATIONAL DEPARTMENT.

C No. 1020 D₂ 47
Office of the Director of Public Instruction
Cathedral P.O., Madras, 30th September 1947.

FROM

Dr. S.R.U. Savoor, M.A., D.Sc., I.E.S.,
Director of Public Instruction, Madras.

TO

The Secretary to Government,
Education & Public Health Department,
Fort St. George, Madras.



Sub: Buildings grants for aided educational
institutions - new proposals - submitting. Part II 1948-9

During the 6 years 1935-36 to 1940-41, Government
were pleased to sanction building grants to aided educational
institutions to the following extent:--

Year.	Total amount. RS
1935-36	4,40,855
1936-37	3,88,918
1937-38	2,01,684
1938-39	2,06,345
1939-40	3,95,593
1940-41	3,79,187

From 1941 to 1945 no building grants were sanctioned because
of the war. In 1945-46 Government were pleased to sanction
Rs. 1,97,424 to aided institutions as building grants. Thus
the average of the building grants during the ^{five} years 1935 to
1940 was Rs. 3,26,679. Since these years represent more or
less pre-war years, we may consider the average expenditure
during these 5 years as the amount that Government ordinarily
sanctioned in pre-war years.

While the number of students entering colleges and
schools of all grades has been continually increasing and
the demand for educational buildings has been on the increase.
owing to the fact that there has been a ban on building
grants to aided institutions, the managements of are finding
it very difficult to provide the accommodation that the
departmental officers have been continually urging as most
essential for purposes of recognition and aid. It will
thus be very clear that it is highly desirable that Govern-
ment finds some method by means of which it will become

possible

possible for aided managements to satisfy the conditions of recognition in respect of accommodation. The point of view of aided managements is naturally that, quite apart from the question of getting building materials, they are not in a position to get the requisite funds to have additional buildings at their own cost, because the prices of materials have gone up very high. Further, as well as the fact that they have had to pay higher salaries to the staff owing to the same reason, it has become difficult, if not impossible, for managements to get their half share of the amount needed to construct new buildings.

~~the expiry~~

I wish to submit for the consideration of Government a new proposal for giving grants for sites and buildings. At present when a building scheme is approved, Government agree to give one half of the cost and the school management has to find the other half. Moreover, the half promised by Government is given only after the completion of the building, or sometimes an advance of a portion of the grant is given before the completion. Thus the majority of managements have very often to find the entire amount required for completion of the building. This is not possible for them except in a few instances where the managements are sufficiently rich.

The present proposal is that Government should give the entire cost to the management, one half as a free gift, and the other half as loan at 5% interest. The other half given as loan is also to be considered as a free gift, inasmuch as after collecting interest at 5% for a period of 40 years, the principal loan is wiped off automatically.

This proposal may appear at first sight as a great loss to Government. But on close examination it will be clearly seen that there is no loss. This needs explanation and examination.

PTO

Suppose Government raise a public loan at 3% payable at the end of 40 years. The amount payable to the public at the end of 40 years will be the principal plus the annual interest at 3% for 40 years. That is $= LR^{40} = 3.251 L$. Where $R = 1 \text{ plus } \frac{3}{100}$

Now suppose Government gives a grant of 2 G to a management with the condition that the management will pay interest at 5% per annum on 1 G for 40 years. The annual interest collected from the management may be re-invested by Government in other building schemes, which will also fetch 5% interest. Then the Government will get at the end of 40 years

$$\begin{aligned} & \frac{G}{100} \left(S^{39} + S^{38} + S^{37} + \dots + 1 \right) = \\ & = \frac{G}{20} \times \frac{S^{40} - 1}{S - 1} = G \times 6.047 \text{ where } S = 1 \text{ plus } \frac{5}{100} \\ & = 6.047 G. \end{aligned}$$

Thus by giving 2 G in full now, Government actually gets at the end of 40 years = 6.047 G.

If $L = 2 G$, that is the loan taken by Government is what has been given to management, then at the end of 40 years - the calculation will be as follows:-
Government to pay to the public = $3.251 L = 6.502 G$

~~or 3.251 x 2 = 6.502~~

Government gets from the management - 6.047 G
The actual cost ^{to Govt.} at the end of 40 years ~~to Govt.~~ will be $6.502 G - 6.047 G = .455 G$

This has to be compared with the actual cost at present. It is 1 G now plus loss of interest on 1 G at least for 40 years and at 3%, that is 3.251 G at the end of 40 years.

It is clear therefore that the present system of giving half grant is more costly to Government than the one proposed. Government can raise a loan at 3% and

with the condition that is and giving it to managements/~~at~~ 5 % interest/to be paid every year for 40 years, on half the amount paid to management. This will redound greatly to the credit and good name of Government in that they are giving the entire cost of school buildings for public use. The public will greatly appreciate this sort of loan which is more in the nature of a betterment scheme and an improvement plan for the nation as a whole. I have discussed this matter with a number of managements. The response to the loan is sure to be very good. The schools get better buildings and the managements are spared the trouble of finding their own half of the cost immediately.

Of course, suitable steps have to be taken to see that the building schemes are well examined, that the construction of the buildings is under expert supervision at every stage (that means it will be better if the buildings are constructed by approved contractors) (which should be required to be insured by the managements) and that the buildings remain the property of government for 40 years, the management being given only the right of use and occupation of the buildings ^{during the} ~~for~~ 40 years ^{of the mortgage} ~~for which they~~ pay rental value or interest at actually ^{only} 2 1/2 % p.a.

on the total value of the building. Including the insurance premium the actual rate of interest that the management may have to pay will not be high. It must be noted that at present, government instead of giving 2 G (as proposed herein), gives only one G as free gift and the building is mortgaged to government for 40 years. After 40 years the mortgage is released. If government had to pay 3 % interest on this 1 G, the cost to government for rendering this educational service to the nation will be 3.251 G. But this amount is not at all taken into consideration, but is entirely given as a free gift to the management. Even when the cost to government is as much as 3.251 G, the public do not

not at all feel that government are in any way liberal and generous in forwarding educational service. By this present proposal, with considerably less cost, as shown and explained above, government will be in a very favourable position to earn and deserve the good will and gratitude of the management and the public.

As mentioned in paragraph 1, the average grant during the pre-war years was Rs. 3,26,679. Capitalised at 3 % this would be approximately one crore. I would suggest that government may be pleased to raise loans of Rs. 10 lakhs in 1948-49, 15 lakhs the next year, 20 lakhs the year after and 25 lakhs and 30 lakhs in the subsequent years and that these may be given as loans to aided managements who agree to the new method of ^(equal to half the cost of the building) paying rent at 5 % on the loan for 40 years.

In order that the educational buildings may be constructed as early as possible, it is necessary that government should give a priority in respect of steel, iron and cement and reserve, say about 15 % of the amount available for private parties for the purpose of educational buildings. If the building materials become available and loans are granted to the managements I have no hesitation in saying that within the next 5 years the question of accommodation in educational institutions will have been solved and that at the end of 40 years government would not merely have repaid the loan completely, but it would actually have cost them much less than under the present Grant-in-Aid Code Rules.

In conclusion I may be permitted to state that the funds of the charitable endowments now with the Accountant-General and the Religious Endowments may perhaps be used for the purpose mentioned in the proposal.

S. K. S. S. S.

DIRECTOR OF PUBLIC INSTRUCTION, MADRAS.

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To DP 9
The DP 9

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SPH (25)

Grants - Buildings - Aided Educational Institutions -
Proposal to give aid towards the entire cost on half
grant half loan basis - not approved

From the DP 9 cno 1020 22/47 230.9.47

Order no 2615 Edu dated 8.12.47

The DP 9 is informed that Govt do not
approve his proposal that the entire cost of
construction of buildings for aided educational
institutions should be paid to the managements -
one half as a free gift and the other half as a loan
for which interest alone ~~will~~ should be paid for 40 years.

1022
8/12/47

6.12.47

Grant and loans - Buildings for aided educational institutions-
Part II Scheme for 1948-49.

From the D.P.I. C.No. 1020 D2/47 dated 30-9-1947.

The Government are now paying grants not exceeding one half of the cost of construction of buildings for aided educational institutions under the rules in the Grant in Aid Code and the managements have to meet the balance from their own funds or from the donations collected from the public for the purpose. The grant is paid after the work is completed and the necessary certificates are furnished. Building grants to secondary schools and colleges for boys are made only in special cases when the managements are not in a position to meet the entire cost from their own funds, while there is no such restriction in respect of secondary schools and colleges for girls. It is also the policy of Government not to make any grants for the construction of buildings for new Arts Colleges for boys or for additions and extensions to existing Arts Colleges designed to provide for an increase in the number of students who can be admitted to Universities unless they are intended to serve the interests of backward areas or backward communities.

2. The D.P.I. reports that the demand for educational buildings is on the increase on account of the increase in the number of students seeking admission into Colleges and Schools of all grades and the managements are not in a position to get the requisite funds to put up the additional buildings required at their own cost or even their half share of the amount needed to construct new buildings on account of various causes. ^{He has} recommended that Govt. may raise loans and pay the entire cost to the managements - one half as a free gift, and the other half as a loan, the managements being required to mortgage the property to Government and pay interest only at 5% per annum for a period of 40 years. The Director points out that the system now proposed by him will be less costly to Government than the present system of giving a half grant, and the managements will also be spared the trouble of finding their own half of the cost immediately.

3. The Govt. are now giving loans only to local bodies to meet their share of the cost of construction of buildings if required and the loan is repayable in 20 equated instalments towards principal and interest. Private managements stand on a different footing altogether. ~~It is~~ It is open to them to borrow in the open market and repay it according to their

It is doubtful whether managements of schools will agree to take loans at 5% interest if they can take a loan from the State at 3%.

Rule 55 - Buildings for Aided Educational Institutions B.K. 1040

9.15.47 9/12

(M) 4-5

convenience. It is for consideration whether Government should undertake the responsibility of borrowing on behalf of the managements and take all precautionary measures to ~~see~~ ^{see} that the money is properly utilised, the buildings are ~~well~~ well constructed and maintained and repayment is made regularly. ~~and is not to adjust it from the teaching grant payable to the institutions.~~ If this is done, there will be ^{no} inducements to managements to collect funds from philanthropic gentlemen. Further H.M.(Education) has proposed in another file that in view of the increase in the number of institutions to be aided, the grant payable should be limited and the amount should be met from loans. The limits proposed will be less than one-half of the cost in the majority of cases and if the Govt. were to borrow even to finance the balance of cost, they will have to borrow heavily. Instead of doing so, the Govt. may as well adhere to the half-grant principle and remove the restrictions imposed for sanctioning building grants.

4. It does not seem desirable to encourage the construction of buildings ~~by the grant of loans~~ for educational institutions on a large scale by the grant of loans till the price of building materials and labour come down to normal.

5 The scheme cannot also be said to satisfy the criteria laid down in G.O.No.577 Fin. dated -1-10-47. It is therefore for consideration whether the proposal may be negatived. The remarks of Finance may be invited

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See below. This is not really a Part II Scheme proposal. Not the general objection to the encouragement of construction of buildings under present conditions will apply.

HP1-5 CP

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file now
in circulation

p 2 above

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The Education and Public Health Department have sent a separately to this department proposals in regard to the amount to be provided in Part II of the Budget for 1948-9 for building grants to Aided Educational Institutions, following in accordance with the usual practice. The proposal in this file is not really for consideration as a Part II Scheme for the next year. It is ~~other on the other hand~~ a proposal for changing the ~~exist~~ existing procedure in regard to ~~the~~ building grants.

2. The Director of Public Instruction's proposal is that instead of giving only a half grant to the Management of Aided

p.t.o.

Part II Scheme for 1948-9.

Buildings for aided educational institutions - Grants and
loan. -----

The D.P.I. has submitted ^{new} proposals for the payment of grants and loans to aided educational institutions with a view to meet the increased demand for educational buildings. They ^{have been} ~~are~~ examined by E. & P.H. on pp.1-2 above.

2. The proposal does not satisfy any of the criteria, laid down by the Government for the selection of Part II Schemes. *The Hon. the Minister*
H.P.M. has ordered that all building works should be deferred ~~so~~ as far as possible in view of the high cost of building materials and labour. The same principle holds good in this case also, as the commitment on account of building grant ^{etc} will be very large, if construction is encouraged under present conditions. Finance may, therefore, agree with E. & P.H. Secretary that the scheme of the D.P.I. need not be taken up at present.

3 As regards the points ^{referred to} raised at 'A' on p.2 above, this Department have already opposed the principle of borrowing ~~for the purpose of financing building~~ finance grants to private institutions. The Government have constituted a Reorganization Committee and one of the terms of reference relates to the grants-in-aid to local bodies and private ~~instit~~ managements for various ~~own~~ purposes. ^{The Committee} ~~will no doubt consider the~~ Finance ^{may suggest that the points mentioned by E. & P.H. may be referred to the Reorganization Committee and their views obtained in the first instance.} ~~existing procedure is necessary & is desirable.~~

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institutions for construction of buildings, the Government may give the entire amount required for the construction, subject to the condition that the Management should pay interest for 40 years at five percent per annum on half the amount. By arithmetical calculation, the D.P.I. has shown that taking the period of forty years as a whole, the Government will gain by this change in procedure. p.3c-7.

The ~~Expts~~ D.P.I.'s calculations assume that this Government can borrow large sums repayable at the end of 40 years ^{with interest at} at 3 per cent per annum. Under the present conditions, this will not be possible at all, as ordinarily this Government can borrow from the Open Market only up to a certain limit and for a medium term (i.e. 10 to 15 years) at about 3 per cent per annum. Apart from this, it is not a practical proposition to assume that ^{private} Management, can ^{and will} be expected to pay 5 per cent interest per annum ^{regularly,} for such a long period as 40 years, the only security to the Government being the buildings themselves which will be very costly to build now and will depreciate considerably during ^{the 40 year} that period. ^{As already stated by this Dept.,} It is also objectionable in principle for the Government to borrow for the purpose of making grants ~~to~~ to non-official bodies. In the circumstances, this department may ^{agree} ~~advise~~ that the proposal of the D.P.I. need not be pursued further.

B
18.11.47 ADS

The Fin Secy to the Govt. had a discussion recently with the Honble Fin Minister to the Govt. regarding the borrowing prospects for the next few years. The Govt Fin Minister stressed, during this discussion, the point that the whole position in regard to borrowing had changed in the last few months, ~~and~~ that the total amount of borrowings available would be limited, and that the Govt would have to ration among provinces each year the amount that could be made available for them. He was of the view that Govt. could no longer count on the amount of assistance in the form of loan funds that the previous Govt had hoped to be able to give them. As this Govt. still owe some debt to the Govt, they

(The Govt will also have to pay the interest on the loan every half year and cannot defer payment till the maturity, as is implied in the D.P.I.'s calculations.)

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cannot float loans in the open market without the prior approval of the Govt. If therefore we try to float a loan in the open market ^{direct Govt on capital exp.} it will be counted against the total amount that is to be made available to us by the Govt including the amount lent by them. The Govt Fin Minister also said that the programme of capital outlay to be incurred by provinces for the next five years should comprise mainly schemes that would come into beneficial use within 5 to 7 years at the most and that no big project should be taken up that ^{would} take a longer period to come into beneficial use.

It will be seen from the above that the Govt. will be ~~able~~ to undertake in the next five years only ^{capital} schemes of economic importance that will bring in additional revenue to the Govt exchequer or increase the ^{tax} taxable capacity of the people and the amount of ^{funds} loans that will be available even for such schemes will be limited. The Govt will surely refuse any form of aid for a scheme of the kind proposed in this case for large building grants (schools) to educational institutions and it will be impossible for the province to raise the requisite loan funds. Further, as has already pointed out in detail in a separate file, the ~~expenditure~~ ^{expenditure} funds in aid cannot be classified as capital ~~and~~ ^{and} ~~expenditure~~ ^{expenditure} and financed from non-revenue resources, as it will not produce concrete assets for the Govt.

The Honble the Premier has directed that in view of the high prices of materials, ~~expenditure~~ ^{expenditure} on buildings should be restricted to very essential ~~and necessary~~ ^{and necessary} requirements. Though this view was expressed by him in regard to Govt buildings, it will apply also to buildings to be founded by private institutions or local bodies with Govt aid.

In view of all the above considerations, the Govt would advise strongly against the proposal of the D.P.I. in this case. If S.P.H. wish to press the proposal, they may take the orders in circulation including H.M. Fin and the Honble the Premier.

For
21/11/47 S.P.H.



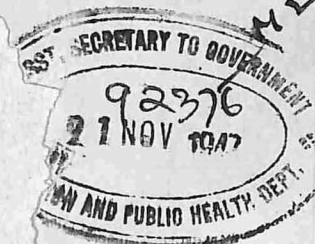
Fin. W.O. 62155 BEI/47-1
21-11-47.

(Fin Secy is away in New Delhi)

Secy., E. & P. H.

Please see herewith the proposal of the D.P.I. with reference to giving capital advances to educational institutions. A similar proposal is under consideration of Govt. I understand by this proposal advances are given to institutions and almost the whole of it is recovered back in some years. And so, it is supposed to be a better proposal from the point of view of Government than the one we have been examining till now. ~~It~~ This also may be examined and put up.

H.M. Education. 20.11.47



The proposal of the D.P.I. has already been examined in this Dept's note on pp 1-2 ante. It has been pointed out therein that it need not be taken up at present as the amount to be borrowed will be considerably more than the amount to be borrowed for payment of grants only. Finance have agreed with this view. They have also indicated that there is no prospect of this Govt getting loans from the central govt for financing capital expenditure of this kind. Vide their notes on pp 3-5 ante.

The file may be circulated to H.M. (Edu) for orders whether in the circumstances the proposal may be deferred.

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29.11.47

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A draft order is submitted below for approval

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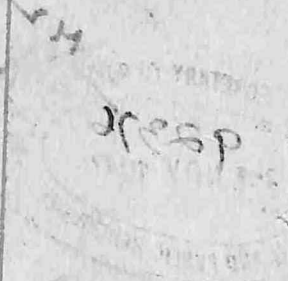
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H.M. Station.



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