



School fee regulation prompts race to bottom for states

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Since education is a subject in the concurrent list of the Indian Constitution, it enables states – in the absence of any central government intervention – to independently regulate

school fee as they deem fit. Accordingly, each state has enacted different regulations in relation to school fee structure, collection, management and use. These include regulations around:



*1. **composition** – in Telangana, fee for any activity which is not directly linked to education must be optional and cannot be charged under the head of ‘tuition fees’,*

*2. **earmarking** – in Delhi, fee collected must be utilized first for paying salaries and employee benefits, and remainder can then be*

allocated to expansion,

3. **approval** – in Gujarat, schools must submit proposals for fixation of fee to the statutory fee regulatory committee if they exceed the prescribed fee caps, and

4. **disclosure** – in Karnataka, fee structure should be published on the school website and notice boards.

At the same time, states such as Chhattisgarh, Orissa, Tripura, Sikkim, Manipur, Meghalaya and Nagaland do not have specific regulations on school fee.

States have also adopted divergent stances with some conferring substantial autonomy on school managements, and others imposing restrictions on their ability to decide fee unilaterally. States such as Maharashtra and Rajasthan have chosen to involve parents and teachers in the fee-determination process, while states such as Telangana confer school managements with autonomy to determine fee.

This state of affairs, which enables varied regulation across states, suffers from three major issues.

First, in M&A, this leads to skewed dealmaking patterns, with states which have light-touch fee regulation seeing surges in deal activity. This is not surprising, considering that fee constitutes the primary source of revenue for schools and any leniency in fee regulation enables investors make higher return based on projected growth. As an illustration, in the past five years, Telangana has seen multiple acquisitions of schools totaling millions of dollars.

Second, varied regulations carry the risk of incentivising states to engage in a race to the bottom on the issue of fee regulation to attract greater investment from private players. There are countering forces, mainly parents, seeking more fee regulation in order to protect themselves from incessant fee hikes. But which of these forces will prevail is hard to say, and meanwhile the bottom line is that unpredictability of regulatory direction creates risk for everybody involved.

Third, as more large international operators as well as private equity funds look to take invest in schools, the imbalance in distribution of private capital in favor of states opting for little-to-no regulation will lead to several states lagging behind when it comes to making better quality education accessible to India's vast population of school students.

There are two possible solutions to these issues.

First, promulgation of centralised guidelines or a model legislation which can prescribe minimum thresholds for all states could help plug regulatory gaps and introduce some much-needed uniformity. For states which currently do not regulate school fee and are practically excluded from the dealmaking paradigm, such guidance would also bring greater clarity and help them become attractive to investors. The central government has recently provided such guidance with respect to regulation of coaching centres, while encouraging states to take the final call. A similar approach for K-12 which enables states to cater to local contexts may be appropriate for school fee regulation as well.

Second, states looking to introduce a framework for regulating fee must borrow and learn from states which have been successful in attracting private investment. This will not happen just by opting for more regulation or light-touch approach to fee regulation; rather what is required is intelligent regulation which can balance competing considerations while allowing school managements the desired operational flexibility. Notably, certain industry bodies are already working on formulation of model frameworks. These frameworks must push the agenda of intelligent regulation, enabling states to skillfully tread the regulatory tightrope.

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