
The diversification of income sources in the higher education public institutions budgets

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Abstract

The formation of public institutions income has been approached nationally and internationally alike. In concrete terms, the dependence on a single financing source can cause financial instability at the level of public universities. That is the reason why strategic management in education institutions needs to focus on attracting revenue sources, other than subsidies from state budget, and their use in the context of financial autonomy can ensure the achievement of goals in the institutional strategy.

This research is based on literature review on the need to diversify universities' financing sources and the means to achieve that. The identification of complementary sources for financing education – a real challenge for universities – can lead to an increase of their competitiveness nationally and internationally.

Our research highlights the relevance and the problematic of diversifying financing sources of public universities. To this end, it centralizes types of extra-budgetary revenue sources: revenues from educational taxes, from registration and enrolment taxes, from resits taxes, from services taxes, etc. Various policies on educational taxes are also analysed, in the context of the competition among universities, as well as ways of ensuring provisions in the case of a decrease in the attractiveness of programs.

Keywords: Public sector, education, financing education, budget, higher education

JEL Classification: I22, G32

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Introduction

The diversification of financing sources in public higher education institutions' budgets is a problem that is debated internationally, an aspect highlighted by stakeholder organizations' preoccupations. Among them, the European University Association (E.U.A.) offers its members the opportunity to influence those policies which can support the development of higher education and research in European universities.

The leaders of higher education system have important responsibilities in ensuring the proper environment for developing teaching and research activities, despite barriers created by excessive regulations and bureaucratic demands. That is the reason why Estermann and Pruvot (2015) underline the role of educational management in maintaining the balance between public responsibility, society and institutional autonomy.

Supported by a competent team and clearly defined strategic objectives, any modern university can manage the two extremely important management instruments: the Institutional development strategy and the University's budget. The Institutional development strategy correlates university autonomy with the university's financial and administrative management, allowing the creation of a value system at the level of the organisation and the creation of a single Budget, an instrument for applying the strategy and for ensuring financial balance (Stancu et al., 2011). In this way, the elaboration of the revenue budget involves various resources for attaining performance.

1. Literature review

The essence of budget design is represented by the allocation of resources and the identification of adequate expenses. At the same time, budgeting involves finding the balance between revenue and expenses, which requires decision-making (Rubin, 2016), a process that correlates the opportunities, resources and objectives of the university for long-term development, qualitatively and quantitatively.

Rabin (1992) asserts that the budget becomes an important landmark that reflects the degree of the state's involvement in economy and social life, as well as the capacity of the national economy to contribute to raising financial resources and managing them.

At first sight, designing a revenue budget does not seem to raise too many problems. At a closer look, the grounding of each sum transforms into a challenge. Gibson (2009) asserts that the design of a budget is a relatively easy task conceptually, but its elaboration becomes difficult, when the interests of stakeholders involved in attaining this objective do not coincide with management's objectives.

Taking into consideration budget autonomy, Stancu et al. (2011) state that the new financial strategy of higher education institutions, based on global financing, allows flexibility in management, and as a consequence institutions have the freedom to design, approve, execute and report their own budget in conformity with legislation and own objectives. On the other hand, Jongblo (2010) considers that institutional performance can be obtained through two methods, which can be used individually or can be correlated: budget based on previous results or budgets based on projects.

At national level, in conformity with Law of education no. 1/2011, art. 223, public higher education institutions function as institutions financed through state budget funds, extra budgetary revenue and other sources. All these revenues are considered the institution's own revenues and are used by higher education institutions in the context of university autonomy, in view of achieving the objectives that fall into their field, according to state policy on higher education teaching and research.

At the same time, the study conducted by Estermann and Pruvot (2011) highlights that the students' financial contribution represents a valuable source of revenue for universities that adds to state financing, offering them a high degree predictability and the possibility for long-term investment. Still, Warner, quoted by Stancu et al. (2011) considers that each university needs to diversify financing sources by the development of activities that can generate revenue.

The decrease in the number of tax-paying students (see CNFIS's annual public report 2015) and the insufficiency of funds allotted from the state budget due to major budget cuts for education throughout Europe in recent years (see the studies of Estermann, Pruvot and Kulik, 2015), increase the pressure for responsible public expenses and focus management on diversifying financing sources in public higher education.

2. Research methodology

Our research is based on literature review as well as the analysis of reports that treat the theme of interest. We are making a synthesis of specific elements published nationally and internationally and we are underlining the relevance of diversifying financing sources in higher education public institutions.

3. The identification and grounding of financing sources at the level of higher education public institutions

All financing sources of higher education institutions in Romania are considered own revenue according to Law of education no. 1/2011, and the grounding of the revenues of higher education institutions takes into consideration the following dimensions:

- a) State-budget financing
- b) Income from other sources.

On the one hand, state budget financing is divided into institutional financing and complementary financing. Institutional financing is divided in turn into body grants, supplementary financing and institutional development grants – dimensions that are mainly determined by the number of enrolled students, on the basis of enrolment data received from each university, and allotted proportionally with the number of students (equivalent unit). The university's number of students (equivalent unit) per field is determined by calculating percentages, equivalent coefficients and cost coefficients per field. The distribution of budget funds takes into consideration competitive criteria based on international standards, as well as the compliance with quality and cost criteria.

On the other hand, incomes from other sources are constituted from tuition fees and activities developed by higher education institutions, as follows: projects

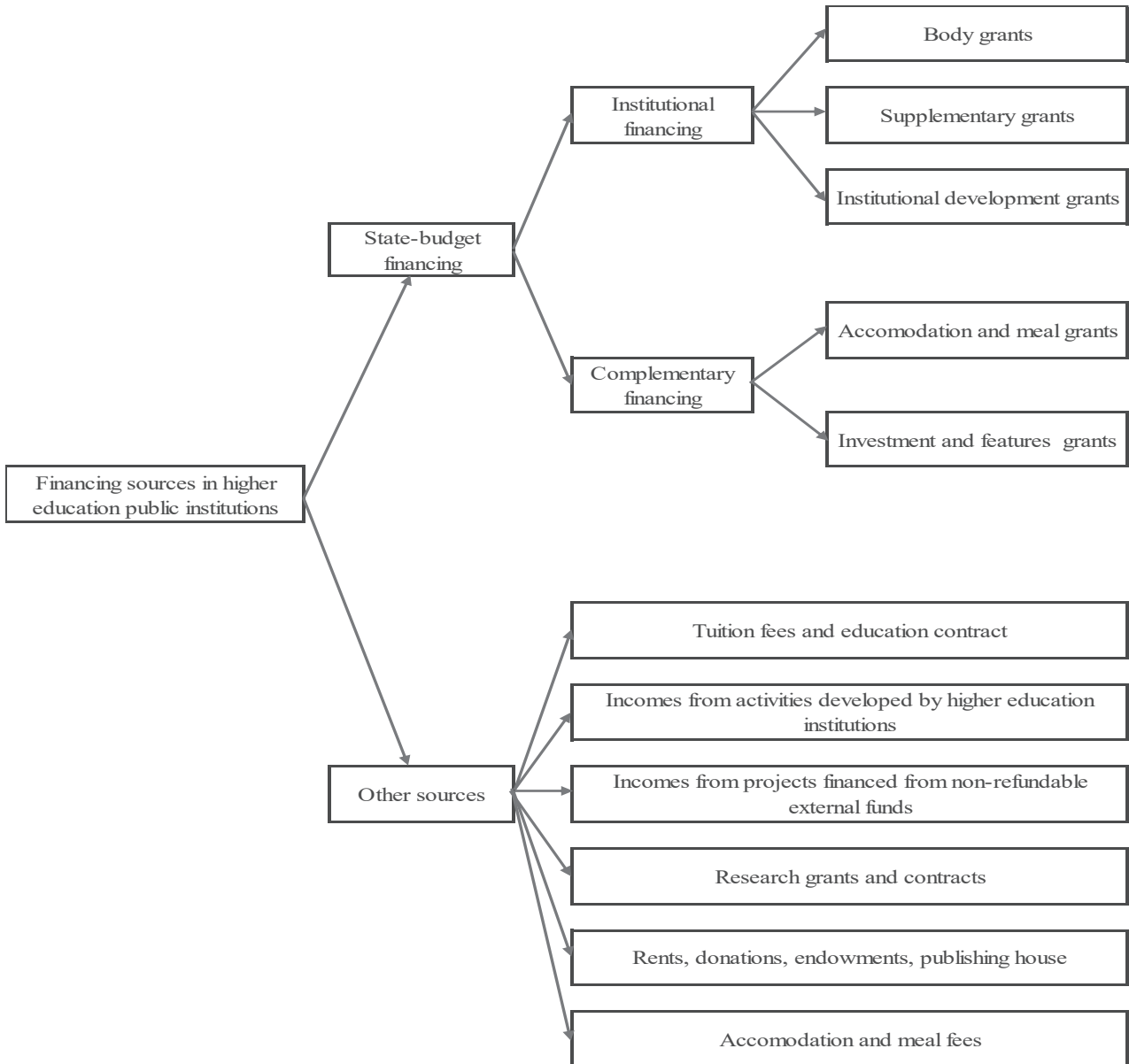
financed from non-refundable external funds, research grants and contracts, projects, consultancy and expertise, accommodation and meal fees, incomes from services, rents, donations, endowments and publishing houses. All these components are established by authorising officers of public institutions, with the approval of the superior authorising officer, through grounding based on provisions on revenue sources and the possibility to use them, by considering a series of criteria such as: the existence of the legal basis for obtaining revenue, preliminary execution for the reference year, corrected by probable influences provisioned for the future, as well as the analysis and comparative study of total revenue and expenses, in their dynamic, for each structure (Moșteanu, Vuță and Câmpeanu, 2002).

Rabin (1992) states that the budget becomes an important milestone in reflecting the state's involvement in the economy and social life, as well as the ability of the national economy to contribute to the constitution of financial resources and how they are managed.

For incomes from tuition fees, provisions are made mainly by taking into consideration the number of positions opened to students and the amount of the tax, along with the following factors:

- The number of students from the current year, enrolled in various programs (regular day program, part-time program, long-distance program);
- The number of students from previous years, enrolled in various programs;
- The accreditation of new undergraduate and graduate programs;
- The interest the students in previous years have shown towards programs;
- The existence of a competing university in the same geographic area;
- The university's decision to drop those programs that are not attractive etc.

Figure no. 1. Financing sources



Source: Authors' projection, 2017

To be able to make predictions about revenues from taxes, the university needs to research the annual dynamic of the number of students enrolled in various programs, correlated with the degree of attractiveness of similar programs from competing universities. Another extremely important factor that needs to be taken into consideration in the current social context is the dynamic of the drop-out rate of the university's programs.

These managerial efforts lead to an increase in the university's economic and administrative dimension, on which teaching, research and institutional dimensions are dependant. The university has been the place of creativity and knowledge-transfer, and has become the place of economic innovation and entrepreneurship. To revenue from taxes is added revenue from registration taxes, which can be provisioned based on

the evolution of the number of candidates from previous years, as well as revenue from enrolment taxes, which can be provisioned based on the number of positions opened and the amount of the tax.

In the case of revenue from resit taxes and finals taxes, which are harder to estimate, one can opt for an extrapolation of revenue from the previous year, equally taking into consideration any change in the amount.

In this context, one needs to analyse carefully the possibility to increase taxes, by anticipating the decrease in the number of students, a policy that is justified by an increase in the quality of education, or to decrease taxes, with negative effects on the quality of students' education.

The educational taxes of public higher education institutions are an accessible financing resource, whose choice depends on public authorities, and fiscal policies, and reflects at the same time an openness towards choosing how to finance education (Estermann and Pruvot, 2011).

Although the main financing source in European universities is public subventions, the diversification of revenues in public education institutions has become a topic of debate and analysis in recent years. Reports show that the activity of EUA focuses on opportunities and challenges in the activity of attracting financing sources for the educational process, as well as on the development of financial management instruments (Estermann, Pruvot and Kulik, 2015).

In Guțu's opinion (2008), universities have to face the following challenges: the demography problem, the financing problem, the structure and organisation problem, the entrepreneurial environment problem, and the quality of the university products. The author quotes Harvey and Green (1993), who postulated the existence of five perspectives on the quality of university processes: excellence, standards, relevance, financial efficiency and adaptability. All these need to be obeyed under the umbrella of honesty, social responsibility and academic integrity. The university should not become a predominantly economic organisation, and needs to

preserve its condition as a promoter of culture and science, but also adapt to the demands of current times.

Initiative and competition in higher education need to be encouraged, which involves adequate financial support (Stancu et al., 2011). The promotion of entrepreneurial initiatives in universities may represent a sure development mean, including financially.

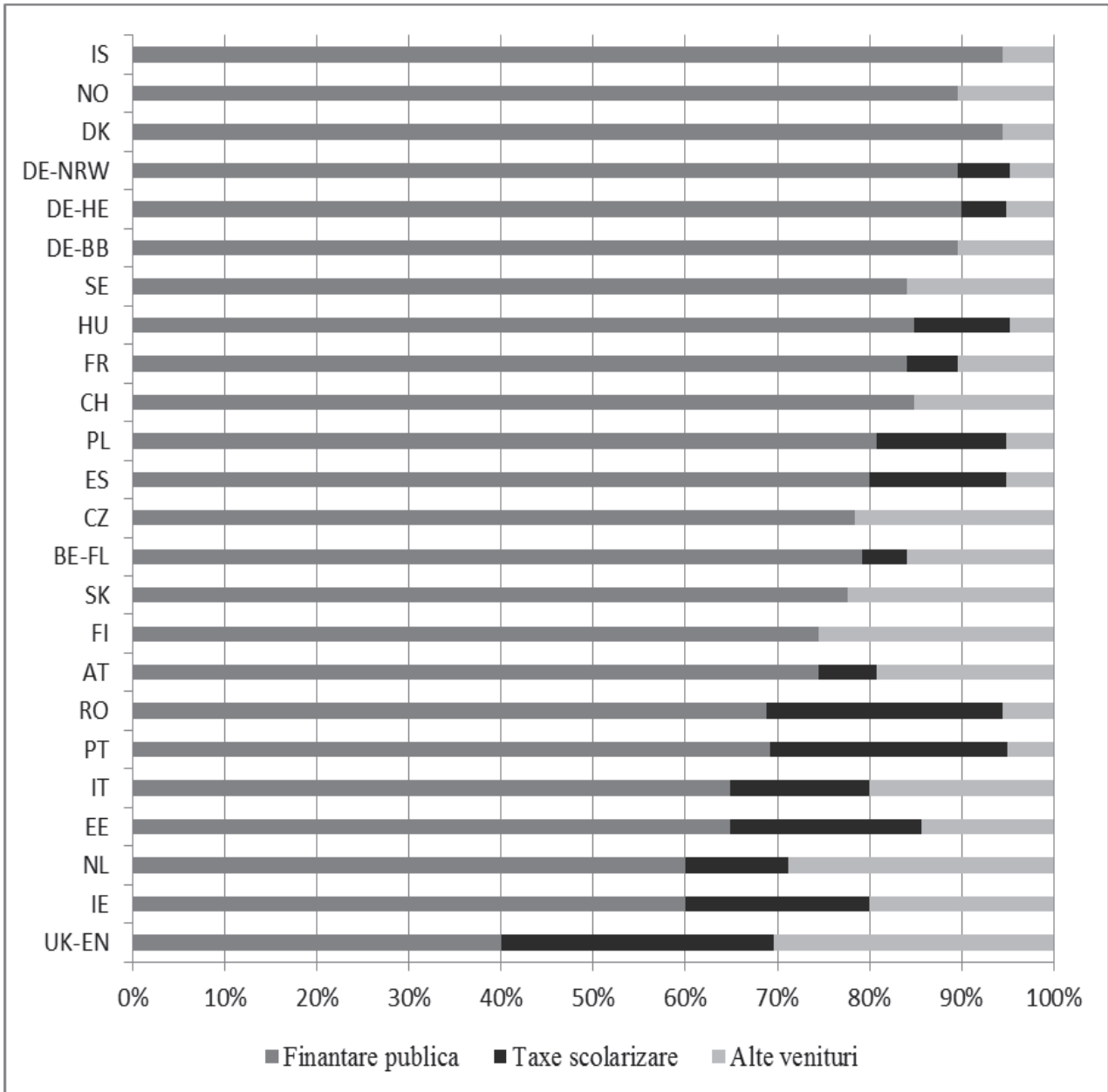
The continuous increase in the need for funds and the mounting pressure on using efficiently the limited resources of universities has become a reality through the development of various systems of financing for higher education (Teixeira, Biscaia and Rocha, 2014).

EUA studies, through EUA Public Funding Observatory, founded in order to monitor financing tendencies in public education institutions in Europe (Estermann, Pruvot and Kulik, 2015) show that the public higher education system is financed differently from one country to another, which leads to considerable differences depending on financing policies that exist in various European states. One needs to remark that in certain European countries public financing can be as high as 90% of the total revenue of universities, while other universities' public financing is lower than 50%, as shown in **Figure no. 2**.

From the analysis of the **Figure no. 2**, one can notice that for covering financing necessities, the most important source of revenue, apart from governmental financing, is represented by the educational taxes, whose variation can affect considerably the financial structure of a university and, implicitly, the means to attain the strategic objectives proposed by management (Estermann, Pruvot and Kulik, 2015).

At national level, legislative provisions become restrictive when the budgetary execution of revenue over the last two years imposes limits in grounding the budget project. If the percentage of own revenue projected in the budgets of public institutions over the last two years is lower than 97% every year, these institutions document own revenues for the current year no higher than the limit achieved in the previous year, in conformity to Law no. 500/2002 on public finances.

Figure no. 2: The average revenue in public universities in Europe

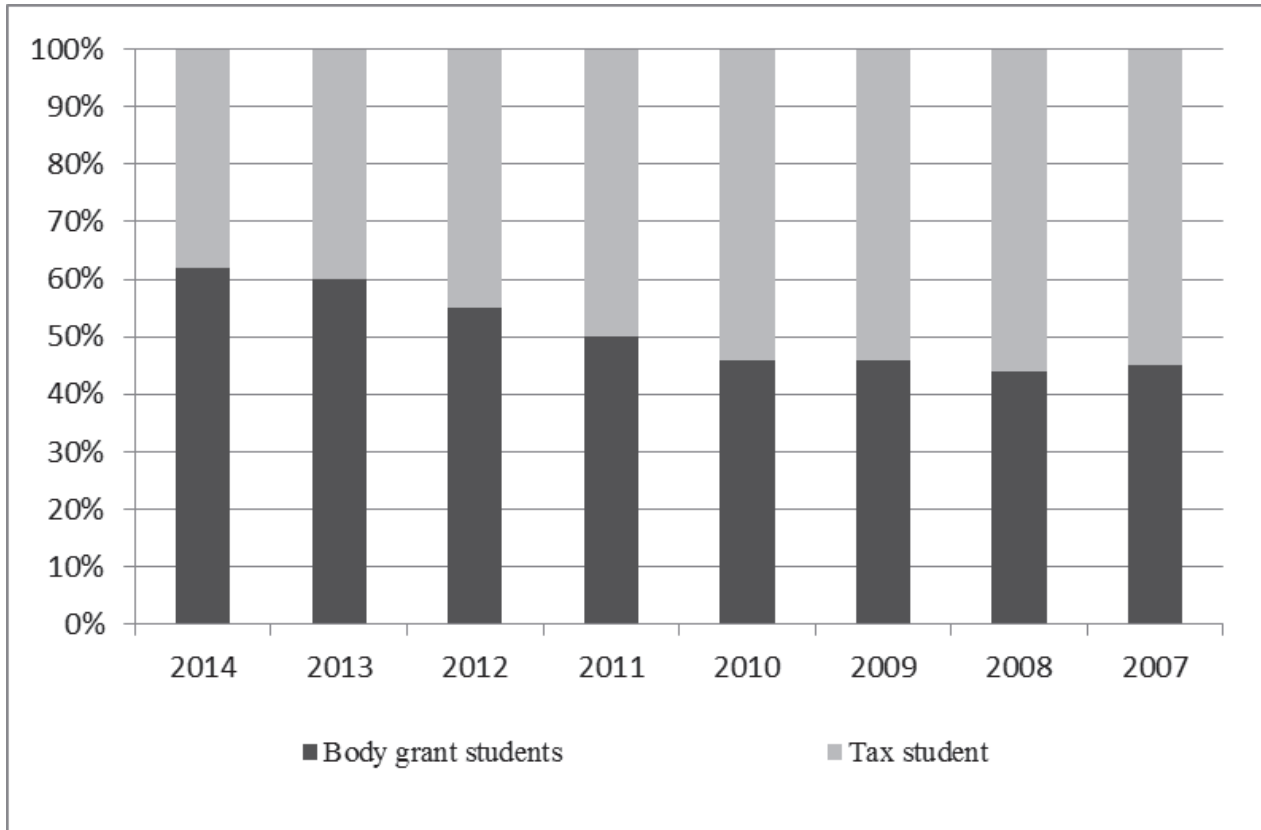


Source : Estermann, Bennetot and Kulik, 2015

One important difficulty in grounding the budget is the decrease in student population for some programs, which renders them unsustainable. On the other hand, national quality standards require universities to create provisions that allow studies or programs in difficulty to

continue, for students to be able to finish their studies. In the report elaborated by the Ministry of National Education (2016) it is mentioned that we are witnessing a significant decrease of tax-paying student numbers, as shown in **Figure no. 3**.

Figure no. 3. The percentage of tax students in Romania



Source: National Education Minister, 2016

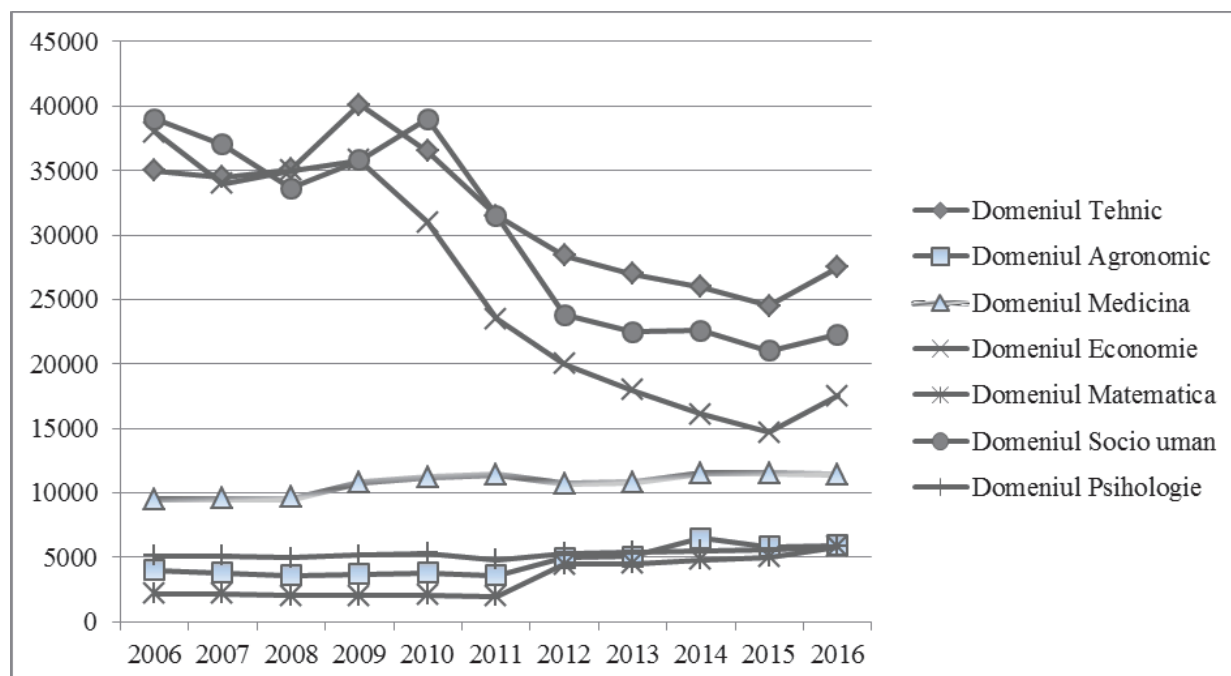
The decrease in the tax-paying student numbers leads implicitly to the decrease in revenue obtained by universities from extra-budgetary sources.

In the UEFISCDI-CNFIS report (2016), the organization presents the evolution of tax-paying students' enrolment in higher education in fields of study in the period 2006-2015. One can notice a steep decrease in the tax-paying students' enrolment in recent years, with a slight improvement in 2015. The peak was reached in 2009, and afterwards the evolution of enrolment decreased dramatically because of the economic crisis. See data in **Figure no. 4**. UEFISCDI – CNFIS (2016) identifies the following supplementary sources for financing higher education institutions: extending the recruitment of foreign students, financing by the private economic agents interested in supporting some programs and European financing.

As regards financing, a strong instrument for monitoring academic structure, two situations are known: the first, where the state favours the development of diversified, comprehensive academic structures, which results in lower subsidies and the second, where the state subsidises higher education through designing financing programs that can stimulate successful universities (Stanciu, 2013). This reality raises the theme of the universities hierarchies.

One way of maintaining a university's sustainability can be to drop unsuccessful programs, which at first sight means a decrease in fundamental financing. However, an improvement can be obtained by approaching professional educational marketing policies, which can lead to an increase in the number of candidates for truly attractive programs.

Figure 4. The evolution of enrolment in the period 2009-2015



Source: UEFISCDI – CNFIS, 2016

Conclusions

Maintaining a balance between public responsibility and institutional autonomy assumed by university management can be obtained by correlating dynamically the development opportunities, the identification of necessary financing resources and the establishment of objectives in view of obtaining high performance academically.

Institutional financial instability, which can be generated by the dependence on a single financing resources at the level of public higher education institutions – a

variable resource itself, dependent on context – can be counteracted by the diversification of revenue sources, by attracting external funds as well as by developing internal activities that can generate financial resources. This aspect can be a challenge for the institution's management, but can also lead to an increase of competitiveness locally and internationally.

To conclude, attracting extra-budgetary financial resources for long-term development becomes a crucial strategic objective in universities.

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