

CHANGES IN THE STRUCTURE OF ROMANIAN LOCAL BUDGETS

Lecturer Ph.D. Student Cristinel ICHIM
"Ștefan cel Mare" University of Suceava, Romania
cristineli@seap.usv.ro

Abstract

The basic component of local public finances is the local budget, defined as the document through which annual revenue and expenditure of administrative-territorial units are provided and approved. By means of local budgets, the activity of local public finances is designed and operated, local public budgets being tools for forecasting, programming, implementing and monitoring the results of the execution of financial resources of local communities and their distribution and use through local public expenditure—in short, local budgets reflect the work regarding local public finances of the territorial-administrative units. In the structure of local budgets profound qualitative and quantitative changes have been made, oriented towards determining a substantial increase in real incomes of local budgets and on this basis to ensure the genuine financial autonomy of local public administration. Romania has made important steps in the financial decentralization field, but the implementation of this policy has encountered many problems.

Keywords: local budget, changes, local public finances, public expenditure, government revenue, local autonomy

JEL Classification: H 72, H 83

INTRODUCTION

The aim of this paper is to underline the place and role of local budgets in the public finances in Romania, to clarify the concept of local budget and to explain the changes this economic category acquired during the revolution which has changed Romanians' life until now. There are three stages:

- Period 1991 - 1998 which is characterized by the initiation of major changes in the structure and financing of local government, which included the introduction of the new system of local taxes;
- Period 1998 – 2000, during which, based on the new legislation regarding local public finances, the financial and budget management applied in the previous years by local authorities was fundamentally modified;
- The period after 2001 until now which is characterized by the adoption of a comprehensive package of laws on civil service, decentralization of public services, local public finances, the fight against corruption and the establishment of new institutions which would prepare and implement reforms.

THE PLACE OF LOCAL BUDGETS WITHIN THE LOCAL PUBLIC FINANCES

The special place and role local public finances have in a country's economy has been confirmed over time, by economic realities, as they are the basis and catalyst for community development and local autonomy.

Democracy and autonomy, public finance and social-economic development at local level, these are the concepts that should be inseparable at the beginning of the millennium.

Local finances are only one aspect of local public administration and any debate on these issues must be placed in the context of a broader assessment of the adequacy and functionality of the institutional framework taken as a whole.

In the procurement and distribution of resources needed by local administrative bodies to fulfill their functions and tasks, certain economic relations in connection with the distribution of part of the gross domestic product by administrative bodies among different social groups are born. These relations, arising in the process of mobilizing and allocating resources to local government bodies, in the form of cash, are financial relations which are called local public finances.

In all socio-economic situations that they existed in, local government finances have reflected the economic, political and social conditions, within which the process of formation and distribution of financial funds has been completed. The evolution of local public finances is closely linked to that of local autonomy, which implies, in turn, the existence of local financial independence. The exercise of local autonomy is also achieved in the financial field, but with specific features and with conditioning issues connected with this field. Local public finances have the role of focusing and allocating resources, i.e. the funds necessary to carry out socio-economic activity locally. Local financial autonomy is also guarantee for real local autonomy, the fulfillment of social needs of communities being possible in accordance with local conditions.

Local public finances are individualized in the public finances by a degree of complexity because of the administrative-territorial units of a country, their level of socio-economic development, local peculiarities. Local public finance (1) play an important role within the public finances due to the complexity and diversity of social-cultural and economic activities, and public services that take place within the territorial administrative units and local authorities increasing responsibility in providing public services. Local public finances reflect economic relations through which cash resources are constituted and used within territorial-administrative units, without direct and immediate counteraction in order to meet several social and cultural, economic and public requirements and in order for the local public administration authorities to provide public services.

In the sphere of local public finances, also fall local budgets, local public institutions' finances and other financial resources mobilized and used by local public administration authorities.

THE CONCEPT OF LOCAL BUDGETS

The main part of local public finances is represented by the local budget, defined by law (2) as the document through which are set and approved each year revenue and expenditure of administrative-territorial units. In the field literature (3), local budget is defined as being the program through which are provided and approved annual revenue and expenditure of administrative-territorial units destined for the fulfillment of administrative tasks of local communities and for the fulfillment of the local public's needs, a program which is adopted by the decision of the local public administration authorities. They are prepared by territorial administrative units in terms of autonomy and are tools for planning and management of their financial activity (4). Local budgets ensure the management of expenditure within revenue, foundation of financial resources, encouragement of local initiative, assertion of local autonomy and control (5) on the use local funds.

The local budget is the main instrument of local authorities in the selection of funding priorities in relation to socio-economic development strategies of municipalities. Substantiation of priorities and options for social, cultural, and economic activities, public services to be financed from local budgets as well as the necessary measures in order to collect revenue are accomplished in the development and adoption of local budgets.

Local budgets are instruments that assure the decisional autonomy of local authorities, the efficient exploitation of local resources and improvement of local funds. Local budgets are also a separate and autonomous component in the consolidated budget, which is also connected with the state's central government budget. Through the local public administration budgets a relationship is determined between public revenue, represented mainly by the local taxes, and social needs, seeking to avoid injustice in the distribution of tax tasks on members of local communities while meeting their social needs, establishing a balance between collective needs and the means with which to cover.

A well-structured local budget should provide the local organs of power and administration with an accurate picture of the relationship between the value of tangible and intangible assets necessary to local communities and the value of efforts to be made to achieve them.

Through local budgets is designed and operated the activity regarding local public administration finance, local government budgets being regarded as tools for forecasting,

programming, implementing and monitoring the results of executing the financial resources of local communities and how their distribution and use by local public expenditure—in short, local budgets reflect the work regarding local public finance of territorial-administrative units.

Local budget can be interpreted in the following ways:

- as a document – representing the program by means of which local authority provides for time periods the size and structure of public revenue and expenditure of the administrative territorial unit;

- as a law—representing the legal document by means of which are mentioned and then approved through local normative documents the revenues and expenses for a specified period of territorial administrative units or local public institutions subordinated locally;

- as a system of financial flows, local public finances being expressed through the local budget, the former representing the financial flows regarding the formation of public money resources of local administration and financial flows that are released in the management of these resources;

- as a fiscal policy instrument of local administration, through local budgets being established the revenues, based on historical, economical, political, social and financial options, a fact that reflects the fiscal policy of local legislative and executive power, highlighting the role of taxes at economic and social level in the community.

Strategy, planning and content of a public administration is reflected in its budget. The budget is often considered an operational plan, being used to plan and guide an administrative unit in the next fiscal year and serves as the basis for financial reporting to the local council.

In the process of preparing the local budget, the authorized officers have a responsibility to make money, to allocate resources and monitor the current public activities of the local administration. The budget includes activities, projects and planned services, the estimation of available resources or revenues and the necessary public expenditure used to finance planned activities.

In order for the budgeting to be an efficient process it is necessary to take into account the significance of numbers and to also recognize this annual process as an opportunity:

- to evaluate local government services and facilities offered by them,
- to establish priorities,
- to consider possible changes,
- to plan services and future needs,
- to review and amend the income sources of the local budget.

Community budget is important, and how the allocation of limited resources for various services provided by local administration is a government strategy statement. Local budgets are prepared in a restrictive financial environment, the needs always exceeding the available funds. (When a project receives funding, the latter is rejected to another project). Thus, the amount of funds spent on a project is measured not only by the benefits obtained, but also by means of the projects rejected in its favor. Budgeting means to choose between alternative projects.

The significance of the local budget has extended as the local government has been often put in a position to increase resources and improve management efficiency and accountability. Policy makers and citizens need accurate and relevant information on local government policies, current activities, projects and expenditures. To answer these problems, the local legislature and executive must understand the specific needs of the community and the role that fiscal decisions have in serving them.

CHANGES IN THE STRUCTURE OF LOCAL BUDGETS

During recent years the structure of local budgets has undergone profound qualitative and quantitative changes oriented to cause a substantial increase in real incomes of local budgets and on this basis to ensure genuine financial autonomy for local public administration. Romania has made

important steps towards financial decentralization, but the implementation of this policy has encountered many problems. In this respect, in post-December period can be identified three stages:

1. Period 1991 to 1998 is characterized by the fact that there were initiated major changes in the structure and financing of local public administration, which included the introduction of the new system of local taxes. There is an increasing of the local budgets determined on one hand by inflation present in this period but also by the transfer to local government authorities of new areas for funding new (health, state pre-university education: material costs, personnel costs, inventory items, cultural institutions, water supply and paving of villages, roads, child protection, local airports, plant protection, payment of those accompanying persons with disabilities, the minimum guaranteed income, religious cults, dairy and bakery products for students, development programs, home heating aid, the rights of persons with disabilities). In 1995, for example, after approval of Law no. 27/1994 regarding local taxes, local budgets grew by 53% significantly above inflation. In 1996-1997 an increase in RON is to be noticed, but also a recorded decrease in foreign exchange, which means that local budgets fell in real prices.

2. Period 1998 - 2000 during which, on the basis of the new legislation on local government finance (6), has fundamentally changed the financial and budget management used in previous years by local authorities, increasing local financial autonomy and decision making of local councils and their responsibility both to establish, control, track and collect local taxes and in revenue management, planning and establishing spending priorities in concordance with the interests of local communities they represent. During this period the decentralization process of expenditures from the state budget to local budgets intensified, ensuring at the same time the necessary financial resources to finance them. These mutations not only increased the share of GDP for local budgets, but the corresponding proportion of local expenditure from the total public expenditure. Thus, between 1998 and 2001, the percentage of GDP increased from 3.6% to 6.5% and local spending increased from 14.4% to 26.6%.

3. Period since 2001 until now which is characterized by the adoption of a comprehensive package of laws on civil service, decentralization of public services, local government finances, the fight against corruption and establishment of new institutions to prepare and implement reforms. Thus, some new legal provisions have strengthened control of central authorities on local government functions, while others acted towards decentralization, such as Local Public Administration Law no. 215/2001. In July 2003, was adopted the new regulation act regarding public finances namely Emergency Ordinance no. 45/2003, and in 2004 entered into force Law no. 571/2003 regarding the Fiscal Code (7). Following the introduction of flat tax for physical persons of 16%, the percentage of the income tax rate applied individually which is allocated to local public administration increased in 2005. In 2006, was adopted Law no. 273/2006 (8) on local public finance with effect from January 1, 2007 which brought some new provisions regarding local budgets.

Table no. 1 Evolution transfers of funds from central to local budgets (million lei)

Year	2002	2003	2004	2005	2006	2007	2008
Revenue of the state budget	17920,6	25244,7	32195,4	36599,5	40698,1	48984,6	61151
Transfers from the state budget to the local budgets	7096,0	9374,3	11909,8	14667,1	22089,3	25653,1	32876,3
Percentage of transfers from the state budget to the local budgets (%)	39,59	37,13	36,99	40,07	54,27	52,36	53,76

Source: Romanian Statistical Yearbook 2003-2009

The size of local budgets determines the possibility of calculating local spending and at the same time reflects the degree of autonomy through the relation that occurs between own revenue, transfers of state funds to balance local budgets and loans. The higher the share of own revenues in

total local revenue sources is, the more the administrative-territorial unit is free to spend as much as they consider necessary in order to cover public needs, which translates into a bigger financial autonomy. The degree of financial autonomy at local level can also be noticed from the analysis of the amount of local revenue in the form of transfers of state funds in the total state budget revenues.

The transfers of funds from central to local budgets from the state budget has recorded large increases over the years, from 39,59% in 2002 to 53.76 in 2008 which proves on one hand that the local public administrations were assigned with new tasks and on the other hand the degree of financial autonomy of local communities is low. The transfers of funds from central to local budgets represent a significant percentage of the total income sources of local budgets of about 70%, which demonstrates the reduced financial capacity of administrative-territorial units because of their low incomes (about 25% - 30%) which translates into the impossibility of self-managing and implementing of local autonomy in the true sense.

The introduction of a flat personal income tax of 16% in 2005 leads to changes in the income of local budgets from transfer of state funds, mainly from income tax deducted from declared income. Reducing the rate of tax of the physical persons' income and maintaining the same percentage rates of the income tax deducted from the declared income in administrative-territorial units, the latter would have recorded smaller amounts, which determined the Government to increase the share split from the taxes starting with the taxes owed for the month of February 2005, i.e. municipalities, cities and municipalities will have 47% of income tax charged, instead of 36% of their budgets; the county budgets will retain 13% of collected income tax compared to 10%; the balancing rate of local budgets increased from 17% to 22%.

Although they rely on the principle of autonomy and decentralization of public services, administrative-territorial units are still very dependent on fund transfers from the state.

Expenditure of local public administration too has undergone important changes following the implementation of reforms.

Spending on education represents a significant percentage of total budget expenditures of local government in Romania starting with 2001, when, in the process of decentralization, these expenses were covered in a higher percentage by the local budget. Major fluctuations also recorded the costs of services and public development, housing, environment and water and costs of economic activities.

Making a comparison between the level of received income and the level of expenditure made from local budgets we can conclude that the implementation of local budgets in Romania was not professional because we have a surplus both in 2002 (54 million lei) and in subsequent years: 225,4 million lei in 2003, 415,1 million in 2004, 703,9 million lei in 2005, 2315,8 million lei in 2006, 2822,9 million lei in 2007 and 1418,4 billion lei in 2008. Not only that we have a surplus but that increased significantly from year to year which means that either the foundation of budget indicators was not done properly when developing local budgets or the money which had been distributed to local budgets in form of shares broken down from some of the state income or as grants could not be spent.

Table no. 2 Local public budgets in Romania in 2000-2006 (million lei)

Year	2002	2003	2004	2005	2006	2007	2008
Total local public expenditure	9268.8	12852.7	15540.7	18777.0	25392.8	33982,3	42210.2
Total local public revenue	9322.8	13078.1	15955.8	19490.9	27708.6	36805,2	43629,1
Surplus (+) / Deficit (-)	54	225.4	415.1	703.9	2315.8	2822.9	1418,4

Source: Romanian Statistical Yearbook 2003-2009

CONCLUSIONS

In conclusion we can say that the significance of the local budget has expanded as the local administration has been increasingly in a position to increase resources and improve management efficiency and accountability. Thus the structure of local budgets has undergone profound changes oriented to generate a substantial increase in real incomes of local budgets and on this basis to ensure genuine financial autonomy for local public administration. Researching the evolution of local budgets results that the size of local budgets revenue determines the possibility of making public expenditures and at the same time reflects the degree of autonomy by the relation that appears between own revenue, transfers of state funds to balance local budgets and loans. The higher the share of own revenues in total local revenue sources is, the more the administrative-territorial unit is free to spend as much as they consider necessary in order to cover public needs, which translates into a bigger financial autonomy. The degree of financial autonomy at local level can also be noticed from the analysis of the amount of local revenue in the form of transfers of state funds in the total state budget revenues.

ENDNOTES:

- (1) Gheorge M. Voinea, *Local Finance*, Junimea Publishing House, Iasi, 2002, p. 42
- (2) Law no. 273/2006 on local public finance, article 2, section 7
- (3) Cristina Onet, *Public Finance Law, the general part*, Lumina Lex Publishing House, Bucharest, 2005, p. 102
- (4) Gabriel Popeangă, *Local Public Finance Management*, Expert Publishing House, Bucharest, 2002. p.111
- (5) Gheorge M. Voinea, *op. cit*, p. 44
- (6) Law no. 189/1998 of local public finances
- (7) Published in the Official Monitor, no. 927 of December 23, 2003
- (8) Published in the Official Monitor, no. 618 of July 18, 2006

BIBLIOGRAPHY

1. Onet Cristina, *Public Finance Law, the general part*, Lumina Lex Publishing House, Bucharest, 2005.
2. Popeangă Gabriel, *Local Public Finance Management*, Expert Publishing House, Bucharest, 2002.
3. Voinea Gheorghe, *Local Finance*, Junimea Publishing house, Iași, 2002.
4. *** Law nr. 500/2002 of the public finance, published in the Official Monitor nr. 597 from 13 August 2002
5. *** Law nr. 571/2003 regarding the Fiscal Code with the ulterior modifications, published in the Official Monitor, nr. 927 from 23 December 2003
6. ***Law nr. 273/2007 of the local public finance published in the Official Monitor nr. 618 from 18 July 2006 with the ulterior modifications