

LOCAL PUBLIC EXPENDITURE AUTONOMY – MEASURING APPROACH

Assistant Ph.D. **Elena CIGU**

Alexandru Ioan Cuza University of Iasi, Faculty of Economics and Business Administration, Romania
elena28072001@yahoo.com

Assistant Ph.D. Student **Irina BILAN**

Alexandru Ioan Cuza University of Iasi, Faculty of Economics and Business Administration, Romania
bilan.irina@yahoo.com

Abstract:

The decentralization process was continuous in Romania starting with 1990, generating the implication of local authorities in local public finance, as a result of exclusives, shared and delegate competences and, so, the necessity of ensuring a good management of resources and expenditures. Therefore, the decentralization of competences / responsibilities from State to local governments was a major Romanian political theme and a first rank component of management of local public finance, as main driving instrument for local development. Specific legal framework of local responsibilities is established both to European and national level. Researchers based on regulation and practice have tried to quantify the responsibilities developing different models to measure local revenue and expenditures autonomy.

The paper aims is to identify some models for measuring local expenditure autonomy and to apply for Romania. The study is oriented to measure local expenditure autonomy in Romania using Bell, Ebel, Kaiser and Rojchaichainthorn's model.

Key words: local autonomy, financial autonomy, expenditures autonomy, local budget

JEL classification: H72, H83

INTRODUCTION

Local public expenditure materialized the concern of local authorities to manage local collective needs in terms of autonomy, representing the expression and financial realization of these activities, which highlights the significance of "consumer finance" (final or intermediate) of this economic category in organic connection with the production and consumption of public utilities (Petrișor, 2012, p.7). In general terms, the sense of expenditure autonomy is the right and the ability of local governments to manage public property and funds in the general interest of the local community. The expenditure autonomy also implies that public resources are to be spent on goods and services in a way to meet the demand of the local community. Therefore, first, local expenditure autonomy is equivalent with the freedom to decide which goods and services shall be financed from the local public budget and how much money shall be spent on each of them. Second, expenditure autonomy also includes the freedom to decide how these goods and services shall be produced or delivered. With regard to both questions, autonomy also implies the ability of the local government to implement the decisions. The ability is established by the regulation. Specific legal framework of local responsibilities is reflected in Europe by the European Charter of Local Self-Government and at the national by specific legislation on local public finances (Act no. 273/2006), local government (Act no. 215/2001), decentralization (Act no. 195/2006), the provision of local public services (e. g, GUO no. 34/2006, GUO 54/2006), etc.

MEASURING EXPENDITURE AUTONOMY

Measuring autonomy in expenditures can be achieved in terms of qualitative indicators (The World Bank²⁰⁰⁷) showing the level of government responsible for the expense involved in the provision of a public service. Delineation and quantification of shared competences at local,

regional and national level for public services such as education, requires a deeper analysis. Exclusive competences are those that reflect the highest degree of autonomy of local government and at the same time requires the attention of local authorities because they are solely responsible for the quality of public service provision and the cost of providing it. Autonomy in local public expenditures was debated by Dafflon and Perritaz in 2000, the World Bank in 2007, and other researchers.

The World Bank proposes to look at four universal dimensions of public service provision: 1) setting the amount of spending, 2) determining the structure, 3) executing, 4) supervising the task, for seeing which government layer has control over each of these dimensions. Some researchers (Beer-Tóth, 2009) consider that implementing such schemes in practice will always require some mapping between these dimensions, on one hand, and the prevailing account system (or expenditure classification) in the country, on the other hand. However, the dimensions may also prove to be insufficient in number, or imprecise in definition, for being used in practice.

Dafflon and Perritaz (2000) made an analysis on the Canton of Fribourg (Switzerland) with 247 municipalities, taking into consideration three particular expenditure items: 1) the financial contributions to the cantonal or federal spending on regionalised or centralised tasks; 2) the expenditures on services that the local authority provides in co-operation with other jurisdictions; 3) the interests paid and the prescribed minimum amounts of debt repayment related to past investments. Adding up the expenditure volumes in these categories, the authors took the result as a basis to determine the per-capita mandatory expenditure in absolute monetary terms, as well as its share within the local public revenues and within the revenues from direct taxes. The use of Dafflon and Perritaz's model requires that all municipal accounts to be registered in a standardized electronic reporting system.

To reflect the degree of expenditures autonomy, one of the most complex models in terms of measurement the expenditure autonomy was developed by Bell, Ebel, Kaiser and Rojchaichainthorn (2006). The authors have established six dimensions of service provision which influence the degree of autonomy of local authorities. The authors evaluate local autonomy in each of these dimensions by means of the scores A to D (or 4 to 1) corresponding to devolution (A), delegation (B, C) and deconcentration (D). Thus, the authors analyze each public service sector and subsector individually along these six dimension and evaluate local autonomy in each of these dimensions by means of the scores A to D (or 4 to 1). Calculating the average of the individual (dimension-related) scores in each sector provides an estimation of the level of local autonomy with regard to the given sector on a scale from 1 (no autonomy) to 4 (full/complete autonomy).

According to the authors, the last step would be to develop a weighting of the various sectors that reflects the relative importance of each sector. This would provide something like a final score of local autonomy and at the same time resolve the question of large autonomy on 'unimportant' functions vs limited autonomy on important functions. A municipality may indeed have full control over spending on libraries, for instance, but a negligible influence on a far more important sector such as health care.

Table no. 1: A typology of expenditure autonomy by Bell, Ebel, Kaiser și Rojchaichainthorn

Factor influencing the degree of autonomy	Description of the factor	Full degree of autonomy of local government (Score A=4)	Local government has high degree of autonomy under central supervision (Score B=3)	Central control while local government has some degree of autonomy (Score C=2)	Central fully control with mere degree of autonomy at local level (Score D=1)
Broad control over policy and budget	Which government sets the main policy guidelines for a service (e.g., free primary education as a national policy)?	Policy planning, budget execution, and assignment of functions are set by the local government (e.g., accounting systems, treasury operations, internal, and external audit). LG has full degree of decision-making while CG acknowledges the planning.	Clearly delineated assignment of functions; LG controls its own budget process and budget execution with influence and guidance from CG. Extra budget request can be easily changed according to local preferences.	CG sets main policy, budget, and implementation process, while LG has some ability and flexibility over decision-making and execution as appropriate to the local demands. Some categories of extra budget can be requested according to CG's guidelines.	CG either makes or has final control over the local budget; and/or can override provisions of the local budget. LG is delegated to execute the work which fully planned by the CG. Changing budget within the fiscal year is almost implausible.
Civil service	Control over the level of the wage bill and decisions with respect to hiring, promotion, and firing civil servants, as well as salary setting and condition of employment.	LG controls over civil servants who are engaged in the delivery of local public goods and services. Includes agreements and settlements on wages and employment conditions.	SNG controls over the main part of civil servants who are engaged in the delivery of local public goods and services including wages and employment conditions. CG controls, supports, and directs LG in some areas which LG lacks of expertise.	CG controls over the main part of civil servants who are engaged in the delivery of local public goods and services including wages and employment conditions. LG has some ability and flexibility over some decision making.	CG determines (perhaps through negotiation) the level and structure of civil servant salaries and the conditions of employment.
Standards setting and regulation	Which government sets the standards for the composition of local public services and the regulations that may accompany LG spending programs?	LG sets the standards and compositions of all public services which are consistent with compliance with the state law, constitutional principles, and international standards. LG also has strong voice in helping national government setting the principles and standards when suitable.	LG sets some standards, regulations, and compositions of public services under CG's supervision and influence.	CG sets core standards, regulations, and compositions of public services. LG has some flexibility in adopting and adjusting the standards that suit local circumstances.	CG sets standards, regulations, and compositions while LG does not have voice or participate in the regulation and service designs.
Administration	Administration of service delivery on a day to day basis.	LGs determine their own internal administrative structures in order to adapt them to local needs and ensure effective management (European Charter, 1985).	LGs determine their own internal administrative structures with guidance and influence from CG in order to adapt them to local needs and ensure effective management.	CG sets and determines administrative structures while LG has some ability and flexibility in adjusting the administration of services to local needs.	CG mandates internal administrative organization and day to day expenditure and management basis including procurement practices.
Service delivery	Control over the priority of service, ensuring quality and standard, as well as delivery in a timely manner.	LG fully controls on the standard of the service, set priority, as well as ensuring quality and timely delivery responding to the local needs.	LG have most control over the standard of the service, set priority as well as ensuring quality and timely delivery according to local needs under CG's guidance and planning.	CG controls over the standard of the service, set priority, as well as ensuring quality and timely delivery. LG has some flexibility in adapting and adjusting the services according to the needs.	CG controls over the standard of the service, set priority, as well as ensuring quality and timely delivery.
Monitoring and evaluation	Which government monitors and evaluate LG performance?	LGs have full control over monitoring and evaluation used for future improvements in local institutional, administration, and service management.	LGs have control over monitoring and evaluation, and the outcomes are reported to the CG for future improvements/guidance.	CG has control over monitoring and evaluation processes while LG participates in some aspects along the processes.	CG fully monitors and evaluates the LG performance. Full decision making and future work and improvement area is based on CG's justification.

Source: Beer-Tóth, K., 2009, after Bell et al., 2006

EXPENDITURE AUTONOMY IN ROMANIA

A comparison of the local authorities' progress in Romania during 1991-2008 (see Figure no.1) shows that the decentralization process in our country was quite extensive on technical aspect, it is not even now fully completed, which will determine the likely in the future a consistent level of transfers from central to local budgets. Supported transfer of powers to local authorities, aimed at agricultural advisory services, assistance to persons with disabilities, special education, religion, housing heating subsidies, national defense, hospitals, etc., has entailed a lot the possibilities to cover the costs of local authorities. For some of these actions, local authorities have benefited from the central authorities of some money as special purpose income, direct effects on local financial autonomy.

Figure no. 1: Transfer of responsibilities from central to local levels in Romania between 1991 - 2008

				National defence
			the "Bretzel and milk"	the "Bretzel and milk"
			Home heating subsidies	Home heating subsidies
			Religion	Religion
			Special education / minimum income	Special education / minimum income
		Assistance to persons with disabilities	Assistance to persons with disabilities	Assistance to persons with disabilities
		Agricultural consulting	Agricultural consulting	Agricultural consulting
		Veterinary activities	Veterinary activities	Veterinary activities
		Airports	Airports	Airports
		Child protection	Child protection	Child protection
		Water supply and roads	Water supply and roads	Water supply and roads
		Special Funds	Special Funds	Special Funds
	Culture	Culture	Culture	Culture
	Education	Education	Education	Education
	Health	Health	Health	Health
Other economic actions	Other economic actions	Other economic actions	Other economic actions	Other economic actions
Other actions	Other actions	Other actions	Other actions	Other actions
Transport	Transport	Transport	Transport	Transport
Housing and planning	Housing and planning	Housing and planning	Housing and planning	Housing and planning
Social assistance	Social assistance	Social assistance	Social assistance	Social assistance
Public authorities	Public authorities	Public authorities	Public authorities	Public authorities
1991-1992	1995-1996	1999-2000	2003-2004	2007-2008

Source: develop by authors after Oprea and Lazăr (2008)

From this perspective, measuring local expenditures can be analyzed in terms of financed expenditures structure (boundaries). One important category of expenses is represented by the socio-cultural expenditures (education, health, insurance and social assistance, that culture, leisure and religion). It appears that since 1990, the state budget has declined the responsibilities/competences to other budget components, including the local budget had a sustained upward trend. In terms of strengthening local budgets is interesting that since 2002, the evolution of expenditures of the kind in question, funded from the state budget has taken a turn upward, contrary to that recorded in the period 1992-2002. The main factors explain this development are represented by the accentuate decentralization process (decentralization of educational, health and culture institutions), changes made by the number of beneficiaries (pensioners, unemployed, students, etc.), the depreciation of national currency, GDP evolution etc..

Measuring local expenditure autonomy using Bell, Ebel, Kaiser and Rojchachainthorn's model in our country, can be seen below:

Table no. 2: Measuring local expenditures by using Bell, Ebel, Kaiser and Rojchaichainthorn's model

Activity	Broad control over policy and budget	Civil service	Standards setting and regulation	Administration	Service delivery	Monitoring and evaluation	Degree of autonomy of local expenditures
1. Public authorities							2,00
The External Relations	1	1	1	1	1	1	1,00
National Defence	2	1	1	1	1	1	1,17
Local Police	3	1	2	3	3	3	2,50
Prevention and fire fighting	3	1	2	3	4	3	2,67
Public policy	3	1	2	3	4	3	2,67
2. Education							2,92
Primary and secondary education	3	3	2	4	4	2	3,00
Higher education	2	3	2	4	4	2	2,83
3. Health							2,46
Medical care	2	3	2	3	3	2	2,50
Health protection	2	3	2	3	3	2	2,50
Hospitals	2	3	2	3	3	2	2,50
Public health	2	3	2	3	3	1	2,33
4. Culture, sport							3,50
Theaters	3	3	2	4	4	3	3,17
Museums	3	3	2	4	4	3	3,17
Libraries	3	3	2	4	4	3	3,17
Parks	4	4	4	4	4	4	4,00
Sport and leisure activities	4	4	4	4	4	4	4,00
5. Social assistance							3,28
Nurseries	4	3	2	4	4	3	3,33
Nursing homes	4	3	2	4	4	3	3,33
Services for the elderly and disabled	4	3	2	4	4	2	3,17
Special social services	4	3	2	4	4	2	3,17
Social housing	4	3	2	4	4	3	3,33
Unemployment	4	3	2	4	4	3	3,33
6. Public utilities							3,57
Water	4	4	2	4	4	4	3,67
Sewage	4	4	2	4	4	4	3,67
Electricity	4	4	2	3	3	4	3,33
Gas	4	4	2	4	4	4	3,67
Heating	3	4	2	4	4	4	3,50
7. Environment							3,00
Waste collection	4	4	2	4	4	4	3,67
Landfilling	4	4	2	4	4	4	3,67
Street cleaning	4	4	2	4	4	4	3,67
Environmental protection	3	2	2	3	3	2	2,50
Natural disaster	2	1	1	2	2	1	1,50
8. Public transport							2,94
Roads	3	3	2	3	3	2	2,67
Street lighting	3	3	2	3	3	2	2,67
Public transport	4	3	2	4	4	4	3,50
9. Urban Development							2,96
Urban planning	4	2	3	4	4	4	3,50
Regional planning	2	2	2	2	2	1	1,83
Local Economic Development	4	2	3	4	4	4	3,50
Tourism	3	2	3	4	4	2	3,00
Degree of autonomy of local expenditures	3,21	2,82	2,10	3,46	3,51	2,79	2,96

Source: computed by author

Analysis shows that measuring the degree of autonomy of local public expenditures calculated using the Bell, Ebel, Kaiser and Rojchaichainthorn model get a score of 2.96 which means that they are very close to class B size with the highest score is the production local public service, followed at a short distance from local public service provision. Factor influencing local autonomy is the lowest legal regulation, following the implementation of local autonomy within a unitary state in which the powers of local authorities are established by national legislation. Size that best highlights the financial side of autonomy is service delivery recording a value of 3.51.

CONCLUSION

One of the conclusions is that the delimitation of local public responsibilities as shared competences (e.g. education) demands more circumspection and a well designed reporting and accounting system. Romania has little experience in decentralized government accounting and because of this lack the basic data that are necessary for such calculations. So that, the judgment about whether local authorities have a 'high degree' or just 'some degree' of autonomy (e.g. the choice between scores B and C) is highly subjective.

REFERENCES

1. Beer-Tóth, K., *Local Financial Autonomy in Theory and Practice. The Impact of Fiscal Decentralization in Hungary*, teză de doctorat sub conducerea științifică a Bernard Dafflon și George Guess, University of Fribourg Switzerland, Fribourg, 2009
2. Bell, M. E., Ebel, R. D., Kaiser, K., and Rojchaichainthorn, J., *Measuring Fiscal Decentralization: A New Perspective. Draft for discussion*, The World Bank. September 19, 2006
3. Cigu, E., *Finanțe publice locale – rolul lor în întărirea autonomiei unităților administrativ-teritoriale*, Editura Tehnopress, Iași, 2011
4. Dafflon, B.; Perritaz, S., *L'influence de la taille des communes sur leur degré d'autonomie budgétaire : présentation d'une méthode d'analyse et application aux communes fribourgeoises*. Working Paper 336, Faculty of Economics and Social Sciences, University of Fribourg, 2000
5. Oprea, F., Lazăr, S, *Local Financial Autonomy In Romania: Challenges And Options For Reform* – CD of the VI International Scientific Conference, Brno University, Faculty of Business and Management, Brno, 2008
6. Petrișor, M.B., *Cheltuielile publice. Fundamente, evoluții, impact*, Editura Tehnopress, Iași, 2012
7. The World Bank, *Data on Decentralization and Local Regional Economics*, Electronic database and user guide, 2007, URL <http://www1.worldbank.org/publicsector/decentralization/data.htm>