

EXPENSES FOR SERVICES AND PUBLIC DEVELOPMENT, HOUSING, ENVIRONMENT AND WATER IN LOCAL BUDGETS

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Abstract:

In the present study we aim to analyze and deepen an important category of expenditure funded from local budgets namely expenses on services and public development, dwellings, environment and water.

Our approach begins with determining scientifically the place of such expenses in local spending by clarifying their content and role. A special part of the article treats the particularities and financing of public utilities and finance and making investments related to public utility systems.

The research is based on quantitative analysis of expenses for services and public development, dwellings, environment and water in local budgets from existing data in the Statistical Yearbook of Romania and highlights the structure of these types of expenditures and their place within public expenses in local budgets.

The study includes an analysis of the dynamics of the share hold by expenses for services and public development, housing, environment and water in total expenditures from local budgets.

The research carries out that the evolution and structure of expenses for services and public development, housing, environment and water from local budgets is determined by several variables that differ from one administrative territorial unit to another: the village area, length of roads, sewage system, number and social structure of the population. The research shows that within expenditures for public services and development, dwellings, environment and water the biggest share of expenditure is hold by expenditure on housing, public services and development (about 64%). During the period 2000-2013, the dynamics of expenditures for services and public development, dwellings, environment and water in the total expenditure of local budgets is sinusoidal, reaching a minimum threshold of 11.1% in 2011.

Key words: local budget, public spending, public utilities, prices and tariffs, sanitation, environmental protection

JEL classification: H72, H83

I. INTRODUCTION

Local public expenditures represent the amounts approved and done from the local budgets, from the budgets of public institutions wholly or partly financed from the local budgets, from the budgets of institutions fully financed from own revenues, from external and internal loans, from external reimbursable funds, within the limits and according to the destination determined by the corresponding budgets, observing the law. Unlike state budget expenses, expenditures from the local budgets reflects the financial efforts made by the local administrations to cover social, cultural, economic demands, public development services and other requirements of the inhabitants from the administrative-territorial units that are the responsibility of the local authorities.

The expenses on services and public development, dwellings, environment and water have an important role within public local expenditures. Money from budgets of counties, municipalities, towns, cities and sectors of Bucharest is distributed for development of housing, water supply, hydrological planning, public lighting and rural electrification, natural gas supply. The expenses on public services and development, housing costs include expenditure on materials and services, provision of inventory items, personal expenses, purchase of equipment and other goods needed for the services mentioned above.

In the same budgets are also provided financial resources for sanitation, collection and destruction of the waste, sewage and wastewater treatment.

This research aims to study the structure and dynamics of expenses for services and public development, dwellings, environment and water and their role in the expenses from local budgets.

II. COVERAGE AND CLASSIFICATION OF LOCAL PUBLIC EXPENDITURES

The current legislation¹ classifies expenses from local budgets in operating costs and development costs. The operating section include: a) staff costs; b) goods and services; c) interest; d) grants; e) current transfers between government units; f) other transfers for current expenses; g) social assistance; h) repayment of loans; i) other expenses; j) loans to local institutions and public services or activities entirely financed from own revenues.

The development section includes: a) capital expenditures; b) projects funded by external grants post-accession; c) transfers for capital expenditures; d) other internal transfers for capital expenditures.

Operating section includes current expenditures mandatory to achieve specific competencies established by law for each administrative unit. The development section concerns expenditure on investment of local authorities.

In the specialized literature (Cigu, 2011) expenditures from local budgets are grouped according to different criteria to ensure identification of actions financed, and the influence of the use of local funds.

a) Following the budget classification of incomes and the costs of the local budgets, the expenses are considered in two ways: functionally and economically. This present classification comprised in Annex no. 2 of Law no. 273/2006 on local public finances can be adapted and updated as a result of tax legislation improvement and the annual budget laws, in accordance with the programme of increasing the financial autonomy of the administrative territorial units and the decentralization of public services. It is the basis for the local budgets, their implementation, and the drawing up of the budget execution account.

The expenditures that are foreseen within the local budgets are grouped according to the functional classification as follows: Public authorities and external actions; Other general public services; Interest; General transfers between different levels of the administration; Defence, public order and national security; Education; Health; Culture, recreation and religion; Insurance and social assistance; Dwellings, services and public development; Protection of the environment; General economical, commercial and labour actions; Fuel and energy; Agriculture, forestry, fishing and hunting; Transportation; Other economic activities.

These categories of expenditures from the local budgets are divided into chapters and subchapters. For example the main costs of "Dwellings, services and public development" mean:

a) Housing:

- Development of housing;
- Other housing expenses.

b) Water supply and hydro-technical developments:

- Water supply;
- Hydro-technical entities;

c) Public lightening and rural electrifications;

d) Natural gas supply for places;

e) Other services regarding housing, services and local development.

b) Following their implementation, the expenditures from the local budget are:

A – Current expenditures: staff costs, material costs and services, subsidies, transfers, interest;

B – Capital costs or investment costs;

C – Financial operations: loans, loan repayments, payment of interest and fees on loans;

D - Reserves, surplus, deficit

c) Following the purpose or the functional domain that they are intended for, the expenditures from the local budget are classified as:

A. Expenses that are foreseen in the budget of each county;

B. Expenses that are foreseen in the budget of communes, towns, municipalities, sectors of Bucharest and Bucharest Municipality.

d) Following the public institutions with legal personality that implement the budgetary execution of the expenses under the approved budgets, the expenditures are reflected in:

- Expenditure budgets of communes, towns, municipalities and counties;
- Expenditure budgets for the local public institutions;
- Expenditures for the local public services.

The budgetary credits locally approved can be used through appropriations made by the authorizing credit officers, within amounts approved according to the established destination, and respecting the legal provisions governing such expenditure.

III. EXPENSES ON SERVICES AND PUBLIC DEVELOPMENT, HOUSING, ENVIRONMENT AND WATER

Expenses for services and public development, housing, environment and water concern water supply, sewerage and wastewater treatment, collection, sewerage and rainwater drainage, sanitation settlements, public lighting and management of public and private domain of administrative-territorial units and the like. The expenses from this category depend on surface streets, public gardens, parks and green areas, the length of the network of water supply and sewerage network.

The group of public utilities and services also includes the production, transmission, distribution and supply of heat in centralized and local public transport.

III.1. THE PARTICULARITIES OF PUBLIC UTILITIES

Public utilities are part of the public services of general interest because they meet the requirements and needs of public interest as they are economic, social, technical, permanent and operate continuously, implying the existence of an appropriate technical infrastructure.

The coverage of such services has local scale: villages, towns, municipality or county.

Public utilities are set up, organized and coordinated by local government authorities and must operate on principles of economy and efficiency.

Public utilities services can be supplied or rendered by operators who are organized and operate either under public law regulations or regulations under private law and the recovery of operating costs or for investment is made through pricing, tariffs or special taxes from the beneficiaries.

Public utilities are the responsibility of local authorities and set up, organized and managed according to the decisions of local councils, county councils, community development associations or, where appropriate, by the General Council of Bucharest.

Local authorities have exclusive jurisdiction under the law and in terms of the creation, development, modernization, management and exploitation of public or private property of the administrative territorial units, related to public utility systems.

The organization, operation and development of public utilities, are priorities for the general interest of local communities.

Public utilities systems are part of the technical infrastructure of administrative-territorial units, are goods of interest and public use and belong, by their nature or according to law, to the public or private domain of the administrative-territorial units, the legal regime of public or private property, thereof as appropriate.

The legal relationships between local authorities and users are of administrative nature, subject to the rules of public law while the legal relationships between local authorities and operators are subject to legal norms of public or private, as appropriate, depending on the form of management adopted.

The performance of the function of analysis, synthesis, decision making, coordination and planning at the central level for public utilities is entrusted to the Ministry of Regional

Development and Public Administration, as authority of the central public specialized administration.

The legal relationships between local authorities or community development associations, as appropriate, and the operators of public utility services are regulated by decision of giving into administration - in case of direct management and decisions and contracts by which the management of services is delegated - for delegated management.

The legal relationships between public utility services operators and users of these services are performed under contractual relations framework contract for the supply / provision of public utility services developed by the competent regulatory authority, in compliance with legal provisions, regulations and their specific tasks.

III.2. THE FINANCING OF PUBLIC UTILITY SERVICES

The financing of current expenditure on providing / rendering public utility services as well as maintenance, operation and functioning of related systems shall be made on economic and commercial criteria²; material and financial resources for specific activities to each service shall be provided by budgets of revenues and expenditure of the operators.

The operators' revenues are constituted by collection from the users, in the form of prices or tariffs, the amounts of the services provided or rendered and, where appropriate, in allocations from local budgets, respecting the principles of ensuring financial autonomy of the operator, ensuring profitability and economic efficiency, ensuring equal treatment of public utility services in relation to other services of general interest and the principle of full recovery of costs by operators that provide or render services.

The prices and tariffs for public utility services are based, in compliance with the calculation methodology established by the competent regulatory authorities, on production and operating costs, maintenance costs and repairs, the depreciation of fixed assets in tangible and intangible assets of environmental costs, financial costs related to loans contracted, costs arising from the management delegation agreement and include a quota for the creation of sources of development and modernization of public utility systems, as well as a profit share.

The establishment, adjustment and modification of prices and tariffs of public utility services are in compliance with calculation methodologies developed by relevant regulatory authorities.

Prices and tariffs for public utility services payments are nominated by operators, and settled, adjusted or amended by decisions of local councils, county councils, the General Council of Bucharest or, where relevant, community development associations with compliance methodologies developed by the competent regulatory authority.

The decisions of local councils, county councils, the General Council of Bucharest or, where relevant, community development associations will take account of the specialized opinions of competent regulatory authorities.

In case of divergence on the establishment, adjustment or amendment of prices and / or tariffs between local authorities and operators, disputes are settled by competent courts under the law.

Prices, fees and special taxes established and charged with infringement of the provisions of the law are null and void, and recorded undue amounts received as such by regulators are returned to the users from whom they have been collected or local budgets, as appropriate.

For the provision of related services of public utility services, such as issuing agreements and approvals, verification of technical and economic documentation, technical expertise, service utilization installations and the like, charges and fees are based on the types of work or services provided by operators and approved by decisions of local authorities; these services are billed separately and are collected by operators.

The operators have the right to propose to the local public administration authority compound tariffs comprising a fixed component proportional to the expenditure needed to keep

running and operation of safe and efficient public utility systems, and a variable, that depends on the actual consumption recorded by register-measuring devices fitted on users' taps, in the delimitation points of equipment.

The compound tariffs are based taking into account the proportion of fixed and variable costs in annual costs and settled in accordance with the methodology developed by the competent regulatory authority.

III.3. THE FINANCING AND INVESTMENTS RELATED TO PUBLIC UTILITY SYSTEMS

The financing and investments related to public utility systems³ are subject to the legislation regarding the design, rationale, promotion and public investment approval, under the principles of promoting economic profitability and efficiency; keeping the revenues from these activities in local communities and their use for the development of services and related technical infrastructure; strengthening the fiscal autonomy of administrative-territorial units to create the necessary financial means to operate services; strengthen local autonomy on contracting and guaranteeing of internal and external loans needed to finance technical infrastructure associated to the public services, under the law; compliance with applicable public procurement rules and regulations concerning the quality and discipline in construction, urban planning, regional planning and environmental protection.

Capital expenditures of public investment to achieve the objectives of administrative-territorial units, related to public utility systems are ensured through the operators' own funds and / or funds from the local budget, in accordance with obligations under the legal acts on which it is organized and conducted the management of services; bank loans that can be guaranteed by local authorities, government or other entities specialized in the provision of bank guarantees; grants obtained in bilateral or multilateral arrangements; special funds based on special taxes imposed on the local authorities; funds transferred to the state budget, as participation in co-investment programs carried out with foreign funding and budgets for main spending of the state budget; funding from private capital within public-private partnership contracts, 'build - operate – transfer' type and its variants: user funds made available from other sources constituted according to law.

The goods made within the investment programs of the administrative-territorial belong of public domain of administrative-territorial units whether they are publicly funded or public property vested in them as return goods, if completed with private funding in programs investment made by the operator by supplying the service contract at its expiry.

The investment objectives promoted by local authorities, specific to the technical infrastructure related to public utility systems, that involve funds from local budgets or transfers from the state budget, are nominated in the annual investment lists of administrative units attached to local budgets and are approved with them through decisions of local councils, county councils and the General Council of Bucharest.

III.4. THE STRUCTURE AND DYNAMICS OF EXPENSES FOR SERVICES, PUBLIC DEVELOPMENT, ENVIRONMENT AND WATER IN LOCAL BUDGETS

To illustrate the role and the place of the expenses for services, public development, environment and water from local budgets we will achieve the analysis of their structure and dynamics of their share in the local budgets from existing data in the Statistical Yearbook of Romania.

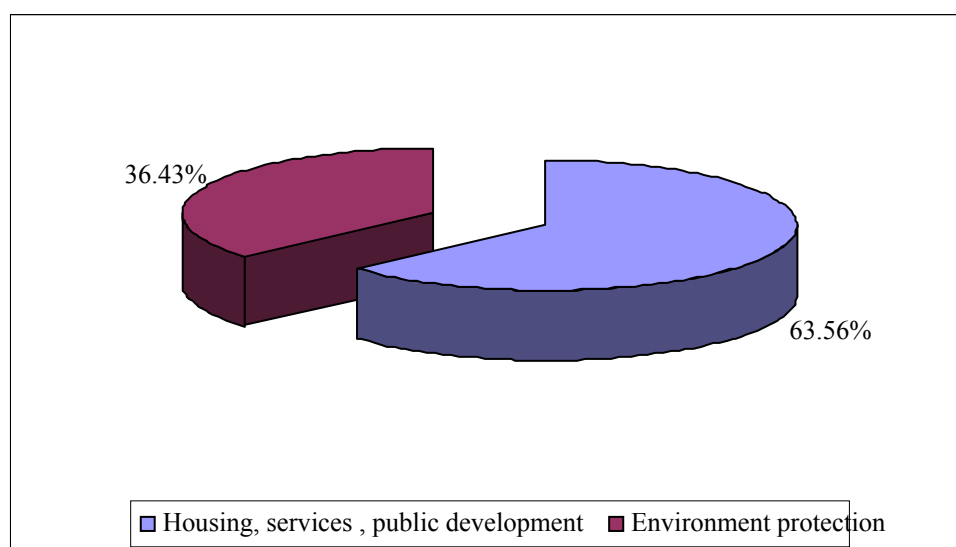


Fig. no. 1 The structure of expenses on services, public development, environment and water from the local budget in 2013

Source: Own elaboration from The Statistical Yearbook of Romania 2014

The above figure reveals that in 2013 expenditures for environmental protection had a share of 36.43% while the expenses for housing, public services and development accounted for 63.56% of the total service costs, public development, environment and water financed by local budgets. In our opinion, this is normal when you consider that the scope of expenditure on housing, public services and development is much broader and more consistent compared to the expenses on environmental protection in local budgets.

The analysis of the dynamics of expenditures for services, public development, environment and water in total expenditure financed by local budgets in Romania can offer us an insight into the priorities of local government financing.

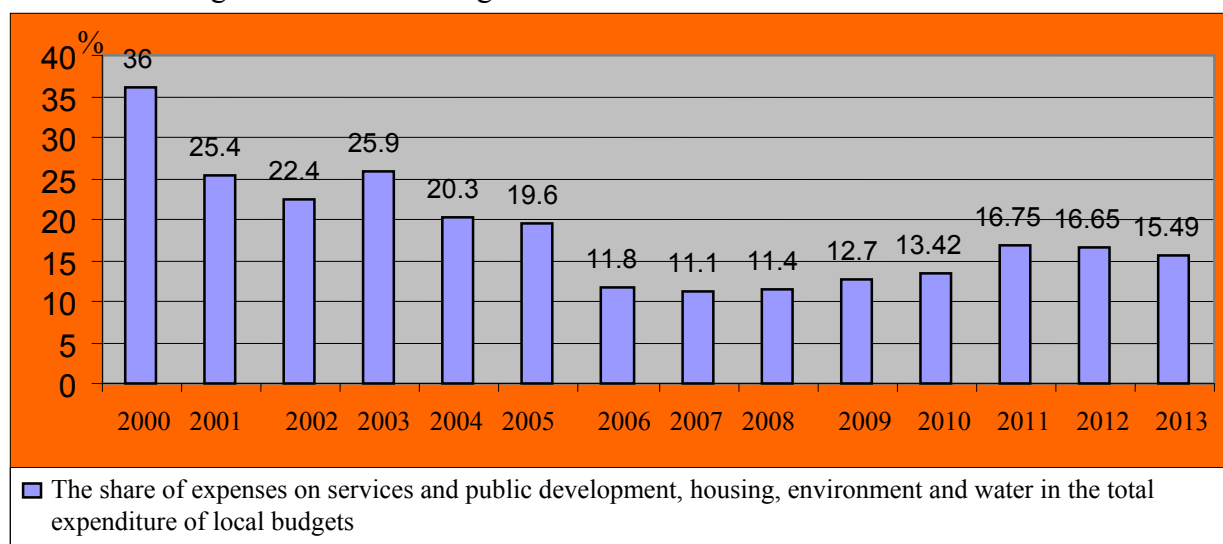


Fig. no. 2. The dynamics of expenditures for services and public development, dwellings, environment and water in the total expenditure of local budgets during the period 2000-2013

Source: Own elaboration from The Statistical Yearbook of Romania 2001-2014

During the period 2000-2013, expenses for services and public development, housing, environment and water record fluctuations from one year to another with the downward trend in total expenditures of local budgets in Romania. This category of spending holds an important place in the local budget expenditures over the period 2000-2004 after which there is a fairly sharp decline in 2007, reaching a minimum threshold of 11.1%. In 2008 and 2009 the share of

expenditure on services and public development, housing, environment and water in total expenditures from local budgets fared slightly increasing because at the end of the period (2013) to capture a share of 15, 49 %.

IV. CONCLUSIONS

The expenses for services and public development, housing, environment and water are in close connection with economic and social-cultural development of territorial administrative units because through them are provided public services to citizens such as water supply, sanitation and wastewater treatment, public lighting, fire prevention and extinguishing etc. Through the implementation of these expenditures, local government create and maintain a climate favorable to local citizens and local businesses to help them thrive by prompting and expanding their businesses, with direct impact on citizens by increasing their incomes and create new jobs.

From the research conducted it follows that the evolution and structure of charges for services and public development, housing, environment and water from local budgets is determined by several variables that differ from one administrative territorial unit to another: the village area, length of roads, sewage system, number and social structure of the population. The research shows that in expenditures for public services and development, dwellings, environment and water the biggest share is held on housing, public services and development (about 64%). Also we find that during the period 2000-2013 the evolution of expenditures for services and public development, dwellings, environment and water in the total expenditure of local budgets is sinusoidal reaching a minimum threshold of 11.1% in 2011.

ENDNOTES

¹ G.E.O. no. 63/2010 amending and supplementing Law no. 273/2006 on local public finances, and establishing financial measures, published in Of. M. no. 450 of July 2, 2010, art. I, para. 6, aproved with amendments by Law no. 13/2011 published in Of. M. no. 179 of March 14, 2011;

² Law 51/2006 on services of public utilities published in the Official Monitor of Romania, Part I, no. 254 of March 21, 2006, republished in the Official Monitor no. 121 of March 5, 2013, article 43;

³ Law 51/2006 on services of public utilities, art. 44.

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