

ANALYZING THE BUDGETS OF LOCAL GOVERNMENT ADMINISTRATIONS IN ROMANIA

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Abstract: *The local government administrations in Romania have become more visible for taxpayers lately, once the decentralization process has developed. The interest in knowing how local government resources are used has increased, especially after diversifying and increasing funding sources. The present paper presents a detailed analysis of the public revenues and expenditures for the territorial administrative units in Romania. A number of local public finance problems are highlighted: the decrease of public investment, the budget imbalances, the increase of transfers from the state budget, etc., which have been worsened by some legislative changes in recent years.*

Keywords: Public revenues, Public expenditures, Local government administration.

JEL Classification Codes: H71, H72.

1. INTRODUCTION

Romania is currently a state with a public administration organized on two levels, characterized by a high centralization of taxation. The Romanian society feels a strong need to improve the local public administration and to reduce the regional disparities. In this context, several programmatic documents propose to strengthen the local autonomy, both from the perspective of decentralization of new competences and from the perspective of budget and fiscal policies. This may increase the responsibility of the local public administration authorities by using more efficiently the public financial resources. Strengthening local autonomy may have positive implications for fiscal governance, and this is a current issue nowadays. The need to promote more responsible fiscal policies in the Member States of the European Union derives from the continuing trend of public debt growth and the frequent implementation of pro-cyclical fiscal policies, facts that have a negative impact on the governments' potential to find quick and appropriate solutions to the issues generated by the economic crises. The risks associated with the fiscal relaxation measures adopted in recent years and the increase of salary expenses in the budgetary sector increase the possibility that Romania will no longer respect the preventive policy of the Stability and Growth Pact.

2. THE ISSUE OF LOCAL GOVERNMENT BUDGETS IN THE CONTEXT OF FISCAL DECENTRALIZATION IN ROMANIA

Starting with the year 2000, local government received new responsibilities in areas such as: supporting child protection system and the system of persons with disability; social assistance; pre-university education; emergency services; computerized person record services; local police services; cultural services (libraries, museums, etc.); waste management, sanitation



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and management of zoos animals; management of health care for certain medical units (health centers, municipal hospitals, township hospitals etc). Romania's Framework law 195/2006 on decentralization regulates all aspects of administrative and financial decentralization process: cost and quality standards of the delivery of decentralized public services, powers of local government, the institutional framework of the decentralization process etc.

A brief inventory of the problems regarding the delivery of decentralized public services (Institute for Public Policies, 2009; Mihaiu et al., 2010; Manole, 2010; Matei and Enescu, 2013) demonstrates that: (a) local government has a reduced ability to make strategic choices and to define the priorities; (b) the transfer of responsibilities of public services to the local government is not accompanied by adequate financial resources; (c) there is no a system to stimulate the local government in identifying new resources, on the one hand and rationalizing expenditure, on the other hand; (d) the remuneration within the public sector cannot be seen as competitive with jobs in the private sector; (e) there are no professional public managers; (f) there are imbalances between public financial resources of urban (especially capital cities of counties) and rural areas.

The decentralization process is still a priority of the Romanian Government, as it is stipulated in the Strategy on strengthening public administration 2014-2020.

Romanian government into power in 2012, tried to take steps to speed up the transfer of powers from the central government to local government level, in accordance with the principle of subsidiarity, while ensuring the necessary resources to carry out these tasks with the objective of strengthening local autonomy major. Starting 2016, the Romanian Government implements the General Decentralization Strategy, which stipulates the transfer of new powers to the regional and local government in the following areas: agriculture; culture; tourism; environment; health; education; youth and sports. This strategy should be accompanied by a draft of the administrative-territorial reorganization of Romania, providing for the establishment of the third level of government: the region. The national strategy of decentralization and the administrative-territorial reorganization is essential landmarks of sustainable development of the Romanian society because there are significant gaps in development between regions of the country and deficiencies in providing public services.

The need for a public administration reform in Romania was signaled by the European Commission (2013). Identified deficiencies in public administration refer to the following: the reduced capacity for strategic and financial planning; the deficient allocation of financial resources; the lack of effectiveness of implementing public policies and providing public services; the poor cooperation and coordination between different level of government; weak management and control systems; the lack of integrated in terms of public services management; the lack of effective and strategic management of human resources; the excessive fragmentation. Deepening decentralization process and the administrative-territorial reorganization in Romania must be accompanied by fundamental changes to the local government finance system. Currently, the local government does not have important own sources, and therefore not able to decide independently and solve many problems.

Local budget revenues consist of: own revenue (taxes, fees, contributions, other income and shares of the income tax); shares of the income tax and the VAT; shares deducted from certain incomes of the state budget, namely having a special-purpose; grants received from the central budget and other budgets; donations and sponsorships; amounts received from the European Union and / or other donors.

Most revenue sources for Romanian local government (about 60%) come from the redistribution of revenues collected from income tax and VAT (these taxes are paid into the into the central budget and they have a high level of collection). The share of own revenues in the

total public revenues is low because the administrative-territorial units may only collect taxes involving low tax yields. Also, the local government has a limited ability to change levels or the base of local taxes. The fiscal autonomy of local government is limited, so the empowering local government is more difficult.

The large share of grants from the central budget in total revenues of local budgets (about 10%) generate a certain budgetary dependence of local government from the central government. The share of own revenues in total local revenues recorded substantial differences from one locality to another. Several authors observed that unlike the city, at the commune level the degree of financial dependency on the center is extremely high (Matei and Manole, 2012; Ichim, 2012).

Since the local government enjoys freedom in decisions on spending only own revenues I might say that the degree of local autonomy depends largely on the revenue comes from local sources. Given that the level of financing expenses through own revenues is very low, because many public services have been decentralized without the allocation of necessary financial resources, several authors (Dogariu, 2010; Oprea, 2010; Pelinescu et al., 2010; Dumitrescu, 2013; Bondar, 2014) felt that there is a "significant financial control" of Romanian central authorities over the local government and it is necessary to assign more substantial income sources to local budgets, creating a direct link between the local fiscal effort and the expenses made at this level, in order to increase local authorities responsibility. It is obvious that the fiscal decentralization is a priority for public administration reform in Romania because it will improve the performance and accountability in local government, both in collecting taxes and managing available financial resources. This creates prerequisites for improved public management administration, by defining more clearly the objectives, taking correct decisions and setting investment priorities.

3. ANALYSIS OF REVENUE AND EXPENDITURE OF LOCAL GOVERNMENT ADMINISTRATION IN ROMANIA

The revenue and expenditure of local government in Romania registered an upward trend in 2012-2018, stressed also by current price indicators. The low consumer price index for the period 2013-2016 generated minor differences between local government revenue and expenditure in current prices and in real prices, and the difference between the indicator values increased in 2017 and 2018, when the inflation rate grew significantly (Figure 1).

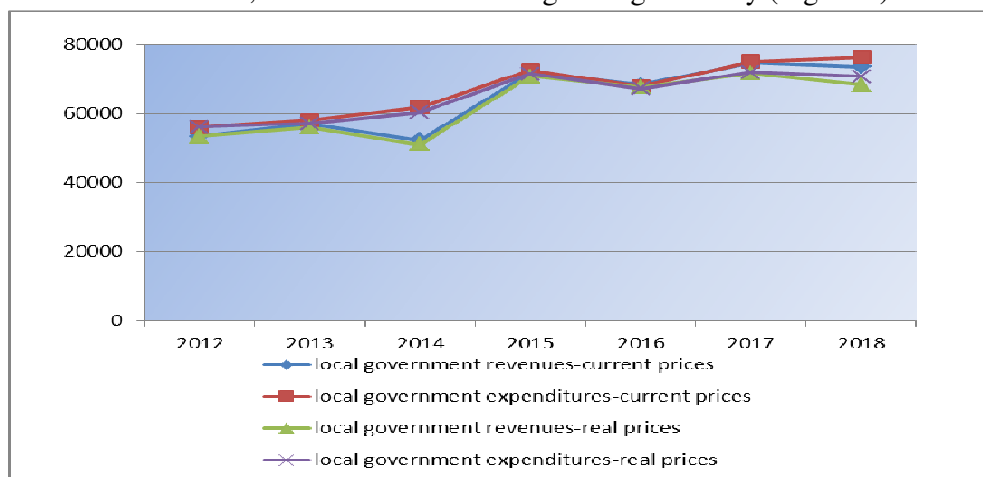


Figure 1 Evolution of revenue and expenditure of local government administration in Romania (2012-2018)

In 2018, the local government expenditures continued to grow while the local government revenues declined slightly. The local government revenue decreased as a result of the income tax rate (the most important financing source of local budgets) that dropped from 16% to 10%. The effects of that fiscal measure were reduced by increasing subsidies from the state budget. Also, compared with the 2012-2017 trend, there was a significant drop in taxes on goods and services in 2018 (Table 1). The situation was generated by the substantial decrease in the revenues from the VAT deducted quotas, which decreased by 35% in 2018 compared to 2017.

Table 1. Evolution of local government revenue (2012-2018)

Local government revenue	2012	2013	2014	2015	2016	2017	2018
Income taxes, profits and capital gain tax	14,097.0	14,885.9	15,361.3	17,476.1	18,308.3	20,469.3	17,671.9
Property taxes	4,060.0	4,352.2	4,499.8	4,567.5	4,846.8	5,267.3	5,465.5
Goods and services taxes	16,162.2	16,497.5	20,616.4	22,607.4	21,908.3	25,053.3	17,058.4
Other taxes	128.7	163.2	166.1	169.7	163.6	175.7	195.4
Non-tax revenues	10,119.4	10,513.8	10,768.2	11,266.6	12,829.5	13,559.7	14,539.5
Subsidies	4,654.3	5,994.0	6,907.3	8,147.7	9,423.4	8,841.2	15,565.0
Capital revenues	274.4	262.4	220.7	224.4	204.1	245.4	272.6
Donations	72.0	80.3	70.5	6.3	1.6	0.0	6.1
Money from the EU	3,873.7	4,126.1	3,721.2	7,246.8	484.3	203.2	83.7

Source: The Ministry of Public Finance, Budget execution

One may notice a low absorption rate of the European funds by the local public administrations in Romania, after 2015.

2016 was the only year when the local government revenues were higher than the local government expenditures, due to a significant reduction in current expenditures. The share of capital expenditures in total local government expenditure is rather small considering their major importance in sustaining economic development (Table 2).

Table 2. Evolution of local government expenditure (2012-2018)

Local government expenditure	2012	2013	2014	2015	2016	2017	2018
Current expenditure	45,056.7	48,389.5	51,264.9	59,371.7	54,058.2	62,857.9	61,016.5
Capital expenditure	10,174.3	8,335.4	9,137.5	9,630.7	11,575.8	10,435.5	12,857.9
Financial operation	1,010.9	1,520.5	1,644.3	3,691.8	2,159.6	1,961.3	2,699.9

Source: The Ministry of Public Finance, Budget execution

The most significant increase in current expenditure occurred in 2017, being generated by the substantial increase of the Compensation of employees, according to the provisions of Law no. 153/2017 of 28 June 2017, on the remuneration of employees from public funds.

Compensation of employees reached about 44% of Current expenditure in 2018, compared to 36% in 2012 (Figure 2).



Figure 2 Evolution of current expenditure of local government administration in Romania (2012-2018)

The analysis of revenue and expenditure of local government administration in Romania shows a high vulnerability of local public finances to legislative changes.

4. CONCLUSIONS

The legislative context of local public finances in Romania in recent years has been characterized by repeated changes, due both to the need to deepen the process of decentralization of public services and to the implementation of some political programs of the governing parties / coalition parties. Increasing the autonomy of local communities was an important objective of Romania's fiscal-budgetary policy, because bringing public services and decisions closer to the citizens results in increasing the quality of these services and a more judicious use of resources. The local public administration authorities of villages and towns have competences related to the supply of heat produced in a centralized system, the construction of social and youth homes, state pre-university education, social assistance to people in difficulty, prevention and management of local emergency situations, medical and social assistance services, administration of local road transport infrastructure, etc. The local public administration authorities of counties have competences related to cultural institutions and county public sanitary units, social assistance services, etc. A major challenge for Romanian public finances is the adequate financing of decentralized public services and local public investments. Many administrative and territorial units of Romania are dependent on transfers from the state budget. Part of local public investments is funded through the Government Budgetary Reserve, from the special-purpose funds (environment, schools) or through government programs (for example, the National Program for Local Development). Balancing local budgets is another important issue in the field of local public finances. The formula established by the Law of Local Public Finance, which redistributes the revenues of the more prosperous local communities to the poorest, has seen several changes over time.

The results of the study show that, besides the problems related to the transparency of the system through which the financial resources are distributed / redistributed to the local budgets and the lack of incentives for the local public administration authorities to initiate income-generating activities, the fiscal policy measures implemented in recent years (for example, the reduction of the income tax rate, the decrease of the VAT rates, etc.) have destabilized the situation of local public finances in Romania.

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