

## SOME CONSIDERATIONS ON LOCAL FINANCIAL AUTONOMY IN THE CONTEXT OF THE CURRENT FINANCIAL CRISIS

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*Abstract: Financing of local authorities is currently at the Centre of the political discourse is a daily concern. Romania faces, usually with an attempt to offset the need for control and reduction of public spending with greater financial autonomy of local authorities. At the time, it was searched and searches for a path, a means to achieve a fair distribution of financial resources between the various levels of administration, budget reductions to all of them. If strengthening democracy means to strengthen local autonomy, then it means you have created a system for financing local authorities to be efficient, fair and pointing towards the economic needs of States. In other words, decentralization and local financing and the principle of subsidiarity are mutually dependent.*

*Rightly, the decentralisation of financial management is considered to be the "backbone" of the administrative system of decentralisation, the financial resources being those which are operational link between the needs of local communities and the rules necessary to satisfy them. Thus, the lack of financial resources of the local self-government can result in failure to meet the needs of its members, which at the same time failure of administrative decentralization. The decentralisation of financial management can also be seen as the Government of some specific functions on the line of management authority and the tax revenue to the local public authorities.*

*Keywords: financial balance, decentralisation, local financial autonomy, financial resources, crisis.*

### 1. Some considerations on the financial autonomy of local communities

A society cannot function without the Board with all that implies that, in this case, the local public funds, without which, the general interests of society would no longer be met, and as such, the company would no longer moving forward.

Being a member of the EU, in Romania, local autonomy is guaranteed by law and promoted by the authorities. In the current financial crisis and not just, local communities, mayors and local councillors, decide the fate of their localities and its rational spending of public money.

Financial relations between State and local self-government are multiple and complex needs of local communities and increasing expenditure and resource determination issues, their is currently a major concern of all countries. Whatever the degree of decentralisation of a country, they reflect the conflictual nature of the financial aspects of decentralization (or regionalization). Even though, at first glance, decentralization is accompanied by numerous advantages (better view of the needs of citizens, the better the requirements of local democracy, allow local identities, contribute to improving the effectiveness of the action), it should be recognized that its financial size requires numerous comments in the sense that these transfers of powers may not simultaneously be accompanied by the transfer of financial resources and equivalent, and in addition there could be a danger that some of the poorest communities in financial terms will not be able to provide a minimum of decentralized services.

Issues relating to local government finance is at the heart of the current political debate, because all Member States of the Council of Europe is faced with the problem of harmonization of two divergent trends:

- on the one hand, the control and reduction of public expenditure;
- on the other hand, the need to provide greater financial autonomy of local communities.

In all these States are seeking solutions to ensure an even more balanced financial resources between the different administrative levels, taking into account budgetary rigour is required at all levels of public administration.

Financial autonomy is the condition sine qua non of administrative decentralization. An effective financial autonomy involves a certain degree of control of financial flows by local organizations. She refers to increase control over resources to local authorities, financial or in terms of allocation of costs or revenue generation.

Endowed with powers decentralised to local self-government must be in a position to arbitrate their financial options, without however to be checked a priori by the State or from the other authorities, but only a posteriori with regard to legality. Decentralized organizations must be able to decide, freely, their level of expenditure without being constrained by excessive with regard to the level of resources. To do this, the revenue and expenditure must be adapted to your own requirements which do not lead to violation of the freedom of management.

As regards expenditure, the classical dichotomy between the powers delegated by the State exclusive powers and influences strongly the reality of financial autonomy. It is essential that these powers delegated by the State to be consistently funded, what would, however, affect the freedom of administration of local communities.

## 2. The degree of financial autonomy of local communities in the Romanian State

In all these States are seeking solutions to ensure an even more balanced financial resources between the different administrative levels, taking into account budgetary rigour is required at all levels of public administration.

In order to achieve financial autonomy, local self-government must:

-have sufficient own resources to meet their responsibilities;

-to determine freely the revenue and expenditure;

Wikipedia is not subject to a posteriori rather than on their financial decisions.

Therefore, financial autonomy the local community involved in the creation of local public finance systems are effective, fair and matched to the needs and policies of national States. The objective of any system of funding local communities is to help them comply with the obligations as public powers. No system of public finance local is not perfect. Incidentally, at the local level, no tax, no system of tariff and financial transfers is not perfect. Moreover, a system that is effective in a country is not necessarily adaptable and in another country.

However, while there is a universal system or the ideal funding to local communities, there are certainly some principles which policy-makers must take into account in the decisions they take. These principles are set out in the European Charter of local self-government.

An effective financial autonomy involves a certain degree of control of financial flows by local organizations. She refers to increase control over resources to local authorities, financial or in terms of allocation of costs or revenue generation.

Local self-government must be in a position to arbitrate their financial options (given that they are endowed with powers decentralised), without however to be checked a priori by the State or from the other authorities, but only a posteriori with regard to legality. Decentralized organizations must be able to decide, freely, their level of expenditure without being constrained by excessive with regard to the level of resources. To do this, the revenue and expenditure must be adapted to your own requirements which do not lead to violation of the freedom of management.

Classical dichotomy between the powers delegated by the State, in respect of expenditure, and exclusive powers strongly influences the reality of financial autonomy. It is essential that these powers delegated by the State to be consistently funded, what would, however, affect the freedom of administration of local communities.

Taking into account the extent of their competence (education, social action, environment, transport, economic development, planning, etc.), local self-government in Europe contribute more actively to the development of the territories and to growth. At european level, the local collectivities constitute genuine economic actors, their costs rising in 2001 between 1037 billion Euro, representing 11.2% of GDP and 2300 Euros per capita. Having regard to the differences between the countries "new entrants" and those in the Europe of 15, in terms of local expenditure per capita (with an average range between 540 Euros in new countries and 2650 Euro in the old Member States), we can, however, we note that the share of public expenditure within the local economy is relatively similar in both groups of countries: the 10% and 11.2% of GDP.

Analyzing the evolution of local budgets throughout the centralized administrative units of Romania in the period 1991-2003 in lei, an increase of inflation registered during this period, but also transfer to the local public administration authorities of new skills. Analyzing the evolution of the share in total expenditure of local budgets, consolidated budget expenditure for the period 1998-2003, an increase in this indicator from 10.4% in 1998 to 20.1% in the 2003.5 Analyzing this indicator with the average in the countries of Central and Eastern Europe, we cannot but notice on the one hand, remaining behind to our country, at the level of 1998 (when the media of countries in CEE was 19.9% for the year 1996), but on the other hand notable progress during this period, by the arrival of the latter of these countries (the average in the countries of the EEC by 20.5% in 2001).

Over the past decade, local public investments increased by a dynamic manner both in the old Member States (+ 4, 8%) and new entrants (+ 11%). This dramatic growth in the countries which have entered new expenditure is explained by the large investment needs of local communities in these countries, in terms of spatial planning (transportation, roads, equipment).

Local self-government should be able to fulfill its obligations as a public power, without being hampered by financial constraints that are attributable to them. So any transfer of responsibilities from the State by the local self-government must be accompanied by equivalent and simultaneously transfer of financial resources. Therefore, the transfer of resources must correspond to the actual cost of the exercise of new powers transferred. Organizations must be given sufficient leeway, so a real financial autonomy for these expenses, which becomes the true stakes of a successful decentralization

Ratification by the Parliament of Romania to the European Charter of local self-government shall make it compulsory to respect the provisions and, in particular, those relating to the implementation of local self-government of territorial collectivities. According To The Article 3, of Law 215/2001 of the local administration, local autonomy "by means of law and the effective capacity of local public administration authorities to settle and manage, on behalf of and in the interest of local communities that they represent public affairs".

Should be noted the indication that the new law makes it whether or not local autonomy, this being only the administrative and financial, is on the basis of and within the limits prescribed by law. It concerns the organisation, powers, responsibilities, functioning and management of resources which, by law, belong to the commune, city or County.

Local autonomy is the basis for the generation of its own economic sphere which manages local authorities as a genuine owner. Thus, the local public administration authorities shall be entitled to its own resources, which must manage according to their competences. In accordance with this principle, they administer or dispose of financial resources, as well as publicly or privately owned property of communes, towns and counties. In order to ensure the autonomy of the local people, they have the right to establish and to levy taxes and local taxes, to draw up and approve the budgets of revenue and expenditure of local authorities, towns or counties.

It is worth noting the introduction of the local administration Law of the other two provisions binding:

-Central public administration authorities cannot establish or impose any sort of local public administration authorities with responsibilities in the process of decentralization of public services or the establishment of the new public services, without ensuring adequate financial means for carrying out these responsibilities. This provision is repeated in article 6 of the O.U.G. 45/2003 on local public finances, which States the following: "the passing of the Government in the Administration and financing of local public administration authorities, of public expenditure as a result of decentralization of activities, as well as other new public expenditure is made only by law, with the provision of financial resources necessary for carrying out their follows:

-in the first year, to accommodate separate in the annex to the law of the State budget, the necessary resources to finance public expenditure transferred or new public spending and the criteria of allocation;

-in the years to come, by covering the resources concerned in the whole of the amounts allocated to administrative-territorial units, except those nominated separately by the annex to the law of the State budget.

-The central public administration authorities will consult before taking any decision, associative structures of local public administration authorities in all matters which concern them directly according to the law.

The law 273/2006 on local government finance shall grant the following safeguards: administrative-territorial units shall be entitled to sufficient financial resources, which the local public administration authorities may use their exercise on the basis of and within the limits prescribed by law. Administration authorities local government levels have jurisdiction to establish local taxes and levies in accordance with the law. Allocation of financial resources for balancing local budgets must not affect the application of the budgetary policies of local public administration authorities in their field of competence. The amounts allocated to the special purpose is used by local public administration authorities in accordance with the legal provisions.

Many of the works on fiscal decentralization specialist focuses on the nature of intergovernmental transfers and the differences in terms of income-generation capacity of the different types of authorities.

In the analysis of fiscal decentralization, a primary issue is the balance between the powers of local authorities and the financial resources necessary for the exercise of these powers. According to analyses carried out by foreign and Romanian experts with regard to decentralization and public services of Romania decentralization of power, "this process has not led to the end, in that it did not have adequate financial resources and transfer have not established clear powers transferred and levels of decentralization" (strategy for public administration reform-2004).

From here we draw a different conclusion as regards the financial autonomy of local communities: namely that it can be accompanied by the risk of aggravation of differences the most poor and the rich in the whole territory or even within the same region, which could lead to a situation in which most local poorest cannot ensure no minimum of decentralized services, vital. For it is absolutely essential that we appeal to the different mechanisms such as weights, which represent a primordial, indispensable mechanism, which aims at redistributing wealth and reducing inequalities between local collectivities.

In Romania, local taxation exclusively, over which the local authorities have the margin of maneuvers and they collect through their own compartments and taxes and duties whose tax rate may change with + 50% is produced by taxes on property tax on buildings, land tax and tax on means of transport. But such charges and local taxes exclusively only in small measure need local expenses. As a result, most local authorities revenues from transfers from the State, in the form of shared taxes (rates broken down by income tax), appropriations (sum of the amounts allocated in the form of Equalization of income tax, VAT), subsidies or transfers to local budgets consolidable (transfers for investments).

Thus, as of 2004, within the framework of the budgetary classification, revenues have been included and rates of tax on wages disaggregated by income. The purpose of this amendment was to get a bigger share of the revenues of local communities. This patch is only formal, because in reality, an own income is the one on which local authorities should have the leeway, which establishes a quota or tax base what can we say that is the case for income tax or payroll. Originally settled by quotations by annual budgetary law, which may be modified on an annual basis, what considerably affect the autonomy of local communities. Subsequently, the State, trying to provide a guarantee of local communities in the sense that their resources will not be damaged, included in the local finance law a provision according to which these duties assigned to the local communities of the income tax may not be modified, except in exceptional cases, and then only in favor of local communities. This happened even since 2005, when, due to the introduction of 16% flat tax on

income, these quotas assigned to the local communities had to be increased. At the level of 2004, the quotas broken down from the tax on wages and income have a rate of 53,87% of own revenue and about 21,76% of total revenue. Their share rose to 59,22% of own revenue for 2005, i.e. 26,43% of total revenue.

With regard to transfers in the form of grants, referred to as balance amounts or amounts broken down more precisely the VAT they had, in 2004, a rate of 59,59% of the total revenues of the local communities, the share decreased in 2005 to about 48,85%, the trend being down and at the level of 2006 (48,25% of total revenue). So, if you were to quantify the total transfers received from the State, i.e. the income on which local authorities have really not much leeway, we can notice that they hold, in reality, a rate of 81,35% for the year 2004, i.e. 75,28% in 2005 and 80,16% in 2006.♣

As regards the system of allowances, assignment until 2006 was the preferred system according to which, all organizations receiving such allowances from the State, but be differentiated according to certain criteria.

The criteria for the allocation of appropriations have changed over time, even after the advent of the law. 273/2006 on local public finances. In the beginning were used several criteria but which however advantage the most part, which had already developed infrastructure (in 1999-the criteria were the number of population, the town streets, the length of the network of roads, sewage and water, the number of pupils in pre-university education, number of children in placement centers, the number of administrative-territorial units and the financial capacity to take a share of 30%). In the years 2000 and 2003, was used as the sole criterion of the financial capacity of the counties and county-level in 2003 half the amounts were distributed by this criterion, and the remaining 50% of the amounts assigned to it according to other criteria approved by the county councils, thereby strengthening the political role of the county councils in ensuring the financial balance of local communities within the County. In 2004, according to the Government Emergency Ordinance nr. 45/2003 on local finances the criteria for allocating amounts on counties were: for 70% of amount-of financial standing is calculated based on income per capita and 30% of the amounts-depending on the area of the County. In the County, the allocation was done 30% depending on the financial standing, 30% depending on the area, 25% depending on the population, and for 5% of the amounts according to other criteria established by decision of the county councils (with priority to support external funding programmes that require local co-financing).

Problem to balance local budgets is an important issue which requires the new framework of decentralization law: Law framework. 195/May 22, 2006 to introduce decentralization as an element of novelty, the concept of decentralization existing asymmetric model at in Hungary, the opportunity given to ministries or specialized bodies of central public administration to classify units the administrative territorial unit into two groups according to administrative capacity, in administrative-territorial units that have or do not have administrative capacity necessary to attain the skills transferred, in other words that may or may not exercise the powers transferred under conditions of efficiency.

Criteria for the assessment of administrative capacity, the employment of administrative-territorial units and the conditions under which transfer of competences shall be determined by ministries and by other specialized bodies of central public administration, as appropriate, together with the Ministry of administration and Interior and associative structures of local public administration authorities.

Decentralization framework law establishes that, in situations where the other ministries specialized bodies of central public administration, as appropriate, together with the Ministry of administration and Interior, shows the lack of administrative capacity of the administrative-territorial unit for exercise in terms of efficiency, competency skills transferred in question shall be transferred, for a fixed period, the local authorities at the county level on whose RADIUS is administrative-territorial unit concerned, until the completion of the necessary administrative capacity. There were, however, so far, rules for the application of this law.

In order to exercise powers under conditions of efficiency, administrative-territorial units can organize into community development associations. Ministry of administration and Interior will stimulate their association and their administrative capacity growth through national development programmes, financed from the State budget.

At the same time, local finance law, the Committee on local government finance, structure of a partnership approach, without legal personality, an advisory role in developing and implementing policies for financial and fiscal decentralization.

Also, the new law is somewhat and the financing of local public administration authorities, indicating that local budgets will consist of two sections: one running and other development.

To ensure the vertical and horizontal balance of local budgets, administrative-territorial units will allocate proceeds from some of the State budget, the apportioned amounts Special purpose, and on the other hand sums allocated for balancing local budgets.

However, this mechanism presents certain risks, in the sense that it will know very clearly who are the territorial administrative units which are the recipient and donor. Increasing the efficiency of balancing the budget could be achieved by taking into account the fiscal effort, by the existence of a database containing all information on taxes and local taxes. Allocation amounts for operating budget should be implemented by establishing regulatory spending and not based on historical costs. With regard to the funding sources of skills, they should be differentiated according to the responsibilities assumed. Thus, the powers delegated to the Fund should be determined by means of grants, the

shared through General grants (without a default destination), and the exclusive by revenues, rates broken down by income tax and balancing amounts.

Conditional grants allocation-based regulatory spending should ensure minimum levels of services, notably as regards public services of national importance (education, health, social assistance, etc.).

According to the law on State budget for 2011, of the value added tax shall be allocated 13.120, 6 million, broken down into amounts for local budgets, from which:

- a) 1.962,9 million to finance decentralized expenditure at the level of counties;
- b) 8.154, 6 million to finance the costs of decentralised at the level of communes, towns, municipalities and municipal seat Bucharest sectors;
- c) c 561,8 million lei) for the financing of expenditure on county roads and public utilities, the allocation of the administrative-territorial units is made depending on the length and technical condition of them, by an order, by the County Council, following consultation of mayors;
- d) d 2.001, 0 lei) for balancing local budgets of communes, towns, municipalities and counties, which are distributed on the territorial administrative units;
- e) e) 440,3 million to finance infrastructure development Programme and of the that locality database of rural sports, which will allocate the counties and eligible projects through Government decision No. 7/2006 establishing a Programme for the development of infrastructure and bases in rural areas, which was approved with amendments by law No. 71/2007, as amended.

The amounts allocated from value added tax intended to finance:

- a) child protection system and the social assistance centers for persons with disabilities;
- b) rights relating to the granting of dairy and bakery for pupils in classes I to VIII of the State and private education, as well as for preschoolers and students from classes I-IV of the State and private kindergartens with program 4 hours;
- c) rights relating to the granting of honey bees as a nutritional supplement for preschool in classes I-IV of the State and private education;
- d) expenditure on the implementation of the programme to encourage the consumption of fruit in schools, for pupils in classes I-IV, attending State and private education accredited;
- e) expenses for special education and resource centers, the district and educational assistance;
- f)institutions of decentralized culture) since 2002;
- g) payment of contributions for staff employed in the units of anclerical worship of the country;
- h) community service records of all persons under the authority of the county councils.

Financing of the social services referred to in (a). a) will be made on the basis of the cost calculated for the beneficiaries of social services, approved by Decree of the Government.

In the County of Gorj, the amounts allocated from value added tax for the funding of decentralised expenditure districtual, 2011, are in total 33.361, broken down as follows:

- a) 9.745 to support the child protection system (minimum sum may be increased by the total amount of appropriations approved by the County without affecting the financing of the other services guaranteeing of the);
- b) to support the centers 7.556 of social assistance to disabled persons (minimum sum may be increased by the amounts allocated the total amount approved by the County without affecting the financing of the other services guaranteeing of the);
- c) shall be the sum granted 9.087 lei for bakery and dairy products and honey bees.

In addition, the amounts allocated in the value-added tax to finance the costs of decentralised at the level of communes, towns, Gorj are a total of 156.814 broken down as follows:

- a) 139.871 lei) to the wages laid down by law, as well as the relevant contributions of the institutions of State pre university school;
- b) rights 13.299 lei) assistants of people with serious disabilities or monthly allowances.

○The amounts allocated from value added tax to the County and communal roads, on the 2011 are in total appropriations 15.890, Gorj County.

○The sum of its constituent parts of the value added tax for balancing local budgets on 2011, Gorj county level is 3.951.

○In the allocation of sums from the central level, at the level of local communities, you can put emphasis and the concept of "justice", according to which distributive, deal with social authority of authority or public authority/power and individuality, as a person with authority This belongs to the Government, Justice , which distributes the social benefits and obligations.

### **3. Types of new mechanisms on which Romania may call**

May be made and new mechanisms, to which Romania has not yet call such as:

-mechanisms of cross out guarantees granted by the State, for the purposes of granting a guarantee that such transfers to progress with the inflation rate and the rate of economic growth, which would allow local communities to prevent the unpredictability of certain actions and decisions of the State.

-contractual arrangements between the State and local self-government or between local collectivities, which are intended to make a determination, in concert, financial actions and even funds and may develop a certain solidarity between communities.

#### 4. Conclusions

On the future for further decentralization requires preparation of an inventory of responsibilities and financing sources on the administrative-territorial units and their delimitation proposal on administrative levels depending on the strategy of decentralization of each area, by involving ministries and associative structures.

Therefore, there are a number of possibilities, we can provide insight into the procedures to be implemented, in order to ensure the financial autonomy and uncontested which do not produce effects contrary to a successful decentralization.

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