

## A NEW APPROACH REGARDING THE EXPENSES IN LOCAL BUDGETS FOR PUBLIC AUTHORITIES

**CRISTINEL ICHIM**

Ph.D.Lecturer on „Ștefan cel Mare” University of Suceava, Romania,  
cristineli@seap.usv.ro

### **Summary:**

*The present study proposes a new approach regarding the expenditures for public authorities covered by local budgets to streamline their positive impact on the improvement of the financial activity of local administrations. The study begins with fixing the place of these expenses within the sphere of public costs from the local budget and continues with presenting the new legislative framework of their manifestation. In the last part of the study I conceived two alternatives to reduce the costs involved in the functioning of the local administrative system closely correlated with the territorial and administrative reorganization of Romania.*

**Key words:** . local budget, public expenditure, local autonomy, public authorities, public administration

**JEL classification:** : H 72, H 83

### **1. 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. Within these expenditures and having a significant place, the expenditures for local authorities cover the amounts allocated from the local budgets to finance the functioning of the administrative staff of mayoralties and county councils, of General Council of Bucharest, of local councils, including the local councils of the sectors of Bucharest. Reducing these costs has to be, in our opinion, the current preoccupation of the local authorities to improve the local budgetary process.

### **2. The sphere of public expenditures from the local budgets**

According to the G.E.O. 63/2010<sup>1</sup> the expenditures within local budgets are divided into running costs and development costs. The running costs include: a) staff costs; b) goods and services costs; c) interest; d) grants; e) current transfers between public administration units; f) other transfers for current expenses; g) social assistance; h) loan repayments; i) other expenses; j) loans for institutions and local public services or activities entirely financed by own revenues.

The section of development costs includes: a) capital expenditures; b) projects financed by non-refundable external grants post-accession; c) transfers for capital expenditures; d) other internal transfers for capital expenses.

The section of running costs includes the current expenses required to achieve competences established by law, specific to each administrative territorial unit. Developments expenditures are related to the investments of the local public administration authorities.

The expenses in local budget are classified [1] - [3] according to several criteria to ensure the identification of the financed actions and the influence exercised in using the local financial resources.

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.

### **3. Expenditures in the local budgets for public authorities**

Public issues management is achieved locally through the local public administration, represented by staff mayoralities and county councils, General Council of Bucharest Municipality, local councils, including local councils of the sectors of Bucharest. The main functions of the local public administration in Romania are: administration and better management of assets and public funds; ensuring public education services; culture, health, social assistance, public order, dwellings, environmental protection etc., forecast and socio-economic and organizational development.

Starting with 2005, within the local councils of communes, towns and municipalities, and county councils and the council of Bucharest respectively, was organized the Public Service Registration, that ensures the preparation, storage, record keeping and issuance of the documents regarding the marital status, identity cards, voter cards and electoral lists, and also the receipt of the requests for the passport releases, driving licenses, certifications for number plates and vehicle registration, using a stop shop.

Current expenditures and capital financing of public services for people are covered from own revenues, subsidies from the state budget and, where appropriate, from subsidies from the local budgets of communes, towns and municipalities or sectors of Bucharest Municipality.

Being a decentralized service through the budget law, deducted amounts from some revenues of the state budget are approved for financing it.

### **4. The new framework of expenditures in the local budgets for public authorities**

By G.E.O. no. 63/2010 amending and supplementing the Law no. 273/2006 on local public finances, and establishing financial measures<sup>2</sup>, some rules were set out on the maximum number of positions in the administrative and territorial units to monitor their compliance.

The maximum number of jobs does not apply to the budgetary chapters such as "Education "and "Insurance and social assistance", financed from local budgets, and also to the "health" chapter, regardless the financing source, prohibiting the payment/reporting from/in these budgetary chapters of the personnel performing specific tasks and activities for other budgetary chapters, namely public local institutions.

According to the annual budget approved and under the Law no. 69/2010<sup>3</sup> on fiscal and budgetary responsibility, the expenditure ceiling for staff should be related to the general centralized budget of the administrative territorial units, distributed on administrative units/subdivisions by joint order of the Minister of Administration and Interior and the Minister of Public Finances.

To diminish personnel costs and use the maximum number of jobs, respectively the expenditure ceiling for staff, the authorized credit officers of the local budgets may reduce the number of employees or dismiss, under the law, the related personnel.

Within 40 days from the implementation of the legal document, the authorities had the obligation to approve changes of the personnel charts and correct income and expenditure budgets of both the own and subordinated staff from the public institutions, regardless their financing.

Prefects monitor compliance with the number of jobs and personnel expenses, and report quarterly to the Ministry of Public Finances the situation on the observance of the law by public institutions. A lack of conformity regarding the maximum number of positions, namely the expenditure ceiling for personnel, determine the public finance departments to suspend the supplied rates deducted from the income taxes and other amounts deducted from certain state income taxes, divided according to the art. 33 of Law no. 273/2006, as amended and supplemented, until the local government authorities prove compliance with the provisions of the emergency ordinance.

Local public administration authorities and people from the public local institutions that fulfil job duties, order authorized credits and pay wages are subject to disciplinary, administrative, civil, patrimonial or penal measures as the case may, for non-observance of the provisions of the above emergency ordinance. Exceeding the maximum number of positions as well as personnel expenses represents contravention and is sanctioned by a fine ranging from 10000 lei to 40000 lei. Finding violations and fines shall be done by people appointed for that purpose by the Court of Accounts, the Minister of Administration and Interior and the Minister of Public Finances, according to the law. The maximum number of positions that an administrative and territorial unit/subdivision can have covers inclusively the positions for mayor, deputy mayor, general mayor, chairman of the county council, vice-president of the county council, and secretary of the administrative and territorial unit/subdivision as appropriate.

If the administrative and territorial unit/subdivision organized the local public service registration with or without legal personality, the maximum number of positions is added to the number of positions determined as follows:

a) A position for every 6500 inhabitants for villages, communes, towns and municipalities, except for Bucharest;

b) A position for every 5000 inhabitants for the sectors of Bucharest;

c) A position for every 15000 inhabitants for counties and Bucharest.

Furthermore, if the administrative and territorial unit/ subdivision organized the public service of community police, respectively the security service for county interest objectives, where appropriate, with or without legal personality, the maximum number of positions is added to the number of positions determined as follows:

a) A post for every 1000 inhabitants for communes, towns, municipalities, and sectors of Bucharest;

b) A post for every 5000 inhabitants for counties, and Bucharest.

For administrative-territorial units less than 3500 inhabitants, the maximum number of positions is 3. The number of posts thus determined can be provided and used only for the public service of the community police, namely the security service for county interest objectives.

If the administrative-territorial unit/subdivision implements projects financed from reimbursable external funds, then the maximum number of positions resulted from applying the provisions of the emergency ordinance is added only for the period of project implementation the number of corresponding positions in the table below.

**Table no. 1 Number of positions according to the value of projects under implementation**

No.	Groups depending on the total cumulative value of projects under implementation	Number of positions
1	Up to 50.000 euro	2
2	50.001 to 500.000 euro	3
3	500.001 to 3.000.000 euro	5
4	3.000.001 to 10.000.000 euro	8
5	Over 10.000.000 euro	10

Following the implementation of the G.E.O. no. 63/2010 the local public administration jobs of Suceava County decreased with approximately 1700 de posts<sup>4</sup>, representing 21% of the total number, and remained 5248 employees.

Some mayoralties did not make layoffs because their personnel did not exceed. For example the municipality of Câmpulung Moldovenesc, that has 144 employees and can have a maximum of 187<sup>5</sup>, or Rădăuți, that has 199 employees and can have a maximum of 227. By contrast, in Vatra Dornei, half of the employees were made redundant; they were a number of 343 while the municipality can have a maximum number of 164 employees. Among the mayoralties of the communes that had to give up over 40% of employees were Putna, that had 41,5 positions and the G.E.O. no. 63/2010 provides up to 25 employees, or the one of Vatra Moldoviței, that had 65 employees and had to keep 33 employees.

Regarding Suceava Municipality, according to the provisions of G.E.O. no. 63/2010, the maximum number of positions allowed for the mayoralty was 733, while the personnel chart from July 2010 included 942 positions. More precisely, the maximum number of specialized jobs in the municipality is 600, plus 107 community policemen, 16 employees in the Public Service Registration and 10 positions for implementing projects financed from reimbursable external funds. At Suceava Mayoralty were 143 vacant positions<sup>6</sup> and thus the only redundancies were made within the Community Police (29 people) and Public Service Registration (4 people), totalling 33 people.

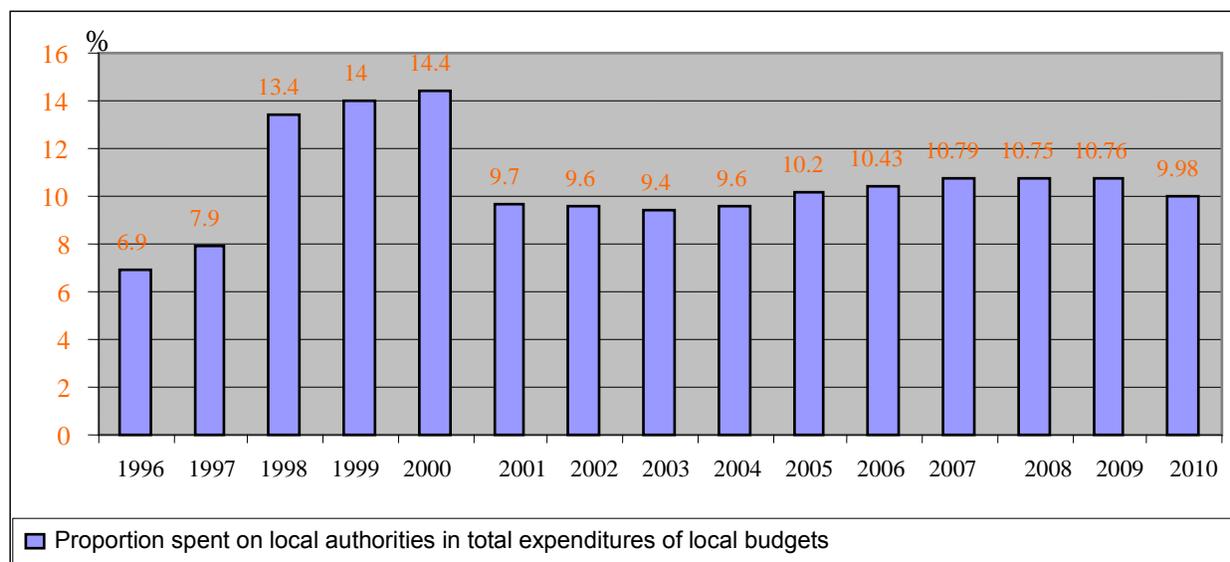
In our opinion, ordering the local authorities to reduce specialized positions is a measure that violates the basic principles of decentralization and local autonomy that has implications on the quality of the activity of the local public administration, namely the failure to comply the legal time limits for issuing notices, decisions, approvals and other administrative documents.

### **5. Proposals to increase the efficiency of public expenditures in local budgets for public authorities**

In the context of reducing costs for public authorities sometimes was invoked the need to territorial reorganization of Romania's administration. According to official data<sup>7</sup>, the number of localities in Romania increased steadily in recent years since 2002, when there were a total of 2966 localities. At the end of 2011, Romania numbered 3180 localities, so that during 2000–2009 were created 10 municipalities, 55 towns and 161 communes, many of them without the ability of supporting themselves financially. The administrative fragmentation in recent years combined with a national and global financial crisis weakened the financial strength of the administrative-territorial units and many mayoralties do not have the funds either for their own use. A merging of localities with a population under 4500-5000 inhabitants would mean a substantial saving of financial resources by eliminating an important number of local administrations with many of its employees. In this way thousands of local councillors, hundreds of commune secretaries and also hundreds of mayors would disappear. On the other hand, the lack of a road infrastructure, large distances between the last village ascribed and the centre of the commune would mean to distance administration from citizens.

From another perspective, to reduce the costs involved in the functioning of the administrative support we agree that the administrative-territorial structure might be reconsidered by building a new administrative level with its own budget of incomes and expenses, having decisional power, under the immediate authority of the central administration to boost the local and regional development. Romania's new regional structure would involve dismantling counties and transformation of eight development regions in the form of local government with legal personality. This approach would enable a superior knowledge of some regional issues including an easier identification of development needs that may require EU funds and reducing disparities in terms of regional development.

Dynamically, the expenditures for public authorities register increases and decreases due to legislative changes that have led to modifications in the structure of costs financed from local budgets.



Source: Romanian Statistical Yearbook 1997-2011

**Fig. no.1. The evolution of costs for public authorities in total expenditures of local budgets during 1996-2010**

As it results from the data presented in the figure above, the share of the expenditure for the functioning of public authorities increases obviously from 1996 (6,9%) to 2000 (14,4%) then there was a downward trend until 2003, when it reaches the threshold of 9,4%. Since 2005, due to the councils' organizing of Public Service Registration in communes, towns, municipalities, counties and Buchares, the share of these expenditures has an upward trend to 10% at the end of the analysed period.

#### 6. Conclusions

From the conducted research we find that the evolution and structure of expenses in local budgets is determined by several economic and social factors that differ from one administrative-territorial unit to other. Of these, the exercise of power and the structure of local public administration, the way in which departments operate within local public authorities exert a significant influence over expenditures from local budgets.

It notes that improving the local budgetary process requires solving personnel management problems mostly the correct sizing of the staff within the local council and County Council.

The short and medium term it is necessary to identify solutions for reducing the costs involved in the functioning of the administrative apparatus by creating flexible modern economic and financial mechanisms to encourage performance. Long-term strategic objective is the socio-economic development of local communities which should provide for local administrations resources comparable to their responsibilities.

#### 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) 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. III-VI and Annex aproved with amendments by Law no. 13/2011 published in Of. M. no. 179 of March 14, 2011

(3) Law no. 69/2010 on fiscal and budgetary responsibility published in Of. M. no. 252 of April 20, 2010

(4) Data provided by Financial Service Accounting, human resources and administrative service, human resources department from the Prefecture, Suceava County

(5) Locale administrations have been unable to hire because of art. 21 and 22 of G.E.O. no. 34/2009 that are still applicable (G.E.O. no. 34/2009 on the 2009 budgetary rectification and regulation of financial and fiscal measures, published in Of. M. of Romania, Part I, no. 249, of April 14, 2009)

(6) Data provided from human resources within Suceava Municipality

(7) Romanian Statistical Yearbook 2001-2011

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