

THEORETICAL AND PRACTICAL CONSIDERATIONS ON FINANCIAL AUTONOMY AND BALANCE LOCAL BUDGETS IN ROMANIA

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Abstract

In order to meet the needs of local interest, the state is obliged to organize and operate a system of economic and social relations, in cash, whose purpose is the creation and distribution of funds into local financial resources. This set of relationships is known as local finance. "Local Public Finance is the work of local governments in their capacity as user of special techniques, financial, such as the budget, taxes, fees, allowances, expenses, loans etc.". [1]

To be effective the local government must be based in his organization and operation on a set of principles, two of which are fundamental: local autonomy and decentralization. Local autonomy is "the right and effective capacity of local authorities to solve and manage, on behalf of and in the interests of local communities they represent, public affairs".[2] Decentralisation is the "transfer of administrative and financial powers from the central government to the local government or the private sector." [3]

In our country, by the end of 1989 resolving the problems of financial, fiscal and budgetary achieve uniformly from the center, local authorities having jurisdiction restricted only related to sizing of certain expenses and income to their classification within defined limits. Also, specialized financial bodies, although they were in the structure of local government, acting only on the norms and duties provided by the Ministry of Finance, which has a double subordination. Since 1990, fiscal and budgetary policy went into a deep reform process, which followed both organizational changes, competence in the field and the establishment of new mechanisms and collecting tax revenues. The result of these transformations has been providing financial decentralization, which was done on two levels: internal decentralization, the Ministry of Finance, by transferring multiple tasks and powers to the territorial units; External decentralization by moving the financial powers and responsibilities to local governments. [4]

Regardless of the degree of autonomy of local communities, it is considered that the financial decentralization to consider certain principles [5] as the stability requirements of the country's public finances, as follows:

- 1.The principle of diversity, explained on account of the variety of shapes and size demands of public goods and services;
- 2.The principle of equivalence in financing public services, explained on the basis of geographical benefits that they bring to citizens;
- 3.The principle of decentralization acceptance cost, determined by regional tax differences, which interfere with the dispersion of the economic situation;
- 4.The principle of centralized redistribution and stabilization imposed by the reality that local communities do not have the tools of macroeconomic policy and sometimes no means for achieving them;
- 5.The principle of compensation of corporate financial flows as a result of involuntary transfers of income as a result of differences prejudicial to the achievement of economic and spending programs for some of them. Preventing such situations involve government intervention to remedy;
- 6.The principle of ensuring vital social services, according to which this task falls to the central account. Government must offer minimum essential public services (health, education, social security) for all its citizens;
- 7.The principle of equal access to public resources, determined by the situation of local authorities whose balance between needs and fiscal capacity is deficient, requiring compensation minus government transfers resources on account of a predetermined scheme;
- 8.The financial balance principle, according to which the division between public levels of public finance management shall fulfill the duties and powers within each incumbent.

This means that public resources are redistributed to cover the expenditure of operation of the public sector and local state administration alike.

Local public finances activity is integrated into the local power must, therefore, be characterized, in turn, through autonomy and decentralization. Simplistically, the two attributes must confer the ability to set local finances and collect revenues, and to approve and make expenditures, so as to satisfy the needs of the local community. The main instrument through which local finances fulfill their functions and role is the local budget. This is "the document are provided and approved every year revenue and expenditure administrative-territorial units". [6] In the literature it is estimated that the share of income and expenses included in local budgets in total public revenue and expenditure determines the overall range and degree of decentralization of local government finances.

In Romania, in the period 2006 - 2014, the absolute values of local government revenue, local government expenditure, total public revenue and public expenditure in million lei, are presented in the following table:

Table no. 1

Indicator Year	Local public revenues	Local public expenditure	Total public revenues	Total public expenditure
2006	27 693,4	25 360,8	106 975,3	112 626,3
2007	36 803,1	33 931,4	127 108,2	136 556,5
2008	45 697,7	49 395,6	164 466,8	189 121,7
2009	46 757,6	49 088,3	156 624,9	193 025,4
2010	50 018,3	50 631,2	168 598,45	201 903,63
2011	51 858,2	53 058,6	181 566,9	205 403,6
2012	53 441,7	56 080,8	193 148,2	207 922,1
2013	56 875,4	58 009,0	200 045,7	215 816,9
2014	62 331,4	61 847,6	213 833,6	226 326,8

Source: www.mfinante.ro, Buletin MFP

For this period, the overall degree of local financial autonomy (established local budget revenues as a share of total government revenue) and the degree of local financial decentralization (set local spending as a share of total public expenditure) are presented in the following table:

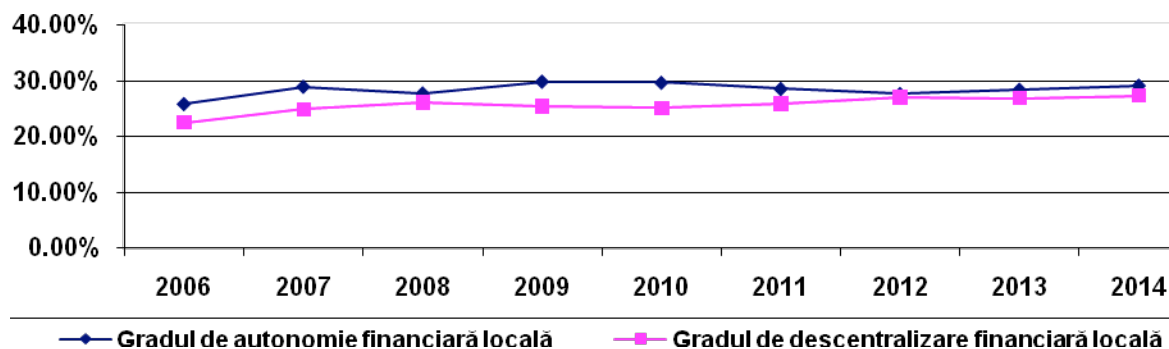
Table no. 2

Indicator Year	The degree of local autonomy (%)	The degree of local decentralization (%)
2006	25,88	22,51
2007	28,95	24,84
2008	27,78	26,11
2009	29,85	25,43
2010	29,66	25,07
2011	28,56	25,83
2012	27,66	26,97
2013	28,43	26,87
2014	29,14	27,32

Source: own calculations

Graphically, the dynamics previously determined in the period under review, are as follows:

Chart no. 1



There is a sinuous evolution of the two indicators, marked by interspersed periods of increasing and decreasing. The degree of local financial autonomy is slightly higher overall level of local decentralization trend being maintained throughout the interval. The maximum value is attained autonomy in 2009 and is 29.85% and the maximum level of decentralization is realized in 2014, with value 27.32%. In specialized literature and practice are determined and analyzed and another indicator of local autonomy and degree of local financial autonomy own that reflects its share of local revenues in total public revenues of a state. Basically, this indicator eliminates the influence of financial transfers from central to local governments. In the following table i present, for a number of Member States of the European Union, the local financial autonomy own in 2013, stating that the EU average is 13% to:

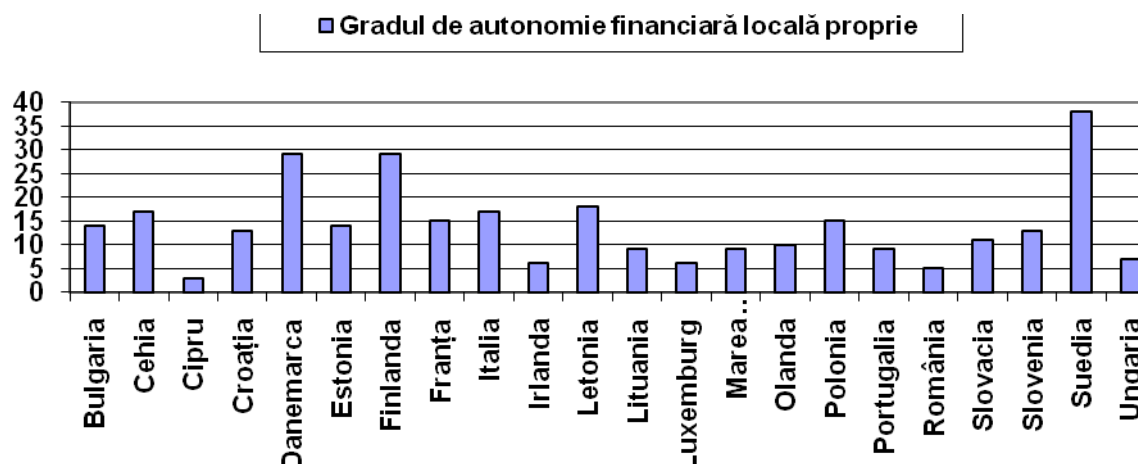
Table no. 3

Country	The degree of own local financial autonomy (%)
Bulgaria	14
Cehia	17
Cipru	3
Croația	13
Danemarca	29
Estonia	14
Finlanda	29
Franța	15
Italia	17
Irlanda	6
Letonia	18
Lituania	9
Luxemburg	6
Marea Britanie	9
Olanda	10
Polonia	15
Portugalia	9
România	5
Slovacia	11
Slovenia	13
Suedia	38
Ungaria	7

Source: Division of powers between the European Union, member states, candidate and some potential candidate countries, and local and regional authorities: Fiscal decentralisation or federalism, written by Cinzia Alcidi, Alessandro Giovannini, Federico Infelise and Jorge Núñez Ferrer (CEPS), for Committee of the Regions, ISBN: 978-92-895-0794-3

Graphical representation of indicator values, if the states included in the data set, is shown below:

Chart no. 2



By comparing noted that Romania is on the second place on its own financial autonomy of the group of countries analyzed, which shows essentially reduced fiscal capacity of territorial-administrative units to obtain financial resources to meet community needs. It can be said without fear of error, that in our country crucial role in the formation of local budgets return transfers from the central government. Basically, in 2013 were carried out by local budgets revenue streams in accounting for 28.43% of total public revenues, of which 5% were own local revenue and 23.43% were transfers from governmental .

In this context, it is extremely important local budgets balancing system.

In Romania, the laws incidents in the area, local budget revenues are composed of:

- own revenues from taxes, fees, contributions and other payments, other income and allowances deducted from income tax;

- amounts deducted from certain income of the state budget;

- subsidies received from the state budget and other budgets;

- donations and sponsorships;

- amounts received from the European Union and / or other donors made payments and pre-financing.

Of these sources of income, the overwhelming weight of shares owned deducted from income tax and amounts deducted from certain income of the state budget. These types of funds are regulated by the Romanian legislation through the Law on Local Public Finance no. 273/2006. This states the general rule of law applicable rates and amounts deducted. In 2015, notwithstanding the general rule stated above norm, the State Budget Law no. 186/2014 introduced as an exception applicable only in the budget year 2015, a new system of balancing local budgets. Next we will make a presentation of the two systems, aiming to capture the effects of these on the degree of local financial autonomy.

In accordance with local public finance law, the monthly income tax, excluding tax pension income, operations are performed allocation of financial resources from central to local as follows:

- 41.75% share of the local budgets of communes, towns and municipalities whose territory operating income tax payers;

- a share of 11.25% from the local budget of the county;

- a share of 18.5% to balance local budgets.

In addition, the state budget law, according to financial capacity (70%) and the county (30%) approved allocations to local governments county as the amounts deducted from certain income of the state budget to balance local budgets. Also, such amounts may be transferred broken and destination.

Amounts deducted to balance local budgets and 18.5% share of income tax subject to allocation algorithm according to which 27% of these resources fueling county budget and the difference is transferred to local budgets of communes, towns and cities, so :

- 80% of the amount is divided into two stages, based on an algorithm clearly ruled legal by administrative decision of the head of the county public finances, according to population, area of town and the financial capacity of the administrative territorial unit. Allocations are weighted according to the degree of achievement of local tax revenue in the previous year;

- 20% of the amount shall be allocated by the county council's decision to pay arrears from paying operating expenses and / or capital in the chronological order of seniority arrears, to support local development programs and to support infrastructure projects that require local co-financing.

The new system balancing local budgets established by the annual budget law for 2015 sets limits of own revenues by category of administrative units, taking into account their income made by them in 2013, as follows:

- for 1,500,000 common;
- 6,000,000 lei for cities;
- 20,000,000 lei for municipalities;
- 50,000,000 lei for county capital cities;
- 80,000,000 lei counties.

Local communities do not own income to the level of those limits receive equalization transfers 18.5% share of income tax and the amounts deducted. Financial resources representing 18.5% share of the income tax collected on 2013 in the county, the county public finance administration allocated as follows:

- 27% is allocated budgets of the county;
- difference amount is allocated in proportion to the share of each in all administrative units necessary to achieve the limits set.

Amounts remaining after this first stage is allocated to local budgets according to the number of inhabitants (55%), the area of the city (15%), 15% equally, administrative-territorial units with a degree of collecting local taxes the ownership of at least 90% on last year and 15% equally, administrative-territorial units that have approved two years ago at least one project funded by external grants.

If a county level financial means 18.5% share of the income tax is insufficient to ensure each local unit preset limits are reached, the allocations to be completed at the governmental level with amounts deducted typically used for this purpose, and the difference deducted amounts remaining after providing income limits are distributed to counties based on the number of inhabitants (55%), surface (15%) and length of county roads and utilities (30%). At county level, the amounts deducted shall be distributed as follows: 27% from budgets of the county and local budgets difference after the four criteria, namely the number of inhabitants, built-up area, degree of own revenue collection and European fund approval. A first comparative analysis on strict legal regulation of local budget equalization system allows us detachment following conclusions:

1. 2015 applicable system eliminates link as decision makers in the financial resource allocation algorithm County Councils public. The general rule gives them the right to have the local distribution of 20% of the 18.5% of the income tax and 20% of amounts deducted. As noted above, the decision of allocation to states not objective, but is fixed destinations in payment arrears, local development and co-financing. Practice has shown that decisions by the county council that allocates these public financial resources have a strong political footprint, the most important factor in deciding the ability to "lobby" of local governments;

2. The new system changes the criteria by which the central transfer financial resources in the form of sums deducted by counties, eliminating their financial capacity and taking into account, in addition to area and population size and length of roads. In our view this approach is more accurate in terms of reducing and eliminating disparities between counties. Financial capacity counties favors rich, economically developed whose status is not only the merit of good local governance, but is also due to objective factors like geographic location, road infrastructure historic historical economic infrastructure etc. Special local needs are determined by objective factors, that they consider the system in 2015 and therefore consider that it can provide a much closer allocation of the real needs of communities;

3. 2015 stimulated local tax administration efficient by taking into account the balancing system of the collection of own tax revenues and performance in European funds;

4. a weakness of the new system may prove to be reasoning that were established minimum limits. Taking as a basis for determining the year 2013 with two budget years ago, can eliminate the influence of objective factors that appeared in local communities, generating factors influence over local spending, meaning an increased financial effort and not be comprised within time. It is also not known whether the limits have been established by considering a minimum level in the implementation of the budget in 2013 by type of local units or to set an average. If you applied an average, it is likely that administrative units located above it to be disadvantaged and benefit from lower allocations during 2015 than in previous years.

Next I center our analysis on financial effects (volume value of shipments) that the system of balancing local budgets in 2015 generated the administrative-territorial units. For the purpose of our approach we use data from Gorj county, compared to the years 2014 and 2015, which we present, expressed in thousand, in the following table:

Table no. 4

Indicator UAT	18.5% share of income tax	18.5% share of income tax	VAT shares	VAT shares	TOTAL	TOTAL
	2014	2015	2014	2015	2014	2015

Târgu Jiu	786	0	437	697,33	1223	697,33
Motru	690	1934	339	2883,02	1029	4817,02
Bumbești Jiu	861	693	483	1102,7	1344	1795,7
Novaci	676	944	388	1387,46	1064	2331,46
Rovinari	179	0	101	136,45	280	136,45
Târgu Cărbunești	272	144	176	2544,42	448	2688,42
Tismana	1171	1761	621	275,74	1792	2036,74
Turceni	216	0	107	801,37	323	801,37
Țicleni	182	543	103	105,84	285	648,84
Albeni	557	341	317	537,41	874	878,41
Alimpești	540	455	308	740,94	848	1195,94
Aninoasa	811	314	460	555,56	1271	869,56
Arcani	273	525	154	751,29	427	1276,29
Baia de Fier	618	0	352	88,1	970	88,1
Bălănești	459	469	261	679,23	720	1148,23
Bălești	1375	6	779	67,22	2154	73,22
Bărbătești	225	292	126	426,21	351	718,21
Bengești-Ciocadia	676	416	392	661,89	1068	1077,89
Berlești	697	484	396	701,38	1093	1185,38
Bălteni	846	0	479	60,7	1325	60,7
Bolboși	611	449	345	661,19	956	1110,19
Borăscu	799	353	454	528,15	1253	881,15
Brănești	556	359	317	526,48	873	885,48
Bumbești-Pițic	558	435	318	678,94	876	1113,94
Bustuchin	766	0	400	65,27	1166	65,27
Câlnic	68	0	37	19,62	105	19,62
Căpreni	327	83	174	171,84	501	254,84
Cătunele	62	0	47	23,19	109	23,19
Ciuperceni	336	447	189	649,63	525	1096,63
Crasna	1244	250	691	395,82	1935	645,82
Crușeț	587	408	334	685,93	921	1093,93
Dănciulești	586	471	333	717,16	919	1188,16
Dănești	775	271	436	420,41	1211	691,41
Drăgotești	76	0	33	20,26	109	20,26
Drăguțești	747	52	437	117,02	1184	169,02
Fărcășești	17	0	9	27,08	26	27,08
Glogova	419	481	239	695,8	658	1176,8
Godinești	486	426	277	618,71	763	1044,71
Hurezani	194	152	113	273,16	307	425,16
Ionești	490	474	280	688,16	770	1162,16
Jupânești	548	435	309	630,19	857	1065,19
Lelești	466	458	174	657,61	640	1115,61
Licurici	287	336	161	493,56	448	829,56
Logrești	757	456	429	667,12	1186	1123,12
Mătășari	70	0	41	37,21	111	37,21
Mușetești	635	430	357	660,2	992	1090,2
Negomir	175	0	102	64,8	277	64,8
Padeș	836	202	470	324,41	1306	526,41
Peștișani	724	243	412	378,47	1136	621,47
Plopșoru	1157	0	657	130,51	1814	130,51
Polovragi	844	335	476	547,97	1320	882,97

Prigoria	598	286	342	428,91	940	714,91
Roșia de Amaradia	378	216	213	330,86	591	546,86
Runcu	522	0	292	79,44	814	79,44
Săcelu	419	449	239	683,32	658	1132,32
Samarinești	512	482	292	728,5	804	1210,5
Săulești	615	360	351	527,8	966	887,8
Schela	464	481	287	732,29	751	1213,29
Scoarța	764	248	431	436,33	1195	684,33
Slivilești	242	0	140	31,14	382	31,14
Stănești	949	433	500	710,37	1449	1143,37
Stejari	469	318	269	470,38	738	788,38
Stoina	227	120	132	190,68	359	310,68
Țânțăreni	1174	274	667	463,51	1841	737,51
Telești	673	437	384	637,93	1057	1074,93
Turburea	453	47	258	100,83	711	147,83
Turcinești	504	406	285	624,93	789	1030,93
Urdari	228	0	128	24	356	24
Văgiulești	692	462	393	675,59	1085	1137,59
Vladimir	640	456	371	667,06	1011	1123,06
Consiliul Județean Gorj	14364	27791	8099	21466	22463	49257
Județ Gorj	53200	50594	29995	57790	83195	108384

Notă: Tg-Jiu este municipiu reședință de județ, Motru este municipiu, Bumbești Jiu, Novaci, Rovinari, Tg Cărbunești, Tismana, Turceni și Țicleni sunt orașe, iar restul UAT-urilor sunt comune

Source: HG nr. 14/2015, Decizia nr. 1/2015 a AJFP Gorj, Decizia nr. 38/2014 a AJFP Gorj și HCJ Gorj nr. 5/2014

Data analysis can make a number of features as follows:

- globally for Gorj there is an extremely positive influence of the new equalization system, the cumulative volume of transfers from registering an annual growth governmental comparative 25,189 thousand, respectively + 30.27%. This reality is the result of elimination algorithm to allocate the counties broken their financial capacity. Basically it demonstrates the suitability of the new system for counties with a lower level of economic development;

- there are three groups that may include administrative units in the county, ie those that enjoy significant additional allocations in 2015 (some recording and 400% increase), others that receive relatively equal amounts and another category benefiting from a reduction equalization transfers (even 5 times). In this last group includes 32 entities in a total of 71 (to account for Gorj County Council) and accounts for about 45% of the total;

- new balancing system generates therefore significant changes on the volume of transfers, causing a negative effect on the ability of community development for which the amounts were reduced, being denied their forecasts and future projects affected. Although, in essence, the new system provides a capacity to meet local needs more objective, however, its sudden change from one year to another, print a negative effect on the sustainability of local development for some administrations;

- that there is a high proportion of administrative units that receive low balance allocations from the previous year confirms that establish minimum limits for local budgets was based on an average of the execution in 2013, which explains disadvantage communities above the average and benefiting those below average.

Conclusions

In my opinion, both local budgets balancing systems used in Romania have their shortcomings, favoring or disfavoring local communities. We consider that would require the development and implementation of a mechanism involving local spending agencies in real time in the collection of public revenues. Basically, local budgets in our country is based on income transfers from the state budget, ex-post nature, ie their collection allocated by the central government and with consideration of static indicators, relating to budgetary execution of exercises preceding the current one. Therefore, in order to increase local financial autonomy, we propose sharing system directly from the state budget revenues collected in the territory of the local community, the allocation can be done in real time from the date of receipt of tax obligations and to intervene with the central transfers only to cover the operating section of the local budget for communities that do not have the financial capacity to cover it. In this way, it encourages communities to stimulate local business development policies in their territory, creating a direct contact local level with local financial resource (no longer

interposed between the taxpayer local budget and local budgets) and consolidated financial and budgetary discipline at local level (local officer commits no further financial resources based on historical custom of government intervention that transfers cover local arrears).

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