

EXPENSES FOR ECONOMIC ACTIVITIES FROM LOCAL BUDGETS

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Summary:

In the present article we propose to analyze and deepen significant categories of costs funded from the local budgets, namely the expenditure for economic activities.

Our scientific approach begins with determining the place occupied by such expenses in local public expenditure by specifying their content and role. The center of gravity of the study is to treat and deepen the three subgroups of expenses that we consider representative: "The expenses for production, transportation, distribution and supply of heat in a centralized system", "Transport Costs" and Expenditure for agriculture and forestry".

The reaserch is based on the quantitative analysis of the expenses for economic actions, in local budgets, based on the existing data from the Statistical Yearbook of Romania, and highlights the structure of this type of expenses as well as the place they hold in the expediture of local budgets. The study includes an analysis of the dynamics of the share held by economic costs within total expenses from local budgets.

From the reaserch carried out, it is shown that the evolution and structure of the expenditures for economic actions from local budgets is determined by the action of certain economical and social factors that vary from one administrative teritorial unit to another: the ray of economical developepment of the administrative teritorial unit, urbanization, the number and social structure of the population. The reaserch shows that in the field of expenses for economic actions, the largest share is held by expenditures for transportation (almost 80%), far away from the expenses for fuel and energy (13,66%). During the 1999-2013 the dynamic of expenses for economical actions in the total of expenditures of local budgets, is sinusoidal due to the intervention of certain legislative changes.

Key words: *public expenditure, economic activities, local budget, transport, heat, 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 local public expenditure, an important role is occupied by costs for economic actions, which reflect the intervention of local authorities in supporting and influencing the local economy. Thus, through local budgets are funded activities to prevent and combat frost, stimulating small and medium enterprises, regional and local development programs, are covered expenditure on heating, upkeep and repair roads and bridges, public transport, streets in cities and towns.

The reaserch aims to study as a main objective the structure and dynamic of expenditures for economical actions, and their part in the expenses of local budgets.

2. 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 [2] - [4] local budget expenditures are grouped according to several criteria to ensure identification of actions financed and the influence of the use of local funds. In our scientific approach is important the functional classification of local public expenditures.

The existing classification, contained in Annex. 2 of Law no. 273/2006 on local public finances, can be adjusted and updated as a result of improving the tax legislation and through the annual budget laws, in accordance with programs of increasing financial autonomy of the administrative and territorial units and the decentralization of public services. It lies at the basis of local budgets, their execution, and the preparation of budget execution account.

Expenditures provided in local budgets are grouped by functional classification as follows:

- General public services;
- Defense, public order and national security;
- Social and cultural expenses;
- Services and public development, housing, environment and water;
- Economic actions;

These categories of expenditures from local budgets are divided into chapters and subchapters. The main expenses in the 'socio-cultural expenses "are:

a) Education:

- Pre-primary and primary education;
- Secondary education.

b) Health:

- Public health services;
- Other health expenses;

c) Culture, recreation and religion:

- Cultural services;
- Recreational and sporting services;
- Other services in the areas of culture, recreation and religion;

d) Insurance and social assistance:

- Assistance to the elderly;
- Social assistance in case of illness and disabilities;
- Social assistance for family and children;
- Aid for housing;
- Nurseries;
- Prevention of social exclusion;
- Other expenses for insurance and social assistance.

Budget appropriations approved by local budgets are used by granting loans made by their principal officer, within the limits approved, according to the set destination and legal provisions governing these expenditures.

3. Local public expenditures on economic activities

The expenses for economic activities reflect state intervention in support or influence national economy, often financed from the central budget as an expression of the role that public authorities have towards the economic macro stabilization [2]. This practice does not exclude the possibility of financing such expenditures through the local budgets or from special funds, although the share of the expenditures for economic actions they perform in these components of the public budget are lower, as a consequence of the powers of local public authorities in economic matters.

Subgroups of expenses for economic actions are mainly capital expenditures materialized in many cases in investments of local governments in areas of public interest: regional and social development programs, production transport, distribution and supply of heat in a centralized system, agriculture, forestry, fisheries and hunting, road transport, public transport of passengers, streets etc.

3.1. Expenditures for production, transportation, distribution and supply of heat in a centralized system financed by local budgets

The production and heat supply in centralized system of localities are the major concerns of central and local public authorities, as those activities have an important social dimension and an essential role in maintaining social cohesion and improving living conditions, in order to avoid exclusion and social marginalization [1].

According to the legal provisions, the centralized heating systems are owned by administrative-territorial units and they are administered and managed by local government authorities which provide heat for localities and, depending on the size of settlements, their particularities and access to the primary energy resources, should adopt that set of measures capable of ensuring free access of any member of the community to a form of energy.

Thermal energy is produced in power plants (CHP) and district heating. Primary heat transport is between the heat source and transformer stations (thermal) spread out over a city and is provided through a piping system roundtrip closed circuit called primary heating networks.

The distribution of thermal energy in the form of secondary agent for heating and hot water is provided via a pipeline system roundtrip between substations and consumers, called secondary heating networks.

For the thermal energy supplied to the population through centralized systems for house heating and hot water, the price is set by the Government being known as the national reference price. The difference between producer prices plus distribution tariffs and national reference price is covered from the state budget, the amounts deducted from certain income of the state budget and approved through the Annex to the same destination state budget law and local budgets, on account of their own revenues for the remaining difference. This subsidizing system of thermal energy delivered to the population operated until 2004.

Currently the heat and hot water subsidy consists of two distinct components. For all tenants benefiting from central heating network, as required by law, enjoy grants and aids the following: at least 10% of the local average price of thermal energy to end users is supported with funds by local authorities and more than 45% of the costs of fuel used is supported from the central budget. Therefore, more than half the cost of a Gcal is found in the support came from the state in one form or another. Then, for disadvantaged categories that cannot cover the maintenance costs to heat and hot water from incomes, is also provided a financial help through the local councils. Almost half of the residents of the block are now in a position to be supported by the authorities with aid for heating.

We consider subsidizing of thermal energy supplied to the population through centralized systems a conjectural measure, adopted in the context of economic and social difficulties related to the affordability of the population, and designed to reduce the social impact of an objective readjustment of prices.

In our opinion, subsidies do not provide long-term resolution of cases, lead to inefficient use of available budget funds, do not stimulate the modernization and upgrading of production systems and heat distribution and introduce distortions in analysis process and economic decision.

The figure below illustrates the structure of expenditures for local budgets on the whole economic activity in Romania, according to the latest data provided to us by Statistical Yearbook of Romania². As shown in the graph, the expenditure on fuel and energy ranks second place with a share of 13.66%, which shows that local authorities pay particular attention to the production, transport, distribution and supply of thermal energy in a centralized system.

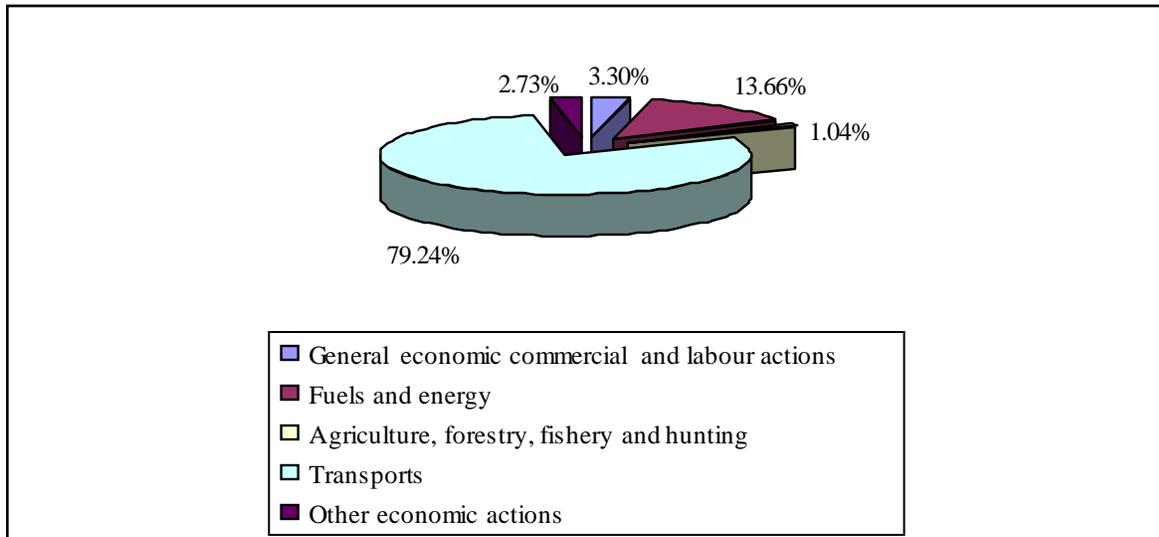


Fig. no. 1 The structure of expenditure on economic actions on the whole local budgets from Romania in 2013
 Source: Own elaboration from Romanian Statistical Yearbook 2014

3.2. Transport expenses financed by local budget

Transport expenses from local budgets have to do with roads and bridges, public transport and air transport.

Roads are terrestrial communication routes specially designed for the movement of vehicles and pedestrians. Part of roads are: bridges, viaducts, bumpy passages, tunnels, construction and defense building, sidewalks, bike lanes, parking lots, road traffic signs and other traffic safety facilities, lands and plantations which are part of the road, less protection zones.

In terms of functional and territorial administrative units, in order of importance, public roads are divided into national roads, county roads and local roads.

County roads are part of the county public property and include county roads, which link the county municipalities with cities, towns, communal residences, spas and tourism destinations, ports and airports, major objectives, related to the defense of the country and important historical sites; between towns and cities and among common residences. Local roads belong to the public property of the administrative unit in whose territory lie, and include communal roads and streets neighboring roads. The communal roads connect the common residence with own villages or other villages, between villages belonging to the same city and other villages and between villages. Vicinal roads are roads serving several properties that lie in their limits.

The streets are public roads within the localities, under any denomination: street, avenue, road, quays, embankment, road, alley, dead end street, lane etc.

Functional categorization of national, county and municipal roads is made by decision of the Government and the one for the neighboring roads and streets, by the decision of county or local council, as appropriate.

Proposals for admission to national and county roads are made by the administrators of these categories of roads, and those for communal roads by local councils, through county councils and the General Council of Bucharest.

The administration of county roads is provided by the county councils and the one of local roads by local councils within their administrative area. Are exempted the sectors of county roads located within the built urban areas, including artwork, arrangements and related accessories that are administrated by the respective local councils.

Until 2004, county and local roads were funded by local budgets both from the revenues of these budgets and transfers from the state budget through the Ministry of Transports, Constructions and Tourism (representing 35% of the former special fund for public roads that was included in the state budget, according to the law).

Starting with 2005, amounts deducted from certain state budget revenues financed county and municipal roads, and expenditures for funding streets are still provided from transfers from the state budget. The amount deducted from certain income of the state budget to fund county and municipal roads at the level of the counties based on the total length of road specified in the Statistical Yearbook, and creates the possibility to control resources to their destination by the principal loan managers of the local budgets from the beginning of the budget year.

Also the administrative-territorial division of the amounts deducted from certain income of the state budget to fund their county roads is usually based on all of their length and decided by the county council.

Local public transport is another domain financed from the local budget as an economic action. The state supports through legislative and economic measures the quantitative and qualitative development of local public transport and the associated infrastructure.

The main goals of central public administration authorities on the local public transport are: to improve the living conditions of citizens by promoting the quality and efficiency of local public transport, to increase the quality of citizens' life by supporting the economic development of communities and creating a modern urban infrastructure, to give facilities to certain categories of people and supply enough transport capacities on busy routes.

Local authorities have the obligation to take measures necessary for the extension, development and modernization of local public transport in their area.

Local authorities, through specialized services, organize, watch and control the local public transport operators. The county councils offer services for managing local councils work to develop local public transport, county transport and related county infrastructure.

The Local Council or the General Council of Bucharest enables through specialized service the expansion, development and modernization of the local public transport and organize the supervision and control of the services provided by local public transport operators.

The County Councils respectively the General Council of Bucharest establish specialized services on regulation, coordination, organization, development and modernization of public transport and related infrastructure, in terms of local transport and inter-county transport.

The County Councils respectively the General Council of Bucharest coordinate the work of local councils or local councils district to meet a uniform approach at the level of the county or the capital, regarding the regulation and organization of local public transport, to correlate it with the the county and inter-county transport.

The main purpose of the specialized services within local councils, county councils or General Council of Bucharest is the local public transport for which they take decisions on the organization and conduct of the local transport of the passengers by car, trolleybuses and trams, organize its concession, and the leasing/renting of means of transport and its related infrastructure to the authorized transport carriers. Moreover, the local councils organize, supervise, watch and control the operating system of public transport of passengers, watch the traffic of the means of transport, pursue environmental conditions, cleaning of vehicles and stations embarkation / disembarkation of passengers; they offer printing, distribution and control of travel tickets and follow the local public transport of passengers in regular conditions, comfort and safety.

Public local administration authorities promote quality and efficiency of local public transport of passengers by measures that offer local public passenger transport under conditions of modern means of transport and the most affordable prices, enable the development and modernization of transport infrastructure to meet programs of economic and social development of the city and surrounding areas, as well as urban plans and reducing external costs (indirect) incurred by passengers, caused by pollution, traffic congestion, congestion in transport, failure of circulation programs.

Local councils fund necessary sources for facilities for the most disadvantaged and support local public transport of passengers in areas with poor accessibility, where there are no carriers or transport capacity for such services.

To finance the investments required for the development and modernization of infrastructure of local public passenger transport, local councils and the General Council of Bucharest can obtain internal and / or external loans or may grant related infrastructure of local public passenger transport, under the law, during a limited period, depending on the specific activity.

The County Councils with the local councils, respectively, the General Council of Bucharest and the sector councils will set up a single program of rehabilitation, expansion and modernization of road infrastructure in a multimodal approach of the ways of local and county communication network, and public passenger means of transport existing or prospective. The county councils encourage and ease inter-association of communes in pursuit of common interest investments in technical infrastructure, road, rail and aviation, to offer unitary development of public passenger transport and inter-county transport, in full compliance with the growth of local public passenger transport.

Regarding the financing of local budgets of air transport we mention that since 1997, the autonomous administrations airport with very specific national interest, under the Ministry of Transportation, passed with existing assets and liabilities on June 30, 1997 under the authority of county councils. The autonomous administrations operate on the basis of their own organization and operation regulations developed under the Framework Regulation, approved by the county councils under whose authority operate in compliance with specific regulations of civil aviation. Current and capital expenditure of the autonomous administrations with specific of local interest are covered from own revenues and local budget allocations within the limits approved for this purpose.

As shown in figure No.1, transport costs from local budgets represent the highest percentage in expenditures for economic activities (79.24%) far away from the fuel and energy costs accounting for 13.66%.

3.3. Expenses for agriculture and forestry from local budgets

Local budgets finance the fight against pests, plant diseases, centers for plant protection, units for artificial insemination, veterinary districts, county and local agricultural advisory centers. Expenditure on agriculture and forestry cover personnel expenses, materials, services, the purchase of goods required for pest control services, materials and medicines.

This category of expenditure represents a very small share in the economic actions expenditure funded from local budgets from Romania in 2013, only 1.04%, which shows weak involvement of local authorities in this sector.

The proportion spent on economic actions in total expenditures of local budgets in Romania between 1996-2013 is as shown in the figure below.

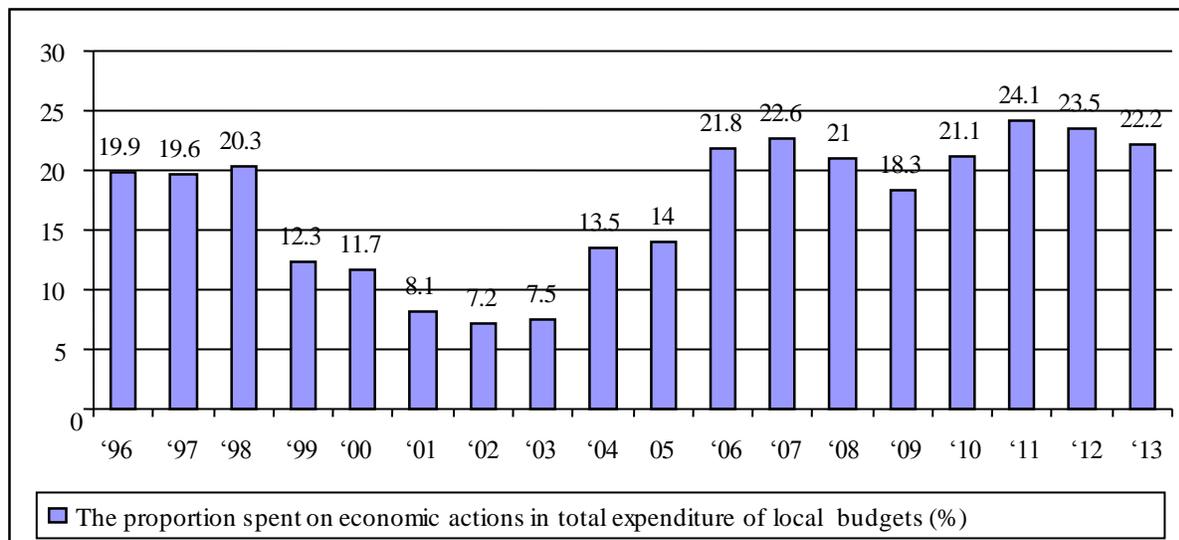


Fig. no. 2 Dynamics of the share of expenses for economic actions in total expenditures from local budgets between 1996-2013

Source: Own elaboration from Romanian Statistical Yearbook 1997-2014

Dynamics of the share of expenses for economic actions in total expenditures from local budgets between 1996-2013 is sinusoidal thanks to the legislative changes. Thus we have the first part of a decrease from 19.9% in 1996 to 7.2% in 2002, followed by a period of growth to 22.6% in 2007. The analyzed period continued in the same manner with a decrease in 2009 to 18.3% of total expenditures from local budgets and an increase in 2011 (24.1%), the past two years recorded a slight decline.

4. Conclusions

The research carried out showed that the evolution and structure of expenditure on economic actions from local budgets is determined by several economic and social factors that vary from one administrative unit to another. Thus a primary factor influencing costs from the local economic development is the degree of the development of territorial administrative units. Local government authorities promote programs and economic development actions that achieve financial resources to fund the expenditure from local budgets. A second factor is the impact on public spending urbanization, which entails developing and implementing modernization programs of localities in order to raise the level of satisfaction with some public services. They may increase this kind of expenses from local budgets.

The number and social structure of the population in a territorial administrative unit are other variables influencing the expenditure on economic actions from local budgets. In this context we consider that subsidizing the thermal energy delivered to the population through centralized systems is a contextual measure adopted in the context of economic and social difficulties related to the affordability of the population and designed to cut the social impact of readjustment of prices. Subsidies do not give long-term resolution of cases, they lead to inefficient use of budget funds, do not stimulate the modernization and upgrading of production systems and heat distribution, and introduce distortions in analysis process and economic decision.

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, approved with amendments by Law no. 13/2011 published in Of. M. no. 179 of March 14, 2011

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- [6]**Romanian Statistical Yearbook 1997-2014