

LOCAL AUTONOMY OF EXPENDITURES – CASE STUDY FOR ROMANIAN LOCAL GOVERNMENTS

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Abstract:

Strong local autonomy or decentralization process became a goal for local governments, but one of the main question in literature remains as how strong must be the local autonomy of expenditures at the local governments' level. Given the great diversity of situations and legal framework over the period after 1990, I consider that Romania must have a stable legal framework regarding local public finances and stable strategy of local development designed to implement a sustainable process of decentralization in Romanian.

The paper will try to emphasize the local autonomy of expenditures in Romania, taking into account an overview of this aspect and empirical evidences. In this regard, I will use the background offered by literature and legal framework and the official statistics data for analysis to identify the degree of local autonomy of expenditures in Romania.

I estimate the analysis to confirm a normal local autonomy of expenditures, but also a need for improvement that require solutions and budgetary policy options as part undisputed positioning local government finance as an engine of development.

I consider the paper can be considered a useful viewpoint in understanding local public expenditures in Romania and the degree of local autonomy, thus adding to the existing literature on financial decentralization field.

Keywords: decentralization, local autonomy, local finance, local government, local expenditures

JEL Classification: H7

1. Introduction

Supporting local public services becomes a priority for Romanian local governments because the economy has changed from an economy based mainly on industry to one based mainly on services. This trend towards increasing the share of services orientation, approaching the level of EU countries. Expanding the powers of local governments and their financial empowerment are key factors in ensuring the high quality of local public services.

The paper will try to emphasize the local autonomy of expenditures in Romania. In this regard, Section 2 taking into account an overview of this aspect, using the background offered by literature and Section 3 presents some empirical evidences, using the official statistics data for analysis to identify the degree of local autonomy of expenditures in Romania.

2. The Subject of the Research, Methodology and State of Knowledge

The scope of this study is to emphasize the main trends and issue that defines the local autonomy of expenditures in Romania. The approach of the research paper will be an overview of this aspect, and second will be combined the quantitative analysis, primarily based on processed data from Ministry of Regional Development and Public Administration, Department for Tax Policy and Local Budgeting, with the analysis and monitoring of the involved qualitative issues. In interpreting results and formulating public policy recommendations, the analysis has permanently related to the legal framework in work (e.g. Law on local public administration, Law on local public finances, Fiscal Code, Law on decentralization, The European Charter of Local Self-Government etc.).

Autonomy of local public expenditures is the subject of research in national and international literature, partially being also captured in the broader context of fiscal decentralization or local autonomy (Schneider, 2003, Boschmann, 2009, Beer-Tóth, 2009, Bell, et al., 2006, Oprea, 2011 Cigu, 2011, White, 2011, etc.).

The general trend among Member States of the European Union is expressing through laws of the principles of local autonomy and decentralization of public services which requires each administrative unit to ensure their revenues to cover their costs on goods and

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services. The orientation of researchers (Bell, et al., 2006, Oprea, 2011 Cigu, 2011) to the local public expenditure side was accomplished just by virtue of this phenomenon.

Literature (Beer-Tóth, 2009, p. 73) sees the sense of expenditures autonomy through two descriptions, respectively, as equivalent with the freedom to decide which goods and services shall be financed from the local public budget and how much money shall be spent on each of them; and secondly, as the freedom to decide how these goods and services shall be produced or delivered.

3. An Overview of Romanian Local Public Expenditures - Empirical Evidences

In Romania, the process of decentralization of public services, beginning in 2001-2002, continued designing the appropriate regulatory framework. In this regard, public authorities have been developed and approved laws or government ordinances in the fields of water, sewerage, public lighting and administration of the public domain.

Local budget expenditures have fluctuated against the background of major reforms in public administration, namely in services and public development, housing, environment and water, and economic actions. Spending on education is an important percentage of the total budget expenditures of local government in Romania since 2001, when in the process of decentralization, these expenses were realized in the higher percentage of local budget.

Regarding the process of decentralization of pre-university education, it is viewed differently in terms of the financial aspects. Funding education has four sources: the state budget, the County Council budget, local budget and own-revenues of school. Funding from the state budget helps cover the cost of personal expenses, textbooks, partial scholarships, student transportation and material and services expenses. County budget uses equalization fund from the local budget, for education and for financing social programs and investment for students. The local budgets provide funds to cover the costs of maintenance, repairs, investments and material expenses and social programs for students. Decentralization involves funding education budget allocation to schools for each student based on costs, the budget being approved by the County Council, and the money must come from the Ministry of Finance or the local budget directly or through the County Council. The allocation of funds in real terms encountering certain difficulties. For example, in 2005 education received 3.8% of GDP compared to 6%.

Favorable economic developments, plus improving the collection of revenues to local budget and the influence of legislative changes in taxation, led to a picture of public expenditure in 2014 as can be seen below.

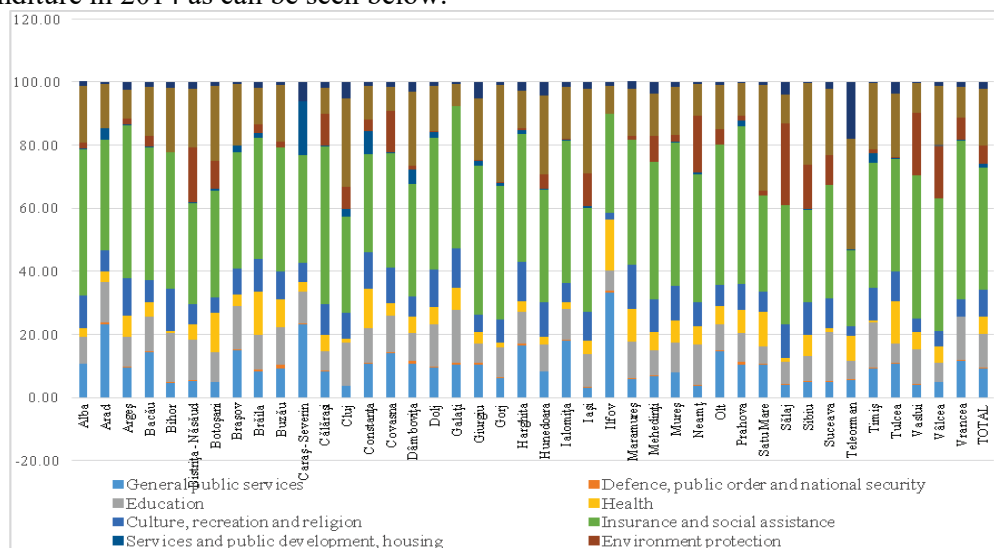


Fig. 1 Local public expenditures of counties by function, in 2014

Source: computed by authors using data provided by Ministry of Regional Development and Public Administration, Department for Tax Policy and Local Budgeting

Expenditure on social insurance and assistance hold the highest share in total public spending at the county level (38.59%). At the county level compared to other counties, Calarasi (50.22%) holds the largest share. Between 40% -51% are 17 counties, and in the range of 30% -40% are 21 counties. The smallest share are registered in Teleorman County (23.90%), and, at a short distance Sibiu (23.90%). Transport costs account for 17.78% of the total county government expenditure. Spending on education accounted for 10.54% holding in total county government expenditure.

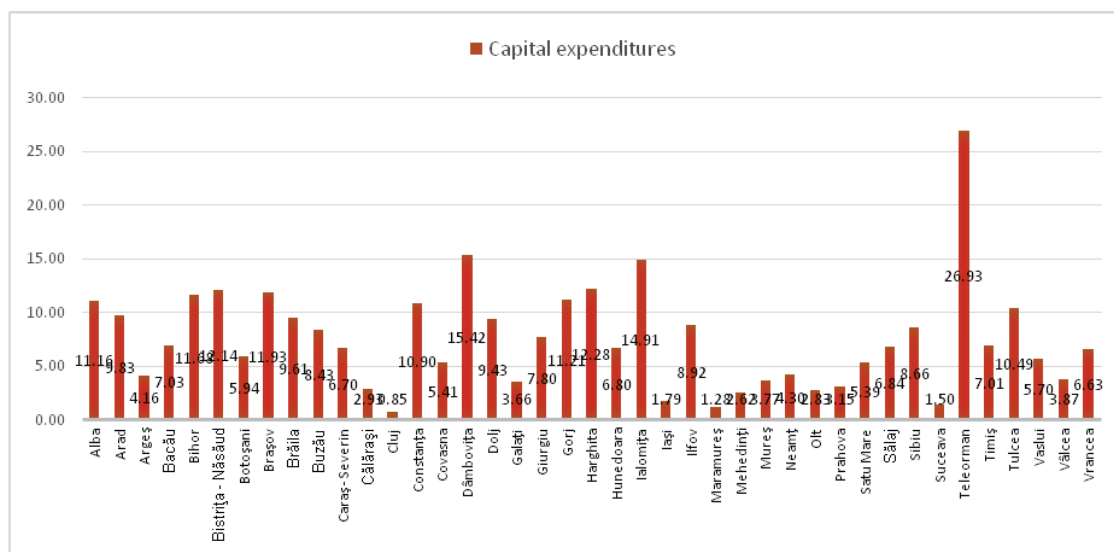


Fig. 2 Local capital expenditures of counties, 2014

Source: computed by authors using data provided by Ministry of Regional Development and Public Administration, Department for Tax Policy and Local Budgeting

Local public investments are relevant quantitative indicator to indicate the welfare of the county, but at the same time, reflects the urgent need of new investment to the county. The counties of Romania has a share of 7.04% of total county public expenditure. The top capital expenditure is Teleorman county with a share of 26.93% of the total county public expenditure. Dambovitza is situated to a significant distance with a share of capital expenses of 15.42%. Only 11 counties have a share of the capital expenditures over 10% of total county public expenditure. Aproximately 13 counties have allocated less than 5% of capital expenditure in the county budget.

Configuration of capital expenditure are changed at the municipalities' level compared to the county, as can be seen in the chart below.

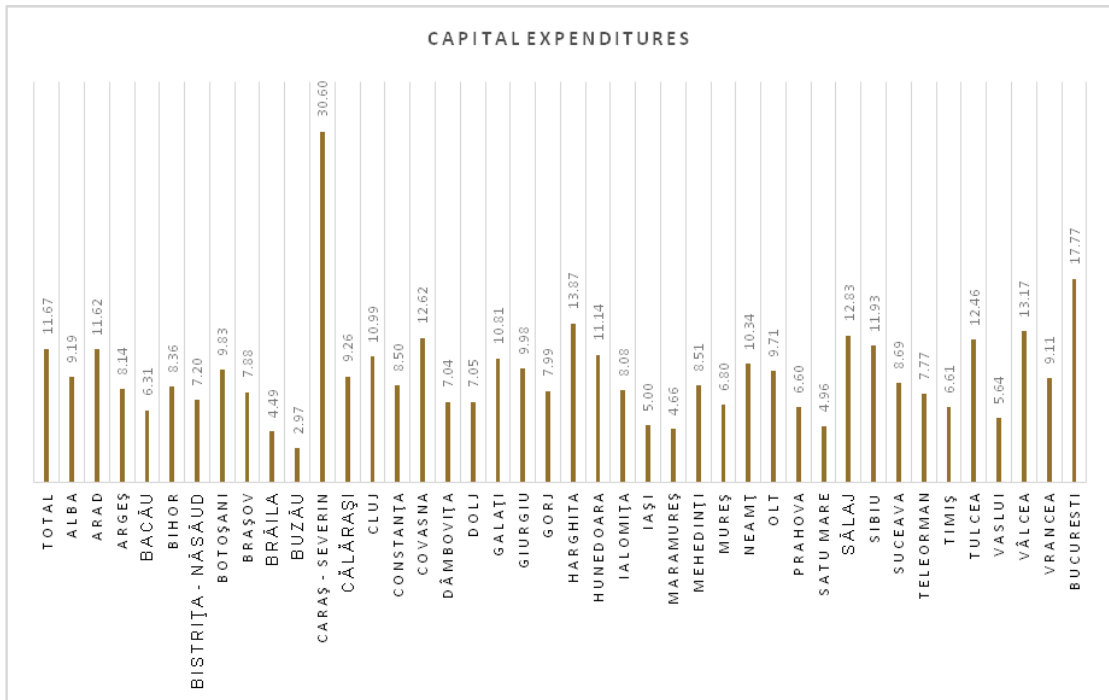


Fig. 3 Local capital expenditures of municipalities, 2014

Source: computed by authors using data provided by Ministry of Regional Development and Public Administration, Department for Tax Policy and Local Budgeting

Capital expenditure recorded a share of 11.67% in total expenditures of municipalities, with about 5% higher than at the county level. The largest part of capital expenditure in the total budget is recorded in Caras-Severin (30.60%). 13 municipalities recorded a share of capital expenditure by over 10% and 3 municipalities under 5%. Thus, most of the municipalities have a share of the capital expenditures between 5% and 10%.

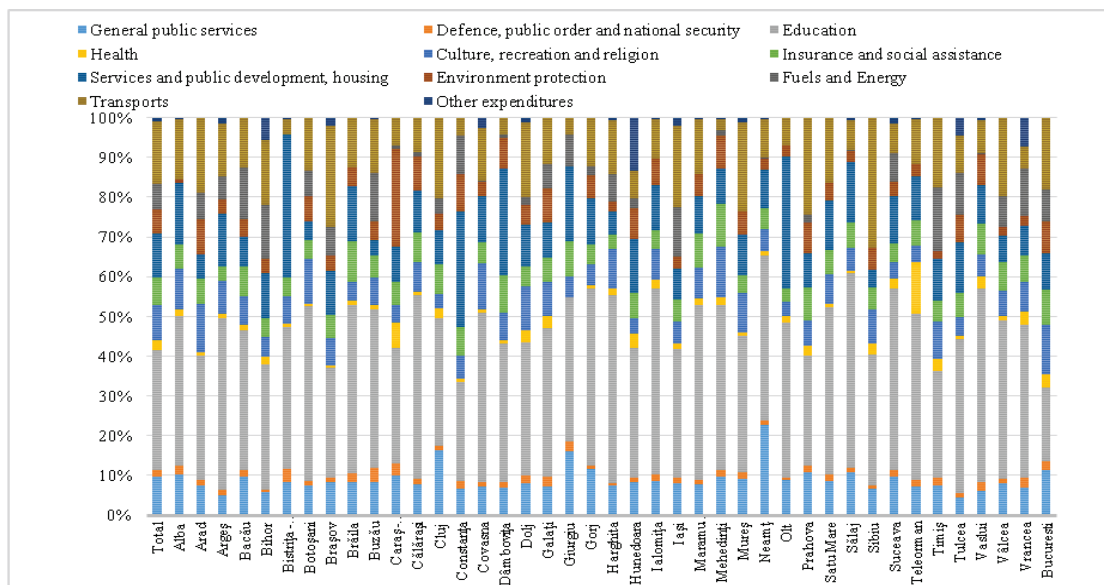


Fig. 4 Local public expenditures of municipalities by function in 2014

Source: computed by authors using data provided by Ministry of Regional Development and Public Administration, Department for Tax Policy and Local Budgeting

Thus, at the level of municipalities, the highest share in total public spending holds local education (30.18%). At the level of municipalities, Salaj has allocated the largest share of education spending. Most among municipalities allocated to education over 25%. The less, education recorded in Bucharest. At half than allocated to education, municipalities have allocated of transport (15.66%). High transport costs were recorded in Brasov (25.45%), Cluj (20%), Iasi (20.29%), Mures (22.40%), Prahova (24.44%) and Sibiu (32.55%). The lowest rate was registered in transport in Mehedinți Municipality (2.67%). Municipality health registered a very low percentage, 2.40% respectively of total local expenditures.

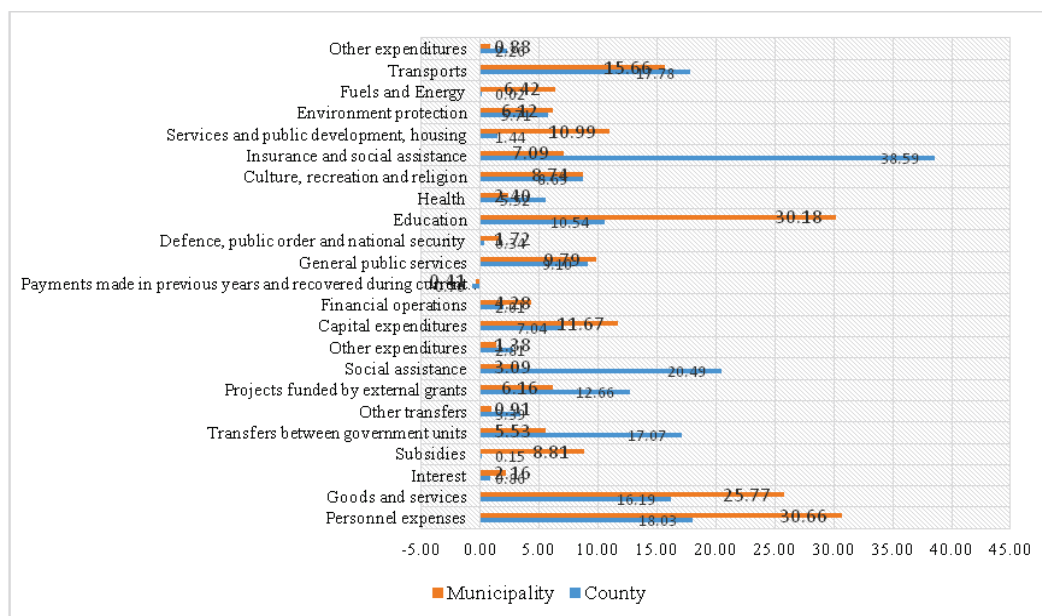


Fig. 5 Local public expenditures of municipalities and counties by comparison 2014

Source: computed by authors using data provided by Ministry of Regional Development and Public Administration, Department for Tax Policy and Local Budgeting

There are quite large discrepancies in the allocation of costs on destinations, both in functional classification, and the economic, of municipalities and counties by comparison. Counties has large expenditures in insurance and social assistance by function and social assistance by economic classification. Also, expenditures with projects funded by external grants and transfers between government units are large by comparison with municipalities. On the other hand, large local public expenditures of municipalities by comparison with counties are services and public development, housing and education by function, and capital expenditures, subsidies, good and services, and personnel expenses by economic classification.

4. Conclusions

The Romanian system is characterized by the dominant role of municipalities in public service provision compared to that of the Romanian counties. In this respect, municipalities is considered to have a relatively high discretion to allocate and commit its expenditures, and to manage its resources. Quite large discrepancies in the allocation of costs on destinations (the amount of expenditure), both in functional classification, and the economic, reflects the autonomy of local authorities in Romania to manage funds in the interest of local communities, in accord with legal framework.

It is recommended policies decision on more concretely assignment of local expenditure responsibilities as well as local taxes. At the same time, assigned expenditure

responsibilities of counties, municipalities in Romania should always be matched with adequate financing.

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