

CONSIDERATIONS REGARDING THE INCREASE OF THE SELF-FINANCING DEGREE FOR LOCAL BUDGETS SPENDING FROM THEIR OWN INCOME

Mariana TABAN, PhD candidate

University “Valahia” of Targoviste

ABSTRACT

In the present context of Romania, that of a transit market-economy, regional development policies aim at attaining equilibrium within the areas, by using certain programmes regarding investments and the allocation of resources in order to attain local economical development.

The present Romanian law system tries an administrative decentralization aiming to decrease the involvement of central authorities in taking local decisions. Starting with the foresights of the Constitution and the 215/2001 law of local public administration, the local councils are empowered to adopt programs and prognoses for economical and social development and to pursuit their achievement at a high level of competence. The process of democratization of the Romanian society, the modernization of the economy and setting the grounds for a market economy are all conditioned by the reform in the local public administration, economical, social and cultural institutions, by the achievement of a local authority in coordination with the principles of the European Charta of Local Autonomy.

Key words: *local budgets, administrative decentralization, self-financing*

JEL Classification: *E60*

INTRODUCTION

Local autonomy the right, that is recognized and guaranteed to the community, to take decisions in between the limits set legally in regards to solving the problems that concern it's members. Local autonomy can manifest total freedom in forming and using the resources, according to the interests of the community, without being subordinated to the central authority.

GENERAL PRESENTATION

The autonomy of the administrative-territorial units, according to the limits stated by the legal regulations in power, cannot manifest itself unless it is financially sustained. Usually the own incomes, which depend on the local economy's level of development, covers only partially the expenses estimated by the local budgets. From this practical point of view the local autonomy is limited at assigning funds by the central authorities.

The level of autonomy results from¹:

- partial or total independence in building up incomes;
- assuring the budgetary balance and managing the annual excess or deficit;
- the competence of the local public administration body in establishing local taxes and charges;
- financially correlating the local budgets with the central budget (setting the mark between central and local administration's duties, task transfers being meant to reflect in the structure of public incomes and expenses);
- transfers from the state budget to local budgets;
- assigning amounts from the state budget to the reserve fund or the intervention fund at the Government's disposal;
- dividing the incomes from taxes between the state budget and the local budgets.

The structure of public financial resources, considering the buildup of the general budget, includes:

- a) the state budget's financial resources (incomes from taxes, rates, non fiscal incomes, capital incomes);
- b) resources from the state's social insurance and well-fare budgets (contributions from the employer and the insured persons);
- c) resources from administrative-territorial units budgets (fiscal and non fiscal incomes, shares and deducted amounts);
- d) special funds resources (the contributions to the special destination funds raised at a central level).

¹ Roman C.- Gestiunea financiară a entităților publice locale: contabilitatea entităților publice locale, Ed. Economică, 2007, p. 93.

Considering that the expenses constantly increases, a way of diversifying the methods of mobilizing the public financial resources is necessary depending on economic, political, social conditions specific to each development period.

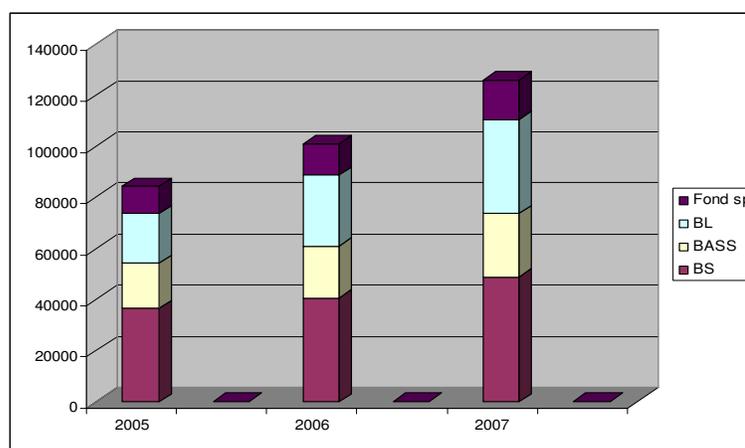
Table 1 shows the incomes made by the consolidat general budget overall as well as the share from the overall budget incomes between 2005 - 2007.

Table 1

Specification	2005		2006		2007	
	mil. lei	% from total incomes	mil. lei	% from total incomes	mil. lei	% from total incomes
Consolidat general budget – Total incomes, out of which:	84.366	100	100.995	100	126.014	100
State budget	36.600	43	40.698	40	48.985	39
State social insurance budget	17.624	21	20.277	20	24.632	20
Local budgets	19.481	23	27.709	28	36.805	29
Special funds	10.661	13	12.311	12	15.592	12

Source : www.mfinante.ro

The graphic representation of each budget in the overall consolidat general budget's income is as following:



The information from table 1 and the above diagram shows that the local budgets, as opposed to other budgets, register a growth in the overall budgetary incomes for the analyzed period of time, from 23% in the year 2005 to 29% in the year 2007.

This evolution is the result of the ongoing process of decentralisation of the public administration, which involves that, once the prerogatives are transferred from central authorities to the ones that work in administrative-territorial units, the sources for financing would also be ensured.

The *local budgets incomes* consist mainly of the following:

a) own incomes from: taxes, charges, contributions, other payments, other incomes and quotas divided from income taxes;

b) divided amounts from some of the state budget's incomes;

c) subventions received from the state budget or other budgets;

d) donations and sponsorships.

In order to assure the necessary incomes to cover the expenses, the annual budgetary law states the following sources of incomes of the local budgets:

1. *divided amounts from the added value tax for:*

a) decentralised expenses at the villages, towns, cities level;

b) centralised systems of production and distribution of thermal energy;

c) roads maintenance;

d) balancing the local budgets;

- e) the program of infrastructure development in the rural area.
2. *subventions from the state budget:*
- investments partially financed from external loans;
 - plans and regulations for urban planning;
 - streets to be fitted out in the construction sites perimeter of new blocks and buildings;
 - financing the programs for road paving and water supply in villages;
 - financing the measures of decreasing the seismic risk of the existent buildings with residential purpose;
 - subventions for the thermal rehabilitation of residential buildings;
 - subventions for financing the priority multiannual environmental and water management programs;
 - subventions received from the Intervention Fund;
 - financing the cadastral survey;
 - subventions to compensate the unexpected rise of fuel prices.
3. *subventions from other administrations:*
- subventions from the district council's budgets for child protection;
 - subventions from the unemployment insurance budget to the local budgets, to finance the programs of temporary replacement of manpower;
 - subventions received from other local budgets for the social assistance institutes for people with disabilities.

The amounts divided from some of the state budget's incomes in order to balance the local budgets are distributed among the counties according to the following criteria:

- the financial capacity determined on the basis of the income taxes cashed for every inhabitant, on a 70% proportion;
- 30% of the county's surface.

The budgetary practice in the recent years pointed out the necessity of setting new criteria to determine and distribute the amounts divided from certain incomes of the state budget in order to increase transparency and diminish the influence of the arbitrary in the process of strengthening the financial autonomy of the local collectives.

The necessity of balancing the local budgets rises from objective demands in economy. Therefore, although the own incomes and those attributed to the local budgets are constantly rising, still they cannot always handle the expenses, because these also increase continuously at a faster pace as a cause of the always increasing volume of economic and social-cultural duties in the administrative-territorial unit's range.

Professional studies regarding the manner of balancing the administrative-territorial unit's budgets show that the town's income, either accomplished on a local level or coming from the state, are insufficient, especially when the matter of necessary investments in the development of the local communities is risen. A potential additional source are loans. At the same time a reduction of effort regarding investments financing on the local budget's part is accomplished through accessing structural funds.

The main categories of incomes accomplished by the state budget, between 2005 – 2007 , reflected in the annual general execution accounts, elaborated by the Ministry of Economy and Finance (nowadays the Ministry of Public Finance) are as following:

Table 2

Specification	2005		2006		2007	
	mil lei	% of all incomes	mil lei	% of all incomes	mil lei	% of all incomes
State budget – total income	36.600	100	40.698	100	48.985	100
of which:						
Income tax, of which:	6.670	18*	9.739	24*	13.829	28*
- quotas and amounts divided from income taxes (extracted)	- 5.151	-	- 7.550	-	-11100	-
Tax on added value	22.538	62*	36.338	89*	31.243	64*
Of which:						
- amounts divided from VAT(extracted)	-9.517	-	-14.539	-	-14552	-

* from the overall cashings are extracted the amounts distributed to balance the local budgets, as well as the amounts divided on special purpose, stipulated in the annual budgetary law.

Source: www.mfinante.ro

As the information from tabel 2 show, from the tax on incomes meant for the state budget , quotas ranging from 77,2 % and 80,3 % of the overall accomplishment of this source are left at the local budgets disposal. In concern to the tax on added value cashed by the state budget, the amounts divided for local budgets represent 46,6 % in the year 2007 as opposed to 42,4 % in 2005.

Table 3 pictures in broad lines the main categories of incomes brought together by the local budgets between 2005 – 2007, as following:

Table 3

Specification	2005		2006		2007	
	mil lei	% of all incomes	mil lei	% of all incomes	mil lei	% of all incomes
Local budgets – total incomes	19481	100	27709	100	36805	100
Of which:						
Own incomes, of which:	8697	45	12123	44	17441	47
<i>-Quotas and amounts divided from income taxes</i>	<i>5151</i>	<i>-</i>	<i>7550</i>	<i>-</i>	<i>11100</i>	<i>-</i>
<i>Amounts divided from VAT</i>	<i>9517</i>	<i>49</i>	<i>14539</i>	<i>52</i>	<i>14552</i>	<i>40</i>
Subventions	1218	6	1016	4	4777	13

Source : www.mfinante.ro

From the compared analysis of the information shown in tables 2 and 3 regarding the accomplishment of incomes due to the state budget and local budget respectively, between 2005 – 2007, the following aspects arise:

a) the increase of the local budgets *own incomes* during the analysed period of time (absolute values), is largely due to the increasing amounts allocated from the state budget coming from *quotas and amounts divided from the income tax* (which are included in this category), as following:

- the allocation of 7.550 mil. lei in 2006, representing an increase of 46,6% as opposed to the year 2005 (5.151 mil. lei);

- in 2007 the allocation of 11.100 mil. lei, 47% more than the previous year (7.550 mil. lei);

b) the *amounts divided* from the local budgets *from the tax on added value* in 2006 registered an increase of 52,8% compared to the year 2005 (14.539 mil. lei : 9.517 mil lei x 100). In 2007 the same source of incomes for the local budgets situated itself around the same value as the amount allocated in the previous year (14.552 mil. lei), although the cashing from VAT at the state budget dropped 14% (31.243 mil. lei : 36.338 mil. lei x 100).

CONCLUSIONS

Considering the aspects outlined in the analysis of data shown, turns out that important amounts collected locally represent sources of incomes for the state budget (income tax, VAT), of which a part is allocated to the administrative-territorial units in order to balance the budgets.

In order to increase the level of self-financing for the local budgets spending from their own incomes it is necessary to modify the legislative framework in power, in order to keep at a local level other taxes and rates from local sources. In this way the administrative-territorial units effort of collecting the incomes is reflected in the volume of expenses meant to contribute to the economic and social development, for the local community's benefit.

The level of self-financing for the local budgets spending from their incomes in 2006 rose 50.2% on the level of achievements, according to the centralised data of these budgets². In 2007 a decrease of the self-financing level was registered among the local budgets, the collected receipts forming 41,8% of the budget's expenses. This situation is due to the accelerated increase of the volume of expenses.

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²Curtea de Conturi a României, Raportul Public pe anul 2006, C.N. „Imprimeria Națională”, Bucuresti, 2007, p.94