IMBALANCES IN FINANCIAL AUTONOMY AT DIFFERENT LEVEL OF LOCAL GOVERNMENT IN ROMANIA

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ABSTRACT: *Fiscal decentralization is an important influence factor on the autonomy of local government. To the extent in which a local government benefits from amounts and transfers from the central government, it depends on it and has a reduced capacity to make decisions about the services they provide to citizens, local autonomy being limited. Even if the legal framework for decentralization was created in Romania, we still can not talk about a high degree of financial autonomy of local governments. Further, significant amounts from the state budget are transferred to local budgets to cover local expenses. Moreover, despite consistent efforts to implement the decentralization process, there is a series of imbalances, especially in smaller territorial administrative units that are clearly disadvantaged both in terms of financial capacity to finance themselves through local taxes and duties, and especially in terms of the low absorption capacity of European funds. In general, in Romania, the degree of financial autonomy differs nationally from the city level and from the village level.*

KEY WORDS: *financial decentralization; financial independence; local revenues; local expenses.*

JEL CLASSIFICATION: *H71; H72; C58.*

1. INTRODUCTION

The underperforming stage of economy and the central bureaucracy have led economists to believe that decentralization would be a solution to the problems of developing countries, so most states have begun to include decentralization in their development programs.

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Decentralization involves the transfer of authority and responsibility of public functions from central government to local governments. It is a process with many variants that emerged in the 1980s and to become effective, it requires a substantial reorganization of the public sector in terms of financing. Through this long-term and complex process the role and importance of local authorities expands. Optimum management of funds at the local level, their allocation for the fulfillment of public goods in accordance with the requirements of the local community generates a process of development of the administrative-territorial units much higher than if their production would be done centrally and would be distributed equally without taking into account local demand.

Thus, fiscal decentralization is an important influence factor on the autonomy of local government. To the extent in which a local government profits by amounts and transfers from the central government, it depends on it and has a reduced capacity to make decisions about the services they provide the citizens with and local autonomy is limited.

European Charter in Strasbourg (1985) states that: "Local self-government denotes the right and effective capacity for local authorities to regulate and administer an important part of public affairs within the law, under their own responsibility and in favor of that population". It is also considered that "local autonomy and decentralization of public services is the guarantee of the stability of a functioning democracy" (Drăcea, et al., 1999, p.267).

In general, fully self-financing of local governments is not feasible or desirable. The generally accepted rule is that local governments must raise their own funds up to a certain limit and operate with budget constraints, which means that deducted revenues and transfers or grants should be only a collateral funding.

2. METHODS AND INDICATORS FOR THE DETERMINATION OF THE DEGREE OF AUTONOMY: CASE STUDY

Local financial autonomy is evidenced by a series of financial indicators of which the most important are:

a) "the degree of financial autonomy results from the independence in the formation of revenues and shows the percentage of own revenues in total revenues of local budgets.

$$G_{AF} = \frac{VP}{VT} * 100$$

where:
G_{AF} = degree of local financial autonomy;
VP = own revenues of local budgets;
VT = total revenues of local budgets.

b) the degree of local financial dependence shows us the weight of the amounts deducted from VAT, as well as the one held by quotas and amounts deducted from income tax in the total revenues of local budgets.

$$G_{DF} = \frac{S_{TVA} + CS_{Impozit}}{VT} * 100$$

where:

G_{DF} = degree of local financial dependence;

S_{TVA} = amounts deducted from VAT of local budgets;

CS_{tax} = quotas and amounts deducted from income tax.

c) the degree of expense coverage on account of own revenues shows us the degree in which total expenses are covered by own revenues of local budgets.

$$G_{VC} = \frac{VP}{CT} * 100$$

where:

G_{VC} = the degree of expense coverage on account of own revenues of local budgets;

CT = total expenses of local budgets" (Dogariu, 2010, pp.68-69).

To get an overview of financial autonomy at the level of local governments, we performed a statistical analysis of own revenues, total revenues and expenses taken from the revenue and expenditure budgets of local government centralized at national level, from the local budget of a municipality and from the local budget of a commune. Data from the local budget execution accounts are analyzed over a period of 8 years, from 2005 to 2012, as shown in Table 1.

Table 1. Own revenues, amounts deducted from VAT, quotas and amounts deducted from income tax, total revenues and expenses of local budgets centralized at national level, of the Town Hall of Piteşti municipality and of Boteni commune in the period 2005-2012

mil lei

Indicator		2005	2006	2007	2008	2009	2010	2011	2012
IPC (%)		100	106,56	104,84	107,85	105,59	106,09	105,79	103,33
Total revenues (mil lei current prices)	national level	19480,90	27708,60	36805,20	43629,10	42817,90	43902,80	44671,10	43453,00
	Piteşti	170,12	249,25	288,85	302,75	325,80	290,41	266,48	277,81
	Boteni	1,16	1,92	5,65	4,6	4,12	3,02	4,98	3,14
Total revenues (mil lei compared prices)	national level	19480,90	26002,82	35106,07	40453,50	40551,09	41382,60	42226,20	42052,65
	Piteşti	170,12	233,91	275,52	280,71	308,55	273,74	251,90	268,86
	Boteni	1,16	1,80	5,39	4,27	3,90	2,85	4,71	3,04
Own revenues (mil lei current prices)	national level	3547,00	12152,20	17475,00	20635,80	21175,10	21385,60	22399,60	23191,30
	Piteşti	81,98	128,59	153,55	180,37	192,65	179,70	174,92	169,40
	Boteni	0,39	0,53	0,88	1,45	1,19	1,33	0,84	1,18
Own revenues (mil lei	national level	3547,00	11404,09	16668,26	19133,80	20054,08	20157,98	21173,65	22443,92
	Piteşti	81,98	120,67	146,46	167,25	182,45	169,38	165,35	163,94

compared prices)	Boteni	0,39	0,50	0,84	1,34	1,13	1,25	0,79	1,14
Amounts deducted from VAT (mil lei current prices)	national level	75,29	52,47	39,54	42,73	40,31	34,15	29,51	30,74
	Piteşti	87,54	120,17	111,92	105,01	113,56	95,24	78,53	92,16
	Boteni	0,78	1,40	2,80	2,98	2,92	1,55	2,01	1,80
Amounts deducted from VAT (mil lei compared prices)	national level	14667,10	13643,96	13880,68	17287,71	16346,72	14133,00	12460,91	12926,16
	Piteşti	87,54	112,77	106,75	97,37	107,55	89,77	74,23	89,19
	Boteni	0,78	1,31	2,67	2,76	2,76	1,46	1,90	1,74
Quotas and amounts deducted from income tax (mil lei current prices)	Piteşti	46,47	74,15	94,80	119,68	126,80	111,39	101,69	95,37
	Boteni	0,23	0,29	0,65	1,20	0,92	1,06	0,53	0,85
Quotas and amounts deducted from income tax (mil lei compared prices)	Piteşti	46,47	69,59	90,42	110,97	120,09	105,00	96,12	92,30
	Boteni	0,23	0,28	0,62	1,12	0,87	1,00	0,50	0,82
Total expenses (mil lei current prices)	national level	18777,00	25392,80	33982,30	42270,20	42074,50	41207,00	44003,00	46333,00
	Piteşti	169,70	166,49	267,98	300,71	322,72	282,60	250,46	289,71
	Boteni	1,24	1,92	5,65	4,62	4,14	3,03	4,96	3,16
Total expenses (mil lei compared prices)	national level	18777,00	23829,58	32413,49	39193,51	39847,05	38841,55	41594,67	44839,83
	Piteşti	169,70	156,24	255,61	278,82	305,64	266,38	236,75	280,37
	Boteni	1,24	1,81	5,39	4,28	3,92	2,85	4,69	3,06

Source: Ministry of Public Finances, Local budgets of the Town Hall of Piteşti municipality, local budgets of the Town Hall of Boteni commune

During 2005 - 2012, revenues of local budgets at the national level have a positive development from year to year (average annual increase by 12.14%) from 19,480.90 million lei in 2005 to 43,453 million lei in year 2012. This increase is largely due to the positive evolution of own revenues (weights of up to 53.37%).
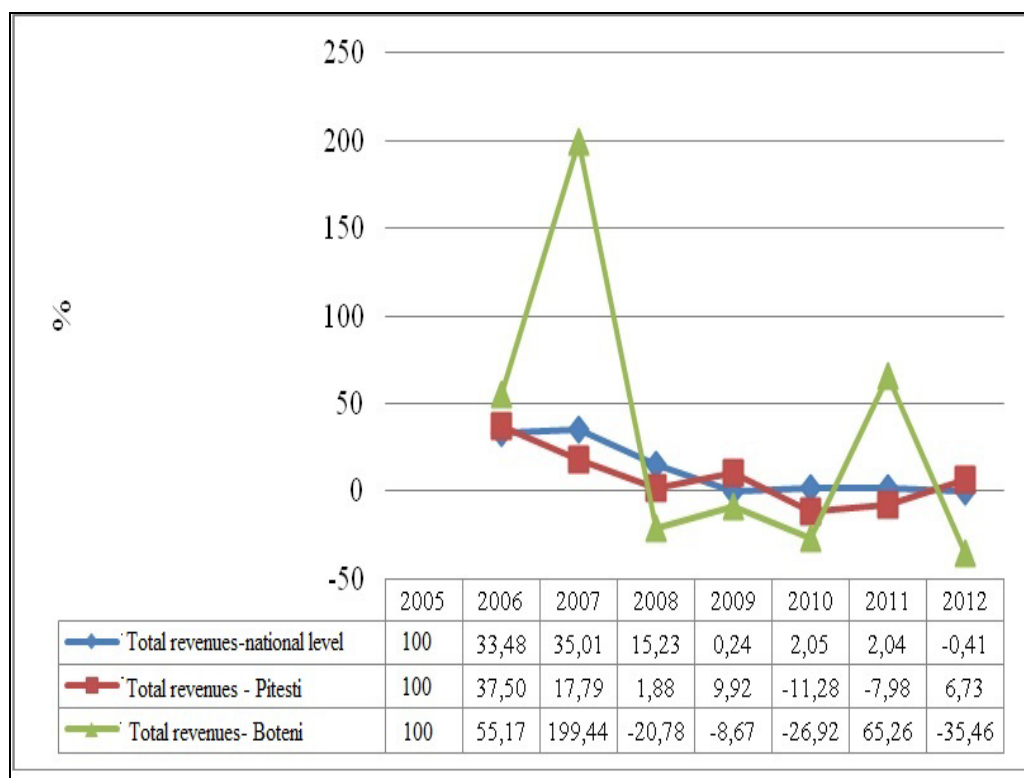
Pitesti Municipality budget revenues increase by an annual average with 7.26% (from 170.12 million lei current prices in 2005 to 277.81 million lei current prices in 2012), but those of the Town Hall of Boteni commune have an increase of 15.29% (from 1.16 million lei current prices in 2005 to 3.14 million lei in 2012 current prices),

which is significant compared to those of Pitesti municipality and those at national level.

In compared prices, a significant increase in revenues to local budgets nationwide takes place in 2007 compared to 2006, to 35.01% for 2012 compared to 2011, they decrease by 0.41%. Significant increases in revenues for Pitesti Municipality budget are in 2006 compared to 2005 (37.5%) and in 2010 compared to 2009, these have the most significant reduction (11.28%). Budget revenues of the Town Hall of Boteni commune have the largest oscillations, so in 2012 compared to 2011 they decrease by 35.46% and in 2007 compared to 2006 they increase by 199.44%.
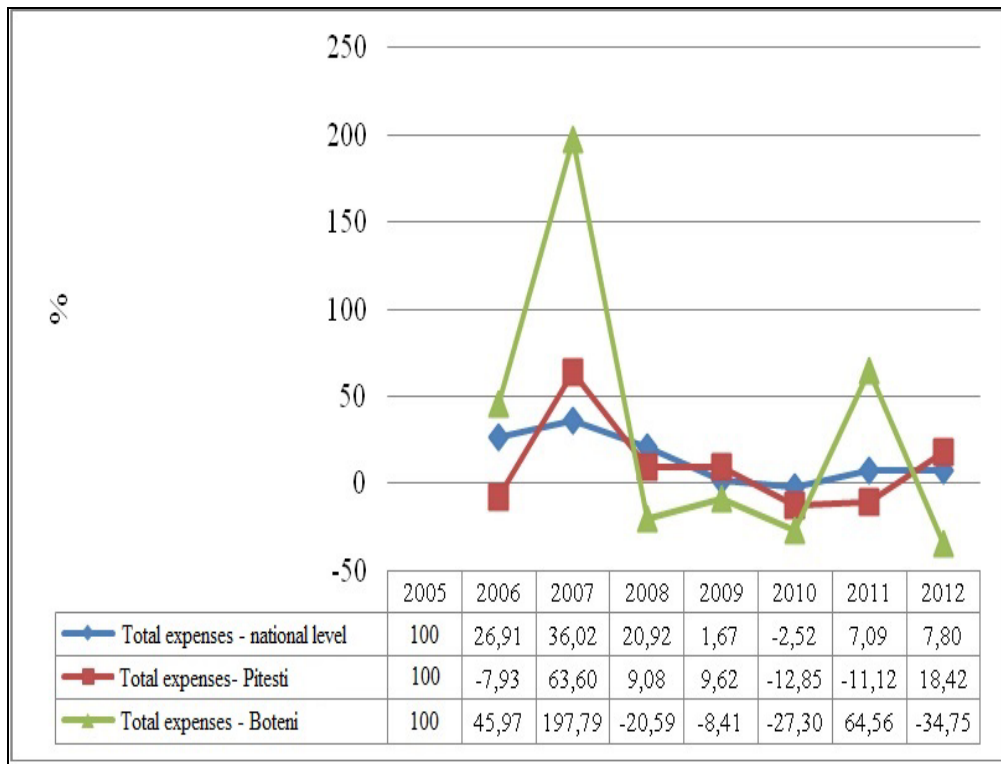
Unlike Pitesti municipality, own revenues of the Boteni commune are well below those of Pitesti municipality, which shows a greater dependence on the central budget. This is evidenced also by the fact that the main source of income is represented by the amounts deducted from VAT. Access to EU funds was performed since 2011, but the amounts drawn are almost insignificant.

In 2006, 2007 and 2011, as can be seen in Figure 1, and Figure 3, the dynamics of the revenues of the budget of Boteni commune has the most significant values, but at the national and at the level of Pitesti municipality the dynamics has close values .

	2005	2006	2007	2008	2009	2010	2011	2012
Total revenues-national level	100	33,48	35,01	15,23	0,24	2,05	2,04	-0,41
Total revenues - Pitesti	100	37,50	17,79	1,88	9,92	-11,28	-7,98	6,73
Total revenues- Boteni	100	55,17	199,44	-20,78	-8,67	-26,92	65,26	-35,46

Source: Accomplished by the author based on the data from Table no.1

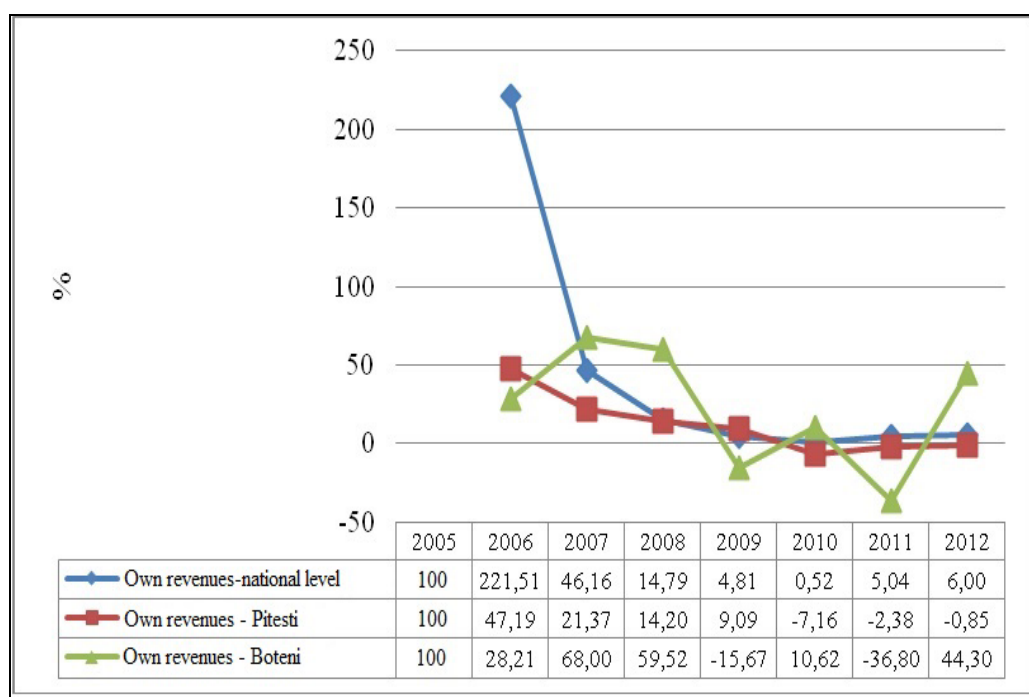**Figure 1. Modification rate of total revenues of local budgets (precedent year = 100%)**

	2005	2006	2007	2008	2009	2010	2011	2012
Total expenses - national level	100	26,91	36,02	20,92	1,67	-2,52	7,09	7,80
Total expenses- Pitesti	100	-7,93	63,60	9,08	9,62	-12,85	-11,12	18,42
Total expenses - Boteni	100	45,97	197,79	-20,59	-8,41	-27,30	64,56	-34,75

Source: Accomplished by the author based on the data from Table no.1

Figure 2. Modification rate of total expenses of local budgets (precedent year = 100%)

Increasing or decreasing the local budget revenues centralized at national level is accompanied by an increase in expenses. The same thing happens with the budget of Boteni commune. In 2007, 2008 and 2012, the dynamics of the expenses of the budget of Pitesti Municipality is greater than that of the revenues.

Since 2006, the dynamics of own revenues of local budgets centralized at national level is a descendent one, with a maximum increase of 221.51% in 2006 compared to 2005 and 46.16% in 2007 compared to 2006. At the end of the period analyzed, the dynamics of own revenues begins to grow, so in 2012 compared to 2011, we have an increase of 6%.

The dynamics of own revenues of Piteşti Town Hall budget has a negative evolution, from 47.19% in 2006 compared to 2005 to – 0.85% in 2012 compared to 2011. For Boteni commune, the dynamics of own revenues has an oscillating evolution, with the most significant increase of 68% in 2007 compared to 2006.

	2005	2006	2007	2008	2009	2010	2011	2012
Own revenues-national level	100	221,51	46,16	14,79	4,81	0,52	5,04	6,00
Own revenues - Pitesti	100	47,19	21,37	14,20	9,09	-7,16	-2,38	-0,85
Own revenues - Boteni	100	28,21	68,00	59,52	-15,67	10,62	-36,80	44,30

Source: Accomplished by the author based on the data from Table no.1

Figure 3. Modification rate of total revenues of local budgets (precedent year = 100%)

3. RESULTS OF THE RESEARCH

Local autonomy has different stages of implementation at national, municipal and community level, as it results from the analysis of the three indicators of financial autonomy in Table no 2. The results obtained are data processed from the case study presented above.

Table 2. Analysis indicators of local financial autonomy

Indicator		2005	2006	2007	2008	2009	2010	2011	2012
Degree of financial autonomy (%)	national level	18,21	43,86	47,48	47,30	49,45	48,71	50,14	53,37
	Pitești	48,19	51,59	53,16	59,58	59,13	61,88	65,64	60,98
	Boteni	33,62	27,60	15,58	31,52	28,88	44,04	16,87	37,58
Degree of financial dependence of local authorities (%)	national level	0,39	0,19	0,11	0,10	0,09	0,08	0,07	0,07
	Pitești	51,46	48,21	38,75	34,69	34,86	32,80	29,47	33,17
	Boteni	67,24	72,92	49,56	64,78	70,87	51,32	40,36	57,32
Degree of local expenses coverage on account of own revenues (%)	national level	18,89	47,86	51,42	48,82	50,33	51,90	50,90	50,05
	Pitești	48,31	77,24	57,30	59,98	59,70	63,59	69,84	58,47
	Boteni	31,45	27,60	15,58	31,39	28,74	43,89	16,94	37,34

Source: Processing based on the data in table no.1

Nationally the degree of financial autonomy is reduced in 2005 (18.21%) compared to Pitesti municipality and Boteni commune (48.19% and 33.62%, respectively). This highlights a strong centralization of local budget at national level in relation to the two territorial administrative units.

Tax changes made in 2006 (year in which the structure of income categories changes, the category "samples from the state budget" presented separately in the budget, does not appear in subsequent years, in exchange the quotas allocated from income tax and amounts deducted from VAT are included in the category "tax revenues"), led to a sharp increase of this indicator to 43.86% nationally. Following the economic crisis in 2008 there was a slight decrease in the degree of financial autonomy, to 47.30%. In 2012, the degree of national autonomy has the highest level of 53.37% of the entire analyzed period.

The degree of financial autonomy of Pitesti City has significantly higher values (p = 0.001) compared to the national level (values between 48% and 61% for the city of Pitesti and between 18% and 54% nationally, respectively).

For Boteni commune self-financing capacity has fluctuated with a maximum value of 44.04% in 2010 and a low value of 15.58% in 2007.

The degree of financial dependence for the three administrative levels analyzed has evolved inversely to the degree of financial autonomy. Nationally the degree of financial dependence during the analyzed period of time is between 0.39% and 0.07%, for Pitesti city between 51.46% and 33.17%, and for Boteni commune between 67.24% and 57.32%.

The degree of local expenses coverage on account of own revenues has elevated values for Pitesti City (48.31% in 2005 and 58.47% in 2012, with the highest value of 77.24% in 2006, due to the Law on decentralization of public services, Law no. 195/2006). At the national level there is an increase in the degree of expense financed through own revenues by 2010 (from 18.89% to 51.90%) and then it begins to decrease as a result of the decentralization of hospital management which was not followed by adequate funding. For Pitesti City, the analyzed indicator has an increasing trend until 2011 (from 48.31% to 69.84%) and in 2012 it decreases by 11.37 percentage points compared to 2011. The degree of expense coverage on account of own revenues has fluctuated for Boteni commune with high values in 2010 (43.89%) and 2012 (37.34%).

4. CONCLUSIONS

The conclusion that emerges from this type of approach is the fact that financial autonomy differs at the national level, at the municipality level and commune level, as demonstrated by the three indicators analyzed.

If nationally we are dealing with partial financial autonomy, with an approximately constant evolution as a result of the decentralization process development at city level, compared to financial autonomy at commune level, values recorded are extremely contradictory and oscillating.

According to the case study presented, it was observed that unlike the city, at the commune level the degree of financial dependency on the center is extremely high.

So presently despite consistent efforts to implement the decentralization process, there is a series of imbalances, especially in smaller administrative units that are clearly disadvantaged both in terms of the financial capacity to finance themselves through local taxes and duties, and especially in terms of the low absorption capacity of European funds. The problem of imbalances at rural level in contrast to the city or county level has been taken into account by other economists too (Ungureanu & Bâldan, 2011, pp.279-290; Avrămescu, 2012, p.42).

Current balancing formula manages to compensate to some extent the initial imbalances within the categories of local communities. "Communes benefit most from the positive effects of balance. Even nationally poorest communities climb to medium thus reducing the dispersion" (Agenda of Communes in Romania, 2012, p.41).

However, given the current economic and social conditions that do not allow an increase in transfers for balancing from the state budget and the precarious condition of communes with unfinished investments and unpaid suppliers, it is considered that the reorganization of the administrative system by adopting regionalization to transfer to communes substantially higher amounts than those currently allocated and attracting significant amounts from structural funds would be a real solution to redress imbalances of local financial autonomy. It is very important to know "the hierarchy of development regions because it allows to determine accurately the regional development policy priorities. Thus, we can allocate resources to undevelopment regions in terms of the economic development level" (Avrămescu, 2012, p.42).

Even if the legal framework for fiscal decentralization of local governments was created in Romania, we still can not talk about high financial autonomy. Further, significant amounts are transferred from the state budget to local budgets to cover their expenses. It appears that there are big problems at the level of local communities: not enough funds for investments and the dependence on central authority is still felt with an intensity high enough, especially in villages, even if over twenty years since the fall of socialist centralized system have already passed.

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