

# Analysis of the Local Budget's Expenditures Structure at Different Types of Administrative Units in Romania

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## Abstract

*Financial decentralization process affected the expenditure part of the local budgets in Romania by imposing new destinations for own revenues, but also by limiting the decision autonomy because of the equalization system design or the transfer of responsibilities without establishing new sources of revenues. But the effects on the local budgets are not the same for every administrative unit. The article highlights the structure of expenditures of local budgets for different types of administrative unit, for identifying variations in and potential causes of the financial autonomy regarding local expenditures.*

**Key words:** local budgets, expenditures

**J.E.L. classification:** H61, H72

## 1. Introduction

The financial decentralization process in Romania imposed the transfer of financing for some of the actions through the local budgets. The local budget system in Romania is constituted by two pillars: the local budgets of the county councils that finance mainly objectives of county importance and the local budgets of the municipalities, towns and communes that are involved in financing the local needs. For each of the two categories of local budgets mentioned, the law establishes specific sources of own revenues, which includes also quotas and amounts from quotas deducted from income tax, revenues that are supplemented by sums deducted from VAT, transfers from state budget and subsidies. The sums obtained from quotas and amounts from quotas deducted from income tax are undermined by the changes of the quotas allotted to the local budgets through decisions of the central authorities and the mechanism of equalization (different for county councils and localities) is subject of discussion (Mosteanu et. al., 2010, p. 83-84).

Devolving some tasks from the central level to the local level of government involved structural changes of the local budgets expenditures and imposed some limits on financing other local needs. The paper highlights the structural evolutions of the local budgets expenditures in the period 2007 - 2013, for different levels of local authorities: counties, municipalities, towns and communes, trying to see if the financial decentralization process affected differently the levels of local governments. It has to be noticed that in the period for analysis, the structure of the financing process of the local governments was governed by the law 273/2006 regarding the local public finance.

## 2. Literature review

The analysis of the Romanian local budgets evolutions was realized by different authors in different contexts, for different periods and using different methods and indicators.

Most of the papers analyzed the degree of financial autonomy of the local governments as result of the changes on the revenues or expenditures part of the local budgets. Analyzing the local financial self-government in Romania, Dogariu (Dogariu, 2010, p. 105-114) suggested, by using

some specific indicators, that devolving some tasks to the local governments without providing resources as own revenues generated a low level of financing local expenditures by own revenues and, as a result, a significant control of central authorities on the spending decisions of the local governments. Matei and Manole (Matei and Manole, 2014, p. 36-45) also studied the financial decentralization for the period between 1991 and 2012 and argued that “in Romania we are dealing with a partial decentralization”. Based on a study case that is using some of the same indicators as Dogariu, Matei and Manole (Matei and Manole, 2012, 137-146) conclude that the financial autonomy differs at different levels of local governments in Romania, at the commune level the financial dependency being extremely high compared with that registered at the municipality level. So, the decisions about public expenditures are more influenced by the central authorities in the case of communes than in the case of municipalities. On the other hand, Mihalache (Mihalache, 2013, p. 129-146) found that there are important differences between the importance of different revenues and expenditures in the local budgets of communes in Romania. By analyzing the degree of autonomy of the Romanian local public expenditures, Andronic (Andronic (Bratulescu), 2016, p. 146-160) found that the local governments in Romania are characterized more by “delegated competencies than decentralized competencies”. Also, the Romanians local governments are affected by the transfer of some spending responsibilities not followed by the establishment of new sources of own revenues, which result in providing “public services of low quality” and the erosion of “citizen’s trust in local authorities in the process of administrative reform” (Andronic, 2016, p. 158). Ichim (Ichim, 2015, p. 175-181) focus on specific kind of expenditures in Romanian local budgets and analyze the dynamics and structure of the expenditures for services and public development, housing, environment and water, concluding that the importance of these expenses varies between administrative units and the evolution for these expenditures, centralized at the country level, is sinusoidal.

### **3. Data and methodology**

Data used in this article come from the database regarding the execution of local budgets revenues and expenditures offered on the website of Ministry of Regional Development and Public Administration.

To highlight the importance of Romanian local budgets for financing the local and to identify some factors that are affecting the capacity of local authorities to allocate funds for what they decide it is necessary, the article use some indicators (as described below) calculated for the period 2007-2015 for all types of Romanian local administrative units.

The indicators used are:

- the structure of the expenditures of local budgets, following the economic and functional classifications, to identify differences in allocations between different types of administrative units;
- the rigidity of expenditures (as defined by Order no. 2651/2010 of the Ministry of Finance), calculated as the weight of personnel expenditures in the total expenditures. When this indicator is high, the administrative unit have insufficient funds for other destinations;
- the capacity of financing expenditures by the own revenues, indicating the proportion of funds that are less influenced by the central authorities and could be allocated according to the own decisions of the local authorities in the total funds of the local budgets. This indicator is calculated as a ratio between own revenues (as considered by the law – Cf1), but also by excluding quotas and amounts from quotas deducted from income tax(Cf2) and total expenditures of the local budget. Higher is this indicator, the capacity of local authorities to decide on financing and to finance local needs according their own judgement is higher.

### **4. Results**

Although local budgets are constituted to finance in a more adequate way the local needs, we argue that the capacity of doing this is different between different types of administrative units.

There are differences regarding the allocations of funds between levels of public administration, if there are analyzed according with the economic classification. As data in the table no.1 show, the current expenditures are the most important for all the local administrations, but their weight in the

total expenditures are varying significantly between types of administrative units.

Table no. 1 – Local budgets' expenditures, according to economic classification

	Type of expenditure	County councils	Municipalities			Towns	Communes
			Total	Bucharest	Other municipalities		
2007	Current exp.	91.94	80.23	70.95	85.30	76.38	72.08
	Capital exp.	8.06	19.77	29.05	14.70	23.62	27.92
	Fin_op_exp	0.00	0.00	0.00	0.00	0.00	0.00
	Paym_rec	0	0	0	0	0	0
2008	Current exp.	91.47	85.72	81.58	88.03	79.81	73.65
	Capital exp.	8.53	14.28	18.42	11.97	20.19	26.35
	Fin_op_exp	0.00	0.00	0.00	0.00	0.00	0.00
	Paym_rec	0.00	0.00	0.00	0.00	0.00	0.00
2009	Current exp.	92.93	86.96	84.94	88.11	79.40	76.54
	Capital exp.	6.94	12.57	15.19	11.09	19.88	23.50
	Fin_op_exp	0.59	1.20	1.47	1.04	1.04	0.25
	Paym_rec	-0.47	-0.73	-1.60	-0.24	-0.32	-0.30
2010	Current exp.	91.56	85.39	82.01	87.30	76.85	79.81
	Capital exp.	8.08	13.24	16.36	11.48	21.64	19.82
	Fin_op_exp	1.16	1.80	2.03	1.67	2.05	0.61
	Paym_rec	-0.80	-0.44	-0.41	-0.45	-0.54	-0.24
2011	Current exp.	87.44	80.65	76.13	83.12	74.62	74.03
	Capital exp.	11.60	17.60	22.14	15.11	24.40	25.57
	Fin_op_exp	1.50	2.10	2.13	2.08	1.63	0.74
	Paym_rec	-0.53	-0.35	-0.41	-0.31	-0.64	-0.34
2012	Current exp.	90.66	79.62	73.88	82.56	75.96	77.93
	Capital exp.	7.70	17.88	23.38	15.05	22.15	21.22
	Fin_op_exp	2.21	2.85	2.91	2.82	2.13	1.02
	Paym_rec	-0.58	-0.35	-0.17	-0.44	-0.24	-0.18
2013	Current exp.	90.94	83.28	75.43	87.32	80.03	80.55
	Capital exp.	7.26	13.41	21.90	9.05	15.97	17.61
	Fin_op_exp	2.72	3.85	3.41	4.08	4.10	2.06
	Paym_rec	-0.91	-0.55	-0.74	-0.45	-0.09	-0.22
2014	Current exp.	91.65	84.47	78.53	87.31	78.79	74.13
	Capital exp.	7.04	11.67	17.77	8.73	17.56	24.30
	Fin_op_exp	2.01	4.28	4.27	4.28	3.80	1.77
	Paym_rec	-0.70	-0.41	-0.58	-0.33	-0.15	-0.19
2015	Current exp.	92.36	87.64	82.26	90.02	81.06	73.06
	Capital exp.	6.15	9.07	13.38	7.17	17.29	25.72
	Fin_op_exp	2.02	3.72	5.03	3.14	1.80	1.41
	Paym_rec	-0.53	-0.43	-0.67	-0.33	-0.15	-0.19

Source: own calculus, based on data from [http://www.dpfb1.mdrap.ro/sit\\_ven\\_si\\_chelt\\_uat.html](http://www.dpfb1.mdrap.ro/sit_ven_si_chelt_uat.html)

Note: Current exp. means current expenditures, Capital exp. means capital expenditures, Fin\_op\_exp means financial operation expenditures, Paym\_rec means payments made during preceding years and recovered

The most important weight of the current expenditures is registered for county councils (between 87.44% and 92.36% of the total expenditures) and the lowest for the communes (between 72.08% and 80.55% of the total expenditures). Towns and Bucharest are in a position more similar with that of communes, with a stronger part of the expenditures allocated to capital expenditures, and the other municipalities are in an intermediate position.

Some explanations of these evolutions could be found after analyzing the rigidity of local budgets' expenditures (table no. 2) and the capacity of financing (table no. 3).

According to the data in table no. 2, the highest rigidity of expenditures is for towns, followed by communes and other municipalities (where more than a third of total expenditures are for personnel expenditures), and the lowest is for Bucharest and county councils (with weights of no more of 20% starting with 2010). This allows for Bucharest to allocate more resources to other

destinations, but the rest of the administrative units these resources will be smaller.

*Table no. 2 – Rigidity of the local budgets' expenditures*

Year	County councils	Municipalities			Towns	Communes
		Total	Bucharest	Other municipalities		
2007	22.19	30.41	16.32	38.10	42.91	39.97
2008	26.24	34.67	19.13	43.35	46.61	43.10
2009	24.91	35.89	19.69	45.04	49.34	50.59
2010	18.82	30.97	15.59	39.67	42.92	43.95
2011	13.68	24.85	12.23	31.77	35.56	33.40
2012	15.54	24.39	12.44	30.53	33.83	32.46
2013	16.92	27.84	14.28	34.79	35.11	36.35
2014	18.03	30.66	15.90	37.75	36.29	36.53
2015	14.83	30.54	16.70	36.66	33.62	33.98

*Source:* own calculus, based on data from [http://www.dpfbfbl.mdrap.ro/sit\\_ven\\_si\\_chelt\\_uat.html](http://www.dpfbfbl.mdrap.ro/sit_ven_si_chelt_uat.html)

As regard the capacity of financing expenditures, taking into account all own revenues (including quotas and amounts from quotas deducted from income tax), it has to be noticed that Bucharest have the most advantageous situation, with more than 80% of the total expenditures financed by own revenues. This indicator is smaller for the other municipalities (some more than 50%) and towns (about 50%), but much smaller for county councils (about 30%) and communes (some more than 30%). This indicator highlights that smaller is the community, greater is the degree of dependence from transfers, subventions or revenues from projects.

*Table no. 3 –Capacity of financing expenditures*

Year	Indicator	County councils	Municipalities			Towns	Communes
			Total	Bucharest	Other municipalities		
2007	Cf1	31.78	68.36	87.62	57.83	49.51	33.18
	Cf2	1.76	24.70	20.58	26.95	27.44	14.99
2008	Cf1	33.98	65.93	84.09	55.79	47.19	31.29
	Cf2	3.44	20.60	16.63	22.82	22.01	11.80
2009	Cf1	33.47	65.13	83.89	54.53	47.45	34.69
	Cf2	2.06	19.17	15.32	21.34	21.02	12.35
2010	Cf1	29.86	68.72	87.50	58.10	51.27	37.07
	Cf2	2.14	22.52	18.27	24.92	24.36	15.07
2011	Cf1	25.60	68.61	88.46	57.73	54.36	35.92
	Cf2	2.44	24.07	19.06	26.82	27.95	15.60
2012	Cf1	26.66	61.88	81.49	51.81	50.56	33.56
	Cf2	2.54	22.26	18.35	24.26	25.29	14.97
2013	Cf1	29.47	63.78	81.26	54.81	51.32	37.85
	Cf2	4.40	23.24	18.58	25.63	26.37	17.48
2014	Cf1	28.03	60.64	80.76	50.98	46.21	34.23
	Cf2	2.51	22.52	19.19	24.12	23.41	15.73
2015	Cf1	27.28	63.02	86.62	52.58	44.72	31.73
	Cf2	2.41	22.15	20.17	23.03	21.71	15.09

*Source:* own calculus, based on data from [http://www.dpfbfbl.mdrap.ro/sit\\_ven\\_si\\_chelt\\_uat.html](http://www.dpfbfbl.mdrap.ro/sit_ven_si_chelt_uat.html)

Note: Cf1 and Cf2 were defined at methodology section of the paper

By comparing the two ways for calculating the capacity of financing expenditures, it could be seen the greater importance of quotas and amounts from quotas deducted from income tax for Bucharest (more than 60% as difference) and also for county councils (where the second way of calculation result in an indicator of no more than 4.40%). Also, it could be seen that the difference between the two indicators is higher for bigger localities, showing that quotas and amounts from quotas deducted from income tax are more important for bigger communities.

Based on data from tables 1 to 3, we consider that for Bucharest the important weight of capital expenditures is more a result of own decision of local authorities, as for towns and communes it is

a situation appearing especially because important part of their revenues come from transfers, subventions or from projects, and important parts of these revenues are allocated for development projects. This interpretation needs to be validated by more detailed research, on community level.

Table no. 4 – Local budgets' expenditures, according to functional classification

Year	Type of expenditures	County councils	Municipalities			Towns	Communes
			Total	Bucharest	Other municipalities		
2007	Gps	9.62	9.11	8.69	9.33	15.81	19.04
	Dpons	0.47	1.59	1.40	1.70	1.58	0.63
	SCe	62.62	45.15	33.31	51.61	56.06	58.09
	Pdew	3.56	12.05	11.14	12.55	15.08	12.27
	Ea	22.72	31.61	45.13	24.23	10.76	9.44
	Osp	1.01	0.49	0.33	0.58	0.70	0.54
2008	Gps	10.43	9.98	8.80	10.63	16.58	20.04
	Dpons	0.46	2.03	1.83	2.14	1.92	0.98
	SCe	64.41	49.43	39.60	54.92	54.36	50.44
	Pdew	3.38	11.30	8.67	12.77	15.48	14.87
	Ea	20.38	26.27	38.78	19.28	11.19	13.01
	Osp	0.94	0.99	2.31	0.26	0.46	0.65
2009	Gps	11.20	10.67	10.42	10.81	16.32	20.69
	Dpons	0.40	2.09	1.99	2.15	2.02	1.21
	SCe	68.03	49.59	41.90	53.94	52.68	51.30
	Pdew	2.66	13.55	12.48	14.16	16.65	16.77
	Ea	16.25	23.69	32.93	18.46	10.05	9.46
	Osp	1.46	0.40	0.28	0.47	2.29	0.56
2010	Gps	9.41	10.60	12.58	9.48	14.68	18.29
	Dpons	0.32	1.79	1.84	1.76	1.65	1.03
	SCe	61.46	47.14	40.18	51.08	50.49	51.95
	Pdew	2.86	15.39	14.95	15.65	17.52	16.47
	Ea	23.47	24.67	30.31	21.47	12.60	11.23
	Osp	2.48	0.41	0.14	0.56	3.06	1.02
2011	Gps	9.14	9.62	10.94	8.90	14.85	16.72
	Dpons	0.37	1.53	1.72	1.43	1.45	0.86
	SCe	55.45	44.44	42.43	45.55	45.78	42.19
	Pdew	7.70	17.48	14.37	19.18	20.64	21.65
	Ea	25.01	25.59	30.18	23.07	14.52	17.53
	Osp	2.33	1.34	0.36	1.87	2.77	1.05
2012	Gps	9.48	9.20	9.89	8.85	15.16	17.60
	Dpons	0.65	1.54	1.69	1.47	1.50	0.89
	SCe	60.99	44.40	43.16	45.04	46.04	40.51
	Pdew	6.93	19.41	17.08	20.61	18.08	18.27
	Ea	20.19	24.73	27.90	23.11	17.62	20.97
	Osp	1.76	0.70	0.27	0.93	1.60	1.75
2013	Gps	8.87	9.88	11.12	9.24	14.59	18.12
	Dpons	1.00	1.75	2.10	1.57	1.48	0.98
	SCe	61.92	46.15	41.50	48.53	47.89	43.27
	Pdew	8.33	17.55	19.16	16.73	18.93	16.05
	Ea	17.5	23.61	26.06	22.35	15.92	19.58
	Osp	2.38	1.06	0.06	1.58	1.19	2.01
2014	Gps	9.10	9.79	11.56	8.95	13.47	17.33
	Dpons	0.34	1.72	2.05	1.57	1.34	0.91
	SCe	63.35	48.41	43.31	50.86	48.15	42.29
	Pdew	7.14	17.11	17.04	17.15	18.31	16.32
	Ea	17.8	22.07	25.99	20.19	17.85	21.34
	Osp	2.26	0.88	0.05	1.28	0.87	1.81

	Gps	8.93	8.39	9.80	7.77	13.34	16.78
	Dpons	0.35	1.93	2.32	1.75	1.39	1.14
	SCe	56.11	50.11	45.77	52.04	46.59	41.71
	Pdew	15.85	16.21	15.38	16.58	17.64	15.89
	Ea	15.98	22.62	26.68	20.83	18.86	22.34
2015	Osp	2.79	0.73	0.05	1.03	2.17	2.15

Source: own calculus, based on data from [http://www.dpfbf.mdrap.ro/sit\\_ven\\_si\\_chelt\\_uat.html](http://www.dpfbf.mdrap.ro/sit_ven_si_chelt_uat.html)

Note: Gps means general public services, Dpons – defence, public order and national safety, SCe – social-cultural expenditures, Pdew – Services, public development, houses, environment and waters, Ea – economic actions, Osp – other expenditures

Analysis of the functional allocation of the local budgets' expenditures reflects that the most important expenditures for local budgets are social-cultural expenditures. But the trend of these expenditures is not the same for all of the communities. As long as for county councils the weight remains relatively the same, for the municipalities these expenditures decreased until 2010 and rose after that, but for towns and communes the tendency is of decreasing. The explanations stand in some facts: in the sense of growth of the expenditures, the most important causes are decentralization of public hospitals in 2010 (most of them to the counties and municipalities) and new responsibilities for financing school units (since 2011), and, in the sense of reduction, the principal causes are the demographic evolutions, that generated the shut-down of schools in rural localities, and the shut-down of some medical units, especially from little towns or big communes, decided by central government as an anti-crisis measure. Expenditures for economic actions are the second destination of expenditures for county councils and municipalities and, in the last years, for towns and communes. But for Bucharest the tendency is clear a decreasing one, as long as for the other localities these expenditures increase and for county councils the evolution is sinuous. For towns and communes, the expenditures for economic actions are very close of the expenditures for general public services and that for public development.

## 5. Conclusions

Many articles analyze the evolutions of local budgets as a total, but our paper evidence that there are differences between the allocations of funds between different administrative units, differences that appear especially because of the way of financing of the local communities and of the differences in the economic potential of localities. Based on the data analyzed, we argue that the financial decentralization is not significant for some types of administrative units, the funds for investments are rather small and some problems could be found also in the management of personnel. But, as it was highlighted for Bucharest and other municipalities, there are differences between the same type of administrative unit, and in order to identify the causes of these, there are needed more studies to analyze not just financial indicators.

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