

## Some Differences in the Budgetary Situation of the Local Authorities from Romania's "Centru" Region of Development

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### Abstract

*The important role of local authorities in regional and local development raise the necessity of local financial autonomy, necessary for local governments to develop services needed in their area of competence and to cooperate to other local communities from neighborhood to cover local or regional needs. The paper analyze, for the consolidated local budgets of the counties from Centru region of development, the evolution of some budgetary indicators to evidence the differences into the possibility of local authorities from the region to promote development and suggest some ways of increasing that involvement.*

**Keywords:** local budgets, budgetary indicators

**J.E.L. classification:** H70, H72

### 1. Introduction

Local governments contribute to the economic development of the community and the increase of quality of life of the citizens (Luger, 2007, p. 4; Bercu et. al., 2015, p. 67-68) or deal with the effects of the economic crisis (Pelinescu et. al., 2010, p.17). The involvement of the local governments needs financial resources, but also, in many cases, cooperation with other local authorities or with different other actors. European Union generated more support from European Commission for these cooperations in the last years (PLATFORMA, 2013, 26-33). Effective involvement of local governments into these cooperation agreements raises the question about the local financial autonomy necessary for sustaining development (Cigu, 2014, p. 44-51).

For Romania, 2007 was the year of country integration in the European Union, which gives the opportunity to access the structural funds, but in the period following that year the economic crisis hit the country and affected the economy, society and, as a consequence, the financial balance of the local authorities. Integration in the EU generated for Romania the necessity to institute the development regions. According with law no. 151/1998 (revised through law no. 315/2004), Romania was split in eight development regions, relatively similar in size, with the exception of Bucharest-Ilfov region (for more information on this, see Dornean, 2015, p. 147). The evolution of after 2007 was not in the sense of reducing the development gaps between the regions (Dornean, 2015, p. 152). Based on these, we analyze some of the imbalances between the local budgets of the local governments from the counties of the development region "Centru" in the period 2007-2016 to evidence the evolution of their capacity to involve in development and cooperation processes.

### 2. Literature review

In the European context, Cigu (2014, p. 47-51) argue that local financial autonomy is absolutely necessary to ensure local sustainable development. This is the prerequisite of the possibility of local authorities to be more flexible to the economic context and to the local needs by a more

effective use of revenues, along with more accountability of these authorities on the results of using their resources.

In the Romanian context, there are many papers dealing with the subject of financial autonomy of the local budgets (e.g. Dogariu, 2010; Matei and Manole, 2012; Andronic (Brătulescu), 2016) that concludes that the level of financial autonomy vary in different periods of time, at different levels of local governance or as a result of the decisions of the national government. One of these important decisions that affect the local financial autonomy is represented by the solutions adopted for balancing the local budgets. For Romania, Balalia and Afanase (2010, p.185-190) or Stoica (2015, p. 812-816) analyzed this aspect in correlation with regional or budgetary disparities. Analysis of the procedure for balancing the local budgets in Romania realized by Bunescu and Cristescu (2011, p. 203) suggest that "solving a local community problem depends on the available resources, the quality of financial management, but also on the collaboration between various government structures". In the local and/or regional development process, the cooperation between local communities in the neighborhood appears quite often. In this context, analyzing the capacity of the local governments from the same regional development to sustain development is important. At the best of our knowledge, such view of analysis was realized for Romania just by Bătrâncea et al. (2013,p. 846-855), for the local budgets in the northwest region.

### **3. Data and methods**

Data used are from the database of execution of local budgets revenues and expenditures offered by Ministry of Regional Development, Internal Administration and European Funds.

To analyze the budgetary imbalances, we studied the evolution of a set of indicators that evidence financial autonomy and the possibility of decisions of the local authorities.

The indicators used in our paper reflect the following aspects:

- the self-financing capacity (the degree of financial autonomy) of the local authorities, reflected by the ratio between own revenues of the budget of the county (region) and total budget revenues of the county (region). We used for this own revenues (as considered by the law (sf1), but also by excluding quotas and amounts from quotas deducted from income tax (sf2). Higher is the indicator, a greater proportion of the financial resources are available to be distributed by the own decision of the local authorities.

- the degree of covering the local expenditures based on the own incomes, reflected by the ratio between own revenues (considered in both approaches) of the budget of the county (region) and total budget expenditures of the county (region). A favorable situation is when the indicator is higher, reflecting the ability of local authorities to finance more of their needs by revenues over them local governments have the fully decision.

- the capacity of the local public authority to access non-reimbursable funds, seen as percentage ratio between revenues from non-reimbursable funds and total revenue of the local budgets;

- the rigidity of the expenditures, as the ratio between the personnel expenditures and total expenditures of the local budgets, reflects the lack of flexibility in distributing local public funds.

- the investment capacity, considered as the ratio between capital expenditures and total expenditures of the local budgets, is important for identifying the capacity and will of the local governments to solve future needs of the local communities.

### **4. Results and discussion**

The self-financing capacity (the degree of financial autonomy) of the local authorities for the counties of the development region "Centru" is reflected by data in table no. 1.

Table no.1 The self-financing capacity of the local authorities from the counties of the development region "Centru" between 2007 - 2016

Own rev./total rev.		2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Alba	Sf1	35.28	37.03	36.00	36.54	39.09	36.90	38.90	40.69	34.05	41.53
	Sf2	14.43	11.96	11.38	12.87	15.26	13.64	14.77	15.26	12.34	14.96
Braşov	Sf1	57.03	58.27	54.04	56.38	52.89	57.53	58.73	55.98	56.08	59.70
	Sf2	24.63	22.10	21.13	22.78	22.55	25.05	25.16	23.22	22.41	23.21
Covasna	Sf1	34.41	32.74	34.65	35.31	37.34	36.27	38.15	34.59	28.31	36.54
	Sf2	13.23	11.35	11.68	13.14	14.88	14.69	16.77	15.04	11.70	15.45
Harghita	Sf1	29.76	32.03	33.74	33.50	34.13	35.75	34.42	30.01	27.95	32.34
	Sf2	12.53	11.76	11.84	13.22	15.21	15.79	15.31	13.18	11.55	13.38
Mureş	Sf1	42.02	44.54	42.28	44.80	44.17	42.96	40.96	42.31	43.40	46.74
	Sf2	16.56	11.77	13.65	16.10	17.43	17.25	16.78	17.65	17.30	18.35
Sibiu	Sf1	53.69	50.93	49.58	53.16	54.06	56.12	56.17	52.76	51.75	55.09
	Sf2	23.00	17.75	17.03	20.11	21.19	21.61	21.60	20.75	18.97	20.52
Centru Region of development	Sf1	44.96	45.53	44.07	45.88	45.81	46.63	46.63	44.91	42.70	47.84
	Sf2	18.76	15.37	15.48	17.46	18.69	19.04	19.19	18.37	16.64	18.51
National level	Sf1	47.05	47.19	48.52	48.38	49.03	47.61	48.45	44.63	43.25	46.63
	Sf2	16.98	14.53	14.04	15.75	17.27	17.14	18.06	16.56	15.41	16.51

Source: authors' processing after data provided by the Ministry of Regional Development, Internal Administration and European Funds, online at [http://www.dpfbf.mdrap.ro/sit\\_ven\\_si\\_chelt\\_uat.html](http://www.dpfbf.mdrap.ro/sit_ven_si_chelt_uat.html)

Data show that the indicator of self-financing capacity for the "Centru" region of development is higher than for the whole Romanian local budgets just for 2016 and 2014 when considering all own revenues, but when the shares from income tax and deduced sums from income tax are excluded, this indicator is higher in "Centru" region for all the period analyzed. The indicator registers significant imbalances between the local budgets seen at the county level from the development region. The highest levels, suggesting a better situation, are for Braşov and for Sibiu counties, where the indicator is higher than the mean value at national and regional level, but for the local budgets in Alba, Covasna and Harghita the indicator is below national and regional mean value. The local budgets from Mures county are in an intermediate situation. Based on this, the situation of Brasov and Sibiu counties is favorable, more than 50% of their revenues being under the own decision, giving the authorities space for more flexibility in allocation. The evolution of the indicator in 2015 was, partly, the effect of a formula of equalization applied, favoring the communities with smaller budgets, whose dependency registered a growth.

The degree of covering the local expenditures based on the own revenues is reflected in table no. 2.

Table no.2 The degree of covering the local expenditures based on the own revenues of the counties of the development region "Centru" in 2007-2016

Own revenues / Total expenditures		2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Alba	Sf1	37.64	37.86	36.68	39.14	40.40	36.27	39.00	42.53	35.85	40.99
	Sf2	15.40	12.23	11.59	13.79	15.78	13.41	14.81	15.95	12.99	14.76
Braşov	Sf1	62.45	59.73	54.20	58.62	55.31	56.77	61.06	57.50	61.37	72.06
	Sf2	26.96	22.65	21.19	23.68	23.58	24.72	26.16	23.85	24.52	28.02
Covasna	Sf1	37.23	34.26	35.89	37.97	35.40	37.34	39.84	35.57	28.48	40.30
	Sf2	14.31	11.88	12.10	14.13	14.11	15.12	17.51	15.46	11.77	17.04
Harghita	Sf1	32.34	34.23	35.36	36.42	33.66	35.32	35.62	32.46	27.82	35.53
	Sf2	13.62	12.57	12.40	14.38	15.00	15.60	15.85	14.26	11.49	14.70

Mureş	Sf1	45.56	47.47	43.83	47.52	43.32	42.38	41.72	45.00	44.79	48.15
	Sf2	17.95	12.54	14.15	17.07	17.10	17.01	17.09	18.78	17.85	18.90
Sibiu	Sf1	58.50	53.08	52.40	57.58	57.31	56.16	56.93	55.25	57.06	62.82
	Sf2	25.06	18.51	18.00	21.78	22.47	21.63	21.89	21.73	20.91	23.40
Centru Region of development	Sf1	48.81	47.53	45.40	48.88	46.58	46.27	47.77	47.10	44.96	52.46
	Sf2	20.37	16.04	15.95	18.60	19.00	18.89	19.66	19.26	17.52	20.30
National level	Sf1	50.96	48.77	50.19	51.57	49.92	46.67	49.18	45.97	45.02	49.31
	Sf2	18.39	15.01	14.53	16.78	17.58	16.80	18.34	17.06	16.04	17.46

Source: authors' processing after data provided by the Ministry of Regional Development, Internal Administration and European Funds, online at [http://www.dpfbf.mdrap.ro/sit\\_ven\\_si\\_chelt\\_uat.html](http://www.dpfbf.mdrap.ro/sit_ven_si_chelt_uat.html)

The degree of covering local expenditures based on own revenues (as defined by the law) is relatively high, as a mean at the regional level, being between 44.96% (in 2015) and 52.46% (in 2016), close to the national mean. But analyzing this indicator at the county level, it can be observed that there are important differences between the situation of the counties from "Centru" region. From a value under 30% in Covasna and Harghita (in 2015) to a value of more than 70% in Braşov (in 2016) there are significant differences, with strong impact on the capacity of local budgets to distribute the revenues from their budgets for development and according to their own wishes. Even when are considered just own revenues provided by the local taxes, the indicator for Centru region of development is higher than for the whole country, this being favorable for development. When the indicator is analyzed for the counties of Centru region, it can be seen that just for Brasov and Sibiu this indicator is higher than the national mean all the years and, for some years, Mureş is also in such situation. But for Alba, Covasna and Harghita this indicator is smaller than the national mean all the years. These latter counties are, as a consequence, more dependent of other sources of revenues and of the formula of equalization for covering local needs.

The capacity of the local public authority to access non-reimbursable funds, determined as a percentage ratio between revenues from non-reimbursable funds and total revenue of the local budget reflects the "level of interest of local public agencies in attracting alternative funding to invest in local development/public services, in order to meet the objectives of the local community" (Tudose, 2013, p.562). The evolution of this indicator for the period 2011-2016 (when data are available) for the counties from "Centru" region of development is highlighted by table no.3.

Table no.3 The capacity of the local public authority to access non-reimbursable funds for the counties of the development region "Centru" in 2011-2016

Sums from non-reimbursable funds/Total revenues	2011	2012	2013	2014	2015	2016
Alba	11.23	14.40	9.90	7.53	10.98	2.64
Braşov	1.79	3.57	5.33	4.24	5.86	2.99
Covasna	5.41	13.14	10.72	6.25	15.79	6.74
Harghita	9.32	10.09	14.03	12.88	13.02	8.85
Mureş	6.26	6.80	13.44	8.52	8.40	2.12
Sibiu	5.96	6.05	5.18	6.08	7.21	1.62
Centru Region of developmen	6.07	7.93	9.34	7.33	9.38	3.60
National level	8.04	7.68	8.79	6.27	8.70	2.71

Source: authors' processing after data provided by the Ministry of Regional Development, Internal Administration and European Funds, online at [http://www.dpfbf.mdrap.ro/sit\\_ven\\_si\\_chelt\\_uat.html](http://www.dpfbf.mdrap.ro/sit_ven_si_chelt_uat.html)

The evolution of this indicator as a mean for "Centru" region of development highlight that, excluding 2011, the interest for attracting non-reimbursable funds was higher than for national level. Analyzing this indicator evolution between the counties from "Centru" region we observe that this is generally higher in the counties where the self-financing capacity is lower (Alba,

Covasna, Harghita, Mureş), situation appeared, in our opinion, because for a number of non-reimbursable funds the allocations must be made in the less-developed communities, but also because the local authorities in these counties identified these kind of funds as solutions to overcome the lack of the own revenues for financing local needs.

For the rigidity of the expenditures (established by order 2651/2010) a smaller value is desired, giving local authorities enough flexibility to adjust to actual conditions.

*Table no.4 The rigidity of the expenditures of the local budgets from the counties of the development region "Centru" in 2007-2016*

Personnel expenditures/total expenditures	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Alba	37.41	40.85	42.02	37.05	28.89	27.17	30.56	34.07	29.51	35.02
Braşov	28.40	34.45	33.68	28.80	21.95	22.77	25.97	27.89	27.76	33.04
Covasna	43.66	47.99	50.27	43.96	33.81	36.68	38.64	38.84	28.98	40.53
Harghita	40.02	43.75	47.77	41.74	31.75	35.06	37.02	38.76	32.63	38.85
Mureş	39.17	39.19	45.35	39.63	28.55	29.81	30.52	33.45	32.86	37.40
Sibiu	29.05	32.52	34.19	29.91	22.43	23.19	25.09	26.63	27.36	30.62
Centru Region of development	34.74	38.30	40.46	35.30	26.67	27.64	29.92	32.09	29.84	35.30
national	32.71	36.27	38.89	32.97	25.55	25.66	28.64	30.56	28.61	32.17

*Source:* authors' processing after data provided by the Ministry of Regional Development, Internal Administration and European Funds, online at [http://www.dpfbf.mdrap.ro/sit\\_ven\\_si\\_chelt\\_uat.html](http://www.dpfbf.mdrap.ro/sit_ven_si_chelt_uat.html)

Based on this indicator, Centru region register higher values than the national ones, so, as a whole, is in a worse situation than the mean. But analyzing the counties, it could be highlight that for Sibiu (all the years) and for Brasov (except 2016) this indicator is smaller than the national mean, placing them in a better situation than of the other counties in the region from the perspective of flexibility.

The investment capacity indicator shows the importance of investments in the total expenditures from local budgets.

*Table no.5 The investment capacity of the local budgets from the counties of the development region "Centru" in 2007-2016*

Capital expenditures/total expenditures	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Alba	21.67	17.16	16.97	13.00	13.40	11.16	12.33	14.49	14.14	15.97
Braşov	18.88	14.25	14.66	17.90	30.90	22.26	17.11	15.77	13.91	13.40
Covasna	20.16	19.09	19.80	17.80	20.84	11.62	12.00	18.13	10.81	17.01
Harghita	24.65	23.72	20.75	20.17	21.97	16.05	13.36	15.16	12.12	17.75
Mureş	15.34	16.99	11.58	11.15	15.46	12.64	8.18	11.69	10.18	15.23
Sibiu	23.31	21.42	19.47	17.71	20.39	16.35	16.58	17.45	16.06	20.22
REG7C	20.18	18.08	16.37	16.00	21.21	15.81	13.39	15.16	12.97	16.36
national	20.43	17.08	15.03	14.63	18.94	17.21	13.58	14.96	14.05	18.24

*Source:* authors' processing after data provided by the Ministry of Regional Development, Internal Administration and European Funds, online at [http://www.dpfbf.mdrap.ro/sit\\_ven\\_si\\_chelt\\_uat.html](http://www.dpfbf.mdrap.ro/sit_ven_si_chelt_uat.html)

The evolution of the values of the indicator by comparing Centru region and all country is mixed, some years being higher for the region and some years being higher for the country. Analyzing the evolution of the indicator in the counties from Centru region there is a group of counties that register most of the years high values (Sibiu, Harghita and Covasna), some counties

that have some years with important values of this indicator (Braşov and Alba) and Mureş register in most of the years low values of this indicator. Because the analyzed period coincided (most of the years) with the economic downturn, part of the evolutions is determined by the counties' decisions to cut some of the investments instead of financing them by attracting alternative funds (then own or state budget revenues).

## 5. Conclusions

Analysis of the local autonomy and other significant budgetary indicators of the consolidated budget of the counties from Centru region of development evidence that there are important imbalances between local authorities of the same region, and the decisions about budgetary revenues and expenditures are also different. The structural funds tend to be considered a source of financing more in the less developed counties, but in this case the necessary funds for co-financing are important. Alternative solutions could be to attract other stakeholders (from private sector or NGOs) in financing some of the local needs, to cooperate in developing public services addressed to local communities, but for this local authorities must have more important roles in stimulating private involvement.

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