

The Analysis of the Local Budgets’ Contribution in the Formation of the Public Financial Resources

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Abstract

In Europe, the concept based on which is built the local development theory is represented by the economic and social cohesion. This can be translated in a fundamental principle, namely, the fact that economic and social development should be based on a balanced spatial structure. In this regard, the local budget becomes an important tool of budgetary-financial policy through which the state interferes in the economy at the local collectivities level.

This research paper aims to present an impact analysis of the local budgetary resources on the economy at a national level in conjunction with the public financial resources’ formation. The resources of the local budgets are used to finance some economical and socio-cultural objectives and actions, for the coverage of maintenance costs and functioning of the local administrative-territorial units.

Key words: local budget, budgetary resources, local autonomy

J.E.L. classification: H71, H72

1. Introduction

This paper is intended to be a research whose main objective is to highlight the significant impact of the local budgets’ resources on the economy, following the decentralization process from Romania.

The hypothesis from which the research starts is the following: the relationship between local budgets and the General Consolidated Budget at the level of the public financial resources has a significant impact on economic development.

The public financial resources are represented by all the monetary means used for achieving economic and social objectives in a set time interval. These resources are assigned by the public authorities, based on a regulation, to carry out the state’s tasks, ensuring on a financial plan its proper functioning.

The local public finances have their origin inside the autonomy degree of the administrative territorial authorities regarding the administration of the local community. This is a condition of the financial autonomy because the local autonomy wouldn’t be possible without the financial autonomy, which ensures the financial support of the operation. The concept of local autonomy is defined by the European Carta of Local Autonomy as being:” the *right and the effective capacity of the local public administration authorities to solve and manage, within the law, in own name and in the interest of local population, an important part of the public affairs*” (Council of Europe, 2020, p. 12).

The financial relations of constitution of the local budgets’ funds take place between the state, on one side and economical agents, public and private institution as well as population, on the other side. Financial decentralization starts to function across the limit from which the use area of goods and public services of national interest starts to shrink, and the comparative cost of taking decisions at a central level becomes too high.

2. Theoretical background

The local budget represents a document through which are laid down and approved the incomes and expenses of the administrative territorial units for each year.

As a legal act, the local budget emphasizes its quality of main component of the local public finances and of achievement tool of the local autonomy. *“From the perspective of local economic and social dynamics, the local budget represents the main tool of the authorities of the public administration from the territory in order to select the financing priorities from the economic and social development strategies of the localities”* (Oprea and Cigu, 2013, p. 33).

On the other hand, the local budget represents *“the main tool which ensures the decisional autonomy of the authorities of local public administration, which capitalizes efficiently the local resources and improves the use of local funds”* (Moşteanu, 2013, p. 72).

Overall, the budgets are raising several supplementary political challenges: the loans, including those multiannual, the funding of the investment projects and the election between the competing projects (Ulbrich, 2011, p. 90).

The General Consolidated Budget represents *“the whole of the component budgets of the budgetary system”* (Law no. 69, 2010). The General Consolidated Budget reflects all the public financial flows of forming the fiscal and nonfiscal revenues and of their distribution by destination in strict correlation, both with the social needs, as with financial policy objectives specific to the period to which it relates. There is a close link between the General Consolidated Budget and the local budgets in terms of transfers in the form of quotas and deducted amounts from some state budget revenues (like Value Added Tax and income tax).

The distinct organization of public finances based on financial decentralization allows the creation of a clearer imagine of how national public finances are managed (Dogariu, 2010, p. 67).

For the local budget, the property taxes are usually the main source of revenue (Ulbrich, 2011, p. 42). They are included in the category of own revenues together with fees, contributions, other payments, other revenues, and quotes broken down from the income tax (Law no. 273, 2006).

Another important financial resource for the local budgets is represented by the subsidies from the state budget, nominated by destinations (for development of the energy system, pavement of the communal roads, the water supply of the villages, construction of airports of local interest, and so on).

Donations and sponsorships represent another possible income of the local budgets which have a special regime in that it must be respected the destination for which those have been received.

The integration of Romania inside the European Union has offered opportunities to procure the financial resources for the financing of the projects of public local development from the structural funds, without training the increasing of the ordinary budgetary resources and without affecting the level of the consolidated budgetary balance.

Where the proceeds are not equal to the amount of the payments, the deficit of the local budget is to be covered from loans which have been contracted by the local public authorities and from the amounts deducted from some revenues of the state budget, ordered by the law of state budget (Moşteanu et al., 2007, pp. 41-44).

3. Research methodology

The paper is based on both theoretical research and empirical research. The starting point of the research was that of theoretical documentation by going through the literature and various studies specific to the field as well as legislative regulations. An important aspect in the theoretical research approach was the legal framework of local public finances.

The analysis of the local budgets' contribution in the formation of the public financial resources as an approach is based on the data provided by the executions of the General Consolidated Budget and of the centralized local budgets.

The analysis of the financial autonomy of the administrative-territorial units was based on the indicator known in the specialized literature as the degree of financial autonomy or the self-financing capacity of the local authorities. The mathematical relation of calculation is:

$$D_{FA} = OR_{LA} / TR_{LA} \times 100$$

D_{FA} = Degree of financial autonomy

OR_{LA} = Own revenues of local authorities

TR_{LA} = Total revenues of local authorities

4. The legal framework of the local public finances

At European level, the general regime of the local autonomy, as well as organization and functioning of the authorities of the local public administration are provided by the European Union Treaty and by the European Carta of the Local Autonomy, which has been ratified by Romania on 28th of January 1998.

In Romania, the way of organizing and functioning of territorial administrative units is provided by the administrative Code (Emergency Ordinance of the Romanian Government no. 57, 2019), which regulates the organization and functioning of the local public authorities closely related to the socio-economic realities and with the complexity and dynamics of the activities related to providing essential public services for citizens. It is based on the principle of subsidiarity established by the European Union Treaty and by the European Carta of the Local Autonomy. Adopted in 1985, the European Carta of the Local Autonomy has become a reference treaty regarding safeguarding the rights of the regional and local authorities.

In accordance with the Romanian Constitution republished, “*the public administration from the administrative-territorial units is founded on the principle of decentralization, local autonomy and deconcentrating of the public services*” (Romanian Constitution, 1991 revised by Law no. 429, 2003).

The principles, the general framework, the procedures related to forming, administrating, hiring, and using the local public funds, as well as the responsibilities of the local public administration and of the public institutions in the field of local public finances in Romania are regulated by the *Law regarding the local public finances* (Law no. 273, 2006).

According to the autonomy of the county, communal and city councils, their budgets are autonomous from one another just as from the state’s budget. Also, preserving the individuality of the territorial-administrative budgets in all the local budgets, do not exclude the existence of some relations between these budgets and neither between these budgets and the state’s budget.

The State Budget Law for 2021 (Law no. 15, 2021) presents the level of quotas distributed to each administrative territorial unity from income tax to be cashed to the state budget in 2021.

The fiscal regulations with regards to local taxes and duties are laid down in the *Fiscal Code, chapter Title IX - Fiscal aspects related to local taxes and fees* (Law no. 227, 2015).

5. Findings - the relationship between the local budgets and the general consolidated budget from the perspective of the public financial resources.

5.1. Analysis of total revenues of local budgets

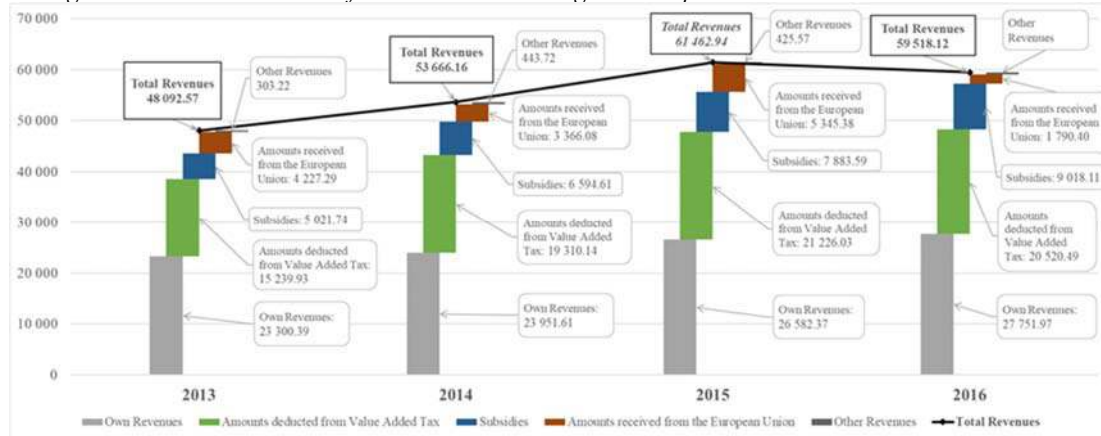
The revenues of the local budgets consist of taxes, fees, quotas, and amounts deducted from some revenues of the state budget, subsidies and amounts received from the European Union on account of the payments made and pre-financings.

The analysis of the data from Figure 1 and 2 reveals the random trend registered at the level of the total revenues of the local budgets in the analyzed period. In the period 2013-2015, the total revenues of the local budgets had an increasing trend of 27.80%. In 2016 there was a decrease of 3.16% compared to 2015. In 2017 the trend becomes upward, the increase being 5.48% compared to 2016 and in 2018 there was a decrease of 8.93% compared to 2017. The period 2018 - 2020 was characterized by a 25.91% increase in total revenues of local budgets.

Total own revenues of the local budgets in the period 2013-2017 had an upward trend, the increase being 31.23%. In 2018, total own revenues decreased by 6.58% compared to 2017. The increasing trend is resumes in the period 2018-2020, the total own revenues registering an increase of 25.39%.

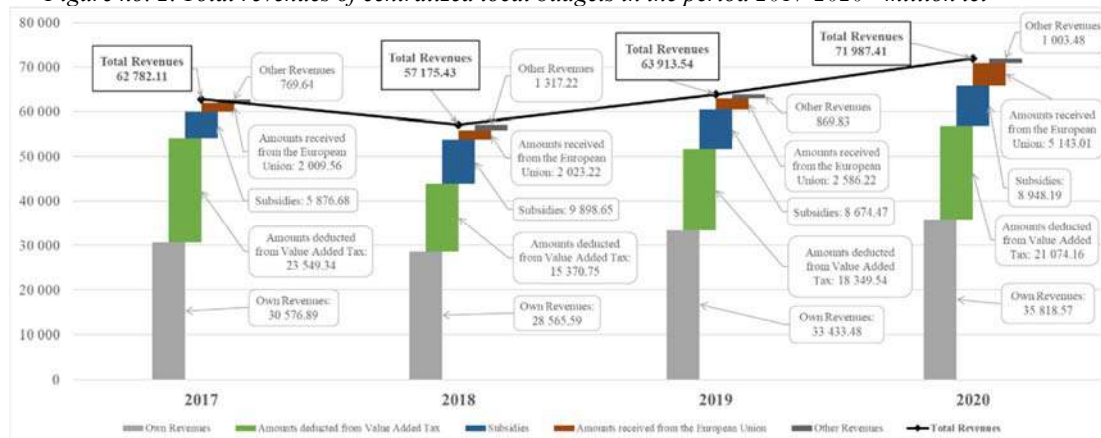
The amounts deducted from Value Added Tax registered a random trend in the period 2013-2020. The period 2013-2015 was characterized by an increase of 39,28%. In 2016, the revenues from Value Added Tax decreased by 3.32% compared to 2015. In 2017 there was a significant increase of 14.76% compared to 2016, followed by a significant decrease of 34.73% in 2018 compared to 2017. The ascending trend is resumed in the period 2018-2020, this being 37.11%.

Figure no. 1. Total revenues of centralized local budgets in the period 2013-2016 - million lei



Source: Own processing of data taken from (Ministry of Development, Public Works and Administration - Government of Romania, 2021) and (INS, 2021)

Figure no. 2. Total revenues of centralized local budgets in the period 2017-2020 - million lei



Source: Own processing of data taken from (Ministry of Development, Public Works and Administration - Government of Romania, 2021) and (INS, 2021)

There is also a random trend in the case of subsidies in the analyzed period. Thus, in the period 2013-2018 the trend was upward (by 97.12%), except for 2017, when there was a decrease of 34.83% compared to 2016. In 2019 compared to 2018, subsidies decreased by 12.37%, in 2020 registering an increase of 3.16% compared to 2019.

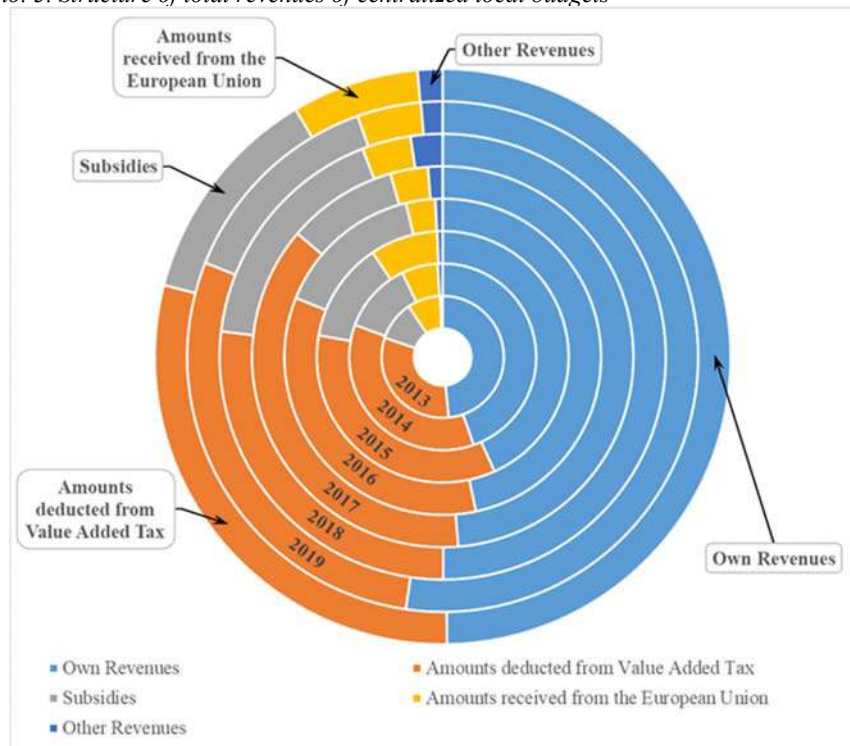
The amounts received from the European Union had a random trend in the analyzed period. In 2014, compared to 2013, there was a decrease of 20.37%, followed by an increase of 58.80% in 2015 compared to 2014. During the period 2016-2020 at the level of the amounts received from the European Union a significant increase of 187.25% is observed.

Table no. 1 Structure of total revenues of centralized local budgets [%]

Year	Total Revenues	Own Revenues	Amounts deducted from Value Added Tax	Subsidies	Amounts received from the European Union	Other Revenues
2013	100.00%	48.45%	31.69%	10.44%	8.79%	0.63%
2014	100.00%	44.63%	35.98%	12.29%	6.27%	0.83%
2015	100.00%	43.25%	34.53%	12.83%	8.70%	0.69%
2016	100.00%	46.63%	34.48%	15.15%	3.01%	0.73%
2017	100.00%	48.70%	37.51%	9.36%	3.20%	1.23%
2018	100.00%	49.96%	26.88%	17.31%	3.54%	2.30%
2019	100.00%	52.31%	28.71%	13.57%	4.05%	1.36%
2020	100.00%	49.76%	29.27%	12.43%	7.14%	1.39%

Source: Own processing of the data from Figure no. 1 and Figure no. 2.

Figure no. 3. Structure of total revenues of centralized local budgets



Source: Own processing of data from Table no. 1

The structure of total revenues of centralized local budgets in the period 2013-2020 is presented in Table no. 1 and looks like in Figure no. 3. The share of own revenues in total revenues had values between 43.25%, respectively 52.31%. The share of amounts deducted from Value Added Tax in total revenues had values between 31.69% and 37.51% in the period 2013-2017. Starting with 2018, there is a decrease below 30% of the share of amounts deducted from Value Added Tax in total revenues. Subsidies had a share in total revenues of the local budgets between 10.44% and 15.15% respectively in 2013-2016, followed by a decrease in 2017 (at 9.36%). The highest value was registered in 2018 (17.31%). In the period 2018-2020, the trend was a decreasing one. The share of amounts received from the European Union in total revenues of the local budgets recorded values between 3,01%, respectively 8,79%.

5.2. Analysis of own revenues of local budgets in 2013-2020

The evolution of the own revenues of the local budgets in the period 2013 - 2020 is presented in Figure no. 4.

The own revenues of the local budgets registered a random trend in the period 2013-2020. In the period 2013-2017 own revenues increased by 31,23%. The year 2018 marks a decrease in own revenues, by 6.58% compared to 2017. In the period 2018-2020, the receipts related to these revenues registered an ascending trend of 25.39%.

Figure no. 4. The evolution of the own revenues of the local budgets in the period 2013-2020 - million lei

Year	Total Own Revenues	Property taxes and fees				Taxes on the use of goods	Tax on income, profit and capital	Amounts deducted from income tax	Other taxes	Non-fiscal revenues
		Total	Building taxes	Land taxes	Other property taxes					
2013	23 300.39	4 352.20	2 991.00	1 093.70	267.50	1 244.00	3 304.25	11 575.35	612.59	2 212.00
2014	23 951.61	4 499.80	3 158.10	1 139.60	202.10	1 278.90	3 478.65	11 892.95	445.71	2 355.60
2015	26 582.37	4 567.50	3 215.70	1 158.40	193.40	1 340.90	3 976.02	13 502.18	658.37	2 537.40
2016	27 751.97	4 846.80	3 229.40	1 408.50	208.90	1 355.00	4 143.43	14 133.17	325.97	2 947.60
2017	30 576.89	5 267.30	3 473.90	1 501.90	291.50	1 484.40	4 626.05	15 870.45	366.99	2 961.70
2018	28 565.59	5 465.50	3 646.60	1 426.10	392.80	1 648.40	3 328.95	14 344.75	549.69	3 228.30
2019	33 433.48	5 844.30	3 932.40	1 494.10	417.80	1 859.30	6 666.07	15 072.43	587.68	3 403.70
2020	35 818.57	no data	no data	no data	no data	no data	no data	17 154.81	no data	no data

Source: Own processing of data taken from (Ministry of Development, Public Works and Administration - Government of Romania, 2021) and (INS, 2021)

Remark: For the year 2020, the information sources did not present complete data at the time of elaboration of this paper; these will be published later.

The property taxes had an increasing trend by 34.28% in the period 2013-2019. At the level of the building tax, there was an increase of 31.47 % in the period 2013-2019. The land tax had an upward trend in the period 2013-2017, of 37.32 %. In 2018 there is a decrease of 5.05 % compared to 2017, while in 2019 compared to 2018, the land tax revenues increased by 4.77 %. The amounts collected from other property taxes registered a decreasing trend in the period 2013 - 2015, of 27.70%, in the period 2016-2019 registering an increase of 100%.

The receipts from the taxes on the use of goods had an increase of 49.46% in the period 2013-2019.

Tax on income, profit and capital gains registered an upward trend in the period 2013-2017 by 40.00%, followed by a decrease of 28.04% in 2018 compared to 2017. In 2019, the receipts from the tax on income, profit and capital gains registered a significant increase of 100.25%, compared to 2018.

The amounts deducted from the income tax had an increasing trend of 37.11 % in the period 2013-2017. In 2018, these revenues decreased by 9.61% compared to 2017, followed by an increase of 19.59 % in 2018-2020.

Non- fiscal revenues had an upward trend in the period 2013-2019, of 53.87 %.

Table no. 2 Structure of own revenues of local budgets in the period 2013 - 2020 [%]

Year	Total Own Revenues	Taxes on the property	Taxes on the use of goods	Tax on income, profit and capital gains	Amounts deducted from income tax	Other taxes	Non-fiscal revenues
2013	100.00%	18.68%	5.34%	14.18%	49.68%	2.63%	9.49%
2014	100.00%	18.79%	5.34%	14.52%	49.65%	1.86%	9.83%
2015	100.00%	17.18%	5.04%	14.96%	50.79%	2.48%	9.55%
2016	100.00%	17.46%	4.88%	14.93%	50.93%	1.17%	10.62%
2017	100.00%	17.23%	4.85%	15.13%	51.90%	1.20%	9.69%
2018	100.00%	19.13%	5.77%	11.65%	50.22%	1.92%	11.30%

Year	Total Own Revenues	Taxes on the property	Taxes on the use of goods	Tax on income, profit and capital gains	Amounts deducted from income tax	Other taxes	Non-fiscal revenues
2019	100.00%	17.48%	5.56%	19.94%	45.08%	1.76%	10.18%
2020	100.00%	<i>no data</i>	<i>no data</i>	<i>no data</i>	47.89%	<i>no data</i>	<i>no data</i>

Source: Own processing of the data from Figure no. 4.

Remark: For the year 2020, the information sources did not present complete data at the time of elaboration of this paper; these will be published later.

The structure of own revenues of local budgets in the period 2013-2020 is presented in Table no. 2.

From the analysis of the structure of own revenues of local budgets in the period 2013-2020 (Table no. 2) resulted the following conclusions:

- the amounts deducted from the income tax had the highest share in the own revenues of the local budgets, with values between 45.08% and 51.90%
- the taxes on the property had a share between 17.18% and 19.13% in total own revenues
- the tax on income, profit, and capital gains as a share in total own revenues was between 11.65% and 19.94%
- taxes on the use of goods were between 4.85% and 5.77%
- non-fiscal revenues ranged from 9.49% to 11.30%
- the revenues of other taxes ranged from 1.17 % to 2.63 %

5.3. Analysis of the contribution of local budget revenues to the total revenues of the general consolidated budget

Tables no. 3 and 4 presents the share of own revenues of local budgets in the total revenues of the General Consolidated Budget. These data are of great importance because they show the contribution that these revenues have to the formation of public financial resources at national level.

Table no. 3 The contribution of local budget revenues to the total revenues of general consolidated budget - million lei

Year	Total Revenues of the General Consolidated Budget	Taxes on the property	Taxes on the use of goods	Tax on income, profit and capital gains	Amounts deducted from income tax	Other taxes	Non-fiscal revenues
2013	200 045.70	4 352.20	1 244.00	3 304.25	11 575.35	612.59	2 212.00
2014	213 833.60	4 499.80	1 278.90	3 478.65	11 892.95	445.71	2 355.60
2015	233 554.30	4 567.50	1 340.90	3 976.02	13 502.18	658.37	2 537.40
2016	223 721.90	4 846.80	1 355.00	4 143.43	14 133.17	325.97	2 947.60
2017	251 819.70	5 267.30	1 484.40	4 626.05	15 870.45	366.99	2 961.70
2018	295 118.20	5 465.50	1 648.40	3 328.95	14 344.75	549.69	3 228.30
2019	321 131.40	5 844.30	1 859.30	6 666.07	15 072.43	587.68	3 403.70
2020	322 518.10	<i>no data</i>	<i>no data</i>	<i>no data</i>	17 154.81	<i>no data</i>	<i>no data</i>

Source: Own processing of data taken from: (Ministry of Development, Public Works and Administration - Government of Romania, 2021) and (INS, 2021)

Remark: For the year 2020, the information sources did not present complete data at the time of elaboration of this paper; these will be published later.

Based on the data from Table no. 3, was calculated the contribution of each category of local budget revenue to the total revenues of the General Consolidated Budget.

From the data presented in Table no. 4 resulted the following conclusions regarding the contribution of the revenues of the local budgets to the formation of the public financial resources of the General Consolidated Budget:

- Taxes on the property had a contribution between 1.82% and 2.18%.
- The contribution of the amounts deducted from the income tax was between 4.69% and 6.32%.
- The tax on income, profit and capital gains had a contribution between 1.13% and 2.08%.
- The contribution of non-tax revenues was between 1.06% and 1.32%.
- Taxes on the use of goods and other taxes had the lowest contributions, being situated below 1%.

Table no. 4 The contribution of local budget revenues to the total revenues of general consolidated budget [%]

Year	Taxes on the property	Taxes on the use of goods	Tax on income, profit and capital gains	Amounts deducted from income tax	Other taxes	Non-fiscal revenues	Total
2013	2.18%	0.62%	1.65%	5.79%	0.31%	1.11%	11.65%
2014	2.10%	0.60%	1.63%	5.56%	0.21%	1.10%	11.20%
2015	1.96%	0.57%	1.70%	5.78%	0.28%	1.09%	11.38%
2016	2.17%	0.61%	1.85%	6.32%	0.15%	1.32%	12.40%
2017	2.09%	0.59%	1.84%	6.30%	0.15%	1.18%	12.14%
2018	1.85%	0.56%	1.13%	4.86%	0.19%	1.09%	9.68%
2019	1.82%	0.58%	2.08%	4.69%	0.18%	1.06%	10.41%
2020	<i>no data</i>	<i>no data</i>	<i>no data</i>	<i>no data</i>	<i>no data</i>	<i>no data</i>	<i>no data</i>

Source: Own processing of the data from Table no. 3.

Remark: For the year 2020, the information sources did not present complete data at the time of elaboration of this paper; these will be published later.

5.4. Analysis of the evolution of the degree of financial autonomy of the units administrative territorial

The evolution of the degree of financial autonomy of the units administrative territorial is presented in Table no. 5.

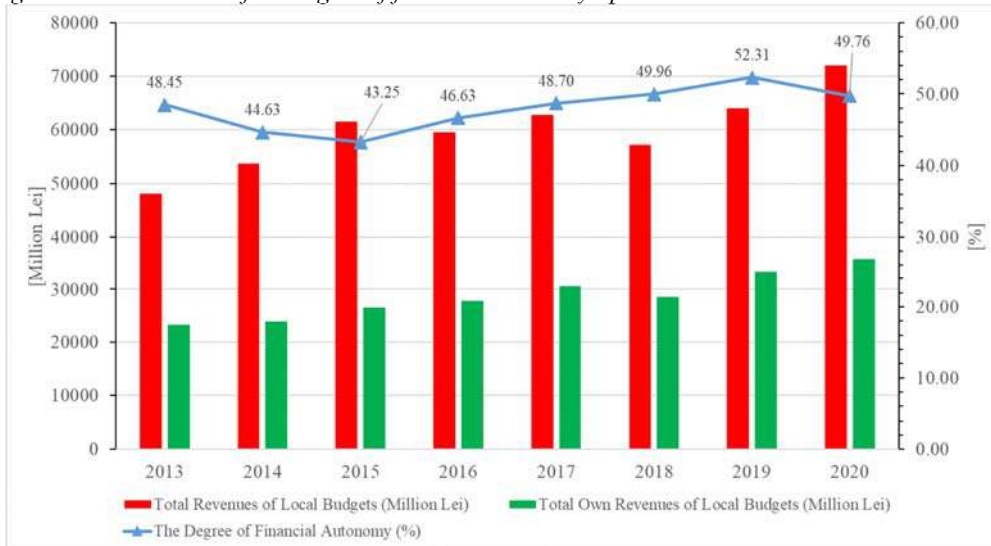
Table no. 5. The degree of financial autonomy - period 2013-2020

Year	Total Revenues of Local Budgets (Million Lei)	Total Own Revenues of Local Budgets (Million Lei)	The Degree of financial autonomy (%)
2013	48 092.57	23 300.39	48.45
2014	53 666.16	23 951.61	44.63
2015	61 462.94	26 582.37	43.25
2016	59 518.12	27 751.97	46.63
2017	62 782.11	30 576.89	48.70
2018	57 175.43	28 565.59	49.96
2019	63 913.54	33 433.48	52.31
2020	71 987.41	35 818.57	49.76

Source: Own processing of the data from Table no. 3.

The degree of financial autonomy of the units administrative territorial had a random trend (Figure no. 5). The values of this indicator were between 43,25% and 52,31% during the analyzed period. A higher level of the share of own revenues in total revenues ensures a better satisfaction of public needs, which denotes a wide financial autonomy.

Figure no. 5. Evolution of the degree of financial autonomy - period 2013-2020



Source: Own processing of the data from Table no. 5.

6. Conclusions

Local budgets are instruments that facilitate the correct choice of priority funding, by local public administration bodies, of the development expenditures of local communities. These funding priorities and other options to be financed from the local budget it is done by elaboration and adopting the local budget.

In the same time, the option for a certain distribution of the public revenues reflects the way of distribution of powers between public institutions placed at different levels. Within the budgetary process, from the state budget are approved funds for financing some decentralized expenses, but also for balancing the local budgets. Along with own sources of financing, the local budgets are financed also from amounts from the state budget, in the shape of deducted amounts from some incomes of the state budgets (from Value Added Tax).

The own revenues of the local budgets had an oscillating evolution caused in general by the legal changes interfered at the fiscal Code level. Thereby, starting with 1st of January 2018 the quota of salaries tax and other incomes of individuals has dropped significantly from 16% to 10%. Also, starting with 1st of January 2016 at the level of tax on buildings there were a series of significant fiscal changes, while the percent from the tax on income received at the level of administrative territorial units as own income of the local budget has recorded numerous changes.

At the same time, the more the decentralization degree is higher, the more the local budgets role is more important.

The local budgets have an important role in what concerns the intake to the forming the financial resources of the General Consolidated Budget, this being placed between 9,68% and 12,40%. The revenues provided by the administrative territorial units have recorded a balanced trend, no matter the economic development period crossed.

The analysis of the financial resources of the local budgets through correlation with the financial resources of the General Consolidated Budget presents a special importance both for emphasizing some potential financial resources, as well as for the highlighting the strategy on medium and long term at the level of administrative-territorial units.

The role of the local budgets within the General Consolidated Budget, reflects both the efficiency with which the local public administrations constitute their own budgets, as well as the own sustainability of the local budgetary costs and the way in which the General Consolidated Budget is affected by the actions of the local public administrations.

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