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Territorial Administrative Budgetary Structure

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Abstract
Local budget structure is a consequence of the way the country's venues are organized from the territorial administrative point of view, in communes, towns, municipalities and the capital, Bucharest, in districts.
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Local budget structure is a consequence of the way the country's venues are organized from the territorial administrative point of view, in communes, towns, municipalities and the capital, Bucharest, in districts.

As a result to this administrative territorial organization, local budgets are structured as it follows:

1. Counties' own budgets and Bucharest Municipality;
2. Budgets of municipalities, towns, communes and Bucharest's districts;
3. Counties' and Bucharest Municipality's budgets, resulting from no.1 and 2 budgets amounted;
4. Budgets of local institutions and public services which are financed as it follows:

a) Fully funded by the local budget, according to subordination, through county's own account or municipality, or town or commune of district of Bucharest;
b) Funded from personal income (extra budgetary resources) and, as a completion, by subsidies given from local budgets according to subordination;
c) Fully funded, from personal income (extra budgetary resources).

Local budgets own incomes are mainly made up of local taxes and fees owed by inhabitants of those places, as well as legal persons as tax-payers.

Parts allocated from state's budget to local budgets are **shares deducted from income taxes and amounts deducted from VAT**.

a) According to Local Public Finance Law[1], **shares deducted from income taxes**, state income that are allocated to local budgets are the following:

- 47% to local budgets of communes, towns and municipalities;
- 13% to counties own budget;
- 22% to counties' councils' disposal in order to balance communes, towns and municipalities budgets, as well as county's own budget

Referring to Bucharest, deducted rates from income taxes are allocated as it follows:

- 23.5% to Bucharest's districts budgets;
- 47% to own budget of Bucharest municipality's town hall;
- 11% at the disposal of General Council of Bucharest municipality.

The amounts corresponding to these rates are allocated to the budget of territorial - a administrative unit by all operational units within 5 days from the end of each month during which these taxes have been collected.

From the territorial perspective, the taxpayers have been grouped according to their domicile.

If in the case of sums resulting from deducted rates of 47% or 23.5% (which are directly assigned by state's operational units to budgets of communes, towns, municipalities and Bucharest's districts), there can be no interference from County Councils' of Bucharest Municipality's part; in the case of those 22% deducted rate and 11% regarding Bucharest's Town Hall, there can be no subjective interference, especially based on political criteria.

In order to underline the importance of these deducted rates from income taxes to local budgets, we must mention that 12% of income taxes are placed at local communities' disposal under this pattern, that is, 14,665,200 thousand lei for the year 2010, which represents 30% of local budgets total income.

b) The most important source of balance for local budgets are amounts deducted from VAT. For the year 2010 it rose to 17,000 million lei which was directed towards well defined actions and objectives such as financing schools in communes, towns, counties, as part of pre-university state education system; supporting child protection system; subsidizing facilities such as heat provided to population, county and communal roads, balancing local budgets and financing counties' and Bucharest Municipality's decentralized actions in general; as well as for cultural institutions, non – clerical stuff, child protection, social services centers, those of disabled

[1] Law no.273/2006 regarding local public finance

persons including for providing dairy and bakery products for 1st to 8th graders in stare schools.

Distributing the means of balance according to the above mentioned destinations is performed by county council's decisions and the Capital's General Council after considering mayor's opinions and having special technical support from General Directorates of Public Finance.

As we have previously mentioned, due to political influences in distributing these sums in territorial – administrative units, state's authorities have tried to limit this by establishing balancing means to be distributed to territorial – administrative units, based on the following formula:

$$SDu = \frac{\frac{Ij:Pj}{Iu:Pu} \times \frac{Pu}{Pj}}{\sum_{u=1}^{n} \frac{Ij:Pj}{Iu:Pu} \times \frac{Pu}{Pj}} \times SDj,$$

Where:

SDu – deducted rates from VAT on territorial – administrative units;

SDj - deducted rates from VAT distributed to a county based on this criterion,

Ij – income tax due in the county;

Pj – county's population;

Iu – income tax collected in the territorial – administrative unit;

Pu - territorial – administrative unit's population.

Note: the same formula is used to distribute sums representing the 22% deduction from the income tax rate, which is distributed in order to balance local budgets of territorial – administrative units by replacing SDu and SDj with

SCDu – resulting sum from the deducted rate from income tax on territorial – administrative unit;

SCDj - resulting sum from the deducted rate from income tax on a county level after the due sum of county's own budget has been deducted.

Other important financial resources for local budgets are those representing subsidies of the following form:

a) *Subsidies from the state's budget* having certain destination (central heating and electric heating, investments, power system development, paving communal roads, providing villages with running water, streets, planning regulations, local interest airports, reducing the risk of earthquake for inhabited buildings, a.s.o);

b) *Subsidies from other administrations* for temporary employment for social service institutions and disabled persons.

Under these conditions, in order to establish a balance between total public financial resources on one hand and, total public expenditures, on the other; in other words, a total budget balance which is reflected through general consolidated budget; consolidated transfers for local budgets as subsidies are to be eliminated. These sums remain through consolidation only once registered as income to the state budget and only once as expenditure through local budgets (when they are really spent by executing the expenditure side of local budgets).

Donations and sponsorships represent other possible incomes to local budgets that have a special regime in the sense that their destination must be respected. They can benefit from the fact that if they hadn't been used till the end of the year, they can be reported for the following accounting period.

Loans from the State Treasury' current general account are another financial resource that public authorities may make use of, in order to cover temporary lack of cash liquidities but it cannot exceed 5% of the total estimated income due to be collected during the fiscal year of the loan.

Local **public administrations may also borrow money from banks** or other credit companies, public loans based on debentures, in order to finance local budgets' specific expenditures; only if they are passed by 2 thirds of local councils' members and only if the 20% limit of the total current incomes of local budgets, including income tax deducted rate, is not broken.

In the same respect, contracting internal loans is possible only after Public Finance Ministry has been informed. Contracting external loans is possible only with the approval of the omission enabled with authorizing these loans. The commission is made up of local public administration, Government and National Bank of Romania representatives. Its structure is passed y the Government.

Expenditures financed by local budgets differ according to the budget's structure they refer to: there are expenditures performed from county's own budget and others that are performed from budgets belonging to communes, towns, municipalities, districts of Bucharest and those of General Council of Bucharest County.

A synthesis of expenditures performed through local budgets would look like this:

1. General Public Services;
2. Defense, public order and national security;
3. Socio- cultural expenditures;
4. Public development, dwelling, environment and water;
5. Economic actions;
6. Reserves, excess\deficit.

Conclusions

In spite of all the progress that has been achieved for the last few years, we cannot yet speak of a real local autonomy in Romania. Local budgets rely a great deal on the resources they receive from a central level, this rate exceeding 70% in most of the cases. Very few local communities manage to achieve sufficient own income and, at the same time, a local budget balance is a necessity. Nowadays, a great part of Romanian local communities have a deep rural character, fact that does not allow them to achieve income. Furthermore, taking into account that Romania has to align its practice to European standards, principles such as that of solidarity and that of eliminating non – balances between regions or communities are principles promoted by European Union and Romania has to assume.

The way of performing that balance leads to hot debates every year and an optimum method has not been reached yet. The most numerous suspicions are connected to distributing these sums to counties, as long as there are no clear regulations towards this. This leads to political and also economic influence. A solution which both representatives of developed communities and those achieve insufficient income have agreed to, was that of allowing a higher percentage of income tax to remain to that local budget. In this case, the number of communities that need sums to balance decreases considerably.

This way, income increase on a local level would represent a solution in the case of decentralization. Although it has been considered a positive thing and in perfect agreement with the democratic process, implementing decentralization raises serious problems among which are non – assuring financial resources a well as lack of previous training. These aspects lead to a single conclusion, that of lack of clear strategy and mutual knowledge regarding decentralization. There isn’t a national vision initiated by central authorities after consulting the local ones, and also, no local development strategy according to the emphasized problems.

Lack of funds is both a cause and a reason for crating certain inappropriate local public policies. Local authorities together with the national ones including the latter's support, should have taken into consideration a multi – annual budgetary projection.

It is due to this reason that it becomes imperatively necessary to teach local and county council members local management practices and techniques as well as particularities of elaborating local public policies.

Even if the state still provides important resources, the greatest amount of them has a special destination, fact which does not allow local communities the freedom of fund management. In this case, increasing deducted rate from income tax represents a solution in the perspective of greater autonomy which allows local authorities expenditures according to their necessities.

The responsibility to provide sufficient funds to local communities should not belong to such a great extent to central authorities. Local authorities should be firstly preoccupied in finding income and only afterwards in achieving greater fund from the central level.

There are a series of problems in the field of local public finance in Romania such as: disagreement of route and subjectivism in allocating resources; the impossibility of contracting credits due to lack of limitation between public and private field; lack of long term projection and strategy; far too fewer sources to make up local budgets; the rural character of Romanian villages and communes; lack of balance between municipalities, towns and communes, but also disparities between counties.

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