THE STRENGHTENING OF ROMANIAN LOCAL FINANCIAL AUTONOMY'S LEVEL IN THE EU CONTEXT

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The Romanian local public finance should be continuously improved by the time it will correspond totally to the requirements of European Union, taking into consideration that the consolidation of public finance at the level of territorial public administration depends on the measure of decentralization and of the strengthening financial autonomy's level. At the same time, local government must be in accord with European Union legislation as Maastricht Treaty and. European Charter of Local Self-Government

This study is primarily intended to provide the stage of Romanian financial autonomy in the context of European Union with the help of its relevant indicators and the establishments of legislation limits.

Key words: Romanian integration, European Union, local public finances, local financial autonomy, local budget, own revenues, expenditures, competences

Introduction

Local authority financing is currently at the heart of the political debate. All the European Union's member states are faced with the challenge of reconciling the need to control and reduce public spending with greater financial autonomy in local government. They are accordingly seeking ways of achieving an equitable distribution of financial resources among the different levels of government in a context of budgetary cutbacks at every level of public administration. At the same time, local fiscal policy has to be judged in the light of the Maastricht criteria which say that candidates for the monetary union must – among other things – not run an excessive deficit (a general government deficit of more than 3% of national gross domestic product and a general government debt of more than 60% of national gross domestic product).

1. Revenues indicators

For the analyze of local financial autonomy are relevant the realized revenues and not the forecasted revenues. In this context, local authorities must avoid the differences to big between forecasted revenues and realized revenues. A healthy autonomy level supposes, also, a good forecasting of local budget.

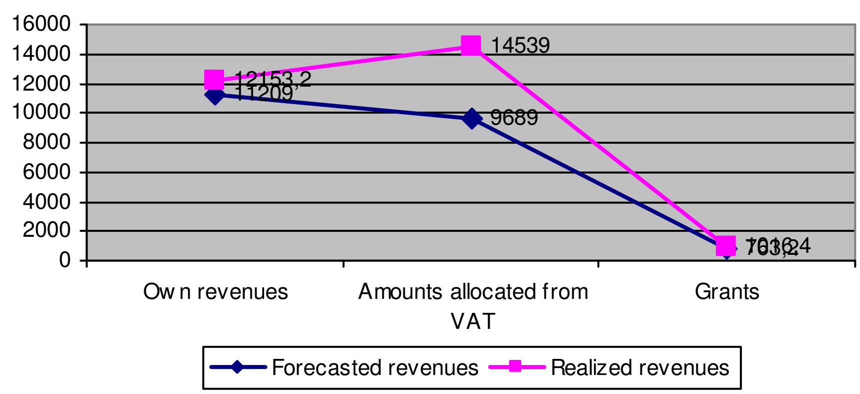

Figure 1: Local public revenues in 2006 (mil. Lei)

Source: www.gov.ro and Romanian Statistical Yearbook 2005 – 2007

Local authorities succeeded to make a good forecasting for own revenues and grants, but there are big differences at the amounts allocated from VAT. The percentage of realized revenue from VAT is 150%. In this context, it is relevant the local authorities must try to be more independent and do not depend by the transfers from the state budget, because the transfers are insecure.

a) The level of financial autonomy

In accord with principle of subsidiarity [The Treaty of Maastricht, Title II, Art. G, 3b], local government must try to resolve its own problems and for these it needs own resources. High own resources give independence to the local authorities in the way haw there are spent the own resources, demonstrating financial autonomy.

The level of financial autonomy, as an indicator of revenues, is determined with the relation:

The level of financial autonomy = Own revenues / Total local revenues * 100

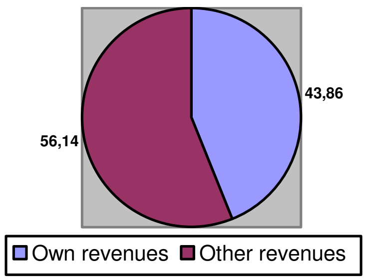

Figure 2: The level of financial autonomy in 2006 (%)

The level of financial autonomy forecasted is 51,7 %, but the level of financial autonomy realized is 43,86%. Being under 50%, the local governments still demonstrate the dependence from the state budget transfers. This dependence suggests a low local financial autonomy and it is absolutely necessary to rise the own revenues. In the same time, Romania's situation is better than the average of EU-15 member states in 2004, when local tax revenues from total tax revenues represented 17,7%.

Until 2003, Romanian own revenues represented 25% - 30% from total local revenues, but after the new rules established by The local public finances Act, own revenues have grew up (own revenues includes also quotas from income tax) [The local public finances Act, Art. 5(1)]. Another way to rise the own revenues is given by Fiscal Code – local authorities can rise local tax with 20%[Fiscal Code, Art. 282] and can - but generate a high fiscal level and local governments avoid to use this method.

b) Percentage of local public revenues

The local financial autonomy is bigger if own revenues in total local public revenues are bigger (local tax and quotas from income tax)

Revenues	2004	2005	2006
Own revenues	46,8	45,93	43,86
Amounts allocated from VAT	47,43	47,31	52,47
Grants	5,77	6,76	3,66

Table 1: Dynamic of local public revenues percentage in 2004-2006 (%)

Source: Romanian Statistical Yearbook 2005 – 2007

The year 2006 keeps the same rate of quotas from income tax mentioned by the new local finances act [The local public finances Act, Art. 32 (1)]. Quotas from income tax , 7550 million lei, represent 62,12% of total own revenues in 2006, towards 2005 when quotas from income tax were 4799 million lei, represented 51,1% from total local own revenues. The transfers from the state budget to local budget eliminate the amount allocated from income tax, but keep amounts allocated from VAT and grants. The amounts allocated from VAT in 2006 are bigger than previous years, but grants are smaller.

For obtaining bigger own revenues, were raised building tax, transport tax, yacht tax in 2006.

c) The amount of state transfers to local budget in total state revenues

The amount of state transfers to local budget in total state revenues show the level of state implication – central administration – in the sustaining of local budget. As a rule of local financial autonomy, is indicate this amount to be smaller.

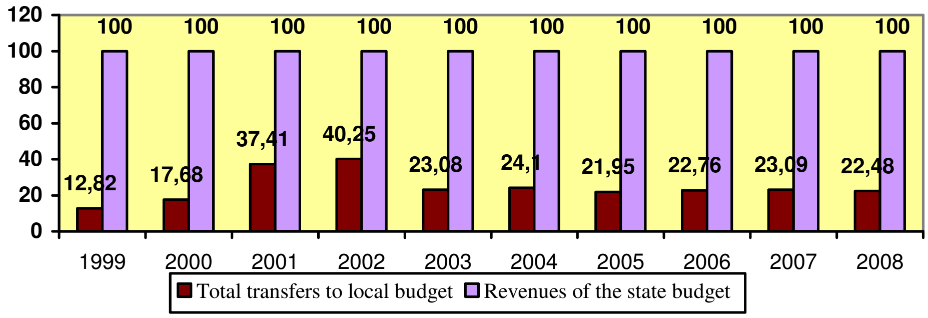

Figure 3: The evolution of state transfers to the local budget in total revenues of central public revenues (%)

The total transfers from state budget to local budget in Romania show big fluctuations over years, about 12,82% in 1999, 40,25% in 2002 and 22,66% in 2006 and 22,48 in 2008. These fluctuations are possible as a result of the decentralization process which supposes the reducing of transfers and the sustaining of exclusive competences from own resources.

The quotas from income tax are considered as own revenues. The income tax is collected at the state budget. At the end of the month, central authorities transfer 47% to local budgets, 13% to county budget and 22% in a special account of general departments of county public finances for the equilibrium of local and county budgets. The sum of percentages (47+13+22 = 82 %) demonstrates that to the state budget remain only 18% from the income tax.

d) Fiscal revenues

A relevant place in total local revenues belongs to the fiscal revenues. Local public revenues are collected using local fiscal policies, which are part of national fiscal policies. The tax redistribution is used to assure fiscal revenues to local authorities. The disadvantage of the redistribution system is the state consideration - if it shares its revenues with local authorities, it has the right to control haw the resources are used (specially, the opportunity of local authorities' decision-making). Another disadvantage is local taxes are established by national law and, so, local public administration doesn't enjoy of a real local autonomy.

Fiscal revenues have risen over the 2004-2006 period. The evolution is shown in the following charter:

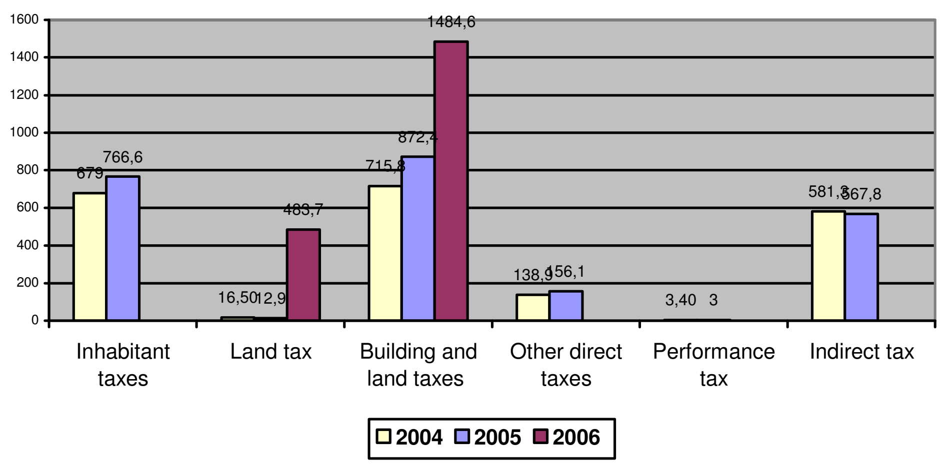

Figure 4: The evolution of local fiscal revenues in 2004-2006

Land tax is an important source of local fiscal revenues in Romania, but also in majority countries of the European Union. The transformation of land fee in land tax in 2006 generated a rising of these revenues. Indirect tax registered regress.

In general, the evolution of fiscal revenues in Romania is a positive one and this contributes to the implementation of local autonomy financial principle. If local administrations have the capacity to generate own revenues, they will succeed to detach from the state budget transfers.

e) The ratio of local public revenues to gross domestic product (GDP)

In Romania, total revenues of the local budgets represented 27708,6 million lei in 2006, meaning 8,4 % from GDP. In the same period of time, in the EU-27, the ratio of local tax revenue to GDP represented 11,2%.In this context, the ratio of local tax revenue to GDP in Romania is not faraway to the average of EU-27.

2. Expenditure indicators

a. The level of covering local public expenditures with own revenues

The impact of decentralization process can be analyzed using the level of covering local public expenditures with own revenues indicator:

The level of covering local public expenditures with own revenues = Own revenues/Local public expenditures * 100

This indicator is preferable to be big because local public administration can demonstrate its capacity to cover local public expenditures with own revenues and, so, its financial autonomy.

	2002	**2003**	**2004**	**2005**	**2006**
The level of covering local public expenditures with own revenues	24,45	28,09	24,39	46,57	47,86

Table 2: The level of covering local public expenditures with own revenues in 2002-2006 (%)

Data table shows a low capacity to cover the local public expenditures with own revenues in the period of time 2002 – 2004. Starting with 2005, this indicator raise to 47,86% in 2006. This rising demonstrates a good start for implementing the local financial autonomy.

b. Ratio of local expenditures

In Romania, the capital expenditures in local public budget imposed by the necessity of development of local public investments must rise as a condition of local public autonomy. The current expenditures are still too big. In 2006, the capital investments to local expenditures represented 19, 72%. In the same period of time, the average of EU-27 of capital investments to total local expenditures was 12,7%.

	Romania (million Lei)	**EU-27 (million Euro)**
Total expenditures	28761	1322956
Intermediate consumption	7076	331259
Compensation of employees	11608	453157
Interest	330	22186
Subsidies	16	44349
Social benefits	2998	196180
Other current expenditure	1061	76483
Capital transfers payable	0	29912
Capital investments	5672	168419

Table 3::The ratio of local expenditures in EU countries in 2006

Source: Eurostat

c. Local public expenditures to GDP

A relevant indicator for the level of taxpayer satisfaction is local public expenditures to GDP. This indicator allows estimating the amount of local public expenditures in accord with the economic and social development of each state. In 2006, local public expenditures represented 8,4% of GDP in Romania and 11,4 %of GDP in EU-27.

d. Local public expenditures to total public expenditures

Local public expenditures to total public expenditures is another important indicator for the ocal financial autonomy. In 2006, local public expenditures represented 41% of total public expenditures in Romania and 44,70% in EU-27.

	Romania (million Lei)	**EU-27 (million Euro)**
Local public expenditures	28761	1322956
Total public expenditures	68498	2959098

Table 4: Public expenditures in 2006

Source: Eurostat

Conclusion

Local public authorities in Romania, in accord with local autonomy principle, subsidiarity principle have big competences and the power to make expenditures established by Local public finances Act and Decentralization Act. The local financial indicators show the presence of financial autonomy in Romanian reality, but the funds are insufficiently for to perform good local public services as in others European Union countries. In spite of this, financial autonomy and the decentralization process make progresses as a result of the experience of local authorities in the funds management.

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