

ANALYSES OF ORADEA MUNICIPALITY'S ECONOMIC SITUATION THROUGH LOCAL REVENUES

Delcea Lavinia Sidonia

Faculty of Economics, University of Oradea

This paper proposes a new approach in presenting the economic situation of a municipality by analyzing its local revenues. The quantity and evolution of local revenues are extremely important in public management because, in their absence, local governments cannot implement any policy, endangering therefore the local economic development. In this paper we conducted an eight years analysis on the evolution of Oradea's municipality revenues. The used research methodology was both analytical and empirical, by constructing and analyzing selected indicators. In the end we conclude that the grants obtain by the municipality from the European Union represent the key to future economic development.

Keywords: local revenues, local development, public finance

JEL Codes: H20, H71, O18

I. Introduction

The institutional decentralization process has given local governments the opportunity to make a significant contribution to the sustainable development of the administrative-territorial units they manage. This contribution is represented by outlining the directions for future development of cities and municipalities based on the strategies and programs undertaken and through the allocation of financial resources to achieve their goals through. It is these increased responsibilities of local governments and their possible impact that led us to choose this research theme.

Each EU member state has its own legislation on local government finance, but the diversity of national rules is consistent with common law adopted at European level. Therefore, legislation is a key factor in the implementation of local financial autonomy and decentralization by establishing general rules for local government finance. Thus, Article 3 of the "European Charter of Local Self-Government", signed in Strasbourg on October 15, 1985, proposes that local authorities have the right to regulate and manage an important part of public issues and Article 9 presents some general principles on the financial resources of local authorities.

According to the current European ideas, it is necessary that the planning and preparation of local budgets to be done according to the requirement of structuring the resources according to the following criteria (Balan, 1999: 8): the needs of economic development, social and cultural needs, and needs regarding local government functioning.

Administrative-territorial units of the Member States of the European Union have pursued the continuing growth of local economies by increasing revenue performance that took place in connection with the five criteria: adequacy of income, financial independence, fairness,

The quantity and evolution of local income are particularly important in public management because, in their absence, local governments cannot implement any public policy (European Commission 2000: 3) thus jeopardizing local economic development. This paper deals with topics of local economic development in terms of revenues, having as its objective the analysis of Oradea's income evolution through specific indicators. The used research methodology is both analytical and empirical, by constructing and analyzing selected indicators.

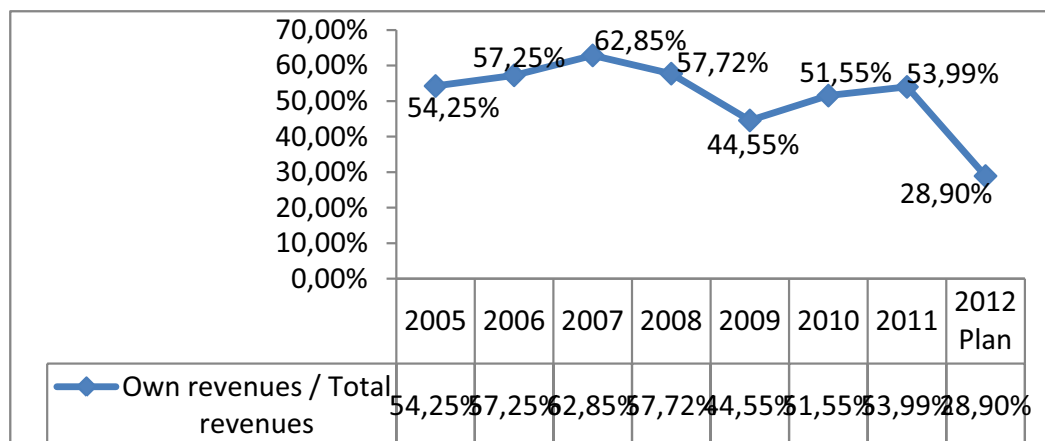
II. The revenues analysis of Oradea municipality's local budget

According to article 5, paragraph (1) of Law 273/2006 on local public finances, updated, local revenues are own revenues, consisting of: taxes, fees, contributions and other payments, other income and allowances deducted from income tax, the amount deducted from certain state

income taxes, subsidies from the state budget and other budgets, as well as donations and sponsorships.

Substantiation of revenues of local budget are normally based on observation and evaluation of taxable materials and the tax base used for calculating taxes and fees, evaluation of rendered services and revenues from those and other specific elements.

Indicator of own revenues includes both own current income and also deducted ratios from the tax on overall income, emphasizing local economic conditions. Own revenues are those that confer financial autonomy to the administrative-territorial unit. One can therefore conclude that with the increase of their income in total income, the degree of financial autonomy of Oradea has increased gradually from 2005 until 2007. But starting with 2008 a significant decrease in the autonomy can be seen, that continues also in 2012. The cause is the decrease of property tax revenues and particularly revenues from capitalizing assets.



Source: Elaborated by the author according to Oradea City Hall's data

Figure 1. Evolution of Indicator of own revenues

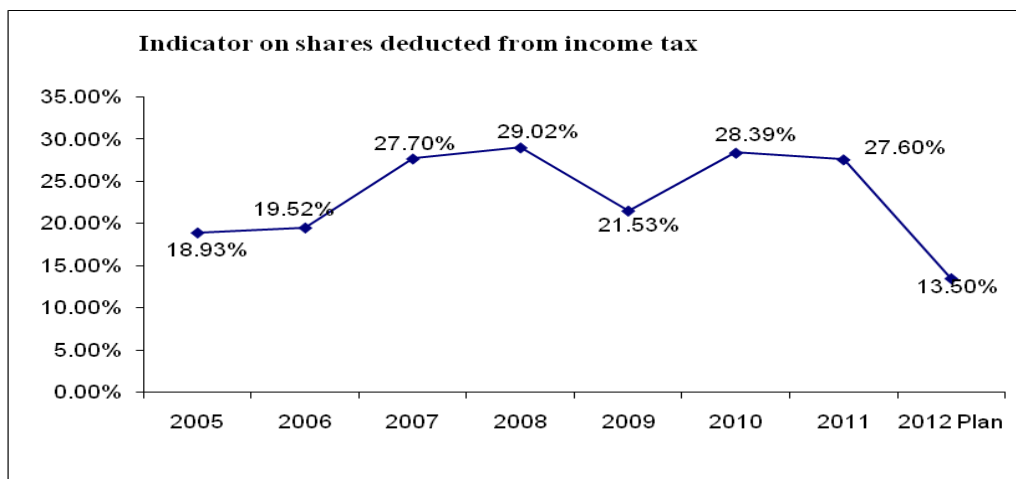
Indicator on property tax shows the evolution of the main categories of taxes managed by local public authority. This income is used for large cities to finance more than one third of total expenditures made by that local authority. Analysis of this indicator can provide information about the local economy: the value associated to tax base reflects, in case of Oradea, the force of local economy. From 2005 until 2007 an increase of share of property tax can be seen, from the total revenue of the municipality. This trend changed in 2008 and 2009 when the share of the total property tax revenues of Oradea fell to 15.25% and 12.13%. The indicator of the property tax recorded high values again in 2010 and 2011, and for 2012 the forecast is to further decline to 9.31%.

Table 1. Evolution of Indicator on property tax

Property tax revenues/Total revenues	2005	2006	2007	2008	2009	2010	2011	2012 Plan
	13.42%	14.49%	17.68%	15.25%	12.13%	16.39%	16.19%	9.31%

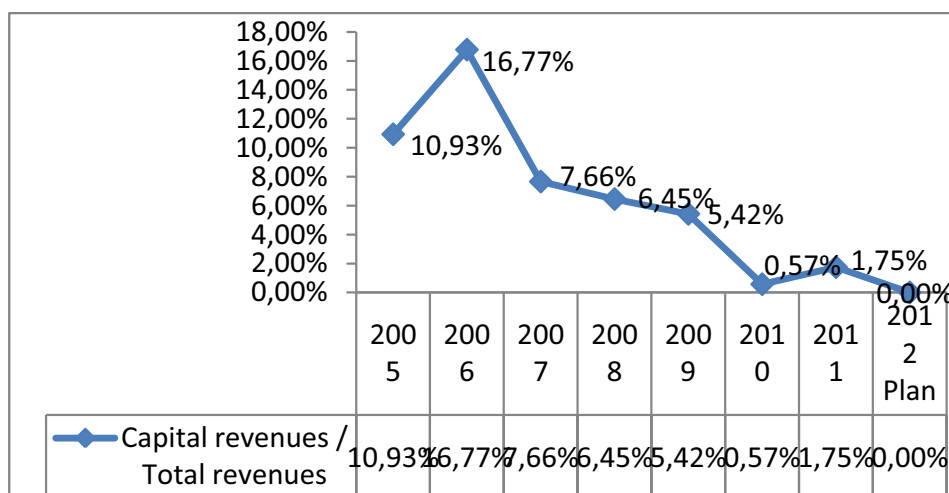
Source: Elaborated by the author according to Oradea City Hall's data

Indicator on shares deducted from income tax from the tax on income received by the state budget in each administrative units, every month (within 5 days at the end of month in which the tax was collected), a share of 47% is given to local budgets of communes, towns and municipalities to which taxpayers belong. Shares deducted from income tax allocated to Oradea have been growing from 2005 to 2008, while in 2009 their share in total city revenues started to decline, causing a record value of 21.53%. In 2010 and 2011 this indicator again elevated, but for budget year 2012 is expected to collapse with 14.10 percent points.



Source: Elaborated by the author according to Oradea City Hall's data
Figure 2. Evolution of Indicator on shares deducted from income tax

Indicator on capital revenues expresses the evolution of revenues resulted from sale of the private domain of Oradea. A decrease in the share of capital income in total income of the municipality can be noticed, except in 2006 when this ratio reached a relatively high level compared with other years. In budget year 2012, were projected no capital revenues for Oradea municipality.



Source: Elaborated by the author according to Oradea City Hall's data
Figure 3. Evolution of Indicator on capital income

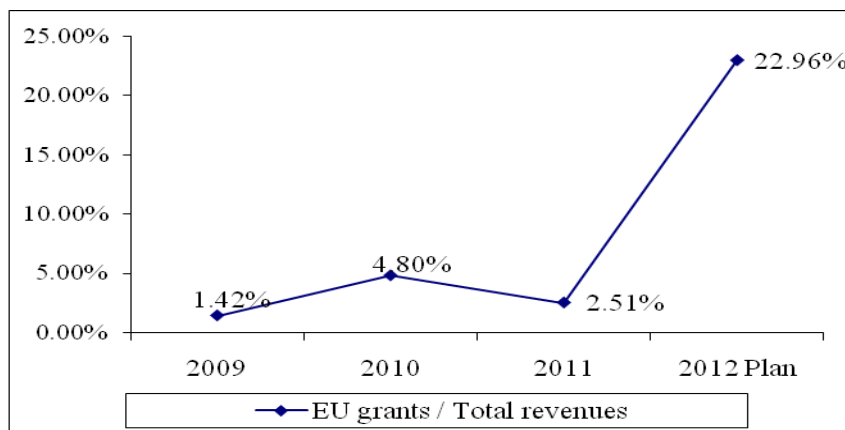
Indicator of subsidies from the state budget shows the financial dependence of local authority from the state budget and from other governments through some amounts deducted from state income taxes and subsidies received from this and other administrations. The evolution of this indicator is reverse as to progress indicator on revenues. For 2012 is expected an increase of the financial dependence of Oradea to the state budget and the county council's budget, this indicator registering a maximum value in the period analyzed.

Table 2. Evolution of subsidies from the state budget indicator

Subsidies from the budget / Total revenues	2005	2006	2007	2008	2009	2010	2011	2012 Plan
	45.75%	42.74%	37.14%	11.36%	26.66%	43.62%	42.32%	48.14%

Source: Elaborated by the author according to Oradea City Hall's data

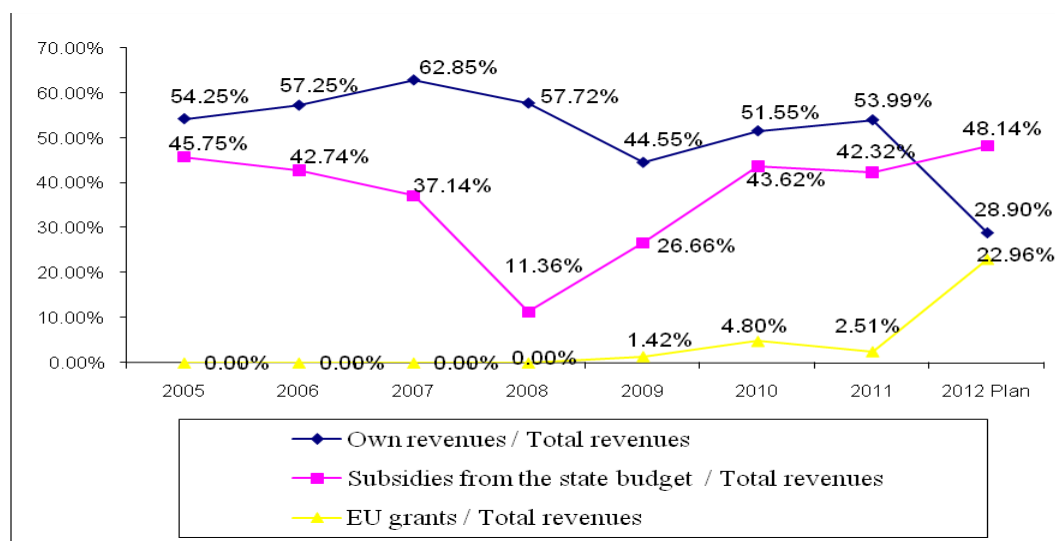
Indicator on the grants attracted - since 2009, Oradea recorded entries of amounts received from the European Union as a result of project proposals submitted to attract structural funds. Their share in total city income was relatively low in budget years 2009 - 2011, but for 2012 it is estimated a significant value of 22.96%. This represents an enormous help to the local budget, with the possibility of significant investments without using own revenues.



Sursa Source: Elaborated by the author according to Oradea City Hall's data

Figure 4. Evolution of Indicator on the grants attracted

The following Figure presents a comparative evolution of the three fundamental indicators of local government revenues: indicator of own revenues, subsidies from the state budget, and



Source: Elaborated by the author according to Oradea City Hall's data

Figure 5. Comparative evolution of own revenues indicator, subsidies from the state budget and European grants

and also the indicator on grants from the European Union. One can notice see a drastic fall in property income, but offset by the significant increase of grants obtained for Oradea's municipality projects, mainly investments.

III. Conclusions

After examining the local revenues indicators we can conclude that their evolution is divergent and does not allow a clear identification of the local economy situation. On one hand we noticed

an alarming decrease in Oradea's autonomy from the state budget through a drastic reduction with 46.73% share of own revenues in total revenues during 2005-2012. This was determined by a decrease of property tax revenues, shares deducted from income tax, and mainly of capital revenues.

Besides this, the indicator on subsidies from the state budget registered in 2012 its highest value from the analyzed period, predicting an increase in financial dependence of Oradea municipality to the state budget and the county council budget.

On the other hand, Oradea municipality has managed to attract large sums of money from the EU and the Romanian Government in the form of grants for mainly infrastructure investment, as a percentage of 22.96% of total local revenues, reducing the pressure on revenue own to cover these investments. Continuing to attract grants to the local level is in our opinion the key to Oradea's economic development, especially in light of local authority action.

IV. Note: This paper was supported by the project „Doctoral studies and doctoral students for competitive research in the knowledge based society”, POSDRU/88/1.5/S/53501, implemented under the Sectorial Operational Program for Human Resources Development 2007-2013 and financed by the European Social Fund and Government of Romania.

V. Bibliography

Bălan E. *Management of Local Public Finances*, Bucharest: Lumina Lex Press, 1999.

Council of Europe. *European Charter of Local Self-Government*, 1985, Accessed in April 2nd, 2012, <http://conventions.coe.int/Treaty/en/Treaties/html/122.htm>

European Commission. *Tax Policy in the European Union, 2000*, Accessed in April 3rd, 2012, http://ec.europa.eu/publications/booklets/move/17/index_en.htm

European Commission. *Financing the European Union. Commission Report on the Operation of Own Resources System*, Brussels, 1998. Accessed in April 3rd, 2012, http://ec.europa.eu/budget/biblio/documents/financing/financing_en.cfm

Law 273/2006 on local public finance, updated

Oradea City Hall, „Mayor's Report 2005”, Accessed in March 17th, 2009, <http://www.oradea.ro>