

# THE EXPENDITURES ANALYSIS OF ORADEA MUNICIPALITY'S LOCAL BUDGET

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*The quantity, evolution and destination of local expenses are particularly important in public management because they sustain the local economic development policies supported by the local public administration. In this paper we conducted an eight years analysis on the evolution of Oradea's municipality expenses. The used research methodology was both analytical and empirical, by constructing and analyzing selected indicators. We concluded with observing an improvement in Oradea's expenditures policy efficiency during 2005-2012.*

*Keywords: local expenditures, local development, public finance*

*JEL Codes: H72, H76*

## **I. Introduction**

As a result of the decentralization process from central authorities to local administrative units, in all European Union countries, an important amount of economic activity takes place under the responsibility of administrative, financial and legal local administration (Dafflon 2007: 115).

Local public administration has undergone many reforms following the implementation of the principle of local autonomy and decentralization. In terms of local public expenditure, these reforms were adopted according to the needs of each country. Local public expenditure in the new EU member states registered an upward trend due to the decentralization of local government which generated increase of competence and responsibilities (European Commission 1998: 5). The European Union initiates and implements local tax reforms in order to identify the most efficient form of local government, based on the principles of "European Charter of Local Self-Government".

This paper tackles the topic of local public expenditures, aiming to analyze the efficiency of Oradea's expenditure policy through selected indicators. The research methodology used is both an analytical and empirical, by constructing and analyzing the indicators.

## **II. The expenditure analysis of Oradea municipality's local budget**

Parlagi (2000 in Matthew, Anghelescu and Savulescu 2009: 12) defines local development as a process manifested in a certain region or political subdivision which increases life's quality. The purpose of local economic development, as presented in one of World Bank's documents, is building the economic capacity of administrative units to improve their economic future and to life's quality for all residents. Sizing and execution of local government expenditure is extremely important in order to fundament and finance a municipality's development programs as well as determining the efficient use of financial resources.

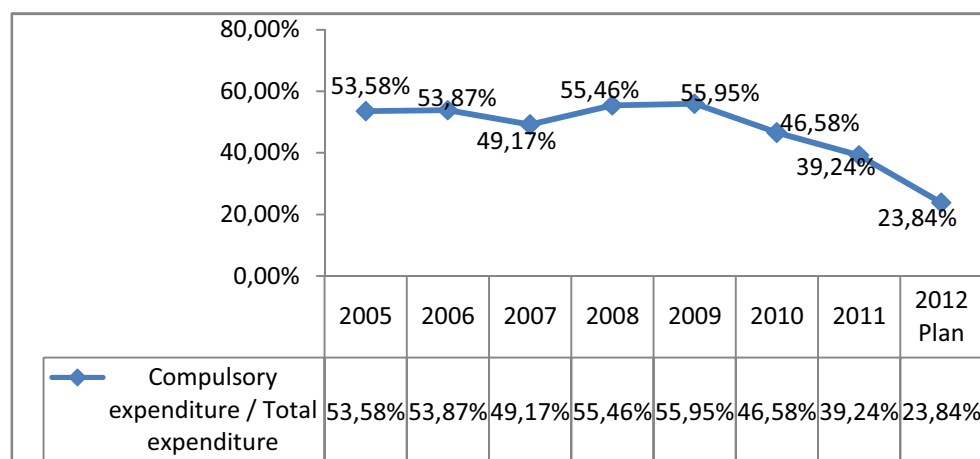
According to Article 5 of Law 273/2006 on local public finance, funding, sizing and distributing the local expenses on authorizing officers, on destinations, on destinations, respectively activities, programs, projects, goals, tasks, are performed in accordance with the local government's responsibilities, with priorities set by them, for their operation and for local interest. Substantiation and approval of local budget expenditures are made in strict correlation with the real possibilities of local budget revenue collection, which is expected to be made.

Halpern, Weston and Brigham (1998: 87) believe that the efficiency costs of economic activities can be determined and monitored through cost-benefit or cost-effectiveness analyses. This requires a clear definition of the objectives to be achieved, identify potential resources and technical means that could be taken into account in the design alternatives.

On the other hand, according to the Council's of Europe Report, "Budget and Budgetary Procedures at Local Authority Level Management", in order to analyze the economic efficiency of local public expenditure there must be established indicators of effective use of resources. By using them, one can compare the results obtained in prior periods and even forecasts with the nowadays situation, identifying the specific causes which led to the results found and providing measures to be taken to improve them.

In terms of cost effectiveness analysis of Oradea's expenditure policy, we chose to study the evolution of a series of indicators used in one of Oradea's City Hall documents, namely the "Mayor's Report 2005".

**Indicator of the compulsory expenditure** is the main indicator of the rigidity of public expenditure and includes personnel costs, subsidies, social spending and public debts. This indicator highlights the share of compulsory expenditure in total expenditure of Oradea Municipality. There is a downward trend during years 2005 - 2012, from 53.58% in 2005 to 23.84% in 2012.



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

**Figure 1. Indicator's of the compulsory expenditure evolution**

**Indicator of total expenditure with personnel** of the city budget reflects the efforts to ensure the necessary funds for paying the salaries financed from local budgets. Throughout the 2005-2009 the salary costs accounted for about half of total local government spending. Their share in total expenditure amount has been constantly declining in recent years, the lowest recorded in the 2012 budget year due to job cuts and public sector wage decreases.

**Table 1. Indicator's of total expenses with personnel evolution**

Salary expenditure / Total expenditure	2005	2006	2007	2008	2009	2010	2011	2012 Plan
	32.11%	31.60%	31.16%	35.19%	38.45%	33.64%	24.25%	14.65%

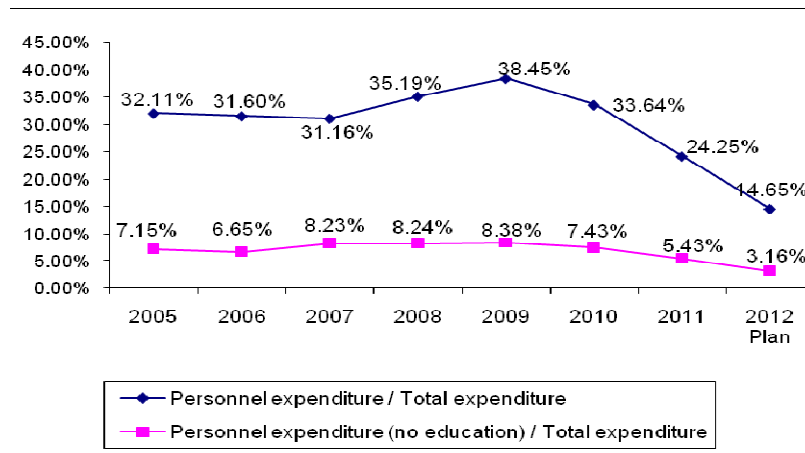
Source: Elaborated by the author according to Oradea City Hall's data

**Indicator on autonomous personnel expenditure** (excluding salaries given for education sector) refers to the amounts allocated by the public authority to pay the administrative personnel and reflects the evolution of their share in total city expenditures. The evolution of this indicator over the period 2005-2012 is a sinuous one, as shown in Table below. According to budget planning, the lowest registration for this indicator will be in 2012, that is 3.16%.

**Table 2. Indicator's on autonomous personnel expenses evolution**

Salary expenditure (no education)/ Total expenditure	2005	2006	2007	2008	2009	2010	2011	2012 Plan
		7.15%	6.65%	8.23%	8.24%	8.38%	7.43%	5.43%

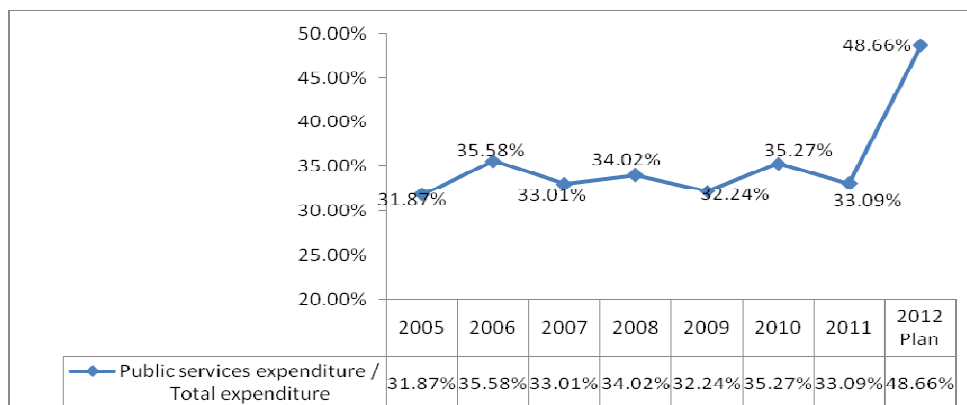
Source: Elaborated by the author according to Oradea City Hall's data



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**Figure 2. Indicator's of personnel expenses evolution**

**Indicator on public services expenditure** highlights the effort of the local budget to finance public services provided by the city of Oradea, including investments made.



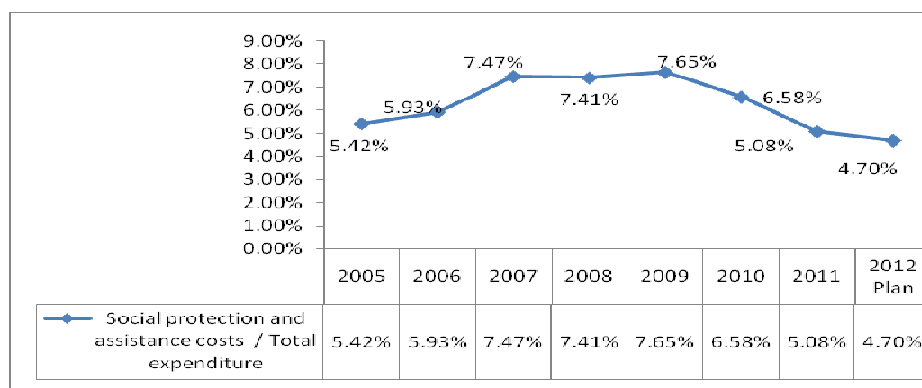
Source: Elaborated by the author according to Oradea City Hall's data

**Figure 3. Evolution of public services spending indicator**

The share of expenditure on public services in local budget expenditures reached highest levels in 2006 and 2010, with a slight decrease in 2011. In 2012, however, the highest value of this indicator in the years analyzed, of 48.66%, is expected.

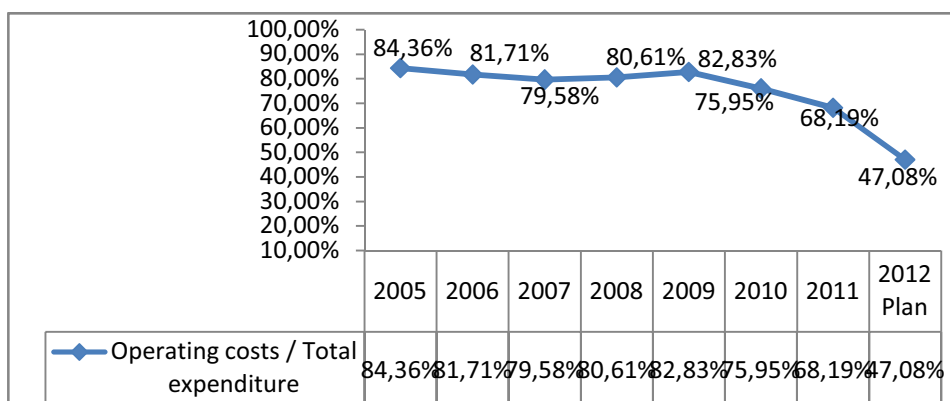
**Indicator of social protection and assistance costs** is a measure of local authority's effort to support social policy and programs undertaken, having as target the disadvantaged groups or persons having social problems. Increasing the share of social expenditure in total expenditure during 2007 - 2009 was due to increased direct spending on social assistance, and also to salaries for those persons, goods and services necessary for the provision of these services. In the last two

budget years, this indicator decreased continuously, recording in 2012 the lowest value of 4.70% from the period studied.



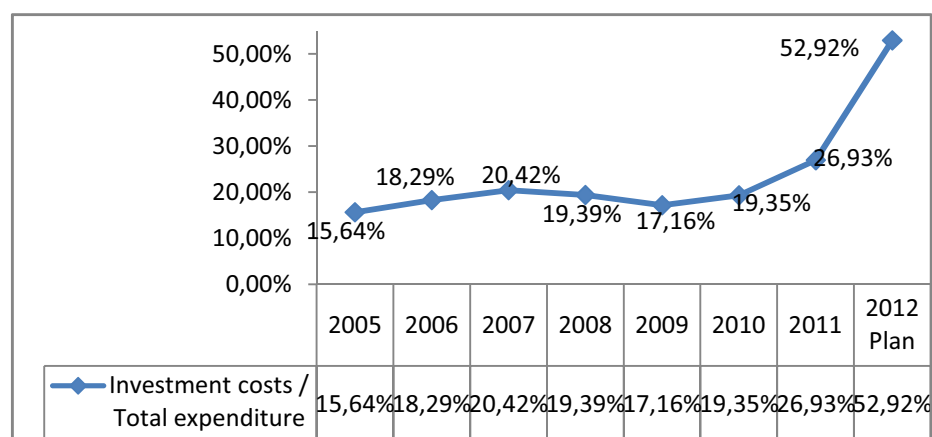
Source: Elaborated by the author according to Oradea City Hall's data  
**Figure 4. Evolution of social protection and assistance costs indicator**

**Indicator of operating costs** represents the evolution of operating expenditure ratio for operation of public services in all local government spending, eliminating the propensity to invest. It is known that these expenses have greater rigidity than the cost of capital for new investments because if officials may decide to postpone the latter in case of shortage of resources, operational expenses cannot be postponed. Note that this indicator has shown a continuous decrease in the last four budget years, with an estimated value of 47.08% in 2012.



Source: Elaborated by the author according to Oradea City Hall's data  
**Figure 5. Indicator's of operating costs evolution**

As expected, taking into account the evolution of the Indicator of operational expenditure, the share of investment expenditure in total expenditure increased continuously during the last four budgetary years, from 17.16% in 2009 to an impressive estimate of 52.92% in 2012, showing a strong preference of local public administration for development.



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

**Figure 6. Evolution of investment costs indicator**

### III. Conclusions

Given the decrease in the analyzed period of the share of compulsory expenditure in total expenditure by almost 37%, the share of personnel expenses by over 54% and the share of operating expenses by over 44%, and the increased in the same period the share of expenditure on public services in total spending by about 52% and doubling the share of investment expenditure in total expenditure, we conclude that the expenditure policy of Oradea was greatly improved in the period 2005-2012. The analyzed indicators show a greater attention of local government to reducing operational costs and increasing development costs, in its attempt to contribute, to a greater extent, to improving life's quality in the studied administrative-territorial unit.

**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.

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