

BUDGET AND BUDGET EXECUTION IN THE NORTHWEST REGION OF ROMANIA

Bătrâncea Ioan, Bechiş Liviu, Bătrâncea Larissa, Stoia Ioan

¹ Department of Finance, Faculty of Economics and Business Administration, Babes-Bolyai University, Cluj-Napoca, Romania

² Department of Finance, Faculty of Economics, Vasile Goldis University, Arad, Romania

³ Department of Business, Faculty of Business, Babes-Bolyai University, Cluj-Napoca, Romania

⁴ Department of Finance, Faculty of Economics and Business Administration, Babes-Bolyai University, Cluj-Napoca, Romania

i_batrancea@yahoo.com

liviubechis1960@gmail.ro

larissabatrancea1707@yahoo.com

saicont2004@yahoo.com

Abstract. The budget is a multiannual tool for financial forecasting both at micro and macro level. In this sense, regional and local government budget is a financial instrument that connects resources to use local funds in order to ensure the prosperity of the community concerned. Construction and especially budget execution highlights the effectiveness of local and regional government. Using a system of correlated indicators it reveals income, expenditure and budgetary outturn.

Keywords: budget, budget execution, cash flow, revenue collection level, primary deficit

JEL classification: H72

1. Literature review on local government budget

The term budget with its multiple meanings is specified in the content of the public finance law. Thus, legal rules provide that the budget means the document that is provided and approved each year concerning revenue and expenditure or, where appropriate, only the costs, depending on the system of financing public institutions (*Law no. 500/2002, on public finances, published in Official Gazette 597 of 08.13.2002).

Public financial resources are established and managed by a single system of budgets, namely the state budget, social insurance budget, local budgets, special funds budgets, state treasury budget and the budgets of other public institutions with autonomous character under the conditions to ensure budget balance.

The national budget is the main financial instrument of the state, which serves the size of financial resources to establish their destinations and to substantiate the financial balance over a given period, usually one year.

The main external influences that may affect the budget, are grouped in the following areas (Brookson, 1997, pp. 30-31): the economy (inflation, interest rates, taxes etc.). Population (type, number, mobility and future trends) workforce (number, availability, demand, expectations), law (labor law, consumer protection, health,

safety), governments (types, fiscal and monetary policy, industrial policy, incentives, initiatives).

Some experts consider that the budget function reflects the monetary expression of the quantity of each public utility (Niskanen, 1976, pp. 617-643), while others believe that the budget constraint expresses that require voters about the usefulness of certain purchases or public works. (Moesen & Cauwenberge, pp. 207-224)

The budget is the most important act of public life, it is the financial expression of the state action program for the period of one year.

2. Method and results

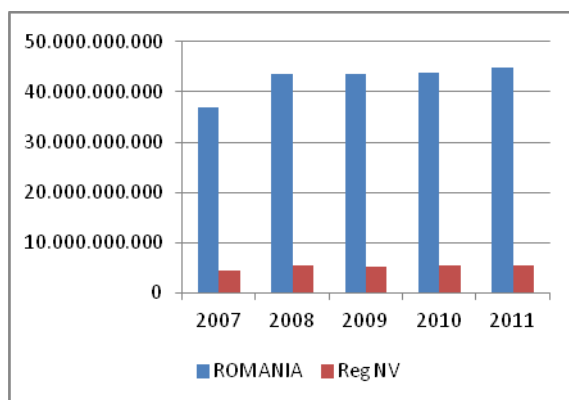
The regionalization of Romania, in terms of territory took place in 1998, when they founded 8 regions (North - East, South - East, South - Muntenia, South West, West, North West, Central, Bucharest Ilfov).

Like all developing regions, the North West has no administrative powers, its main functions are coordinating regional development projects and absorption of EU funds.

North West Development Region comprises 6 counties. In each county local authority structures are the County Councils, Local Councils, municipal, town and community.

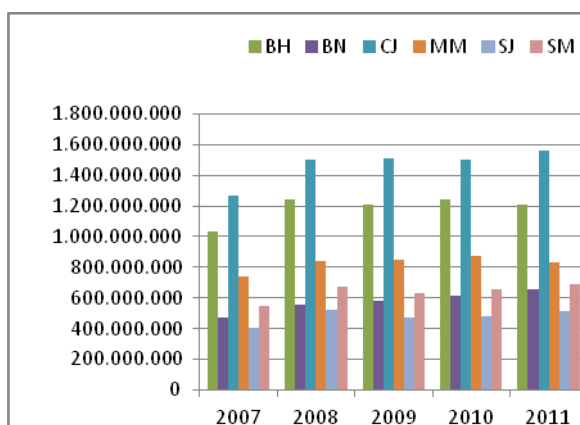
2.1. Analysis of the budget revenues in the northwest region

Indicators of income - are indicators that reflect a certain level of income and the extent to which local and regional government holds control over regional and local revenues.



Graphic 1: The evolution of total revenues in Romania and North-West region

Source: The budget and the financial statements of county administrations in the North-West region



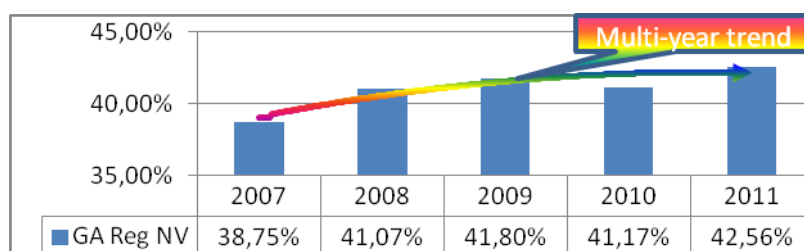
Graphic 0: The evolution of total income in the counties in the North-West region
Source: The budget and the financial statements of county administrations in the North-West region

The first indicator is the degree of self-financing of local government (GA), which represents the ability of local government to cover the total costs of revenues (tax and non-tax revenues for local government where authorities are responsible for establishing, monitoring, control and collection):

$$GA = \frac{CT}{VP} \times 100$$

where:

- CT represents the total expenditure;
- VP represents own income.



Graphic 3: Evolution of the self-financing in the North-West region
Source: The budget and the financial statements of county administrations in the North-West region

We consider that as this indicator is 100% a way for the self-financing local government projects is ensured. From the graphic notes above we observe that the funding needs of local governments is around 50% of own funds, the rest being used for investment resources.

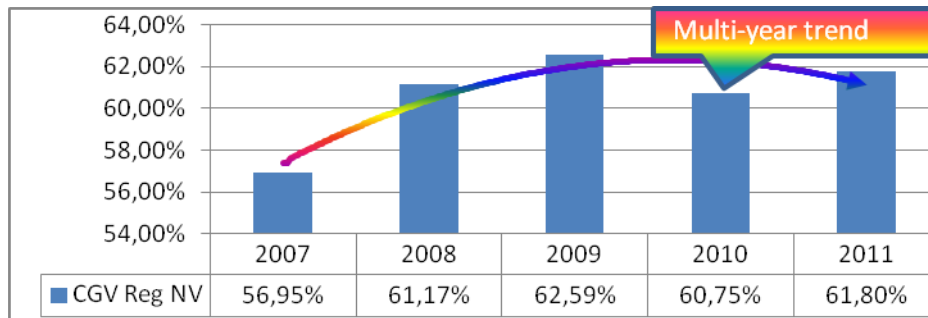
Capacity of local authorities to generate revenue (CGV) is another important indicator that can be defined as a share of own revenues (tax and non-tax revenues that are under the control of local authorities and rates of income tax collected in the

territorial administrative unit) - which reflects the development of local economy - the total budget revenue for local authorities.

$$CGV = \frac{VP + \text{shares IVG}}{TV} \times 100$$

where:

- VP + shares IVG represents own income and share of income tax collected in the territorial administrative unit;
- TV represents total income.



Graphic 4: The evolution of local government capacity to generate revenue in North-West region

Source: The budget and the financial statements of county administrations in the North-West region

The indicator reflects the credit standing of local government units, its financial autonomy is all the greater as this indicator tends to 100%. From the above plot it is observed that the own funds of local governments representing are over 60% of total funds with remaining resources being provided from other sources.

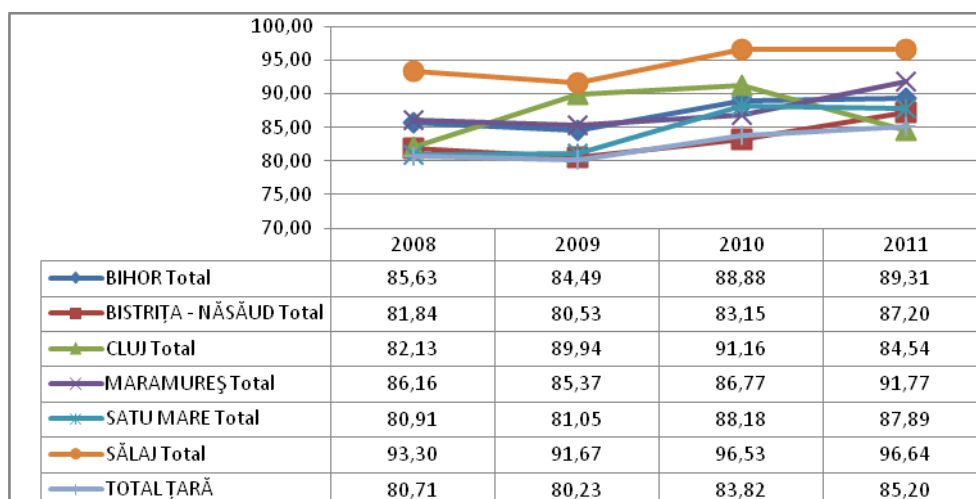
Local authorities should exercise strict control over their own income, but can not control the source of the income tax rate, power tracking this source of income is through deconcentrated central government. The more developed the administrative territorial-unit is in terms economic term the higher the indicator is.

Degree of own revenue collection (Gr.CVp) is the collection of own revenues in a given period, compared with the corresponding period's budget.

$$Gr.CVp = \frac{RV_p}{PV_p} \times 100$$

where:

- RVP represents the achievements of their income;
- PVP represents the program to achieve their income.



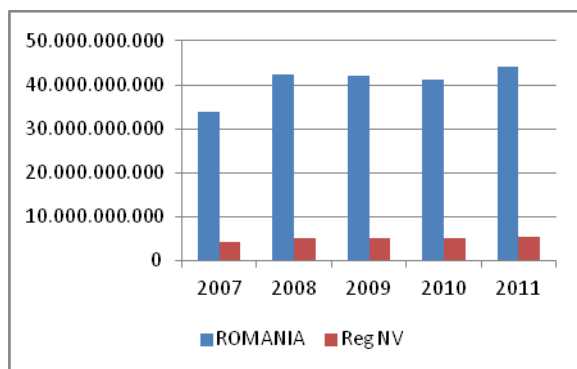
Graphic 5: The evolution on counties of the collection of own revenues in the North-West region

Source: The budget and the financial statements of county administrations in the North-West region

The indicator reflects the ability of local authorities to collect and properly establish their own income. The indicator tends toward 100% so one can say that the level of own revenue collection is optimal and it is more efficient in financial management. From the above plot it is observed that the highest level recorded is in Cluj County, and the lowest in Bistrita-Nasaud. Comparing the data with the country's is noted that the whole north-west region's values are superior to it.

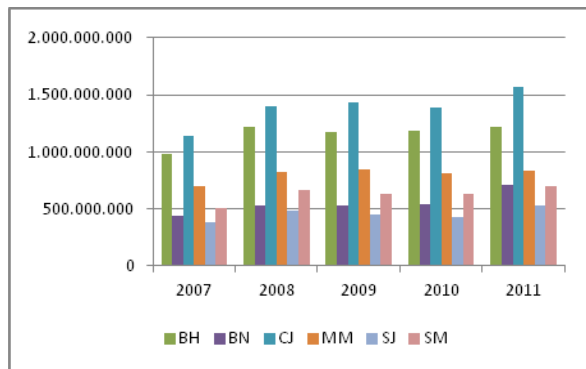
2.2. Budgeted expenditure in the north-west region

Specific indicators are indicators that reflect the degree of expenditure flexibility in allocating resources to different destinations.



Graphic 6: Evolution of total expenditure in Romania and the North-West region

Source: The budget and the financial statements of county administrations in the North-West region



Graphic 7: The evolution of total spending by county in North West region
Source: The budget and the financial statements of county administrations in the North-West region

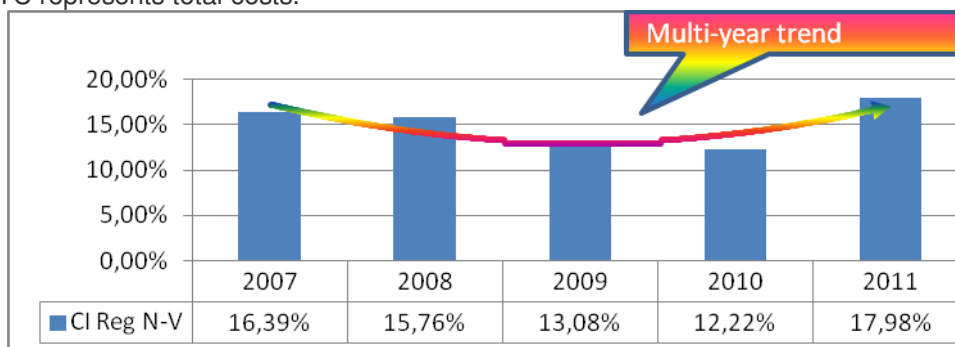
Investment capacity (CI) is an important indicator which is calculated as a ratio of capital expenditures and total expenditures allocated and highlights how a local authority local development in a budget year.

$$CI = \frac{Cc}{TC} \times 100$$

where:

CC represents capital expenditure.

TC represents total costs.



Graphic 8: The evolution of investment capacity in the North-West region
Source: The budget and the financial statements of county administrations in the North-West region

From the graphic above we note that investment is maintained low during 2008-2011 and the growth is in 2007 and 2011. Use of this budgetary practice can provide useful and necessary information for setting policy and long term budget and expenditure prioritization. At the same time, while using other indicators, the tendency or expenditures can be controlled at the expense of development.

The indicator can be used in two ways, namely:

► To determine the ability to invest using resources from its own budget; in the formula expenditures made from funds raised (external grants, loans, etc.) will not be introduced.

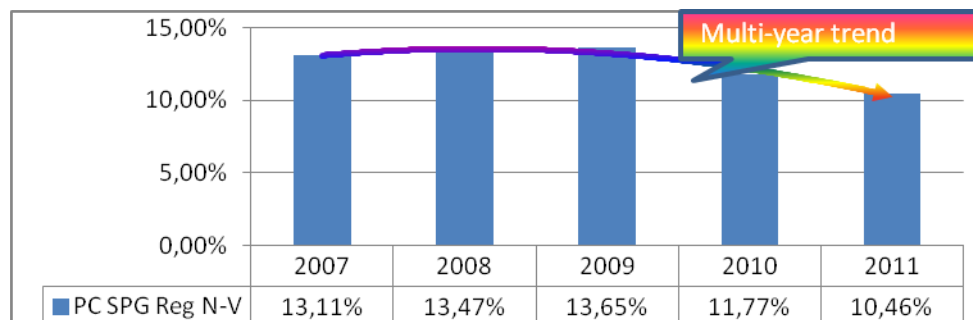
► This indicator is intended to measure the quality of government management so far that in the formula can be entered expenditures made from funds raised.

General public expenditure share in total expenditures (PC GSP) is an indicator that can be calculated as the ratio between the total expenditure and budgeted expenses.

$$PC\ SPG = \frac{SPG}{TC} \times 100$$

where:

- GSP represents spending general public.
- TC represents total costs.



Graphic 9: Trend in share of overall public expenditure in total expenditure

Source: The budget and the financial statements of county administrations in the North-West region

From the graphic above is noted that this indicator remains at a low level during the period 2009-2011 and the growth is in 2007-2009. The indicator reflects the local government's policy to manage the funds at its disposal to ensure its smooth functioning.

2.3. Budgetary performance of North-West region

Results and performance indicators on the one hand reflect the financial management capacity of local governments and on the other hand provide a clear picture of participation in economic activity in the community. The most suggestive indicators are presented below.

Financial management capacity (CMF) can be defined as all resources mobilized locally compared to the total expenditure incurred on the basis of the principle of local autonomy:

$$CMF =$$

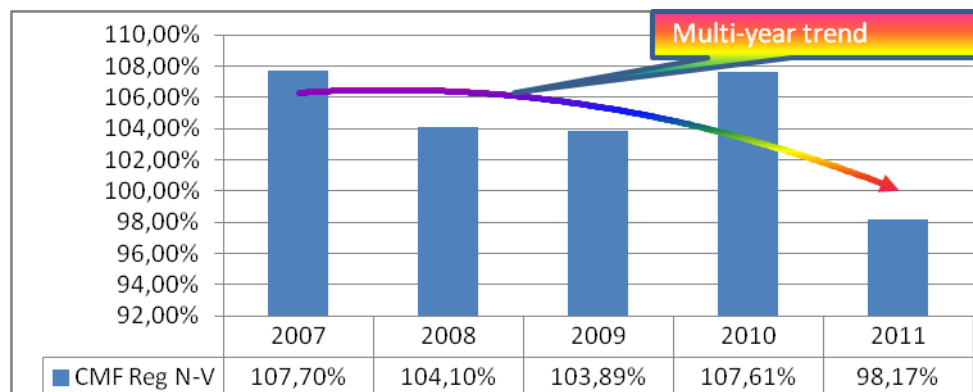
where:

- VR represents income;
- CR represents achieved expenses.

In public finance practice we are confronted with a growing demand for balancing funds, in detriment of developing the quantity of own revenues (taxes on individuals and businesses).

Financial practice of local government is faced increasingly often with a balancing overload of funds in detriment of development in the amount of funds collected from its own funds for the local government which has the power of setting, tracking and collections.

The issue of insufficient financial resources allocated from the state budget should not be neglected while decentralization of responsibilities. The result of this measure, which takes into account how the foundation budget (income and expenditure) and the fulfillment of the approved budget (revenues and expenditures) is met gives a measurable quality regarding the financial management adopted by the authorizing officer and the institution that coordinates.



Graphic 10: The evolution of financial management capacity in municipalities in the North-West region

Source: The budget and the financial statements of county administrations in the North-West region

From the graphic above we note that local government covers all costs of income except in 2011, when the coverage is 98.17%.

Fiscal effort of local government units (EF) can be defined as the percentage of public revenue local community generates itself, under its elected administration of total local government revenue collected both for themselves and for society.

EF

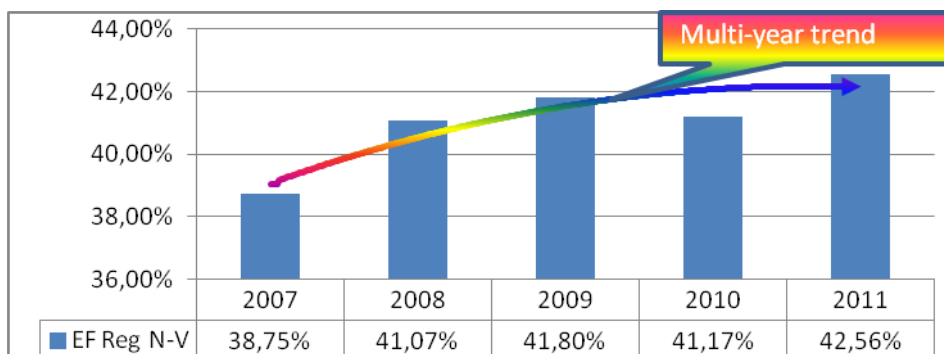
where:

- VGL is locally generated revenues (own income + share split);
- VIL is locally collected revenues (revenues earned + own + share amounts deducted and subsidies, transfers, loans, grants).

In this model considered local revenues are those revenues for establishing competence, tracking and collection belonging to the territorial administrative unit (local taxes for individuals and businesses, revenues from rental and leasing, revenue from the sale of goods).

Local earned income is in this model, all income derived by an administrative territorial unit from all sources during legislation for which the analysis is performed (own income, allowances deducted from certain state income taxes, amounts deducted from certain budget revenues State special purpose or balancing subsidies and transfers, donations and sponsorships). The result of this indicator helps, along with other indicators and local government in particular -the financial management capacity, a pragmatic analysis of effort the local community makes for local economic development and the provision of public services .

This indicator can be taken into account and in the preliminary analyzes of stabilising the buget of local communities.



Graphic 11: The evolution of fiscal effort for territorial administrative units in the North-West region

Source: The budget and the financial statements of county administrations in the North-West region

From the graphic above we note that the fiscal effort of local governments is about 42%, compared to the income earned by them.

3. Conclusions

From the investigations we drew the following conclusions:

- financial autonomy underlying the development of local budgets causes, or - as outlined in the legal literature - has the effect of preserving the individuality of each local budget and local budgets as overall configuration of the budgets of all municipalities, cities and counties in Romania;
- budgetary process, manifested in local government autonomy, means all actions and measures taken by competent state institutions for realization of the financial policy implemented by the government. On the other hand budgetary process assumes the existence of financial resources and their allocation to provide the public goods and public services;
- in local budgets meet, on the one hand, revenues and on the other hand expenditures of administrative - territorial units to satisfy local need;
- In our opinion, the budget process should be evaluated using a system of indicators of income, expenditure and budget execution as to assess the effectiveness of local administration. The analysis undertaken at the local

government in the Northwest region found that financial resources were used by local budgets effectively.

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