The Role and Place of Local Budget Within Local Public Finances

Cristinel ICHIM

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THE ROLE AND PLACE OF LOCAL BUDGET
WITHIN LOCAL PUBLIC FINANCES

Cristinel ICHIM

Abstract
The present paper represents a scientific approach which analyses the importance and role that local budget has within the local public finances amid the financial relations in our country. In approaching the subject we started fixing the notion of local finance and then we clarify the concept and place of the local budget as the main part of local public finances. In the last part of the article we dealt interrelationships and the role of the local budget in the general consolidated budget. To demonstrate the role of local budgets within the general consolidated budget we used shares that income and expenditure of local budgets have in the total of revenue and expenditure of general consolidated budget.

Keywords:
local budget, local public finances, revenues, expenses, autonomy

JEL classification: H 72, H 83

1 Ph.D. Lecturer at „Ştefan cel Mare” University of Suceava, Romania, cristinel@seap.usv.ro
INTRODUCTION

To satisfy the needs of the society is necessary to establish some important amounts of money available to public authorities. These funds consist of a part of gross domestic product and use to finance social needs of both national and local interest. The funds to which we refer are made from the transfer of value, of purchasing power from various individuals and legal entities available to state, central and local administration authorities.²

In the process of raise and distribution of resources that local administrative authorities need to fulfil, their functions and duties come out certain economic relations in connection with the distribution of a portion of gross domestic product between public authorities and social categories. The relations that appeared in the process of mobilizing and allocating resources necessary for local authorities, in cash, are financial relationships called local public finances. In all previous socio-economic systems the local public finances were influenced by economic, political and social conditions through which the establishment and distribution of financial funds were accomplished. According to the modern concept the local public finances constitute³ the activity of the local administrations in their role as financial user of special financial techniques such as: budget, taxes, fees, allowances, expenses, loans, etc. The main part of local public finances is the local budget that the law⁴ defines it as the document through which are provided and approved each year revenues and expenditures of administrative territorial units.

I. LOCAL PUBLIC FINANCES-COMPONENT OF PUBLIC FINANCES

Local public finances are a component of public finances side by side with the public finances of central administration that express cash resources at the level of administrative territorial units to meet collective requirements represented by education, culture, social care, public services, development.

The evolution of local public finances is closely linked to the evolution of local autonomy, which implies the existence of a local financial independence. The exercise of local autonomy is achieved in the financial domain but under sides and with specific conditions in this area. The local public finances are

² Iulian Văcăreț and colab., Public finances, Didactic and Pedagogic Publishing House, București, 2006, pp. 56-57
designed to mobilize and allocate the financial resources necessary to carry out socio-economic activity at the local level. Local financial autonomy is also a guarantee of real local autonomy, satisfying social needs of the community being possible in accordance with local features. Local finances are only a part of the local government and any debate upon those issues must be placed in the context of a more general assessment of the adequacy and functionality of the institutional framework taken as a whole.

The funds formed and used in the administrative-territorial units are administered on the principle of local autonomy that implies initiative and responsibility in relation to the finances of the central administration.

The local public finances within the public finances are individualized by a certain complexity, due to the number of territorial administrative units within a country, their level of socio-economic development, and their local peculiarities. The local public finances ranks high in all public finances due to the complexity and diversity of socio-cultural and economic activities, public services that take place within the territorial administrative units and to the increasing of the responsibility of local authorities in providing some public services. The local public finances represent a subsystem within the financial system that is distinguished from the point of view of forming resources and the way these funds can meet the requirements in the communities. As part of the financial system, local public finances have a number of interdependencies with other components of the financial system.

The main interrelationships occur between local public finances and the finances of central state administration because local authorities to which own revenues do not cover expenditures provided for its own budget benefit from quotas deducted from VAT and financial transfers.

The private firms pay tax on buildings, land tax and local taxes to local budgets for local public services they receive. Companies with state capital and autonomous administrations pay income tax to the budgets of the administrative-territorial units. On the other hand, local administrative authorities can borrow money by issuing municipal bonds and financial institutions under certain conditions.

Local public finances reflects economic relations by which are established and used financial resources at the level of territorial administrative units without direct and immediate counterpart in order to satisfy the social-cultural and economic requirements and to provide certain public services by local authorities.

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5 Gheorghe M. Voinea, Local public finances and their efficient administration, Economic Publishing House, Bucharest, 2011, p. 27
Fig. no. 1  Interdependencies of local finances with other components of financial system

The aspects mentioned above show that local finances as part of the public finances ‘exist to serve the achievement of objectives precisely determined to fulfill certain tasks that could not be accomplished by any other way or other means.’

Referring to the role of local finances, we consider the results obtained from achieving their functions, in other words the contribution of finances to the development of communities. There is a close interdependence between financial and economic processes seen as a whole of economic and social activities.
Starting from the idea of the interdependence of economic and financial phenomena comes off clearly the position of public finances and through it, of local finances as a key factor through which the state influence is exerted on the development of economic and socio-cultural construction. In this regard, we understand the role of local finance in providing a wide and varied range of units under specific conditions for the local communities.

It follows that the main concern in local finances must be to find the most effective ways to ensure the participation of local collectivities with their full capacity to finance actions carried out within the territorial administrative units, to provide the joint interest of local authorities to mobilize local resources for actions of universal interest.

The funds created and distributed by local financial relations and their relationship with local establishments and institutions as well as with the state budget emphasize their active role in social and economic development of the counties and localities of the country. Social or collective needs are met at the expense of activities organized by local authorities. This aspect requires the existence of some public institutions able to provide citizens with public utilities they need and that they cannot acquire by means of the market.

The local community benefits entirely from the use of public actions, whether or not their members participated to the effort of their funding. The consumption of the utilities is individual and non-competitive as they are available for several people at the same time. Unlike private goods that can be purchased through the market, the utilities can only be achieved by means of public authorities the only ones able to organize institutions, services or actions of general social interest.⁶

II. THE PLACE OF LOCAL BUDGET WITHIN PUBLIC LOCAL FINANCES

In the sphere of the local public finances, are included local budgets, finances of local public institutions and other financial resources, mobilized and disposable to local authorities. The local budget represents the main part of the local public finances. In the specialized literature⁷ local budget appears as "financial relationships corresponding to the expenses of local communities for specific actions, namely those related to the creation of their revenues or amounts that are received from higher budget (state budget the budget of the respective county)." Local budgets are drawn up by local authorities of the territorial

administrative units under conditions of autonomy and represent instruments for planning and managing their financial activity\(^8\).

Local budgets, as the main part of local finances reflects the requirements for financial resources needed for social, cultural and economic actions, public services and development in the competence of the authorities of public administration, but also the way to acquire the financial resources of a fiscal year\(^9\).

\[\text{Fig. no. 2 Inflows and outflows of financial resources to and from local budgets}\]

The local budget can be interpreted in the following hypostases:\(^10\)

a) The local budget is a normative legal act in which are stipulated and approved by decision of the local or county council the public revenues, i.e. the cash sources of the administrative units and the annual expenses (the use of revenues) of administrative units or public institutions of local interest.

Viewed as a normative act the local public budget is primarily a forecast act indicating in an evaluative and comparative way the financial resources of the administrative-territorial unit or of the local public institutions of local interest and their destination as expenses. Secondly, the local budget is an authorization

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\(^8\) Gabriel Popeangă, \textit{op. cit.}, p.111  
\(^9\) Gheorghe M. Voinea, \textit{op. cit.}, p. 31  
act by which the executive (mayor / chairman of the county council) is empowered by the deliberative power (local council / county) to spend and to levy revenues according to the law.

Finally, from this perspective, the local budget is an annual act, namely budgetary year for which are approved revenues and expenditures and the time in which it is done the execution of budget indicators (revenues and expenses).

b) Local public budget is the instrument of economic policy. Through the local budget are established both revenues and expenses based on economic, political, social and financial choices. Revenues reflect fiscal policy itself, which answers the questions: what is the role of taxes on economic and social plan, at whose expense is distributed the tax burden, which tax categories must have the highest efficiency? In addition, budgeted expenditures reflect the economic and political choices of local / county councils.

c) Local public budget is a system of financial flows related to the creation of local financial resources (taxes, fees, contributions and other public revenues) - inflows, on the one hand, and their distribution - outflows, on the other hand.

Local budgets provide the dimensioning of costs within revenues, foundation of financial resources, stimulating of local initiative, the assertion of local autonomy and control over the use of the local funds.

The local budget is the main tool of local public administration authorities to select funding priorities in relation to socio-economic development strategies of communities. The substantiation of priorities and options regarding cultural social and economic activities, public services to be financed from the local budget, and measures needed to collect the revenues are done in the development and adoption of local budget. The local budget is the instrument of ensuring decisional autonomy of local public administration authorities, efficient capitalization of local resources and improving the use of local funds\textsuperscript{11}.

III. INTERRELATIONS AND THE ROLE OF LOCAL BUDGET
WITHIN THE GENERAL CONSOLIDATED BUDGET

The local budgets also represent a distinctive and autonomous component within the general consolidated budget, which has a range of relations with the central administration budget. In this respect, the Romanian Constitution provides that ‘national public budget comprises the state budget, the

\textsuperscript{11} Gheorghe M. Voinea, \textit{op. cit}, p. 47
state social insurance budget and the local budgets of communes, towns and counties.\textsuperscript{12}

Interrelationships between the local budget and the state budget emerge since drafting the local budget due to the fact that the Minister of Finance forwards annually a letter to General Directorates of Public Finances and to County Councils that specifies the macroeconomic context based on which will be prepared the forecast draft budgets, the methodologies of drafting, limits of the amounts deducted from certain state incomes and consolidated transfers for elaboration of the draft budgets by authorizing loan manager.

Main authorizing loan managers of the state budget and other budgets, in the budgets of which are provided transfers to local budgets, forward the amounts to local public administration authorities within 10 days after receipt the expenditure limits approved by the Government, to encompass them in the draft budgets.\textsuperscript{13}

Moreover, the volume of sums deducted from certain revenues of the state budget and consolidated transfers depends on the execution of the state budget. Therefore, interrelations between local budgets and the state budget amounts occur in terms of distribution of the sums for balance in the form of quotas and amounts deducted of certain revenues of the state budget. Interrelations between local budgets and unemployment security budget are shown among others by financing temporary employment and subsidized employment programs.

To demonstrate the place of local budgets within the general consolidated budget we use shares of incomes and expenses of local budgets in the total of revenues and expenditures of the general consolidated budget.

**Table no. 1** Evolution of the share of income and expenditure of local budgets in the total of income and expenditure of the general consolidated budget in Romania during 1990-2013

<table>
<thead>
<tr>
<th>Year</th>
<th>Income (%)</th>
<th>Expenditure (%)</th>
<th>Year</th>
<th>Income (%)</th>
<th>Expenditure (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>15,1</td>
<td>15,5</td>
<td>2002</td>
<td>20,8</td>
<td>19,0</td>
</tr>
<tr>
<td>1991</td>
<td>6,5</td>
<td>7,0</td>
<td>2003</td>
<td>22,3</td>
<td>20,7</td>
</tr>
<tr>
<td>1992</td>
<td>9,0</td>
<td>8,0</td>
<td>2004</td>
<td>21,0</td>
<td>20,0</td>
</tr>
<tr>
<td>1993</td>
<td>10,6</td>
<td>10,3</td>
<td>2005</td>
<td>21,0</td>
<td>20,0</td>
</tr>
<tr>
<td>1994</td>
<td>11,3</td>
<td>10,4</td>
<td>2006</td>
<td>25,8</td>
<td>22,5</td>
</tr>
<tr>
<td>1995</td>
<td>14,4</td>
<td>13,0</td>
<td>2007</td>
<td>28,95</td>
<td>24,84</td>
</tr>
</tbody>
</table>

\textsuperscript{12} The Constitution of Romania, republished in O.M. no. 767 from 31 October 2003, art. 138

\textsuperscript{13} Law no. 273/2006 on local public finances, published in O.M., Part I, no. 618 from 18/07/2006, art.37
The data from the table above shows that the evolution of the shares recorded an upward trend from a minimum in 1991 and reached a peak in 2009. Significant increases occur in 2001 due to financing through local budgets of public education (expenses staff, scholarships, material expenses) as well as of nurseries and agricultural advisory centers. The trend to 30% of these shares shows us that the role of the local budget widened while public services decentralized, actions involving greater financial resources administered by local authorities.

Through local public budgets is established a relationship between public revenues, represented mainly by local taxes and social needs, aiming to avoid inequity in the distribution of tax burdens on the members of local communities, while meeting their social needs, establishing a balance between collective needs and financial means to cover them. A well-structured local budget should provide local administrative authorities a more accurate picture of the relationship between the value of tangible and intangible assets necessary for local communities and the amount of effort to be made to achieve them.

Through local budgets is developed and operates the activity regarding local public finances, local public budgets being tools for forecasting, scheduling, execution and control of the results of the execution of the financial resources of local communities and of their allocation and use through local public expenditure - in brief, local budgets reflect the activity concerning local public finances of a territorial-administrative unit.

The strategy, planning and content of a public administration is reflected in its budget. The budget is often considered an operational plan, being used for guiding and planning of the administrative unit within the next fiscal year and serves as the basis for financial reporting to the local council.
CONCLUSIONS

The place and the special role that local public finances have in the economy of a country has been confirmed over time by the economic realities, as they are the basis and catalyst of autonomy and development of local communities. We appreciate that the role of the local budget expanded as the local administration was increasingly put in the position to boost its resources, improve its managerial efficiency and accountability. Policymakers and citizens need accurate and relevant information upon local administration strategies, current activities, projects and expenditures. To answer these problems, local authorities need to understand the specific needs of the community and the role that fiscal decisions have in serving them.

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