

## THE PROCEDURES TO BALANCE A LOCAL BUDGET IN ROMANIA

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### Abstract

*In the latest years the problem of balancing the local budgets has required more and more complex procedures which could adapt to Romania's economical and social development. The rising proportion of the taxes on the income given and the rising proportions of current income given from the state to the local communities help balance the budgets. This work paper propose a analyze of this relations between the public budget fund of state and the local budgets in Romania in the last five years. Because of the decentralization of public administration more and more tasks of the state have been transferred to the public authorities. Although the funding for these is still done through transfers from the state budget, they are more solid than ever and they give mayors and local councils the possibility to create programmes and projects for long-term development. In our opinion, although the steps taken towards the decentralization of public finance are small, they are solid and they could lead to a very good result. The regularization of transfers on the basis of the criteria presented here is a modern one and it suits our country after the year 2000, although, in some small areas the sums calculated are insufficient to cover all the current costs.*

**Key words:** balanced local budget, transfer from public budget of state, separates quota, income tax, fiscal code

### INTRODUCTION

The premise I started from in writing this paper is that Romania's local financial autonomy is at an unsatisfactory level for it to be able to ensure a long-term regional development. The causes which lead to this premise have their origins in the administrativ – territorial organization of the country before 1989, but also in the way in which reforms were introduced in the public administration. The efforts, in the five years after 2003, to ensure a solid financing for the local communities ,together with the procedures used have been analysed to find possible ways to make the city halls the motors of economical development.

There are still a lot of ways used under their potential to help the relationship between the local authorities and romanian public funds and even european.

### THE MATERIAL AND THE METHODE

The yearbook of Romania[6] and the curent legislation ,that have been used to statisticly analyse the way financial exchange

between the state's budget and the budgets of the local communities have been done, were used in the elaboration of this paper.

### RESULTS AND DISCUTIONS

Starting with the fact that the request of resources is always bigger than the offer , the sums offered for each district , in conformity to the laws current to each year, have been smaller than the actions which requested financial support in each of the districts in the perioed 2003-2008.

The connections between the budgetary fund of the state the the local budgetary funds depends on the economical development of the administrativ –territorial unit. The connection between the way funds are distributed and the requests of financing can be established with the help of certain criterias and procedures.

In conformity to the law 273/2006 [4] about the due in the income of the budgetary fund of the state, for every level of each administrativ –territorial unit, every month, in 5 working days from the end of the last

month when this due was collected 47 % goes to the budgets of local communities, towns and cities in the region where the due was collected from, 13 % goes to the district and 22 % to the district treasury to help balance the local budgets of the willages, towns and cities in that district.

82% of the due on the income from Bucharest is divided as following:23,5 % to the sectors of the city, 47,5 % to the local budget of Bucharest and 11% in a special account for public financing in this city.

In conformity to the local laws nb. 273/2006[4], 82% of the due on the income is distributed ,every month, to the locla budgets of villages, towns and cities.11% in Bucharest and 22% in the rest goes to special accounts to help balance the budgets of each of the communities in every area.

The sums from these special accounts are distributed after the following criterias:

- the financial capacity of the district based on the due of the income collected from each person in proportion of 70%:

$$S_{rj} = \frac{\frac{I_{vmtj}}{I_{vmj}} \times \frac{Nr .loc j}{Nr .loc tj}}{\sum_{i=1}^n \left( \frac{I_{vmtj}}{I_{vmj}} \times \frac{Nr .loc j}{Nr .loc .tj} \right)} \times S_{rtj}$$

Where:

$S_{rj}$  -the sums broken down for each district

$S_{rtj}$  – the sums broken down for all the districts

$I_{vmj}$  – the due on the income for every person in a certain district in the year prior to the year in which this criterias is made.

$I_{vmtj}$  -the due on the income for every person in the year prior to the year in which this criterias is made.

$Nr. loc_j$  – the number of people in the district;

$Nr. loc_{tj}$  – the total number of people in the districts.

- the surface of the district 30%;

From the sums broken down from some of the incomes of the state's budget for balancing local budgets and the 22% , 27% is given to the local district's budget and the rest to the local budgets of the towns and cities as following:

a. 80% is given through a decision of the director of the general direction in public financing depending on:population, surface,financel capacity,etc.

b. 20% is given through a decision of the local council for the support of the development programmes, where the programmes need local funding.

To be able to distribute the sums broken down form the state's budget , there are some indicators that can be calculated:"the due for a average income for each person from each administrativ territorial unit", „the due from a average income for each person in the district”.

$$I_{vml} = \frac{I_{vl}}{Nr .loc .i}$$

$$I_{vmj} = \frac{I_{vj}}{Nr .loc .j}$$

The first stage in distributing the funds from the sums broken down by the authorities limit the sums so that the average for each person is less or equal to the due on the average income for each person from the district in the last year based on the next criterias:

- the number of people per administrativ territorial unit that participate in this stage for 75 %

- the surface of living area per administrativ territorial unit that participates in this stage 25%

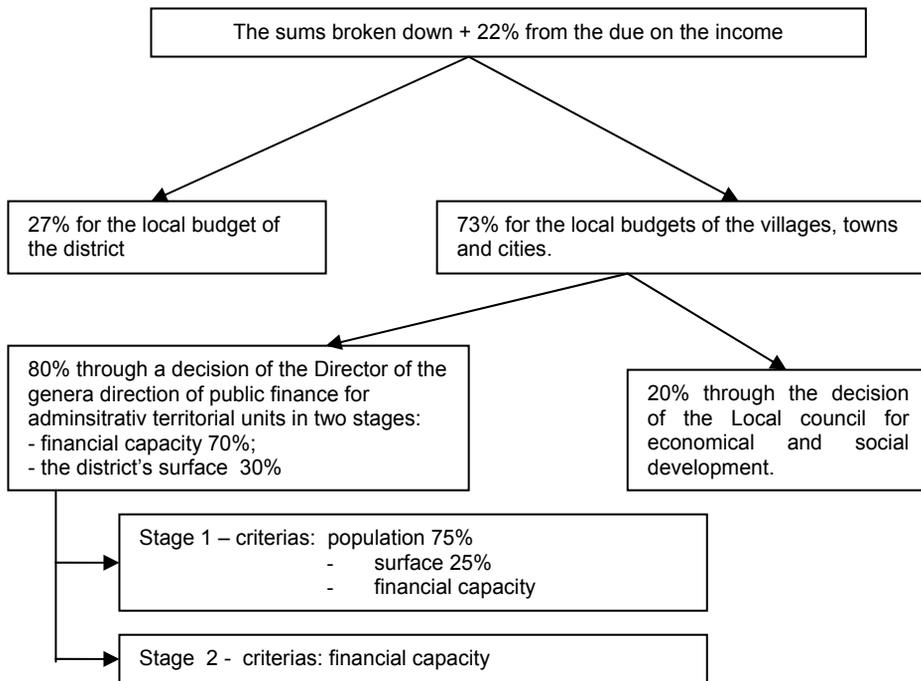
In the second stage, for the funds left after the first stage, depending on the financial capacity of every community , the sums are distributed as following :

$$S_{re2} = \frac{\frac{I_{vmj}}{I_{vm1}} \times \frac{Nr_{.loc1}}{Nr_{.locj}}}{\sum_{i=1}^n \left( \frac{I_{vmj}}{I_{vm1}} \times \frac{Nr_{.loc1}}{Nr_{.locj}} \right)} \times S_{rje2}$$

Where:

- $S_{re2}$  the sums distributed to the administrativ territorial units in the second stage
- $S_{rje2}$  – the sums that must be distributed to the administrativ territorial units in the district in the second stage ;
- $I_{vm1}$  – the due on the average income per person per administrativ territorial unit in the prior year;
- $I_{vmj}$  – the due on the average income per person in the district in the prior year;
- $Nr_{.loc1}$  – the number of the persons in each administrativ territorial unit.;
- $Nr_{.locj}$  – the number of people in the district.

The procedure through which the local budgets are balanced by the state budget.

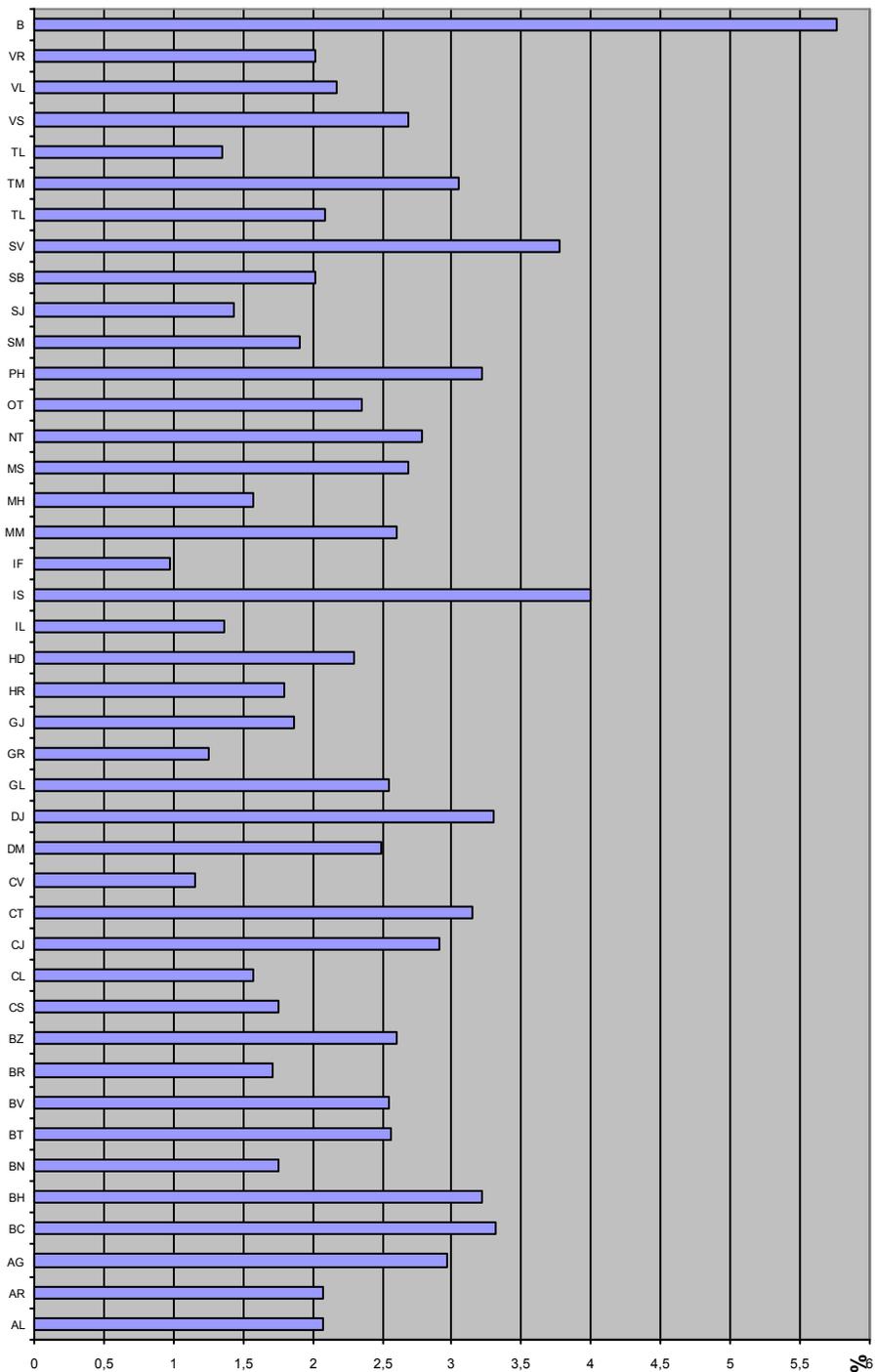


*The connection between the budgetary fund of the state and the local budgetary fund for balance [1]*

After the two stages the sums distributed to each administrativ territorial unit, including districts and even Bucharest, will drop with the use of a multiplication with the divisions between the sum of dues and local taxes and rents from the last year and the sum of dues and local taxes and rents from the last financial year.

Analysing the distribution of the funds, the transfers to the districts are quite

lineary, without any notable variations. The funds are greater in certain areas with bigger requests for development in a certain stage. For example Suceava had received greater funds than Iasi in 2004 because of the expenses necessary to celebrate 500 years from the death of Stefan The Great. Here is a chart with the funds awarded by the state for each district:



The funds received by every district for the total sum of the funds from the state in the year 2007

In order to improve the connection between the state budgetary fund and the local budgetary funds, different Governments have tried to apply different rules. (the 189/1998 [2] has been modified by 215/2002 [3] and by 273/2006 [4])

## CONCLUSIONS

The local administration, through the current laws, can get a loan from the state treasury, but it can not exceed 5% of the local incomes estimated for the next year, for balancing its financial situation.

In conformity with the same laws, villages, towns and cities follow the next principals when wantign to balance their financial status:

-the possibility of covering the functioning section of the local budget from their own income;

-After calculating the necessary sums for covering their expenses, certain sums are proposed for balancing the functioning section of the local budget.

-minimum prices for public services for the people

-Certain funds are established for the development of the local budgets, in conformity with the state's budget.

Transfers for the local budgets represent a way through which resources from the state are transferred to the local budgets for investments financed from external loans, in which the Government also contributes.

Also, from the state's budget, through the budgets of certain credit suppliers, transfers can be made towards local budgets to help with national or local plans of development.

Through percentages of the income broken down, through certain criterias established for given local budgets funds, the state is trying to eliminate the subjectiv factors of its relationship with the local communities.

Sometimes, the distribution of funds from the state to the local budgets is caused by political factors. In this case, certain administrativ territorial units that have more

resources can provide better services for the people.

In the past, the way these funds were distributed didn't take into consideration the factors described above and this had serious effects on the local communities.

In order to build a better relationship between the state and local communities, in the year 2009 there will be promoted a set of principals that will make the communication between the two „parties” easier and will help the financial balance and also to set small costs for the public services offered to the people. This new set of principal especially helps the small communities to learn to use their resources efficiently and even gain new funds.

We consider that the role of the central authorities in coordinating the financial activities at a local level is still too high and creates the premises for the intervention of subjective factors in considering the needs and opportunities of financing some of the projects. This state will become permanent only when the local resources will be considerable larger than the funds from the state in the local budgets, so that the funds from the state should only help with the balancing and development in the region of certain national strategies from all the domains of the social and economical life.

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