

AN EMPIRICAL STUDY ON LOCAL GOVERNMENT AUTONOMY IN ROMANIA

PÎRVU DANIELA

PROFFESOR, NATIONAL UNIVERSITY OF SCIENCE AND
TECHNOLOGY POLITEHNICA BUCHAREST

e-mail: ddanapirvu@yahoo.com

Abstract

This paper deals with the issue of local autonomy in Romania, emphasizing both the theoretical and conceptual debates as well as the empirical analysis of the sufficient financing resources of the local authorities. The research aims to highlight certain characteristics of the local public finances in Romania that impact the ability of the local public authorities to respond to citizens' needs, in the context of good governance. This paper provokes reflections related to the structure of revenues of the local budgets in Romania given the financing deficit and raising the issue of diversifying the sources of revenues of the local public authorities.

Keywords: *financial sustainability; local autonomy; local governments; local revenues*

Classification JEL : *H25, H26*

1. Introduction

The financial autonomy of local governments plays a very important role in the public finance mechanism of any state, since there is a growing concern on increasing the role assigned to the local governments in terms of defining public policies and providing services according to the local realities. In the last decades, the concept of local governance has been developed in relation to the quality of the management of local public services (United Nations, 1996; Wilson, 2000, Atkinson and Joyce, 2011; Helliwell et al., 2014). As the European Commission notes, "the quality of local governance is primarily linked to the political will of central governments to create, through legal and regulatory instruments, a favorable environment at the local level, giving local authorities the opportunity to benefit from a sufficient level of autonomy in the exercise of powers (European Commission, 2013). Although in each member states of the European Union numerous legal or guidance documents developed by the European institutions (for example: European Charter of Local Self-Government or Self-rule Index for Local Authorities) demonstrate the increased interest in ensuring the political, administrative and financial independence of local authorities, a careful analysis of the structure of local governments' revenues shows that they are financially dependent on the central government. Such a situation can be observed in Romania. This paper aims to highlight the results of a rigorous analysis of the main trends in the evolution of the revenues of local governments in Romania, between 2009 and 2022, and to reveal the existence of a certain financial dependence of local governments in Romania. From a methodological point of view, the research used the statistical indicators in analyzing the evolution and structure of local governments' revenues in Romania.

2. Literature review

The satisfactory quality of local public services and the adequacy of local budget revenues according to the needs of local communities are very important for the local governments and widely debated in the specialized literature. The existing studies in this field use different research methods to capture various perspectives on the importance of local autonomy and the financial sustainability at the local level. Świrska (2016) or Sinervo (2020) used the method of interviewing local politicians, Modlin (2010) and Kapidani (2018) analyzed the quantitative indicators. Iacuzzi

(2022) used a structured literature review to highlight the multitude of indicators used by scholars to evaluate the financial aspects of local governments.

Measuring and comparing local (and implicitly financial) autonomy was a difficult and complex endeavor for researchers. A first study financed by the European Commission during the period 2014-2015 aimed to measure and compare the level of decentralization in 39 European states by creating a "Local Autonomy Index". The level of decentralization had to be related not only to the share of financial resources available to local governments, but also to their freedom to spend these resources. The study highlighted that, over time (1990-2014), the general autonomy level of local governments in Europe increased. However, there were important differences between the European states in 2014, especially between the Nordic countries plus Switzerland, Germany and Poland, which benefited from the highest level of local autonomy, and the developing states, such as Turkey, Moldova, Georgia, but also Malta, Cyprus or Ireland. The financial autonomy of local governments was considerably lower in the states of Central and Eastern Europe (Ladner et al., 2016). A new edition of the mentioned study considered a larger number of states and the period of analysis was 1990-2020. The authors did not identify correlations between the index of local autonomy, the number of the population, the size and number of local administrations or the form of territorial administrative organization of the states, but they found a relatively strong link between the index of local autonomy and local governments' own tax in percent of general government tax income (Ladner et al., 2021).

The local autonomy measurement methodology developed by Ladner et al. it was also used by other authors who highlighted particularities of the states that were the subject of research and proposed measures to improve public policies (Brueckner, 2019; Kantorowicz and van Grieken, 2019; Ivonchuk, 2021).

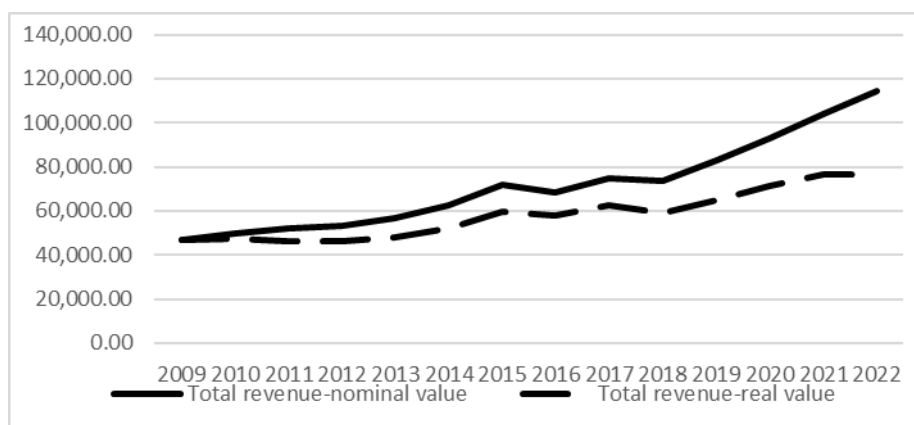
In case of the local autonomy in Romania, numerous authors have highlighted the progress made in this field over time under the impact of improving specific legislation, but also the economic, social and political difficulties faced by local governments (Dogaru, 2010; Scutariu and Scutariu, 2015; Alexandru and Guziejewska, 2020).

3. Analyzing the evolution of financing sources of local governments in Romania

The local authorities in Romania rely on a varied range of sources to finance the public expenditures of local interest. According to Law no. 273/2006 on local public finances, the possible revenues to the local budget can be:

- a) own income, made up of: taxes, fees, contributions, other payments, other income and quotas from the income tax;
- b) quotas from some revenues of the state budget (quotas from the value added tax for balancing the local budgets);
- c) subsidies received from the state budget and from other budgets;
- d) donations and sponsorships.

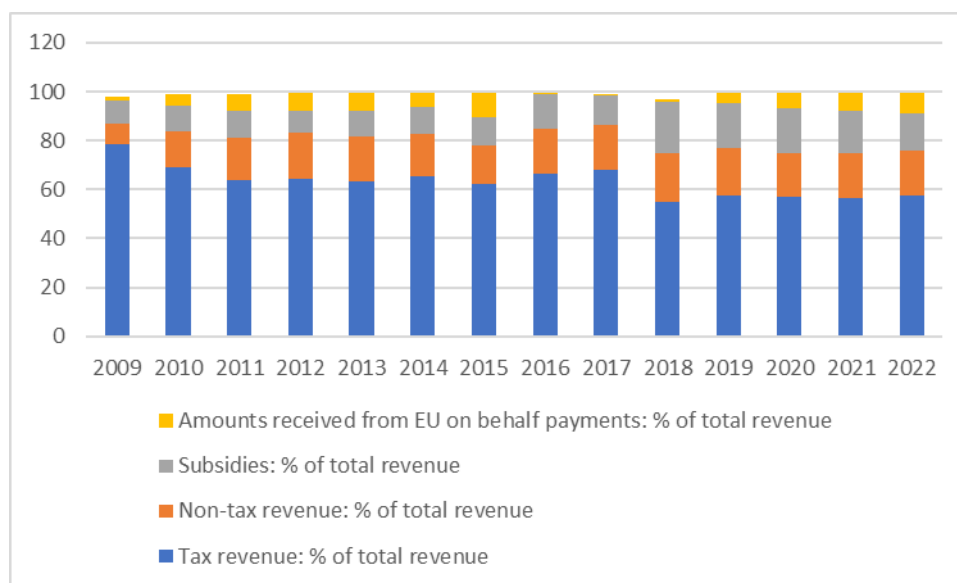
In the period 2009-2022, the revenues of the local authorities in Romania increased with the increase in the number of properties, the increase in the population's income and implicitly the increase in purchasing power, which were reflected in the increase in the income collected from taxes. Romania's adherence to the European Union had direct implications on stimulating the foreign direct investments and a positive impact on the size of the revenues of local authorities, generated both by the diversification of financing sources (through amounts received from EU on behalf of payments: % of total revenue), as well as by increasing the level of economic development. Influenced by inflation, the real revenues of the local authorities in Romania were lower than the nominal ones, the gap increasing in the period 2021-2022, when, as a result of the economic crisis, the consumer price index exceeded 116% only in the period December 2021-December 2022 (Figure 1).



Source: own processing based on the data of the Romanian Institute of Statistics

Figure 1: The evolution of the revenues of local authorities in Romania for the period 2009-2022

The evolution of the main sources of financing of local budgets in the period 2009-2022 highlights the decrease in the share of fiscal revenues (taxes and local taxes, as well as quotas from the income tax and quotas from the value added tax for the financing of decentralized expenses in villages, cities, municipalities, sectors and the municipality of Bucharest and counties, for roads and for balancing local budgets) in total revenues, given the increase in the share of subsidies in total revenues (Figure 2). This is a clear indication of the increase in the dependence of local authorities on the state budget and, implicitly, of the decrease of local public autonomy.



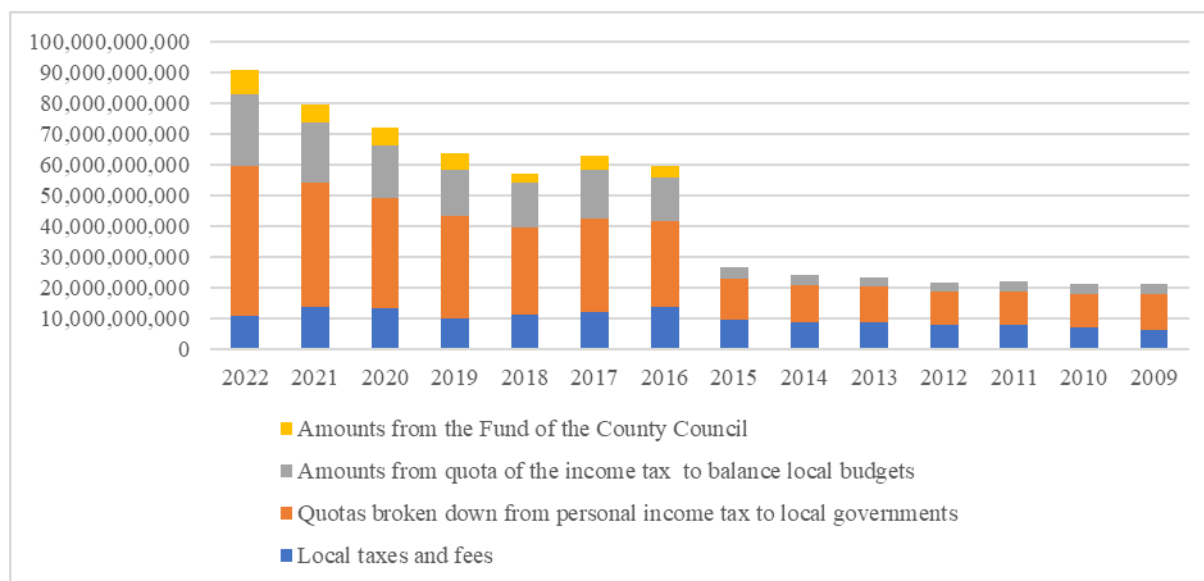
Source: own processing based on the data of the Romanian Institute of Statistics

Figure 2: The evolution of the main sources of financing of local authorities in Romania for the period 2009-2022

There is an increase in the importance of non-fiscal incomes (incomes from rents, royalties, payments from the net profit of autonomous governments, etc.), which proves the increased involvement of local public authorities in diversifying the financing sources and running the economic activities. These aspects demonstrate the growing interest of these authorities in obtaining a real financial autonomy.

4. Analyzing the structure of own revenues of local authorities in Romania

The analysis of the structure of the own revenues of the local authorities in Romania reveals the reduced importance of receipts from local taxes and fees: tax on buildings and tax on buildings, tax on land, tax on means of transport, tax for issuing certificates, notices and authorizations, the fee for the use of advertising and publicity means, the tax on shows, special taxes and other local taxes (Figure 3). One cause of this situation is the low level of tax rates. For example, for the residential buildings and the annex buildings owned by individuals, the tax is calculated by applying a quota between 0.08% - 0.2%% on the taxable value of the building. In addition, the degree of collecting these revenues is around 85%.



Source: own processing based on local budget executions

Figure 3: Structure of local authorities' own revenues in Romania

One may notice the importance of quotas from personal income tax to local governments. The procedure of collecting these revenues is as follows: from the income tax collected to the state budget for each administrative-territorial unit, a quota is allocated monthly, within 5 working days from the end of the month in which this tax was collected, to the local budgets of the villages, cities and municipalities on whose territory the tax payers carry out their activity, a quota in the local budget of the county and a quota in a separate account, opened on behalf of the general directions of county public finances, at the municipal treasury county seat for balancing the local budgets of the villages, cities, municipalities and the respective county. The level of economic and social development of each administrative-territorial unit influences the amount of revenue collected from quotas from personal income tax, but this is not an indication of local fiscal autonomy. The local public administration authorities do not have the possibility to influence the tax rate or the income tax base.

The authorities of the local public administration that fail to finance the current expenses of the local collectivities benefit from amounts allocated from the quotas from the income tax to balance the local budgets. In recent years, the importance of this income category has increased, under the impact of the difficulties faced by local governments in financing the expenses of staff salaries paid from public funds, which increased significantly after 2016, but also of the decentralization of some activities. In order to balance local budgets, the quotas from the VAT are allocated.

5. Conclusions

The main causes of the reduced degree of local financial autonomy in Romania are generated by the structure of the income sources, but also from the administrative measures imposed by the central public authority. The local taxes and fees and the non-fiscal revenues collected by the local governments have a small share in the total revenues of local budgets.

On the other hand, the revenues from local taxes and fees, which should be an important source of revenue for local budgets, have a small growth capacity compared to the main sources of revenue for the state budget (e.g. the income tax, the VAT, etc.).

Therefore, we can discuss about the financial dependence of local governments in Romania, which limits the freedom of the representatives of local communities (the local elected officials) to make decisions in relation to the priorities of their communities.

Ensuring genuine local autonomy requires solving the problem of financing the local public authorities. An aspect that can be analyzed, considering the fiscal practices in other European states, is the inclusion of other sources of income in the local budgets, such as the taxes on the income of legal entities.

The responsibility of ensuring sufficient local revenues should not largely belong to the central authorities. The local authorities should be concerned with finding solutions to supplement the local revenues, but benefit from the possibility of collecting sufficient tax revenues, directly from the taxpayers who reside or headquarter in a certain village or city.

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