FINANCIAL REVENUE AUTONOMY OF LOCAL BUDGETS IN ROMANIA. MEASURING APPROACH

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Abstract: *This study provide direction which are in scientific literature about measurement the financial autonomy of revenues and then to show the stage of the financial autonomy of revenues in Romania in the context of European Union with the help of its relevant indicators and the establishments of legislation limits. The framework of this paper is based on a set of research papers made by institutions as Organization for Economic Cooperation and Development (OECD), Universities' researchers and Central and Local public administrations.*
Keywords: *autonomy, revenues, local budget*

1. INTRODUCTION

In the European Union countries an important part of economic activity is conducted under the responsibility of administrative, financial and legal local authorities as a result of the decentralization of decisions and autonomy of the administrative-territorial units. Since 1980, both quantitative and qualitative indicators of local revenue financial autonomy have undergone a big development.

For the empirical result, the period analyzed is 2000-2008 because starting with 2009 the effects of economic and financial crises are more visible and this period must be analyzed separately.

2. SCIENTIFIC REQUIREMENTS IN MEASURING LOCAL REVENUE AUTONOMY

The attempts to identify the local revenue autonomy involves the analysis of sources of income from the viewpoint of the duty of local authorities to change or influence them. In this regard, Owens and Norregaard in 1991 [1] have classified sources of income after their degree of local autonomy, acknowledging that in the case of most autonomous revenue, i.e. its own revenues, the central authorities may fix the rate and the tax base. Owens and Norregaard established the following classification that can be made on revenue from the standpoint of the right of settlement and administration (table no.1):

Table 1 Classification of revenue by Owens, J. and Norregaard, J. (1991)

Own taxes	Base and rate under local control

Overlapping Taxes, Tax Surcharge	Nationwide tax base, but rates under local control
Non-tax revenues	Under local control, local government is able to determine the fee to be charged
Shared Taxes	Nationwide base and rates, but with local government able to influence either the proportion of revenues attributed the local government sector or the amount that each level of local government receives
General purpose Grants	Local government share is fixed by central government (usually with a redistributive element), but local authorities are free to determine how the founds should be spent
Specific Grants	The amount of grant may be determined by central government or may depend upon appending decision of local authorities, but either case central government specifies how the funds should be spent

The authors detailed analysis of revenue autonomy of local budgets in terms of certain parameters. Thus, they considered a separate category of income 1, 2 and 4 of the table, namely own revenues, overlapping taxes or tax surcharge and shared tax with the conclusion that if local authorities determine the tax base, then certainly have full freedom to establish and tax rate, resulting in total control of public authorities on taxes considered. Conversely, however, the authors found that total freedom of local authorities on the tax rate is not necessarily accompanied by total control over the tax base, which will generate a partial control over taxes in question. The authors did not took into account the case of our country where, according to the Tax Code, local authorities are allowed to increase by up to 20% of the tax base of local taxes, but cannot change the tax rate.

Analysis of income categories 5 and 6 in the table, general grants and specific grants, indicate that grants do not reduce the autonomy of income automatically, but depends on the type of grant. Owens and Norregaard believes that capital grants usually generates lower autonomy of expenditures than the current subsidies because they are on oriented projects, economic sectors or specific targets.

Dafflon in 1992 [2], Dafflon and Perritaz in 2000 [3], established a list of " fiscal sovereignty elements " of local government while the local authorities are entitled to higher tax surcharge (piggybacking): choice between different taxes or fees to finance a particular local public service, opportunity to determine the types of deductions, the quality of individual taxpayers, tax calculation, setting tax rates, the maximum amount payable by overcharging, the method for collecting VAT or other taxes; coordination disputed issues. Comparative approach of how various authors have looked at measuring local revenue autonomy can be seen below: (table no. 2)

Table 2 Comparative approach measuring local revenue autonomy in the opinion of some authors

Parameters of autonomy	Owens and Norregaard (1991) [1]	OECD (1999) [4]	Blöchliger and King (2005) [5]	Dafflon (1992) [2]; Dafflon and Peritaz (2000) [3]
Taxes				
*Choice between tax and user charge				*
*Group of taxpayers				*

*Base	*	*	*	*
-types of tax reliefs			*	*
-consultation with citizens		*		
*Rate	*	*	*	*
-unlimited	*		*	
-maximum	*			*
-minimum/maximum	*			
-consulting with citizens				*
*Rate structure	*			*
*Tax surcharge	*	*	*	*
*Calculation method/assessment	*			*
*Collection	*			*
*Contentious issues				*
Revenue-sharing arrangements				
-Right to determine formula		*	*	
-Right to modify formula		*	*	
Intergovernmental transfer and grants				
Grant level	*			
Spending target	*		*	

Source: computed by [6]

This comparative approach to the measuring local revenues autonomy does not include loans that are extraordinary income of local budgets. Also, autonomy is overstated because are not taken into account effective power (productive efficiency) of the decentralized sources of income and the size of the local budget in monetary terms.

Ebel and Yilmaz (2002) [7] propose to determine local revenue autonomy (SRA) as ratio of own revenues of local authorities (OR_{SNG})and total revenues of local budget (TR_{SNG}).

$$SRA = \frac{OR_{SNG}}{TR_{SNG}} = \frac{[T_{discr} + NT_{discr} + GG_{obj} + SG_{uncond}]_{SNG}}{[T + NT + GG + SG]_{SNG}}$$

Where OR_{SNG} means own revenues which include tax revenues for which sub national governments have significant or full discretion over rates and/or relief (T_{discr}), non-tax revenues for which sub national governments have significant or full discretion over rates and/or relief (NT_{discr}), general purpose grants allocated according to objective criteria (GG_{obj}) and unconditional specific grants (SG_{uncond}). TR_{SNG} include total revenues of sub national governments.

This formula was not accepted by the scientific literature because in the own revenues category were included subsidies. The authors sustained, however, that local authorities have autonomy over subsidies how they are used. However, by applying the formula overestimates the degree of local revenue autonomy.

Meloche, Vaillancourt and Yilmaz (2004) [8] propose the indicator called „Own Revenue Ratio”:

$$ORR = \frac{OR_{SNG}}{TR_{SNG} + TR_{CG}} = \frac{[T_{discr} + NT_{discr} + GG_{obj} + SG_{uncond}]_{SNG}}{[T + NT + GG + SG]_{SNG} + TR_{CG}}$$

Where OR_{SNG} = own revenue, TR_{SNG} = total revenues of sub national governments and TR_{CG} = total revenues of central government.

Also, they propose an opposite indicator as well, the „Dependent Revenue Ratio”:

$$DRR = \frac{DR_{SNG}}{TR_{SNG} + TR_{CG}} = \frac{[(T - T_{discr}) + (NT - NT_{discr}) + (GG - GG_{obj}) + (SG - SG_{uncond})]_{SNG}}{[T + NT + GG + SG]_{SNG} + TR_{CG}}$$

Blöchliger and King (2006) [9] propose to calculate the autonomous tax revenue of sub central governments over general governments tax revenue, defining autonomous tax revenue as the yield of those taxes for which local authorities are free to determine either the tax rates, or the tax base, or both. According the authors, their indicator comes closest to what could be called a *Composite Indicator of Fiscal Autonomy*:

$$CI_{SRA} = \frac{AT_{SCG}}{T_{SCG} + T_{CG}} = \frac{[T_{discr}]_{SCG}}{T_{SCG} + T_{CG}}$$

where AT_{SCG} - autonomous tax revenues of sub central governments and $[T_{discr}]_{SCG}$ - tax revenues for which sub central governments have significant or total discretion over rates and relief.

3. EMPIRICAL EVIDENCE ON LOCAL GOVERNMENT REVENUE AUTONOMY

The most common formula used to calculate the degree of financial autonomy of administrative units, is the share of own revenues in total revenues of local budget The category of own revenues is established in Romania by law and includes taxes, contributions and other payments, other income and allowances deducted from income tax. The other revenues of local budget, established by Romanian law, are amounts deducted from certain income of the state budget, grants from the state budget and other budgets, donations and sponsorships.

Table 3 The degree of financial autonomy of administrative units in Romania in 2000-2008

	2000	2001	2002	2003	2004	2005	2006	2007	2008
Own revenues of local budget (mil. RON)	2330	1154	1656	2604	3084	8706	12088	16958	20502
Total revenues of local budget (mil.	334	711	932	1307	1595	1948	2770	3680	4362

RON)	4	2	3	8	6	1	9	5	9
The degree of financial autonomy (%)	69,68	16,23	17,76	19,91	19,33	44,69	43,62	46,08	46,99

Source: computed by author using data from Statistical Yearbook of Romania 2001-2009 [10], Act on central budget 2007, 2009 [11] and www.mfinante.ro [12]

The degree of autonomy supposes major fluctuations in the period following the reform-oriented on local government decentralization. In this respect, we can see low levels of this indicator in 2001-2004, followed by a doubling of 2005 and since then a slight increase until 2008. However, we believe that the financial dependence of local governments to the central is still high, minimum degree of local autonomy is of 16.23% in 2000 and 46.99% maximum in 2008.

Table no.4 Evolution and structure of local budget revenues in 2000-2008 (mil. RON)

Indicators	2000		2002		2004		2006		2008	
	Sum	%	Sum	%	Sum	%	Sum	%	Sum	%
REVENUES- total	3345,01	100	9322,80	100	15955,80	100	27708,60	100	43629,10	100
Current revenues	801,74	23,97	1561,50	16,75	2747,20	17,22	26172,40	94,46	38641,30	88,57
Fiscal revenues	614,30	18,36	1184,20	12,70	2177,20	13,65	25236,80	91,08	37346,00	85,60
Non-fiscal revenues	187,44	5,60	377,30	4,05	570,00	3,57	935,60	3,38	1295,30	2,97
Capital revenues	59,51	1,78	59,20	0,64	328,80	2,06	518,80	1,87	639,30	1,47
Donation and sponsor	0,00	0,00	0,00	0,00	19,30	0,12	0,00	0,00	0,00	0,00
Special purpose revenue	352,30	10,53	432,70	4,64	0,00	0,00	0,00	0,00	0,00	0,00
Amounts deducted from income tax	1743,50	52,12	3907,00	41,91	6633,70	41,58	7550,30	27,25	14242,00	32,64
Amount deducted from VAT	0,00	0,00	3185,10	34,16	5274,00	33,05	14539,00	52,47	18644,80	42,71
Subsidies	285,00	8,52	117,40	1,26	920,20	5,77	1016,40	3,67	4345,10	9,96

Source: computed by author using data from Statistical Yearbook of Romania 2001-2009 [10], Act on central budget 2007 [11]

According to the table, one can notice a high percentage of broken shares and transfers from the state budget to local budgets in total revenues. Since 2003, administrative-territorial units have benefited from stamp duty, legal fees and notary established by GEO no. 36/2002 [13] on local taxes. Add to this the inclusion of allowances deducted from income tax under the category of own revenues of local budgets, which increased the total income of own revenues in local budgets. Subsidies have been characterized by major fluctuations in 2000-2008, representing a minimum of 1.26% of total local revenues in 2002 and a maximum of 9.96% in 2008.

In 2005, due to implementation of new tax reforms, evidenced, among other things, the introduction of unique income tax of 16% of individuals, there is change in revenues of local budgets. Reducing income tax rate of individuals and maintaining the same percentage rates of income tax deducted from the administrative-territorial units, the latter would have been smaller amounts, which determined the Government to increase the rates deducted from income tax since February 2005. Thus, villages, cities and municipalities have provided 47% of tax revenue earned, instead of 36% of county budgets will retain 13% of income tax collected, compared with 10% share of local budget which is balanced available to county councils increased from 17% to 22%. In 2006, local public finance law, kept the same rates of income tax deducted governed by the law before. In 2010, the new legislative framework changes in tax rates on income redistribution split: 44% to local budgets of communes, towns and municipalities on whose territory they operate income tax payers, 12% of the county's local budget, 21% in a separate account, opened the general direction of public finances into the county treasury county capitals, to balance the local budgets of communes, towns and municipalities, and local budget of the county.

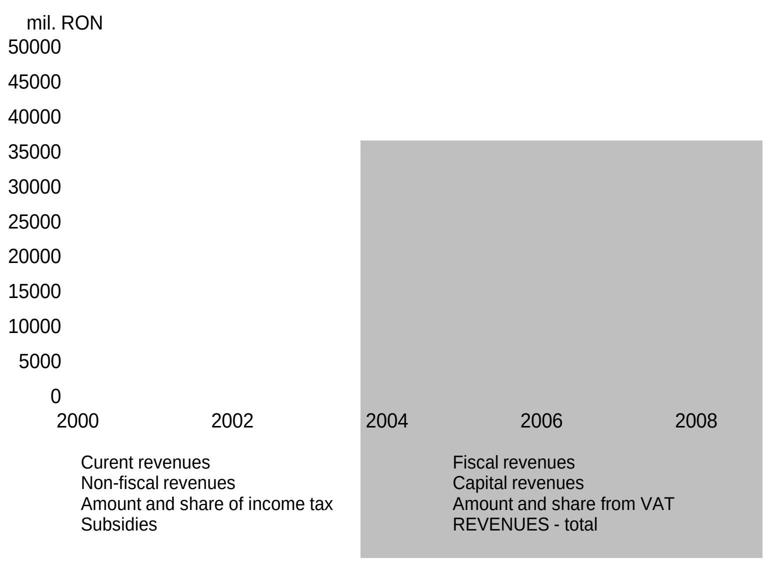

Figure no. 1: Evolution of different categories of local government in 2000-2008

From figure shown, we can see that the revenues of local budgets have upward evolution especially fiscal revenue which increased the current income and overall growth in local budget revenues.

Large own revenues are an essential element of the financial credibility of local governments, including the ability to borrow for local public investments. They also become relevant for local autonomy in terms of their ability to self-financing local government expenditure, namely the degree of coverage of local public expenditure with local budget own revenues.

$$TheCapacityOfAutofinancing = \frac{R_{ownLB}}{E_{LB}} * 100$$

Table 5 Degree of auto financing *(%)*

	2000	2001	2002	2003	2004	2005	2006	2007	2008
Own revenues of local budget (mil. RON)	2330	1154	1656	2604	3084	8706	12088	16958	20502
Total expenditures of local budget (mil. RON)	3322	7067	9269	12852	15540	18777	25392	33983	42210
Degree of auto financing (%)	70,14	16,33	17,87	20,26	19,85	46,37	47,61	49,90	48,57

Source: computed by author using data from Statistical Yearbook of Romania 2001-2009 [10]

Table 6 Evolution of local budget revenues in GDP in the European Union in 2006-2008 (%)

Countries	2006	2007	2008
Austria	7,6	7,6	7,7
Belgium	6,6	6,7	6,6
Bulgaria	7,0	7,2	7,2
Cyprus	2,0	1,9	1,8
Czech Republic	11,7	11,6	11,4
Denmark	33,6	32,3	33,2
Estonia	9,2	9,3	10,4
Finland	19,2	19,1	20,0
France	10,8	10,8	10,9
Germany	7,4	7,5	7,5
Greece	2,6	2,6	2,7
Hungary	12,1	11,6	11,6
Ireland	13,8	14,2	13,1
Italy	14,5	15,2	15,3
Latvia	10,1	10,0	10,7
Lithuania	8,1	8,0	9,1
Luxemburg	4,9	5,0	5,1
Malta	0,6	0,6	0,6
Netherlands	15,2	15,3	15,3
Poland	13,4	13,4	14,0
Portugal	13,4	13,4	14,0
Slovakia	6,3	6,0	5,4
Slovenia	8,6	8,3	8,5
Spain	6,3	6,0	6,0
Sweden	24,8	24,7	25,2
United Kingdom	12,8	12,8	13,1
EU-27	11,2	11,3	11,3
Romania	*8,3*	*9,3*	*8,9*

Source: [14]

According to the table, we can see that the EU average in its 27 member states was 11.2% in 2006 to 11.3% in 2007 and 2008. The largest share of local government revenue in GDP has Denmark, followed by Sweden, which are also states with the highest degree of financial autonomy.

Local tax reforms are initiated and implemented permanently in the European Union in order to identify the most effective forms of local administration based on the principles enshrined in the European Charter of Local Self-Government. Thus, reforms of local taxes were also quite numerous and varied in the period 2003-2004, in accord with local economic situation of each country: decrease the level of money transfers from state tax levies by local authorities (Finland), tax increase taxes distributed to the local to central level (France, Italy, Poland, Slovakia, Spain), establishment of new taxes (Estonia, Hungary and Italy), initiation of new local business tax reforms (France, Germany, Italy).

In 2008, the public sector has the following configuration indicators presented in the table below:

Table no. 7 Indicators of European public sector in 2008

Countries	GDP (billion €)	GDP/Capita (€)	Total revenues /GDP (%)	Total local revenues/ GDP (%)
Austria	281,9	33 781	43,3	7,7
Belgium	344,7	32 189	45,4	6,6
Bulgaria	34,1	4 454	33,8	7,2
Cyprus	16,9	21 400	41,4	1,8
Czech Republic	147,9	14 178	36,5	11,4
Denmark	232,5	42 334	49,3	33,2
Estonia	16,1	11 986	32,0	10,4
Finland	184,7	34 769	42,9	20,0
France	1 950,1	30 413	44,7	10,9
Germany	2 495,8	30 392	40,4	7,5
Greece	239,1	21 282	34,4	2,7
Hungary	105,5	10 514	39,5	11,6
Ireland	181,8	40 922	32,4	13,1
Italy	1 572,2	26 253	43,0	15,3
Latvia	23,2	10 221	30,4	10,7
Lithuania	32,2	9 590	29,7	9,1
Luxemburg	39,3	80 464	36,2	5,1
Malta	5,7	13 804	35,6	0,6
Netherlands	595,9	36 246	39,1	15,3
Poland	362,4	9 508	34,3	14,0
Portugal	166,4	15 668	37,5	14,0
Slovakia	64,9	12 002	29,3	5,4
Slovenia	37,1	18 366	37,9	8,5
Spain	1 088,5	23 874	37,5	6,0
Sweden	328,3	35 614	48,7	25,2
United Kingdom	1 818,5	29 642	37,7	13,1
EU-27	12502,9	25070	40,5	11,3

Romania	*137,0*	*376*	*29,8*	*8,9*

Source: computed by authors using data of [15] and [16]

According to the table, we find that there are differences across countries regarding the difference between total revenues in GDP at national and local budget revenues in GDP. Thus, the largest gap recorded is Belgium, where the revenue from the state budget in GDP is 45.4% and the revenue of local budgets in GDP is 6.6%. The smallest gap is in Denmark the ratio of the two indicators is 49.3% to 33.2%. Data analysis reveals that the gap is lower in countries whose decentralization process is emphasized and in which local autonomy is enhanced (Denmark, Netherlands, Ireland, Sweden).

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