THE SITUATION OF LOCAL PUBLIC FINANCES IN THE EU – CORRELATIONS WITH SUSTAINABLE DEVELOPMENT

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Abstract *In the new context of actual society, namely the knowledge society, based on the autonomy of local government, the management of "public affairs" must be achieved by adapting to new requirements, identifying new ways and tools to ensure sustainable development in territorial. It is therefore important to identify on the base of local financial autonomy the correlation between local public finances in the EU and sustainable development of local communities.*
Keywords *local public finances, local financial autonomy, sustainable development, European Union, knowledge society.*

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1. INTRODUCTION

Local governments can be considered as one of the main pillars of the democratic states and the main "engine" of efficient implementation of sustainable development. At the same time, one of the main goals of knowledge societies is sustainability and for this goal it is imperative to develop strategies at all levels, inclusive local, where decisions promote the integration of knowledge taking into account the goals of economic prosperity.

The implementation of local sustainable development is closely linked to real possibilities of local authorities to support programs or measures for their administrative-territorial units. On this background, the size of local public financial resources and local public expenditures and their correlation with sustainable development becomes essential.

The aim of this research paper is to provide an empirical context correlation between local public finance and local sustainable development in the EU, highlighting the channel and specific bivalent reports which demonstrate local finances supports sustainable development and local sustainable development support sustainable financial autonomy. So, following this introduction, next section presents an overview of sustainable development. The empirical results are set out and discussed in the second section of this research, and finally we offer some conclusions.

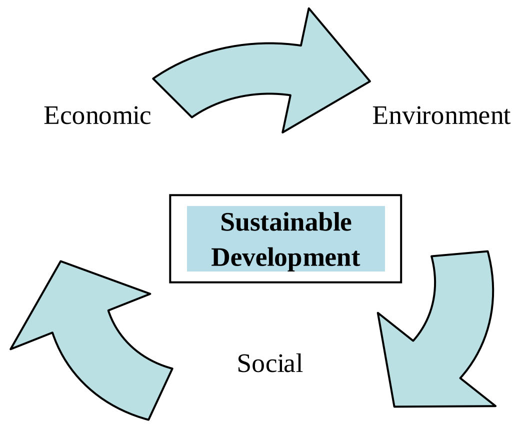
2. OVERVIEW OF SUSTAINABLE DEVELOPMENT

One of the first definitions for sustainable development is "development that meets the needs of the present without compromising the ability of future generations to meet their own needs" (World Commission on Environment and Development, 1987). Sustainable development has been described as an „essentially contested concept" (Jacobs, 1999), and as a "discourse coalition" (Hajer, 1995). Relating to knowledge society, it can be seen as a "battlefield of knowledge" (Long, 1992) in which different participants disagree over who is entitled to produce the relevant knowledge for its interpretation, which knowledge is accessible and understandable for whom and how knowledge sharing and integration is to be negotiated (Bruckmeier, K.; Tovey, H., 2009).

The sustainable development was included in the Maastricht Treaty in 1997 as a political objective. In 2001, the European Council from Göteborg has adopted the Sustainable Development Strategy of the European Union, which was added an external dimension one year later (2002), to Barcelona. On 9 June 2006 the EU Council adopted "a renewed" Sustainable Development Strategy for an Enlarged Europe, with a unified and coherent strategic vision, having as objective the continuous improvement of quality of life for present and future generations through the creation of sustainable communities able to manage and use resources efficiently and to exploit the ecological and social innovation potential of economy to ensure prosperity, environmental protection and social cohesion. Thus, the concept of sustainable development is the result of an integrated approach to policy and decision makers, where the environmental protection and long-term economic growth are seen as complementary and interdependent.

Literature (Adams, 2006; Bruckmeier, K.; Tovey, H., 2009) establishes that the core of mainstream sustainability thinking has become the idea of three dimensions, environmental, social and economic sustainability. In this context, sustainable development is based on three strategic pillars: I) growth, II) social equity, III) a healthy environment.

Figure 1 The dimensions of development sustainability



Source: computed by author after Adams (2006)

Regarding how to measure the sustainable development, it was specifically mentioned to be drawn up a comprehensive set of Sustainable Development Indicators. EUROSTAT has developed a set of Sustainable Development Indicators, along with the help of a group of national experts known as the Task Force on Sustainable Development Indicators. A first set of indicators was adopted by the Commission in 2005 and then updated in 2007.

3. EMPIRICAL CORELATION BETWEEN THE STATUS OF LOCAL PUBLIC FINANCES AND SUSTAINABLE DEVELOPMENT IN THE EU COUNTRIES

In 2011, the total revenue of the European local public sector was unstable compared with 2010 (-0.2% in volume) to €1,48bn, i.e. 11.7% of GDP and 26.3% of public revenue. However, local tax revenue jumped markedly in 2011 compared with 2010 (+3.5%). Grants and subsidies account for overall stagnation; transfers to the local public sector dropped in 2011 (-4.9%), adding to the drop begun in 2010 (-0.6%). Some factors determined this situation, particularly the reforms affecting the local public sector. An example is certainly *Greece* where the transfer of competencies to the local public sector under the *Kallikratis reform*, particularly for social matters, had to be financed through new revenue. Local public sector revenue in *Greece* have increased nearly 15% in volume in 2011 (to reach 3.2% of GDP and 7.8% of public revenue) while they had plummeted by 23.4% in 2010 amid an economic backdrop that remains highly unfavorable.

There are numerous other examples where changes in revenue were largely determined by more structural reforms that affected the funding systems of local authorities (tax reform, equalization mechanisms, fee policies, etc.).

Table 1. Revenue – Subnational and local public sector in the EU – Year 2011

	€ bn	€ p er capita	% GDP	% Public sector	% Revenue	Annual average change 2000 - 2011 (% volume)	Change 2010 - 2011 (% volume)
GDP	12,629	-	-	-	-	-	-
Local public revenue	1,480	2,940	11.7	26.3	100.0	+2.1%	-0.2%
Local Tax revenue (own-source and shared)	529	1,050	4.2	16.1	35.7	+2.2%	+3.5%
Local Non-tax revenue	1951	1,890	7.5	40.4	64.3	+2.1%	-2.2%
Local Public balance	-26	0	-0.2	-	4.6	-	-
Local Public debt	743	5.2	5.9	8.3	7.1	+2.6%	+2.6%

Source: *computed by author using Dexia – CEMR, 2012*

Regarding local public expenditure, in 2011 they accounted for 11.9% of GDP and 24.3% of EU public spending.

Table 2 Expenditure and investment –local public sector in the EU – Year 2011

	€ bn	€ p er capita	% GDP	% Public sector	% Expenditure	Annual average change 2000 - 2011 (% volume)	Change 2010 - 2011 (% volume)
GDP	12,629		-	-	-	-	-
Local public expenditure*	1,506	2,995	11.9	24.3	100.0	+2.3%	-1.0%
Local direct investment	179	355	1.4	58.3	11.9	+1.2%	-6.0%
Local Public balance	-26	0	-0.2	-	4.6	-	-
Local Public debt	743	5.2	5.9	8.3	7.1	+2.6%	+2.6%

*Excluding capital payments on borrowings

Source: *computed by author using Dexia – CEMR, 2012*

The differences between countries are depending by a lot of factors as country's geography, territorial organization, level of decentralization and the nature of competencies carried out by the local authorities. For example, high local spending has *Denmark* with 37.5% of GDP and 64.6% of public spending, but insignificant local spending has *Malta* and *Cyprus* because are countries whose local authorities have limited competencies the cause being their small size or *Greece* because it has historically been highly centralized country. The countries between these two extremes can be divided into four groups.

In the first group are countries for which the weight of local public expenditure as part of the national economy is significant (*Denmark, Sweden, Finland, Belgium*). In

Denmark, Sweden and Finland there are highly-decentralized forms of government. Also, there are included federal countries (except *Austria*). This high level comes from the fact that the ratio combines spending by the federated States with spending by the local public sector.

The second group comprised of *Italy, Austria*, the *Netherlands* and *Poland* has ratios that are close to the European Union average.

In the third group, ratios are lower than the European Union average. This group includes *France* and the *United Kingdom*, which are close to the three Baltic countries, *Romania*, the *Czech Republic* and *Hungary*. The majority of these countries are transitioning towards decentralization.

The last group includes countries as *Ireland*, *Luxembourg* and *Portugal* that are relatively centralized with ratios that are markedly below the European Union average.

This macro-economic viewpoint is imperfect. It does not always assess the real degree of decision-making power and action that local authorities have in terms of expenditure. Although, local government in several countries manage a significant sum of money, they often, in reality, have limited autonomy regarding the choice of how expenses are allocated, a choice merely steered or dictated by the State or are restricted by regulatory and budget standards.

At the end of 2011, outstanding debt of the local public sector totaled €743 bn in the EU 27. It accounted for 5.9% of GDP and 7.1% of public debt. These ratios are lower for the local sector and mostly come from the fact that the lion’s share of local debt is allocated to financing investment ("golden rule") and that it is governed by strict prudential rules. Local public debt/GDP varies from 0.1% in *Malta* to 30.2% in *Germany*. Its weight in public debt ranges from 0.1% in *Malta* to 55.8% in *Estonia*, whose total public debt is the lowest in Europe, however (6% of GDP).

Local authorities as leading investors have one of the keys for returning to sustainable growth. As a public player, lastly, it is directly involved in the comprehensive effort to restore public accounts, which is an unconditional factor in providing a better tomorrow for future generations. In this respect, the crisis is an opportunity to redefine the role and the governance of the public sector across the central, regional and local levels.

4. CONCLUSION

Local sustainable development must be understood as a goal of local governments which can be supported partially by local public finances. Involving local finance-sustainable development is primarily the duty of local authorities whose activity must be oriented to develop financial mechanisms which are able to create own resources. To invoke the need for economic growth while asking for support from the central budget is less convincing if are not own efforts involved. The main conclusion highlighted by this research is that local finances are not yet able to support the real needs of growth and sustainable development in countries as *Romania, Hungary* or *Bulgaria*, requiring serious incentives for their strengthening, but sustainable development is a realistic one in *Great Britain, Denmark, Finland* or *Sweden*. Thus, setting mechanism "subsidies to attract nonrepayable financial assistance" can strengthen the local finance, creating realistic assumptions supporting policies aimed at sustainable development for the countries with this problem. Also, it is necessary an improvement of the management of local budgets to be efficient.

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