

THE IMPACT OF LOCAL PUBLIC FINANCES ON A COMMUNITY

*Mircea-Iosif RUS**

Abstract

It is known the fact that local public finances are considered, together with the public finances of the state central administration, users of the money resources at the level of the administrative-territorial units for the satisfaction of the said units needs like culture, education, social services, public services, etc, establishing, at the same time, economic relations which stand at the basis of building up the resources which will be used as previously mentioned. In order to accomplish their challenges, local public finances perform a value transfer from the population to the local budget without providing a consideration to the said population. The local public finances value and weight differ with each administrative-territorial unit and depends, in a direct manner, on the population number and on the economic activity of those administrative-territorial units. Exactly for that, it depends very much on the local administrations to try and attract as many companies as possible even if this means to grant them certain facilities. We must not neglect the fact that, for the good running of their activity, those communities receive amounts deducted from certain central taxes and charges but it is advisable to provide a portion as large as possible of the budget from local taxes and charges, in accordance with legislation provisions.

Key Words: *local public finances, administrative-territorial units, community*

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1. Introduction

The concept of „finances” reflects nothing else but all the economic type processes and relations in pecuniary expression by which it is achieved the set up, distribution and use of the monetary funds necessary for the state functioning and of other economic and social entities.

Thus, Law no. 273/2006,„establishes the principles, general framework and procedures related to the making up, administration, engagement and use of the local public funds as well as the responsibilities of the local public administration authorities and of the public entities involved in the field of local public finances.

The provisions of the mentioned law apply to the field of development, approval, achievement and reporting of:

- a) the local budgets of the communities, towns, cities, sectors of Bucharest, counties and city of Bucharest;

* Senior Researcher III, PhD., NIRD Cluj-Napoca.

- b) budgets of the public entities financed entirely or partially from local budgets, as case may be;
- c) budgets of the public entities funded in full from their own earnings;
- d) the budget of foreign and domestic loans for which the reimbursement, payment of interest, commissions, charges and other costs is provided from local budgets and which come from: foreign loans contracted by the state and sub-loaned to local public administration authorities and/or companies and public services of their subordination: loans contracted by local public administration authorities and guaranteed by the state: foreign and/or domestic loans contracted or guaranteed by the local public administration authorities;
- e) budget of non-refundable foreign funds.” (Law no. 273/2006 on local public finances)

The financial autonomy organized distinctly at the level of the local authorities allows for the relief of the finances at the central level of a series of expenses, for the decrease of the number and size of the cash flows between the two levels of the public finances as well as a follow-up on the way of setting up and expenditure of the cash flows. Moreover, the public administration authorities have as their main responsibility the local budget determination and approval upon the preestablished deadlines, that is, the total amount of income and expenses necessary to the running of the activities of all the entities of the local administration. At the same time, the local budget reflects the flows of income and expenditure of the local administration, the way of funding the expenditure by destinations and the coverage of deficits, when there is the case.

The local budgets are the main link in the ensemble of the local public finances. These budgets express the composition, distribution and use relations of monetary funds at the level of the administrative - territorial units. There are nothing else than a structural element with a very important role of the national master budget.

A thing easy to see in Romania during the present stage is that an ever increasing decentralization of expenses is sought at the microeconomic level and their transfer for financing to the administrative - territorial units which also implies a transfer of the financial funds set up resources, respectively, the procurement of own income at the central level of the unit, thing which, most of the time, does not happen at all or only to a little extent.

2. Local public finances features

The local public finances, together with the public finances of the state central administration, are a component of the public finances which, at the same time, express the economic type relations by which monetary resources

are mobilized and used at the level of the administrative-territorial units to satisfy certain collective necessities represented by education, culture, social services, public services, development.

The main features are:

a) The economic relations by which the financial resources at the local level are mobilized, distributed and used are expressed in a monetary form. There are interconnection relations between the economic relations by which money resources are mobilized, distributed and used and the material form processes.

b) Local public finances express a value transfer which is performed between the participants in the economic relations by which monetary funds are build up and used at the local level. The value transfer achieved through the local public finances determines the modification of the patrimony owned by the participants in the economic relations of monetary funds mobilization and distribution, respectively, legal persons, natural persons and authorities of the local public administration. At the same time, the value transfer expresses a transfer of purchasing power as the participation by taxes and charges to the local budget contributes to the decrease of the monetary availabilities and of the purchasing power of certain natural or legal persons and to the increase of the purchasing power of administrative-territorial units.

c) The transfer of value through the local finances is done without the provision of a direct and immediate consideration which means that the person from whom the monetary resources are transferred to the local budget does not directly and immediately receive an equivalent in goods, services or money. Local public finances reflect the participation of natural and legal persons to the build-up of local budgets income under the form of taxes and charges, without a direct and immediate consideration. At the same time, the opposite transfer of value, from local budgets to natural and legal persons is carried out without a direct consideration coming from them. It should be mentioned that the transfer of value within the local public finances without a direct and immediate consideration has nothing to do with the contributions paid by natural and legal persons which benefit of funds from local budgets.

d) The transfer of value through the local public finances aims at the satisfaction of collective requirements such as those related to education, culture, health care, social services, public services and development. (Cârstea V., 2004:4)

3. Local taxes and charges determination competences

In accordance with Law no. 273/2006, “local taxes and charges are determined by local and county councils and by the General Council of the city of Bucharest, as case may be, within the limits and under the terms of the law.” Consequently, in what concerns the type and the amount of the local

taxes and charges it is the assignment of the deliberative entity at the level of each administrative-territorial unit. Accordingly, the body of the local public administration authority decides also on the categories of citizens which may benefit of the exemption, decrease or scheduling of such payments (Roş N., 2015:50).

Reference to local taxes and charges is also made by Law no. 227/2015 - the Taxation Code, which makes a classification of them in:

- a) tax on buildings and charges on buildings;
- b) tax on land and charges on land;
- c) tax on means of transport;
- d) charge on the issue of certificates, notices and authorizations,
- e) charge on the use of advertising and publicity means;
- f) tax on shows;
- g) special charges;
- h) other local charges.

In what follows, some explanations are needed on these local taxes and charges.

Any person who owns a building located in Romania owes an annual tax on the said building and, for the buildings which are the public or private property of the state or of the administrative-territorial units, chartered, leased, assigned for administration or use, as case may be, to any entities, others than those of public law, the charge on buildings is determined and the said charge is owed by the lessees, lodgers, the holders of the right of administration or use, according to case, under terms similar to the tax on buildings. (Law no. 227/2015, art. 455)

Any person who owns a land located in Romania owes an annual tax for it and for the land which is the public or private property of the state or of the administrative-territorial units, chartered, leased, assigned for administration or use, as case may be, to any entities, others than those of public law, the charge on land is determined and the said charge is owed by the lessees, lodgers, the holders of the right of administration or use, according to case, under terms similar to the tax on buildings. (Law no. 227/2015, art. 463)

Any person who owns a means of transport which has to be registered in Romania owes an annual tax on the said means of transport. Such tax is owed for the period during which the vehicle is registered in Romania. (Law no. 227/2015, art. 468)

Any person who needs to obtain a certificate, a notice or an authorization must pay a fee to have that certificate, notice, authorization issued. (Law no. 227/2015, art. 473)

Examples of such charges are the fee for the issue or urbanism planning certificates, building permits and other notices and authorizations, the charge

for the issue of permits for the development of certain activities (health authorizations, producer's certificate, as well as the charge to run bar and games activities).

Any person who benefits of advertising and publicity services in Romania on the basis of a contract or of any other kind of agreement signed with another person owes the payment for such services except for advertising and publicity services performed through means of written and audio visual mass information (art. 477) and any person who uses a board, poster or display structure for advertising or publicity owes the payment of the annual fee to the local budget of the community, town or city, as case may be, on the territory of which the board, poster or display structure is located. (Law no. 227/2015, art. 478).

Any person who organizes an artistic event, a sports competition or any other entertainment activity in Romania is obliged to pay the show tax. (Law no. 227/2015, art. 480)

For the functioning of certain local public services created for the convenience of natural and legal persons, as well as for the touristic promotion of the location, the local councils, the county councils and the General Council of the Municipality of Bucharest may adopt special charges. (Law no. 227/2015, art. 484)

Besides all these taxes and charges which stand at the basis of a local budget there are other budget financing sources like the amounts deducted from the income tax, subsidies received from the state budget and from other budgets as well as from donations and sponsorships.

4. The impact of public finances on a community

As previously specified, the funds attracted to the local budgets are used to meet collective necessities represented by education, culture, social services, public services, development. For the achievement of such requirements as many funds as possible are needed in order to satisfy the grievances of the contributors natural and legal persons. It is true, it matters very much that the amounts distributed from the income tax be consistent with such needs but it does not always happen like this.

For the communities which have a higher development level the matter of providing the necessary funds is more easily solved from own income, by the taxes and charges it collects. Thus, in a city with many inhabitants, there is the possibility that such own income has a great weight given the properties those inhabitants own; the more owners of real estate, the more taxes will be collected to the budget for such real estate; the more residents own vehicles, the more taxes on such vehicles they will have on the budget. Since there are several vehicles, the local authorities will have to arrange parking lots that will generate parking fees that are collected at the local budget.

If the administrative-territorial units rent buildings or spaces with artistic or sports purpose, rents will be collected for these spaces, this rule extending also on the spaces rented by units subordinated to the City Hall (for example, if a school rents the sports hall, the renter pays the rent to the school and the tax on the building for the rent period is paid still by the renter to the local budget).

In the localities with a greater number of inhabitants, the administrative-territorial units build up the budget through this own income using as levers the taxes and charges to be paid by the natural and legal persons.

If their number is large then lower taxes and charges can be set because they are offset by the large number of contributors. In contrast, in the localities with a smaller number of possible contributors, natural and legal persons, the administrative-territorial units may establish higher taxes and charges to provide for their own budget. (Cigu E. & Oprea F., 2013:45)

In all communities the needs of the population are largely the same but the degree of satisfaction of these needs differs from one community to another, this mainly depending on the income made to the local budget. Other factors that can influence the degree of satisfaction of the population needs are the labor force, the infrastructure, the qualification of the personnel serving the population, etc.

Within the present context, one big question has to be asked with reference to the financing of the local public authorities: what would be better, a decentralization of these authorities' financing or a regionalization of the said authorities' financing?

We will have a little analysis of those two concepts:

Decentralization implies a more profound financial autonomy of the local authorities in relation to the central entities, functioning under their own conditions and the legal instruments (resolutions, etc) may not be challenged but by courts of law.

Public services decentralization does not mean anything else but an acknowledgement of an autonomy also from the legal point of view of those entities under the subordination of the administrative-territorial authorities, at the same time with the acquirement of a legal personality.

Decentralization presumes that the material and financial resources may be used with an increased efficiency to the satisfaction of priority needs that the local authorities do for the people because the said needs are better known by these authorities than the central ones.

As an advantage of decentralization we may mention here the fact that, as previously mentioned, material and financial resources may satisfy the immediate needs of a greater number of dwellers and the labor force may be used more efficiently in the achievement of these challenges.

A disadvantage of the decentralization from the financial point of view is that it leads to an increase of the number of bodies with own budget and patrimony which, in certain cases, may not be that easy to control, especially in the case of administrative - territorial units smaller than a municipality, as there are chances that the personnel that must exercise such control be insufficient or not be professionally well trained.

In exchange, regionalization presumes an improvement of the local public administration activity from the quality point of view.

From the point of view of the local public finances, within a regional structure, the communities and the cities may cooperate on an economic and social plan to better capitalize on local resources and attract new financing sources.

Quite often, the region is set up in order to foster the monetary resources mobilization and redistribution process and especially the cooperation of the communities which compose the region with a view to the achievement of economic and social development programs.

As regionalization advantages we may mention the following: the lessening of the existing imbalances by the stimulation of the balanced development which may lead to a decrease of the gaps various local authorities located in less favored areas due to historical, geographical, economic, social, etc, conditions and the prevention of new imbalances occurrence: an easier access to structural funds and to the European Union Cohesion Fund.

Analyzing the two situations, decentralization and regionalization, we may say that there is no standard pattern that may be successfully applied to all administrative-territorial units but, if the specific conditions of each unit are taken into account, one of the two situations may be successfully applied, implicitly that which may bring as many financial resources as possible at the level of those authorities.

Conclusions

In a community, in order to meet the needs of the natural and legal persons it is very important to provide income to the local budget to be distributed for the performance of the necessary expenses.

As we have presented in the materials, the legislation provides for various methods of attracting funds to these local budgets, but in recent years, it has been sought to make available to the administrative-territorial units various levers through which they may secure the necessary revenues. That not all of these units succeed, this can be easily ascertained and then funds are also allocated from the state budget or other budgets. (Cigu E., 2011:24)

In recent years, however, more and more town halls have begun to resort to either bank loans or the launch of bonds (see the case of Alba Iulia, Bacau, Iasi and Timisoara) to ensure the necessary revenues to the local budget, all of

which result, as I said, in meeting the needs of the natural and legal persons within the respective communities.

Here, another situation may come up: there are administrative - territorial authorities which do not manage to support themselves from taxes and fees paid by the contributors, natural and legal persons and, the principle of subsidiarity chips in, that is, the support of the financial needs from sources coming from elsewhere.

That is why, the financing of the local entities is done by quotas deducted from the state budget to provide a financing adequate to each administrative - territorial unit. However, there are also exceptions in Romania: I know two communities in Romania which provide a great value from local taxes and charges: the first one is Jucu of the Cluj County, community which collects taxes on real estate from legal persons of the Tetarom Industrial Park and, the second one is Brazi of the Prahova County which, it too, collects considerable amounts in taxes on the real estate of the refineries located on its territory.

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