

## THE RATIONAL DISTRIBUTION OF PUBLIC RESOURCES: A CHALLENGE FOR PUBLIC BUDGETS REFORM

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### Abstract

Nowadays, rational allocation arguments of public resources go as far as to encompass not only economic criteria on how an administrative - territorial unit should use and distribute its revenues, but also the normative and social criteria. In this context, when speaking about the budgetary reform, public sector efficiency and effectiveness, as well as the improvement of expenditure control become constant issues, and increased the pressures on budget process. On this premise, the author discusses the implications of allocation process looking at the revenues and expenditures relationship at local government level. The analysis takes into account two institutional scenarios: (1) revenues distribution from state budget to local budget, and (2) revenues distribution into local budget (on types of activities). I argue that the compliance with the rational institutions' arrangements is on the one hand, a potential for increasing the balance of local budget and, on the other hand the impetus for macroeconomic stability. Taking into consideration the aim of the paper, the research methodology is based on a case study as research strategy, and uses the triangulation method to obtain confirmation of findings through convergence of different perspective. Regarding the qualitative research, the author use theoretical framework, legal analyses, systematic and analytical collecting data from official written sources, and macroeconomic indicators for quantitative aspects.

**Key words:** public budget, allocation of resources

**J.E.L. CODES:** [H2](#), H6, H7, D78

### 1. Introduction

Income distribution and the role of the market, the public sector and globalisation have gained increasing attention in recent years (Afonso, Schuknecht, Tanzi, 2008:7; Gianakis, ClifFord, 1999). The subject matter of public budgetary system structuring and the interrelationships between their components is a constant issue, often leading to controversies of substance, both in the domestic literature and in the foreign literature in the field. Today, the public sector has to innovate itself if it wants to raise its efficiency, to provide solutions for societal challenges and to meet the increasing demands of citizens in a rapidly changing environment. The budget itself is the result of the budgeting process, the way in which decisions about the use and funding of public resources are made, from the drafting of a budget law to its implementation.

### 2. Research Methodology and Theoretical Considerations

The analysis takes into account two institutional scenarios: (1) revenues distribution from state budget to local budget, and (2) revenues distribution into

local budget (on types of activities). The research methodology is based on a case study as research strategy, and uses the triangulation method to obtain confirmation of findings through convergence of different perspective. Regarding the qualitative research, the author use theoretical framework, legal analyses, systematic and analytical collecting data from official written sources, and macroeconomic indicators for quantitative aspects. The period for analysis has been 2006-2014. Budgeting has been described as being at the core of the financial process within a local authority (Hale, Capaldi, 2003: 309). In Romania, the public budgetary system is structuring in two parts: (a) central [the state] budget and local budgets. The state budget (of the central administration), due to its specific content, is a first level component of the public budgetary system, having a privileged position among the other functional instruments of public financial management (Oprea, 2010: 468). On the other hand, the local budgets are characterized in the public finance theory (Văcărel, 2006) by assimilation with the meanings given to the state budget, as they are associated, as a rule, with the concept of local autonomy. The local autonomy principle means that local authorities' right and effective capacity to manage, on their own responsibility and on behalf of the local community, an important part of public tasks (Law. no. 215/2001).

### **3. Country study case**

The government budget is a record of the revenues and expenditures of a government during a given period of time. Ex ante, it shows what the government intends to do during that period and how it intends to finance these activities. Ex post, it shows what the government actually did and who had to pay for it and in what form (Jürgen von Hagen in Shah, 2007). OECD recommends budgets to be comprehensive, encompassing all revenue and expenditure. Looking to revenues it is important to note that the exact level of those depends on two main factors (Attila, 2009: 219): (a) amounts approved to be transferred from state budget to local budgets, and (b) the exact level of taxes established by each local council guiding themselves after the minimum and maximum limits imposed by law.

#### **3.1. Income distribution from state budget to local budget**

According to the national economic policy, the local authorities have the right to possess their own financial resources for providing public services and making investments. In general, their own resources come from local taxes that mean some local community can be in a deficit or excess state. In this context, the own resources of local authorities can be insufficient for financing the local public needs or can cause an unbalanced situation between communities. For avoiding that, in Romania it has been created a mechanism for distributing the public resources, namely redirection [allocation] of a part of public revenues from the state budget to local budgets. The allocation mechanism is governed by the local public finance law and it envisages two steps: allocation by counties and then, distribution of public resources within the county (Leonardo, Martinez-Vasques, Miller, Sepulveda, 2006: 52-54).

Thus, annually taxes are collected at national level by Ministry of Finance, and later a part of them is shared between different levels of public administration. Local authorities receive shares of income tax and VAT. Starting to 2007 through Law no. 273/2006, it has been created a new mechanism of allocation of resources. Articles no. 32 and 33 comprise the main provisions regarding the allocation of resources towards local public administration, drawing two important budgeting mechanisms. The mechanism drawn by provisions of art.33 has two stages: (1) transfer from central to territorial (county) level and (2) from county to local level. Balancing the allocation to counties is made through annual budget law using two criteria: (1) fiscal capacity per person at county level, based on income tax, weighted 70%; (2) area of county, weighted 30%. The last mechanism presented has the scope to make more predictable and transparent the allocation process of budget balancing (Dumitrescu, Dogaru, 2014: 135). According to the last mechanism is carried out the representation from Appendix 1.

The analysis of the situation represented in the above table reflects the effects of changing budgeting mechanism as well as the evolution of allocation under the same mechanism. In this sense, it is important to note that the values for 2006 represent allocation for balancing amount under the provisions of Government Ordinance no. 45/2003, while the values for 2007-2013 are balancing amount allocated based on Law no. 273/2006, art. 33. A special situation is outlined for 2008 where the balancing amounts have been made in derogatory regime, without taken into consideration the criteria mention by Law no. 273/2006

Under the Law no. 273/2006, are taking into account the following parameters for allocating the resources from state budget to local budget: (a) population of the administrative-territorial unit; (b) the urban are of the administrative-territorial unit; (c) the financial capacity of the administrative-territorial unit; and starting 2009 the collection degree (IPP, 2010: 37).

On the other hand, under the Government Ordinance no. 45/2003, the distribution of resources by county of share of certain incomes of the state budget has been done as: 70% depending on financial capacity and 30% on county area. Complementary to this type of resources, from state budget to local budget are allocated other revenues, such as: amounts deducted from certain income of the state budget, grants from the state budget and other budgets, donations and sponsorships.

Another sensible issue of budgetary processes refers to transfers from the state budget to the local budget. In principle it is a very simple method for local communities to fill out the deficits between incomes and expenditures, which almost every time will affect local public investments. By subsidizing some activities, certain amounts of the local revenues can be transferred to other activities, such as financing investments (Dumitrescu, Dogaru, 2014).

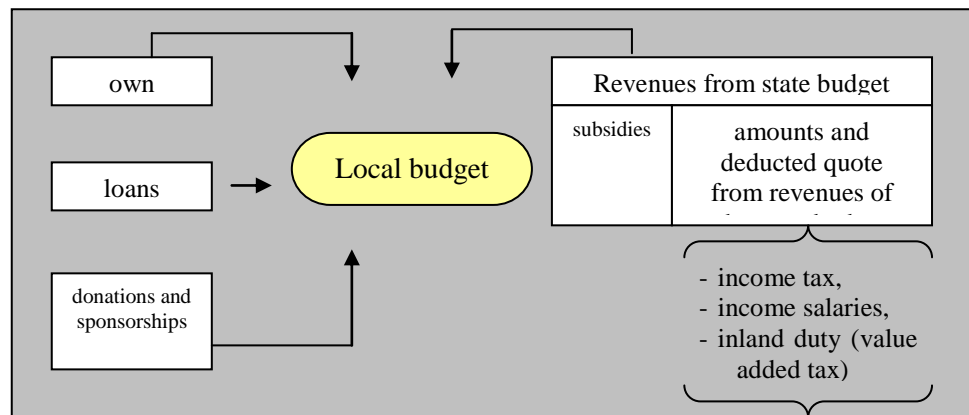
### **3.2. Income distribution from local budget to activities**

Before going ahead, an essential mention is necessary, namely local budget definition. There are many definitions for local budget, but in this paper it is used

the definition given by Law no. 273/2006 on local public finance. According to this the "local budget represents the document that are provided and approved each year the revenues and expenditures of administrative-territorial units". Moreover, the local budget for the whole county, and respectively for Bucharest represents the all local budgets, namely all local budgets of communes, towns, municipalities and the county's own budget, respective districts and Bucharest.

Local budgets are essentially made of local revenue and revenue received from the central level. In other words, the revenues of local budget comprise: (1) own revenues from: taxes, charges, contributions, other payments, other revenues and shared amounts from the income tax; (2) shared amounts from some revenues of the state budget; (3) subsidies from state budget and other budgets; (4) donations and sponsorships (Matei, 2009: 24). A graphic representation of this can be finds below:

**Figure 1: The Structure of Local Budget**



Source: Dumitrescu, A., Dogaru, T-C., (2014: 133)

For a comprehensive analysis, and for understanding the distribution of local revenues on activities the author put into a comparative perspective the local revenues and expenditures. Taking into account that in Romania are 3228 administrative-territorial units, analysis are not conducted on all of these, but only on county level, more precise on county councils. For revenues (incomes) the situation is presented below in Appendix 2.

Concerning the expenditures, the analysis outlines situation from Appendix 3.

From the data presented above one can be noted a mismatch relationship between revenues and expenditures. There are some county councils which spent more money than have it, determining a deficit of local budget. Another issue consists on the inefficient collection of taxes and other amounts for local budget. Concerning the expenditures the main types are: (a) general public services; (b) defense, public order and national security; (c) education; (d) health; (e) culture; (f) social assistance; (g) services and development, housing; (h) environment; (i) fuels and energy; (j) transport.

Thus, although the new mechanism of allocation resources has some practical parameters for determining the revenues, in practice there are situation of misunderstanding it, making possible that some administrative-territorial units to get more resources while the needs of community are lower than others. In this context it can be notice the requirement for a more improving the mechanism of allocation resources from state budget to local budget and also from local budget to activities and services. Moreover, this synthetic analysis reflects that the condition, completed by the requirement for rationality and objectivity has been stressed by the economic and financial movements, particularly by the global economic crisis.

### Conclusions

The reform of public administration, including budgeting process is still in progress in Romania. Although one has been made important steps to autonomy, especially financial autonomy and independence of local authorities in practice continues the financial dependent relationship between state budget and local budget. So, the state still provides important resources to local communities, the largest proportion of these have special purposes, which do not allow local communities to have freedom in managing funds.

Further, the reform of budgeting process become a millstone taking into account that budgets are an important tool of the public sector at local and central level for modeling the future.

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## Appendix 1

## Allocation of resources for balancing amount according to art 33 through Law no. 273/2006

No.	Name of County	Allocation/Distribution of resources										thousand RON								
		2006	2007	2008	2009	2010	2011	2012	2013	2012	2013	2013								
0	1	2	3	4	5	6	7	8	9											
1	Alba	29349	32604	it was conducted in derogatory regime																
2	Arad	42232	43652	it was conducted in derogatory regime																
3	Arges	53756	58735	it was conducted in derogatory regime																
4	Bacau	138129	55977	it was conducted in derogatory regime																
5	Bihor	49670	50200	it was conducted in derogatory regime																
6	Bistrita-Nasaud	29724	27348	it was conducted in derogatory regime																
7	Botosani	46387	42807	it was conducted in derogatory regime																
8	Brasov	56522	57833	it was conducted in derogatory regime																
9	Braila	26976	30726	it was conducted in derogatory regime																
10	Buzau	89740	43233	it was conducted in derogatory regime																
11	Caras-Severin	36332	34387	it was conducted in derogatory regime																
12	Calarasi	33140	27779	it was conducted in derogatory regime																
13	Cluj	50555	65102	it was conducted in derogatory regime																
14	Constanta	54668	66760	it was conducted in derogatory regime																
15	Covasna	19981	18711	it was conducted in derogatory regime																
16	Dambovita	78143	42504	it was conducted in derogatory regime																
17	Dolj	50439	52704	it was conducted in derogatory regime																
18	Galati	44299	44427	it was conducted in derogatory regime																
19	Giurgiu	29170	24067	it was conducted in derogatory regime																

0	1	2	3	4	5	6	7	8	9
20	Gorj	34764	32324		62820	55916	54282	44050	48589
21	Harghita	31905	28408		41282	44475	43187	38405	42924
22	Hunedoara	47215	43560		68104	67867	65845	51030	62939
23	Ialomita	24168	27061		38636	39494	36505	32010	36040
24	Iasi	53048	59966		98024	109831	93841	84696	91864
25	Ifov	25713	30939		76310	73579	73757	75874	80657
26	Maramures	39944	44500		65638	68435	64864	57343	63361
27	Mehedinti	26906	29225		44561	40224	37657	32238	34711
28	Mures	43319	49504		74226	71419	85708	69123	79059
29	Neamt	50130	47824		67934	68941	69194	59701	59438
30	Olt	41850	39917		58154	60783	55517	49997	54504
31	Prahova	69995	66526		104751	115899	106321	82447	107376
32	Satu Mare	29724	31149		42582	47506	48943	44288	45720
33	Salaj	52735	22321		31724	31289	30487	26434	29356
34	Sibiu	29248	39593		60133	62100	61129	57980	70135
35	Suceava	70533	60464		80010	88069	88432	75300	79653
36	Teleorman	43257	37619		52899	54182	49985	44082	48496
37	Timis	63996	66312		105893	102672	115101	99597	126681
38	Tulcea	27054	27880		39053	40568	36121	33749	36987
39	Vaslui	49271	44295		58618	59996	57618	52441	51436
40	Valcea	36182	34455		48323	51011	45712	46089	47413
41	Vrancea	36217	32762		45899	45642	45245	40473	42374
42	Mun. Bucuresti	197730	236833		430288	435710	393053	316474	377856

Source: author based on official data and budget laws



## Appendix 2

## Total revenues on county councils

No	County Councils	Total revenues											thousand RON
		2006	2007	2008	2009	2010	2011	2012	2013				
0	1		3	4	5	6	7	8	9				
1	Alba	100773442	135172903	165310737	178021188	189192369	177540701	168259500	172943311				
2	Arad	109207560	153677993	171575189	193683101	227210209	227082093	245428203	216330277				
3	Arges	145217996	200377337	258632413	279067792	278300399	260896295	265012521	266684706				
4	Bacau	124607621	180630040	226977112	221212800	236390276	280462040	276278998	332380855				
5	Bihor	179638392	213350242	234013015	261938148	259382651	252383259	235490049	255819206				
6	Bistrita-Nasaud	75318264	103205729	119016313	162814742	190489072	195934355	228087886	157865430				
7	Botosani	91037268	130274006	155916053	172265474	170970434	198096473	231182308	251482803				
8	Brasov	140395750	191308086	235563724	216825288	211443896	239475757	223209992	241694902				
9	Braila	72675608	111018081	146514570	142328253	140671223	148335464	130577316	134024134				
10	Buzau	114644809	135843375	164431923	191253988	189136190	189805870	184561673	195109870				
11	Caras-Severin	96793807	113095500	135179631	161304322	157342660	175563116	155448451	163871719				
12	Calarasi	56566817	87899255	126768814	124681229	137771715	149459275	152919256	161517739				
13	Cluj	175658771	274639222	312678656	339522352	388538945	368927814	356121796	429633268				
14	Constanta	167523547	219380489.4	302598981	292167034	323176652	388784411	393805667	365824371				
15	Covasna	46008035	59490370	66056570	71374862	87501385	93819193	102205898	91177008				
16	Dambovita	98223718	152349071	176171464	190066293	202728614	222566723	199266281	233297626				
17	Dolj	128646301	177907518	210337014	250303765	287493098	228388504	217498977	223924014				
18	Galati	107170868	142990410	211126610	195445385	210125755	201336593	186052017	175956478				
19	Giurgiu	57621185	72509991	119566669	99052867	125191122	163603417	177522731	140211291				

0	1	2	3	4	5	6	7	8	9
20	Gorj	90176835	123845443	149370143	178198009	160607724	161708179	154310764	164770885
21	Harghita	66284258	96119141	106027889	115164880	145921189	136762832	131172159	121991792
22	Hunedoara	109018983	167912390	210578298	197614703	230631234	204812356	192631400	217139627
23	Ialomita	47755703	73264992	96601071	106574952	98269100	94450981	91491668	98213600
24	Iasi	194210745	264596678	306357109	339188889	324547516	389352712	311911213	370593906
25	Iilfov	80795682	127218118	159931184	168150937	252757906	231485453	187903698	192954101
26	Maramures	115231505	148754536	269221144	177601488	234377056	190312125	184265248	206986094
27	Mehedinti	64476082	99152701	117620008	138157677	198606088	184369432	141217610	213087859
28	Mures	127995337	174144439	253909115	218396949	227319683	271558854	278656070	365706669
29	Neamt	103210776	149341127	181613227	191294631	243353437	249394045	215113461	288106225
30	Olt	79523912	124222478	209159125	156893059	161386240	172144744	183736687	201173327
31	Prahova	163778304	253981983	300946704	337394954	374886611	359509226	365606828	353099290
32	Satu Mare	79589563	98875799	151795437	136316745	160804144	143791625	144936291	189311993
33	Salaj	56884388	90398803	125670533	116213901	147422749	181192244	150318498	171617521
34	Sibiu	159792079	174172399	200515887	236634450	248431003	257000723	249551851	248309796
35	Suceava	148380615	202929186	280717300	291420591	350787705	344205371	288387781	311267772
36	Teleorman	73684801	113913312	151039063	132116303	191400226	169142709	136592682	168831211
37	Timis	168732646	246807206	303467374	329005767	339977738	426120925	353127219	357459559
38	Tulcea	78163874	92836340	100672668	164007089	209457172	172605024	123508937	123793451
39	Vaslui	90995966	130370115	168263950	188435967	213029019	211722994	172480669	246030473
40	Valcea	104751283	164370334	169208935	167480478	208427502	194453370	176838545	215451765
41	Vrancea	86339247	167027192	246014045	180262158	264636729	197333504	175188430	159358934
42	Mun. Bucuresti	1918538867	3068343256	NA	3418746888	NA	NA	NA	NA

Source: author based on official data and budget laws

## Appendix 3

## Total expenditures on county councils

No	County Councils	Total expenditures											thousand RON
		2006	2007	2008	2009	2010	2011	2012	2013				
<b>0</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>	<b>8</b>	<b>9</b>				
1	Alba	422641050	133204578	715712355	177107434	178373853	165024240	180980951	180769630				
2	Arad	548661073	131187416	867999690	167385222	189192889	266599334	238264545	196811684				
3	Arges	739230210	197916526	1220714881	262070762	254442543	268528763	248792562	260446282				
4	Bacau	733787634	159720445	1168468913	209105031	198919004	280750555	296230932	299766856				
5	Bihor	804617834	202821169	1219892857	253865917	241590557	252054028	245277982	257018963				
6	Bistrita-Nasaud	354347618	93365704	531222720	118114036	149341176	247400295	219470958	149723829				
7	Botosani	456206166	120908731	674563653	158987417	155468423	185753103	249361249	257159698				
8	Brasov	756126996	163979906	1241853008	225042302	210400348	229703792	207688222	231743051				
9	Braila	357914869	90890124	577238406	101196305	116571091	148352922	121503478	125097473				
10	Buzau	494677432	124210845	800182971	162486622	174079989	190631281	183298337	195316002				
11	Caras-Severin	385870756	112624929	555609528	146856038	152962730	166827499	170203315	160085152				
12	Calarasi	282225800	81081833	493433671	105902294	113109584	160078391	169036696	146948039				
13	Cluj	847960745	231989299	1401625390	286526454	302975948	432005334	377367615	428196041				
14	Constanta	866866521	207844847	1364105184	304556021	309641272	390689839	408877258	360078351				
15	Covasna	235328546	51865645	388466409	63265831	67799324	115099529	92093893	78680542				
16	Dambovit	507629130	139150120	797606966	186478369	187958579	234782788	205713301	235066655				
17	Dolj	709698783	165094205	1158395638	218880914	255954823	216837976	244834708	221499677				
18	Galati	667335064	141926378	998130048	175983397	185369059	206299717	187643024	184342871				
19	Giurgiu	288829550	73136821	5174999877	92818371	87216664	178346855	157859390	148834281				

0	1	2	3	4	5	6	7	8	9
20	Gorj	422340085	113688228	712869153	183247312	149376644	168955371	153911471	168579495
21	Harghita	355349245	84808041	592164311	107060948	126895478	146174580	128124730	125630014
22	Hunedoara	574860258	155375749	903151113	190969418	196650920	213320867	197408574	222707814
23	Ialomita	256350370	65084368	467394632	97509102	93193759	93850665	94490406	96522543
24	Iasi	835550856	209610015	1340516052	274568780	268854285	329149566	311520372	343649594
25	Iilfov	398340411	106779507	843564611	153800911	221419143	197678516	182356333	154223277
26	Maramures	543473283	145027631	824552907	174625189	186719384	204498991	189253488	195087908
27	Mehedinti	303745542	93564966	503421831	128775216	163400702	196100053	156072247	205776395
28	Mures	621352364	155303839	1129720868	187452303	193107828	297448731	288502404	364791355
29	Neamt	523538412	135999427	846792363	188394546	219594643	251345795	229160204	285720925
30	Olt	436011884	119212431	788962279	147360762	152894417	162162918	188315302	184156048
31	Prahova	864103794	245208430	1434779614	319257664	380604107	343246591	356625454	344224055
32	Satu Mare	409491202	92473117	669798819	136042800	151950878	152402924	140374302	192224309
33	Salaj	272218111	85293697	481269598	108305679	106463344	208729672	154106840	159669633
34	Sibiu	607879560	146504153	874744265	205687483	204897598	257880685	250170508	286764862
35	Suceava	734911663	193959700	1172225948	283185177	331967180	331824439	293701801	305784846
36	Teleorman	392291978	103202654	671312446	121485431	180088769	164348263	141809058	179017814
37	Timis	920104674	214606425	1500271684	299839417	287888742	415180937	387452070	395067092
38	Tulcea	290525484	85474317	436936127	152280160	181538093	191843251	119279491	111335004
39	Vaslui	461563774	122269463	793043289	163423506	203267856	192275805	186859003	257335907
40	Valcea	444826421	149481912	792783538	165951122	204846669	187119934	185952992	214196639
41	Vrancea	393967416	160926395	737620903	177242808	207190223	196035532	169039647	176432098
42	Mun. Bucuresti	3870068409	2972817820	6999579540	3322608023	NA	NA	NA	NA

Source: author based on official data and budget laws