

**VIEWS REGARDING THE IMPLEMENTATION
OF THE NEW SYSTEM OF BUDGETING ELABORATION
OF ADMINISTRATIV-TERRITORIAL UNITS**

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In this article there are presented the views of the author, who has studied the implementation of the new system of budgeting administrative-territorial units in Riscani and Ocnita districts which have undergone piloting for 2014 year. In the result of the analysis performed by a set of quantitative and qualitative indicators, using the process of comparison of the new and the old system, the author summarizes some opinions, which list the advantages and disadvantages of the new one. Overall, the author concludes that the new local budgeting system leads to strengthening of financial autonomy and raises the responsibility of local authorities for capitalization of the new sources of incomes to the local budget.

Key words: *proper incomes, self-governing incomes, general and special transfers, current costs, capital costs, achievement rank, self-financing rank.*

În acest articol sunt expuse opiniile autorului, care a studiat procesul de implementare a noului sistem de elaborare a bugetelor unitilor administrativ-teritoriale în raioanele Rîceni și Ocnița, supuse pilotării pentru anul 2014. În rezultatul analizei efectuate cu ajutorul unui set de indicatori cantitativi și calitativi, utilizând procedeul de comparație a sistemului nou cu cel vechi, autorul sintetizează anumite opinii, în care se regăsesc avantajele și dezavantajele noului sistem. În general, autorul conchide că noul sistem de elaborare a bugetelor locale conduce la consolidarea autonomiei financiare și ridică responsabilitatea autorităților publice locale pentru valorificarea noilor surse de venituri în bugetul local.

Cuvinte cheie: *venituri proprii, venituri autonome, transferuri generale și speciale, cheltuieli curente, cheltuieli de capital, grad de realizare, grad de autofinanțare.*

JEL Classification: D31; D33; F24; H27; H76.

Introduction. Public finance management is an integral part of the general economic management. Public finance management is one of the pillars of general economic management. The important place that occupies in the context of public finance management is determined by the fact that it is the main tool to promote fiscal policy which, with other financial policies, underlines the growth and sustainable development of the national economy. In order to ensure sustainability of public finances, strengthening budgetary and fiscal discipline and ensure an efficient and transparent management of public finances, Moldovan Parliament approved the Law on public finances and budget and fiscal responsibilities (OJ of RM, no. 206-208 from July 21, 2014).

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In the frame of public finances a special place occupies the local public finances. Law no. 397-XV of 16 October 2003 concerning local public finances (OJ of RM, 2003, no. 248-253), in the reform of local public finances, was amended by Law on amending and supplementing certain acts nr. 267 of 01.11.2013 (OJ no. 262-267/748 of 22.11.2013). Through this law was taken another important step in local public finance management reform. In recent years this reform gained breadth, having as fundamental objective the strengthening of local financial autonomy. The main task of local authorities in achieving this goal is to supplement the proper incomes. Supplementing the proper incomes at local level is related to the tax base of each administrative-territorial unit.

The new law on local public finance meant an essential reform in budgeting elaboration of administrative-territorial units, a new system for calculating the general transfers (equalization), raising the accountability of local government in strengthening local autonomy and fiscal decentralization.

To see the advantages of the new system of budgeting elaboration of administrative-territorial units is needed to compare the new system with the old one, which will be tried to be done below.

1 Analysis of qualitative indicators

In the result of the comparison of the two versions of budgeting elaboration of administrative territorial units – the old and new system, implemented in pilot districts in 2014 we find the following:

a) In section "incomes" we will compare the aggregated indicators:

- **Total incomes and rank of achievement;**
- **Proper incomes;**
- **Autonomous incomes / breakdowns;**
- **General transfers (equalization) and special transfers.**

I. Total incomes and rank of achievement in terms of implementing the new financing formula LPA compared to the old system.

Total incomes and total incomes per capita increased in 2014 compared to 2013 in all territorial administrative units from Râ cani and Ocni a districts. In some places this indicator practically doubled.

The improving of the indicator was caused both by the allocation of state budget transfers for capital expenditures and the fact that following the transition to the new funding system, all of the ATU of the I level were winning, which was confirmed by lack of fund compensation transfers for 2014 in the incomes structure of the ATU of the first level from the district. Imposing increases of the indicator in some localities were influenced by the receipt of arrears from previous years to rent payment and land taxes in considerable quantities too.

The transition to the new system for calculating the transfers from the state budget has influenced total incomes growth and per capita in all ATU of the first level from Ocni a district, which was confirmed by the absence of transfers from the compensation fund for 2014 in the income structure of ATU of the first level from the district too.

The achievement of total incomes did not change significantly in 2014 compared to 2013 and in most ATU he is close to ideal size of 100%, a maximum deviation being in average of 5.9 percentage points in some localities.

ATU that recorded a lower level of achievement had problems collecting lease payments. The predictability of the total incomes in ATU from Ocni a district is quite high so until and after the implementation of reform transfers. Thus, the degree of realization of incomes has departed from ideal share of 100% compared to 2013 and in the other pilot ATU, there was an increase of predictability of financial flows by an approach of 100% of achieving incomes rank.

In some localities from Râ cani district, the rank of realization of total incomes is weaker, and we established that 1/3 of localities have not achieved the expected level and even being lower than in 2013 by about 3-4%.

II. Proper incomes. At this indicator most localities have achieved increases. There are some localities that have achieved performances at this indicator. The same trend is at proper incomes per capita. It is worth mentioning that the cause of proper incomes growth in 2014 is the revenues from previous years of lease payments and land taxes. In conclusion we can mention that over 70% from administrative-territorial units of the first level there was an increase at this indicator. But along with proper incomes increases has also been registered a considerable decrease of population.

Proper incomes create self-financed conditions. **The self-financing rank** has decreased in 2014 in all analyzed localities. The decrease of self-financing rank in pilot localities was determined by increased transfers. In those localities where the situation has not changed is due to coincidence of the growth rate of

proper incomes and breakdowns of individual income tax (autonomous incomes) with the pace of transfers increases. If there are localities that have a higher degree of self-financing then it is due to the outstanding revenues from other years for land lease payment, and also because those localities do not practice preschool education competence (which was taken over by the second level LPA) and do not receive special purpose transfers for education.

In conclusion we can mention that in most localities the degree of self-financing fell in 2014 compared to 2013, it accounted for 12 to 24%. The reduction cause is of increasing current transfers, and those capitals, including resources received from the Road Fund for the essential repair of roads, which by 2014 were not allocated for level I.

From the above mentioned we can conclude that the ATU have a weak financial base and in this situation are unable to self-financing.

Proper incomes achievement. The achievement of proper incomes from pilot localities of Ocnita and Râ cani districts has a mixed character, varying in 2013 from 80%, rising in some localities up to 200%. In over 50% of localities the degree of realization of proper incomes has approached the ideal size 100%, which involves increasing the predictability of these incomes, and on the other hand, held a removal from this value, which implies a decrease of predictability. However, if we exclude the number of localities in which decreased the predictability of proper incomes, which were collected debts from previous years, that could not be predicted with accuracy and where were not collected incomes from rent, planned according to contracts and unpaid by the renter, the predictability of proper incomes in localities from these districts has increased.

But it should be noted that the degree of realization of proper incomes does not provide a precise characteristic of income predictability, due to the fact that sometimes the amounts planned for the revenues from the existing tax base and according to existing contracts are not paid on time by taxpayers, and sometimes outstanding amounts are collected, which are not planned on account of certainty lack that they will be charged.

Knowing that in proper incomes structure the largest share has the income from property tax would be good to see the revenues dynamics of this tax. The incomes from property taxes in 2014 recorded an increase compared with 2013 in most pilot localities. The increase is largely due to payment arrears from previous years. **The power of decision of LPA from rural localities on property tax is practically inept, subjects, tax rates, exemptions and reductions being approved by law, and in cities this power of decision is limited practically only at election of real estate tax rate for housing estimated at market value in the range approved by law.**

In conclusion we can mention that during a year of implementation of public finance reforms, a significant improvement in the revenues of property taxes are not recorded, since that most stocks were capitalized in prior periods. **The only way to increase revenues at these incomes is to expand the tax base through the sale or land leasing and property belonging to ATU unused.**

Achievement of property taxes. For 2014 the predictability (forecasting) of property taxes due to gradual realization, declined in many UAT, where the degree of achievement was removed by size 100% and for certain being closer to the 100% than in 2013.

In conclusion we can mention that the reform system for calculating transfers from the fund for financial support of administrative-territorial units in the first year did not affect the improving predictability of property taxes.

III. Autonomous incomes/breakdowns: in addition to proper incomes, comprise quotas deducted from general shared state taxes. These breakdowns, unlike other transfers from the state budget, are spilled automatically into ATU budget account and reflect very well the situation of the local economy and efforts that LPA makes to development.

In pilot localities, autonomous incomes increased in 2014 compared to 2013 in several localities. Although there are some localities with decrease, though the trend is positive.

The dynamics of **autonomous incomes per capita** is identical with the dynamics of autonomous incomes, with the exception of some localities where due to population decline, the dynamics of autonomous incomes per capita is positive, unlike the dynamics of autonomous incomes overall localities.

In conclusion we can mention, that in most localities of the district autonomous incomes registered a positive trend, which is largely explained by the increased revenues from the individual income taxes (IIT), which in turn was influenced by the increase of salaries in the real and budget sector, as well as

increasing the share of breakdown from IIT from 70% in 2013 to 75% in 2014, following the transfer system reform.

The achievement of self-financing incomes did not significantly change in 2014 compared to 2013. In 2013 this indicator varied from about 80% in some localities up to 200%, being influenced by the payment of debts, paying the rent from previous years.

The degree of financing from autonomous incomes depends on the degree of realization of autonomous incomes and therefore the degree of independent financing income has decreased in most piloted localities in 2014. **The decreasing degree of financing in pilot localities was determined by increasing transfers. The weak tax base from most localities cannot ensure self-financing.**

IV. Transfers to general purpose (balancing)

All administrative-territorial units of the first level received general transfers (balancing) and special transfers. In 2014 general purpose transfers (GT) to a resident return in localities with low fiscal capacity and with a small number of people, and least GT are allocated in localities with a fiscal capacity close to or higher than the national average. General purpose transfers in 2014 registered a decrease compared to 2013.

Special purpose transfers from the state budget (ST) are transfers for financing preschool education, primary, and secondary-general, special, complementary and competences delegated by Parliament to LPA authorities, at the Government's proposal. In 2014 pilot localities funded from ST the preschool education and payment indemnity for tutor. The average of special purpose transfers per capita in pilot localities is from 350 to 600 lei, oscillating between these values.

The degree of dependence of ATU's budget to State Budget. The degree of dependence of ATU by the State budget in piloted localities is irregular: in some of them the dependence decreased and increased in others. The reason lies in changing the calculation of transfers, which helped to reduce the dependence of ATU's budgets to State budget.

In conclusion we can mention that in general the dependence ATU' budgets to the State budget have increased. The cause is the method of calculating the fiscal capacity per capita in a specific locality (FCL i) at the local level and fiscal capacity at the national level, taking into consideration the localities subjected to allocations (FCL n), decreasing these values and therefore, to balance the budget ATU is required larger amounts from the Fund of financial support of administrative-territorial units (FFS of ATU).

Likewise the Local Public Finance Law no. 267 provides a set of activities financed by special purpose transfers. All these provisions increase the dependence of ATU's budget to State budget.

This situation does not affect the financial autonomy, that actually will not depend on the origin of sources, but on the decentralization of competency and administrative autonomy of LPA by having autonomous right, independently using the resources by priorities, on activities laid on programs and measurement indicators of performance.

V. Analysis of expenses

The significance of current expenditures in total expenditures

Expenses for ATU take into account the basic component, which comprise:

- 1) Current expenditure (recurrent)
- 2) Capital expenditure

The significance of current expenditure in total expenditure in most ATU tend to reduce. In some localities there is observed an increase of capital expenditures, which in turn, is due to the allocation of transfers from the state budget and resources from Fund road for investments and capital repairs.

The new formula stimulates the formation of additional incomes and by optimizing current expenditures, their savings and use of performance indicators on resources, products, efficiency and results. Reducing current expenses creates prerequisites for increasing capital expenditures, investment expenses. Where there was growth of capital expenditures, they increased due to the reduction of current expenditures.

Personnel costs (art. 111, 112, 116), as part of current expenditures, in 2014 are increasing compared to 2013. The increased personnel expenses is due to the gradual implementation of policies for salary increases in the budgetary sector, promoted by central public authorities, as well as extension of preschool education in many localities, which generated and increased salary expenses. Here it is necessary to mention, that in the new system, at the establishment of the inter-budgetary relations the policies for salary increases are taken into account only at the determination of special purpose transfers

(for education). As for the salary increases of employees from branches financed from general incomes (public administration, culture, etc.), they are not compensated from the state budget, unlike the old system. **Personnel costs per capita** have the same dynamic as the local total personnel costs.

The rigidity of expenditures in analyzed localities shows a trend of declining personnel expenses in relation to the total expenditures in fiscal year 2014 compared to 2013. This is due to the increase of part expenditures from the account of the budget transfers and resources from Fund road for investments and capital repairs.

Autonomous personnel expenditures (excluding education) is similar to the total personnel costs. The same upward trend is influenced by salary increases and indexation by 10-12% and keeps at autonomous personnel expenditures indicator reported per inhabitant too. The positive change in the degree of assurance with resources of purchasing goods and services for achieving own competencies.

The significance of autonomous personnel costs (besides education) in total expenditures. The importance of autonomous personnel costs in total expenditures has been reduced in most localities, and in some of them has been recorded an insignificant increase. This indicates a positive change in the degree of assurance with resources of expenditures for purchasing goods and services for achieving own competences. Reduction of autonomous personnel costs in total expenditures is motivated through the education funding from the state budget.

The gross operating outcome (surplus or deficit) has significantly increased in most localities. This increase indicates a better capacity of LPA of resource mobilization for capital expenditures. In essence this increase demonstrates a superior financial management capacity in 2014 compared to 2013, forasmuch as not using all the resources available to cover current expenditures, but rather creates funds available for investment. Gross operating outcome (surplus/deficit) represents the main and essential source through which LPA can mobilize funds for investment.

The significance of gross operating outcome in total incomes has increased in 2014 in most localities. The indicators of growing operating outcome reflect financial management capacity and refer to the relation between incomes and expenditures, defining the extent to which LPA implements an efficient management of financial resources.

2. Analysis of LPA perception and motivation and collecting incomes

The impact of the implementation of the new financing system in Rî cani and Ocni a districts

Indicators	Mean Rî cani	Mean Ocnita	Overall score	Impact evaluation
I. Income indicators				
The rank of realization of total incomes	limited - score 1	significant – score 2	2	It is under „high” rating
Total incomes per capita	high - score 3	high - score 3	3	Qualification „high” influenced by population reduction
Incomes from property taxes	significant – score 2	significant – score 2	2	Has recorded a „significant” qualifier
Incomes from property taxes per capita	significant - score 2	high - score 3	3	Score generally classified as „high”
The signigance of incomes from property taxex in total incomes	low - score 0	low - score 0	0	As a proportion score is low, therefore it is necessary to change Title VI of CF
The signigance of incomes from property taxex in proper incomes	limited - score 1	significant – score 2	2	The qualifier shows a deviation from „limited” to „significant” depending on financial management promoted by LPA
Rank of property taxes realisation	low - score 0	limited - score 1	1	The qualifier shows a deviation from „low” to „limited” depending on financial management promoted by LPA
Proper incomes	high - score 3	high - score 3	3	Tend to increase to a „high” score
Proper incomes per capita	significant – score 2	high - score 3	3	Tend to increase to a „high” score
Rank of self-finanicng	low - score 0	low - score 0	0	Rank of self-financing is low
Rank of proper incomes realization	limited - score 1	limited - score 1	1	The achievement of proper incomes is „limited” because LPA do not have levers of influence on bad payers.

Autonomous incomes	limited - score 1	high - score 3	2	It varies from „limited” to „high” depending on the promotion of a performed financial management
Rank of autonomus incomes realization	significant - score 2	significant - score 2	2	Is uniform - „significant”
Autonomous incomes per capita	limited - score 1	high - score 3	2	In medium is „significant
Rank of finance from autonomous incomes	low - score 0	low - score 0	0	Rank of finance is „low”
General purpose incomes	high - score 3	-	-	General purpose incomes recorded a „high” score, because include transfers
General purpose incomes per capita	high - score 3	-	-	„ - ”
Rank of finance from general purpose incomes	high - score 3	-	-	„ - ”
Rank of general purpose incomes realisation	significant – score 2	-	-	-
Transfers and general destination	low - score 0	Most GT per capita return in localities with low fiscal capacity and a small number of people, and the fewer GT are allocated in localities with a fiscal capacity closer to or higher than the national average. The total amount for 2014 = 8.7 million lei	-	-
General destination transfers per capita	low - score 0	In medium 160,7 lei /per capita	-	-
Rank of finance from general destination transfers	low - score 0	-	-	-
Special destination transfers	high - score 3	-	-	-
Special destination transfers per capita	high - score 3	Oscilates from 1,7 lei/per capita to 579,9 lei/per capita	-	-
Rank of finance from special destination transfers	high - score 3	limited - score 1	2	-
Rank of dependence of ATU’budget to State budget	high - score 3	significant - score 2	2	-
II. Expenditure Indicators				
The significance of curent expenditures in total expenditures	low - score 0	significant - score 2	1	„Limited”
The sificance of capital expenditures in total expenditures	high - score 3	high - score 3	3	„High”
Personnel costs	high - score 3	high - score 3	3	„High”
Personnel costs per capita	low - score 0	high - score 3	2	„Significant”
Expenditures rigidity	significant - score 2	limited – score 1	1	„Limited”
Autonomous personnel expnditures (without education)	high - score 3	high - score 3	3	„High”
Autonomous personnel expnditures (without education) per capita	high - score 3	high - score 3	3	„High”
The significance of autonomous personnel expenditures (without education) in total expenditures	significant – score 2	limited - score 1	1	„Limited”
III. Operating result indicators				
Gross operating outcome (surplus or deficit)	high - score 3	high - score 3	3	„High”
The significance of gross operating outcome in total incomes	high - score 3	high - score 3	3	„High”

Note: 0, 1, 2, 3 score.

Impact assessment is carried out according to quality indicators through multi-criteria analysis, using four qualifiers:

1. Low – score 0;
2. Limited – score 1;
3. Significant – score 2;
4. High – 3 score.

3. The impact of the new system on how to manage budget resources: conclusions and recommendations.

1. We consider that the new system of elaborating the administrative-territorial unit's budgets creates prerequisites for expenditures responsibility of public money, because they have the right to identify priority activities that need to finance them. **"It leads over the top, but is administered better bottom"**.

2. If in the old system all facilities granted to various categories of taxpayers to pay property taxes (real estate tax) were offset by general transfers, currently these resources no longer compensate. This process leads to the reduction of proper incomes.

3. Through the new funding system, the general transfers are allocated directly to the budgets of first level, which is appreciated by LPA. The direct establishing of relations between administrative-territorial units and state budget removes subjectivity in the transfers' allocations. Have increased special destination transfers to, which is funded preschool education and some delegated activities from the center. All these stimulate local authorities and increase confidence in the central government. We agree that the financial decentralization reform failure, lack of local levers of influence on the collection of local taxes have a negative impact on proper incomes growth. The local autonomy is not strengthened. *We propose that the tax collector to be assigned tax inspector function or ability to draft protocols on taxpayers who do not respect the obligation to the budget.*

4. If in the old system, at expenditures calculation according to the medium-term expenditure framework (MTEF MTBF), elaborated by the Government, were taken into account inflation, the gradual increase of salaries, rising prices and other changes with economic and financial impact, then in the new system these provisions are not adjusted and therefore have a negative impact on proper incomes of ATU of first level.

5. We consider that the administrative-territorial units of the first level should be returned to the breakdown of VAT. It is worth mentioning that, since the first level budgets do not provide a percentage breakdown of the road tax for local roads reparation, would be welcome to review this method in the Tax Code and in the state budget, because the tax landscaping has little value and does not allow the maintenance of local roads. This would increase autonomous incomes, would raise the level of self-financing and create real conditions for financial autonomy.

6. An important issue is the tax (duty) on local natural resources. This tax is an income common to ATU of second level. The fact that, the natural resources, often are on the territory of ATU of first level, for example stone pit, but at the same time is managed by ATU of second level, which leads to the misuse of public goods.

In localities where there is stone pit with a high potential of natural resources, unfolds a real industry of mineral deposits extraction: stone, gravel, bringing annual income of millions of lei, but in the local budget, for this stone pit, is paid only the land tax. Although, according to the Tax Code, the local natural resources are local tax, but flows into the budget of level II, should be amended law, and ATU, on whose territory this stone pit is, should be returned at least 1-2% of annual income. In this case the local budget would not require general transfers. The traders that manage this public good or private one, have to pay in local budget the environment tax, and for the damage brought to local infrastructure.

7. The new system boosts LPA to supplement incomes, because they remain available to LPA and can be used as decided by local councils. They can improve the quality of public services. But for this, has to be solved a principle problem – *all public properties that are within the ATU must be managed by it*. Otherwise, it is reduced the interest and stimulus of LPA to promote an efficient financial and administrative management.

8. Some local public authorities propose to introduce in agriculture a single tax. The idea of introducing single consolidated tax of about 3.1 lei at degree hectare would strengthen some imposts and local taxes. This would streamline the tax administration at the local level.

9. On the territory of local public authorities are located buildings that provide services to the population (ex: Moldova Post, Moldtelecom, electrical networks, etc.). In these cases should be reviewed the land tax and rent payment, if applicable. It is not real to pay only for one occupied m². LPA should have the right to charge payment for the sale of goods, whether inside Moldova Post trade is carried out. Even if this building is to the balance of the city hall, but any commercial activity should be subject to local tax on placement of commercial objects. For all must be paid.

10. The lands with afferent edifices belong 100% to the city hall, but buildings located on these lands belong to Ltd. Therefore, these lands should be privatized at a market price.

11. In other localities it is emphasizing that there are irregularities in the bookkeeping of small and medium enterprises (SMEs): do not keep the evidence of the number of employees, is not known precisely the income earned. All these are losses in income local budget. It must be a transparent collaboration between LPA and the territorial state tax inspectorates.

12. In many localities an important source of income is patenting the activity services of holders – owners of tractors. It mentions the need for **cooperation with territorial STI in view of convincing the owners of tractors to practice patent-based entrepreneurial activity.**

The planned activities for the future will contribute to opening new jobs, to supplement the incomes to local budget.

In conclusion, we can mention that the new system of elaborating the administrative-territorial units' budgets is a sure step towards strengthening local financial autonomy.

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