

THE FINANCE OF PUBLIC INSTITUTIONS IN ROMANIA

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Abstract:

In the present article, the authors are explaining the meaning of public institutions as all entities belonging to central and local government administration, including productive purpose entities, involved in the mechanism of the market and aimed at obtaining profit; and the budget of these public institutions. We explain how the revenues are formed and what the expenditure includes.

Key words: *public institutions, budget, revenue and expenditure.*

JEL classification: *H20.*

1. Overview of public institutions

Public institutions have an important role in the state, through them as it fulfills its functions. Also, the economic processes in market economy are influenced by the state through financial and economic levers at its disposal, used to correct macroeconomic imbalances.

Public Finance Act and, respectively, local public finance law define the term of public institution listing examples, as follows:

By law - *public finance* - institutions include: „Parliament, Presidential Administration, Ministries, other specialized agencies of government, other public authorities, autonomous public institutions and their subordinated institutions, irrespective of the their financing”¹.

Locally, as legislative regulations on local finances government, public institutions are „generic name, which includes: villages, towns, cities, sectors of Bucharest, counties, public institutions and their subordinated, legal person, regardless of how their activities is financed”².

However, what is a public institution? In most cases are numerous misunderstandings. For example, at the question which of the following entities will be considered *public institutions*?; the answer will be mainly: „All!”.

The argument that respondents are „all belong to the state.” Where to cause confusion? An explanation would be that it is not known very well what is the scope of the public sector. According to International Monetary Fund's vision, the public sector includes, first, entities belonging to central and local government administration, and on the other hand, include productive purpose entities, involved in the mechanism of the market and aimed at obtaining profit³.

Therefore, as we refer to entities belonging to central and local government administration as public institutions providing public goods to meet the collective needs, aimed at social welfare, and no record profits, which are financed mostly from public budget and are established by law given in this regard.

¹ The Law no. 500/2002 regarding Public Finances, published in MO no. 597/2002.

² GEO no. 45/2003 on Local Government Finance, published in MO no. 431/2003.

³ Finance Statistics Manual, *International Monetary Fund*, 2001.

A feature of public institutions is that they produce public goods that are distributed mostly free⁴ or at prices falling below cost. The services offered by public institutions aimed at providing services to taxpayers that would require high cost if they were produced by the private sector, and ensure to meet the needs of the taxpayers.

Because it is focused on providing certain public goods, public institutions, it is characteristic of specialization, they aimed for operating purposes.

The areas in which the state institutions producing public goods are⁵:

- a) social-cultural: education, health, social, sports and youth;
- b) national defense: military units, special schools;
- c) public order: unit of police, firefighters, police, the Romanian Intelligence Service;
- d) area of public authority: Presidency, Senate, House of Deputies, the Government, ministries, other central government bodies, local Councils, mayors, prefects, bodies of local state administration, judicial authorities, the Court of Auditors, the Constitutional Court Board competition etc.
- e) the economy: institutions specialized in scientific research, discovery research unit of deposits in November, environmental institutions, water management.

2. The revenue and expenditure budgets of public institutions

In the deployment proceeds and payments made by a public institution lies the income and expenditure. The meaning of budget in public finance law is „the document which are provided and approved annual revenue and expenditure or, where appropriate, only the amount, depending on the system of financing public institutions”⁶. The revenue and expenditure budgets of public institutions are included (in whole or in hip) in the state budget or local budgets.

2.1. Background revenue of public institutions

Revenues of public institutions of central subordination are provided⁷:

- a) entirely from the state budget, social state insurance budget, the budgets of special funds, as appropriate;
- b) from own revenues and subsidies from the state budget, state social insurance budget, the budgets of special funds, as appropriate;
- c) full of their own income.

All local public institutions, current and capital expenditure funding ensures⁸:

- a) full local budget, according to subordination;
- b) from own revenues and subsidies from local budgets, according to subordination;
- c) entirely from own revenues.

Both public institutions of central subordination and the local subordinate may, for their activity, material goods and cash funds received from legal and natural persons in the form of donations and sponsorships.

Own revenues of public institutions, financed by own revenues or from own revenues and transfers from higher budgets come from rents, organizing cultural events and sports, artistic competitions, publications, editorial services, studies, recovery of products of their activities or appendices, and other similar services.

⁴ see Moșteanu Tatiana „Budget and Treasury”, DuStyle Publishing House, Bucharest, 2000.

⁵ Op.cit.

⁶ The Law no. 500/2002 regarding Public Finances, published in MO no. 597/2002.

⁷ Op.cit.

⁸ GEO no. 45/2003 on Local Government Finance, published in MO no. 431/2003.

Income categories that are included in the budgets of government institutions are different depending on the subordination of the institution or in relation to specific public institution. Thus, public institutions funded wholly by the state budget or local budgets revenues consist of transfers to these budgets. Public institutions are financed in whole or in part of their income, because they are an income generating activity, obtained according to the specific revenue activity.

Their income can be achieved based on forecasts of income sources and their possible recovery.

To base revenue of public institutions should be considered a number of criteria⁹:

- There is legal basis to achieve revenue;
- Preliminary implementation of the base year, adjusted by any influence set for the future;
- Analysis and comparative study of income and expenditure for the total, the structure and dynamics.

2.2. Background expenditure of public institutions

Going on the economic classification of expenditure of public institutions, these can be: current expenses (operating) and capital expenditure (investment nature)¹⁰.

According to the company's accounting statements to be filed by public institutions, their expenditure pattern is as follows (this structure is common to all public, so it has a broad scope of some categories of expenditure are common to all public, others are, but specific to certain public institutions only):

A. Current expenditure:

- Personnel costs;
- Material expenses and services;
- Grants;
- Raw;
- Transfers;
- Interest.

B. Capital expenditure:

- Capital expenditure.

C. Financial operations – loans:

- Repayment of loans, interest payments, commissions on loans.

To base **personnel costs** for public institutions to leave the establishment of the institution, this includes the number of positions, their level of employment with employees and staff on the steps of wage differentiation.

The legal regulations are set minimum and maximum limits that fall between basic salaries for staff of public institutions, according to the specific institution. These limits are set either in terms of certain factors that apply to the value sector wage or as the minimum and maximum limits.

If public institutions acquire and income from extra work, wage levels may be increased on account of such income.

A variation to determine the expected level of expenditure on wages may be based on the following reasoning: determining, starting from the structure and personnel of the average salary for each employee (or class of employees), the amount of basic wages, salaries merit, management allowances, bonuses, overtime, awards and other

⁹ see Tatiana Moșteanu, Mariana Vuță, Campeanu Emilia, „Budget and Treasury”, Tribune Publishing House, Bucharest, 2002.

¹⁰ see Iulian Văcărel and collaborators, „Public finance”, EDP Bucharest, 2002;

rights, wage expectations for the plan. They are aggregated expenditure on wages or salary fund of the public institution.

In determining staff costs for the plan, depending on the number of employees of public institutions may opt for an analytical calculation (small number of staff) or on the basis of projected calculations based on average results base year.

Travel expenses, placements, transfers are based on forecasts based on movements, posting, transfer for the plan. The legal regulations established allowance for staff of public institutions, both internally and abroad.

In the materials and services expenditures made by a public recall (some common to all public institutions, others specific to only some):

a) of social rights:

- School supplies;
- Transport pupils, students, unemployed, assisted, sick, disabled and their companions;
- Rights for students and pupils during competitions and championships;
- Rights for blood donors;
- Other rights established by laws.

b) feed:

- Food for humans;
- Feed.

c) medicines and health:

- Medicines;
- Sanitary materials.

d) expenses for maintenance and household:

- Heating;
- Lighting and motive power;
- Water, sewer, salabritate;
- Post, telephone, telex, radio, television, fax;
- Office supplies;
- Materials for cleaning;
- Other materials and services.

e) materials and services with functional character;

f) inventory items of small value or short-lived and equipment:

- Bed linen and accessories;
- Equipment;
- Other inventory items of small value or short.

g) current repair;

h) repairs;

i) books and publications;

j) other expenses:

- Qualification, improvement and employees' professional specialization;
- Protocol;
- Safety;
- Transfer of rights;
- Other expenses authorized by law.

k) hand;

l) fund President;

m) Prime Minister's fund.

The maximum amount for most of the materials and services costs is determined by different laws, such as regular indexable amounts and form of quantities. Also, for certain categories of expenditure (like low value inventory items and short-term)

estimates costs for the plan is based on essays on the need for such materials, as well as the estimated purchase price.

In general, material costs are based on classical methods.

3. Conclusion

The coverage of public institutions is various, acting in all areas of economic or social. Also, one of the most important characteristics of the economies of the twentieth century, which continued into the XXI century is the expansion of the public sector. The state, through institutions or through companies which have acted, the policy followed at different times, the redistribution of GDP¹¹ in the economy, positive or negative influence certain activities.

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7. *** www.fmi.ro

¹¹ GDP = Gros Domestic Product.