Creating greater synergies between European, national and subnational Budgets

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Executive summary

The financial and economic crisis has put the question of how to deliver better value for money on top of the political agenda. At a time when public debt and limited financial resources have significantly reduced prospects for investment, the role of the EU budget is the subject of increased attention and virulent debate. While some scholars underline its great potential if used in an efficient and effective manner, others denounce its limited effect. In this context, maximising synergies with national and subnational budgets and improving coordination mechanisms would appear to be potential solutions to avoid duplicating expenditure and to achieve better results with fewer resources. This report seeks to analyse existing policy and budgetary coordination mechanisms between all levels of governance, and makes forward-looking suggestions on how to create greater synergies between European, national and sub-national budgets.

The report is divided into three main sections. The first section describes the framework of analysis at all levels of governance and looks closely at the role of LRAs in EU strategic, budgetary and economic frameworks. On the basis of a sample of five EU countries and regions, it also looks into the typical structure of sub-national budgets, the budget cycles applied, and existing coordination mechanisms between national and sub-national levels. The section highlights three major findings: an increased reference to LRAs in EU frameworks, despite some inconsistencies (1); the variety of budget structures and budget cycles applied at sub-national level (2); and the diversity of coordination mechanisms between national and sub-national budgets (3), largely depending on each country's system of government and the degree of budgetary and fiscal autonomy of their regions. The degree of coordination can be measured by different means, including the alignment of national and sub-national budget cycles, the importance and nature of transfers from the central state to the sub-national level, and the level of interaction between national and sub-national entities.

Based on the results of the first section, the second section of the report analyses the impact of EU instruments and mechanisms on sub-national budgets and seeks to answer the following two questions:

- What does the structure of sub-national budgets tell us about the possible alignment of regional priorities to EU strategic objectives, and about the congruence of policies and budgets?

- Does the use of Structural and Cohesion Funds have a leverage effect at regional and local level?

While some implicit mechanisms, such as the implementation of European ‘hard law’ or ‘soft instruments’ like the Open Method of Coordination, seem to have played a role in aligning regional priorities with European objectives, the use of Structural and Cohesion Funds remains the main driver of alignment. This alignment comprises three main elements: a multilevel coordination mechanism facilitated by three key strategic instruments (1); financial earmarking calling for minimum earmarking of Structural and Cohesion Funds according to the objectives of the Lisbon and Europe 2020 strategies (2); and co-financing requirements, meaning that Member States must contribute financially to EU-funded projects (3). A large proportion of national co-financing is thus directly geared towards achieving European objectives, which has led to a reorientation of national expenditure and policy priorities. However, the significance of this phenomenon depends on the amount of funding allocated to each Member State and is therefore less visible in countries that receive relatively little money from the EU.

As for the leverage effect of EU co-financing on sub-national public resources, it is worth noting both the difficulty of measuring it and the lack of consensus regarding the reliability of certain economic models used so far. With regard to the financial leverage effect, data has shown that EU funds can mobilise a significant amount of public resources, in particular in most recipient countries, as long as the money is spent in time. However, the EU leverage effect should not be limited to financial aspects or measuring quick returns. In the context of the Europe 2020 strategy, other aspects reflecting the objectives of ‘smart, sustainable and inclusive growth’ should be taken into account more substantially.

The third section identifies risks of discrepancy between the three levels of governance and proposes actions to achieve a higher level of synergy between budgets and policies. The section argues that there is a strong need at EU level to ensure a high level of coherence between the current budgetary, strategic and economic frameworks, both in terms of content and timescale, in order to facilitate coordination with the national and regional levels. While some elements of these EU frameworks, such as the increased focus on medium-term budgetary frameworks and thematic concentration, go in the right direction and have the potential to improve coordination, the results will very much hinge on the concrete implementation of these measures and the degree of involvement of local and regional authorities. Each level of governance will therefore have a role to play to improve multilevel governance, but it remains crucial to have the right base at the highest level. A good start would be to see a stronger EU commitment, through for instance the publication of a Green Paper, fostering public debate on how to create greater synergies between budget policies at European, national and sub-national level.

Introduction

The financial and economic crisis has put the question of how to deliver better value for money on top of the political agenda. At a time when public debt and limited financial resources have significantly reduced the possibility of investment, the role of the EU budget is subject to increased attention and virulent debates. While some scholars underline its great potential if used in an efficient and effective manner, others denounce its limited effect. In this context, maximising synergies with national and subnational budgets and improving coordination mechanisms seem to be potential solutions to avoid duplication of expenditure and achieve better results with fewer resources.

Currently, EU Member States (MS) are moving towards more fiscal integration in order to become better equipped to respond to the current crisis and to prevent future similar episodes. In light of the adoption of new EU strategic, budgetary, and economic frameworks, the EU seeks to influence the process of budgetary and policy coordination, which has become more prominent than ever. This report responds to the need of identifying existing mechanisms that enable and facilitate coordination between budgetary authorities at EU, national and subnational levels. To this end, the authorsseek to provide answers to the following questions:

- What is the background against which coordination takes place?
- What is the impact of instruments and mechanisms devised at EU level on subnational level?
- How can synergies among EU, national and subnational budgets be improved?

In order to respond to the above questions, the report will adopt a threefold structure, as presented below:

1. Overview of policy and budgetary priorities at European, national and subnational level and presentation of budget cycles, followed by an analysis of the coordination mechanisms currently in place.
2. Analysis of the alignment of policy priorities betweenEU, national and subnational levels and of the leverage effect of EU co-financing onsubnational level.
3. Assessment of risks of discrepancies between policies and budgets and presentation of forward-looking recommendations.

In the two first sections, the authors give background information about the situation in the EU as a whole and then focus their analysis on 5 countries and regions. Each section first provides data and information on these 5 countries, namely Belgium, France, Italy, the UK and Romania, and then takes a closer look at one region within each country, namely Wallonia, Provence-Alpes-Côte d'Azur, Piemonte, Scotland and the North-East development region. Given the complexity of the subject, the limited amount of data and the variety of national and subnational specificities across the EU, the scope and budget of this study do not allow a fully-fledged overview of the 27 Member States. The selection of the aforementioned sample responds to several criteria including the availability of information, the understanding of the national language, and the representativeness of the different systems of government[1].

[1] Different systems of government exist in the EU and the distinction is made between federal, regionalised or unitary states. Among the countries included in our sample, Belgium is a federal state, Italy is a regionalised state, while France, the UK and Romania are unitary states.

PART 1: Framework of analysis

Before assessing potential synergies between European, national and subnational budgets, it is important to first understand how budgets are structured at each level of governance and to see whether these structures offer a high level of consistency. This section will therefore describe the typical structure of budgets and budget cycles, from the most general level, the EU, to the most relevant in terms of policy implementation, the subnational. It will also look at whether existing coordination mechanisms, be it between the European and subnational level or the national and subnational ones are sufficient and whether new strategic, budgetary and economic frameworks designed at EU level are likely to strengthen this coordination.

In order to maintain a high level of coherence in the report's methodology, the analysis will always start with EU level and go down to the subnational one.

1.1. EU strategic, budgetary and economic frameworks and their interaction with the subnational level

At EU level, the current crisis triggered a concerted response which led to the creation of new strategic, budgetary and economic frameworks, which both require and facilitate alignment among EU, national and subnational levels of government. The subnational level has already been subject to increased attention over recent decades and references to Local and Regional Authorities (LRAs) have become more numerous in most strategic, budgetary and economic frameworks that the EU has either recently adoptedor is currently preparing. These frameworks are presented below.

The Europe 2020 strategy, which was approved by the Heads of State and Government of EU countries in June 2010, is one of the key building blocks of EU's strategic framework. It is the successor of the Lisbon strategy and sets out a common economic agenda, i.e. 'a plan to move beyond the crisis and boost smart, sustainable and inclusive growth over the next 10 years'[2]. The strategy relies on 'two pillars: the *thematic approach*, combining priorities and headline targets; and *country reporting*, helping Member States to develop their strategies to return to sustainable growth and public finances.'[3] It sets the strategic goals for the Union, to be achieved at national and EU levels, with a focus on smart, sustainable and inclusive growth – the three priorities of the strategy. At EU

[2] See: MEMO/11/364, 2011.
[3] See: European Commission, Europe 2020 Strategy, COM(2010)2020.

level, the strategy sets five targets for 2020 to ‘catalyse efforts in critical areas for the EU future: employment, innovation, climate/energy, education and social inclusion’[4]. At the same time, action is to be taken through the 7 flagship initiatives: ‘Digital Agenda for Europe’, ‘Innovation Union’ and ‘Youth on the move’ referring to smart growth; ‘Resource-efficient Europe’ and ‘An industrial policy for the globalisation era’ aimed at the sustainable growth priority; ‘An agenda for new skills and jobs’ and the ‘European platform against poverty’, which are targeted at the inclusive growth priority.

The abovementioned targets and flagship initiatives are to be implemented with financial means provided by the Multiannual Financial Framework 2014-2020 (MFF 2014 – 2020), which focuses on delivering the objectives of the Europe 2020 strategy. However, the success in achieving the strategy’s targets depends to a great extent on efforts made by Member States, which have to be shared out over their whole territory. National Reform Programmes (NRPs), replacing the earlier National Action Plans of the Lisbon strategy[5], translate EU priorities into national priorities and EU targets into national targets. LRAs have a great potential to contribute to the objectives set out in the National Reform Programmes, especially if their involvement in drafting the document is increased. Looking at a sample of countries[6], Molino and Zuleeg (2011) analyse the NRPs submitted as part of the first European Semester, reaching several conclusions regarding the degree of involvement of LRAs in the elaboration of these documents. One of the key conclusions is that there is great heterogeneity in references to LRAs.

The **next MFF** is currently under negotiation between Member States. In this context, the European Commission has already put forward some key proposals giving important indications on the design of the future EU budget. The framework represents the basis for the annual budgetary exercises, limiting expenditure and defining the thresholds for each major category of spending. The MFF 2014-2020 envisages a concentration of financial resources on increasing growth and jobs, encouraging greener agriculture and establishing a more environment conscious and internationally prominent Europe. It also foresees an increase in funding for research and innovation, education and training and external relations[7]. Cohesion Policy, which is the policy giving full expression to the interrelation between EU and subnational levels, will take approximately 36% of total funds, second runner after agriculture and rural development with 37%.

[4] See: MEMO/11/364.
[5] See: http://www.eurofound.europa.eu/areas/industrialrelations/dictionary/definitions/nationalreformprogrammes.htm
[6]Sweden, Germany, Spain, the United Kingdom and Poland.
[7] See: http://europa.eu/newsroom/highlights/multiannual-financial-framework-2014-2020/index_en.htm

The draft legislative package for **Cohesion Policy 2014-2020,** published in October 2011, introduces a number of important changes in the design and implementation of the policy. These changes are meant to respond to the need formore efficient and effective spending put forward in the new MFF. Among these changes, the increased concentration on the priorities of the Europe 2020 strategy (1), the greater focus on results (2) and the strengthened application of conditionality (3) are the most relevant to this report.

In an attempt at setting a strategic direction and concentrating funding on Europe 2020 priorities, the draft legislative package puts forward the Common Strategic Framework (CSF), as an overarching regulation setting out common rules for all five funds with structural aims – the European Regional Development Fund (ERDF), the European Social Fund (ESF), the Cohesion Fund (CF), the European Agricultural Fund for Rural Development (EAFRD) and the European Maritime and Fisheries Fund(EMFF). Intended as a basis for national and regional authorities in drafting their Partnership Contract, a strategic document signed between Member States and the European Commission defining the priority areas for funding, the CSF sets out the key actions to be supported by each of the abovementioned funds. Each action will have to match with at least one of the eleven thematic objectives[8]defined by the Commission and meant to lead to achieving Europe 2020 priorities. Therefore, each fund specific regulation presents the thematic objectives and corresponding investment priorities the respective fund will contribute to (e.g.: article 5 of the ERDF regulation, article 4 of the ESF regulation).Thematic concentration (1) impacts LRAs in exercising their budgetary powers in the sense that they will have to devote EU funds to a restricted number of thematic priorities. Henceforth, less developed[9] regions will have to focus at least 50% of resources coming from the ERDF on energy efficiency and renewables (at least 6% of total), research and innovation and SME support. Also, at least 25% of Structural Funds have to finance European Social Fund (ESF) projects in these

[8]The 11 thematic objectives are: strengthening research, technological development and innovation; enhancing access to, and use and quality of, information and communication; technologies; enhancing the competitiveness of small and medium-sized enterprises, the agricultural sector (for the EAFRD) and the fisheries and aquaculture sector (for the EMFF); supporting the shift towards a low-carbon economy in all sectors; promoting climate change adaptation, risk prevention and management; protecting the environment and promoting resource efficiency; promoting sustainable transport and removing bottlenecks in key network infrastructures; promoting employment and supporting labour mobility; promoting social inclusion and combating poverty; investing in education, skills and lifelong learning; enhancing institutional capacity and an efficient public administration. (See: Article 9 of COM(2011) 615 final)
[9] These are regions whose GDP per capita is less than 75% of the average GDP of the EU-27. See: http://ec.europa.eu/regional_policy/sources/docoffic/official/regulation/pdf/2014/proposals/regulation2014_leaflet_en.pdf

regions. More developed[10] and transition regions[11] will have to dedicate 80% of the ERDF financing to energy efficiency and renewables (at least 20% of total), research and innovation and SME support; the minimum ESF shares are 40% for transition regions and 52% for developed regions. Even though concentration requirements are somewhat customised for each category of region, they may still differ from the investment priorities identified at local and regional level and thus pressure LRAs to allocate financing to them at the expense of regional and local specific needs.

The increased focus on results (2) introducing new performance indicators against which progress will be strictly monitored will also reinforce the pressure on LRAs. This measure goes hand in hand with the strengthened application of conditionality (3) articulated around the ex-ante and ex-post conditionality and the macroeconomic conditionality. With the introduction of the two first measures, LRAs will have to respond to specific criteria to be eligible for funding and will have to demonstrate the achievements of specific objectives over the whole programming period. With the macroeconomic conditionality, which makes the allocation of funds dependent on the national compliance with the new economic governance, LRAs will run the risk of having to bear responsibility for the actions of central government. In concrete terms, their funds might be suspended in case of national non-compliance.

LRAs have a central role in the implementation of all five funds covered by the CSF, often having the competences and instruments to significantly contribute to achieving the Europe 2020 targets. Instruments put forward by the Commission in its proposals for the MFF and the Cohesion Policy 2014 – 2020, like the CSF and the Partnership Contract, should streamline the interaction of LRAs with the national and EU levels. Nonetheless, even though the purpose of the partnership contracts appears to be clear, at closer scrutiny their content and method of approval remains vague. Meanwhile, the Committee of the Regions proposed the implementation of territorial pacts as agreements among a country's different government tiers – local, regional and national. This instrument would enhance the Europe 2020 strategy's territorial dimension and territorial ownership and would allow for national, regional and local

[10] This category includes regions whose GDP per capita is above 90 % of the average GDP of the EU-27. See: http://ec.europa.eu/regional_policy/sources/docoffic/official/regulation/pdf/2014/proposals/regulation2014_leaflet_en.pdf

[11] The draft legislative package includes this new category of regions to replace the current phasing-in and phasing-out system. Transition regions are those whose GDP per capita is between 75 % and 90 % of the EU-27 average. See: http://ec.europa.eu/regional_policy/sources/docoffic/official/regulation/pdf/2014/proposals/regulation2014_leaflet_en.pdf

authoritiesdrafting, implementing and monitoring the National Reform Programmes in partnership[12].

In addition to the budgetary and strategic frameworks, the design of EU policies is increasingly dependent on the so-called European economic governance, which not only aims at coordinating economic policies of EU countries but also reinforces the surveillance and advisory role of the European level. The new European economic governance relies on a series of key instruments, which includes the (revamped) Stability and Growth Pact (SGP), the European Semester,which starts with the presentation of the Annual Growth Survey (AGS) and the Treaty on Stability, Coordination and Governance (TSCG), presented below.

The 'Six Pack' is a package of six legislative proposals aimed at restoring economic stability in the EU. Four of the proposals refer to the reform of the Stability and Growth Pact (SGP), making it more 'rules based', enhancing surveillance of fiscal policies and applying enforcement measures more consistently. The two other pieces of legislation set up a new surveillance system for macro-economic imbalances. Thus, the package has three main objectives:

- *Reinforcing the preventive arm of the SGP*: MS have to keep their deficits below 3% of GDP and their debt below 60% of GDP. To this end, and in order to enhance transparency, MS have to ensure that their fiscal frameworks at all administrative levels – national, regional and local - reflect the EU budgetary framework. The rules become even stricter as countries with unsustainable public finances have to make significant progress towards medium-term budgetary objectives, while enforcement is strengthened by the introduction of a system of sanctions.
- *Strengthening the corrective arm of the SGP*: A better enforcement mechanism is put in place, with the ability to fine MS. Once again, the rules are made stricter as debt reduction becomes a criterion in the assessment of public finances. Besides, a non-interest-bearing deposit of 0.2% of GDP will be requested from any euro area country under the Excessive Deficit Procedure.
- *Reducing macro-economic and competitiveness imbalances*: A clear alert system is created, based on the analysis of a scoreboard of external and internal indicators that will detect emerging imbalances in different parts of the economy. A new Excessive Imbalance Procedure is introduced, with a sanctioning system attached to it. However, the indicators analysed are not purely fiscal and budgetary and thus quite controversial.

[12] See: http://portal.cor.europa.eu/europe2020/TerritorialPacts/Documents/1003%20territorial%20pacts%20EN%2017x24.pdf

The European Semester is a mechanism of coordination of national economic policies among EU countries. It consists of an annual six-month period when MS review their budgetary and structural policies to ensure good coordination and detect any inconsistencies. The Commission gives the start of the European Semester by issuing the Annual Growth Survey (AGS) in January. This way, MS can take into account the EU recommendations included in the AGS when their national budgetary processes are still in early development. The steps of the annual coordination of economic policies are as follows:

- *January*: the Commission presents the AGS, with a clear assessment of the EU economic situation and guidance for priority actions at EU and national levels;
- *March*: endorsement of the AGS by the Spring European Council. The Heads of State and Government take ownership of the framework and commit to implementing it in their respective countries;
- *April/May*: presentation of national programmes. Member States issue their Stability or Convergence Programmes (regarding sustainable public finances) and their National Reform Programmes. Those countries which have committed to Euro Plus Pact (Eurozone countries plus Bulgaria, Denmark, Latvia, Lithuania, Poland and Romania) have to hand an 'upgraded' version of the NRP, which must detail all actions to be achieved in the 12 coming months.
- *June*: the country-specific recommendations adopted by the Commission are discussed in the June European Council and subsequently adopted by the Council. Member States have to take into account guidance from the Council when drawing up their budgets for the following year.

As a consequence, the European Semester has an important role in the new economic framework, as it ensures ex-ante coordination of economic policies through integrating all elements of economic surveillance and by aligning these with the Europe 2020 Strategy.

The Annual Growth Survey(AGS), which marks the start of the European Semester,was created as a plan to boost growth and employment in Europe. At the beginning of each year, the Commission assesses the main economic challenges for the Union and identifies the priority actions needed to address these challenges, presenting them under the form of the AGS. In other words, the AGS marks the beginning of the European Semester, which dramatically changes the manner in which governments shape their economic and fiscal policies. The AGS 2012 sets out five priorities:

- pursuing differentiated, growth-friendly fiscal consolidation;
- restoring normal lending to the economy;
- promoting growth and competitiveness;

- tackling unemployment and the social consequences of the crisis;
- modernising public administration.

The Treaty on Stability, Coordination and Governance (TSCG) is a new intergovernmental treaty signed by 25 out of the 27 Member States, but not yet ratified. It is to come into force at the beginning of 2013 or earlier, provided that twelve euro zone countries have ratified it. Nonetheless, difficulties still lie ahead in the road to ratification. The 'fiscal compact', i.e. the fiscal part of the TSCG, introduces a new fiscal rule – the 'golden rule' - in all euro zone countries, requiring general government budgets to be balanced or in surplus. The balanced budget rule has to be incorporated into the national legal systems of MS, preferably at constitutional level[13]. In an attempt to enhance enforcement, the EU Court of Justice will have the jurisdiction to verify the national transposition of the balanced budget rule. Its binding decision can be followed by a penalty of up to 0.1% of GDP. Eight of the MS which have not yet adopted the euro signed the fiscal compact treaty.

As mentioned earlier, the consequent implementation of all these mechanisms will both require and facilitate coordination between the different levels of government on budgetary policies and procedures. Their implementation will bring about both constraints and opportunities for LRAs and their role in EU frameworks. On the one hand, it becomes obvious that conditions that MS have to obey when drawing up their budgets become stricter and that the role of LRAs in bringing public finances back onto a sustainable path becomes more and more important. This obviously implies stricter rules and conditions on LRAs. On the other hand, this development creates a greater need for LRAs' active involvement, reinforces their role and draws attention to the importance of a territorial dimension. Nonetheless, all these aspects are currently left for interpretation as, even though references to LRAs have become more numerous in all strategic documents put forward by the Commission, these references remain vague and somewhat inconsistent. There is a need for the main strategic and programming documents at national level - the Partnership Contracts (PC) and National Reform Programmes (NRPs), to present tight linkages and consistently emphasise the role and contribution of LRAs. However, one of the main coordination challenges identified by Molino and Zuleeg (2011) is the different time horizons of Cohesion Policy programming and the new economic governance, i.e. CSF and PCs drawn up for seven years, while the NRPs are updated annually. It is true that the European semester could create a virtuous annual circle of coordination, but for it to have a meaningful impact the same coordination should be streamlined within MS with clear priorities and clear roles for all levels of government.

[13] See: http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/128454.pdf

1.2. Overview of the typical structure of subnational budgets and budget cycles

Analysis of the budgetary configuration at subnational level will feed our conclusions as to whether subnational public expenditure is directed towards achieving the same goals and objectives as those described in the previous part.

The main focus of this subchapter is on the budget of LRAs and their role in the overall framework of public-sector revenue and expenditure. Budget cycles are also analysed, either at national or regional level, depending on the degree of budgetary and fiscal autonomy of each region in the selected sample.

1.2.1. Composition of subnational budgets and their role at national level

A European overview

The **public sector** plays an important role in Europe's economies. On average in the European Union, public-sector revenue represents 44.1% of aggregate GDP, while public-sector expenditure accounts for 50.6%[14]of aggregate GDP. Among individual Member States (MS), Denmark ranks first in terms of public-sector revenue, with 55.7% of national GDP, while Slovakia ranks last, with 32.3% of GDP. In terms of public sector expenditure, Ireland is the front-runner with 66.8% of GDP[15], while Bulgaria occupies the last position in the ranking with 38.1% of GDP. Almost half of the MS register values of above 50% of GDP when looking at public-sector expenditure expressed as a percentage of GDP[16].

As an overall trend, the significance of the **subnational public sector** in the EU has increased over time, both in older and newer MS. Almost all EU MS have been going through processes of decentralisation over the past forty years, with countries like Spain starting this process as early as the 1970s, and others like Romania and Bulgaria having initiated it in recent years. The decentralisation process confers regions more responsibilities and the instruments they need in order to exercise them, expanding the extent of their independence to take decisions and actions.

It goes without saying that the importance of the subnational public sector varies considerably from one country to another in the EU. On average, the weight of

[14] This report uses 2010 data, unless otherwise specified.
[15] This high level of expenditure is exceptional, as a result of the banking sector crisis.
[16] See Annex 1 for figures in all 27 MS.

EU subnational public expenditure as a percentage of aggregate GDP is 33.6%, while EU subnational public revenue represents 16.2% of GDP. Looking at individual MS, Denmark ranks first in terms of the weight of both subnational public expenditure and subnational public revenue in GDP (37.6% and 37.4%). Malta is the MS that ranks last in both classifications[17], with 0.7% subnational public-sector expenditure in GDP and 0.7% subnational public sector revenue in GDP[18].

According to analysis performed by Dexia (2008:79) **subnational public expenditure by type** in the EU is dominated by current expenditure (86%)[19]. The remainder is capital expenditure. Current expenditure consists of staff costs (34% of total expenditure), social benefits and other transfers (27%) and other operating expenditure (25%). Subnational capital expenditure accounted for 1.6% of European GDP and 67% of public capital expenditure in 2005[20].

By economic function, the main components of local and regional authorities' expenditure in 2005 are education (21%), social protection (20%), general public services (16%), healthcare (13%) and economic affairs (12%)[21].

By tier, subnational public expenditure varies greatly from country to country. At municipal level, subnational expenditure per capita in 2005 ranged from EUR 75 in Malta to EUR 9210 per capita in Denmark. At regional level, subnational expenditure per capita ranges from EUR 50 in Poland to EUR 3660 in Denmark. Variations in weight between the different tiers depend on whether we look at federal, regionalised or unitary states.

As for **subnational government revenues**, their structure varies across Europe, but major common features govern them nonetheless. The largest source of revenue for subnational budgets are grants and subsidies – from the central state, the EU or other levels of subnational government. The other two important sources are revenue from the operation of goods and services provided at subnational level and tax revenue from businesses and households.

[17] It must be kept in mind that Malta is the smallest MS, both in terms of geographical and population size.
[18] See Annex 1 for figures in all 27 MS.
[19]Dexia (2008) uses 2005 figures.
[20] In 2010, subnational capital expenditure accounted for 1.8% of European GDP and 65.8% of public capital expenditure.
[21] By economic function, the main components of local and regional authorities' expenditure, in provisional 2010 values, were social protection - 20%, education – 18.3%, general public services 13.7%, healthcare – 13.2% and economic affairs – 12.2%.

A country and region-specific presentation

For more in-depth analysis of the composition of subnational budgets, in terms of both expenditure and revenues, we selected **a sample of five EU regions** in each of the MS listed in the introduction of this report. These regions are:

- Walloon Region, Belgium;
- Provence – Alpes – Côte d'Azur Region, France;
- Piemonte, Italy;
- North – East Development Region, Romania;
- Scotland, the UK.

In order to paint an all-encompassing picture, we also briefly look at the state each region belongs to and at the overall subnational level in that state.

Belgium

The Kingdom of Belgium is a federal state made up of regions, communities, provinces and municipalities. Therefore, Belgium has a three-tier subnational government.

Each of the federated entities has a deliberative body – the Parliament of the Region or Community – and an executive body – the Government, elected for five years. The responsibilities of federal entities are exclusive; hence the central state cannot intervene. While each community has its own culture and language, the determining constituent of a region is its area. The areas of some communities and regions overlap or are superimposed.

At local level, the organisation of provinces and municipalities can differ in Flanders and Wallonia. The provincial council is the deliberative body in provinces and the permanent deputation is the executive body. At municipal level, the municipal council is the deliberative body, while the college of the burgomaster[22] and aldermen[23] is the executive body.

Table 1: Local and regional authorities in Belgium

Federated entities, of which:	6
Regions The Flemish Region, the Walloon Region and the Brussels-Capital Region	3
Communities The Flemish Community, the French Community and the German-speaking Community	3
Provinces	10
Municipalities	589
Total LRAs	*605*

Source: Information compiled by the authors.

[22] The burgomaster is the chair of the municipal council in Wallonia and Brussels-Capital.
[23] Aldermen are elected by the municipal council.

Total general government expenditure in Belgium was EUR 187.6 billion, representing 52.9% of GDP in 2010. **Consolidated subnational publicsector expenditure** was EUR 25.3 billion, representing 7.1% of GDP and 13.5% of total general government expenditure.

By **economic function**, the main components of the **subnational publicsector expenditure** in Belgium in 2010 were general public services (23.1%), education (19.8%), social protection (17.3%) and public order and safety (12.6%)[24].

Total general government revenue in Belgium in 2010 was EUR 172.8 billion, representing 48.8% GDP. Total **subnational public-sector revenue** rose to EUR 24.4 billion or 6.9% of GDP, representing 14% of total general government revenue.

Wallonia

Wallonia is Belgium's southern region, with a surface area of 16,844 sq km and a population of 3.5 million. Wallonia covers 55% of the total area of Belgium, slightly more than Flanders, and accounts for 32% of the population (compared with 58% for Flanders and 10% for the Brussels-Capital Region). In terms of wealth, GDP per capita accounted for 98% of the EU average in 2009, while it was 255% in the Brussels-Capital Region.

Total public expenditure in Wallonia amounted to EUR 7.1 billion in 2010, representing 28% of subnational publicsector expenditure and 2% of national GDP.

Total government revenue in Wallonia in 2010 was EUR 6.3 billion, representing 25.8% of total subnational revenue and 1.8% of national GDP. Regional tax revenue decreased in 2010 by 7.4% compared to the previous year. The Walloon budget is the result of multiannual programming of revenue and expenses, providing an understanding of the region's macroeconomic evolution. Table 7 of Annex 3 presents a snapshot of the Walloon budget for 2010. In 2010, the greatest proportion of revenue came from the share allocated from personal tax (52.4%), followed by regional tax revenue[25] (33.95%). The main categories of expenditure expected to have idiosyncratic evolutions are: staff costs, health index-related expenses, alternative financing, public interest bodies (OIP) and assimilated and other expenditure.

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[24] See Annex 2 for subnational public sector expenditure by economic function in each of the regions included in our sample.

[25] Tax collected at regional level. The number of regional taxes was increased in 2002. See: http://www.cepag.be/sites/default/files/publications/impots_regionaux.pdf

France

The largest country in the European Union by area and a unitary state, France has three tiers of subnational government: municipalities, departments and regions. Regions became decentralised local governments relatively recently, in 1986. Central state territorial administration is organised into regional *prefectures* (26) and departmental *prefectures* (100), which are subdivided further into prefectural districts (339). The prefect represents the state in regions and departments. Among the three tiers of subnational government, the island of Corsica has special regional government status and the capital city, Paris, is both a municipality and a department.

The degree of autonomy of subnational governments in overseas territories varies considerably. France has four overseas departments and four overseas regions (DOM-ROM), six overseas territories (TOM), a sui generis local government and an overseas territory with a special statute.

Table 2: Local and regional authorities in France

Regions	26
Departments	100
Municipalities	36683
Total LRAs	*36809*

Source: Information compiled by the authors

Total general government expenditure in France amounted to EUR 1,094.5 billion in 2010, representing 56.6% of GDP. The consolidated expenditure of the French **subnational government** in the same year stood at EUR 228.7 billion, representing 11.8% of GDP and 21% of total general government expenditure.

By **economic function**, the main components of **subnational public sector expenditure** in France in 2010 were general public services (18.4%), social protection (17%), education (15.9%) and housing and community amenities (15%)[26].

Total general government revenue in France in 2010 amounted to EUR 957.6 billion, representing 49.5% of GDP. Total **subnational revenue** rose to EUR 227 billion, representing 11.7% of GDP and 23.7% of total general government revenue.

[26] See Annex 2 for subnational public sector expenditure by economic function in each of the regions included in our sample.

Provence – Alpes – Côte d'Azur

Situated in the South-East of France, Provence – Alpes – Côte d'Azur (PACA) Region has a surface area of 31,400 sq km and a population of 4.9 million. Therefore, PACA accounts for 7.6% of the French population. In terms of wealth, GDP per capita amounted to 116% of the EU average in 2009.

Regional expenditure in the PACA region amounted to EUR 1.8 billion in 2010, growing by 3.7% compared to 2009. By type, current expenditure reached 65% of total expenditure, while capital expenditure represented 31.1%. The remaining 3.9% of total expenditure is accounted for by financial charges, not classified as current or capital expenditure by the Economic and Social Council's report[27]. As a percentage of national GDP in 2010, expenditure in PACA was 0.1%.

The **total revenue of the Provence – Alpes – Côte d'Azur** region was EUR 1.7 billion, increasing by 8% compared to 2009 and representing 0.1% of national GDP. Tax revenue represented 51.6% of the total revenue in 2010 and increased by 3.54% compared to 2009.

The PACA region's 2010 budget presents the structure of revenue by type. Therefore, current revenue represents 93.7% of total revenue, while capital revenue accounts for the remaining 6.7%. Tax revenue as a percentage of total revenue is 51.6%. Donations and compensation represent 36% of total revenue. Expenditure is also classified by type, with current expenditure accounting for roughly 65% of total expenditure and capital expenditure representing approximately 31% of the total[28].

Table 8 of Annex 3 presents a snapshot of the PACA region's budget for 2010.

Italy

A regionalised state, Italy has a decentralised, three-tier subnational government system which comprises regions (20), provinces (103) and municipalities (8101). Central state territorial administration is based on prefectures at provincial level. The prefect runs the prefecture, but does not directly scrutinise their actions.

Of the 20 regions, 15 have ordinary statutes and five have special statutes, granted in 1948 based on cultural grounds, geographical location and the presence of important ethnic minorities. The political bodies at regional level are

[27] See: http://www.regionpaca.fr/uploads/media/Budget_Primitif_Regional_Exercice_2010.pdf

[28] The presentation of the budgetary expenditure also includes 'Financial charges' which are not classified as current or capital expenditure.

the regional council and the regional president, both elected for five years. The council and the mayor (municipalities) or the president (provinces) is the political body in municipalities and provinces, all of which are elected for five years.

Table 3: Local and regional authorities in Italy

Regions	20
Provinces	130
Municipalities	8101
Total LRAs	*8251*

Source: Information compiled by the authors

In 2010, **total general government expenditure** reached EUR 782 billion, representing 50.3% of GDP. The overall **expenditure of the subnational public sector** came to EUR 244.7 billion, accounting for 15.7% of GDP and 31.3% of total general government expenditure.

By economic function, the main components of **subnational public sector expenditure** in Italy in 2010 were health (47.3%), general public services (13.8%), economic affairs (13.6%) and education (7.5%)[29].

Total general government revenue in Italy in 2010 came to EUR 712 billion, representing 45.8% of GDP. Total **subnational revenue** in the same year was EUR 273 billion, meaning 15.2% of GDP and 33.3% of total government revenue.

Piemonte

Piemonte is one of Italy's 20 regions, situated in the North West, with an area of 25,402 sq km and a population of approximately 4.4 million, accounting for 7.4% of the Italian population. In terms of wealth, GDP per capita amounted to 115% of the EU average in 2009.

Total regional **expenditure in Piemonte** in 2010 was EUR 11.2 billion, representing 4.6% of total subnational expenditure in Italy in 2010. Current expenditure accounted for approximately 89% of total expenditure in 2010.
At the level of the **Piemonte region, total revenue** in 2010 was EUR 11.8 billion, meaning 4.3% of total subnational revenue.

The regional budget of Piemonte is a multiannual document, which details revenue and expenditure for the following three years and indicates the yearly allocation per function or activity. Nonetheless, it does not present the structure

[29] See Annex 2 for subnational public sector expenditure by economic function in each of the regions included in our sample.

of expenditure by economic function. The synthesis of the representative budget structure is presented in table 9 of Annex 3, taking as an example the 'Multiannual budget for 2010 – 2011 – 2012'. In 2010, 84.4% of total revenue came from regional taxes, taxes collected at national level or from sums allocated to the region. The next category of revenue in terms of overall weight (13.4%) is revenue from contributions and transfers, the state and other bodies. On the expenditure side, current expenditure accounts for 89.3% of total expenditure and capital expenditure for the remaining 8.7%.

The United Kingdom

The United Kingdom is composed of four countries: England, Wales, Scotland and Northern Ireland. In Scotland, Wales and Northern Ireland, the British central government is represented by three territorial Offices, each led by a Secretary of State, who are members of the Cabinet and liaise with the devolved administration. The devolution process that started in 1998 transferred important powers and autonomy to Scotland, Wales and Northern Ireland.

England has no devolved assembly or government of its own, but it is represented by the UK Parliament and governed by the UK government. Its subnational structure is very heterogeneous, with some areas having a single-tier local government system (47 unitary authorities), and others having a two-tier system (34 county councils and 238 district councils). The capital city of London has a special statute. At regional level, the Greater London Authority is the regional assembly of the London agglomeration. Urban areas have one level of government and are represented by metropolitan authorities (36).

Scotland, Wales and Northern Ireland have a two-tier subnational government organisation. At regional level, the devolution process granted them a directly-elected national assembly/parliament with their own governments. At local level, they have a unitary, single tier of local government know as council areas (32) in Scotland, unitary authorities (22) in Wales and district councils (26) in Northern Ireland.

Table 4: Local and regional authorities in the UK

England		
Urban areas		36 metropolitan authorities
London		Greater London Authority + 33 London boroughs
Rural areas	Single local government tier	47 English unitary authorities
	Two-tier local government	34 county councils + 238 district councils

Scotland	
Parliament	1
Council areas	32
Wales	
National Assembly	1
Unitary authorities	22
Northern Ireland	
Assembly	1
District Councils	26
Total LRAs	*466*

Source: Information compiled by the author

Total general government expenditure in the UK was EUR 857.9 billion in 2010, accounting for 50.4% of GDP. **Subnational public-sector expenditure** in the UK as a whole reached EUR 238 billion in 2010, representing 14% of GDP, EUR 3,832.3 per capita and 27.8% of total public expenditure.

By economic function, the main components of **subnational public-sector** expenditure in the UK in 2010 were education (33.3%), social protection (29.7%), public order and safety (9.2%) and economic affairs (8.5%)[30].

Total general government revenue in the UK in 2010 came to EUR 685 billion, representing 40.3% of GDP. Total **subnational government revenue** in the same year was EUR 237 billion, 34.6% of total general government revenue.

<u>Scotland</u>

Scotland is situated in the North of Great Britain, with an area of 78,772 sq km and a population of approximately 5.2 million, accounting for roughly 8% of the total population of the UK. In terms of wealth, GDP per capita amounted to 105% of the EU average in 2009.

In 2010-11, total public-sector **expenditure for Scotland**, including a per capita share of debt interest payments, was EUR 74.2 billion, 9.3% of UK public-sector expenditure.

In 2010-11, **total Scottish non-North Sea public-sector revenue** was estimated at EUR 52.5 billion, representing 8.3% of total UK non-North Sea revenue. Including a per capita share of North Sea revenue, total Scottish public-sector revenue was estimated at EUR 53.3 billion.

[30] See Annex 2 for subnational public sector expenditure by economic function in each of the regions included in our sample.

The presentation of the Scottish budget is structured per portfolio for nine thematic and functional sections[31], detailing responsibilities and contribution to national outcomes, previous achievements and priorities for the two years covered[32]. According to a briefing published by the Information Centre of the Scottish Parliament[33], the categories of public expenditure in the Scottish budget are the following: departmental expenditure limit (DEL), which is the biggest sum, annually managed expenditure (AME), the less predictable expenditure, and non-Domestic Rates Income (NDRI): part of the Scottish Government's support to local authorities. In the structure of the budget for 2010, presented in table 10 of Annex 3, education is the front-runner in terms of public expenditure with 28.3% of the total. The next category in terms of weight in total expenditure is social work, with 21%. In terms of revenue, Scotland receives grants and transfers from Westminster.

Romania

A relatively large country and a unitary state, Romania has 3,228 territorial administrative units, among which are 41 counties, 2,861 rural municipalities and 320 urban municipalities. Rural municipalities make up almost 90% of all local authorities. The most important urban municipalities have a special status of municipality (*municipiu*), granted by law. The capital, Bucharest, is one of them, being the largest and having a dual status as a county, although it is officially referred to as the Municipality of Bucharest. Bucharest has its own general council – a deliberative body – and a lord mayor elected for four years. The county council is the deliberative body in counties and the president of the council, together with two vice-presidents, represents the executive. The deliberative body in municipalities is the municipal council and the mayor, elected for terms of four years, represents the executive body.

Table 5: Local and regional authorities in Romania

Special status municipalities (municipii)	103
Cities	217
Rural municipalities	2.861
Counties	41
Total number of LRAs	*3.228*

Source: Information compiled by the author

[31]Office of the First Minister, Finance and Sustainable Growth, Health and Wellbeing, Education and Lifelong Learning, Justice, Rural Affairs and the Environment, Scottish Government Administration, Crown Office and Procurator Fiscal Service, Local Government.

[32] See: http://www.scotland.gov.uk/Publications/2010/11/17091127/0

[33] See: http://www.scottish.parliament.uk/S4_FinanceCommittee/General%20Documents/ScottishBudgetGuide.pdf

Total general government expenditure in Romania reached EUR 49.9 billion in 2010, accounting for 40.9% of GDP. The consolidated expenditure of the Romanian **subnational public sector** in 2010 stood at almost EUR 12 billion, representing 9.8% of GDP and 24% of total public-sector expenditure, and EUR 557 per inhabitant.

By economic function, the main components of local and regional authorities' expenditure in Romania in 2010 were education (21.3%), economic affairs (18.7%), social protection (17%), general public services (11.8%) and housing and community amenities (10%)[34].

Total general government revenue in Romania in 2010 reached the level of EUR 41.4 billion, representing 34% of GDP. Total **subnational revenue** rose to EUR 11.8 billion, accounting for 28% of total public revenue.

North-East development region

The North-East Region is one of eight so-called 'development regions' in Romania. Romanian development regions are cooperation structures between counties created in order to facilitate the implementation of EU regional development policy. As its name suggests, the region covers the North-East of Romania and consists of six counties. With a surface area of 36,850 sq km, it is the largest region in Romania and has a population of 3.7 million, which represents 17.25% of the total Romanian population. In terms of wealth, GDP per capita amounted to 15% of the EU average in 2009.

Total public **expenditure for the North-East** development region[35] amounted to approximately EUR 1.4 billion in 2010, rising by 0.22% as compared to 2009. By type, current expenditure in the North-East region reached 89% of total expenditure, while capital expenditure represented 11% of the total. Staff costs represented 41% of the total, decreasing by eight percentage points as compared to 2009.

The total **revenue of the North-East region** was EUR 1.4 billion in 2010, rising by 3.39% compared to 2009. Local tax revenue increased by 14.6% between 2009 and 2010[36]. Grants from the state and other budgets accounted for 13.6% of total revenue. The biggest share of local revenue was sums redistributed by the state budget from other revenue streams, accounting for roughly 45% of total revenue in the North-East region.

[34] See Annex 2 for subnational public sector expenditure by economic function in each of the regions included in our sample.

[35] Made up of six counties: Bacau, Botosani, Iasi, Neamt, Suceava and Vaslui.

[36] See: http://www.dpfbl.mai.gov.ro/analize_bugete.html

According to Law 273/2006 on local public finances, government revenue at county level comprises:

- Own resources (tax revenue, contributions, other payments, other revenues and shares allocated from income tax);
- Sums allocated from other state budget revenues;
- Subventions from the state and other budgets;
- Donations and sponsorships.

Given that the North-East region is not a political region[37], its budget comprises the budgets of the six counties it contains. Table 11 of Annex 3 presents the representative structure of a county-level budget – Vaslui County budget for 2010. Revenue from tax on goods and services represents 44.2% of total revenue, followed by subsidies from the state budget, which account for 27.2%. The third category of revenue in terms of percentage of the total is 'EU transfers for payments and pre-financing'. Expenditure is presented both by type and by function. By type, current expenditure accounts for 94.8% of total expenditure. Co-financing for EU projects accounts for 26% of total expenditure. By economic function, the greatest share of total expenditure is social protection. Transport comes second, with 27.2%, and education third, with 10.3% of total expenditure.

Therefore, the weight of the subnational sector in the total public sector varies considerably across the five MS included in our sample. Having reviewed the structure of subnational budgets, it is also important to look at factors which might influence it. Budget cycles are one of these factors as the timing and the manner of drawing up subnational budgets will have a considerable impact on their composition.

1.2.2. Budget cycles

In this subsection, budget cycles are analysed, at national or regional level, depending on the degree of budgetary and fiscal autonomy each region from the selected sample enjoys.

A European overview

Budgetary planning cycles vary from country to country and at EU level, making it more difficult to align priorities and spending in order to reflect overarching goals. Also, there is no rule in the EU on whether subnational budgets are part of the general government budget and the possible inclusion of

[37] In the sense that there are no political bodies at this level, apart from the Agency for Regional Development, which has a strategic role in coordinating the implementation of EU regional policy and regional development more general.

estimates of subnational budgets in government budget is not a process followed by all MSs.

In addition to budgetary cycles specific to every country and regulated by law, research has identified the existence of political budget cycles, where cyclical fluctuation in fiscal policies is induced by the timing of elections. Efthyvoulou concludes in his paper *'Political budget cycles in the European Union and the impact of political pressures: a dynamic panel regression analysis'* that 'incumbent governments across the EU tend to manipulate fiscal policy in order to maximise their chances of being re-elected' (2010:4). The author adds that 'fiscal deficit increases by 1% of GDP in election years through increases in components and subcomponents of government expenditure of similar magnitude' (2010:4)[38].

A country and region-specific presentation

Each region of **Belgium** has its own budget, which is aligned to the cycle of the federal budget. The federal budget is annual and the budgetary year corresponds to the calendar year: it begins on 1 January and ends on 31 December. Budget proposals consisting of estimates of revenues and expenditure prepared by the Regional Government are submitted to the regional parliament in the form of draft orders, which are published in Moniteurbelge[39] once they are approved. The parliament votes on the next year's budget at the end of each calendar year and can also vote on one or two adjustments in the course of the year. Preparing the budget is one of the region's essential powers. It puts into figures the policies to be implemented in the course of the year to come and the resources needed to do this.

In **France,** the Constitutional Bylaw on Budget Act (*Loiorganique relative aux lois de finances-LOLF*), adopted in 2001 and amended on 23 July 2008, gives a key role to the Parliament to evaluate public policies and introduces the concept of multiannual planning framework of public expenditures. These expenditures include the ones of the central State, the social insurance authorities and LRAs. Regarding the budget of the central State, France adopts a triennial process, in which mandatory expenditure ceilings are set for all public policies. These expenditure ceilings have to be respected for the first two years of the triennial budget but can be adjusted in the third year. At regional level, the budget is prepared by the executive body, i.e. the President of the Regional Council and its services/cabinet. The budget is adopted annually by the Regional Council.

[38] In his analysis Efthyvoulou uses annual time series data from the 27 member states of the European Union for a period of 10 years (1997 – 2008).

[39] Any new law or any changes to existing laws only take effect once published in heBelgian Official Journal (Moniteur Belge).

The vote is supposed to take place before the beginning of the calendar year, although the conclusion of the regional budget depends on the completion of the national budget and on the amount of transfers received by the State level.

In Italy, Law 59 from 1997[40] provided for the state passing on a considerable amount of responsibilities and powers, including budgetary, to the regional level. Therefore,budget cycles are analysed at regional level. In **Piemonte,** within the process of multiannual planning, the executive body (Giuntaregionale) produces, in collaboration with the Institute of Social and Economic Research (IRES), a document of economic and financial planning, which assesses international, national and regional economic and social trends. This document represents the frame of reference for devising the region's annual and multiannual budgets and should be presented by the executive body (Giuntaregionale) to the Regional Council (Consiglio) by 30 September each year. The multiannual budget is adopted annually for a period of no more than three years and drawn up in accordance with the above-mentioned economic and financial planning. Each year, the region adoptsthe annual budget, which is consistent with the economic and financial planning document and the multiannual budget. The budgetary year corresponds to the calendar year.

Looking at parties, institutions and political budget cycles at municipal level in Italy, Cioffi, Messina and Tommasino (2012) find evidence of the existence of political business cycles. The results of their econometric analysis are consistent with the assumption that national parties do have both the incentives and the resources to control wasteful expenditure by party-affiliated mayors. Other research by Veiga and Veiga (2004) and Padovano and Lagona (2002) has found that political business cycles are present in spending by municipal governments in Italy.

Even though it does not have a large degree of autonomy in raising revenue, **Scotland** draws up its own budget, following the stages presented below[41]. The Budget (also Total Managed Expenditure – TME) has to be approved annually by the Parliament with the passing of the Budget Act.

Table 6: The stages for drawing up the Scottish budget

	Aim	*Timescale*	*Activity*
Budget Strategy Phase (BSP) –at least once per Parliamentary term.	To allow the Parliament to scrutinise the progress made by Scottish Government in delivering its own targets through its spending priorities,	Should remain flexible.	The Finance Committee leads the scrutiny, but welcomes the engagement of

[40]See: http://www.parlamento.it/parlam/leggi/97059l.htm
[41] See: http://www.scottish.parliament.uk/S4_FinanceCommittee/General%20Documents/ScottishBudgetGuide.pdf

	and to take a strategic overview of public finances.		subject committees.
Draft Budget Scrutiny Phase – takes place annually.	To allow subject committees to scrutinise the Government's Draft Budget which presents firm spending plans for the following financial year. Also, Finance Committee may propose an alternative budget.	The Scottish Government normally present their proposals by 20 September. The Finance Committee produces a report, to be debated by the Parliament before the end of December. However, this timescale can be affected by timings of UK Spending Reviews.	The Finance Committee co-ordinates the responses from the subject committees). The Parliament debates a motion tabled by the Finance Committee. Committees or individual members may also table motions at this stage.
Budget Bill Phase – takes place annually.	To provide Parliamentary authority for spending in Scotland for the following financial year.	The Government must introduce the Budget Bill by 20 January each year. Stage 3 of the Bill must begin between 20 and 30 days from introduction.	Only a member of the Scottish Government is allowed to bring forward amendments to the Bill at this stage. The Parliament finally passes the Budget Bill, approving expenditure for the following financial year.

Source: Guide to the Scottish Budget, SPICe[42]

In **Romania**,the budgetary cycle at county level is dictated by the state level, with LRAs having to obey guidelines and provided centrally. Law 500/2002 on public finance provides that, according to the principle of 'annuality', budgetary revenue and expenditure are approved annually (in accordance with the budgetary exercise[43]) by law. The budgetary calendar begins with the drawing up, by the competent bodies and before 31 March each year, of the macroeconomic indicators used to prepare the budget. By 1 May, the Ministry of Public Finance submits to the Government the fiscal and budgetary objectives for the budgetary year and for the next three years. By 1 June, the Ministry of Finance sends a framework letter to the main credit release authorities specifying the macroeconomic context in which they will have to draw up their draft budgets. Afterwards, the main credit release authorities[44] submit to the

[42]See: http://www.scottish.parliament.uk/S4_FinanceCommittee/General%20Documents/ScottishBudgetGuide.pdf

[43] The period equal to a budgetary year, for which a budget is drawn up, approved, implemented and reported upon.

[44]The main credit release authorities at local level are, by case, the mayors of territorial administrative units, the mayor of the Municipality of Bucharest, the mayors of the six sectors in the Municipality of Bucharest and the presidents of the county councils.

Ministry of Public Finance their draft budgets for the next budgetary year together with the forecasts for the next three years, by 15 July each year. Local administrative authorities must include here their proposals for consolidated transfers from the state budget and sums allocated from other state revenues. Next, the Ministry sends the draft budgetary law and draft budgets to the Government, by 30 September, which will then have time to send them to the Parliament for adoption by 15 October. Therefore, the budget must be adopted by the Parliament – by parts, chapters, subchapters, titles, articles and paragraphs, and also by the credit release authority. The forecasts for the following three years do not have to be adopted, but they are meant to provide information on the financial outlook. If the Parliament fails to adopt the budget before the deadline, the Government will implement the tasks provided by the previous year's budget, limiting monthly expenditure to 1/12 of the previous year's budget.

As for testing the existence of political business cycles in Romania, the relatively recent shift to democracy means that the number of democratic elections is small. Also, given the important structural changes taking place as a result of transition, it may be more difficult to separate the influence of political behaviour on public budgets from other factors. Nonetheless, research points out that structural change tends to be minimal in election years, as politicians refrain from implementing unpopular economic measures that may cause them to lose votes. At the same time, research identified that, after 2003, the restrictions imposed by the EU accession process led to reductions in budget deficits and tied the hands of opportunistic politicians, at least to some extent.

Having said all of the above on existing composition of subnational budgets and budgetary cycles, we must note that the new strategic, budgetary and economic frameworks introduced at EU level are likely to impact on these in the years to come. Subnational budgetary cycles will be influenced by mechanisms like the European Semester, making them more uniform across MS and subjecting them to more scrutiny and control. More importantly, even before the introduction of the new economic governance rules, the EU influenced national budgetary cycles. Under the Maastricht Treaty and the Stability and Growth Pact, as early as 2008, a large majority of Member States had declared to have in place a domestic Medium Term Budgetary Frameworks for fiscal planning[45], which required governments to 'extend the horizon for fiscal policy making beyond the annual budgetary calendar'[46]. The new economic governance mechanisms

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[45] See: http://ec.europa.eu/economy_finance/db_indicators/fiscal_governance/documents/analysis_fiscal_framework_reforms_pfr_2010.pdf
[46] See: http://ec.europa.eu/economy_finance/db_indicators/fiscal_governance/framework/index_en.htm

reinforce these requirements, with the revamped SGP's preventive arm stating that MS have to make sure that their frameworks, at all administrative levels – national, regional and local - reflect the budgetary framework of the EU.

1.3. Existing coordination mechanisms between national and subnational budgets

A European overview

When looking at individual countries, the degree of budgetary coordination between the national and subnational levels varies considerably. In federal states, coordination is all the more necessary, as federated entities and subnational levels in these enjoy greater fiscal and budgetary autonomy. Meanwhile, in less decentralised states or small states, coordination is already ensured given that regions have fewer responsibilities and competencies, implying that they have fewer budgetary powers. As a general rule, the more independence a region has over revenue collection, the larger its room for manoeuvre in structuring its budget and allocating funding to specific objectives.In other words, regions in a country with a low level of fiscal decentralisation will be more constrained by the central State.

Each individual country has specific mechanisms to ensure the coordination between national and subnational budgets. Generally speaking, one can say that the alignment of national and subnational budget cycles is a means to guarantee a certain level of coordination. As shown in the previous part, most national and subnational budget cycles are annual, although the central State can also adopt budgetary orientations within a multiannual budgetary framework like in France.

Transfers from the central State to the subnational level are also key instruments to facilitate coordination. A considerable proportion of the revenues of subnational governments come from transfers from the central government. Analysing the nature of these transfers represents a means of assessing regions' degree of autonomy, in the sense that general transfers give regional authorities more room for manoeuvre in allocating expenditure than earmarked grants, which finance specific types of expenditure. According to Dexia (2008: 121), transfers from the central State consist mostly of general grants[47]. Earmarked grants provide financing for subnational capital spending which implies that the room for manoeuvre for subnational authorities regarding this type of expenditure is rather limited.

[47]Belgium is an exception, as half of all municipal grants and three quarters of provincial grants are earmarked.

Another way of assessing the level of coordination within individual MS is to look at the level of interaction between national and subnational entities and/or the existence of strategic frameworks outlining common budgetary orientations and policy priorities. According to Dexia (2008), some states have put into place stability pacts negotiated with subnational levels that reinforce the prudential fiscal framework. Such initiatives are likely to result from the new European economic governance presented earlier. Indeed, they influence expenditure either due to the existence of an obligation to respect certain rules ('Golden Rule') or due to 'explicit expenditure progression imposed by the central State or by the federated State' (Dexia, 2008: 79).

A country and region-specific presentation

When looking at individual MS and regions, the existence of coordination mechanisms is not very straightforward, especially given the high amount of laws and official documents that codifies the information. However, it is important to note that, in many cases, the coordination seems to be limited to legal and procedural aspects, without generating in-depth analysis of the contribution LRAs can and should bring to achieving objectives set at national and European levels.

Analysing the Walloon region shows that there is little coordination mechanisms between national and regional budgets in **Belgium** except that the High Council of Finance sets budgetary objectives for all public authorities on an annual basis. These opinions constitute the foundation on which agreements between the federal State and regions are concluded. This relatively limited coordination between the federal and the regional authorities is mainly due to the fact that Belgium's regions are very autonomous and do have a lot of competencies. For instance, territorial planning is a responsibility of the regions which includes areas such as the economy, employment, water policy, housing, public works, energy, transport (excluding the railways), the environment, territorial and urban planning and the protection of nature. Successive institutional reforms have also put responsibility for the organisation of local authorities totally in the hands of the regions. As a result, they are responsible for the composition, organisation, establishing of responsibilities and operation of both provinces and municipalities.

In **France**, the financial and policy coordination between national and subnational level is guaranteed by the so-called State-region project contracts (*Contrats de ProjetsEtat-Région*(CPER)), created in 1982 and available for each region. These contracts are designed by the State, represented by the Prefect, and the Regional Council, who agree on a multiannual programme of actions in territorial planning and development. They agree on a number of policy actions and each partner commits itself to a certain level of financing. Interestingly enough, the cycle of these contracts have been aligned to the MFF cycle as the current contracts adopted in 2007 will run until 2013. For the 2007-2013 period,

the contracts are developed around four main axes, which consist of focusing the contracts on national investments with high multiplier effect and high potential for jobs creation (1), narrowing their content and focusing on the European objectives of Lisbon and Göteborg (2), reinforce the partnership with LRAs and making it more flexible so that departments can also be involved in the preparation of the contract (3), withdraw the planning of the national road transport network from the next generation of contracts and devote more attention to public transport (4), One can note that these priority axes are very much in line with the Lisbon and Europe 2020 strategy.

In **Italy**,the Legislative Decree no. 76 from March 2000[48]serves to harmonise the expenditure and revenue classifications in regional budgets, in order to increase coordination with the state budget. The same decree asks for bodies with budgetary responsibilities at regional and state level to provide one another with any useful information they may need in exercising their powers, also stating that regions have to provide quarterly budgetary information to the state level through a specially designed informatics system. At the same time, some explicit political coordination mechanisms have been identified, like the Conference of the Regions and Autonomous Provinces (*Conferenzadelleregioni e delle province autonome*), Conference for State-Cities relations and Local Autonomy (*ConferenzaStatoCittàedautonomielocali*) and the Joint Conference (*Conferenzaunificata*), which brings together the previous two.Regarding transfers from central State to the subnational level, earmarked transfers were cancelled in 2001, as a result of the Constitutional Reforms entering into force. They were replaced by transfers consisting in considerable share of the value added tax revenue (Dexia, 2008: 417). Therefore, this change brought regions more independence in terms of allocating expenditure.

In the **United Kingdom,** Scotland's budget is indeed financed mainly through a grant from Westminster, but this only broadly determines the overall size of the budget, leaving the Scottish competent authorities complete autonomy on the way it is spent. That being said, explicit budgetary coordination mechanisms between the national and subnational level do not exist, or seem necessary. The Convention of Scottish Local Authorities (COSLA) is the voice of local government in Scotland and represents their interests also regarding fiscal and budgetary matters, in the sense of ensuring that they receive adequate and flexible funding.

[48] See: http://www.normattiva.it/uri-res/N2Ls?urn:nir:stato:decreto.legge:2000-03-28;76

In **Romania**, a unitary state with little experience as a democratic system, the transfer of budgetary responsibilities to and increased fiscal independence for LRAs are developments of recent years. In 2006, Law 273 on local public finance provided for the creation of local public finance committees, which are partnership bodies with an advisory role, made up of representatives from the Parliament, the Ministry of Administration and Interior, the Ministry of Public Finance, the associative body of Romanian communes, the associative body of Romanian cities, the associative body of Romanian municipalities and the associative body of Romanian county councils. Another non-governmental organisation representing the interests of Romanian county councils is the National Union of County Councils of Romania. The mission of the Union is to support the implementation of the principles of autonomy and decentralisation, and its objectives include inter-regional coordination and representation of interests at national and international level based on the subsidiarity principle, territorial support for achieving macroeconomic targets and national priorities. As fiscal decentralisation is still at an incipient stage, the number of mechanisms put into place for budgetary coordination is very limited. According to Dexia (2008:546), transfers from state to subnational level, and especially those earmarked for operating public services, have decreased in value since 2001. In 2005, grants received by subnational governments from the state level represented only 6% of their total revenue excluding borrowing (2008:546). This implies that counties have more autonomy in raising revenue and in allocating expenditure.

PART 2: Analysis of the impact of EU instruments and mechanisms on subnational budgets

The second section of this report looks at whether EU instruments and mechanisms described in the first section influence subnational budgets. Some elements of the first section already allow responding to this question. But in order to fully address it, this section will raise the two following points:

- What does the structure of subnational budgets tell us about a possible alignment of regional priorities to EU strategic objectives and congruence of policies and budgets?

- Does the use of Structural Funds and Cohesion Fund have a leveraging effect at the regional and local level?

2.1. Alignment of regional priorities with EU strategic objectives and congruence of policies and budgets

Analysis carried out by the European Parliament's policy department for budgetary affairs conclude that, given the limited size of the EU budget, the European Commission does not have the budgetary instruments at its disposal to 'achieve significant impact on its own' (2010:84). In turn, this restricts its ability to coordinate policy among EU countries. The EC Treaty provides that MSs shall administer their economic policies 'with a view to contributing to the achievement of the objectives of the Community' and coordinate these with the Council[49]. The same study mentioned above underlines the lack of formal budgetary coordination mechanisms. One of the few such mechanisms and the most important one by financial means is materialised through Cohesion Policy and the use of Structural Funds and Cohesion Fund at regional level. However, one should note that the use of these funds varies significantly among EU regions depending on their size and level of development.

As part of Cohesion Policy, the alignment of policy priorities and budgets is articulated around three main elements: a coordination mechanism allowed by three key strategic instruments (1), financial earmarking (2) and co-financing requirements (3).

A coordination mechanism allowed by three key strategic instruments (1)

The European Commission has developed a strategic approach so as to ensure that the design and implementation of Cohesion Policy enjoys a high level of coherence. At European level, the EU defines Strategic Guidelines, which contain the principles and priorities of Cohesion Policy for the 2007 – 2013 programming period. National authorities then use these guidelines as the basis for drafting their national strategic priorities for the programming period, which are presented in the National Strategic Reference Frameworks (NSRFs). In this document, which must be approved by the European Commission, each MS adapts the Community Strategic Guidelines to the national context and presents a series of Operational Programmes (OP), which can either have a national, multiregional or regional dimension. The NSRFs also contain an indicative annual financial allocation for each OP. For the next financing period, National

[49] Article 98 and 99 of the EC Treaty. See: http://eur-lex.europa.eu/LexUriServ/site/en/oj/2006/ce321/ce32120061229en0010331.pdf

Reform Programmes and Partnership Contracts will be the reference documents for the definition of OPs and the Common Strategic Framework (CSF) will replace the Strategic Guidelines.

Financial earmarking (2)
Cohesion policy instruments were already required to contribute to the Lisbon Strategy during the 2000-2006 programming period, but it was in the 2007-2013 funding period that the European Commission called for a minimum earmarking of Structural Funds and Cohesion Fund with the Lisbon Objectives. As stipulated in the Council Regulation (EC) No 1083/2006, 'the assistance co-financed by the Funds shall target the European Union priorities of promoting competitiveness and creating jobs, including meeting the objectives of the Integrated Guidelines for Growth and Jobs (2005 to 2008) as set out by Council Decision 2005/600/EC of 12 July 2005 [15]. To this end, in accordance with their respective responsibilities, the Commission and the Member States shall ensure that 60% of expenditure for the Convergence objective and 75% of expenditure for the Regional competitiveness and employment objective for all the Member States of the European Union as constituted before 1 May 2004 is set for the abovementioned priorities. These targets, based on the categories of expenditure in Annex IV, shall apply as an average over the entire programming period'. The annex draws up a list of 74 expenditure categories considered in line with the objectives pursued by the Lisbon Strategy and which mainly concern priority themes such as research and technological development, innovation and entrepreneurship, the information society, transport (for convergence regions), energy, including renewable energy sources, environmental protection, human resources and labour market policy related issues. In the NRSFs, each MS announces to what extent it intends to contribute to the European strategic objectives and this information is usually broken down by OPs as well.

Co-financing requirements (3)
The alignment of policy priorities between European and regional level has also been generated by co-financing requirements, meaning that MS must bring their financial contribution to EU funded projects. In Annex 3 of the Council Regulation 1083/2006, the EU sets ceilings for co-financing rates by Structural Funds: 50% for the regions of the 'regional competitiveness and employment' objective, 75% for the regions of the 'convergence' objective of EU 15, and until 85% for the 'convergence' and 'regional competitiveness and employment' objectives of EU 12 and outermost regions[50]. Following the earmarking principle mentioned above, it then means that a large part of the national co-financing is directly geared towards European objectives. With the economic

[50] See: http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2006:210:0025:0025:EN:PDF

crisis, several MS had difficulties in making use of regional funding and in meeting co-financing requirements. In this context, the Commission proposed to temporarily suspend the requirement that national governments provide a proportion of the finance for EU-backed regional projects. Given the strong resistance coming from net EU budget contributors, the Council and the European Parliament finally decided to maintain co-financing requirements but not to decommit unspent 2007 funds[51].

However, Council Regulation 1311/2011, amending Regulation 1083/2006, specifies that the countries most affected by the economic crisis - Ireland, Greece, Hungary, Latvia, Portugal, Romania[52] – may receive up to 10 percentage points more EU investments. This means that the EU could cover up to 95% of programme costs, should the MS concerned request that. Not representing new or additional funding for the six MS, this allows for earlier reimbursement of available funds under cohesion policy, rural development and fisheries.

As mentioned above, co-financing rates differ by MS, funds and objectives. Obviously, the level of alignment is likely to increase with the size of the funds. In other words, the more a country receives from EU funds, the more likely is it to reorient its policies. Reorientation of national expenditures and policy priorities has therefore been more visible in countries like Romania than Belgium or France, which receive relatively little money from the EU. Thus, the importance of EU funds allocated can be a measure of alignment as these funds need to be used for specific goals and achieve specific targets that subnational authorities need to report on. Table 7 shows the importance of Structural Funds and Cohesion Fund in each region of the sample and the extent to which OPs contribute to achieving the European objectives at regional level.

Table 7: The importance of Structural Funds at regional level-OPs in Wallonia, the PACA region, Piemonte, Scotland and the North-East region in Romania

	Number of OPs	Thematic priorities of the OPs	Total contribution of EU funds to the subnational level over 2007-2013 in Euro
Wallonia	5[53]	1. Enterprises and jobs creation. 2. Development of human capital, knowledge and research. 3. Social inclusion. 3. Balanced and sustainable territorial development.[54]	1,249,675,065 Euro

[51]See:Regulation (EU) No 539/2010 of the European Parliament and of the Council of 16 June 2010 amending Council Regulation (EC) No 1083/2006:http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2010:158:0001:0006:EN:PDF

[52]Member States which have been most affected by the crisis and have received financial assistance under a programme from the European Financial Stabilisation Mechanism (EFSM) for members of the Euro zone or from the Balance of Payments (BoP) mechanism for non-members.

[53]See: http://ec.europa.eu/regional_policy/atlas2007/fiche/be_en.pdf. The four regional programmes are: OP 'Convergence' Hainaut – ESF, OP 'Convergence' Hainaut – ERDF, OP 'Competitiveness' Wallonia – ERDF,

PACA	1[55]	1. Promoting innovation and the knowledge based economy (about 28.7% of total investment) 2. Developing businesses and the information society for regional competitiveness (about 21.9% of total investment) 3. Sustainable management of resources and risk prevention (about 27.6% of total investment) 4. New urban and rural approaches for innovation, employment, territorial solidarity and accessibility (about 10% of total investment) 5. Developing means of transport as an alternative to road transport for private individuals and economic activities (about 10% of total investment) 6. Technical assistance (about 1.9 % of total investment)	302,234,812 Euro
Piemonte	2[56]	1. Innovation and Production Transition (about 46.2% of total funding) 2. Sustainability and Energy Efficiency (about 25.1% of total funding) 3.Territorial Development (about 25.1% of total funding) 4.Technical assistance (about 3.6% of total funding)	823,403,191 Euro
Scotland	4[57]	Highlands and Islands- ERDF[58] 1: Enhancing business competitiveness, commercialisation and innovation 2: Enhancing key drivers of sustainable growth 3: Enhancing peripheral and fragile communities 4: Technical assistance Highlands and Islands- ESF[59]	819,891,373 Euro

OP 'Competitiveness' Troika Wallonia Brussels – ESF. There is a fifth programme which is a national programme and applies therefore to Wallonia.

54 See: http://europe.wallonie.be/sites/default/files/CRSN_belge_final_juillet07.pdf

55 See: http://ec.europa.eu/regional_policy/country/prordn/details_new.cfm?LAN=7&gv_PAY=FR&gv_reg=ALL&gv_PGM=1144&gv_defL=9&lang=7. In addition to the OP for the PACA region, there is a national programme financed by the ESF. However, this programme is not mentioned in this table as the share of funds going to the PACA region is not available.

56 See: http://ec.europa.eu/regional_policy/atlas2007/fiche/it_en.pdf
The two programmes are: Regional OP 'Piemonte' - ESF, and Regional OP 'Piemonte' – ERDF. In addition to the two programmes, there is a national programme financed by the ESF. However, this programme is not mentioned in this table as the share of funds going to the Piemonte region is not available.

57 There are two programmes for Highlands & Islands, one financed by the ERDF and the other by the ESF. See: http://www.scotland.gov.uk/Publications/2008/07/29142448/6 and http://www.scotland.gov.uk/Publications/2008/07/29142530/7
There are also two programmes for Lowlands and Uplands Scotland, one financed by the ERDF and the other by the ESF. See: http://www.scotland.gov.uk/Publications/2010/05/25142835/5 and http://www.scotland.gov.uk/Publications/2008/07/29142711/7

58 See: http://www.scotland.gov.uk/Publications/2008/07/29142448/0

		1: Increasing the workforce 2: Investing in the workforce 3: Improving access to lifelong learning Lowlands and Uplands-ERDF[60] 1: Research and innovation 2: Enterprise growth 3: Urban regeneration 4: Rural development 5: Technical assistance Lowlands and Uplands-ESF[61] 1: Progressing into employment 2: Progressing through employment 3: Improving access to lifelong learning	
North-East development region (Romania)	7 financed by the ERDF, the ESF, and the CSF at the national level[62]	1. Development of basic infrastructure in line with European standards. 2. Increasing the long-term competitiveness of the Romanian economy. 3. Development and more efficient use of Romania's human capital. 4. Building an effective administrative capacity. 5. Promoting balanced territorial development.	19,700,000,000 Euro.[63]

In addition to Cohesion Policy, it is also important to highlight the fact that the EU has developed other types of mechanisms which, although more implicit or indirect, have also played a role in aligning regional priorities with European objectives. For instance, some studies mention the role of EU directives and regulations in forcing or encouraging MS to deploy their own financial resources for objectives decided at EU level. Other instruments like the Open Method of Coordination which 'aims to promote good practice in effective social and economic policies, and to stimulate convergence among the policies of the Member States'[64] should also be taken into consideration. Therefore, some analysts argue that the boundaries between EU and national budgets are 'blurred, implicit and are moving continuously under the influence of EU decision-making, recommendations from EU institutions and benchmarking mechanisms'[65]. However, the literature also underlines that implicit coordination instruments have more limited effects than direct EU transfers, as conditions are

[59] See: http://www.scotland.gov.uk/Publications/2008/07/29142530/0
[60] See: http://www.scotland.gov.uk/Publications/2010/05/25142835/0
[61] See: http://www.scotland.gov.uk/Publications/2008/07/29142711/0
[62] OPs are not region-specific in Romania but apply to the whole territory.
[63] As OPs in Romania are not regional but national, there is no data on the amount of funding going to each region. The figure presented here is for the national level.
[64] See: *Creating greater synergy between European and national budgets*, Directorate- General for Internal Policies, Policy Department Budgetary Affairs, p. 88.
[65] Idem, p. 87.

often attached to the use of EU funds. Indeed, implicit mechanisms are not binding and largely depend on the willingness of MS and LRAs to engage.
The new principles of Cohesion Policy 2014-2020 discussed in the first section - i.e. the increased concentration on the priorities of the Europe 2020 strategy (1), the greater focus on results (2) and the strengthened application of conditionality (3) -, the increased attention devoted to LRAs in the new European economic governance as well as the 'harder' mechanisms introduced in terms of fiscal discipline are likely to reinforce alignment and linkages between EU and subnational levels. Nonetheless, it is also crucial to bear in mind that some risks, which will be presented in section 3, may also emerge from these innovations.

2.2. Leverage effect of EU co-financing on subnational public resources for achieving EU priorities

As indicated by the European Parliament's study[66], co-financing requirements have been introduced in view of increasing the sense of responsibility of MS for EU-funded policies and generating better results by means of engaging additional national resources. This so-called leverage effect, which refers to the capacity of EU funds to pool public - be it national, regional or local - and private resources to induce investment, is often presented as one of the big achievements of Cohesion Policy.

Indeed, the European Commission usually makes very optimistic estimates of the macro-economic impact of Cohesion Policy. For instance, it states in the Communication on the Budget Review that 'GDP in the EU-25 as a whole is estimated to have been 0.7% higher in 2009 as a result of Cohesion Policy over the 2000/2006 period – meaning a good return for spending accounting for less than 0.5 % of EU GDP over the same period'[67]. In the fifth Cohesion Report, the European Commission declares that 'according to QUEST[68], the return in 2009 is the equivalent of EUR 1.2 per euro invested. However, by 2020, the return is estimated at EUR 4.2 per euro invested'[69]. The report also presents very impressive figures with regard to employment: 'In terms of the regional economy, the funding provided by Cohesion Policy over the period 2000-2006 created some 1 million jobs in enterprises across the EU (…)'[70].

The reliability of these estimates has been, however, called into question by several economists. While they sometimes highlight the difficulty to trace back

[66] Idem, p. 90.
[67] The Communication on the Budget Review COM (2010) 700, p.6.
[68] QUEST is an economic model developped by DG Ecfin to assess the macro-economic impact of policies.
[69] Fifth Cohesion Report, p.253.
[70] Fifth Cohesion Report, p.15.

such findings, they also shed light on some concrete misunderstandings[71]. All in all, one can say that it is extremely difficult to measure the leverage effect of Cohesion Policy – and even more on subnational level – because of a series of factors, such as:

- the strong interplay between Cohesion Policy and domestic policies, which also have a strong effect on regional equalisation and development. It is therefore a tricky task to assess the extent to which leveraging investment and regional convergence is due to EU interventions;
- the lack of data and information, in particular at subnational level;
- the lack of consensus on the usefulness of certain economic models to measure the effect; and
- the difficulty to know whether investment projects would have been carried out without EU interventions.

However, and despite all these difficulties, the mobilisation of subnational public resources can give some indications on the leverage effect of EU funds. Table 8 indicates the share of community and national public funding as well as the co-financing rate for all OPs in each EU region of the sample. This information is either aggregated or broken down by OP.

Table 8: The share of community and national public funding and co-financing rate at regional level- OPs in Wallonia, the PACA region, Piemonte, Scotland and the North-East region in Romania

	Community funding (a)	**National Public Funding** (b)	**Co-financing rate** (a/a+b)
OPs in **Wallonia**[72]			
Convergence FEDER	175,609,729 Euro	117,073,153 Euro	60%
Convergence FSE	189,096,619 Euro	189,096,619 Euro	50%
Competitiveness FEDER	282,514,931 Euro	437,860,573 Euro	39.22%
Competitiveness FSE	328,833,980 Euro	328,833,980 Euro	50%
OPs in **PACA**	302,234,812 Euro	533,834,812 Euro	36.15%
OPs in **Piemonte**	823,403,191 Euro	1,261,407,510 Euro	39.5%
OPs in **Scotland**	819,891,373 Euro	1,083,909,668 Euro	43%
Highlands and Islands-	121,862,392 Euro	169,456,425 Euro	

[71] See Daniel Tarschys, *How small are the regional gaps? How small is the impact of Cohesion Policy? – A commentary on the fifth report on Cohesion Policy'*, Swedish Institute for European Policy Studies, January 2011.

[72] Wallonia is also covered by a national programme, whose contribution to the region has not been identified. Therefore, the total community funding in this table does not equal the amount in table 7, as that represents the total funding through all programmes.

ERDF Highlands and Islands-ESF Lowlands and Uplands-ERDF Lowlands and Uplands-ESF	52,150,195 Euro 375,957,844 Euro 269,920,942 Euro	52,150,195 Euro 533,839,253 Euro 328,463,795 Euro	42% 50% 41.33% 45%
OPs **North-East development region** (Romania)	19,700,000,000 Euro[73]	4,500,000,000 Euro[74]	81.4%

Source: All figures have been taken from either NSRFs or OPs. Co-financing rates are either indicated in those documents or have been computed.

Table 8shows that EU funds have allowed mobilising a significant amount of public resources. However, it is worth noting that this data doesn't tell us whether public funding comes from the national or subnational level. Also, this data does not mention any contribution from the private sector and implies that the entire co-financing came from national public resources. More information on subnational budgets and the share of resources going to EU-backed regional projects would therefore be required in order to get a more accurate idea of the leverage effect of co-financing requirements on subnational level.

Furthermore, it is important to note the limits of the leverage effect of EU Structural and Cohesion Funds. Table 9 reveals the little usage of EU funds made by the 1st January 2010. Although this may be a result of the economic crisis and time delays in implementing programmes, it also reflects the difficulty that regional and local stakeholders may have in complying with EU rules, to deal with EU funds and the administrative burden it may generate. As little usage of EU funds may lead to automatic decommitment, one can assume that the leverage effect of EU funds could be much more significant if MS had the capacity to make full use of them. Nevertheless, it is also worth recalling that the current economic context has a significant impact on liquidity, access to credit and self-financing capacities for both LRAs and businesses. Against this background, EU funds might now appear as a last resort solution and national and subnational authorities are likely to have increased recourse to them in order to meet current investment needs.

Table 9: Consumption of allocated funding of Cohesion Policy by Member State over the 2007-2013 period (on the 1st January 2010)

	Intermediary payments paid by the Commission by 01/01/2010 (in EUR million)	Total of allocated funding in the framework of Cohesion Policy for 2007-2013 (in EUR	**Consumption rate of allocated funding**	Ranking (from the best to the worst performing country)

[73] As the North – East development region is just a cooperation structure, there are no figures reported for this level. The values presented in the table are for Romania as a whole.

[74] As the North – East development region is just a cooperation structure, there are no figures reported for this level. The values presented in the table are for Romania as a whole.

		million, in current prices)		
Austria	135.71	1,461	**9.29%**	6th
Belgium	217.90	2,258	**9.65%**	4th
Bulgaria	0.0	6,853	**0.00%**	27th
Cyprus	35.03	640	**5.47%**	11th
Czech Republic	673.79	26,692	**2.52%**	20th
Denmark	20.62	613	**3.36%**	17th
Estonia	338.47	3,456	**9.79%**	3rd
France	832.48	14,319	**5.81%**	9th
Finland	144.21	1,716	**8.40%**	7th
Germany	2 532.42	26,340	**9.61%**	5th
Greece	630.98	20,420	**3.09%**	18th
Hungary	920.44	25,307	**3.64%**	16th
Ireland	118.82	901	**13.19%**	1st
Italy	635.59	28,812	**2.21%**	21st
Latvia	243.75	4,620	**5.28%**	13th
Lithuania	796.86	6,885	**11.57%**	2nd
Luxembourg	1.32	65	**2.03%**	22nd
Malta	1.71	855	**0.20%**	26th
Netherlands	13.77	1,907	**0.72%**	23rd
Poland	2,546.80	67,284	**3.79%**	15th
Portugal	1,177.22	21,511	**5.47%**	12th
Romania	140.61	19,668	**0.71%**	24th
Slovenia	161.57	4,205	**3.84%**	14th
Slovakia	66.38	11,588	**0.57%**	25th
Spain	1,078.13	35,217	**3.06%**	19th
Sweden	140.73	1,891	**7.44%**	8th
United-Kingdom	597.79	10,613	**5.63%**	10th
Territorial cooperation	42.31	445	**9.51%**	
Total	14,243.41	347,410	**4.10%**	

Source: European Commission – document from DG budget sent to the President of the Budget Committee of the Council – 13 January 2010 (COMBUD 5/10)[75]

Another point to consider is the quality of the leverage effect generated by the EU. Some scholars have pointed out the risk of focusing on short-term effects, such as the increase in employment rate, which are not always the most tangible results of Cohesion Policy and the best contribution to 'sustainable growth'. For instance, the creation of jobs in the construction sector was certainly linked to result housing bubbles in countries like Spain and Ireland. It is therefore crucial to look beyond short-term effects and the financial aspect of the leverage impact. The use of EU funds has also led to other phenomenon, such as the influence on policy design or institutional capacity building, which need to be taken into consideration. The use of EU funds and the increased monitoring of performance indicators have certainly played a critical role in the emergence of new policy considerations such as resource efficiency, climate change or gender balance. In addition, Cohesion Policy can also help equip poorer regions with infrastructure with a limited effect on economic growth but a significant impact on citizens' quality of life. While the EU is currently encouraging MS to achieve more smart, sustainable and inclusive growth and pushes them to implement

[75]Table taken and translated from *Rapport de Pierre Lequiller*, p. 34.

structural reforms, it would be logical to raise the question of whether Cohesion Policy has contributed to these objectives.

PART 3: Recommendations on improving synergies between EU, national and subnational budgets

For a long time, the CoR has underlined the need to improve synergies between EU, national and subnational budgets. In its opinion 167/2011, it declares that 'the economic social and territorial disparities that still exist in the European Union can be overcome only through integration, synergy, and complementarity of national and European interventions inspired by values of practical solidarity (…)', and that 'both European cohesion policy and national regional development policies require an adequate institutional environment, efficient public administration and an effective partnership between the various levels of governance, the aim being to sketch out coordinated, coherent medium-to-long-term development strategies and multiannual programming frameworks on which to base them'.

The third section of this report aims to make policy recommendations on two aspects. On the one hand, it makes some suggestions on how to maximise the impact of EU interventions on subnational level by improving the coherence between EU strategic, budgetary, and economic frameworks. On the other hand, it proposes some actions to improve coherence and synergies between EU, national and subnational budgets. To this end, it is necessary to first outline the main risks of discrepancies on the basis of the analysis carried out in the two previous sections.

3.1. Outline of main risks of discrepancies between the three levels of governance

Looking at the possible discrepancies and discontinuities between the three levels of governance leads us to first analyse whether the different strategic, budgetary and economic frameworks designed at EU level are coherent with each other. By doing so, one can notice some inconsistencies at EU level, which make the coordination with other levels of governance even more complicated. Some of these inconsistencies are listed below:

- The structure of the MFF only partially matches the Europe 2020 strategy objectives. For instance, the huge amount of money allocated to the Common Agricultural Policy is only tangentially in line with the objectives and targets outlined in the Europe 2020 strategy and there is no Europe 2020 target devoted to this policy. This contrasts with the relatively small amounts of money deployed for the achievement of the main EU strategic objectives, be it employment, poverty reduction or climate change. There is therefore an EU effort to adjust financial means to objectives.
- As shown in this report, the timescale of EU budgetary, economic and strategic frameworks are not aligned. Having different timescales at EU level is not a good strategy to encourage MS and LRAs to align their budget cycles to the European one.
- As shown by Molino and Zuleeg (2011), the links between key strategic documents like NRPs and Partnership Contracts appear to be potentially weak, especially with regard to time horizon and scope.

- While the Commission devotes increased attention to the role of LRAs in the new European economic governance and in bringing public finances back onto a sustainable path, it pays very little attention to how LRAs are involved in the design of policies.

In addition to a high level of coherence at EU level, good and effective coordination mechanisms between EU, national and subnational budgets are also required so as to maximise synergies and have better value for money. Therefore, EU institutions should be aware of the following elements likely to endanger the coordination:

- The absence of an agreed Europe-wide standard budget structure makes the adjustment of European policy priorities to national and subnational budgets very difficult. As presented earlier, EU, national and subnational budget cycles have different time horizons.
- While the use of Structural and Cohesion Funds has led to an alignment of policy priorities as shown by the objectives listed in each OP, national and subnational budgets do not provide any factual indications on their contributions to EU priorities. This confirms the idea argued by most analysts that alignment of policy priorities is mainly occurring through the use of co-financing.
- As shown by the analysis of a small sample of 5 EU regions, most subnational budgets are annual and only some of them operate in a medium-term framework. The lack of medium-term budgetary frameworks (MTBF) at subnational level might endanger the coherence of policies implemented on the ground. However, it is important to note that the increased emergence of MTBFs at national level identified earlier is likely to influence budget cycles at subnational level as well.
- Information on the coordination between national and subnational budgets is not very visible, which significantly complicates the analysis.
- The introduction of thematic concentration, new types of conditionality and stricter monitoring of regions' progress against performance indicators can increase the level of coordination. However, as these indicators will be decided and designed at EU level, there might be a risk that they cannot be delivered by some of the regional beneficiaries. This would have deep consequences for LRAs and could undermine the leverage effect of EU funds.

Last but not least, it is important to underline the persistence of critical trade-offs by the design of policies. For instance, while alignment of budget cycles is likely to have very beneficial results in the long-run, they will require important changes in national and subnational budgetary procedures. This might create some resistance and also slow down the budgetary process. Another example is the trade-off between transparency and efficiency. While more transparency of public finances and public management could significantly improve coordination, it is also likely to increase the administration burden at subnational level.

3.2. Suggestions on overcoming risks and improving synergies

Overcoming the risks of discrepancies listed in the previous subchapter will require a series of actions at all levels of governance.

At European level, European institutions should first make sure that LRAs are involved in the design and implementation of policies as much as possible. Indeed, strengthening the partnership with LRAs is a necessary condition for increasing ownership of European policy priorities on the ground. To this end, European institutions should adopt a more proactive attitude with regard to the dissemination of good and effective multilevel mechanisms.

Secondly, as argued by Dhéret, Zuleeg and Chiorean-Sime (2012), the EU should pursue the process of simplifying rules attached to the implementation of Structural and Cohesion Funds. This would contribute to a better use of EU funds and maximise their leverage effect.

Thirdly, the EU should create a monitoring system showing Member States' financial commitments and efforts to the realisation of EU objectives and strategies in their national budgets. While such information is available as regards Cohesion Policy, the references made to the objectives of the Lisbon and Europe 2020 strategy in national and subnational budgets are rather vague and no allocation of financing is attached to them.

Fourthly, the EU should be coherent, not only with regard to the financial means devoted to its objectives and policy priorities, but also regarding the timescales of its strategic, budgetary and economic frameworks. Having strategic documents with different time horizons can only bring confusion and endanger coordination between levels of governance. Also, having 'smart, sustainable and inclusive growth' as overarching priorities should encourage the EU to move away from short term considerations. In this context, measuring the leverage effect of Cohesion Policy would require to look at new aspects like its capacity to promote structural reforms or to improve the effectiveness of public administrations.

Fifthly, the EU needs to introduce clear guidance on how policy interventions and money are linked to outcomes and targets. Such guidance is necessary to help MSs and LRAs to achieve the Europe 2020 objectives. Therefore, it should also be better disseminated through more streamlined communication between all levels of governance. This proposal is particularly relevant for MSs and regions with weak administrative capacity.

Last but not least, the need for more harmonisation of statistics on public finances across countries and levels of governance has become more and more evident. To this end, the Commission should issue a Green Paper on creating synergies among budget policies at EU, national and subnational level in order to stimulate debate on this topic.

At national and subnational level, more effort must first be made to align budgetary procedures and budget cycles with the ones at EU level. Also, Member States need to set out more clearly how coordination mechanisms between national and subnational budgets work in practice. Coordination mechanisms should not only be limited to legal and procedural aspects defining by when budgets have to be approved and adopted. It should be based on an enhanced dialogue between the central State and LRAs, allowing an identification of financial and strategic tools to achieve common and territorial objectives linked to EU priorities. Such a dialogue is particularly relevant for federal states where federated entities enjoy a high level of autonomy and have less constraints stemming from the central State.

Secondly, having MTBF at both national and subnational level does significantly help the coordination of policies and provides more financing certainty and stability to LRAs. Their existence may also facilitate monitoring by providing benchmarks against which budgetary developments can be assessed over time. However, while these frameworks are likely to become more widespread due to the impact of the European economic governance, they are still rarely used at subnational level.

Thirdly, there is also a strong need for having more consistent and detailed data across regions in order to be able to draw relevant conclusions at EU level. The CoR mentioned in its Opinion 167/2011 on 'The complementarity of national and EU interventions aimed at reducing the disparities in economic and social growth', the idea of having 'monitoring systems that can continuously track the distribution of public expenditure linked to the objectives of territorial cohesion in the EU'. It goes without saying that such a system would be beneficial for EU's cohesion policy as a whole and not only for territorial cohesion. Also, such a system will be very beneficial, not only at national but subnational level as well.

Conclusion

In the context of the current economic crisis and given the ongoing negotiations on the next MFF, identifying potential solutions to create greater synergy between European, national and subnational budgets should become a priority.

Based on a sample of 5 EU countries and regions, this report has shed light on existing policy and budgetary coordination mechanisms between the three main levels of governance, i.e. the EU, the national State and the region. Although the complexity of the subject, the variety of rules applied at each level of governance, the lack of available information and the diversity of coordination mechanisms among MS make the analysis very difficult, this report highlights some findings which are relevant for future policy making.

Between EU and national level, policy and budgetary coordination have been historically limited, given a series of factors such as the limited size of the EU budget, the national resistance against the EU's role in budget-related topics considered as areas of national sovereignty, and some inconsistencies in EU frameworks challenging the alignment with EU policies. For a long time, the alignment of policy was therefore mainly taking place through Cohesion Policy and the use of co-financing.

Despite all that, one should note that Europe is moving towards increased coordination and more interaction between all levels of governance. This process has started with the creation of the SGP and is currently being reinforced by the implementation of the new European economic governance, where the EU makes increased references to the role of LRAs. Therefore, one can expect to see an increased influence of the EU on both the design of budget and policy in the coming years. This influence has become a necessity if Europe wants to achieve the objectives of the Europe 2020 strategy and to make better use of its limited financial resources.

However, such a process will certainly encounter some difficulties and require joint efforts from all levels of governance. While the EU will have to increase the coherence of its strategic, budgetary and economic frameworks, make sure that consistent partnerships with LRAs occur, and develop some tools for better monitoring, easier implementation of rules and more country-specific guidance, national, regional and local authorities will also have their role to play. In the end, progress towards more policy and budgetary coordination will very much depend on their capacity to adapt to changes and their willingness to engage in this process.

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Annexes

Annex 1 – Public sector revenue and expenditure by MS in 2010

EU/Countries/ Regions	Public Sector Revenue (% of GDP)	Public Sector Expenditure (% of GDP)
EU 27	44.1	50.6
Subnational level	16.2	33.6
Belgium	48.8	52.9
Belgian subnational level	21.2	22.1
Wallonia	1.8	2.0
France	49.5	56.6
French subnational level	11.7	11.8
PACA	0.1	0.1
Italy	45.8	50.3
Italian subnational level	15.2	15.7
Piemonte	2.1	2.0
United Kingdom	40.3	50.4
Subnational level in the United Kingdom	14.0	14
Scotland	3.1	4.4
Romania	34.0	40.9
Romanian subnational level	9.7	9.8
North-East region	1.2	1.1
Austria	48.1	52.5
Austrian subnational level	16.7	17.9
Bulgaria	34.9	38.1
Bulgarian subnational level	6.9	6.9
Cyprus	41.0	46.4
Cypriot subnational level	2.2	2.2
Czech Republic	39.3	44.1
Czech subnational level	11.4	11.9
Denmark	55.7	58.5
Danish subnational level	37.4	37.6
Estonia	40.9	40.6
Estonian subnational level	10.3	10.0
Finland	52.5	55.3
Finish subnational level	22.2	22.5

Germany	43.6	47.9
German subnational level	20.0	21.1
Greece	39.5	50.2
Greek subnational level	2.6	2.8
Hungary	45.2	49.5
Hungarian subnational level	11.8	12.7
Ireland	35.5	66.8
Irish subnational level	6.9	6.9
Latvia	36.1	44.4
Latvian subnational level	10.8	11.4
Lithuania	33.8	40.9
Lithuanian subnational level	11.4	11.3
Luxembourg	41.4	42.5
Luxembourgian subnational level	5.3	5.3
Malta	39.3	42.9
Maltese subnational level	0.7	0.7
Netherlands	46.2	51.2
Dutch subnational level	16.4	17.2
Poland	37.5	45.4
Polish subnational level	13.8	15.0
Portugal	41.6	51.3
Portuguese subnational level	6.4	7.2
Slovakia	32.3	40.0
Slovak subnational level	6.4	7.3
Slovenia	44.3	50.1
Slovenian subnational level	9.8	10.2
Spain	36.3	45.6
Spanish subnational level	20.1	24.3
Sweden	52.8	52.9
Swedish subnational level	25.6	25.5

Annex 2 -Subnational expenditure by economic function in 2010

Table 2: Belgium - expenditure by economic function in 2010

COFOG	**billion EUR**	**% GDP**	**% total local expenditure**
General public services	5.84	1.7	23.1
Education	5.01	1.4	19.8
Social protection	4.40	1.2	17.3
Public order and safety	3.20	0.9	12.5
Economic affairs	2.32	0.7	9.2
Recreation, culture and religion	2.18	0.6	8.6
Environment protection	1.20	0.3	4.7
Health	0.67	0.2	2.6
Housing and community amenities	0.51	0.1	2.0
Defence	0	0.0	0
Total local expenditure	25.3	7.1	100.0

Source: calculations – Eurostat

Table 3: France - expenditure by economic function in 201

COFOG	**billion EUR**	**% GDP**	**% total local expenditure**
General public services	42.08	2.2	18.4
Social protection	38.84	2.0	17.0
Education	36.27	1.9	15.9
Housing and community amenities	34.40	0.8	15.0
Economic affairs	29.67	1.5	13.0
Recreation, culture and religion	21.09	1.1	9.2
Environment protection	17.65	0.9	7.7
Public order and safety	6.96	0.4	3.0
Health	1.73	0.1	0.8
Defence	0	0.0	0.0
Total local expenditure	228.7	11.8	100.0

Source: calculations – Eurostat

Table 4: Italy - expenditure by economic function in 2010

COFOG	billion EUR	% GDP	% total local expenditure
Health	115.81	7.5	47.3
General public services	33.65	2.2	13.8
Economic affairs	33.36	2.1	13.6
Education	18.25	1.2	7.5
Social protection	12.31	0.8	5.0
Environment protection	11.39	0.7	4.7
Housing and community amenities	9.24	0.6	3.8
Recreation, culture and religion	6.88	0.4	2.8
Public order and safety	3.70	0.2	1.5
Defence	0	0	0.0
Total local expenditure	244.7	15.7	100.0

Source: calculations - Eurostat

Table 5: United Kingdom - expenditure by economic function in 2010

COFOG	billion EUR	% GDP	% total local expenditure
Education	79.31	4.6	33.3
Social protection	70.85	4.2	29.7
Public order and safety	21.98	1.3	9.2
Economic affairs	20.38	1.2	8.5
Housing and community amenities	14.83	0.9	6.2
General public services	12.42	0.7	5.2
Environment protection	9.73	0.6	4.2
Recreation, culture and religion	8.88	0.5	3.7
Defence	0.08	0	0.0
Health	0	0	0.0
Total local expenditure	238	14.0	100.0

Source: calculations Eurostat

Table 6: Romania – expenditure by economic function in 2010

COFOG	billion EUR	% GPD	% total local expenditure
Education	2.55	2.1	21.3

Economic affairs	2.23	1.8	18.7
Social protection	2.04	1.6	17.0
General public services	1.39	1.1	11.8
Housing and community amenities	1.19	1.0	10.0
Health	1.00	0.8	8.4
Recreation, culture and religion	0.81	0.7	6.8
Environment protection	0.55	0.4	4.6
Public order and safety	0.14	0.1	1.3
Defence	0.00	0.0	0.0
Total local expenditure	11.94	9.8	100.0

Source: calculations Eurostat

Annex 3 – Regional budgets

Table 7: Walloon budget for 2010

	% of total
Total Revenue	100.00
Share allocated from personal tax	52.40
Regional tax	33.95
Sums transferred from the federal level	5.05
Financing for labour market programmes targeting the unemployed	2.87
Other revenue	4.04
Earmarked revenue	1.69
Total Expenditure	100.00
Staff costs	17.80
Credits	0.34
Alternative financing and PST 3	5.72
PST 3	0.26
Expenditure related to inflation	24.76
OIP and assimilated bodies	13.03
European Union co-financing	1.83
Priority actions for the Avenirwallon and Marshall 2.Vert	3.24
Debt	4.09
Debt reduction fund	0.00
Reserve for unforeseen situations	0.00
Balance of primary expenditure	27.43
Lines of credit	1.50

Source: http://nautilus.parlement-wallon.be/Archives/2009_2010/BUDGET/bud01.pdf

Table 8: PACA region’s budget for 2010

	% of total
Tax revenue	51.6
Direct tax revenue	23.3
Indirect tax revenue	28.3
Donations and compensations	36.0
Donations	35.4
Compensations	0.6
Other current expenditure	6.1
TOTAL CURRENT REVENUE	93.7

TOTAL CAPITAL (INVESTMENT) REVENUE	6.7
TOTAL REVENUE	100.0
Current expenditure (1), of which:	65.0
operational expenditure	50.0
non-operational expenditure	15.0
Capital expenditure (2), of which:	31.1
operational expenditure	30.8
non-operational expenditure	0.3
Financial charges (3)	3.9
TOTAL EXPENDITURE (1) + (2) + (3)	100.0
Operational expenditure	15.1
Non-operational expenditure	81.0

Source: Economic and Social Council of the Provence – Alpes – Côte d'Azur region http://www.regionpaca.fr/uploads/media/Budget_Primitif_Regional_Exercice_2010.pdf

Table 9: Piemonte region's budget for 2010

	% of total		
REVENUE	2010	2011	2012
Financial surplus from 2009	0.0		
Revenue from regional taxes, from taxes collected at national level or from sums allocated to the region or to autonomous provinces	84.4	91.1	91.1
Revenue from contributions and transfers from the EU, the state and other bodies	13.4	8.4	8.4
Other non-tax revenues	1.1	0.5	0.5
Proceedings from disposal and transformation of capital, from the collection of receivables and capital transfers	1.1	0.0	0.0
Total revenue	100.0	100.0	100.0
EXPENDITURE			
Current expenditure	89.3	83.7	83.8
Capital expenditure	8.7	14.1	14.1
Expenditure for repayment of loans	2.0	2.2	2.2
Total expenditure	100.0	100.0	100.0

Source: SitoufficialedellaregionePiemonte – Bilancio http://www.regione.piemonte.it/bilancio/bilancio2010/index.htm

Table 10: Scottish budget for 2010

EXPENDITURE	%
Education	28.3
Social work	21
Non-HRA Housing	13.8
Police	7.2
Environmental services	4.6
Central Services	4.5
Cultural and related services	4.3
Roads and transport	4.1
Interest and investment income	3.6
Statutory repayment of debt	3.1
Planning and economic development	3
Fire	2.1
Trading Services	0.4
General fund contributions to HRAt	0
All services	100.0
REVENUE	% in total income/ % in total income + (a) + (b)
Other Central Government Grants (excl RSG[76])	51.1 / 9.8
Sales, Fees, Rents & Charges	28.7 / 5.5
All other grants, reimbursements and contributions	18.5 / 3.5
Grants to third parties funded by General Capital Grant	1.6 / 0.3
Total Income	19.1
Net expenditure to be financed from grants, non-domestic rates, council tax and balances (a)	59.8
Ring-fenced[77] Grants (b)	1.9
Total income + (a) + (b)	100.0

Source: http://www.scotland.gov.uk/Publications/2012/02/2421/11

[76] The Revenue Support Grant (RSG) is an amount of money given by central government to local authorities each year. http://www.idea.gov.uk/idk/core/page.do?pageId=1118610

[77] Ringfencing is when the government gives money and predetermines its use, rather than allowing the local authority to make the decision. Ringfencing allows the council less flexibility and control but can protect vulnerable services, such as mental health provision. http://www.idea.gov.uk/idk/core/page.do?pageId=1118610

Table 11: Vaslui County[78] budget for 2010

	% in total
A. REVENUE	
Tax on income, profit and capital earnings	11.3
Tax on goods and services	44.2
Revenue from property ownership	0.1
Revenue from the sale of goods and services	0.2
Subsidies from the state budget	27.2
EU transfers for payments and prefinancing	17.0
Total revenue 2010	100.0
B. Expenditure	
B.1. By type	100.0
Current expenditure	94.8
Staff costs	23.4
Goods and services	15.7
Interest	0.5
Budgetary reserve for local public administration	0.0
Transfers among the local public administration	5.0
Other transfers	0.5
Social protection	22.2
Other expenditure	1.5
Co-financing for EU projects	26.0
Capital expenditure	6.1
Payments made in previous years and recovered	-0.9
B.2. By economic function	100.0
General public services	3.5
Defence	0.1
Public order and safety	0.4
Education	10.3
Health	1.3
Culture, recreation and religion	3.9
Social protection	44.3
Housing and community amenities	0.1
Environment protection	3.9
Agriculture, forestry, fishery and hunting	0.5
Transport	27.2

[78] The North – East Development Region is a cooperation structure between counties, created in order facilitate the implementation of the European regional development policy. Therefore, it does not have a regional budget. That is why we present the budget of one of the counties in its composition.

Other expenditure	4.5

Source: Vaslui County Council