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LOCAL BUDGETS MANAGEMENT IN CONDITIONS OF UNCERTAINTY

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ABSTRACT. *Managing efficiently the public affairs within local communities and strengthening their fiscal resilience while supporting a sustainable growth represents by its nature a continuous challenge for the representatives of local public administration. In addition, it seems that we are living nowadays in an era of uncertainty that leads to a kind of "persistent fiscal insecurity" effect, which is fueling more the intensity of the mentioned challenge, and thus asking for new, adapted and focused strategies of local financial management, able to counteract the negative effects of various turbulences encountered. During recent years, the sustainability of local budgets couldn't remain unaffected by the new and more than significant challenges, realities and meanings of all areas of social life, which has occurred after the outbreak of the COVID-19 pandemic, and have placed local communities under unyielding fiscal pressures.*

Starting form this premise, our study is intended to analyze the strategic approach and actual capacity of local financial management across the European Union Member States to boost the principles of good governance (e. g. sound financial management, sustainability and long-term orientation, regulatory quality, responsibility, political stability, competence and capacity etc.) in conditions of uncertainty, in order to consolidate the local expenditures and revenues, and to maintain local deficit and debt within sustainable limits. The reference period is of five years, between 2017 and 2021, aiming to compare the local financial management indicators from the period before the pandemic with the ones after it has occurred and lasted, using data from Eurostat and other databases.

The results of our study are of interest and useful for public decision-makers and other specialists, emphasizing some solutions of good practice, by implementing governance principles at the level of local financial management, in order to minimize the negative effects of unforeseen social and economic large-scale turbulences.

KEYWORDS: *local budgeting, pandemic crisis, local budget balance, public debt, uncertainty, budgeting governance rules*

JEL CLASSIFICATION: H79, I19, I39

INTRODUCTION

Budgeting represents a common managerial tool that involves administrative processes of planning and coordination in order to provide support and control for achieving predetermined objectives, all being based under the competence of forecast. Referring to local public administrations, the financial management may experience enough budgeting uncertainty even in good economic times, even more so in the current period since the outbreak of the COVID-19 pandemic, which put forward a significant and unexpected negative impact on society's overall well-being.

The negative effects of the COVID-19 pandemic further intensified the problem of local fiscal security (fragile anyway in many countries), because of, on the one hand, the economic slowdown, which led to a decrease in tax revenues for local budgets, and on the other hand, due to the decrease in inter-administrative transfers from the state budget. The difficulties that states are facing because of unemployment, poverty, and inequality have got worse as the economy has slowed down and are putting pressure on public budgets. Adopting counter-cyclical measures has become more difficult, and public authorities need to reallocate capacity and resources in order to reduce the pandemic's negative effects and, as well, to encourage an inclusive growth of the economy.

In such conditions, becomes clear that public budgeting has to be redefined, taking into account the volatility of different economic and social variables, based on the thesis that the two sectors (state/public and private) are highly interconnected.

The aim of this study is to analyze the strategic approach and actual capacity of local financial management across the European Union Member States to boost the principles of good governance (e. g. sound financial management, sustainability and long-term orientation, regulatory quality, responsibility, political stability, competence and capacity etc.) in conditions of uncertainty, in order to consolidate the local expenditures and revenues, and to maintain local deficit and debt within sustainable limits. The reference period is of five years, between 2017 and 2021, aiming to compare the local financial management indicators from the period before the pandemic with the ones after it has occurred and lasted, using data from Eurostat and other databases. The main findings indicate that, in the majority of situations, local budgets were not capable of handling a crisis of this magnitude. As a result, local management depended on receiving large compensation transfers from the central level in order to cover the decreased fiscal incomes and increased expenses associated with the pandemic. Thus, apparently, local balance remained unaffected during the pandemic crisis, but yet we can discuss about a "masked" local budget deficit, as the impact was transferred from local to the central budget balance, implicitly to the central public debt. In addition to the rise in public debt, costs associated with the country's rating being downgraded, the process of catching up being slowed down, an increase of development gaps, etc., may also be referred to.

The paper is structured as follows: In the first section, we documented the literature in the field; in the second section, we documented the fundamental sources of budgeting uncertainty; in the third section, we analysed the approach of local budget management during pandemic crisis circumstances in the selected European countries; and in section four, we exposed some main landmarks of a budgeting strategy in conditions of uncertainty.

LITERATURE REVIEW

A pandemic's burst is not unusual along human history, each one being particularized by the multitude and extent of the negative effects they have on health and life, by the extent to which the consequences spread to other areas of economic and social life and the way in which the competent structures (of public and private leadership and not only) relates to them, manages them, with the aim of preventing the negative effects, until eradicating that pandemic.

The recent pandemic's negative impacts seem to be rather severe, according to statistics and perceived reality, not only from a health but also from an economic perspective. (Kabir et al., 2020; Lee et al., 2021; Khambule, 2021). The increase in the unemployment rate is one of the negative effects of the pandemic (Fernandez-Villaverde and Jones, 2020; Blundell et al., 2020), and among the European Union states, some studies show that the most affected states were Germany, Italy, France (Su et al., 2022, 6-9). Since the pandemic, the rates of poverty and inequality have increased dramatically, and even relationships have become unstable (Bessell, 2022). According to Mahler et al. (2022, 5), the recorded level of inequality and poverty worldwide in 2020 was as high as in 1990, the research revealing that "the pandemic increased the global Gini index by 0.7 point and pushed an additional 90 million people into extreme poverty - measured as having a daily income or consumption less than $2.15 per capita". In addition, Narayan et al.

(2022) states that the negative effects of the pandemic may also be felt in the medium and long terms, because of possible slow and uneven returns in developing countries as well as the educational gaps created by the pandemic during school closures, which appear to have an impact on social mobility and equal opportunities. Palomino et al., (2020), Lambovska et al. (2021), Svabova et al., (2020), Blustein et al., (2020 also documented the severity of the pandemic consequences.

In order to counteract this global catastrophe, governments are expected to act using expansionist policies, engaging more on social and budgetary responsibilities, reallocate public funds, and increase public spending, generating "budgeting costs of uncertainty", as further empirical evidences of domain literature are discussed. We should emphasize that because of the unforeseeable nature of the pandemic and its effects on society, and the varying degrees of state preparedness, this was even more difficult to manage, from the financial perspective. For instance, the health crisis in France was expected in the context of a very high public debt, which put in place significant difficulties in its management. (Cho et al, 2020, 2-4). Similarly, other empirical research (De Jong and Ho, 2021) exhibit that the budgetary responses to pandemic challenges varied across countries, but they had some common policy features. Also, it determined a positive relationship between budgetary responses and the number of pandemic cases and a negative relationship with medium-term expenditure planning, health expenditure and anticipated changes in unemployment. (De Jong and Ho, 2021, 5-6).

Since the beginning of the pandemic, studies from the field revealed that the most important state revenues "fell further and faster than in the depths of the Great Recession" (Gordon et al., 2020, 1). Nemec and Paek (2020, 5) argue that local authorities are also having difficulties with the levels of public revenues and expenditures during the COVID-19 epidemiologic situation, but still, the increasing of local expenditures for financing anti-pandemic level it is not so problematic. Another empirical research (Chernick et al., 2020, 5) predicted significant decreases in public revenues in 2021 for cities too. The sample includes 150 cities, using as variables the most important income categories (income, property and sales taxes, fees and charges, intergovernmental aid) and is showing that for the year 2021, revenue decreases of 5.5 percent were expected, on a less severe scenario, and of 9 percent on the most severe scenario. The analysis also shows that many cities might experience an income decline of 15%, depending on the income structure and the existing fiscal space. In line with these results, Green and Loualiche (2021), documented a direct causal link between fiscal pressures brought by COVID-19 and state and local government employees' layoffs. Likewise, Green and Loualiche (2021, 18) found evidence that there is a close relationship between the fiscal impact produced by the pandemic and the decrease in employment at the level of state and local budgets, and the most affected were the governments that depended more on sales tax revenue and in conditions of having the smallest *rainy-day funds*.

From another perspective, other few studies analyse particular cases of countries. In this regard, Gałecka and Patrzałek (2022), for the case of Poland, estimated a drop of 8–9 billions of PLN in total local revenues, the most affected being taxes on corporate and personal income, and somewhat more moderately the taxes on real property. In terms of expenditures, the local spending for to alleviate the negative effects of the pandemic were estimated at 1-2% of the total local spending. Another study (Desdiani et al., 2022, 11), for Indonesia, shows that in 2020 the governmental revenues and expenditures declined by 8.2% and 6.5%, respectively.

Reported to the previous evidence from the extent literature, though there are few studies concerning the budgeting in conditions of uncertainty, it is outlined that this may represent a substantial factor in destabilizing the balance of public budgets, lowering public revenues, forcing public managers to raise some categories of public expenditures, and causing the increase of public debts. Yet, there is poor research studying the relationship budgeting – uncertainty and the budgeting science is rather related to "normal" periods, emphasizing methods, techniques and civic participation, missing that in fact the budgeting science is placed under the prognosis philosophy.

FUNDAMENTAL SOURCES OF BUDGETING UNCERTAINTY

- ***Political affiliation, political instability and globalization***

For local budgeting, political affiliation represents one of the main determinants of budgeting processes and, at the same time, one of the main drivers of its uncertainty, depending on whether the local leaders are affiliated with the party or coalition that is governing at the state level or with the opposition. Not only there are literature findings supporting this presumption (Larcinese et al, 2006; Mulas-Granados, 2003), but as a matter of notoriety as well, the local budgets that are affiliated with the ruling power from the central government benefit from greater financial support compared to those affiliated with the opposition power. The disadvantages of local administrations in opposition are obvious, but this kind of budgeting uncertainty will also reach local administrations whose political leaders are affiliated with the political power at the central level, when it will be changed. For them, the negative consequences may imply the impossibility of following the already approved budget planning, the stagnation of the financing of investment projects, etc., and the most affected will be the local budgets that depend in high proportion on the inter-administrative transfers from the central budget.

Political instability, by definition (Carmignani, 2003, 1), refers to some socio-political phenomena (political revolts, revolutions, mass violence, etc.), as well as some political events (change of government, electoral surprise), which by their nature create a general state of uncertainty, implicitly producing serious shocks in the normal implementation of the specific administrative and technical processes related to budgeting. Nowadays, political instability manifests itself mainly through the frequent change of government at short time intervals. This fact produces a state of insecurity, and as far as budgeting is concerned, we note that it is affected through its fragmentation and the discontinuity of the achievement of investment objectives, the planning of new ones without the certainty that they will be completed. From another perspective, the budget is also affected through the prism of the fulfillment of civic responsibilities, with the citizens being confused and mistrustful at every political event of this kind.

The dynamics and complexity of the globalization phenomenon involve a number of economic benefits, such as the mobility of labor and capital, more efficient economic trade, etc., without excluding the potential positive implications that can result on public (local) budgets. Beyond the positive aspects of globalization, viewed from a conceptual perspective, it presupposes, par excellence, the dynamics and mobility of people, capital, technology, etc. and can equally create conditions of insecurity and uncertainty regarding local public administrations, which remain "immobile". Concretely, budgeting may be negatively affected by decisions on the relocation of foreign investments, the emigration of the local population, the exploitation of fixed assets (e.g., lands) by foreign companies, privatization, etc., as the achievement of local budget objectives by categories of income, and implicitly, expenditure, is directly dependent on them.

- ***Legislative gaps and ambiguous regulations, fiscal law enforcement***

The issue of legislative gaps and ambiguous regulations can be one side of a coin that on the other side refers to problems related to the lack of the establishment of applicable principles of good governance, and taken together basically are related to problems with fiscal law enforcement and strong fiscal administration institutions. Broadly speaking, legislative gaps and confusing regulatory formulations in public finances create the opportunity for political leaders to interpret those gaps and formulations in a proper manner and in ways that serve their own interests, not the interests of the general public.

The concrete situations in which there is an intensification of the uncertainty of the local budget process because of the lack of clear and objective fiscal regulation and strong fiscal institutions may be from the start related to the establishment of the base and the tax rate (especially in the case of shared tax between different levels of public administration), inefficient collection of taxes, tax evasion, making inter-administrative transfers based on criteria that are not fully objective, and making decentralization of public competences without accompanying them with adequate funding sources yet. All this determines the achievement of a low level of local financial autonomy, which does not allow the financing of local expenses based on criteria of maximum allocative and productive efficiency. Further on the expenditure side, we may encounter a lack of transparency in the implementation of public procurement processes, a low ratio between investment expenditure and current expenditure at local budgets, the allocation of borrowed financial resources to finance current expenditure, etc. Local budgeting in such uncertain conditions—lack of a certain predictability of funding sources, of consensus, transparency, and long-term vision; achieving a cyclical budget balance; competence and capacity; and solid financial management (as principles applicable to the budget process)—will always affect the most the poor local communities, as it perpetuates "a la longue" a fragile tax base, keeping the absorption capacity of European funds and the capacity to access the capital market at the limit or below it.

- ***An increased frequency in occurrence of diverse socio-economic disruptions caused by shocks or stressors***

Socio-economic disruptions also represent one of the main drivers of budgeting uncertainty, admitting the interconnections between the evolution of the private sector and public finances. Nowadays, the dynamics of society and the economy have a more intense rhythm and are more or less farsighted. In such conditions, public leaders are required to create and keep the necessary tools and capacities for rapid (and important) changes in terms of budgetary variables without jeopardizing the sustainability of public debt or negatively affecting the stability of the economy (which is so precarious in such contexts).

The most common shocks or stressors that cause socio-economic disruptions are: inflation, economic downfalls and recession, climate change and natural disasters, pandemics, etc. Since their occurrence produces losses that the private sector cannot absorb, the state is inherently forced to resort to increasing certain categories of public expenditure to support and finance those losses (e.g., the increase in unemployment expenditure, subsidies to support economic agents, global warming prevention, expenses to cover the damages caused by some natural disasters, and last but not least, expenses in the field of health and social care during pandemic periods), while, of course, some categories of public income will decrease. The problem that arises in these conditions is whether the government has sufficient fiscal space to allow and support a high degree of flexibility for a quick and consistent modification of the budgetary "options". Unfortunately, throughout history, this has proven difficult to achieve without significantly affecting the public debt situation. The recent experience with the pandemic crisis (COVID-19) has proven that many local governments have failed to cope with the public needs that have arisen with it and the general conditions of uncertainty, so that according to the European Committee of the Regions (2021, 13–14), the fiscal impact was asymmetric among local administrations in European Union countries, the most affected being the vulnerable and disadvantaged areas.

MANAGING LOCAL BUDGETS DURING PANDEMIC CRISIS CIRCUMSTANCES

Dynamics of local budget indicators in conditions of uncertainty

The local government spending areas that encountered the most significant strain during the pandemic crisis are, by their nature those for health and social protection. Local governments have allocated more financial resources to health care, given the increased demand of drugs, tests, medical equipment, the increased number of hospitalizations etc. and for social protection too, giving the fact that the restrictions put in place to prevent and stop the spread of the virus emerged in significant economic declines for commercial entities and an increase in unemployment also.

On Figure 1, it is shown the evolution of health and social protection spending at local governments for all the member states of the European Union to illustrate a general trend before and after the COVID-19 outbreak.

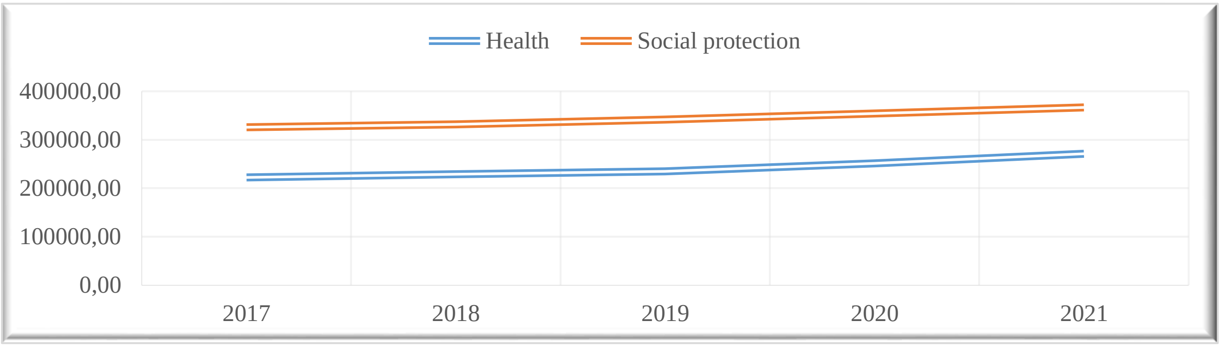

Figure 1. The evolution of health and social protection spending at local governments for the EU27 countries for the period 2017-2021, in million euros

Source: Own computation using data from Eurostat database

The Figure 1 is showing that in the years preceding the pandemic, the evolution of the 2 categories of expenditures was relatively constant. The two evolution lines have a slightly steeper slope in 2020 and 2021, suggesting the pressure felt at the level of local budgets brought by the unforeseeable conditions of the outbreak and spread of the COVID-19 pandemic, when local governments had to increase spending for these destinations, in order to meet the growing needs of local communities in terms of health care and social protection.

In Table 1, we presented the percentage variation from one year to another of local health expenditures in the Member States in the period 2018–2021 represent a comparison between the dynamics of the indicator in a normal time (the previous one) and a period of the pandemic crisis (that followed).

Table 1. The percentage change of public expenditures for health at local governments in selected Member States (2018-2021)

Country	2018	2019	2020	2021
Austria	3.42	3.54	7.00	13.39
Belgium	-9.77	-1.55	107.19	34.57
Bulgaria	15.50	2.85	9.84	34.32
Croatia	13.45	9.37	5.33	13.21
Czech Republic	12.38	7.90	16.10	14.03
Denmark	2.05	3.27	7.07	8.77
Estonia	11.29	12.82	5.81	13.09
Finland	4.01	3.49	4.73	5.78
France	1.68	0.05	16.86	-8.47
Germany	7.23	-0.25	20.50	4.37
Hungary	14.22	9.17	6.46	15.44
Italy	2.05	1.31	5.33	4.54
Latvia	24.21	8.62	9.01	37.13
Lithuania	10.91	12.81	21.89	19.40
Luxembourg	19.76	-11.50	3.39	27.87
Netherlands	-0.44	3.63	57.45	62.63
Poland	12.46	9.80	9.49	15.15
Portugal	8.47	6.69	15.39	0.24
Romania	26.79	18.53	8.42	7.26
Slovakia	-10.57	13.54	11.72	39.98
Slovenia	8.74	11.95	16.30	17.68
Spain	5.60	1.77	-10.53	3.64
Sweden	0.11	0.85	5.21	12.79

Source: Own computation using data from Eurostat database

In the matter of local health expenditures, many countries have registered impressive increases in them during the years 2020-2021, compared to the previous period (Appendix 1): Belgium, The Netherlands, Slovakia, Latvia, Bulgaria, Luxembourg, Lithuania, Slovenia etc.

The Netherlands is unitary state, and the local governmental structure is having 355 municipalities and 12 provinces. Despite, the subnational administrative level holds limited competences in the area of public health, our analysis is showing that the local budgets recorded minimal variations of local spending for health care in 2018 and 2019, but there were enormous increases of them in 2020 and 2021 (by 57.5% and 62.6%, from one year to the next). A similar case, is Slovakia, having the subnational administrative level formed by 2929 municipalities and eight regions, and managing few responsibilities at this administrative level, in the domain of public health (and social protection too), the local spending increased in 2021 by 40% compared to the previous year. Other similar country cases (relatively centralized), where in normal periods the local administrative tier manages few responsibilities and, respectively spend low financial resources in the health area, but they were forced suddenly forced to find solutions to allocate more financial resources for health care area are Latvia, Bulgaria, Luxembourg.

On the other side, there are countries (Lithuania and Slovenia) where local authorities have important competencies in this area, yet the pandemic crisis had a significant impact on their budgets as well. However, this was smaller than the impact for the country cases where the public health competencies are less decentralized. As such, having greater expertise in this area may have represented a kind of advantage for better budgetary management, in terms of reallocating funds from some certain destinations on the new and priority ones. Also, since local authorities are the ones closest to them and have a better perspective on the overall local perspective, they are the best to handle local issues. This assumption seems to be confirmed for the countries of Finland, Denmark and Sweden. They are highly decentralized, and the municipal authorities hold important competencies, particularly in the health and social protection areas. They also have the highest level of financial autonomy compared to other European countries. In such conditions, the level of local health expenditures didn’t record very significant variations in the years after the outbreak of the pandemic. A similar evolution trend of the indicator was followed in Italy, which is a regionalized state where regional authorities manage the health sector. In this case, local expenditures for health increased only by 5.3% in 2020 and by 4.5% in 2021.

On a contrary case, in condition of low decentralization level, low financial autonomy and, respectively, highly dependence of transfers from the state budgets, in Romania local health expenditures had smaller variations in the pandemic context, than before. The transfers being decided discretionarily, without taking into account the real needs of the local communities, led to the underfunding of the local health sector during the crisis, when the needs in this area were growing and urgent.

Further, in Table 2, we exposed the percentage change of local social protection expenditures, before and in the pandemic context.

Table 2. The percentage change of social protection expenditures at local governments in selected Member States (2018-2021)

Country	2018	2019	2020	2021
Austria	2.34	3.04	3.60	4.40
Belgium	1.95	0.96	3.86	4.18
Bulgaria	-0.91	-0.84	32.97	30.73
Croatia	17.11	10.55	1.20	7.62
Czech Republic	19.11	7.87	6.29	17.13
Denmark	1.72	2.26	3.49	2.55
Estonia	9.20	11.32	9.03	8.93
Finland	3.59	4.86	2.27	5.73
France	1.67	3.27	1.16	2.24
Germany	1.31	2.31	4.07	3.58

Greece	2.94	-81.67	1.73	1.70
Hungary	8.49	11.23	-3.26	6.21
Ireland	20.13	35.97	-2.35	15.31
Italy	1.66	2.97	7.27	1.55
Latvia	7.05	3.11	-3.78	2.61
Lithuania	17.76	8.35	8.10	15.93
Luxembourg	4.27	11.17	10.26	6.28
Netherlands	2.33	3.92	4.28	2.85
Poland	3.25	17.35	10.72	-1.25
Portugal	1.57	15.58	6.15	2.92
Romania	24.62	-18.37	11.34	1.57
Slovakia	2.90	15.34	10.45	1.48
Slovenia	5.87	7.12	5.46	12.90
Spain	7.00	7.19	3.37	5.22
Sweden	-3.39	-1.87	1.41	6.81

Source: Own computation using data from Eurostat database

The most remarkable variations within this period could be observed in Bulgaria, Czech Republic, Lithuania, Ireland (somehow), and Slovenia. Within these cases, Bulgaria and Ireland have decentralized social protection competencies, but they are heavily dependent on state budget transfers, so they recorded forced increases of local spending in this area of 30.7% and 15.9% in 2021, respectively. In Lithuania, though municipal authorities don't hold significant competences in the sector health, the budgets were still pressed, and social protection spending increased by 15.9% in 2021, but only by 8.1% and 8.3% in 2020 and 2019, respectively. Lithuania's local budgets heavily depend on transfers from the central level as well. Referring to Slovenia, local authorities have important responsibilities in matters of social protection, and the local budget's funding is based mainly on its own revenues from taxes, tariffs, and fees. So, in conditions of a higher level of local financial autonomy, local spending for social protection was more "stable" and increased only by 5.5% in 2020 and by 12.9% in 2021

On the local revenue side, we analyzed the main categories of local budget own revenues: taxes on production and imports, property income and current taxes on income and wealth, as primary sources of funding for local financial autonomy. (Figure 2)

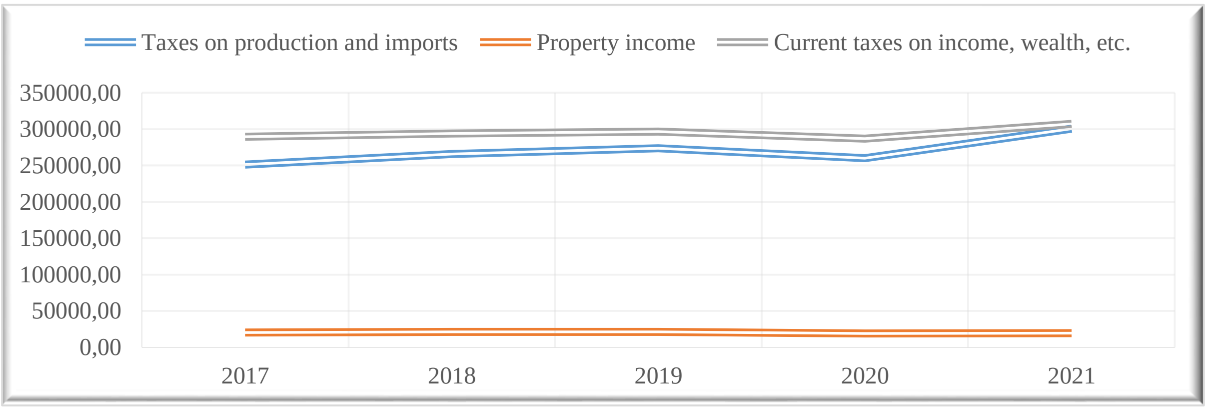

Figure 2. The evolution of main revenue sources at local governments for the EU27 countries for the period 2017-2021, in million euros

Source: Own computation using data from Eurostat database

In the context of the pandemic crisis, the most affected local revenues in 2020 were taxes on production and imports, as depicted by the trendline in Figure 2. As their name suggests, these revenues come from the taxation of production activities and imports. Being part of the category of indirect taxes and having a mobile tax base, they are to be most affected by the evolution of the economic situation. The decrease in their level in 2020 occurred as a result of the restrictions during the pandemic, which also included the limitation of economic and commercial activities.

On the contrary, referring to the property income, they have a much lower level, and as direct taxes and with a real estate tax base, they are much more stable, so the decrease in their level from the years 2020 and 2021 is not visible on the presented figure. The current taxes on income and wealth are also part of the category of direct taxes, but having a mobile tax base, they also fall under the incidence of the economic situation, which is how the inflection point on the trend line in 2020 is explained. However, the incomes from this category do not were so vulnerable to the economic shock compared to taxes on production and imports, which have a more pronounced inflection point in 2020, by their nature, being much more sensitive to economic evolution.

In Tables 3, 4, and 5, the percentage change of each category of the above-discussed public incomes at the local government level is shown for the selected countries and time period.

Table 3. The percentage change of taxes on production and imports at local governments in selected Member States (2018-2021)

Countries	2018	2019	2020	2021
Austria	4.46	4.69	-5.56	4.17
Belgium	-2.08	8.23	-3.38	4.89
Bulgaria	5.34	4.56	1.36	12.52
Croatia	14.40	4.51	-17.08	16.66
Cyprus	4.82	19.32	-15.86	13.74
Czech Republic	12.40	6.84	-6.37	24.15
Denmark	3.71	3.16	3.48	2.93
Estonia	0.57	1.27	-1.82	4.41
France	6.60	3.60	-2.65	23.22
Germany	7.82	4.69	3.33	1.65
Greece	-0.83	3.51	-11.79	7.14
Hungary	6.11	6.99	-14.47	1.88
Ireland	4.16	1.56	-49.78	50.78
Italy	4.78	-0.14	-13.31	11.28
Latvia	-0.61	2.01	-6.74	0.77
Lithuania	4.15	7.17	0.89	10.46
Luxembourg	20.96	-7.41	-8.29	25.70
Netherlands	3.52	4.79	2.29	5.20
Poland	2.49	1.86	0.42	8.54
Portugal	8.82	3.96	-6.59	13.17
Romania	2.74	6.76	-3.57	15.05
Slovakia	5.46	2.66	12.11	6.01
Slovenia	1.96	6.87	-6.40	7.77
Spain	3.89	2.12	-7.55	8.65

Source: Own computation using data from Eurostat database

In general, the local taxes on production and imports normally varied within normal limits the time before the pandemic crisis. Later, in 2020, it showed a decline for almost all the countries selected in the analysis, as a result of the economic drop in the periods marked by the lockdown and specific restrictions against the pandemic. There is a return to growth of the indicator in 2021, when the restrictions have not constrained the economic activity so much.

The local budgets in Ireland, Croatia, Cyprus, Hungary, Italy, and Greece were the most affected, with decreases in taxes on production and imports varying from 49.7 to 11.8 percent, respectively, in 2020. Countries as The Netherlands, Germany and Denmark had the lowest fluctuations in this local revenue indicator.

Table 4. The percentage change of property income at local governments in selected Member States (2018-2021)

Countries	2018	2019	2020	2021
Austria	2.65	-5.10	12.87	13.64
Belgium	-12.14	-5.20	11.38	-4.95
Bulgaria	-3.61	-0.73	-5.15	9.12
Croatia	7.64	4.04	-18.16	16.57
Cyprus	-20.00	-37.50	-40.00	-100.00
Czech Republic	23.83	8.51	-3.35	-0.66
Denmark	9.01	-4.86	-15.27	24.42
Estonia	4.26	-2.55	9.42	9.09
Finland	9.66	6.29	-0.59	3.87
France	9.20	4.69	-15.56	15.40
Germany	14.93	-10.62	-12.94	4.04
Greece	17.74	-4.11	-20.00	-10.71
Hungary	10.39	-19.27	29.51	-14.51
Ireland	-13.94	-35.63	20.13	0.00
Italy	4.55	6.75	-10.08	-2.30
Latvia	18.49	-2.84	-12.41	61.67
Lithuania	5.57	-6.69	-11.96	24.69
Luxembourg	5.97	-6.26	-24.50	-11.50
Netherlands	-2.30	-0.05	-12.17	-6.02
Poland	3.31	-8.36	-18.42	-6.89
Portugal	2.05	-3.31	-5.09	-5.42
Romania	4.22	7.02	-5.88	17.54
Slovakia	-1.42	106.82	-61.98	13.01
Slovenia	-7.53	2.91	-14.12	-21.71
Spain	3.00	9.90	-17.84	7.74
Sweden	-3.26	-2.96	-5.10	3.78

Source: Own computation using data from Eurostat database

Although it represents a stable source of income (as previously discussed), this indicator also recorded important decreases in the period of the pandemic crisis, especially in 2020 and later in 2021, marking a tendency to return. The most affected were local budgets in Slovakia, Cyprus, Greece, Poland, Croatia, Spain, etc. The smallest fluctuations were recorded at the level of local budgets in Romania, Bulgaria, Sweden, Portugal, Czech Republic, Finland, and Estonia, these being countries with very different administrative and fiscal systems, in their cases being confirmed the low sensitivity of taxes with a immobile fiscal base to economic conjuncture.

Table 5. The percentage change of current taxes on income and wealth at local governments in selected Member States (2018-2021)

Countries	2018	2019	2020	2021
Austria	322.12	4.37	5.26	6.33
Belgium	-3.13	8.20	3.24	-13.24
Bulgaria	10.82	0.93	-1.11	7.18
Croatia	30.46	7.60	-7.75	-3.86
Czech Republic	13.29	6.18	-3.66	9.07
Denmark	0.86	3.29	6.33	5.91
Finland	-1.33	3.13	6.12	4.91
France	-12.33	-17.17	-24.30	-74.15
Germany	4.74	1.99	-10.25	19.98

Greece	1.40	1.29	-3.18	-0.75
Hungary	1.17	2.74	-60.42	14.01
Italy	1.88	0.77	-4.28	3.66
Latvia	2.01	13.51	-9.03	5.94
Lithuania	24.02	4.44	-1.82	8.67
Luxembourg	24.48	10.95	-12.66	4.90
Netherlands	1.93	2.87	2.48	1.93
Poland	12.88	7.47	-2.75	8.25
Portugal	8.03	8.04	-4.81	-1.93
Romania	-1.38	4.72	-4.23	18.73
Slovakia	0.50	6.40	0.23	4.62
Slovenia	6.66	2.88	10.25	0.26
Spain	7.59	1.51	-3.86	6.61
Sweden	-2.80	-2.06	3.16	9.32

Source: Own computation using data from Eurostat database

In 2020 local taxes on income and wealth decreased significantly in Hungary, France, Luxembourg, and Germany and in 2021 in France and Belgium, while small decreases were recorded in Bulgaria, Lithuania, and Poland. This type of local income seems to have remained unaffected by the crisis and followed some increases in its context in the Netherlands, Sweden, Austria, Finland, Denmark, and Slovenia, seeming that the employment and wealth state weren't so affected.

Discussions

The figures presented obviously show that the impact of the pandemic crisis on local governments was asymmetric. We can assume that the main reasons why some local budgets were more affected than others are represented by the impact of the pandemic crisis on the local economy (the losses that the local public sector needed to cover), the division of powers and the level of financial autonomy (broadly meaning the capacities of local authorities to manage local affairs), and the pre-existing fiscal space - the extent to which local budgets were able to reprioritize and support the financing of a higher volume for some categories of public expenses without endangering the situation of the local budget balance within acceptable limits. It turned out that for many local governments, the main challenge for budgeting in the context of the pandemic was the lack of finance. Also, as expected, the most affected were the less developed municipalities, with poor medical facilities and public infrastructure, while the more developed areas proved to have better resilience in the face of the crisis.

According to a study by the European Committee of the Regions, due to the decreases in local fiscal incomes and increased expenditures for health care and social protection, there occurred a "scissors effect" at the level of local budgets (European Committee of the Regions, 2021, 7). The study estimated its highest values for Cyprus, Bulgaria, and Germany and its lowest values for Romania, Denmark, Hungary, and Greece. But, due to the size of the economies, it was more strongly felt in Germany, Italy, Spain, and France. On the other hand, because for some countries the information was incomplete - Greece, Hungary, Portugal, Poland, Romania, and Slovakia - the authors of the study argue that it is possible that the "scissors effect" was underestimated, so, the budgetary pressure must have been stronger in these cases as well. Continuing the author's explanation, we have to observe that in the case of the last-mentioned countries, where the invoked effect is lower, such type of budget expenditures (for health and social protection) are treated as "mandatory", being financed by transfers from state/central budget.

As stated by the European Committee of the Regions (2021, 86), the gap produced by the "scissors effect" in Sweden was diminished by the role of automatic stabilizers, in addition to the grants from the central level, which had positive net income at year's end. The example seems to be singular, and it seems that for the rest of the states, the most common measure to alleviate this budgetary pressure was represented by the realization of inter-administrative compensation transfers from the central level to finance the extraordinary local expenditures occurred in the pandemic crisis, in addition to other particular local measures: In the Netherlands, some other initiatives involved revising the regulations governing how the municipal fund was distributed; In Italy, the government decided to centralize some decisions, which may not necessarily be correct. In Slovakia, it was decided that the financial resources intended for investments should be redirected for current expenditures, as well as the use of the reserve fund to cover current needs; In Belgium, the Wallonia region, some municipalities suspended taxes for businesses; Loan repayments was temporarily suspended in Bulgaria; In Denmark, it was decided to remove the ceiling for investments in municipalities and regions. Due to the severe downturn of their local economy and stringent needs in the health domain, there were put in place administrative measures that modified the existent budgetary objectives (adjustment of the MTOs) related to repayment of public loans and investments (Report of Public EMU, 2020, 29). It resulted that local budgets were quite poorly prepared to deal with emergency situations, as even before the pandemic the financial situation for many of them was already precarious (Creel, 2020). In this sense, overcoming the pandemic crisis situation was only possible by receiving compensation grants from the central level, and it is possible that local communities will need financial support in the following years as well.

In the Eurostat database, we found an indicator of inter-administrative transfers, but this does not represent the full amounts transferred from central to local budgets, due to their different legal computations from country to country and different denominations, and the fact that some of them may be already included in other local fiscal income (as shared taxes) (Figure 4). However, it’s still unclear how much the central government contributed to local budget funding in 2020 and 2021. The financial support had translated into a variety of ways, including grants, loans, guarantees, and softer financial regulations.

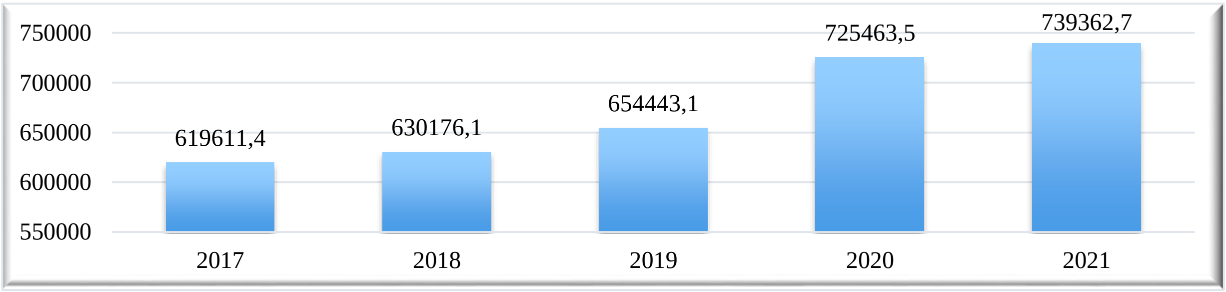

Figure 3. Transfers at local governments for the EU27 countries for the period 2017-2021, in million euros
Source: Eurostat database

On Figure 3, it is noticeable that the represented inter-administrative transfers increased consistently for the years 2020 and 2021 compared to the previous period, confirming our previous discussion. As these transfers were added to local budget revenues as financial support for the increased expenses during the pandemic period, the "scissors effect" cannot be precisely measured, and so, scripturally, the local budget balance at the end of the pandemic years was nearly balanced. (Figure 4).

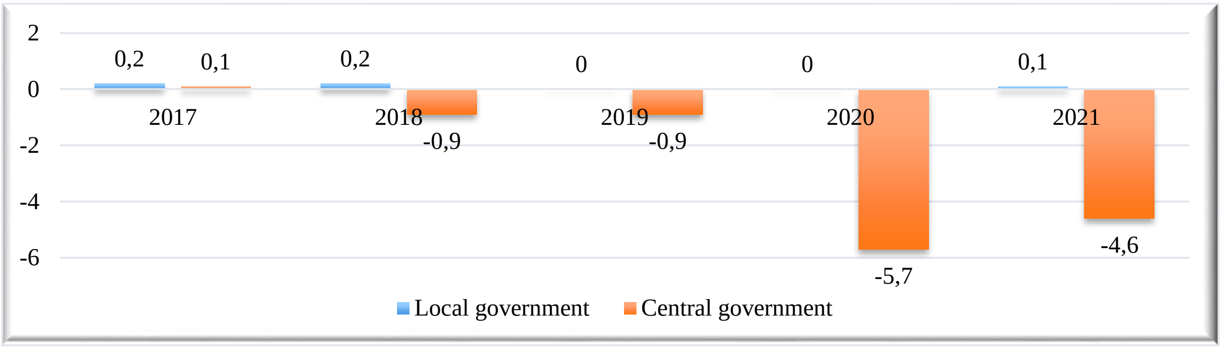

Figure 4. Net lending/ net spending at local and central governments for the EU27 countries for the period 2017-2021, GDP percentage
Source: Eurostat database

From a factual point of view, we can discuss about a "masked" local budget deficit, which is visibly transposed into the central budget balance, as it is shown in Figure 4. Apparently, local balance remained unaffected during the pandemic crisis, while the central balance decreased consistently to -5.7% of GDP in 2020 and -4.6% of GDP in 2021. In a similar manner, local debt was less impacted as well, recording insignificant increases in the pandemic years, while the debt at the level of central budgets increased more consistently (Figure 5).

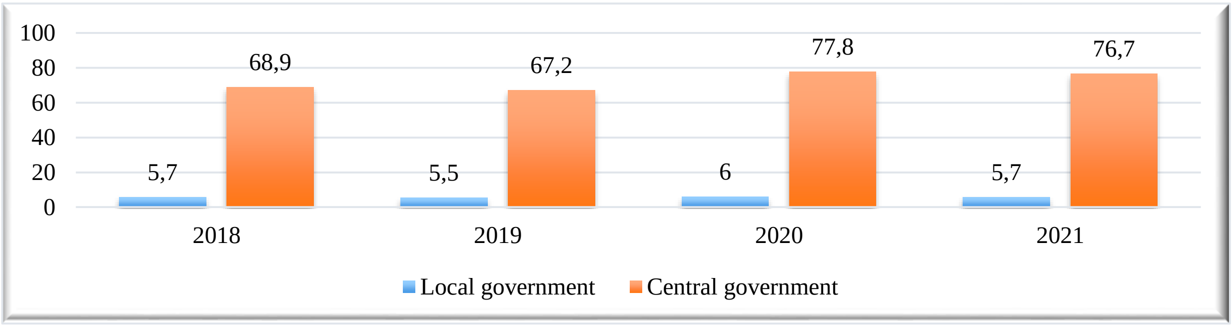

Figure 5. Public debt at local and central governments for the EU27 countries for the period 2017-2021, GDP percentage
Source: Eurostat database

Normally, the management of unforeseen emergency situations must be carried out locally from the established reserve fund and/or through the making of loans. Compensation transfers from the central level should be carried out at most in a spirit of solidarity, where possible, on the principle that local budgets operate on an autonomous basis established by the central level, therefore under its "direction", which could constitute an argument to benefit from financial support when needed but not with a mandatory title. Otherwise, it is encouraged the operation of local budgets on the principles of decentralization, financial autonomy, and self-governance, precisely for the achievement of a healthier and more solid financial management, able to respond more efficiently to the needs of communities both in normal periods and in periods of crisis and uncertainty, but also with the reason of relieving the central government of the "obligation" to intervene so consistently financially in extraordinary situations, which ultimately lead to the increase of the total public debt, as happened when crossing the recently manifested pandemic crisis. An additional reason is that anyway, this financial support granted from the central level was not sufficient to finance the health and social protection needs produced by the pandemic crisis. Therefore, it is required that the local authorities have tools and techniques to manage the emergency situations and the central level compensate beyond these where it is necessary.

INSTEAD OF CONCLUSIONS - MAIN LANDMARKS OF A BUDGETING STRATEGY IN CONDITIONS OF UNCERTAINTY

The governors must record each crisis that materializes in order to clearly maintain some sort of history concerning the specific effects of each crisis on the economy and the budget. It must contain the most notable events with an impact on the budget and those that took them by surprise the most, information about the fiscal position at the start of the crisis and during it compared to the fiscal position that would have been the most favorable, what measures they took, and what measures would have been the most appropriate for navigating the economic turbulence and shocks as smoothly as possible s.a. With respect to this information about the manifestation of the crisis, it might be used to design the budget project for a fiscal year and for the multiyear budget project, as well as to prepare applicable scenarios of budget projects for situations when the economy evolves better or worse compared to the forecasts made. The recommendation is primarily based on the fact that economic crises are cyclical and depend on the economic cycle, as well as the fact that other shocks and natural disasters, pandemics, etc., can now occur. As a result, there is a high risk that budgets will need to be managed more frequently under uncertain circumstances.

Regarding local budgeting, all recommendations for a local budgeting plan in uncertain circumstances should be focused, first and foremost, on enhancing local financial autonomy and the capacity of local territorial entities to govern themselves. We can only explore methods for local budgeting under problematic circumstances based on these premises. Briefly, in order to increase local financial autonomy and the efficiency of local public spending, the following measures should be mainly encouraged to:

- ❖ Establishing stable and predictable sources of income for financing of the decentralized public competences, including the objective support for inter-administrative transfers;
- ❖ Objective substantiation of local expenditures, and to eliminate those that are mandatory, including optimization (minimization) of service delivery cost;
- ❖ Existence of an optimal ratio between current and investment expenditures;
- ❖ Optimizing the ratio of fiscal revenues: taxes with a mobile base vs. taxes with an immovable base, direct taxes vs. indirect taxes, considering the specific characteristics of each category;
- ❖ Variety of fiscal bases: special charges and fees for special services, s.a.;
- ❖ Measures to combat tax evasion by strengthening fiscal institutions (sustainable, transparent fiscal burden) and making efficient use of public financial resources;
- ❖ Coherent and long-term investment programs;
- ❖ Development of public-private partnerships and municipal and regional associations;
- ❖ To make loans only for investment expenses etc.

In order to deal with times of crisis and incertitude, local budgeting should:

- ❖ Follow a counter cyclical fiscal policy - to increasing fiscal space in times of economic growth in order to sustain higher expenses and income losses during downturns;
- ❖ Establish budget reserve funds for times of crisis, uncertainty, and natural calamities during economic expansion. Substantial reserve funds with clear and consistent criteria for distributing and allocating public financial resources are essential to facilitate a smooth transition out of difficult economic circumstances;
- ❖ Adopt and implement multiannual budget strategies;
- ❖ Design of disaster recovery plans in advance;
- ❖ Align the fiscal structure with the local economic structure;
- ❖ Call for loans in crisis conditions etc.

To improve the technical methods of budgeting, we mention: the digitalization of public services, where it is feasible (mainly based on the method of self-service delivery), and powerful data analysis tools, which should allow the monitoring and prognosis ideally in real time to enable the capacity of *rebudgeting*, meaning the capacity of a rapid re-assess of the budgeting goals.

From a larger viewpoint, we may mention, among other actions that might result in raising the resilience of local budgets: enhancing institutional functionality (particularly on the fiscal side), implementing structural changes, perfecting the legislative act, etc.

Moreover, under the idea of increasing the robustness of local budgeting, we might consider enacting a legislative standardization of some *budgeting governance rules*, which would materialize the principles of good governance in the form of qualitative indicators of local budgeting, such as: sound local fiscal management, predictability of local funding sources, local government effectiveness, (fiscal) regulatory quality, local budgeting transparency, public accessibility of data, long-term vision, competence and capacity, political stability and consensus, responsibility and open discussion between policymakers, control of corruption, etc. These last recommendations also represent a future direction of research in order to document a budget process model and good practices with benchmarks related to uncertainty.

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