

OPTIMISATION OF ESTABLISHING REVENUES OF LOCAL BUDGETS

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Abstract

In the elaboration of local budgets, the substantiation of revenues occupies a very important place because their exact quantification for the following year depends on the financing of public services during the respective period. The substantiation of revenues from local budgets must be based on an appropriate informative system, real data and must reflect the real financial situation of local communities. In other words, the income assessment must have a correspondent in the real possibilities of achieving them. Among the factors that determine the volume of revenues from local budgets we also identify some subjective ones, including processes with random or unpredictable action that occur during the budget year. This paper aims to analyse the substantiation of revenues from local budgets but also to identify solutions in order to optimize this process. The scientific approach begins with the presentation of the methods of substantiating the revenues from the local budgets that apply in Romania: the automatic method, the method of increasing (decreasing) and the method of direct evaluation. The gist of the paper is the presentation of the substantiation of the main public income groups that are included in the local budgets: substantiation of own revenues, substantiation of quotas broken down from income tax, substantiation of the amounts broken down from some revenues from the state budget, substantiation of subsidies, etc. The research carried out under this article concludes that in order to improve the substantiation of revenues that are included in local budgets, together with the method of direct evaluation, statistical methods of econometric type or mathematical could be also used.

Keywords: *local budget; local public revenue; establishing; the elaboration of local budgets; own incomes.*

JEL classification: *H71, H83*

I. INTRODUCTION

Local budget process, defined as a legally staged set of integrated and convergent oriented activities and operations (Ştefura, 2010) including the elaboration of the draft budget, its adoption, budget execution, the conclusion and approval of the budget execution account and the budgetary control are carried out in a constitutional and administrative-institutional framework that presents particularities from one country to another. The elaboration of the local budget projects can be considered fundamental (Voinea, 2011) because the analysis and projection of the revenues and expenses for the following year depends on the financing of the public services during the respective period.

Forecasts of financial resources and their use are an essential step in drawing up local budgets, depending on the projected level of revenue, generating a whole series of expenses underlying the operation of public services of local interest (Oprea & Cigu, 2013). Thus, the overestimation of resources will not ensure the financing of public services during the budget year because it is not carried out at the provided level, resulting in the non-coverage of the expenses provided in the local budget. On the other hand, the underestimation of revenues at the stage of drafting the local budget is likely to limit the capacity of a local public authority to provide public services. The substantiation of the revenues of the local budgets is made starting from the strategic development objectives and from the local priorities.

The purpose of this article is to analyse and deepen the way of substantiating the public revenues from the local budgets in Romania as well as to identify an optimal method of substantiating them.

II. METHODS OF ESTABLISHING REVENUES FROM THE LOCAL BUDGETS

Among the factors that influence the volume of budget revenues are some of a subjective nature, including phenomena with random or unpredictable action in the phase of preparation and approval of the local budget. Also, the amounts that are foreseen at the income and expenditure parts of the local budgets are the expression of the processes of economic and social development. The main authorizing officers shall draw up and present together with the annual draft of

the local budget an estimate of the budgetary indicators for the next three years, as well as the detailed investment program by objectives and by years of execution.

Revenues that are foreseen in local budgets are based on different methods depending on certain factors that influence them from one budget year to another (Voinea, 2011). The local public authorities in Romania use the following methods for substantiating the revenues of the local budgets: the automatic method, the method of increasing (decreasing) and the method of direct evaluation.

Based on the automatic method, the revenues provided in the draft local budget for the following year are determined according to the revenues collected in the second to last year. This is because the definite achievements of the current year's budget (t) are not yet known when drawing up the draft budget for the following year. The automatic method is simple, does not involve complex calculations, but it is very far from reality, as the economic conditions, social and political existence existing two years ago cannot be maintained even during the period for which it draws up the draft local budget.

In the literature (Ichim, 2021), (Cigu, 2011) it is estimated that in Romania the application of the automatic method „cannot lead to a correct substantiation of the revenues and expenditures that will be included in the local budgets due to legislative changes regarding taxes and income taxes, the frequent adjustments of the state budget by which the amounts transferred to local budgets are reduced or increased, the inflation rate, the behaviour of taxpayers, etc”.

The method of increasing (decreasing) assumes that the revenues provided for in the draft local budget result from the evolution (trend) of revenues over a certain period of time (five years or more) for which the rate of median annual growth (or decrease) of budget revenues . With this view of the evolution of revenues, the level of revenue of the local budget for the year for which the draft budget is drawn up shall be determined. The major disadvantage of applying this method is that the influences of new factors cannot be captured and some negative influences of some factors from previous periods remain.

Automatic and increased method (decreasing) (Văcărel, 2001) do not correspond to a modern budgetary practice, whose main requirement is the most realistic assessment of the needs and possibilities of procuring public resources, being inefficient in periods of economic instability and increased monetary depreciation. These methods have given way to the direct evaluation method for substantiating local budget revenues.

The direct evaluation method involves performing calculations for each source of revenue from local budgets. For this purpose, the degree of tax collection from the local budget for the current year and the economic and social forecasts for the following financial year shall be considered. In estimating the revenue for the next year's budget, the aforementioned calculations shall be taken into account based on their level for the current year, which is corrected according to legislative changes on local taxes and fees and other revenues from local budgets. The influence of economic, social and political factors as well as the international situation are also taken into account.

The substantiation of public revenues from local budgets is made in close correlation with the inflation rate and with the predictable level of the exchange rate of the national currency in the year for which the local budgets are elaborated.

Although considered to be closer to reality, the direct evaluation method does not provide an accurate substantiation of budget revenues, requiring their corrections during the year. Although it requires more workload, this method has the advantage that it offers the possibility to substantiate the revenues of local budgets based on more complete information and allows to take into account factors of direct influence over them, reducing the degree of approximation, but without ensuring an exact quantification.

Some authors (Oprea & Cigu, 2013) consider that the approach to a more accurate quantification is related to the use of scientific methods and the ability of local public authorities to correctly identify specific influencing factors and their size by virtue of autonomy of manifestation that they have, demonstrating a high degree of professionalism in managing public money.

Although this method of substantiating the revenues of local budgets is the most accurate, in the local budgetary practice in Romania not all local public authorities apply it, which determines either the underestimation or overestimation of revenues with negative consequences on the development of the local budget process. In our opinion, in order to improve the substantiation of revenues that are included in local budgets together with the method of direct evaluation, it will be of great benefit the use of statistical methods of an econometric or mathematical type but only which are clear and simple, to be based on the information from the records of the local administrations and to be easily applied by the workers from the specialized departments of the local public authorities.

III. SUBSTANTIATION OF LOCAL BUDGET REVENUES

According to the legal provisions of the Administrative Code ([Government of Romania, 2019](#)), the territorial administrative units have the right to own resources that the local public administration authorities manage, according to their attributions under the law. These financial resources must be proportionate to the powers and responsibilities of local public administration authorities. In order to ensure local autonomy, the deliberative authorities of the local public administration have the right to establish and collect local taxes and fees, to approve the local budgets of the administrative-territorial units.

The establishment, observation, imposition, fiscal inspection, collection, prosecution and enforcement, as well as the procedures for administering local budget claims are carried out in accordance with the law. The local public administration authorities manage or, as the case may be, have the financial resources, as well as the public or private property of the administrative-territorial units, in accordance with the principle of local autonomy.

According to the legal regulations in force ([Romanian Parliament, 2006](#)) local budgets include an operating section and a development section. The section of operation corresponding to the part of the income represents the basic part which includes the revenues necessary to finance the current expenses for the realization of the competencies established by law.

The revenues of the operating section consist of the following components:

- a) own income, from taxes, income tax, contributions, payments, other income and quotas broken down from income tax, excluding income from the capitalization of certain goods, the amounts representing the amortization of fixed assets and the amounts related to special deposits for housing construction;
- b) own revenues of local public institutions financed in whole or in part from own revenues;
- c) subsidies for financing current expenditure;
- d) amounts broken down from some state budget revenues to finance current expenditures;
- e) loan income granted to local public institutions and services or activities fully financed from own revenues;
- f) payments from the operating section for financing the development section, which is reflected with negative value.

The development section represents another part of the local budgets that includes the revenues and capital expenditures related to the implementation of development policies at national, regional, county, zonal or local level.

The income of the development section is as follows:

- a) payments from the operating section;
- b) amounts resulting from the capitalization of goods, amounts representing the amortization of fixed assets and amounts related to special deposits for the construction of housing;
- c) subsidies for capital expenditures; d) amounts broken down from some state budget revenues to finance capital expenditures;
- e) amounts received from the European Union and / or other donors on account of payments made and pre-financing.

This classification of local budget revenues followed their grouping by destination, namely, to finance operating expenses or to cover capital expenditures. Grouping the revenues of local budgets in revenues of the functioning section and revenues of the development section, in our opinion, it is criticisable because it does not take into account the specifics of investment projects that also involve operating expenses throughout the life of the objective achieved. The rule that should be applied would be to cover current expenditure and capital expenditure from current income to be financed from capital income. This separation of revenues is complex and creates confusion as to the mechanism of mutual transfers of incomes ([Ichim, 2016](#)).

The substantiation of the own revenues of the local budgets is based on the evaluation, establishing and inventory of the taxable material and of the tax base according to which the related taxes and fees are calculated, evaluation of the services provided and of the revenues obtained from them, as well as on other specific elements. Estimating local budget revenues involves analysing revenue collection from the previous period, as well as estimating the impact of changes in the income tax base, such as increase rates within the established limits of local taxes and duties.

The substantiation of the proposals from the income part of the local budgets requires the inventory of the taxable material, the elaboration of a list of the incomes not collected in the previous year. Donations and sponsorships are included by local budget rectification in the budget of revenues and expenditures only after their collection.

According to the budget classification, own revenues are grouped into current fiscal and non-fiscal revenues, capital revenues, various revenues and quotas broken down from income tax. Current income consists of tax revenue which may be direct taxes (building tax, land tax, taxes on means of transport due by natural or legal persons, etc) and indirect taxes (entertainment tax, hotel tax, court stamp duties, etc.) and non-fiscal current income (payments from the net profit of subordinate autonomous utilities, income from the recovery of costs, imputations and compensations, income from fines and other sanctions applied, income from concessions and rentals, etc.).

If the degree of realization of own revenues scheduled in local budgets ([Government of Romania, 2010](#)) in the last two years is less than 97% per year, main authorizing officers substantiate their own revenues for the current year at most at

the level of the previous year's achievements. The degree of realization of own revenues is established according to the methodology approved by common order of the Minister of Administration and Interior and of the Minister of Public Finance, after prior consultation of the associative structures of the local public administration authorities.

The capital revenues that are included in the local budgets are the amounts coming from the capitalization of some goods of public institutions, from privatization, from the sale of some goods belonging to the private domain of the administrative-territorial unit, income from the sale of homes built from state funds.

From the various income category, we list: income from the amortization of fixed assets, income from special taxes, the contribution of individuals and legal entities to the achievement of objectives of public interest, etc.

The share broken down from the income tax that belongs to the territorial administrative unit established by law, of 41.75% respectively to communes, cities, municipalities, 44.5% to the own budget of Bucharest, 20% to the budget of the sectors of Bucharest municipality and 11.25% to the county's own budget, quotas that through the laws of the state budget have undergone changes.

Law no. 273/2006 on local public finances ([Romanian Parliament, 2006](#)) includes income tax rates in the category of own income along with taxes, taxes, contributions, payments and other local income, which allows:

- more easily highlight the revenues of local authorities that are taken into account when determining the respective leverage capacity of 30% of own revenues;
- joining into a single category all those revenues which may constitute sources of guarantee of loans contracted by the territorial administrative unit or by economic agents and public services under their subordination.

Although this income is included in the own revenues of the territorial administrative units, the revenue of the state budget on which the local public administration authorities do not have control over the establishment and transfer of the amounts due remains. Thus, the local public authorities cannot enforce them in case of non-payment because the legal provisions stipulate that these amounts can be forcibly executed only by the Ministry of Public Finance.

This ministry also provides tax facilities, postponements, rescheduling, reductions or income tax exemptions to taxpayers for the full amount due without consulting the public authorities to which parts of these taxes had to be paid and whose budgets are reduced through these measures. We consider that in order to increase the revenues from this source and to stimulate the local public administration authorities to aim at increasing the amounts collected from these quotas, it is necessary to modify the legal regulations in order to grant powers control of local public administration authorities and for this income.

Amounts broken down from some state budget revenues are another category of local budget revenues granted to finance responsibilities transferred to local public administration authorities, as well as to balance local budgets, amounts that are established annually by the state budget law.

The distribution of the amounts broken down from some revenues of the state budget destined to balance the local budgets is made by counties according to the following criteria:

- 70% of the amount depending on the financial capacity determined based on income tax collected per capita.
- 30% of the amount depending on the area of the county.

Of the total amount distributed by the county, through the annex of the annual law approving the state budget, 27% is allocated for the own budget of the respective county, and the difference is distributed on localities inside the county.

For the equitable distribution of balancing amounts to local budgets, ([Romanian Parliament, 2006](#)) certain criteria were established by law, respectively:

- population of the territorial administrative unit;
- the surface of the territorial administrative unit;
- financial capacity;
- income tax calculated at the level of the administrative-territorial unit.

We consider that the way of allocating the quotas broken down from the income tax as well as the quotas and amounts broken down from some revenues of the state budget provided by the law on local public finances must be reviewed.

First, we propose the exclusion of the County Council from the process of allocating funds for balancing in order to avoid their distribution based on vague criteria, which make it extremely easy to manifest arbitrariness and political influence. Thus, the redistribution competence from the county level to the local budgets should remain exclusively the responsibility of the County Public Finance Administrations and the General Directorates of Public Finance.

Secondly, the distribution formula needs to be revised by introducing weighting parameters such as the population under 18 and the elderly population over 65. This formula disadvantages cities, communities with a high average per capita income tax, because it does not participate in the first stage of the distribution but only the administrative-territorial units whose average income tax per capita, collected in the year preceding the calculation year, is lower than the average income tax per capita, collected on the county in the year preceding the calculation year. It is discouraged to attract own resources to local budgets by stimulating poverty, without differentiating the causes of poverty due to lack of resources or lack of concern

of local public administration. Amounts allocated to an administrative-territorial unit should be affected (by reducing) by non-revenues from local taxes and duties or by lowering standard or average levels of local taxes and duties.

Another deficiency of the formula is the measurement of the financial capacity of the villages whose inhabitants carry out agricultural activities that generate non-taxable incomes. Their non-reflection in the calculation of the financial capacity at the level of that administrative-territorial unit makes the current formula of budgetary balancing to disadvantage such localities.

Thirdly, the distribution formula must be strictly observed and applied each year, to determine a degree of predictability of local budgets and a greater responsibility of local authorities in collecting their own revenues. In this context, we refer to the laws of the annual state budget by which derogations from the provisions of art. 32 and 33 of the Law on Local Public Finance (Romanian Parliament, 2007), (Romanian Parliament, 2018), (Romanian Parliament, 2022).

Another category of revenues that fall into the local budget project are the consolidating transfers for local budgets that are granted for investments financed from external loans in which the Government also participates. According to the law, transfers from the state budget are approved annually, in a global position, by the state budget law. In our opinion, the rationale for consolidating transfers to local budgets is incorrect because the amount of these amounts should be determined based on viable local government projects reflected in the locally drawn up investment program which provides all the necessary information in this regard: sources and funding schedule, value, cost-benefit analysis, execution deadline, etc. In practice, however, transfers are approved only for new investment objectives, financed from external loans to which the government also contributes without aiming at the investment objectives whose financing is provided from local budgets. There is thus a debt distress of local authorities to finance investments that are not subject to government approval, with negative effects on local budgets.

Revenues from the state budget are also subsidies from the state budget (subsidies for financing the rights granted to people with disabilities, subsidies for real estate cadastre works, etc.) and grants received from other budgets (to support the protection system and the rights of the child, to finance temporary employment programs).

In order to substantiate revenues from taxes, taxes and other local revenues, local public administration authorities must also take into account:

- The degree of collection of the respective revenues in the periods prior to the budget year for which the budget is based, elaborating an analysis of the causes that led to the respective collection level. We can see that there is on the one hand a high degree of collection which, in turn, can be determined by a low taxation, which leads to the conclusion that there are still reserves for income supplementation and on the other hand a low degree of collection that can indicate either tax evasion or too much taxation.

- The level of taxation—when determining the level of local taxes and income tax must be taken into account and the short, medium and long-term objectives of those authorities. Important for establishing the taxation at the level of a locality is the calculation of the degree of taxation determined as a ratio between the level of taxation and the level of salaries.

- Quantifying the influence of the inflation level. In this sense, the Fiscal Code (Romanian Parliament, 2015) provides that „*In the case of any local taxes or fees, which consists of a certain amount in lei or which is established on the basis of a certain amount in lei, the respective amounts are indexed annually, by 30 April by local councils, taking into account the inflation rate for the previous fiscal year, communicated on the official websites of the Ministry of Public Finance and the Ministry of Regional Development and Public Administration*”. The amounts thus indexed shall be approved by a decision of the local council and shall apply in the following fiscal year. At the level of Bucharest, this attribution belongs to the General Council of Bucharest.

IV. CONCLUSIONS

The scientific approached and carried out in this article allows us to draw conclusions that local public authorities should take into account in the process of substantiating the revenues of local budgets.

Given the existence of local autonomy, the elaboration of budgets is made starting from the budgetary policy promoted by the management of the respective administrative-territorial unit. Local authorities need to draw up a budget in which spending should not be underestimated or revenue overestimated. Thus, the correct substantiation of budgetary indicators must be the essential goal in the elaboration of local budgets. We find that the size of local budget revenues depends on the tax base according to which local taxes and fees are calculated, revenues obtained from the provision of local public services but also from the size of transfers from the state budget. Also, the substantiation of the revenues of the local budgets implies the analysis of the collection of revenues from the previous period, as well as the estimation of the impact of some changes in the income tax base, such as increase rates within the established limits of local taxes and duties. But along with these factors, some subjective ones also appear, including phenomena with unpredictable action, which determines that the substantiation of revenues that are included in local budgets becomes a difficult process and laborious.

Budgetary practice has made progress on methods of substantiating revenues from local budgets by codifying the automatic method, the method of increase or decrease and the method of direct evaluation. We appreciate that in Romania the direct evaluation method should be used because it has the advantage of substantiating the revenues of local budgets based on more extensive information and allows taking into account some factors direct influence on them, decreasing the degree of approximation compared to other methods. In addition to using this method, statistical methods of econometric or mathematical type could be used but only which are clear and simple, to be based on the information from the records of the local administrations and to be easily applied by the workers from the specialized departments of the local public authorities.

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