THE ANALISYS OF LOCAL BUDGET PERFORMANCE IN TERMS OF REVENUE AND EXPEDITURE

COZMA ION
PHD, „1 DECEMBRIE 1918" UNIVERSITY OF ALBA IULIA, ROMANIA
ioncozma48@yahoo.com
JAPALAU SVETLANA
PHD, ACADEMY OF ECONOMIC STUDIES OF MOLDOVA, REPUBLIC OF MOLDOVA
svetlana.japalau@outlook.com
TIRAU ADRIAN
PHD, „1 DECEMBRIE 1918" UNIVERSITY OF ALBA IULIA, ROMANIA
tirauadrianioan@gmail.com
PUSCAS SORINA ANCUTA
PHD, „1 DECEMBRIE 1918" UNIVERSITY OF ALBA IULIA, ROMANIA
ancuta1604@yahoo.com

Abstract

Measuring the performance of local government is about ensuring sustainable government for the benefit of citizens. The importance of the subject is highlighted by the multitude of research carried out with the aim of identifying and testing the most accurate indicators that would show a clear picture of future management actions. This article deals with theoretical and practical aspects of budgetary performance, the indicators that can be taken into account, and its measurement at the level of local entities. The budget being the main tool at local and central level that highlights all planned and executed revenues and expenditures, it can be a tool for analysis and debate in order to promote economically efficient local services with an appropriate social impact. This article aims to analyse performance through the prism of budget indicators, i.e. revenues and expenditures of local entities in order to demonstrate the importance of the two indicators mentioned above. The scientific approach will be based on the analysis of the two indicators over a ten-year period at the level of a local government.

Keywords: *Financial performance, local budget, income, expediture, sustainability.*

Classification JEL: *H2, H6, H7, R51.*

1. Introduction

Public sector performance is a subject that is widely analyzed in the 21st century. Public entities are faced with an important and responsible exercise to generate performance through its daily activities. The services they provide must meet certain requirements in terms of management, organization and finance.

The local public administration is responsible for organizing the smooth running of the administrative-territorial unit. It is also responsible for ensuring a high level of economic sustainability through good management of public finances. Local government budgets are planned in such a way that citizens are provided with quality services in their interest. Most of the time, the budgets of administrative territorial units are very tight and the community needs many services, which puts pressure on local and central entities.

The main economic tool for forecasting revenues and expenditures of public entities are local budgets. Danuletiu believes that the budget appeared as a document for the presentation and approval of state revenue and expenditure. The budget reflects the means by which the state procures and uses the resources necessary to cover its expenditures, and the essence of financial planning is the establishment of strict control by the legislative authorities over the work of the executive authority, the rationale for budgeting being predominantly political in nature [1]. In the same context, the revenue and expenditure budget has often been defined as a financial planning tool, which forms the basis for decisions by public managers [5].

2. Research Methodology

To achieve the objectives proposed in this research we will apply several methods.

The documentation method is one of the most important methods through which we will analyse the concepts of: management, performance, budget, income, expenditure, etc. We used this method to consult working documents, articles, publications and specific information databases.

The main research questions are about budgetary performance at local level. What is the evolution of the revenue/expenditure ratio and its influence on the forecasting exercise for future years.

The scientific approach to research is based on the study of specialized literature. To support the theoretical research, we will analyse evolution of the number of inhabitants of Leova, Republic of Moldova in relation to the average total income per capita, and average total expenditure per capita. In the same context we will analyze the revenues and expenditures of Leova City Hall for the period 2009-2019. The theoretical content discussed in relation to the proposed practical results will lead to a better understanding of the budget performance in relation to the revenue and expenditure of administrative-territorial units.

3. Findings

3.1 The budget as a tool for planning the income and expenditure of public entities

In carrying out its complex and multiple tasks, local government needs significant resources. Given that most of the services provided by these institutions are not provided in return for direct payment by the beneficiaries, all expenditure is financed from resources collected by the public authorities from their taxpayers through taxes and charges. The typology of these resources entails the need for responsible and efficient use, which translates into financial performance. The analysis of the economic performance can be done by having a clear picture of all expected and executed revenues and expenses at the end of the year. This monitoring tool is the budget.

The public budget is the instrument through which public finance activities are planned and carried out, the public budget being the instrument of programming, execution and control over the results of the execution of society's money resources and the way they are allocated and used through public expenditure. The public budget influences the economic and social activity of the country and it's an instrument of financial policy [3].

Danuletiu explained that in contemporary economic theory and practice, the public budget is the synthesized expression of the economic relations manifested in the processes of formation and use of the main centralized fund of state funds and funds of administrative-territorial units, in order to finance activities aimed at increasing the quality of life, activities related to the economic development of the country, expansion and improvement of infrastructure, national defense, public order and law [1]. Another theorist considers that the budget is the basic document, with the force of law, which establishes, on the one hand, the type and volume of budgetary allocations to be directed by the state to finance various activities during a year [6].

The role of the local budget is to ensure the financing of actions, tasks and objectives of local interest. Where the own revenues of local public entities are insufficient to cover their expenditure, local budgets may benefit from balancing resources from the state budget in the form of sums deducted from certain taxes or transfers to finance precisely defined objectives [2]. In the same context, local budgets can benefit from sources of financing in the form of investment loans from banks or the capital market, temporary loans from the state treasury to cover cash shortages, sponsorships or donations.

3.2 Local government revenue and expenditure - methods for forecasting performance. Case study: city of Leova

The revenue and expenditure budget is defined as a financial planning tool and has been the basis for decision-making by public managers. This is where the planning of financial resources comes up against the use of resources, especially for the provision of public services of the highest quality and in conditions of continuity and permanence, provided in the interest of citizens.

In the context that the Republic of Moldova is a post-Soviet state that is constantly developing and adjusting its legislative framework to European values, the existing local needs for a decent living are enormous and the state budget must be managed in the interest of the citizen by ensuring a high degree of local economic sustainability. In order to be able to refer to the degree of sustainability of the activity of the local entity, we start our scientific approach by highlighting the evolution of the population of Leova in the period 2009-2019. The city of Leova is located in the south-west of the Republic of Moldova, 100 km from the capital Chisinau.

In the figure no. 1 we see that between 2009 and 2019, two censuses were held in the Republic of Moldova, one in 2009 and the other in 2014. Thus, in the period 2009-2013, according to the census there were 14510 inhabitants, and since 2014 it has decreased to 11400 inhabitants. We believe that this drastic decrease in population was also influenced by the political and economic situation. Lack of jobs was the main reason why people decided to emigrate abroad.

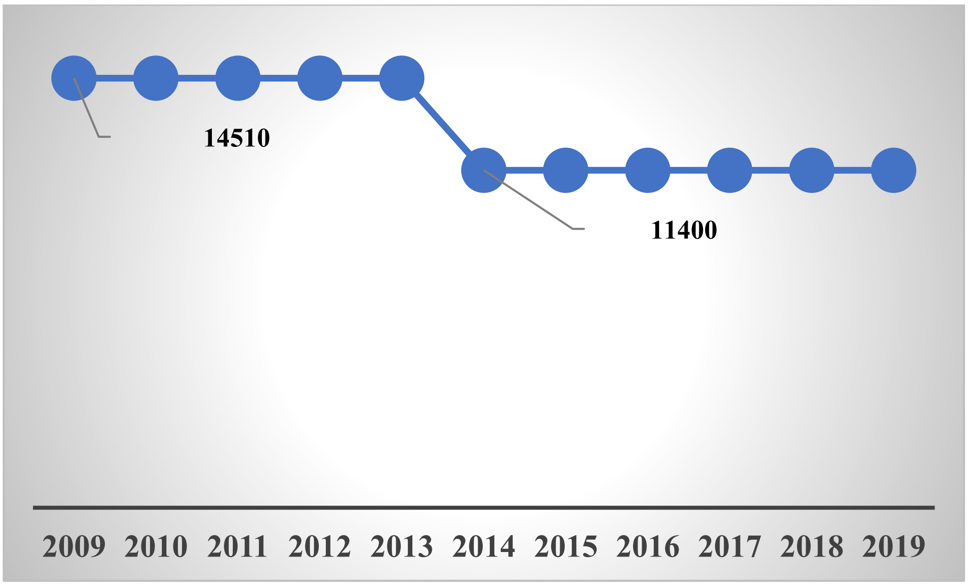

Figure no.1. The evolution of the citizens of the city of Leova

Source: designed by the author, on basis of the data extracted from http://localbudgets.viitorul.org/

Leova's revenues are modest, in some cases very low. We note that they are made up of transfers, special means, own revenues and revenues from the State Budget. It should be mentioned that we have analysed the data of the Leova City Hall for the period 2012-2019 because we did not find data for the period 2009-2011.

One item that falls under the revenue category is transfers. These are made up of transfers to local government level I for special purposes, i.e. for pre-school, primary and secondary education, transfers for sports schools, transfers for road infrastructure, and other transfers.

In terms of transfers, Leova City Hall had very small amounts for 2012 and 2013, when the total amount did not exceed 580 thousand lei. In 2014 an amount of 1.72 million lei was recorded. The year 2015 saw a record amount of transfers, namely 10.0 million lei. For the period 2016-2019, the transfers chapter and the special means chapter have been merged, which has led to the total of these amounts being identified in the budget. However, the minimum for the period 2016-2019 was recorded in 2016 with 1.26 million lei and the maximum of 1.60 million lei. The average income of the Leova City Hall in the period 2012-2019 was 2.31 million lei.

The chapter of special means is represented by the income obtained from the provision of services against payment, as well as the payment for the return of public property, means derived from the provision of services in the framework of compulsory health insurance [4].

In the period 2012-2019, Leova City Hall recorded revenues of minimum 398.90 thousand lei in 2013, maximum 1.60 million lei in 2019, but this includes both revenues from special means and transfers. For the period 2012-2015 the average income from special means was 584,09 thousand lei. For the period 2012-2019 the average revenue is 1 million lei.

Under own revenues are those payments that come to the budget of administrative-territorial units from fines and administrative sanctions, land tax, real estate tax, private tax, payment for land rent, market tax, land use tax, tax for entrepreneurs' patents, tax for sanitation, tax for commercial or service establishments.

The percentage of own revenue (Table no. 1) is very low compared to the other chapters. In 2012 it was 20.07%, in 2013 it increased to 27.90%, in 2014 and 2015 it decreased by 2% and in 2016 it increased to 32.58%. The years 2017 and recorded about 18%. In the year 2019 the own income ratio increases again to 24.67%. The minimum own income was recorded in the year 2017 and the maximum in the year 2016.

Table no. 1. Own income in relation to Total income per year, in %

Year	2012	2013	2014	2015	2016	2017	2018	2019
Own income in relation to total income	20,07	27,90	24,68	22,44	32,58	17,09	18,27	24,67

Source: designed by the author, on basis of the data extracted from http://localbudgets.viitorul.org/profile/1562/2015

The State Budget Revenue chapter includes other taxes on income and tax on income from wages and salaries.

The State Budget revenues (Table no. 2) have been recorded in amounts that vary from year to year. If up to 2015 revenues of up to 7 million lei were recorded, since 2016 the amount has increased significantly to 28 million lei. The minimum was 2.26 million lei in 2015, the maximum 28.16 million lei in 2017. We must point out that once the revenues from the State Budget increase considerably, we can talk about the inability of the administrative-territorial unit to ensure sustainability and support itself.

Table no. 2. The revenues of Leova City Hall for the period 2012-2019

	2012	2013	2014	2015	2016	2017	2018	2019
Transfers	574,20 mii	519,50 mii	1,72 mil	10,00 mil	1,26 mil	1,48 mil	1,39 mil	1,60 mil
Special means	623,70 mii	398,90 mii	670,89 mii	642,89 mii				
Own income	2,01 mil	2,33 mil	3,17 mil	3,82 mil	5,54 mil	6,11 mil	6,50 mil	6,91 mil
State Budget Revenue	6,80 mil	5,10 mil	6,78 mil	2,26 mil	10,20 mil	28,16 mil	27,67 mil	19,49 mil
TOTAL INCOME BY YEAR	10,01 mil	8,35 mil	12,84 mil	17,02 mil	17,00 mil	35,74 mil	35,56 mil	28,00 mil

Source: *designed by the author, on basis of the data extracted from* http://localbudgets.viitorul.org/profile/1562/2017

In our approach, we analyzed the average total income of Leova in relation to the number of inhabitants. In the fig. no. 2 we see that in the period 2009-2015 the average income per inhabitant did not exceed 1200 lei. A considerable success in terms of income is recorded in 2017 when 3135 lei is recorded, as well as in 2018 the income per inhabitant remains at 3207 lei. The year 2019 registers a slight decrease in the total income of the city in relation to each inhabitant, thus 2456 thousand lei was registered.

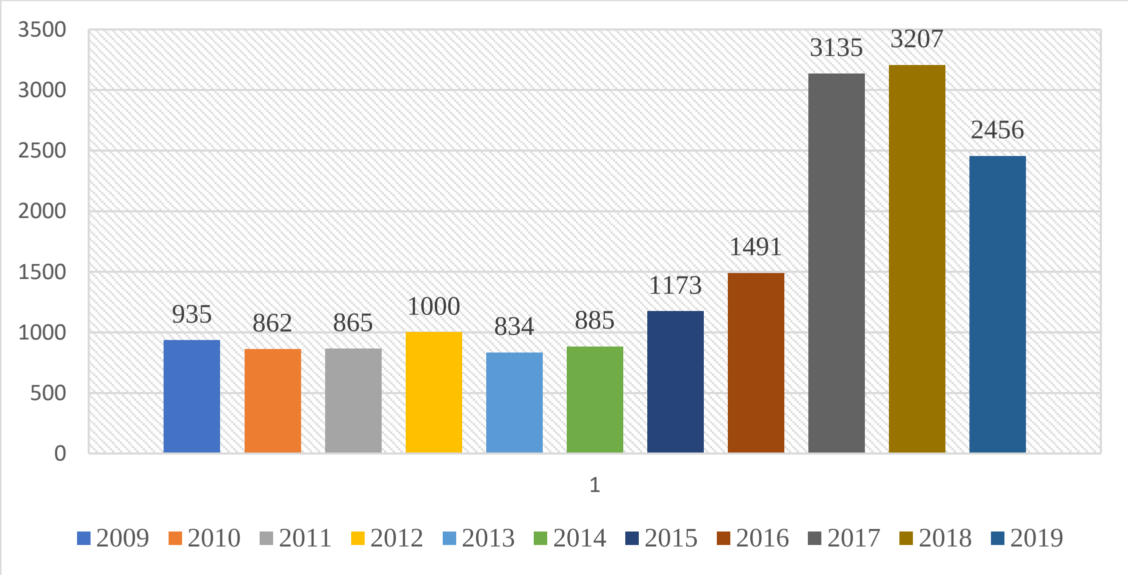

Figure no.2. The average total income of Leova per capita in Lei
Source: designed by the author, on basis of the data extracted from http://localbudgets.viitorul.org/profile/1562/2017

Another important indicator in the analysis of the budget is the expenditure side. The expenditure of the administrative-territorial units of the Republic of Moldova is broken down by chapters. The first chapter is general-purpose state services, another chapter is activities and services not allocated to other main groups. This category includes local government reserve funds and expenditure not allocated to other groups. An important aspect is the housing and communal services household represented by pre-school, secondary and other educational institutions and activities. Another chapter in the expenditure category is culture, sport, youth, worship and leisure. The chapter with the highest expenditure but which is important for the development of local communities is education. Two other areas of expenditure at local level are social protection and transport, road management, communications and IT.

Leova City Hall has recorded expenditure for the period 2009-2019 that varies from year to year. The least money was spent in 2013, i.e. 14.50 million lei, and the maximum was reached in 2017, 2018 when the territorial administrative unit spent 37.13 million lei and 37.46 million lei respectively (Table no. 3). It is to be appreciated that the expenditure decreased in 2019 recording 28.49 million lei.

Table no. 3. The Expenditure of Leova City Hall

- *Millions Lei* -

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Expenditure of Leova City Hall	18,44	22,56	21,80	25,12	14,50	15,72	16,04	16,66	37,13	37,46	28,49

Source: designed by the author, on basis of the data extracted from http://localbudgets.viitorul.org/profile/1562/2009

In the same perspective we analyzed the average total expenditure per inhabitant of Leova for the period 2009-2019 in fig. no.3. Thus, we can see that the least money was spent in 2013, when the town hall spent on average 999 lei per inhabitant, and the most spent in 2017 and 2018, when it recorded 3257 lei and 3286 lei. The year 2019 registers a considerable decrease of 700 lei, so an average of 2499 lei per inhabitant was spent.

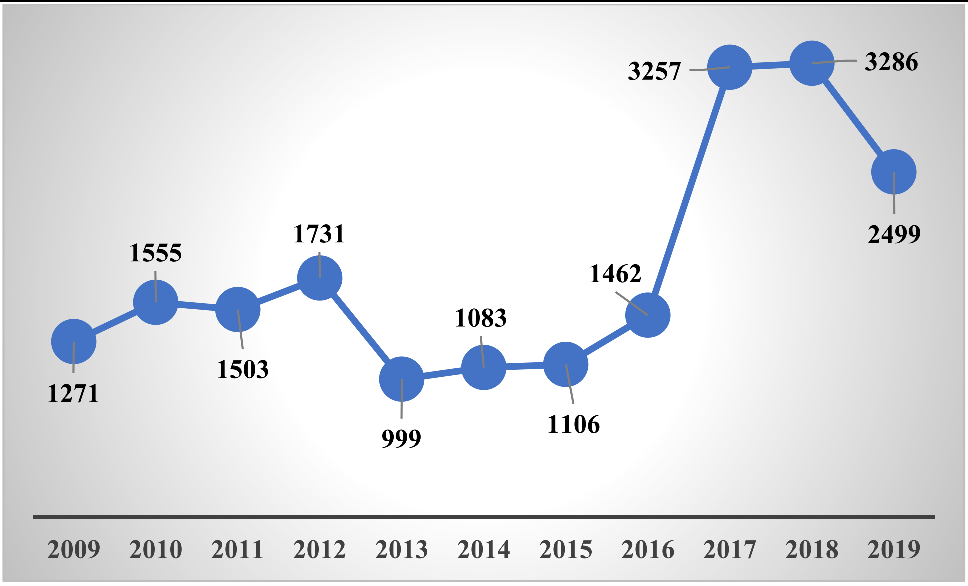

Figure no.3. The average of total expenditure per capita in the city of Leova
Source: designed by the author, on basis of the data extracted from http://localbudgets.viitorul.org/

4. Conclusions

The local public administration feels the need for effective public management and increasing the efficiency and capacity of the administration. In this respect, it is vital to measure performance, both overall and financial. The budget of public entities was established for the purpose of forecasting revenue and expenditure at local or central level. This budgetary tool becomes the basis for all economic analyses to identify the level of economic performance and sustainability.

The analysis of the budget forecast and the budget implemented at the end of the budget year is imperative and must be carried out annually, quarterly or monthly. The revenue and expenditure recorded by public entities can provide a pragmatic picture of the overall situation and future directions for work can be identified in this respect. The ratio of expenditure and revenue to the number of inhabitants of the administrative-territorial unit is necessary to identify annual differences in order to analyse them in relation to total revenue and expenditure.

The research identified the fact that at the local level Leova City Hall fails to be financially independent and the revenues from the State Budget are increasing every year. This leads us to believe that a different financial approach is needed at local level, finding a financial solution through decentralisation and stabilising the economic situation by creating an appropriate legal framework to attract investment at community level.

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