

# ESTABLISHING LOCAL BUDGET EXPENDITURE - FUNDAMENTAL STAGE OF LOCAL BUDGETING

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## **Abstract:**

*The establishing, sizing and distribution of local budgets expenditure by authorizing officers, by purpose, i.e. shares, activities, programs, projects, objectives, shall be carried out in accordance with the powers of the local public administration authorities, the priorities set by them, with a view to their operation and in the interests of the local authorities concerned. Factors affecting the size of local budgets include subjective factors, including random or unpredictable phenomena during the process of budgeting and approving the local budget.*

*In this article we propose to investigate and analyze how to establish the provisions on the expenditure side of the local budgets, but also to identify an optimal method for establishing them. The study starts with the presentation of traditional methods of establishing expenditure in local budgets: the automatic method, the method of increase (decrease) and the method of direct evaluation. A central part of the article is the presentation of the main categories of public spending in Romania's local budgets. Research carried out through this article shows that under the current circumstances it is necessary that the design, rationale and preparation of local budgets must take into account economic development requirements, social and cultural requirements and requirements for the functioning of local administration.*

**Key words:** local budget, local public expenditures, establishing, the elaboration of local budgets, economic efficiency

**JEL classification:** H 72, H 83

## **1. INTRODUCTION**

In the specialized literature (Voinea, 2011) it is stated that the elaboration of draft budgets as a phase of the local budget process can be considered fundamental, because the analysis and projection of revenues and expenditures for next year depend on the financing of local public services in that period. Both the elaboration and the approval of the local budget must be based on an adequate information system, on real data and reflect the financial situation of the territorial administrative units. In concrete terms, it is necessary that the evaluations of expenses and revenues have a correspondent in the real possibilities of their realization and to correctly express the elements of effort and effect on which they are based (Filip, 2002).

The elaboration of local budgets presents different features from one country to another within European Union, each of them looking for the optimal solution to improve the local budgetary process at this stage. Within this stage of the local budgetary process, a very important role is played by the sizing and distribution of local budget expenditures by authorizing officers, by destinations, respectively by actions, activities, programs, projects, objectives. The purpose of this paper is to analyze and deepen the way of substantiating public expenditures in local budgets in Romania but also to identify an optimal method of establishing them.

## **2. CLASSICAL METHODS OF ESTABLISHING EXPENDITURE FROM THE LOCAL BUDGETS**

The expenditures and revenues provided in the local budgets are dimensioned based on different methods depending on certain factors. In order to establish the expenditures that are included in the local budgets, different methods are applied.

According to the automatic method, the revenues and expenditures of the penultimate year ( $t-1$ ), year in which the financial year ended, are taken as the basis for drawing up the budget for the following year ( $t + 1$ ). This is because at the preparation of the draft budget for the following year the definite achievements of the budget for the current year ( $t$ ) are not yet known. The method is simple, does not require a large volume of work, but has the disadvantage that it is far from reality, because the economic, social and political conditions existing two years ago cannot be maintained as such in the year for which the local budget is drafted.

In Romania, the application of this method cannot lead to a correct substantiation of the revenues and expenditures that will be registered in the local budgets due to the legislative changes regarding taxes and fees, frequent rectifications of the state budget which diminish or increase the amounts transferred to the local budgets, inflation rate, taxpayer behavior, etc.

Another method of establishing local budget expenditures is the method of increasing (decreasing) and consists in taking into account the results of budget years over a period of five or more consecutive years preceding the year for which the draft budget is prepared. Based on these data, the average annual rate of increase (or decrease) of budget expenditures is determined. The determination of expenditures from local budgets by extrapolating the trends resulting from the evolution of indicators, related to the period considered as a basis, is approximate, because every year new factors intervene that may have a greater or lesser influence on the local budget. In addition, the process transposes in the future the negative influences of some economic-financial phenomena that manifested themselves in the years that served as a basis for calculation.

The automatic method and the one of increase (decrease) are inefficient in periods of economic instability and accentuated monetary depreciation (Cigu, 2011), which determines us to appreciate that it cannot be applied in the case of our country. This is also the main reason why the method of direct evaluation of budget expenditures has been reached.

The direct evaluation method involves performing detailed calculations for each category of expenditure. For this purpose, both the execution of the local budget for the current year and the forecasts in the economic and social field for the next budget year are taken into account. When estimating the revenues related to the budget for next year, their level provided for the current year is taken into account and is adjusted according to the possible changes that would occur in the legislation on expenditures, as well as the influence of economic, social and political factors, as well as the international conjuncture.

The establishing of public expenditures from local budgets is done in direct correlation with the estimated inflation rate and with the foreseeable level of the exchange rate of the national currency in the year for which the local budgets are elaborated.

In this context, the assessment of public expenditure at the level of the needs of the following budget year is of particular importance. This implies a harmonization of budget appropriations with the possibilities of the real economy to support the increase of public expenditures with appropriate revenues.

The method of direct evaluation, although it is considered to be closer to reality, still does not ensure a rigorous sizing of budgetary indicators, requiring their rectification during the execution of local budgets. Although it requires a larger volume of work, this method has the advantage that it offers the possibility to establish the expenditures of local budgets on the basis of more information, and allows taking into account factors of direct influence on them, reducing the degree of approximation, but without ensuring an accurate quantification.

We believe that the local authorities in Romania, which use this method in establishing the local budget projects, proceed correctly, because the dimensioning of the expenses included in the budget is very close to reality in the conditions of a stability of the socio-economic conditions.

On the other hand, we must mention that the classical methods of estimating budget expenditures have certain limits determined by insufficient volume of information and the impossibility of predicting and quantifying the effects of factors that will influence a country's real and financial economy in the future. In addition, the classical methods do not strive for the efficiency of the actions that will be carried out with budgetary means and do not aim at correlating

the expenditures at the level of all the institutions that contribute to the achievement of a certain objective from the resources of the local budget.

We think that in order to improve the local budgetary process in the phase of elaboration of local budgets, besides the use of the direct evaluation method, statistical methods of econometric or mathematical type could be used but should be clear and simple, based on information from local government records and that can be easily applied by officials.

### **3. ESTABLISHING LOCAL PUBLIC EXPENDITURES**

The establishing, dimensioning and distribution of local budgets expenditures on authorizing officers, on destinations, respectively on actions, activities, programs, projects, objectives, are carried out in accordance with the attributions of the local public administration authorities, with the priorities established by them, in order to function and in the interest of the respective local authorities.

The substantiation and approval of the expenditures of the local budgets are carried out in strict correlation with the real possibilities of collecting the revenues of the local budgets, estimated to be achieved.

We believe that in the current macroeconomic and microeconomic context it is necessary that the substantiation of local budget expenditures must be done taking into account:

- economic development requirements;
- social-cultural requirements;
- requirements regarding the functioning of the local administration.

#### **3.1. ESTABLISHING EXPENDITURES FOR THE DEVELOPMENT OF THE LOCAL ECONOMY**

The local socio-economic development is a process of development within an area or region, a process that results in an improvement in the quality of life.

The dimensioning of the economic expenses is necessary both for the knowledge of the possibilities to cover them, and for the establishment of the efficiency of the use of the respective resources. The efficiency of expenditures on economic actions is determined and monitored based on the method of cost-benefit or cost-effectiveness analysis. This involves clearly defining the objectives to be achieved, identifying possible resources and technical means that could be taken into account in the designed alternative solutions.

Also for the analysis of the economic efficiency of these expenses, indicators of the effective use of resources are established according to the same procedures. With their help, the forecasts or results obtained in previous periods are compared with those regarding the periods for which this analysis is performed, identifying the concrete causes that determined the results found and assuming measures to be taken to improve them (Ernst, 2006).

Specific standardization tools are used to establish the level of expenditures for economic actions in local budgets for a period of time (one year). Thus, for the expenses with raw materials, materials, fuel, energy, indices or coefficients of the specific consumptions and of the degree of their use are established, in relation to the number of units of finished products that can be obtained.

For the elaboration and analysis of the proposals for the current year, from the preliminary execution of the expenses for the current year the expenses related to the actions that are no longer maintained in the year for which the local budget is elaborated are deducted, and the expenses for the units and actions that lasted less than one year are replenished, thus obtaining the starting point for expenditures for existing units and actions at the end of the base year.

In establishing the expenditure proposals for the current year, the following shall be taken into account:

- The proposals for capital expenditures are determined in relation to each investment, work based on estimated values, as well as based on the provisions of the respective projects, in all cases justifying reports on the need, opportunity and efficiency of execution of the work.

- Proposals for current expenditures are determined taking into account the average expenditures on an indicator made in the base year, improved by eliminating recurring expenditures. The provision of services shall include the necessary amounts for the expenses with electricity, water, sewerage, post office, telephone, heating, taking into account the average expenditure on an indicator, the prices and tariffs of the respective services. For capital and current repairs, the expenses are determined according to the estimated cost of the works.

### **3.2. ESTABLISHING EXPENDITURES FOR SOCIAL AND CULTURAL ACTIONS FROM LOCAL BUDGETS**

The expenditures for socio-cultural actions are for:

- education;
- culture and art;
- health;
- insurance and social assistance.

Expenditures for socio-cultural actions are covered from public or private sources (respectively budgetary funds and revenues made by socio-cultural institutions).

a) Public expenditures for education are borne mostly by the central administration, which organizes and conducts education, and partly from the local budget of the administrative-territorial unit that has in its territory the school units. The planning of the expenditures for education, the determination of their annual level, of the sources of coverage and especially, of the way of their distribution and use, presents a special importance. The substantiation of these expenses is made according to a series of specific elements regarding the school contingents (children, pupils, students) included in the respective school year but also at the unit cost per forms and educational units. The economic efficiency of education expenditures can be expressed synthetically through its contribution to economic growth.

b) In order to achieve some objectives of the social policy regarding cultural and artistic services, the public authorities direct part of the financial resources towards the organization and functioning of specialized institutions in these fields, such as cultural institutions, art, cultural heritage, artistic formations, etc.

Financial resources for culture and art, along with those for education, contribute to increasing the quality of human capital (creating and enriching the cultural level, cultivating moral and aesthetic tastes and ideals, raising education and civilization contribute to the formation of human personality). Therefore, these financial resources are part of the investment in human resources, having an indirect and more distant effect and positively influencing economic and social activity and contributing to economic growth.

The activity carried out by these institutions can be materialized in certain material goods of spiritual value or it is presented in the form of cultural-artistic services. Cultural and artistic activities are financed from the budget, either in full or in part by providing grants to supplement their own revenues.

The calculation, analysis and follow-up of specific indicators of cultural and art actions, such as: number of libraries, houses of culture, museums, theaters, number of readers, visitors, spectators, allow the formulation of assessments and conclusions on the correlation between their dynamics and dynamics of allocated financial resources (Ernst, 2006).

The financing of the expenses of the institutions for culture and art is made by:

a) budgetary financing for the maintenance and functioning of the respective institutions and payment to the budget of the eventual realized incomes;

b) self-financing of some cultural-artistic activities, respectively the retention of the realized incomes in order to cover some established expenses and the receipt in addition of some subsidies from the budget;

c) full self-financing in the case of institutions that have sufficient income to cover their expenses.

The trend manifested in this field concerns two aspects:

- the first aspect concerns the resizing of expenditures from the local budget, simultaneously with the correct revaluation of revenues, so that the supplementary subsidies allocated from the local budget are more rigorously determined;

- the second aspect refers to the interest of the cultural and art institutions in the development of some income-producing activities, without affecting the quality of the cultural act.

c) Local public spending on health is very important for the local community which is interested in a good health of the population, being a determining factor for their socio-economic development. According to the legislation in force (Romanian Parliament, 2006) regulated the transfer of hospitals from the administration of the Ministry of Health to the administration of county councils or local councils but with the maintenance of financing, respectively through contracts for providing medical services of public hospitals with the Health Insurance House. The local budgets participate in the financing of some administration and operation expenses, respectively goods and services, investments, capital repairs, consolidation, extension and modernization, endowments with medical equipments of the sanitary units with transferred beds, within the budget credits approved for this purpose within the local budgets (Ichim, 2017).

Of particular importance in substantiating health expenditures are the indicators that reflect the average annual expenditures for the maintenance and operation of medical units per inhabitant in the territorial area, the average daily food expenditure on a bed in hospitals, sanatoriums, and maintenance and operation expenditures of the cars that serve these sanitary units. Health expenditures show an increasing trend, as a result of: amplifying health care needs, the effect of increasing the number of the population and changing its structure, accentuating the risk factors, increasing the cost of medical benefits.

d) Public spending on insurance and social assistance refers mainly to helping the elderly, the disabled, the disabled and other low-income and low-income people. Among the forms under which social assistance is provided, we mention aid for the elderly without income or other socially marginalized persons that include financial aid granted or the maintenance offered in special settlements for the elderly, disabled, and incapacitated.

The legislation in force stipulates that *"at the annual substantiation of the amounts necessary to ensure the payment of social assistance benefits, the following elements are taken into account: a) the number of beneficiaries registered in the previous year; b) estimating the number of beneficiaries for the budget year according to the economic, demographic and social evolutions, as well as to the registered macroeconomic indicators; c) the nominal amount or, as the case may be, the average amount of the social assistance benefit. The social substantiation and the social assistance benefits to be granted are taken into account, approved in accordance with the law "* (The Romanian Parliament, 2011),

Within the expenses for social assistance, funds are allocated for old people's homes, hospital homes for the disabled, social assistance canteens, reception centers for minors and for family placement. In order to substantiate the level of these expenditures within a local budget, the following indicators are taken into account:

- the number of people who have no source of income;
- the average annual number of assisted living in nursing homes and the average expenditure for an assisted person;
- the average annual number of assisted persons in social assistance homes and the average expenditure for such an assisted person;
- the average number of people with disabilities and the average expenditure.

### 3.3. ESTABLISHING THE EXPENSES FOR THE MAINTENANCE AND FUNCTIONING OF THE LOCAL ADMINISTRATION AUTHORITIES

In order to substantiate the public expenditures from the local budgets for the maintenance and functioning of the local bodies of the state administration, it is taken into account the fact that for the expenditure with the personnel salaries the budgetary credits corresponding to the proposed salary fund are entered. It is mandatory that the forecasting and planning of personnel expenses start from the approval of the dimensioning and organizational structure of the public services subordinated to the local administrations. This must be done at a level that ensures both the smooth running of the activity and the full employment of local government employees. To this category of expenses regarding the functioning of the bodies of local authorities are determined and entered the amounts necessary for the functioning of the executive apparatuses of local administrations, both for current and capital expenses and, last but not least, expenses occasioned by the activity of local / county councils and General Council of the Municipality of Bucharest.

The methods used in practice for forecasting this type of expenditure are generally in the category of direct evaluation or automatic evaluation, but combined with modern cost-benefit methods, aiming to fulfill the duties conferred by law on local governments in conditions of economy and efficiency.

### 4. CONCLUSIONS

The elaboration of the draft budgets as a phase of the local local budgetary process can be considered fundamental, because the financing of the local public services in the respective period depends on the analysis and projection of revenues and expenditures for the following year. In the stage of elaboration of the local budget, the substantiation of the expenditures occupies a very important place. From what is presented in this paper, it results that among the factors that condition the size of budget expenditures are some of a subjective nature, including phenomena with random or unpredictable action, which makes the substantiation of expenditures in local budgets to be a laborious and very sensitive approach.

We agree with the opinion according to which of the methods of substantiating the expenditures of the local budgets, in Romania the method of direct evaluation should be used. Although it requires a larger volume of work, this method has the advantage that it offers the possibility to substantiate the expenditures of local budgets on the basis of more information and allows taking into account factors directly influencing them, reducing the degree of approximation, but without ensure accurate quantification. In addition to using the direct assessment method, statistical methods such as econometrics or mathematics could be used, but they should be clear and simple, based on information from local government records and could be easily applied by officials.

From the research carried out by this paper it results that in the current conditions it is necessary that the design, substantiation and elaboration of local budgets must take into account the requirements of economic development, socio-cultural requirements and requirements regarding the functioning of local administration.

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