

FOREIGN EXPERIENCE IN LOCAL BUDGET REVENUE FORMATION IN THE PUBLIC ADMINISTRATION SYSTEM

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Abstract. *At present, in most countries of the world, with the growth of local budget expenditures, the amount of income sent by the state in connection with the strengthening of their income, as well as the amount of regulated tax deductions, has increased. Local budgets are not only a source of financing social spending, but also a financial resource for local governments in the socio-economic development of regions. According to experts, "important organizational principles of the tax system of Western countries are the central budget and different levels of budgets by the territorial and political structure of the country and a clear definition of the types of income." This article discusses foreign experience in the formation and management of the local budget in the process of public administration.*

Keywords: *budget system, local budget, fund account, budget management, financial documents, income funds.*

Local budget reforms are also very important in other countries and are an integral part of their economies. In particular, the budget system of developed countries such as the United States and Russia has evolved over the centuries and has gone through several stages. In the 1980s and 1990s, fiscal reforms were being developed in the United States and elsewhere, and Scandinavian countries such as Sweden, Denmark, and Norway worked to further improve their fiscal policies. The US budget system is based on results. In the US, the performance-based budget was first introduced in 1949 and was used primarily for military purposes. The commission's execution budget, which is called the action budget, is considered a system that reflects not only expenses but also income [1]. In 1950, Congress passed a budget reform and determined the need for local budgets to be accountable to the administration of the US President.

Local government budgeting in the United States has evolved through four approaches, the implementation of each of which depends on the previous one. Each approach has different goals, each designed to increase the level of complexity of the decision-making process. The ongoing goal has been to move away from local decision-making towards a more rational approach. The dream of local leaders was an analytical approach that would lead to consensus without political differences. This is not happening. There will always be difficult decisions to be made at the end of the budget process. Decisions require evaluation. Modern budgeting seeks to provide the best possible information on which local leaders can make judgments.

Most local governments have multiple budgets called "funds". The Fund provides a separate accounting mechanism to ensure that public money earmarked for different purposes is not mixed up. The Local Government General Fund is a fund that collects general tax revenues and fees that can be used to carry out any legitimate local government function. Other "funds" include the following:

Enterprise funds for services that are supported by fees. They are commonly used to share money received for services similar to those provided by the private sector. Enterprise funds for

water supply and sewerage systems are among the most common [2]. These services are usually fully supported by user fees without general tax subsidies.

Special revenue funds are taxes earmarked for a particular service or set of services. A special tax levy can support a wide range of services: parks, transportation, and fire services are typical. Large grants from the state or federal government may also be placed in a special revenue fund to ensure funds are only used for the purposes for which they are intended.

Domestic service funds are an accounting mechanism by which local governments provide services to their institutions for which they charge as if the services were purchased from the private sector. This is done to reflect the true total cost of purchasing the service from the internal service fund. Examples include the central vehicle fleet, which provides maintenance and replacement for public vehicles, from fire engines to dump trucks and police cruisers.

The general fund budget consists of two main components: the revenue budget and the expenditure budget. The difference reflects the fact that general tax revenues are not directly related to the services they support. A "balanced" budget is a budget in which the income budget is equal to the expenditure budget. Local governments in the US are required to have a balanced budget. They may go into debt, but the annual debt repayments must be financed from current annual income.

Budgets cover a "fiscal year" - a twelve-month period that can start in January, but can also typically start in July or October (which is the start of the fiscal year for the US government's national budget). An annual budget is the norm, but some local governments adopt a biennial budget.

Modern local government budgets in the United States originally began as financial documents. Their main purpose is to record the source and amount of income, as well as the purpose and amount of expenses. The need for this accounting control function led to the development of the line-item budget. Expenditure items also referred to as "objects of expenditure", are simply ways of classifying different types of expenditure. At the most basic level, the main categories are the following items: personnel, operations, and equipment. Thanks to modern computer systems, classification systems have become quite complex. Personnel cost items may include full-time permanent employees, part-time permanent employees, temporary employees, seasonal employees, medical benefits, retirement benefits, overtime pay, vacation pay, sick pay, etc.

An itemized budget tracks every dollar spent on a specific type of expense. This is achieved through a very sophisticated record system for every government financial transaction and is fully integrated into the financial systems for payroll, purchasing, payables, and receivables. Each year, the local government produces a Comprehensive Annual Financial Report (CAFR) that reports its financial position. An independent auditor reviews the CAFR and other financial statements annually and publishes a report on the accuracy of financial and local government reports.

Local self-government should be able to draw up and manage line-item budgets to implement other forms of local budgets. The line-item budget is an important basis for ensuring the financial integrity of local government.

To date, the state budget deficit has reached \$1 trillion in 2019 after the failure of the fiscal policy of President Donald Trump in the United States. The reason for this was the large US budgetary allocations for military operations in the Middle East in recent years, after which the

US Congress decided to address the problem of the shortage of 50-year bonds. In 2019, \$4 trillion was spent from the US government budget, and the deficit was \$1,109 trillion.

In other countries, including Russia, budget reforms have a very rich history. Attempts to improve the first budgetary system date back to the Russian Empire and have changed over the centuries. Since the 1990s, Russia has pursued a policy of greater transparency in the state budget. Since 2000, at the initiative of President Vladimir Putin, Russia has been undergoing economic renewal and has risen to new heights in 19 years. By 2018, 38% of Russia's state budget was spent on social reforms, the highest figure in any other area.

At the present stage of Russia's development, the role of local self-government bodies is increasing many times over. Consequently, the local budget is the basis of the financial system of municipalities and, as a result, financial instability in a crisis creates additional difficulties in terms of creating an economic base and forming their budget. At the same time, the complexity of the formation and management of the municipal budget is aggravated by a complex of the following factors:

- uneven development of the economic base;
- a difference in social infrastructures;
- excessively centralized planning and control;
- inability to take into account the tasks of specific municipalities.

All this affects the economic efficiency, development, and state of the municipal budget. Experience shows that the lack of financial support from the federal and regional budgets makes the municipal budget insufficient to address issues of local importance.

In practice, this means that local budgets are mainly formed at the expense of inter-budgetary transfers, subsidies, and subsidies. Therefore, the primary task of local councils is to develop their revenue base and pay attention to increasing tax capacity and improving the collection of local taxes. The revenues of local governments are the main resource for the full use of spending powers.

Not all municipal governments are experiencing the same crisis. The current situation requires the adoption of urgent measures, which should be primarily aimed at optimizing costs, saving the budget, and creating a financial reserve.

This explains the stable functioning of priority areas of social importance for municipal government. The financial stability of the municipality can be ensured through the continuous implementation of anti-crisis measures aimed at solving the following critical tasks:

- improve the revenue base of budgets;
- switch to a permanent budget-saving mode.

Modern changes in politics and economics, in legal and budgetary relations between the levels and branches of government require a new, efficient, and stable mechanism for managing the budgets of municipalities, especially in times of crisis.

In addition, in Australia, New Zealand, and many other countries, the performance-based budgeting system, as in Russia and the United States, has developed over the years and is still modern. In the United Kingdom, the budgetary system is largely reformed by the Prime Minister, with the Queen or King having the exclusive right to sign laws and decrees. By 2020, the UK's exit from the EU, according to the forecasts of many economic experts, will be a serious blow to the UK budget system, which will lead to a budget deficit, while instead of income, only expenses will grow [4].

In Italy, a National System for Monitoring and Evaluating Public Investments has been established at the national and regional levels to assess the quality of the implementation of regional policies. To ensure transparency of spending within the national statistical system, a special database Conti Public Territorial (CPT) was created. To increase the efficiency of the use of the allocated funds, the effectiveness of local governments was assessed, and monetary rewards are paid for the fulfillment of the tasks assigned to them.

Italy has established a National System for Monitoring and Evaluating Public Investments, operating at the national and regional levels to assess the quality of the implementation of regional policies. To ensure transparency of expenditures, a special database "state registration of Territories" (I Conti Public Territory, CPT) was created as an integral part of the national statistical system. To improve the efficiency of the use of the allocated funds, an assessment of the effectiveness of the activities of local governments was carried out, and monetary rewards are paid for the fulfillment of the tasks assigned to them[3].

When assessing the scale of differentiation in terms of the socio-economic level of regions, the volume of gross domestic product per capita is not limited.

In national statistics, in a comparative study of territories, the population, the share of the population in the total population of the country, the age composition of the population, the density and average life expectancy of the population, indicators of external and internal migration take into account the structure of employment, the level of employment and unemployment, labor costs and wages, fees, as well as their various components, education level, and other similar demographics.

Inter-budgetary relations in Spain involve the financing of autonomous communities on the one hand and local communities (municipalities, provinces, islands) on the other. The relations of the Center with the Basques and Navarrese are given a special status, they are regulated by "formal" legislation and operate on a bilateral basis (in the field of self-government and legislation, taxation, customs borders). In recent years, about 70% of public funding goes to local communities and municipalities, more than 20% to the provinces of the Basque Country, about 7% to the general regime provinces, and 3% to the islands. 75% of all public funds are distributed taking into account changes in the demographic situation of the regions, and the remaining 25% are distributed in proportion to the share of the region's population in the total population and the number of people with disabilities (up to 16 years old).

Additional public funds will be directed to autonomous regions with low population density. The establishment of the Partnership Fund and the Competitiveness Fund is seen as a new element of the system. The purpose of the new financial structure is to reduce the income gap between regions, and now the regions withhold half of the income tax (instead of the previous 33%). Regions have the right to set tax rates and tax deductions, as well as the minimum amount of non-taxable income. The regions can also keep 50% of VAT revenues (instead of the previous 35%).

Fixing individual revenues in local budgets increases the interest of local governments in ensuring the timely and complete collection of budget funds, and in strengthening the revenue base of local budgets. In developed foreign countries, the share of direct taxes in the composition of local budget revenues is large[5]. In the Scandinavian countries, the share of income tax, and personal income tax in the total amount of taxes is 80-90 percent.

In Belgium, Germany, and Austria, the same figure is over 50 percent. In Ireland, property tax is the only fixed tax. In the Netherlands, property taxes are between 2 and 3 of all assessed taxes. In Japan, 48% of local tax revenues come from housing tax, and 21% from property tax[6].

The main drawback of the current system of forming the revenue base of local budgets is that it is weakly connected with regional finances, that is, with the finances of farms located in a given area. Local industry, the food industry, and local budgets must give the bulk of their income. Many local budget networks operate at a loss. For example, local transport, housing, communal services, etc. Even though some sectors of the housing and communal services (sewage, repair and construction offices, etc.) are profitable, the housing and communal services remain a loss-making enterprise.

Every year, a large amount of the budget is spent on the maintenance of the housing stock. Privatization of the housing stock can significantly reduce the amount of these funds. Also, the provision of regulatory revenues to local budgets in the form of fixed and relatively long-term constant indicators causes the formation of indifference and neglect in local financial institutions.

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