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STATISTICAL METHODS FOR FORECASTING MUNICIPAL BUDGETS

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Abstract

The paper presents the study of the parameters of budget estimation in a municipal entity. The methodology is based on the approaches adopted for budget establishment in the city of Kursk, Russia, in the year 2016 and for the planning period of 2017–2018. These statistical methods are conducive to a more precise budgeting of revenues and expenditures, particularly so in the long term perspective.

Keywords

Budget revenues and expenditures — Budgetary planning — Municipal budgeting methodology

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Introduction

Currently, the most urgent problem of national budgeting (developing government financial schemes) is accurate and correct forecasting and estimation of budget, especially in the long-term perspective, both on the federal and local levels. This remains subject to a variety of factors, most significant of which is the instability of the global economic environment and the world financial system, with the bearing of geopolitical situation. To solve the problem, we have to analyze microeconomic indicators in greater detail in what pertains to budgetary planning and forecasting, along with — as applies generally to the whole economy — the use of statistical methods for governmental and municipal finances.

Governmental financial statistics is a special branch of economic statistics that studies quantitative and qualitative aspects of the phenomena and processes taking place in the economic activity of institutional units and departments of public administration and the government sector. The chief goal of applying statistical methods to state finance matters is to get detailed data on the financial assets the government has at hand, and on all changes occurring in assets, debts and asset net value over an accounting period.

In many countries, drawing up a statistical report on state finances is the first step towards building a scorecard of indicators for the sector of public administration in national accounts. Comprehensive, reliable and up-to-date information on economic activities of the state and on their outcomes is the basis for economic analysis and well-reasoned decision-taking by governmental authorities in respect of fiscal policies and budget reform. Statistical data on state finances are used by international organizations, by research and business communities, in order to assess: public administration and public sector, governmental impact on national economy, including resource utilization, monetary situation, debts situation, social support and social benefits, economic growth and national welfare¹.

The key task for budget statistics is to identify and characterize the fundamental parameters of various-level budgets and of the consolidated national budget — the ones that define to which degree the state and municipalities are involved in redistribution of GDP and GNI. These parameters also form the grounds for the content and target areas of government's fiscal policies.

Materials and Methods

In Russia, the methodology of municipal budget forecasting was first developed and tested by G. B. Polyak in 1976 in the course of preparing and realization of comprehensive development plans for administrative territorial entities². The issues of territorial budget forecasting were also dealt with in the researches of S. K. Bityukov, T. T. Tulebaev, and I. M. Dementyeva. In the 1920s, N. D. Kondratev and V. N. Bazarov considered genetic and teleological (goal-oriented) principles as the basis for developing a plan.

The methods of budget planning and forecasting increase the validity of decisions in this sphere and give grounds for assessing their long-term consequences. These are supported by the transparency of budget policy — presentation and discussion of results of long-term budget planning. Such planning can become a feasible measure towards

¹ M. V. Gabelko, Encyclopedia of statistical terminology (Moscow: Institute of statistical studies and knowledge economics, higher school of economics, 2013).

² G. B. Polyak, Budget system in Russia (Moscow: Uniti-dana, 2007).

increased efficiency of budget expenditures acting at the same time as a limiting factor against unreasonable spending³.

Results

With reliance on statistical methods as applied to state and municipal finances, tax and non-tax revenues are planned and forecasted. The total tax and non-tax revenues forecast (FR_i) in the long term is calculated by formula 1:

$$FR_i = FT_i^{pit} \times Ng + FT_i^{uat} \times Ng + FT_i^{lut} \times Ng + FT_i^{ipt} \times Ng + FR_i^{lrent} \times Ng + FR_i^{lrent\ mun} + FR_i^{prop\ lease} + FR_i^{a/tax} + FR_i^{misc\ prop} + FR_i^{sale\ prop} + FR_i^{oth\ prop} + FR_i^{land\ sale} \times Ng + FR_i^{fines}, (1)$$

where FT_i^{pit} is forecast revenue from personal income taxes;

FT_i^{uat} — forecast revenue from unified agricultural tax;

FT_i^{lut} — forecast revenue from land use tax;

FT_i^{ipt} — forecast revenue from individual property tax;

FR_i^{lrent} — forecast revenue from land rent and from sale of land lease agreement rights;

$FR_i^{lrent\ mun}$ — forecast revenue from municipal land rent and from sale of municipal land lease agreement rights;

$FR_i^{prop\ lease}$ — forecast revenue from lease of property under management of authorities and subordinate organizations;

$FR_i^{a/tax}$ — forecast revenue from transfer of after-tax profits and other mandatory payments by municipal unitary enterprises;

$FR_i^{misc\ prop}$ — forecast revenue from miscellaneous payments for use of property;

$FR_i^{sale\ prop}$ — forecast revenue from sale of property under management of municipal authorities' subordinate organizations;

$FR_i^{oth\ prop}$ — forecast revenue from sale of other property in ownership of municipalities;

$FR_i^{land\ sale}$ — forecast revenue from sale of land plots whose public ownership is not demarcated and which are within municipal boundaries;

FR_i^{fines} — forecast revenue from fines/penalties and other reparation payments to municipal budgets;

Ng — fiscal charge rate for each type of revenue to i -th municipality's budget, established under Russian fiscal legislation⁴.

In accordance with Chapter 32, Part Two of the Russian Tax Code, and with Law of Kursk Oblast No. 84-ZKO of 10 September 2015 "On establishing a single date of application on the territory of Kursk Oblast of the order of determination of the tax base for the tax on property of individuals on the basis of the cadastral value of objects of taxation", starting from 2016 the individual property tax calculable on the basis of cadastral values is introduced in Kursk Oblast.

The calculation of tax and non-tax revenues is done in accordance with the types of the taxes and levies proceeding from: (1) the actual budget revenues for the past periods, (2) forecast indicators of the socio-economic growth of the city of Kursk for 2016–2018, and

³ A. A. Belostotskiy, Budget planning and forecasting (Kursk: South west state university – universitetskaya kniga, 2015).

⁴ Kursk city administration. "On developing the draft budget of the city of kursk for 2017 and the planning period of 2018 and 2019". Resolution (2016).

(3) the estimated city budget revenues in 2015. In 2016, the planned amount of financial aid by revenues and expenditures is 3 119 018.829 thousand rubles. The financial aid parameters to the 2017–2018 budget of Kursk are not finalized due to the fact that the regional budget is drawn up for the year 2016 solely (Figure 1).

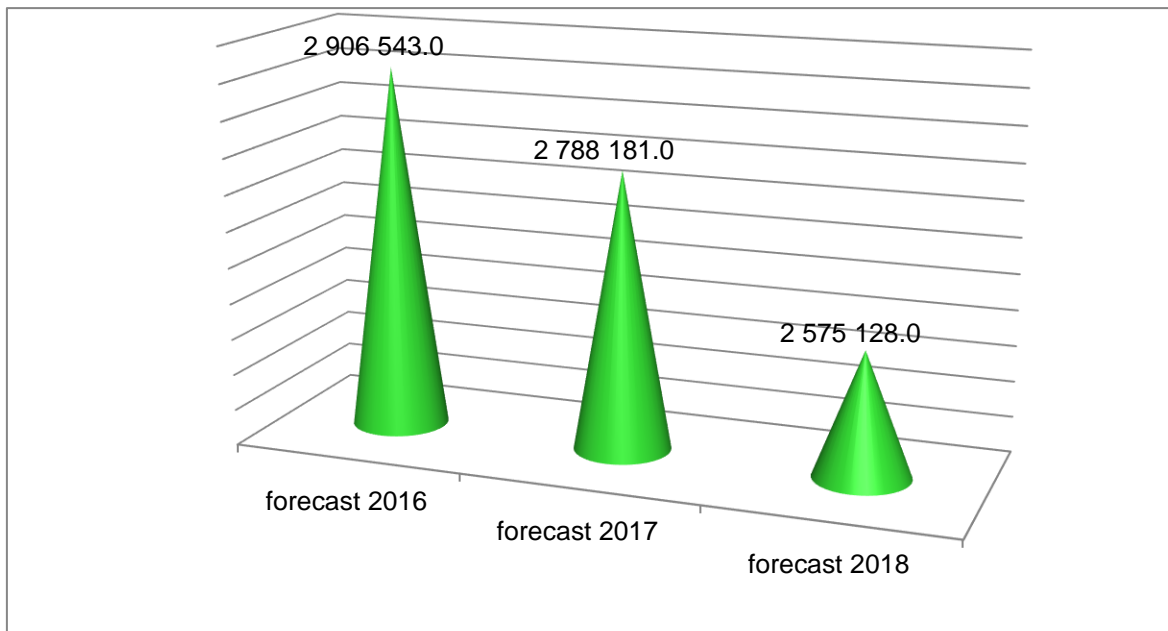


Figure 1
Budget revenues, thousand rubles

In accordance with the Kursk city budget estimate for 2016, the forecast total revenue is 6 025 561.829 thousand rubles, including inter-budgetary transfers from the regional budget in the amount of 3 119 018.829 thousand rubles. For 2017, the estimated total revenues are 2 788 181.0 thousand rubles, including inter-budgetary transfers from the regional budget in the amount of 0 roubles. For 2018, the estimated total revenues are 2 575 028.0 thousand rubles, including zero inter-budgetary transfers from the regional budget.

The city's own tax and non-tax revenues in 2016 are 2 906 025.0 thousand rubles, other non-repayable receipts — 518.0 thousand rubles.

In comparison with the 2015 budget approved by the action of Kursk Legislative Assembly No. 130-5-RS of 2 June 2015 "On the changes and amendments to the action of Kursk Legislative Assembly No. 98-5-RS of 25 November 2014 'On the Kursk budget for the year 2015 and for the period of 2016–2017' ", the tax and non-tax revenues in 2016 are estimated to grow by 25.0 million rubles against the figures of 2015, mostly due to increased receipts from leasing out property in state or municipal ownership, and from selling material and intangible assets (Kursk City Executive, n.d.).

In 2016, in the structure of tax revenues planned in the amount of 2 232 835.0 thousand rubles, the largest share of 47.5% is made up by the personal income tax — 1 059 605.0 thousand rubles, the land use tax comprises 26.9% or 600 300.0 thousand rubles, the uniform tax on imputed income for certain business activities — 16.7% or 373 559.0 thousand rubles.

The non-tax revenues are estimated in the amount of 673 190.0 thousand rubles, with the hefty 54.5% share coming from state/municipal property utilization — 366 970.0 thousand rubles, and 33.9% — from the sale of material and non-material assets estimated at 228 000.0 thousand rubles (Figure 2).

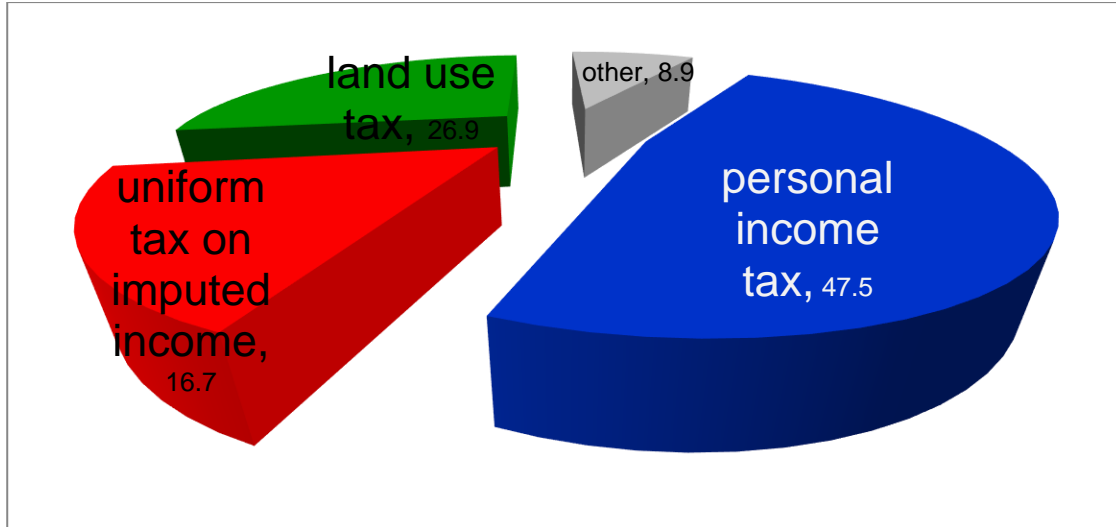


Figure 2
Budget tax revenue structure, %

The tax revenues provide the bulk of the budget receipts: 2016 — 76.8%, 2017 — 82.6%, 2018 — 81.7%, whereas the non-tax revenues are estimated at: 2016 — 23.2%, 2017 — 17.4%, 2018 — 18.3% (Figure 3).

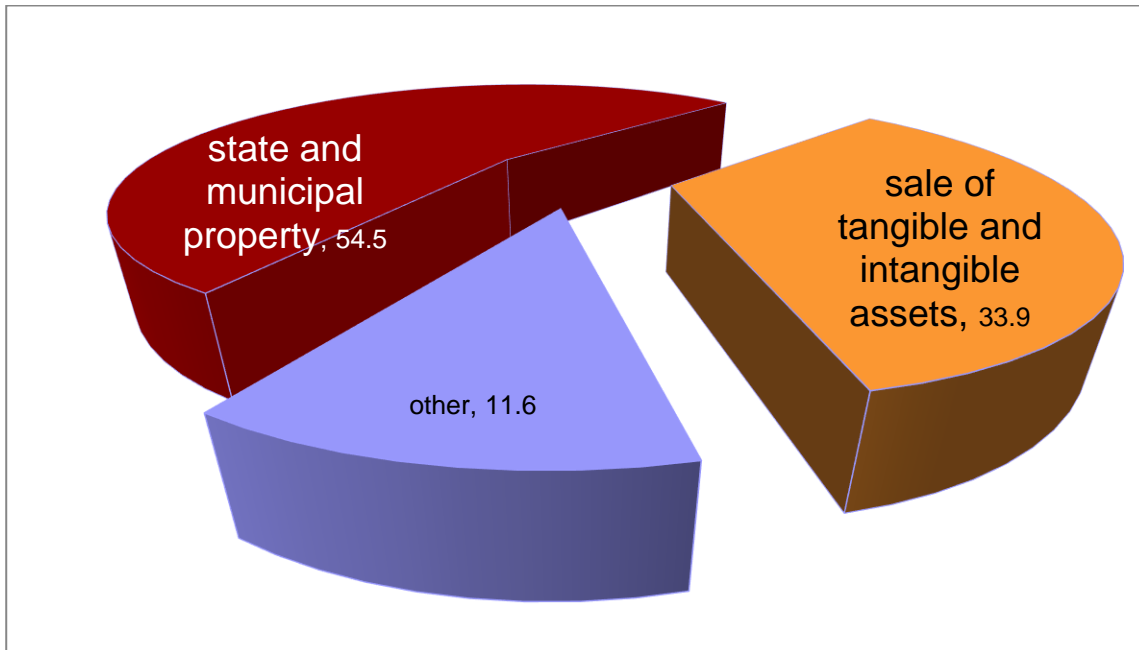


Figure 3
Budget non-tax revenue structure, %

The key budget revenues of the city of Kursk are: personal income tax, uniform tax on imputed income for certain business activities, land use tax, tax on state/municipal property use. In the aggregate amount of the tax and non-tax budget revenues in Kursk the above comprise: in 2016 — 69.8%; in 2017 — 73.3%, in 2018 — 82.4%.

With the aim of increasing the tax and non-tax budget revenues, the Kursk City Administration set up a committee on the issues of tax/non-tax revenue facilitation to the city budget, and another committee dealing with the problem of timeliness and completeness of salary payments and statutory pension insurance payments. For the five past months of the current year, 9 meetings of the revenue facilitation committee have taken place at which 120 tax/non-tax payment debtors were considered and discussed.

The total amount of tax overdue debts of the above mentioned 120 tax obligors was as much as 109.1 million rubles, including those to the Kursk city budget — 84.0 million rubles. As a result of the measures taken, tax overdue debts in the amount of 49.0 million rubles were settled, including those to the Kursk city budget — 39.9 million rubles. As a result of monitoring the timeliness and completeness of salary payments, salary arrears in the amount of over 2 million rubles were settled.

The forecast and estimation of total expenditure commitments of the i -th municipality on local issues in the current financial year and for the first and second years of the planning period, are calculated by formula 2:

$$EC_i = EC_{i,01} + EC_{i,02} + EC_{i,03} + EC_{i,04} + EC_{i,05} + EC_{i,06} + EC_{i,07} + EC_{i,08} + EC_{i,09} + EC_{i,10} + EC_{i,11}, (2)$$

where, $EC_{i,01}$ is the estimated expenditure commitment of the i -th municipality including office expenses of local government officials, municipal deputies exercising their authorities on a permanent basis, local administrations;

$EC_{i,02}$ — estimated expenditure commitments of the i -th municipality on mobilization activities on its territory;

$EC_{i,03}$ — estimated expenditure commitments of the i -th municipality on civil defence measures, protection of people in settlements/municipal districts/urban districts from emergencies, on emergency rescue services and/or emergency rescue forces in settlements/municipal districts/urban districts, with regard to prevention and awareness measures concerning water safety, on civil protection in emergency situations (reaching out to people, setting up information boards/displays focused on prevention of water safety emergencies, etc.);

$EC_{i,04}$ — estimated expenditure commitments of the i -th municipality on primary fire safety measures within its boundaries;

$EC_{i,05}$ — estimated expenditure commitments of the i -th municipality on approval of general plans of urban districts and settlements (standard expenditure of 6.0 rubles per inhabitant), and on public funding of water/gas supply facilities on the municipality's territory;

$EC_{i,06}$ — estimated expenditure commitments of the i -th municipality on capital repairs of housing facilities in municipal ownership, as well as on landscaping and public amenities in cities and settlements;

$EC_{i,07}$ — estimated expenditure commitments of the i -th municipality on work with children and youth;

$EC_{i,08}$ — estimated expenditure commitments of the i -th municipality on culture and social activities;

EC_i 09 — estimated expenditure commitments of the *i*-th municipality on long-service pensions and pension supplements to municipal employees;

EC_i 10 — estimated expenditure commitments of the *i*-th municipality on development of physical culture and popular sports in the municipality, on organization of formal health-and-fitness/sports events;

EC_i 11 — estimated expenditure commitments of the *i*-th municipality on publishing municipal regulations, on discussing draft municipal regulations concerning local issues, on communicating official information to local inhabitants on such issues as socio-economic and cultural development of the municipality, on its public infrastructure, etc.⁵.

Discussion

The Kursk city budget expenditures in the current fiscal period are determined by reference to the city's budget implementation in 2014 adjusted by annualized indicators that are linked to the structural and organizational reforms and decisions taken in 2014.

The expenditures of the 2016 Kursk budget comprise 6 302 561.829 thousand rubles, in 2017 they are estimated at 2 111 181.0 thousand rubles including 52 779 thousand rubles of conditionally approved expenditures; in 2018 the expenditures are forecast at 2 020 028.0 thousand rubles with 101 001.4 thousand rubles conditionally approved spending⁶

Accordingly, the key task in drawing up the city budget is balancing its parameters with regard to all social commitments.

With a planned credit obtainment, the budget estimate of Kursk — in respect of the 2016 expenditures — is 3 738.5 million rubles, which is in accordance with the amount of forecast revenues and budget deficit financing sources (Figure 4).

⁵ Kursk city administration. "On developing the draft budget of the city of kursk for 2017 and the planning period of 2018 and 2019". Resolution (2016).

⁶ Head of kursk city administration "On holding public hearings concerning the project of the kursk city assembly resolution "on the kursk city budget for the year 2016 and the planning period of 2017–2018"". Order no. 255 (September 24, 2015).

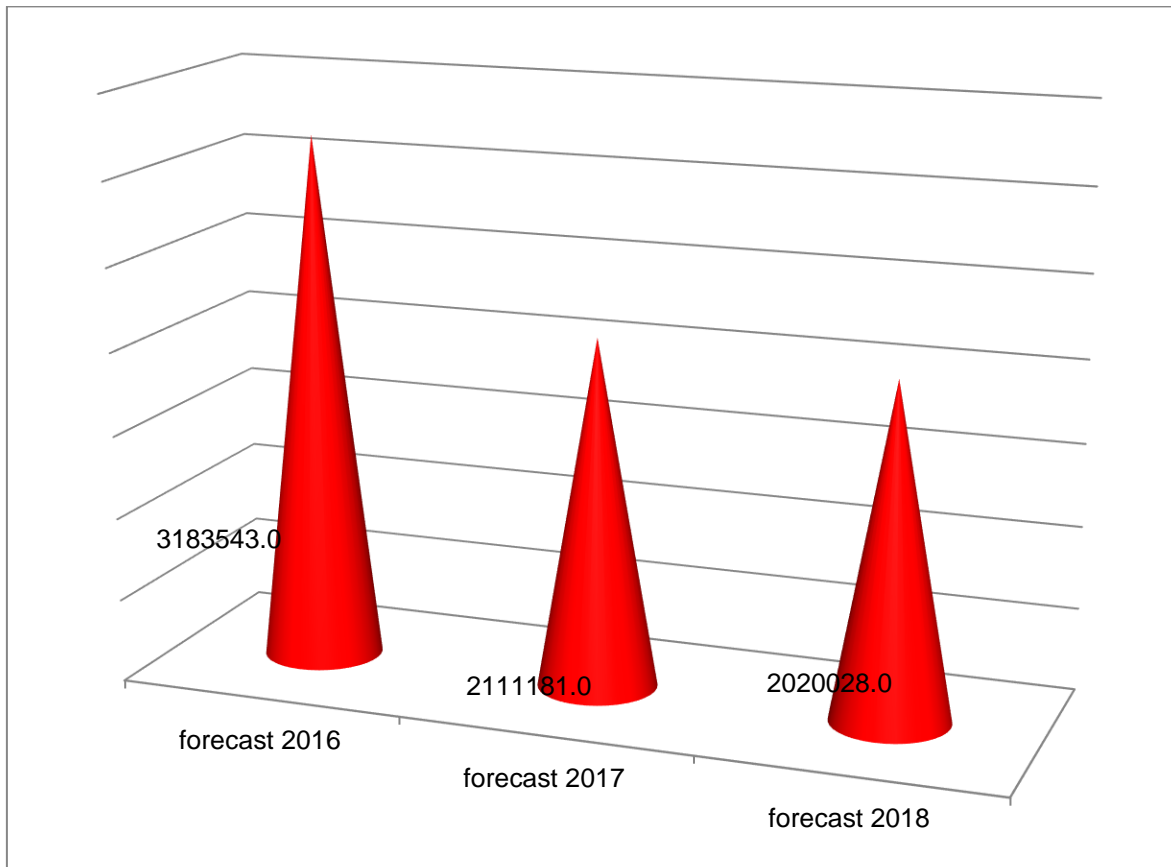


Figure 4
Budget expenditures, thousand rubles

As per budget estimates for the period of 2016-2018, it is observed that the amounts of education funding are raising to reach 2 832 116.605 thousands rubles in 2016 and 419 150.500 thousand rubles in 2017 and 2018, exclusive of inter-budgetary transfers.

The housing and public utilities infrastructure is allocated 276 286.408 thousand rubles in 2016, in 2017 — 207 483.0 thousand rubles, in 2018 — 190 483.0 thousand rubles.

The social sphere receives 1 393 000.0 thousand rubles in 2016-2018 (Figure 5). In the expenditure structure of the Kursk budget, all social protection expenses are 100% provided for according to the actual demand⁷.

⁷ Kursk city administration. "On developing the draft budget of the city of kursk for 2017 and the planning period of 2018 and 2019". Resolution (2016).

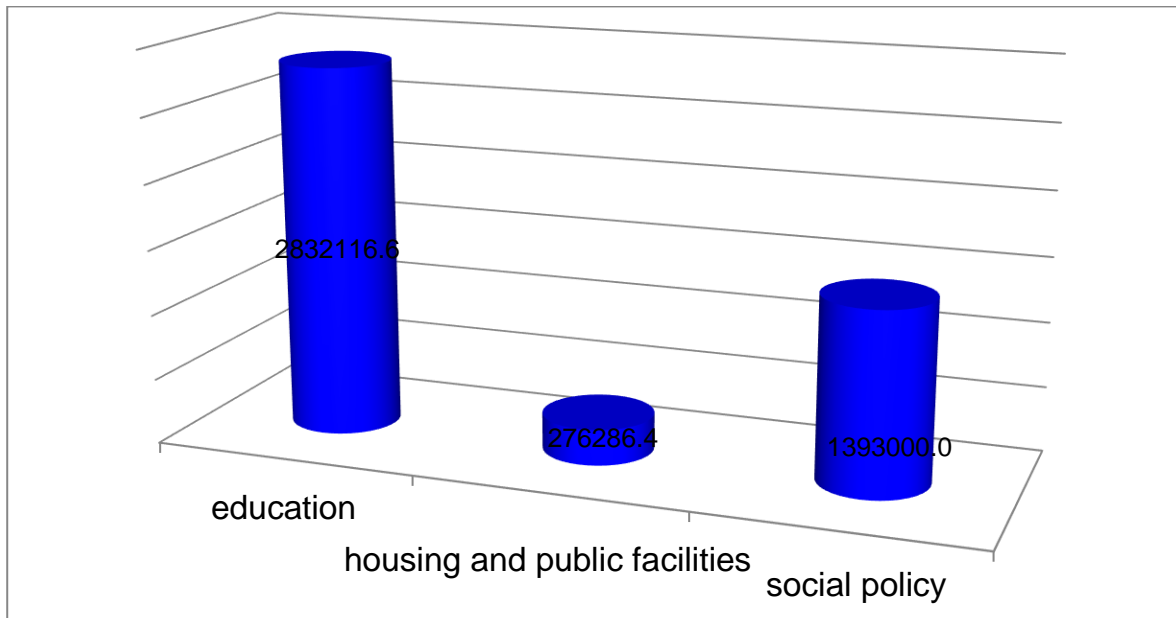


Figure 5
Expenditures by sector, 2016, thousand rubles

The amount of inter-budgetary transfers from the budget of Kursk Oblast in 2016 is estimated at 3 119 018.829 thousand rubles. The amount of financial aid to the budget of Kursk for 2017 and 2018 is not finalized due to drawing up the regional budget for a single year — 2016.

To balance the draft 2016 budget, as per the decision of the Committee for budget agreement for the year 2016 and the planning period of 2017-2018, the budget deficit financing sources include a commercial bank loan in the amount of 832 million rubles that is to be allocated to the settlement of the previous loan of 555 million rubles and to cover the budget deficit of 277 million rubles.

The excess of expenditure over income in the 2016 budget of Kursk is as much as 277 000.0 thousand rubles, in 2017 — 677 000.0 thousand rubles, in 2018 — 555 000.0 thousand rubles (Fig. 6).

The aggregate budget deficit of the city in 2016 is not in excess of the threshold level of 10% of tax/non-tax revenues, which, all in all, is a testimony to the fact that the budget is well-balanced despite the unstable economic environment of today.

Under the conditions of the world economic recession and instability of the basic macro-economic indicators, Russian President Vladimir Putin signed the Federal Law No. 273-FZ of 30 September 2015 “On drawing up and approving budget estimates in the Russian budgetary system in 2016” designed to provide a framework for a one-year budget for 2016.

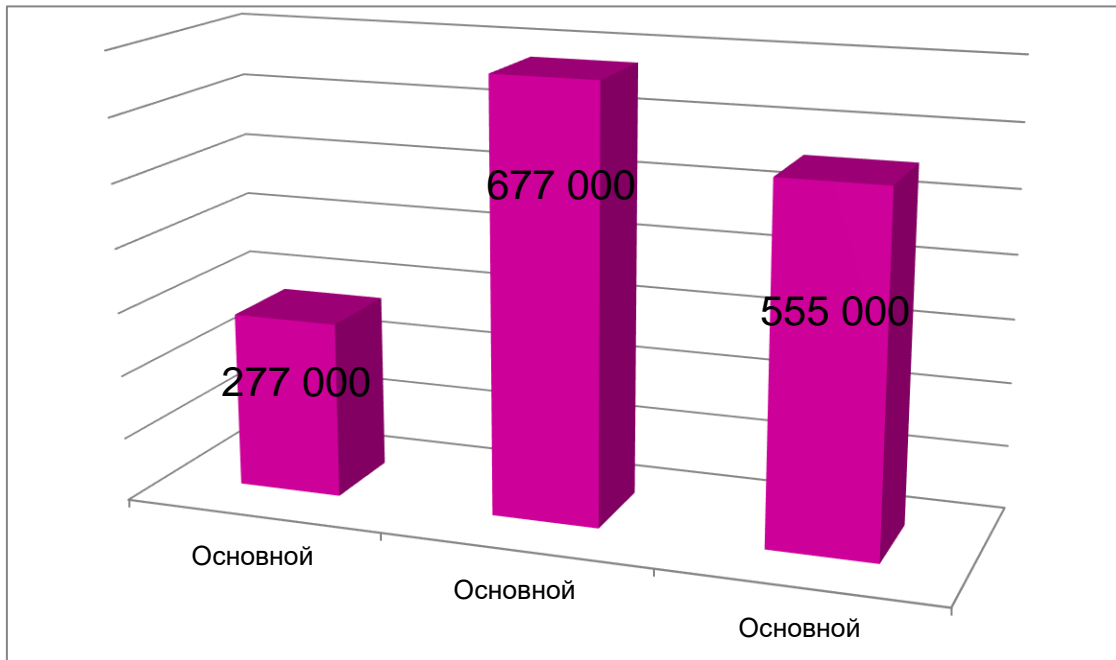


Figure 6
Budget deficit, thousand rubles

Previously, budgets were set for three years in advance, in accordance with budgetary regulations and proceeding from the oil price of 50 U.S. dollars for a barrel. For 2016, the same level of oil prices is used, while in the future (2017-2018) the budget regulation will be resumed, but in a modified form. The document signed into law by President Putin introduces a suspension — till 1 January 2016 — of some provisions of the Russian Budgetary Code, and gives legal framework for drawing up and approving the federal budget and public non-budgetary funds for the year 2016, i.e. establishes short-term planning as a temporary measure⁸. This measure applies only to budget issues, whereas all other estimates including socio-economic development of the country are to be planned long term as before, which demonstrates the government's adherence to a well-planned social policy. These tendencies have had an impact on all levels of the budgetary system including municipalities; this is what accounts for the absence of planned indicators of inter-budgetary transfers and for the growth of budget deficit.

Conclusion

Drafting the budget of Kursk is performed within the framework of 16 municipal programs on the basis of the 2014-2018 fiscal policy; however, it seems quite possible that the revenue base of the local budget will be strengthened through entering real estate, particularly land lots and non/residential premises, into the Cadastre. With a view to improving the economic and financial resilience of the Kursk city budget, it seems wise to consider the issue of creating an appropriate investment climate given the social and economic peculiarities of the municipality's life and development.

⁸ "On drafting and approving budget estimates in the budgetary system of the Russian Federation; on introducing changes and amendments to individual legislative acts of the Russian Federation; and on recognizing null and void clause 3 of the federal law "on suspending particular provisions of the budgetary code of the Russian Federation"". Federal law of Russia no. 273-fz. (September 30. 2015).

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