**BUDGETING IN THE LOCAL SELF-GOVERNMENT UNITS AND ANALYSIS OF THE IMPLEMENTATION OF THE BUDGET IN THE LARGEST MUNICIPALITIES IN THE REPUBLIC OF NORTH MACEDONIA[[1]](#footnote-1)**

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***Abstract:***

*More precise budget planning will lead to more accurate determination of the way of spending of the Municipality funds. The budget should be based on a balance operation, always following the realized revenues and thereby balance the expenditures of funds. When preparing the budget, certain principles should be respected. In this paper research will be done according to the sources of financing and to the economic classification of revenues and expenditures in the local self-government units. The research will prove the lower transparency of the Municipalities in the Republic of N. Macedonia. The average of transparency is 73.60%. About the revenues and expenditures there will be more results separately about the planned and realized budget, as well as the separate items within the budget, their correlation and interdependence. The average of revenues realization is 78.56%, and the average of expenditures realization is 77.26%. This will prove at what level the local self-government units are and how and where they should act when creating the municipal budgets, in order to have a better execution of the budget, more successful operation and of course to strive for greater transparency.*

***Keywords:***

*Budget, Final account, Local-self governmental units, Revenues, Expenditures, Analysis.*

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**I – Introduction**

The basic purpose in the preparation and execution of the budget is macroeconomic stability and sustainable and stable national economic development (Decree for the promulgation of the law on budgets, 203,2022). The budget is an act of the central and local governmental, which plans the annual revenues end inflows and carries the annual expenditures and outflows of the state and the municipality. This, the unrealized funds of the current year cannot be transferred to the next year, and that refers that the budget is for one fiscal year. Budgets are financial plans for the upcoming year that show the forecasted expenditure and revenues for the municipality. The budgets determine how public resources from the National Revenue Fund will be utilised to perform service delivery obligations and provide for the municipality’s needs (People's & assembly). The budget of the local government presents the values and priorities of the municipality. Budgeting is a process of creating plans for how money will be spends. More precise budget planning will lead to more accurate determination of the way of spending of municipality funds. The budget should be based on a balanced operation, always following the realized revenues, and thereby balancing the expenditures of funds.

Through long-term financial planning, it will be possible to adopt a more realistic budget and a more realistic picture of how much funds can be spent in the future by separate categories. The budget in the Municipalities actually indicates how much money the Municipality will be able to collect and spend during one year. The budget is also a tool for monitoring the evaluation in the operation. It compares the revenues and expenditures incurred in the past year with those actually achieved in the current year. Through this, the success of the operations of the Municipalities is perceived, and of course recommendations are also given for future operations.

The basic structure of the budget of the local-self-government units consists of three parts, namely as a general, special and a development section.

The general section contains the total revenues and expenditures and other inflows and outflows for the fiscal year, as well as the projected inflows and outflows for the next three years. Included here are a consolidated balance sheet of revenues and expenditures, functional classification of the expenditures, a balance sheet of current operating revenues and expenditures, and a balance sheet of capital revenues and expenditures.

The special section contains the plan of approved funds in programs and sub-programs and items for the fiscal year, with the presentation of the expenditures i.e., economic and functional classification.

The development section contains the mid-term plans of the development programs shown in the development projects.

**II – Principles on which the planning and execution of the Budget are based**

 The IMF Code is structured around four pillars: (i) clarity of roles and responsibilities, (ii) open budget processes, (iii) public availability of information, and (iv) assurance of integrity (Caamaño-Alegre, May, 2013). The basis of the planning and execution the Budgets in the local self-government units should be based on certain principles, in order to enable better and more realistic composition of the Budgets for the coming year, as well as greater accountability and transparency.

* *The principle of fiscal responsibility* implies that the budget of the Municipalities is planned and executed in accordance with medium-term fiscal goals, based on a realistic projection of macroeconomic indicators, undertaken obligations and existing legal obligations, and public funds that are managed in a way that ensures medium and long-term fiscal sustainability (Trenovski, 2022);
* *The principle of the economically, efficiently, and effectiveness* implies of the creating the Budget that will be in accordance of the set goals, satisfying the needs of the citizens in the most optimal way;
* *The principle of the comprehensiveness* implies the inclusions of the all categories that contain the Budget, all revenues, expenditures, inflows and outflows;
* *The principle of universality* implies that in the preparing of the budget is need to have universality, and some rules and regulations preparing;
* *The principle of specificity* implies that all activities are carried out exclusively within the previously set budget framework and specific indication of revenues and expenditures;
* *The principle of cash basis* implies that the budgets or financial plans of budget users are prepared and executed on a cash basis (Decree for the promulgation of the law on budgets, 203,2022);
* *The principle of the one year* implies that the budget is prepared for a period of one year, in which projections are made for future inflows and outflows;
* *The principle of a balanced budget* indicates that the budget should always be in balance;
* *The principle of transparency* implies public announcement of the budget in order to enable greater accessibility to citizens and presentation of the real picture of the consumption of public funds. The publication should be in the Official Gazette of the R.N. Macedonia, on the websites of the Municipalities or other media;
* *The principle of gender equality* indicates that the budget should be gender sensitive and that the gender component and the equal participatory representation of men and women should always be taken into account during its preparation. The Council of Europe defines gender budgeting as a ‘gender based assessment of budgets incorporating a gender perspective at all levels of the budgetary process and restructuring revenues and expenditures in order to promote gender equality’ (Equality, 2022).

**III – Procedure of adopting of the budget in the local self-government**

The basis of the adoption of the budget in the local self-government should be based on several keys, namely: Setting strategic goals of the local self-government unit, Analysis of revenues and expenditures assessment and preparing the Budget proposal, Public hearing and adoption of the Budget (through the decision made by the council from the Municipality) and creating a final account.

How much the budget will be developed, depends on the previously set strategic goals.

Every Municipality should be aimed on better monitoring of the Budget executing, and hence it is necessary to introduce certain indicators that will measure the performance and the results of the successful/unsuccessful implementation of the given program.

**IV – Analysis of the budgets in local self-government in R. N. Macedonia**

In order to achieve better presentation of the budgets of the local self-government units, it is necessary to conduct appropriate research regarding the budgets in those units. According to one survey, most Municipalities are not doing enough to meet the standards for openness. The results in the districts indicate that local self-government units apply low standards for consultation, transparency, monitoring, and control in their operations (Metamorphozis).

In the Republic of North Macedonia, the average result in the local self-government units according to the research through the Openness Index for the 2021 is 25% (Metamorphozis), which is a very low coefficient that expresses their openness towards presenting the real financial picture.

Within the framework of this paper, the research will be done od fifteen largest Municipalities (out of a total 80) in R. N. Macedonia.

The subject of the research will be the analysis of the budget of the fifteen largest Municipalities in the Republic of North Macedonia, their transparency, as well as the deviation, planned budget/realized and analysis of the separate items.

The purpose of the research is to prove a low transparency in the Municipalities of R. N. Macedonia, as well as the increased percent of deviations from the planned and realized budget, as well as the separate items within the budget.

**IV.1 –** **Transparency and openness in the biggest local self-government units in the R. N. Macedonia**

Transparency is a window of openness of the municipality to the citizens. The more transparent the municipality is towards its citizens that are the better awareness of population, criticality and feedback loop, which lead to better municipal success. It is necessary to point out that in the past period with Covid-19, the citizens needed a timely and transparent publication of the financial picture of the self-government unit, but it didn’t meet with positive understanding among most local self-government units. That is why transparency is at very low level globally in the entire country.

All budget reports should be published fully, promptly and routinely, and in a way that is accessible to citizens. In the modern context, “accessibility” requires that budget documents be available on-line, and that all budget data be presented in open data formats, i.e. in formats which can be readily downloaded, analysed, used and re-used by citizens, civil society organisations and other stakeholders (OECD, 2014).

In order for better presentation the real picture of some of the local self-government units in the R. N. Macedonia, for the purpose of this research fifteen Municipalities will be taken according to the number of inhabitants, namely (State Statistical Office, 2021): Kumanovo, Bitola, Tetovo, Gostivar, Prilep, Gazi Baba, Aerodrom, Cair, Struga, Karpos, Kisela Voda, Ohrid, Veles, Strumica and Stip. These Municipalities include 61.8% of the total population in the R. N. Macedonia, so the data that will come out of the research will represent the real picture of the majority of the population in the country.

In addition to insufficient transparency, some of the Municipalities publish budgets that are often incomprehensible, illegible, with incomplete data, as well as inappropriately published on the websites, however, but year after year, the transparency of the Municipalities is constantly increasing.

More than a half from the investigated Municipalities has a high rate of transparency, over 80%, while on the other hand there are also Municipalities with very low transparency which barely reaches 32% in the Cair municipality.

**IV.2 –** **Analysis of the planned and realized budgets in the local self-government units in the R. N. Macedonia**

In order to carry out more comprehensive research on the realization of the budgets of the local self-government units research was conducted that includes quantitative and qualitative analysis of the planned budgets and final reports for the Municipalities for the period of one year (01.01.2021-31.12.2021). As sources of information are taken from the websites of the Municipalities, public media and interviews conducted with certain Municipalities.

The analysis aims to give a clearer picture of the budget funds available to the Municipalities, the percentage of budget deviations, the percentage of budget implementation, as well as the individual items within the revenues and expenditure budget.

The analysis will be performed according to the financing sources and according to the economic classification. According to the financing sources within the budgets revenues and expenditures are classified and their corresponding inflows and outflows, according to specific type and purpose. They are classified into Budget account, self-financed account, subsidies, donations and loans.

According to the economic classification, the revenues and expenditures and their corresponding inflows and outflows according to the economic purpose are classified into classes, groups, subgroups, divisions and basic accounts. The economic classification is shown in Table no.1

***Table no.1 Economic classification of revenues and expenditures***

|  |  |
| --- | --- |
| REVENUES | EXPENDITURES |
| Tax revenues | Wages and allowances |
| Non-tax revenues | Reserves and undefined expenditures |
| Capital revenues | Goods and services |
| Transfers and donations | Interests |
| Borrowing in the country | Subsidies and transfers |
| Borrowing abroad | Social benefits |
|  | Capital expenditures |
|  | Repayment of principal |

Analyzing the total planned and realized revenues, it is established that the ratio between planned and realized revenues for 2021 in the 15 largest Municipalities in the Republic of Macedonia is 77.97%[[2]](#footnote-2). Of the analyzed Municipalities, the largest realization has the Municipality of Gostivar with 96.93%, and the smallest realization of revenues has the Municipality of Kisela Voda 64.90%.

Analyzing the total planned and realized expenditures it can be concluded that the total percentage of realized expenditures in relation to the planned for 2021 is 76.68%, of which da Municipality of Gostivar has the largest realization, and the smallest realization 64.53% belongs to municipality of Kisela Voda.

Considering the realization of the planned and realized revenues and expenditures, it can be concluded that both on the revenues side and on the expense side, the highest percentage of realization is recorded by the Municipality of Gostivar, while the smallest realization is recorded by the Municipality of Kisela Voda. What this is due to will be proven in some future research.

**IV.2.1 – Revenue analysis**

The largest part of the revenues, the Municipalities generate through transfers and donations and tax revenues. In all Municipalities, that percentage even reaches over 80%, which indicates excessive dependence of the Municipalities from the Central Government. The municipality with the largest percentage of participation of the realized tax revenues and transfers and donations in the total realized revenues is the Municipality of Struga. In this municipality this percentage is 97.16% and indicates too much dependence on funding from the Central Government, since only a small part falls on non-tax revenues and capital revenues. As the most independent municipality is the Cair municipality with 87.49%, but still, this is a high degree of dependence.

Some of the Municipalities (Cair, Kisela Voda and Veles) also record domestic borrowing, which in turn is even less independent action and the need for additional borrowing for the survival of the unit. Despite the fact that they have foreseen a higher amount of borrowing, according to the final account, the percentage of domestic borrowing is quite low in two Municipalities, while in Kisela Voda municipality the debt is as much as 50%.

**IV.4.2 – Expenditure analysis**

Analyzing the expenditures, it is concluded that the largest expenditure of the budget funds falls on salaries and allowances, goods and services, and capital expenditures. In almost all analyzed Municipalities, that percentage reaches over 90%. The municipality with the largest percentage of participation of those revenues is the Municipalities of Gostivar with 96.52%, and the smallest participation is in the Municipality of Ohrid with 88.73%.

At the end of this research, is presented a schematic representation of the realization of revenues in the R. N. Macedonia per capita. Hence, it can be said that there are drastic differences in per capita revenues from one local government unit to another.

The municipality that has the most funds per capita is Bitola, which has even 58% more revenues than Cair as the municipality that records the least for its residents.

**V – Conclusion**

 Within this paper, has been made a presentation of the basic conceptual definition of the budget as well as comprehensive research of the planned budgets and realized final accounts of the fifteen biggest local self-government units in the Republic of North Macedonia has been made. During the research several key conclusions were reached.

 In terms of transparency and accountability, a lot of work still needs to be done in almost all the Municipalities that were the subject of research. There are still Municipalities that do not publish their financial statements publicly and transparently. Such were the Municipality of Tetovo and Gazi Baba, while the Municipality of Strumica does not present cumulative financial reports. In some of the other Municipalities, it was quite difficult to get data, given that the annual accounts are not immediately visible.

 About weaknesses, it is best to divide them into two bases, weaknesses for revenues and weaknesses for expenditures. In fact, they arise from the construction of the final account. The weak side of the revenues is the uneven generation of revenues from separate items. Revenues with the largest share in total revenues are transfers and donations and tax revenues. Hence, it should be stated that the Municipalities should aim to reduce their dependence on the central budget, while providing more funds from their own sources.

 Some of the Municipalities (Chair, Kisela Voda and Veles) also record domestic borrowing, which in turn is even less independent action and the need for additional borrowing for the survival of the unit.

 In terms of expenditures in almost all Municipalities, the share of wages and benefits, goods and services, and capital expenditures in total expenditures even reaches over 90% of the total percentages, which in turn represents a very high value that falls only on these three items.

 In the case of capital expenditures, the majority of funds are allocated to other construction facilities, and a good portion is also allocated to the purchase of equipment and machinery. Given that not all Municipalities provide a realistic picture of what these capital expenditures are, and yet the purpose is broad and should have a long-term effect, it should be noted that the Municipalities should take into account the more specific presentation of expenditures in this item, such as and investing in capital expenditures that will relate to the development of road infrastructure and other facilities important for the Municipalities.

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 [↑](#footnote-ref-1)
2. In this research are not taken data for the municipalities that do not have transparently published data. Tetovo and Gazi Baba municipalities have not published final account at all, and Strumica municipality has not published the cumulative final account. [↑](#footnote-ref-2)