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FACTORS AFFECTING THE DETERMINATION OF THE THRESHOLD AMOUNT OF LOCAL BUDGET REVENUES AND EXPENDITURES

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Abstract:
This academic thesis analyzes the main factors that affect the determination of the threshold amount of revenues and expenditures of local budgets. It explores the economic, legal, demographic, and institutional factors shaping the revenue side, as well as social needs, natural-geographical characteristics, and local governance policies that influence the expenditure level. The interdependence of these factors and the necessity of their consideration for ensuring local financial stability are substantiated. Practical proposals for more effective management of the local budget system are also developed.

Keywords: local budget, revenues, expenditures, threshold amount, financial stability, tax base, social needs, economic factors, budget policy, local governance.

Introduction

Local budgets play an important role in a country's overall financial system. Through them, regional socio-economic development is ensured, and essential social services that affect the population's quality of life (such as healthcare, education, public utilities, etc.) are financed. In this regard, determining the threshold levels of local budget revenues and expenditures is of critical importance.

To determine the threshold amounts of revenues and expenditures, maintain their proportionality, and pursue a sustainable financial policy, it is necessary to consider various economic, demographic, legal, and institutional factors.

Main Factors Influencing Local Budget Revenues. Local budget revenues are shaped by internal and external factors that determine financial capacity, tax inflows, and other funding sources in the region. Key types of these factors include:

1. Economic Factors

- Gross Regional Product (GRP): The higher the economic potential of a region, the greater its budget revenues.
- Development of Industry and Service Sectors: Enterprises and businesses are major contributors to the revenue side of local budgets.
- Breadth of the Tax Base: The number and efficiency of taxable activities.
- Level of the Shadow Economy: A larger informal economy leads to lower official budget revenues.
- Volume of Investments: Investments bring new jobs and increase tax revenues.

2. Demographic Factors

- Population Size and Structure: Regions with larger populations usually have greater economic activity and tax revenues.
- Share of Working-Age Population: The number of individual taxpayers ensures a stable revenue source.
- Income Levels: Higher incomes among the population result in higher tax payments.

3. Legal and Institutional Factors

- Tax and Fiscal Policy: Local authorities' decisions on taxation significantly affect revenues.
- Degree of Fiscal Decentralization: Greater financial autonomy allows local authorities to make revenue-enhancing decisions.
- Financial Oversight and Audit Systems: Essential for accurate accounting and efficient management of revenues.

4. Effectiveness of Tax Administration

- Tax Collection Mechanisms: More digitalized and automated systems improve efficiency.
- Level of Corruption: Corruption negatively affects tax revenue collection.
- Tax Discipline and Accountability: Public awareness and legal responsibility among taxpayers are key.

5. Government Transfers and Grants

- Subsidies and Allocations: Financial support from the central government is a major revenue source for local budgets.

- International Grants and Technical Assistance: External financing also impacts local budget revenues.

6. Natural and Geographical Factors

- Availability of Resources: Regions with natural resources benefit from extraction and processing revenues.
- Geographic Location: Proximity to trade routes and logistics hubs influences economic activity.

Main Factors Influencing Local Budget Expenditures. Local budget expenditures reflect the amount and structure of financial resources allocated to implement regional socio-economic objectives, meet the population's needs, and fund state policies at the local level. These factors can be grouped as follows:

1. Socio-Demographic Factors

- Population Size and Growth Rate: Larger and growing populations demand more spending on education, healthcare, housing, and social services.
- Age and Social Composition: Higher proportions of children, pensioners, people with disabilities, and low-income groups increase social protection expenditures.
- Urbanization Level: Urban areas may require more spending on infrastructure, transport, environment, and utilities.

2. Economic Factors

- Level of Regional Economic Development: Economically weaker regions may require more social subsidies and support.
- Volume of Budget Revenues: Higher revenues may allow for expanded expenditures (considering budget balance).
- Inflation Rate: Rising prices of goods and services necessitate budgetary adjustments.

3. State Policies and Reforms

- Local Development Programs: Regional investment projects and infrastructure reforms directly impact expenditures.
- National Reforms in Sectors like Health, Education, Energy: These require the realignment of local spending to match national priorities.

4. Natural, Geographical, and Infrastructure Factors

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- Climate and Terrain: Rural areas may require more spending on roads, water supply, and electricity.
- Condition of Existing Infrastructure: Deteriorated or missing infrastructure demands greater investment.
- Risk of Natural Disasters: Regions prone to floods, earthquakes, or droughts must allocate emergency reserves.

5. Legal and Institutional Factors

- Legal Requirements: Certain expenditures are mandatory by national or local laws (e.g., teacher salaries, school repairs).
- Capacity of Local Governance: Independence and institutional strength affect how resources are allocated.
- Transparency and Accountability in Budget Processes: Poor management can lead to inefficient or misallocated spending.

6. International and Central Government Financial Support

- State Budget Transfers (subsidies, grants): These enhance the spending capacity of local governments.
- International Grants and Loans: Targeted funding (e.g., for environmental projects) can influence local budget structures.

Conclusion: Determining the threshold levels of revenues and expenditures in local budgets is a complex and multifactorial process that requires in-depth analysis of each region's economic, social, legal, and natural features. For balanced budgets, sustainable financial policies, and strengthened economic independence of local authorities, these factors must be systematically considered.

Recommendations:

1. To stabilize tax revenues:
   - Improve tax administration and expand the tax base;
   - Reassess tax incentives to increase local budget inflows.

2. For effective expenditure planning:
   - Establish procedures that align spending with population needs;
   - Develop indicators to evaluate expenditure efficiency.

3. To ensure transparency and accountability:
   - Disclose local budget planning and execution to the public;
   - Involve civil society and the local population in the budgeting process.

4. To implement a regionally differentiated budget model:

○ Apply customized budgeting methods tailored to the characteristics of each region.

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