

BUDGETS OF MUNICIPALITIES - FACTORS SUCCESSFUL FUNCTIONING OF VRNJAČKA SPA

Jelena Mistopoljac¹ – Student; Milutin Djuricic², PhD;

¹Bussines – Tehnical school Užice of professional studies Užice, e-mail: jelenamistopoljac@gmail.com

²Bussines - Technical school Užice of professional studies Užice, e-mail: milutin.djuricic@vpts.edu.rs

Summary: *The budget, as a basic document for the financing of state functions should provide state financing for the entire budget year. It includes developed a list of income and expenses, together with their planned amounts for the next year, as well as complementary processing and related provisions. The budget has an economic-financial and political significance because it was done obtaining the resources needed for the successful conduct of national affairs. It is necessary for the continuous monitoring of all public revenue funds and their transformation into public expenditure to ensure the legality of the execution of the budget in all body entrusted with handling and spending of public money. Budget control and audit as an important segment of the budget execution, as a kind of supervision and orders for the budget. Exactly all these issues are the subject of this paper, applied to the municipality of Vrnjačka Banja.*

Key words: *budget, revenue, expenses, audit*

1. Introduction

State budget or municipality budget, as a one-year document, represents a list of planned incomes and expenses. All levels of authorities, has their own budgets, adopted by legislative authority. Budget is considered as a financial plan for a new business year. If the execution of the financial plan during the financial year, approximately respond to the figures shown in the budget, it means that financial plans were successfully implemented.

State budget, as a financial plan for a one year, is prepared by Ministry of finance with cooperation with other ministries, and it's adopted by National Assembly, in a form of a law. Town and municipality budgets are adopted by Town or Municipality Assembly. Budget provisions, for all expenses, are binding for all State authorities and should not be transgressed without budget amendments, in the same procedure by which it was adopted.

The task of this analysis is to provide detail informations about functioning of a budget of Municipality of Vrnjačka Banja.

2. Term and characteristics of budget

The municipal budget¹ is the basic document for the financing of local government - municipality². The budget is not just an act of financing state functions, but the state through instruments of a fiscal policy and instruments of

¹ The budget is the basic document for the financing of state functions in each country. Depending on how you define the state government functions and duties of the state budget is theoretically defined as a legal act or law. In our system, the budget law is being prepared and adopted a "package" with other laws.

² General powers of local government are defined by the Law on Local Self-Government of 2002, which specifies the scope of the original jurisdiction of the municipality as the basic territorial unit in which local authority is exercised. Particularly interesting are the following functions: creating development programs; brings urban plans; Adopt the budget and the final budget; regulate and provide for performing and development of municipal activities; adopt programs for the construction land, land use and determines the compensation for the use and land development; care of the environment, adopts programs on the protection of natural resources and environmental protection; regulate and ensure the use of public space; establish institutions and organizations in the fields of education, culture, primary health care, physical culture and sports, children and social welfare and tourism, supervise and ensure their proper functioning; organize activities related to the protection of cultural assets of local interest, encourages the work of cultural societies and creating conditions for the work of museums, libraries and others. Cultural institutions which it establishes; encourage and ensure the development of tourism on its territory and determine the amount of tourist tax, etc.

In addition to operations from the original jurisdiction of the municipality, as well as local governments, municipal administration performs tasks entrusted to the law on social protection, tourism, environmental protection, agriculture, water management and civil engineering.

resource allocation, achieves political, economic and social function. In order to reach the optimal functions of financing system, it is necessary to start from the theoretical basis for defining the functions of the state, the state's obligations and funding sources. Establishing the functions and duties, leads to income and sources of income. All modern states have a legal instrument to finance state functions, and it is usually the state budget. In order to execute activities related to its jurisdiction, the state need some funds. Sources of financing state functions are mostly incomes that the state receives of the economy, population, and domestic and foreign loans (taxes, fees, penalties, interest income and the sale of state property...). The budget as the act of the state should provide state financing for the entire budget year. It is necessary to point on a goal wich should be achieved and highlight an importance of a budget.

The main goals of the budget can be defined as the ratio to the budget that must be achieved: the budget is an overview of public revenues and public expenditures for a given period; to provide resources for the execution of state jurisdiction; as one of the most important goals of the budget is the expression of all government revenue and government expenditure. The budget has an economic-financial and political significance.

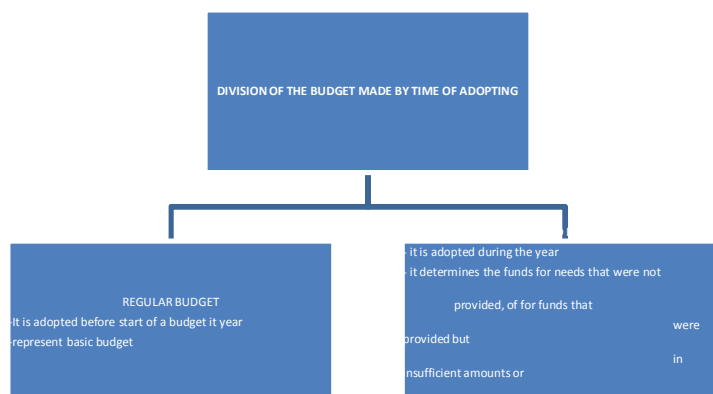
In order to execute the Constitution and tasks and functions set by laws, municipality must dispose of certain financial assets, which means that municipality must have a regular source of income that will finance the performance of those tasks. In order to provide organized and planed financing of these tasks, it is necessary to determine needs (public needs) and financial resources. Needs (public expenditure) are foreseen in the budget, as a rule, individually and as intended. The funds (public revenues) are predicted by sources, and shall determine the amount to which should be collected. The budget is therefore primarily a financial instrument designed to finance the tasks and functions of state authority, which determines the sources of income and expenditure. In addition to financial and balancing characteristics of collecting revenue and expenditure budget has a very significant economic features and characteristics, which are reflected in the impact it has on the production, distribution, exchange and consumption. The budget is one of the most important instruments of redistribution of national income. It represents funds allocated from the national income, which are determined by further purpose of these funds distributed to the personal, tangible and often investment expenditures. This new distribution is greatly influenced by the production and consumption of goods.

Budgetary principles are:

- The principle of complete budget, which means that the budget showing all income and expenditure shown in the full amount (gross budget), or the net amount, when previously separate budget revenues than expenditures, so that the budget shows a surplus of income over expenditure (net budget).
- The principle of the budget of transparency, the principle of the budget is provided so that the revenue and expenditure in the budget are grouped in a unique manner, and to the sources of revenues to and expenditure according to their purpose.

The budget must be only and exclusive act of financing public needs, and next to it there can be no other financial instruments. It can be classified according to two criteria: the time of issuance (Figure 1) and the homogeneity of the budget.

In practice, it is common so-called, Corrected budget, which has the status of the regular budget, for corrections made in the regular annual budget (budget rebalance). Corrected budget shall be adopted only in a case of greater disruptions of the proportions set out in the regular budget so that it can not establish balance the budget by other measures to balance the budget (by transfer, short-term cash loan, reserve funds, etc.). The possibility of providing more kinds of budget for financing public needs, points on problems that may arise regarding the necessity of using such opportunities. A logical problem of homogeneity of the budget, refers to its unity and its integrity. Thus, the problem of homogeneity imposes two basic questions: first, whether the state funding for their needs should have only one budget or may have more budget; second, whether all revenue which the state provide and allocate for the financing of its requirements, should be stated in detail in the budget or not. The first question essentially boils down to the unity of the budget, and the other on the frame completeness. The budget must be only and exclusive act of financing public needs, and next to it there can be no other financial instruments.



Picture 1. Division of a budget (Law of a budget system)

Economic and political reasons in modern states, cause the need to deviate from the strict implementing a unified budget and that the funding of certain needs is performed by the following budgets:

- Extra budget, which settles state needs that occur irregularly and sporadically. These are specialized budgets, whose income is irregular and temporary (loans) and today they stand as investment budgets and intention is to normalize their application. Often a distinction is made between the extraordinary budget of investment character and extraordinary budget in which expenses are reported on the repayment of government loans (public loan). Therefore, one of them are called investment budgets, and other are called amortization budgets.
- Annex budget, as a specialized budget, is established to cover public needs that are not identical with the needs of the state administration, because they predict the revenues and expenditures of the autonomous bodies and institutions and state enterprises. In a modern state, there is a so-called, the public sector of the economy or public sector enterprises for transportation: railways, post, telegraph and telephones, transport enterprises, etc.; in some countries those are steel mills, coal mines, petrochemical industry, the tobacco industry and others. Relation of the state budget and the annex budget can be determined so that the budgets of these companies are included in the state budget. However, these companies may have greater financial independence, so in that case, their budgets are representing an annex to the state budget.
- Autonomous budget for commercialized institutions that perform a public service, is a very similar to annex budgets. The difference between them is reflected in the fact that the annex budgets are state budget annex, which is considered by the representative body, and autonomous budgets are not adopted by the representative body, but some of the state authorities. Institutions that are funded by the autonomous budget may receive a grant from the regular budget, but such grants are no different from a budget grant given to the private economic enterprise. At the end of the year, budget with transfers must be confirmed in a representative body or the adoption of the final budget accounts. In a case of a significant deviation during the budget year, the budget rebalance is prepared, adopted by the same procedure as the budget. Achieving significantly higher revenues and expenditures, causes the budget rebalance.

3. BUDGET ADOPTION

The Act on the budget is an act which estimates revenues and receipts and determining expenditure and outlays for one or three years and it is adopted by the Municipal Assembly, it contains important provisions for the execution of the act, when budget is adopted for three years, revenues and receipts, expenditures and expenses are reported for each year separately. Budget beneficiaries are the direct and indirect beneficiaries of budget funds of the Municipality of Vrnjačka Banja and public enterprises that were established by local authorities. Direct beneficiaries are the bodies and services of the Municipality, while the indirect ones are established by the municipality, the budget funds, local communities. The financial plan of direct or indirect budget beneficiary is an act which is based on the guidelines for the preparation of the budget in accordance with directive for the preparation of medium-term plans and projections of MTEF planned fiscal strategy that contains an estimate of revenue and earnings and the volume of expenditures and expenses for period of one or three years. Appropriation is executive authority given by the act on the municipal budget adopted by the Municipal Assembly, to spend public funds up to a certain amount and for certain purposes for the fiscal year and the amount of funds specified in the financial plan. The quota represents a

spending limit for certain appropriations for the period. Priority budgetary targets for the preparation and execution of the budget, are macroeconomic stability, low inflation, economic development, fostering regional development and reduce of financial risk.

During budget preparation and execution, there are some principles of efficiency, economy, effectiveness, transparency, completeness, accuracy and unique budget classification, that must be venerate.

4. THE CONTENT OF THE BUDGET

The budget is consisted of developed list of income and expenses, together with their planned amounts for the next year, as well as complementary processing and related provisions (all individual taxes, fees, taxes, penalties, interest income and the sale of state assets, etc.). On the expenditure side, which also follows material laws, are used two divisions. The first is administrative, or by state institutions as holders of expenditure (Assembly, ministries, agencies, courts, health, education, etc.). A second economic functions (wages and social benefits for the employees, material costs, investments, paying off debts, subsidies, budget reserve, etc.). Usually these two divisions combined and receives a complex classification.

4.1. Budget revenues

Revenues are defined as the increase in the economic benefit during the accounting period, like increase of funds, or reduce of the burden, which results in the increase of the capital, in exception of increase which is realted to the contributions of the participants in capital. Revenues are provided from following transactions:

- a) the sale of goods,
- b) the provision of service;
- c) the use of corporate assets by others, which can result in yields from interest, tantieme and dividends.

Income³ includes only the gross inflows of economic benefits which companies receives or claims for own account. Amounts collected on behalf of third parties –VAT, do not belonge in revenues because companies do not lead to an increase of capital. The definition of income includes both revenue and gains. Income occurs during ordinary activities of a company, and it was marked with different names, such as solling (realisation), charges, interest, dividends, tantieme and rents. Revenues occurs from operating changes are mainly determined by agreement between the company seller and the buyer or user of resources on the other side. Under the business change is considered seling the goods or perform a service that brings contracted revenue. Revenues are recognized only in the case of realistic expectation of revenues that are of economic benefits and associated with the business changes in the company.

Public revenues are conected to financing of the public sector (Public Accounts), which are shown in the state budget (local government, etc.). It is ideal for buidget to be balanced, respectively to cover public expenditure from public funds. Considering that today, most of the country has a deficit, public revenues have not been able to cover public expenditure, so in order to cover the budget deficit borrowing, ie. public loans, are used. In accordance with the foregoing, the public finances are studing:

- Public expenditure-cash charges of a state, in order to achieve general useful objectives;
- Public income ,funds that the state collects for financing public expenditure;
- Budget, periodic plan of public revenues and public expenditures;
- Public credit, loans used for financing the state budget deficit.

Public revenues are financial state funding for general and common needs. They are formed through the distribution and redistribution of national income. The classical theory consideres the taxes, fees and revenues, as a normaly regular public incomes which are used to conceal a public expences. Modern financial theory, in addition to traditional public revenues, acceptance and public debt, issue money and other forms of public revenue as additional

³ ULG belonging to the original revenue generated on its territory, as follows: property taxes, excluding taxes on transfer of absolute rights and taxes on inheritance and gifts, local administrative fees, local municipal taxes, local taxes, fees for use of public resources in accordance with the law , concession fees, other fees in accordance with the law, the revenue from fines imposed in misdemeanor proceedings for misdemeanors prescribed by an act of the assembly of the local government, and seized assets in this process, income from leasing, or the use of real estate and movable property owned by the Republic of Serbia used by local governments or authorities and organizations of the local government unit and indirect beneficiaries of its budget, revenues from leasing or the use of real estate and movable property owned units local government, revenue from sale of service users of the budget of the local government which is contracted to provide natural and legal persons, interest income on funds budget singular ice of local government, income from donations to the local authority, on the basis of voluntary income.

public revenues, which are used to conceal public expenditure. Public debt is becoming a regular source of public revenue of modern states. The level and structure of public revenues is depending of public office, the economic power of the state and the actual economic relations. Public revenues are expressed in money and they are used to cover the costs of a general nature in the one-year period. They are the basic institutions of public finances, part of the newly created values together, and their use does not endanger the existing property. Public revenues are an effective instrument of financial and economic policy. Entity tax policy has the right to tax sovereignty (the right to introduce taxes) and on several levels it depends of the social and political beliefs.

Public revenues are taxes, excise taxes, customs duties, fees, mandatory contributions, nontax income, and other income.

Taxes are the most important public revenue. State (including its political - territorial communities) of the subjects under its tax authority, forcibly taking funds without immediate favor, in order to cover its financial needs and above all other economic and social objectives. This is such income, where is not pre-determined its purpose and is made exclusively in cash.

Excise tax or excise duties, the special tax on certain products (alcohol, cigarettes) in the manufacturing, wholesale and retail.

Customs duties are a form of public revenue that is collected during the crossing of goods across the state and the customs border. Customs are representing obligation of the importers - exporters that, to pay the required sum of money to the government, when the goods cross national borders. Customs duties are a kind of indirect taxes which is charged when goods are crossing the customs line. The aim is not to increase customs revenue state, but to protect domestic production, especially those who are just beginning to develop.

Fees are income - cash equivalent for services that organs of state administration or other public bodies, do for citizens and firms. Fees are classified as administrative fees, local communal fees and court fees.

Fees, mandatory contributions, nontax income, and other income are another segment of the public revenue.

4.2. Budget expenditures

The expenditures are consisted of operating expenses, financial expenses, expenses arising from impairment of assets and extraordinary expenses. By definition, they include costs and losses arising from the usual activities of a business entity. Recognition of expenses resulting from the recognition of an increase in liabilities or decrease in assets.

Public expenditures represent cash outlays that the State makes in the public interest to satisfy public needs. They are characterized by:

- to serve the public needs to settle, unlike the expense of private individuals who are dedicated to meeting personal needs and

- Public expenditure, by the rule, are expressed in cash, and it does not mean that in a modern market-oriented economy, you can not find other cases of other ways for the settlement of the public expenditures (subsistence, committed, in the form of honors, etc.). Non-monetary ways of realizing public expenditures represent a potential risk of possible corruption, privilege of public officials, as well as a great opportunity to avoid public revenues.

The growing increase in public expenditure in modern conditions, as well as their increased role in economic and social life, in order to facilitate the study, in front of the financial theory puts the problem of classification of public expenditure in a particular group. According to that, there are the basic classification of public expenditure:

- Regular and extraordinary;
- Personal and material;
- Production and Transfer;
- Cash and in-kind;
- Productive and unproductive;
- deferrable and urgent;
- Expenditures of central, regional and local authorities.

5. THE AMENDING BUDGET

The amending⁴ budget represents reviewing the relationship in public spending, in order to establish new relationships in income or expenses. Rebalancing (amending budget) is made when state is no longer able to execute

⁴ The revised budget is adjusted revenues and receipts and expenditures and expenses budget at a higher, lower, and the same level approved by the Assembly.

the budget. The amending budget is also done, through the redistribution of current level of incomes according to achieve a specific goal within the current economic policy. This measure, could not be identified with the so-called, transfers, because in this transaction, you only change purpose of some of the incomes. At the transfers, the decision, as a rule, is made by the executive authority, while the amending budget, decision is made by the representative body (Council, Parliament, Congress, etc.).

6. BUDGET CONTROL AND AUDIT

Budget control⁵ and audit⁶, as control for the execution of an budget, is a very important segment of the budget. Usage budget control and audit, ensures the legality of the execution of the budget in one year (the budget year). As budgetary resources represents an important part of the national income, it is necessary to provide certain temporary control over the work of all bodies entrusted with the handling and spending of public money. Budget control can be classified according to the method, time, structures and organs which perform control. These include control of all entities that collect and spend public revenues. In order to achieve effective budgetary control, it is necessary to provide control in a certain period of time and in the process of executing the budget, in order to cover all the authorities in the execution of the budget and all the stages through which public revenue funds transfers, transformed into public expenditure. Budgetary control represents supervision of the accountant ordered and over budget, and checks the spending of the public revenue.

Budget revisions may include control of the purpose and useage of public expenditures, and it warns of the appearance of irrational allocation of public revenues. And this is only similarity between the control and audit, althou audit has specific goals and objectives. The audit must be completely independent from the government and other executive authorities. In this way, the main state auditor is fully independent and by the law, he is responsible only to representative body.

CONCLUSION

The budget has the character of the financial plan of the state or its administrative units for one year and is one forecast, but it is more than that: the budget provisions are binding for state bodies on the expenditure side and projected expenditures should not be exceeded without a revision of the budget, ie. without changes to the budget by the same procedure by which it was adopted. The budget is a legal document that obligates to legally executed all items of the budget.

In order to legally operate the state and its administrative units must comply with all regulations governing the spending of funds, in order to remove any suspicion of their purposeful spending.

The budget is eventually became inflexible instrument for the control of expenditure, which is financed from the budget, so that resources are allocated each year for certain tasks and functions, without going into the substantive requirements analysis and the results achieved. Disadvantages of budget financing have caused budgetary reforms carried out by the individual states, and to carry out the transformation in budgetary spending. The changes were reflected mainly in putting emphasis on certain budgetary principles, change in the budget procedure, in combination or more types of budget (state budget, the agricultural budget, etc.). Despite all the changes the essence of traditional budget has not changed.

Budget brings economic effects in several ways:

a) its existence because the collection of budget revenues reduces private investment and general economic activity, while expenditures have a positive impact on the economy, both through government spending, as well as the services that it provides (legal system, personal security , money, etc.)

⁵ Financial control means the achievement of objectives through the operation in accordance with regulations, internal policies and contracts, reality and integrity of financial and business reports, economical, efficient and effective use of resources, protection of resources and data (information). It includes the control environment, risk management, control activities, information and communication, and monitoring and evaluation system.

⁶ The audit provides advisory services, which consist of advice, guidance, training, assistance and other services in order to increase value or improve the management process a given organization, risk management and control, performing the internal auditors, and for the establishment and provision of conditions for the proper functioning of the audit responsibility the manager of a public asset.

- b) its size because it is believed that in general private actors productive use of money than the state, it is better that the share of government spending in GDP less
- c) the existence⁷ of a deficit or surplus in the budget because the existence and financing deficit may result in inflation, surplus usually an obstacle to economic activity and the majority of economists favor a balanced budget. Modern budgeting associated with the general economic policy planned for the longer term (few or several years) in order to create a coherent basis for budget planning and economic policy.

REFERENCES

1. <http://vrnjackabanja.gov.rs/> Информатор о раду Општинске управе
2. <http://vrnjackabanja.gov.rs/> Буџет Општине Врњачка Бања
3. ПЕТКОВИЋ. З., *Пореско књиговодство и евиденција*, БПШ, 2011
4. „Закон о буџетском систему“ „Сл.гласник РС“ бр. 54/2009, 73/2010, 101/2010, 101/2011, 93/2012, 62/2013, 63/2013 - испр., 108/2013, 142/2014, 68/2015 – др.закон, 103/2015 и 99/2016
5. „Закон о финансирању локалне самоуправе“, „Сл.гласник РС“ бр. 62/2006, 47/2011, 93/2012, 99/2013, 125/2014, 95/2015, 83/2016, 91/2016, и 104/2016 - др.закон
6. „Закон о локалној самоуправи“ „Сл. гласник РС“ бр. 129/2007 и 83/2014 - др.закон.

⁷ The budget surplus or budget deficit is the difference between total revenue and income realized from the sale of non-financial assets and the total amount of expenditures for the purchase of non-financial assets.

Plan budget execution presents an overview of the planned revenues and receipts of budget funds by source of funding and a review of planned expenditures and expenses. Planning cash flow budget based on revenue and income, expenses and expenditures in the plan for the execution of the budget prepared by the budget beneficiary in accordance with the methodology and terms done by the Treasury or local government body that is responsible for finance.