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## ANALYSIS OF THE VOLUME AND STRUCTURE OF ORIGINAL AND ASSIGNED REVENUES OF THE BUDGET OF THE CITY OF LESKOVAC

### Abstract

*Strengthening the financial independence of local self-government is a prerequisite without which the demand for faster democratization and decentralization of state power, as well as the implementation of economic development processes, cannot be fulfilled. In order to achieve a series of tasks and functions that the state is obliged and competent to perform, it needs certain financial resources. Local public revenues represent the revenues of local authorities from which their public affairs are financed. The strengthening of local government is related to the process of fiscal decentralization and the increase of the share of local public revenues in the total revenues of the state.*

*The aim of the work is to analyze the distribution of public revenues in the budget of the city of Leskovac, to indicate the ratio of original and ceded revenues and the factors that influence their size. Based on the analysis of the available data, it can be seen that the ratio of original and ceded revenues in the budgets of local self-governments is unfavorable. Within the scope of revenues and receipt of local self-government budgets, a significantly larger amount of funds is made up of ceded revenues, which shows a high level of centralization.*

**Key words:** local self-government, original revenues of local self-government, ceded revenues.

**JEL Classification:** H20, P43

## АНАЛИЗА ОБИМА И СТРУКТУРЕ ИЗВОРНИХ И УСТУПЉЕНИХ ПРИХОДА БУЏЕТА ГРАДА ЛЕСКОВЦА

### Апстракт

*Јачање финансијске самосталности локалне самоуправе је предуслов без кога се не може испунити захтев за бржом демократизацијом и децентрализацијом државне власти, као и спровођење економских развојних процеса. Ради остваривања низа задатака и функција које је држава обавезна и надлежна да уради, потребна су јој одређена финансијска средства. Локални јавни приходи, представљају приходе локалних органа власти из којих се фи-*

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нансирају њихови јавни послови. Јачање локалне власти је везано за процес фискалне децентрализације и повећање удела локалних јавних прихода у укупним приходима државе.

Циљ рада је да изврши анализу расподеле јавних прихода у буџету града Лесковца, укаже на однос изворних и уступљених прихода и на факторе који утичу на њихову величину. На основу анализе доступних података може се уочити да је однос изворних и уступљених прихода у буџетима локалних самоуправа неповољан. У оквиру прихода и примања буџета локалне самоуправе, знатно већи износ средстава чине уступљени приходи, што показује висок ниво централизације.

**Кључне речи:** локална самоуправа, изворни приходи локалне самоуправе, уступљени приходи.

## Introduction

The system of public revenues and expenditures is regulated by the *Law on Public Revenues and Public Expenditures* ("Official Gazette of RS" No. 22/01). It can introduce only those revenues and expenses that are defined by this law.

The main goal of every local community is to improve the living and working conditions of its citizens, and it is based on their ability to manage public affairs of immediate importance that are of general interest to local citizens.

The goal of properly implemented fiscal decentralization is to strengthen the role of cities and municipalities, as well as their fiscal autonomy, that the Republic to entrust local authorities with numerous important competencies and for local budgets to be increased many times over (Aleksić, 2018).

The first part of the paper will discuss local revenues in the system of financing local self-governments. In order to be able to perform the tasks assigned to it by law, the local self-government must have a certain amount of funds. The second part of the paper will deal with the analysis of the original and ceded revenues in the budget of the city of Leskovac. The basic idea of categorizing revenues according to their origin, i.e. separating the original from the assigned revenues of the local level of government, is to separate the fiscal competences of the given levels of government in the country by establishing them, create greater financial independence and strength in the financing of public affairs within the framework of the original competences of local self-government units. At the end, concluding considerations will be presented in order to provide certain proposals for further research on the optimal level of fiscal and budgetary decentralization.

## Theoretical backgrounds

The local self-government must have a certain amount of funds in order to be able to perform the tasks assigned to it by law. Local public revenues, as their name suggests, represent the revenues of local authorities from which their public affairs are financed. Some of them are introduced and established at the central level, and some at

the local level. It is very important to balance the relationship between the expenditure side, which arises from the competences established by the constitution and the law and, based on that, public affairs, and the income side of the balance of their budgets. Their unevenness leads to a vertical imbalance in the relations between the central level and units at the local level of government. The state must build mechanisms to harmonize that balance, and the institutionalization of local public revenues is one of the ways to solve that problem.

Bearing in mind the importance of local self-government in the state organization of every country, it is quite logical that the local level of government should be given the authority and responsibility to dispose of certain fiscal forms that will represent their own revenues. In fiscal policy, it is the sphere of fiscal federalism, which represents the regulation of relations between different levels of government in terms of public revenues and expenditures, both in a unitary and decentralized state (Beslač, 2021).

Fiscal forms of source income of local self-government are regulated by the central level of government, and the determination of their tax rates, bases and exemptions is the responsibility of local self-government units.

Local public revenues should be a stable and predictable source of revenues and provide sufficient funds that will correspond to expenditures arising from the scope of local public affairs. The starting assumption is that the smaller the difference between subnational expenditures and revenues, that is, the lower the dependence of the subnational level on transfers from the central level, the more effective the relationship between the different levels of state administration in terms of fiscal discipline, i.e. responsible and rational spending of scarce funds (Molnar, 2013). In this way, revenues would be clearly purposeful and as close as possible to the purpose for which they are introduced, and expenditures would be transparent.

The basic idea of categorizing revenues according to their origin, i.e. separating the original from the assigned revenues of the local level of government, is to separate the fiscal competences of the given levels of government in the country by establishing them, create greater financial independence and strength in the financing of public affairs from the framework of the original competences of local self-government units. The principle of harmonization (expenditure and revenue) implies that each level of government should be assigned those sources of revenue from which the expenses incurred by performing the functions of the given level of government will be covered (Radičević, 2016). This should establish a closer connection between the bearers of the tax burden and the benefits that both the taxpayers themselves and other citizens will have from the “package of public services” of the local authorities. This logical principle is difficult to achieve consistently and precisely. In the event that the original revenues are not sufficient to provide financing for the performance of public affairs arising from the original scope of competence, the state must also establish additional sources of funds from the budget of local authorities. They should also be used for the purpose of covering expenditures that arise on the basis of entrusted tasks, that is, the transfer of certain competences from the central level of government.

There are several methods and ways in which this request can be realized, because exclusive reliance on the source revenues of local authorities can cause negative effects and deformations in the functioning of the country’s fiscal and political system. Namely, exclusive reliance on fiscal capacities within their jurisdiction, from which local self-

government units will be financed through their own revenues, can produce different financial strengths of their budgets, which will lead to the emergence of vertical and horizontal imbalances in the government financing system in the country. What disrupts the precise and rational coverage of obligations from additional funds from the republic level (surplus or lack of funds for certain purposes) is the different dynamics of activities and processes during the year, despite the previously implemented planning process and coordination. Another significant problem of state development that is actually realized at the local and regional level is balanced regional development, which can be achieved with additional funds from the republic level. Regional development implies regional development of the economy as a whole, territorial (complementary) division of labor by creating assumptions of development, connecting regions, merging sectoral and regional development (Derić, Perišić, 1996). At the same time, the local self-government with its administration should have management capacity and the ability to create ideas for its territory and the local community on how to use those funds, in order to compensate for the limited financial resources (Redburn, Shea, Buss, 2008).

In addition to the financing of local authorities through source revenues, it is also very important to provide funds that are realized through participation in the community of revenues with the central level of government. It should be borne in mind that the central government, for the most part, is financed from the most significant and generous forms of taxation, such as personal income tax, sales taxes (in the form of general sales tax and individual consumption tax) and corporate profit tax. Based on that and depending on its state structure, it cedes a part of the realization of those revenues to the lower levels of government in the country. The importance and role of the given revenues in the financing of the local level of government varies. What is visible on the example of the budget of the city of Leskovac is the high share of ceded and transfer funds of the Republic, which in the last few years amounts to about 80%, which speaks of a low level of fiscal decentralization, and on the other hand, it can lead to irrational spending.

### **The predominance of the share of ceded over the original revenues in the budget of the city of Leskovac: methodology and discussion**

According to the *Law on Financing of Local Self-Government* ("Official Gazette of the RS", No. 97/2023), the most significant sources of revenues generated on the territory of a local self-government unit are: property tax, except tax on the transfer of absolute rights and inheritance and gift tax; local administrative fees; local utility taxes; local taxes; compensation for the use public goods, in accordance with the law; concession fee, and other fees in accordance with the law.

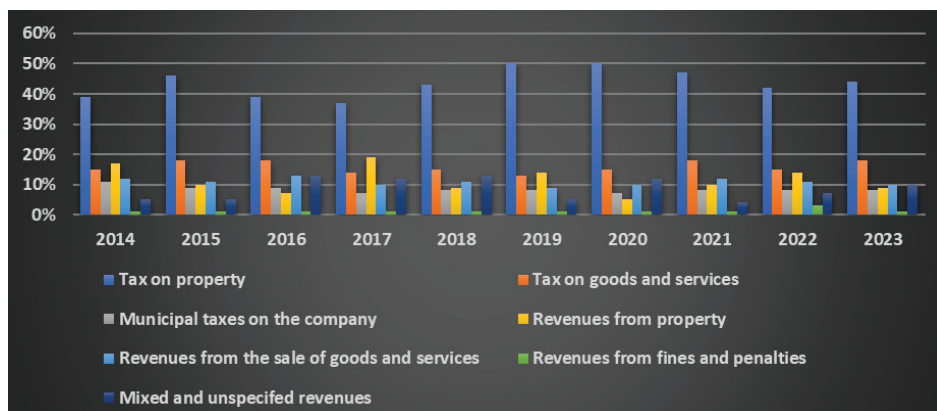
The following table shows the most important categories of original income of the budget of the city of Leskovac. A period of 10 years was taken for the analysis of observations, in order to observe some tendencies in their changes, that is, to see if there are fluctuations in their movement.

Table No. 1: Original revenues of the budget of the city of Leskovac in the period 2014-2023. year (in million dinars)

Year	Original revenues	Tax on property	Tax on goods and services	Municipal taxes on the company	Revenues from property	Revenues from the sale of goods and services	Revenues from fines and penalties	Mixed and unspecified revenues
2014.	458.0	178.1	68.3	52.7	79.2	55.2	2.3	22.2
2015.	534.0	244.1	96.4	48.9	54.8	59.0	2.2	28.6
2016.	533.3	207.7	93.5	50.1	39.0	67.5	2.9	72.7
2017.	733.6	269.1	101.8	51.5	139.7	77.8	6.4	87.2
2018.	703.0	301.5	105.7	55.0	64.3	76.7	5.6	94.2
2019.	704.9	352.4	89.3	54.5	99.6	67.7	7.1	34.4
2020.	737.1	362.4	112.9	55.1	37.2	75.8	4.8	89.0
2021.	779.9	369.3	142.4	64.0	78.5	91.5	6.4	27.7
2022.	897.6	375.3	133.7	69.4	130.6	96.7	26.9	65.0
2023.	920.1	405.5	169.5	73.1	83.5	93.9	4.6	90.0

Source: Budget of the city of Leskovac

Chart No. 1. The share of individual original revenues in total source revenues



Source: Budget of the city of Leskovac

Based on table no. 1, we can conclude that the total original revenues of the budget of the local self-government of the city of Leskovac in the period 2018-2023. showed constant growth. Looking at the structure of source revenues, most funds are collected through property taxes. This original revenues tends to grow in the observed period. It is a very generous original revenues and reaches up to 50% of the total original revenues of the budget of the city of Leskovac.

In the case of the balance item taxes on goods and services, alternating growth and decline of this original revenues can be observed. The municipal tax on the company has a tendency to increase in the observed period, while the revenues from property in the observed period showed certain fluctuations. Revenues from the sale of goods and services from 2019 show a growing tendency, except for 2023, where there was a slight decrease. Revenues from fines and penalties, as well as mixed and unspecified revenues in the observed period showed a changing trend.

In addition to the financing of local authorities through source revenues, it is also very important to provide funds that are realized through participation in the community of revenues with the central level of government. In the following, the ceded revenues of the budget of the city of Leskovac for a certain period of time will be presented.

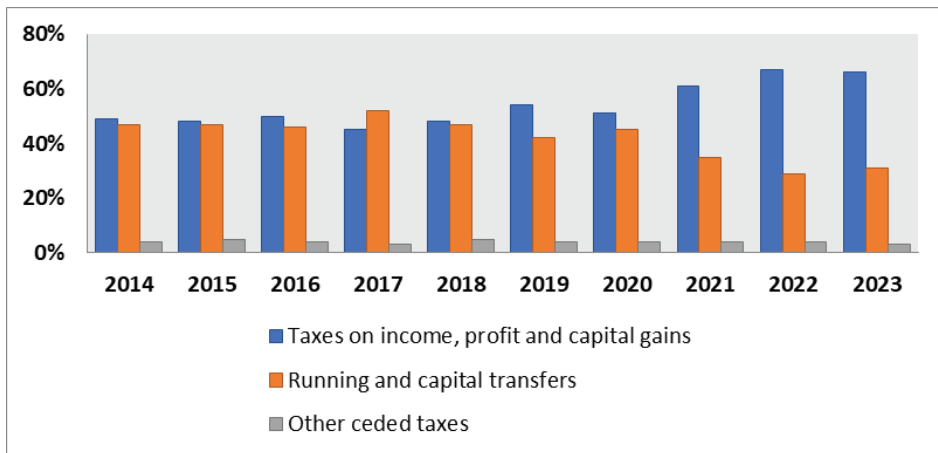
Table No. 2 Ceded revenues of the budget of the city of Leskovac in the period 2014-2023. Years

Year	Ceded revenues	Tax on income, profit and capital gains	Current and capital transfers	Other deferred taxes
<b>2014.</b>	2.217,1	1.088,8	1.040,6	87,7
<b>2015.</b>	2.323,4	1.122,7	1.093,2	107,5
<b>2016.</b>	2.362,6	1.186,4	1.077,7	98,5
<b>2017.</b>	2.849,8	1.264,4	1.491,6	93,7
<b>2018.</b>	2.822,3	1.367,3	1.332,4	122,6
<b>2019.</b>	2.874,9	1.555,8	1.212,7	106,4
<b>2020.</b>	3.220,4	1.655,6	1.458,4	106,4
<b>2021.</b>	3.611,4	2.211,1	1.262,6	137,7
<b>2022.</b>	3.683,7	2.493,8	1.054,4	135,5
<b>2023.</b>	4.106,6	2.717,4	1.260,5	128,7

Source: Budget of the city of Leskovac

Based on the previous table, we can conclude that the ceded revenues of the budget of the city of Leskovac, in the observed period, make up about 80% of the total current revenues. In the period from 2014-2023. year, they showed a constant growth trend. Among the ceded revenues, the city of Leskovac collects the most funds through ceded taxes on income, profit and capital gains. In the observed period, they showed a constant growth trend and their participation amounts to about 50% in the total ceded revenues. Running and capital transfers, in the structure of ceded revenues, are in second place in terms of generosity in total revenues. Other ceded taxes are also important in the structure of ceded revenues. However, the city collects a significantly smaller amount of funds through them.

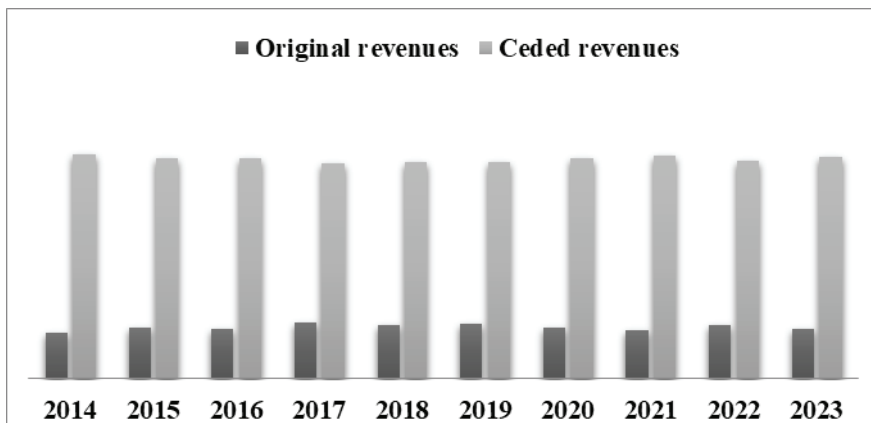
Graph no. 2 Share of individual ceded revenues in total ceded revenues



Source: Budget of the city of Leskovac

Based on the previous analysis of the original and ceded revenues of the budget of the city of Leskovac, their relationship is graphically presented on graph no. 3. It shows us the share of original and ceded revenues of the budget of the city of Leskovac in the total revenues, for a certain period of time. Based on these data, we can conclude that their relationship is unfavorable. Surrendered revenues take a much larger share, around 80%. In contrast to them, the original revenues make up less than 20% of the current (running) revenues of the budget of the city of Leskovac.

Graph no. 3. Share of original and ceded revenues in total current revenues



Source: Budget of the city of Leskovac

In the period from 2019 to 2022, the original revenues showed a tendency to decrease, while the ceded revenues in the same period showed a tendency to increase. In 2022, there will be an increase in original income and a decrease in ceded income, while

in 2023 there will be an increase in ceded income, and original income will decrease compared to the previous year.

The presentation of the research results will be done with descriptive statistics. In table no. 3 shows descriptive statistics related to the share of original and ceded revenues in the total revenues of the budget of the city of Leskovac.

Table No. 3 Descriptive statistics of basic source and ceded revenues of the budget of the city of Leskovac

	N	Minimum	Maximum	Mean	Std. Deviation
<b>ORIGINAL</b>					
<b>Property tax</b>	10	0,37	0,50	0,4370	0,04572
<b>Tax on goods and services</b>	10	0,13	0,18	0,1590	0,01912
<b>Municipal tax</b>	10	0,07	0,11	0,0830	0,01160
<b>Property revenues</b>	10	0,05	0,19	0,1140	0,04452
<b>Revenues from the sale of goods and services</b>	10	0,09	0,13	0,1090	0,01197
<b>Revenues from fines and penalties</b>	10	0,01	0,03	0,0120	0,00632
<b>Mixed and unspecified revenues</b>	10	0,04	0,13	0,0860	0,03748
<b>ASSIGNED (CEDED) REVENUES</b>					
<b>Income tax, profit and capital gains</b>	10	0,44	0,68	0,5390	0,08239
<b>Current (running) and capital transfers</b>	10	0,29	0,52	0,4200	0,07846
<b>Other ceded taxes</b>	10	0,03	0,05	0,0410	0,00738
<b>Valid N (listwise)</b>	10				

Source: Author's calculation

Based on the descriptive statistics, we can conclude that the maximum tax revenues from property tax were achieved in 2019, and the smallest in 2017. In relation to the average share in total source revenues, these are not significant deviations. The second most generous are revenues from taxes on goods and services, which reached their maximum in 2023, and were at their lowest level in 2019. Other incomes also varied, and the biggest deviations can be observed in revenues from property and in the category of mixed and unspecified revenues.

Taxes on income, profit and capital gains varied from 44% of the total ceded revenues of the budget of the city of Leskovac in 2017 to 68% of their participation in 2022. The average share of these revenues in the total ceded revenues of Leskovac

was high in the observed period and amounted to slightly more than half of those revenues. Descriptive statistics showed that current and capital expenditures reached their maximum in 2017, and their minimum in 2022. They are also significant in terms of generosity, because in the structure of ceded revenues they amount to 42% of the total ceded revenues on average over the years of the observed period.

## Conclusion

The field of public finances is a very important area of social and economic relations that take place in every organized state. Local self-government, performing tasks that are within its scope of work, must have its own sources of revenues in order to achieve them. Without funds that can be freely disposed of and without the right to define a certain level of fiscal decentralization, based on the principles of fairness and the rights of local communities, and on the principle of economy of local fiscal policy, is difficult to talk about realizing the idea and concept of realizing the right to purposeful self-government of local communities, how the name itself says it all.

Based on the analysis of the scope and structure of the income of the budget of the city of Leskovac, and on the basis of previous researches, it can be concluded that the ratio of original and ceded revenues in the budgets of local self-governments is unfavorable. The basic idea of categorizing revenues according to their origin, i.e. separating the original from the assigned revenues of the local level of government, is to separate the fiscal competences of the given levels of government in the country by establishing them, create greater financial independence and strength in the financing of public affairs within the framework of the original competences of local self-government units. This should establish a closer connection between the bearers of the tax burden and the benefits that the local authorities will have from the “package of public services”. In the event that the original revenues are not sufficient to provide financing for the performance of public affairs arising from the original scope of competence, the state must also establish additional sources of funds from the budget of local authorities. On the basis of the performed analysis, we could see that within the scope of revenues and receiving budgets of the observed local self-governments, a significantly larger amount of funds is made up of ceded revenues.

The existence of financial dependence on the central level of government speaks of possible political dependence and pressures on the right to self-governance of local communities, who by the nature of things know best (through the procedures of public hearings and other types of communication) what is necessary and what are the priorities in terms of public services and public goods. Arguments that would lead in the direction of fiscal and budgetary (financial) centralization are that with greater decentralization, a certain level of consistency in strategic and short-term planning may be lost due to poor communication or the arbitrariness of local authorities, which would waste scarce resources irrationally. It seems that these arguments are difficult to defend in conditions where, with the help of modern information and communication technologies, it is possible to connect the information systems of all state and local institutions and all relevant factors and interested parties, to monitor plans, procedures, execution and the flow of money. This can establish an effective planning system at the strategic and

operational level, and connect and harmonize long-term, medium-term and short-term planning, as well as reasonable and expedient control of income and expenses. The high share of ceded revenues primarily speaks of a high level of centralization, and not of the generosity of the central authorities.

Apart from the political will, it seems that another problem is to create an operational system that will connect the levels of government, all the necessary institutions and factors that will enable the use of all the advantages of optimal fiscal, financial and budgetary decentralization.

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