

Budgetary prospects in the region in 2014–2016: implementation of the President's social decrees or avoidance of default risks?



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Abstract. According to the Budget Code the budget process in the Russian Federation includes the following stages: drafting of a budget project; consideration and approval of the budget; budget execution; preparation of a report on the budget execution and its approval. The given stages are carried out in a strict sequence and are closely interlinked. The approved budget is in force during the budget period, which in the Russian Federation lasts 12 months from January 1 to December 31. The budget is adopted for the medium-term period of three years. On December 11, 2013 the Vologda Oblast Legislative Assembly members adopted the oblast budget for 2014 and for the planned period of 2015 and 2016 in the final reading. According to the Chairman of the Budget and Taxation Committee of the Vologda Oblast Legislative Assembly A.V. Kanaev, the project of the oblast budget is drafted in difficult economic conditions due to a negative impact of a significant public debt, a need to implement the May Decrees of the President and provision of local budgets balance. The article analyses the Vologda Oblast budget prospects for a three-year period. It is indicated that the regional budget for the upcoming budget cycle differs from the budgets of the previous years, since it is set in the program structure of expenses on the basis of 21 state programs approved by the Oblast Government. Budget execution is to reveal advantages and disadvantages of this innovation. The article states that the most significant risk for the regional budget system is a 2014 expected excess of the threshold limit of the state debt by 2% regarding to their own revenues volume. All the described above is to happen against the background of tensed inter-budgetary relations with the Federal Centre, caused by the decrease in revenue (in relation to gross domestic product) and the federal budget deficit rise. The article singles out key qualitative and quantitative properties of the budget cycle, which the region has entered since 2014. The complex of measures to increase the regional budget revenue base is suggested. It is calculated that the proposed measures implementation is to attract 9.5–13.6 billion rubles a year in the budget system of the Vologda Oblast. Such an increase in the own revenues of the budget is to cover 44% of social overhead costs.

Key words: regional budget, inter-budgetary fiscal relations, regional debt, Presidential Decrees, deficit, transfers, programme budget.

Government regulation carried out within the state economic policy plays the leading role in formation and development of the economic structure of any modern society. One of the most important mechanisms of economic and social regulation is a financial mechanism in the financial system. Its main element is a state budget, with the help of which the state sets up centralized monetary funds and affects formation of decentralized funds, thus providing the opportunity to perform the functions assigned to the state bodies. The certain budget impact on the territory's development is determined by the fact that the budget is the largest monetary fund, allocations of which crucially influence development directions and economic sustainability.

Recently there has been a regionalization of economic processes, developing in the transfer of the federal regulatory functions to the territorial level. This fact testifies expanding the use of regional budgets and strengthening their significance. The regional budget is an intermediate level of the budgetary system. Therefore, on the one hand, it has independent sources of revenues and areas of spending, and, on the other hand, receives financial assistance from the federal budget and allocates it to local budgets.

In accordance with the Budget Code of the Russian Federation, one of the principles of the budgetary system is budget independence which can be ensured only if the territory has its own revenue sources and the right to determine the direction of their usage and spending. That is why the budgeting issue and the budget process management on a regional level are very relevant.

For the last years the consolidated budgets of Russian regions have been forming under conditions of the crisis and post crisis consequences. In this regard, the provision of financial stability and a stable budget income

base, enhancement and expansion of tax potential, optimization of budget expenditures are key tasks for the regional authorities.

To ensure the sustainability of the Vologda Oblast budget system in 2014–2016 the regional budget is based on the conservative scenario of socio-economic development. However, it promises a deceleration of economic growth under conditions of stagnating industrial production, weak growth in the population's cash income, and consequently, consumer demand, as well as decline in investment activity (*tab. 1*).

This economic base is not able to boost the budget's own revenues noticeably, that's why again the upcoming budget cycle expects deficit budget execution which is forecasted to drop by 2.3 times for 3 years and make 3.6% to the amount of own incomes (*tab. 2*).

And although the predictive values of total and own revenues in current prices are to exceed the pre-crisis level, it can be noted that it will not be possible to reach the pre-crisis level (40.8 billion rubles in 2016 against 55.9 billion rubles in 2008; *fig. 1*) with current inflation.

It should be noted that on the basis of the new regional budget the income tax will not be able to regain leadership in the tax revenues structure (only 16% in 2014 against 60.5% in 2008). Moreover, the Oblast Government forecasts zero revenues of income tax from the enterprises of metallurgy and an agrochemical holding. On this background the value of individual income tax (38.5% of their revenues) and a property tax (26% of own revenues) rises. However there expected a slowdown of growth rates of individual income tax from 15.4% in 2014 to 9.9% in 2016 (against 20–26% in the pre-crisis period; *tab. 3*).

Due to the reasons stated above the backlog of the Vologda Oblast in the level of wages in comparison with the country in general is to increase from 5 thousand rubles in 2013 to 8.7 thousand rubles in 2016 (*tab. 4*).

Table 1. Key macroeconomic indicators for budgeting of the Vologda Oblast in 2014–2016

Key indicator	Fact					2013, estimate	Forecast		
	2008	2009	2010	2011	2012		2014	2015	2016
GRP*	6.7	87.1	105.7	05.8	102.0	100.0*	102.7	102.0	103.5
Industrial production index*	95.3	90.5	111.1	104.8	100.5	101.5	102.2	102.8	102.0
Permanent investment*	85.9	71.5	96.9	153.4	120.3	61.3	104.6	69.3	119.8
Retail trade turnover*	108.5	89.4	116.3	106.0	119.7	103.5	104.8	105.5	105.0
Real income of the population, % to the previous year	98.7	90.4	108.6	100.2	111.0	107.6	102.4	102.4	104.4
Consumer price index, December to December, %	114.3	107.2	109.2	105.7	106.0	106.0**	104.5– 105.5**	104.0– 105.0**	104.0– 105.0**

* In comparable prices, % to the previous year.
** According to the forecast of Ministry of Economic Development of the Russian Federation.

Table 2. Key indicators of the Vologda Oblast budget

Indicators	Fact					2013, estimate	Forecast		
	2008	2009	2010	2011	2012		2014	2015	2016
Revenues, total, bln. rubles	39.5	31.2	36.1	39.3	42.4	41.2	40.9	41.8	45.1
<i>In % to the previous year</i>	<i>125.5</i>	<i>79.0</i>	<i>115.7</i>	<i>108.9</i>	<i>107.9</i>	<i>97.2</i>	<i>99.3</i>	<i>102.2</i>	<i>107.9</i>
Including tax and non-tax (own) revenue, bln. rubles	34.4	19.0	25.8	28.8	31.5	33.6	33.5	37.4	40.8
<i>In % to the previous year</i>	<i>128.9</i>	<i>55.2</i>	<i>135.8</i>	<i>111.6</i>	<i>109.4</i>	<i>106.7</i>	<i>99.7</i>	<i>111.6</i>	<i>109.1</i>
Expenses, total, bln. rubles	39.1	37.7	43.1	46.5	45.2	44.7	44.1	43.9	46.6
<i>In % to the previous year</i>	<i>121.0</i>	<i>96.4</i>	<i>114.3</i>	<i>107.9</i>	<i>97.2</i>	<i>98.9</i>	<i>98.7</i>	<i>99.5</i>	<i>106.2</i>
Deficit (-), surplus (+), bln. rubles	+0.4	-6.5	-7.0	-7.2	-2.8	-3.5	-3.2	-2.0	-1.5
<i>In % to the own income</i>	<i>1.2</i>	<i>-34.2</i>	<i>-27.1</i>	<i>-25.0</i>	<i>-8.9</i>	<i>-10.4</i>	<i>-9.6</i>	<i>-5.4</i>	<i>-3.6</i>

Figure 1. Tax and non-tax revenues of the oblast budget in real terms, in 2016 prices, billion rubles



Table 3. Dynamics of profit and payroll in the Vologda Oblast in 2012–2016

Indicators	2012, fact	2013, estimate	Forecast		
			2014	2015	2016
Profit of enterprises, bln. rubles	66.8	17.8	17.3	18.9	19.9
Profit tax, bln. rubles	10.9	8.9	5.4	5.7	6.1
<i>Growth rate, %</i>	-9.2	-18.3	-39.9	7.1	6.2
Payroll, bln. rubles	116.1	126.4	137.8	150.7	164.4
Individual income tax, bln. rubles	9.7	11.2	12.9	14.5	15.9
<i>Growth rate, %</i>	10.2	15.5	15.4	11.9	9.9

Source: report of T.V. Goligina “On basic directions of budgetary and tax policy, on transition to the formation of the program based regional budget and approaches to the drafting of key characteristics of the regional consolidated budget for 2014 and for the planned period of 2015–2016”. Official site of the Department of Finance of the Vologda Oblast.

Table 4. Dynamics of average nominal accrued wages

	Fact					2013, estimate	Forecast		
	2008	2009	2010	2011	2012		2014	2015	2016
Vologda Oblast	16.1	16.6	18.5	20.7	22.6	24.9	27.1	29.6	32.5
Russian Federation	17.3	18.6	21.0	23.4	26.8	29.9	33.1	36.9	41.2
The gap in the level of average wages between the Vologda Oblast and the Russian Federation									
Thousand rubles	-1.2	-2.0	-2.5	-2.7	-4.2	-5.0	-6.0	-7.3	-8.7
%	-6.9	-10.8	-11.9	-11.5	-15.7	-16.7	-18.1	-19.8	-21.1

Sources: data of the Federal State Statistics Service; forecast of socio-economic development of the Russian Federation and the Vologda Oblast for 2014–2016.

Table 5. Provision of the population with own budgetary revenues

	Fact					2013, estimate	Forecast		
	2008	2009	2010	2011	2012		2014	2015	2016
Vologda Oblast, thousand rubles	37.5	22.9	29.9	33.5	36.5	39.7	38.5	42.1	45.8
Russian Federation, thousand rubles	34.6	29.9	34.8	40.8	36.2	47.1	52.5	56.9	62.8
The gap in the level of budget sufficiency between the Vologda Oblast and the Russian Federation									
Thousand rubles	+2.9	-7.0	-4.9	-7.3	+0.3	-7.4	-14.0	-14.8	-17.0
%	108.4	76.6	85.9	82.1	100.8	84.2	73.4	74.0	73.0
Subsidies for equalization of budget sufficiency, million rubles	0	0	0	737.9	1332.5	1619.4	1542.0	839.6	918.5

Sources: data of the Treasury of Russia; Rosstat; draft federal budget and regional budget of the Vologda Oblast for 2014–2016; report of N.R. Artamonova “On drafting the regional budget for 2014 and for the planned period of 2015–2016”.

Provision of the population with own budgetary revenues will lag behind the average level. The gap will expand from 7.4% to 17 thousand, respectively (*tab. 5*).

On that premise it can be concluded that in the coming three years the region remains subsidized and continues relations with the federal budget, aimed at obtaining subsidies for equalization of budget sufficiency. However, in

the new budget cycle the relations become more tensed due to decreased revenues of the federal budget (regarding GDP) and its deficiency (caused mostly by the shortfalls of petroleum revenue taxes and the imbalance of the pension system) (*tab. 6*). In this regard, the reduction of the amount of interbudgetary transfers to regional budgets (minus 6% in 2014 compared to 2013) is forecasted.

Table 6. Key indicators of the federal budget and the budgets of the Russian Federation subjects

Indicators	Fact		2013, estimate	Forecast		
	2011	2012		2014	2015	2016
Federal budget						
Revenue, bln. rubles	11368	12854	12866	13486	14768	15908
<i>In % to GDP</i>	<i>20.8</i>	<i>20.5</i>	<i>19.1</i>	<i>18.2</i>	<i>18.0</i>	<i>17.4</i>
Expenditures, bln. rubles	10926	12891	13387	13847	15236	16452
<i>In % to GDP</i>	<i>20.0</i>	<i>20.5</i>	<i>19.8</i>	<i>18.7</i>	<i>18.6</i>	<i>18.0</i>
Deficit/surplus, bln. rubles	442	-37	-521	-362	-468	-544
Budgets of the Russian Federation subjects						
Revenue, bln. rubles	7644	8064	8593	9332	10233	11342
<i>In % to the previous year</i>	<i>117.0</i>	<i>105.5</i>	<i>106.6</i>	<i>108.6</i>	<i>110.0</i>	<i>110.8</i>
Interbudgetary transfers, bln. rubles	1644	1624	1394	1309	1304	1309
<i>In % to the previous year</i>	<i>117.6</i>	<i>98.8</i>	<i>85.8</i>	<i>93.9</i>	<i>99.9</i>	<i>100.4</i>
Expenditures, bln. rubles	7679	8343	8787	9439	10285	11364
Deficit, bln. rubles	-35	-279	-194	-107	-52	-22

The reduction of the federal financial assistance to the Vologda Oblast and its own revenues, caused by economic recession, threatens the financing of the presidential election programs embedded in the decrees of the President dated May 7, 2012. The additional expenditure burden on the regional budget in 2014–2016 is estimated at 35.9 billion rubles with the planned increase in own revenues of 7.3 billion rubles (*tab. 7*).

Judging by the mentioned estimates, the region is able to finance 54.9% of the demand in funds necessary for the presidential decrees implementation at the expense of its own sources. The similar situation is taking place in other Russian regions that sometimes propose to simplify goals and tasks. In this regard, Russian President Vladimir Putin spoke very negatively in his Address to the Federal Assembly on December 12, 2013: "...Decrees defined concrete measures to ensure the country's dynamic development in all spheres... and urge of the Russian people to a better life". The Head of State emphasized that it is inadmissible to delay the ongoing modernization (from May 2012), which is still

poorly felt by public services users. He urged regional leaders to intensify qualitative decrees execution instead of inefficient spending increasing and administrative apparatus expanding in the coming mid-term period.

Apparently the number of issues of socio-economic development, not provided with regional or federal financial assurance, will be addressed by debt growth. The debt is estimated at 32.2 billion rubles in 2013 that corresponds to 106.5% of the amount of the budget tax and non-tax revenues (*tab. 8*).

Obviously, in the coming years the Vologda Oblast Government will not be able to reduce debt load. Moreover, in 2014 it will exceed the amount of own revenues of the regional budget by 2%. In the coming period the return of previous loans can be a serious budget burden. The amount to be refunded exceeds the amount of three-year budget loans twofold (*tab. 9*).

So the projected trend jeopardizes financing of expenditure obligations, which will rise to 1.9 billion rubles. However, in comparable prices the expenditures of the regional budget in 2016 compared to 2008 will reduce by 16.9 billion or 26.6% (*fig. 2*).

Table 7. Information on the budget allocations for the Vologda Oblast in 2014 to 2016 Presidential decrees, mln. rubles

Decree	2013, estimate Demand	2014		2015		2016	
		Planned	Demand	Planned	Demand	Planned	Demand
On the long-term state economic policy	4.9	4.1	4.1	4.2	4.2	4.4	4.4
On the activities for the implementation of the state social policy	2587.6	4910.1	4171.8	6449.3	5473.7	8 760.3	7 347.1
On the improvement of state policy in health care sphere	18.9	17.1	17.1	23.7	23.7	25.3	25.3
On the measures for the implementation of state policy in the sphere of education and science	985.8	1423.2	0.0	1 333.2	46.5	1 429.3	44.3
On the measures for providing the citizens with affordable and comfortable housing and enhancing the quality of housing and communal services	1030.7	1 923.4	967.2	3 498.1	403.0	1 605.4	100.0
On the main guidelines of improving the state management system	182.9	747.7	69.3	428.2	27.1	229.4	27.0
On the measures for the implementation of demographic policy in the Russian Federation	34.1	83.7	83.7	119.4	119.4	180.2	180.2
On the national strategy for the benefit of children	1.6	517.3	5.4	673.4	7.7	861.9	10.6
On some measures on realization of demographic policy in the sphere of protection of children-orphan and children left without parental care	12.4	177.3	112.1	211.6	177.3	252.7	248.0
Total	4859.0	9803.9	5430.6	12741.2	6282.8	13348.8	7986.9
Lack of funds	%		55.4		49.3		59.8
	Mln. rubles		-4373.3		-6458.4		-5361.9

Source: an annex to the explanatory note to the Oblast draft law “ On the regional budget for 2014 and the planned period of 2015–2016”.

Table 8. Public debt dynamics of the Vologda Oblast

Indicator	Fact					2013, estimate	Forecast		
	2008	2009	2010	2011	2012		2014	2015	2016
Size of state debt, bln. rubles	1.8	10.4	18.5	25.8	29.2	32.2	34.2	36.2	37.7
In % to the own budget incomes	5.1	54.5	71.6	89.7	92.6	106.5	102.0	97.0	92.3
Growth rate, %	3.3	477.8	77.9	39.5	13.2	10.3	8.9	5.8	4.1

Table 9. The Vologda Oblast budget’s planned repayment of loans, million rubles

Indicators	Forecast				Budget forecast for 2013–2015	Budget forecast for 2014–2016
	2014	2015	2016	2014–2016	2014–2015	
Loans, total	8290	2172	8345	18807	9655	10462
- of a commercial bank	5800	0	7465	13265	7566	5800
- of the federal budget	2490	2172	880	5542	2362	4662

Figure 2. The Vologda Oblast budget expenses in real terms, in 2016 prices, bln. rubles



The qualitative characteristic of the upcoming budget cycle is the formation of regional budget expenditures for 2014–2016 not only in a functional structure but also in a program one, based on the approved state programs. In 2013 six government programs were adopted, but in 2014 their number will increase to 21. The implementation costs amount 86.6% of total budgetary expenditures of the region in 2014, 86.3% – in 2015 and 85.2% – in 2016. In turn, the availability of 13–15% of non-program costs testifies incomplete colligation of the regional budget expenses with the purpose and objectives of the state policy to promote efficiency of public finances management.

The most significant volume of budget assignments for the next three years will be allocated to state social programs such as education development (33–34% of the expenses), social assistance (22–23%) and health development (20%). About 11% of regional expenditures will be allotted to maintenance and development of road networks of common use and provision of transport service (fig. 3).

In the upcoming budget cycle the Vologda Oblast budget is to retain its social orientation (70% of the costs). The change of priorities in spending on welfare is observed. The major financing in 2014–2016 are to be allocated to an item “Education” (28–29% of expenses) which will overtake an item “Social policy” (22–23%). Health expenditure is to take third place (17–18%), while the national economy financing is to decline (from 18% in 2012–2013 to 13–14% in 2014–2016; *tab. 10*).

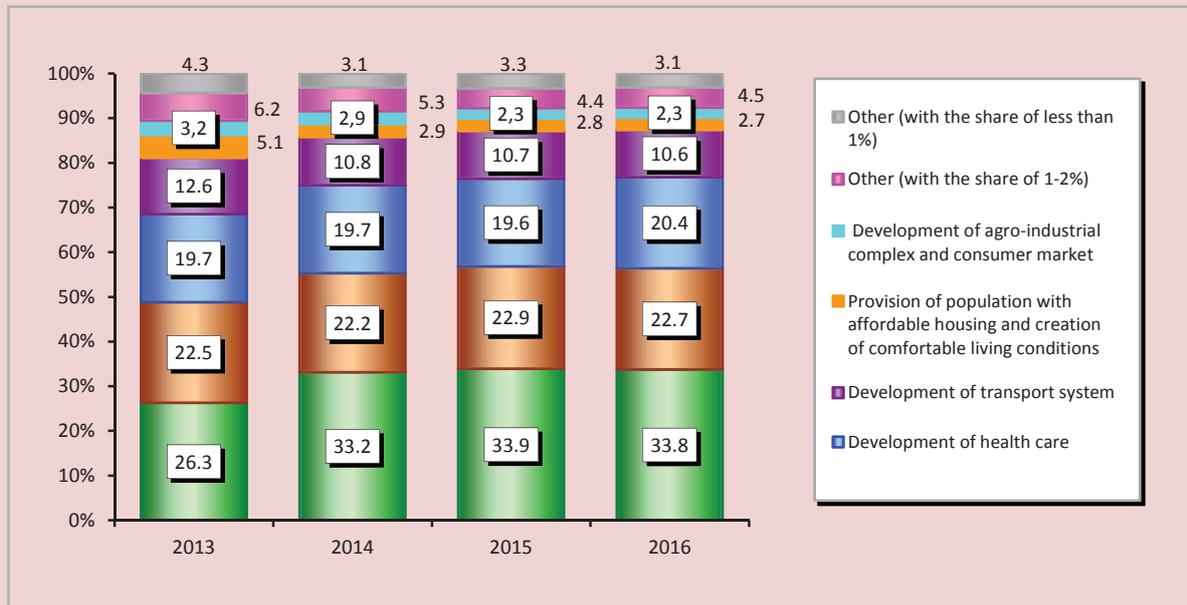
Ongoing optimization of budget expenditures will still have the strongest impact on such spheres as physical training and sport¹, housing and utilities infrastructure², environment protection and national economy.

Taking into account the deficiency of the budget in the coming three-year period one cannot but note the following characteristics of the expenditure part of the Oblast budget.

¹ In connection with termination of nonprofit organizations support in the sphere of physical culture and sports since 2014.

² In connection with decrease since 2014 and termination since 2016 of co-financing for resettlement of citizens from the failing housing stock taking into account the need to develop low-rise housing construction.

Figure 3. Structure of the Vologda Oblast budget expenditures for government programs



- Expenses for the section “National issues” are to grow in 2014 by 129.4 million rubles, or by 6.4%. The greatest growth was noted when financing the functioning of the supreme official of the RF subject (the reasons are not specified in the explanatory note which reduces the transparency of the budget planning).

- Each year the expenses on administration and governance comprise a quarter of expenditure on the national economy. For instance in 2014 21.6 million rubles or 65% from 33.3 million rubles, provided for the state program “Energy efficiency and gas infrastructure development” implementation, are to be allocated on the maintenance of the Department of Fuel and Energy Complex. Similarly almost 60% of resources allocated to the support of transport are to be used for managerial functions.

- Since 2014 financing of primary professional education establishments has stopped. They are to join secondary professional education establishments in the framework

of the restructuring. However spending on subsection “Secondary professional education” decreases by 1.2 times in 2015–2016.

- The role of the regional budget in financing of cultural activities the region decreases. Spending on culture in comparison with the pre-crisis levels is to be reduced by 1.6 times, threatening goals achievement, set in the Presidential Decree No 567 “On the activities for the implementation of the state social policy” dated May 7, 2012.

- In 2014–2016 the regional budget expenditure remains high (34–37%), connected with the necessity of providing grant financial aid to local budgets³.

- The regional budget investment costs reduce rapidly amounting only 1.1 billion rubles, or 2.4% of expenditures by 2017 (fig. 4).

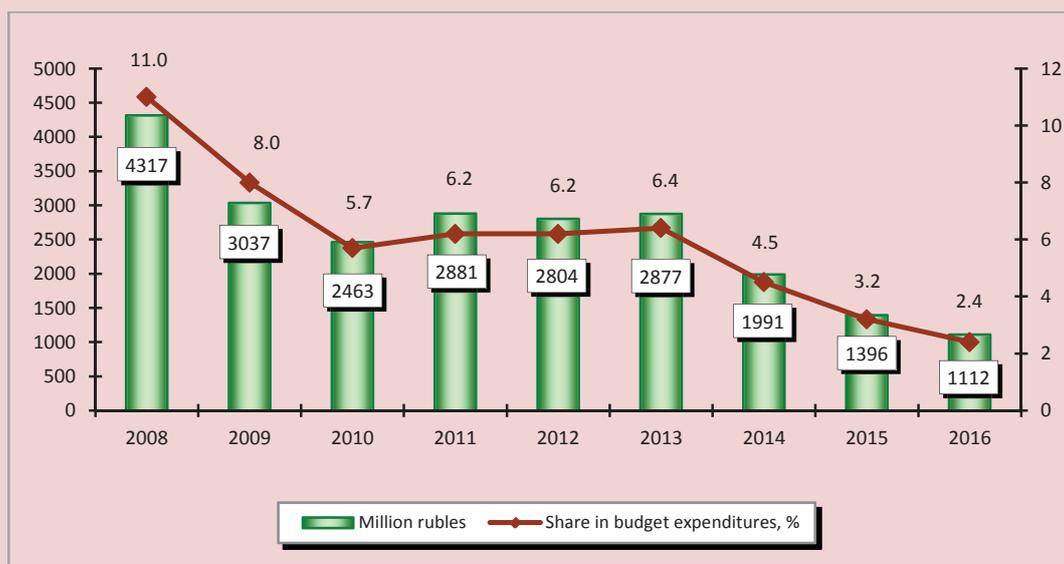
³ The Russian President proposed in his Address to the Federal Assembly on December, 12 2013 to start and statutorily ensure the work on clarification of the general principles of local self-government organization aimed at the development of strong, independent and financially self-sufficient local authorities.

Table 10. Structure of the Vologda Oblast budget expenditures in 2011–2016*

Sections	2011, fact		2012, fact		2013, estimate		2014, estimate		2015, forecast		2016, forecast	
	Mln. rubles	%	Mln. rubles	%	Mln. rubles	%	Mln. rubles	%	Mln. rubles	%	Mln. rubles	%
Expenses, total	46519	100	45182	100	44756	100	44093	100	43857	100	46617	100
National issues	2053	4.4	1836	4.1	2020.3	4.5	2150	4.9	1865	4.3	1930	4.1
National security and law enforcement	2449	5.3	493	1.1	445	1.0	420	1.0	326	0.7	317	0.7
National economy	6698	14.4	8239	18.2	8202	18.3	6280	14.2	5720	13.0	5952	12.8
Housing and utilities infrastructure**	1917	4.1	1848	4.1	393	0.9	1138	2.6	605	1.4	256	0.5
Environment protection	236	0.5	164	0.4	145	0.3	185	0.4	149	0.3	146	0.3
Social sphere	27421	58.9	30013	66.4	27651	61.8	30869	70.0	31209	71.2	32866	70.5
Education	7043	15.1	8285	18.3	10180	22.7	12382	28.1	12616	28.8	13238	28.4
Culture, cinematography	882	1.9	594	1.3	504	1.1	477	1.1	506	1.2	594	1.3
Public health service	6643	14.3	10265	22.7	6598	14.7	7750	17.6	7726	17.6	8361	17.9
Social policy	10870	23.4	10331	22.9	9924	22.2	9966	22.6	10177	23.2	10486	22.5
Physical training and sport	1764	3.8	431	1.0	289	0.6	118	0.3	117	0.3	130	0.3
Mass media	219	0.5	107	0.2	156	0.3	176	0.4	68	0.2	56	0.1
Debt service	789	1.7	1310	2.9	1930	4.3	1919	4.4	1739	4.0	1697	3.6

* To compare data the expenditures for 2008–2010 are not given, as in this period intergovernmental transfers were not included in the structure of the functional sections of budget classification.
** In 2013–2016 uncompensated receipts are not included in housing and utilities infrastructure expenditures.

Figure 4. Dynamics of capital investments of the Vologda Oblast budget in 2008–2016



Summarizing the mentioned above, the key qualitative and quantitative features of the budget cycle, started in 2014, can be singled out:

1. A serious reduction of tax and non-tax revenues in real terms comparing to the pre-crisis level: in 2016 to 73% from the 2008 level.

2. A critical decrease of the companies profit and, accordingly, revenues from profit tax in the regional budget. They comprise 14.9% of the amount of own revenue in 2016 against 17.8% in 2009.

3. A slowdown in the revenue growth from individual income tax – from 15.4% in 2014 to 9.9% in 2016 (against 20–26% in the pre-crisis period). A larger gap between average wages in the Vologda Oblast and the country in general – from 5 thousand rubles in 2013 to 8.7 thousand rubles in 2016.

4. Possible non-fulfilment of the Presidential decrees to rise wages of public sector workers due to the limited budgetary resources: 100% – (54.9% of own sources of +20% of Federal transfers) = 25.1% of the unsecured financial liabilities.

5. An extremely high level of debt load. Public debt, standing at 34.2 billion rubles in 2014, is to exceed the amount of the budget own incomes by 2%, confirming the failure of the regions' debt⁴.

⁴ At the meeting of the faction LDPR (21.10.2013) while discussing the draft federal budget for 2014–2016, the Finance Minister A.G. Siluanov stated about preparing amendments to the budget legislation, concerning responsible debt policy of the Russian Federation subjects. Now if the volume of overdue debt and budget commitment of the region exceeds 10% of total tax and non-tax revenues, the governor has to conclude an agreement with the Ministry of Finance on measures to restore the solvency and to approve the plan. If the plan implementation does not reduce the debt amount, the government has the right to make to a proposal the President to dismiss a Governor due to loss of trust. In this case the subject has a temporary financial administration. The region loses an opportunity to borrow in credit institutions and in conditions of the Federal budget deficiency can not count on the Federal budgetary loans. Therefore, non-fulfillment of social obligations becomes the main consequence of the actual bankruptcy.

6. An increase in the cost of state debt servicing to 1.9 billion rubles.

7. Formation 85–87% of budget expenditures in the program structure, which indicates incomplete alignment with the objectives of the state policy, aimed at improving the public finances management.

8. An increased tension of the region's interbudgetary relations with the federal center, which manifests in the annual decrease of financial aid to the regions. It is connected with the trends of the federal budget revenues reduction and its deficiency growth mentioned in the forecast.

Thus the challenge of the federal budget execution indicates that the main source of regional budgets incomes growth must be their own financial resources. However the trends of macroeconomic indicators do not speak of their significant growth. So the profit of the largest Vologda Oblast enterprise OAO Severstal is to be zero in the planned period, the profit of OJSC FosAgro-Cherepovet and CJSC Agro-Cherepovets is to decrease to 0.2 billion by 2017. The payroll fund increases by 1.3 times, however, the size of average monthly salary in 2013 prices grows only by 1.1 times by 2017⁵.

The Vologda Oblast Government considers solution of systemic budgetary deficiency problems to a greater extent by means of sequestering the budget spending, but not boosting the territory's profit potential. In our opinion, the drafting a profitable part of the regional budget should be guided by Article 32 of the RF Budget Code, taking into account all potential income sources. This requires a number of measures aimed at:

- enhancing the work to reduce existing accounts receivable in the budget;
- optimization of tax incentives policy;

⁵ From S.A. Kozhevnikov and V.N. Artamonova's speeches at the public hearings on the forecast of the Vologda Oblast socio-economic development and the draft of the regional law "On the regional budget for 2014 and the planned period of 2015–2016".

Table 11. Calculation of the possible increase of the regional budget revenues through proposed improvements of the budgetary management tools*

Activity	Real value	Proposed option	Additional revenue, bln. rubles per year
Reduction of arrears on budget payments	13.5–18%	0	5400–6300
Liquidation of unfunded federal benefits	55–69% of the calculated amount in the budget	0	3650–6507
Ensuring completeness of target transfers use	2–5% of the transfers amount	0	212–457
Increase of the tax rate on dividends	9%	15%	191–194
Enhancing management of budget funds surplus	0	Deposit %	12–55
Providing full financing of delegated powers	95–99%	100%	5–69
Total			9471–13582
* Calculations were conducted in 2010–2012			

- ensuring completeness of target transfers use;
- improving taxation procedure for personal incomes;
- enhancing management of budget funds surplus;
- providing full financing of delegated powers.

According to our estimates, the identified measures implementation attract 9.5–13.6 billion rubles a year in the Vologda Oblast budget system, which boost own revenues, covering 44% of budget expenditures on social sphere (*tab. 11*).

As a conclusion it can be noted that in reality the budget execution is often far from the forecast indicators. Hence, the quality of budget planning at the regional level becomes the key issue. Without its significant improvement

it will be difficult to establish a colligation between program budget execution and decision of strategic problems of territorial development. The low level of forecasts, laid in the basis of the budgetary projections, leads to systematic the budget revisions for the current year (2013 budget was reviewed 5 times). The drafting of a 3-year budget loses its meaning. What is more, with the regional budget execution the practice of underfunding of the approved expenditure commitments has been applied. This jeopardizes spending units and disorganizes functioning of the relevant economy sectors. There seems to be an urgent need for increasing personal responsibility for the quality of budget drafting and its execution and for legal establishment of a threshold of acceptable changes of the budget as a whole, its structural sections and target programs.

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