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## FINANCIAL AUTONOMY AND SUSTAINABILITY OF LOCAL SELF - GOVERNMENT

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### ABSTRACT

#### **Purpose of the research**

The aim of the study was to analyze and evaluate the financial indicators of local self-government and on this basis to make recommendations on increasing the efficiency and effectiveness of local self-government.

**Methods:** Both general and specific scientific methods were used in the research, such as analysis, synthesis, induction, deduction, method of expert evaluations.

**Results:** An analysis of the legal framework in the field of local finance and the methodology for assessing the financial condition of municipalities was performed. Based on the development, an assessment of the local self-government was made according to the tested indicators. A number of author's conclusions have been made regarding the current state of the municipalities. Author's views on increasing the efficiency and effectiveness of local self-government are presented.

**Conclusions:** The system of local finances is a reflection of the relations between the central and local government, between the local government and the representatives of the local community.

At present, a significant part of local budgets are still heavily dependent on government transfers from the central budget.

**Key words:** Regional policy, administrative-territorial organization

### INTRODUCTION

#### **Relevance of the problem**

There are 265 administrative-territorial units in our country, in which the local self-government is carried out. Significant differences in the typology of local self-government require a differentiated approach, which in turn requires the development and testing of a streamlined system for assessing local finances, which are a key measure of expenditure and revenue powers of municipalities in our country.

As of 2013, the Ministry of Finance has developed a detailed system that provides the necessary information environment for comparative analyzes and assessments of the municipalities in Bulgaria.

#### **Subject and object of the research**

**The subject** of the study are some indicators of financial sustainability, autonomy, investment activity and efficiency, which are defined in a unified state methodology, and which allow to analyze and evaluate the municipalities in Bulgaria.

**The object** of the study are all 265 municipalities in Bulgaria and more precisely their budgets, which provide the primary information for the calculation of the defined indicators.

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### **Aim and tasks of the research**

**The aim of the research** is to analyze and evaluate the financial indicators of the local self-government and on this basis to derive some author's views on increasing the efficiency and effectiveness of the local self-government.

**To achieve this goal, the following tasks are defined:**

- To present the regulatory framework in the field of local finance, as well as to define the methodology of the survey, which is a set of indicators for analysis and evaluation;
- To analyze and evaluate the local self-government according to the previously tested methodology;
- To present some author's views on the current financial condition of local government;
- To present some author's views on increasing the efficiency and effectiveness of local self-government.
- Both general and specific scientific methods were used in the research, such as analysis, synthesis, induction, deduction, method of expert evaluations.

The study has a volume of 74 pages and is structured in an introduction, three chapters, a conclusion, a list of references and appendices.

### **MATERIAL AND METHODS**

Both general and specific scientific methods, such as analysis, synthesis, induction, deduction, method of expert evaluations, have been applied in the study.

Large data sets of municipal budgets and comparative data on local finances have been used.

The main sources of information:

Ministry of Finance - for the municipal budgets in Bulgaria;

NSI for the economic indicators of the municipalities;

### **Nature and objectives of the local finance system**

1. Type and scope of public services;
2. Local revenues;

3. Powers of local authorities;

### **Local self-government**

Local self-government is a fundamental right of citizens and a principle of regional policy. It is the closest to the population level of democratic governance and is assumed by the development of society and the changing needs and demands of the people. Satisfying them presupposes bringing power closer to the population, which democratizes the entire management process. (1-3)

Recognizing the importance of local self-government, the Council of Europe has set up a Congress of Local and Regional Authorities in Europe. This organization bases its activities on the European Charter of Local Self-Government. It contains the basic conditions, principles and practices of local self-government.<sup>1</sup>

### **Methodology for assessing the financial sustainability and independence of local self-government**

The Ministry of Finance has developed a methodology for periodic evaluation of municipalities. The evaluation aims to (4-9)

- achieving better management of public resources at the local level;
- achieving greater transparency in the activity;
- making decisions for incentives;
- increase control at the local level.

The assessment takes into account the factors influencing the differences in the revenue opportunities of the individual municipalities and reflects the objective differences in the costs per unit of service.

The prepared assessment gives an idea of the condition and possibilities of the municipalities for distribution of the available resources and the provision of public services to the local public on an ongoing and comparative basis.

Thus, the proposed evaluation system allows to compare the municipalities in terms of:

representatives and their social security /. With the adoption of the Law on Ratification by the National Assembly of the European Charter of Local Self-Government / SG, iss. 28/95 /, according to art. 5, para. 4 of the Constitution of the Republic of Bulgaria, the charter becomes part of the domestic legislation and has priority over it.

<sup>1</sup> The European Charter of Local Self-Government was adopted on 15.10.1985 in Strasbourg, France. Bulgaria signed the Charter on October 3, 1994, and the National Assembly ratified it on May 10, 1995 / with the exception of Art. § 2 regarding the financial competencies for the performance of the functions by the elected local

- the achieved degree of financial independence;
- financial sustainability (budgetary stability), including the degree of indebtedness - long-term and short-term;
- efficiency of resource management;
- investment activity.(10)

**Assessment of the financial independence, sustainability and investment activity of the municipalities in Bulgaria for the period fourth quarter of 2016 - fourth quarter of 2020**

**Assessment of the structure of revenues in the municipalities**

Financial independence of the municipality is determined by the amount of own revenues of

the municipality compared to the total revenues in the municipality. The assessment of this indicator is made on the basis of the indicator share of own revenues from total revenues - this indicator takes into account the potential of the municipality to collect own revenues to ensure its financial independence. The higher the percentage of own revenues relative to total revenues, the greater its budgetary autonomy. It is assumed that municipalities with over 70% own revenues have achieved a significant degree of financial independence (limited control by central authorities). Municipalities that have more than 50% of their own revenues from total revenues achieve relative independence. (11)

*Table 1. Municipalities in Bulgaria with the highest percentage share of own revenues from total revenues, for the period fourth quarter of 2020, compared to the data from the fourth quarter of 2016*

City code	Place in the ranking of the indicator in descending order for the fourth quarter of 2016	Place in the ranking of the indicator in descending order for the fourth quarter of 2020	* in the calculation of indicators 1, 2, 3, 4 and 5 of the total amount of revenues are deducted aid, donations and other gratuitously received amounts from abroad, reported under §46, §47 and §48 of the EBC	Reporting period 31.12.2016	Reporting period 31.12.2020
			Municipalities	1. Share of own revenue from total receipts	
5208	1	1	Primorsko	83.53%	83.53%
7322	2	2	Chelopech	73.81%	73.81%
5206	4	3	Nessebar	70.50%	70.27%
5210	7	4	Sozopol	64.54%	62.35%
5213	8	5	Tsarevo	63.43%	59.76%
7321	3	6	Chavdar	75.94%	53.33%

Source of data: Development of the author by the method of analysis and synthesis of information of the Ministry of Finance in the Republic of Bulgaria, Public Expenditures, Financial Indicators of Municipalities, Financial Data for Municipalities of Art. 130, para. 2 of ZPFQ4 - 2016; Financial indicators of the municipalities, Financial data for municipalities of art. 130, para. 2 of the LPF Q4 2020

From the data systematized in **Table 1** it is clear that the six municipalities that are in first place in the fourth quarter of 2020 on the indicator - share of own revenues from total revenues have maintained and worsened the results of the fourth quarter of 2016, when partly also have been at the forefront. We can conclude that

financial independence and independence have been achieved to the greatest extent by the Municipality of Prilorsko, Chelopech Municipality, Nessebar Municipality, Sozopol Municipality, Tsarevo Municipality, and Chavdar Municipality has achieved relative independence by the central authorities with a

share of own revenues from total revenue of 53.33 percentage points. The good condition of these municipalities is due to the fact that some of them are tourist centers, and on the territory of

others there are operators extracting and exploiting underground resources, and paying concession fees to the municipalities.

**Table 2. Municipalities in Bulgaria with the lowest percentage share of own revenues from total revenues, for the period fourth quarter of 2020, compared to the data from the fourth quarter of 2016**

City code	Place in the ranking of the indicator in descending order for the fourth quarter of 2016	Place in the ranking of the indicator in descending order for the fourth quarter of 2020	* in the calculation of indicators 1, 2, 3, 4 and 5 of the total amount of revenues are deducted aid, donations and other gratuitously received amounts from abroad, reported under §46, §47 and §48 of the EBC	Reporting period 31.12.2016	Reporting period 31.12.2020
			Municipalities	1. Share of own revenue from total receipts	
6009	264	265	Treklyano	8.27%	6.09%
5503	246	264	Bregovo	13.90%	6.70%
5510	265	263	Ruzhintsi	5.93%	6.71%
7406	262	262	Nikolaevo	9.50%	6.77%
6211	200	261	Yakimovo	20.02%	7.05%
6208	245	260	Medkovets	14.46%	7.81%

Source of data: Development of the author by the method of analysis and synthesis of information of the Ministry of Finance in the Republic of Bulgaria, Public Expenditures, Financial Indicators of Municipalities, Financial Data for Municipalities of Art. 130, para. 2 of ZPFQ4 - 2016; Financial indicators of the municipalities, Financial data for municipalities of art. 130, para. 2 of the LPF Q4 2020

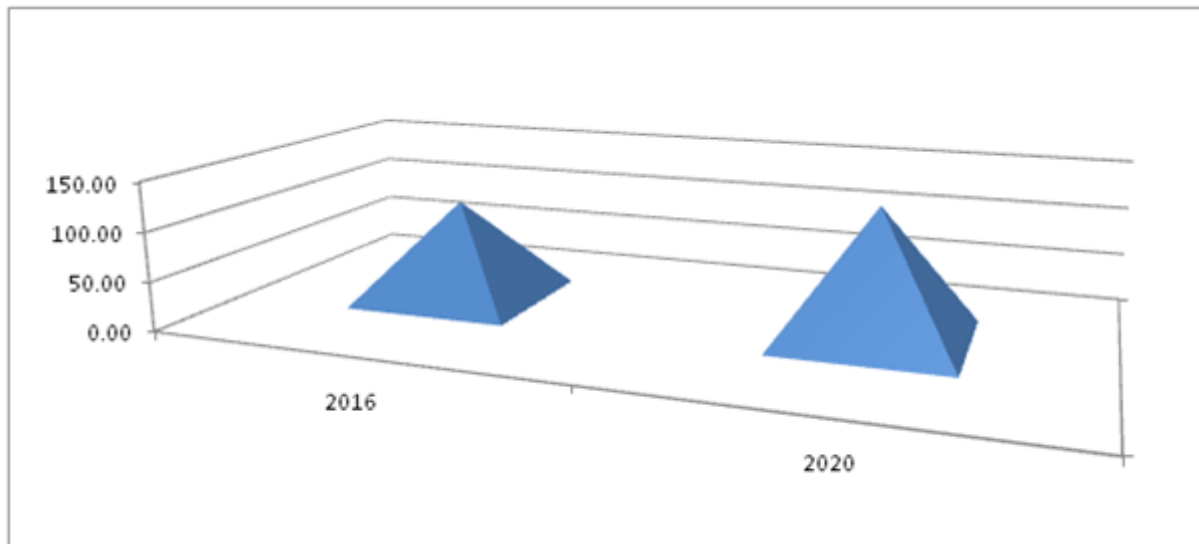
From the data systematized in **Table 2** it is clear that the municipalities that are in last place at the end of 2020 on the indicator - share of own revenues from total revenues have maintained the trend of strong dependence on central government, reported in the data for the fourth quarter of 2016, when they were also in the last places on the indicator. We can encourage the Municipality of Ruzhintsi that in the last four years has taken measures to increase financial independence, which are yielding results, and it has increased its data on this indicator by 0.78 percentage points compared to 2016. The Municipality of Treklyano, the Municipality of Bregovo, the Municipality of Yakimovo and the Municipality of Medkovets deepen their financial dependence on the part of the central authorities

with a share of their own revenues from the total revenue of up to 6.09 percentage points. It is clear that the deteriorating indicators stem from the fact that these are small municipalities with low economic potential. There is a tendency for these municipalities to be in this state since 2013.

**Indicators of financial independence**

This set of indicators reflects the part of the management of the revenue and expenditure part of the budget that is transferred to the local governments. The assessment is carried out through the rights and responsibilities assumed by the municipalities related to the planning, management and use of resources.

- The average share of revenues in total revenues for the country remains at 30.76% compared to 40.07% at the end of 2016 – **Figure 1.**

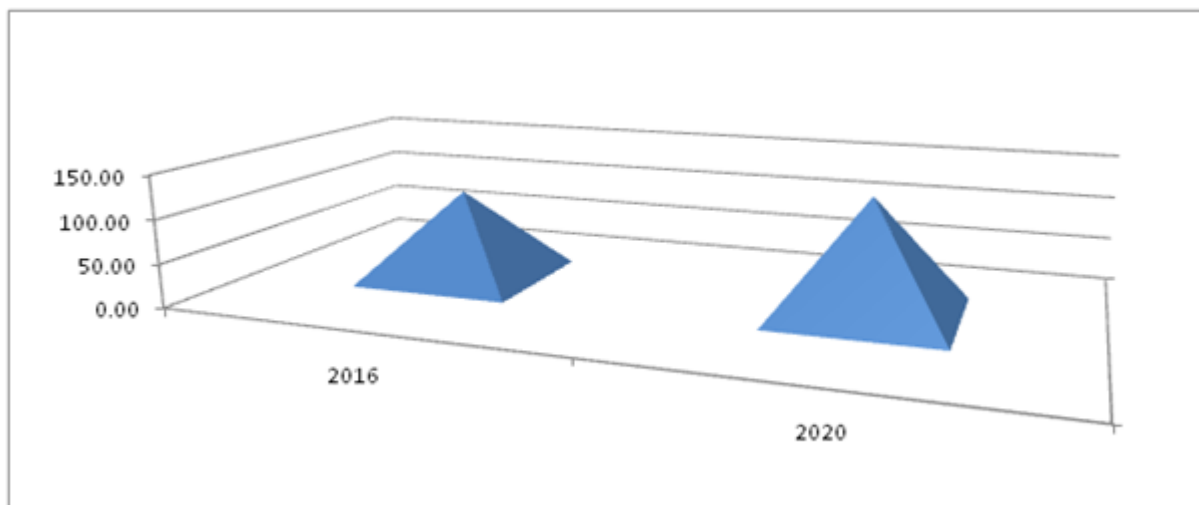


**Figure 1.** Average share of revenues in total revenues for the country

Source of data: Development of the author by the method of analysis and synthesis of information of the Ministry of Finance in the Republic of Bulgaria, Public Expenditures, Financial Indicators of Municipalities, Financial Data for Municipalities of Art. 130, para. 2 of ZPFQ4 - 2016; Financial indicators of the municipalities, Financial data for municipalities of art. 130, para. 2 of the LPF Q4 2020

- At the end of the fourth quarter of 2020, a total of 43 municipalities reported a share of revenues from total revenues higher than the

national average, as at the end of 2016 they were 41 - **Figure 2**



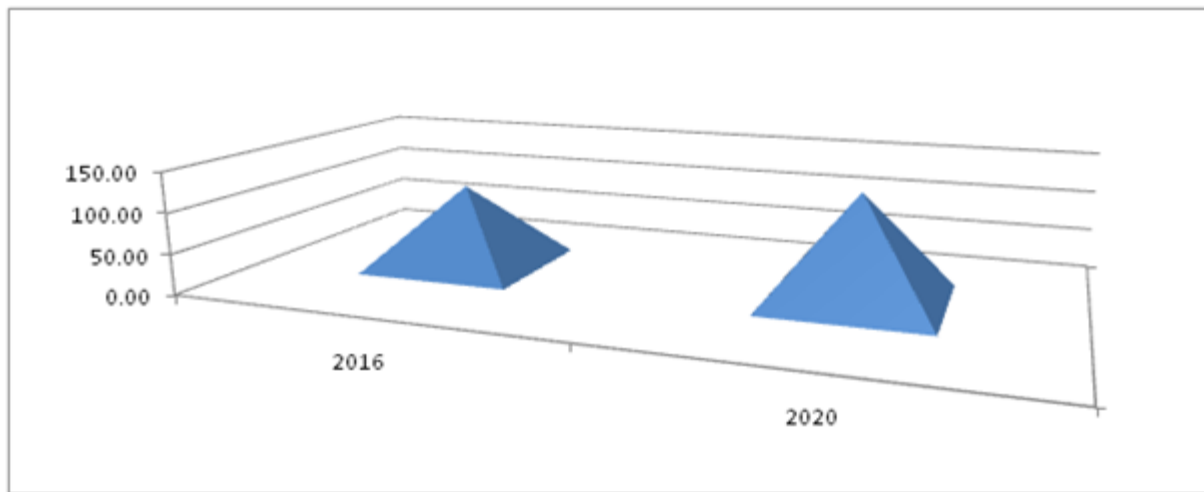
**Figure 2.** Number of municipalities reporting a share of revenues from total revenues higher than the average abroad

Source of data: Development of the author by the method of analysis and synthesis of information of the Ministry of Finance in the Republic of Bulgaria, Public Expenditures, Financial Indicators of Municipalities, Financial Data for Municipalities of Art. 130, para. 2 of ZPFQ4 - 2016; Financial indicators of the municipalities, Financial data for municipalities of art. 130, para. 2 of the LPF Q4 2020

- The average for the country share of coverage of expenditures for local activities with

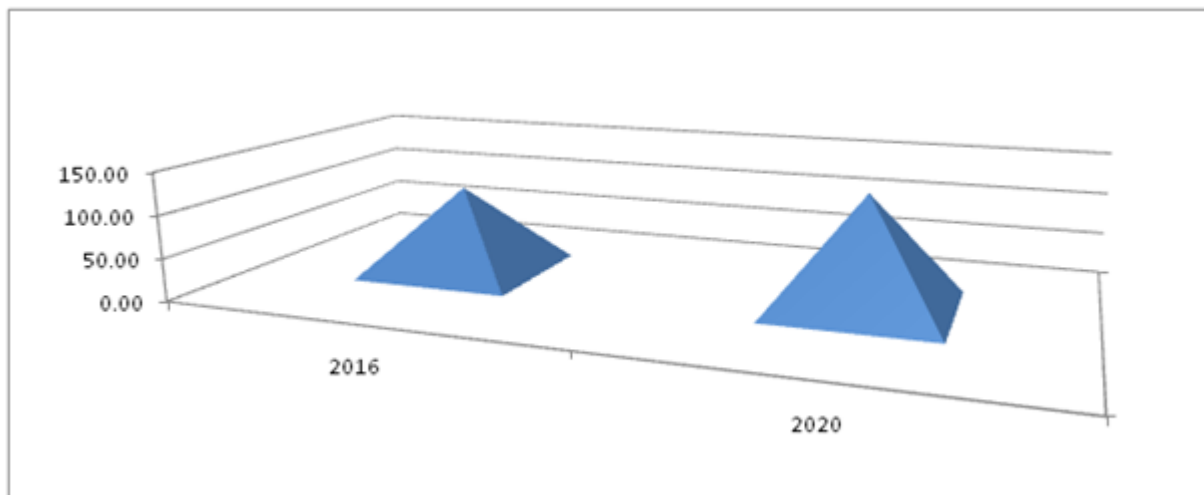
revenues reached 82.90% compared to 85.20% in 2016 (**Figure 3**), as 62 municipalities achieved a

result above the national average for the fourth quarter of 2020 compared to 62 at the end of the fourth quarter of 2016 - **Figure 4**.



**Figure 3.** Average share of coverage of expenditures for local activities with own revenues

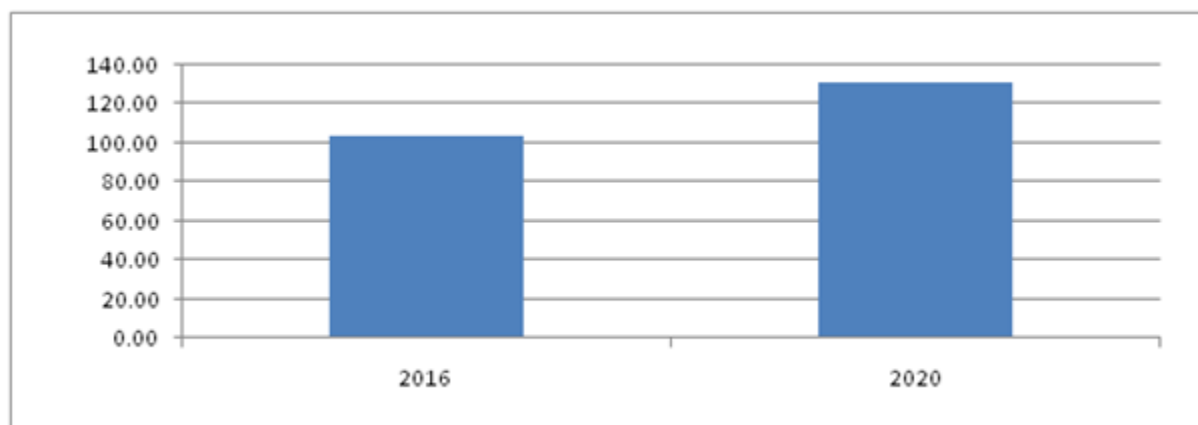
Source of data: Development of the author by the method of analysis and synthesis of information of the Ministry of Finance in the Republic of Bulgaria, Public Expenditures, Financial Indicators of Municipalities, Financial Data for Municipalities of Art. 130, para. 2 of ZPFQ4 - 2016; Financial indicators of the municipalities, Financial data for municipalities of art. 130, para. 2 of the LPF Q4 2020



**Figure 4.** Number of municipalities reporting an average share of coverage of expenditures for local activities with own revenues, higher than the national average

Source of data: Development of the author by the method of analysis and synthesis of information of the Ministry of Finance in the Republic of Bulgaria, Public Expenditures, Financial Indicators of Municipalities, Financial Data for Municipalities of Art. 130, para. 2 of ZPFQ4 - 2016; Financial indicators of the municipalities, Financial data for municipalities of art. 130, para. 2 of the LPF Q4 2020

- The number of municipalities that have a share of capital expenditures higher than the national average at the end of the fourth quarter of 2020 is 131, compared to 103 municipalities at the end of 2016 – **Figure 5**.



**Figure 5.** Number of municipalities with a share of capital expenditures higher than the national average  
 Source of data: Development of the author by the method of analysis and synthesis of information of the Ministry of Finance in the Republic of Bulgaria, Public Expenditures, Financial Indicators of Municipalities, Financial Data for Municipalities of Art. 130, para. 2 of ZPFQ4 - 2016; Financial indicators of the municipalities, Financial data for municipalities of art. 130, para. 2 of the LPF Q4 2020

Other important indicators important for the financial condition of the municipalities can be observed.

- the commitments available at the end of the previous year for expenditures under the municipal budget to the average annual amount of reported expenditures for the last four years in BGN - may not exceed 50 percent of the average annual amount of reported expenditures for the last four years. As of 31.12.2020, 48 municipalities in the country violate the parameters provided by law, according to data from their turnover sheets.
- available at the end of the previous year expenditure commitments to the average annual amount of reported expenditures for the last four years - may not exceed 15 percent of the average annual amount of reported expenditures for the last four years (the limit does not apply to expenditure commitments financed for account of grants and donations). As of 31.12.2020, 15 municipalities in the country violate the legally regulated value. These are the municipalities of Belogradchik, Dospat, Septemvri, Velingrad, Kresna, Strumyani, Kardzhali, Dimovo, Stamboliyski, Belovo, Kostenets, Mirkovo, Balchik, Bregovo, Nedelino.

## RESULTS

The results of the analysis and assessments of the financial state of Bulgarian municipalities show that they have the following characteristics: The largest influence on the formation of inter-municipal differences in the financial state is exercised by the indicators of the revenue sector. The differences in revenues in medium and small municipalities are particularly large.

The current system of municipal revenues is characterized by: low share of own, including tax revenues; weak relation to the level of socio-economic development of the territory; strong dependence on government transfers.

Regional self-government is a new, higher level in the development of local democracy. It can create a balanced and effective management system that will provide the conditions for sustainable economic growth of the country and its regions.

The combination of the started decentralization process and the administrative-territorial reform will create solid preconditions for optimal redistribution of powers, functions and responsibilities for the achievement of an efficient and effective system of government.

The administrative-territorial structure of the respective country is not limited to the number of management levels.

This includes other important parameters of specific administrative systems, such as the optimal size of local structures of the first and second level, as well as the degree of decentralization, etc. The size of municipalities and regions and the relationship with their efficiency functioning according to most experts in local and regional democracy is more than obvious.

Practice has unequivocally shown that small territorial units are not prepared for large-scale local and regional development planning and do not have the necessary integrated service delivery systems.

An effective regional policy depends to a large extent on the right one zoning, from achieving the optimal boundaries of the regions. According to some authors, zoning is a basic concept in regional studies and is a prerequisite for a successful regional policy.

Zoning can be economic, based on the administrative-territorial division, on physical-geographical principles, for the needs of a certain type of planning, etc.

The practice of countries with success in regional development proves that the most the good option is one where the economic and administrative boundaries are the same.

According to the European Charter, the region is a key level for European integration. The Charter provides the following legal definition of regional self-government:

"Regional self-government means law and effective capacity of the largest territorial authorities within each Member State, which have elected bodies located between the state and local authorities and ridge with prerogatives of a state nature, to assume at their own expense and responsibility, and also in the interest of their population, a significant part of the issues of public importance in accordance with the principle of subsidiarity. "

According to the draft European Charter of Regional Self-Government the principle of subsidization is fundamental, which provides opportunities for equal legitimacy of the four levels of government - local, regional, national and European.

## CONCLUSIONS

The aim of the study was to analyze and evaluate the financial indicators of local self-government and on this basis to make recommendations on increasing the efficiency and effectiveness of local self-government.

An analysis of the legal framework in the field of local finance and the methodology for assessing the financial condition of municipalities was performed. Based on the development, an assessment of the local self-government was made according to the tested indicators. A number of author's conclusions have been made regarding the current state of the municipalities. Author's views on increasing the efficiency and effectiveness of local self-government are presented.

Many municipalities still experience problems with the balance of the budget balance, as was the case in the previous period.

At present, a significant part of local budgets are still heavily dependent on government transfers from the central budget.

The following author's recommendations stand out: A reduction in the number of municipalities is needed in order to increase the efficiency and effectiveness of local self-government.

The topicality of the considered problem and its urgent solution are also a priority of the central government in Bulgaria.

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