RESEARCH ARTICLE

Municipal Budget Autonomy and the Specificity of its Degree

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Abstract

Resulting from the research the author has improved the methodology of determining the degree of municipal budget decentralization, devolution and deconcentration. The basic principles in methods of research of these indicators have been determined. The author has put income indicators that describe the tax and other income powers of local self-government. The research results of the degree of budget autonomy and deconcentration, budget decentralization in Kyiv, Ukraine have been presented. The improved methodology allows receiving objective indicators, which will help to make a decision concerning the transfer and delegating of income powers to the bodies of local self-government as well as to other bodies of local and regional government.

Keywords: *incomes, Decentralization, Budget autonomy, Devolution and deconcentration, Municipal self-government.*

Introduction

The development of democratic principles in the economies of countries quite naturally reflected in their legislative basis. Among the principles of the budget system building the priority gained a subsidiary principle, which provides that the distribution of expenses between the state budget, regional and local budgets is based on the necessity to ensure the maximum possible approach of providing the guaranteed social benefits to their direct consumer.

Only under such necessary conditions the maximum degree of satisfaction of the population needs as an indicator of efficiency of distribution processes can be achieved. The implementation of the principle of subsidiarity is impossible without revising the delegated and own expense powers of regional and local governmental bodies of all levels (including the city) for their expansion.

The bodies of local governments must be provided with financial resources in stark compliance with the expense powers. The delays in the transfer of powers, as well as violation of proportions: private incomes - private expenses, fixed incomes and inter-budget transfers - delegated expenses result

in the confrontation between national and local interests, as well as in retarded processes of budget decentralization and its elements (budget devolution (or autonomy) and deconcentration).

The development of stages of conducting budget decentralization in countries is impossible without a proper empirical assessment of the achieved level of budget devolution (or autonomy), deconcentration and by extension the decentralization. This confirms the specific thematic justification of methodology for determining the degree of relevant indicators.

Material and methods

The scope and the list of financial resources, which form the financial basis of the municipal government does not allow arguing on the existence or absence of local self-government. For this purpose it is necessary to investigate the structure of financial resources and trends in its changes. In our opinion, the resources that are created according to the decisions of municipal governmental bodies and directly by them and are spent on their own discretion, are supposed to be personal.

Their share is directly dependent on the level of budget decentralization, in particular of the budget devolution (or autonomy).

Instead, the resources of the central government, which are attached to the municipal budgets and spent by local governmental bodies with the aim of implementing the state functions as delegated, and inter-budget transfers are financial resources on the execution of delegated powers. Their part is also directly dependent on the level of budget decentralization, particularly on the budget deconcentration; it is in inverse relation of the level of budget devolution (or autonomy).

We offer our own methodology to determine the degree of budget decentralization, devolution (or autonomy) and deconcentration of the cities.

We define the basic principles of the aforementioned methodology which is as follows:

- The rights of the local governments and their bodies must be clearly separated into the delegated and own with full or partial powers;
- The objective criteria, methods, techniques and indicators must be used to the full;
- Methods and techniques of the determining the degree of budget decentralization, devolution (or autonomy) and deconcentration must be as transparent and easy as possible, and scientifically reasoned;
- All the relations regarding the distribution and redistribution of financial resources of the municipal budgets must be taken into consideration when assessing the budget

decentralization, devolution (or autonomy) and deconcentration;
- Incomes and expenses of local governments and their bodies in financial levelling must be taken into account.

Theory/Calculation

To determine the degree of budget decentralization, devolution (or autonomy) and deconcentration we are introducing the income indicator groups. They are marked with the capital Latin letters. To separate the sub-indicators Arabic numerals are given.

The first digit means the division of indicators into sub-indicators of the first order, the second - of the second order.

Sub-indicators of the second order are introduced to divide incomes into groups depending on whether they are taken into account when determining the scope of inter-budget transfers (Tables 1-3).

The indicators are placed in descending order of income powers, of decreasing power of the degree of stability of incomings of fixed and controlling incomes, of increasing degree of financial levelling, in the transition from objective criteria of the inter-budget transfers to the subjective.

The DA, DB and DC indicators determine the volume of tax powers regarding both taxes, fees and mandatory payments. That is they specify the powers of local governmental bodies to take the decisions on tax payments, non-tax receipts to their budgets, and revenues to the special-purposed budget funds.

Table: 1 Income indicators to define the degree of municipal budget decentralization, deconcentration and devolution (or autonomy)

Indicator	Indicator characteristics	Sub-indicator	Powers of local governmental bodies	Incomes are taken into account when determining the inter-budget transfers	
				No	Yes
DA	Tax authorities concerning tax rates and other tax elements (charges, mandatory payment)	DA1	Independently establish tax rates and other tax elements	DA11	DA12
		DA2	Independently establish tax rates, within the limits established by the central government, and other tax elements, without restrictions	DA21	DA22
		DA3	Independently establish tax rates, without restrictions, and other tax elements, within the limits established by the central government	DA31	DA32
		DA4	Independently establish tax rates and other tax elements, within the limits established by the	DA41	DA42

				No	Yes
			central government		
DB	Tax authorities concerning tax rates	DB1	Independently establish tax rates, without restrictions	DB11	DB12
		DB2	Independently establish tax rates, within the limits established by the central government	DB21	DB22
DC	Tax authorities concerning other tax elements (charges, mandatory payment) apart from tax rates	DC1	Independently control the withholding tax base amount and establish benefits	DC11	DC12
		DC2	Independently control the withholding tax base amount	DC21	DC22
		DC3	Independently establish benefits	DC31	DC32
		DG2	Taxes, charges and mandatory payments, confirmed for a definite period	DG21	DG22
		DG3	Taxes, charges and mandatory payments, confirmed for a one-year period	DG31	DG32
		DJ2	Provided subjectively	X	X

(Indicators DA, DB, DC)

Table: 2 Income indicators to define the degree of municipal budget decentralization, deconcentration and devolution (or autonomy)

Indicator	Indicator characteristics	Sub-indicator	Powers of local governmental bodies	Incomes are taken into account when determining the inter-budget transfers	
				No	Yes
DF	Loans	DF2	Independently establish the borrowing procedure and determine the debt structure	X	X
		DF3	Independently establish the borrowing procedure	X	X
		DF4	Independently determine the debt structure	X	X
		DF5	Default powers	X	X
DG	Fixed taxes, charges and mandatory payments of the central government, by which the local government bodies have no tax authorities	DG1	Taxes, charges and mandatory payments, confirmed for an indefinite period	DG11	DG12
		DG2	Taxes, charges and mandatory payments, confirmed for a definite period	DG21	DG22
		DG3	Taxes, charges and mandatory payments, confirmed for a one-year period	DG31	DG32
DH	Budget splitting	DH1	Budget splitting can be modified only with the consent of the relevant local governmental body	DH11	DH12
		DH2	Budget splitting is determined by law (state authorities) once a year	DH21	DH22
		DH3	Tax splitting is determined by law (state authorities) and can be modified several times within the year	DH31	DH32

(Indicators DF, DG, DH)

Table: 3 Income indicators to define the degree of municipal budget decentralization, deconcentration and devolution (or autonomy)

Indicator	Indicator characteristics	Sub-indicator	Powers of local governmental bodies	Incomes are taken into account when determining the inter-budget transfers	
				No	Yes
DI	General direct inter-budget transfers	DI1	Adhering the principle of regression in financial levelling by the objective symbolic methodology	X	X
		DI2	Inter-budget transfers by the objective symbolic methodology equalize tax potentials of the cities to the same level	X	X
		DI3	Inter-budget transfers by the objective symbolic methodology equalize incomes of the cities to the same level	X	X
		DI4	Provided by the central government subjectively	X	X
DJ	Special-purposed direct inter-budget transfers	DJ1	Provided by objective criteria	X	X
		DJ2	Provided subjectively	X	X

(Indicators DI, DJ)

The DF indicator is introduced to determine the degree of autonomy while performing borrowings to municipal budgets. The boundary amount of a debt of local governments is usually established by the state authorities. According to these limits the municipal budget gaps are approved. State authorities can provide local governments with the powers only concerning the structure of the debt and the procedure of borrowing.

With the purpose to determine the degree of municipal budget devolution (or autonomy), deconcentration and decentralization, incomes must be classified by the indicators and sub-indicators. The acquired data by the indicators and sub-indicators must be labelled (shared) in accordance with the total amount of consolidated incomes (budget resources coming to the consolidated budget from the territory of a specific city) and multiplied at one hundred percent.

The sum of the shares by the income sub-indicators DA11, DA21, DA31, DA41, DB11, DB21, DC11, DC21, DC31, DF2, DF3, DF4 within the costs for implementing the own powers defines the degree of budget devolution (or autonomy).

That is the degree of budget devolution (or autonomy) takes into account the share of municipal budgets acquired on the basis of own decisions and which do not participate in determining of inter-budget transfers, and are used to perform the own powers (as in the case of self-establishment of expense norms and standards and/or means of rendering social benefits). The expenditures should also not be involved during the budgetary levelling.

The sum of shares of the balance of income sub-indicators is the degree of budget deconcentration.

The degree of budget devolution and degree of budget deconcentration in the amount is equal to the degree of budget decentralization.

Results

We are presenting the research results of the degree of budget devolution (or autonomy) and deconcentration, budget decentralization in Kyiv, Ukraine.
The structure of incomes by the income sub-indicators of determining the degree of budget decentralization in Kyiv, Ukraine is shown in figure 1.

The sub-indicator shares fluctuations relatively the total revenue by all indicators found its reflection in the dynamics of the level of budget devolution (or autonomy) and deconcentration (figure 2.).

The level of budget devolution (or autonomy) decreases gradually: from 2.6% in 2005 to 1.1% in 2011. In 2013 it was slightly increased to the index in 1.5% of revenues to the consolidated budget of Ukraine from the territory of Kyiv. In 2015 it amounted to 1.7%. The reducing of the degree of budget devolution (or autonomy) partially was compensated by the increased level of budget deconcentration.

In 2013 it reached the index of 49% that is more than 2005 level by 7.4 percentage points, but lower than the index of 2009 by 0.4 percentage points. In 2015 the degree of budget deconcentration slipped to 48.2%.
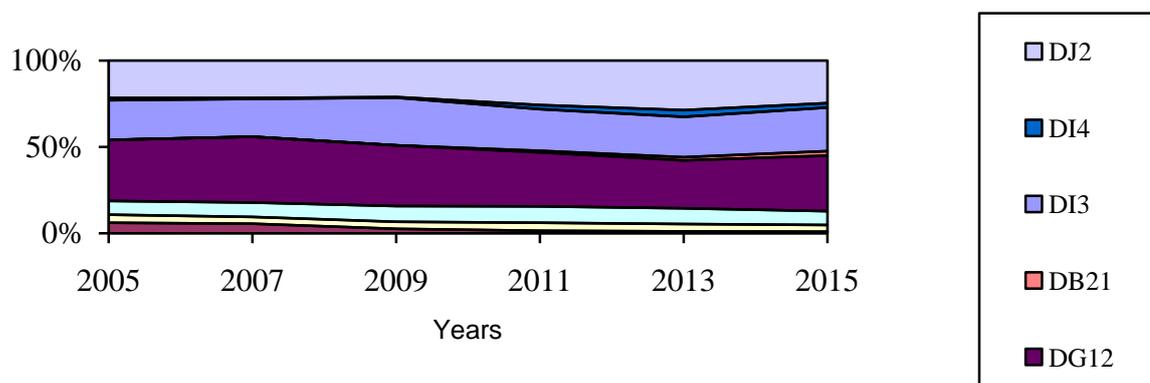

Figure:1 The structure of incomes by the income sub-indicators of determining the degree of budget decentralization in Kyiv, Ukraine, % Information Government Treasury Service of Ukraine (2005 – 2015.)
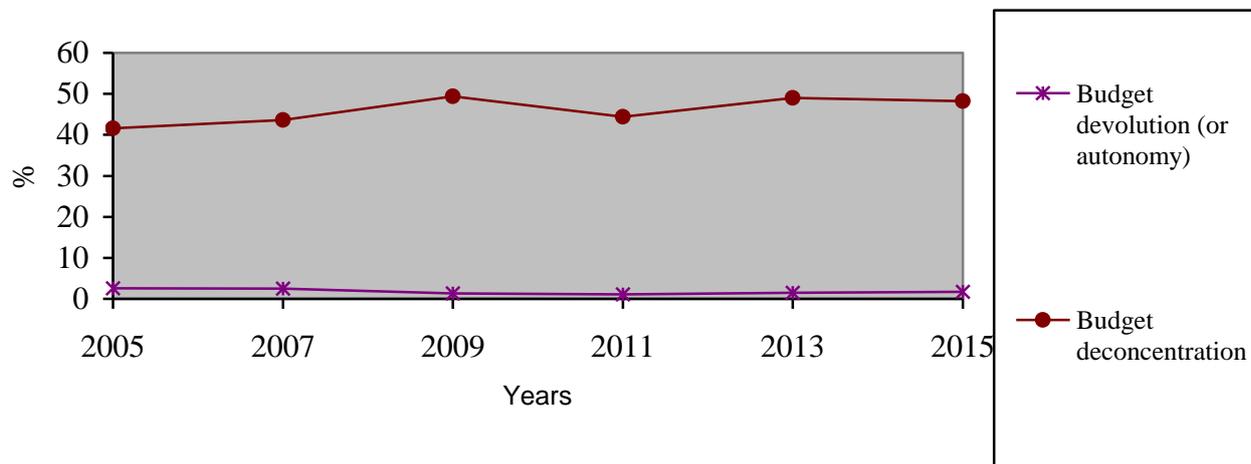
Figure: 2 The dynamics of the level of budget devolution (or autonomy) and deconcentration in Kyiv, Ukraine Information Government Treasury Service of Ukraine (2005 – 2015).

The indicators of degree of budget devolution (or autonomy) and deconcentration in its amount are equal to the degree of budget decentralization. As a consequence its indicators increased from 44.2% in 2005 to 50.7% in 2009. In 2011, the indicator of budget decentralization decreased to 45.5%, but in 2013 it returned to its value and amounted 50.5%. In 2015, the degree of budget decentralization reached 49.9%.

Up to date, Ukrainian local governmental bodies have not acquired an experience of an effective impact on the rising tax potential. The style of solving of local affairs still remains administrative command. It is supported by the bodies of state authority both on the central level and at the local level. The rights of citizens to take part in management of local affairs, by means of local governmental bodies, are not implemented.

Thus, the transition into new, similar to the market and most effective conditions of management of local governmental bodies needs for more financial freedom. Its acquiring shall provide the creation of new and transferring the existing powers, both tax and debit. This process must be performed on the background of a reform of the state governance, and also it must be reflected on the directions of administrative-territorial reform in Ukraine.

Discussion

Science pays little attention to the investigation of methodology of identification of the degree of budget decentralization, devolution (or autonomy) and deconcentration.

Most of all scientists replace the decentralization into the concepts of fiscal capacity, budget independence and budgetary autonomy of the regions, administrative-territorial units, territories, municipal budgets, the activity of local governmental bodies, and local authorities of specific regions.

The fiscal capacity is calculated as the share of incomes of municipal budgets in the consolidated budget, the share of expenditures of municipal budgets in the consolidated budget and the share of inter-budget transfers in the form of incomes of the local budgets. In the author's opinion, it shows the degree of decentralization (budget, but not financial), but it does not determine the degree of budget deconcentration and devolution (or autonomy).

The associated indicator of financial support of the territories, municipal budgets and regions with the coefficient of an autonomy, which is proposed to be considered in the terms of the share of private and fixed incomes in total receipts for the local budget Tarangul [1] or as a ratio of private and fixed incomes for the local budgets Pavlyuk [2] or as a share of revenues in the total amount of incomings to the local budgets Polyak [3] and Chernyavskiy [4]

However, H. Zimmermann offers the calculations as follows Zimmermann [5]

- The net of expenses, that is, the expenses, which are funded from private sources of income;

- The ratio of mandatory and voluntary municipalities' expenses;

- The degree of external interference into the financial activities of local governmental bodies.

And it was the global community which introduced the methodology of tax fiscal autonomy Blochliger and Rabesona [6] The OECD methodology gives the possibility to determine only fiscal autonomy, and respectively it does not contain the methodology to evaluate the degree of decentralization of non-tax revenues, incomes from capital transactions, and of revenues of special-purposed funds, which are part of the municipal and regional budgets. Also the division of tax revenues depending from the participation in the budget levelling, which reduces the accuracy of identification of the degree of tax autonomy, is not provided.

Instead, the budget decentralization provides for transferring of not only resources, but also powers in the financial dimension. It contains the budget deconcentration and budget devolution. Only the last one is equal to the budget autonomy or budget independence of local and regional self-government, and municipal self-government in particular.

Conclusions

Resulting from the research the author has improved the methodology of determining the degree of budget decentralization, devolution (or autonomy) and deconcentration. The basic principles in methods of research of these indicators have been determined; the income indicators have been presented.

The improved methodology allows receiving objective indicators, which will help to make a decision concerning the transfer and delegating of income and expense powers to the bodies of local self-government as well as to other bodies of local and regional government.

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