Trakia Journal of Sciences, Vol. 11, Suppl. 1, pp 151-154, 2013

Available online at:
http://www.uni-sz.bg

ISSN 1313-7069 (print)
ISSN 1313-3551 (online)

OPPORTUNITIES FOR IMPROVING THE MECHANISMS FOR DISTRIBUTION OF THE COMMON BALANCE FUNDS (FOLLOWING THE EXAMPLE OF THE MUNICIPALITIES OF THE STARA ZAGORA REGION)

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ABSTRACT

Reviewing the budgets of the municipalities in the Stara Zagora region, local taxes can serve as a kind of "litmus" for the socio-economic development of the separate municipalities. Even though local taxes do not have a tax basis, which is directly related to the acquired income, they are levied upon property determined by the population's income. A functional relationship is observed: income – taxable property – local taxes. Significant regional disproportions have been observed within the region, which also generate major differences in the income capacity of the separate municipalities. There are reservations within the mechanism of forming the common balance funding, with regard to using it as a tool of evening out regional differences. **The goal** of this study is to analyse and evaluate the mechanisms of forming the common balance funding and present suggestions regarding the optimization of the fiscal equalisation process. The applied methods are the methods of expert evaluation, analysis and synthesis, as well as the comparative method. **The results** of this study are presented in several groups, depending on the extent of summarization and application. **The conclusions** from this study give us reason to believe that it is possible to use more precise algorithms for distribution, considering the specific fiscal peculiarities of the municipalities.

Key words: municipalities, budget, regional differences, own income, horizontal imbalance

INTRODUCTION

Reviewing the budgets of the municipalities within the Stara Zagora region, the local taxes (for 1 person) can serve as a kind of "litmus" for the socio-economic development of the separate municipalities. Even though local taxes do not have a tax basis, which is directly related to the acquired income, they are levied upon property determined by the population's income. A functional relationship is observed: income – taxable property – local taxes. Significant regional disproportions have been observed within the region, which also generate major differences in the income capacity of the separate municipalities.

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MATERIAL AND METHODS

The study is based on the method of expert evaluations and comparative analysis. Less used are mathematical-statistical tools, due to the strongly exhibited normative character of the reviewed subject matter. The author's vision affects mainly the underlying algorithms for the distribution of the common balance funding.

RESULTS

The common balance subsidies were introduced in 2003. Their initial goal was to even out the negative differences between municipal tax income and the average values of municipal tax income for the country. In 2007, a social component was added to this equalising mechanism. The social component includes the minimum upkeep for two activities (child at an institution or an elderly person serviced by social patronage at home). The activities are

normatively regulated (2), as well as their expense standards. These two activities are in direct dependence of the specific municipality's demographic condition. **Table 1** shows the range of this social component, affecting the subsidised children in the Stara Zagora region.

Table 1. *Children per age groups in the municipalities of the Stara Zagora region in 2008 (total) (1)*

	Children from 0 to 4 years of age	43% range of GBS	Share of the subsidised public group towards the total population of the municipality
Stara Zagora region	16856	7248	2.05
	Children from 5 to 9 years of age	43% range of OIS	Share of the subsidised public group towards the total population of the municipality
Stara Zagora region	16211	6970	1.97

Similar calculations can be made about the persons above 65 years of age, where the range of the subsidised group is a mere 3%. The performed calculations indicated that the share of the subsidised group against the total population of the region was below 1% (the population above 65 years of age within the region was 64518 people in 2008, and 3% of this group is 1935 people). In time, additional criteria were added to all these details. They aim to stimulate the municipalities to limit their current expenses (distributed to one citizen) for local taxes below the same, yet average for the country.

If it is assumed that the general balance funding can be used as a tool for conducting regional policy, the following reasoning can be made as well. It is not possible to perform any intervention with regard to regions if there is no adequate system for the evaluation of their development. Within the Law on Regional Development is the concept of "region for purposeful development." The law indicates that "the regions for purposeful support encompass the territory of one or more neighboring municipalities (3). The specified regions for purposeful support are the territorial basis for the concentration of resources to reduce the intraregional differences in the extent of development of the separate municipalities, and to achieve the goals of the state policy on regional development. The territorial range of the regions for purposeful support is determined by considering the level and dynamics of

economical development, economic structure, employment and unemployment, the extent of construction of technical infrastructure, demographic, social and settlement structure, geographic location, and present potential for achieving the development goals of the respective municipality.

The presence of some of these parameters is considered when determining the territorial range of a region for purposeful support:
1. Net income from sales to an average citizen under 70% of the average value for the country in the last three years;

2. Level of average salary, lower than the average for the country within the last three years;

3. An average unemployment rate above 105% of the average value for the country in the last three years;

4. Ratio of age dependency above 120% of the average value for the country for the last three years, etc.

The normative act describes the criteria for a region to be deemed problematic in detail, which leaves a good impression. The territorial zone of intervention is also formulated clearly. This facilitates the possible reasoning on the issue. It is necessary to determine a circle of parameters, which could be used. The goal is to define the municipalities that this purposeful support can be directed towards.

1. Coefficient of age dependency – C_{age} – it is written in the Law of Regional Development that regions for purposeful support

are those, in which this coefficient is above 120% of the average for the country. This study uses a coefficient, which shows the ratio of persons below or above working age against the persons in working age. The lower the value of this ratio, the higher the number of people within the age group 15 – 64 years compared to the number of people below or above working age. On the other hand, if the coefficient is rising, this means that the demographic structure is deteriorating and the share of persons below or above working age is rising. Обратно, ако съотношението нараства, това означава, че демографската структура се влошава и се увеличава дела на лицата в под – и над трудоспособна възраст. This defines the municipalities, for which purposeful support can be provided.

2. Coefficient of net income from sales to an individual person – C_{net} – the parameter gives a relatively good idea of the economic activity in the municipalities. The attention is once again turned towards a comparison with the average values for the country and producing a **second coefficient of difference** (analogous to the preceding parameter).

3. Coefficient of unemployment rate – C_{unem} – analogous to the preceding parameters the data for the municipalities in the region are presented and then compared with the average values for the country. This is done in order to calculate the coefficient of difference again.

4. Summarised (aggregate) coefficient of difference – this coefficient is derived by adding the coefficients from the above items. The produced amount is divided by three, so that each parameter of difference can have the same significance:

$$C_{diff} = \frac{[C_{age}+C_{net}+C_{unem}]}{3}$$

Table 2 present the summarized coefficient of regional difference and the consequent correction of the common balance subsidy.

DISCUSSION

The coefficient of difference was derived in order to have a parameter, which can show the differences in the separate municipalities. It is much easier, when commenting the socio-economic development of a municipality, to have a derived value measurement. The technology of calculation is aimed primarily at four parameters (three independent and one summarised), which are both the cause and consequence of regional development. These parameters are described in the Law of Regional Development and serve a purpose in monitoring and observation of the separate regions, in order to define the so-called regions of purposeful influence. No marginal values are used in the above calculations. For example: we have a region for purposeful influence when the *net income from sales for one citizen is below 70% of the average for the country for the last three years.* Through the calculated summarised coefficients, the categorization of municipalities through marginal values is avoided. The reason for adding this coefficient is that the large deviations in local income from taxes usually occur in the small municipalities. In these municipalities the low number of population is accompanied by additional regional problems. That is why the population element is additionally enhanced through the summarised coefficient of difference, performing one arithmetic equation. Such a calculation shows how municipalities should receive extra funding through the common balance subsidy, taking into account the individual regional development, measured through the summarised coefficient of difference. From the table it is visible that four municipalities would receive a reduction of the balance subsidy. These are precisely the municipalities to record the highest income capacity. They are very different from the remaining eight municipalities in the region. All kinds of other problems can be sought in them, yet no issues in the field of regional socio-economic development.

Table 2. *Effect of the application of summarized coefficient of difference towards the common balance subsidy*

Municipality	Average local taxes for 1 citizen - LTx	LTavg - LT_x	(LTavg - LT_x) x Population	C_{diff}	(LTavg - LT_x) x Population x C_{diff}	Percentage of change in OIS since the introduction of the summarized coefficient of difference
Bratya Daskalovi	16	69	684246	5.2	3583977	424
Gurkovo	20	65	345192	2.1	735366	113
Galabovo	47	38	545296	0.9	465031	-15
Kazanlak	36	49	3748346	1.4	5129049	37
Maglizh	14	71	886803	5.8	5179634	484
Nikolaevo	11	74	357826	6.1	2191708	513
Opan	33	52	185743	1.8	342309	84
Pavel Banya	25	60	892245	2.3	2059647	131
Radnevo	48	37	819664	0.8	622690	-24
Stara Zagora	62	23	3805481	0.8	3129287	-18
Chirpan	31	54	1268442	2.7	3364120	165

, wherein:
LTavg – income from municipal taxes for 1 citizen, average for the country
LT_x – income from municipal taxes for 1 citizen in the specific municipality
C_{diff} – summarized coefficient of difference

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