

LOCAL CHARGES AND PRICES FOR MUNICIPAL SERVICES IN BULGARIA

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Abstract. There are different possibilities to finance local public sector activities - from general taxation to user charges. This paper presents the current system of charges and prices for municipal services in Bulgaria. The revenues produced from charges for municipal services in Bulgaria are not considerable and they represent fewer than 8 per cent of the receipts of local budgets. In this respect the local charging policy is being analyzed not only as a means of cost recovery and relieving the taxpayers of costs, that should be borne by the users who benefit directly from the service, but also as a technique for reducing budget deficit. Attention is paid to the potential benefits of increasing the role of local charges in the overall picture of the municipal budget revenues in Bulgaria.

INTRODUCTION

The current system of local charges in Bulgaria is a result of combined influence of several factors. First, the scope of local activities, including the provision of numerous services to citizens. This determines the need for adequate financial resources commensurable with the local government responsibilities. Second, the world practice has begun to assign an important role of charging as a way of financing the delivery of local services. And third, considerable changes in the interrelations between central and local governments were carried out in Bulgaria in the recent years as a part of the fiscal decentralization process.

Local governments in Bulgaria rely on four main revenue sources for financing their activities: own revenues, including local taxes, local charges and revenues from municipal companies and public-private business partnership; government transfers; EU pre-accession funds and financial assistance programs; debt financing. One of the most controversial policy issues concerns the balance between the local revenue sources. Many of municipalities in Bulgaria are characterized by low levels of GDP per capita and rely heavily on government subsidies for financing their activities. The low proportion of

own revenues and shared taxes in municipal budgets makes it difficult to issue municipal bonds or receive bank loans to cover the investment needs. The insufficient funds available affect the average quality of infrastructure and services provided to local residents.

The feasible policy measures connected with the optimization of the structure and amount of local revenues include giving local governments greater autonomy when defining priority revenue sources. This means reaching lower levels of reliance upon central government transfers and broadening local income base. The budgetary viability and fiscal independence of Bulgarian municipalities will benefit greatly if independent financial sources, such as those generated by local users fees and charges, give a greater part of municipal revenues. Moreover, there is an economic rationale for user charges being levied on the direct recipients of public services. The objective of charging policy is not only to find additional sources of revenues, but also to promote economic efficiency by providing information to public services suppliers on how much clients are actually willing to pay. Imposing user charges will show the real value of public sector services to local citizens and thus will promote accountability of local governments.

This paper will review the current budgetary contribution of local charges as well as their potential for greater future revenue in Bulgaria. Section I will review the legal and economic framework of local public services provision with respect to the possibility of increasing the scope of charges. Section II will review the structure of current system of local charges in Bulgaria. Section III will address some issues concerning the role of local charges as a means to promote efficiency and provide additional revenue in municipal budget.

I. LEGAL AND ECONOMIC FRAMEWORK OF LOCAL PUBLIC SERVICES PROVISION

Local government in Bulgaria functions on two tiers: basic and regional. The municipality is the basic administrative and territorial unit of local self-governance. According to the Constitution of the Republic of Bulgaria, the municipality is a legal person with its own independent budget and property, which are used to benefit local interests. Local governments at municipal level have many responsibilities, related to the differentiated set of tasks, like:

- physical planning and territorial structure;
- environment and rational use of natural resources of municipal significance;
- water supply and sewage treatment;
- street cleaning, refuse collection and waste disposal;
- local public transport;
- street lighting;
- maintenance and construction of local roads;
- health care (outpatient and hospital care, prophylactic and sanitation activities);
- maintenance of green areas;
- municipal housing;
- education (preschool, primary and secondary school);
- culture, including local libraries, theatres, museums and leisure centers; and,
- social welfare and support services for elderly, handicapped and homeless people;

The list presented above shows general areas of issues to be settled and services to be provided by the municipalities within their powers. The scope of local services and municipal responsibilities are regulated by the Local Self-Government and Local Administration Act. Municipalities approve their own budget with expenditure funded up to the amount of received own and transferred financial resources.

Since the end of 2001 there was no clear distinction between local governments responsibilities and responsibilities delegated from central government tasks. The financial system was highly centralized, with complete control over expenditures in municipal budgets, limits on local revenues and priorities of local governance regulated by the State Budget. Fiscal Decentralization Concept and the Program for its implementation were both adopted in mid-2002. They marked the start of the reform of local finance system with the purpose to increase the financial independence of municipalities and redefine the regulatory framework of intergovernmental relations.

The main change implemented through the Fiscal Decentralization Concept concerns the division of responsibilities between central and local governments for delivering and financing public services. Services, financed from municipal budget, are divided into two groups:

- ◆ delegated services, which refer to those of the education, healthcare, social support activities. Operating expenses of delegated services are calculated according to standards including personnel number, salaries, insurance payments, and etc. Financial resources necessary to deliver these services are fully provided by the central government from shared taxes and complementary subsidies, and,
- ◆ local services, like maintenance of country roads, local transport, cultural sector, nursery homes, kindergartens, refuse collection and waste disposal, municipal housing, street lighting are financed from municipal own revenues. Revenues are formed from local taxes, local charges and non-tax revenues.

Delivery of the local public services in Bulgaria can be organized in several ways. The basic form is a budgetary entity, providing administrative and technical services to citizens. Budgetary entities can not earn money for themselves and all their expenditures are covered straight from the municipal budget. Other form is a municipal enterprise. Common examples of this type used are local government companies responsible for local public transport or street cleaning and refuse collection. Municipal enterprise is a specialized unit of the municipality. Its revenues and expenditures are approved every budgetary year by the municipal council. A municipality may carry out economic activity by sole-proprietorship company or as a partner with private municipal property limited liabilities commercial companies. Sometimes private sector is involved in the provision of local public services through contracting-out, concession, or different forms of public-private partnership.

II LOCAL CHARGES IN BULGARIA

The Bulgarian legislation does not give an official definition of local charges. According to Art. 60 of the Constitution of the Republic of Bulgaria taxes and charges imposed upon the citizens are determined only by law. On this ground the Local Taxes and Charges Act (LTCA) establishes the underlying principles for determining the scope,

range, terms and manner of payment of local charges and prices for local public services. According to the law, local governments can impose the following charges:

- for domestic waste;
- for using marketplaces, fairs, sidewalks, square and street areas;
- for using nursery homes, kindergartens, social cares homes, camps, hostels and other municipal social services;
- for extracting career materials;
- for technical services;
- for administrative services;
- for purchasing grave plots;
- tourist charge; and,
- other charges as regulated by law.

Part of charges is required for benefit from providing municipal services or performing administrative action, request or receipt which is not compulsory for consumers, and/or which could be provided from the private sector. In other cases, by their very nature or due to legal environment, the services can be delivered and rights can be granted only by the municipality. For some of these services, like refuse collection, the demand is compulsory. For all other services and rights, provided by a municipality, besides these enumerated above, the municipal council can fix prices. In this way, a wide range of opportunities are given to the local governments to demand paying for consumption of provided local services.

Municipal council sets the level of each kind of charges, without any restrictions to minimum or maximum rates boundaries, keeping the principles as indicated by the law:

- covering the total cost of municipal service provision;
- creating conditions for enlargement of the provided services and increasing their quality; and,
- obtaining higher justice in defining and paying local charges.

At the discretion of the municipal council for some of the services it is possible to set charges under the actual cost of provision. In this case the difference between expenditure and revenues is on the account of municipal budget. First of all, the matter in hand is the social services in relation to which the municipalities usually apply minimal charges.

The charges and prices for municipal services are collected by the local administration and form a part of municipal budget revenues. There is a possibility by a decision of the municipal council collection of charges revenues to be stipulated and entrusted to Tax administration (there is no local tax administration in Bulgaria) against payment of reward. The municipal council lays ordinances for assessing and administering local charges and prices for municipal services. The ordinance should indicate the order by which the individuals not using the services during the year concerned or a certain period of it are free of responsibility to pay the relevant charge. By these ordinances some categories of citizens, relieved completely or partially from paying up some charges, are determined. Municipal councils are obliged by the law to bring to the knowledge of people all their acts of regulations concerning local charges and prices through mass media and internet. In this way local citizens' right of access and getting informed with the municipal council acts is statutory guaranteed.

III CHARGES AS A REVENUE SOURCE AND MEANS OF PROMOTING EFFICIENCY IN LOCAL SERVICES DELIVERY

Deficit is a permanent budgetary phenomenon for municipalities in Bulgaria. Increasing pressure to reduce deficits together with indicated people preferences for decreasing tax burden requires searching for additional sources of revenue necessary to maintain local governments activities and responsibilities. Moreover, municipal councils are not empowered to define tax rates and tax bases for local taxes in accordance with the Constitution of the Republic of Bulgaria. Despite the amendments in the legal framework debt financing remains inaccessible for most of the Bulgarian municipalities as they lack enough of their own resources and experience, as well as favorable credit rating for issuing municipal bonds. Revenues from the management of municipal property are quite negligible, because the significant part of profitable state property is under supervision of the central government.

Therefore, given the current scarcity of municipal resources a possible solution for achieving fiscal adequacy at local level is to reexamine charging policy and increase the scope of prices, required for consumption of local services. An efficient and rational use of local charges can considerably increase the quantity and quality of municipal services without further budgetary revenue to finance these services.

In 2004 the LTCA was amended especially in the area of local charges aiming at providing some financial advantages for the municipalities. Positive changes include the possibilities for the municipalities to impose, on their own, the rates of charges enumerated in the law, up to covering of the actual cost of local services provision, and to decide for what services prices will be required and how the revenues they yield will be utilized. Despite these possibilities, the gains from local charges are still very small in comparison with other budget revenues like taxes and government transfers. For now local governments are not motivated to increase local charges and most of them are set at a quite low rate. Local charges are viewed by local governments only as an additional source of revenue for the budget. The significance of local charges, however, lies in the fact that they represent a small, but important part of the independence of local governments. Of course, there are other additional preconditions necessary for Bulgarian municipalities to enjoy the greater revenues they so much need. The charging policy at local level in Bulgaria should be designed in a way to achieve in addition a broadened scope of using charges, an efficient use of resources and fair distribution of costs among users of services.

The main advantage of a broader usage of user charges is to promote economic efficiency in local public services provision. It is a common view that the acceptable rationale for the prices of public goods and services is cost recovery. Sometimes, policy and circumstances may also permit a municipality to charge less than the full cost of service provision or seek the recovery of more than the full cost.

Reasonable pricing would suggest that prices would be responsive to the full cost of production, as well as the public's willingness to purchase public goods or services, just as they must be in the private sector. The main economic rationale for charges is to encourage an efficient use of resources within the public sector. Economic theory demonstrates that the best charges from this perspective are those equal to the marginal cost of

supplying the services in question.¹ Of course, there are different theoretical considerations concerning the meaning of marginal cost and practical difficulties in implementing marginal cost pricing.

The basic principles of the Bulgarian LTCA is to set local charges in the way to cover total cost of the service provision and create conditions for enlargement of the provided services and increasing their quality. The content of the concept "total cost" is explained in the law: all the costs incurred for the provision of the services, including staff salaries and insurance, physical materials, overheads and consulting expenses, costs for collecting the charges, management and control expenses and others having some relation to forming the charge rate.

Local charges in Bulgaria are set not only for the usage of municipal services. Sometimes charges are demanded for granting some rights by the municipalities; in that case, there are no direct expenses from municipal budget. Then it is not clear from the LTCA how the amount of the charge imposed will be determined and what expenses will be included in it. For example, this is a way of calculating charges for using municipal property as market places or the right to extract career materials.

The principles fixed in the Bulgarian LTCA raise the question to what extent local governments can unreasonably increase the charge rates, pointing out as a reason, for example, improving the quality of the service provided. Low quality of local services and inadequate financial resources could justify the increase of charge rates, so that the revenue maximization is fully utilized.

In some instances, pricing of public services may justifiably be based on more than full cost recovery, i.e., generating net revenues. Prices could be imposed with the intent to regulate consumption for which little direct cost is involved, such as where municipalities derive revenues from licensing building or levying parking charges. Prices may also be set at a higher than cost-covering levels to enforce discipline in consumption. It should be remembered, however, that charging above cost for public services should consider the incidence and applied equity considerations. Pricing above full cost recovery is not applied in Bulgarian municipalities, even in such an obvious situation as reducing congestion in downtown areas by introducing parking fees at prohibitive high levels in large cities. The main reason for this is that the underlying principles of the LTCA do not emphasize the cases in which pricing above full cost can be applied. Charging in accordance to total cost is obligatory only when determining the municipal charges that are specified in the law. In practice, municipal councils may require prices for the consumption of many other services, provided by the municipalities. Therefore, for example, municipal ordinances can authorize municipal councils to price for more than full costs when the services in question show overall profitability or when there is an excess consumer demand. To implement charging policy like this it is important to set the proper allocation of costs and distinguish between the costs of services subject to charge and services free of charge; especially when the same staff uses the same production factors to supply both types of services.

Save this, one part of services for which charges are set according to the LTCA, are obligatory – the municipality is the only one that can deliver them and the consumers are

¹ Bird, Richard M. 1976. *Charging for Public Services: A New Look at an Old Idea*. Toronto: Canadian Tax Foundation

not to choose providers, let alone use them. An ungrounded raising of the charges by municipal councils cannot be by any means controlled by consumers. In this way, the basic value and advantages of charging as a method of financing the local activities are neglected. Local citizens can not opt out from using these services and if the charges levied on their consumption are to lead to efficiency, they also need to be easily understood. Only in this way will the consumer be able to make a rational decision about how much to use the services, that he can not deny.

Too often complete cost recovery is not really attempted in public service provision. Where a public service is provided with collective benefits or satisfies basic human need, charges could be set below full cost. A service could be subsidized also when local governments wish to encourage consumption to achieve some public benefit or saving. In fact, there are no clear and explicit criteria for applying reduced charges for municipal services in Bulgaria. Less than full cost recovery could be applied according to the LTCA when the municipal council decides that this will be of great social interest. Usually, if it is considered that charging represents an excessive financial burden on individual users, prices are set at levels less than full cost for some individuals. It is relevant especially to low-income groups, students, pensioners, etc

One of the basic problems when imposing user charges is the definition of the charged base, which should properly reflect the level of individual usage of the services. A charge for the use of a service is effective only if its use by each consumer can be measured. The most important municipal charge in Bulgaria is that for domestic waste. The way of its determining has always been a matter of enhanced public discussion and the most problematic as compared to the other local charges. According to the operating legislation, the amount of the charge shall be assessed depending on the individual waste quantity. If this quantity cannot be defined, the amount of the charge shall be fixed proportionally to the base, determined by the municipal council. This base should be an objective indicator in terms of value on the grounds of which the percentage of proportional charge is assessed or a natural indicator, on the grounds of which the charge is assessed to one.

So the municipalities are given various opportunities to choose the base of the municipal waste charge and in this way the long-lived practice of using tax assessment of the property as a base is avoided. Setting the charge on the base of the property tax assessment to some extent gives it a character of tax, makes it unfair and does not affect the consumer behavior.

Despite these opportunities provided by the amendments of the Law for Local taxes and charges having been in force since the beginning of 2004, in fact there are not changes in comparison with previous approaches. There are various reasons for that. According to the Constitution of the Republic of Bulgaria, Art. 60, the taxes and charges are set in accordance with incomes and property of the citizens. Thus, in assessing the charge in compliance with the quantity of the waste, one of the most correct approaches in choosing the base for waste charge will contradict to the text of the Constitution. Moreover, due to the existing conditions of life for the biggest part of citizens, individualizing the quantity of the thrown waste will meet significant difficulties. And this should not be neglected.

Yet another goal in designing charging policy at local level in Bulgaria is to achieve a high level of charges revenues collection. For this, responsibility of collection should rest

with the municipality levying the charge, because the local administration staff is expected to concentrate its effort on collecting its own municipal revenues. This does not preclude the municipal council from contracting out with a third party for collection. The both possibilities are allowed by the LTCA. The problem is that local charges and prices for municipal services, which Bulgarian municipalities are authorized to administer, have limited revenue productivity. Some local governments, owing to resource constraints, may not be able to staff all administrative functions for collecting charges. Moreover, it is considered that local governments lack administrative capacity that is adequate for an equitable and efficient collection of charges. For this reason, only few municipal administrations collect charge revenues and most of the Bulgarian municipalities have stipulated the collection of charge revenues to Central Tax administration.

CONCLUSIONS

The significance of municipal charges in Bulgaria lies in the fact that they represent a small, but important part of the independence of local governments. Charges are the only source of municipal budget revenues under full control of the Bulgarian local governments. In this respect, there are benefits of increasing the role of municipal charges not only in receiving additional revenues, but also as a means of promoting economic efficiency and accountability of local governments. Therefore, the charging policy at local level in Bulgaria should be designed in a way to broaden the scope of using charges, and to achieve fair distribution of costs among the users of services and high levels of revenue collection.

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LOKALNI TROŠKOVI I CENE OPŠTINSKIH USLUGA U BUGARSKOJ

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Različite su mogućnosti finansiranja aktivnosti lokalnog javnog sektora - od opšteg oporezivanja do troškova na teret korisnika. U radu se prikazuje postojeći sistem troškova i cena za opštinske usluge u Bugarskoj. Prihodi po osnovu troškova za opštinske usluge u Bugarskoj nisu posebno značajni i predstavljaju manje od 8 procenata prihoda lokalnih budžeta. Posebna pažnja poklanja se mogućim prihodima od rastuće uloge i značaja lokalnih troškova (opterećenja) za ukupne opštinske budžete u Bugarskoj.