Sustainable Development of the Functioning of Local Self-government Bodies in Hungary in the Economic Aspect

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Abstract: The article is devoted to the local government bodies activities organization financial basis analysis in Hungary and its sustainable development. The author studies the normative legal acts that directly regulate the economic component of the local government functioning, which is directly related to the further regions sustainable development. Special attention is paid to local taxes and fees, in particular, to the legal basis for the local taxes regulation, the sources of local budgets income and the expenditure part, the situation regarding the property that is owned by communities. Also, the local government financial component state in Hungary is determined in accordance with the European Charter of Local Government standards.

1 INTRODUCTION

It is obvious that without the material and financial conditions availability, it is impossible to fully function any state institution, specifically, further development. Especially if this institution is one of the most important state constitutional system foundations, local government. Without sufficient funding, local governments cannot properly provide services to local residents and hence, accordingly, there is the improper performance of their empowerments.

The local government bodies financial basis has always been the subject of many scientists' researches, among whom the specified institute was studied by A. A. Campbell (Campbell, 2006), E. Blazhek (Blažek, 2004), Z. Aeneid (Kovacs, 1994), M. Ilner (Illner, 1999). Among the domestic researches there are Boldyrev, O.Y., Chikhladze, L.T., Avakyan, S.A.

The purpose of the article is to study the local government in Hungary economic component, since it is in this country that changes have been taking place in recent years, in particular, the local government financial systems, which are of considerable interest. The purpose of the work is to analyze the local government functioning economic components in Hungary current state, to investigate how the country local budget is replenished and how the corresponding expenses are distributed.

2 METHODS AND MATERIALS

Since 2010-2011, Hungary has embarked on a difficult path of constitutional reforms, in particular the new Hungarian Basic Law (Constitution) adoption on April 25, 2011 (entered into force on January 1, 2012) and the new Law "On Local Government" adoption. It is necessary to pay attention to the economic components sustainable development of the local government functioning in this country.

The summary of the main material. The Basic Law of Hungary (2012) does not contain a sufficiently regulated, fixed financial basis for local government. In accordance with the Basic Law of Hungary, Article 32, local government bodies determine the local budget for solving local issues and independently manage the local budget, exercise the property ownership right, and make decisions on the local taxes types and amounts.

There are some reservations about the local government financial basis, as the local authorities

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financial autonomy in Hungary has significantly decreased in recent years. Financial subsidies and the share of some taxes that financed municipalities have significantly decreased. This is mainly due to the local governments debts. And thus, the central government has committed itself to paying debts back, and the price of this is a significant reduction in the local authorities financial independence. In particular, it was noted by the Congress of Local and Regional Authorities representatives in their 2013 report on local government in Hungary after the 2010-2013 constitutional changes in Hungary. According to their conclusions, the Hungarian legislation provisions on the local government financial basis do not comply with the European Charter of Local Government, Article 9.

In Hungary, the basis that regulates the local government financial basis is section VI of the Law "On Local Government", with the title "Economic basis of local Government" (Articles 106-118). In addition, there is a law C "On local taxes", which has entered in force in 1991, but every year the Parliament amends it. In general, the current legislation of Hungary in the local finances field is primarily aimed at reducing the municipalities debt, by rationalizing the funds provided to local government. In the context of the economy affected by the crisis and the resources reduction, the government presented a project to reduce the local authorities competence and, accordingly, the implementation financial costs, as the only possible solution.

As noted above, the Basic Law and the law "On Local Government" also contain provisions on the financial resources provided by the State through the delegation of services to the local level. Due to the fact that the two laws use different wording, each of them can be used in favor of different arguments. According to the Basic Law of Hungary, the state must provide “the necessary funding”, but according to the law “On Local Government”, the state must provide the local government with “sufficient” sources of funding to fulfill the delegated powers. This term is interpreted in the municipal lobbying language and defines that "the state must fully finance the services delegated to the local level".

One of the main signs of the local government bodies independence is the possibility of forming, approving and executing local budgets. In this case, the outstanding position is the local budgets income source.

The Law "On Local Government" in Hungary, Article 106, defines that local revenues consist of: 1. Own income: - local taxes; - income from local utilities, fines; - income from business; 2. Central grants: - basic (targeted) subsidies; - special subsidies; - other subsidies and revenues; 3. General taxes; 4. Loans, borrowings, deposits.

The most important source of their own income is local taxes. This issue is regulated by the law "On Local Taxes", according to which local authorities have freedom of action in the local taxes disposal and in setting the tax rate.

This law defines the types of taxes (objects and tax payers), as well as the maximum level of tax that a municipality can impose. Local tax orders must provide for: (i) who pays the tax, (ii) the tax basis, (iii) all exceptions, (iv) the tax rate, and (V) the conditions for the tax liabilities occurrence and termination.

According to the current legislation of Hungary, the main local taxes are the sales tax, the municipal tax, the property tax and the tourism tax. Partial taxes are personal income tax and vehicle tax. The main local tax is the sales tax, which is paid by a company located in the municipality. This tax is about 16% of the total municipal income. The sales tax is imposed on the company's net profit, excluding the expenses for services and materials (i.e., non-labor expenses). The local tax in Hungary is a tax that is imposed according to the number of the population. This is a typical type of tax on the total amount of income. Although it is used by 60% of municipalities, its profitability and economic impact are not significant. The income from the local tax is only 2% of municipal budgets, which calls into question its application reasonability. The property tax rate is set by the municipality. Property tax in Hungary is generally imposed depending on the property size and location. Law C "On Local Taxes" allows municipalities to impose property taxes based on its market value. But in reality most municipalities do not impose value-based taxes. The property tax optimal administration is carried out at the local level, where all land plots can be identified, as well as changes in land plots and ownership changes. All records stored at the local level. This tax brings the most stable income to the municipality, and has a good effect on improving the creditworthiness. The personal income tax is a centralized tax that is partially redistributed at the local level. The 8% personal income tax that remains with the municipalities is transferred to the central government. Vehicle tax. 100% of this tax goes to the local budget, but the central government plans to refuse the receipt of 60% of this tax.

Central grants represent another source of income at the local level. The purpose of transfers is to create a balance between the different districts income and expenditure, because municipal responsibilities must be met everywhere. The main question is whether it is possible to develop a transfer system that balances spending needs and income distribution. Hungary provides transfers to municipalities for capital investment as well as for operational purposes, the latter are known as regulatory grants.

Grants are rare in Hungary, although this type of transfer would give more autonomy to municipalities, and it is most fully stated in the Charter, Article 9.

The purpose of the grants is to develop municipalities, create jobs and reduce regional development disparities. Unfortunately, these costs rarely achieve their goals. The subsidies provision in Hungary has never been predictable, since transfers can be reduced at the central level without the local government consent. In addition, the factors influencing changes in transfers are not stated in the law. Thus, municipalities are defenseless against central transfer decisions.

Less than one third of local revenue comes from general (quarterly) and special subsidies in the form of financial support from the State budget. Special subsidies are allocated for specific purposes, that is, for special public services. Their use is limited, since they can be spent on what they were provided for. In addition to general and special subsidies, so-called targeted subsidies are allocated to local government to achieve certain goals and objectives that are set annually by Parliament. These goals are the local infrastructure development or social investment, the health care facilities improvement, water supply, road construction and others. In case of subsidies misuse, the amount of subsidies together with the interest is returned to the central budget. Despite the spending decentralization, revenue remained centralized even twenty years after the transition to democracy. In Hungary, 46% of local income comes in the form of various subsidies from the central government.

Today, the central government of Hungary has put the local government financing in a strict framework:

- local governments cannot plan a deficit in the annual budget;
- the delegated performance powers should be covered only from own
- local government revenue (for example, local taxes, income from
- local enterprises);
- the conditions for issuing bonds and obtaining credit have become more stringent.
- in recent years, government transfers have been reduced to 68%.

The last decade for Hungary has shown a systematic increase in the local budget expenditures indicators correlative to the volume of state budget expenditures.

The local budget in Hungary expenditure part includes primary education - 11%, health - 13%, social services - 14%, administrative expenses - 29%, transport - 5%. However, in the near future, changes are possible, since some services provision has been transferred from municipalities to the central government, and, accordingly, local government expenditures are reduced, but they are also deprived of a part of their income.

The change in the local government macroeconomic burden is illustrated by the two tables below. Table 1 shows changes in the income macrostructure, and table 2 shows changes in the expenses macrostructure. It is worth noting that the main changes are caused by the adoption of the Law "On Local Government" (2011). At the macro level, changes in the local government competence can be shown by changes in expenditures, as shown in Table 3.

3 RESULTS AND DISCUSSIONS

The municipal property legal regulation and property rights specifics are determined by the state internal legislation, i.e. civil, economic legislation. However, the municipal property primary regime is determined by administrative and financial legislation.

In Hungary communal ownership emerged after the introduction of the law “On the transfer of state property to the local government bodies possession", 1991. The proceeds from the urban enterprises privatization were distributed between the local government and the central government. Municipalities became owners of privatized state institutions on the principle that the land that is allocated for these institutions is a municipal property. Many of these assets were sold because municipalities recognized that they were difficult to maintain. Part of the income from the privatization was spent on other capital investments and partially on operating costs. Of course, the value of these buildings and land depended on the county economic development. So the rich municipalities received assets that were much more valuable than those of the less affluent municipalities. The result was the difference between the municipalities budget provision.

According to the Basic Law of Hungary, Article 38, the property of the State and local government is national property, and the law CXCVI "On National Property" stipulates that the ownership, use and disposal of property that is the exclusive property of the local government, in accordance with the procedure established by law, can be transferred. The right to manage and use the property, with the exception of an easement, is not inherited, so divisible property is not formed. According to Hungarian law, the local government property consists of its own property and property rights. The local government property should be used in the interests of providing those public services that, in accordance with the law, should be provided by the local government bodies.

A special part of the local government property is the stock property, which must be registered separately from other property. The stock property is necessary for the local government exclusive powers performance. The stock property has non-negotiable parts (highways and engineering structures on them, squares, parks, archival materials), then it has limited negotiable parts (municipal equipment); in the latter case, the government bodies must regulate the provisions regarding the right of disposal and use in the relevant act. Since the property that does not belong to the local government stock property is a part of the local government business property (Kechkesh, 2013).

The use of national property in excess of the limit established by law or by a local government bodies act is allowed only on the basis of a competition. The Law "On National Property" notes that in the case of the local government real estate sale, the state has the right of preferential purchase. The state and local governments cannot buy property from an "nontransparent" seller. In the responsible property management interests, the law requires the local government property registration and its permanent accounting (maintaining the municipal property register).

4 CONCLUSIONS

It should be noted that, first of all, Hungary has a certain regulatory framework that regulates local finance. In particular, the law establishes the local budgets financial revenues sources, expenditures, the property stipulated status and so on. Another thing is that the local government in Hungary economic basis should be considered in the aspect of the state powers centralization, i.e. the state has made a certain shift of competence to its own side. Hence, the local government funding restriction, in particular, the state support reduction, which is clearly confirmed by the above tables. At the same time, the state delegated powers implementation remains a priority.

It should be noted that local government bodies in Hungary do not have financial autonomy, as one of the most important principles of the European standards of local government. Thus, local authorities do not have sufficient capacity to address local issues properly for sustainable development.

It is clear that the central government actions are due to the local government debt reduction and the economic crisis consequences elimination. However, it is worth remembering that limiting the local government democratic principles will not contribute to the population contentment, as the main criterion for the public authorities activities, and in addition, in the future it will contribute to the region development.

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