

# Financial Aspects of Local Government Reform in The Russian Federation



Olga Zinisha, Igor Ivanenko, Susanna Labanova

**Abstract:** *This article presents the results of a study of financial mechanisms for the development of local self-government, indicated in documents at the federal level. The characteristic of the main directions of fiscal policy in relation to new types of municipalities is given. The changes forming inter-budgetary relations between different types of municipalities, the revenues of various types of municipalities that have come into effect in recent years are summarized.*

**Keywords :** *local government, referral, local finance, municipalities.*

## I. INTRODUCTION

One of the key legislative initiatives of the federal center aimed at optimizing and improving the manageability of power structures in the Russian Federation is the Federal Law “On General Principles of the Organization of Local Self-Government in the Russian Federation”. This document provides for a fundamental reform of local authorities in Russia, or a new stage in organizing the model of local self-government, rights, duties and responsibilities of local authorities to the state and the population [8].

Since 2006, a new stage begins in the development of local self-government in the Russian Federation. The new law “On the General Principles of the Organization of Local Self-Government in the Russian Federation” created legislative conditions for solving the problems of life support of the population at the level of local self-government. Now it is necessary to make such changes and additions to the fiscal system that will reinforce the legislative conditions with financial resources [10].

## II. MATERIAL AND METHODS

Starting to reform local public authorities, it is necessary to

have a concept for the development of local self-government in our country, to determine the tasks and goals of state policy in the field of local self-government. The formation and development of local government goes without a clear plan of municipal construction, by trial and error. A comprehensive approach to the issues of local self-government is needed, a program of specific measures in this area is needed. But in this

regard, many problems have been identified whose solution is relevant at the present time.

One of the main problems of local self-government at present is the mismatch of the financial resources at the disposal of local governments with the powers they exercise.

An analysis of the functioning of local self-government over the past few years has shown that the actual expenditures of local budgets did not correspond to the necessary expenditures for meeting the needs of municipal authorities to ensure the powers assigned to them by federal laws [10].

## III. RESULTS AND DISCUSSION

Over the past years, as a result of systematic underfunding, the debts of local budgets have accumulated and are currently in many municipalities amount to close to or even equal to the annual local budget. That is, the financial condition of local government is extremely difficult.

With the entry into force of the Tax Code of the Russian Federation, local budget revenues from local taxes account for less than 3% of the total revenue. The budget code of the Russian Federation, as practice has shown, does not guarantee the balance of local budgets by securing them on an ongoing basis of deductions from federal and regional taxes, as well as regulatory taxes. This not only maintains a tendency to increase municipal debt, but also does not create the interest of local governments in strengthening and developing the revenue base [7].

In this regard, it is necessary to radically change the approach to the financial support of local self-government, which will undoubtedly require a change in the relevant chapter of the Federal Law “On General Principles of the Organization of Local Self-Government in the Russian Federation” and, most importantly, amendments and additions to the tax and budget legislation.

In the context of expanding the fiscal and tax powers of local governments, it is necessary to increase local budget revenues, including through long-term delimitation between the regional budget and municipal budgets of revenues from a number of revenue sources of the regional budget.

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For these purposes, it is assumed, along with the revenues assigned to local budgets on a permanent basis, to fix for them on a long-term basis (for 3 years) the standards for deductions from regulatory income. They should be the same for subsidized territories and for donor territories, respectively.

The criterion for determining the size of long-term standards is to adopt the factor of subsidization of budgets of municipalities over the past three years, that is, budget sufficiency [6, 12].

As part of the revenues of local budgets aimed at resolving issues of local importance, it is advisable to leave revenues from local taxes, deductions from federal taxes and fees, subsidies for equalizing budgetary provision, funds for financial assistance from budgets of other levels, revenues from privatization, sales and leasing municipal property (in full), revenues from the privatization of state property (by standards), part of the profit of municipal enterprises and income of municipal institutions. It is worth considering the possibility of voluntary self-taxation of citizens in cases of the implementation of one-time measures or projects with a limited implementation period. At the same time, it is necessary to abandon the widespread practice of imposing on local governments a significant number of individual state powers and responsibilities for implementing state social policies that are not provided with financial resources, and to finance them by providing subventions from the federal budget and the budgets of the constituent entities of the Russian Federation, including without fail subventions provision standards in relevant laws [7, 11].

As a rule, financial problems are associated with a vague definition of the powers of local self-government and, in particular, the so-called unfunded "federal mandates". Local governments must fulfill many of the obligations of the state established by federal laws, for the implementation of which local budget revenues are not enough, and the federal budget does not provide for these funds, or are not provided for in sufficient quantities [1]. Thus, local budgets are burdened with numerous unfunded federal mandates, understood in this case as expenditure powers of municipalities to implement federal regulatory acts that are not provided with revenue sources.

Only the largest of them are estimated at 3-4% of GDP, i.e. about 20-25% of the revenues of the consolidated territorial budgets in the Russian Federation.

Currently, the level of funding of federal social policy mandates can be estimated at 60%. The rest is compensated by municipalities by reducing the cost of solving issues of local importance, shortfalls in income of transport enterprises and housing and communal services [2].

In order to expand spending power in the field, it is envisaged to get away from the so-called "control figures", which make it incumbent on local governments to formulate and execute local budgets in strictly defined industry volumes; the regional level of power should be assigned control functions regarding a limited list of budget expenditures socially significant for citizens, including salaries to public sector employees.

Along with the delimitation and expansion of spending powers, it is necessary to continue the practice of providing targeted financial assistance to local budgets to finance their

expenses on the implementation of federal regulatory legal acts, including at the expense of federal funds.

In the future, after the final solution of the problem of "unfunded federal mandates", the expenditure powers transferred to the regional and local levels will be fully supported by the necessary funds [3].

When starting the reform of local self-government, it is also necessary to take into account the experience of municipal construction accumulated by the constituent entities of the Federation: as a result of the large-scale restructuring of municipal power for the constituent entities of the Federation, many of which have been searching for the most optimal mechanism for interaction with municipal entities and their bodies for a long time, a rather extensive legal framework has been created base of local government, its interaction with state power.

An analysis of the Russian experience of local self-government in recent years suggests that there are several common problems for all municipalities. They arise due to the lack of qualified personnel to work in local governments, in municipal enterprises and institutions. In connection with a significant increase in the number of municipalities and the expansion of their authority in the field, there is a serious shortage of personnel [5]. Municipalities themselves, due to the scarcity of their budgets, will not be able to cope with this problem, while the federal law does not provide for the possibility of allocating funds for the training of specialists for local administrations from the budget of a constituent entity of the Federation. And, as noted above, between authorities of different levels of authority and the necessary material and financial resources for their implementation are not always rationally distributed [9].

The next range of problems of reforming local self-government is issues related to the organization of local self-government as a form of exercising precisely public authority. These include the problems of competence of local self-government, its proportionality to the financial and economic resources of local self-government, the delimitation of the powers of local self-government with public authorities, the problems of their interaction, the problems of responsibility of local self-government to the state.

The main task assigned to the Commission under the President of the Russian Federation for the preparation of proposals on the delimitation of subjects of competence and authority between federal bodies of state power, bodies of state power of constituent entities of the Russian Federation and local self-government bodies was the delimitation of powers, provided that the exercise of powers at each level of public authority will be ensured in necessary and sufficient amount of financial resources. In the context of the centralization of public revenues (tax revenues), the so-called "inter-budgetary relations" are of paramount importance, which means the principles of equalizing the financial security of regional and local budgets [1].

Attempts by the Ministry of Finance of the Russian Federation to establish principles of inter-budgetary relations that would guarantee the budgetary provision of municipalities have encountered the problem of the territorial organization of local self-government. It should be noted that the optimal territorial basis of municipal governance in our country has still not been determined.

But it should be borne in mind that this issue is closely related to the no less acute problem of delimiting objects of jurisdiction and authority between levels of public authority (primarily between local self-government and authorities of constituent entities of the Russian Federation). The Constitution of the Russian Federation refers to local government issues of local importance. The federal law on the general principles of the organization of local self-government, developing constitutional provisions, enshrined a fairly extensive list of these issues: it includes 30 points and is not exhaustive. Municipal entities shall not have the right to refuse to take to their jurisdiction certain issues of local importance fixed by federal law. Therefore, it is no coincidence that the new Federal Law "On the General Principles of the Organization of Local Self-Government in the Russian Federation" proposes to make significant adjustments specifically to the territorial organization of local self-government, to unify its forms, to establish common principles [4].

The division of municipalities into types and the corresponding differentiation of their subjects of jurisdiction are also important for resolving issues related to the vesting of local governments with separate state powers: it will be possible to differentiate and transfer these powers taking into account the socio-economic potential of the municipality, its territory, etc.

One of the general principles of the organization of local self-government is the organizational isolation of local self-government in the system of government, which, in particular, guarantees the population of municipalities the right to independently determine the structure of local governments. Recognizing the "personnel" independence of local self-government, the right to create bodies necessary for resolving issues of local importance, at the same time, it would be necessary to establish in federal law the requirement that the number of obligatory municipal bodies should include not only a representative body of local self-government, but also head of the municipality.

The next range of problems is issues caused by the nature of local self-government, which is not only the most important institution of power, but also the most important factor in the development of civil society, the system of various forms of self-organization and initiative of the population. Moreover, we can conclude that local self-government as an element of the general organization of managing the affairs of society and the state, its system covers not only purely power institutions, forms, relations that characterize the primary level of power in the state, but also include, of course, various social structures of self-organization population. It is in close interaction with them that local self-government can carry out its social mission.

As a special task, we should single out the problem of the formation of carriers of municipal values, the subject of local

self-government, which implies, in particular, the creation of conditions for the formation of self-governing social cells, stimulation and support of public initiatives, various forms of public self-organization of citizens.

This problem could be defined as the "municipalization" of public relations at the local level.

The problems of local self-government should be solved with the active support of the state: the state is interested in the development and functioning of an effective local government. However, this support should not give rise to "dependent moods" among the population, bodies and officials of local self-government.

#### IV. CONCLUSION

Thus, the need for reforming the system of local self-government in the Russian Federation is obvious. At the same time, such a reform should not conflict with the foundations of the constitutional system, in particular with its fundamental principles (federal structure of the state and autonomy of local self-government), it should be provided with the finances necessary for the implementation of the reform, and also take into account the specifics of regional development and provide for real timing of the reform.

In general, it should be noted that without strengthening the financial basis of local self-government, increasing the financial independence of municipalities, including expanding the tax and budget powers of local governments, it is impossible to achieve the effectiveness of local self-government and the quality of public services provided by municipal services to the population.

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