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REFORMING THE ORGANIZATION AND FINANCIAL SUPPORT OF MUNICIPAL FINANCE IN UKRAINE

Setting the problem. The implemented modernization in modern Ukraine of methods of state and municipal government, the transition to the program budget in the sector of public finance, provide significant social and economic importance to the issues of improving the management of the financial resources of local areas.

In the present situation regarding the problem of the formation and rational use of the financial resources of local governments, there is a lot of information, mostly in a negative context.

Any of the reasons causes, after all, popular dissatisfaction with the municipality quantity and quality of services in various areas, since it the financial security determines occupancy of the local budget, the amount and terms of financing municipal needs.

The analysis of recent research and publications. Problems of municipal resources, strengthening their financial base, optimize the mechanism of formation local budgets the definition of intergovernmental transfers investigated such scientists as: I. Boiarko, O. Vasylyk, N. Vyhovska, A. Hornyk, Yu. Kaspruk, O. Kyrylenko, O. Liuta, A. Mahlaperidze, O. Nikolaieva, N. Pihul and others.

The investigation of problems of formation the local budgets, strengthening tax potential in the regions, mechanisms of calculation of intergovernmental transfers occupy considerable attention to their academic achievements.

However, the studied problem is far from solved, and therefore requires further study, including reforming the organization and financial support of municipal finance in Ukraine.

Setting the objective. The aim of the article is to examine the problems of the formation of local budgets and substantiation of reforming the organization and financial support of local government in Ukraine.

The main material of research. Today budget revenues of considerable part of municipalities in Ukraine are not enough security by own financial resources that are required for the modernization of infrastructures, solving tasks of social and economic development.

The use of intergovernmental transfers as an additional source of income also relates to the financial competence of local authorities. For understanding their place in the system of financial support for local government areas we present the scheme of income equality of municipal formations. Directions of alignment incomes for local governments are in Fig. 1.

It is necessary to remember that intergovernmental transfers represent a movement of funds within the public sector of the economy. So, we are talking about financial resources that have been transferred from the private sector into public and have to be moved again inside the last. On the other hand, transfers from the highest budgets are provided at no cost like transfers from the public sector into the private. The most common argument for the necessity of providing financial transfers is the argument about the need for alignment of the differences between financial capacity and consumable needs in different municipal formations [5].

Let's consider the state of intergovernmental transfers and local budgets in Ukraine by materials of the Department on budget policy that are approved by the Board of the Accounting Chamber [4]. In the Law of Ukraine "On State Budget for 2014" [11] does not provide any fundamental changes in the formation of the relationship of state and local budgets.

Due to the transfers from the state budget and local budget revenues that are taken into account in the determination of the intergovernmental transfers and directed to the implementation of delegated state powers, it is stipulated to form over 80% revenues of local budgets.

According to the Budget Code of Ukraine, the projected revenues of local budgets that are taken into account in determining intergovernmental transfers, calculated in the total amount 74 billion 138,9 million hryvnias that is on 1 billion 494.2 million hryvnias or 2.1% more than the approved amount for 2013.

Projected expenditures that are taken into account in determining intergovernmental transfers, have been defined in the amount 134 billion 540.0 million hryvnias, including expenses for salaries with charges workers of budgetary sphere – 111 billion 556.6 million hryvnias, or 82. 9%, that is more on 7 billion 789.0 million hryvnias, or 6.1% of expenditures that were taken into account in approving the law on the state budget for 2013.

Expenditure growth is due, in particular, by the projected increase in the minimum wage and post salary (tariff rate) the employee of the first discharge of the Unified Tariff Scale [4].

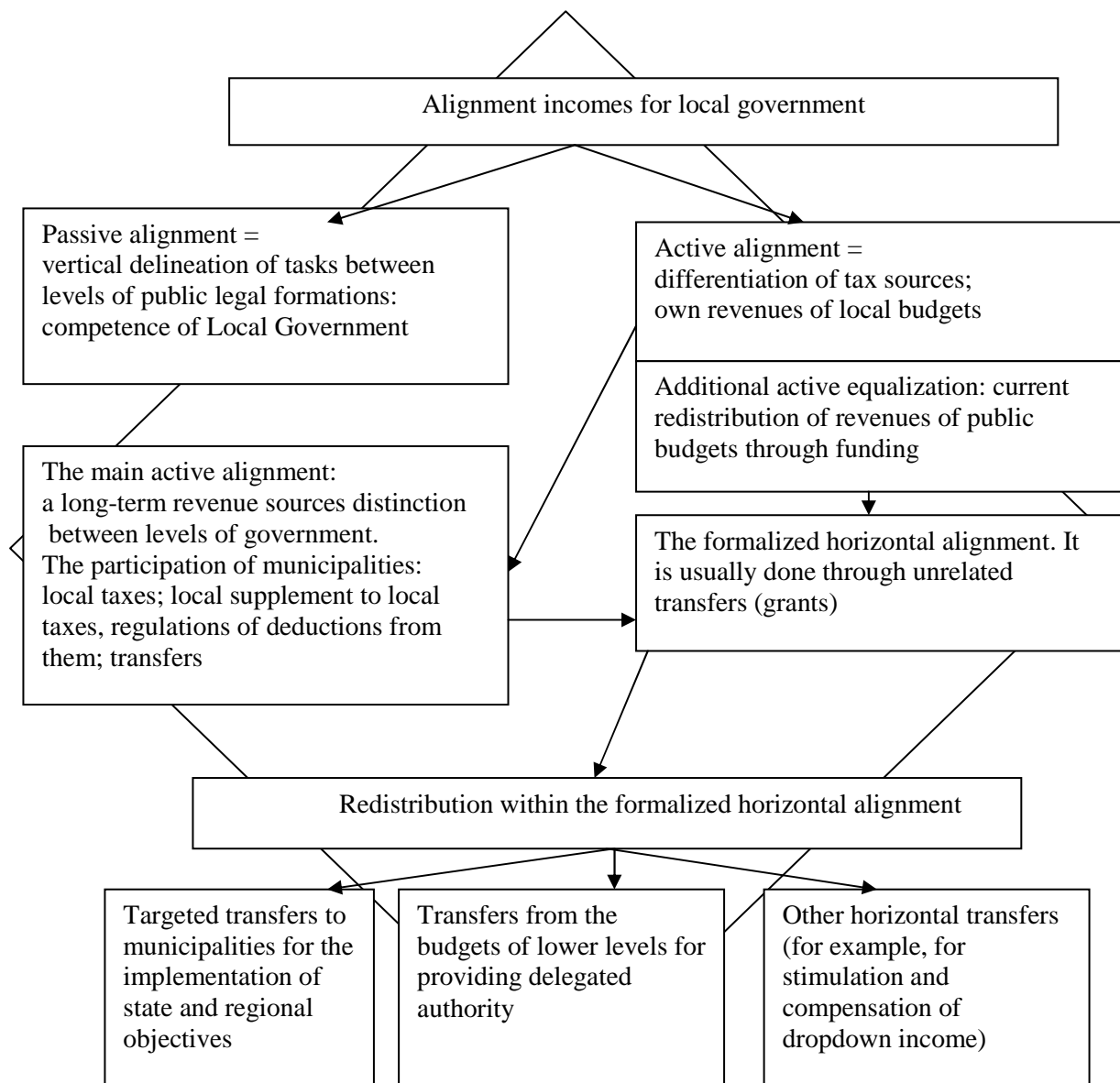


Figure. 1. Directions of alignment incomes for local government

Source: compiled by the author based on the source [9]

In order to balance local budgets, by the Law of Ukraine “On State Budget for 2014” [11] it has been provided transfers between the state budget and 694 local budgets.

In this case it was envisaged provision for 667 local budgets or 96.1% from the state budget the equalization grant, and for 27 local budgets, or 3.9% – the transfer of funds to the state budget.

It has been determined the total amount of the equalization grant from the state budget in the amount 63 billion 137.3 million hryvnias, that is on 7 billion 441.9 million hryvnias, or 13.4% more than the approved rate for 2013. It has been defined the total amount of funds that are transmitted to the state budget from the local budgets in the amount 2 billion 736.2 million hryvnias, that is on 1 billion 147.1 million hryvnias, or 72.2% more than approved in 2013.

In general in 2014 it is planned to provide from the state budget to local budgets 19 subventions and 6 grants to the amount 128 billion 357.4 million hryvnias, that is on 9 billion 791.2 million hryvnias, or 8.3% more than the volume approved in 2013.

At the same time it is provided to direct 125 billion 836.3 million hryvnias to the consumption expenditures, or 98.0% of total transfers, development expenditures – 2 billion 521.1 million hryvnias, or 2.0% [4].

In comparison with 2013, the share of transfers that are provided to direct on the development expenditures, lower by 1.3 percentage points. Proportion of planned sum of transfers in the forecast amount of local budget revenues constitutes 54.0% that testifies about the significant dependence of local budgets from receiving transfers from the state budget.

Table 1

Expenditures of the State Budget of Ukraine for 2013-2014 years by functional classification, million hryvnias

| № | Indicators | 2013 | | 2014 (provided by the draft law) | | Deviation | | | |
|-----|---|---------|----------------------------|----------------------------------|----------------------------|-----------|-------|----------------------------|-------|
| | | total | including the general fund | total | including the general fund | total | | including the general fund | |
| | TOTAL EXPENDITURES | 419 844 | 372 283 | 447 295 | 401 113 | 27 451 | 6.5 | 28 830 | 7.7 |
| 1. | including: General and state functions | 59 979 | 58 529 | 70 344 | 68 446 | 10 365 | 17.3 | 9 917 | 16.9 |
| 2. | Defense | 16 186 | 14 887 | 15 583 | 14 216 | -603 | -3.7 | -671 | -4.5 |
| 3. | Public order, security and judicial power | 38 829 | 33 892 | 39 253 | 34 354 | 424 | 1,1 | 462 | 1.4 |
| 4. | Economic activity | 42 759 | 24 994 | 45 270 | 27 603 | 2 511 | 5.9 | 2 609 | 10.4 |
| 5. | Environmental Protection | 4 275 | 1 859 | 5 515 | 1 484 | 1 240 | 29.0 | -375 | -20.2 |
| 6. | Housing and communal services | 51 | 48 | 268 | 46 | 217 | 425.5 | -2 | -4.2 |
| 7. | Healthcare | 12 966 | 11 655 | 12 070 | 11 104 | -896 | -6.9 | -551 | -4.7 |
| 8. | The spiritual and physical development | 4 597 | 4 369 | 5 007 | 4 726 | 410 | 8.9 | 357 | 8.2 |
| 9. | Education | 32 495 | 21 114 | 32 991 | 21 522 | 496 | 1.5 | 408 | 1.9 |
| 10. | Social protection and social security | 89 141 | 88 877 | 92 637 | 92 389 | 3 496 | 3.9 | 3 512 | 4.0 |
| 11. | Funds that are transferred to the budgets of other levels | 118 566 | 112 059 | 128 357 | 125 223 | 9 791 | 8.3 | 13 164 | 11.7 |

Source: compiled by the author based on [4]

It has been envisaged by the Law of Ukraine "On State Budget for 2014" to the local budgets five additional grants in the total amount 1 billion 316,3 million hryvnias, that is on 4.2 million hryvnias, or 0.3% more than the approved volume for 2013.

Forecasted revenues of local budgets for 2014 has been identified in the amount of 237 billion 642.2 million hryvnias, including the general fund – 215 billion 990.5 million hryvnias, more indicators approved by the plan for 2013, on the 7 billion 59.3 million hryvnias, or 3.1% and 9 billion 748.9 million hryvnias, or 4.7%, respectively [4].

Personal and fixed revenues of local budgets that have been calculated in the amount 109 billion 284.8 million hryvnias, or 6.6% of GDP, which is on 171.4 million hryvnias, or 0.2% less than the amount that has been approved by plan for 2013.

It has been anticipated in the draft law that the share of own and fixed local budget revenues in the total amount of local budget revenues for the next year will amount 46.0%, that is on 1.5 percentage points lower compared to the plan for 2013 (Figure 2)

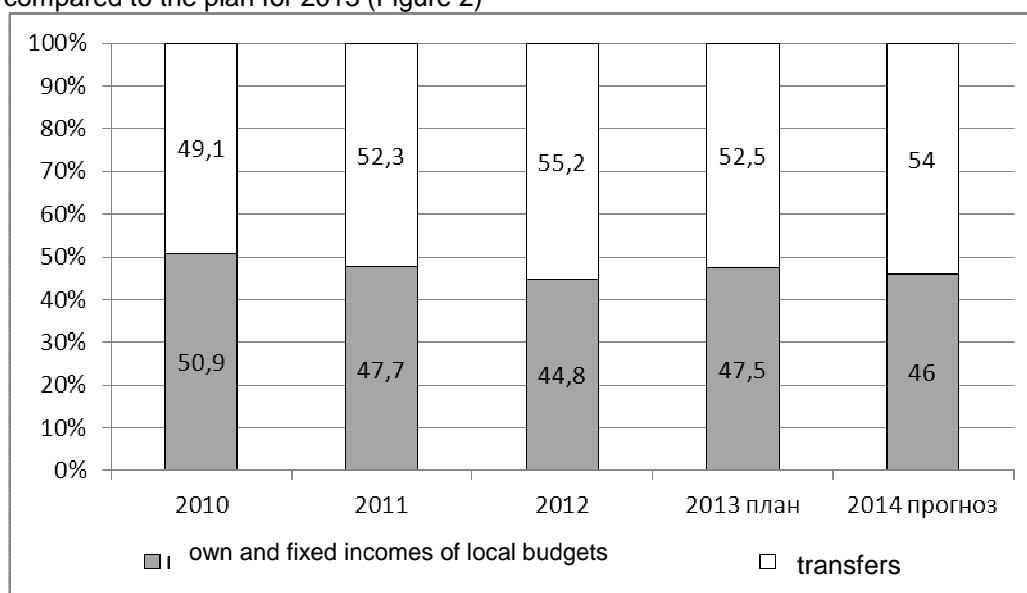


Figure. 2. The structure of incomes of local budgets in 2010 – 2014

Source: [4]

The main revenue sources of local budgets traditionally remained: the tax on personal income – 65.1% amount of the own and fixed income, or 71 billion 133.8 million hryvnias, that is more on 481.3 million hryvnias or 0.7% of planned amount in 2013; – payment for land – 11.7%, or 12 billion 826.0 million hryvnias that is less on 1 billion 995.4 million hryvnias, or 13.5%; single tax – 6.5%, or 7 billion 148.5 million hryvnias, that is more on 1 billion 530.0 million hryvnias, or 27.2%; own revenues of budgetary institutions – 6.4%, or 7 billion 32.8 million hryvnias, that is more on 1 billion 797.9 million hryvnias, or 34.3 percent.

Analysis of existing revenue sources of local governments allows to note that their current structure does not meet the criteria for differentiation of incomes between the public and legal formations: actually fixed incomes of local government are insufficient to implementation of the tasks of a public nature carried out at the local level; real independence of local authorities in determining the structure of their own income is absent; the principle of received benefit does not respect, as payment for municipal budgetary services (communal payments, local taxes) does not charged in the equivalent of its granting.

Municipal finance consists of extra-budgetary municipal funds, local budgets, municipal and government securities that belong to local authorities and other cash flows that are in the municipal property. Their basis plays the main role in the formation of municipal finance, namely local governments, acting monetary fund of formation and use of financial resources for the appropriate levels of public institutions management.

In this regard, the obvious is the fact that municipal finances should not be limited by financial resources that come in direct disposal of the municipality, that the funds received from the state, or those that are derived from the activity of local authorities, borrowed funds.

Municipal financial resources significantly larger budget funds of the municipality. The local governments can attract these resources for the development. Modern economic theories include these funds of enterprises and organizations, savings, money nonprofit, non-governmental organizations, funds of economic entities – non-residents functioning (live) within a defined region. The concept of municipal finance should be considered in this context.

However, we emphasize currently that there is the practice of borrowing by local authorities in Ukraine, but the market for municipal borrowing has not been formed, it is just beginning its formation.

The main obstacles for its development is the imperfection of normative and regulatory framework on issues of regulation of this type of borrowing, limited fiscal independence of local governments, do not elaborated bankruptcy procedures of government, lack of effective market incentives and competition among market participants, market opacity.

It is therefore necessary to develop effective public policy of regulation of this market, taking into account the involved risks and advantages of activity of local authorities in the capital market, given the existing international experience.

Summarizing presented positions in the scientific publications of various scholars, we can identify the following theoretical and methodological approaches to the study of finance municipal formations: territorial, target, management, distribution, economical. The first approach is based on the study of the problems with the criterion of territorial localization of territory factors influencing their formation and use, as well as the implementation of expenditure responsibilities assigned to territorial authorities and management.

Proponents of this approach allocate set of indicators integrated in the factors (economic structure, the use of the economic potential, quality of life, etc.) and offer to diagnose the financial condition of the territory for the evaluation of public goods in the form of issues of local importance and other powers. For all the complexity of the approach technologies of municipal financial and social and economic planning are beyond the research [1; 8].

The second approach is based on the consideration of finances of municipalities in terms of purpose of use of the local budget, which represent: the social aspect that determines the quality of life on the area; economic aspects that affect the capacity of the municipal economy; strategic, stimulating investment flows of the territory. Sources of income and resources of revenues to the local financial fund are not taken into account [7, p. 12; 2, p. 180].

The aim of the third approach is to study the forms and formation of management methods and use the finance of municipal formations.

In this case budget management methods nominated to the fore, evaluation of the implementation of local government from the position of priorities of the local community.

The qualitative characteristics of finance of municipalities, institutional conditions for their implementation remain outside the sphere of the analysis despite the relevance of these issues [3, p. 93].

The fourth approach is based on the study of the economic base of distribution through the mechanism of finance of municipal formations.

The followers of this approach consider economic, financial and tax potential as the basis of distributive and redistributive processes, impact of intergovernmental relations on the financial autonomy of the municipality, offer to calculate municipal GDP as the basic indicator of economic potential of the territory [6].

Finally, the fifth approach discloses methods for evaluating the efficiency of received gains from the localization of economic processes from the position of all participants of the budget process.

Its adherents prove the dependence of local government expenditures for the maintenance of basic infrastructure objects and development of the territory from the size of the municipality, the degree of its urbanization and involvement in economic flows [10].

Conclusions and further research. As conclusions we can distinguish the position of scientific innovation of the theory "Finance of municipal formations" in the application to the Ukrainian practice management by them, to formulate a set of recommendations for further reform of the organizations and financial support for local government in Ukraine.

1. It is necessary to apply economic analysis for forming methods of financial management of municipal formations in the particular area, as well as financial support for local government affects the processes of social and economic reproduction of the territory.

2. The number of municipal formations and local budgets in Ukraine should follow to the principle of territorial settlement of citizens and evaluating of using the local infrastructure by them. Local government should be as close to the people, economic entities, community organizations, which in turn should be able to influence the actions of local authorities and evaluate their activity.

3. It is necessary to develop the effective public policy of regulation market of municipal borrowing taking into account the existing risks and benefits of local government activity in the capital market, given the existing international experience.

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Honchar H.P. REFORMING THE ORGANIZATION AND FINANCIAL SUPPORT OF MUNICIPAL FINANCES IN UKRAINE

Purpose. The purpose of the article is to examine the problems of the formation of the income of local budgets and justification of reforming of the organization and financial support of local government of Ukraine.

Theoretical and methodological basis of research are fundamental provisions of the modern economic theory, scientific works of scientists, standard and acts of Ukraine concerning formation of the income of local budgets. In the course of research were used the following methods: abstract and logical (for identification of essence of the interbudgetary transfers), economical and statistical (studying of structural and dynamic tendencies of the interbudgetary transfers and local budgets in Ukraine).

Methodology of research. Theoretical and methodological basis of research is fundamental assumptions of modern economic theory, scientific works of scientists, legislation and regulations of Ukraine on the formation of the income of local budgets. In the course of research were used the following methods: abstract and logical (for identification of essence of the interbudgetary transfers), economical and statistical (studying of structural and dynamic tendencies of the interbudgetary transfers and local budgets in Ukraine).

Findings. The condition of the interbudgetary transfers and local budgets in Ukraine is investigated and the directions of alignment of the income of local government are offered. Determined that the number of municipalities and local budgets in Ukraine should follow the principle of territorial resettlement of citizens and evaluating their use of local infrastructure. It was developed theoretical-methodological approaches to research of finance of municipalities. It is established, that at the present stage of economy introduction of an effective state policy by a way of regulation of the market of municipal loans taking into account available risks and advantages of the activity of local governments in the market of the capitals will be expedient, considering existing international experience.

Originality consists in definition of theoretical provisions and elaboration of conceptual approach on justification of the directions of further reforming of the organization and financial support of local government of Ukraine.

Practical value. These research results are the basis for the solution of practical problems on improvement of differentiation of the income between public entities.

Key words: municipal finance, local budgets, municipalities, interbudgetary transfers