

PROBLEM ISSUES IN THE MANAGEMENT OF FINANCES OF AMALGAMATED TERRITORIAL COMMUNITIES

ПРОБЛЕМНІ ПИТАННЯ В УПРАВЛІННІ ФІНАНСАМИ ОБ'ЄДНАНИХ ТЕРИТОРІАЛЬНИХ ГРОМАД

The ongoing decentralization reform in Ukraine aims to improve the quality of life of citizens. Public administration is becoming more rational, flexible, visible and interactive, relations between the state and society are being strengthened, democratic accountability and transparency of resource allocation are increasing, and opportunities for economic activity of local communities and interregional competition are emerging. However, despite the successes achieved, amalgamated territorial communities (ATC) still do not use their resources effectively. The article focuses on the aspects of ATC activities that make communities lose their ability to fill local budgets. The purpose of this article is to analyze the problems in the field of financial management of ATC and to find the ways to solve them. As a result of the study, practical problems of ATC activities, which may be causes of non-compliance by the communities, have been identified. Measures to solve them and minimize their negative impact have been proposed.

Key words: amalgamated territorial community, decentralization, budget, local budget, plot of land, transfer.

Продолжающаяся сегодня реформа децентрализации в Украине имеет целью качественно улучшить повседневную жизнь

граждан. Государственное управление становится более рациональным, гибким, видимым и интерактивным, укрепляются отношения государства и общества, растет демократическая ответственность, прозрачность распределения ресурсов, появляются возможности для экономической деятельности местных общин и межрегиональной конкуренции. Однако, несмотря на достигнутые успехи, объединенные территориальные общины (ОТГ) все еще недостаточно эффективно используют предоставленные им ресурсы. Статья посвящена рассмотрению тех аспектов деятельности ОТГ, по которым общины теряют возможность наполнения местных бюджетов. Целью данной статьи является анализ проблем в сфере финансового управления ОТГ и поиск путей их решения. В результате проведенного исследования определены практические проблемы деятельности ОТГ, которые могут быть причинами несоблюдения общинами доходов. Предложены меры по их решению и минимизации их негативного влияния.

Ключевые слова: объединенная территориальная община, децентрализация, бюджет, местный бюджет, земельный участок, трансферт.

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Триваюча сьогодні реформа децентралізації в Україні має на меті якісно покращити повсякденне життя громадян. Державне управління стає більш раціональним, гнучким, прозорим та інтерактивним, зміцнюються відносини держави і суспільства, зростає демократична відповідальність, прозорість розподілу ресурсів, з'являються можливості для економічної діяльності місцевих громад та міжрегіональної конкуренції. Однак, незважаючи на досягнуті успіхи, об'єднані територіальні громади (ОТГ) все ще недостатньо ефективно виконують свої повноваження та використовують надані їм ресурси. Дана стаття присвячена розгляду тих аспектів діяльності ОТГ, через які громади втрачають можливість наповнення місцевих бюджетів. Метою даної статті є аналіз проблем у сфері фінансового управління ОТГ та пошук шляхів їх вирішення. В результаті проведеного дослідження визначено практичні проблеми діяльності ОТГ, що можуть бути причинами недоотримання громадами доходів. Недостатній рівень фінансового контролю та дисципліни є причиною виникнення бюджетних втрат та упущення вигод. ОТГ як головний розпорядник місцевого бюджету не забезпечують належний внутрішній контроль за повнотою надходжень та використанням бюджетних коштів, виконанням бюджетних зобов'язань розпорядниками бюджетних коштів нижчого рівня та їх витратами. Відсутній механізм співпраці з податковими органами та процедури контролю щодо справляння податків та орендної плати не забезпечують повноти надходження до бюджету ОТГ. Бюджетні програми не забезпечуються відповідним фінансуванням в повному обсязі, кошти спрямовуються на заходи, які не завжди є першочерговими для задоволення потреб громади. Враховуючи це, автори пропонують заходи щодо вирішення та мінімізації негативного впливу цих факторів. Серед них максимальне залучення до бюджету ОТГ усіх належних податків та зборів, максимального ефективного використання коштів міжбюджетних трансфертів, перегляд прийнятих місцевих програм, забезпечення належного внутрішнього контролю за надходженнями та видатками, сприяння ефективному використанню фінансових ресурсів місцевих бюджетів.

Ключові слова: об'єднана територіальна громада, децентралізація, бюджет, місцевий бюджет, земельна ділянка, трансферт.

Introduction. Pursuant to Article 10 of the Law of Ukraine «On Local Self-Government in Ukraine», functions and powers on behalf and in the interests of territorial communities are exercised by village, settlement, city councils, distributing powers between themselves and their executive bodies [1].

Maximum empowerment of local governments in the administration of taxes and fees contributes to the filling of local budget revenue with adequate resources and gives exclusive rights to determine the priority areas of their use.

Normal functioning and provision of quality services to the population depends on the financial self-sufficiency of territorial community. Local budgets are the bases of financial autonomy of local authorities, they are an

important element of the system of financial regulation of economic processes, development of culture and education, solving social problems, their balance and optimality are the main conditions for economic growth. In this context, at the present stage of development, the problems of strengthening the revenue base of local budgets, their financial support and sufficient sources to fill the local budgets are of particular importance.

It is the financial aspect, which is one of the most significant factors, which the successful functioning of an ATC depends on. Presence of economically active business entities, a sufficient number of skilled labor resources, a developed industrial and social infrastructure are the bases for successful development of localities belonging to the ATC.

Analysis of recent research and publications.

Issues of impact and consequences of a set of measures to implement the decentralization reform were considered by leading experts in various fields and scholars, such as O. Boryslavska, A. Bondarenko, O. Drozdovskaya, V. Matvienko and others. Problems of urbanization processes were investigated by M. Averkin, I. Gukalova, T. Zastavetsky, N. Omelchenko, D. Kuzmenko, K. Sehida, E. Pertsik and others. However, the unexplored and unanalyzed issues remain the problematic aspects of ATCs' financial management that are characteristic of the activities of most communities and which do not seem to be able to fully exercise their authority.

Setting objectives. Despite the successes achieved in the field of decentralization, ATC still do not use their resources effectively. The purpose of this article is to analyze the problems in the field of financial management of ATC and to find the ways to solve them.

Basic material and results. Local budgets have considerable financial resources to create favorable conditions for economic growth in the region and the completeness of local budgets and their balance solely depends on the efforts of local authorities. That is, the efficient use of local budgets is a guarantee that the territorial community will be able to provide better and more diverse services to its residents, implement social and infrastructure projects, create conditions for entrepreneurship development, attracting investment capital, improve local development programs and finance other activities aimed at improving the living conditions of the community.

The main sources of local budget revenues include tax revenues (national taxes, which are legally assigned to local budgets, local taxes and fees, as well as deductions from national taxes), money derived from municipal funds generated by the activities of municipal enterprises and organizations owned by territorial communities and payment for services provided by local governments as well as local loans. The ratio of these major sources in the structure of local finances determines the degree of autonomy of local budgets [2].

The local budget revenues consist of the revenues necessary to fulfill their own powers and the revenues necessary to ensure the execution of the powers delegated by law to the executive authorities. The local budget is divided into the current budget and the development budget.

Revenues of the current budget are formed on the basis of taxes (taxes on income of enterprises and organizations, value added tax, excise tax, state duty, personal income tax, land payment, etc.). The share of income tax and value added tax in the structure of budget revenues is 60–65%. Citizens' taxes are 5–7% of total revenues. Development budget revenues are generated through part of tax revenues, as well as funds raised from local loans, investment grants and from other budgets.

The activities of ATC are determined by the provisions of the Constitution of Ukraine, the Budget Code of Ukraine, the Laws of Ukraine «On the State Budget» for the relevant years, the Law of Ukraine «On Local Self-Government in Ukraine», the decisions of local self-government bodies (the manager of the budget funds), other legislative and regulatory acts and administrative acts, documents that determine the procedure for calculating and prioritizing the budgetary policy of ATC.

The use of local budget funds is directly related to the performance by the state and local self-government bodies of their responsibilities and tasks, the most important of which is to create conditions for continuous increase of real incomes of the population and quality of budget services, socio-economic development of the region and meeting the needs of the population.

Key problems and complications in the area of budget revenue generation are in the management of land resources and communal property, as well as in the establishment and collection of tax payments.

This is due to the lack of control over the completeness of compliance with the terms of the lease agreements and the lack of proper cooperation between local governments and the tax service, which leads to budget under-execution.

For a long time, land payments had the status of a national tax, fixed by local budgets. It was one of the main sources of replenishment of local budgets, even when privileges were used for certain categories of landowners and land users. Since 2015, land payment has gained a new status: from one type of payment for the special use of natural resources it has become a component of property tax and has received the status of local tax.

Land Code No. 2768-III dated October 25, 2001 stipulates that land use in Ukraine is paid [3]. Land payment is paid in the form of a land tax or rent.

Adjustment of the payment for land is regulated by the Tax Code of Ukraine No. 2755 dated December 2, 2010 [4]. According to it, land taxes payers are owners of land and land parcels, and land users, and subject to taxation are land owned or used and land owned shares. Landowners and land users pay a fee for the land from the date of the ownership or right to use the land.

According to Article 33 of the Law of Ukraine «On Local Self-Government in Ukraine» charging for land belongs to the executive powers of the executive bodies of village, settlement and city councils, and control over the observance of land legislation, use and protection of land belongs to the delegated powers.

According to Article 189 of the Land Code of Ukraine local authorities exercise self-government control over the use and protection of land.

In accordance with the provisions of the Law of Ukraine «On Local Self-Government in Ukraine» the material and financial basis of local self-government is

movable and immovable property, local budget revenues, other funds, land, natural resources that are communal property of territorial communities. The completeness of the needs of the respective territorial communities depends on the rationality and efficiency of disposal of communal property and natural resources [1].

Local self-government bodies have the right to control not only the timely receipt of payment for land, but also the implementation of economic agreements in the correctness of determining the amount of rent.

Often, there is a lack of proper accounting of the number of land plots under the relevant decisions of the local self-government body in ATC, concluded leases of land plots, and the contracts themselves may be partially absent.

In its turn, a state audit [5] shows that rents are often paid late, or not fully, which leads to the loss of income by the budget of appropriate ATC. It is often the case that operational accounting and analytical work on such arrears by the relevant land department is not carried out at all, and no claim for debt arrears is carried out. Also, the rate of rent for land under concluded contracts is often not revised for a long period; changes in the normative monetary valuation, indexation of land value are not taken into account. This, in turn, indicates that communities do not fully exercise their authority in controlling land use.

Another opportunity to generate additional revenue to the ATC budget is to lease land of water fund and water bodies.

According to Article 122 of the Land Code of Ukraine, the powers to lease land under water bodies for lease use within the settlements belong to the village, settlement and city councils and outside the settlements to the regional state administrations.

Many ATCs do not use this opportunity to generate additional income without concluding leases, and therefore a large proportion of tenants use water bodies without proper paperwork or re-registration.

Real estate tax other than land belongs to local taxes. According to paragraph 266.5.1 of the paragraph 266.5 Article 266 of Tax Code of Ukraine tax rates for residential and / or non-residential real estate owned by individuals and legal entities are set by decision of the village, settlement, city council, depending on the location (zoning) and types of such real estate in size not exceeding 1.5 percent of the minimum wage established in the reporting (tax) year per 1 square meter of tax base.

ATCs often set the real estate tax rate below the maximum level set by the Tax Code of Ukraine. This and the lack of a single register of property owners make it impossible for ATCs to increase the revenue side of the budget.

Absence of mechanism for cooperation with the tax authorities and control procedures for tax and rent payments charges causes the incompleteness of the budget revenues of ATC.

Insufficient measures to coordinate appropriately with the cooperation of the bodies providing revenue to the ATC budget cause revenue shortfalls.

In addition, ATCs do not always enter into agreements with the developers on the participation in the construction of the infrastructure of the settlement, or exempt from the share participation of developers who have not carried out the construction of engineering, transport or social infrastructure.

Another problem of ATC is the failure to ensure timely and full use of intergovernmental transfers to fulfill state-mandated powers and measures.

Intergovernmental transfers is one of the forms of implementation of the principles of intergovernmental budgetary policy and organization of the budget process in Ukraine under conditions of transfer of powers to use resources between budgets of one level to budgets of another level. The need for intergovernmental transfers arises from a discrepancy between the division of powers between management and the allocation of revenue sources to fulfill them.

Intergovernmental transfers in ATC address the issue of compensation for the costs of the implementation of state delegated powers, the cost of which exceeds the budgetary capacity of the local government, as well as the problems caused by the uneven mobilization of budget revenues and social problems related to the specific development of the territory and its economic viability.

The presence of significant balances of unused subsidies and dotation from the state budget in many ATCs confirm the inefficiency of budgetary management and the lack of control at the local level. However, when planning expenditures for the respective sectors in the next budget periods, the presence of these balances of intergovernmental transfers is often not taken into account.

These facts create an imbalance of the required financial resources and the inconsistency of budget allocations.

In addition, ATCs often store free unused balances in their accounts, which, when placed in banks' deposit accounts, would allow them to generate additional income.

The basis for the development of territorial communities is the efficient use of budgetary funds, while ensuring a direct correlation between the distribution of funds and the actual results of their implementation in accordance with the identified priorities of community development.

The solution to this problem can be achieved by applying the program-target method. The program-target method in the budgetary process is a method of managing budgetary funds to achieve concrete results at the expense of budgetary funds, using the assessment of the efficiency of use of budgetary funds at all stages of the budgetary process.

Particular components of the program-target method in the budget process are budget programs, responsible

budget executors, passports of budget programs and their performance indicators. They are determined by the main spending units.

Shortcomings in the development, financing, implementation and reporting on the results of local programs, as well as their considerable number, lead to their under-financing and dispersion of budgetary resources, which does not contribute to the achievement of goals planned by ATC.

Often, programs are not adequately funded in their entirety, and funds are channeled into activities that are not always paramount to meeting the needs of the community, which, against the background of resource scarcity, is an inefficient use of funds.

Budget allocations are divided into different measures, which do not ensure maximum concentration of financial resources, fulfillment of priorities, definition of effective indicators that would reflect real problems and achievement of concrete results.

One of the components of additional burden on the budget of the communities is the financing of state bodies, which are financed from the state budget and perform nationwide functions and provide support to public organizations. Funds for the maintenance of regional departments of the National Police, the State Emergency Service, the Security Service of Ukraine, military commissariat are allocated from the budgets of local self-government. Although according to the Budget Code of Ukraine, expenditures on the maintenance of these institutions are not foreseen to be provided from local budgets.

Often, networks of educational institutions, relationships with utilities, and the state of roads and streets require optimization.

Thus, ATC, as the main manager of local budget, do not ensure proper internal control over the completeness of revenues and the use of budgetary funds, taking of budgetary commitments by the lower level budget spending units and their expenditures.

Conclusions. Despite the positive trends of decentralization, there are factors that impede the full utilization of available opportunities and reserves of ATC. Insufficient level of internal financial control and financial discipline is the cause of budget losses and loss of benefits. For example, measures taken by local governments to ensure the completeness of rents and land tax from individuals and legal entities are insufficient and inefficient, resulting in an increase in the amount of tax debt and the income shortfall of the ATC budget.

Under such conditions, it is advisable for ATC to:

- Develop and approve a number of measures to maximize the involvement in the ATC budget of all due taxes and fees, including through the inventory of contracts that depend on the completion of the budget, their implementation status, verification with the authorities that administer these revenues, to work to prevent the formation of debt to the community budget on the above taxes.

- Ensure the most efficient use of intergovernmental transfers, control their timely use for their intended purpose, and prevent the unreasonable generation of balances.

- Strengthen internal control over the receipt and use of financial and material resources by developing appropriate measures and identifying responsible persons for their implementation and internal financial control.

- View accepted local programs, optimize them by size and individual activities and review performance.

- Ensure proper internal control over expenditures when planning and implementing expenditures for implementation of local program activities and promote efficient use of local budget financial resources.

- Create an internal audit unit.

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