

## **THE PROBLEM OF USE OF BUDGET FUNDS AT REGIONAL AND LOCAL LEVELS**

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**Introduction.** State of Ukrainian budget security essentially depends on the budget imbalance and excessive centralization of local budgets, which in its turn intensifies regional disparities and problems with increasing revenues for local budgets and differentiation characterized by increased levels of regions socio-economic development. Feature of Ukraine's budget system necessitates to identify the problems of use of budgetary funds and the application of effective methods of budget resources management at the regional level.

**Review of recent research and publications.** Such scholars as S. Bukovynskiyi, O. Vasylyk, H. Wozniak, O. Kyrylenko, S. Kondratiuk, V. Korchynskiyi, I. Lunin, V. Oparyn, N. Savchuk, V. Fedosov, S. Yuriy dedicated their research works to the problems of budget funds use at regional and local levels.

**The purpose of the article** is to investigate and identify the problems of budgetary funds use at regional and local levels.

**The basic materials and results.** An important factor in the unsatisfactory level of security budget, which hinders the effectiveness of the mechanism for formation and execution of budgets at all levels in Ukraine are excess of expenditures over its revenues, which leads to the manifestation of numerous threats. At the same time, deficiency is proper for both the state budget and local budgets, and its negative impact manifested in underfunding of such vital sectors as health, education, utilities and social sphere.

The important fact is that in Ukraine significant hidden deficit of local budgets is created artificially and can not be eliminated even by transfer funds provided from the state budget. Feature of Ukrainian budget system necessitates to identify the problems of use of budgetary funds and the application of effective methods of budget resources management at the regional level.

The fact that over 90% of local budgets are subsidized today, mainly the budget areas and only 6,7% are donors under the current system of budget management evidences about imperfect system of profit sharing between levels of budget system. An annual reduction in regional interest in mobilizing of the incoming and a gradual decrease in efficiency of obtained funds use has become the result of the negative trend of increasing the number of subsidized budget.

The problem of optimal redistribution of powers and financial resources between central and local government and self-government is one of the most relevant under improving the efficiency of Ukraine's budgetary system. Rationally built and balanced system of budget relations is the key to effectiveness of social and economic policies of the state, because stability of economic development depends mainly on the providing adequate redistribution of significant financial resources and flexibility of methods for their usage.

Local budgets are the source of the most of state expenditures, especially socially oriented. Accordingly, the negative effects of excessive centralization of the budget system are low quality and insufficient funding of social benefits provided at the local level (education, health, housing and utilities).

Adequate financial provision of delegated powers is an acute problem despite the fact that the expenditures per unit of group with different population densities of units vary greatly [1]. For example, expenditure per pupil of secondary school range from 8 to 50 thousand UAH, while the national average indicator for 12 thousand UAH (according to the local budget execution in 2015). The constant budget

constraints make it impossible to provide quality public services to residents of respective territorial communities and reduces network of budgetary institutions.

There is significant financial dependence of regions and communities from the center [2]. Financial base of the local government is extremely low. Local taxes and fees in 2015 amounted to 9.6% of local budgets revenues including intergovernmental transfers [3]. At the same time, local governments are too limited with tax authorities. Today the formation of local budgets to 57% is due to intergovernmental transfers. At this time, targeted transfers in 2015 made 96% of total interbudgetary transfers to local budgets [4]. Current model of financial equalization is also ineffective. It deprives local governments from the interest in the accumulation of funds to the state and local budgets.

It should be noted that in Ukraine there is no complete and self-sustainable regional self-government at district and regional territorial levels. There are no tools that have to support the self-sustainability including: regional ownership, regional expandable authorities and regional taxes.

In various regions there are tax revenues to local budgets, which are significantly different and sometimes completely unreasonable. For example, property taxes in some Ukrainian cities are much higher than in Kiev by the decision of the local council, although the cost of housing in the capital is higher.

Local taxes should be stable and not change annually to this end. This will allow to plan and forecast tax revenues to the region and to influence the growth, or on the contrary, reduction in output (in the case of environmentally unsustainable enterprises) and their modernization due to the received financial resources. In reality, in 2016 local communities were given unlimited authority with lacking funds to implement them. It makes the local budget chronically scarce and impossible for execution. It is impossible to cover the deficit through money creation, because only state has the right to implement it. That is why the importance of regions financial security is increasing in these circumstances.

Now in Ukraine there are no reliable sources of funds receipt to the regions and communities. The fact which complicates situation is that since 2016 funds have come from the region to the cities into a special account and budgets of regions are not available. As a result, funds do not reach not only to the communities, but also to regions, that may cause various corruption schemes and worsen social development.

Actual non-accountability and uncontrollability of local authorities, especially local state administrations and dependence on the central authorities leads to the fact that local authorities is guided by interests of the central authorities and/or their own selfish interests rather than interests of the community.

Such features of the budget process as planning and «bottom-up» budget execution disable objectively considering the community interests at local authorities, particularly with regard to infrastructure development. As a consequence, effective mechanisms to identify community interests and their consideration in the activities of local authorities are not formed till now.

Budget policies of the state and local authorities currently prevent local development. Most communities do not even have development budgets and all resources are aimed to meet current needs. Unitary model of power creation in Ukraine provides an equal level of public services throughout the country. However, the level of economic development of different regions differs significantly [5].

One of the reasons for the inefficiency in the local authorities' current system is the inconsistency of certain norms of the Constitution of Ukraine and uncertainty in the current legislation. 80% of local authorities powers (Law of Ukraine «On local government in Ukraine» [6]) is duplicated with the same powers of state administrations (Law of Ukraine «On local authorities» [7]). The definition of «district and regional budgets that are formed from the state budget funds» generally prevents regional executive bodies of the district (regional) councils, as the handling of public funds is the prerogative of the executive bodies, but not the local government.

The problem of powers separation between state and local executive bodies remains unsolved. Local authorities perform mainly delegated tasks, including: education (up to 31% of total local expenditures), social protection and social security (26%) and healthcare (22%) [8]. Besides, inefficient use of budgetary resources poses a problem because of the outdated mechanisms for financing the budget institutions. This is the budgeted funding, according to which up to 69% of local expenditures are spent. The current mechanism of budgetary institutions funding does not provide dependence of funding allocation from the performance of their work, the scope and quality of public goods.

Local budgets in Ukraine are increasingly becoming different in terms of socio-economic development and show a chronic imbalance and deficit. A significant differentiation of local budgets is determined by a territorial basis, infrastructure development, the scale of the reforms that influence on the increase of fundamental discrepancy in the distribution of tax potential discrepancy across the country, differences in the structure of budget financing needs and the state of their budgets (Fig. 1).

It should be noted that the main feature of excessive centralization of interbudgetary relations is subsidy nature of absolute majority of local budgets. Share of transfers and revenue transferred from the state budget grew steadily, although the reverse process has been declared repeatedly. Over 74% of all expenditures were financed from the state budget during 2003 – 2015. The share of transfers in local budget revenues in 2003 was 35%, in 2005 – 43,5% and in 2010 – 49,5%.

The share of own revenues of local budgets in the consolidated budget has decreased over this years from 29,99% to 15,43%. Symbolic «fracture» of budget decentralization began in 2010, when the share of own local revenues and transfers from the state budget became equal.

Subsidy nature of local budget is nearly 60% and the budgets of local communities exceeds – 70%, more than 500 communities are subsidized by the state budget by 90%. These problems are not level of grant nature, but uneven economic development of the regions [9].

Parallel to this, there was a significant «contribution» reduction of local budgets in the consolidated budget that reflects the strengthening of fiscal redistribution of funds through the state budget. The latter limits the autonomy of local councils in the socio-economic development of the territory, deprives incentives to expand their revenue base of own budgets, increases paternalistic reliance on receiving subsidies from the center.

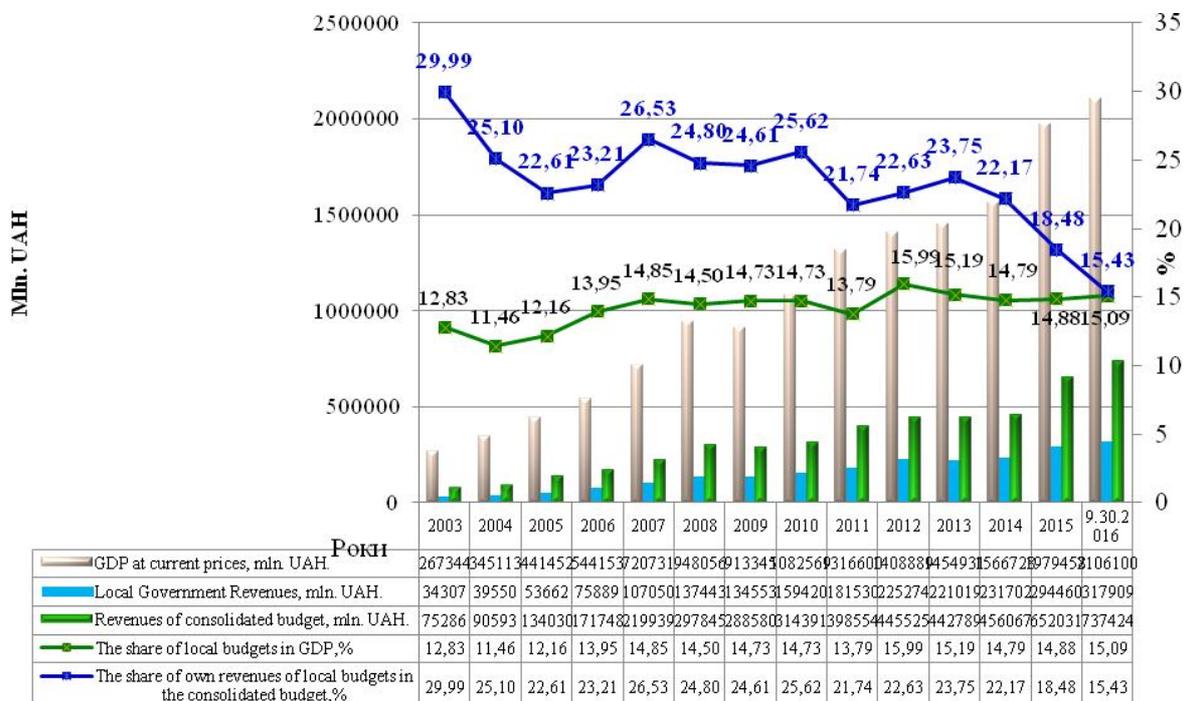


Fig. 1. Dynamics of the share of local budgets in GDP and consolidated budget of Ukraine for 2003 – 2016 (as of 09.30.2016 g.) in % [10].

Amendments to the Budget and Tax Codes, which were introduced at the 2014 end, and further plan is to amend the Constitution of Ukraine (concerning the powers of state and local bodies) and significant number of laws, as expected, had to create a new financial framework of local government reformation and financial basis for the realization of powers transferred to the community level [11]. Thus nominally started the next stage of budgetary decentralization, and creating self-sufficient and powerful communities is declared as a one of the priorities of the state.

After analyzing the dynamics of revenues of local budgets by Ukrainian regions (excluding interbudgetary transfers), it was found that most of incomes for 2014 – 2016 were recorded in Kyiv, Dnipro and Kharkiv regions and the least ones – in Chernivtsi, Ternopil and Luhansk regions (Fig. 2).

There is a positive dynamics to revenues increase during the analyzed period of time excluding Luhansk and Donetsk regions, which have opposite dynamics to decrease due to military operations in the east of Ukraine.

Changes in tax and budget legislation influenced on Ukraine's local budgets (excluding official transfers), which declined to 6.1% in 2015 of GDP compared to 6,5 – 7,2% in 2011 – 2014.

The state fee and fees for certain administrative services have been handed from the state budget to local ones (by the place of activity and documents issuance). As a result, local non-tax revenues of budgets increased to 1,02% GDP compared to 0,78% in 2014 [12].

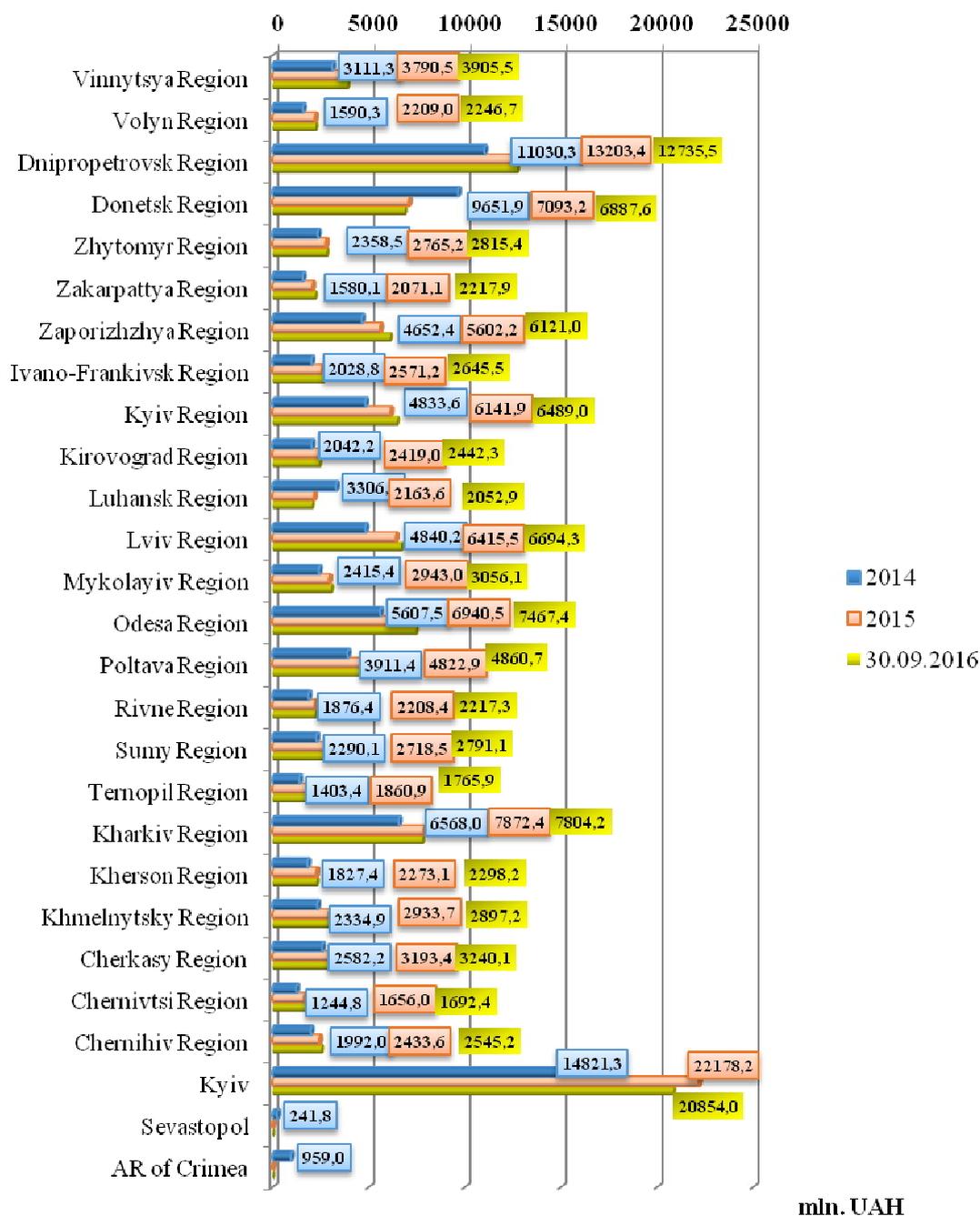


Fig. 2. Regional distribution of local budgets from 2014 till – 30.09.2016 (excluding interbudgetary transfers), mln. UAH [10,13]

At the same time, the amount of interbudgetary transfers received from the state budget of Ukraine to local one is increasing (Fig. 3). Thus, in 2014 the amount of interbudgetary transfers of Ukrainian local budgets amounted to 130,6007 m. UAH and as for 30.09.2016, 135,648.8 m. UAH were allocated to the local budgets. In particular, using the example of Poltava region, the amount of interbudgetary transfers made 3,773,9 m. UAH in 2014 (representing 49% of the regional budget) and as for 30.09.2016, 5,450,6 m. UAH were allocated to the regional budget (representing 53% of the regional budget), that indicates on reduction of budget centralization and increasing dependence on the local budget revenues from the state budget in Ukraine.

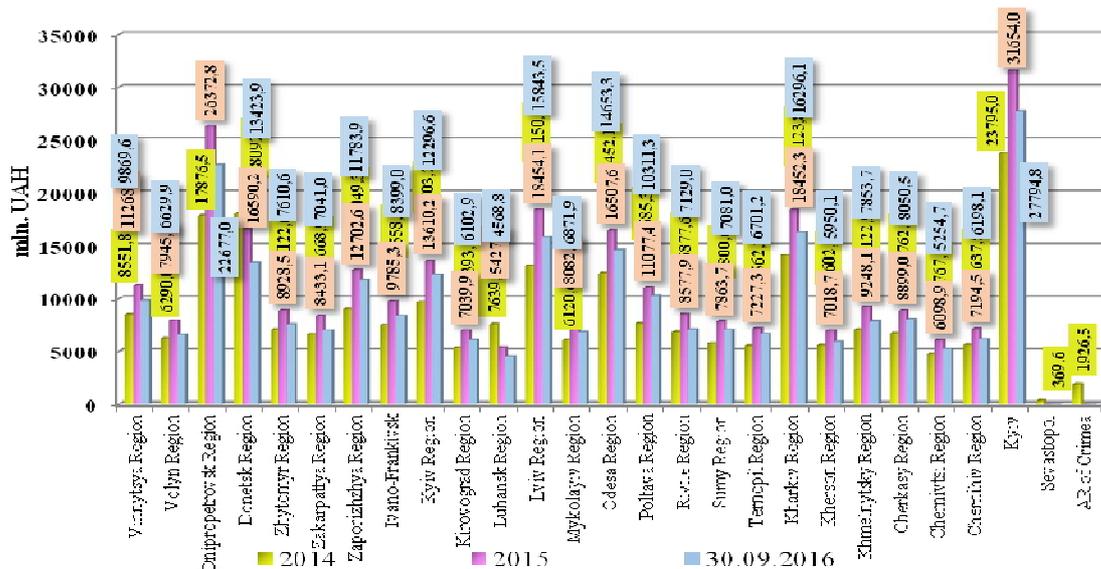


Fig. 3. Regional distribution of local budgets from 2014 till 30.09.2016 (including interbudgetary transfers), mln. UAH [13]

The highest average income during analyzed period was recorded in the city of Kyiv, Dnipro, Kharkiv and Lviv regions, while the lowest one – in Chernivtsi, Luhansk and Rivne regions.

After analyzing the dynamics of local spending by Ukrainian region (excluding interbudgetary transfers), the largest number of expenditures most for 2014 – 2016 was recorded in the city of Kyiv, Dnipro and Kharkiv region, and the fewest one – in Luhansk, Chernivtsi and Kherson regions (Fig. 4).

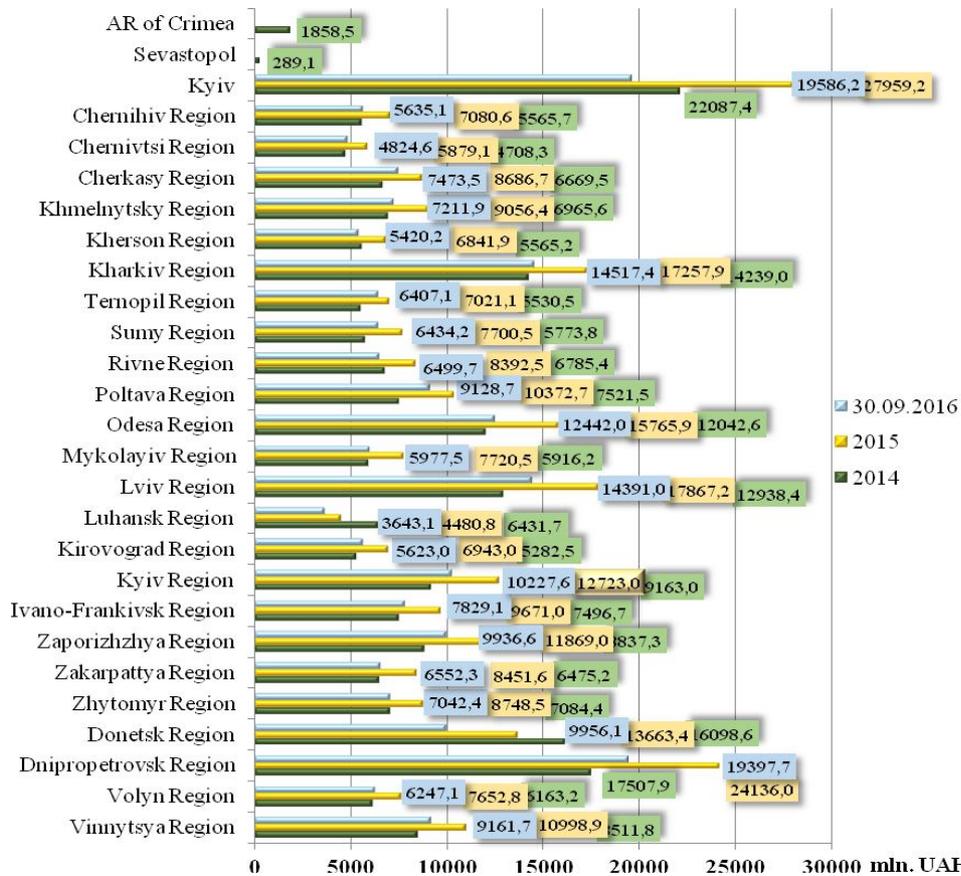


Fig. 4. Regional distribution of local budgets expenditures from 2014 till 30/09/2016 (excluding interbudgetary transfers), mln. UAH [13]

When researching the distribution of local expenditures, negative trend in increasing expenditures during the analyzed period can be seen (except for Luhansk and Donetsk regions). After researching dynamics of local spending by Ukrainian regions (including interbudgetary transfers), it was found that the amount of interbudgetary transfers received from the state budget to local one are decreasing (Fig. 5).

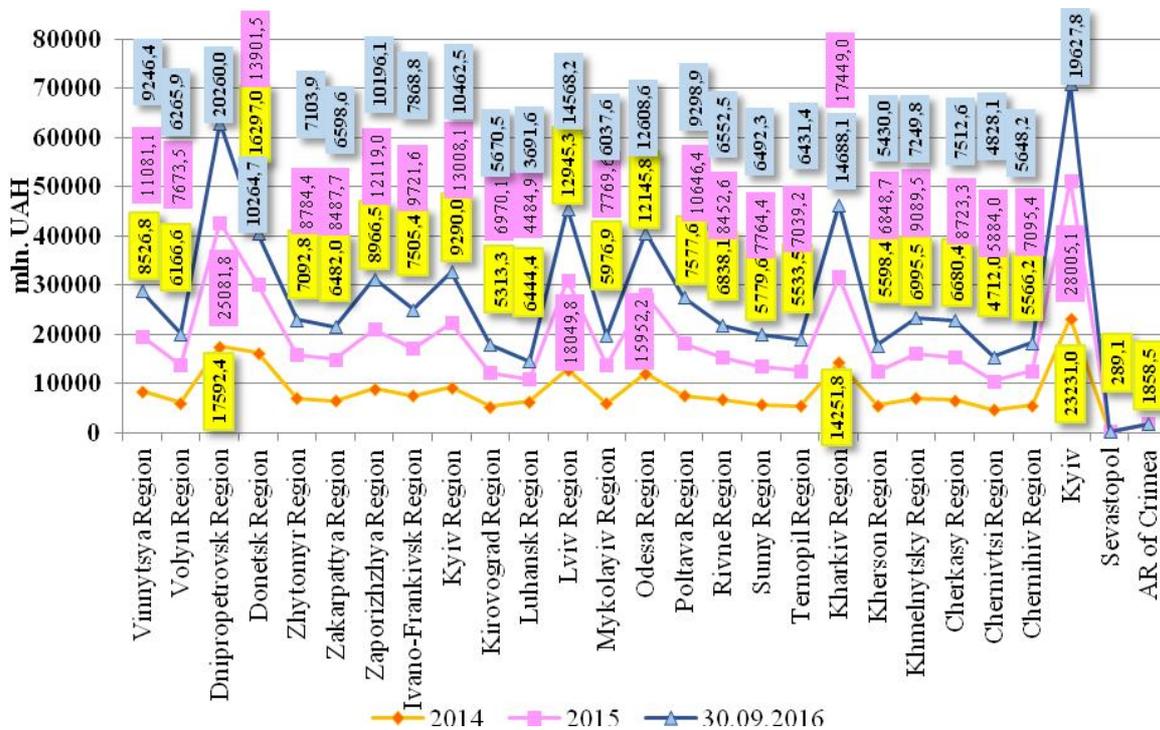


Fig. 5. Regional distribution of local budgets expenditures from 2014 till 30.09.2016 (including interbudgetary transfers), mln. UAH. [13]

When analyzing the revenue and expenditure parts of revenues and expenditures by local budgets expenditures by Ukrainian regions for 2014 – 30/09/2016 (including interbudgetary transfers), it was found that the budgets of Ukrainian regions and Kyiv are rising steadily during the analyzed period. Almost throughout the whole research period, a growing surplus of local expenditures by regions in all regions and Kyiv budgets can be seen, except for Carpathian (in 2015) and Kharkiv regions (in 2014), where budget deficit was recorded.

In the process of research, a significant dependence of local budgets units from the state budget was revealed, which shows the inadequacy of the distribution of the revenue and expenditure responsibilities between levels of government and interbudgetary system and the problems with increasing the budget revenues of administrative units due to weak economic development of individual territories.

So, despite the fact that the regional development specific is uneven, appropriateness of implementing the budget decentralization is caused by increasing the state budget system efficiency by organizing and providing public services which will meet the population preferences as much as possible. In this regard, budget decentralization has advantages over centralization.

In addition, budget levelling policies implemented in Ukraine does not provide conditions for rapid acquisition of trend towards economic growth, because even regions which transfer their funds to the state budget have no sufficient financial resources. Moreover, under the conditions of underdevelopment in the social and political institutions, local authorities with a significant amount of fiscal powers may conduct irresponsible debt policies that lead to imbalance economic situation and slowing the restructuring of the regional economy [14, 15].

Irrational system of budget relations between levels of the budget system weakens the ability of local authorities to conduct rational budget policies that may help create a favorable investment climate.

The dominance of personal interests over the public ones, non-conformity of local budgets forming with objectives of socio-economic development will be the main characteristics of local government in Ukraine for a long time.

This situation is not acceptable, since local budgets are funding source of the most public expenditures, especially socially orientated. And accordingly, the negative consequences of the budget system centralization are low quality and insufficient funding of social benefits provided at the local level (education, health, housing and utilities).

The new levelling system is stimulating, because only 50% of donor budgets are withdrawn only to level capacity of other regions, but not in favor of the state budget.

The new levelling system allows to leaving most of the money on the ground and local authorities become more independent in decision-making. However, the risk of a shortfall in these funds by local budgets will cause budgets' imbalance and reduce the efficiency of public services funded from local budgets.

**Conclusions and recommendations for further research.** Thus, the study of problems in budgetary funds use at the regional level allows to conclude that local councils and communities were not ready to changes, especially in the process of communities unification and establishing tax rates and the distribution of funds under the new system of levelling and budget decentralization.

The main current task should be a creation of capable and efficient communities, which will be the same catalyst in Ukraine. The most important current issue is to ensure the capacity of communities to concentrate finances and direct them on regional development and communities' passports formation.

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Providing the strengthening of financial security of local government is possible by the development of changes to the budget and tax legislation by the Ministry of Finance of Ukraine and the State Fiscal Service of Ukraine. It will allow to implement the mechanism of enrolment the tax part of corporate profit to local budgets. It refers to enterprises included in the register of taxpayers in the field of production facilities and economic activity, but not at the location of legal registration.

The problem of effective management and use of public funds at the regional level is caused by new changes in transparency of public government procurement as well as non-professionalism of local communities' staff to perform public procurement at «open-book» system.

Forming an effective mechanism for budget management is one of the conditions for ensuring the fiscal security of Ukraine. World practice shows that the most effective reforms had expressly agreed interrelationship of aims and objectives of the state policies and its consistency and transparency.

One of the major problems in creating the local Ukrainian budgets is to ensure balanced socio-economic development of the regions and formation of interbudgetary relations, in order to improve the financial self-sufficiency by strengthening the budget decentralization.

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**Svitlana Onyshchenko**, Ph.D., Associate Professor, External Doctoral Candidate at Department of Finance. Taras Shevchenko National University of Kyiv. **Svitlana Sivitska**, Ph.D., Vice-rector for scientific, educational, social work and international cooperation. Poltava National Technical Yurii Kondratiuk University. **The Problem of Use of Budget Funds at Regional and Local Levels.** In the article the state of local budgets investigated. The dynamics of local budgets analyzed. The amount of intergovernmental transfers received (from the state to local). The dynamics and distribution of local spending analyzed. The problems of budgetary funds at regional and local levels defined.

**Keywords:** security, financial security, budget security, state budget, local budget, fiscal policy.

УДК 336.13.051

**Світлана Володимирівна Онищенко**, кандидат економічних наук, доцент, здобувач кафедри фінансів. Київський національний університет імені Тараса Шевченка. **Світлана Павлівна Сівіцька**, кандидат економічних наук, проректор з науково-педагогічної, соціальної роботи та міжнародного співробітництва. Полтавський національний технічний університет імені Юрія Кондратюка. **Проблеми використання бюджетних коштів на регіональному та місцевому рівнях.** Досліджено стан місцевих бюджетів. Проаналізовано динаміку доходів місцевих бюджетів. Досліджено обсяг міжбюджетних трансфертів, що надходять із державного бюджету до місцевих. Проаналізовано динаміку й розподіл видатків місцевих бюджетів. Визначено проблеми використання бюджетних коштів на регіональному та місцевому рівнях.

**Ключові слова:** безпека, фінансова безпека, бюджетна безпека, державний бюджет, місцевий бюджет, бюджетна політика.

УДК 336.13.051

**Светлана Владимировна Онищенко**, кандидат экономических наук, доцент, соискатель кафедры финансов. Киевский национальный университет имени Тараса Шевченко. **Светлана Павловна Сивицкая**, кандидат экономических наук, проректор по научно-педагогической, социальной работе и международного сотрудничества. Полтавский национальный технический университет имени Юрия Кондратюка. **Проблемы использования бюджетных средств на региональном и местном уровнях.** Исследовано состояние местных бюджетов. Проанализирована динамика доходов местных бюджетов. Исследован объем межбюджетных трансфертов, поступающих из государственного бюджета в местные. Проанализированы динамика и распределение расходов местных бюджетов. Определены проблемы использования бюджетных средств на региональном и местном уровнях.

**Ключевые слова:** безопасность, финансовая безопасность, бюджетная безопасность, государственный бюджет, местный бюджет, бюджетная политика.