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MODERN APPROACHES OF IMPROVING THE PUBLIC MANAGEMENT OF LOCAL FINANCE

The article investigates theoretical aspects of the local financial management, analyzes the contemporary approaches to the determination of the composition of the local financial management. Methods of financial management, local taxation and state audit are complemented.

Key words: local financial management; local governments; methods; financial planning; financial control; financing; local taxation.

Досліджено теоретичні аспекти управління місцевими фінансами, проведено критичний аналіз сучасних підходів до визначення складу методів управління місцевими фінансами та доповнено методами управління фінансування, місцевого оподаткування і державного аудиту.

Ключові слова: управління місцевими фінансами; органи місцевого самоврядування; методи; фінансове планування; фінансовий контроль; фінансування, місцеве оподаткування.

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Problem formulation. The transformation processes, which take place in the system of public administration and local government, made it necessary to search for new scientific approaches to solve the problem of ensuring the financial independence of local government. Under the conditions of economic transformations improvement of local financial management is an important issue, because the expansion of the functions and powers of local authorities, which took place since independence, was not accompanied by increase in the volume of financial resources. Own revenues remain small; subsidy dependence of local budgets from the state budget is growing. Therefore there is a necessity to find effective methods of local financial management that will ensure the strengthening of the local authorities financial base and improve their performance as a whole.

Analysis of recent researches and publications. Theoretical aspects of the local financial management and defining the role of local finance in the financial system were carried out in the works of such scientists: T. H. Bondaruk, A. V. Velichko, A. V. Honcharenko, V. I. Kravchenko, A. P. Kirilenko, V. M. Oparin, S. V. Slukhaia, I. L. Sazonets, V. M. Fedosov. Most of the researchers focused their attention on the analysis of the development of local budgets, strengthening their revenue base, improving of intergovernmental relations, but local financial management issues were less investigated.

Such scientists as I. L. Sazonets, T. V. Grinko, G. Y. Pridatno implemented a great contribution to the study of the theoretical aspects of the local financial management. They reviewed local finances, their essence, composition and role in the development of economic and social infrastructure of the region, the rights and obligations in the areas of finance of local governments [1].

T. H. Bondaruk explored the priorities of the local financial management strategy and determination of the main directions of improving their efficiency [2].

O. V. Honcharenko made a valuable study, in which national codes in the management of public finances, systematization of the general principles standards and methods of global best practices that can be introduced in in Ukraine are analyzed [3].

Analysis of the published works on this topic allowed to conclude that the issue is not enough developed in the scientific as well as in organizational and practical aspects.

Purpose of the article is to summarize the methods of local financial management and clarify them.

Main material. Today the financial capacity of the administrative and territorial units is the main criterion to determine the ability of the national economy to develop at the expense of their own financial security. Formation of the adequate financial basis of local government, the construction of a perfect financial management mechanism at the local level, ensuring close cooperation of controls is achieved by realization the policy of economic stability, in which the maximum attention of the legislative and executive power pay on the effective management of forming and using financial resources of local governments. Effective management of the local budget is only possible under the condition of the balance and coherence of income and expenses, the unity of methodological and regulatory framework of calculations, which will be fully effectively and accurately use the financial potential of the territory by local authorities. Formation and functioning of adequate financial management mechanism of local budgets is actual and difficult task, because the level of socio-economic development of territories depends on optimal formation of financial resources and their effective utilization.

The basic component of the local government is local finances. On the one hand, local finances are an indicator of the market reforms degree, the condition of which reflects the

effectiveness of the economic policy of the government, local authorities, the degree of confidence in them and the economic awareness of households and enterprises of the relevant territorial community. On the other hand, local finances are a mechanism of market development and social infrastructure that may affect the rate of market transformation of society.

Today in Ukraine local budgets play a minor role in investment, their part in the structure of investment sources is paltry sum. Unfortunately, the principle of creating conditions that ensure the interest of local government to increase budget revenues, which should be an important factor in the effectiveness of the budget system, is only declared.

Today, there are serious problems in the efficiency budgetary investments, which is caused by the following main factors: lack of definiteness priorities; lack of substantiation and predictability of public investment; inability of relevant executive bodies to the effective management of investment projects which are carried out for State Funds; the constant underfunding (in comparison with the plans) of investment projects that freezes invested public funds and impedes obtaining the desired effect; the low discipline of targeted use of public funds for investment purposes and so on. These factors reduce or nullify the social effect of the public budgetary investment.

According to the majority of scientists, the selection of investment projects for financing through the development budget on a competitive basis and taking into account clearly defined criteria of selection, among which must be: compliance with public interests and priorities of development of Ukraine; the stability of the financial status of the project executor and the absence of debts to the budget; significant economic or social effect of the project implementation; the establishment of an effective monitoring and reporting of the implementation investment projects, which are financed from the development budget, and monitoring and a regular reporting about purposeful use of budgetary funds.

In general, the direct government involvement in the implementation of the investment can take place in the following ways: the development, approval and funding of the target budget programs; the development, approval and financing of investment projects carried out at the expense of budget funds; preparing a list building objects and technical re-equipment of objects for state needs and funding them by the state budget; examination of investment projects; control of target use of budgetary funds within the investment projects implementation; issue of bonded and government-guaranteed targeted loans; attraction of private funds to implement investment projects; the development of public-private partnership during the implementation of public investment.

Local authorities should direct their activities at stimulating the enterprise owners to: creation of a favorable social climate and positive image of the company in the region, including the participation in the programs that are aimed at development of social infrastructure in the region; implementation of comprehensive environmental program which is focused on improving the quality of community members life, especially by improving the quality and rational usage air, water and land.

The special role of public-private partnerships should play in the development of manufacturing, transportation, municipal and social infrastructure at the local level, which today are in critical condition. This will help to attract private investment resources and develop the concept a socially responsible business.

The basic principles of internal policy in the areas of local government and stimulating the development of regions are: establishment of local government as the foundation of democracy, expanding the powers of local councils through the decentralization of the

government functions, harmonization of national, regional and local interests; the reformation of intergovernmental fiscal relations for the benefit of local government, creation of conditions for the development of the economic independence of regions; improving the administrative-territorial system based on the economic self-sufficiency and availability of administrative (management) principles and social services for consumers of those services; strengthening of material base of local governments and increased their resource support; strengthening the responsibility of local authorities, village, town and city mayors to territorial communities that elected them; development and implementation of interregional economic relations projects and cross-border cooperation, that are aimed at increasing the competitiveness of the regions as a basis for their dynamic development; strengthening regional economic integration by taking advantage of the territorial division of labor and cooperation [3].

To achieve the goals of internal policy in the areas of local government and Stimulation of Regional Development is necessary to improve methods of local finances management. Application of effective local financial management practices will allow efficient use of natural raw materials, manufacturing and technical, human and financial potential of the regions as a basis for the accelerated development of the regions and the revival of the international prestige of the state.

The local finance management is one of the control components of the socio-economic development of the administrative-territorial units, which has a special unit using specific techniques and methods of impact on the purposeful formation, usage and disposition of funds of local budgets and finance utilities [4].

Traditionally, methods of implementation management of local finances include: financial planning and forecasting, operational management, promotion and financial control [5].

We consider it necessary to supplement these methods as follows: financing, taxation (local tax), the state audit.

The generalization of local financial management techniques and their characteristics are given in Table 1 [3; 6; 8].

Today it is believed that the most progressive form of budgeting is a Programme Target Methods (PTM), which is used by many countries [1].

In the area of local taxation problem of correlation between the national legislative and executive authorities and local self-government is one of the main: in both theory and practice questions of local taxation is often considered through the prism of relations “state” – “local government”. Due to the declaration of intent course by Ukraine to integrate into the European Community, processes of approximation territorial organization of power to the standards introduced by the Council of Europe are particularly important.

By ratifying the European Charter of Local Self-Government, Ukraine gave its obligatory force in its territory. The European Charter of Local Government considers local (local) taxes and fees as a necessary attribute and in the certain sense – a sign of local government. That is why they should exist in such numbers, which would be completely finance local authorities by necessary to satisfy their needs [2].

The development of financial control should include implementation of public audit. State audit is a form of state financial control, which aims to promote budgetary institutions, state-owned enterprises that receive public funds to prevent financial irregularities, the effective use of budgetary funds of state and municipal property and preparation of reliable financial statements.

Contents of the local financial management

Method name	Definition
Financial forecasting and budgeting	Justification of the planned budget indicators, which are obligatory for execution and apply to purposeful influence on level of socio-economic development of regions
Operational management	A set of activities that are carried out on the basis of the rapid assessment of the specific financial situation, in order to maximize the effect at minimal cost by providing timely adjustment of financial relationships with maneuvering of financial resources
Stimulation	Methods of encouraging the development of the phenomena and processes in the region which are most needed
Accounting	Providing of timely and complete reflection of all operations bodies of the State Treasury of Ukraine and provide users with information about the condition of assets and liabilities, results of budget implementation and their changes
Financial control and audit	Ensuring compliance with the rule of law, fiscal discipline, prevention of financial crime at the time of mobilization, distribution and use of centralized and decentralized funds, means to fulfill tasks and functions of local government and effective socio-economic development of the region
Local taxation	The collection of local taxes and charges to budgets and state trust funds, which are levied in the established order by the Tax Code of Ukraine
Financing	Income and expenditure budget, which are related to the change in volume of debt the amount of deposits and changing remnants of budget funds that are used to cover the budget deficit or a definition of budget surplus

Therefore, the state audit also includes such form as a performance audit. Performance audit is a form of control, which is aimed at the determining the effectiveness of use of budgetary funds for the implementation of the planned purposes and the establishment of the factors that prevent this. The purpose of performance audit is to implement the assessment of achievement planned indicators (product efficiency, quality), identify problems in the implementation of the budget program and develop proposals for improving the efficiency of state resources.

Conclusions and further researches directions. Thus, at the present stage of economic development management of local finances should include the following management methods: financial planning (budgeting) and forecasting, operational management, stimulation, accounting, financial control (as a form of state audit (performance audit), financing, taxation (local taxation). The effective functioning of the local financial management systems can be achieved by improving the effectiveness of the government audit, the organization of a comprehensive assessment of the financial condition of local budgets, the establishment of the Code, which would contain the advanced domestic and foreign experience of financial management at the local level.

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