



*CoE/EU Eastern Partnership Programmatic Co-operation Framework (PCF) 2015 – 2017*

## **Ukraine: Country Study for Preparing Local Finance Benchmarks**

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## Executive Summary

### *Political and administrative system of Ukraine*

Ukraine is a unitary, sovereign, independent, democratic, social and legal state, a parliamentary-presidential republic. The bearer of sovereignty and the only source of power in Ukraine is the people. The people exercise power directly and through bodies of state power and local self-government.

The power in Ukraine is exercised on the principles of separation of legislative, executive and judicial branches. The executive power in the country belongs to the Cabinet of Ministers and the legislative power belongs to the parliament (the Verkhovna Rada of Ukraine). The highest body of judicial power in Ukraine is the Supreme Court of Ukraine. The President of Ukraine has the ability to influence the operation of all three branches of government: executive, legislative and judicial, in accordance with the Constitution of Ukraine, he is required to terminate any of their actions that violate the Constitution of Ukraine.

### *Functions of Local Self-Government*

The Constitution of Ukraine envisages local self-governance at local level. The following areas of responsibility are implemented through the local self-government functions: ensuring integrated development of the territory of the community; planning; budget and financial; management of communal property and local finances; ensuring the needs of the population in housing, transport, trade and communal services; social protection of population; external economic; promoting the defense of the state; of Healthcare Development, education, culture and sports; environmental protection; regulation of land relations; accounting; licensing and registration; and informational. These functions are performed through a number of own and delegated powers.

One of the crucial element for local self-governance is financial sustainability. Unfortunately, the situation is currently emerging where local governments receive less financial resources from the State budget than the amount required for implementation of delegated powers, and there is a significant underfunding or lack of any funding altogether for some part of delegated powers. That makes local budgets drastically dependent on assistance from the central authorities. The indicator of local budgets' dependence on transfers from the State budget exceeded 50% of all local budget revenues and showed an upward trend in recent years.

### *Own and delegated to local government revenues*

One of the problem with local finances is lack of reform in the part of local taxes. Local taxes and fees are established according to the list and within the size limits of rates, prescribed by the Tax Code of Ukraine, decisions of village, town and city councils within their authority and are mandatory for payment on the territory of the municipalities. Local taxes include property tax and single tax. Local fees include fee for vehicles parking and tourism fee.

Composition of local revenues in the main portion is common to the budgets of republican (the Autonomous Republic of Crimea) and regional significance, the cities of Kyiv and Sevastopol, district budgets, budgets of combined territorial communities, villages, towns and cities of district significance. Village, settlement and city councils, within their powers, make decisions on the establishment of local taxes and fees, in the manner prescribed by the Tax Code of Ukraine.

Aside from setting local taxes and fees, local government may not influence the taxation system.

### *Inter-budget transfers, fiscal equalization*

Thus, the significant part of the local finance constitute the intrabudgetary transfers. The State Budget of Ukraine may provide the following kinds of transfers to local budgets: basic subsidy; additional grants; subventions for the government programs implementation of social protection; additional subsidy for compensation of local budgets lost revenues due to provision of benefits, established by the state; subvention for investment projects implementation; educational subvention; subvention for working staff training; medical subsidy; subvention for providing medical activities of individual government programs and comprehensive measures of programmatic nature; subvention for financing of social and economic measures for the risk compensation of the population, living in the territory of the monitoring zone; subvention for projects of liquidation of enterprises of coal and peat industry and the maintenance of drainage facilities in safe mode in co-financing (50 percent); other additional subsidies and other subventions.

The amount of inter-budget transfers is approved in the State Budget of Ukraine separately for each of the local budgets, if there are grounds for giving and receiving relevant inter-budget transfers. Any decisions on the amount of financing of transfers, their allocation and structure (within the scope established by the Budget code) shall be made by the Verkhovna Rada in the Law on the State budget of Ukraine for the respective years.

The transfers are allocated according to a number of principles stipulated by law. In particular, the horizontal fiscal capacity equalization of oblast budgets is carried out separately by income of the enterprise profit tax and of the PIT (personal income tax), taking into account a number of parameters: 1) number of population; 2) income of the corporate profit tax; 3) income of the PIT (personal income tax); 4) fiscal capacity indexes of the relevant oblast budget, determined separately by income of the corporate profit tax and of the PIT (personal income tax).

The fiscal capacity indicator of the relevant oblast budget is the coefficient that determines the level of the fiscal capacity of such a budget, in comparison with the similar average indicator for all oblast budgets in Ukraine, calculated per person. In the event that the indicator is within 0.9-1.1 - equalization is not carried out; less than 0.9 – basic subsidy is granted to appropriate budget in the amount of 80 percent of the amount needed to achieve the value of the security indicator of the corresponding budget - 0.9; more than 1.1 - reverse subsidy is transmitted from the respective budget in the amount of 50 percent of the amount that exceeds the value of the indicator 1.1.

### *Local borrowing*

To provide for better financial potential, the law allows local borrowing. Local borrowing represent a part of revenues of local budgets, therefore borrowings implementation constitute a part of the local debt management process. Local borrowing are recognized as sources of financing of the relevant budget.

In order to ensure the compliance with the limit values of the local debt and local guarantees, the Ministry of Finance of Ukraine keeps the Register of local borrowings and local guarantees.

Local borrowing are included in the budget revenues of the local budgets development. The amount and terms of local borrowing implementation and local guarantees providing are agreed with the Ministry of Finance of Ukraine.

In the event that in the process of local debt repayment and payments of its maintenance, stipulated by the agreement between the lender and the borrower, the repayment schedule is disrupted by the fault of the



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borrower, the Verkhovna Rada of the Autonomous Republic of Crimea or the relevant city council are not entitled to carry out new local borrowing over the next five years.

*Management of local finances*

Management of local finances is regulated by number of laws and by-laws and stipulate all stages of budget process, monitoring and audit, structure and functioning of fiscal information system, accounting rules, as well as local budgets reporting system and availability of fiscal data.

## Political and administrative system of Ukraine

Political and administrative system of Ukraine is formed under the influence of two components - administrative and territorial structure and state structure.

The internal structure, the territorial structure of Ukraine building is determined by the system of administrative and territorial structure of our country, on which basis the public authorities and local government bodies are being established and operate.

The administrative and territorial structure Ukraine of consists of administrative and territorial units of three levels: 1) the Autonomous Republic (*avtonomna respublika*) of Crimea, oblasts and cities with special legal status - Kyiv and Sevastopol; 2) *raions* (districts), cities of republican (ARC) and regional significance; 3) towns of *raion* (district) significance, settlements, and villages. These units are classified on several grounds.

Due to annexation of Crimea and the war in the east of Ukraine, some parts of the Ukrainian territory are currently occupied and controlled by the Russian Federation. Those include the land territory of the Autonomous Republic of Crimea and the city of Sevastopol, and inland waters of Ukraine in these territories. In addition, on 17 March 2015, the Verkhovna Rada also recognized certain raions of the Donetsk and Luhansk oblasts<sup>1</sup> as temporarily occupied territories. The legal status of the temporarily occupied territory is regulated by the Law of Ukraine "On Assuring the Rights and Freedoms of Citizens and the Legal Status of the Temporarily Occupied Territory of Ukraine"<sup>2</sup>.

1) by geographical grounds, they are divided into regions (ARC, oblasts, *raions* (districts), cities-regions in case of Kyiv and Sevastopol) and populated places (town, settlements, and villages);

2) by their status, they are divided as follows: administrative and territorial units (oblasts, *raions* (districts)), self-governing territorial units (town, settlements, and villages). In addition, ARC has a particular status of territorial autonomy, and urban districts are characterized both by administrative and territorial features and self-governing units' features);

3) by the place in the system of administrative and territorial system of Ukraine, they are divided into the primary level territorial units (towns without district division, districts in the cities, settlements, and villages), the average level (*raions* (districts), towns / cities without district division) and the higher level (the Autonomous Republic (*avtonomna respublika*) of Crimea, oblasts, and the cities of Kyiv and Sevastopol).

Article 133 of the Constitution of Ukraine defines the exclusive composition of administrative and territorial units of the first-level administrative and territorial structure of Ukraine as follows: ARC, Vinnytsia Oblast, Volyn Oblast, Dnipropetrovsk Oblast, Donetsk Oblast, Zhytomyr Oblast, Zakarpattia Oblast, Zaporizhia Oblast, Ivano-Frankivsk Oblast, Kyiv Oblast, Kirovohrad Oblast, Luhansk Oblast, Lviv Oblast, Mykolaiv Oblast, Odesa Oblast, Poltava Oblast, Rivne Oblast, Sumy Oblast, Ternopil Oblast, Kharkiv Oblast, Kherson Oblast, Khmelnytskyi Oblast, Cherkasy Oblast, Chernivtsi Oblast, Chernihiv Oblast, and the cities of Kyiv and Sevastopol.

<sup>1</sup> The Decree of the Verkhovna Rada of Ukraine of 17 March 2015, No. 254-VIII "On Recognizing Certain Raions, Cities, Settlements, and Villages of the Donetsk and Luhansk Oblasts as Temporarily Occupied Territories"

<sup>2</sup> The Law of Ukraine of 15 April 2014, No. 1207-VII "On Assuring the Rights and Freedoms of Citizens and the Legal Status of the Temporarily Occupied Territory of Ukraine"

**Table 1**

**The Administrative and Territorial System<sup>3</sup>**

	<i>2013</i>	<i>2014</i>	<i>2015 (as of 1 January)</i>
Autonomous Republic	1	1	1
Oblasts	24	24	24
Cities total	460	460	460
including special status cities	2	2	2
cities with population over 1 million, thou persons			
Kyiv (capital city)	2845	2869	2888
Odesa	1015	1017	1017
Kharkiv	1451	1451	1453
Raions	490	490	490
Urban-type settlements	885	885	885
Rural settlements, thou	28.4	28.4	28.4

According to its state system Ukraine is a unitary, sovereign, independent, democratic, social and legal state, a parliamentary-presidential republic. The bearer of sovereignty and the only source of power in Ukraine is the people. The people exercise power directly and through bodies of state power and local self-government.

The power in Ukraine is exercised on the principles of separation of legislative, executive and judicial branches. The executive power in the country belongs to the Cabinet of Ministers and the legislative power belongs to the parliament (the Verkhovna Rada of Ukraine). The highest body of judicial power in Ukraine is the Supreme Court of Ukraine. The President of Ukraine has the ability to influence the operation of all three branches of government: executive, legislative and judicial, in accordance with the Constitution of Ukraine, he is required to terminate any of their actions that violate the Constitution of Ukraine. The President is elected by popular vote for a five-year term. Upon the recommendation of the President, the Verkhovna Rada of Ukraine appoints the Prime Minister of Ukraine and the other members of the Cabinet of Ministers of Ukraine. The Verkhovna Rada consists of 450 deputies, elected for a five-year term.

The Cabinet of Ministers of Ukraine is the highest body within the system of executive government bodies. Central executive bodies include government ministries, State committees and executive government bodies with a special status (such as the SBU [Security Service of Ukraine], Antimonopoly Committee and others). Activities of the Cabinet of Ministers are regulated by the Constitution and laws of Ukraine, as well as by edicts of the President of Ukraine and decrees of the Verkhovna Rada of Ukraine adopted according to the Constitution and laws of Ukraine. The Cabinet of Ministers of Ukraine is accountable to the President of Ukraine and Verkhovna Rada of Ukraine, it is controlled by and is reporting to the Verkhovna Rada of Ukraine within the scope envisaged by the Constitution.

Local executive government bodies include local State administrations whose activities are regulated by the Constitution and the Law of Ukraine "On Local State Administrations" of 9 April 1999, No. 586-XIV.

The composition of local State administration is formed by heads of local State administrations. The heads of local State administration are appointed and dismissed by the President of Ukraine upon submission of the Cabinet of Ministers of Ukraine. In the exercise of their powers they are accountable to the President of Ukraine and Cabinet of Ministers of Ukraine, they are reporting to and controlled by executive government bodies of higher levels. In addition, local State administrations are reporting to and controlled by councils within the scope of the powers delegated thereto by respective raion or oblast councils.

<sup>3</sup> According to the data on the official web-portal of the Verkhovna Rada of Ukraine

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The local State administrations ensure the following in their respective territories:

- execution of the Constitution and laws of Ukraine, acts of the President of Ukraine, Cabinet of Ministers of Ukraine, and other executive government bodies;
- law and public order; observance of citizens' rights and freedoms;
- implementation of national and regional socioeconomic and cultural development programs, environmental protection programs, and also ethnic-cultural development programs for native peoples and ethnic minorities in the areas of their compact settlement;
- preparation and execution of respective oblast and raion budgets;
- a report on execution of respective budgets and programs;
- interaction with local governments;
- implementation of other powers granted by the State and delegated by respective councils.

The judicial branch of power represents a system of established by law bodies, having the exclusive authority to review legally significant cases, using a special procedure.

## **Functions of Local Self-Government**

Under the provisions of the European Charter of Local Self-Government, the major powers of local self-government are established by the Constitution or by law. In Ukraine, they are enshrined in the general form in Art. 143 of the Fundamental Law, and their details are contained in the Law "On Local Self-Government in Ukraine", "On the capital of Ukraine - Hero City of Kyiv" as well as in sectoral legislation and in the Budget Code, the Land Code, the Forest Code and the Water Code of Ukraine, and in other legal acts.

Chapter 3 of the Law of Ukraine "On Local Self-Government in Ukraine", through the articles from 27 to 41, defines the areas of responsibility of local self-government, dividing each of them on their own and delegated powers. Own (or self-governed) powers – the rights and responsibilities of local government entities that are recognized by the state, and providing independent decision of local issues by the population. Delegated powers – the powers of executive power bodies, granted to local authorities by law, with simultaneous transfer of the necessary material and financial resources, the realization of which is controlled by executive authorities.

Areas of responsibility are implemented through the local self-government functions: ensuring integrated development of the territory of the community; planning; budget and financial; management of communal property and local finances; ensuring the needs of the population in housing, transport, trade and communal services; social protection of population; external economic; promoting the defense of the state; of Healthcare Development, education, culture and sports; environmental protection; regulation of land relations; accounting; licensing and registration; and informational.

These functions are performed through a number of own and delegated powers. in the following areas and sectors:

- Social and economic as well as cultural development, planning and accounting;
- Budget, Finance and prices;
- Management of municipal property;
- Housing and Municipal Economy, consumer services, trade services, public catering establishments, transport and communications;
- Construction;
- Regulation of land relations and environmental protection;
- Social protection of population;



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- Foreign economic activity;
- Defense Activities;
- Resolving issues of administrative and territorial structure;
- Providing free primary legal aid;
- Awarding with state awards of Ukraine.

The own powers mean the rights and responsibilities recognized by the State for local government entities and those providing for autonomous resolution of any local-significance issues by the population. The delegated powers mean the powers of executive government bodies granted to local governments by law, with simultaneous transfer of the required material and financial resources, and with exercise of such powers being controlled by State executive bodies.

According to the latest amendments to the Budget Code of Ukraine dated 28 December 2014, No.79-VIII, the division into Basket One and Basket Two revenues has been abolished. These provisions came into force as of the outset of 2015.

In particular, the functions in the field of the budget, finance and prices are implemented by the local self-government through the following powers:

*a) Own (or self-governed) powers:*

1) the local budget drafting, its submission for approval to the relevant council, ensuring the implementation of the budget; quarterly submission of written reports on the progress and results of the budget implementation to the council; preparation and presentation of the required financial performance, in accordance with local, regional councils and suggestions for drafting of district and regional budgets;

2) establishment, in the manner and within the limits set by the legislation, of the tariffs on household utilities (except for tariffs for thermal energy, centralized water supply and sanitation, recycling and disposal of household wastes, centralized heating, etc.), transportation and other services (for repayment of any debt due to difference in tariffs for thermal energy, centralized water supply and sanitation services, which were produced, transported, and delivered to the population, which difference emerged due to a mismatch between the actual cost of thermal energy or services of centralized water supply and sanitation and the tariffs approved and/or agreed by State authorities or local governments, an annual State budget subvention is provided);

The Law of Ukraine "On the Housing and Communal Services" dated 24 June 2004, No.1875-IV is the key document, which determines relations between participants of the housing and communal services market. This law subdivides the housing and communal services into three groups based on the procedure of price/tariff approval. Group one comprises the housing and communal services the prices/tariffs of which are approved by specially authorized central executive bodies; group two includes the housing and communal services the prices/tariffs of which are approved by local governments in the respective territories, where such services are provided; and group three comprises the services whose prices/tariffs are determined on a contractual basis.

At present, the powers of setting tariffs of communal services are divided between the National Communal Services Regulatory Commission (the "Commission") and local governments.

According to requirements of the Law of Ukraine "On State Regulation in the Communal Services Sector" of 9 July 2010, No.2479-VI, the Commission shall set tariffs for communal services (tariffs for heat energy, transportation of heat energy by main and local/distribution heat networks, supply of heat energy, as well as tariffs for services of centralized water supply and water removal) only for those natural monopolies and economic entities in adjacent markets, whose activities it is licensing.

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In turn, local governments set the tariffs for communal services for the rest of the enterprises, which are outside Commission's regulation, and also set the tariffs for the services of district heating and hot water supply to end users based on the tariffs approved by the Commission.

Setting of tariffs for the services of maintenance of buildings and structures and adjacent territories, and removal of municipal waste is within the exclusive responsibility of local governments.

3) establishing, according to the approved decision of the respective councils, of the funds use order and of other assets that are jointly owned by local communities;

4) implementation of the established order of expenditures financing from the local budget;

5) on a contractual basis, raising funds of enterprises, institutions and organizations, irrespective of ownership (e.g., conclusion of Public Private Partnership contracts), located on the respective area, and fundraising from the public, as well as budget funds for construction, expansion, maintenance on share basis of social and industrial infrastructure and on measures for the environment protection;

6) on a contractual basis, the funds consolidation of the relevant local budget and of other local budgets to implement joint projects or to jointly finance municipal enterprises, institutions and organizations, other issues relating to the common interests of local communities;

7) conclusion of contracts with legal entities and individuals in collecting local fees, which mandatory conclusion is established by law;

8) preparation and approval of the list of specially designated parking spaces for vehicles;

*b) Delegated powers:*

1) according to the law, exercising of control over the compliance with the obligations concerning payments to the local budget by the enterprises and organizations, irrespective of ownership;

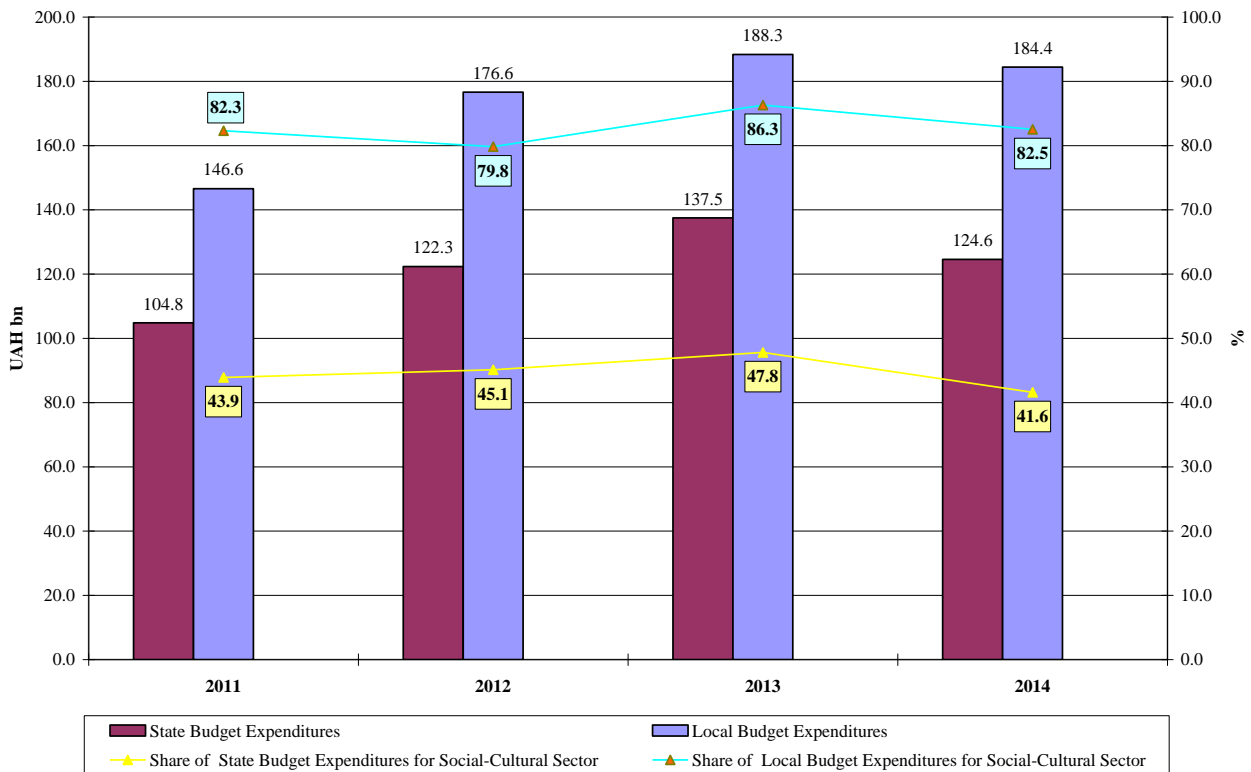
2) according to the law, exercising of control over the compliance with the prices and tariffs;

3) promotion of investment activity in the relevant territory.

The situation is currently emerging where local governments receive less financial resources from the State budget than the amount required for implementation of delegated powers, and there is a significant underfunding or lack of any funding altogether for some part of delegated powers.

Local budgets are allocating a significantly greater portion of expenditures for the social and cultural sphere compared to the State budget. This is explained by the structure of expenditures of local budgets pursuant to the Budget code of Ukraine

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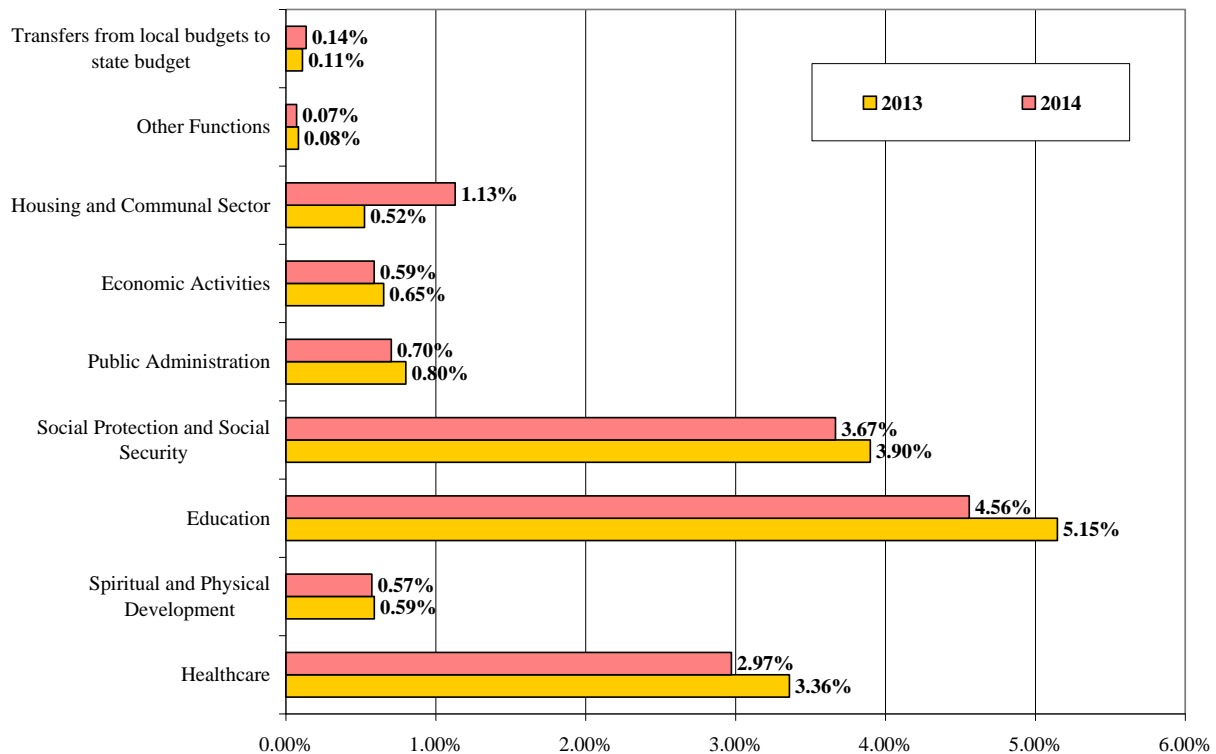
**Fig. 1. Financing of Social and Cultural Sphere Expenditures in 2011-2014**

The indicator of local budgets' dependence on transfers from the State budget is a good illustration of financial system's centralization. This indicator exceeded 50% of all local budget revenues and showed an upward trend in recent years.

The level of GDP redistribution via the local budgets of Ukraine<sup>4</sup> amounted to 14.27% according to the 2014 data, which is 0.79ppt less than last year. The highest growth of this indicator is observed in expenditures for the housing and communal services sector (+0.61ppt). The greatest decline of the share occurred in the expenditures for education (by 0.59ppt), healthcare (by 0.39ppt), and social protection and social security (by 0.23ppt)

<sup>4</sup> The share of local budgets in the GDP.

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**Fig. 2. Shares of Local Budget Expenditures in GDP in 2013-2014**

## Own and delegated to local government revenues

Local taxes and fees are established according to the list and within the size limits of rates, prescribed by the Tax Code of Ukraine, decisions of village, town and city councils within their authority and are mandatory for payment on the territory of the municipalities. Local taxes include property tax and single tax. Local fees include fee for vehicles parking and tourism fee.

Local councils establish obligatorily a single tax and property tax (in terms of vehicle tax and land tax). They also decide the issues for the property tax setting (in terms of real estate tax, other than land) and on the setting of the fee for vehicles parking and tourism fee. Local taxes and fees setting, not provided for by the Tax Code, is prohibited. Local taxes and fees crediting to the relevant local budgets is performed according to the Budget Code of Ukraine. On its basis, a part of national taxes, paid (credited) in the respective territory, is included to the local budget revenues (excluding local taxes and fees). Thus, the state supports the fiscal autonomy of local government. According to the latest amendments to the Budget Code of Ukraine dated 28 December 2014, No.79-VIII, the division into Basket One and Basket Two revenues has been abolished. These provisions came into force as of the outset of 2015.

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The amendments, associated with the entry into force of the Law of Ukraine No. 157-VIII “On voluntary association of communities”, dated from 05.02.2015, as well as of the Law of Ukraine No. 176-VIII “On Amendments to the Budget Code of Ukraine and some other legislative acts of Ukraine”, dated from 10.02.2015, have been currently introduced to the Budget Code of Ukraine. These laws, through clarifications and amendments to 23 articles of the Budget Code of Ukraine, have made coordination and implementation of the budget legislation norms with the norms of modern legislation, concerning reforms of the state system of Ukraine. The distribution system intergovernmental fiscal transfers has been replaced by a more progressive system of horizontal fiscal equalization of territories. Therefore, the revenues of local budgets are no longer divided into own and delegated, they are uniform by their managerial essence and economic content.

Budget revenues are classified according to the following sections: 1) tax revenues, 2) non-tax revenues, and 3) income from capital operations, 4) transfers.

Tax revenues mean the national taxes and fees (compulsory payments), established by the laws of Ukraine on taxation, and local taxes and fees (compulsory payments).

Non-tax revenues mean as follows: 1) revenues from property and business activity; 2) administrative charges and fees, income from non-profit entities; 3) other non-tax revenues.

Transfers mean funds, received from other state authorities, authorities of the Autonomous Republic of Crimea, local governments, other countries or international organizations on free and irrevocable basis.

Composition of revenues in the main portion is common to the budgets of republican (the Autonomous Republic of Crimea) and regional significance, the cities of Kyiv and Sevastopol, district budgets, budgets of combined territorial communities, villages, towns and cities of district significance (Appendix 1). Before these changes were introduced, separate revenue baskets had been assigned for each level of local budgets: those taken into account and disregarded when calculating inter-budget transfers. Redistribution of PIT revenues is one of the key changes.

Table 2

**Changes in Standard Ratios for Personal Income Tax**

	Old Budget Code version		New Budget Code version	
	Standard ratios	Forecast for 2015 (UAH bn)	Standard ratios	Forecast for 2015 (UAH bn)
<b>Budgets of villages, their associations, settlements, raion-significance cities (amalgamated communities)</b>	25 %	4.4	60 %	9.4
<b>Budget of oblast-significance cities</b>	75 %	25.4	60 %	17.9
<b>Kyiv city budget</b>	50 %	8.0	40 %	6.4
<b>Raion budgets</b>	50 %	8.2	60 %	8.7
<b>Oblast budgets</b>	25 %	22.0	15 %	9.0
<b>State budget</b>	50 % of revenues collected in the Kyiv city territory	8.0	60 % of revenues collected in the Kyiv city territory and 25% of revenues	24.6

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			collected in all other budgets	
<b>TOTAL</b>		<b>76.0</b>		<b>76.0</b>

However, according to Art. 64 of the Budget Code of Ukraine, the communities, which are combined in accordance with the Perspective plan (territorial communities association plan), receive a significant additional resource in the form of 60% of PIT (personal income tax), in addition to the revenue base, common to all rural budgets. Therefore, if amalgamated, communities (raion-significance cities, villages, and settlements) could change into direct inter-budget relations with the State budget and obtain the powers of oblast-significance cities (commensurate increase in the financial resource, in particular, crediting of 60% of PIT collected in the community's territory). PIT is payable at the place of company registration.

To standardize the process of association of territorial communities, the Law of Ukraine "On Voluntary Association of Territorial Communities" was adopted on 5 February 2015, No.157-VIII, as well as the Decree of the Cabinet of Ministers "On Approving the Methodology of Formation of Capable Territorial Communities" of 8 April 2015, No.214. According to these documents, the formation of capable territorial communities will be carried out pursuant to the Perspective Plan.

A Draft Perspective Plan shall be approved by the Verkhovna Rada of the Autonomous Republic of Crimea, respective oblast council, and confirmed according to the established procedure by the Cabinet of Ministers of Ukraine.

Communities of the rural (of the towns of *raion* (district) significance), which are not combined (or combined outside the Perspective plan) do not receive this type of income.

The composition of budget revenues of the city districts (in case of their creation) is determined by the city council, in accordance with the powers, assigned to city district councils. In the event the other cities, settlements or villages are subordinated administratively to a city district, the composition of budget revenues of such cities, settlements or villages is determined according to the procedure, approved by the city council, taking into account the respective powers of local councils.

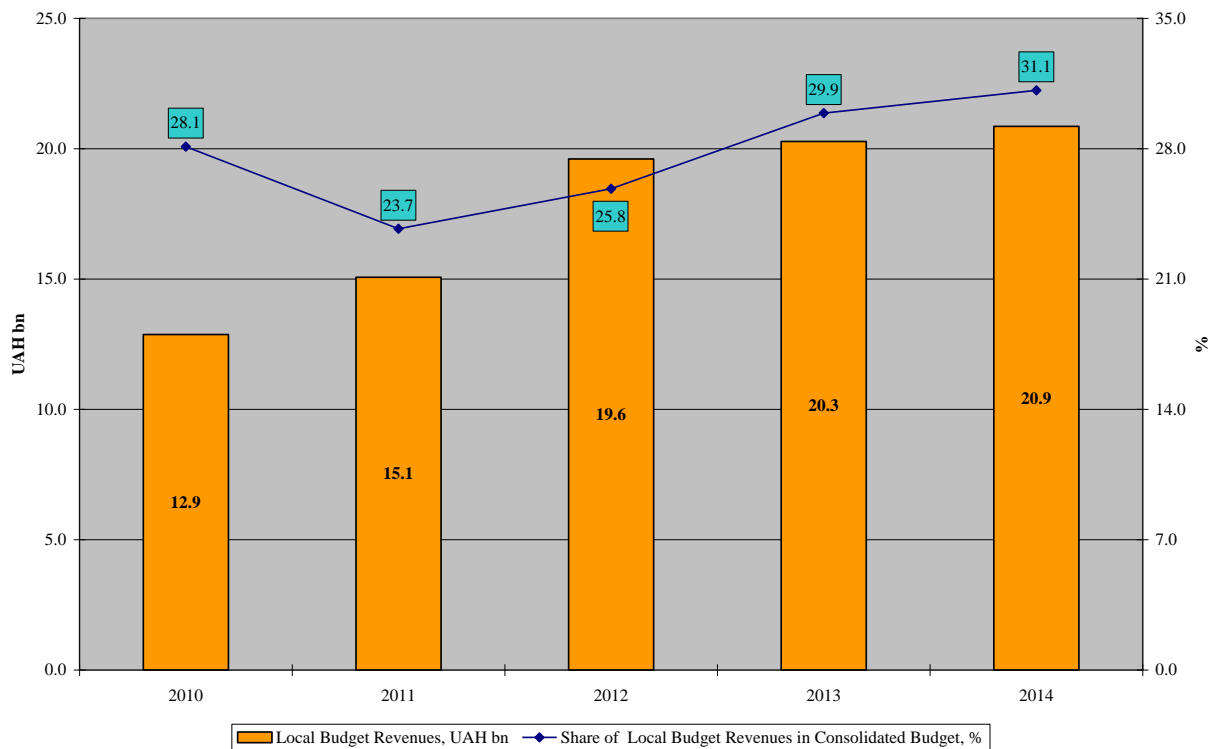
The composition of the general budget fund of the Autonomous Republic of Crimea and oblasts budgets is given in Annex 2. The revenue data of local budgets of different levels are not public data. Only the aggregate data for all local budgets combined are made public.

The General Fund serves for financing the budget expenditures against all the revenues, other than those intended for being credited to the Special Fund. This fund provides for financing the implementation of State's and territorial communities' key functions and tasks.

The Special Fund envisages targeted use of budget funds. The Special Fund comprises budget appropriations for expenditures against specifically designated sources of revenues received by spending units for a specific purpose. The budget subdivision into the General Fund and Special Fund, sources of formation of the Special Fund, decisions on setting up a Special Fund within a local budget, and transfers of funds between the General Fund and Special Fund are all carried out exclusively according to laws.

According to the existing Budget Code provisions, Special Fund revenues of local budgets are presented in Annex 3. The amounts of revenues of the Special Fund of local budgets remained virtually unchanged and amounted to about UAH 20bn in recent years.

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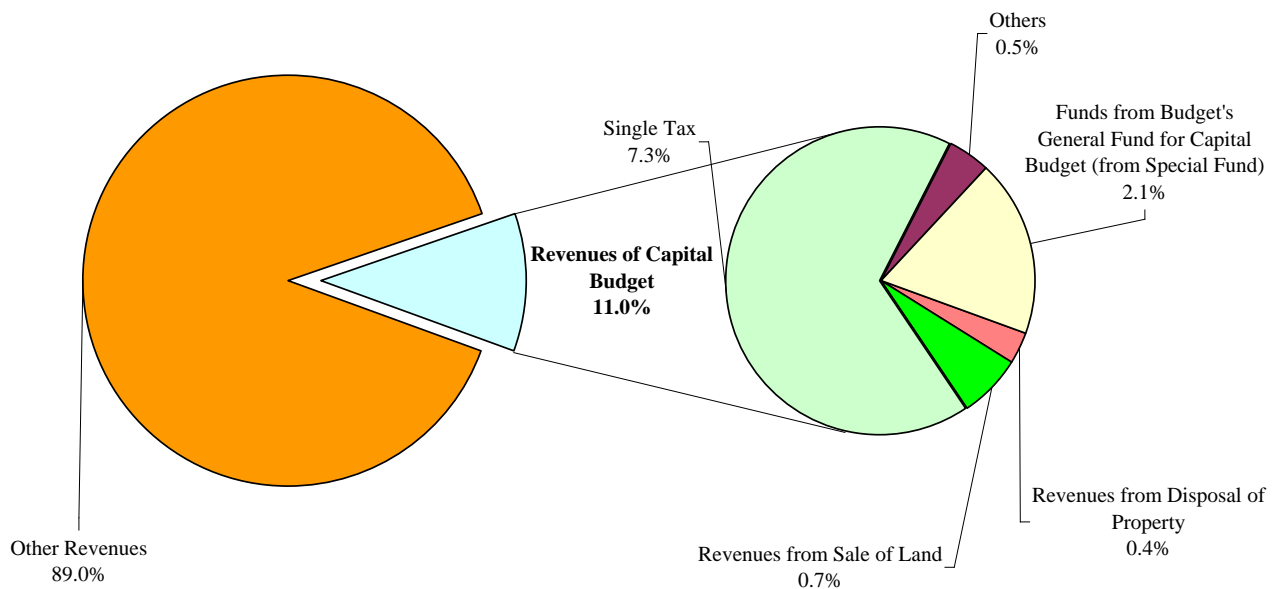


**Fig. 3. Dynamics of Special Fund Revenues of Local Budgets in 2010–2014**

Budget revenues of local budgets development (capital income) are outlined in Annex 4.

The development budget revenues of local budgets (including the funds received from the budget's General Fund into the development budget) totaled UAH 11.1bn in 2014, which is 15.9% less year-on-year.

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**Fig. 4. Share of Development Budget Revenues in Local Budget Revenues (without Inter-Budget Transfers) in 2014**

According to the old version of the Budget Code of Ukraine, the proceeds from administration of the single tax shall be remitted to the development budget as of 1 January 2011 to 1 January 2015. Based on the 2014 results, these proceeds have become the main source at 66.6% of all development budget revenues. A significant drop in the amount of development budget revenues occurred in 2015 due to exclusion of the single tax from its replenishing sources.

The second and third most important sources of revenues are the funds remitted from the budget's General Fund into the development budget (UAH 2.1bn or 18.6%) and the proceeds from sale of land (UAH 0.7bn or 6.6%).

The proceeds from the disposal of municipal property totaled UAH 0.4bn, which amounts to 3.4% of all development budget revenues.

The proceeds from other sources amounted to 4.8% of all development budget revenues of local budgets.

The income from capital transactions decreased in 2014 compared to last year. It totaled UAH 1.1bn, which is 18.4% less than in 2013. This has decreased the share of said income in the local budget revenues by 0.2ppt down to 1.1%.



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**Fig. 5. Dynamics of Income from Capital Transactions in 2009–2014**

If the law establishes a new type of local budgets revenues, its crediting is determined by the State Budget of Ukraine through the appropriate amendments to the Budget Code.

Village, settlement and city councils, within their powers, make decisions on the establishment of local taxes and fees, in the manner prescribed by the Tax Code of Ukraine. A copy of the decision on the establishment of local taxes or fees is sent within ten days from the date of its promulgation to the supervisory authority in which the payers of relevant local taxes and fees are registered. The decision on the establishment of local taxes and fees is officially promulgated by the relevant local authority before July 15 of the year, preceding the budget period, in which the application of the established local taxes and fees or amendments thereof is planned (planning period). Otherwise, the norms of relevant decisions apply until beginning of the budget period, following the planned period.

In the event that the village, settlement or city council has not taken a decision on the establishment of appropriate local taxes and fees as well as the excise tax in the implementation of the undertakings of retail trade of excisable goods, that are mandatory under the rules of this Code, such taxes, before the decision taking, are imposed on the basis of norms of this Code with the use of minimum rates, and the land fee is levied, using rates that have been enacted by 31 December of the year, preceding the fiscal period, in which it is planned to use land fees.

Aside from setting local taxes and fees, local government may not influence the taxation system. Administration of taxes and fees is conducted at the level of cities, raions, and oblasts. The rates of local taxes and fees are set for each village, settlement, and city separately.

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It should be said about the tax on real estate other than land plot. Its parameters are standardized by Art. 265 of the Tax Code of Ukraine. Taxpayers are individuals and legal entities, including non-residents, who own residential real estate.

The object of taxation is residential real estate, including its share.

The taxable base of residential real estate objects, including their shares, which are owned by individuals, is calculated by the supervisory authority, based on the data of the State Register of rights to immovable property, provided free of charge by the bodies of state registration of rights to immovable property.

The taxable base of residential real estate objects, including their shares, which are owned by legal entities, is calculated by such entities independently, based on the living space of each taxation object on the basis of documents confirming the ownership of such an object.

In the event the availability of more than taxation object in the ownership of a taxpayer - individual, including different types objects (apartments, residential buildings or apartments and residential buildings), the taxable base is calculated based on a total living space of all the objects.

The taxable base of the residential real estate object / objects, including their shares, owned by an individual – taxpayer, is reduced:

- a) for an apartment / apartments, regardless of their number – by 120 square meters;
- b) for residential building / residential buildings, regardless of their number – by 250 square meters;
- c) for of residential real estate objects of different types, including their shares (in case of simultaneous ownership by the taxpayer of apartments, residential buildings or apartments and residential buildings, including their shares), - by 370 square meters.

Such reduction is provided once for each basic tax (reporting) period (year).

The tax exemptions are not provided on the objects of taxation, used by their owners in order to obtain revenues (rented, leased, used in entrepreneurial activities).

City, settlement and village councils may establish additional tax exemptions, payable in the respective territory from residential real estate objects, owned by religious organizations of Ukraine, charters (regulations) of which are registered in accordance with the law and used for activities, provided by such charters (regulations). Until February 1 of the current year, local self-government authorities submit to the relevant supervisory authority at the location of residential real estate objects the information concerning the benefits, provided for them in accordance with the first unnumbered paragraph of this subparagraph.

The tax rates are established by the decision of village, settlement or city council as a percentage of the minimum wage, established by law on January 1 of the reporting (tax) year, for 1 square meter of taxation base. The tax rates for individuals are established in the following amounts:

- a) less than 1 percent - for apartment / apartments, living area of which does not exceed 240 square meters, or residential building / buildings, living area of which does not exceed 500 square meters;
- b) 2.7 percent - for apartment / apartments, living area of which exceeds 240 square meters, or residential building / buildings, living area of which exceeds 500 square meters;
- c) 1 percent - for different types of residential real estate objects, owned by one taxpayer, total living area of which does not exceed 740 square meters;
- d) 2.7 percent - for different types of residential real estate objects, owned by one taxpayer, total living area of which exceeds 740 square meters.

The tax rates for legal entities are established in the following amounts:

- a) 1 percent - for apartment / apartments, living area of which does not exceed 240 square meters, or residential building / buildings, living area of which does not exceed 500 square meters;
- b) 2.7 percent - for apartment / apartments, living area of which exceeds 240 square meters, or residential building / buildings, living area of which exceeds 500 square meters.

The tax liability for the reporting year is payable: a) by individuals - within 60 days from the date of

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delivery tax notification-decision; b) by legal entities – quarterly, in advance payments up to the 30<sup>th</sup> day of the month, following the reporting quarter, that is displayed in the annual tax return.

*The sources of information on local budget revenues* are as follows: the Resolution on the local budget, the explanatory note to it, reports on the implementation of these decisions, analytical and calculation tables (not unified, formed by each local budget, if necessary), financial, treasury and tax statements.

The list of public databases is determined on the basis of requirements of Art. 28 of the Budget Code of Ukraine. In particular, they include as follows:

- Information on the state (local) budget implementation should include indicators for the general and special funds on revenues (broken down by types of revenues that provide income not less than 3 percent of total revenues of the relevant budget). Such indicators are given compared with those of the corresponding period of the previous budget period, indicating the dynamics of their changes.

- The Verkhovna Rada of the Autonomous Republic of Crimea, the Council of Ministers of the Autonomous Republic of Crimea, local state administrations and local self-government authorities ensure publication of information on local budgets, including decisions on local budgets and quarterly reports on their performance. The decision on the local budget should be published no later than ten days after its adoption in the newspapers, determined by the Verkhovna Rada of the Autonomous Republic of Crimea, by the corresponding local councils.

- Information on local budgets implementation (except for the budgets of villages and settlements) shall be published no later than on March 1 of the year, following the year of the report in the newspapers, determined by the Verkhovna Rada of the Autonomous Republic of Crimea and by the corresponding local councils.

- Public presentation of information about the local budgets implementation (except for the budgets of villages and settlements), according to the indicators, on which the budgetary appropriations have been approved by the local budget, is carried out by March 20 of the year, following the reporting one.

- Public presentation of information about the villages and settlements budgets implementation is carried out in the manner determined by the relevant local council.

This Budget Code provision is fully respected, however, these data are insufficient for a full analysis. In particular, the data on execution of local budgets by region and by budget level are not made public.

<i>Strong and missing areas of local own and divided revenues</i>			
National systems, level of decentralization, with reference to the Rec (2005) No. 1.-36.; 68.-72.		Local self-government authorities: with reference to the Rec (2005) No. 9.-31.	
Area No. 1.....	Rec. (2005). No. x	Area No. 1 Tax revenues of the local budgets must be considerable	Rec. (2005). No. 9
Area No. 2.....	Rec. (2005). No. y	Area No. 2 Prevention of tax evasion	Rec. (2005). No. 18
.....		Area No. 3 Identification of the tax payers and the scope of tax payments, effectiveness of tax administration	Rec. (2005). No. 25
.....		.....	

## **Inter-budget transfers, fiscal equalization**

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In accordance with Art. 2 of the Budget Code of Ukraine, the inter-budget transfers mean funds, donated and permanently transferred from one budget to another;

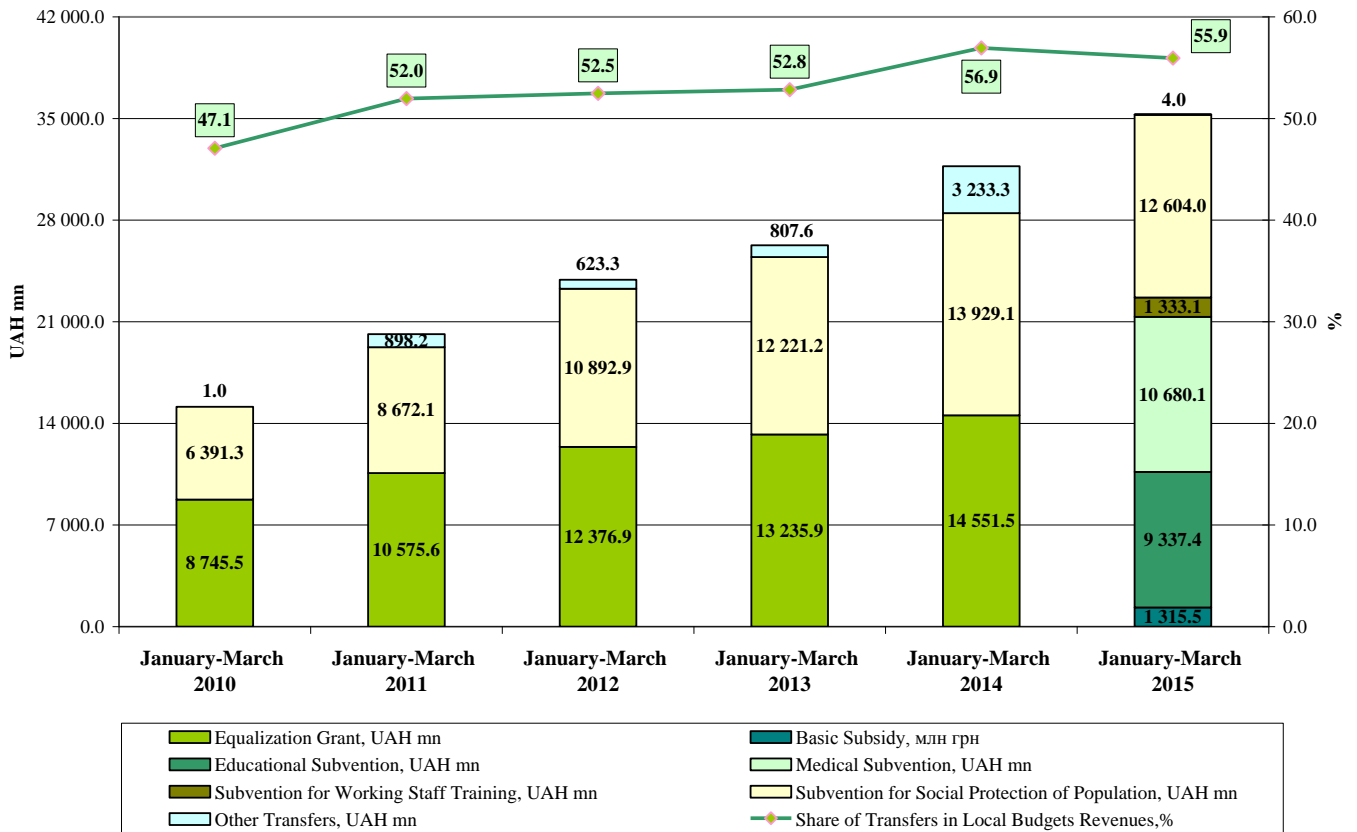
Chapter 16 of the Budget Code of Ukraine regulates relations on the formation and distribution of inter-budget transfers, which are divided as follows:

1) basic subsidy (transfer provided from the state budget to local budgets for horizontal fiscal capacity equalization of the territories); 2) subventions; 3) reverse subsidy (funds transferred to the state budget from local budgets for horizontal fiscal capacity equalization of the territories); 4) additional subsidies.

The State Budget of Ukraine may provide the transfers to local budgets as follows:

- 1) basic subsidy;
- 2) additional grants;
- 3) subventions for the government programs implementation of social protection;
- 4) additional subsidy for compensation of local budgets lost revenues due to provision of benefits, established by the state;
- 5) subvention for investment projects implementation;
- 6) educational subvention;
- 7) subvention for working staff training;
- 8) medical subsidy;
- 9) subvention for providing medical activities of individual government programs and comprehensive measures of programmatic nature;
- 10) subvention for financing of social and economic measures for the risk compensation of the population, living in the territory of the monitoring zone;
- 11) subvention for projects of liquidation of enterprises of coal and peat industry and the maintenance of drainage facilities in safe mode in co-financing (50 percent);
- 12) other additional subsidies and other subventions.

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**Fig. 6. Dynamics of State Budget Transfers to Local Budgets in Q1 2010-2015**

The procedure and conditions for granting subventions from the state budget to local budgets, first defined by the State Budget of Ukraine, shall be approved by the Cabinet of Ministers of Ukraine no later than 30 days from the date of entry into force.

The additional subsidies distribution between local governments is carried out on the basis of criteria, set by the Cabinet of Ministers of Ukraine.

The amount of inter-budget transfers is approved in the State Budget of Ukraine separately for each of the local budgets, if there are grounds for giving and receiving relevant inter-budget transfers. Any decisions on the amount of financing of transfers, their allocation and structure (within the scope established by the Budget code) shall be made by the Verkhovna Rada in the Law on the State budget of Ukraine for the respective years.

*Basic subsidies*

The horizontal fiscal capacity equalization of oblast budgets is carried out separately by income of the enterprise profit tax and of the PIT (personal income tax), taking into account the parameters as follows: 1) number of population; 2) income of the corporate profit tax, specified in paragraph 1.1 of Article 66 of this Code for the last budget reporting period; 3) income of the PIT (personal income tax), specified in paragraph

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1 of Article 66 of this Code for the last budget reporting period; 4) fiscal capacity indexes of the relevant oblast budget, determined separately by income of the corporate profit tax and of the PIT (personal income tax).

The fiscal capacity indicator of the relevant oblast budget is the coefficient that determines the level of the fiscal capacity of such a budget, in comparison with the similar average indicator for all oblast budgets in Ukraine, calculated per person. In implementing the equalization, the fiscal capacity indicator of the relevant regional budget is taken into account.

In the event that the indicator is within 0,9-1,1 - equalization is not carried out; less than 0.9 – basic subsidy is granted to appropriate regional budget in the amount of 80 percent of the amount needed to achieve the value of the security indicator of the corresponding budget - 0.9; more than 1.1 - reverse subsidy is transmitted from the respective regional budget in the amount of 50 percent of the amount that exceeds the value of the indicator 1.1.

So this different from the Oblast level equalization discussed in the previous paragraph? The horizontal fiscal capacity equalization of oblast-significance cities, raions, and combined territorial communities is only performed for PIT. The horizontal fiscal capacity equalization of the cities of regional significance, *raions* (districts) and of combined territorial communities, created under the law and perspective plan of formation of the communities' territories, is carried out, taking into account the parameters as follows: 1) number of population; 2) income of the PIT (personal income tax), specified in paragraph 1 of Article 64 of this Code for the last budget reporting period; 3) fiscal capacity indexes of the relevant budget. The fiscal capacity indicator is the coefficient that determines the level of the fiscal capacity of the consolidated budget of the city of regional significance, *raion* (district) or a combined territorial community, created under the law and perspective plan of formation of the communities' territories, in comparison with the similar average indicator for all consolidated budgets of the cities of regional significance, *raions* (districts) and combined territorial communities, created under the law and perspective plan of formation of the communities' territories, in Ukraine, calculated per person. In implementing the equalization, the fiscal capacity indicator of the relevant budget is taken into account.

In the event that the indicator is within 0,9-1,1 - equalization is not carried out; less than 0.9 – basic subsidy is granted to appropriate budget in the amount of 80 percent of the amount needed to achieve the value of the security indicator of the corresponding budget - 0.9; more than 1.1 - reverse subsidy is transmitted from the respective budget in the amount of 50 percent of the amount that exceeds the value of the indicator 1.1.

The fiscal capacity indicators of local budgets cannot be amended and reviewed more often than once a year, except for the cases as follows: allocation of new or amendments of the status of existing administrative and territorial units; amendments to location of business entities - taxpayers; adjustment of tax legislation. Changing of the amount of revenues collected of the corporate profit tax and of the PIT (personal income tax) for the relevant fiscal period should be confirmed by the tax enforcement office.

2. The Verkhovna Rada of the Autonomous Republic of Crimea and the local councils (oblast, raion, city, settlement, and village councils) can provide the following types of inter-budget transfers in the relevant budgets: 1) subventions for the maintenance of common amenities or liquidation of negative consequences of common amenities; 4) subventions for investment projects implementation, including the construction or reconstruction of common amenities; 5) subsidies and other subventions.

Terms of granting subventions, mentioned in this section, are defined by the relevant contract between the parties.



### *Subventions for social protection*

Parameters and indicators of subventions granting from the state budget to local budgets for the implementation of public social protection programs are provided in Annex 5.

Provision of state tax exemptions, reducing the incomes of local budgets, should be accompanied by additional subsidies from state budget to local budgets for appropriate compensation of losses of local budgets.

### *Educational subvention*

Educational subvention is directed for current expenditures payment of the following types of educational institutions:

- 1) general educational institutions of all levels;
- 2) school divisions of educational and pedagogic systems "preschool educational institution - general educational institution", " general educational institution - preschool educational institution";
- 3) specialized schools (boarding schools), including boarding schools with advanced study of certain subjects and courses for children depth training in science and arts, physical culture and sport and other branches, lyceums with intensive military and physical training; lyceums (lyceums – boarding schools); gymnasiums (gymnasiums – boarding schools); colleges (colleges – boarding schools);
- 4) evening (shift) schools;
- 5) general educational institutions for citizens, requiring social assistance and rehabilitation: general educational boarding schools, general sanatorium boarding schools; special boarding schools; general educational institutions for orphans and children deprived of parental care, children's homes (excluding orphanages and foster families);
- 6) special general educational institutions for children requiring correction of physical and / or mental development, training and rehabilitation centers.

In the event covering in full of the need of current expenditures for the budget period by the said subvention and in the absence of overdue debts on protected budget expenditures specified schools, this subvention may be directed to their capital expenditures.

The specified subvention may be directed for implementation of measures to optimize the network of the specified schools.

The Law on State Budget of Ukraine approve the educational subsidy amounts separately for the budget of the Autonomous Republic of Crimea, oblasts budgets and *raions* (district) budgets, as well as of the city budgets (in case of the cities of Kyiv and Sevastopol, the cities of Republican and regional significance) and the budgets of combined territorial communities, created under the law and perspective plan of formation of the communities' territories.

The educational subvention is distributed among the respective budgets, based on the formula, developed by the central executive body, to form and implement the national education policy, and is approved by the Cabinet of Ministers of Ukraine Resolution No. 6 "Some Issues of education subventions provision from the state budget to local budgets", dated from January 14, 2015, and should take into account, in particular, the following parameters: 1) number of pupils in general educational institutions in urban and rural areas, as well as in mountainous settlements; 2) class sizes; 3) revaluation adjustment coefficients, applied to the number of pupils of different types of general educational institutions and, depending on the area in which the institution is located.

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At the same time, the reserve funds, the amount of which cannot exceed 1 percent of the total subvention amount, are assumed, as part of the specified subvention, for the expenditure execution that could not be taken into account, when applying the formula.

*Subvention for working staff training*

The subvention for working staff training is directed for current expenditures payment of vocational and technical schools and other state and municipal property, which provide services on training skilled workers in terms of the state order. In the event of ensuring the need for the current expenditures for the budget period in full, at the expense of the specified subvention and in the absence of overdue indebtedness under protected budget expenditures of the specified educational institutions, this subvention may be directed to their capital expenditures. The specified subvention may be directed for implementation of measures to optimize the network of the specified educational institutions.

The subvention for working staff training is distributed among the respective budgets, based on the formula, developed by the central executive body, to form and implement the national education policy, and is approved by the Cabinet of Ministers of Ukraine Resolution No. 7, dated from January 14, 2015, and should take into account, in particular, the following parameters: 1) number of pupils, including pupils in mountainous settlements, orphans and children deprived of parental care; 2) revaluation adjustment coefficients, applied to the number of pupils of different types of general educational institutions and, depending on the area in which the institution is located.

At the same time, the reserve funds, the amount of which cannot exceed 1 percent of the total subvention amount, are assumed, as part of the specified subvention, for the expenditure execution that could not be taken into account, when applying the formula.

*Medical subvention*

Local budgets expenditures on health care are conducted at the expense of a medical subvention. The specified subvention may be directed for implementation of measures to optimize the healthcare facilities network. The Law on State Budget of Ukraine approve the medical subvention amounts separately for the budget of the Autonomous Republic of Crimea, oblasts budgets and *raions* (district) budgets, city budgets (in case of the cities of Kyiv and Sevastopol, the cities of Republican and regional significance) and the budgets of combined territorial communities, created under the law and perspective plan of formation of the communities' territories.

The medical subvention is distributed among the respective budgets, based on the formula, developed by the central executive body, to form and implement the national policy in the field of healthcare, and is approved by the Cabinet of Ministers of Ukraine Resolution No. 11 dated from January 23, 2015, and should take into account, in particular, the following parameters: 1) number of population of the corresponding administrative and territorial unit; 2) adjustment coefficients, which take into account the differences in the cost of medical care provision; 3) peculiarities of medical care provision in mountainous settlements.

At the same time, the reserve funds, the amount of which cannot exceed 1 percent of the total subvention amount, are assumed, as part of the specified subvention, for the expenditure execution that could not be taken into account, when applying the formula.

The balances of funds for the medical subvention and for the subventions for working staff training, as well as the subvention for providing medical activities of individual government programs and comprehensive measures of programmatic nature at the end of the budget period are kept in the accounts of local budgets and can be used in the next budget period, taking into account the subvention purpose,



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including for upgrading of the facilities material and technical base.

The subvention for providing medical activities of individual government programs and comprehensive measures of programmatic nature is used to implement the government programs and comprehensive measures in the field of healthcare, following directions, defined by the Cabinet of Ministers of Ukraine. The subvention for providing medical activities of individual government programs and comprehensive measures of programmatic nature is distributed among the respective budgets, based on the formula, developed by the central executive body, to form and implement the national policy in the field of healthcare, and should take into account, in particular, the following parameters: 1) number of patients; 2) number of population of the corresponding administrative and territorial unit.

*Liquidation of negative consequences of common amenities*

The subventions for the maintenance of common amenities or liquidation of negative consequences of common amenities is granted from one local budget to another to compensate for the expenditures. The conditions of the maintenance of common amenities or liquidation of negative consequences of common amenities and the subvention granting are determined on the contractual basis between the subvention grantor and its recipient.

*Capital investment grants*

The subvention granting for investment projects implementation is based upon the following basic principles: 1) the principle of objectivity and openness – the subvention recipient is determined by transparent procedures; 2) the principle of unity – the funds distribution should ensure the implementation of national values and objectives of innovation development and contribute to reducing differences in living standards in different regions of the country; 3) the principle of sustainable development – the state support providing for the territories in view of their potential; 4) the principle of targeted use of funds – the subvention is used exclusively for the purpose, specified by its grantor, subject to forecast and program documents of economic and social development of the country and of the relevant territory, government programs, the budget forecast for the next two budget periods following the planned budget period.

The subventions for investment projects implementation are granted from the state budget to local budgets taking into account such basic principles: 1) the economic efficiency of the objectives of the investment project achieving, involving the minimum amount of budgetary funds for the investment projects implementation; 2) the subvention direction exceptionally to create, increase or upgrade fixed assets of the municipal pattern of ownership (primarily, on the completion of the objects construction and reconstruction with the degree of construction readiness over 70 percent); 3) the financial security of investment projects, whose implementation period is longer than budget period with necessary financial resources of local budgets, credits (loans), attracted under the state and / or local warranty, and the subvention on their implementation throughout the implementation period; 4) level of provision with the facilities of production, communication and social infrastructure, which increases the investment attractiveness of the territory; 5) budget participation – of the subvention recipient: - for budgets of villages and their associations, settlements and towns of *raion* (district) significance - not less than 1 percent of such subvention amount;

- for the budget of the Autonomous Republic of Crimea, oblast and *raion* (district) budgets, budgets of the city of Sevastopol, of the cities of republican (the Autonomous Republic of Crimea) and oblast significance, and the budgets of combined territorial communities, created under the law and perspective plan of formation of the communities' territories - not less than 3 percent of such subvention amount;

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- for the budget of the city of Kyiv - not less than 5 percent of such subvention amount;

7) substantiation of capacity for further financing from the of local budgets of the objects of municipal property.

The distribution of the subvention for investment projects implementation carried out in the manner determined by the Cabinet of Ministers of Ukraine Resolution No. 520 "On Approval of the Procedure and Terms for granting subventions from the state budget to local budgets for investment programs (projects) implementation", dated from May 18, 2011, taking into account the tasks and activities of the state strategy of regional development, regional development strategies based on the formalized parameters, which are based on actual and forecast indicators of economic and social development of the relevant territory (the main ones are the indicators of industrial production, volume of gross agricultural production, investment in fixed assets, level of population density, unemployment rate of the population, incomes of the population per one person and the average monthly wage of employees).

All the mentioned above transfers from the state budget to local budgets are transferred from the accounts of the state budget by the Treasury Ukraine authorities to the budget of Autonomous republic of Crimea, oblast budgets, budgets of the cities of Kyiv and Sevastopol, of the cities of republican (the Autonomous Republic of Crimea) and oblast significance and the *raion* (district) budgets, other local self-governments budgets, for which the inter-budget transfers are determined in the state budget.

The procedure for the transfer of the inter-budget transfers from the state budget to local budgets, reverse subsidies, as well as the procedures of transfer of the inter-budget transfers between local budgets, is determined by the Cabinet of Ministers of Ukraine and should ensure timeliness, uniformity, guaranteeing and completeness of transferring. According to the prescription of the State Budget of Ukraine, the Treasury of Ukraine authorities carry out the transferring of basic subsidies and reverse subsidies each decade, and the transferring of the educational subvention, the subvention for working staff training and the medical subvention is carried out twice a month.

The Cabinet of Ministers of Ukraine in coordination with the Committee of the Verkhovna Rada of Ukraine on Budget can perform the distribution and redistribution of subventions and additional subsidies from the state budget to local budgets among local budgets within the limits of total amount of the relevant subventions and additional subsidies. Thus, the amount of subventions from the state budget to local budgets for the implementation of public social protection programs can be transferred in accordance with part six of Article 102 of this Code, and the amount of subventions from the state budget to local budgets for holding of deputies elections of the Verkhovna Rada of the Autonomous Republic of Crimea, local councils and village, settlement and city mayors are distributed in the manner prescribed in Article 61 of the Law of Ukraine "On the Election of Deputies of the Autonomous Republic of Crimea, local councils and village, settlement and city mayors." The peculiarities of distribution of the amounts of the educational subvention, the subvention for working staff training and the medical subvention concerning the funds reserve and redistributing of such subventions amounts among local budgets may be determined by the State Budget of Ukraine.

The local State Administration may decide on the distribution and redistribution of the transfers amounts from the state budget to local budgets between sessions of the respective local council, provided the delegation of such powers by it to the local State Administration with subsequent amendments to the decision on the local budget. Such allocation or reallocation of transfers is carried out within the amounts approved by the Law on the State budget for the respective year. Local authorities may not either increase or decrease the transfers amounts set by the Law.

*The sources of information on the inter-budget transfers are as follows: the Law on State Budget of*

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Ukraine, the Resolution on the local budget, the explanatory note to it, reports on the implementation of these decisions, analytical and calculation tables (not unified, formed by each local budget, if necessary), financial, treasury and tax statements. All the information envisaged by Article 28 BCU is public information and is promulgated.

<i>Strong and missing areas of fiscal equalization and subsidies</i>			
National systems, level of decentralization, with reference to the Rec (2005) No. 37.-67.		Local self-government authorities: with reference to the Rec (2005) No. 9.-31.	
Area No. 1.....	Rec. (2005). No. x	Area No. 1 Dependence of local budgets on intergovernmental transfers	Rec. (2005). No. 9
.....		.....	

## Local borrowing

The significance of local borrowing is determined by currently existing objective limitations of budgetary resources and systemic crisis of the state and regional institutions, which resulted in falling of economic indicators of communities in Ukraine. In this vein, the local borrowing, namely, represent an innovative tool of state administration that can reinforce the local governments' autonomy, as well as the processes of fiscal decentralization, which is the basis of modern domestic reforms.

The regulatory acts, which determine legitimization and procedures of local borrowings, include the Budget Code of Ukraine and the Cabinet of Ministers of Ukraine Resolution No. 110 "On Approving Regulation on Local Borrowings Implementation", dated from February 16, 2011, issued pursuant to the provisions of Art. 74 of the Code.

Paragraph 33 of Art. 2 of the Budget Code provides the following definition: Local borrowings mean operations on credits (loans) obtaining to the budget of the Autonomous Republic of Crimea or a local budget on terms of repayment and maturity in order to finance the budget of the Autonomous Republic of Crimea or a local budget.

Local borrowing represent a part of revenues of local budgets, therefore borrowings implementation constitute a part of the local debt management process. Local borrowing are recognized as sources of financing of the relevant budget.

The right to local borrowings implementation y within the limits, prescribed by the local budget decision, belongs to the Autonomous Republic of Crimea, the city territorial community, represented by the local financial authority on behalf of the Autonomous Republic of Crimea and the city council.

The local external borrowings can be implemented only by the Verkhovna Rada of the Autonomous Republic of Crimea, Kyiv, Sevastopol city councils and city councils of regional significance. At the same time, the local external borrowings by obtaining credits (loans) from international financial institutions can be implemented by all the city councils.

In the event of the involvement of funds from local borrowings to the development budget, the local budget can be approved with a deficit, since local debt arises from local borrowings – the total debt of the Autonomous Republic of Crimea or of the territorial community with the return of received and outstanding credits (loans) as at the reporting date.

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In order to ensure the compliance with the limit values of the local debt and local guarantees, the Ministry of Finance of Ukraine keeps the Register of local borrowings and local guarantees. The Register of local borrowings and local guarantees is an information system that provides information on the implemented local borrowing and the provided local guarantees. All local borrowing agreements and contracts, the fulfillment of the obligations under which is provided with local guarantees, and the agreements on local budget reimbursement, as well as the essential conditions amendments of such agreements, are registered in it.

Based on the provisions of Art. 71 of the Budget Code of Ukraine, local borrowing are included in the budget revenues of the local budgets development. They are implemented in order to finance the development budget of the Autonomous republic of Crimea budget or of the local budgets and are used for the creation, increase or upgrading of strategic assets of durable strategic objects or objects that ensure the compliance with the objectives of the Autonomous Republic of Crimea and local councils, aimed at meeting the interests of the Autonomous Republic of Crimea and of the territorial communities of the cities.

The amount and terms of local borrowing implementation and local guarantees providing are agreed with the Ministry of Finance of Ukraine. The amount and terms of local borrowing implementation by obtaining credits (loans) from international financial institutions local guarantees providing in order to ensure full or partial implementation of debt obligations of business entities, arising under the credits (loans) from international financial institutions, shall be deemed to be agreed if the Ministry of Finance of Ukraine decision is not taken within one month of receipt of documents for approval.

In the event that in the process of local debt repayment and payments of its maintenance, stipulated by the agreement between the lender and the borrower, the repayment schedule is disrupted by the fault of the borrower, the Verkhovna Rada of the Autonomous Republic of Crimea or the relevant city council are not entitled to carry out new local borrowing over the next five years.

It is prohibited to implement local borrowing and provide local guarantees up to decision making on the local budget for the current budget period. It is also prohibited to implement borrowing in any form to individual budget institutions.

Long term debt should not exceed 200% of the annual development budget in the next two years (400% in the case of City of Kyiv) and the debt service should be below 10% of the general fund during the entire debt service period.

At the end of the budget period, the total amount of local debt and a debt guaranteed by the Autonomous Republic of Crimea or a territorial community of a city (less the guarantee obligations emerging under credits/loans from international financial institutions) may not exceed 200% (400% for the city of Kyiv) of the average annual indicative projected amount of development budget revenues (without the amount of local borrowing and capital transfers/subventions from other budget), as determined by the forecast of the respective local budget for the two budget periods following the planning period.

<i>Strong and missing areas of regulatory acts on local borrowing</i>			
National systems, level of decentralization, with reference to the Rec (2005) No. 73.-76.		Local self-government authorities: with reference to the Rec (2005) No. 73.-76.	
Area No. 1.....	Rec. (2005). No. x	Area No. 1 Local borrowings must take place to finance development budget of the ARC and town budgets	Rec. (2005). No. 73

		Area No. 2 Discussion of the strategically documents	Rec. (2005). No. 73
....		....	

## **Management of local finances**

Among the laws of Ukraine, containing provisions that regulate local finances issues, a special place is occupied by the Law of Ukraine "On Local Self-Government in Ukraine", dated from 1997, which is the basic law on these issues. On the basis of this law, draft laws have been developed and laws have been adopted that govern separate issues functioning of local government, in particular the law of Ukraine "On elections of local councils and village, settlement and city mayors," "On citizens' appeals", "On bodies of self-organization of population", "On Associations of Citizens", "On national and local referendums" and "On voluntary association of territorial communities in Ukraine." The need for the adoption of these laws is expressly provided for in the Law of Ukraine "On Local Self-Government in Ukraine" or follows from its final and transitional provisions.

In addition, the package of legislation that make up a system of legislative support of local self-government development, of course, includes the Budget Code of Ukraine, the Economic Code of Ukraine the Tax Code of Ukraine and others.

The existence of municipal property, local budgets and local finances requires appropriate legal regulation and the presence of certain self-regulatory regime for financial and economic relations at the local level. For this purpose, various material and financial resources at the disposal of local self-government authorities in Ukraine. Through these resources, namely, the specified authorities ensure the provision of the whole complex of public services.

## **Budget process**

The budget process is aimed for their implementation, which stages are as follows: 1) drafting of the budgets projects; 2) consideration of the draft and the adoption of the Law on State Budget of Ukraine (the decision on the local budget); 3) budget implementation, including amending the law on State Budget of Ukraine (the decision on the local budget); 4) preparation and consideration of the budget implementation report and decision making on it. The monitoring of compliance with budget legislation, audit and evaluation of budget funds management in accordance with the legislation are carried out at all stages of the budget process.

The participants of the budget process are the authorities, institutions and officials, endowed with budgetary powers (rights and responsibilities of budget funds management).

The participants of the budget process, within their powers, carry out an evaluation of the budget programs efficiency, at all stages of the budget process, which provides measures for monitoring, analyze and control over the targeted and efficient use of public funds. The evaluation of the budget programs efficiency is based on the analysis of performance indicators for budget programs, as well as on other information, contained in the budget requests, cost estimates, budget program passports, reports on the budgets implementation and reports on the budget programs implementation. Organizational and methodological principles of evaluating the effectiveness of budget programs are determined by the Ministry of Finance of Ukraine.

The evaluation of the budget programs efficiency, including the conclusions of executive authorities, authorized to financial control implementation over the compliance of budget legislation, is the basis for



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making decisions on introduction, in the prescribed manner, of the amendments to the budget allocations of the current budget period, corresponding proposals to the draft budget for the planned budget period and the forecast budget for two budget periods, following the planned budget period, including the suspension of the implementation of relevant budget programs.

At present, strategic planning has been started at the level of local budgets. Thus, in accordance with the Budget Code of Ukraine, the Council of Ministers of the Autonomous Republic of Crimea, the local State Administrations and the executive bodies of local councils draw up and approve local budget forecast for the next two budget periods, following the planned budget period, in accordance with forecast and program documents of economic and social development of the country and the relevant territory, state targeted programs, based on a forecast of State Budget of Ukraine for two budget periods following the planned budget period.

The local budget forecast for two budget periods following the planned budget period includes indicative projected implementation of the local budget by main types of income, financing, expenditures and lending, indicative forecast figures of the local debt and of the debt, guaranteed by the Autonomous Republic of Crimea or a territorial community, and indicative figures for the forecast budget programs that provide a few years of implementation of investment projects.

The local budget forecast for two budget periods following the planned budget period is submitted to the Verkhovna Rada of the Autonomous Republic of Crimea, the corresponding local councils together with the draft decision on the local budget, specified on the basis of the forecast of the State Budget of Ukraine for two budget periods following the planned budget period, approved by the Cabinet of Ministers of Ukraine, and on the basis of the adopted decision on the local budget, as well as it should be approved by the Council of Ministers of the Autonomous Republic of Crimea, local state administrations and executive bodies of local councils.

Indicators of the draft local budget for the budget period following the planned, forecasted are based on indicative figures for of the local budget for two budget periods following the planned budget period.

As for the budget programs which provide implementation of investment projects for several years, including those, carried out with the assistance of state credits (loans) from foreign states, banks and international financial organizations, and identified by the State Budget Law of Ukraine (the decision on the local budget), the Cabinet of Ministers of Ukraine (Council of Ministers of the Autonomous Republic of Crimea, local state administration, executive body of the respective local council) takes measures to prioritize the budget predictions for the next budget period in the draft State Budget of Ukraine (the draft decision on local budget) for the continuation of such investment projects with the need of a phased completion and implementation of the relevant facilities.

The participants of the budget process, within their powers, carry out an evaluation of the budget programs efficiency, at all stages of the budget process, which provides measures for monitoring, analyze and control over the targeted and efficient use of public funds. The evaluation of the budget programs efficiency is based on the analysis of performance indicators for budget programs, as well as on other information, contained in the budget requests, cost estimates, budget program passports, reports on the budgets implementation and reports on the budget programs implementation. Organizational and methodological principles of evaluating the effectiveness of budget programs are determined by the Ministry of Finance of Ukraine.

### **Monitoring and audit**

The monitoring of compliance with budget legislation, audit and evaluation of budget funds management in accordance with the legislation are also carried out at all stages of the budget process.

Monitoring compliance with budget legislation is aimed at ensuring efficient and effective budget funds

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management and is carried out at all stages of the budget process by the participants in accordance with this Code and other legislation and also provides:

- 1) assessment of the budget funds management (including carrying out public financial audit);
- 2) accuracy of accounting records and the reliability of financial and budget reporting;
- 3) achievement of budgetary savings, intended use of budget funds, effectiveness and efficiency in the activities the budget funds managers, by taking reasonable management decisions;
- 4) carrying out of analysis and assessment of financial and economic activities of the budget funds managers;
- 5) prevention of violations of budget legislation and ensuring the state interests in the management of state property objects;
- 6) justification of planning the budget revenues and expenditures.

The budget funds managers, represented by their directors, organize internal control and internal audit, as well as ensure their implementation in their institutions and in subordinate budget institutions. The internal control is a set of measures, applied by the director, ensuring the compliance with the law and effectiveness of the use of budget funds, achievement of results, in accordance with the established goals, objectives, plans and budget requirements of the institution and subordinate to it budget institutions. The internal audit lies in activities of internal audit unit in the public institution, aimed at management system improving, prevention of facts of illegal, inefficient and ineffective budget funds use, occurrence of errors or other defects in the activities of the budget institution and subordinate to it budget institutions, improve internal controls. The basic principles of internal control and internal audit and the procedures for establishing internal audit units are determined by the Cabinet of Ministers of Ukraine.

The powers of state financial control bodies to monitor compliance with budget legislation includes the control exercising over:

- 1) targeted and efficient use of local budgets (including carrying out the state financial audit);
- 2) targeted use and timely repayment of credits (loans) obtained under the local warranty;
- 3) reliability of determining the need in budget funds in the preparation of the planned budget indicators;
- 4) compliance of undertaken budgetary commitments by the budget funds managers with the corresponding budget appropriations, the budget program passport (in case of program budgeting in the budget process); compliance of undertaken by the budget funds managers long-term commitments for the energy services with the terms of energy services purchase, approved in established order;
- 5) maintaining accounting records and preparation of financial and budget reporting, budget program passports and reports on their performance (in the case of program budgeting in the budget process), cost estimates and other documents used in the implementation of the budget;
- 6) state of internal control and internal audit at the budget funds managers.

### **Fiscal information systems, accounting rules**

The sum total of national and local taxes and charges levied according to the procedure established by the Tax Code of Ukraine makes up the tax system of Ukraine.

The tax system of Ukraine could be represented as three main subsystems:

- subsystem for taxation of legal entities
- subsystem for taxation of individuals
- charges of State targeted funds.

All these subsystems are closely interrelated. They consist of the same structural elements: direct taxes; indirect taxes; and other taxes and charges.

A new Tax Code of Ukraine was enacted on 1 January 2011 (dated 2 December 2010, No.2755-VI). It

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has significantly changed the system of taxation in Ukraine. The new Code voided a number of Laws of Ukraine, Decrees of the Cabinet of Ministers of Ukraine, Resolutions of the Verkhovna Rada of Ukraine, and Edicts of the President of Ukraine. The new Code has changed the number and makeup of national and local taxes and charges. According to the Tax Code, there are 11 taxes and charges, including seven national and four local ones levied in Ukraine today.

The national taxes include:

- corporate profit tax;
- personal income tax;
- value-added tax;
- excise tax;
- ecological tax;
- rent payment;
- duty.

The local taxes and charges include:

- property tax;
- single tax;
- motor vehicle parking charge;
- tourist charge.

Implementation of the national tax policy and State customs policy is entrusted to the State Fiscal Service of Ukraine (SFS). In its activities, SFS is working with the civil society institutions, ensures public participation in implementation of the State policy in the SFS activity areas, and inform the public about its operations. The SFS official website (<http://sfs.gov.ua/>) publishes information about all aspects of Ukraine's fiscal system, rules, procedures, forms, and clarifications regarding their use.

The main statutory document, which regulates the procedure of book-keeping in Ukraine, is the Law "On Accounting and Financial Reporting in Ukraine", No.996-XIV adopted on 16 July 1999. The principles and methods of accounting and financing reporting in Ukraine have been approved by the national accounting provisions/standards (AP/S). The Ukrainian standards are not contrary to international standards, and present, essentially, their individual case adapted to the specific national features of conducting business in Ukraine. These standards are intended for designating the procedure of accounting transactions of all legal entities registered in Ukraine, irrespective of their organizational and legal format and the form of ownership, as well as representative offices of foreign companies, which are required to keep accounts based on the national standards. The national accounting standards have been in use in Ukraine as of 1 January 2000. There are two National Accounting Provisions/Standards and 29 Accounting Provisions/Standards approved in Ukraine today.

The Methodological Accounting Board, an advisory body to the Ministry of Finance of Ukraine, is responsible for development of accounting standards in Ukraine.

The developed standards are approved by the Ministry of Finance, while the standards related to accounting in banks are approved by the National Bank of Ukraine.

The key documents in the system of accounting regulation in Ukraine also include a chart of accounts and its use instructions. The Methodological Accounting Board under the Ministry of Finance has approved the following:

- Chart of accounts for book-keeping of assets, capital, obligations, and business transactions of enterprises and organizations;
- Instructions for Use of the Chart of accounts for book-keeping of assets, capital, obligations, and commercial transactions of enterprises and organizations;



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- Chart of accounts for book-keeping of government-funded institutions;
- Procedure for use of the Chart of accounts for book-keeping of government-funded institutions;
- Regulation on the procedure of accounting of individual assets and transactions of State-owned and municipal enterprises, and other organizations, which own and/or use State-owned or municipal facilities;
- Chart of accounts for book-keeping at Ukrainian banks;
- Chart of accounts for book-keeping of assets, capital, obligations, and commercial transactions of small business entities.

**Transparency of budgets, reports, availability of fiscal data**

The legislative framework for ensuring budget transparency and engagement of citizens in Ukraine is represented by the following legislative and regulatory acts:

- Constitutions of Ukraine (Articles 34, 95, 97)
- Budget Code of Ukraine (Articles 7, 28)
  - *According to Article 7 of the Budget Code of Ukraine, the core principles of the budget system of Ukraine include the principles of openness and transparency;*
  - *Article 28 of the Budget Code of Ukraine guarantees availability of budget information.*
- Law of Ukraine of 2 October 1992, No. 2657-XII "On Information";
- Law of Ukraine of 21 May 1997, No. 280/97-BP "On Local Self-Government" (Articles 3, 13, 42);
- Law of Ukraine of 13 January 2011, No. 2939-VI "On Access to Public Information".

To meet the Budget Code requirements vis-à-vis availability and transparency of budget information, as well as for promoting citizen participation in the budget process, the following methods are used in Ukraine today:

- providing information about the budget and budget issues in mass media outlets;
- posting information about the budget on websites, including on officials websites of the Verkhovna Rada of Ukraine, Ministry of Finance of Ukraine, Accounting Chamber of Ukraine, and State Treasury Service of Ukraine.

In addition, a Draft Law "On Openness in Using Public Funds" No. 0949 of 27 November 2014 was developed, which envisages creation of a single web-portal on use of public funds.

This legislative draft proposes to require that the spending units of the State and local budgets, State and municipal economic entities, funds of mandatory State insurance, and Pension Fund offices shall make public on a quarterly basis, on a special unified web-portal dedicated to highlighting the use of public funds the information about any planned and actual use of public funds, in particular, under contracts and for official travel. The format for such information shall be approved by the Cabinet of Ministers of Ukraine.

A unified web-portal of using public funds shall be set up for promulgation of said information, which web-portal shall be an official State information Internet resource, which will publish information according to this Law. The information published on the unified web-portal of using public funds shall be State property and shall be available to the general public free of charge.

**Local financial management capacity**

Within the scope of their competence, local governments have the right to independently decide on any issues of local significance in order to ensure socio-economic development of their territories, with the State guaranteeing the realization of those rights by allocating financial resources for that purpose. The decisive place among the financial resources accumulated in the respective territory shall be granted to the centralized

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pool of funds, i.e., the local budget, whose amount directly determines the real scope of powers of local governments, which could be realized within the current budget period.

Local governments have their dedicated financial base. Article 142 of the Constitution states that the material and financial base of local governments shall include movable and immovable property, revenues of local budgets, other funds, land, and natural resources owned by the territorial communities of villages, settlements, cities, city districts, as well as their joint properties managed by raion and oblast councils.

Therefore, local government responsibilities include: management of the property owned by the territorial community; development, approval, and execution of its budget based on the unified tax and budget policy of Ukraine; development, approval, and implementation of local programs on the issues of socioeconomic and cultural development, rational use of natural resources, and environmental protection in accordance with national programs etc.

The Constitution grants to local governments the right to approve the budgets of relevant levels, establish local taxes and charges according to the law etc. Local councils also have the authority to approve their own budgets, which are made up of resources of the State budget of Ukraine for their appropriate distribution among territorial communities or for implementation of joint projects, and the funds attracted on contractual basis from local budgets for implementation of joint socioeconomic and cultural programs, and to supervise their implementation.

<i>Strong and missing areas of the management of local finances</i>			
National systems, level of decentralization, with reference to the Rec (2004)		Local self-government authorities: with reference to the Rec (2004)	
Area No.1.....	Rec. (2004). No. x	Area No. 1 Technical capacities for the budget drafting procedure	Rec. (2004). No. 46, 57, 58
		Area No. 2 Analytic data make the budget more understandable (transparent)	Rec. (2004). No. 47
		Area No. 3 Discussion on the preparation of decisions on implementation of investment projects and other important programs	Rec. (2004). No. 50, 59, 71
....		....	

## **Implementation of local finances benchmarking**

### 1. Information, data files for comparison

a. *Potential sources* of aggregate data and statistics, needed for local finances benchmarking research is contained in the following sources and are not limited to:

A) Normative sources of the state level:

- Legislation on legislative activities;
- Legislation on local self-government bodies activities;

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- The Tax Code of Ukraine;
- The Budget Code of Ukraine;
- Other legislation on local budgets;
- Regulations concerning local taxation;
- Regulations concerning pricing;
- The program of social and economic and cultural development of Ukraine for the planned and forecast periods;
- Regulations governing the sale of land;
- Regulations governing procurement agreements with private investors and business partners;
- CMU Resolutions, presidential decrees orders of ministries and departments;

This information is public information.

B) Normative legal acts of the local level:

- Decisions on local budgets;
- Decisions on amendments to the budget;
- Decisions of the local council concerning rates of local taxes and fees, as well as benefits;
- Regulations on the target funds establishment;
- Decision on approval of the local target and complex programs;
- Procedures and acts of local self-government bodies on issues of information technologies and their implementation;
- Programs of social and economic, and cultural development
- Strategy of the region, territory development;
- Foundations and principles of local strategies and policies;
- Regulations on the activities of local executive bodies;
- Decisions of the local council concerning allocation of funds.

The majority of this information is public information.

b. *Disaggregated information* and data on the budgets of the local self-governments, revenue sources are contained in the following sources and are not limited to:

- Audit reports and inspection acts supervisory bodies and the Accounting Chamber;
- Local tax statistics;
- Indicators of service quality;
- Budget requests of the main managers and of the local budgets managers;
- Budget program passports and reports on their implementation;
- Documents on budget issues, approved at the local level (other than regulatory acts);
- Minutes of meetings;
- National and local information systems;
- Ways and means of public information;
- Reports of the State Treasury of Ukraine, a report on the network, staff and contingents of budgetary institutions;
- Agreement on co-financing;
- Monthly budget drafting;

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- Long-term financial plan;
- Minutes of meetings of advisory committees, working groups, etc.
- Instructions for completing the budget documents for managers;
- Information on budget issues for the deputies;
- Procedure for initiating and holding consultations concerning budget hearings;
- Minutes and resolutions public hearings;
- Suggestions and calculations of financial needs for implementation of Public Private Partnership (PPP);
- Projects and reports on the implementation of PPP agreements;
- Plans for local economic development;
- Contracts with business partners in support of the infrastructure development in the region and territory;
- Educational materials that explain, in particular, the questions of conflict of interest, issues of civil servant ethics, etc.
- Provisions and reporting on the presence of conflict of interest;
- Manuals on issues of problematic situations of public procurement, accounting and reporting, with the typical situations illustration;
- Media reviews (local publications, local television and radio broadcasting);
- Internet publication;
- Digests and publications of local means of public relations;
- Records and phonograms of public discussion of the draft budget.

This information is not public information. To obtain it one will need to submit additional inquiries, which would, possibly, be processed. There is a possibility that such data will not be provided.

## 2. Problems and obstacles on the way of the implementation of local finances benchmarking

1. Despite the ongoing preparatory work before the direct site visits (analysis of the Interent resources of cities and filling of the statistical tables, developed by them), the representatives in the majority of cities are not prepared in full (no information on certain parameters). The absence of such information in one administration / department is caused by the fact, that the evaluation system of local finances encompasses almost all areas of the activities of local self-governments, and, accordingly, branching of their structural subdivisions, responsible for one or another indicator, led to delays in time in completing the questionnaire.

2. For some research indicators, there may be observed a certain lack of identity of their understanding of each region or territory. At the same time, there are indicators that illustrate significant differences and are able to distort the results of research (i.e. among them can be named "Average annual revenues from parking fees for one parking place", "The volume of tax on personal income per 1 resident of working age population, compared to the national average ", "Percentage of employees of a local self-government body and its structural subdivisions, who were trained in the previous year", "Investments amount in the main capital per resident", "A set of the budget tables with an explanation in the explanatory memorandum to the draft budget and a report on the local budget implementation", "Availability of programs to support entrepreneurship, business incubator", etc.). Such differences are characterized by the construction of a system of relations between the state and local budgets and the centralization of powers that takes a sufficient place in Ukraine.

3. According to results of evaluation and scoring, there is a threat of getting not sufficiently objective information that generally is caused by the imperfection criterial parameters of benchmarking.

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4. The general principles of the methodology and the adaptation programs (national and local) of the set of tools of local finances benchmarking should be implemented in the most appropriate method of questioning, according to the following form:

3. Further questions:

- a. government units, national agencies, independent bodies, civic organizations possibly interested in hosting the benchmarking programme

The parties interested in LFB at the central level may include the Ministry of Finance of Ukraine, Ministry of Economic Development and Trade of Ukraine, and the Ministry of Regional Development, Construction, and Housing and Communal Services of Ukraine. As regards civic organizations, the results of LFB implementation will be useful for the Association of Ukrainian Cities and the Association of Ukrainian Towns.

- b. availability of information, disaggregated data

The summarized statistical information is published on the website of the State Statistics Service of Ukraine (<http://www.ukrstat.gov.ua/>). Its territorial offices could provide a more disaggregated statistical information.

All the information on budget execution envisaged by Article 28 BCU is public information and shall be published. At the same time, the data on execution of local budgets by region and by level of budget is not made public. To obtain information for a specific local budget one will have to approach the respective local financial authority or a local office of the Treasury Service of Ukraine.

- c. publicity of and access to local internal documents (rules and procedures, resolutions, decrees, budgets, audit reports, etc.)

This information is not public information. To obtain it one will have to make additional inquiries, which might be processed. It is possible that such data will not be provided.

- d. local technical capacity to manage external evaluation of local finances

According to the existing legislative provisions, local authorities may conduct their own evaluation and analysis of the status of local finance. At the same time, the obligation to conduct such a procedure and its clear rules are not set by legislation. External evaluation is only carried out by supervisory bodies (State Financial Inspectorate of Ukraine, Accounting Chamber of Ukraine etc.). There is practically no independent evaluation of the status of local finance in Ukraine (individual instances of conducting audit of local budgets are possible, however, only "rich" cities can afford to implement such procedures).

- e. election years (parliamentary, local)

The next presidential election is scheduled for 31 March 2019.

The next election to the Verkhovna Rada of Ukraine will take place in 2019.

The next local election is scheduled for late October 2015. However, it is not yet decided whether the election will be held according to the current law on the mixed election system or a proportional system will be introduced with open lists, or the election will be moved to next spring altogether. Besides, the constitutional reform could influence the timeline and choice of the election system. For example, according to the Draft Law on amending the Constitution of Ukraine (regarding decentralization of government) No.2217 of 1 July 2015, the next scheduled local election (the election of community chairpersons, deputies of community councils, raion and oblast councils) will take place on the last Sunday in October 2017.

Guidance and programme for adapting the (national and local) LFB toolkit

- options for raising central and local government public interest for LFB

It is necessary to conduct a powerful information campaign regarding the opportunities and benefits of LFB implementation. Roundtables and trainings on LFB will need to be conducted at the central level and

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support secured from top officials of central government agencies. Without such support it will be difficult to implement a full-scale LFB implementation in Ukraine.

- major ongoing local government reform and modernization programs

Implementation of the constitutional reform with regard to decentralization of government, administrative-territorial reform (consolidation and creation of territorial communities), budget reform (a new system of inter-budget relations and distribution of powers between levels of the budget system, decentralization).

- potential partners for hosting the future LFB programme (national, local)

Such partners could include the Ministry of Finance of Ukraine, Ministry of Economic Development and Trade of Ukraine, and the Ministry of Regional Development, Construction, and Housing and Communal Services.

- potential local sources of financing LFB programme

Local budgets in Ukraine are very limited in their financial resources at present. It will be very difficult for them to find an opportunity of financing the LFB. Grant support by international donors will need to be provided for LFB implementation. If LFB demonstrates its efficiency and usefulness, then, legislative provisions could be subsequently adopted to mandate LFB implementation with appropriate financing from local budgets. However, we would like to reiterate that LFB financing from local budgets in the present environment will be very difficult (virtually impossible).



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**Annexes**



**Composition of general fund revenues of the budgets of the cities of republican (the Autonomous Republic of Crimea) and regional significance, the cities of Kyiv and Sevastopol, district budgets, budgets of combined territorial communities, villages, towns and cities of district significance**

A) Taxes:

- 40 percent of tax on personal income paid (transferred) in the territory of the city of Kyiv and credited to the budget of Kyiv; 100 percent of tax on personal income, paid (transferred) in the territory of the city of Sevastopol and credited to the budget of Sevastopol;
- The excise tax on implementation by business entities of retail trade of excisable goods, payable to the budget of the combined territorial communities and city budgets;
- 10 percent of corporate income tax (other than income tax of state-owned enterprises and tax under paragraph 18 of this Article, paragraph 1-2 of Article 66 and paragraph 2 of Article 69 of this Code), which credited to the budget of the city Kyiv;
- Corporate Income Tax and financial institutions of municipal property. Corporate income tax and financial institutions of municipal property, founded by the district and city councils, combined territorial communities, credited, respectively, to regional, municipal budgets, and the budgets of combined territorial communities;
- Property tax, payable to local self-government budgets;
- Harmonized tax, credited to local self-government budgets;
- 25 percent of the environmental tax that is paid (transferred) in the respective territory and credited to the budgets of the cities of republican (the Autonomous Republic of Crimea) and regional significance, to the budgets of combined territorial communities; 80 percent of the environmental tax that is paid (transferred), according to the Tax Code of Ukraine in the cities of Kyiv and Sevastopol and credited, accordingly, to the budgets of Kyiv and Sevastopol;

B) Non-tax revenues:

- State fee, payable to local self-government budgets on the location of committing acts and issuing documents;
- Funds from the sale of ownerless property (including such property, which has been refused by its owner or recipient), findings, inherited property (in the absence of heirs by will and by law, of removal of their right to inheritance, of rejection of their heritage, and of rejection of acceptance), property obtained by a territorial community by inheritance or gift, as well as currency values and funds, the owners of which are unknown;
- Part of the net income (profit) of municipal unitary enterprises and associations, being expropriated to the budget in the manner specified by relevant local councils;
- Penalties for violation of legislation on the patenting;
- Administrative fines and penalties for violation of legislation on production and turnover of alcohol and tobacco products payable on the location of the commitment of violation;
- Administrative penalties imposed by the local executive authorities and executive bodies of local councils or formed by them in the established order by the administrative commissions;
- Penalties, due to non-fulfillment of contracts with business entities for the purchase of goods and services at the expense of local budgets, concluded the manager of budget funds;
- Funds received from bidders, providing procurement procedures, to ensure their competitive bidding proposals that are not subject to return to these bidders in cases provided by the Law of Ukraine "On public



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procurement", in terms of implementation of procurement from the budgets of the combined territorial communities, district and city budgets;

- Funds received from the winning bidder of the procurement procedure at the conclusion of the purchase agreement, as the enforcement of this agreement, that are not subject to return the winning bidder, in terms of implementation of procurement from the budgets of the combined territorial communities, district and city budgets;

- 80 percent of funds, received by enterprises, institutions and organizations, kept by budgets of the combined territorial communities, district and city budgets, of gold, platinum, platinum group metals, precious stones, deposited in the form of scrap and waste, and 50 percent of funds received by those enterprises, institutions and organizations for silver, deposited in the form of scrap and waste;

C) Payments and fees:

- 50 percent of rent payments for special use of forest resources in the part of timber, harvested in the procedure of final felling, credited to the municipal budgets of Kyiv and Sevastopol cities;

- 50 percent of rent payments for special use of water resources (excluding rent payments for special use of water of water bodies of local significance), credited to the budgets of Kyiv and Sevastopol cities by users of water at the place of its intake;

- 25 percent of rent payments for the use of subsoil for extraction of mineral resources of national importance (excluding rent payments for use of subsoil for the extraction of oil, natural gas and gas condensate) that is included to the budgets of Kyiv and Sevastopol cities;

- Fees for the use of other natural resources, credited to the budgets of Kyiv and Sevastopol cities;

- Fees for parking vehicles, credited to the budgets of local self-government;

- Tourist tax, credited to the budgets of local self-government;

- Fees for licenses for certain types of entrepreneurial activity and certificates, issued by the district state administrations, executive bodies of local councils, which is credited, respectively, to regional budgets and the budgets of local self-government;

- Fees for licenses and certificates, credited to the budgets of Kyiv and Sevastopol cities by the licensees on the location of the activity implementation;

- Fees for the license to manufacture ethyl, cognac and fruit alcohol, rectified ethyl grape alcohol, rectified ethyl fruit alcohol, grape crude alcohol, fruit crude alcohol, alcoholic beverages and tobacco products, credited to the budgets of Kyiv and Sevastopol cities by the licensees on the location of the activity implementation;

- Fees for licenses for the right to import, export and wholesale trade of ethyl, cognac and fruit alcohol, rectified ethyl grape alcohol, rectified ethyl fruit alcohol, grape crude alcohol, fruit crude alcohol, credited to the budgets of Kyiv and Sevastopol cities by the licensees on the location of the activity implementation;

- Fees for licenses for the right to import, export of alcoholic beverages and tobacco products, credited to the budgets of Kyiv and Sevastopol cities by the licensees on the location of the activity implementation;

- Fees for state registration (except the administrative fee for the state registration of legal entities and individuals - entrepreneurs), credited to the budgets of Kyiv and Sevastopol cities;

- Fees for licenses for the right to the wholesale trade of alcoholic beverages and tobacco products, payable to the budgets of Kyiv and Sevastopol cities by the licensees on the location of the activity implementation;

- Fees for licenses for the right to the retail trade of alcoholic beverages and tobacco products, credited to the budgets of Kyiv and Sevastopol cities by the licensees on the location of the activity implementation;

- Revenues from rent for the use of property complexes and other property that is in municipal property, founded by the district and city councils and combined territorial communities;

- Rent payments for the use of subsoil for extraction of mineral resources of local importance; rent

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payments for the use of subsoil for the purposes not related to extraction of mineral resources; rent payments for special use of water of water objects of local importance; rent payments for special use of forest resources. Such payments are credited to the local budgets at the location (placement) of the natural resources and on water bodies - the place of registration of the rent taxpayer;

- Fees for placement of temporarily free funds of local budgets (excluding the funds, received by higher and vocational education institutions of depositing temporarily free budget funds, received for providing paid services, if such institutions legally have the corresponding right);

- Rent payments for the water bodies (or parts thereof) provided for use under lease by the district, Kyiv and Sevastopol city state administrations, local councils, credited, accordingly, to district budgets, local self-government budgets;

- Concession fees for municipal property objects founded by the district and city councils and combined territorial communities;

- Fees for the provision of other administrative services, charged at the place service provision;

## **Composition of general fund revenues of the budget of the Autonomous Republic of Crimea and oblast budgets**

### **A) Taxes:**

- 15 percent of tax on personal income paid (transferred) the relevant territory;
- 10 percent of corporate income tax;
- Corporate Income Tax and financial institutions of municipal property. Corporate income tax and financial institutions of municipal property, founded by the Verkhovna Rada of the Autonomous Republic of Crimea and oblast councils, credited, respectively, to the budget of the Autonomous Republic of Crimea and oblast budgets;

- The excise tax on excisable goods (products) manufactured in Ukraine, which is paid by taxpayers registered in Autonomous republic Crimea - to the budget revenues of the Autonomous Republic of Crimea;
- 55 percent the environmental tax;

### **B) Non-tax revenues:**

- Part of the net income (profit) of municipal unitary enterprises and associations, being expropriated to the budget in the manner specified by the Verkhovna Rada of the Autonomous Republic of Crimea and oblast councils;

- Administrative penalties imposed by the local executive authorities and executive bodies of local councils or formed by them in the established order by the administrative commissions;

- Penalties, due to non-fulfillment of contracts with business entities for the purchase of goods and services at the expense of the budget of the Autonomous Republic of Crimea and oblast budgets, concluded the manager of budget funds;

- Revenues from rent payments for the use of property complexes and other property that is in municipal ownership founded by the Verkhovna Rada of the Autonomous Republic of Crimea and oblast councils;

- Concession fees for communal property founded by the Verkhovna Rada of the Autonomous Republic of Crimea and oblast councils (except for concession fees referred to in paragraph 3 of Article 69-1 of this Code);

- Funds received from bidders, providing procurement procedures, to ensure their competitive bidding proposals that are not subject to return to these bidders in cases provided by the Law of Ukraine "On public procurement", in terms of implementation of procurement from the budget of the Autonomous Republic of Crimea and oblast budgets;

- Funds received from the winning bidder of the procurement procedure at the conclusion of the purchase agreement, as the enforcement of this agreement, that are not subject to return the winning bidder, in terms of implementation of procurement from the budget of the Autonomous Republic of Crimea and oblast budgets;

- 80 percent of funds, received by enterprises, institutions and organizations, kept by the budget of the Autonomous Republic of Crimea and oblast budgets, of gold, platinum, platinum group metals, precious stones, deposited in the form of scrap and waste, and 50 percent of funds received by those enterprises, institutions and organizations for silver, deposited in the form of scrap and waste;

### **C) Payments and fees:**

- 50 percent of rent payments for special use of forest resources in the part of timber, harvested in the procedure of final felling;

- 50 percent of rent payments for special use of water resources, credited to the budget of the Autonomous Republic of Crimea and oblast budgets by users of water at the place of its intake;

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- 25 percent of rent payments for the use of subsoil for extraction of mineral resources of national importance;
- Fees for the use of other natural resources, credited to the budget of the Autonomous Republic of Crimea and oblast budgets;
  - Rent payments for the water bodies (or parts thereof) provided for use under lease by the Verkhovna Rada of the Autonomous Republic of Crimea and oblast state administrations, credited, accordingly, to the budget of the Autonomous Republic of Crimea and oblast budgets;
  - Fees for placement of temporarily free funds of the budget of the Autonomous Republic of Crimea and oblast budgets (excluding the funds, received by higher and vocational education institutions of depositing temporarily free budget funds, received for providing paid services, if such institutions legally have the corresponding right);
    - Fees for licenses for certain types of entrepreneurial activity and certificates, issued by the Verkhovna Rada of the Autonomous Republic of Crimea and oblast state administrations, which is credited, respectively, to the budget of the Autonomous Republic of Crimea and oblast budgets;
    - Fees for licenses and certificates, credited to the budget of the Autonomous Republic of Crimea and oblast budgets by the licensees on the location of the activity implementation;
    - Fees for the license to manufacture ethyl, cognac and fruit alcohol, rectified ethyl grape alcohol, rectified ethyl fruit alcohol, grape crude alcohol, fruit crude alcohol, alcoholic beverages and tobacco products, credited to the budget of the Autonomous Republic of Crimea and oblast budgets by the licensees on the location of the activity implementation;
    - Fees for licenses for the right to import, export and wholesale trade of ethyl, cognac and fruit alcohol, rectified ethyl grape alcohol, rectified ethyl fruit alcohol, grape crude alcohol, fruit crude alcohol, credited to the budget of the Autonomous Republic of Crimea and oblast budgets by the licensees on the location of the activity implementation;
    - Fees for licenses for the right to import, export of alcoholic beverages and tobacco products, credited to the budget of the Autonomous Republic of Crimea and oblast budgets by the licensees on the location of the activity implementation;
    - Fees for state registration (except the administrative fee for the state registration of legal entities and individuals - entrepreneurs), credited to the budget of the Autonomous Republic of Crimea and oblast budgets;
    - Fees for licenses for the right to the wholesale trade of alcoholic beverages and tobacco products, payable to the budget of the Autonomous Republic of Crimea and oblast budgets by the licensees on the location of the activity implementation;
    - Fees for licenses for the right to the retail trade of alcoholic beverages and tobacco products, credited to the budget of the Autonomous Republic of Crimea and oblast budgets by the licensees on the location of the activity implementation.

### **Composition of special fund revenues of local budgets**

- Budget development revenues of local budgets (are defined by Part 1 of Art. 71 of the Budget Code);
- Funds from the compensation of loss of agricultural and forestry production, payable at a rate of 100 percent - to the budgets of Kyiv and Sevastopol cities, 25 percent – to the budget of the Autonomous Republic of Crimea and oblast budgets, 75 percent - to the budgets of the cities of republican (the Autonomous Republic of Crimea) and regional significance, to the budgets of combined territorial communities, created under the law and perspective plan of formation of the communities' territories, 15 percent – to the *raion* (district) budgets, 60 percent – to the budgets of towns of district importance settlements and villages;
  - Concession fees for municipal property objects that have targeted use according to law;
  - 70 percent of monetary penalties for damage caused by violation of the law on the protection of the environment as a result of economic and other activities, including: to the village, settlement and city budgets, to the budgets of combined territorial communities, created under the law and perspective plan of formation of the communities' territories - 50 percent, to the oblast budgets and to the budget of the Autonomous Republic of Crimea - 20 percent, to the budgets of Kyiv and Sevastopol cities - 70 percent;
  - Deduction of 10 percent of the cost of drinking water by the subjects of entrepreneurial activity who carry out drinking water through centralized water supply system with deviation from the relevant standards, that are credited to the budgets of cities, settlement and villages, to the budgets of combined territorial communities, created under the law and perspective plan of formation of the communities' territories;
    - Own revenues of budgetary institutions financed from the relevant local budget;
    - Targeted and voluntary contributions of enterprises, institutions, organizations and citizens in the Autonomous Republic of Crimea and local funds of environmental protection;
    - Revenues of the target funds, established by the Verkhovna Rada of the Autonomous Republic of Crimea and the local councils;
    - Subventions, provided from other budgets, at the expense specifically identified revenues of the special fund of such budgets;
    - Repayment of loans granted from local budgets;
    - Revenues, as part of aid programs and grants from international financial institutions and the European Union;

### **Budget development revenues of local budgets (capital income)**

- Dividends (income) accrued on shares (participatory interests, equity units) of economic companies in the share capital of which there is the property of the Autonomous Republic of Crimea, municipal property;
- Charges for provision of local guarantees;
- Costs of share participation in the infrastructure development of a populated place;
- 10 percent of funds from the use (sale) of manufactured products, which remain in the state property under production sharing agreements, and / or funds in the form of monetary equivalent of such a state part of production, distributed between local budgets administrative and territorial units, on whose territory the relevant subsoil area is situated, in the following proportions: 5 percent - to the budget of the Autonomous Republic of Crimea or oblast budgets; 3,5 percent - to the *raion* (district) budgets; 1,5 percent – to the city, settlement or village budget. If the subsoil area is located on the territory of several administrative and territorial units, the costs between respective local budgets are distributed within the specified ratio according to the procedure established by the Cabinet of Ministers of Ukraine;
- Proceeds from the sale of property belonging to the Autonomous Republic of Crimea, and property located in the municipal property, including funds from the sale of non-agricultural land or rights to ownership to them;
- 90 percent of funds from the sale of non-agricultural land or rights to ownership to them, which are in state ownership prior the separation of state and municipal property (other than non-agricultural land that are in state ownership, on which the facilities subject to privatization are located), while, from the sale of land plots, located on the territory of the Autonomous Republic of Crimea, 35 percent are credited to the budget of the Autonomous Republic of Crimea, 55 percent - to the village, settlement and city budgets of the Autonomous Republic of Crimea;
- Capital transfers (subventions) from other budgets;
- Funds from the repayment of loans granted from the corresponding budget and interest paid for their use;
- Local borrowings;
- Funds transferred from another part of the local budget by a decision of the Verkhovna Rada of the Autonomous Republic of Crimea, of the corresponding local council (regarding funds of the reserve fund of the local budget in terms of budget expenditures - by the decision of the Council of Ministers of the Autonomous Republic of Crimea, local state administration, the executive body of the relevant local council).



**Local budget expenditures envisaged in the legislation on social protection of population carried out at the expense subventions from the state budget to local budgets for the implementation of government programs of social protection.**

At the expense of subventions from the state budget to local budgets for provision of benefits and housing subsidies for purchasing solid and liquid household fuel and liquefied gas, privileges are granted on the basis of calculating the cost of one ton of solid fuel and a cylinder of liquefied gas per household per year, and for the persons, who have such a right under Article 48 of the Mining Law of Ukraine, an estimated cost of 3.1 tons of coal or peat briquettes for household needs per household per year. Threshold value of solid and liquid household furnace fuel and liquefied gas in the context of the Autonomous Republic of Crimea, Kyiv and Sevastopol are determined by the Cabinet of Ministers of Ukraine.

The local executive authorities and the local self-government bodies have the rights as follows:

To establish standards for increased purchasing solid and liquid household fuel and liquefied gas to persons, who are entitled to benefits and housing subsidies in accordance with the legislation at the expense and within the funds of local budgets; to provide privileges for solid and liquid household furnace fuel and liquefied bottled gas in its natural form or in cash.

Natural norms of providing the population with solid and liquid household furnace fuel and liquefied gas, according to which the population will be provided benefits and housing subsidies for reimbursement of expenses for their acquisition, approved by the Council of Ministers of the Autonomous Republic of Crimea, oblast, Kyiv and Sevastopol city state administrations within minimum norms and their value thresholds established by the Cabinet of Ministers of Ukraine, based on the amount of funds allocated for this purpose.

At the expense of subventions from the state budget to local budgets for provision of benefits and housing subsidies for electricity, natural gas, heat, water supply and drainage, rent (maintenance of houses and buildings and houses adjoining areas) removal of domestic waste and liquid sewage, housing subsidies are provided to the population and benefits to war Veterans; to persons, which are under the scope the Law of Ukraine "On Status of War Veterans, guarantees of their social protection"; to persons who have special merits before the Motherland; to widows (widowers) and parents of perished (died) persons, having special merits before the Motherland; to persons with special labor merits before the Motherland; to widows (widowers) and parents of perished (died) persons, having special labor merits before the Motherland; to victims of Nazi persecution; to Military Service Veterans; to Veterans of Internal Affairs; to Tax Police Veterans; to Veterans of the State Fire Service; to Veterans of the State Penal Service; to Veterans of Civil Protection Service; to Veterans of the State Service for Special Communications and Information Protection of Ukraine; to widows (widowers) of perished (died) Military Service Veterans, Veterans of Internal Affairs, Tax Police Veterans, Veterans of the State Fire Service, Veterans of the State Penal Service; Veterans of Civil Protection Service; Veterans of the State Service for Special Communications and Information Protection of Ukraine; to dismissed from service due to age, illness or superannuation Service personnel of the Security Service of Ukraine, to militia officers, to persons of commanding structure the Tax Police, to ordinary and officers of the State Penal Service; to persons dismissed from the Civil Protection Service due to age, illness or superannuation, and who became disabled while performance of official duties; to pensioners from among the investigators prosecutors; to children (under the age of majority) of militia personnel, officers of the Tax Police, to ordinary and officers of the State Penal Service, killed or died while performance of official duties, to disabled family members who were dependent on them; to persons discharged from military service, who became disabled while passage of military service; to parents and family members of military personnel, military personnel of the State Service for Special Communications



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and Information Protection of Ukraine, who perished (died) or went missing while passage of military service; to parents and family members of the persons of ordinary and officers of the State Penal Service, who perished (died) or went missing while performance of official duties; to rehabilitated citizens who have become disabled as a result of repression or are pensioners; to citizens affected by the Chernobyl disaster; to wives (husbands) and guardians (at the time of guardianship) of children of the deceased citizens, whose death is related to the Chernobyl catastrophe; to pensioners from among the Plant Protection specialists under part four of Article 20 of the Law of Ukraine "On Plant Protection"; to citizens in accordance with paragraph "i" part one of Article 77 of the Fundamentals of Legislation Ukraine on Health Care, part five of Article 29 of the Law of Ukraine "On Culture", part two of Article 30 of the Law of Ukraine "On Libraries and Librarianship", unnumbered paragraph one part four of Article 57 of the Law of Ukraine "On Education"; to children of war; to large families, family-type orphanages and foster families, in which, accordingly, three or more children have been living for at least one year and families (except for large families), in which, accordingly, three or more children have been living for at least one year, including those under established tutelage or guardianship.

At the expense of subventions from the state budget to local budgets for provision of benefits and housing subsidies for purchasing of solid and liquid household furnace fuel and liquefied gas housing subsidies are provided to the population and benefits to war Veterans; to persons, which are under the scope the Law of Ukraine "On Status of War Veterans, guarantees of their social protection"; to persons who have special merits before the Motherland; to widows (widowers) and parents of perished (died) persons, having special merits before the Motherland; to persons with special labor merits before the Motherland; to widows (widowers) and parents of perished (died) persons, having special labor merits before the Motherland; to victims of Nazi persecution; to Military Service Veterans; to Veterans of Internal Affairs; to Tax Police Veterans; to Veterans of the State Fire Service; to Veterans of the State Penal Service; to Veterans of Civil Protection Service; to Veterans of the State Service for Special Communications and Information Protection of Ukraine; to widows (widowers) of perished (died) Military Service Veterans, Veterans of Internal Affairs, Tax Police Veterans, Veterans of the State Fire Service, Veterans of the State Penal Service; Veterans of Civil Protection Service; Veterans of the State Service for Special Communications and Information Protection of Ukraine; to dismissed from service due to age, illness or superannuation Service personnel of the Security Service of Ukraine, to militia officers, to persons of commanding structure the Tax Police, to ordinary and officers of the State Penal Service; to persons dismissed from the Civil Protection Service due to age, illness or superannuation, and who became disabled while performance of official duties; to pensioners from among the investigators prosecutors; to children (under the age of majority) of militia personnel, officers of the Tax Police, to ordinary and officers of the State Penal Service, killed or died while performance of official duties, to disabled family members who were dependent on them; to persons discharged from military service, who became disabled while passage of military service; to parents and family members of military personnel, military personnel of the State Service for Special Communications and Information Protection of Ukraine, who perished (died) or went missing while passage of military service; to parents and family members of the persons of ordinary and officers of the State Penal Service, who perished (died) or went missing while performance of official duties; to rehabilitated citizens who have become disabled as a result of repression or are pensioners; to citizens affected by the Chernobyl disaster; to wives (husbands) and guardians (at the time of guardianship) of children of the deceased citizens, whose death is related to the Chernobyl catastrophe; to pensioners from among the Plant Protection specialists under part four of Article 20 of the Law of Ukraine "On Plant Protection"; to citizens in accordance with paragraph "i" part one of Article 77 of the Fundamentals of Legislation Ukraine on Health Care, part five of Article 29 of the Law of Ukraine "On Culture", part two of Article 30 of the Law of Ukraine "On Libraries and Librarianship", unnumbered paragraph one part four of Article 57 of the Law of Ukraine "On

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Education"; to children of war; to large families, family-type orphanages and foster families, in which, accordingly, three or more children have been living for at least one year and families (except for large families), in which, accordingly, three or more children have been living for at least one year, including those under established tutelage or guardianship, to persons who have such a right under Article 48 of the Mining Law of Ukraine; compensation to persons, who in accordance with Articles 43 and 48 of the Mining Law of Ukraine, have the right to free coal or peat briquettes for domestic needs, but living in homes with central heating.

At the expense of subventions from the state budget to local budgets for provision of benefits for communication services, other statutory benefits (except benefits to obtain drugs, prosthetic dentistry, for electricity, natural and liquefied gas for domestic purposes, solid and liquid household furnace fuel, heat, water supply and drainage, rent (maintenance of houses and buildings and houses adjoining areas) removal of domestic waste and liquid sewage for compensation for loss of income due to the abolition of tax on vehicle owners and other self-propelled machinery and a corresponding increase in excise tax on fuel and compensation for price reductions of individual categories of citizens are provided benefits to war Veterans; to persons, which are under the scope the Law of Ukraine "On Status of War Veterans, guarantees of their social protection"; to persons who have special merits before the Motherland; to widows (widowers) and parents of perished (died) persons, having special merits before the Motherland; to persons with special labor merits before the Motherland; to widows (widowers) and parents of perished (died) persons, having special labor merits before the Motherland; to victims of Nazi persecution; to Military Service Veterans; to Veterans of Internal Affairs; to Tax Police Veterans; to Veterans of the State Fire Service; to Veterans of the State Penal Service; to Veterans of Civil Protection Service; to Veterans of the State Service for Special Communications and Information Protection of Ukraine; to widows (widowers) of perished (died) Military Service Veterans, Veterans of Internal Affairs, Tax Police Veterans, Veterans of the State Fire Service, Veterans of the State Penal Service; Veterans of Civil Protection Service; Veterans of the State Service for Special Communications and Information Protection of Ukraine; to persons discharged from military service, who became disabled while passage of military service; to disabled persons, to disabled children and to persons who accompany disabled persons of the I group, or disabled children (no more than one accompanying person); to pensioners from among the investigators prosecutors; to rehabilitated citizens who have become disabled as a result of repression or are pensioners; to citizens affected by the Chernobyl disaster; to wives (husbands) and guardians (at the time of guardianship) of children of the deceased citizens, whose death is related to the Chernobyl catastrophe, to large families, family-type orphanages and foster families, in which, accordingly, three or more children have been living for at least one year and families (except for large families), in which, accordingly, three or more children have been living for at least one year, including those under established tutelage or guardianship, as well as compensatory payments are carried out by the preferential fares individual categories of citizens.

The Cabinet of Ministers of Ukraine may to redistribute subventions from the state budget to local budgets for the implementation of public social protection programs among their types and among local budgets, based on actual volumes of relevant accrued benefits and subsidies to the population within the total amount of subsidies.

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