

WAYS TO IMPROVE THE SUSTAINABILITY OF THE FINANCIAL SUPPORT SYSTEM OF UNITED TERRITORIAL COMMUNITIES

Yuliia BILYK

Postgraduate student of the Department of Accounting and Finance, National Technical University Kharkiv Polytechnic Institute, Kharkiv, Ukraine

Coordinator: Nataliia MARDUS, doctor of economics, assoc. prof.,
National Technical University Kharkiv Polytechnic Institute, Ukraine

Abstract: *At present, there is a need to improve the system of functioning of the budgets of united territorial communities: to ensure the stability of budget revenues and its sustainability. The article identifies the main sources of financial support for the development of territorial communities, which include local budget revenues, financial support of local self-government by the State and the search for additional sources of financial resources by local authorities. It is established that an important place in providing the territorial community with financial resources is played by the local budget. The main ways to improve the sustainability of the system of financial support of local budgets are proposed, which involves the use of own sources of revenues in combination with resources provided by the State support of territories and finding new sources of local revenues.*

Keywords: *local budget revenues, local self-government, territorial communities, financial support.*

Introduction. The experience of EU countries shows that local self-government is a driving force for socio-economic development. In Ukraine, it is the territorial communities that shape the development prospects based on the needs of the population, and the state should only perform protective and regulatory functions in this process. The budget of a territorial community is one of the main concepts in local finance. Through local finances, certain relations are formed between self-government bodies and virtually all enterprises and institutions located on their territory, as well as with the population of this territory.

Despite a large number of scientific studies, the issue of sustainability of financial support for local governments has not been adequately covered, and effective mechanisms for financial security of local budgets have not yet been developed.

Research results. Local budget funds play an important role in ensuring the sustainability of the territorial community with financial resources. In this regard, Lysiak L.V. and Bykov B.D. note that an increase in powers means an increase in expenditures, which requires an increase in revenues to achieve equilibrium. Strengthening of the financial potential is primarily achieved by increasing the revenue side to a level sufficient to fulfill the responsibilities. Increasing the role of local budgets makes it possible to implement the principle of bringing taxes closer to their payers, i.e., taxes are spent where they are paid [1].

Since the beginning of the financial decentralization reform, local budget revenues have shown rapid positive dynamics: while in 2014 they amounted to UAH 68.6 billion, in 2017 the general fund of local budgets (excluding transfers) received UAH 191.9 billion, which is 107% of the annual revenues as amended by local councils. By the end of 2022, the general fund of local budgets received UAH 398.1 billion, which is UAH 329.5 billion more than in 2014 and UAH 206.2 billion more than in 2017.

Such results were made possible by expanding the powers and increasing the interest of local governments in increasing local budget revenues, implementing measures to attract reserves to fill them, and improving the efficiency of tax and fee administration.

The main budget-forming tax of the general fund of local budgets is personal income tax (68.4%), which amounted to UAH 272.2 billion. One of the factors behind the growth of this tax is the increase in the rate of personal income tax to local budgets - from 60% to 64% from the beginning of 2022.

The main source of local budget revenues is taxes paid by local enterprises, organizations and institutions operating within the administrative-territorial unit. It is obvious that the insufficient level of financial resources to fulfill their own and delegated powers by local authorities is compensated by the provision of transfers from the state budget to local budgets. Thus, in 2022, transfers from the state budget to local budgets were provided in the amount of UAH 136.8 billion against intergovernmental transfers transferred to local budgets in the amount of UAH 272.9 billion in 2017 [2].

The sustainability of the system of financial support for local budgets is very important to ensure the effective and stable functioning of local governments and to ensure the development of territories [3].

However, their financial capacity is often limited, which can lead to problems with financial sustainability. One of the biggest challenges to strengthening the financial sustainability of united territorial communities is insufficient funding [4].

The main problems with the financial sustainability of united territorial communities (UTCs) budgets are:

1. Low level of tax revenues. Since UTCs are new communities, they may have low tax revenues due to the low level of business and economic development in the community.
2. Lack of entrepreneurial activity and business development in the communities. This limits opportunities for attracting investment and creating new jobs.
3. Lack of experience in financial management. Since UTCs are new communities, they may have insufficient experience in financial management, which can lead to mistakes in spending budget funds.
4. High costs of maintaining utilities, infrastructure, as well as healthcare and education. Expenditures in these areas can be significant and can have a significant impact on the financial sustainability of communities.
5. Lack of investment: Most UTCs lack sufficient investment, which leads to reduced revenues and development opportunities.

These problems may result in a decrease in the profitability of community enterprises, failure to implement social programmes and projects, and a decrease in the investment potential of the community, as investors may become convinced that it is not possible to make a profit in this community. Insufficient funding and failure to perform functions can lead to a loss of trust in the community's authorities and damage their reputation.

The main ways of improving the sustainability of the system of financial support of local budgets are proposed as follows:

1. Expanding revenue sources: It is necessary to expand the sources of local budget revenues. For example, stimulating the development of small and medium-sized businesses, developing tourism, introducing additional taxes, etc.
2. Effective expenditure management: local authorities should manage expenditures effectively. For example, reducing spending on administrative costs and increasing spending on social needs.
3. Financial control: Effective financial control should be established to prevent excessive spending and ensure the rational use of budget funds. Local authorities should ensure financial discipline and budgetary planning.
4. Ensure budgetary stability: It is important to ensure the stability of the budget system and plan budget expenditures with due regard to future risks.
5. Financial autonomy: It is necessary to ensure the financial autonomy of local budgets, in particular, by increasing their financial independence and reducing their dependence on the state budget.
6. International cooperation: International cooperation can help to solve the financial problems of local budgets, for example, by obtaining financial support from international organisations.

Conclusions. Thus, ensuring the sustainability of the system of financial support for territorial communities requires the use of their own sources of revenue in combination with the resources provided by state support for the territories, and expanding opportunities for creating new sources of local revenue. Only in this case will local governments be able to provide quality services to local residents, implement infrastructure projects, develop the social sphere, and improve the quality and standard of living of the local population.

By building their financial sustainability by increasing and diversifying their sources of financial resources, territorial communities will have real opportunities to properly exercise their own and delegated powers and address the socio-economic development of their respective territories.

References:

1. Lysiak L.V, Bykov B.D., Kushnir A.I. Zmitsnennia finansovoho potentsialu obiednanykh terytorialnykh hromad v umovakh. Financial and credit activity: problems of theory and practice Volume 2 (43), 2022 124 DOI: 10.55643/fcaptp.2.43.2022.3558 biudzhethnoi detsentralizatsii [Strengthening the financial potential of united territorial communities in the conditions of budget decentralization]. Naukovyi pohliad: ekonomika ta upravlinnia, 4 (70), 84 – 89[in Ukrainian].
2. Ministry of Finance of Ukraine. Execution of local budget revenues 2022. URL: <https://mof.gov.ua/uk/vykonannia-dokhodiv-mistsevykh-biudzhetyv>[in Ukrainian].
3. Mardus N.Y., Brick S.V. Theoretical and methodological aspects of the development of financial and economic systems . Financial and credit activity: problems of theory and practice: a collection of scientific papers. Financial and credit activity: problems of theory and practice: coll. of sci. pap.; Editor-in-chief A. Kuznetsova. Kharkiv: UBS, 2020. T. 3, № 34. C. 303-311 [in Ukrainian].
4. Kraynik O., Fedorchak O. Financing the development of territorial communities in the context of decentralization. Financial and credit activity: problems of theory and practice/ Volume 2 (43). 2022 c.118-124[in Ukrainian].