



Technical Area (Sectoral) Profile LOCAL BUDGETS AND FINANCIAL FOUNDATIONS OF LOCAL SELF-GOVERNANCE

ASSOCIATION OF UKRAINIAN CITIES
DIALOGUE Project

Technical Area (Sectoral) Profile
LOCAL BUDGETS
AND FINANCIAL FOUNDATIONS
OF LOCAL SELF-GOVERNANCE

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I. Brief description of the technical area

The local governments' authority in the area of budget and finance includes: 1) adoption and enforcement of local budgets; 2) implementation of the established procedure of revenues generation and funding of the expenditures from local budgets; 3) establishment of local taxes and fees in accordance with the Tax Code of Ukraine; 4) formation and funding of the special-purpose funds; and 5) realisation of local borrowings.

The main sources of the local budgets' income include the following: income tax on natural persons; land fee (in excess of 70% of total revenues); revenues from various dues and fees for licenses and state tax; revenues from the sales and leasing of communally-owned property; revenues from profit tax on enterprises and communally-owned financial institutions; charges for placement of temporarily surplus funds of local budgets; transfers from other budgets, primarily from the State Budget; and proper revenues of budgetary institutions and to special-purpose funds. It should be noted that local taxes and fees (flat tax, tax on immovable property as opposed to the land parcel, charges for certain types of business, fee for parking, tourist tax) constitute an insignificant share in the revenues of local budgets. Revenues are subdivided into proper revenues and those assigned to local governments. Steps on administration of taxes and fees to local budgets are performed by the State Tax Service entities.

The main areas of local expenditures are: 1) public administration; 2) public education; 3) health care; 4) social security and protection; 5) culture and arts; 6) physical education and sport; 7) utilities, road networks and transportation, landscaping; and 8) local programs of socio-economic and humanitarian development of local communities. Expenditures are subdivided into performance of their own and delegated (make up most of the cost) by the state to local government authority.

The calculation of the scope of revenues and expenditures of local budgets shall be based on a formula approved by the Cabinet of Ministers in accordance with the indicators approved by the Budget Code. Calculation of fixed revenues and expenditures for the delegated authority is performed by the Ministry of Finance of Ukraine and then the Ministry entrusts it local governments for execution. The amount of own revenues is calculated by local governments independently by the formula.

The procedure of the adoption and implementation of local budgets varies depending on the level of the local government (the status of the administrative-territorial unit). Local budgets are divided into those that have direct relations with the State Budget (oblast, rayon and budgets of cities of oblast (republican) significance, all in all 692), and those whose relationships are maintained through the budgets of higher levels (village, town, rayon-level towns via the rayon and oblast budgets). The first category of local budgets is more independent than the second.

Compliance with the budget legislation at the local government level is entrusted to the Ministry of Finance of Ukraine, the State Treasury Service of Ukraine, the State Financial Inspection of Ukraine, local state administrations, local councils and local financial authorities.

II. CURRENT LEGAL FRAMEWORK¹

Laws of Ukraine

1. Constitution of Ukraine, adopted at the Fifth Session of the Verkhovna Rada of Ukraine on June 28, 1996.
2. European Charter of Local Self-Governance of October 15, 1985, ratified by the Law of Ukraine #452/97-BP of July 15, 1997.
3. Budget Code of Ukraine #2456-VI of July 08, 2010.
4. Tax Code of Ukraine #2755-VI of December 02, 2010.
5. Civil Code of Ukraine #435-IV of January 16, 2003.
6. Land Code of Ukraine #2768-III of October 25, 2001.
7. Economic Code of Ukraine #436-IV of January 16, 2003.
8. Code of Ukraine on Mineral Wealth #132/94-BP of July 27, 1994.
9. Water Code of Ukraine #213/95-BP of June 06, 1995.
10. Forest Code of Ukraine # 3852-XII of January 21, 1994.
11. Code of Ukraine on Administrative Offences #8074-X of December 07, 1984.
12. Criminal Code of Ukraine #2341-III of April 05, 2001.
13. Code of Criminal Procedure of Ukraine, approved by the Law of the USSR of December 28, 1960.
14. Code of Administrative Justice of Ukraine # 2747-IV of July 06, 2005.
15. Law of Ukraine "On Local Self-Governance in Ukraine" #280/97-BP of May 21, 1997.
16. Law of Ukraine "On Local State Administrations" #586-XIV of April 09, 1999.
17. Law of Ukraine "On Bodies of Self-Organisation of Citizens" #2625-III of July 11, 2001.
18. Law of Ukraine "On Capital of Ukraine – Kyiv Hero City" #401-XIV of January 15, 1999.
19. Law of Ukraine "On Local Government Associations" #1275-VI of April 16, 2009.
20. Law of Ukraine "On Stimulating Development of Regions" #2850-IV of September 08, 2005.
21. Law of Ukraine "On Amending Certain Ukrainian Legislation with Regard to the Passage of the Tax Code of Ukraine" #2756-VI of December 02, 2010.
22. Law of Ukraine "On Bookkeeping and Financial Records in Ukraine" #996-XIV of July 16, 1999.

1 All legislation is provided with the amendments made

23. Law of Ukraine “On Public Procurement” #2289-VI of June 01, 2010.
24. Law of Ukraine “On Prices and Price Setting” #507-XII of December 03, 1990.
25. Law of Ukraine “On Work Compensation” #108/95-BP of March 24, 1995.
26. Law of Ukraine “On Subsistence Minimum” # 966-XIV of July 15, 1999 (laws establishing the subsistence minimum and minimum salary).
27. Law of Ukraine “On Indexation of Money Income of Population” #491-IV of February 06, 2003.
28. Law of Ukraine “On State Tax Service in Ukraine” #509-XII of December 04, 1990.
29. Law of Ukraine “On Sources to Finance the Road Network of Ukraine” of December 16, 1997 #724/97-BP.
30. Law of Ukraine “On Land Lease” of October 02, 2003 #1211-IV.
31. Law of Ukraine “On Leasing State-Owned and Communally-Owned Property” #2269-XII of April 10, 1992.
32. Law of Ukraine “On State Registration of Legal Persons and Physical Persons (Entrepreneurs)” # 755-IV of May 15, 2003.
33. Law of Ukraine “On Protecting the Environment” # 1264-XII of June 25, 1991.
34. Law of Ukraine “On the State Control and Inspection Services in Ukraine” #2939-XII of January 26, 1993.
35. Law of Ukraine “On the Accounting Chamber” # 315/96-BP of July 11, 1996.
36. Law of Ukraine “On State Social Standards and State Social Guarantees” #2017-III of October 05, 2000.
37. Laws on the State Budget for the corresponding year.

Resolutions of the Cabinet of Ministers of Ukraine

1. Resolution of the Cabinet of Ministers of Ukraine #1349 of December 03, 1997 “On Financial Support to the Activities of Local Government Bodies”.
2. Resolution of the Cabinet of Ministers of Ukraine #1149 of December 08, 2010 “Some Issues of the Distribution of Inter-Budget Transfers”.
3. Resolution of the Cabinet of Ministers of Ukraine #256 of March 04, 2002 “On Approving the Procedures for Financing Local Budget Expenditures to Implement Actions of National Social Safety Net Programs through Subventions from the State Budget”.
4. Resolution of the Cabinet of Ministers of Ukraine #318 of April 22, 2005 “On Improving the Mechanism for the Payment of Salaries and State Social Welfare to

Employees in the Public Sector”.

5. Resolution of the Cabinet of Ministers of Ukraine #1132 of December 14, 2010 “On Approving the Procedures for Calculating Inter-Budget Transfers”.
6. Resolution of the Cabinet of Ministers of Ukraine #1204 of December 29, 2010 “On Approving the Procedures for Covering the Temporary Cash Shortages of Local Budgets”.
7. Resolution of the Cabinet of Ministers of Ukraine #1203 of December 29, 2010 “On Approving the Procedures for Granting Mid-Term Loans to the Council of Ministers of the Autonomous Republic of Crimea, Local State Administrations and Executive Committees of the Corresponding Local Council and Repaying Such Loans”.
8. Resolution of the Cabinet of Ministers of Ukraine #1994 of December 24, 2003 “On Approving the Methodology for Distribution of Inter-Budget Transfers between Rayon Budgets and Budgets of Rayon Significance Cities, Villages, Towns”.
9. Resolution of the Cabinet of Ministers of Ukraine #110 of February 16, 2011 “On Approving the Procedures for Local Borrowings”.
10. Resolution of the Cabinet of Ministers of Ukraine #52 of January 19, 2011 “On Approving the Procedures for and Conditions of Granting Subventions from the State Budget to Local Budgets for Construction, Reconstruction and Capital Repairs of Communally-Owned Streets and Roads in Settlements”.
11. Resolution of the Cabinet of Ministers of Ukraine #972 of September 07, 2011 “Certain Issues Pertaining to the Distribution of the Amount of Subventions from the State Budget to Local Budgets for the Construction, Reconstruction, Repairs and Maintenance of Municipally-Owned Streets and Roads in Populated Areas”.
12. Resolution of the Cabinet of Ministers of Ukraine #106 of February 16, 2011 “Some Issues of Keeping Records of Taxes and Fees (mandatory payments) and Other Budget Revenues”.
13. Resolution of the Cabinet of Ministers of Ukraine #179 of June 20, 2011 “On Approving the Procedures for Earmarking Subventions from the State Budget to Local Budgets to Purchase Medical Equipment and Vehicles for Ambulance Service for Health Care Establishments”.
14. Resolution of the Cabinet of Ministers of Ukraine #730 of June 20, 2011 “On Approving the Procedures for Earmarking a Subvention from the State Budget to Local Budgets for the Implementation of Regional Development Priorities”.
15. Resolution of the Cabinet of Ministers of Ukraine #520 of May 18, 2011 “On Approving the Procedures and Conditions for Granting Subsidies from the State

- Budget to Local Budgets for the Implementation of Investment Programs (Projects)”.
16. Resolution of the Cabinet of Ministers of Ukraine #860 of August 10, 2011 “On Approving the Procedures for Channelling 50 Percent of Profit Tax and Excise Tax Collections above the Annual Planned Indicators to the General Fund of Local Budgets”.
17. Resolution of the Cabinet of Ministers of Ukraine #350 of March 28, 2011 “On Approving the Procedures and Conditions for Granting Subventions from the State Budget to Local Budgets to Improve the Remuneration of Medical Employees Who Render Medical Assistance to TB Patients”.
18. Resolution of the Cabinet of Ministers of Ukraine #42 of January 19, 2011 “On Approving the Procedures for and Conditions of Granting in 2011 Subventions from the State Budget to Local Budgets for Social and Economic Development of Regions”.
19. Resolution of the Cabinet of Ministers of Ukraine #184 of March 02, 2011 “On Approving the Procedures and Conditions for Granting the Subvention from the State Budget to Local Budgets to Support the Program for Social and Economic Compensation of Risks of the Citizens Who Live on the Monitored Territory”.
20. Resolution of the Cabinet of Ministers of Ukraine #165 of February 28, 2011 “On Approving the Procedures and Conditions for Granting the Subvention in 2011 from the State Budget to Local Budgets to Provide the Financial Support for the Winners of the Ukraine-Wide Competition of Local Government Development Projects and Programs”.
21. Resolution of the Cabinet of Ministers of Ukraine #59 of January 26, 2011 “On Approving the Model Specifications for Accounting Offices of the Public Institution”.
22. Resolution of the Cabinet of Ministers of Ukraine #70 of February 02, 2011 “On Approving the Procedures and Conditions for Granting the Subvention in 2012 from the State Budget to Local Budgets for Partial Compensation of Interests Incurred on Loans to Purchase the Fleet of Busses and Trolley-Buses in the Cities Hosting the Final Competitions of the European Football Cup in 2012”.
23. Resolution of the Cabinet of Ministers of Ukraine #18 of January 12, 2011 “On Approving the Procedures for Transferring of Budget Allocations and Redistribution of Budget Expenditures”.
24. Resolution of the Cabinet of Ministers of Ukraine #6 of January 12, 2011 “On Approving the Procedures for Placing Temporarily Unused Local Budget Funds on

Bank Deposits”.

25. Resolutions of the Cabinet of Ministers of Ukraine envisioning the procedures and conditions for granting in the current year subventions from the State Budget to local budgets.

Other regulations

1. #308-p of May 23, 2007 “On Approving the Concept of Local Budget Reform”.
2. Instruction of the Cabinet of Ministers of Ukraine #292-p of April 06, 2011 “On Issues Related to the Optimisation of the Number of Budget-Financed Programs”.
3. Instruction of the Cabinet of Ministers of Ukraine #598-p of September 14, 2002 “On Approving the Concept of Implementation of Performance Program Budgeting Method in the Budget Process”.
4. Instruction of the Cabinet of Ministers of Ukraine #29-p of January 19, 2011 “On Approving the Concept for Improving the Work Compensation of Public Sector Employees”.
5. Order of the Ministry of Finance of Ukraine #679 of July 09, 2010 ‘On Some Issues of Conducting an Experiment to Implement Performance Program Budgeting”.
6. Order of the Ministry of Finance of Ukraine #214 of February 21, 2011 “On Approving the Procedures for Approving Nominations for Hiring and Dismissing Chief Accountants in Budget-Financed Institutions”.
7. Order of the Ministry of Finance of Ukraine #11 of January 14, 2011 “On Budget Classification”.
8. Order of the Ministry of Finance of Ukraine #1098 of December 29, 2002 “On Budget Program Passports”.
9. Order of the Ministry of Finance of Ukraine #15 of January 14, 2001 ‘On Approving Model Performance Indicators of Budget Programs”.
10. Order of the Ministry of Finance of Ukraine #1536 of December 10, 2010 “On Indicators of Budget-Financed Institution Performance”.
11. Order of the Ministry of Finance of Ukraine #608 of May 17, 2011 “On Approving Methodology Recommendations to Conduct Performance Evaluation of Budget Programs”.
12. Order of the Ministry of Finance of Ukraine #679 of July 09, 2010 “On Approving the Rules of Putting together Profiles of Local Budget Financed Programs, Quarterly and Annual Reports on Their Implementation, monitoring and Examination of Budget Program Performance, Evaluation of Budget Program Effectiveness”.

13. Orders of the Ministry of Finance of Ukraine on approving model lists of budget-financed programs and indicators of their performance in various sectors financed by local budgets.
14. Order of the Ministry of Finance of Ukraine #574 of December 14, 2001 “On Approving the Instruction on the Status Budget Program Officers and Peculiarities of Their Participation in the Budgetary Process”.

III. KEY PROBLEM ISSUES IN THE SECTOR AND POTENTIAL WAYS TO RESOLVE THEM

#	Problem Issue	Ways to Resolve It	Notes
<i>Problems of the legal nature</i>			
1	Limited access of local budgets to loan markets.	Remove the restrictions on local government borrowings to the development part of local budgets, optimisation of the existing procedures for borrowings to local budgets. Amend the Budget Code of Ukraine and Resolution of the CMU #110 of February 16, 2011 “On Approving the Procedures for Local Borrowings”.	For the most part, the problem was resolved in the Law of Ukraine “On Amending the Budget Code of Ukraine” # 3614-VI of July 07, 2011.
2	The mechanism and timeframe of implementation of the provisions of Part Seven of Chapter VI “Closing and Transitional Provisions” of the Budget Code of Ukraine (# 2456 - VI of July 08, 2010) concerning the performing of local council executive bodies tasks of granting preferences to certain categories of citizens (in accordance with the legislation of Ukraine) though the introduction of social cards and making expenditures as stipulated by this Code solely through the use of the Unified State Automated Registry of Persons who have rights to preferences.	Make amendments to the Budget Code to determine a mechanism and timeframe to implement the provisions mentioned above, or prepare the corresponding explanation of the Ministry of Finance. Ministry of Finance of Ukraine together with the Ministry of Social Policy of Ukraine to elaborate the draft Law “On the Introduction of the Electronic Social Card” and submit it for consideration by the Verkhovna Rada of Ukraine.	The issue was partially taken into account in Resolution of the Cabinet of Ministers of Ukraine #947 (as amended) of October 11, 2010.
3	There is no mechanism specified in the legislation to provide a financial support from local budgets according Economic Classification Code 1310 to utility companies and non-governmental organisations, without including the companies and organisations mentioned above to the network of local budget fund spending units.	The Ministry of Finance should prepare the official explanation or make the corresponding amendments to the budget legislation.	

#	Problem Issue	Ways to Resolve It	Notes
4	Absence of the legislation to specify the mechanism for transferring contributions, which are to be paid to statutory funds of business entities, directly to accounts of business entities as envisioned by the Economic Classification Code of 2410 “capital transfers to enterprises (institutions, organisations)”, as well as according to the Expenditures Economic Classification Code (EECC) of 1310 “operational transfers to enterprises (institutions, organisations)”.	The Ministry of Finance should prepare the official explanation or make the corresponding amendments to the budget legislation.	
5	Imperfect mechanism of implementation of Paragraph «B» of Article 268.5.1 of the Tax Code of Ukraine, whereby a city council ordinance provides for the payment of the tourist fee to be made by legal persons or physical persons (entrepreneurs) who have been authorised by the city council for the payment of the fee according to the condition of an agreement concluded with the corresponding council.	The State Tax Service has to prepare the corresponding explanations.	
6	Improper mechanism of determining the criteria for recipients of budget services.	One should make amendments to Resolution of the CMU # 228 of February 28, 2002 to stipulate that the criteria approved by the CMU through this Resolution have a model status, as well as envision the right of local government bodies to approve the list of criteria for recipients of funds from the corresponding local budget.	

#	Problem Issue	Ways to Resolve It	Notes
7	Improper mechanism for the distribution of inter-budgetary transfers and application of adjustment rates for local budgets, failure to take into account the peculiarities of non-functional cities. This leads to the necessity to re-channel local government discretionary funds to support the implementation of the authority delegated by the central government.	The formula for the distribution of inert-budgetary transfers between the State Budget and local budgets should be amended (Resolution of the Cabinet of Ministers of Ukraine #1149 of December 08, 2010 in its part dealing with revisiting the approaches to the calculation of local government administrative expenditures; cancellation of adjustment rates for the payroll and its impact on the recovery of general local budget resources; and, application of the Alfa Equalisation Rate for each individual budget (in the range from 0.6 to 1) with due regard to the peculiarities of the revenue and expenditures parts of local budgets; to envision a separate recourse in the estimated indicator of expenditures for the education sector with the help of the ration of bringing and/or increasing the number of children covered by the pre-school education to the average level in the corresponding administrative and territorial units or to the indicator recommended by the Ministry of Education and Science, Youth and Sport of Ukraine, but not less than 60 percent.	
8	There are no conditions for placing temporary unused local budget funds on deposit accounts.	Aiming at increased profitability of transactions on placing temporary unused local budget funds, one has to establish softer requirements to the selection of banks, in particular, make softer the requirements to the amount of the bank statutory fund.	
9	The Verkhovna Rada of Ukraine passes new laws (regulations), whereby local budgets receive new authority not supported with financial resources.	Increase the legal expert control in the course of the preparation of draft laws and enhance local government lobbying efforts in the VRU.	This is also an organisational problem.

#	Problem Issue	Ways to Resolve It	Notes
10	<p>A. Streamline the list of commercial services to be rendered by public institutions through increasing the list and introducing a clear mechanism to render them.</p> <p>B. Better quality of the extra-curricular education, responsive attitude of off-school educational establishments and parents to the extra-curricula education through establishing a fee for such education and a unified list of privileged, as well as increasing the financial support for off-school educational establishments.</p>	<p>A. Increase the list of and set out a clear mechanism for payments for commercial services to be potentially rendered by educational establishments, cultural and art establishments, physical culture and sport institutions, and social protection offices.</p> <p>B. Article 26 of the Law of Ukraine “On Extra-Curricular Education” to envision the possibility for introducing a fee not only in primary specialised art schools (aesthetic schools), but in other off-school establishments as well, in particular, physical training and sport schools, coupled with the subsequent identification of the mechanism to pay the fee in the resolution of the Cabinet of Ministers of Ukraine. The resolution to envision the amount of the fee for the services rendered by public off-school educational establishments to be established based on the decision of the executive committee of the corresponding local council.</p>	
11	<p>Absence of a legal mechanism to transfer to the general fund of local budgets 50% of proceeds from the profit tax and excise fee collected above the estimated annual amounts specified in the Law on the State Budget in accordance with Part Five of Article 108 of the Budget Code of Ukraine.</p>	<p>A corresponding resolution of the CMU should be passed.</p>	<p>The problem issue has been resolved in the Resolution of the Cabinet of Ministers of Ukraine #860 of August 10, 2011.</p>
12	<p>Absence of the legislation to specify the procedures for granting subventions for the implementation of investment programs (projects) as required by Articles 107-108 of the Budget Code of Ukraine.</p>	<p>The corresponding Resolution of the Cabinet of Ministers should be approved.</p>	<p>The problem issue has been resolved in the Resolution of the Cabinet of Ministers of Ukraine #520 of May 18, 2011.</p>

#	Problem Issue	Ways to Resolve It	Notes
13	Acting in compliance with the provisions of Resolution of the Cabinet of Ministers of Ukraine #1204 of December 29, 2010 “On Approving the Procedures for Covering the Temporary Cash Shortages of Local Budgets” local budgets, in case they receive a loan, will be deprived for a year of a possibility of providing the proper financial support for other expenditures except for the earmarked ones. Even more so: it will be impossible for a year for local budgets to provide the appropriate financial support to local programs even though they have the necessary monthly collections to local budgets from their own revenues, which are take into account in planning expenditures for local programs and activities in the course of preparing local budgets.	Amend Resolution of the Cabinet of Ministers of Ukraine #1204 of December 29, 2010 to envision the reduction of daily deductions for the repayment of the debt to the level of 50-60%, as well as the selective calculation of the spending unit balance based only on the accounts used for the protected expenditures (these expenditures used for the calculation of the temporary cash shortage). Reduce the timeframe for the consideration of the local application to 1 working day.	
14	Following the approval of the Law of Ukraine “On the Court Fee” the court fee replaces the corresponding state fee. The court fee collections go to the special fund of the State Budget unlike the state fee, as some of the state fee collections go to local budgets. According to the Law, local governments are stripped of the right to set privileges and enjoy privileges with regard to the court fee exemptions they used to have. Thus, local governments lost the source of local budget revenues and have to incur additional expenditures to protect their rights in court institutions.	The problem can be resolved through amendments the Budget Code and the law on the court fee to envision the following: channelling some part of the court fee to local budgets, as well as giving preferences to local governments and exempt them from paying the court fee.	
15	Article 266 of the Tax Code of Ukraine envisions the list of special land plots allocated for parking activities is to be approved by the decision of the village, town or city council where the fee is set. Such provisions does not allow to make timely amendments to the list of land plots and is not in line with the Law of Ukraine “On Local Self-Governance in Ukraine” whose Article 28 renders the approval of the list of special land plots for parking activities to the authority of executive committees of local councils.	One should amend Article 266 of the Tax Code dealing with the approval of the list of special land plots allocated for parking activities and give this right to the executive committee of the corresponding council rather than to the village, town or city council.	

#	Problem Issue	Ways to Resolve It	Notes
<i>Problems of the financial nature</i>			
16	Failure to provide or delayed provision of the compensation from the State Budget to local budgets compensations for the difference of heating, water-supply and sewage tariffs and the service cost.	The problem can be resolved through the introduction of sanctions to state executive agencies and their officials who are responsible for violations of the obligations the state has for local governments. Make amendments to the Law of Ukraine “On the State Budget of Ukraine for 2011” to envision a subvention to compensate transfers to offset the difference of heating, water-supply and sewage tariffs and the service cost.	In 2010-2011, local budgets received 6 billion UAH in the form of transfers to resolve this problem issue. In 2012, the need constitutes 7 billion UAH. In 2012, the amendments to the State Budget for 2012 (Law #4647-VI of April 12, 2012; Draft Law with the Registration #№10395 of April 25, 2012 pending the signature of the President) envision transfers in the amount of 7 billion UAH.
17	In the course of preparations of draft laws on the State Budget of Ukraine for coming years, state executive agencies fail to pay proper attention to the need of local government bodies in the financial support of their authority.	The problem can be resolved through a stable mid-term distribution of budget resources between the State Budget of Ukraine and local budgets and introduce the corresponding provision to the Budget Code of Ukraine.	

#	Problem Issue	Ways to Resolve It	Notes
18	Insufficient own local government revenue sources to implement the own local government authority.	The following steps should be made to ensure sufficient own local government revenue sources: 1) include the land fee (land tax, rent payment for land plots, payment for the appurtenant easement) to the list of local taxes and fees and improve the order of its administration; change the tax base, tax rate and mechanism for paying the tax on real property as opposed to the land plot (all property within the jurisdiction of the local council should be taxed; the general floor space should serve as the tax base; both residential and non-residential property should be included into taxation objects; socially acceptable rates for the residential property of 0.1 to 0.5% of the minimum salary and of 1% to 1.5% should be set; reduce privileges); 3) envision the transfer of 10% to 25% of profit tax collections (except for profit tax of communally-owned companies) to the development part of local budgets; 4) expand the list of local taxes and fees (for example through the introduction of environmental fees, increasing the list of types of entrepreneurial activities subject to the corresponding local fee).. To ensure these steps one has to make the corresponding amendments to the Tax and Budget Codes of Ukraine.	

#	Problem Issue	Ways to Resolve It	Notes
19	<p>Absence of 100% financial support from the State Budget for targeted programs, in particular the State Target Energy Efficiency Economic Program for 2010-2015 (Resolution of the CMU #243 of March 01, 2010), National Target Small City Social and Economic Development Support Program for 2011-2015 (Resolution of the CMU #1090 of November 29, 2010), National City Electric Transportation Development Program for 2007-2015 (Resolution of the CMU #1855 of December 29, 2006), Nation-Wide Potable Water of Ukraine Program for 2006-2020 (Law of Ukraine of # 2455-IV March 03, 2005), Nation-Wide Program of Housing and Utility Sector Reform for 2009-2014 (Law of Ukraine # 1869-IV of June 24, 2004), etc.</p>	<p>The following will facilitate the resolution of the problem issues:</p> <ul style="list-style-type: none"> - resuming the 100% financial support from the State Budget to events under national targeted programs; - the law on the State Budget for the corresponding year to completely meet local government liabilities for expenditures financed through national targeted programs; - optimization of the number of national targeted programs. 	<p>The problem issue has been partially reflected in Draft Law #9159 of September 15, 2011 “On the National Program for Economic and Social Development of Ukraine for 2012 and main directions for development for 2013 and 2014”; Draft Law #9363 of October 30, 2011 concerning setting up the National Regional Development Fund.</p>
20	<p>The State Budget of Ukraine for 2011 envisions the 1,500.0 thousand UAH subvention to local budgets from the construction, reconstruction and capital repairs of communally-owned streets and roads. The current version of the Procedures and Conditions for the Distribution of this subvention, which was approved by Resolution of the Cabinet of Ministers of Ukraine #52 of January 19, 2011, provides a very complicated calculation mechanism and gives way for the biased approach to the distribution of the subvention funds.</p>	<p>Amend Resolution of the Cabinet of Ministers of Ukraine #52 of January 19, 2011 “On Approving the Procedures for and Conditions of Granting Subventions from the State Budget to Local Budgets for Construction, Reconstruction and Capital Repairs of Communally-Owned Streets and Roads in Populated Areas”. Amend the Law of Ukraine “On the State Budget of Ukraine for 2011” to envision the 100% compensation of local budget losses caused by the abolishment of the transportation vehicle owner tax in the Tax Code of Ukraine and to envision the direct distribution of the subvention funds between the budgets, which have direct transfer relations with the Ministry of Finance in the area of the delegated authority.</p>	<p>The problem issue has been resolved in the Law of Ukraine “On Amending the Budget Code of Ukraine #3614-VI of July 07, 2011; Law of Ukraine “On the State Budget of Ukraine for 2012” #4282-VI of December 22, 2011; and Resolution of the Cabinet of Ministers of Ukraine #972 of September 07, 2011.</p>

#	Problem Issue	Ways to Resolve It	Notes
21	Necessity of restructuring or writing off local government debts incurred on mid-term loans associated with the unrealistic local budget indicators envisioned by the Ministry of Finance.	The restructuring can be made through amendments to the CMU Resolution #1203 of December 29, 2010 “On Approving the Mechanism for granting the Council of Ministers of the Autonomous Republic of Crimea, local state administrations and executive agencies of corresponding local councils mid-term loans and repaying them”. To repay the loans one should amend the Budget Code of Ukraine (Articles 73, 97, 100), whereby to eliminate the notion of the mid-term loan and to envision an additional subvention from the State Budget with the funds of the unified treasury account in the amount of under-received revenues planned for the corresponding reporting period as envisioned by the law on the State Budget of Ukraine.	Resolution of the Cabinet of Ministers of Ukraine #1236 of November 30, 2011 “On Amending Paragraph 11 of the Procedures for Granting Mid-Term Subventions to the Council of Ministers of the Autonomous Republic of Crimea, Local State Administrations and Executive Committees of Corresponding Local Councils and Repaying Them” postpones for almost half a year the repayment of such loans (originally this was planned to accomplish up to November 1, 2011 and was postponed till April 1, 2012). This will allow to avoid increased accounts payable for most local budgets. DIALOGUE submitted the proposals for complete write off of the debt. CMU Resolution #235 of April 02, 2012 envision the postponement of the date for the repayment of mid-term loans from April to December of the current year.

#	Problem Issue	Ways to Resolve It	Notes
<i>Problems of the organisational nature</i>			
22	<p>The state fails to provide 100% financial support for the implementation of the authority delegated to local government bodies.</p>	<p>The problem issue will be resolved through developing and approving social standards for the authority delegated to local governments in rendering social services in the areas of public education, health care, culture, and social safety. This will allow to have a clear identification of the financial commitments of the central government in the sectors mentioned above.</p> <p>Also, a separate annex to the Law on the State Budget should determine the financial norm of budget sufficiency by each budget-financed sector (including the following quotas – per pupil of a comprehensive school, arts school, sport school, infant school pupils, etc.) and by each group of administrative and territorial units. At the same time, one has to identify the social programs and national social standards to be taken into account while calculating the norms, as well as regulations, which stipulates determine cost or quantitative indicators program indicators (model manning schedules, minimum nutrition cost, expenditures for medicine, classroom pupil quantity limits, etc.). The budget programs (standards), which have not been specified in the annex to the Law on the State Budget, are considered to be optional for implementation thought local budget expenditures.</p>	

#	Problem Issue	Ways to Resolve It	Notes
23	The state makes attempts to shift the load of financing nation-wide on local budgets.	<p>Streamline the list of expenditures, which are taken into account while calculating inter-budget transfers through: 1) excluding from local government expenditures the expenditures for keeping departments for labour and social safety and voter registry department (because these structural units perform exclusively the state authority) and transferring these expenditures to the State Budget; 2) transferring all out-of-school training expenditures to the State Budget (because the out-of-school training is an inalienable part of the upbringing process and has been specified in the legislation); 3) supplementing the list of social safety net and social welfare expenditures with all types of allowances and payments established (guaranteed) by the laws of Ukraine, resolutions of the Cabinet of Ministers and other state executive agencies; 4) including communally-owned zoos (there are no state-owned zoos in Ukraine whose expenditures have been envisioned by Article 89 of the Budget Code of Ukraine, therefore, presently, this provision can not be implemented).</p> <p>Streamline the list of expenditures, which are not taken into account while calculating inter-budget transfers through: 1) excluding those social safety net and social welfare programs and activities, which have been established (guaranteed) in accordance with the laws of Ukraine, resolutions of the Cabinet of Ministers and other state executive agencies (due to the overlap of expenditures, which are associated with the delegated authority and were envisioned in Article 89 of the Budget Code of</p>	This is also a legal problem.

#	Problem Issue	Ways to Resolve It	Notes
24	The state fails to keep its obligation to compensate local budget expenditures for providing privileged public transportation services to citizens, as well as to provide subsidies to low income categories of citizens for utility services.	The problem can be resolved through the introduction of sanctions to state executive agencies and their officials who are responsible for violations of the obligations the state has for local governments. Envision increased State Budget expenditures (amend the Law of Ukraine “On the State Budget of Ukraine for 2011”) for compensation for providing privileged public transportation services to certain categories of citizens, granting subsidies to low income categories of citizens for utility services, or switch over to the personalised cash allowances to be provided by the state.	In accordance with the Law on the 2012 State Budget, the amount of social subventions for these purposes was increased, however this does not provide the complete resolution of the problem issue because of the inflation. DIALOGUE submitted the proposals for switching over to the personalised cash allowances.
25	The state provides subventions to local budgets for implementation of development projects at the time when there is no time left to use these funds.	The problem can be resolved through the introduction of sanctions to state executive agencies and their officials who are responsible for violations of the obligations the state has for local governments.	
26	Imperfect mechanism for the State Treasury Service to serve the budget transactions performed by local government bodies.	The Ministry of Finance together with the State Treasury should submit to the Cabinet of Ministers their proposals on making amendments to the budget legislation in the part dealing with improvements of the mechanism of holding State Treasury officials responsible for unjustified delays in serving budget transactions performed by local government bodies. Another alternative would be to perform the transactions solely on authorisations for payment (by analogy of serving companies in commercial banks).	The Ministry set up a special working group to resolve this problem issue. DIALOGUE representatives have submitted their proposals. The discussions are currently underway.

#	Problem Issue	Ways to Resolve It	Notes
27	<p>Resolution of the Cabinet of Ministers of Ukraine #59 of January 26, 2011 “On Approving the Model Specifications for Accounting Offices of the Public Institution” and Order of the Ministry of Finance of Ukraine #214 of February 21, 2011 “On Approving the Procedures for Approving Nominations for Hiring and Dismissing Chief Accountants in Budget-Financed Institutions” envision hiring chief accountants upon the consent of the State Treasury Bodies and includes too high criteria to applicants for accountant positions. These regulatory documents make accountants of institutions in the public sector completely dependant on the corresponding territorial agency of the State Treasury and make it impossible to advocate the interests of local government public sector institutions. Besides, these requirements make a great shortage of qualified staff in this area.</p>	<p>Abolish or amend the requirements to these regulations to ensure the principle of the organisational autonomy of local governments in the course of hiring chief accountants for public sector institutions and unbiased criteria to select applicants to accountant positions.</p>	

IV. TARGET AUDIENCE

I. Entities involved in legislation drafting in the area of local budgets and financial foundations of local self-governance, members of parliament and subjects of the legislative initiative including:

1. Staff of the Secretariat of the Verkhovna Rada of Ukraine Budget Committee, Verkhovna Rada of Ukraine Committee on Finance, Banking, Tax and Customs Policy, and other Verkhovna Rada of Ukraine committees.

2. National Deputies of Ukraine.

3. Employees of the corresponding structural departments of the Administration of the President of Ukraine and Secretariat of the Cabinet of Ministers of Ukraine.

4. Members and staff of consultative and advisory agencies at the Office of the President of Ukraine, Prime Minister of Ukraine and Chairman of the Verkhovna Rada of Ukraine.

5. Staff of the Ministry of Finance of Ukraine, State Customs Service of Ukraine, State Treasury Service of Ukraine, and Accounting Chamber of Ukraine.

6. Other entities of legislation initiative and authors of draft laws.

II. Persons interested in local budget development and inter-budgetary relations issues:

1. Local government officials.

2. Members of local councils.

3. Academics.

4. Members and employees of non-governmental organisations engaged in strengthening the financial foundation of local self-governance.

5. Journalists.