

**U-LEAD**  
WITH EUROPE



НАЦІОНАЛЬНИЙ ПРОЕКТ  
**ДЕЦЕНТРАЛІЗАЦІЯ**

# **ASSESSMENT OF THE PUBLIC FINANCE MANAGEMENT SYSTEM OF AMALGAMATED HROMADAS**

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## **FINAL REPORT**

BASED ON THE RESULTS OF ASSESSMENTS CONDUCTED BY THE CENTRE OF INFORMATION AND ANALYTICAL TECHNOLOGIES ON THE REQUEST OF THE U-LEAD WITH EUROPE PROGRAMME AND MEETINGS WITH AMALGAMATED HROMADAS MANAGEMENT AND REPRESENTATIVES DURING NOVEMBER 2018 - MAY 2019



MINISTRY OF  
FOREIGN AFFAIRS  
OF DENMARK  
*Danida*



МІНІСТЕРСТВО РОЗВИТКУ  
ГРОМАД ТА ТЕРИТОРІЙ УКРАЇНИ



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Based on the results of assessments conducted by the Centre of Information and Analytical Technologies on the request of the U-LEAD with Europe programme and meetings with amalgamated hromadas management and representatives during November 2018 - May 2019

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# 1. BACKGROUND AND PURPOSE OF THE PFM ASSESSMENT

The U-LEAD with Europe Programme (Ukraine – Local Empowerment, Accountability and Development Programme) is a multi-donor action by the EU and its member states Denmark, Estonia, Germany, Poland and Sweden to support Ukraine in its movement towards more democratic, stable and prosperous future. The U-LEAD supports the decentralisation and regional policy reforms by providing legal and strategic advice on relevant legislation and policies. The U-LEAD with Europe strengthens the capacity of stakeholders in decentralisation and regional development on all levels with a primary focus on the development of hromadas and the quality of life of its citizens. Improvement of the financial management in amalgamated hromadas (hereinafter - AH) and strengthening the capacity of key actors at local level to implement local self-government reform are among the important areas of the Programme.

Based on the findings of the pilot project “Structures, instruments and procedures for local financial control in the hromadas”, the analysis of additional data and the documents afterwards, meetings with DOBRE and other donors that work at local level, the U-LEAD initiated conducting an in-depth analysis and evaluation of the current status of the local finance management system in amalgamated hromadas. The idea was to evaluate if public expenditures of AHs are well planned, executed, accounted and scrutinised.

Starting from November 2018 till March 2019 the U-LEAD with Europe Programme in collaboration with the contracted consulting company Centre of Information and Analytical Technologies and supported by the Local Self-Government Development Centres in Vinnytsia, Khmelnytskyi, Odesa, Chernihiv and Zhytomyr oblasts assessed the quality of fiscal management in 10 selected AHs, the compliance with regulatory procedures and rules, identified systematic issues that should be solved at the state level. Furthermore, practical recommendations for improving the existing financial management system, as well as minimising risks and increasing the financial capacity in AHs were developed.

Methodology for the PFM assessment was based on DOBRE methodology for the assessment of financial management in amalgamated hromadas. Thematic fields that were looked into in each of the selected hromadas included: strategic planning, budget management, including revenues collection and budget execution, accounting, asset management, procurement procedures, data flow and storage. Budget transparency and accountability issues were also studied. The assessment process consisted of several steps: preparation for the interviews in AHs during which information about AH that was available in open sources was collected and summarised; personal interviews in AHs and work with the documents (to do this, the team of experts, accompanied by local finance advisors from LGDC RCs and the U-LEAD visited each AH and worked with the Head, financial and economic departments specialists and others); preparation of the reports for each AH and collecting additional information. The final stage was the individual presentation of findings and results of the assessment to the AH management and executive bodies and its discussion, as well as development of the ways to improve financial management in AH. Therefore, during March-May 2019 the results of the assessment were presented to the AHs management and recommendations on improving and strengthening PFM in AHs were discussed.

Each AH received an in-depth report with the assessment results. The U-LEAD supported by the LGDC RC will be following up with each of them providing direct assistance in implementing the recommendations.

## 2. OVERVIEW OF THE ASSESSED AMALGAMATED HROMADAS

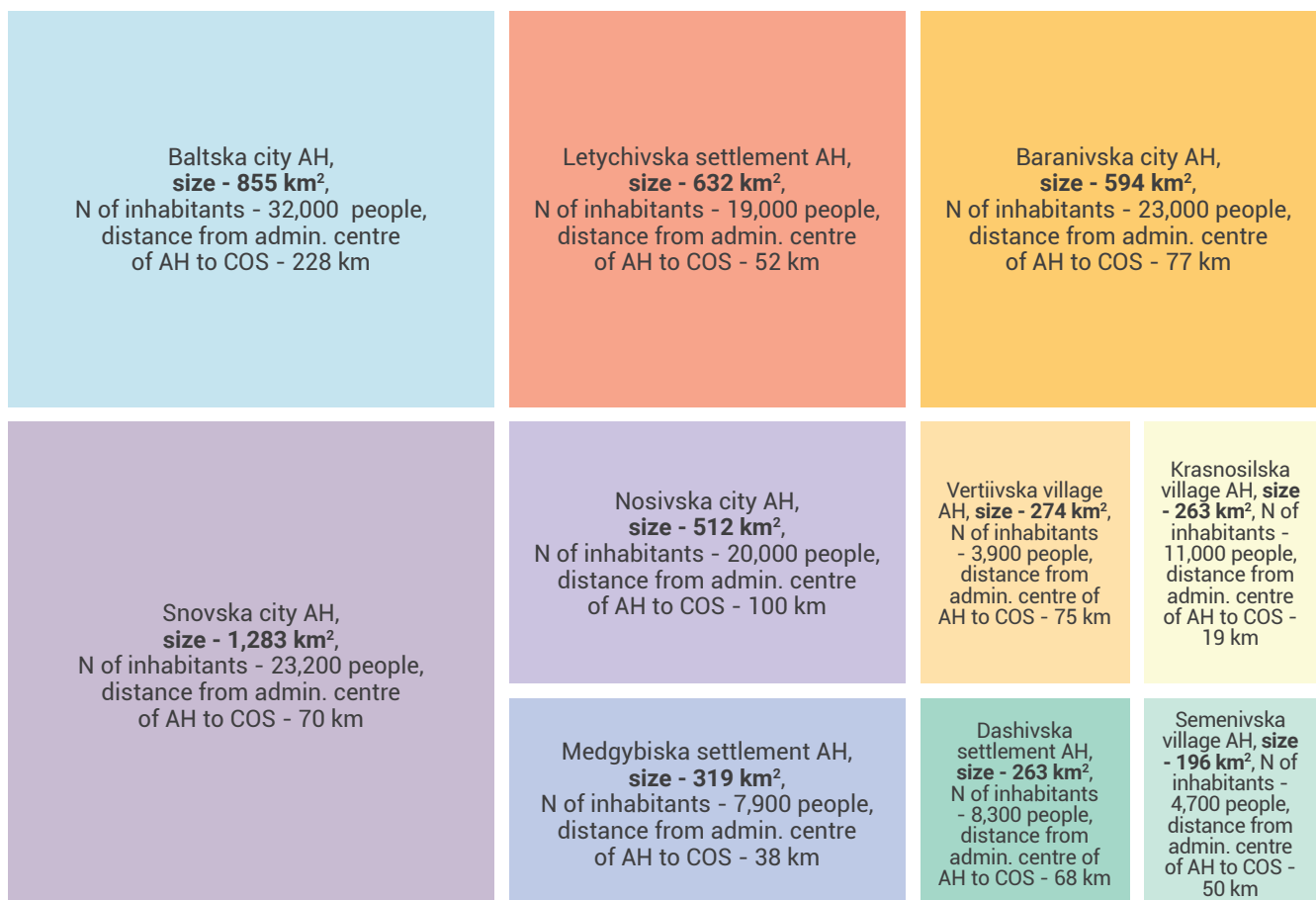
Financial management assessment was carried out in 10 amalgamated hromadas from 5 oblasts (Vinnytsia, Zhytomyr, Odesa, Chernihiv, Khmelnytskyi) during November 2018 - March 2019 and based on data for the complete years of 2016-2017 and 11 month of 2018 (where possible, data was adjusted for the complete year of 2018).

All of the assessed AHs were established in 2015-2016.

Selected AHs are from 5 different oblasts and have:

- different population (5 to 24 thousand people),
- different territory (236 to 1283 km<sup>2</sup>),
- different administrative status (village, settlement, city council),
- different distance from the AH centre to the nearest city of oblast significance (19 to 228 km)

See figure 1.



**Figure 1. Comparison of 10 AHs areas with information on population and distance from the AH administrative centre to the nearest oblast centre**

The idea of the assessment was not only to analyse the system of public finance management in AHs, but also to determine key obstacles and factors that influence the financial management efficiency in selected AHs, outline common problems that can't be solved at the hromada level by themselves and should be addressed to the state authorities. We also wanted to find out strengths

and weaknesses that are common for most of the assessed AHs, so that LGDC RCs could pay attention to that, when design trainings or consulting the representatives from other AHs.

The findings show, that although being located in different oblasts, all assessed AHs have numerous common issues with municipal infrastructure – among them are the needs for road repairs, renovation or/and construction of water supply and sewage networks, especially in village AHs,- which requires significant investments and influences on the AHs development and attractiveness to the possible investors and business. Additionally, it is worth mentioning the issue with bad roads, which are in state or oblast ownership and AHs can't invest in their repairs but suffer from these roads.

### 3. ADMINISTRATIVE STRUCTURE OF AHs

Administrative structure of AHs is more or less common, it differs in number of staff and administrative units.

Not all AHs have financial department as a separate legal entity, especially small AHs, where financial unit is usually in the structure of executive body. Only 4 of the studied AHs have a separate financial department, the main function of which is to control compliance with budgetary and financial discipline by all participants of the budget process, monitoring and analysis of budget execution, analytical work on effective spending of hromada funds and development of measures to increase revenues. Unlike the financial unit, which is a part of the executive body of amalgamated hromada, a separate financial body has more powers, including the ability to perform functions of control, development and approval of legal acts according to its competence, conduct audits of targeted and effective use of budget funds, accuracy of staff tariffication and thematic inspections in budget-financed institutions, etc. This is especially relevant for fiscal decentralisation, taking into account the high risks of inefficient use of budget funds and weak system of internal financial control in AHs. At the same time, AH management should decide if it is economically efficient to establish separate financial department (or unit), especially in small village AHs, and consider the possibility to cover these administrative costs.

Usually AHs have several key spending units. They are:

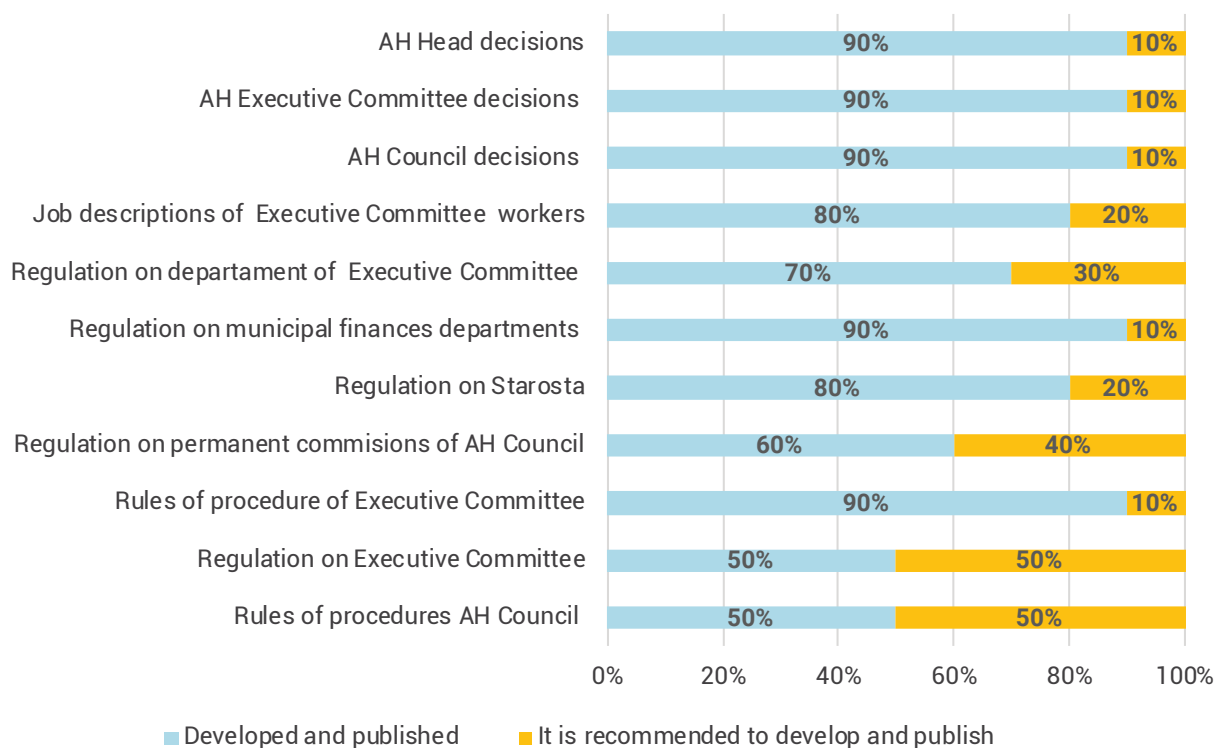
- AH council,
- Department of Education,
- Department of Culture and Tourism
- Financial department (not all of the analysed AHs have the latter).

In general, the hromadas visited have done quite well after the amalgamation and rather quickly established the necessary administrative structures and workflows, but they still lack sound and professional financial management to cope with the obstacles coming from the altered conditions as an amalgamated municipality; the work of AH administrative staff is dominated by the day-to-day tasks.

## 4. STRATEGIC PLANNING IN AHs

All assessed AHs have Socio-economic development programmes available on AHs webpages, as well as "Hromada Passport", which usually include relevant data (for 2017 or 2018 years). A Strategy for AH development has already been developed in 7 AHs; in other AHs it is still being developed. The strategies were developed in close collaboration with civil society (active citizens) and business entities. In most cases strategic documents are only formally reflected in the budgets (are not actually used in budget process). AH management should pay more attention to the planning system in AHs. The AH Development Strategy, Hromada socio-economic development programme and local target programmes should be interlinked with and reflected in the hromada budget indicators.

In assessed AHs all necessary documents that regulate administrative management procedures are available, but not all of the documents are published on the amalgamated hromadas websites (fig. 2).



**Figure 2. Availability of AH administrative management documents on AHs websites**

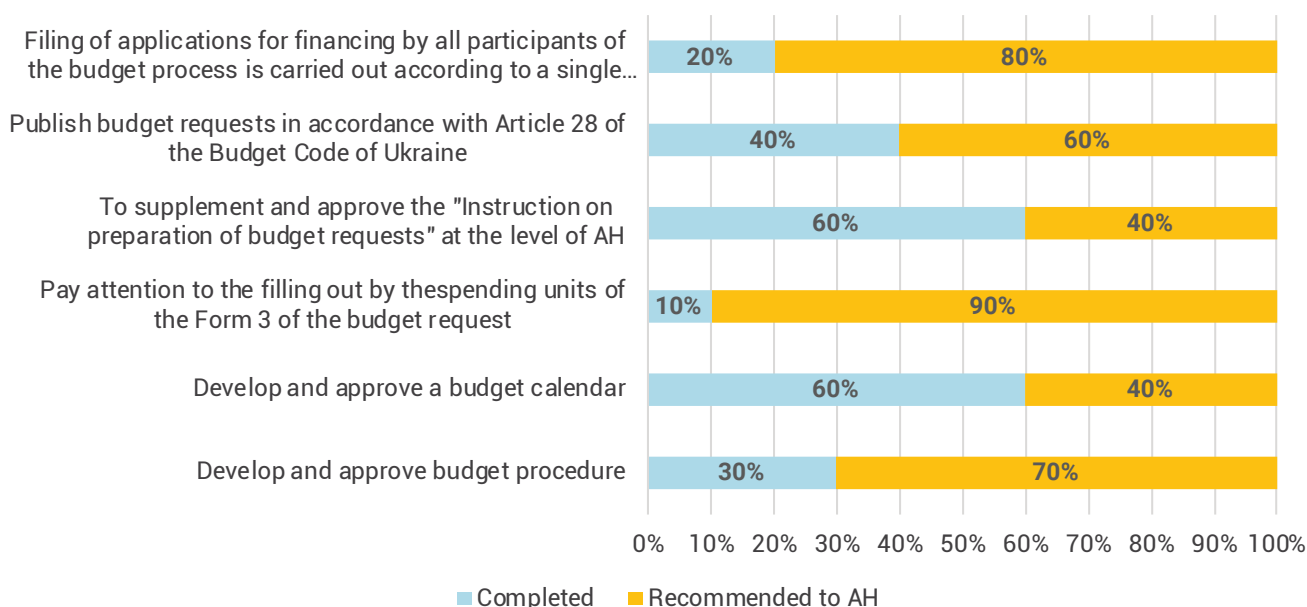
Almost all AHs publish decisions of the amalgamated hromada council, decisions of the executive committee and decisions of the AH head, which means that AHs management tries to be transparent.

## 5. BUDGET MANAGEMENT IN AMALGAMATED HROMADAS

As the result of the assessments it became clear that the AHs lack methodological guidance and experience especially regarding planning, budget execution, accounting and financial supervision. Analysis of the necessary budget process documents in amalgamated hromadas showed the absence of an approved budget regulation in 70% of the amalgamated hromadas and the absence of an approved budget calendar in 40% of the AHs.

Almost all AHs are recommended to pay attention to Form #3<sup>1</sup> of the budget request by the State Treasury Service of Ukraine.

More than half of the amalgamated hromadas do not publish budget requests, budget programmes passports and budget programme execution reports according to art. 28 of the Budget Code of Ukraine (fig. 3). Therefore, they are recommended to do this, because aforementioned information should be substantiated and used in the process of budget execution, particularly during the distribution of available remaining funds and funds received as a result of overfulfilling the budget revenue part.



**Figure 3. Overview of the availability of documents regulating the budget process in amalgamated hromada**

All 10 AHs use the programme target method of budgeting for planning and execution of hromadas budget (programme budgeting), as required by the legislation. However, financial staff of AHs perceive this method as an additional workload, rather than an effective method of financial management. Most hromadas use only standard performance (result) indicators (KPI) approved by the CMU, which may not take into account local conditions and may not always be able to appraise the achievement of the results provided by the programme. The result indicators of budget programmes very often do not give the possibility to evaluate real efficiency of budget expenditures of different budget programmes, in most cases are formal in nature and do not reflect specifics of different budget branches in AHs. For example, one of the result indicators in one of the budget programmes is the number of orphans in AH. Therefore, if the AH estimates there would be 7 orphans, but in fact there would be 5, it would mean that the plan indicator is not achieved, but it wouldn't mean that AHs functions were inefficient. The approach to programme budgeting and understanding its essence and real objective should be changed as well as the result indicators should be improved according to specifics of different programmes and functions.

<sup>1</sup> It is a form of additional budget requests (approved by MinFin Oder #648 of 17.07.2015, with latest updates. The main spending units of the local budget organise and ensure the preparation of the budget request by programme target method, with the participation of all lower-level spending units and recipients of funds, and submit it to the financial department of the city council in hard copy and electronic forms.

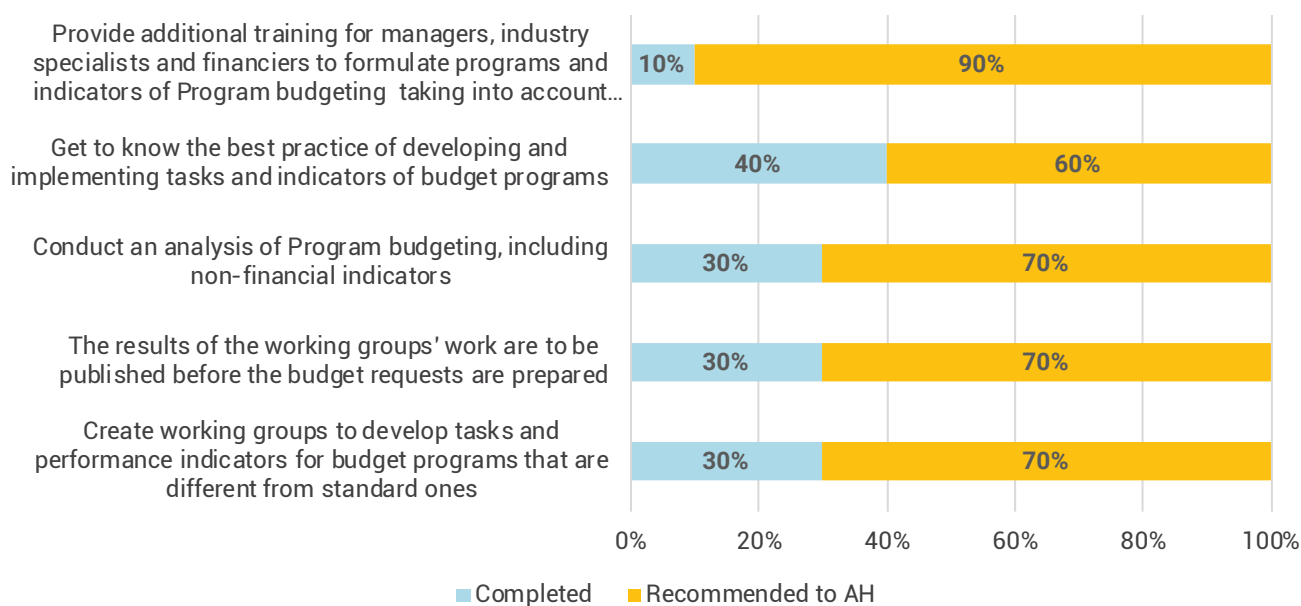


At the time the PFM assessment was conducted in AHs, the programme target method was at the stage of the development of the budget programmes. The next stage should be conducting the analysis of the budget programmes implementation, reflecting the achieved indicators and its efficiency.

AHs management is recommended to ensure the use of programme target method as a tool for management decision making. It is necessary to improve the assessment system of budget programmes effectiveness with a focus on practical use. Assessment results should be the basis for decision making on the necessity of further budget programmes execution, making suggestions for changes regarding the amount of funds for their financing, adjusting tasks and courses of budget programmes, etc.

It also requires conducting the gender analysis of budget programmes and development of Regulations on Gender Policy in AHs. For this issue a working group on gender issues should be established. This group would not only analyse budget programmes but also collect gender statistics in AH. Register documents in AHs should be changed, taking into account disaggregated data on sex, age, status etc. Current legislation stipulates application of gender-oriented approach in budget process since 2020, therefore AHs authorities should start collecting necessary information about gender structure of AH.

To improve the quality of programme target method AHs management is recommended to do the following actions (see Fig. 4).



**Figure 4. Recommendations for amalgamated hromadas to improve the quality of programme target budgeting method**

Therefore, the key recommendations are:

- establish working groups for developing tasks and performance indicators for budget programmes, different from the typical,
- publish the working groups results before starting making budget requests,
- analyse the programme target budgeting method, including non-financial indicators, get acquainted with best practices of developing and implementing budget programmes tasks and indicators of other local self-governments bodies,

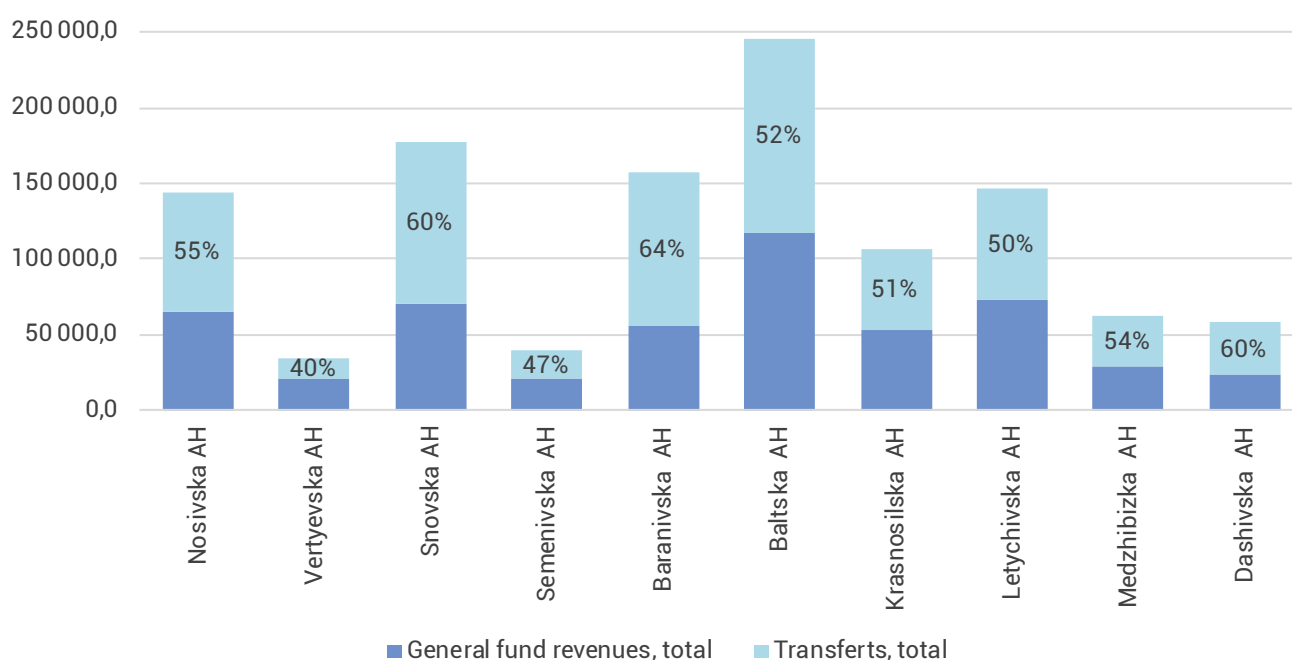
- conduct additional training for managers of financial bodies and departments, subject-matter experts, financial specialists and other people involved in budget preparation and execution regarding development of programmes and indicators according to programme target method taking into account specific needs of the hromada,
- develop individual programmes and indicators (that include gender-based components) according to programme target method
- redistribute the funds more efficiently, taking into account effectiveness analysis of budget programmes.

## 6. BUDGET REVENUES OF ASSESSED AHs

The analysis of AHs budget revenue showed the dependence of AHs on official transfers from the State budget (Fig. 5), namely:

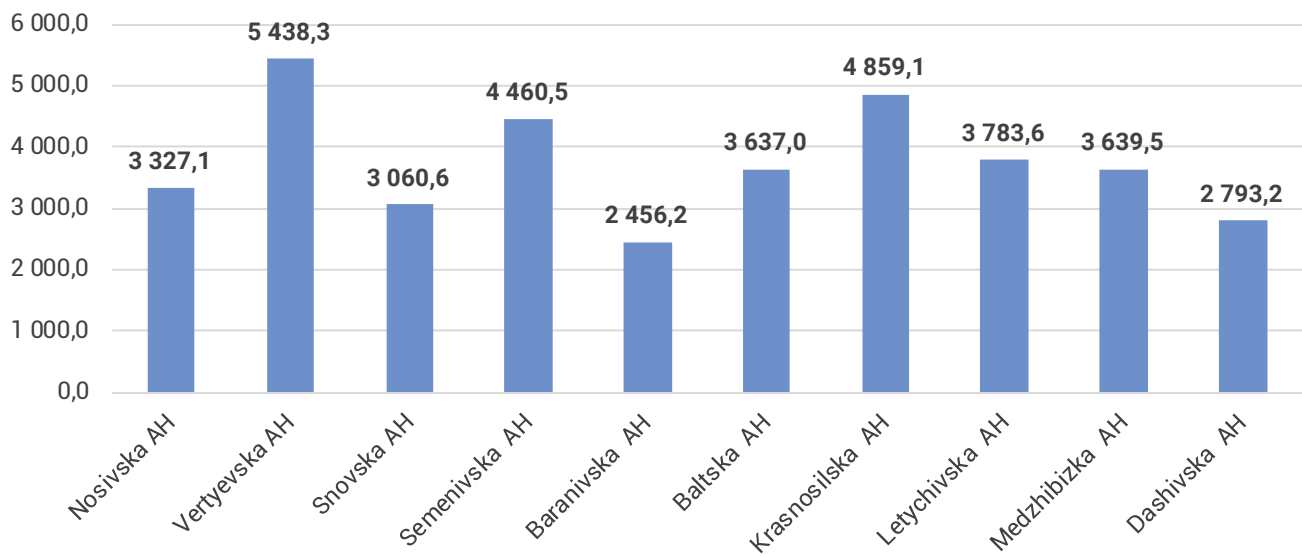
- in 8 AHs budgets, official transfers make more than 50% of the AH total revenue;
- in 2 AH budgets, official transfers make less than 50% of the AH total revenue;

The main part of official transfers consists of subvention on education and medical subvention for financing delegated to AHs powers from the state.



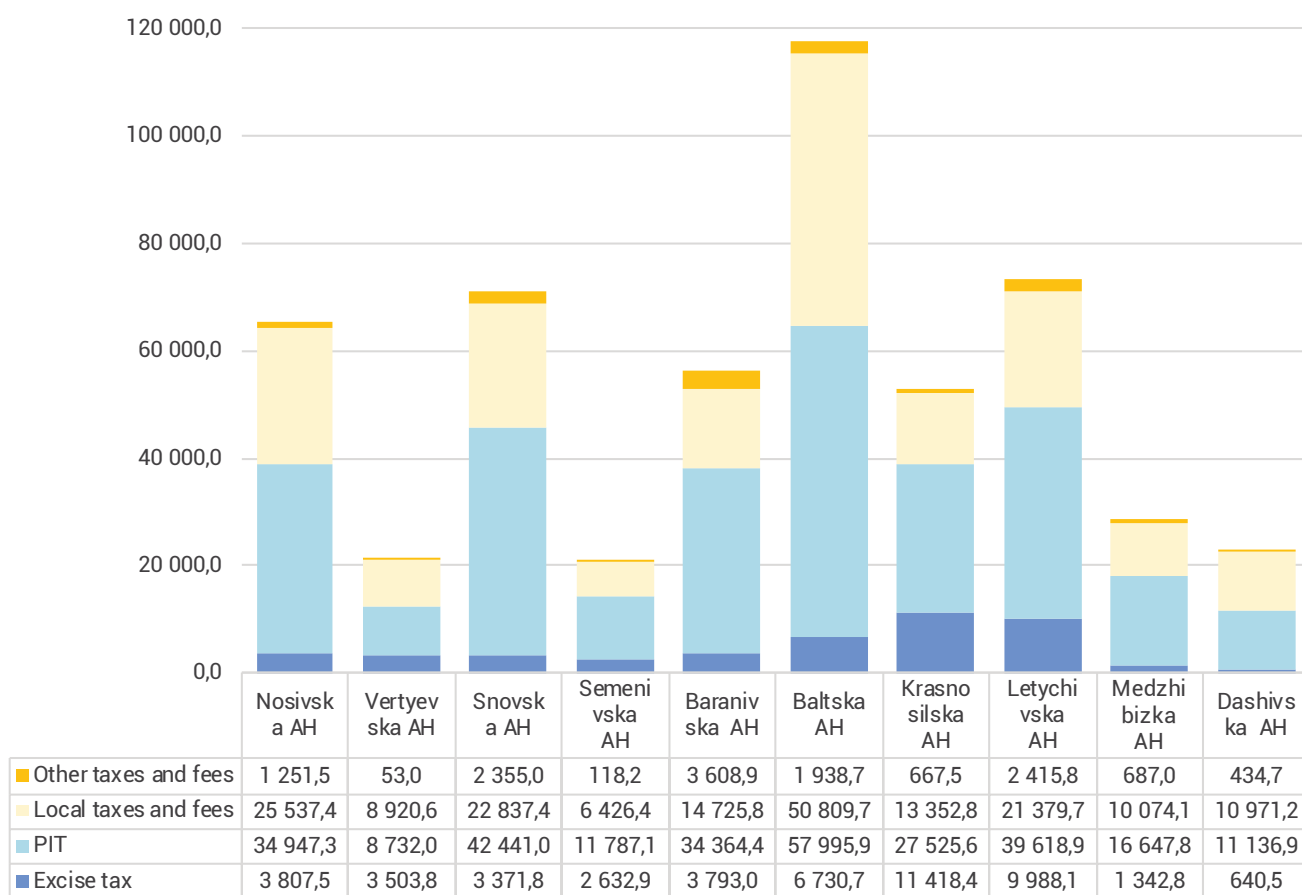
**Figure 5. Ratio of general fund revenues and transfers in amalgamated hromadas total budget revenues, 2018**

At the same time, if compare general fund revenues per capita (without transfers), situation among AHs is different (Fig. 6). When compare AHs total budget revenues (with and without transfers) (Fig. 5) the highest revenues have Baltska AH and the lowest – Vertyivska and Semenivska AHs. But when analysing per capita data (Fig. 6), Vertyivska AH appears the 'richest' one as well as Semenivska and Krasnosilska AHs. Average per capita revenue in Ukraine in 2018 was 3661 UAH.



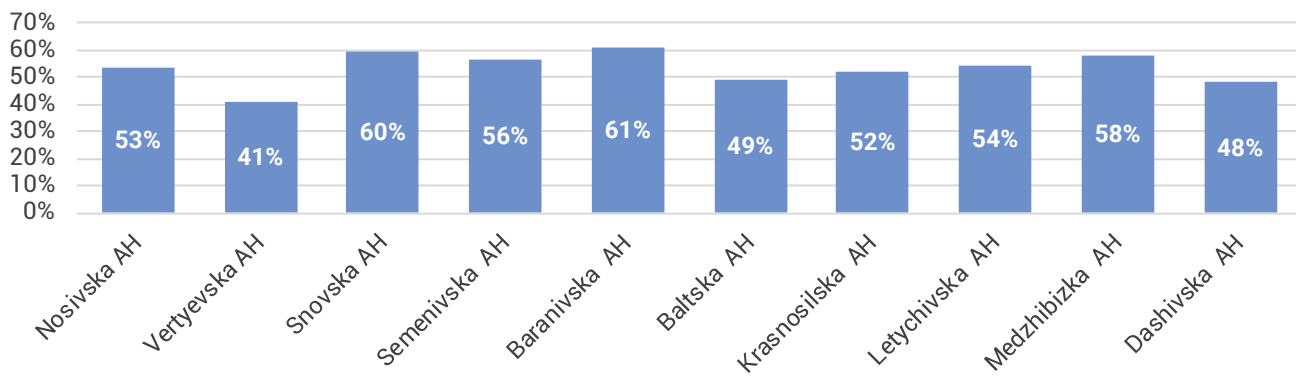
**Figure 6. General fund revenues (without transfers) per capita in AHs, 2018, UAH**

In general fund revenues of AHs (without transfers) the highest share has personal income tax (PIT) (Fig. 7).



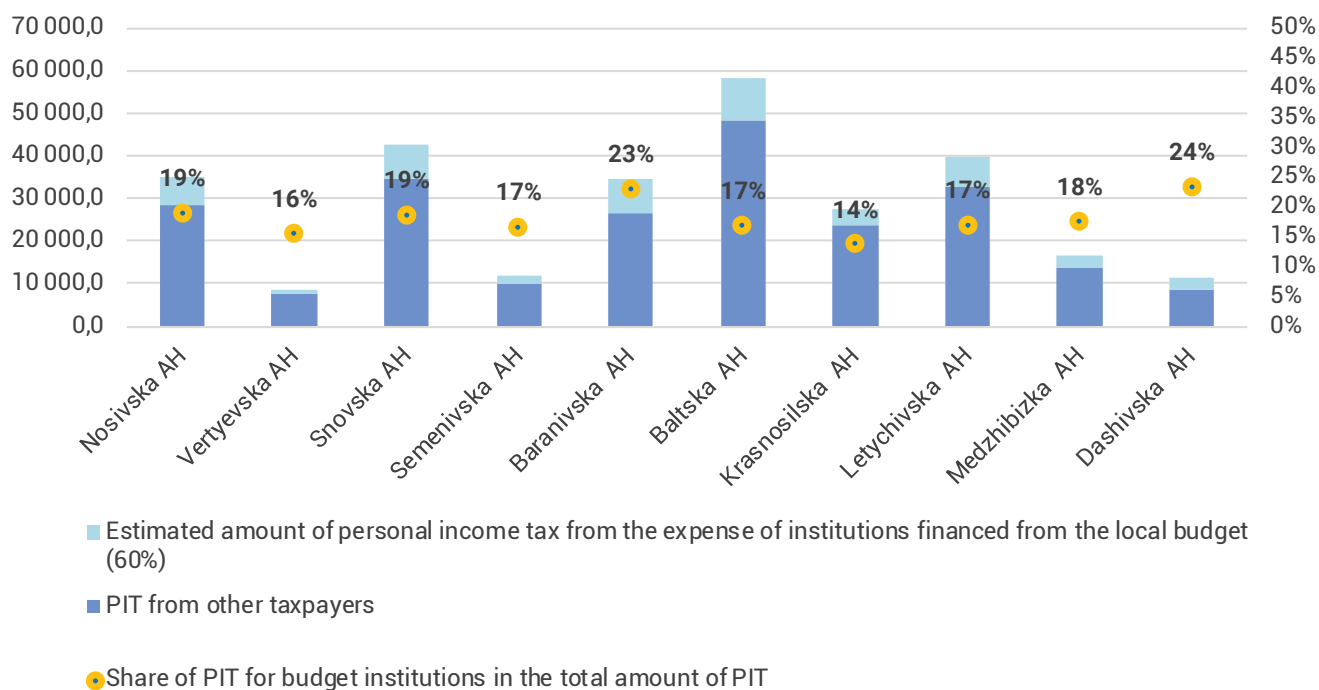
**Figure 7. Structure of AHs general fund of AHs revenues (without transfers), 2018**

Only in 2 AHs (Vertiyevska village AH, Dashivska settlement AH) the sum of received PIT and local taxes are of comparable value. The share of PIT in general fund revenues of AHs is different (Fig. 8), it varies from 41% in small Vertiyevska AH with limited number of legal entities on its territory, to 60-61% in Snovska and Baranivska city AH.



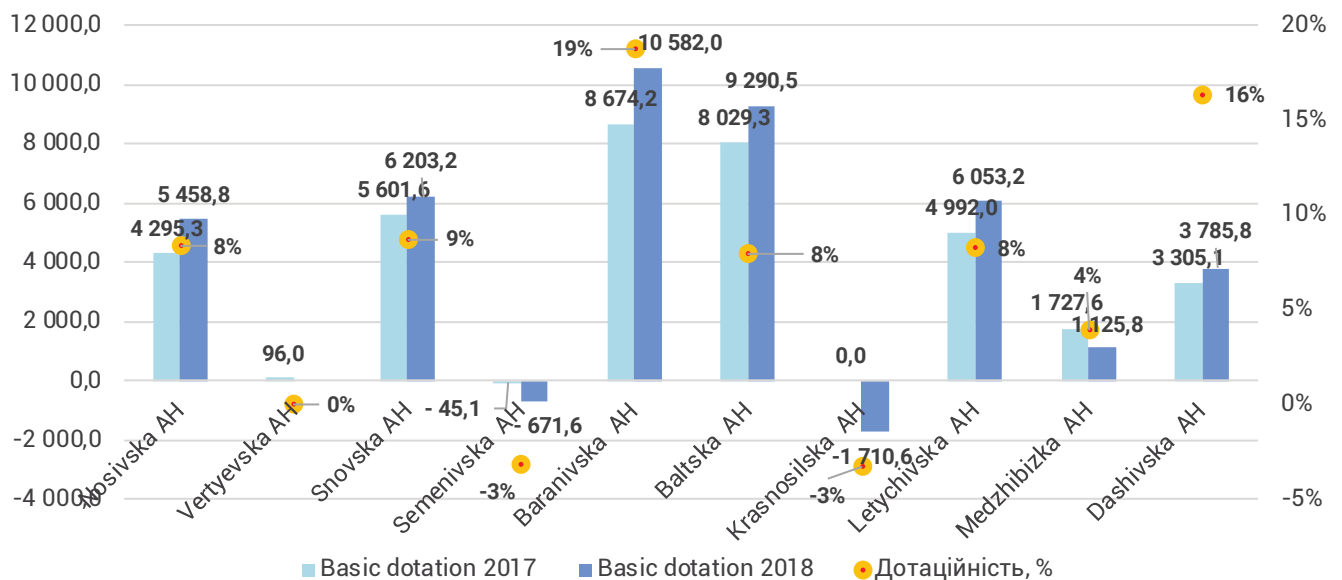
**Figure 8. PIT share in general fund of AHs revenues (without transfers), 2018**

Baranivska and Dashivska AHs are dependent on PIT from public servants and local budget expenditures on salaries for people who work in public sector (Fig. 9). Almost ¼ of PIT to these two local budgets in 2018 was received from such category of taxpayers. This means that either it is very small municipality and / or it is economically underdeveloped. Usually, public sector is the steadiest employers and pays taxes regularly. Such data shows that economic situation is not good in those particular hromadas. If nothing else, the state grants and equalization will provide enough funding for basic services. A higher risk is where they are very dependent on one or two companies as tax payers that could create risks of financial capability of AHs and possibility to finance required expenditures.



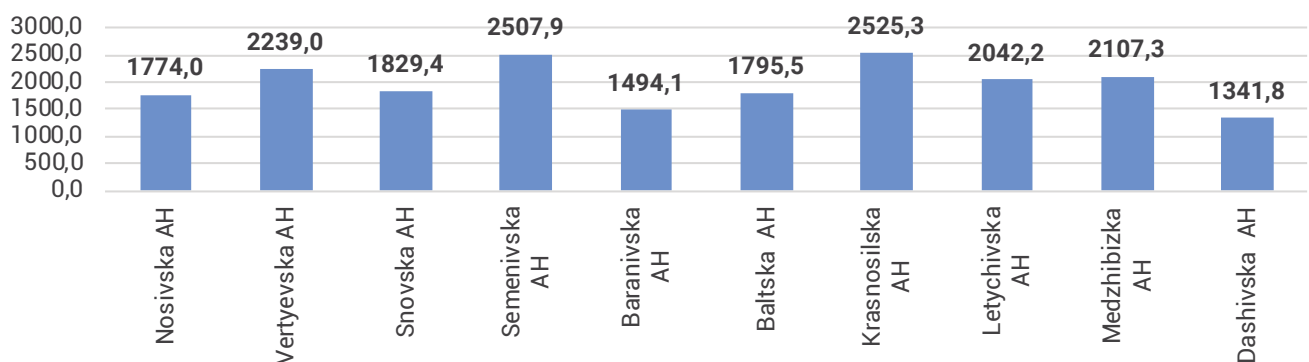
**Figure 9. Dependence of AHs budget revenues on PIT from budgetary financed institutions (2018)**

In average, up to 20% of PIT to local budgets is paid by people employed in public sector of the analysed AHs. Most of analysed AHs received basic dotation in 2017 and 2018 budget years, and only 3 of them paid reverse dotation (Fig. 10). According to data, most of AHs are considered financially capable – basic dotation share in AHs revenues is less than 10%. Only two AHs (Baranivska city AH and Dashivska village AH) has basic dotation that equals 19% and 16% revenues respectively, but these figures are within limits of AHs tax capability.



**Figure 10. Basic dotation in 2017-2018 in UAH and level of AH dotation (%) (if “-” – reverse dotation)**

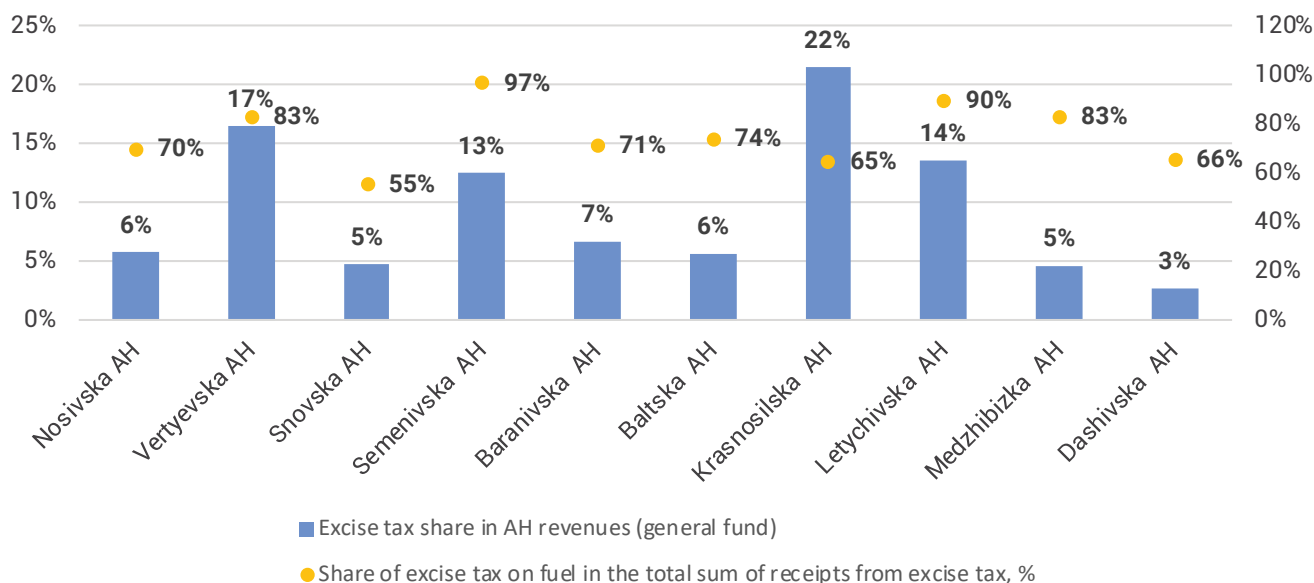
The amount of PIT per capita in analysed AHs differs from UAH 1.3-1.5 thousand per capita in Dashivska and Baranivska AHs to 2.5 thousand per capita in Krasnosilska and Semenivska AHs (Fig. 11). Average number in Ukraine among AHs in 2018 was 2,1 thousand UAH.



**Figure 11. PIT per capita in AHs, 2018**

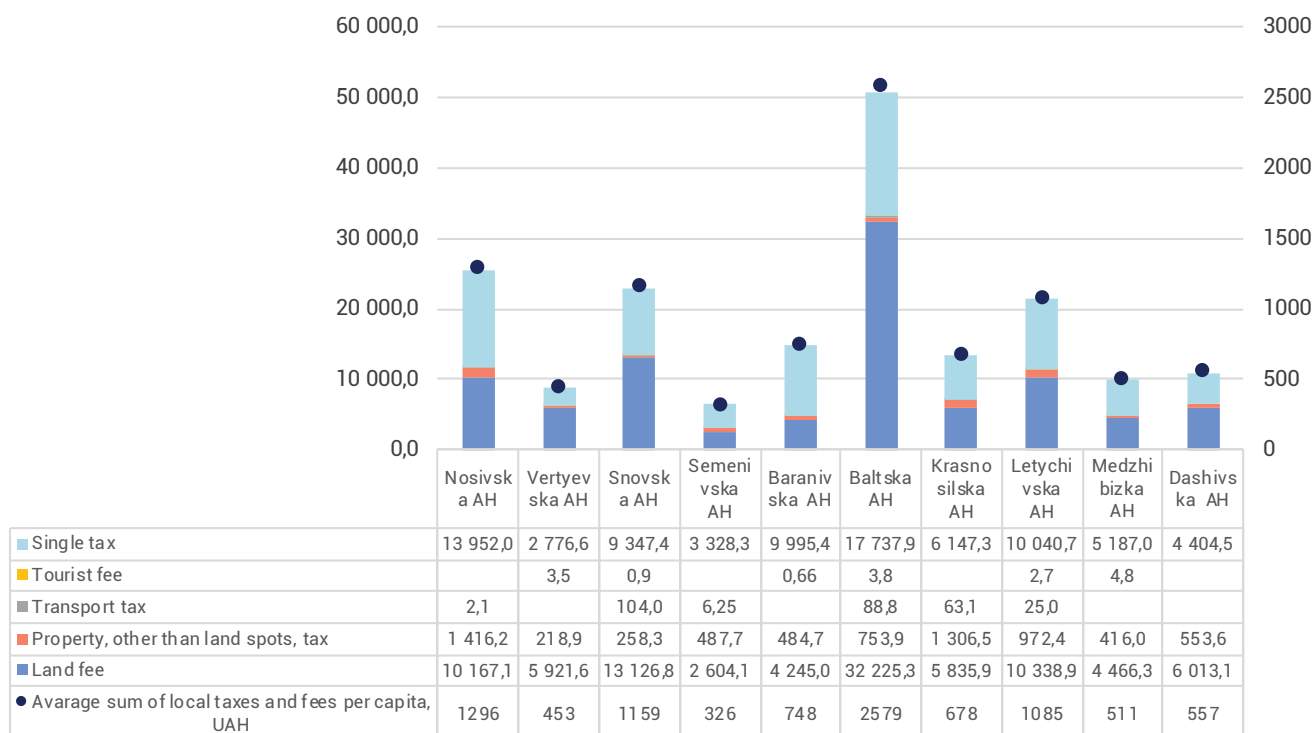
Baranivska AH and Dashivska AHs should try to increase not only PIT but also other types of revenues – it is highly dependent on PIT and simultaneously receives basic dotation (that is calculated on the basis of PIT per capita coefficient), also attract business to its hromadas. Baranivska AH management complain that local tax compliance on the Baranivska AH territory is very poor and that they can't influence on the situation without SFS support. Here should be mentioned that some communities will always be poor and dependent on equalization grants. The goal of equalization is to help them keep providing high-standard public services to their citizens, but such communities should not give up and keep on trying to foster and/ or attract investment, and to maximize the existing revenue potential.

In most assessed hromadas excise tax has rather high fiscal role (see Fig. 7 above). In case of transferring the excise tax (its share) to the road fund (from 2020), own revenues in some AHs will decrease substantially (Fig. 12) – Krasnosilska (22% general fund of AHs revenues (without transfers), Vertiivka (17%), Letychivska (14%) and Semenivska (13%). In all analysed AHs, more than 55% of excise tax revenues (sometimes even more than 90%) is excise tax on fuel.



**Figure 12. Share of Excise tax in general fund of AHs revenues (without transfers), 2018**

As for local taxes and fees, the highest absolute sum of local taxes and fees paid to AH budget in 2018 as well as the highest per capita sum is in Baltska AH (Fig. 13) Baltska AH is the largest among assessed AHs and was created around a city of oblast significance.



**Figure 13. Structure of local taxes and fees in 2018, thousand UAH and per capita**

Budget data on Fig. 13 shows that the current system of local taxes and fees is not efficient and some taxes could hardly be applicable to local budgets, especially village AHs. For example, fee on parking spots is 0 in all AHs and even was not established. Receipts from both tourist fee and transport tax is very small (comparing to other types of revenues) and applied not in all AHs. As can be seen from the chart (Fig. 13), transport tax was paid only in city AHs. Mechanism of property tax (other than land spots) should be improved (tax rates should

depend on the property value but not the number of meters). Not all property is included into the registers (less than ½ of property is in official registers and process of digitalization of information about property is very slow). The two most fiscally important to AHs local taxes are single tax paid by private entrepreneurs and legal entities that use simplified system of taxation, and land fee (mostly payed by legal entities for renting municipal land spots). AHs management is recommended to pay more attention to their own cadastral map, to set a justified tax rate (taking into account economic and geographical indicators, monetary value) and to engage AH starostas in identification of those who avoid tax-payments. The analysis showed, that on the one hand, there is a room for improvement in local taxes and fees administration in each AH, but on the other hand, types of local taxes and fees as well as mechanism of their administration should be reconsidered by state authorities if government wants to increase financial capacity of municipalities.

The low level of cooperation between the financial specialists in AHs, on the one hand, and the State Fiscal Service, on the other hand, negatively affects the effectiveness of identifying legal entities and individuals who refuse to pay local taxes and fees. The financial specialists of AHs have neither any information on taxpayers' declarations, no legislative power to collect debts and no direct influence on such organizations as Ukrtelecom, Ukrposhta, Citygas, etc., which, having separate units on the territory of the AH, pay tax at the place of registration of head offices.

Regarding non-tax revenues, these revenues in the structure of all AHs budgets are insignificant, therefore AHs should pay more attention to them, as non-tax revenues have potential to grow. In most cases, the key income sources is provided by own revenues of budget institutions and administrative fees.

The common problem of all analysed AHs is the administration of PIT from separate offices (such as Ukrtelecom (National Telecommunication Company, Ukrposhta (National Post), Military bases, Ukrzaliznytsia (National Railway etc.) as well as some private legal entities, which do not comply with art. 64 of the Budget Code of Ukraine, according to which it is "... credited to the appropriate budget by its location (locality)..." and subparagraph 3 of paragraph 168.4 of article 168 of the Tax code of Ukraine "... the amount of PIT accrued by a separate subdivision ... are also transferred to the relevant budget at the location

## GOOD PRACTICES

Several amalgamated hromadas try to compensate the budget losses due to the non-payment of PIT by increasing the rates of local taxes and fees for the type of land where the premises of respective companies are located or by increasing the amount of rent for the lease of municipal property, or initiate conversations with representatives of respective enterprises explaining that in case of not paying PIT to the AH budget, the rates for land tax will be increased. So, in a result of correct managerial communication with Ukrposhta, the latter, in order to reduce (not to increase) the payment for the lease of premises, agreed to pay the PIT to the community budget.

In one hromada the list of AH tax debtors was distributed to organizations that provide services (e.g, service stations, gas stations, etc.), after which organizations refused to provide services to tax debtors. The latter payed taxes in a very short notice in order to receive services and restore their reputation.

An example of indirect influence on tax debtors is to publish information about tax debtors on the AH website or in local newspapers, as well as to send letters to debtors. The information about tax debtors is public and could be found on the SFS webpage.

<sup>2</sup> <http://zakon.rada.gov.ua/laws/show/2755-17/ed20150701>

of this separate subdivision<sup>27</sup>". In practice, the PIT is often paid at the place of registration of the head office. From the point of view of the current tax legislation, this is not a violation, since the personal income tax has been charged, declared, retained and transferred to the budget by revenue agents. There is no financial or administrative liability established for revenue agents for non-compliance with the requirements related to the transfer of the PIT to local budgets at the place of actual economic activity. Meanwhile, these actions are argued by the taxpayers using the provisions of Art. 64 of the Commercial Code of Ukraine, which stipulates that the functions, rights and responsibilities of the structural subdivisions of an enterprise are defined by the provisions on them, which are approved according to the procedure established by the corporate charter or by other articles of incorporation. Using the aforementioned legislative norms, some entities establish separate subdivisions, which, according to the provisions for them, do not have rights to pay taxes, accounting, reporting, accounting and employment, as a result of that, there are some arguments that there is no information about the accrued amounts of PIT for employees, which are working in these separate subdivisions of the parent structure. Therefore, the PIT is transferred to the local budget not at the location of the subdivision, but to the budget of the administrative-territorial unit at the main place of registration of the legal entity. Since the paragraph 168.4 of Article 168 of the Tax Code refers only to separate subdivisions, having industrial structural subdivisions within the structure of the enterprise (manufactures, workshops, departments, sections, brigades, bureaus, laboratories, etc.), as well as functional structural divisions of the administrative staff (management, departments, bureaus, services, etc.), which are located in other territories and whose taxation is not regulated by the Tax Code, the taxpayers do not pay the PIT to the corresponding local budgets. Moreover, there are cases when legal entities change place of registration to Kiev, but continue to conduct actual activity on the territory of hromada. And AHs have no levers of influence on this situation.

Unofficial employment is the other problem in AHs. People do not want to receive official salary or receive salary at minimal legally possible sum in order not to lose the right on subsidy on electricity bills and heating. Unfortunately, last court decisions cancelled the CMU Decree on labour inspectors, and AHs can't introduce the position of labour inspector (and at the same time can't expect to receive support from SFS) responding to not official employment. So, poor quality of state legislative procedures negatively influences local budgets management and revenues, and reduces trust to the state legislative system at all.

There is also a problem with registers of property in AHs, and most of AHs don't know what exact enterprises or businesses especially small ones are located on their territory, or how many people are officially employed on them.

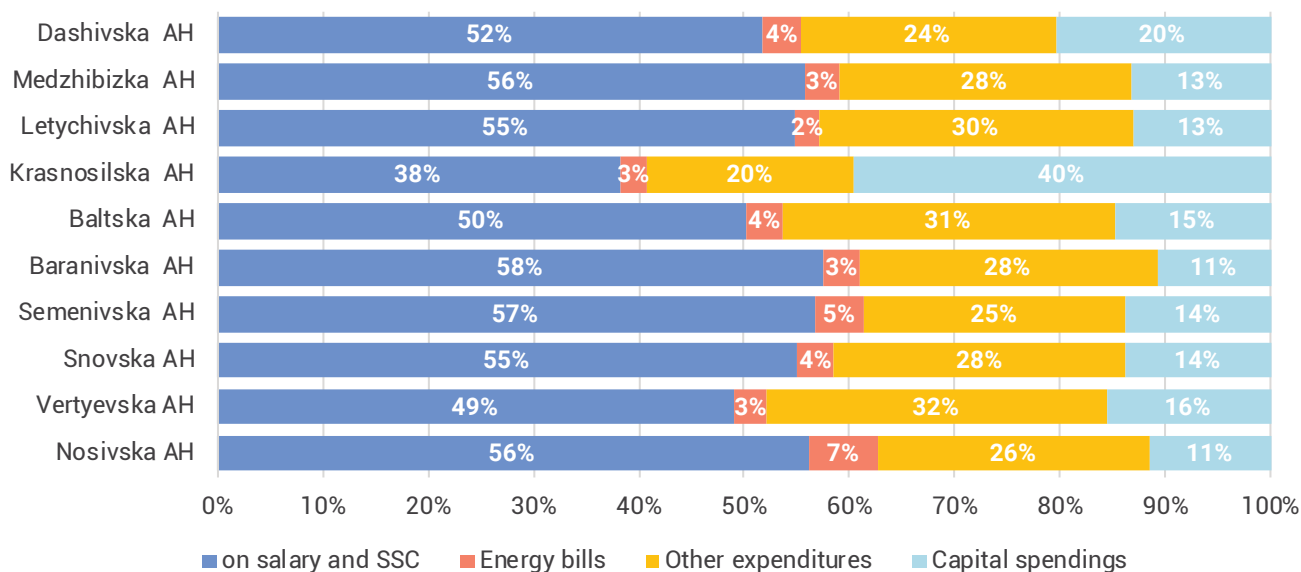
The **AH management** was also recommended to develop detailed registers of taxpayers on the AH territory and analyse them, control tax compliance, prevent increase of tax debts. Improve communication with business and active citizens regarding convincing them in the necessity of paying taxes to the AH budget and support increase of tax and budget literacy in AHs.

## 7. BUDGET EXPENDITURES OF ASSESSED AHs

The analysis of AHs budget expenditures structures according to the economic classification of budget spending (total) showed that expenditures on salaries and single social contribution payment has the highest share almost in all analysed AHs (Fig. 16). Only in Krasnosilka AH this share is lower because of capital spending (in 2018 this AH received 21 mln UAH of subvention on social-economic development (almost the highest sum of subvention received by AHs in 2018), 2 mln from SFRD and 4.5 mln infrastructure subvention that influenced the total capital spending of this AH and its share in total expenditures). In all

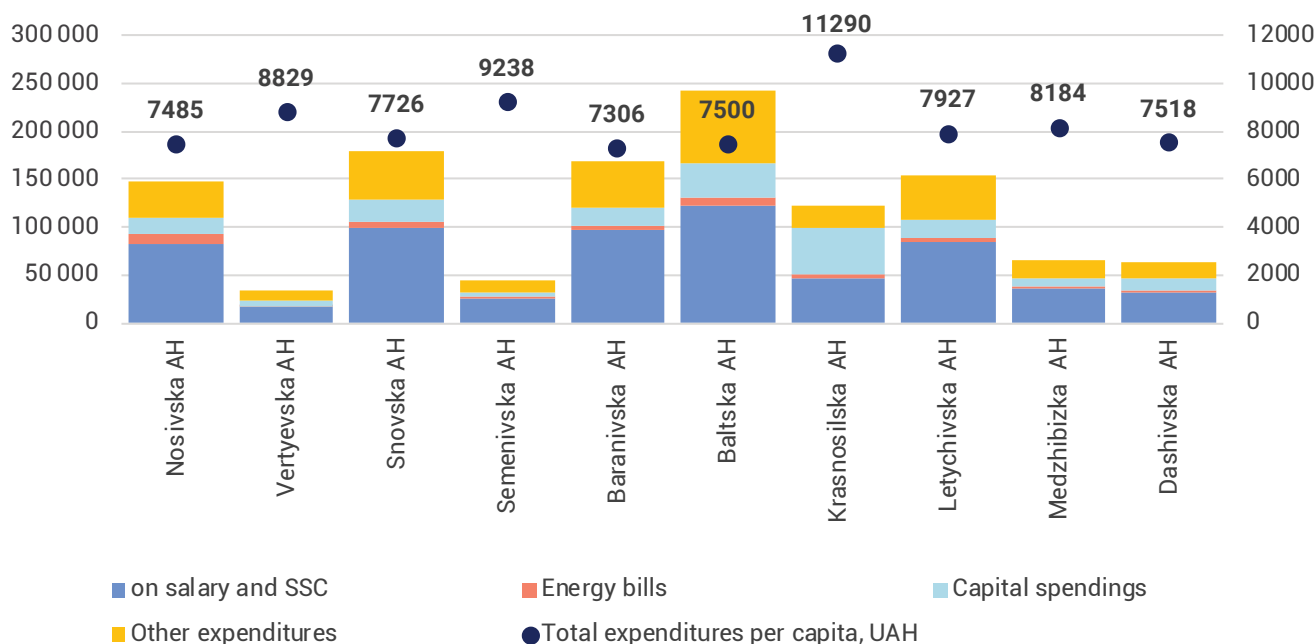


other AHs capital spending in most cases does not exceed 15% of total spending. Budget expenditures on energy bills is not high (rarely exceeds 7% of total AHs expenditures) and in future could be reduced if AHs start applying energy efficient technologies in hromadas or by increasing of own revenues in AHs.



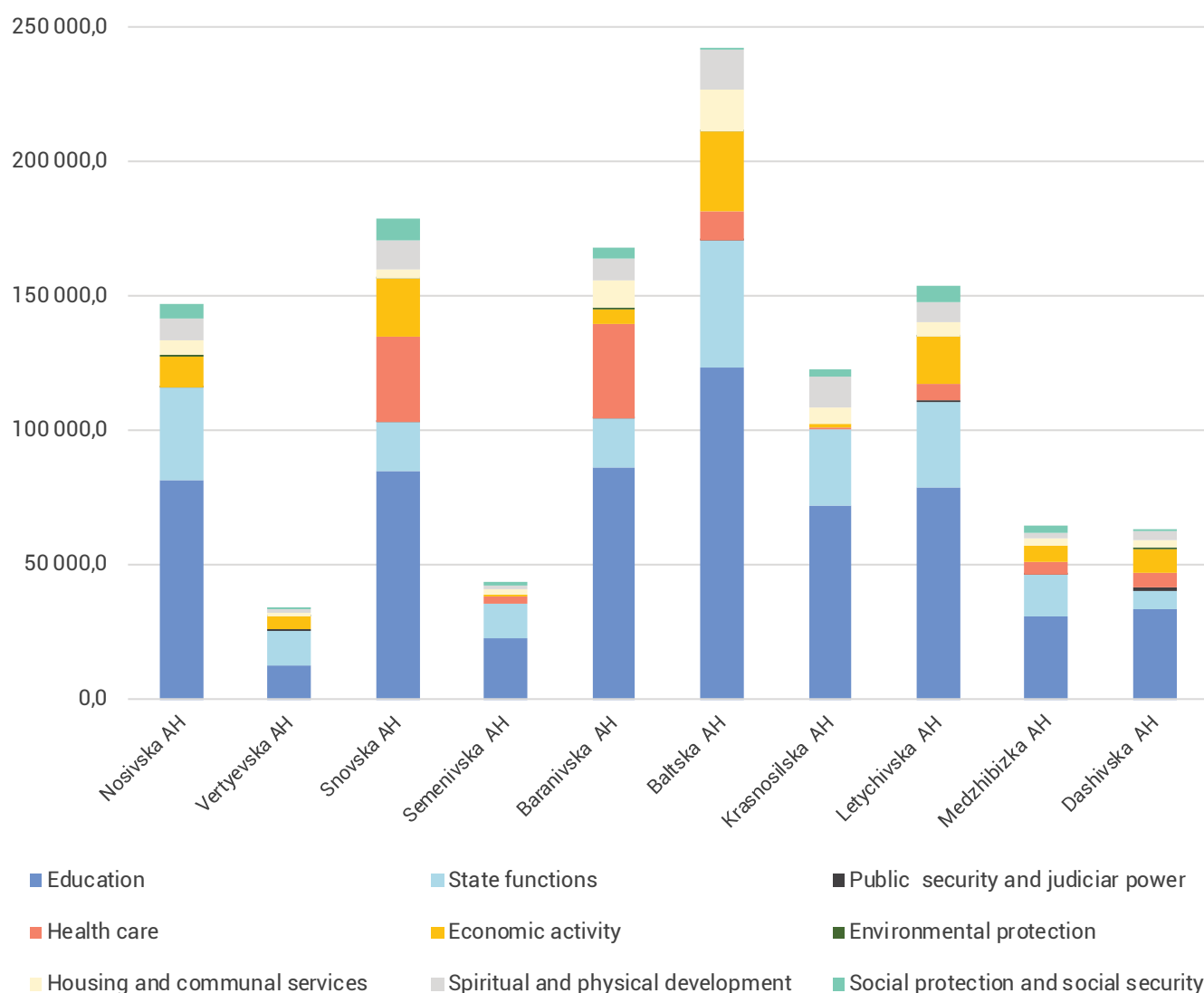
**Figure 14. Budget expenditures of 10 AH structures according to the economic classification of expenditures, 2018**

Comparing actual data on budget expenditures in absolute values showed that analysed AHs, having huge difference in total expenditures in UAH, have more or less the same level of per capita data (Fig. 15) – from 7306 UAH per capita in Baranivska AH to 9238 UAH per capita in Semenivska AH (which total expenditures is almost the lowest comparing to other assessed AHs). Only Krasnosilska AH has extremely high level of budget expenditures per capita (11290 UAH), comparing to other assessed AHs, because of the reason explained above.



**Figure 15. Structure of budget expenditures according to the economic classification of expenditures (thousand UAH, left axis) and total per capita (UAH, right axis) of 10 AHs, 2018**

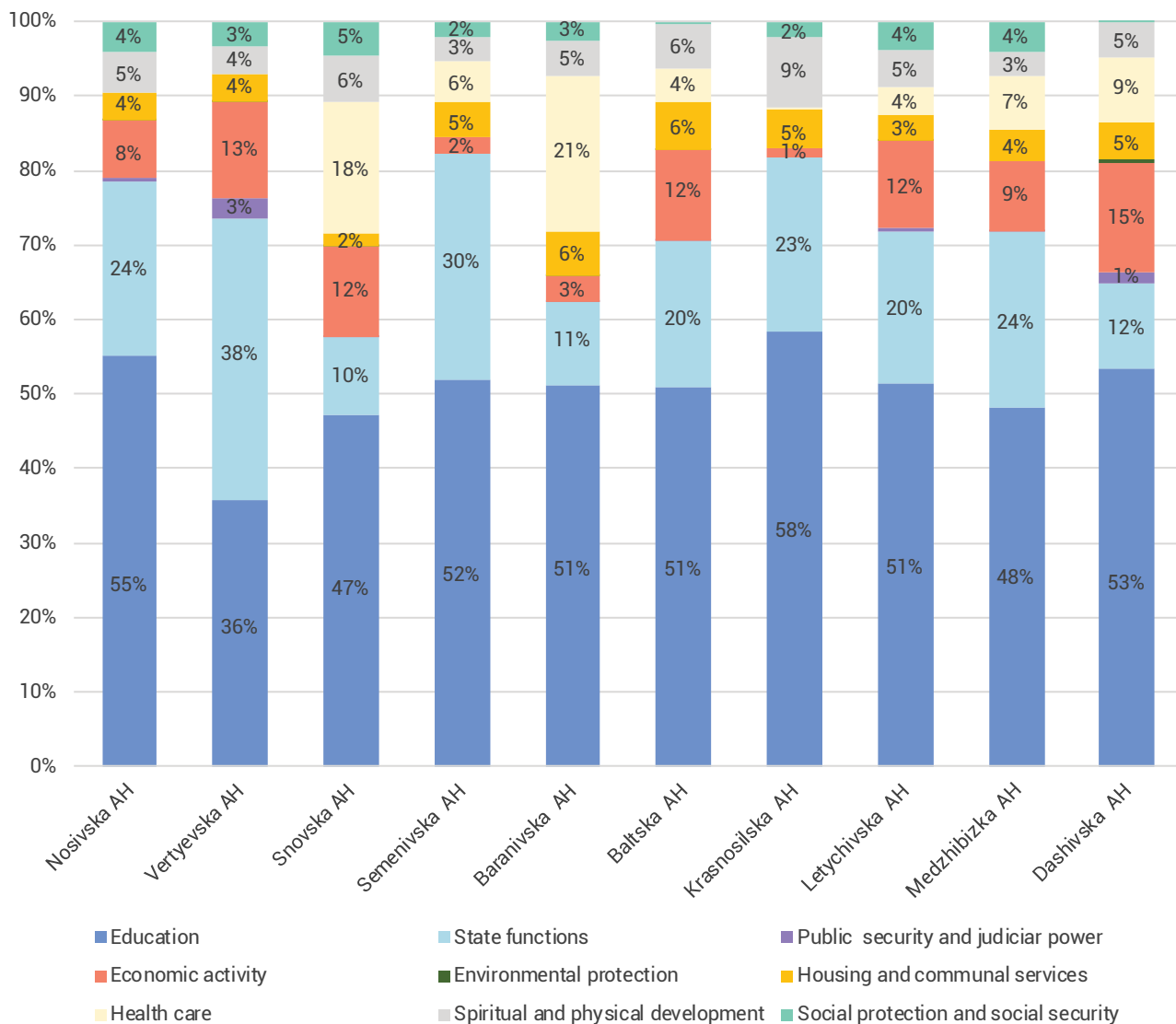
Analysis of AHs budgets expenditures according to functional classification in absolute (Fig. 16) and relative (Fig. 17) values clearly shows that structure of expenditures is different and depends on AHs` decisions and financial possibilities. At the same time some common trends could be seen. Most of AHs budgets are spent on education (from 36% in Vertiivska AH to 58% in Krasnosilska AH), AH management and executive bodies (see "state functions"<sup>3</sup>) – from 10% in Snovska AH to 38% in Vertiivska AH.



**Figure 16. Budget expenditures of amalgamated hromadas by functional classification of expenditures, thousand UAH, 2018**

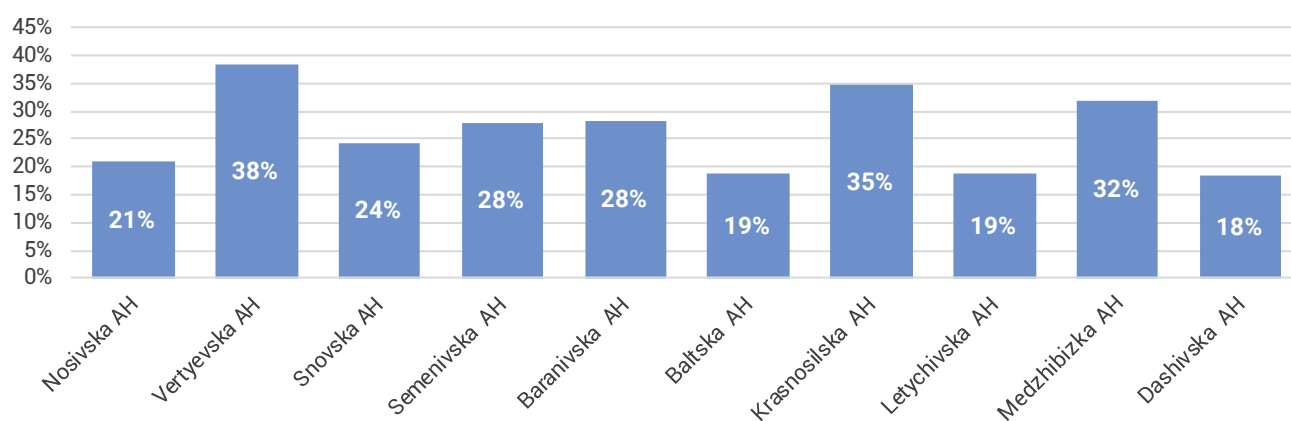
Not all AHs had expenditures on healthcare in 2018 (mostly city AHs, and 2 village AHs (Dashivska and Medzhibiska). This discrepancy is explained by the fact that not all AHs have secondary healthcare institutions. Thus, it can be concluded that most of the AH expenditures are aimed at government-delegated expenditures (education, healthcare, social protection).

<sup>3</sup> "State functions" of the Functional classification codes (KFK) consists mostly of the expenses on the management apparatus and inter-governmental transfers



**Figure 17. Structure of budget expenditures of amalgamated hromadas by functional classification of expenditures, %, 2018**

Having high percentage of expenditures on the management apparatus of AHs in total expenditures (20% on average) (see Fig. 17), it is important to define how much it is comparing to AHs own revenues<sup>4</sup>. Such analysis will show if AH own revenues spent on AH development and other important goals or on salaries of the AH apparatus. Share of expenditures for the management apparatus in own revenues of AHs can be seen at Fig. 18.



**Figure 18. Share of expenditures for the management apparatus in own revenues (without transfers) (%)**

Figure 16 shows that Vertiivska and Krasnosilska AHs spent more than 1/3 of their own revenues on maintenance of the management apparatus. This is relatively high level comparing to other AHs. For comparison, minimum share of such spending among all AHs in Ukraine in 2018 was 7% and maximum share – 87%. Considering mentioned above 2 AHs with high-level dependence on the excise tax (Fig. 12), additional attention should be paid in these AHs management to the spending on apparatus and possibilities to increase own revenues, because cancelation of excise tax on fuel from 2020 could create high risks to the financial capability of these AHs and their possibility to finance other functions.

**Analysis of AHs expenditures on remuneration** (for which the following documents were requested: staff lists; tariff lists; calculation of salaries for the budget estimate; actual remuneration expenditures) showed that:

- Formally, all AHs had staff lists and tariff lists for their institutions, but only in each second AH, the quality and form of such documents correspond to the legally approved requirements.
- In 50% of cases calculation for the budget estimate of salaries had a formal nature (there was no breakdown by salary components so it was impossible to see and analyse a structure of salaries paid).

Based on the conducted assessment, AHs are recommended to consider possibility and necessity of applying modern IT solutions to the process of planning of remuneration expenditures, that could make the process of creating staff lists, tariff lists, calculations for budget estimate easier, quicker and more efficient.

All assessed AHs received some types of state financial support (dotations or subventions) from the state budget in 2018 (table 1).

AH name	Subvention on social-economic development				Infrastructure subvention				SFRD		Money received from other sources (grants, international donors etc)	
	Number of contracts/projects	Total sum, thousand UAH	Average sum per contract/project (thousand UAH)	Average sum per capita (UAH)	Number of contracts/projects	Total sum, Thousand UAH	Average sum per contract/project (thousand UAH)	Average sum per capita (UAH)	Number of contracts/projects	Total sum, Thousand UAH	Number of contracts/projects	Total sum, Thousand UAH
Nosivska AH	6	902.20	150.00	46.00	6	4 617.50	769.58	234.39				
Vertyevska AH	n/a	497.60	n/a	128.00	n/a	2 632.30	n/a	674.95				
Snovska AH	29	7 208.90	249.00	311.00	18	10 153.50	564.08	437.65				
Semenivska AH	5	210.00	42.00	45.00	4	2 375.40	593.85	505.40	1	2 895.10		
Baranivska AH	37	587.90	16.00	26.00	30	6 005.00	200.17	261.09				
Baltska AH	7	8 508.30	1 215.00	263.00	9	8 547.19	949.69	264.62	1	18 407.60		
Krasnosilska AH	1	21 000.00	21 000.00	1 927.00	1	4 465.30	4 465.30	409.66	1	2 000.00		
Letychivska AH	4	616.20	154.00	32.00	11	6 125.90	556.90	315.77				
Medzhibizka AH	7	2 208.80	316.00	280.00	3	3 619.50	1 206.50	458.16				
Dashivska AH	3	594.10	198.00	72.00	3	2 565.82	855.27	309.14			2.0	383.5
<b>Total</b>	<b>99</b>	<b>42 333.97</b>			<b>85</b>	<b>51 107.41</b>				<b>23 302.68</b>	<b>2.0</b>	<b>383.5</b>

During 2018, the AHs received funds from the state budget for the implementation of infrastructure development projects, namely: a subvention on the socio-economic development of certain territories (10 AHs); subvention on AH infrastructure (10 AHs); funds from the state fund of regional development (3 AHs). Only Dashivska AH attracted investments from additional sources besides the state budget.

At the expense of the subvention on the socio-economic development, more than 100 projects were implemented of the total amount of 42.3 million UAH. The largest amount of the subvention was received by the Krasnosilska AH - UAH 21 million (this is almost half of the total sum of such subvention received by all assessed AHs in 2018 year), Baltska and Snovska AHs received UAH 8.5 million and UAH 7.2 million, respectively. At the same time Semenivska AH received UAH 210 thousand (that were spent on 5 projects or on average - 42 thousand UAH per contract), Baranivska AH received UAH 587 thousand (that were spent on 37 projects or on average 16 thousand UAH per contract). In most of analysed AHs, subvention on social economic development was spent on rather small contracts that could hardly have a real investment goal and support local development. Such subvention doesn't have clear mechanism of distribution and depends on political issues and influence.

At the expense of an infrastructure subvention, in 10 AHs, 85 projects were implemented for a total amount of 51.1 million UAH. Given the parameters on the basis of which the calculation of the subvention is conducted (area of AH and the number of the rural population), the largest amount of funds is received by Snovska AH - UAH 10.2 million. Baltska AH received UAH 8.5 million, Letichevskaha AH - UAH 6.1 million, Baranivska AH - UAH 6 million. The smallest amount of subvention for the formation of AH infrastructure was received by Semenivska AH - UAH 2.4 million. But comparing these sums with the number of populations in these AHs can be clearly seen that average sums per capita are very small, and in most cases, they are less than 500 UAH per citizen.

Funds from the State Regional Development Fund are received only by 3 out of 10 AHs: Baltska city AH (UAH 18.4 million), Semenivska AH (UAH 2.9 million) and Krasnosilska AH (UAH 2 million). So, AHs are recommended to work more actively on the development projects to be submitted to the SFRD as well as pay more attention to the quality of projects they prepare for the SFRD funding, which, according to the legislation, should be directed to municipal economic development projects. With such fund support there is a possibility to create community-based points of economic activity that will further generate income, create job places and increase AHs budgets.

## **8. ASSETS MANAGEMENT**

### **8.1. MANAGEMENT OF LAND RESOURCES**

Analysis of land resource management in 10 AHs showed that after amalgamation AHs "inherited" a number of issues that need to be addressed, namely:

- absence of inventory of land resources,
- outdated documentation on land,
- absence of excerpts from land titles for buildings transferred from rayon municipal property to AH municipal property.

It was found that there were cases that rental agreements concluded by oblast state administration for the land outside the populated areas were not transferred during the transfer of the title to land

outside the populated area to AH. Consequently, the AH cannot conclude new agreements with the rates approved by AH council.

Realising the importance of revenues from AHs land resource leasing, AHs began active development of land resources management documentation and formation of tenants' registers. Tenant registers and rental agreements registers are available in all AHs.

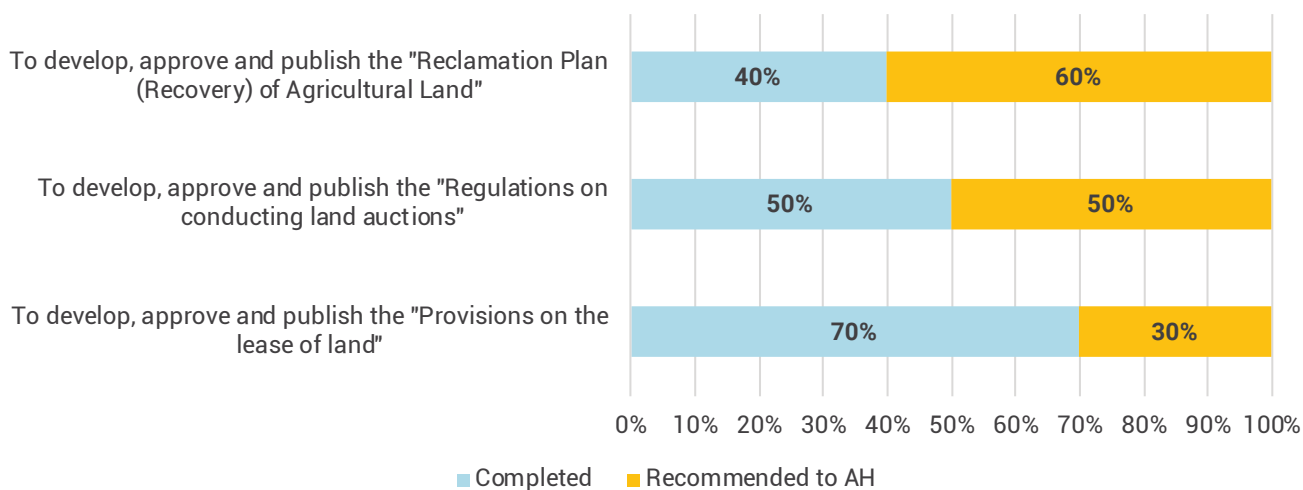
Solving the issue of land inventory and updating land management documentation needs financing. Almost all AHs adopted programs for the development of general plans and began implementing them. Developed general plans are published on official AH websites. However, the lack of sufficient funding could delay this process for a few more years.

In order to increase revenues from lease of land resources, 90% of AHs update the normative-monetary assessment of lands. Only one of the visited AHs uses a normative-monetary assessment of the unit of arable land in oblast, established on the basis of the CMU Resolution of 07.02.2018 "On holding a national (all-Ukrainian) normative monetary assessment of agricultural land and making amendments to certain resolutions of the Cabinet of Ministers of Ukraine".

During the review of availability of regulations for land resource management, almost 50% of the AHs have developed and published them. The other half of AHs use only the Land code of Ukraine and the laws of Ukraine on land resources management sector in their activity (Fig. 19).

**GOOD-PRACTICE CASES:**

Keeping an archive of tenants' cases that was identified in **Balt-ska AH**. Each case is formed in a separate folder, where cadastral surveying is attached, all documentation on changes in the size of the rental areas, payment of rent, etc. At the end of each year, mandatory monitoring is conducted to clarify the size of tenants' land plots. This accounting method is one of the foundations of successful co-operation and trustful relationships with tenants of AHs lands.



**Figure 19. Recommendations for 10 AHs on the development of provisions for land resource management**

In order to save time of the land departments and Administrative Service Center (hereinafter – ASC) specialists, one recommendation is to publish the information on land plot obtaining procedure, the list and samples of necessary documents, as well as answers to frequently asked questions on the AH website. Most information on the provision of services and sample documents are placed only on the stands next to land departments. In order to find out the information, residents of AHs have to go

to the executive body, where consultations are provided by the land department employees. Even with an available ASC the land departments employee's workload regarding advising the residents remains high. It reduces the time for managing the land documentation which is necessary for making the process of service provision to to citizens more convenient.

## 8.2. MUNICIPAL ENTERPRISES MANAGEMENT

Municipal enterprises function in 9 out of 10 assessed AHs. Most often they were created for providing municipal services on an AH territory, namely:

- water supply and sewage networks repair services,
- household waste disposal
- public amenities services.

In some AHs municipal enterprises provide road repair services (in 1 AH), hotel services (2 AHs), sand mining and sale services (1 AH), market services (1 AH), operating sports complexes (1 AH), etc.

Almost all municipal enterprises are additionally financed from the local budget because their activity is connected to the service provision and is unprofitable (but actually any of the AH did not really analyse the reasons why these municipal enterprises are not profitable, whether they provide services with low prices or have inefficient management). AHs representatives consider that key reasons of unprofitability of municipal enterprises are high cost of service provision (cost of providing municipal services in AHs is higher than in the oblast centres of Ukraine due to logistics and distances) and the receivables of legal entities and individuals. Partially, municipal enterprises independently fund their activities in some areas which are not related to the service provision.

According to part 8 of article 78 of the Commercial Code of Ukraine municipal enterprises are obliged to publish their financial statements on the webpages. But actually, information on the municipal enterprises' activities in analysed AHs is no published. Currently the main source for obtaining information on the financial results of the municipal enterprise activities was the report of the head of the enterprise which was submitted to the AH council for approval. So, AH management is recommended to conduct in-depth analysis of their municipal enterprise's activities and cost estimate of the tariffs. Results of analysis should clarify the social and economic feasibility of maintenance of municipal enterprises or as an alternative option – order some services from private or public enterprises (if it is economically reasonable) or increase number of paid services.

There was a case when one AH included the workers, that provide public amenities and household waste disposal services on the territory of the AH, to the AH executive body. This situation is a violation of the law, because the AH executive body cannot provide paid services to the population. This situation happened due to the need to optimise the municipal enterprise activities by saving money for the municipal enterprise administration maintenance and maintaining tariffs that can be paid by the residents of the AH.

Executive authorities in the municipal property management should:

- ensure effective control over the work of public utility companies (approval of their financial plans and control over their implementation),
- develop measures to expand the range of services and areas of work (servicing) of provided by the municipal enterprises,



- form economically justified tariffs (prices for provided services),
- attract non-budget funding for the work of public utility companies (state support funds, funds of international technical support).
- participate in planning process of municipal enterprises

AHs are recommended to use intermunicipal cooperation opportunities more actively.

### 8.3. ENERGY EFFICIENCY MEASURES IN AHs

To increase the energy efficiency of buildings and constructions that are on the balance of the AH budget, all 10 amalgamated hromadas apply energy effective measures. However, 7 AHs do not have any comprehensive energy efficiency programmes and 8 AHs do not have a "Sustainable energy development action plan for 25-30 years".

The overview of the energy efficiency improvement in buildings, which are on the balance of the AH budget showed that 50% of the AHs did not request energy audit before conducting energy-saving actions/services. AHs which have used energy audit services have noted the effectiveness of these measures. Particularly, employees of **Baltska** and **Dashivska AH** reported that, according to the results of the energy audit, they managed to eliminate the biggest heat losses in buildings only by replacing the windows to high quality energy-saving double-glassed windows without insulation of the facades.

In the field of energy efficiency, the example of **Baranivska AH** can be mentioned, where not only the position of energy manager was introduced but which is also effectively attracting external financing for the development of the energy saving sector.

Among the most common energy-saving works carried out by AHs are: installation of double-glassed windows, replacement of doors, installation of solid fuel boilers. In addition, insulation of the buildings facades, replacement and insulation of buildings roofs, installation of modern solid fuel heating systems are carried out.

The list of recommendations provided for amalgamated hromadas after studying implemented measures is presented in Figure 20.

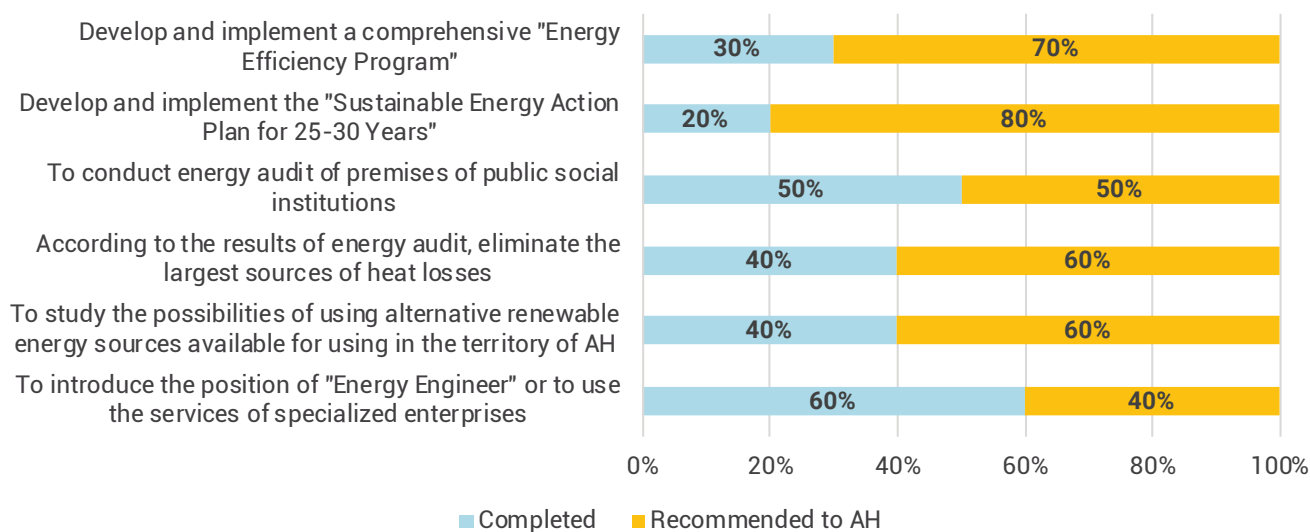


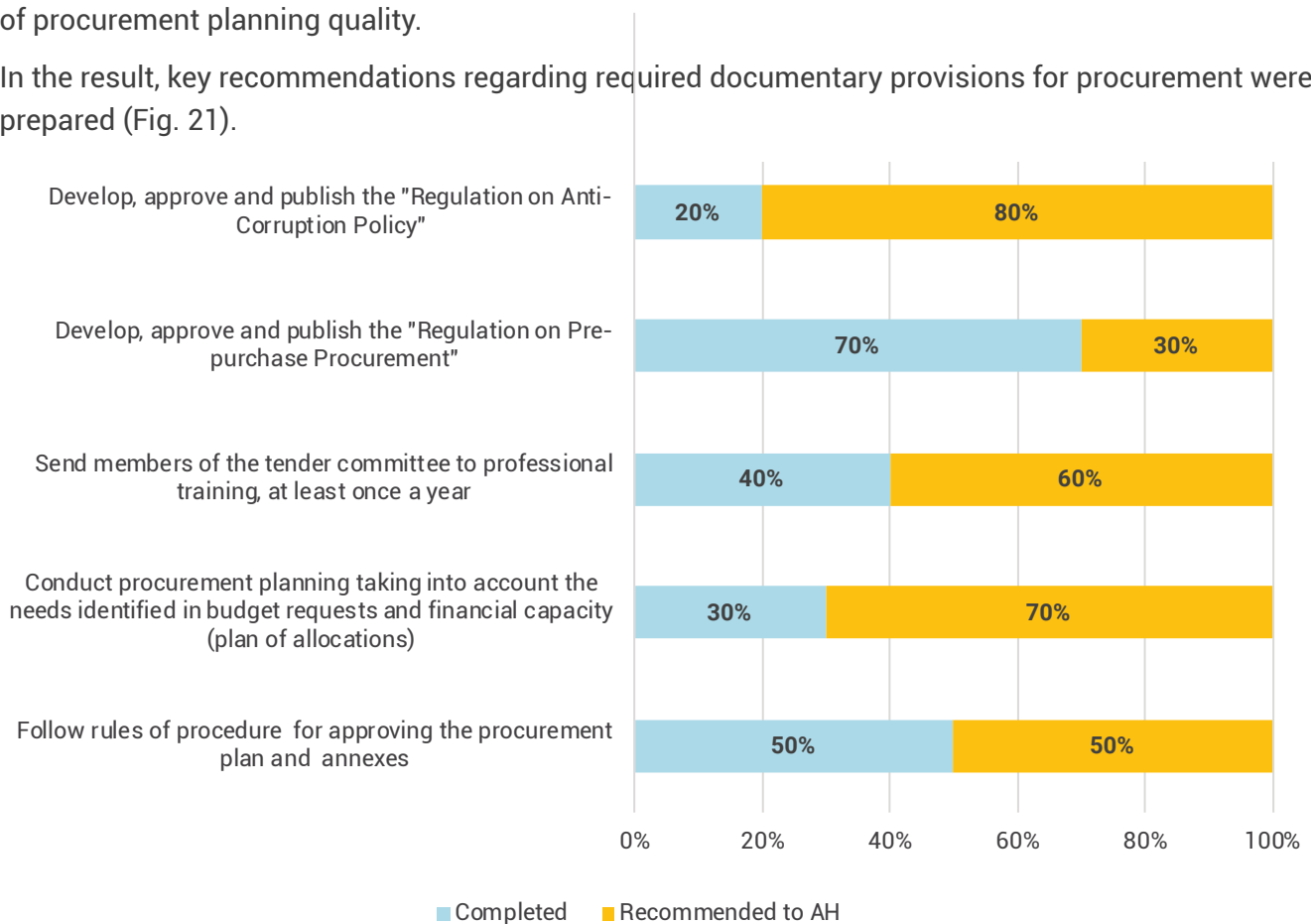
Figure 20. Recommendations for improving energy efficiency in the AHs

## 9. ORGANIZATION OF PROCUREMENT IN AHs

During the overview of the procurement procedures in AHs, an overview of availability and timeliness of the preparation of the following docs was studied: procurement planning documents (annual plan and allocations plan), number of amendments to the initial procurement plan, the compliance of budget requests and allocation plans, publication of the procurement plan on Prozorro portal and on official AH websites, availability of approved and published decisions on the tender committee composition, provision on the tender committees activities, provision on subthreshold procurements and provision on anti-corruption policy.

It was found out that all AHs have procurement plan and allocations plan, all AHs publish the procurement plan on the Prozorro portal and only 3 AH - on the AH official website. There are cases of discrepancy between the procurement and allocation plans of AHs. In addition, there have been cases of a large number of changes to the approved annual procurement plan, which shows the lack of procurement planning quality.

In the result, key recommendations regarding required documentary provisions for procurement were prepared (Fig. 21).



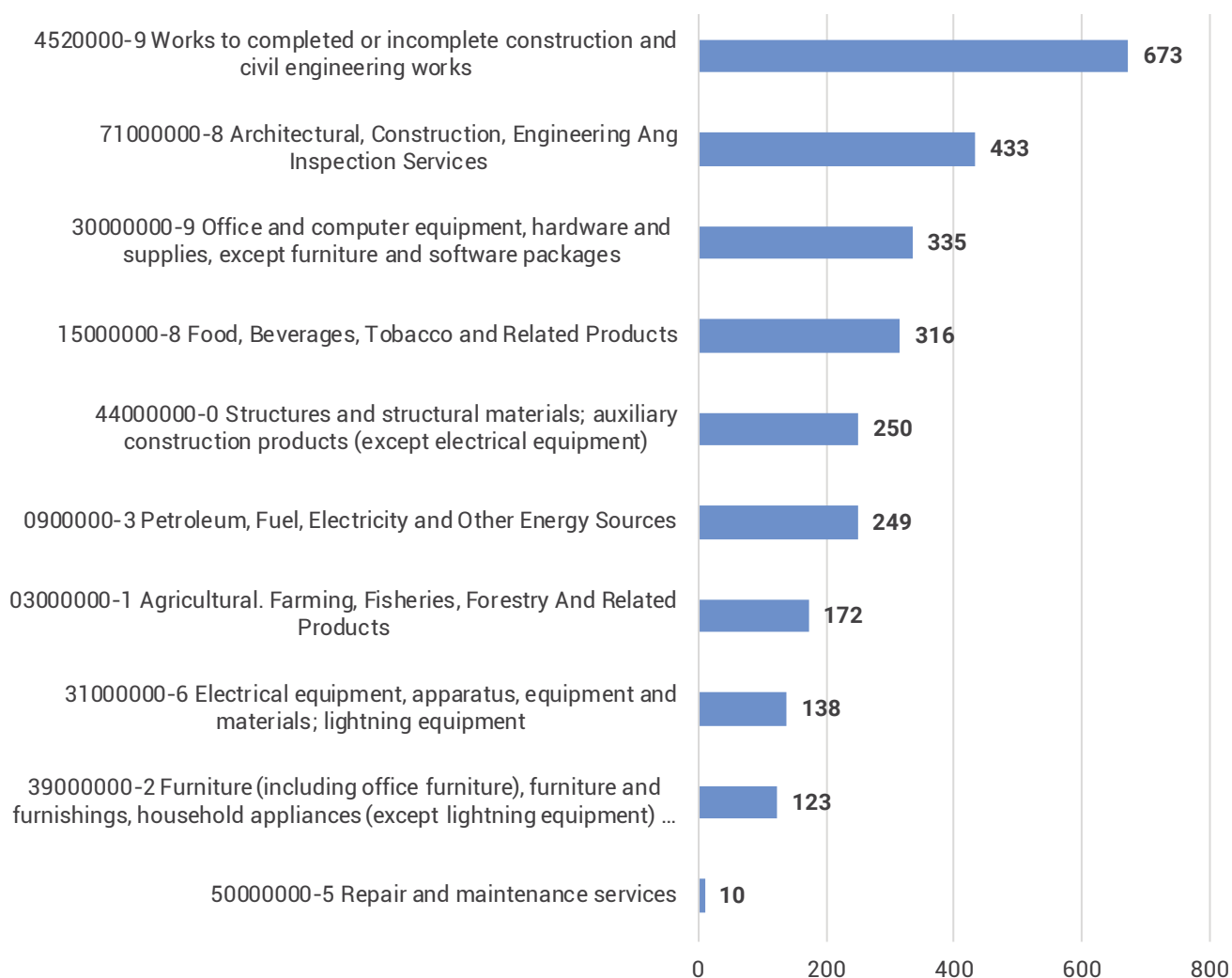
**Figure 21. Recommendations for AHs in public procurement area**

According to the Prozorro portal, during 2017-2018, in total, 4095 public procurement procedures with an estimated value of UAH 934.37 million were announced by the key spending units of 10 AHs. Of those, 92.4% (3.79 thousand) of announced procurements were completed, 6.3% of procurement procedures did not take place, 1.3% of procedures were cancelled. The main reason of cancellation of public procurement procedures is the lack of competition during open bidding.

The total cost of conducted non-competitive procedures was UAH 378.14 million, the total cost of competitive procedures was UAH 556.23 million, which is explained by the necessity to conduct open

tenders with purchases exceeding the standards stipulated in part 1 of article. 2 of the Law of Ukraine "On public procurement", namely: provided that the cost of the procurement subject (subjects), service (services) is equal or exceeds 200 thousand hryvnias, and of works - 1.5 million hryvnias. So, 86.9% of the total number of tenders conducted in AHs were on non-competitive tender procedures (on sums less than thresholds).

Generally, in analysed AHs only 10,21% of all procurement procedures were conducted through open tenders, 83,47% - with using reporting procedures about the contracts signed, 2,83% as subthreshold procurements, 1,93% as negotiation procedure and 1.96% as negotiation procedure for an urgent need. The most of noncompetitive procedures were carried out according to the procurement codes: 45000000-7 "Construction work and maintenance" - 673 procurements; 71000000-8 "Architectural, construction, engineering and inspection services" - 433 procedures (Fig. 22).



**Figure 22. TOP-10 non-competitive procurement procedures in AHs (by procurement codes)**

A small percentage of open tender procedures was explained by the AHs representatives due to having unfair competition in the public procurement market, which is caused by appeals against open public tenders. So, a lot of them are breaking up tenders to be below thresholds

According to the Prozorro portal, total 48 claims / complaints (13 complaints and 35 claims) were filed for announced procedures, 36 out of which were for over-threshold procurements and 12 for subthreshold procurements. Generally, 35 complainants filed claims / complaints.

Based on the overview of the results of procurement procedures in 10 AHs, the following recommendations were provided:

- to reduce the volume of subthreshold procurements,
- to increase the number of open bidding.
- when planning the procurement process for the next year, consolidate procurement lots (with the same procurement code) in order to increase possibility to attract attention of large companies and to save budget funds,
- to track trends in prices for goods, works and services throughout the year and take into account seasonal changes of prices when planning procurements,
- to use the DOZORRO system and "analytics module" of Prozorro portal.

The detailed info regarding provided recommendations for each of the above points for AHs is presented in Fig. 23.

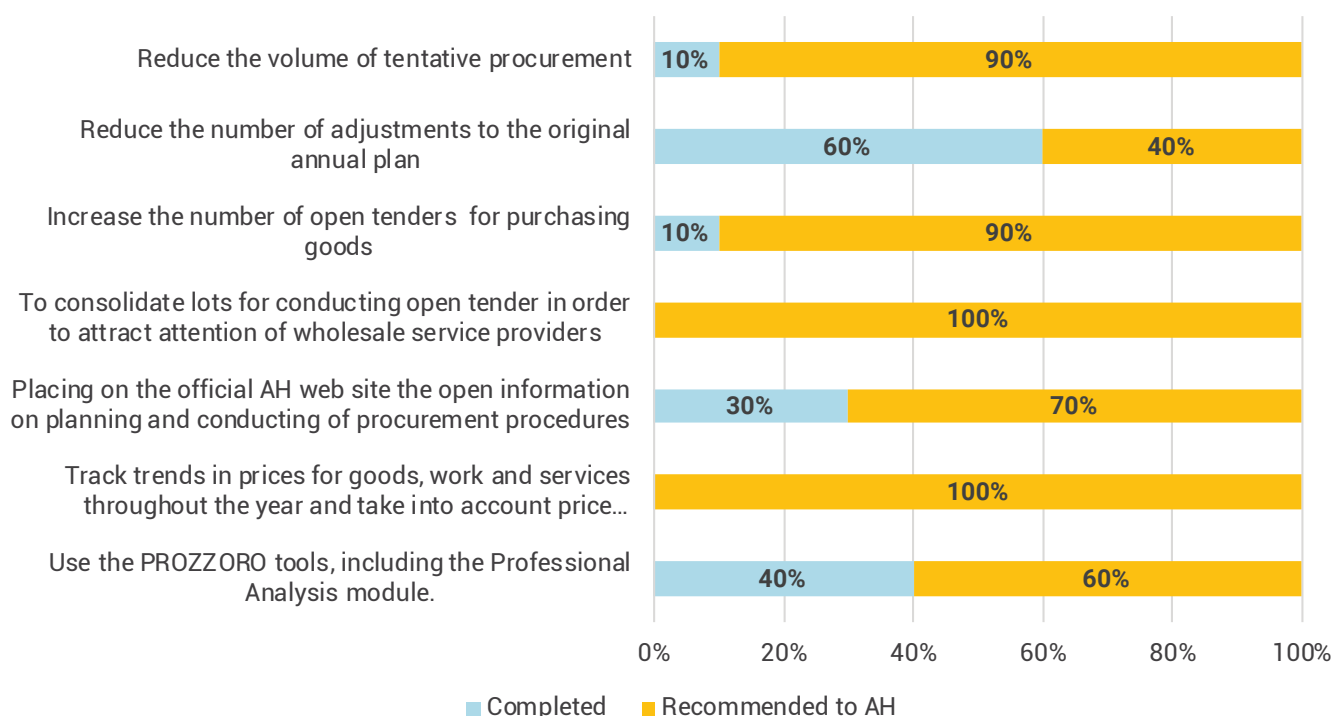
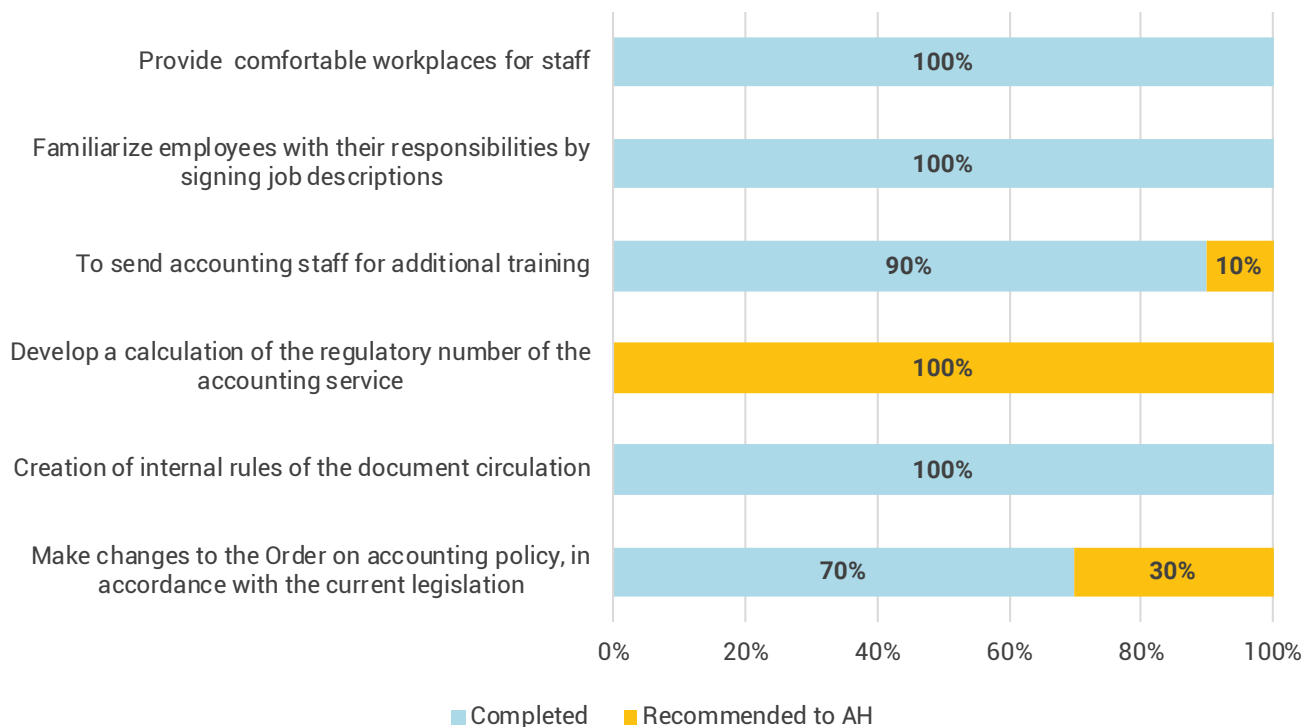


Figure 23. The recommendations for procurement procedures to key spending units of 10 AHs.

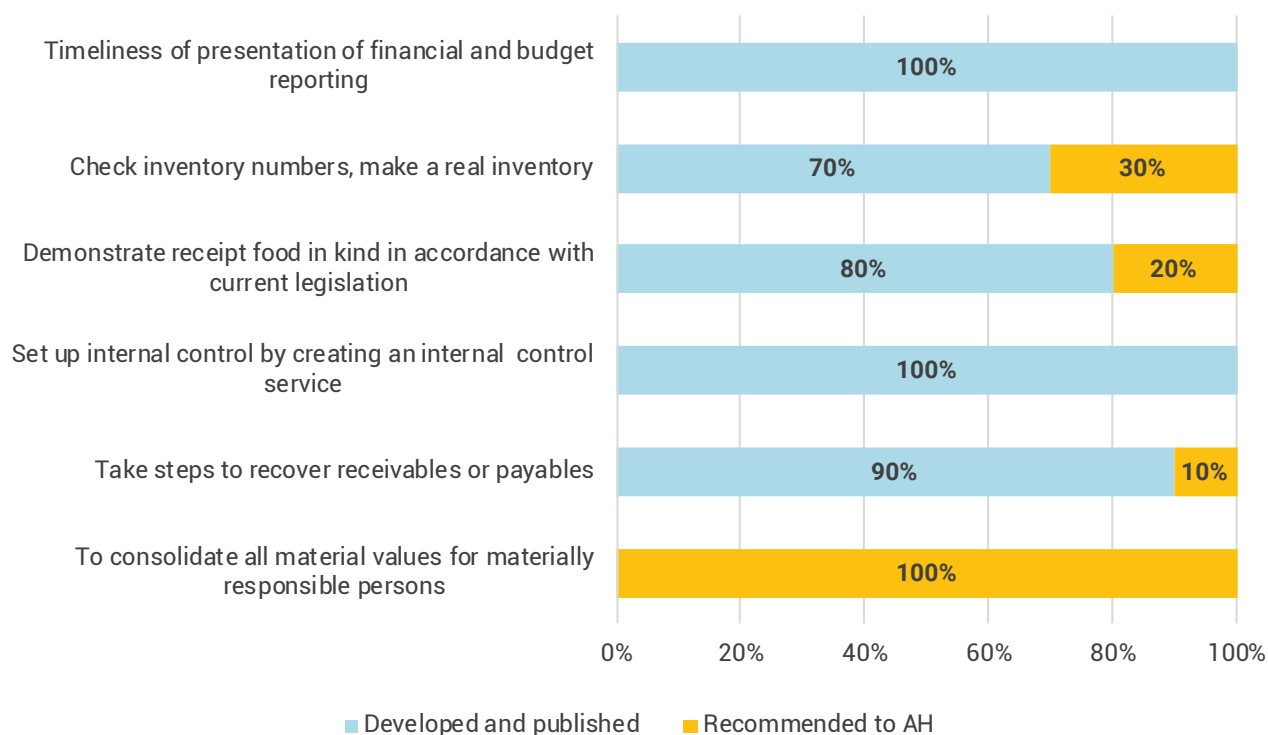
## 10. EFFICIENCY OF ACCOUNTING PROCEDURES

In the result of studying accounting documents in AHs and face-to-face interviews with AHs accountants, the following recommendations were developed (Fig. 24).



**Figure 24. Recommendations for organisation of accounting**

All institutions implement accounting policy aimed at consideration of incomes and expenditures in the process of their economic and financial activity. Accounting is conducted according to daybook order form. In AHs, annual inventory is conducted, depreciation is accrued, incomes are reflected in the accounts in chronological order according to the legislative procedure. However, not always such actions are reflected in regulated forms as well as amendments to the legislation are not taken into account. Therefore, AHs accountants were recommended to follow recommendations in the Fig. 25.



**Figure 25. Recommendations for organisation of accounting in AHs**

70% of AH managers automated their accounting with a software product. However, in many AHs accounting is not full-fledged, there is only partial automation in some areas or accountants of different institutions in one AH work in separate systems, i.g. one for payroll and the other for material assets. Therefore, a lot of work should be done by using a table editor in excel. One recommendation to AHs is to switch to cloud technologies for storing and processing data using online service software and have quick access to the data by several responsible persons simultaneously even being out of office. Innovative application should accelerate the process of exchange of information among key spending units and other responsible stakeholders in AHs.

## 11. ORGANIZATION OF INTERNAL CONTROL AND AUDIT IN AHs

Assessed AHs use procedures that could be considered as a control function over budget spending. They have separate elements of internal controls, but certainly not a developed system. Here should also be mentioned that there is no internal audit function developed at all.

But such procedures do not have complex and systematic approach. So, internal control system needs to be improved. The staff in the hromada administration and the members of its bodies only have a basic understanding of the concept of internal control and oversight. Therefore, the AHs' management awareness and professionalism regarding control and oversight should be further raised in the AHs by providing seminars, conferences and trainings, introducing pilot programs, sharing good practice examples.

It is necessary to ensure proper functioning of all internal control elements, particularly develop and approve documents that regulate AH management processes (structure, regulations on structural units, job descriptions, work plans, etc.), procedures and regulations for the implementation of measures which should take place at each stage of the budget process, as well as introduce processes for monitoring the implementation of established procedures, rules, regulations as well as ethics code. But all these tasks are very complicated and should be reinforced with external support.

## 12. BUDGET TRANSPARENCY

Transparency policy of local authorities could contribute to increase in public confidence regarding spending costs and accordingly gradually increase in the level of cooperation between local authorities and AH residents. At the same time, only half of assessed AHs have the "Provisions for local initiatives" and " Provisions for conducting public hearings". In most cases there is low interest of citizens in the hromada management and awareness of results of its development. People often do not know about their rights to be present at open meetings of the council and committees, incl. the right to have a speech on a previously agreed question (topic). At the same time there are cases of absence of published annexes to the adopted decisions, which cover the text of the adopted provisions and programmes, on the websites of amalgamated hromadas.

AHs management should pay more attention to the compliance of budget process participants with the requirements of article 28 of the Budget Code of Ukraine on publication of budget information:

- timely disclosure of budget decisions and amendments to them,

- disclosure of information on budget execution,
- disclosure of information by key spending units on passports of budget programmes, implementation of budget programmes, etc.

7 out of 10 AHs were recommended to post on their websites the information necessary for prior information of prospective investors of the possibility to open business on the territory of the amalgamated hromada. In addition, half of the assessed AHs were recommended to establish a dialogue and cooperation with business representatives working on the territory of their amalgamated hromadas

## 13. RECOMMENDATIONS TO THE NATIONAL LEVEL AUTHORITIES

In the result of the assessment of amalgamated hromadas' financial management, there was identified a number of issues that are common for all AHs, but can't be solved by themselves and need to be resolved at the national level, also there is the need to improve the legislative framework for that.

### Regarding local budget revenues:

1. It is needed to clearly settle the issues regarding criteria and procedure for adjusting the PIT income basis used for calculation of the basic (reverse) dotation. This issue is relevant for hromadas which receive significant one-time revenues but affects (sometimes quite substantially) the calculation of the basic (reverse) dotation.

2. Improve current legislation to resolve the issue of PIT payments by autonomous structural subdivisions of a legal entity. Particularly it is necessary to synchronise the provisions of the Budget, Tax, Economic, Civil Codes and the Law of Ukraine "On state registration of legal entities, individual entrepreneurs and public associations".

It is recommended to introduce amendments to the Tax and Budget Codes, which will regulate the issues of the PIT payment by separate and structural subdivisions of enterprises located in the other territory than the legal entity (i.e., not at the place of registration). Particularly, it is suggested to update paragraph 166.1 of Article 168 of the Tax Code of Ukraine and Article 64 of the Budget Code of Ukraine with a complete list of all types of subdivisions that business - legal entity - may have according to Article 64 of the Commercial Code of Ukraine and which perform their activities in the other territory than the legal entity, as well as by introducing amendments to Article 127 of the Tax Code to establish liability for violation of the procedure for the transfer of PIT to local budgets.

3. It is also necessary to regulate the legislation regarding the issues of making impossible re-registration of PIT payers without actually changing the location of real estate objects which are used for their work.

4. Improve the mechanism of information exchange between tax authorities and local self-government bodies in order to promptly receive full information on taxpayers' obligations (including individual payers). Oblige structural units (territorial offices) of state enterprises (UkrPoshta (National Post), Ukrtelecom (National telecommunication services), UkrZaliznytsia (National Railway), military bases) to pay PIT to the local budgets, on the territory of which they are actually located.

5. In the process of SFS reforming, effects from changing its structure on the local budgets and on control over taxpayers in AHs must be considered. Without improvements in tax and property registers and automatization system of control over the taxpayers, tax service reform will negatively influence on tax compliance at local level and local budgets in general.

6. The powers of local authorities regarding the control over local taxes and fees (as well as responsibility) should be changed. It is recommended to consider the possibility of transferring powers to local self-government bodies for collecting arrears of local taxes and fees, as the optimisation processes in the SFS bodies structure lead to their bigger reduction and the inability to provide effective control over taxpayers in areas that are far from the SFS structural units. Considering small amounts of local taxes and fees, comparing to the state taxes (like CIT, VAT, Excise tax), it is usually more expensive and economically inefficient for the SFS to invest their limited resources in control over local taxes and fees, that finally negatively affect the local budget revenues and tax culture in the country in general.

7. Having the same types of taxes and fees as in cities of oblast significance, AHs (especially rural) have less possibilities to have basis of taxation for introduction of these taxes (for example, the fee on parking lots, property tax on vehicles etc). Limited due to objective reasons and according to the Tax code norms, AHs can't increase their own revenues, therefore rely on basic dotation and can hardly finance necessary expenditures. It is recommended to consider at the state level the possibility of increasing the list of local taxes and non-tax revenues in the local budget, for example: fee for advertisement put in public places, depending on its kind and the type of advertising activity; household waste disposal fee; etc.

### **Regarding access to and exchange of public information:**

1. Adopt the draft Law of Ukraine "On amendments to article 15 of the Law of Ukraine "On access to public information" regarding reduction of time to publish of draft legislation, decisions of local self-government bodies (at least to 10 days) (reg. # 2003a). Currently, there is an obligation to publish all local councils' draft decisions on their web-pages for public scrutiny - 20 days before the draft decision is to be discussed. This period is too long and no member of a local council can propose solutions or decisions to be included to the next session agenda if the problem appears less than in 20 days before the discussion.

2. Amendments to the article 12.3.3 of the Budget Code concerning the provision of information by tax authorities have not yet been really put into practice in all hromadas (it depends on collaboration between local authorities and SFS representatives). Currently information is provided only on request within 30 days, and most often this information becomes irrelevant. As an option - to set the duty for SFS to provide information to the AH financial body in automated way regarding the payment of local taxes and fees no later than 5 working days after the deadline day for paying taxes or to consider the possibility to give access to the taxpayers base of appropriate budget for financial specialist in AHs.

3. Conduct a national census. Introduce the submission of annual statistical reports on the actually registered population of amalgamated hromadas, and the Ministry of Finance of Ukraine shall consider those data while calculating the amounts of state subventions for the planned budget year. Currently, actual and statistical data on the population sometimes significantly differs, which leads to lack of funds in the budgets of some hromadas and excessive income growth in others.



### Regarding procurement:

- Improve the Law of Ukraine "On public procurements" regarding the formation of requirements for the characteristics of the quality of products, goods, works and services with subsequent return to the supplier and the cancellation of the procurement contract for supplying goods of inadequate quality. Since the lack of possibility to include all the necessary characteristics of product quality is used as a justification for the low level of open bidding in AHs, representatives of AHs` executive bodies complain about a clear definition of the qualitative characteristics of products, as this could lead to the cancelation of such tenders because of submitting complaints to the Antimonopoly committee.
- Introduce a penalty system in the form of a "black list" and sanctions for products suppliers, which, after winning in open tender, supply products that do not correspond to the characteristics specified in the contract according to the inspection results by an independent body or insist on increasing the price after the tender has finished because of various reasons.
- Introduce indicators of product quality in determining the savings from procurement of goods, works and services from competitive procedures.

### Other spheres:

- When calculating annual basic tariffs for healthcare of a patient, the characteristics of rural areas, hromada areas and distances to populated areas, including additional costs for fuel and vehicle maintenance, should be taken into account. Cost per one patient in cities and rural AHs (especially with large distances) are different, the latter is often more expensive.
- Clearly determine the powers that remain in rayon state administrations and rayon councils, and the ones of AHs. Review the structure of rayon staff, their number and maintenance costs respectively. Unclear role of rayon administration and necessity of its financing is of a crucial importance for AHs that cover the territory of the whole rayon, moreover, it creates additional obstacles for fostering amalgamation (the key resources of rayon budget are PIT and interbudgetary transfers. If all hromadas in rayon are amalgamated, rayon budget receives zero PIT)
- Legally regulate the requirements and functions of the State Treasury Service of Ukraine (STS). As practice shows, various oblast STS bodies impose different requirements for financial specialists (for example, regulated forms of order of the Ministry of Finance # 57 "On approval of the documents used in the budget execution process" some refer to the order from the "LIGA-Zakon system", others to <http://zakon.rada.gov.ua> website).
- Introduce the possibility of using the funds of the State Fund for Regional Development for the next budget year for the implementation of the project if the funds for implementation were received in the IV quarter of the current year. The same approach should be applied to other investment / project grants
- Develop and approve the CMU Resolution on transferring by Main Department of the state Geocadaster of ownership rights to lands from rayons to amalgamated hromadas if they are established and foresee the audit of the State Audit Service of Ukraine of the implementation of the resolution. Rayon State Administrations shall transfer to AHs:
  - land transfer acts;
  - certificates of title to lands;

- inventory acts of land resources;
- land lease agreements signed by all contracting parties;
- acts of acceptance of communal property;
- certificate of title to the building and the land under it;
- communal property inventory act.

Without the certificate of ownership, an AH cannot perform any repair works in communal institutions. If there is no certificate of ownership, the design organisation refuses to develop projects for repair works. In addition, AHs cannot renew the lease agreements at the rates valid in a hromada territory if there is no information and contracts with tenants handed over by administrations.



