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FINANCIAL INDEPENDENCE OF LOCAL SELF-GOVERNMENT IN CONDITIONS OF DECENTRALIZATION

An important factor in the economic development of territories in the conditions of decentralization processes is the provision of certain financial independence of local self-government bodies. Financial independence combines the following important aspects: the availability of sufficient own financial resources and the ability to independently make decisions about their use by local self-government bodies. The issue of sufficient funding is of interest to all levels of the state. For local self-government, it is especially important in terms of financial decentralization, as local self-government bodies better understand the needs of local residents.

Much of the economic and political benefits of decentralized public finances depend on the ability of subnational or sub-central authorities to make their own tax decisions. A local or regional government that can apply its own tax base, tax rates has a high level of tax autonomy or «tax power» [1; 4]. It is important to be able to characterize state and local tax systems according to the degree of their tax autonomy.

Tax autonomy varies between Organization for Economic Co-operation and Development (OECD) countries and levels of government. Across OECD countries, state governments (regions, lands, or provinces) have full discretion over an average of approximately 65,7% of tax revenues of regional budgets. The other 9,3% of their income comes from sharing taxes with the approval of the higher level government on the distribution ratio. Instead, local governments have full or partial autonomy over only 12,1% of their revenues. A positive point is that local authorities retain their discretionary powers, but subject to certain restrictions – 59,8% of tax revenues. In general, the range of tax powers of regional and local governments of OECD countries is significantly high.

The share of regional and local government revenues in selected OECD countries as a percentage of gross domestic product (GDP) and as a percentage of total tax revenues are shown in Figure 1.

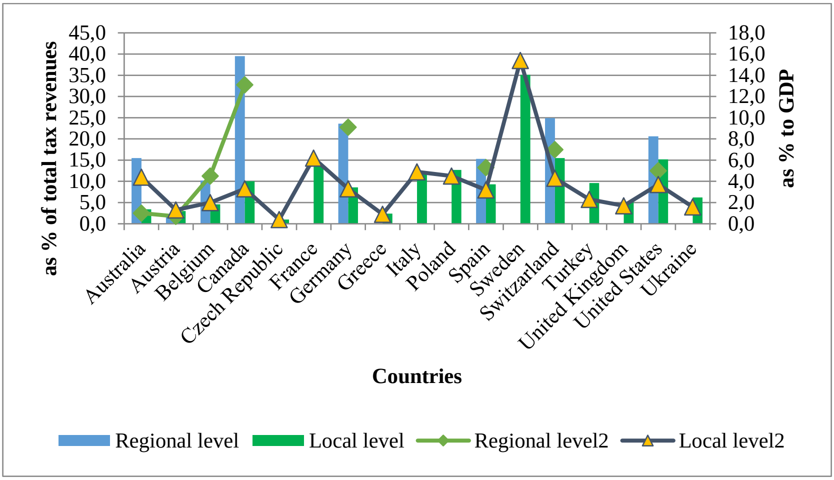

Figure 1. Share of tax revenues of regional and local governments of OECD countries in GDP and total tax revenues

Source: completed by the author according to source [2; 3]

Analysis of the share of tax revenues of regional and local governments of selected OECD countries in GDP and total tax revenues shows that the regional level of the OECD countries is characterized by a larger share of tax revenues compared to the local level: on average 18,0% and 10,1% in the total amount of tax revenues and 5,8% and 3,6% to GDP, respectively. Canada (49,5%), Switzerland (40,4%), the USA (35,8%) and Germany (32,2%) are characterized by a high share of tax revenues of the analyzed OECD regional and local governments in total tax revenues. The share of tax revenues of regional and local governments of the studied OECD countries in GDP is the largest in Canada (16,4%), Germany (12,4%) and Switzerland (11,3%).

Historically, in Ukraine, territorial finances are not divided into local and regional, but in general they are considered as local finances [4, p. 62].

However, the powers of their authorities should be delimited by levels of management according to the principle of subsidiarity. However, the share of tax revenues in the total volume of tax revenues and relative to GDP in Ukraine is noted at the level of 6,2% and 1,6%, respectively.

The key driving force behind the initiation of the process of financial decentralization in Ukraine is the creation of united territorial communities, an increase in the financial resources of local self-government bodies (from 6,5% in 2014 to 6,9% of GDP in 2021) and tax revenues to local budgets (from 5,6% to 6,4%).

If the share of own revenues of local budgets in relation to GDP increased in the consolidated budget of Ukraine, a downward trend was studied in terms of expenditures (from 14,3% in 2014 to 10,2% of GDP in 2021). This is evidence of the decline in the role of local budgets in the redistribution of GDP, as well as the average level of financial decentralization.

So, the analysis of GDP redistribution through the system of public finance of Ukraine indicates a significant centralization of financial resources, their limitation at the local level, as a result of which the implementation of their own powers by local self-government bodies is complicated. It is worth noting that during 2010–2021, the State Budget of Ukraine concentrated on average 78% of all revenues of the budget system and about 61% of expenditures, and in local budgets – approximately 22% and 39%, respectively. The reform of local self-government contributed to the gradual expansion of the revenue base, but it is important to increase the specific weight of local budgets in the Average level of European countries.

Also, in Ukraine, the main part of tax revenues of local budgets (74%) in 2021 was formed at the expense of national taxes, the inter-budgetary distribution of which is determined by the decisions of central authorities. Only about 26% provided taxes, for which local authorities have a limited right to set tax benefits and rates within the limits defined by legislation.

An important prerequisite for ensuring a certain budgetary independence is the availability of sufficient sources of own tax revenues at the disposal of local self-government bodies. Of course, tax powers require the formation of an appropriate tax mechanism, the elimination of significant interregional differentiation of local budget revenues, and the creation of conditions for proper tax administration. However, the implementation of the primary tasks of financial decentralization – increasing the financial capacity and effectiveness of local budgets – requires financial resources to expand own tax revenues [5, p. 44].

In Ukraine, compared to OECD countries, local self-government bodies have limited tax powers, which is unsatisfactory for ensuring the financial independence of these authorities in conditions of decentralization. Expanding the tax powers of local self-government bodies will increase the efficiency of the public sector, ensure investment attractiveness and socio-economic development of territorial communities, regions and the national economy as a whole.

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