



Хмельницька
міська рада



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PUBLIC EXPENDITURE AND FINANCIAL ACCOUNTABILITY (PEFA)

ASSESSMENT OF THE CITY OF KHMELNYTSKYI

June 2020

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Abbreviations

| | |
|--------------|---|
| AH | Amalgamated Hromada |
| CG | Central Government |
| COFOG | Classification of Functions of Government (UN) |
| COS | City of Oblast significance |
| EU | European Union |
| GDP | Gross Domestic Product |
| GFS | Government Finance Statistics |
| GG | General Government |
| HLG | Higher Level of Government |
| HR | Human Resources |
| IA | Internal Audit |
| IMF | International Monetary Fund |
| IPSAS | International Public Sector Accounting Standards |
| MoF | Ministry of Finance |
| MTEF | Medium-term Expenditure Framework |
| MTFF | Medium-term Fiscal Framework |
| NA | Not Applicable |
| PEFA | Public Expenditure and Financial Accountability |
| PFM | Public Financial Management |
| SAS | State Audit Service |
| SECO | Swiss State Secretariat for Economic Affairs |
| SFS | State Fiscal Service |
| SNG | Subnational government |
| TSA | Treasury Single Account |

WB

World Bank

Currency and indicative exchange rate

Local currency unit: Ukrainian Hryvnia (UAH)

Exchange rates, November 2019:

27.20 UAH per Euro

25.10 UAH per US Dollar

Fiscal year

1 January – 31 December

Executive Summary

Purpose, scope and management of the assessment

1. This report presents the findings of the assessment of the public financial management (PFM) systems of the city of Khmelnytskyi based on the PEFA methodology as revised in 2016. It covers all operations under the control of the city during the period 2016-18. Where applicable the cut-off date is 31 October 2019. It is intended that the report should be considered alongside parallel PEFA reports on three other types of subnational (SNG) – oblast, rayon and amalgamated hromada – so as to give a comprehensive picture of PFM at all levels of SNG which can be used to prepare an overall paper on possible future improvements to be pursued in the context of a new PFM reform plan from 2020 onwards. It has been commissioned by the Swiss Secretariat for Economic Affairs (SECO) following discussions with the Government of Ukraine and its other principal development partners, the World Bank (WB) (which is undertaking the assessments of an oblast and a rayon) and the European Union (EU) (which has commissioned the report on an amalgamated hromada (AH)). The report has been prepared in accordance with a Concept Note on the same lines as those prepared for the other assessments, which was approved by an Oversight Committee of the principal stakeholders, national and international, on 20 January 2020. Preparation of the draft report was undertaken during the period from November 2019 to April 2020. The final published report will take account of the comments on the draft by the PEFA Secretariat and the main national and international stakeholders.

2. Ukraine has a relatively complex structure of subnational governments (SNGs) with three tiers below the central government: the top tier of 24 oblasts (and the city of Kyiv), the second tier of 474 rayons (districts) together with 166 cities of oblast significance (COSs) and 665 amalgamated settlements (AHs), and the third tier 7,627 cities of rayon significance and not yet amalgamated settlements. SNG revenue is largely determined by central government which fixes almost all tax rates and collects all taxes; in addition to prescribed shares of national tax revenue collected in their areas SNGs receive transfers from the centre allocated by formulae which take account of population numbers and relative prosperity. The amounts of these transfers have frequently been revised upwards during the course of budget execution. The managements of oblasts and rayons are appointed by central government, but the leaders of COSs and AHs are locally elected. Funds generally reach a lower tier SNG through the higher tier in which it is situated, but COSs and AHs are funded directly from central government.

Main findings of the assessment

3. The main findings of the assessment are focused on whether the city has appropriate systems in place to assist it in maintaining aggregate fiscal discipline, allocating resources strategically and using them efficiently for service delivery. A summary of the findings on the individual elements of the PFM systems – pillar by pillar – is provided in Chapter 4.1 below, which is reflected in the table of scores at the end of this summary.

Aggregate fiscal discipline

4. Both revenue and expenditure exceeded the original budgets by substantial margins during 2016-18, when Ukraine experienced considerable, although declining inflation. The city budgeted cautiously, and both the revenue from its share of tax receipts, and transfers from

central government for social welfare (in 2016 and 2017) and investment, were well in excess of the amounts in the original budget. The provision in the Budget Code enabling SNGs to reappropriate any surplus remaining at the end of each year to increase the following year's expenditure once the earlier year's budget execution report had been submitted, was a further factor leading to expenditure out-turns exceeding original budgets. In these circumstances Khmelnytskyi was able to meet all its intended expenditure without any risk that the necessary revenue would not be available.

Strategic allocation of resources

5. Although there was no comprehensive medium-term fiscal planning in place during 2016-18, the city's investment programme was carried forward within the framework of its strategic development plan. The education service in particular benefitted from the city's ability to finance teachers' salaries well above the minimum levels on which targeted transfers from central government were based. Nursery education and sports and cultural facilities were all expanded. However, the absence of any assurance of medium-term central government funding for investment adversely impacts the planned development of city services.

Efficiency in the use of resources for service delivery

6. The city gets good scores for most of the Indicators concerned with the processes of budget execution, although there is no execution reporting on the administrative classification. Procurement is a partial exception, where a high proportion of the contracts (by value) were let without competition; procurement is delegated to each individual budget user subject to relatively little supervision and monitoring. A start has been made in establishing indicators of performance in the delivery of public services, and reporting on actual delivery. But the process needs to be more consistent in the treatment of objectives and subsequent performance, and to be fully integrated in a medium-term fiscal planning framework. The objective of increased cost-effectiveness should be demonstrated by indicators of outputs and quality against quantity and costs of inputs. Internal audit is not currently functioning, and external audit coverage is limited; further development of these functions would provide increased assurance that resources are being used to their best advantage.

Prospects for improvements in PFM

7. Following the 2014 crisis and the resulting fiscal retrenchment, successive governments have sought to improve public services by decentralising responsibility to SNGs while at the same time adjusting the allocation of national revenues so that the SNGs concerned are able to dispose of the necessary resources. The Budget Code has been amended to provide for medium-term fiscal planning and for the development of internal audit as a service to assist management in making the best use of resources. A new PFM Reform Strategy for the period 2021-24 is being developed to follow on from the results of the 2017-20 Strategy. The intention is to improve the allocation of resources through medium-term budget planning, including the development of results-oriented budgeting at SNG level, while increasing transparency and accountability for PFM throughout the country. It is intended that the findings of this PEFA assessment, alongside those of the recent central government PEFA assessment and those of the other levels of SNGs, should be taken into account in determining the direction and timing of future PFM changes.

Table 1 Summary of Indicator and Dimension scores

| PFM Performance Indicator | Scoring method | Dim.1 | Dim.2 | Dim.3 | Dim.4 | Overall score |
|---|-----------------------|--------------|--------------|--------------|--------------|----------------------|
| Pillar 1: Budget reliability | | | | | | |
| HLG-1 Transfers from Higher Level of Government | M1 | A | D | A | | D+ |
| PI-1 Aggregate expenditure out-turn | M1 | D | | | | D |
| PI-2 Expenditure composition out-turn | M1 | C | D | A | | D+ |
| PI-3 Revenue out-turn | M2 | D | C | | | D+ |
| Pillar 2: Transparency of public finances | | | | | | |
| PI-4 Budget classification | M1 | D | | | | D |
| PI-5 Budget documentation | M1 | C | | | | C |
| PI-6 City operations outside financial reports | M2 | A | A | NA | | A |
| PI-7 Transfers to subordinate governments | M2 | NA | NA | | | NA |
| PI-8 Performance information for service delivery | M2 | B | C | A | D | C+ |
| PI-9 Public access to fiscal information | M1 | A | | | | A |
| Pillar 3: Management of assets and liabilities | | | | | | |
| PI-10 Fiscal risk reporting | M2 | C | NA | NA | | C |
| PI-11 Public investment management | M2 | A | A | C | A | B+ |
| PI-12 Public asset management | M2 | B | B | A | | B+ |
| PI-13 Debt management | M2 | A | A | NA | | A |
| Pillar 4: Policy-based fiscal strategy and budgeting | | | | | | |
| PI-14 Macro-economic and fiscal forecasting | M2 | NA | D | NA | | D |

| PFM Performance Indicator | Scoring method | Dim.1 | Dim.2 | Dim.3 | Dim.4 | Overall score |
|---|-----------------------|--------------|--------------|--------------|--------------|----------------------|
| PI-15 Fiscal strategy | M2 | D | NA | NA | | D |
| PI-16 Medium-term perspective in expenditure budgeting | M2 | D | D | C | NA | D+ |
| PI-17 Budget preparation process | M2 | B | A | C | | B |
| PI-18 Council scrutiny of budgets | M1 | C | A | A | A | C+ |
| Pillar 5: Predictability and control in budget execution | | | | | | |
| PI-19 Revenue administration | M2 | NA | NA | NA | NA | NA |
| PI-20 Accounting for revenue | M1 | A | A | A | | A |
| PI-21 Predictability of in-year resource allocation | M2 | A | B | A | A | A |
| PI-22 Expenditure arrears | M1 | A | A | | | A |
| PI-23 Payroll controls | M1 | B | A | A | C | C+ |
| PI-24 Procurement management | M2 | A | D | B | B | B |
| PI-25 Internal controls on non-salary Expenditure | M2 | A | D | A | | B |
| PI-26 Internal audit | M1 | D | NA | NA | NA | D |
| Pillar 6: Accounting and reporting | | | | | | |
| PI-27 Financial data integrity | M2 | A | A | C | B | B+ |
| PI-28 In-year budget reports | M1 | D | A | B | | D+ |
| PI-29 Annual financial reports | M1 | D | D | A | | D+ |
| Pillar 7: External scrutiny and audit | | | | | | |
| PI-30 External audit | M1 | D | D | NA | D | D |
| PI-31 Council scrutiny of audit reports | M2 | D | NA | NA | NA | D |

Chapter 1 Introduction

1.1 Rationale and purpose

1. Delivery of the main public services – education, health, social welfare – in Ukraine is the responsibility of subnational governments (SNGs) who account for nearly 40 per cent of General Government expenditure (including social insurance funds). Since 2014 Ukraine has embarked on a programme aimed at greater efficiency and greater decentralisation in the provision of public services. An important element in this is the rationalisation of the structure of subnational government, where there are at present some 9,000 different territorial authorities at four different levels: 24 provinces (oblasts) plus the city of Kyiv, 474 districts (rayons), 166 cities of oblast significance (COSs) and more than 8,000 other cities and local communities (hromadas). The ultimate objective is to reduce the number of rayons to about 100, and the number of hromadas to about 1,500; there are currently some 665 amalgamated hromadas (AHs). The Government of Ukraine has agreed with its principal development partners – the European Union (EU), World Bank (WB) and Swiss Secretariat for Economic Affairs (SECO) – that it would be useful to assess the current public financial management (PFM) performance of authorities at different levels in one oblast by means of PEFA (Public Expenditure and Financial Accountability) assessments based on the criteria in the 2016 PEFA Framework established by WB, EU, International Monetary Fund (IMF) and the Governments of France, Norway, Slovak Republic, Switzerland and the United Kingdom. The WB has commissioned assessments of the Khmelnytskyi oblast and the Iziaslavskyi rayon (drawing on a trust fund supported by the EU), while the EU has arranged for its LOGICA project to undertake the assessment of the Starosynnyavska amalgamated hromada (AH). This assessment of the city of oblast significance (COS) at the centre of the oblast has been commissioned by SECO. It is intended that the findings of this report, and those of the other SNG PEFA assessments, should inform a consolidated policy brief recommending ways forward in the improvement of PFM. Meanwhile the World Bank is undertaking a PEFA assessment of the central government, the results of which will also be taken into consideration in planning future improvements in PFM at all levels of government.

1.2 Assessment management and quality assurance

2. The assessment of the city of Khmelnytskyi is overseen by a Committee of the principal stakeholders, as follows:

Ministry of Finance (MoF): Gennady Plis, Deputy Minister (Chair), Oleksiy Zhak, General Director, Strategic Planning and European Integration Directorate, and Olena Machulna, Deputy Director, Local Budgets

Ministry of Regional Development: Serhiy Sharshov, Director, Local Government Development and Territorial Organisation

Khmelnytskyi city: Andriy Bondarenko, Deputy Mayor

SECO: Ilona Postemska, Embassy of Switzerland

World Bank: Irina Scherbyna, Public sector specialist

European Union: Aleksandra Janovkaya, PFM advisor

LOGICA: Milos Markovic

Association of Ukrainian Cities: Oleksandr Slobozhan, Executive Director

3. The assessment team consists of John Wiggins (UK), international expert and team leader, Vyacheslav Zubenko, General Director of the (Kyiv) Institute for Budgetary and Socio-Economic Research and Olesiiia Golynska, local PFM expert.

4. A draft Concept Note was circulated to the Oversight Group and the PEFA Secretariat for peer review on 24 October 2019, and a revised version, taking account of comments by the PEFA Secretariat (Julia Dhimitri, 15 November), World Bank (Irina Scherbyna, 10 November) and LOGICA (Milos Markovic, 5 December) was circulated on 9 December 2019. No comments were received on the revised draft. Final approval was given by the Oversight Group on 20 January 2020.

5. The peer reviewers to whom the draft report was submitted on 30 March 2020 are the Ministry of Finance (Oleksy Zhak and Olena Machulna), Ministry of Regional Development (Serhiy Sharshov), Khmelnytskyi city (Andriy Bondarenko), Association of Ukrainian Cities (Oleksandr Slobozhan), World Bank (Iryna Scherbyna), EU Delegation (Alexandra Janovskaya), LOGICA (Milos Markovic), GIZ (Yuliia Sybirianska, and PEFA Secretariat. Comments were received from LOGICA and GIZ (20 April), PEFA Secretariat (21 April) and Association of Ukrainian Cities (28 April). An earlier version had been reviewed by Khmelnytskyi city administration prior to the wider circulation. This revised draft takes into account comments made by the PEFA Secretariat and also reflects discussions with the other peer reviewers who submitted comments. Quality Assurance arrangements are set out in Annex 5 below.

1.3 Assessment methodology

5. The draft report has been prepared according to the methodology established by the PEFA partners, as set out in the 2016 PEFA Framework for assessing public financial management and the Supplementary Guidance for Subnational Assessments. A preparatory mission was undertaken in October 2019, and data were collected during and after a field mission in November 2019. All operations under the control of the city were reviewed. Where assessment scores depend on data from the last three completed years, the period is 2016-18, with 2018 the most recent completed year. All the Performance Indicators are assessed except PI-7 (because Khmelnytskyi has no subordinate governments) and PI-19 (since the assessment and collection of all taxes is the responsibility of the central government); these Indicators are treated as Not Applicable. A few Dimensions are also considered Not Applicable because they do not fit the circumstances of Khmelnytskyi. Where scores reflect the current situation the cut-off date is the end of October 2019. Most information was provided either directly by city officials or taken from data published on the city website. Account was also taken of studies produced by development partners, notably a series of IMF consultancy reports published in November 2019 and a World Bank Public Finance Review published in 2017; these are listed in Annex 3A. A PEFA report should normally include evidence about aspects of PFM performance from non-government organisations or other non-official

sources; in this case no bodies were found operating in Khmelnytskyi which could provide evidence of this sort. However, it should be recognised that the city publishes a wide variety of PFM information on its website, that budget preparation includes well-developed arrangements for public consultation, and that the city's strategic development plan was specifically endorsed by a public vote.

Chapter 2 Country background information

2.1 Country economic situation

1. Ukraine faced very serious economic difficulties in 2014 as a result of political unrest, the annexation of the Crimea by the Russian Federation, and the armed conflict in the East of the country. Real GDP fell by 25 per cent, precipitating substantial emigration to neighbouring countries. Since then there has been a reestablishment of economic stability under an extended arrangement with the IMF, and the resumption of modest economic growth. The recovery has been generally broad-based, with construction particularly strong as investment increased from a very low base in 2014.

Table 2.1 Main economic indicators

| Indicator | 2016 | 2017 | 2018 | 2019 Est. |
|---------------------------------------|-------|-------|-------|-----------|
| Population (millions) | 42.6 | 42.5 | 42.3 | 41.8 |
| Real GDP growth (%) | 2.4 | 2.5 | 3.3 | 2.7 |
| CPI Inflation (y-o-y average, %) | 13.9 | 14.4 | 11.0 | 9.2 |
| Unemployment rate (% of labour force) | 9.3 | 9.5 | 9.2 | 8.6 |
| Fiscal Balance (% of GDP) | -2.2 | -2.2 | -2.5 | -2.3 |
| Current account balance (% of GDP) | -1.5 | -2.2 | -3.3 | -2.9 |
| GDP (UAH billions) | 2,385 | 2,983 | 3,447 | 3,916 |
| GDP per head (US\$) | 2,059 | 2,640 | 3,110 | 3,747 |
| UAH per US dollar (end of year) | 27.2 | 28.1 | 26.2 | 25.0 |

Source IMF reports cr17/83 and cr19/03

2.2 Fiscal and budgetary trends

2. Cautious macro-economic policies required as a condition of the IMF programme kept the fiscal and current external deficits under control throughout the period 2016-18. Expenditure had been cut very sharply in response to the 2014 crisis, including major reductions in social benefits, while employers' social contributions were reduced from over 40 per cent of payrolls to 22 per cent in order to encourage employment. This also resulted in the transfer of a considerable part of expenditure on benefits from social insurance accounts directly onto the central government budget. Much of the real terms reduction in expenditure was achieved through incomplete compensation for retail price inflation which exceeded 20 per cent in 2014 and 40 per cent in 2015. The requirement under the Budget Code to "protect" expenditure on pay, food, utilities and social benefits meant that there was little scope in 2014-15 for public investment. Subsequent improvements in the economic conjuncture

allowed a recovery in investment, particularly at the level of SNGs. Continuing relatively high inflation contributed to a reduction in total public debt as a percentage of GDP from over 80 per cent in 2016 to about 65 per cent at the end of 2018, with the downward trend continuing into 2019.

Table 2.2 Actual General Government (GG) revenue and expenditure (UAH billions)

| | 2016 | 2017 | 2018 |
|---|--------------|----------------|----------------|
| Total GG revenue | 914.1 | 1,172.0 | 1,398.2 |
| as % of GDP | 38.4 | 39.3 | 40.6 |
| External grants | 7.1 | 8.9 | 6.9 |
| GG tax revenue (excluding social contributions) | 656.2 | 835.2 | 1,006.5 |
| Social contributions | 131.8 | 185.6 | 237.0 |
| Other GG revenue | 119.0 | 142.3 | 147.8 |
| Total GG expenditure | 967.1 | 1,237.4 | 1,484.3 |
| as % of GDP | 40.6 | 41.5 | 43.1 |
| CG current expenditure | 314.3 | 383.5 | 457.0 |
| CG capital expenditure | 26.7 | 41.0 | 67.8 |
| CG transfers to SNGs | 195.4 | 272.6 | 289.9 |
| Expenditure of social insurance funds | 275.6 | 316.8 | 388.9 |
| SNG current expenditure | 297.9 | 421.8 | 479.4 |
| SNG capital expenditure | 52.6 | 74.3 | 91.2 |
| SNG total expenditure | 350.5 | 496.1 | 570.6 |
| SNG total exp. as % of total GGE | 36.2 | 40.1 | 38.4 |
| SNG total exp. As % of GDP | 14.7 | 16.6 | 16.6 |
| General government fiscal balance | -53.0 | -65.3 | -86.2 |
| as % of GDP | -2.2 | -2.2 | -2.2 |
| General government debt as % of GDP (end-year) | 81.2 | 71.9 | 64.2 |

Source IMF cr17/83 and 19/03

2.3 Local government structure and the basis for decentralisation

3. The basis for the structure and operation of subnational governments in Ukraine is founded in Articles 132-3 and 140-5 of the country's Constitution. Article 132 looks for a balance of centralisation and decentralisation of state power, and Article 133 specifically lists the oblasts

into which the country is divided. The other Articles provide the basis for the election of local government councils at different levels and for the management of their property and services. Starting from 2014 a process of increasing fiscal decentralisation is under way. Amendments to provide for this were made to the country’s Budget and Tax Codes. The changes have been made in accordance with the April 2014 Cabinet Decree setting out the “Concept of reforming local self-government and territorial organisation of government in Ukraine”, and the April 2015 Cabinet Decree on the “Methodology of formation of capable territorial communities”. The 2015 law on the Voluntary Amalgamation of Territorial Communities provides the basis for bringing together fragmented settlements into new local government units at the lowest level which will dispose of sufficient resources to be able to discharge much wider responsibilities. The objective is to ensure that services are provided and managed as near as possible to the citizens concerned. This is an ongoing process, with further changes in prospect in the allocation of responsibilities for different services and of the resources needed to meet their costs. This PEFA assessment, and the parallel assessments at different SNG levels together with the assessment of the central government is intended to provide information relevant to decisions on future changes.

4. Sub-National governments in Ukraine are divided into four main levels, as shown by Table 2.3 (villages which have not yet been incorporated into Amalgamated Hromadas (AHs) have few powers and are not regarded as a separate category). Although all types of SNG elect their Councils, the heads of the administrations of provinces (oblasts) and districts (rayons) are appointed by the country’s President, while those of cities and AHs are elected by their Councils. Central government funds reach rayons and villages through the oblast level, but independent cities (Cities of Oblast Significance (COSs)) and AHs are funded directly from MoF. As Table 2.3 shows, independent cities account for the largest share of SNG expenditure (net of transfers) – more than a third – while oblasts and rayons each account for about a quarter of the total. For SNGs as a whole (see Table 2.7 below) more than 50 per cent of revenues accrue from central government targeted (for social welfare, education, health and specific investments) and general transfers; a further 30 per cent are derived from their allocated shares of taxes levied and collected by central government. The allocations for each level are determined by Articles 64 and 66 of the Budget Code which provide for rayons and COSs to receive 60 per cent of personal income tax paid in their areas as well as smaller shares of other taxes and fees. These bodies also receive 100 per cent of property taxes and the single taxes paid by entrepreneurs within their areas. The SNGs concerned have some discretion to set the rates of property and single taxes, although collection remains in the hand of central government. Oblasts receive 15 per cent of personal income tax together with shares in the revenue from numerous other taxes and fees. The amounts of most transfers are determined by complex formulae based on population numbers concerned, and other objective factors.

Table 2.3 Overview of structure of Subnational governments in Ukraine

| Level of Government | Central | Province (Oblasts) | District (Rayons) | Independent cities | Amalgamated hromadas | Villages |
|---------------------|---------|--------------------|-------------------|--------------------|----------------------|----------|
|---------------------|---------|--------------------|-------------------|--------------------|----------------------|----------|

| | | | | | | |
|---------------------------------------|--------|---------------------|--------|---------|-------|-------|
| Number of jurisdictions | 1 | 25 (inc. Kyiv city) | 474 | 166 | 665 | 7,627 |
| Average population | 41.8m. | 1.6m. | 90,000 | 140,000 | 8,500 | 500 |
| Own political leadership | Yes | Yes | Yes | Yes | Yes | No |
| Approve own budget | Yes | Yes | Yes | Yes | Yes | No |
| % of General Govt. expenditure (2018) | 38.4% | 12.3% | 12.0% | 15.4% | 3.0% | 2.4% |

Source: IMF cr19/351

2.4 Responsibilities of SNGs

5. As well as being responsible for local infrastructure and amenities, housing and utilities, and sports and cultural facilities, SNGs are responsible for delivery of the main education and social welfare services, with much of the necessary funding provided through targeted transfers from central government. This also applied to health services during most of the period 2016-18, but much of the expenditure has now been taken over by the centrally-run health service which pays health service providers according to the number of patients they treat instead of funding facilities by reference to the numbers of medical staff and patient beds. There is considerable overlapping of responsibilities for the provision of most services as between the different levels of government, as is shown in Table 2.4 below. Targeted grants meet the costs of the basic salaries of teachers and medical personnel, and most of the costs of means-tested welfare benefits, but SNGs may pay additional amounts from their own resources. The central government has exclusive responsibility for defence and social insurance benefits, while rayons and independent cities have exclusive responsibility for nursery education. Hromadas have no involvement in education and health services, but apart from this responsibility for the provision of most services is shared among the different levels of government. Oblasts provide most higher education services and were responsible for tertiary health services, while cities and rayons provide school education. But the allocations of responsibility are for the most part not exclusive; thus Khmelnytskyi as a larger city directly provides some higher education. Although SNGs participated in the distribution of means-tested social benefits during 2016-18 with the costs largely met from targeted transfers from central government, they have no involvement in the Social Security Fund which operates only at central government level, financed by earnings-related contributions and subsidies from the central government budget.

Table 2.4 Distribution of responsibility for service provision

| Function/subfunction | Central Govt. | Oblasts | Rayons/cities | Hromadas |
|------------------------|---------------|---------|---------------|----------|
| Housing | P | P | P | P |
| Utilities | P | P | P | P |
| Environment protection | P | P | P | P |
| Social benefits | E | N | N | N |
| Social welfare | P | P | P | P |
| Nursery education | N | N | E | N |
| Primary education | P | P | P | N |
| Secondary education | P | P | P | N |
| Vocational education | P | P | N | N |
| Higher education | P | P | P | N |
| Recreation and culture | P | P | P | P |
| Primary healthcare | P | P | P | N |
| Secondary healthcare | P | P | P | N |
| Tertiary healthcare | P | P | N | N |
| Public order & safety | P | P | P | P |
| Defence | E | N | N | N |
| Transport | P | P | P | P |
| Other economic affairs | P | P | P | P |
| General administration | P | P | P | P |

E = Exclusive responsibility, P = partial responsibility, N = No responsibility

Source: IMF cr19/351

6. Table 2.5 shows the economic breakdown of aggregate SNG expenditure. Employment costs (which are “protected”, together with expenditure on food, utilities and welfare benefits) declined from 27 per cent of total expenditure in 2016 to 21 per cent in 2017, while some relaxation of austerity enabled expenditure on goods and services to increase from 17 per cent of the total in 2016 to more than 25 per cent in 2017. Capital investment remained roughly steady as a proportion of the total at around 15 per cent.

Table 2.5 Actual Gross current and capital expenditure of all subnational governments
(UAH billions and percentages of overall total)

| | UAH billions | | | Percent of total | | |
|--|-----------------|--------------|--------------|---------------------|-------------|-------------|
| | 2016 | 2017 | 2018 | 2016 | 2017 | 2018 |
| Total current expenditure | 297.9 | 421.9 | 479.4 | 85.0 | 85.0 | 84.0 |
| Personnel expenditure | 95.5 | 105.6 | 126.9 | 27.2 | 21.3 | 22.2 |
| Goods and services | 61.8 | 125.8 | 144.9 | 17.6 | 25.4 | 25.4 |
| Interest payments | 0.3 | 0.1 | 0.6 | 0.1 | 0.0 | 0.1 |
| Grants and transfers | 19.2 | 35.3 | 44.6 | 5.5 | 7.1 | 7.8 |
| Other current expenditure (mainly social welfare) | 121.1 | 155.0 | 162.4 | 34.6 | 31.2 | 28.5 |
| Total capital expenditure | 52.6 | 74.3 | 91.2 | 15.0 | 15.0 | 16.0 |
| Overall total expenditure | 350.5 | 496.1 | 570.6 | 100 | 100 | 100 |

Source: Ministry of Finance

7. Table 2.6 below shows the importance of education, social welfare and health expenditure which together account for more than 70 percent of the total. Expenditure on economic affairs increased from less than 10 per cent of the total in 2016 to more than 13 percent in 2018, reflecting increased funds available for investment in infrastructure.

Table 2.6 Functional allocation of actual subnational government expenditure (UAH billions and percentage of overall total)

| | UAH billions | | | Percent of total | | |
|---|-----------------|--------------|--------------|---------------------|-------------|-------------|
| Function | 2016 | 2017 | 2018 | 2016 | 2017 | 2018 |
| General public services (inc. interest payments) | 16.2 | 23.8 | 28.6 | 4.6 | 4.8 | 5.0 |
| Public order, security, justice | 0.4 | 0.6 | 1.2 | 0.1 | 0.1 | 0.2 |
| Economic affairs | 34.8 | 55.9 | 77.2 | 9.9 | 11.3 | 13.5 |
| Environment protection | 1.5 | 2.6 | 3.0 | 0.4 | 0.5 | 0.5 |
| Housing, common services | 17.5 | 27.2 | 30.0 | 4.9 | 5.5 | 5.3 |
| Health | 63.0 | 85.7 | 93.2 | 18.0 | 17.3 | 16.3 |
| Culture, sport | 11.9 | 16.4 | 18.9 | 3.4 | 3.3 | 3.3 |
| Education | 94.6 | 136.6 | 165.7 | 27.0 | 27.3 | 29.0 |
| Social welfare | 106.4 | 141.3 | 145.5 | 30.4 | 28.5 | 25.5 |
| Intergovernmental transfers | 4.2 | 6.0 | 7.3 | 1.2 | 1.2 | 1.3 |
| Total expenditure | 350.5 | 496.1 | 570.6 | 100 | 100 | 100 |

Source: Ministry of Finance

8. Table 2.7 shows the main components of SNG revenue 2016-18. Tax revenues accounted for some 40 per cent of the total, while central government transfers of all kinds provided some 55 per cent; the remaining 5 per cent came from payments by service users and other local fees and charges.

Table 2.7 Total actual revenues of subnational governments (UAH billions and percentage of overall total)

| | UAH billions | | | Percent of total | | |
|---|--------------|--------------|--------------|------------------|-------------|-------------|
| Revenue type | 2016 | 2017 | 2018 | 2016 | 2017 | 2018 |
| Share of national taxes | 104.6 | 148.4 | 171.5 | 28.6 | 29.6 | 30.5 |
| Single taxes | 17.2 | 23.4 | 29.6 | 4.7 | 4.7 | 5.3 |
| Property and land taxes | 25.0 | 29.1 | 31.3 | 6.8 | 5.8 | 5.6 |
| Local fees and charges | 0.1 | 0.1 | 0.2 | 0.0 | 0.0 | 0.0 |
| Revenues from sales of goods and services | 21.9 | 26.0 | 28.0 | 6.0 | 5.2 | 5.0 |
| General transfers | 11.9 | 39.5 | 50.3 | 3.2 | 7.9 | 8.9 |
| Education transfers | 44.5 | 51.5 | 60.4 | 12.2 | 10.3 | 10.7 |
| Health transfers | 44.4 | 56.2 | 61.7 | 12.1 | 11.2 | 11.0 |
| Social welfare transfers | 94.6 | 125.4 | 126.5 | 25.8 | 25.0 | 22.5 |
| Other current revenue | 0.6 | 0.6 | 0.8 | 0.2 | 0.1 | 0.1 |
| Revenue from asset sales | 1.4 | 1.9 | 2.1 | 0.4 | 0.4 | 0.4 |
| Total revenues | 366.1 | 502.1 | 562.4 | 100 | 100 | 100 |

Source: Ministry of Finance

2.5 City of Khmelnytskyi

Economic situation

9. The city of Khmelnytskyi has a population of 263,000 (2015). It is the largest city in the oblast of which it is the centre, which has an overall population of about 1.4 million. Comparative economic data is available only at the oblast level; this showed that GDP per head in 2017 was about two-thirds of the national average. Most of the oblast is rural and agricultural, and it seems clear that the city is considerably more affluent than the surrounding area; this is confirmed by the relatively large income tax revenue which accrues to the city, enabling it to spend considerably more on education than the minimum level provided through the targeted grant amount. It is an important commercial and transport centre on main North-South and East-West routes about half way from Kyiv to the Polish frontier. The surrounding area is agriculturally productive, and the city hosts important markets. There is a diversified industrial base including construction, minerals and a variety

of manufacturing industries. There is a range of educational institutions at all levels, including three universities. The city administration is active in promoting economic development, and has seen the creation of 6,000 new jobs since the beginning of 2016.

Revenue and expenditure

10. The composition of the city's revenue is summarised in Table 2.8 below. Targeted transfers for social welfare, education and health taken together provide the largest element in the total, about 45 per cent, with the city's share of nationally collected taxes providing approaching a further 30 per cent. Thus only about a quarter of total revenues are derived from sources over which the city has some control – mainly the single taxes paid by small entrepreneurs, land and property taxes, and revenues from local fees and charges.

Table 2.8 Actual Revenues of Khmelnytskyi city (UAH millions and percentage of total)

| | UAH millions | | | Percent of total | | |
|--------------------------|----------------|----------------|----------------|------------------|------------|------------|
| Revenue type | 2016 | 2017 | 2018 | 2016 | 2017 | 2018 |
| Share of national taxes | 488.2 | 717.0 | 921.5 | 23.7 | 25.8 | 29.1 |
| Single taxes | 145.5 | 204.5 | 250.1 | 7.1 | 7.3 | 7.9 |
| Property and land taxes | 139.7 | 153.7 | 168.7 | 6.8 | 5.5 | 5.3 |
| Local fees and charges | 34.8 | 48.5 | 48.8 | 1.7 | 1.7 | 1.5 |
| Other local revenues | 266.5 | 340.0 | 335.5 | 12.9 | 12.2 | 10.6 |
| Health transfers | 173.6 | 227.0 | 210.2 | 8.4 | 8.2 | 6.6 |
| Education transfers | 217.4 | 287.2 | 307.6 | 10.5 | 10.3 | 9.7 |
| Social welfare transfers | 573.9 | 797.0 | 904.2 | 27.8 | 28.6 | 28.5 |
| Grants | 7.8 | 1.4 | 12.5 | 0.4 | 0.1 | 0.4 |
| Asset sales | 13.6 | 6.9 | 11.6 | 0.7 | 0.2 | 0.4 |
| Total revenues | 2,061.0 | 2,783.2 | 3,169.7 | 100 | 100 | 100 |

Source: Khmelnytskyi Finance Dept.

11. The economic breakdown of the city's expenditure is shown in Table 2.9. Employment costs, social transfers and capital investment all fell back by about two per cent of the total between 2016 and 2018, while expenditure on goods and services increased from 22 per cent of the total to 29 per cent. There was a small budget surplus on the GFS definition in 2016, followed by small deficits in 2017 and 2018; the 2018 deficit was less than 1.4 per cent of total expenditure. (The city treats as revenue any fund balances remaining at the end of the previous year. Available balances fell from 147.1m UAH at the beginning of 2017 to 86.6m UAH at the end of 2018.) The city's general policy is to avoid borrowing; it has only one small outstanding loan (11.8m UAH at end-2018, or less than 0.4 per cent of annual expenditure).

Table 2.9 Economic classification of actual expenditure of Khmelnytskyi city (UAH millions and percentage of total)

| | UAH millions | | | Percent of total | | |
|---------------------------|-----------------|----------------|----------------|---------------------|-------------|-------------|
| Expenditure type | 2016 | 2017 | 2018 | 2016 | 2017 | 2018 |
| Employment costs | 633.1 | 749.7 | 938.6 | 31.0 | 26.8 | 29.2 |
| Goods and services | 448.6 | 778.1 | 933.7 | 21.9 | 27.8 | 29.1 |
| Interest payments | - | - | 0.2 | - | - | 0.0 |
| Subsidies | 229.7 | 379.8 | 371.7 | 11.2 | 13.6 | 11.6 |
| Social welfare | 355.6 | 391.6 | 454.1 | 17.4 | 14.0 | 14.1 |
| Other current expenditure | 22.9 | 22.9 | 34.2 | 1.1 | 0.8 | 1.1 |
| Capital expenditure | 353.9 | 479.8 | 481.1 | 17.3 | 17.1 | 15.0 |
| Total expenditure | 2,043.9 | 2,802.0 | 3,213.5 | 100 | 100 | 100 |

Source: Khmelnytskyi Finance Dept.

11. The functional breakdown of the city's expenditure is shown in Table 2.10 below. By far the largest elements were education and social welfare. The targeted transfers for education and health were intended to provide for professional salary costs in line with the nationally-established salary grid, while those for social welfare (see table 2.8 above) were sufficient to meet most of the expenditure. The city pays its teachers some 30 per cent more than the national rate as well as meeting all the costs of ancillary staff, buildings, utilities and other costs; altogether about 70 per cent of education expenditure is met from the city's own resources, with the targeted transfers meeting only the remaining 30 per cent.

Table 2.10 Khmelnytskyi city actual expenditure by function (UAH millions and percentage of total)

| | UAH millions | | | Percent of total | | |
|--------------------------|-----------------|----------------|----------------|---------------------|-------------|-------------|
| Function | 2016 | 2017 | 2018 | 2016 | 2017 | 2018 |
| General public affairs | 55.8 | 102.6 | 127.5 | 2.7 | 3.7 | 4.0 |
| Public order, etc. | 46.8 | 70.6 | 87.0 | 2.3 | 2.5 | 2.7 |
| Economic affairs | 317.6 | 350.3 | 393.9 | 15.6 | 12.5 | 12.3 |
| Environment protection | 0.7 | 1.0 | 1.2 | 0.0 | 0.0 | 0.0 |
| Housing, utilities | 131.9 | 162.8 | 196.3 | 6.5 | 5.8 | 6.1 |
| Recreation and culture | 50.1 | 70.4 | 37.4 | 2.5 | 2.5 | 1.2 |
| Health | 282.5 | 350.3 | 409.4 | 13.8 | 12.5 | 12.7 |
| Education | 573.1 | 821.0 | 1,048.9 | 28.0 | 29.3 | 32.6 |
| Social welfare | 585.4 | 873.0 | 911.8 | 28.6 | 31.2 | 28.4 |
| Total expenditure | 2,043.9 | 2,802.0 | 3,213.5 | 100 | 100 | 100 |

Source: Khmelnytskyi Finance Dept.

12. The city has formulated its Development Strategy for the period up to 2025, and within this framework its Action Plan for 2017-20. The Action Plan was approved by the city Council in May 2017, following extensive public consultation; reports are published each year on progress in its implementation. The overall objective is to foster the growth of the city economy by creating a favourable investment climate and providing a modern infrastructure to support investors. Investor support services are financed from the city budget, and specific infrastructure investments undertaken, for example to facilitate the operation of the city's important markets, and to ensure the availability of skilled workers. Performance indicators are the volume of new investments and the number of traders in the markets. According to the city 6,000 jobs were created in the two and a half years up to autumn 2019.

2.6 Legal and regulatory arrangements for PFM

13. The city generally complies with its legal responsibilities in the provision of infrastructure and other public services, and with its responsibilities towards central government in the way it manages and accounts for its revenue and expenditure. However, some more recent changes in the Budget Code – notably the implementation of medium-term fiscal planning, and the installation of new arrangements for internal control and internal audit based on good practice elsewhere in Europe. Table 2.10 summarises the main legal and regulatory arrangements applicable to city operations.

Table 2.11 Summary of PFM Legislation

| Area | Description |
|---|---|
| General | The Constitution is the fundamental law of Ukraine, providing for a government where powers are divided between Parliament (Verkhovna Rada), President and Government. Articles 140-146 prescribe the structure of subnational governments. |
| Budget preparation and execution | All aspects of budget preparation and execution at both central and subnational government levels are prescribed by the Budget Code (2010, with numerous subsequent amendments) and subordinate legislation made under it. |
| Revenue and expenditure operations and banking arrangements | All revenue and expenditure operations of SNGs must take place through the Treasury Single Account managed by the MoF (Article 16 of the Budget Code). Temporarily free funds of local budgets may be deposited in banks at least 75 per cent owned by the State (Cabinet |

| Area | Description |
|------------------------|---|
| | Resolution No. 6 of 12 January 2011). Before payments are made the Treasury must be satisfied that there is approved budgetary provision available and that contracts have been correctly concluded. |
| Debt | The Budget Code contains provisions concerning public debt, including limiting total outstanding borrowing by subnational governments to about 200 per cent of their average annual expenditure on fixed investment. |
| Tax administration | Taxes are prescribed by the unified Tax Code of Ukraine (2014), which covers taxes which are the responsibility of local governments as well as those which are the exclusive responsibility of the central government. All tax collection whether for the benefit of central government or of local governments is undertaken by the State Fiscal Service subordinated to the Ministry of Finance of Ukraine. This is intended to be divided into separate State Tax and State Customs Services; STS will be responsible for the collection of taxes of interest to SNGs. The rates of most taxes are set by central government, but SNGs may vary the rates of some Single Taxes, and also property and land taxes, within a range set centrally. |
| Public sector entities | Corporatised city-owned enterprises pay 18 per cent profit tax to the city rather than to central government. |
| Internal control | Article 26 of the Budget Code provides the basis for internal control, which should be exercised by the institution concerned. In Khmelnytskyi this is exercised by the Department of Control which reports to the Head of the Administration rather than to the Department of Finance. The (central government's) State Audit Service also has authority to exercise internal control. MoF has issued instructions on the operation of internal control by managers of budget funds under Article 111 of the Budget Code, |

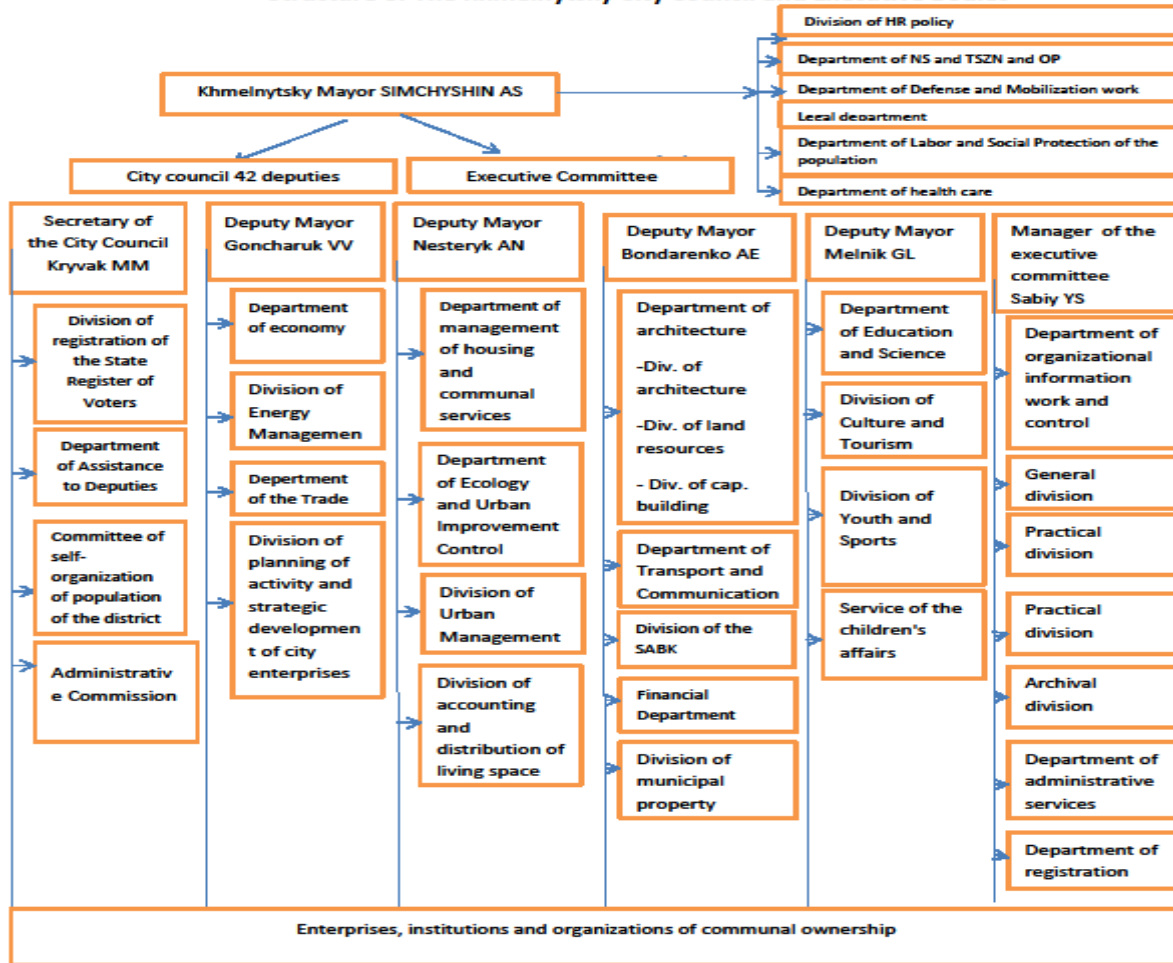
| Area | Description |
|--|---|
| | and a new Department of State Internal Financial Control was established in MoF in 2017 to harmonise and coordinate internal control and internal audit throughout government at all levels. |
| Internal audit | The basis for Internal Audit (IA) is Cabinet Decree No. 1001 of September 2011. This envisages the establishment of units in each institution which will advise top managers on the efficiency and correctness of operations for which the institution is responsible. Further guidance was issued in 2018 emphasising the need to focus IA on the operation of systems rather than the checking of individual transactions. So far progress has been limited in implementing IA in SNGs. |
| Public Procurement | Public procurement is regulated by the 2015 law, which requires all procurement above prescribed thresholds to be notified on the electronic platform ProZorro, with many contracts let through electronic auction. The system is supervised at central government level by the Ministry of Economy. |
| Staff appointments | SNGs are autonomous in the appointment of staff, provided that appointments are subject to competition and that candidates for appointment meet relevant statutory requirements. |
| External audit | The Accounting Chamber (ACU) which is the Supreme Audit Institution of Ukraine has jurisdiction only over payments from the central government (State) budget, including transfers to SNGs. ACU does not audit SNG PFM systems or financial statements. Compliance, financial and performance audit of SNGs is undertaken by the State Audit Service (SAS) which is part of central government, but coverage is limited. |
| Legislative oversight of the preparation and execution of the budget | Procedures for the consideration of the draft annual budget by the city Council are set out in the Budget Code. The draft |

| Area | Description |
|------------------|---|
| | budget should be submitted to the Council before the end of November each year, and the report on budget execution should be submitted to the Council by the end of February of the following year. |
| Decentralisation | The allocation of functions and powers to SNGs is governed by the Law on Local Self-Government, as well as by numerous provisions of the Budget Code. |
| Transparency | Public access to information is provided for in the (2011) law on Freedom of Information. The city provides much information about its revenue, expenditure and other activities on its website. |

2.7 Institutional arrangements for PFM in Khmelnytskyi

14. The directly elected Mayor is in overall charge of city operations. He is assisted by an Executive Committee of four Deputy Mayors whose appointment is approved by the 42 members of the elected city Council, together with the Head of the Administration and the Secretary of the city Council. In total the city employs about 10,000 people of whom about 550 are in the central administration and the rest are engaged in education, health, social welfare, housing and infrastructure provision, culture and sports. The organisation chart is shown below. All city operations are directly incorporated in the city budget; there are no extra-budgetary units controlled by the city. The city has no involvement in social security funds, and does not own any financial public corporations.

Structure of The Khmelnytsky City Council and Executive Bodies



15. In addition to its directly provided services the city owns a network of 33 enterprises which provide a variety of services including water supply, public transport, district heating and some health services. The operations of the most important enterprises in 2018 are summarised in Table 2.11 below. Although some of these bodies might be considered not to meet fully the GFS criteria to be regarded as public corporations, they are all established as corporate enterprises, reporting in the same way to the city administration. They are all treated in this assessment as public corporations to be considered under PI-10.1 rather than as extra-budgetary units under PI-6. As Table 2.11 shows, nearly 80 per cent of their revenues are paid by consumers, with 7 per cent accruing from contracts with the city for services and 15 per cent in the form of subsidies from the city to support the provision of transport and utility services. It would be inconsistent with national legal requirements to treat them as extra-budgetary units whose operations should consolidated with budgetary operations in the city's financial statements.

Table 2.11 City Enterprise Operations 2018 (UAH millions)

| No | Enterprise | Consumer income (own income), excluding VAT | City payments for Services | City subsidy | Current expenditure | Capital expenditure |
|----|--|---|----------------------------|--------------|---------------------|---------------------|
| 1 | Community pharmacy "Viola" | 71.5 | 0.0 | 0.0 | 71.5 | 0.9 |
| 2 | HUC Spetskomuntran " (Special community transport) | 37.7 | 1.8 | 3.7 | 39.3 | 19.2 |
| 3 | UC for construction, repair and operation of roads | 14.8 | 57.2 | 0.6 | 76.8 | 1.7 |
| 4 | CUC "Khmel'nyts'kteplokomunenerh" (Communal heating) | 447.5 | 0.0 | 19.8 | 544.2 | 19.1 |
| 5 | UC "Pivdenno-Zakhidni teplomerezhi" (South-West heating network) | 140.7 | 0.0 | 16.0 | 178.3 | 7.5 |
| 6 | CUC "Khmelnytsky water utility" | 147.8 | 0.0 | 47.6 | 168.0 | 51.0 |
| 7 | HUC "Electrotrans " (Trolley buses) | 103.6 | 0.0 | 82.6 | 126.1 | 36.2 |
| 8 | UC "Khmelnytsky City Center for Primary Health Care # 1" | 25.3 | 0.0 | 3.2 | 21.9 | 1.3 |
| 9 | UC "Khmelnytsky City Center for Primary Health Care # 2" | 35.7 | 0.0 | 5.0 | 19.8 | 1.3 |
| 10 | Other enterprises | 123.7 | 40.8 | 41.3 | 178.9 | 31.7 |
| | Total | 1148.3 | 99.8 | 219.8 | 1424.8 | 169.9 |

Source: Khmelnytskyi City administration

Evaluation of PFM systems, processes and institutions

3.1 Subnational PEFA indicator HLG-1: Transfers from a higher level of government

This indicator assesses the extent to which transfers (including shares of revenue collected by the central government) to the subnational government from a higher-level government are consistent with the original approved high-level budgets, and are provided according to acceptable time frames. The indicator contains the following three dimensions and uses the M1 (WL - Weakest link) method for aggregating dimension scores:

- Dimension HLG-1.1. Outturn of transfers from higher level government (last three completed fiscal years);
- Dimension HLG-1.2. Earmarked grants outturn (last three completed fiscal years);
- Dimension HLG-1.3. Timeliness of transfers from higher-level government (last three completed fiscal years);

Background

In Ukraine SNGs are mainly financed by the apportionment of centrally collected tax revenues and by targeted grants for education, health and social welfare expenditure. In addition poorer SNGs may receive additional freely disposable transfers intended to compensate for their relative lack of resources, and all SNGs may receive transfers to finance particular investment projects. The allocation of tax and other revenues to the different levels of government is regulated by different provisions of the Budget Code. Khmelnytskyi's main sources of revenue are the 60 per cent of income taxes paid by people employed within the city and targeted grants for specific purposes. The city also receives some elements of revenue from other centrally-determined taxes and fees. The collection of all taxes, including taxes on land and property, and the Single Tax paid by small entrepreneurs, where the city has some role in setting the rates or ensuring the collection, is undertaken by the (central government) State Fiscal Service.

There is a question how the revenues automatically accruing from central government taxes should be treated. If they are viewed simply as a legal entitlement of the city, they may fall to be considered with other city revenues in PI-3. This is the approach taken in the parallel report on the Starosynavska Amalgamated Hromada. However, in previous SNG reports in Croatia, Albania and Serbia revenues from central government taxes where the SNGs have no role in rate-setting or collection have been treated alongside central government transfers in HLG-1, given the PEFA guidance which states that "transfers from HLG include all revenues transferred either in the form of block or earmarked grants as well as shared revenues which are not collected and retained by the SNG". On this approach receipts from the Single Tax and from property and land taxes, where the city has a role in determining the tax rates and identifying the taxpayers, are treated as the city's own revenues in PI-3 below; all other tax receipts are included alongside targeted grants in HLG-1, since the city is the passive recipient of revenue where the rates and collection arrangements are wholly outside its control. This is the approach preferred by the authors of this assessment, since any corrective action in

relation to either the tax shares or transfers would be the responsibility of the central government, leaving in PI-3 only those revenues over which the city has some measure of control. However, in order that the reports may be comparable, the scores for both approaches are presented. As a relatively prosperous SNG Khmelnytsky receives no general transfers, and is required to give up a relatively small proportion of its revenues for redistribution by the centre.

HLG-1.1 Outturn of transfers from higher level government

Annual deviation of actual total HLG transfers from the original total estimated amount provided by HLG to the sub-national entity for inclusion in the latter's budget.

Table 0.1. Planned and actual receipts from state budget transfers (UAH millions)

| | 2016 | | 2017 | | 2018 | |
|--|----------------|----------------|----------------|----------------|----------------|----------------|
| | Plan | Out-turn | Plan | Out-turn | Plan | Out-turn |
| Freely disposable revenues | 486.4 | 612.9 | 738.7 | 866.7 | 935.0 | 1,073.9 |
| Personal income tax | 395.0 | 488.1 | 595.0 | 717.0 | 785.3 | 921.5 |
| Taxes on goods and services | 90.1 | 129.0 | 142.5 | 148.5 | 148.6 | 149.7 |
| Other taxes | 1.3 | -4.2 | 1.2 | 0.0 | 1.1 | 2.7 |
| Targeted Transfers | 797.4 | 968.9 | 1,118.8 | 1,310.1 | 1,405.7 | 1,428.7 |
| Social welfare | 407.7 | 547.0 | 610.5 | 731.2 | 868.6 | 761.1 |
| Education | 216.7 | 217.4 | 287.2 | 287.2 | 304.7 | 307.6 |
| Health services | 172.4 | 173.6 | 220.5 | 227.0 | 210.2 | 210.2 |
| Specific investments | 0.6 | 30.9 | 0.6 | 64.7 | 22.2 | 149.8 |
| Total | 1,283.8 | 1,581.9 | 1,857.5 | 2,175.5 | 2,340.5 | 2,502.7 |
| Targeted transfers out-turns/planned | 121.5% | | 117.1% | | 101.6% | |
| Composition variance of targeted transfers | 16.9% | | 12.3% | | 17.8% | |
| Total state transfers out-turns/planned | 123.2% | | 117.1% | | 106.9% | |

Source: City of Khmelnytskyi

Income tax receipts were underestimated by about 20 per cent in each year, while targeted grants for social welfare were substantially underestimated in 2016 and 2017, but overestimated in 2018. The differences between budget estimates and actual out-turns for targeted transfers were the result of changes made by central government during the course of budget execution. Thus there were substantial differences between the overall totals of tax receipts and transfers in 2016 and 2017, but the underestimates on tax revenue were largely offset by the overestimate on social welfare grants in 2018. Only small amounts of the grants for specific investments were included in the original budgets for all three years. If the assessment is based only on the amounts of the targeted transfers (there were no freely available transfers), the out-turns were 121.5 per cent, 117.1 per cent and 101.6 per cent of budget for the three years 2016-18 respectively, resulting in the score A. If all receipts from central government are considered, the out-turns were 123.2 per cent, 117.1 per cent and 106.9 per cent of budget for the three years 2016-18 respectively, again resulting in the score A.

HLG-1.2 Earmarked grants outturn

Transfers for education and health services were paid almost exactly as planned in all three years. Social welfare transfers exceeded budget by 34 per cent in 2016 and 20 per cent in 2017, but fell 12 per cent short of budget in 2018. Substantial new targeted transfers were provided for investment in all three years, but the amounts were only notified after the beginning of the year. As a result there were substantial changes in the percentage shares of different transfers in the overall total, leading to relatively high calculated overall variances. As indicated in Table 3.1 above, the calculated overall variances of targeted transfers (see also Annex 4 below) were 16.9 per cent, 12.3 per cent and 17.8 per cent for the three years 2016-18 respectively. Since they exceeded 10 per cent in all three years, the score is D.

HLG-1.3 Timeliness of transfers from higher level government

The city’s share of tax receipts accrued daily as taxes were paid. The timing of receipts of targeted transfers is agreed with central government at the beginning of the year. Quarterly data show that there were no delays in the receipt of the funds with the exception of social welfare transfers in 2018 when transfers were reduced in the second half of the year. At least 75 per cent of receipts have been on time in each of the last three years. Score: A

| PI | Dimension | Score | Justification for score |
|---------|---|-------|---|
| HLG-1 | Transfers from a higher level of government (M1) | D+ | Scoring Method M1 |
| HLG-1.1 | Outturn of transfers from higher level government | A | Total receipts were 123.2%, 117.1% and 106.9% of budget for the three years 2016-18 respectively. Receipts of targeted transfers were 121.5%, |

| | | | |
|---------|--|---|---|
| | | | 117.1% and 101.6% of budget for the three years 2016-18 respectively. |
| HLG-1.2 | Conditional transfers outturn | D | The variance of targeted transfers exceeded 10% in all three years 2016-18. |
| HLG-1.3 | Timeliness of transfers from higher-level government | A | Almost all transfers were received in accordance with the predetermined schedule. |

3.2 Pillar 1. Budget Reliability

PI-1: Aggregate expenditure out-turn

This indicator measures the extent to which aggregate budget expenditure outturn reflects the amount originally approved, as defined in government budget documentation and fiscal reports. There is one dimension for this indicator assessed on the basis of the last three completed fiscal years 2016-18.

The city's total expenditure exceeded the original budget by substantial, although declining percentages. In part this reflected in-year increases in transfers, as explained in HLG-1 above. It was also the result of the Budget Code provisions (Articles 14 and 72) which enable unspent amounts at the end of each year to be allocated to investment through a revision of the budget once the annual report on the previous year's expenditure has been approved by the city Council. Since actual expenditure exceeded the original budget by more than 15 per cent in two of the three years 2016-18, the score is D. For the purposes of PI-1 the budget figures include contingency reserves which are excluded from the totals in PI-2.

Table 0.2. Total Planned and Actual expenditures (UAH millions)

| | 2016 | | 2017 | | 2018 | |
|--|---------|----------|---------|----------|---------|----------|
| | Planned | Out-turn | Planned | Out-turn | Planned | Out-turn |
| Total expenditures | 1,606.2 | 2,043.9 | 2,358.5 | 2,801.7 | 2,930.6 | 3,213.5 |
| Deviation of out-turn from planned values | 27.2% | | 18.8% | | 9.7% | |

Source: Khmelnytskyi Finance Dept

| PI | Dimension | Score | Justification for score |
|------|-------------------------------|-------|---|
| PI-1 | Aggregate expenditure outturn | D | Actual expenditure exceeded the original budget by more than 15% in two of the three years 2016-18. |

PI-2: Expenditure composition out-turn

This indicator measures the extent to which reallocations between the main budget categories during execution have contributed to variance in expenditure composition. It contains three dimensions and uses the M1 (WL) method for aggregating dimension scores. It is assessed on the basis of the last three completed fiscal years 2016-18. This Indicator has three dimensions:

- Dimension 2.1. Expenditure composition outturn by function - which looks at changes in the composition of expenditure by function between budget and out-turn;
- Dimension 2.2. Expenditure composition outturn by economic type – looking at changes in composition by economic classification;
- Dimension 2.3. Expenditure from contingency reserves – looking at the extent to which expenditure is charged to Contingency.

The variance of expenditure composition in each case is measured by adjusting the original budget figures for each element by the overall percentage difference between budget and out-turn, and then summing the absolute differences between the adjusted and actual figures for each element as a percentage of the actual out-turn. The same approach is followed in considering the variance of targeted transfers in HLG-1.2 and revenue streams in PI-3.2. Calculations in each case are shown in Annex 4. Contingency reserves are excluded from amounts considered in both 2.1 and 2.2. The exclusion of interest payments from the analysis in 2.1 makes no difference to Khmelnytskyi, since nothing was owed during the period 2016-18.

PI-2.1. Expenditure composition out-turn by function

Table 3.3 below shows expenditure by function for the period 2016-18. The largest expenditures are on education and social welfare, with further substantial amounts spent on health care and economic affairs. The detailed calculations of the variance of expenditure are shown in Annex 5. The most significant element in the changes in the mix of expenditure are the rising shares of expenditure on economic affairs and housing, while expenditure on education and social welfare tended to fall as a percentage of the total. The increases reflected allocations of central government funding for investment during the course of the year. Expenditure on education increased in absolute terms, but by less than the overall increase, so that its percentage share fell.

Table 3.3. Expenditures by functional classification (UAH millions)

| | 2016 | | 2017 | | 2018 | |
|---|---------|----------|---------|----------|---------|----------|
| | Planned | Out-turn | Planned | Out-turn | Planned | Out-turn |
| General Public Administrative Services | 49.3 | 55.8 | 84.7 | 102.6 | 114.0 | 127.5 |
| Economic Affairs (transport, roads, communications, construction) | 226.8 | 317.5 | 207.0 | 350.3 | 218.4 | 393.9 |
| Environment | 0.0 | 0.7 | 0.8 | 1.0 | 0.6 | 0.9 |
| Health | 231.5 | 282.5 | 310.4 | 350.3 | 360.2 | 409.4 |

| | 2016 | | 2017 | | 2018 | |
|-----------------------------|----------------|----------------|----------------|----------------|----------------|----------------|
| | Planned | Out-turn | Planned | Out-turn | Planned | Out-turn |
| Housing, utilities | 52.2 | 131.9 | 133.1 | 162.9 | 144.4 | 196.3 |
| Culture | 43.2 | 50.1 | 72.7 | 70.4 | 33.1 | 37.4 |
| Sport | 12.0 | 15.9 | 27.0 | 33.4 | 32.0 | 37.5 |
| Education | 519.2 | 573.1 | 800.7 | 821.0 | 1,004.5 | 1,048.9 |
| Social Welfare | 473.2 | 585.4 | 694.0 | 873.0 | 986.5 | 911.8 |
| Intergovernmental transfers | 20.2 | 24.8 | 18.2 | 27.2 | 28.3 | 40.2 |
| Other expenditure | 2.9 | 6.1 | 7.6 | 9.6 | 3.9 | 9.4 |
| Total | 1,594.5 | 2,043.9 | 2,356.3 | 2,801.7 | 2,925.7 | 3,213.3 |
| Composition variance | 11.8% | | 11.8% | | 14.1% | |

Source: Khmelnytskyi Finance Dept.

Since the variance of expenditure was less than 15 per cent in all three years 2016-18, the score is C.

PI-2.2. Expenditure composition by economic classification

The following table shows planned and actual expenditure by economic classification for the total expenditure. Employment costs fell substantially as a proportion of the increasing total in 2016 and 2017, while expenditure on goods and services took a markedly increased share in 2017. The share of social welfare fell back in 2018 as a result of changes in arrangements decided by central government during the year. Throughout the period the actual share of expenditure devoted to investment was consistently much larger than the originally budgeted amounts, reflecting targeted grants for investment decided after original budgets were enacted. Interest payments were nil in 2016 and 2017, and insignificant in 2018.

Table 0.4. Expenditures by economic classification (UAH millions)

| | Planned – 2016 | Out turn -2016 | Overall difference | Composition variance |
|--------------------|----------------|----------------|--------------------|----------------------|
| Employment costs | 629.5 | 633.1 | 28.2% | 17.4% |
| Goods and services | 338.4 | 448.7 | | |
| Social benefits | 428.3 | 585.3 | | |

| | | | | |
|---------------------------|-----------------------|-----------------------|---------------------------|-----------------------------|
| Other current expenditure | 21.4 | 22.9 | | |
| Capital investment | 177.0 | 353.9 | | |
| Total expenditures | 1,594.5 | 2,043.9 | | |
| | Planned - 2017 | Out turn -2017 | Overall difference | Composition variance |
| Employment costs | 941.5 | 749.7 | 18.9% | 26.5% |
| Goods and services | 468.7 | 778.1 | | |
| Social benefits | 646.7 | 771.5 | | |
| Other current expenditure | 19.7 | 22.6 | | |
| Capital investment | 279.5 | 479.8 | | |
| Total expenditures | 2,356.3 | 2,801.7 | | |
| | Planned - 2018 | Out turn -2018 | Overall difference | Composition variance |
| Employment costs | 899.9 | 938.6 | 9.8% | 13.8% |
| Goods and services | 845.0 | 933.7 | | |
| Social benefits | 908.8 | 825.8 | | |
| Other current expenditure | 29.9 | 34.2 | | |
| Capital investment | 242.1 | 481.1 | | |
| Total expenditures | 2,925.7 | 3,213.3 | | |

Source: Khmelnytskyi Finance Dept.

Since the variance exceeded 15 per cent in two of the three years 2016-18, the score is D.

PI-2.3. Expenditure from contingency reserves

As shown by Table 3.5 below, the original budget each year contained small allocations to contingency reserves. These amounts were set so as to maintain a reserve of up to one per cent of total city expenditure, available for use at the discretion of the Executive Committee. No expenditure was charged to contingency in any of the years 2016-18, resulting in the score A.

Table 0.5. Contingency and reserve funds (UAH millions)

| | 2016 | 2017 | 2018 |
|---------------------------------------|-------------|-------------|-------------|
| Planned contingency and reserve funds | 11.7 | 2.3 | 1.9 |

| | | | |
|---|---------|---------|---------|
| Out turns for contingency funds | 0.0 | 0.0 | 0.0 |
| Total expenditures | 2,043.9 | 2,801.7 | 3,213.5 |
| Contingency fund out turns/total expenditures | 0% | 0% | 0% |

Source: Khmelnytskyi Finance Dept.

| PI | Dimension | Score | Justification for score |
|--------|---|-------|---|
| PI-2 | Expenditure composition out-turn | D+ | Scoring Method M1. |
| PI-2.1 | Expenditure composition out-turn by function | C | Composition variance was less than 15% in all three years 2016-18 |
| PI-2.2 | Expenditure composition out-turn by economic classification | D | Composition variance exceeded 15% in two of the three years 2016-18 |
| PI-2.3 | Expenditure from contingency reserves | A | No expenditure was charged to contingency during the three years 2016-18. |

PI-3: Revenue out-turn

This indicator measures the change in revenue between the original approved budget and end-of-year outturn. It contains two dimensions and uses the M2 (AV) method for aggregating dimension scores. It is assessed on the basis of the last three completed fiscal years 2016-18. There are two dimensions to this Indicator:

- Dimension 3.1. Aggregate revenue outturn – considering the difference between budgeted and out-turns for own source revenues;
- Dimension 3.2. Revenue composition outturn – measuring changes in the composition of those revenues between budget and out-turn.

As explained in HLG-1 above, two approaches to this Indicator are possible: revenue accruing automatically from central government taxes is considered here if it is excluded from HLG-1 above, but if it is included in HLG-1, only revenue over which the city has a significant measure of control is taken into account in this PI. Property and land taxes, where the city sets the rates and participates in the assessments, and the Single Tax paid by small entrepreneurs, where the city sets some of the rates and participates in identifying potential taxpayers, are considered here on both approaches. The city receives 100 per cent of the revenue from Single Tax, land and property taxes, although actual collection, as for all other taxes, is the responsibility of the State Fiscal Service which is part of central government.

PI-3.1. Aggregate revenue out-turn

Total budgeted and realised figures for own revenues on both approaches are summarised in the following table. Detailed calculations are shown in Annex 4.

Table 0.6. Revenue out-turn (UAH millions)

| | 2016 | | 2017 | | 2018 | |
|------------------------------------|--------|----------|---------|----------|---------|----------|
| | Budget | Out-turn | Budget | Out-turn | Budget | Out-turn |
| Central government taxes | 486.4 | 613.0 | 738.7 | 865.5 | 935.0 | 1,073.9 |
| Single taxes | 101.8 | 145.5 | 161.4 | 204.5 | 222.6 | 250.1 |
| Land Tax | 91.8 | 133.1 | 130.0 | 141.0 | 148.0 | 148.9 |
| Property Tax | 5.1 | 6.6 | 7.3 | 11.7 | 13.8 | 18.8 |
| Other local taxes and fees | 3.7 | 1.4 | 1.4 | 2.6 | 2.7 | 4.5 |
| Sales of goods and services | 86.6 | 84.8 | 101.9 | 110.1 | 131.5 | 133.3 |
| Fines, penalties | 0.8 | 1.6 | 1.4 | 1.4 | 1.2 | 2.6 |
| Property income | 13.2 | 26.1 | 26.2 | 40.4 | 31.4 | 34.1 |
| Grants from other government units | 0.0 | 3.7 | 0.0 | 2.5 | 0.0 | 5.4 |
| Other revenue | 19.3 | 76.3 | 59.7 | 92.6 | 30.6 | 69.1 |
| Total excluding CG taxes | 322.4 | 479.0 | 489.2 | 607.8 | 581.8 | 666.9 |
| Total including CG taxes | 808.8 | 1,091.9 | 1,227.9 | 1,473.2 | 1,516.7 | 1,740.9 |
| Actual as % of budgeted excl. CG | | 148.6% | | 124.2% | | 114.6% |
| Actual as % of budgeted inc. CG | | 135.0% | | 120.0% | | 114.8% |

Source: Khmelnytskyi Finance Dept.

Because actual revenue on both approaches exceeded 116 per cent of original budget in two of the three years 2016-18, score is D. However, the city's estimating of the revenues under its control improved progressively through the period, with the main remaining difficulty being the forecasting of miscellaneous revenue.

PI-3.2. Revenue composition out-turn

The calculated variances excluding receipts of central government taxes for the three years 2016-18 were 24.2 per cent, 12.3 per cent and 13.5 per cent respectively. If central government taxes are included the variances were 16.0%, 13.1% and 14.6% for the three years 2016-18 respectively (all the calculations are shown in Annex 4). Since the variances on both approaches were less than 15 per cent in two of the three years, the score is C.

| PI | Indicator/Dimension | Score | Justification for score |
|--------|------------------------------|-------|---|
| PI-3 | Revenue out-turn | D+ | Scoring Method M2 |
| PI-3.1 | Aggregate revenue out-turn | D | Actual revenues exceeded 116% of original budget in two of the three years 2016-18. |
| PI-3.2 | Revenue composition out-turn | C | Variance was less than 15% in two of the three years 2016-18. |

3.3 Pillar 2. Transparency of Public Finances

PI-4 Budget classification

This indicator assesses the extent to which the government budget and accounts classification is consistent with international standards. It is assessed on the completed fiscal year 2018. The city uses the same economic, administrative and programme classifications as central government, with the national Treasury system collecting the same information about each transaction as is collected at central government level. The annual budget reports are presented to the Council analysed by administrative programme and economic (in accordance with GFS 3-digit) classifications. The programme classifications are at a sub-functional level and contain all the detail necessary to provide the functional breakdown shown in PI-2 above. However, no administrative breakdown is given in out-turn reports. Because of this, the score is D.

| PI | Indicator/Dimension | Score | Justification for score |
|------|-----------------------|-------|---|
| PI-4 | Budget classification | D | Scoring Method M1. Budget formulation is based on administrative economic and programme classifications, but execution reports do not include the administrative classification. |

PI-5 Budget documentation

This Indicator assesses the comprehensiveness of the information provided in the annual budget documentation, as measured against a specified list of basic and additional elements. These are shown in the following table. It is assessed on the content of the last municipal budget submitted to the legislature, thus the budget document for 2019. Budget documentation is published on the city website (see PI-9 below).

Table 0.8. Budget documentation

| Full description of PEFA 2016 requirements | Requirements fulfilled? (Yes/No) | Information included in 2019 budget |
|--|----------------------------------|--|
| Basic elements | | |
| 1. Forecast of the fiscal deficit or surplus or accrual operating result. | No | Although information is given from which the fiscal balance can be calculated, it is not shown explicitly. |

| Full description of PEFA 2016 requirements | Requirements fulfilled? (Yes/No) | Information included in 2019 budget |
|---|----------------------------------|---|
| 2. Previous year's budget outturn , presented in the same format as the budget proposal. | Yes | All information is provided on the official Khmelnytskyi city council's website in the "City budget" section: https://khm.gov.ua/uk/budget |
| 3. Current fiscal year's budget presented in the same format as the budget proposal. This can be either the revised budget or the estimated outturn. | Yes | All information is provided on the official Khmelnytskyi city council's website in the "City budget" section: https://khm.gov.ua/uk/budget |
| 4. Aggregated budget data for both revenue and expenditure according to the main heads of the classifications used, including data for the current and previous year with a detailed breakdown of revenue and expenditure estimates. | Yes | Provided as part of budget documentation |
| Additional elements | | |
| 5. Deficit financing , describing its anticipated composition. | Yes | -- |
| 6. Macroeconomic assumptions , including at least estimates of GDP growth, inflation, interest rates, and the exchange rate. | NA | -- |
| 7. Debt stock , including details at least for the beginning of the current fiscal year presented in accordance with GFS or other comparable standard. | Yes | -- |
| 8. Financial assets , including details at least for the beginning of the current fiscal year presented in accordance with GFS or other comparable standard. | No | -- |

| Full description of PEFA 2016 requirements | Requirements fulfilled? (Yes/No) | Information included in 2019 budget |
|--|----------------------------------|---|
| 9. Summary information of fiscal risks , including contingent liabilities such as guarantees, and contingent obligations embedded in structure financing instruments such as public-private partnership (PPP) contracts, and so on. | No | -- |
| 10. Explanation of budget implications of new policy initiatives and major new public investments, with estimates of the budgetary impact of all major revenue policy changes and/or major changes to expenditure programs. | No | -- |
| 11. Documentation on the medium-term fiscal forecasts. In this element, the content of the documentation on the medium term forecast should include as a minimum medium term projections of expenditure, revenue, and fiscal balance. | NA | -Medium-term projections have not yet been produced (see PI-14.1 below) |
| 12. Quantification of tax expenditures. In this element, tax expenditure refer to revenue foregone due to preferential tax treatments such as exemptions, deductions, credits, tax breaks, etc. | No | -- |

Source: Department of Finance and city website

Since three of the four basic elements are provided, and two others, the score is C.

| PI | Indicator/Dimension | Score | Justification for score |
|------|----------------------|-------|--|
| PI-5 | Budget documentation | C | Three of the four basic elements are provided, and two others. |

PI-6 City operations outside financial reports

This indicator measures the extent to which revenue and expenditure under the control of the City is excluded from its financial reports. It covers all city operations during the last

completed fiscal year. It contains the following three dimensions and uses the M2 (AV) method for aggregating dimension scores:

- Dimension 6.1. Expenditure outside financial reports;
- Dimension 6.2. Revenue outside financial reports;
- Dimension 6.3 Financial reports of extra-budgetary units.

PI-6.1 Expenditure outside financial reports

All expenditure of institutions (other than city-owned enterprises (COEs) which are considered in PI-10 below) controlled by the city (education, health, culture, sport) is included in both budget and out-turn statements, including that financed by charges to users of the services. There were no externally-financed projects. Score: A

PI-6.2 Revenue outside financial reports

All revenue of institutions controlled by the city (other than COEs) is included in both budget and out-turn statements, including amounts paid by users of services. Score: A

PI-6.3 Financial reports of extra-budgetary units

There are no extra-budgetary units. Score: Not Applicable.

| PI | Indicator/Dimension | Score | Justification for score |
|--------|--|-------|---|
| PI-6 | Municipal operations outside financial reports | A | Scoring method M2 |
| PI-6.1 | Expenditure outside financial reports | A | All expenditure, including that financed by user charges is included in both budgets and financial reports. |
| PI-6.2 | Revenue outside financial reports | A | All revenue, including payments by service users, is included in both budgets and financial reports. |
| PI-6.3 | Financial reports of extra-budgetary units | NA | There are no extra-budgetary units. |

PI-7 Transfers to lower levels of government

Since there are no government units subordinate to the city of Khmelnytskyi, this Indicator and its two Dimensions (7.1 System for allocating transfers and 7.2 Timeliness of information on transfers) are Not Applicable.

PI-8 Performance information for service delivery (M2)

This indicator examines the service delivery performance targets in budget documentation, and the subsequent reporting of actual performance against the targets. It contains four dimensions and uses the M2 (AV) method for aggregating dimension scores.

- Dimension 8.1 Performance plans for service delivery (covering information for 2019);
- Dimension 8.2 Performance achieved for service delivery (covering information for 2017);
- Dimension 8.3 Resources received by service delivery units (covering information for 2018);
- Dimension 8.4 Performance evaluation for service delivery (covering information for 2016-2018);

The first two dimensions ask what information is provided about the level of services planned, and the level of services actually delivered, while the second two dimensions ask first whether information is available about the resources received by individual schools and health clinics, and second, whether there have been any independent evaluations of the services provided

PI-8.1 Performance plans for service delivery

Budget estimates include information about the activities of the city Departments and the content of programmes covering the whole of city expenditure. Each spending unit has to produce a “programme passport” (Ministry of Finance Order No. 836 of August 2014) including performance indicators indicating goals and objectives to be achieved during the budget period, which are published as part of budget documentation. Examples are increasing participation of children in pre-school education from two thirds to five sixths of the relevant age-group, and increasing average class size from 22 to 26. Performance indicators are generally outputs or outcomes, but not both. Score: B

PI-8.2 Performance achieved for service delivery

There are published annual reports on the implementation of budget programmes and on progress with municipal targeted programmes but these do not consistently provide information on their outputs or outcomes as compared with the original targets covering 75 per cent of city expenditure. For example performance reports about patient numbers treated may not fully reflect the adverse impact of drug price increases on the quality of treatment. Where strategies are in place these do not correlate with the presentation of programmes in budget documentation. Score: C

PI-8.3 Resources received by service delivery units

The Chart of Accounts used in the national Treasury system through which all transactions pass ensures that all the resources used by individual schools and health service institutions can be identified. This applied throughout the period 2016-18. Education and health services together account for some 45 per cent of total city expenditure. The information collected makes possible the assessment of the costs of providing services (costs per pupil taught or patient treated). Annual reports are produced setting out the revenues and expenditure (including expenditure financed from revenue collected or other resources received by the institutions) of each institution, but these are not published. Score: A

PI-8.4 Performance evaluation for service delivery

There have been no evaluations of effectiveness and efficiency of service delivery by independent bodies for any major expenditure programs or departments at least once within the last three years. Nor have either external audit (State Audit Service – see PI-30 below) or any section of the city administration produced any evaluations of the efficiency or effectiveness of service delivery. Score: D.

| PI | Indicator/Dimension | Score | Justification for score |
|-----------|---|--------------|---|
| PI-8 | Performance information for service delivery | C+ | Aggregation method M2 |
| PI-8.1 | Performance plans for service delivery | B | Information is provided in budget documentation about the performance indicators for each budget programme, which are defined in terms of outputs or outcomes, but not both . |
| PI-8.2 | Performance achieved for service delivery | C | Annual reports are produced about the implementation of budget programmes but these do not correlate with the presentation of programmes in budget documentation. |
| PI-8.3 | Resources received by service delivery units (SDUs) | A | Annual reports are produced about the revenue and expenditure of each education and health service delivery institution, but these are not published. |
| PI-8.4 | Performance evaluation for service delivery | D | No evaluations have been produced by internal or external auditors, or by other independent bodies. |

PI-9 Public access to fiscal information

This indicator assesses the comprehensiveness of fiscal information available to the public based on specified elements of information to which public access is considered critical. The score for this indicator depends on how many of five basic elements of information, and of four additional elements, are available to the general public. It covers the last completed fiscal year, the year 2018. At least four of the five basic elements must be available for a score of C or higher.

The situation in the City of Khmelnytskyi with regard to fiscal documentation to which citizens have access is set out in the following table.

Table 0.9. Public access to fiscal information

| Elements | Fulfilled (Yes/No) | Reference / Means of publication |
|---|--------------------|---|
| Basic Elements | | |
| 1) Annual executive budget proposal documentation. A complete set of executive budget proposal documents (as presented by the city in PI-5) is available to the public within one week of the executive's submission of them to the municipal council. | Yes | The documentation is published on the city website within 5 days of its submission to the Council (https://khm.gov.ua/budget). |
| 2) Enacted budget. The annual budget law approved by the municipal council is publicized within two weeks of passage of the decision. | Yes | The approved budget is published on the city website within a week of its enactment by the Council (https://khm.gov.ua/budget). |
| 3) In-year budget execution reports. The reports are routinely made available to the public within one month of their issuance, as assessed in PI-28. | Yes | The reports are published on the city website within 2 weeks of month-end (https://khm.gov.ua/budget). |
| 4) Annual budget execution report. The report is made available to the public within six months of the fiscal year's end. | Yes | The report is published on the website of the city within 3 months of year-end (https://khm.gov.ua/budget) |
| 5) Audited annual financial report, incorporating or accompanied by the external auditor's report. The reports are made available to the public within twelve months of the fiscal year's end. | NA | Audit reports covering the totality of the city's annual financial reports have not hitherto been produced. |
| Additional elements | | |
| 6) Pre-budget Statement. The broad parameters for the executive budget | No | No information of this kind is produced or published. |

| Elements | Fulfilled (Yes/No) | Reference / Means of publication |
|---|--------------------|--|
| proposal regarding expenditure, planned revenue, and debt are made available to the public at least four months before the start of the fiscal year. | | |
| 7) Other external audit reports. All non-confidential reports on the municipality's consolidated operations are made available to the public within six months of submission. | Yes | SAS reports on particular city operations are published on both city and SAS websites |
| 8) Summary of the budget proposal. A clear, simple summary of the executive budget proposal or the enacted budget accessible to the non-budget experts, often referred to as a "citizens' budget," and where appropriate translated into the most commonly spoken local language, is publicly available within two weeks of the executive budget proposal's submission to the legislature and within one month of the budget's approval. | Yes | A simplified account is published on the city website when the budget is presented to the Council, and again after the budget has been enacted. (https://khm.gov.ua). |
| 9) Macroeconomic forecasts | NA | Not applicable at SNG level |
| Supplementary elements (in case any of the additional elements is not applicable to sub-national governments) | | |
| 10) Information on fees, charges, and taxes that belong to the subnational government. The information is publicly available and up to date. | Yes | Information is readily available about taxes from the State Fiscal Service, and from city Departments about fees and charges. |
| 11) Information on the standards of services provided by the city | Yes | Information is available on the city website about the services provided by the city. |

Since all four applicable basic elements and four additional elements are satisfied, the score is A.

| PI | Dimension | Score | Justification for the score |
|------|-------------------------------------|-------|--|
| PI-9 | Public access to fiscal information | A | All four applicable basic elements are provided, plus four others. |

3.4 Pillar 3. Management of Assets and Liabilities

PI-10 Fiscal risk reporting

This indicator measures the extent to which fiscal risks to the city government are reported. Fiscal risks can arise from adverse macroeconomic situations, financial positions of public corporations, and contingent liabilities from the city's own programmes and activities, including extra budgetary units. They can also arise from other implicit and external risks such as market failure and natural disasters. This indicator contains three dimensions and uses the M2 (AV) method for aggregating dimension scores. The indicator is assessed for the last completed fiscal year.

- Dimension 10.1 Monitoring of public corporations
- Dimension 10.2 Monitoring of subnational governments
- Dimension 10.3 Contingent liabilities and other fiscal risks

The first dimension of this indicator looks at reporting by corporate bodies owned by the city, whose operations are not included in the annual city budget. The second dimension is concerned with the monitoring of lower level governments, and is therefore Not Applicable. The third asks about the annual publication of information on contingent liabilities and other fiscal risks.

PI-10.1 Monitoring of public corporations

The city has 32 enterprises (COEs) of different sorts, including for example a public spa and an Information Centre providing IT services, as well as larger companies responsible for water supply, bus services, district heating, public lighting, and road maintenance. Larger COEs make quarterly reports to the city Executive Committee, but smaller COEs report only annually. Their operations are summarized in Table 2.11 above. These enterprises are all providing economic services of one kind or another; they have not been established to take over administrative functions of the city. Four fifths of their revenues come from consumers, with the balance from contracts with the city or subsidies when prices are set below costs, as for public transport. A consolidated annual report is prepared for approval by the Executive Committee and published on the city website. The annual financial statements of almost all the city enterprises are also published on the city website, but there is no requirement that they should have been audited, although their activities may be subject to audit by the central government's State Audit Service alongside those of the city itself. Because of the absence of audit, score is C.

PI-10.2 Monitoring of subordinate governments

Since there are no subordinate governments in this case, this dimension is considered as Not Applicable.

PI-10.3 Contingent liabilities and other fiscal risks

Khmelnyskyi has not undertaken any commitments to Public-Private Partnership financing of public investments, and does not appear to be much exposed to risks of flooding or other natural disasters which might constitute implicit contingent liabilities. It has given no guarantees to support private sector operations. Thus the city has no explicit contingent liabilities subject to consideration in this Dimension. Liabilities resulting from COEs' operations are considered in 10.1 above. Score: NA

| PI | Dimension | Score | Justification for the score |
|-----------|---|-------|--|
| PI - 10 | Fiscal risk reporting | C | M2 |
| PI – 10.1 | Monitoring of public corporations | C | Regular financial reports are made by COEs, and a consolidated annual report is produced. But the reports are not independently audited. |
| PI – 10.2 | Monitoring of subordinate governments | NA | Khmelnyskyi has no subordinate governments. |
| PI – 10.3 | Contingent liabilities and other fiscal risks | NA | The city has no explicit contingent liabilities. |

PI-11 Public investment management

This indicator assesses the economic appraisal, selection, costing, and monitoring of public investment projects by the city, with emphasis on the largest and most significant projects. The time period considered for assessing this indicator is the last completed fiscal year (2018). It contains four dimensions and uses the M2 (AV) method for aggregating dimension scores.

- Dimension 11.1 Economic analysis of investment projects
- Dimension 11.2 Investment project selection
- Dimension 11.3 Investment project costing
- Dimension 11.4 Investment project monitoring

The four dimensions of this indicator accord better with the situation of a central government rather than with that of an individual municipality. The first dimension asks whether investment proposals are subject to economic analysis in accordance with national guidelines; the second asks whether projects are prioritised on the basis of published standard criteria; the third asks whether full life-cycle costs are taken into consideration, and the fourth asks about the monitoring of project execution.

The city budget is divided between the General Fund, covering recurrent expenditure, and the Special Fund from which investments are financed. Some revenues (e.g. proceeds of asset sales) accrue to the Special Fund, but investments are mainly financed by transfers from the General Fund or by allocations from central government. Public investment is planned within the framework of the city's development plan for the period 2017-25. Investments by COEs

are included in the city's public investment programme, as well as those financed directly through the city budget.

PI-11.1 Economic analysis of investment proposals

No generally applicable guidelines have been issued by either the central government for the selection of investment projects, and there is no consistent requirement that all major investment projects should be subject to economic analysis. However, public investment projects are planned within the framework of the Action Plan for the implementation of the city's Development Strategy for 2017-20 and included in the city's annual programmes of social and economic development. The most important projects under construction during 2016-20 are three water supply and sewerage networks costing about 440mUAH, three school projects costing about 210mUAH, two sports projects costing about 290mUAH and an energy efficiency project costing 20mUAH (for which the city took its only outstanding loan of 11.8mUAH). The majority of the funding for the water and sports projects comes from central government, while the city is meeting most of the costs of the school projects. Only the major water supply project (which extends over many years), the largest education project and the larger sports development meet the PEFA criterion of costing more than one per cent of total annual expenditure and thus being regarded as major projects. The city's investment programme is reviewed and coordinated by the Department of Economy, taking into account its assessment of the economic analysis of the costs and benefits of significant projects sponsored by different budget users, and their contribution to the implementation of the city's development strategy. Performance criteria are established and published for each stage of project execution based on this analysis. Score: A

PI -11.2 Investment project selection

Priorities for all public investment projects are determined by the city Administration in accordance with the Action Plan 2017-20 for the implementation of the city development strategy, which sets out the criteria for project selection. Score: A

PI-11.3 Investment project costing

Annual budgets include information about both the expenditure over the following year and the costs to completion of each of the different projects in course of implementation, including those of the major projects described in 11.1 above. Notes to the budget also show expenditure on the projects during the two following years. Score: C

PI-11.4 Investment project monitoring

Rigorous arrangements are in place to monitor the cost and physical progress of projects, including weekly operational reporting to the city Department concerned and the Mayor. The local economic development plan includes a table showing the performance indicators associated with each project and the extent to which they have been achieved. The Mayor has established a Monitoring Committee which regularly reviews progress with projects,

including their contribution to the city Action Plan for 2017-20. Quarterly reports on project implementation are made to the Executive Committee and published on the city website. Consolidated annual reports are prepared by the city Economic Department and published. Score: A

| PI | Dimension | Score | Justification for score |
|---------|---|-------|--|
| PI-11 | Public investment management | B+ | Scoring Method M2 |
| PI-11.1 | Economic analysis of investment proposals | A | Decisions on all major public investment projects are based on their contribution to the socio-economic development of the city. Performance indicators are established for each stage of project execution based on the analysis of costs and benefits. |
| PI-11.2 | Investment project selection | A | All public investment projects are prioritised by the city Administration by reference to the criteria set out in the city Action Plan 2017-20. |
| PI-11.3 | Investment project costing | C | Annual budget estimates show expenditure on investment projects during the budget year, and also the costs to completion of each project. |
| PI-11.4 | Investment project monitoring | A | Quarterly and annual reports are made about the progress of investment projects, including the extent to which performance objectives have been achieved, and a consolidated annual report is published. |

PI-12 Public asset management

This indicator assesses the management and monitoring of subnational government assets and the transparency of asset disposal. It contains the following three dimensions, which are assessed on the last 12 months, and uses the M2 (AV) method for aggregating dimension scores:

- Dimension 12.1 Financial asset monitoring
- Dimension 12.2 Nonfinancial asset monitoring
- Dimension 12.3 Transparency of asset disposal

PI-12.1 Financial assets monitoring

The city closely monitors its COEs whose assets are valued at historic cost, and an annual report is published about their operations (See also PI-10.1 above). A specific unit is devoted to improving the efficiency of its COEs, which also serves as the focal point for the collection

and maintenance of the records of their operations. Their annual financial statements include balance sheets showing the depreciated value of their assets. The city's financial statements include its balances on its Treasury account, where city and Treasury records are reconciled daily, and time deposits in publicly-owned banks. Score: B

PI-12.2 Non-financial assets monitoring

There is no unified register of the city's buildings and other non-financial assets. Each city Department is responsible for keeping records of its own property and other assets, including their age and use. Thus the Communal Property Management Department maintains the register of buildings owned by the city, while a separate register is kept for the city's infrastructure assets. The city considers these to be complete and current. The register of buildings is published on the city's website. A new national electronic property register is being developed to which records of city assets are being progressively transferred. Specific information is also published about which assets are available for sale or rent. Score: B

PI-12.3 Transparency of asset disposal

National legislation (the January 2018 Law on Privatisation of State and Municipal Assets) requires transparency in the disposal of public assets. The city owns some 2,300 houses and apartments which could be available for sale, and 490 buildings have been sold since 1993. Buildings available for purchase or rent are listed on the city website, and the prices paid and identity of the purchasers are published at the time of sales; total receipts are shown in annual financial reports. The disposal of assets is subject to agreement by the Council under the 1997 Law on Local Self-Governance. Asset sales yielded revenue of 11.6 million UAH in 2018. Score: A

| PI | Dimension | Score | Justification for score |
|---------|--------------------------------|-------|---|
| PI-12 | Public asset management | B+ | Scoring Method M2 |
| PI-12.1 | Financial asset management | B | An annual report is published about the performance of the city's COEs, which are valued at historic costs. City financial statements include its balances on Treasury and other bank accounts. |
| PI-12.2 | Non-financial asset management | B | Registers are kept of the land and buildings belonging to the city's service Departments, and information is published about their age and use. |
| PI-12.3 | Transparency of asset disposal | A | There are transparent procedures for the disposal of assets, which requires the approval of the Council in each case. |

PI-13 Debt management

This indicator assesses the management of domestic and foreign debt and guarantees. It seeks to identify whether satisfactory management practices, records, and controls are in place to ensure efficient and effective arrangements. The indicator contains the following two dimensions relevant to municipalities, which are assessed on the basis of the last 12 months, and uses the M2 (AV) method for aggregating scores:

- Dimension 13.1 Recording and reporting of debt and guarantees
- Dimension 13.2 Approval of debt and guarantees
- Dimension 13.3 Debt management strategy

All the applicable dimensions of this indicator concern debt and guarantees contracted directly by the subnational governments and serviced by the subnational government.

PI-13.1 Recording and reporting of debt and guarantees

The Budget Code makes provision for borrowing by SNGs subject to relatively low limits. Khmelnytskyi's general policy is not to borrow. The city has only one small outstanding loan of 11.8m UAH at end 2018 (see PI-11.1 above); no interest payments were made in 2016 and 2017. Debt records are complete and accurate, and updated and reconciled monthly. Score: A

PI-13.2 Approval of debt and guarantees

Approval of the city Council is required for any loan to be taken by the city. The initiative rests with the Department of Finance, which must also notify MoF. There should be no objection from central government provided the city remains within the limit on total outstanding borrowing set by the Budget Code (article 18) of 200 per cent of recent average annual expenditure on investment. Guarantees which can only be given in limited circumstances to private sector borrowers require the approval of the city Council. Score: A

PI-13.3 Debt management strategy

The city has only one relatively small outstanding loan, and there is no medium or long-term plan to undertake new investment financed by borrowing. Accordingly there has been no question of a need for a debt management strategy. Score: Not Applicable

| PI | Dimension | Score | Justification for score |
|---------|---------------------------------|-------|--|
| PI-13 | Debt Management | A | Scoring method M2 |
| PI-13.1 | Recording and reporting | A | Debt records are complete and accurate, and updated and reconciled monthly. |
| PI-13.2 | Approval of debt and guarantees | A | Debt management is the exclusive responsibility of the city Department of Finance, reporting to the Council. |
| PI-13.3 | Debt management strategy | NA | The city has only one small outstanding loan. |

3.5 Pillar 4. Policy Based Fiscal Strategy and Budgeting

PI-14 Macroeconomic and fiscal forecasting

This indicator measures the ability of a government to develop robust macroeconomic and fiscal forecasts, which are crucial to developing a sustainable fiscal strategy and ensuring greater predictability of budget allocations. It also assesses the government's capacity to estimate the fiscal impact of potential changes in economic circumstances. It contains three dimensions and uses M2 (AV) for aggregating dimension scores.

- PI-14.1 Macroeconomic forecasts
- PI-14.2 Fiscal forecasts
- PI-14.3 Macro fiscal sensitivity analysis

PI-14.1. Macroeconomic forecasts

The first dimension of this indicator concerns the preparation of macroeconomic forecasts by the government assessed. Since Khmelnytskyi does not prepare its own economic forecasts, this dimension is Not Applicable.

PI-14.2 Fiscal forecasts

The second dimension asks whether fiscal forecasts covering revenue and expenditure for the budget year immediately ahead and the two subsequent years have been submitted to the city Council with the budgets for the years 2017-19. Although medium-term forecasts are now required by the Budget Code, they have not yet been produced by Khmelnytskyi. Score: D

PI-14.3 Macro fiscal sensitivity analysis

No assessment has been made of the impact on fiscal forecasts of alternative macro-economic assumptions. Score: NA

| PI | Dimension | Score | Justification for score |
|---------|--------------------------------------|-------|--|
| PI-14 | Macroeconomic and fiscal forecasting | D | Scoring Method M2 |
| PI-14.1 | Macroeconomic forecasts | NA | Not applicable at SNG level |
| PI-14.2 | Fiscal forecasts | D | No medium-term fiscal forecasts have been produced. |
| PI-14.3 | Macro fiscal sensitivity analysis | NA | No assessment has been made of the impact of alternative macro-economic assumptions. |

PI-15 Fiscal strategy (M2)

This indicator provides an analysis of the capacity to develop and implement a clear fiscal strategy. It also measures the ability to develop and assess the fiscal impact of revenue and expenditure policy proposals that support the achievement of the city's fiscal goals. It covers the entire municipal operations and contains the following three dimensions, using the M2 (AV) method for aggregating dimension scores:

- Dimension 15.1. Fiscal impact of policy proposals (the last three fiscal years);
- Dimension 15.2. Fiscal strategy adoption (the last fiscal year);
- Dimension 15.3. Reporting on fiscal outcomes (the last completed fiscal year).

The first dimension of the indicator asks whether the city administration submits to the Council estimates of the fiscal impact of all proposed changes in revenue and expenditure policy for the following three years. The second asks whether the administration has submitted its fiscal strategy for the following three years to the Council (for at least one budget year and the two following fiscal years), including time-based fiscal goals. The last dimension of the indicator asks whether the administration has submitted to the Council a report on progress in implementing its previously adopted fiscal strategy. This indicator thus presupposes that the municipal administration is able to control the whole of its budget, and plan the whole of its expenditure with a time horizon of at least three years.

PI-15.1 Fiscal impact of policy proposals

The figures in the annual budget proposals are not accompanied by explanations of the impact of new decisions on taxes, charges and investments on revenue and expenditure in the budget year. Score: D

PI-15.2 Fiscal strategy adoption

The city has not adopted a fiscal strategy. Score: NA

PI-15.3 Reporting on fiscal outcomes

No strategy has been adopted against which progress could be measured. Score: NA

| PI | Indicator/Dimension | Score | Justification for score |
|---------|-----------------------------------|-------|---|
| PI-15 | Fiscal Strategy | D | Aggregation Method M2 |
| PI-15.1 | Fiscal impact of policy proposals | D | Annual budgets do not include an explanation of the impact of revenue and expenditure policy changes. |
| PI-15.2 | Fiscal strategy adoption | NA | No fiscal strategy has been adopted. |

| PI | Indicator/Dimension | Score | Justification for score |
|---------|------------------------------|-------|--|
| PI-15.3 | Reporting on fiscal outcomes | NA | No reports have been made of progress in implementing a fiscal strategy. |

PI-16 Medium-term perspective in expenditure budgeting

This indicator examines the extent to which expenditure budgets are developed for the medium term within explicit medium-term budget expenditure ceilings. It also examines the extent to which annual budgets are derived from medium-term estimates and the degree of alignment between medium-term budget estimates and strategic plans. It covers the last budget submitted to the Council and contains the following four dimensions, and uses the M2 (AV) method for aggregating dimension scores:

- Dimension 16.1. Medium-term expenditure estimates;
- Dimension 16.2. Medium-term expenditure ceilings;
- Dimension 16.3. Alignment of strategic plans and medium-term budgets;
- Dimension 16.4. Consistency of budgets with previous year’s estimates.

The first dimension of the indicator reviews the extent of detail in medium-term fiscal projections prepared by the subnational government as part of the annual budget cycle. The second assesses whether the expenditure ceilings for three years for each service or administrative unit are determined by the city administration collectively at the beginning of the process; the third dimension assesses whether expenditure policy proposals are consistent with medium-term strategic plans; and the fourth whether explanations are given for changes between successive years’ Medium-Term Budget Forecasts (MTBFs).

PI-16.1 Medium-term expenditure estimates

No medium-term expenditure estimates have been produced. Score: D

PI-16.2 Medium-term expenditure ceilings

There has been no question of setting ceilings for medium-term expenditure estimates. Score: D

PI-16.3 Alignment of strategic plans and medium-term budgets

No medium-term budgets have been produced whose alignment with strategic plans could be assessed. However, some elements in the city’s development plans which cover all the city’s Departments are reflected in annual budget estimates, according to the availability of finance for investments. Score: C

PI-16.4 Consistency of budgets with previous year’s estimates

No medium-term estimates have been produced with which subsequent years' estimates could be compared. Score: NA

| PI | Indicator/Dimension | Score | Justification for score |
|---------|---|-------|---|
| PI-16 | Medium-term perspective in expenditure budgeting | D+ | Aggregation method (M2) |
| PI-16.1 | Medium-term expenditure estimates | D | No medium-term expenditure estimates have been produced. |
| PI-16.2 | Medium-term expenditure ceilings | NA | There has been no question of setting medium-term expenditure ceilings. |
| PI-16.3 | Alignment of strategic plans and medium-term budgets | C | Some elements in the city's strategic plans are reflected in annual budget estimates. |
| PI-16.4 | Consistency of budgets with previous year's estimates | NA | There are no medium-term estimates to serve as a basis of comparison. |

PI-17 Budget preparation process

This indicator measures the effectiveness of participation by relevant stakeholders in the budget preparation process, including political leadership, and whether that participation is orderly and timely. It covers budgetary municipal government and contains the following three dimensions, using the M2 (AV) method for aggregating dimension scores:

- Dimension 17.1. Budget calendar (covering the last annual budget submitted to the city Council);
- Dimension 17.2. Guidance on budget preparation (covering the last annual budget submitted to the city Council)
- Dimension 17.3. Budget submission to the legislature (covering the last three annual budgets submitted to the city Council)

PI-17.1 Budget calendar

There is a well-established budget calendar which is generally adhered to. The Budget Circular is issued to spending Departments at the latest at the beginning of October each year, with submissions due in early November. The calendar for the 2019 Budget is set out in Table 3.10 below. Since spending Departments had six weeks to prepare their submissions, the score is B.

| Table 3.10 Calendar | List of actions | Responsible for execution | Timing to meet legal requirements | Actual submission (dd.mm.yyyy) |
|---------------------|-----------------|---------------------------|-----------------------------------|--------------------------------|
| | | | | |

| for 2019 Budget | | | (dd.mm.yyyy) | |
|--------------------|--|--------------------|--------------|------------|
| 1 | Development and approval of the "Instruction on the preparation of budget requests for the draft budget of Khmelnytskyi for 2019" | Finance Department | 06.10.2018 | 10.09.2018 |
| 2 | Preparation of information requests to the Main Department of the State Fiscal Service in Khmelnytskyi oblast and the executive bodies of the city council on the formation of indicators of the revenue side of the city budget for 2019 in terms of relevant sources of income | Finance Department | 06.10.2018 | 12.09.2018 |
| 3 | Publication and delivery of the Instruction on the preparation of budget inquiries to the draft budget of Khmelnytsky for 2019 to the Key Spending Units (Budget Circular) | Finance Department | 06.10.2018 | 03.10.2018 |
| 4 | Organization of development of budget requests to the draft city budget for 2019 and their submission to the Finance Department | Key Spending Units | 25.10.2018 | 25.10.2018 |

| | | | | |
|---|---|--|------------|------------|
| 5 | Preparation by the Main Department of the State Fiscal Service in Khmelnytskyi oblast and executive bodies of the City Council of proposals on forecast indicators of the revenue part of the city budget in terms of relevant sources of income and submission to the Finance Department for inclusion in the draft city budget for 2019 | Main Department of the State Fiscal Service in Khmelnytskyi oblast, executive bodies of the City Council | 25.10.2018 | 19.10.2018 |
| 6 | Preparation and submission to the Finance Department of information about the socio-economic condition of the city and the forecast of its development for 2019 | Department of Economy | 01.11.2018 | 26.10.2018 |
| 7 | Analysis of budget requests to the draft city budget for 2019, submitted by the Key Spending Units | Finance Department | 01.11.2018 | 1.11.2018 |
| 8 | Consideration and discussion of proposals of the Key Spending Units to the draft city budget for 2019 with the participation of the public | Finance Department, Key Spending Units | 07.11.2018 | 6.11.2018 |
| 9 | Conducting conciliation meetings with the Key Spending Units on compliance of budget requests with the requirements of budget legislation and their | Finance Department, Key Spending Units | 10.11.2018 | 9.11.2018 |

| | | | | |
|-----------|---|--|-------------------|-------------------|
| | inclusion in the proposals of the draft city budget for 2019 | | | |
| 10 | Preparation of a draft decision on the budget of the city of Khmelnytsky for 2019 and annexes to it | Finance Department | 15.11.2018 | 14.11.2018 |
| 11 | Publication of the draft decision on the budget of the city of Khmelnytsky for 2019 on the website of the City Council | Finance Department | 16.11.2018 | 16.11.2018 |
| 12 | Presentation and public discussion of the draft budget of the city of Khmelnytsky for 2019 | Finance Department | 27.11.2018 | 16.11.2018 |
| 13 | Consideration by the City Council's Executive Committee of the draft budget of the city of Khmelnytsky for 2019 | Executive Committee of the City Council | 30.11.2018 | 20.11.2018 |
| 14 | Consideration of the draft decision "On the budget of the city of Khmelnytsky for 2019" by the standing (Budget) committee of the City Council | Standing (Budget) Committee of the City Council | 10.12.2018 | 22.11.2018 |
| 15 | Consideration of the draft decision "On the budget of the city of Khmelnytsky for 2019" by the session of the City Council | City Council | 12.12.2018 | 14.12.2018 |

| | | | | |
|----|---|---|------------|------------|
| 16 | Publication of the decision of session of city council "About the budget of the city of Khmelnytsky for 2019" on the website of city council and in the newspaper "Proskuriv" | Finance Department, "Proskuriv" newspaper editing board | 22.12.2018 | 17.12.2018 |
|----|---|---|------------|------------|

PI-17.2 Guidance on budget preparation

The Budget Circular includes ceilings for each spending unit which are determined by the Mayor as Head of the city administration. Score: A

PI-17.3 Budget submission to the Council

The budget proposals have been submitted by the Executive Committee to the Council before the end of November for each of the last three budgets. The dates were 28 November 2016, 23 November 2017 and 29 November 2018 for the 2017, 2018 and 2019 budgets respectively.

Score: C

| PI | Indicator/Dimension | Score | Justification for score |
|---------|--------------------------------------|-------|---|
| PI-17 | Budget preparation process (M2) | B | Aggregation method (M2) |
| PI-17.1 | Budget calendar | B | There is a well-established budget calendar which allows spending Departments at least a month to prepare their submissions. |
| PI-17.2 | Guidance on budget preparation | A | The Budget Circular includes expenditure ceilings for each spending Department set by the Mayor as head of the city administration. |
| PI-17.3 | Budget submission to the legislature | C | The draft budget has been submitted to the Council at least a month before the end of the year for the last three budgets. |

PI-18 Legislative scrutiny of budgets

This indicator assesses the nature and extent of legislative scrutiny of the annual budget. It considers the extent to which the legislature scrutinizes, debates, and approves the annual

budget, including the extent to which the legislature’s procedures for scrutiny are well established and adhered to. The indicator also assesses the existence of rules for in-year amendments to the budget without ex-ante approval by the Council. The indicator covers municipal budget operations only and the most recent budget cycle i.e. the budget for FY2019 (except for dimension 18.3 which covers the last three budget cycles). It contains the following four dimensions and uses the M1 (WL) method for aggregating dimension scores:

- Dimension 18.1. Scope of budget scrutiny;
- Dimension 18.2. Legislative procedures for budget scrutiny;
- Dimension 18.3. Timing of budget approval;
- Dimension 18.4. Rules for budget adjustments by the executive.

PI-18.1 Scope of budget scrutiny

The Chairman of the Standing (Budget) Committee of the Council, which carries out a preliminary examination of each year’s budget proposals, stated that Council’s review covers the details of revenue and expenditure, but that there is no consideration of an overall fiscal strategy. Score: C

PI-18.2 Council procedures for budget scrutiny

The Council’s procedures for consideration of the budget are well-established as defined in its rules of procedure. The administration consults the Council in October each year on the general shape of the budget for the following year; this includes a detailed discussion in the Standing (Budget) Committee of the Council. Thereafter as set out in Table 3.10 above the main elements of the budget are the subject of public consultation before the proposals are finalised; the PowerPoint slides prepared for the presentation are published in advance on the city website in late November. Finally the proposals are reviewed by the Standing (Budget) Committee before the discussion in the plenary session of the Council. Score: A

PI-18.3 Timing of budget approval

As shown in Table 3.11, the Council has approved the budget before the end of the year for the last three budgets. Score: A

Table 0.11. Budget approval by the Council

| Budget Year | Date of Council approval of the budget |
|-------------|--|
| FY2017 | 29 December 2016 |
| FY2018 | 27 December 2017 |
| FY2019 | 14 December 2018 |

Source:City of Khmelnytskyi

PI-18.4 Rules for budget adjustments by the executive

The Budget Code (Article 23) sets clear limits to the changes which can be made to the approved budget without the need for a revised budget approved by the Council. Any overall reduction or increase in the budget requires a revised budget approved by the Council. Reallocations of provision other than those specifically prohibited may be made by the Mayor within the overall total, subject to the approval of the Budget Committee of the Council. The Executive thus has no discretion to change the budget without the involvement of key members of the Council. Expenditure reductions may not be used to increase the pay of city employees. Investment expenditure may be increased within the overall approved total, but cannot be reduced in order to provide funds for current expenditure. These limits are respected in all cases. Score: A

| PI | Indicator/Dimension | Score | Justification for score |
|-----------|--|--------------|--|
| PI-18 | Legislative scrutiny of budgets | C+ | Aggregation method (M1) |
| PI-18.1 | Scope of budget scrutiny | C | The Council's scrutiny is restricted to details of revenue and expenditure during the budget year immediately ahead. |
| PI-18.2 | Council procedures for budget scrutiny | A | The Council's procedures are well-established, and include both arrangements for public consultation and study by a specialised Committee. |
| PI-18.3 | Timing of budget approval | A | The last three budgets have been approved before the beginning of the year to which they relate. |
| PI-18.4 | Rules for budget adjustment by the executive | A | The Budget Code sets limits to the extent to which the budget can be changed without reference to the Council, which are always respected. |

3.6 Pillar 5. Predictability and Control in Budget Execution

PI-19 Revenue administration

This indicator assesses the procedures used to collect and monitor sub national government revenues. It contains the following four dimensions and uses M2 (AV) method for aggregating dimension scores:

- Dimension 19.1. Rights and obligations for revenue measures (assessed as at time of assessment);
- Dimension 19.2. Revenue risk management (assessed as at time of assessment);
- Dimension 19.3. Revenue audit and investigation (assessed on experience in 2018 and subsequently);
- Dimension 19.4. Revenue arrears monitoring (assessed on experience in 2018 and subsequently).

The composition of own revenue of subnational governments in Ukraine is described in Chapter 2 above, and the details of Khmelnytskyi's revenue are set out in PI-3 above. Since the city has some partial involvement in determining tax rates and identifying taxpayers only in respect of less than a third of its revenues from taxation, and has no direct responsibility for tax collection or the setting of the main rates of taxes, this PI is generally assessed as Not Applicable. A description is nonetheless provided of tax administration in Khmelnytskyi.

PI-19.1 Rights and obligations for revenue measures

All tax revenue is collected by the local branch of the State Fiscal Service (SFS) which is part of central government. In addition to the main taxes – personal and corporate income taxes, value added tax and customs and excise duties – SFS is also responsible for collecting the Single taxes paid by small entrepreneurs and all property and land taxes. However, the city has a key role in identifying those liable to the Single Taxes (and in some cases fixes the rate payable) and in setting land and property tax rates. The city receives 60 per cent of personal income tax paid by those who work there, and 100 per cent of Single Tax paid by entrepreneurs within its territory as well as all revenue from property and land taxes. Information about the assessment of individual taxpayers' liabilities is readily available on websites and at the local tax office. Administrative appeals may be made within the SFS system, but there is no independent machinery for considering appeals other than the Administrative Court. However, since the city's partial involvement in determining tax rates and identifying taxpayers covers only about one third of its total tax revenues and less than 15 per cent of overall revenues, this dimension is NA.

PI-19.2 Revenue risk management

There are 18,700 payers of the Single Tax, which is more advantageous to those concerned than the personal income tax. At the same time there are considerable numbers of people outside the tax net. By keeping the Single Tax rate low (only half the maximum amount chargeable in some cases) the city has drawn a further 2000 taxpayers into the tax net over

the last two years. Priority has thus been given to reducing the extent of the shadow economy rather than maximizing this revenue stream in the short run.

Because of the high risks associated with the Single Tax, about 15 per cent of the 85 local SFS staff are devoted to its collection. Property and land taxes have only recently been introduced, and rates are low; the registers are understood to be far from complete. About 25 per cent of SFS staff are engaged in company taxation, and 10 per cent to enforcement activities. However, since these arrangements are outside any control by the city, the score is NA.

PI-19.3 Revenue audit and investigation

There is close supervision of Single Tax payers, with the threat to transfer them to other tax arrangements if they do not pay. SFS issues reminders whenever payments are overdue, and 200-300 taxpayers a year are subject to sanctions. However, the overall effort to improve tax compliance is a responsibility at central level rather than at the level of a single city. Score: NA

PI-19.4 Revenue arrears monitoring

As noted in 19.2 above, there is close monitoring of Single Tax payments. Land and property taxes are relatively recent and not yet subject to the same degree of supervision. Table 3.12 below summarises collections and arrears of those taxes where there is significant city involvement (see PI-3 above).

Table 3.12 Collections and arrears of city taxes 2016-18 (UAH millions)

| Revenue type | 2016 collections | Arrears End-2016 | 2017 collections | Arrears End-2017 | 2018 collections | Arrears End-2018 |
|-----------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| Single tax | 145.5 | 1.1 | 204.5 | 1.9 | 250.1 | 2.7 |
| Land tax | 133.1 | 17.4 | 141.0 | 17.1 | 148.9 | 19.1 |
| Property tax | 6.6 | 0.9 | 11.7 | 3.7 | 18.8 | 6.6 |
| Other taxes | 1.4 | 0.6 | 2.6 | 0.7 | 4.5 | 1.5 |
| Total | 286.6 | 20.0 | 359.8 | 23.4 | 422.3 | 29.9 |
| Arrears as % of collections | | 7.0% | | 6.9% | | 7.1% |

Source: SFS

Arrears remained well below 10 per cent of collections throughout 2016-18. While precise information is not available about the age of arrears, the fact that arrears as a percentage of collections increased only slightly while revenue was rising rapidly suggests that SFS was relatively successful in collecting outstanding arrears. However, since tax collection and enforcement are outside the responsibilities of the city, the score is NA.

| PI | Indicator/Dimension | Score | Justification for score |
|---------|---|-------|--|
| PI-19 | Revenue administration | NA | Aggregation method (M2) |
| PI-19.1 | Rights and obligations for revenue measures | NA | Provision of information is not the responsibility of the city. |
| PI-19.2 | Revenue risk management | NA | Revenue risk management is not the direct responsibility of the city. |
| PI-19.3 | Revenue audit and investigation | NA | Audit and investigation are a national rather than local responsibility. |
| PI-19.4 | Revenue arrears monitoring | NA | Arrears at the end of 2018 were well below 10 per cent of collections, but their management is not the responsibility of the city. |

PI-20 Accounting for revenue

This indicator assesses procedures for recording and reporting revenue collections, consolidating revenues collected, and reconciling tax revenue accounts. It covers both tax and nontax revenues collected by the city. This indicator contains the following three dimensions and uses M1 (WL) for aggregating dimension scores:

- Dimension 20.1. Information on revenue collections;
- Dimension 20.2. Transfer of revenue collections;
- Dimension 20.3. Revenue accounts reconciliation.

PI-20.1 Information on revenue collections

Information is available in real time from the Treasury about revenue collections. All tax revenue is collected by SFS with the city's share paid directly into its account in the Treasury as it accrues. Monthly reports are made by SFS to the Department of Finance explaining the details of tax collections. The city receives a monthly consolidated report covering both tax revenues and amounts of central government transfers which together account for nearly 90 per cent of city revenues. All non-tax revenues collected by the city are paid directly into its Treasury account, and included in monthly reports prepared by the Department of Finance. Score: A

PI-20.2 Transfer of revenue collections

All revenue, tax and non-tax, is paid immediately into the Treasury. Score: A

PI-20.3 Revenue accounts reconciliation

The Chart of Accounts ensures that all details of revenue receipts are collected as revenue is received and paid into the Treasury. There is full monthly reconciliation between city and Treasury records. SFS systems ensure that the accounts of individual taxpayers are updated as revenue is received, so that there is full reconciliation at least monthly of assessments, collections and transfers to the Treasury.

| PI | Indicator/Dimension | Score | Justification for score |
|-----------|------------------------------------|--------------|--|
| PI-20 | Accounting for revenue | A | Aggregation method (M1) |
| PI-20.1 | Information on revenue collections | A | Information is available in real time from the Treasury about receipts of tax and other revenues, and a consolidated monthly report is prepared by the Department of Finance. |
| PI-20.2 | Transfer of revenue collections | A | All revenue is paid into the Treasury as it is received. |
| PI-20.3 | Revenue accounts reconciliation | A | There is a full monthly reconciliation of assessments, collections and payments into the Treasury, and SFS systems ensure that individual taxpayers' accounts are continuously updated as revenue is received. |

PI-21 Predictability of in-year resource allocation

This indicator assesses the extent to which the city is able to forecast cash commitments and requirements and to provide reliable information on the availability of funds to budgetary units for service delivery. It contains the following four dimensions and uses the M2 (AV) method for aggregating dimension scores:

- Dimension 21.1. Consolidation of cash balances (as at time of assessment);
- Dimension 21.2. Cash forecasting and monitoring (last 12 months budget cycle);
- Dimension 21.3. Information on commitment ceilings (last 12 months budget cycle);
- Dimension 21.4. Significance of in-year budget adjustments (last 12 months budget cycle).

PI-21.1 Consolidation of cash balances

All cash balances are held in the city's account at the Treasury and are consolidated daily.
Score: A

PI-21.2 Cash forecasting and monitoring

A cash flow forecast is made at the beginning of the year, and updated quarterly taking into account actual cash inflows and outflows. The city has sufficient financial reserves not to need to update the forecast at shorter intervals. Score: B

PI-21.3 Information on commitment ceilings

The city considers that its financial reserves (see Chapter 2 paragraph 11) are sufficient to allow spending Departments to commit all their budget allocations at any time during the year. Reserves as a percentage of annual expenditure amounted to 2.7 per cent of annual expenditure at the end of 2018, having fallen from 7 per cent at the end of 2016. The city noted that it had avoided any arrears of expenditure.

Score: A

PI-21.4 Significance of in-year budget adjustments

There were five budget revisions in 2018 approved by the Council with full transparency. The main elements were changes in the amounts of central government transfers, but the revisions also confirmed the reallocations previously approved by the Standing (Budget) Committee of the Council. Score: C

| PI | Indicator/Dimension | Score | Justification for score |
|---------|---|-------|--|
| PI-21 | Predictability of in-year resource allocation | B+ | Aggregation method (M2) |
| PI-21.1 | Consolidation of cash balances | A | All cash balances are held in the Treasury and consolidated daily. |
| PI-21.2 | Cash forecasting and monitoring | B | A cash flow forecast is produced at the beginning of the year and updated quarterly. |
| PI-21.3 | Information on commitment ceilings | A | Spending Departments may commit their entire budget allocations at any time during the year. |
| PI-21.4 | Significance of in-year budget adjustments | C | There were five budget revisions agreed by the Council in 2018. |

PI-22 Expenditure arrears

This indicator measures the extent to which there is a stock of arrears, and the extent to which a systemic problem in this regard is being addressed and brought under control. It contains the following two dimensions and uses the M1 (WL) method for aggregating dimension scores:

- Dimension 22.1. Stock of expenditure arrears (last three completed fiscal years);
- Dimension 22.2. Expenditure arrears monitoring (as at time of assessment).

PI-22.1 Stock of expenditure arrears

According to the Ministry of Finance Order No. 372 of April 2014, no invoice may remain unpaid more than 30 days after its due date. Monthly reports to the Finance Department from budget users must show the amounts of unpaid invoices, including those which are not overdue. Consolidated monthly reports to the Treasury include amounts outstanding. The Finance Department confirmed that city has not had any expenditure arrears during the period 2016-18. Score: A

PI-22.2 Expenditure arrears monitoring

Invoices are registered in the Treasury as they are received from the city, and questions would be raised if budgetary provision and funds were not available to meet them. Monthly returns from budget users enable unpaid invoices to be tracked. Budget users' compliance with these procedures is subject to inspection by the internal control Department which reports to the Head of the city administration. Score: A

| PI | Indicator/Dimension | Score | Justification for score |
|---------|--------------------------------|-------|---|
| PI-22 | Expenditure arrears | A | Aggregation method (M1) |
| PI-22.1 | Stock of expenditure arrears | A | There are no expenditure arrears. |
| PI-22.2 | Expenditure arrears monitoring | A | The city and Treasury systems enable unpaid invoices to be tracked, and any arrears to be identified. |

PI-23 Payroll controls

This indicator is concerned with the payroll for public servants only: how it is managed, how changes are handled, and how consistency with personnel records management is achieved. Wages for casual labour and discretionary allowances that do not form part of the payroll system are included in the assessment of non- salary internal controls, PI-25. This indicator contains the following four dimensions and uses the M1 (WL) method for aggregating dimension scores:

- Dimension 23.1. Integration of payroll and personnel records (as at time of assessment);
- Dimension 23.2. Management of payroll changes (as at time of assessment);
- Dimension 23.3. Internal control of payroll (as at time of assessment);
- Dimension 23.4 Payroll audit (last three completed fiscal years).

PI-23.1 Integration of payroll and personnel records

In Khmelnytskyi staff management is decentralised, with the heads of institutions (schools, hospitals) responsible for staff recruitment, management and payroll. The central government determines an overall pay grid within which staff pay is set, but the city can pay additional amounts; thus teachers on average receive about 30 per cent a year more than the pay grid minimum. The organizational structure and the list of staff positions in each department are approved by the Mayor and published on the city website. No employee may be engaged unless the position is on the list of approved positions. There are no automatic links between personnel and payroll records, but the payroll is only changed when notification of approved personnel changes is received by the Finance Department from the heads of city Departments and institutions. The payrolls are updated continuously and operated twice a month on the basis of instructions prepared by the HR managers and certified by Departmental heads, and subsequently checked by the head of the Finance Department against the previous month's payroll data to ensure that any significant changes are fully explained. Score: B

PI-23.2 Management of payroll changes

Operation of the payroll every two weeks on the basis of instructions from each Department or institution ensures that personnel records and the payroll are kept closely in line. The Finance Department confirmed that there had not been any significant incidence of a need for retroactive pay adjustments.

Score: A

PI-23.3 Internal control of payroll

Changes to the staff lists are made only by order of the Mayor. Access to personnel records and the payroll is limited, and changes in personnel and payroll records require the approval of and verification by heads of Department and are recorded both electronically and on paper. There is always a clear audit trail. Score: A

PI-23.4 Payroll audit

There is no evidence of problems in payroll management from reports by inspection services or the State Audit Service. SAS audits of education in 2018 and culture in 2019 included reviews of the employment and pay of the staff, and did not identify any systemic problems. Score: C

| PI | Indicator/Dimension | Score | Justification for score |
|---------|--|-------|---|
| PI-23 | Payroll controls (M1) | C+ | Aggregation method (M1) |
| PI-23.1 | Integration of payroll and personnel records | B | There are no direct links between personnel records and the payroll, but the payroll is only changed when authorised by the head of the responsible Department. |
| PI-23.2 | Management of payroll changes | A | Payrolls are continuously updated, and retroactive adjustments are rarely necessary. |
| PI-23.3 | Internal control of payroll | A | There are strong internal controls over changes in personnel and payroll records which always leave a clear audit trail. |
| PI-23.4 | Payroll audit | C | There have been no audits specifically directed at payroll during the period 2016-18, but recent audits of education and culture included payrolls of the institutions concerned. |

PI-24 Procurement

This indicator examines key aspects of procurement management. It focuses on transparency of arrangements, emphasis on open and competitive procedures, monitoring of procurement results, and access to appeal and redress arrangements. The indicator covers municipal procurement operations only, assessed for the last completed fiscal year i.e. the fiscal year 2018. The indicator contains the following four dimensions and uses the M2 (AV) method for aggregating dimension scores:

- Dimension 24.1. Procurement monitoring
- Dimension 24.2. Procurement methods
- Dimension 24.3. Public access to procurement information
- Dimension 24.4. Procurement complaints management

Procurement is regulated by the Public Procurement law (2015, updated 2019). The objectives are to ensure fair, competitive and transparent procedures which will achieve best value in the public interest. All procurement above thresholds of 200,000 UAH (goods and services) and works (1.5million UAH) must be notified on the public electronic platform ProZorro, with contracts being let wherever possible by electronic auction. The 2019 amendments provided for contracts above 50,000 UAH also to be eligible for electronic auction on ProZorro. Contracts below the threshold must be published, but they are not automatically subject to competition. Compliance with the law is the responsibility of the purchasing authority, but the State Audit Service uses electronic tools to monitor the performance of the platform.

PI-24.1 Procurement monitoring

Procurement in Khmelnytskyi is undertaken by each of the individual institutions which have legal entity status and are financed from the city budget. Each such institution must publish details of what is procured, the value of the contract and the identity of the contractor. Comprehensive data about procurement plans and actual contracts is compiled and published on the city website. The total amounts procured are broadly consistent with the aggregate expenditure on goods, services and capital investment taken into account in PI-2 above net of contractual payments to COEs. Score: A

PI-24.2 Procurement methods

Open tendering is the default method of procurement through ProZorro, but less competitive methods are permitted in a variety of circumstances as well as for contracts below the thresholds. Tables 3.13 and 3.14 show the information provided by the city for the purposes of this assessment.

Table 3.13 Procurement above and below the threshold, 2017-18 (UAH millions)

| | 2017 | | 2018 | |
|-----------------|--------|---------|--------|---------|
| | Number | Value | Number | Value |
| Below Threshold | 347 | 404.8 | 484 | 485.3 |
| Above threshold | 23 | 833.5 | 19 | 793.9 |
| Total | 370 | 1,238.3 | 503 | 1,279.2 |

Source: Khmelnytski Finance Dept.

Table 3.14 Use of competition, 2017-18 (UAH millions)

| Category | 2017 | | | | 2018 | | | |
|----------|-------------|-------|-----------------|-------|-------------|-------|-----------------|-------|
| | Competitive | | Non Competitive | | Competitive | | Non Competitive | |
| | Number | Value | Number | Value | Number | Value | Number | Value |
| Goods | 16 | 247.7 | 284 | 406.9 | 13 | 154.2 | 421 | 312.2 |
| Services | 0 | 0 | 4 | 48.0 | 0 | 0 | 1 | 2.2 |
| Works | 4 | 392.7 | 62 | 142.9 | 3 | 403.0 | 65 | 407.6 |
| Total | 20 | 640.4 | 350 | 597.8 | 16 | 557.2 | 487 | 722.0 |

| Category | 2017 | | | | 2018 | | | |
|-------------------------------|-------------|-------|-----------------|-------|-------------|-------|-----------------|-------|
| | Competitive | | Non Competitive | | Competitive | | Non Competitive | |
| | Number | Value | Number | Value | Number | Value | Number | Value |
| Percentage let by competition | | 51.7% | | | | 43.6% | | |

Source: Khmelnytskyi Finance Department

As Table 3.13 shows, the majority of contracts by value for the procurement of goods were let without competition in both years, and the majority of works contracts by value in 2018 were also let without competition. Since less than 60 per cent of the total value of contracts was subject to competition, the score is D.

PI-24.3 Public access to procurement information

This dimension reviews the level of public access to complete, reliable, and timely procurement information at municipal level. It covers only procurement managed by the city, and excludes procurement by COEs. The score for this dimension depends on how many of the following elements are made available to the public:

1. Legal and regulatory framework for procurement: this is available on the ProZorro website (<https://prozorro.gov.ua/>) , on the website of the Ministry of Economy, and on the city website (<https://khm.gov.ua/uk/content/publichna-informaciya>).
2. City procurement plans: these are published on the city website (<https://khm.gov.ua/uk/content/richni-plany-zakupivel>)
3. Bidding opportunities: Bidding opportunities are published on ProZorro where contracts are above the threshold, or subject to competitive bidding although below the threshold.
4. Contract awards: Where tenders have been published, contract awards are published on ProZorro.
5. Data on resolution of procurement complaints: Results are published on the website of the Anti-Monopoly Committee of Ukraine which judges complaints.
6. Annual procurement statistics: The city does not publish annual procurement statistics.

Since four of the benchmarks are fully satisfied, the score is B.

PI-24.4 Procurement complaints management

The score for this dimension depends on how many of the following criteria for the operation of the PPC are satisfied:

1. The procurement complaints are reviewed by a body which is not involved in procurement transactions or in the process leading to contract awards decisions: the Anti-Monopoly Committee (AMC) satisfies this criterion.

2. The procurement complaints are reviewed by a body does not charge fees which prohibit access by concerned parties : the fees of 5,000 UAH (about \$200) for goods and services contracts and 15,000 UAH (about \$600) for works contracts may well discourage complaints by smaller contractors, although the amounts are not significant in relation to larger contracts.
3. The procurement complaints are reviewed by a body which follows processes for submission and resolution of complaints that are clearly defined and publicly available: AMC procedures satisfy this criterion.
4. The procurement complaints are reviewed by a body which exercises the authority to suspend the procurement process: lodging a complaint through ProZorro suspends the procurement pending the decision of AMC, so this criterion is satisfied.
5. The procurement complaints are reviewed by a body which issues decisions within the timeframe specified in the rules/regulations: AMC gives decisions within 15 working days, so this criterion is satisfied.
6. The procurement complaints are reviewed by a body which issues decisions that are binding on all parties (without precluding subsequent access to an external higher authority): AMC decisions are binding on all parties, so this criterion is satisfied.

Since the system meets the first criterion, and four of the five others, score is B.

| PI | Indicator/Dimension | Score | Justification for score |
|---------|--|-------|--|
| PI-24 | Procurement | B | Aggregation method (M2) |
| PI-24.1 | Procurement monitoring | A | Full information is compiled about procurement plans and contract awards. |
| PI-24.2 | Procurement methods | D | Less than 60% of contracts by value were subject to competition |
| PI-24.3 | Public access to procurement information | B | Four of the benchmarks are fully satisfied. |
| PI-24.4 | Procurement complaints management | B | Five of the six criteria are satisfied, but the level of fees charged may discourage some smaller businesses from complaining. |

PI-25 Internal controls on non-salary expenditure

This indicator measures the effectiveness of general internal controls for non - salary expenditures. Specific expenditure controls on public service salaries are considered in PI-23. This indicator contains the following three dimensions, scored at the time of assessment, and uses the M2 (AV) method for aggregating dimension scores:

- Dimension 25.1. Segregation of duties
- Dimension 25.2. Effectiveness of expenditure commitment controls

- Dimension 25.3. Compliance with payment rules and procedures

The city operates a range of internal controls, for example over the consumption of energy, food and medicines in its institutions. Compliance checks of payments are made in some cases by the Internal Control section of the Department for Information and Organisation.

PI-25.1 Segregation of duties

The requirement to establish effective internal control over budget expenditure is based on Article 26 of the Budget Code. The Ministry of Finance Order No. 995 of September 2014 requires each spending unit to establish internal controls based on the principles of responsibility and the division of powers between management and staff. Allocation of responsibilities for different aspects of the payment process as between individuals in the spending Departments and the Finance Department ensures that functions are effectively separated. These arrangements are reinforced by the Cabinet Resolution No. 1062 of December 2018 which defines the practices of internal control, including requirements for employees' functions and responsibilities to be defined in job descriptions which provide clearly for the appropriate separation of functions. Different officials in the Finance Department are responsible for authorisation and recording, while the authorisation and custody of assets functions are split in the budget using Departments. Within the city administration commitments and payments are subject to compliance control by the Internal Control section of the Department for Information and Organisation which reports directly to the Chief Administrator of the Executive Committee. Score: A

PI-25.2 Effectiveness of expenditure commitment controls

There are no specific controls over commitments, but this has not given rise to difficulty since the city has sufficient funds to enable spending Departments to undertake commitments at any time provided they remain within their overall budget allocations. Score: D

PI-25.3 Compliance with payment rules and procedures

Payments are made through payment orders which are prepared in a form prescribed by Ministry of Finance Order No. 938 of August 2012. For the Treasury to make a payment, two (electronic) signatures are required, together with a primary document explaining the basis of the payment. The payment will only be made once the Treasury is satisfied that it is covered by budgetary provision and that cash is available. These procedures, which cannot be overridden, ensure that all (the materiality test is 90 per cent) payments comply with regular payment procedures. In addition to the control automatically applied by the Treasury to ensure that that minimum requirements are satisfied, transactions are also subject to checking by the Internal Control section (see 25.1 above). Score: A

| PI | Indicator/Dimension | Score | Justification for score |
|-------|---|-------|-------------------------|
| PI-25 | Internal controls on non-salary expenditure | B | Aggregation Method M2. |

| | | | |
|---------|--|---|---|
| PI-25.1 | Segregation of duties | A | The separation of functions between and within Spending Departments and the Finance Department ensures appropriate segregation of duties. |
| PI-25.2 | Effectiveness of expenditure commitment controls | D | The absence of any specific commitment control has not given rise to difficulties. |
| PI-25.3 | Compliance with payment rules and procedures | A | All payments comply with regular payment procedures. |

PI-26 Internal audit

This indicator assesses the standards and procedures applied in internal audit function. It covers all entities of the city. It contains the following four dimensions and uses the M1 (WL) method for aggregating dimension scores:

- Dimension 26.1. Coverage of internal audit (as at time of assessment);
- Dimension 26.2. Nature of audits and standards applied (as at time of assessment);
- Dimension 26.3. Implementation of internal audits and reporting (last 12 months budget cycle);
- Dimension 26.4. Response to internal audits (audit reports issued during the last 3 years).

PI-26.1 Coverage of internal audit

Internal audit specialists are currently assigned to analysis of the scope for improvement in the efficiency of the city's COEs. There is no Internal Audit as such. Score: D

PI-26.2 Nature of audit and standards applied

There being no IA currently in operation, this dimension is NA.

PI-26.3 Implementation of internal audits and reporting

In the absence of IA this dimension is also NA.

PI-26.4 Response to internal audit

There has been no IA requiring a response. Score: NA

| PI | Indicator/Dimension | Score | Justification for score |
|---------|----------------------------|-------|--|
| PI-26 | Internal audit | D | Aggregation Method M1 |
| PI-26.1 | Coverage of internal audit | D | There is no IA currently in operation. |

| | | | |
|---------|---|----|--|
| PI-26.2 | Nature of audits and standards applied | NA | There are no audits. |
| PI-26.3 | Implementation of internal audits and reporting | NA | There are no audits |
| PI-26.4 | Response to internal audit | NA | There have been no findings or recommendations requiring a response. |

3.7 Pillar 6. Accounting and Reporting

PI-27 Financial data integrity

This indicator assesses the extent to which treasury bank accounts, suspense accounts, and advance accounts are regularly reconciled and how the processes in place support the integrity of financial data. It contains the following four dimensions and uses the M2 (AV) method for aggregating dimension scores:

- Dimension 27.1. Bank account reconciliation (as at time of assessment and for the previous 12 months)
- Dimension 27.2. Suspense accounts (as at time of assessment and for the previous 12 months)
- Dimension 27.3. Advance accounts (as at time of assessment and for the previous 12 months)
- Dimension 27.4. Financial data integrity processes (as at time of assessment)

PI-27.1 Bank account reconciliation

All operations of the city budget – revenue and expenditure – are carried out through the Treasury, which provides daily reconciliations of turnover and account balances. There is daily reconciliation between the city’s records and those of the Treasury. Score: A

PI-27.2 Suspense accounts

Sufficient information is collected about all receipts to avoid any need to operate suspense accounts. Score: NA

PI-27.3 Advance accounts

Advances to staff are cleared within a month. Advances to contractors are cleared at each stage of the contract and any outstanding amounts reconciled at the end of the year.

Score: C

PI-27.4 Financial data integrity processes

Treasury records are kept in its automated accounting and reporting system (“E-Treasury”). Access is limited by robust passwords, and it is not possible to change records without registering in the system. Changes to records are restricted and recorded, and result in an audit trail, but there is no separate unit in charge of verifying data integrity. Score: B

| PI | Indicator/Dimension | Score | Justification for score |
|---------|------------------------------------|-------|--|
| PI-27 | Financial data integrity | B+ | Aggregation Method M2 |
| PI-27.1 | Bank account reconciliations | A | There are daily reconciliations between city and Treasury records. |
| PI-27.2 | Suspense accounts | A | No use is made of suspense accounts. |
| PI-27.3 | Advance accounts | C | Advances to contractors are cleared at each stage of the contract and outstanding amounts are reconciled at the end of the year. |
| PI-27.4 | Financial data integrity processes | B | There are no doubts about the integrity of data, but there is no special unit to ensure this. |

PI-28 In-year budget reports

This indicator assesses the comprehensiveness, accuracy and timeliness of information on budget execution. In-year budget reports must be consistent with budget coverage and classifications to allow monitoring of budget performance and, if necessary, timely use of corrective measures. This indicator contains the following three dimensions, assessed on the basis of the last 12 months budget cycle, and uses the M1 (WL) method for aggregating dimension scores:

- Dimension 28.1 Coverage and comparability of reports
- Dimension 28.2 Timing of in-year budget reports
- Dimension 28.3 Accuracy of in-year budget reports

PI-28.1 Coverage and comparability of reports

In-year budget execution reports published on the city website, which are derived from Treasury data, allow comparison with the original budget broken down by programme and economic classifications only. Although the Chart of Accounts ensures that all details of each transaction on all classifications are recorded by the Treasury, so that reports can be produced on any classification, there are no reports on the administrative classification.

Score: D

PI-28.2 Timing of in-year budget reports

Monthly reports of revenue and expenditure are made within two weeks of month-end according to the different classifications. Further information about sources of funds and balance sheets is produced quarterly. Score: A

PI-28.3 Accuracy of in-year budget reports

There are no doubts about the accuracy of the reports, but there is no coverage of commitments. Detailed comparisons with the original budget are provided on all classifications on a monthly basis. Commitments are not scored against available budgetary provision when contracts are signed. Reports of actual revenue and expenditure are generated automatically from the Treasury system through which all revenue and expenditure transactions flow. Partial audits have not found evidence of inconsistencies between in-year execution reports and subsequent budget execution statements. Score: B

| PI | Indicator/Dimension | Score | Justification for score |
|---------|---------------------------------------|-------|--|
| PI-28 | In-year budget reports | D+ | Aggregation Method M1 |
| PI-28.1 | Coverage and comparability of reports | D | In-year reports are directly comparable with the original budget on economic and programme classifications but the administrative breakdown is not provided. |
| PI-28.2 | Timing of in-year reports | A | Reports are made within two weeks of month-end. |
| PI-28.3 | Accuracy of in-year budget reports | B | Reports are accurate but commitments are not covered. |

PI-29 Annual financial reports

This indicator assesses the extent to which annual financial statements are complete, timely, and consistent with generally accepted accounting principles and standards. This is crucial for accountability and transparency in the PFM system. It contains the following three dimensions and uses the M1 (WL) method for aggregating dimension scores:

- Dimension 29.1 Completeness of annual financial reports (for last completed fiscal year);
- Dimension 29.2 Submission of reports for external audit (last annual report submitted for audit);
- Dimension 29.3 Accounting standards (last three years' financial reports).

PI-29.1 Completeness of annual financial reports (M1)

The Budget Code (Articles 58-61 and 80) requires the provision of full information on revenue, expenditure, financial assets, debt and guarantees, and a cash flow statement. But tangible assets are not included. Much of the data (revenue and expenditure) are generated from the Treasury system, but the financial statements also cover receivables and payables, use of the Budget reserve fund (if any), and income other than in cash. Financial statements are based

on budget execution reporting, and data are directly comparable with budget estimates on economic and programme classifications, but the administrative breakdown is lacking.

Score: D

PI-29.2 Submission of reports for external audit

The (unaudited) annual financial statements of the city should be submitted to the Khmelnytskyi oblast by 1 April each year. Khmelnytskyi has complied with this requirement for 2018. However, because the financial reports have not been subject to complete audit by the State Audit Service (SAS) belonging to central government or any other auditor the score is D

PI-29.3 Accounting standards

Financial reports are made in accordance with national regulations, which enable consistent comparisons from one year to the next, although these are not consistent with International Public Sector Accounting Standards (IPSAS). Comparison with original budget is possible on all classifications. For SNGs PEFA Secretariat guidance provides that an A score is given if reports are fully compliant with national standards (which are a matter of public record, and fully disclosed), as they are in the case of Khmelnytskyi. Score: A

| PI | Indicator/Dimension | Score | Justification for score |
|---------|--|-------|---|
| PI-29 | Annual financial reports | D+ | Aggregation Method M1 |
| PI-29.1 | Completeness of annual financial reports | D | Reports include information about revenue, expenditure, financial assets, debt and guarantees, but tangible assets are not covered, and there is no administrative breakdown. |
| PI-29.2 | Submission of reports for external audit | D | Reports are available by 1 April the following year but have not been subject to audit. |
| PI-29.3 | Accounting standards | A | Reports comply fully with national standards which make possible consistent comparisons between one year and the next. |

3.8 Pillar 7. External Scrutiny and Audit

PI-30 External audit

This indicator examines the characteristics of external audit. It contains four dimensions, covers all municipal government operations, and uses the M1 (WL) method for aggregating dimension scores:

- Dimension 30.1 Audit coverage and standards (last three completed fiscal years);
- Dimension 30.2 Submission of audit reports to the legislature (last three completed fiscal years);
- Dimension 30.3 External audit follow-up (last three completed fiscal years);
- Dimension 30.4 Supreme Audit Institution independence (as at time of assessment).

PI-30.1 Audit coverage and standards

The annual financial reports of subnational governments in Ukraine have not been subject to audit by the external auditor of the central government – the Accounting Chamber (ACU) which reports to the national Parliament on central government expenditure – although the ACU's remit was somewhat widened by a revision of the law in November 2018. SNG financial reports may instead be audited by the central government's State Audit Service (SAS). Khmelnytskyi's financial reports have not been audited since 2015, although there have been partial audits every year covering capital expenditure each year, with a comprehensive audit of education expenditure in 2018 and culture (2019). These audits have not achieved 50 percent coverage of expenditure for the three years 2016-18, so the score for this dimension is D.

PI-30.2 Submission of reports to the Municipal Council

It does not appear that audit reports have been submitted to the Council. There is no legal requirement for this in Ukraine. Responsibility for action in response to SAS audits rests with the spending units concerned.

Score: D

PI-30.3 External audit follow-up

The city administration responds formally to audit reports by the State Audit Service (SAS). SAS as a body subordinated to the Council of Ministers has some coercive power in following up its recommendations, and corrections were made accordingly to the financial records of education institutions (2018) and cultural institutions (2019) following SAS audits. However, since this Indicator is directed at audit reports on annual financial statements, Score is NA

PI-30.4 SAI independence

The SAI (Accounting Chamber of Ukraine – ACU) is heavily dependent on the government for its resources; its budget requests are consolidated with those of other sectors in the overall budget process. Access to electronic databases and management information systems is limited to the Board Members of ACU which severely constrains its ability to apply a risk-based audit approach. Score: D

| PI | Indicator/Dimension | Score | Justification for score |
|---------|--|-------|---|
| PI-30 | External audit | D | Aggregation Method M1 |
| PI-30.1 | Audit coverage and standards | D | Less than 50 per cent of 2016-18 has been subject to audit. |
| PI-30.2 | Submission of audit reports to the legislature | D | The Council have not considered any audit reports. |
| PI-30.3 | External audit follow-up | NA | The city administration responds formally to audit reports. |
| PI-30.4 | Supreme Audit Institution independence | D | The country's SAI is heavily dependent on the government for its staff and resources, and its access to electronic databases and management information systems is limited. |

PI-31 Legislative scrutiny of audit reports

This indicator focuses on local legislative scrutiny of the audited financial reports of the municipality, including institutional units, to the extent that either (a) they are required by law to submit audit reports to the Council or (b) their parent or controlling unit must answer questions and take action on their behalf. It has the following four dimensions, which are assessed on the last three completed fiscal years, and uses the M2 (AV) method for aggregating dimension scores:

- Dimension 31.1 Timing of audit report scrutiny;
- Dimension 31.2 Hearings on audit findings;
- Dimension 31.3 Recommendations on audit by legislature;
- Dimension 31.4 Transparency of legislative scrutiny of audit reports;

PI-31.1 Timing of audit report scrutiny

No audit reports by SAS have been considered by the Council. Score: D

PI-31.2 Hearings on audit findings

There have been no hearings. Score: NA

PI-31.3 Recommendations on audit by the legislature

There have been no recommendations. Score: NA

PI-31.4 Transparency of legislative scrutiny of audit reports

There has been no scrutiny. Score: NA

| PI | Indicator/Dimension | Score | Justification for score |
|---------|---|-------|---|
| PI-31 | Council scrutiny of audit reports | D | Aggregation Method M2 |
| PI-31.1 | Timing of audit report scrutiny | D | There has been no scrutiny of audit reports. |
| PI-31.2 | Hearings on audit findings | NA | There have been no hearings by the Council. |
| PI-31.3 | Recommendations on audit by the Council | NA | No recommendations have been made by the Council. |
| PI-31.4 | Transparency of Council scrutiny of audit reports | NA | There has been no scrutiny of audit reports. |

Chapter 4 Conclusions on the analysis of PFM systems

4.1 Integrated analysis of PFM performance

The findings from the assessments of each Indicator are summarised in terms of each of the seven pillars of the PFM performance measurement framework.

4.1.1 Reliability of the Budget

Actual revenue and expenditure substantially exceeded the original budgets throughout the period 2016-18. There were two main factors influencing this: first the Budget Code provision permitting unspent funds from one year to be reappropriated the following year only after the budget execution report from the previous year had been produced, meant that the out-turn was always likely to exceed the original budget. Second the central government allocated substantial additional funds for social benefits (in the first two years) and for investment (in all three years) only after the original budget had been approved. Khmelnytskyi budgeted cautiously, so that there was never any risk of an unsustainable deficit. Overall changes in the functional composition of expenditure were moderate, but the in-year increases in expenditure on investment meant that there was considerable variance in the economic composition of expenditure. Most elements of revenue - transfers from central government, tax revenue wholly controlled by central government, and revenue from sources at least partly under the city's control - substantially exceeded budget throughout the period, while the composition of revenue (PI-3.2) showed significant variance.

4.1.2 Transparency of public finances

The Treasury system through which the budgets at all levels of government are executed and accounted for contains all the information necessary to make possible consistent comparisons between budget and out-turn by reference to administrative, economic, functional and programme classifications (PI-4), although the administrative breakdown is not published in execution reports. Budget documentation contains essential information about revenue and expenditure on different classifications (PI-5), although the overall balance and the impact of new decisions could be presented more clearly. Article 28 of the Budget Code requires public access to the details of budget proposals, approved budgets, and budget execution statements, with which Khmelnytskyi generally complies (PI-9). All expenditure and revenue of city-controlled institutions (schools, health clinics, cultural and sports facilities) is included in budgets and out-turn statements, including payments by service users and activities financed through them (PI-6). Some information about intended programme outputs and actual results has begun to be published, but there is not yet consistent reporting of performance against targets specified in budget documentation (PI-8).

4.1.3 Management of assets and liabilities

The city owns a wide variety of enterprises from which it receives regular reports, and a consolidated annual report is published about their financial performance. But the annual reports are not consistently subject to audit. Khmelnytskyi has no exposure to investments financed through Public-Private Partnerships (PPPs), or any other explicit contingent liabilities (PI-10). Public investments are planned within the framework of the city's Action Plan for the Implementation of its Development Strategy 2017-20, which sets out the criteria for project selection. Annual reports are published about progress in the execution of the strategy. But investment planning and reporting has not hitherto been anchored in a medium-term budgeting framework (PI-11). There is close monitoring of the financial performance of city enterprises, and registers are kept of buildings and infrastructure assets owned by the city. Asset disposals take place through transparent procedures (PI-12). Borrowing is under exclusive control by the Department of Finance. The city has so far contracted only one relatively small loan, so there is as yet no question of a need for a debt management strategy (PI-13).

4.1.4 Policy-based fiscal strategy and budgeting

Khmelnytskyi is only just beginning to undertake medium-term fiscal planning, so receives low scores on PIs 14-16. Annual budget preparation and its enactment through the city Council follow established procedures, and the budget is approved before the beginning of the year to which it relates, although spending Departments have only a limited time to prepare their submissions, and the Council has less than a month to consider the proposals. (PI-17-18)

4.1.5 Predictability and control in budget execution

The city is dependent on central government – MoF and State Fiscal Service (SFS) – for the receipt of almost all its revenues. Only a small part, where contributions are paid by service users, or properties are let or sold, is directly under the control of the city. Tax obligations are clear and well publicized, and collection appears to be well organized taking into account the risks, and successful in avoiding substantial tax arrears (PI-19). Accounting for revenue presents no problems (PI-20). Expenditure is executed through the local office of the national Treasury system, where the city has sufficient financial reserves to enable spending Departments to commit all their budget allocations at any time during the year, while avoiding incurring any expenditure arrears (PIs 21-22). Personnel management and the payroll are decentralized to spending Departments and institutions, but subject to close supervision at senior level including by the head of the Finance Department. While there are controls in operation, payroll audit is rather limited in coverage (PI-23). Responsibility for procurement is delegated to all the city's individual budget users; well under 60 per cent of contracts by value were subject to competition (PI-24). The lack of a medium-term perspective in the allocation of investment funds by central government may be a factor inducing the city to let many contracts without competition in order to avoid the delays inevitable when open tenders are held. Internal financial control by both national and city inspectorates ensures appropriate segregation of duties, and payments are not made unless proper procedures are

followed and the correct documentation submitted. But there is no separate registration or control over commitments (PI-25). Internal audit is not yet in operation (PI-26).

4.1.6 Accounting and reporting

Forms of accounting and reporting are prescribed by MoF in accordance with the Budget Code. There is daily reconciliation between city and Treasury bank account records. Advances are cleared in accordance with contractual conditions, and enough information is collected about revenue to avoid any need for suspense accounts. There is no reason to doubt the integrity of data (PI-27). Monthly, quarterly and annual revenue and expenditure reports are made, drawing on Treasury data. In-year and annual reports are available on programme/functional and economic, but not administrative classifications, with monthly and quarterly reports produced within two weeks of month-end and annual reports before the end of February the following year. But there is no separate registration or reporting of commitments. (PI-28). Annual financial reports provide full information on revenue and expenditure, debt and guarantees, financial assets and a reconciliation statement, but they do not cover tangible assets. Consistent comparisons can be made from one year to the next, although the form of the reports is not fully in line with International Public Sector Accounting Standards (IPSAS) (PI-29).

4.1.7 External scrutiny and audit

City operations are subject to audit by the (central government's) State Audit Service (SAS), but coverage is limited. Audits may cover compliance with regulations, accuracy of financial statements and efficiency of operations. The Accounting Chamber which reports to the State Parliament on the operations of central government is not tasked with auditing the annual financial statements of SNGs, and has not audited any aspect of the city's operations. The city administration responds to audit findings and recommendations, but the Council has not been involved in considering audit reports and the lessons to be drawn from them. It did not appear that SAS audits had any substantial impact on city operations during the period 2016-18. (PIs 30-31).

4.2 Effectiveness of the internal control framework

The internal control system should contribute towards four objectives: (i) the execution of operations in an orderly, ethical, economical, efficient and effective manner; (ii) fulfilment of accountability obligations; (iii) compliance with applicable laws and regulations; and (iv) safeguarding of resources against loss, misuse and damage. The analysis of the performance of the internal control system looks at the five internal control components: (1) the control environment; (2) risk assessment; (3) control activities; (iv) information and communication; and (5) monitoring. Annex 2 sets out specific observations relevant to the performance of internal controls.

The control environment depends on the legal and regulatory framework, and the way it is applied in practice. Chapter 17 of the Budget Code assigns responsibilities for compliance with budget legislation at SNG level to the Councils concerned to establish appropriate

organisations, to the State Treasury Service (STS) to enforce compliance with laws regarding revenue and expenditure transactions, and to the State Audit Service(SAS) to control the efficient use of funds for their intended purposes, correct accounting and reporting, and the operation of internal control and internal audit. Apart from the activities of STS and SAS the performance of the city in discharging its very important responsibilities will depend on the integrity of the management and staff, the management style of the organization, the organizational structure, the management of human resources, and the professional skills of the staff. As stated in Annex 2, it is the responsibility of the Mayor to set the tone of the city organization, and to adopt a strategy to minimize the risks of damage to the provision of good services. The city ensures that the staff it employs have the appropriate qualifications, and appointments are made following transparent competitive processes (see Chapter 2, Table 2.10). Some compliance checks are made by the Department of Information and Organisation which reports to the chief administrator of the Executive Committee rather than the Department of Finance (PI-25). Generally it was clear that there is substantial scope for improving the operation and coverage of both internal and external audit.

The main risks faced by Khmelnytskyi are that its revenue streams (most of which are outside its control) will fall short of what is needed to sustain good services, that it will be unable to recruit and retain the personnel needed to provide those services, and that its investments and procurements will not secure best value. It appears that the city has been relatively successful in retaining the necessary personnel and in building the required infrastructure. The absence of any central direction of procurement, and the high proportion of contracts let without competition indicates that procurement risks not getting best value. Consideration needs to be given to the possibility of widening the scope of revenues over which the city is able to exert a fuller measure of control.

The internal controls within the city administration appear to work satisfactorily, with the exceptions of the enforcement of competition in procurement and the operation of internal audit. As already noted, external audit could be improved (PI-30).

The city website provides much information about the city's finances, and the services it provides. Some information is published about the intended levels of service and the extent to which these are achieved, but it is not yet consistent and comprehensive. There is substantial scope for developing the provision of information about the development of public services within the framework of medium-term fiscal and budgetary planning.

4.3 PFM strengths and weaknesses

4.3.1 Aggregate financial discipline

Although the scores for HLG-1 and PIs 1-3 are mostly relatively low, Khmelnytskyi avoided any unsustainable commitment to expenditures while apparently maintaining public services at a satisfactory level. As inflation declined through the period 2016-18, there were signs that out-turns were differing less from original budgets.

4.3.2 Strategic allocation of resources

The city has been able, during the period 2016-18, to maintain its attractiveness to good teachers while improving nursery education and sports and cultural facilities. Public investment planning has been consistent with the city's overall strategic development plan. It appears that the overall allocation of resources has supported the development of the main public services, although this has not been achieved within the framework of medium-term fiscal planning. The implementation of effective medium-term fiscal planning, including the assurance of funding from central government for investment offers the prospect of benefits from improvements in the strategic allocation of resources and better value for money in project execution.

4.3.3 Efficient use of resources for service delivery

A start has been made in establishing indicators of performance in the delivery of public services, and reporting actual delivery. But the process needs to be more consistent in the treatment of objectives and subsequent performance, and to be fully integrated in a medium-term fiscal planning framework. The objective of improved cost-effectiveness should be demonstrated by indicators of outputs and quality against quantity and costs of inputs. Performance audits and other independent reviews of performance could contribute to improvements in the efficiency of service delivery.

Chapter 5 Government PFM reform process

5.1 Approach to PFM reform

Following the 2014 crisis the Ukraine government took drastic steps to restore public finances to a sustainable position, increasing energy prices and rationalising social benefits. Initial steps were taken to introduce medium-term fiscal planning, greater transparency in procurement and more effective measures to counter corruption. Decentralisation of powers and responsibilities to lower levels of government was to be an important element in making government more efficient and effective. In particular the smallest units of local government – hromadas – were encouraged by the 2015 law on voluntary amalgamation to form larger units with greater powers and direct financing from central government.

Further impetus to this process was given after the 2016 Parliamentary election by the formulation of a PFM Reform Strategy and Action Plan for the period 2017-20. The main elements were renewed efforts to develop strategic planning and medium-term fiscal planning, to improve the efficiency of resources allocated to public investment, to improve tax legislation and enforcement, and to improve internal control and internal audit throughout central and local government. Further efforts were to be made to increase the powers and responsibilities of SNGs, while ensuring that they have the necessary financial resources through the reallocation of centrally-collected tax revenues and by increasing their ability to borrow. Changes were made to the Budget and Tax Codes in 2018 to provide for these changes. However, it is not clear that the overall effect of the reallocation of tax revenues has increased the ability of SNGs to provide the services for which they are responsible.

5.2 Recent and on-going reform actions

Some progress has been made in implementing the Action Plan, although many of the changes face resistance from affected interests. An IMF consultancy report in the autumn of 2017 (published in November 2019) made a number of recommendations for clarifying responsibilities for the provision of different services, simplifying SNG budgeting processes, rationalising the allocation of tax revenues, and improving budgetary policy coordination between the different levels of government. The organisation and financing of health services has been reformed, with funding directly allocated from the centre to healthcare institutions based on their treatment of patients rather than transmitted through SNGs and based on norms relating to the size of facilities or the personnel employed. Consultations on budget allocations with representatives of SNGs have been initiated by MoF. But progress has been limited in increasing the real autonomy of SNGs which remain heavily dependent on rather unpredictable levels of financing from central government.

5.3 Institutional considerations

This PEFA assessment, and the parallel assessments at central government level and at oblast, rayon and amalgamated hromada levels, are intended to feed into the production of a revised PFM Reform action plan which will be supported by Ukraine's development partners. The fact that PFM reform action has continued despite the election in the summer of 2019 of a new

President and a new Parliament with a substantially changed membership augurs well for future progress, although there is still a long way to go before medium-term fiscal planning is effectively operational throughout the country, and stronger arrangements for internal control and internal audit are firmly installed nation-wide. Khmelnytskyi city has considerable openness and transparency in its approach to PFM, and its administration should be well placed to implement further improvements in PFM – for example in medium-term fiscal planning and the operation of internal audit - provided that it can mobilise the necessary resources.

Annex 1. Performance Indicator Summary

| PI | Indicator/Dimension | Score | Justification for score |
|--------------|--|-----------|--|
| HLG-1 | Predictability of transfers from Higher Level Government (M1) | D+ | |
| HLG-1.1 | Difference between planned and actual transfers | A | Actual transfers substantially exceeded the original budget in all three years 2016-18 |
| HLG-1.2 | Conditional Grant composition variance | D | The variance of targeted transfers exceeded 10 per cent in two of the last three years. |
| HLG-1.3 | In-year timeliness of transfers from central government | A | Almost all transfers were received in accordance with the predetermined schedule. |
| PI-1 | Aggregate expenditure out-turn (M1) | D | Actual expenditure exceeded the original budget by more than 15 per cent in two of the three years 2016-18. |
| PI-2 | Expenditure composition out-turn (M1) | D+ | Aggregation Method M1 |
| PI-2.1 | Expenditure composition out-turn by function | C | Composition variance was less than 15 per cent in all three years 2016-18. |
| PI-2.2 | Expenditure composition by economic classification | D | Composition variance exceeded 15 per cent in two of the three years 2016-18. |
| PI-2.3 | Expenditure from contingency reserves | A | No expenditure was charged to contingency during the period 2016-18. |
| PI-3 | Revenue out-turn | D+ | Aggregation Method M2 |
| PI-3.1 | Aggregate revenue out-turn | D | Actual revenues were more than 116% of budget in two of the three years 2016-18. |
| PI-3.2 | Revenue composition out-turn | C | Composition variance was less than 15 per cent in two of the three years 2016-18. |

| PI | Indicator/Dimension | Score | Justification for score |
|--------|---|-------|--|
| PI-4 | Budget classification (M1) | D | Budget formulation is based on administrative, economic and programme classifications, but execution reports are not made on the administrative classification. |
| PI-5 | Budget documentation (M1) | C | Three of the four basic elements are provided. |
| PI-6 | Operations outside financial reports (M2) | A | Aggregation method M2 |
| PI-6.1 | Expenditure outside financial reports | A | All expenditure, including that financed by user charges, is included in financial reports. |
| PI-6.2 | Revenue outside financial reports | A | All revenue, including payments by service users, is included in financial reports. |
| PI-6.3 | Financial reports of extra-budgetary units | NA | There are no extra-budgetary units. |
| PI-7 | Transfers to lower tier governments (M2) | NA | Since there are no government units subordinate to the city of Khmelnytskyi, this Indicator is Not Applicable. |
| PI-8 | Performance information for service delivery | C+ | Aggregation Method M2 |
| PI-8.1 | Performance plans for service delivery | B | Information is provided in budget documents about the activities of each Department, but objectives and Performance Indicators are not consistently stated. |
| PI-8.2 | Performance achieved for service delivery | C | Annual reports are produced about the implementation of budget programmes but these do not correlate with the presentation of programmes in budget documentation. |
| PI-8.3 | Resources received by Service delivery units (SDUs) | A | Annual reports are produced about the revenue and expenditure of each school and health service institution, but these are not published. |
| PI-8.4 | Performance evaluation for service delivery | D | No evaluations have been produced by internal or external auditors, or by other independent bodies. |
| PI-9 | Public access to fiscal information (M1) | A | All four basic elements are provided, plus three others. |
| PI-10 | Fiscal risk reporting | C | Aggregation Method M2 |

| PI | Indicator/Dimension | Score | Justification for score |
|--------------|---|-----------|--|
| PI-10.1 | Monitoring of public corporations | C | Regular financial reports are made by COEs, and a consolidated annual report is produced, but the reports are not independently audited. |
| PI-10.2 | Monitoring of subordinate governments | NA | There are no subordinate governments. |
| PI-10.3 | Contingent liabilities and other fiscal risks | NA | The city has no explicit contingent liabilities other than those covered by 10.1. |
| PI-11 | Public investment management | B+ | Aggregation Method M2 |
| PI-11.2 | Economic analysis of investment proposals | A | Decisions on major projects are based on their contribution to the city's socio-economic development. Performance indicators are established for each project based on analysis of the costs and benefits. |
| PI-11.2 | Investment project selection | A | All public investment projects are prioritised by the city Council, in accordance with criteria set out in the city's Action Plan 2017-20. |
| PI-11.3 | Investment project costing | C | Annual budget estimates show expenditure on investment projects during the budget year, and also the costs to completion of each project. |
| PI-11.4 | Investment project monitoring | A | Project execution is closely monitored by a Committee appointed by the Mayor. Quarterly and annual reports are made about the progress of projects, and a consolidated annual report is published. |
| PI-12 | Public asset management | B+ | Aggregation Method M2 |
| PI-12.1 | Financial asset management | B | An annual report is produced about the financial performance of the city's COEs, which are valued at historic costs. |
| PI-12.2 | Non-financial asset management | B | Registers are kept of the land and buildings belonging to the city's service Departments, and information is published about their age and use. |
| PI-12.3 | Transparency of asset disposal | A | There are transparent procedures for the disposal of assets, which requires the approval of the Council in each case. |

| PI | Indicator/Dimension | Score | Justification for score |
|--------------|---|-----------|--|
| PI-13 | Debt management | A | Aggregation method M2 |
| PI-13.1 | Recording and reporting of debt and guarantees | A | Debt records are complete and accurate, and updated and reconciled monthly. |
| PI-13.2 | Approval of debt and guarantees | A | Debt management is the exclusive responsibility of the Department of Finance, reporting to the Council. |
| PI-13.3 | Debt management strategy | NA | The city has only one small outstanding loan. |
| PI-14 | Macro-economic and fiscal forecasting | D | Aggregation Method M2 |
| PI-14.1 | Macroeconomic forecasts | NA | Not applicable at SNG level. |
| PI-14.2 | Fiscal forecasts | D | No medium-term fiscal forecasts have been produced. |
| PI-14.3 | Macro-fiscal sensitivity analysis | NA | No assessment has been made of the impact of alternative macro-economic assumptions. |
| PI-15 | Fiscal strategy | D | Aggregation Method M2 |
| PI-15.1 | Fiscal impact of policy proposals | D | Annual budgets do not include an explanation of the impact of revenue and expenditure policy changes. |
| PI-15.2 | Fiscal strategy adoption | NA | No fiscal strategy has been adopted. |
| PI-15.3 | Reporting on fiscal outcomes | NA | No reports have been made of progress in implementing a fiscal strategy. |
| PI-16 | Medium-term perspective in expenditure budgeting | D+ | Aggregation Method M2 |
| PI-16.1 | Medium-term expenditure estimates | D | No medium-term expenditure estimates have been produced. |
| PI-16.2 | Medium-term expenditure ceilings | D | There has been no question of setting medium-term expenditure ceilings. |
| PI-16.3 | Alignment of strategic plans and medium-term budgets | C | Some elements in the city's strategic plan are reflected in annual expenditure estimates. |
| PI-16.4 | Consistency of budgets with previous year's estimates | NA | There are no medium-term estimates to serve as a basis of comparison. |
| PI-17 | Budget preparation process | B | Aggregation Method M2 |
| PI-17.1 | Budget calendar | B | There is a well-established budget calendar which gives spending Departments a month to prepare their submissions. |

| PI | Indicator/Dimension | Score | Justification for score |
|--------------|--|-----------|---|
| PI-17.2 | Guidance on budget preparation | A | The Budget Circular includes expenditure ceilings for each spending Department set by the Mayor on behalf of the city administration. |
| PI-17.3 | Budget submission to the Council | C | The draft budget has been submitted to the Council at least a month before the end of the year for the last three budgets. |
| PI-18 | Legislative scrutiny of Budgets | C+ | Aggregation Method M1 |
| PI-18.1 | Scope of budget scrutiny | C | The Council's scrutiny is restricted to details of revenue and expenditure during the budget year immediately ahead. |
| PI-18.2 | Council procedures for budget scrutiny | A | The Council's procedures are well-established, and include arrangements for both public consultation and study by a specialist Committee. |
| PI-18.3 | Timing of budget approval | A | The last three budgets have been approved before the beginning of the years to which they relate. |
| PI-18.4 | Rules for budget adjustment by the executive | A | The Budget Code sets limits to the extent to which the budget can be changed without reference to the Council, which are always respected. |
| PI-19 | Revenue administration | NA | Aggregation Method M2 |
| PI-19.1 | Rights and obligations for revenue measures | NA | While taxpayers have ready access to information about tax liabilities, this is not a responsibility of the city. |
| PI-19.2 | Revenue risk management | NA | Arrangements are outside the responsibility of the city. |
| PI-19.3 | Revenue audit and investigation | NA | Audit and investigation are a national rather than local responsibility. |
| PI-19.4 | Revenue arrears monitoring | NA | Arrangements are outside the responsibility of the city. |
| PI-20 | Accounting for revenue | | Aggregation Method M1 |
| PI-20.1 | Information on revenue collections | A | Information is available in real time from the Treasury about receipts of revenue, and a consolidated report is made each month to the Department of Finance. |

| PI | Indicator/Dimension | Score | Justification for score |
|--------------|--|-----------|--|
| PI-20.2 | Transfer of revenue collections | A | All revenue is paid into the Treasury as it is received. |
| PI-20.3 | Revenue accounts reconciliation | A | There is a full monthly reconciliation of assessments, collections and payments into the Treasury, and SFS systems ensure that individual taxpayers' accounts are continuously updated as revenue is received. |
| PI-21 | Predictability of in-year resource allocation | A | Aggregation Method M2 |
| PI-21.1 | Consolidation of cash balances | A | All cash balances are held in the Treasury and consolidated daily. |
| PI-21.2 | Cash forecasting and monitoring | B | A cash forecast is produced at the beginning of the year and updated quarterly. |
| PI-21.3 | Information on commitment ceilings | A | Spending Departments may commit their entire allocations at any time during the year. |
| PI-21.4 | Significance of in-year budget adjustments | A | There were two budget revisions agreed by the Council in 2018. |
| PI-22 | Expenditure arrears | A | Aggregation Method M1 |
| PI-22.1 | Stock of expenditure arrears | A | There have been no expenditure arrears during 2016-18. |
| PI-22.2 | Expenditure arrears monitoring | A | The Treasury system and monthly reports by budget users enable unpaid invoices to be tracked. |
| PI-23 | Payroll controls | C+ | Aggregation Method M1 |
| PI-23.1 | Integration of payroll and personnel records | B | There are no direct links between personnel records and the payroll, but the payroll is only changed when authorized by the head of the responsible Department. |
| PI-23.2 | Management of payroll changes | A | Payrolls are continuously updated, and retroactive adjustments are rarely necessary. |
| PI-23.3 | Internal control of payroll | A | There are strong internal controls over changes in personnel and payroll records, which always leave an audit trail. |
| PI-23.4 | Payroll audit | C | There have been no audits specifically directed at payroll during 2016-18, but recent audits of education and culture included payrolls of the institutions concerned. |

| PI | Indicator/Dimension | Score | Justification for score |
|--------------|--|-----------|--|
| PI-24 | PI-24 Procurement | B | Aggregation Method M2 |
| PI-24.1 | Procurement monitoring | A | Full information is compiled about procurement plans and contracts concluded. |
| PI-24.2 | Procurement methods | D | Less than 60 per cent of contracts by value are let by competition. |
| PI-24.3 | Public access to procurement information | B | Most benchmarks are satisfied, but procurement statistics are not published. |
| PI-24.4 | Procurement complaints management | B | All other criteria are met, but the level of fees may discourage some complaints. |
| PI-25 | Internal controls on non-salary expenditure | B | Aggregation Method M2 |
| PI-25.1 | Segregation of duties | A | The separation of functions between and within spending Departments and the Department of Finance ensures appropriate segregation of duties. |
| PI-25.2 | Effectiveness of expenditure commitment controls | D | The absence of any specific commitment control has not given rise to difficulties. |
| PI-25.3 | Compliance with payment rules and procedures | A | All payments comply with regular payment procedures. |
| PI-26 | Internal audit | D | Aggregation Method M1 |
| PI-26.1 | Coverage of internal audit (IA) | D | There is no IA currently in operation. |
| PI-26.2 | Nature of audits and standards applied | NA | There are no audits. |
| PI-26.3 | Implementation of audits and reporting | NA | There are no audits. |
| PI-26.4 | Response to internal audits | NA | There have been no findings or recommendations requiring a response. |
| PI-27 | Financial data integrity | B+ | Aggregation Method M2 |
| PI-27.1 | Bank account reconciliations | A | There are daily reconciliations between city and Treasury records. |
| PI-27.2 | Suspense accounts | NA | No use is made of suspense accounts. |

| PI | Indicator/Dimension | Score | Justification for score |
|--------------|---|-----------|--|
| PI-27.3 | Advance accounts | C | Advances to contractors are cleared at each stage of the contract, and outstanding amounts are reconciled at the end of each year. |
| PI-27.4 | Financial data integrity processes | B | There are no doubts about the integrity of data, but there is no special unit to ensure this. |
| PI-28 | In-year budget reports (M1) | D+ | Aggregation Method M1 |
| PI-28.1 | Coverage and comparability of reports | D | In-year reports are directly comparable with the original budget on economic and programme but not administrative classifications. |
| PI-28.2 | Timing of in-year reports | A | Reports are made within two weeks of month-end. |
| PI-28.3 | Accuracy of in-year budget reports | B | Reports are accurate, but commitments are not covered. |
| PI-29 | Annual financial reports | D+ | Aggregation Method M1 |
| PI-29.1 | Completeness of annual financial reports | D | Reports include information about revenue, expenditure, financial assets, debt and guarantees, but tangible assets are not covered and there is no administrative breakdown. |
| PI-29.2 | Submission of reports for external audit | D | Reports are available for audit by 1 April the following year but have not been submitted for audit. |
| PI-29.3 | Accounting standards | A | Reports comply fully with national standards which make possible consistent comparisons between one year and the next. |
| PI-30 | External audit | D | Aggregation Method M1 |
| PI-30.1 | Audit coverage and standards | D | Audit coverage of 2016-18 was less than 50 per cent. |
| PI-30.2 | Submission of reports to the to the legislature | D | The Council has not considered any audit reports. |
| PI-30.3 | External audit follow-up | NA | There have been no audits of annual financial reports. |

| PI | Indicator/Dimension | Score | Justification for score |
|--------------|---|-------|---|
| PI-30.4 | Supreme Audit Institution (SAI) independence | D | The State Audit Service which audits SNGs is not independent of the government. The resources available to the Accounting Chamber of Ukraine (the SAI) are subject to considerable government control, and only a small number of its staff have access to the government's management information systems. |
| PI-31 | Legislative scrutiny of audit reports | D | Aggregation Method M2 |
| PI-31.1 | Timing of audit report scrutiny | D | The Council has not considered any audit reports. |
| PI-31.2 | Hearings on audit findings | NA | No findings have been considered by the Council. |
| PI-31.3 | Recommendations on audit by the legislature | NA | No recommendations have been made by the Council. |
| PI-31.4 | Transparency of legislative scrutiny of audit reports | NA | There has been no scrutiny of audit reports. |

Annex 2. Summary of observations on the Internal Control Framework

| Internal control components and elements | Summary of observations |
|--|--|
| 1. Control environment | |
| 1.1 The personal and professional integrity and ethical values of management and staff, including a supportive attitude towards internal control constantly throughout the organisation. | The attitude of the organisation towards internal control depends heavily on the leadership of the Mayor. The current absence of effective internal audit represents a serious deficiency. (PI-26) |
| 1.2 Commitment to competence | The city employs staff with appropriate professional qualifications. |
| 1.3 The "tone at the top" | The Mayor provides clear leadership for the administration. |

| Internal control components and elements | Summary of observations |
|---|--|
| 1.4 Organisation structure | The managers of the city Departments report through the the Deputy Mayors (see Organisation Chart at the end of Chapter 2). Economic development and internal control functions are separate from the Finance Department. |
| 1.5 Human resources policies and practices | Appointments are made through transparent competitions or by transfer of staff from other SNGs. Appointments in the city administration and cultural institutions are approved by the Mayor; teachers are appointed by the heads of the schools concerned (PI-23). |
| 2. Risk assessment | |
| 2.1 Risk identification | The city recognises the risks that its enterprises might make losses but the arrangements for procurement present a considerable risk of failure to obtain best value (PIs 10 and 24). |
| 2.2 Risk assessment | It does not appear that attention has been paid to risk assessment. |
| 2.3 Risk evaluation | Risks have not been evaluated. |
| 2.4 Risk appetite assessment | The city does not face serious risks from its geographical situation, and its revenues have generally been sufficient to meet its required expenditures. |
| 2.5 Responses to risk | Particular attention is paid to the financial performance of city enterprises PIs 10.1 and 12.1). |
| 3. Control activities | |
| 3.1 Authorisation and approval procedures | The Treasury system will only make payments if spending Departments' orders are consistent with budgetary provision registered under the supervision of the Finance Department (PI-25.3). But there are no specific controls over commitments (PI-25.2). |
| 3.2 Segregation of duties | Allocation of functions between and within the spending and Finance Departments ensures appropriate segregation of duties (PI-25.1). |
| 3.3 Controls over access to resources and records | There is strong hierarchical supervision within the city administration, and the involvement of the Treasury system in all transactions limits the scope for fraud and error (PI-25.3). |

| Internal control components and elements | Summary of observations |
|---|--|
| 3.4 Verifications | The Treasury system should ensure that payments are only made when all necessary procedures have been followed, and the necessary documentation presented (25.3). |
| 3.5 Reconciliations | City and Treasury records are reconciled daily, and details of individual revenue amounts are reconciled monthly between revenue collection and banking records (PI-27.1). |
| 3.6 Reviews of operating performance | There is some reporting of operating performance, although this should be more closely integrated into budgetary processes (PI-8). |
| 3.7 Reviews of operations, processes and activities | Some reviews are undertaken by the State Audit Service, but coverage is limited (PI-30.1). Central government and city inspection services undertake some compliance checks of operations (PI-25). Internal audit is not currently in operation (PI-26). |
| 3.8 Supervision | This is appropriately provided for in the city organisation. Staff numbers are adequate. |
| 4. Information and communication | Much information about the city's activities and finances, including those of its enterprises, is published on the city website (PIs 5 and 9). |
| 5. Monitoring | |
| 5.1 Ongoing monitoring | There is detailed monthly financial reporting covering all city operations. Progress in the implementation of investment projects is closely monitored, and an annual report is published (PI-28.1, PI-11.4). |
| 5.2 Evaluations | While some information is published about operating performance, there have been no independent evaluations (PI-8.4). |
| 5.3 Management responses | Appropriate responses are made by the city administration to audit findings and recommendations(PI-30.3). |

Annex 3A. List of documents consulted

I. Analytical documents

Budget Code of Ukraine

Tax Code of Ukraine

Economic Code of Ukraine

Civil Code of Ukraine

World Bank Public Finance Review 2017

World Bank Economic Update, November 2017

IMF Article IV Report cr17/83

IMF Standby Request Report cr19/03

IMF Consultancy Report Fiscal Decentralisation (2017) cr19/351

IMF Consultancy Report Public Investment Management Assessment (2017) cr19/356

Ukraine Ministry of Health Healthcare System Reform (2018)

II. Laws and operational documents

Decision of the Verkhovna Rada of Ukraine "On the Main Directions of Budgetary Policy" (2016 - 2019)

Laws "On the State Budget of Ukraine" (2016 - 2019)

Laws "On Amendments to the State Budget of Ukraine" (2016 - 2019)

Order of the Ministry of Finance of Ukraine "On Approval of the Procedure of the State Treasury Expenditure Servicing"

Order of the Ministry of Finance of Ukraine "On Approval of the Procedure of the State Treasury Servicing of the Local Budgets"

Order of the Ministry of Finance of Ukraine "On Budget Classification"

Order of the Ministry of Finance of Ukraine "On Approval of the Components of the Programm Expenditure Classification and Lending to the Local Budgets"

Decisions of the Khmelnytskyi City Council (2016-2019)

- "On the Khmelnytskyi city budget";
- "On amendments to the Khmelnytskyi city budget";
- "On approval of the city budget's execution report";
- "On Local Taxes and Levies";
- On Approval of the Municipal Earmarked Programs (26 decisions)

Decisions of the Khmelnytskyi City Council's Executive Committee (2016-2019)

- On reallocation of budget appropriations;
- On funds' allocation from the earmarked fund of the Khmelnytskyi City Council

Law of Ukraine "On Local Self-Government in Ukraine"

Resolution of the Cabinet of Ministers of Ukraine "On Approving the Fundamental Principles of Exercising Internal Control by Key Spending Units and Amending the Cabinet of Ministers of Ukraine of September 28, 2011 No. 1001"

Order of the Ministry of Finance of Ukraine "On Approval of Methodological Recommendations for the Organization of Internal Control by Key Spending Units in their Institutions and Subordinate Public Institutions"

Financial statements of public utilities enterprises founded by the Khmelnytskyi City Council

- Form no 1
- Form no 2

Decision of the City Council «On the working plan of the Khmelnytsky City Council» (2016-2018)

Decision of the City Council "On approval of the Procedure for informing on the activities of Public utilities enterprises founded by the Khmelnytsky City Council"

Decision of the City Council "On approval of investment programs of municipal utilities enterprises" (2016 - 2019)

Decision of the City Council "On approval of the Action Plan for Sustainable Energy Development of the City of Khmelnytskyi for 2016-2025"

Decision of Khmelnytsky City Council Executive Committee (2016 - 2019):

- on approving the working plan of the executive bodies of the City Council
 - Law of Ukraine "On Public Procurement"
 - Law of Ukraine "On Access to Public Information"
 - Law of Ukraine "On Electronic Documents and Electronic Document Management"
 - "On approval of the Instruction on the procedure for using the electronic procurement system in the case of procurement, the value of which is less than the value set out in paragraphs 2 and 3 of the part 1 of the Article 2 of the Law "On Public Procurement"
 - Report on the implementation of activities outlined in the City Economic and Social Development Program for 2016;
 - Report on the implementation of activities outlined in the City Economic and Social Development Program for 2018;
 - Report on the implementation of activities outlined in the City Economic and Social Development Program for 2019.
 - Report on Implementation of the State regulatory policy by the Khmelnytsky City Council and its Executive Committee (2016 - 2019)
 - City Council Decision "On ProZorro e-procurement system implementation"
 - City Council Decision "On approval of the Grant Agreement with NEFCO for financing the investment project"
 - Decision of the City Council "On approval of regional development projects" (2016 - 2019)
 - Law of Ukraine "On Education"
 - Law of Ukraine "Fundamentals of the Legislation of Ukraine on Healthcare"

- Law of Ukraine "On Culture"
- Law of Ukraine "On Openness of Public Funds' Use"
- Procedures of executive bodies of Khmelnytskyi City Council for administrative planning and decision-making;
- Education Development Program of Khmelnytskyi city for 2017-2021;
- Decision of the City Council «On transfer of preschool educational institutions to independent accounting and financial reporting»
- Decision of the City Council "On approval of the regulations on the Department of Education and Science of the Executive Committee of the Khmelnytsky City Council"

Annex 3B. List of people interviewed

| | NAME | POSITION | INSTITUTION |
|----|---------------------------------------|---|--|
| | Ministry of Finance of Ukraine | | |
| 1. | Olena Machulna | Deputy Director of Department local budget. Head of Division of Local Budget Planning | |
| 2. | Aleksey Zhak | General Director of Directorate of Planning and European Integration | |
| | Khmelnytskyi City | | |
| 1 | Andtiy Bondarenko | Deputy Mayor | Khmelnytskyi City Council |
| 2 | Lesya Herasymchuk | Chairman of Standing (Budget) Committee | Khmelnytskyi City Council |
| 3 | Serhiy Iaremchuk | Head of Department | Finance Department |
| 4 | Polina Mot | Deputy Head of Department | Finance Department |
| 5 | Oksana Novodon | Head of Department | Economy Department |
| 6 | Edward Tryshnevskyi | Head of Division | City enterprises planning and strategic development division |
| 7 | Vasyl Novachok | Head of Administration | Administration of Housing Maintenance and Utilities |
| 8 | Svitlana Gubai | Acting Head of Department | Education and Science Department |
| 9 | Lidiya Starodub | Head of Division – Chief Accountant | Accounting, Planning and Reporting Division |
| 10 | Igor Kostetskyi | Head of Division | Human Resources and Local Self-Government |
| 11 | Oleksandr Chorievich | Head of Division | Land Resources |
| 12 | Larysa Zhuk | State Fiscal Service | |

Annex 3C. Sources of information for each Performance Indicator

- HLG-1 and PI-1 to 3: 2013-15 Budget documentation from Khmelnytskyi city, and actual expenditure data from central Treasury system, Ministry of Finance
- PI-4: Budget documentation and budget execution statements for 2016-18 from Khmelnytskyi city
- PI-5: Documentation provided by Khmelnytskyi municipality, Khmelnytskyi website (insert ref.), discussion with city officials
- PI-6: Discussion with city officials
- PI-7: Not applicable
- PI-8: Budget documentation and discussion with Khmelnytskyi officials
- PI-9: Documentation provided by city officials, Khmelnytskyi website
- PI-10: Discussion with city officials, financial reports of city enterprises
- PI-11: Discussion with city officials
- PI-12: Consolidated Financial Statements of Khmelnytskyi city
- PI-13: Discussion with city officials
- PI-14: Documentation provided by city officials
- PI-15: Discussion with city officials
- PI-16: Discussion with city officials
- PI-17: Discussion with city officials, MoF Annual Budget Preparation Instructions
- PI-18: Discussion with Chairman of Budget Committee of city Council
- PI-19: Discussion with city and State Fiscal Service officials, Consolidated Financial Statements of Khmelnytskyi municipality for 2017 and 2018 (Dimension 4)
- PI-20: Discussion with city officials
- PI-21: MoF Treasury system, discussion with city officials
- PI-22: Documentation provided by Khmelnytskyi city
- PI-23: Discussion with city officials
- PI-24: Data provided by city officials
- PI-25: Law on Financial Management and Control, discussion with city officials
- PI-26: Discussion with city officials
- PI-27: Law on the management of the Budgetary System, MoF Treasury system, discussion with city officials
- PI-28: Documentation provided by city officials
- PI-29: 2018 Budget execution statement, discussion with city officials
- PI-30: Discussion with Khmelnytskyi officials
- PI-31: Discussion with Khmelnytskyi officials

Annex 4. Calculations for HLG-1 and PIs 1-3 (all data from Khmelnytskyi Finance Department)

HLG-1 Transfers from Higher Level Government

Calculations for HLG-1.1 and 1.2

Annual data for 2016, UAH million

| Grants from a higher level of government | budget | actual | adjusted budget | deviation | absolute deviation | percent |
|---|--------------|--------------|-----------------|------------|--------------------|----------------------------------|
| Targeted grants for Social Protection of Population | 407.7 | 547.0 | 495.4 | 51.6 | 51.6 | 10.4% |
| Targeted grant for Education | 216.7 | 217.4 | 263.4 | -45.9 | 45.9 | 17.4% |
| Targeted grant for Health Care | 172.4 | 173.6 | 209.5 | -35.8 | 35.8 | 17.1% |
| Other grants | 0.6 | 30.9 | 0.8 | 30.1 | 30.1 | 3841.2% |
| | | | | | | |
| Total | 797.4 | 969.0 | 969.0 | 0.0 | 163.5 | |
| | | | | | | |
| | | | | | | <i>HLG-1 indicator variation</i> |
| | | | | | | <i>121.5%</i> |
| | | | | | | <i>HLG-2 indicator structure</i> |
| | | | | | | <i>16.9%</i> |

Annual data for 2017, UAH million

| Grants from a higher level of government | budget | actual | adjusted budget | deviation | absolute deviation | percent |
|---|----------------|----------------|------------------------|------------------|---------------------------|---|
| Targeted grants for Social Protection of Population | 610.5 | 731.2 | 714.9 | 16.3 | 16.3 | 2.3% |
| Targeted grant for Education | 287.2 | 287.2 | 336.3 | -49.1 | 49.1 | 14.6% |
| Targeted grant for Health Care | 220.5 | 227.0 | 258.2 | -31.2 | 31.2 | 12.1% |
| Other grants | 0.6 | 64.7 | 0.7 | 64.0 | 64.0 | 8804.0% |
| | | | | | | |
| Total | 1 118.8 | 1 310.1 | 1 310.1 | 0.0 | 160.5 | |
| | | | | | | |
| | | | | | | <i>HLG-1 indicator variation</i> 117.1% |
| | | | | | | <i>HLG-2 indicator structure</i> 12.3% |

Annual data for 2018, UAH million

| Grants from a higher level of government | budget | actual | adjusted budget | deviation | absolute deviation | percent |
|---|----------------|----------------|------------------------|------------------|---------------------------|----------------------------------|
| Targeted grants for Social Protection of Population | 868.6 | 761.1 | 882.9 | -121.8 | 121.8 | 13.8% |
| Targeted grant for Education | 304.7 | 307.6 | 309.7 | -2.1 | 2.1 | 0.7% |
| Targeted grant for Health Care | 210.2 | 210.2 | 213.6 | -3.5 | 3.5 | 1.6% |
| Other grants | 22.2 | 149.8 | 22.5 | 127.3 | 127.3 | 565.0% |
| | | | | | | |
| Total | 1 405.6 | 1 428.8 | 1 428.8 | 0.0 | 254.6 | |
| | | | | | | |
| | | | | | | <i>HLG-1 indicator variation</i> |
| | | | | | | <i>101.6%</i> |
| | | | | | | <i>HLG-2 indicator structure</i> |
| | | | | | | <i>17.8%</i> |

HLG-1.3 Timing of receipts from HLG

Quarterly data for 2016, UAH million

| Title | 2016 budget | 2016 Actual | I Quarter Budget | I Quarter Actual | II Quarter Budget | II Quarter Actual | III Quarter Budget | III Quarter Actual | IV Quarter Budget | IV Quarter Actual |
|---|----------------|----------------|------------------|------------------|-------------------|-------------------|--------------------|--------------------|-------------------|-------------------|
| State taxes | 486.4 | 612.9 | 101.0 | 127.8 | 120.8 | 155.1 | 122.6 | 157.5 | 141.9 | 172.4 |
| Personal income tax | 395.0 | 488.2 | 79.0 | 104.6 | 97.8 | 123.3 | 98.9 | 121.4 | 119.4 | 138.8 |
| Internal taxes on goods and services | 90.1 | 129.0 | 21.9 | 26.6 | 22.4 | 32.2 | 23.5 | 36.6 | 22.3 | 33.6 |
| Other taxes | 1.3 | -4.2 | 0.2 | -3.4 | 0.6 | -0.4 | 0.2 | -0.5 | 0.3 | 0.0 |
| Grants from a higher level of government | 797.4 | 969.0 | 199.4 | 225.0 | 199.3 | 240.7 | 199.4 | 187.9 | 199.3 | 315.4 |
| Targeted grants for Social Protection of Population | 407.7 | 547.0 | 101.9 | 136.4 | 101.9 | 116.2 | 101.9 | 96.4 | 101.9 | 198.1 |
| Targeted grant for Education | 216.7 | 217.4 | 54.2 | 47.6 | 54.2 | 75.1 | 54.2 | 41.8 | 54.2 | 52.8 |
| Targeted grant for Health Care | 172.4 | 173.6 | 43.1 | 40.8 | 43.1 | 43.0 | 43.1 | 43.8 | 43.1 | 46.1 |
| Other grants | 0.6 | 30.9 | 0.2 | 0.2 | 0.1 | 6.4 | 0.2 | 5.9 | 0.1 | 18.5 |
| Total | 1 283.8 | 1 581.9 | 300.4 | 352.8 | 320.1 | 395.9 | 322.1 | 345.4 | 341.2 | 487.8 |
| State taxes, % | | 126% | | 127% | | 128% | | 128% | | 121% |
| Personal income tax | | 124% | | 133% | | 126% | | 123% | | 116% |
| Internal taxes on goods and services | | 143% | | 122% | | 144% | | 156% | | 151% |
| Other taxes | | -334% | | -2036% | | -65% | | -185% | | -2% |
| Grants from a higher level of government, % | | 122% | | 113% | | 121% | | 94% | | 158% |
| Targeted grants for Social Protection of Population | | 134% | | 134% | | 114% | | 95% | | 194% |
| Targeted grant for Education | | 100% | | 88% | | 139% | | 77% | | 98% |
| Targeted grant for Health Care | | 101% | | 95% | | 100% | | 102% | | 107% |
| Other grants | | 4789% | | 76% | | 5716% | | 2799% | | 16562% |

| | | | | | | | | | | |
|-----------------|--|-------------|--|-------------|--|-------------|--|-------------|--|-------------|
| Total, % | | 123% | | 117% | | 124% | | 107% | | 143% |
|-----------------|--|-------------|--|-------------|--|-------------|--|-------------|--|-------------|

Quarterly data for 2017, UAH million

| Title | 2017 budget | 2017 Actual | I Quarter Budget | I Quarter Actual | II Quarter Budget | II Quarter Actual | III Quarter Budget | III Quarter Actual | IV Quarter Budget | IV Quarter Actual |
|---|----------------|----------------|------------------|------------------|-------------------|-------------------|--------------------|--------------------|-------------------|-------------------|
| State taxes | 738.7 | 865.4 | 155.1 | 189.4 | 164.9 | 278.8 | 175.6 | 134.9 | 243.1 | 262.3 |
| Personal income tax | 595.0 | 717.0 | 131.1 | 152.6 | 143.8 | 239.6 | 153.9 | 120.1 | 166.2 | 204.8 |
| Internal taxes on goods and services | 142.5 | 148.5 | 23.8 | 36.0 | 20.8 | 40.7 | 21.3 | 14.6 | 76.6 | 57.1 |
| Other taxes | 1.2 | 0.0 | 0.2 | 0.7 | 0.3 | -1.4 | 0.4 | 0.2 | 0.3 | 0.4 |
| Grants from a higher level of government | 1 118.8 | 1 310.1 | 347.1 | 408.0 | 288.5 | 405.6 | 219.5 | 197.3 | 263.7 | 299.1 |
| Targeted grants for Social Protection of Population | 610.5 | 731.2 | 225.5 | 286.2 | 122.7 | 200.2 | 121.4 | 105.6 | 141.0 | 139.1 |
| Targeted grant for Education | 287.2 | 287.2 | 66.3 | 66.3 | 110.6 | 122.1 | 42.8 | 31.3 | 67.5 | 67.5 |
| Targeted grant for Health Care | 220.5 | 227.0 | 55.1 | 55.1 | 55.1 | 74.4 | 55.1 | 37.8 | 55.1 | 59.6 |
| Other grants | 0.6 | 64.7 | 0.2 | 0.4 | 0.1 | 8.9 | 0.2 | 22.6 | 0.1 | 32.9 |
| Total | 1 857.5 | 2 175.5 | 502.2 | 597.4 | 453.4 | 684.4 | 395.1 | 332.2 | 506.8 | 561.5 |
| State taxes, % | | 117% | | 122% | | 169% | | 77% | | 108% |
| Personal income tax | | 121% | | 116% | | 167% | | 78% | | 123% |
| Internal taxes on goods and services | | 104% | | 151% | | 195% | | 69% | | 75% |
| Other taxes | | -2% | | 321% | | -485% | | 61% | | 118% |
| Grants from a higher level of government, % | | 117% | | 118% | | 141% | | 90% | | 113% |
| Targeted grants for Social Protection of Population | | 120% | | 127% | | 163% | | 87% | | 99% |
| Targeted grant for Education | | 100% | | 100% | | 110% | | 73% | | 100% |
| Targeted grant for Health Care | | 103% | | 100% | | 135% | | 69% | | 108% |
| Other grants | | 10426% | | 177% | | 8773% | | 10783% | | 32598% |
| Total, % | | 117% | | 119% | | 151% | | 84% | | 111% |

Quarterly data for 2018, UAH million

| Title | 2018 budget | 2018 Actual | I Quarter Budget | I Quarter Actual | II Quarter Budget | II Quarter Actual | III Quarter Budget | III Quarter Actual | IV Quarter Budget | IV Quarter Actual |
|---|----------------|----------------|------------------|------------------|-------------------|-------------------|--------------------|--------------------|-------------------|-------------------|
| State taxes | 934.9 | 1 074.0 | 199.0 | 234.9 | 236.1 | 270.2 | 248.5 | 268.5 | 251.3 | 300.3 |
| Personal income tax | 785.3 | 921.5 | 168.1 | 202.5 | 202.8 | 232.0 | 206.4 | 227.4 | 207.9 | 259.7 |
| Internal taxes on goods and services | 148.6 | 149.7 | 30.8 | 32.3 | 33.1 | 36.9 | 41.8 | 40.7 | 43.0 | 39.8 |
| Other taxes | 1.1 | 2.7 | 0.2 | 0.1 | 0.2 | 1.3 | 0.3 | 0.4 | 0.4 | 0.9 |
| Grants from a higher level of government | 1 405.6 | 1 428.8 | 407.3 | 406.6 | 318.8 | 406.0 | 272.2 | 238.6 | 407.2 | 377.6 |
| Targeted grants for Social Protection of Population | 868.6 | 761.1 | 273.1 | 270.5 | 184.6 | 214.0 | 137.9 | 107.4 | 273.0 | 169.2 |
| Targeted grant for Education | 304.7 | 307.6 | 76.2 | 70.4 | 76.2 | 117.3 | 76.2 | 45.4 | 76.2 | 74.6 |
| Targeted grant for Health Care | 210.2 | 210.2 | 52.5 | 61.3 | 52.5 | 61.3 | 52.5 | 43.8 | 52.5 | 43.8 |
| Other grants | 22.2 | 149.8 | 5.6 | 4.4 | 5.5 | 13.3 | 5.6 | 42.0 | 5.5 | 90.1 |
| Total | 2 340.5 | 2 502.7 | 606.4 | 641.5 | 554.9 | 676.2 | 520.7 | 507.1 | 658.5 | 677.9 |
| State taxes, % | | 115% | | 118% | | 114% | | 108% | | 120% |
| Personal income tax | | 117% | | 120% | | 114% | | 110% | | 125% |
| Internal taxes on goods and services | | 101% | | 105% | | 112% | | 97% | | 93% |
| Other taxes | | 258% | | 69% | | 570% | | 156% | | 240% |
| Grants from a higher level of government, % | | 102% | | 100% | | 127% | | 88% | | 93% |
| Targeted grants for Social Protection of Population | | 88% | | 99% | | 116% | | 78% | | 62% |
| Targeted grant for Education | | 101% | | 92% | | 154% | | 60% | | 98% |
| Targeted grant for Health Care | | 100% | | 117% | | 117% | | 83% | | 83% |
| Other grants | | 676% | | 79% | | 242% | | 753% | | 1637% |
| Total, % | | 107% | | 106% | | 122% | | 97% | | 103% |

PI-1 and PI-2.1 Expenditure out-turn and Expenditure Functional composition out-turn

Data on the functional classification for 2016, UAH million

| Functional head | budget | actual | adjusted budget | deviation | absolute deviation | percent |
|--|---------|---------|-----------------|-----------|--------------------|---------|
| Administration | 49.3 | 55.8 | 63.2 | -7.4 | 7.4 | 11.8% |
| Economic affairs (construction; transport, road, telecommunication; other services related to economic activity) | 226.8 | 317.5 | 290.7 | 26.8 | 26.8 | 9.2% |
| Health care | 231.5 | 282.5 | 296.7 | -14.2 | 14.2 | 4.8% |
| Culture | 43.2 | 50.1 | 55.4 | -5.3 | 5.3 | 9.5% |
| Physical development and sports | 12.0 | 15.9 | 15.3 | 0.5 | 0.5 | 3.3% |
| Education | 519.2 | 573.1 | 665.5 | -92.5 | 92.5 | 13.9% |
| Social welfare | 437.2 | 585.4 | 560.4 | 25.0 | 25.0 | 4.5% |
| Housing, utilities | 52.2 | 131.9 | 66.9 | 65.0 | 65.0 | 97.2% |
| Environment | 0.0 | 0.7 | 0.0 | 0.7 | 0.7 | |
| Intergovernmental transfers | 20.2 | 24.8 | 25.9 | -1.0 | 1.0 | 3.9% |
| (= sum of rest) | 2.9 | 6.1 | 3.8 | 2.4 | 2.4 | 62.7% |
| allocated expenditure | 1 594.5 | 2 043.9 | 2 043.9 | 0.0 | 240.7 | |
| Interests | 0.0 | 0.0 | | | | |
| Contingency | 11.7 | 0.0 | | | | |
| total expenditure | 1 606.2 | 2 043.9 | | | | |
| aggregate outturn (PI-1) | | | | | | 127.2% |
| composition (PI-2) variance | | | | | | 11.8% |
| contingency share of budget | | | | | | 0.0% |

Data on the functional classification for 2017, UAH million

| Functional head | budget | actual | adjusted budget | deviation | absolute deviation | percent |
|---|----------------|----------------|--------------------|-----------|-----------------------|---------|
| Administration | 84.7 | 102.6 | 100.8 | 1.9 | 1.9 | 1.8% |
| Economic affairs (construction; transport, road, telecommunication; other services related to economic activity) | 207.0 | 350.3 | 246.1 | 104.2 | 104.2 | 42.3% |
| Health care | 310.4 | 350.3 | 369.0 | -18.8 | 18.8 | 5.1% |
| Culture | 72.7 | 70.4 | 86.5 | -16.0 | 16.0 | 18.6% |
| Physical development and sports | 27.0 | 33.4 | 32.1 | 1.3 | 1.3 | 4.1% |
| Education | 800.7 | 821.0 | 952.0 | -131.0 | 131.0 | 13.8% |
| Social welfare | 694.0 | 873.0 | 825.1 | 47.8 | 47.8 | 5.8% |
| Housing, utilities | 133.1 | 162.8 | 158.3 | 4.5 | 4.5 | 2.8% |
| Environment | 0.8 | 1.0 | 1.0 | 0.1 | 0.1 | 5.5% |
| Intergovernmental transfers | 18.2 | 27.2 | 21.6 | 5.6 | 5.6 | 26.0% |
| (= sum of rest) | 7.6 | 9.6 | 9.1 | 0.5 | 0.5 | 5.6% |
| allocated expenditure | 2 356.3 | 2 801.7 | 2 801.7 | 0.0 | 331.6 | |
| interests | 0.0 | 0.0 | | | | |
| contingency | 2.3 | 0.0 | | | | |
| total expenditure | <u>2 358.5</u> | <u>2 801.7</u> | | | | |
| aggregate outturn (PI-1) | | | | | | 118.8% |
| composition (PI-2) variance | | | | | | 11.8% |
| contingency share of budget | | | | | | 0.0% |

Data on the functional classification for 2018, UAH million

| Functional head | budget | actual | adjusted budget | deviation | absolute deviation | percent |
|---|----------------|----------------|--------------------|-----------|-----------------------|---------|
| Administration | 114.0 | 127.5 | 125.2 | 2.3 | 2.3 | 1.8% |
| Economic affairs (construction; transport, road, telecommunication; other services related to economic activity) | 218.4 | 393.9 | 239.8 | 154.1 | 154.1 | 64.2% |
| Health care | 360.2 | 409.4 | 395.7 | 13.8 | 13.8 | 3.5% |
| Culture | 33.1 | 37.4 | 36.3 | 1.1 | 1.1 | 3.1% |
| Physical development and sports | 32.0 | 37.5 | 35.1 | 2.4 | 2.4 | 6.7% |
| Education | 1 004.5 | 1 048.9 | 1 103.2 | -54.3 | 54.3 | 4.9% |
| Social welfare | 986.5 | 911.8 | 1 083.5 | -171.7 | 171.7 | 15.8% |
| Housing, utilities | 144.4 | 196.3 | 158.5 | 37.8 | 37.8 | 23.8% |
| Environment | 0.6 | 0.9 | 0.6 | 0.3 | 0.3 | 51.5% |
| Intergovernmental transfers | 28.3 | 40.2 | 31.0 | 9.2 | 9.2 | 29.6% |
| (= sum of rest) | 3.9 | 9.4 | 4.2 | 5.1 | 5.1 | 120.5% |
| allocated expenditure | 2 925.7 | 3 213.3 | 3 213.3 | 0.0 | 452.1 | |
| interests | 3.0 | 0.2 | | | | |
| contingency | 1.9 | 0.0 | | | | |
| total expenditure | <u>2 930.6</u> | <u>3 213.5</u> | | | | |
| aggregate outturn (PI-1) | | | | | | 109.7% |
| composition (PI-2) variance | | | | | | 14.1% |
| contingency share of budget | | | | | | 0.0% |

PI-2.2 Expenditure on economic classification out-turn

Data on economic categories for 2016, UAH million

| Economic head | budget | actual | adjusted budget | deviation | absolute deviation | percent |
|--------------------------|----------------|----------------|-----------------|------------|--------------------|---------|
| Employment costs | 629,5 | 633,1 | 806,9 | -173,8 | 173,8 | 21,5% |
| Goods and services | 338,4 | 448,7 | 433,8 | 14,9 | 14,9 | 3,4% |
| Social benefits | 428,3 | 585,3 | 549,0 | 36,3 | 36,3 | 6,6% |
| Other current | 21,4 | 22,9 | 27,4 | -4,5 | 4,5 | 16,4% |
| Capital investment | 177,0 | 353,9 | 226,8 | 127,1 | 127,1 | 56,0% |
| Total expenditure | 1 594,5 | 2 043,9 | 2 043,9 | 0,0 | 356,7 | |
| composition variance | | | | | | 17,4% |

Data on economic categories for 2017, UAH million

| Economic head | budget | actual | adjusted budget | deviation | absolute deviation | percent |
|--------------------------|----------------|----------------|-----------------|------------|--------------------|---------|
| Employment costs | 941,5 | 749,7 | 1 119,5 | -369,8 | 369,8 | 33,0% |
| Goods and services | 468,7 | 778,1 | 557,4 | 220,7 | 220,7 | 39,6% |
| Social benefits | 646,7 | 771,5 | 769,0 | 2,5 | 2,5 | 0,3% |
| Other current | 19,7 | 22,6 | 23,5 | -0,9 | 0,9 | 3,7% |
| Capital investment | 279,5 | 479,8 | 332,4 | 147,5 | 147,5 | 44,4% |
| Total expenditure | 2 356,3 | 2 801,7 | 2 801,7 | 0,0 | 741,4 | |
| composition variance | | | | | | 26,5% |

Data on economic categories for 2018, UAH million

| Economic head | budget | actual | adjusted budget | deviation | absolute deviation | percent |
|--------------------------|----------------|----------------|--------------------|-----------|-----------------------|---------|
| Employment costs | 899,9 | 938,6 | 988,4 | -49,8 | 49,8 | 5,0% |
| Goods and services | 845,0 | 933,7 | 928,1 | 5,6 | 5,6 | 0,6% |
| Social benefits | 908,8 | 825,8 | 998,1 | -172,3 | 172,3 | 17,3% |
| Other current | 29,9 | 34,2 | 32,8 | 1,4 | 1,4 | 4,3% |
| Capital investment | 242,1 | 481,1 | 265,9 | 215,2 | 215,2 | 80,9% |
| Total expenditure | <u>2 925,7</u> | <u>3 213,3</u> | 3 213,3 | 0,0 | 444,3 | |
| composition variance | | | | | | 13,8% |

PI-3 Revenue out-turn

Data on revenues (with state taxes) for 2016, UAH million

| Revenue types | budget | actual | adjusted budget | deviation | absolute deviation | percent |
|--------------------------------------|--------------|----------------|-----------------|------------|--------------------|---------|
| State taxes | | | | | | |
| Personal income tax | 395.0 | 488.2 | 533.3 | -45.1 | 45.1 | 8.5% |
| Internal taxes on goods and services | 90.1 | 129.0 | 121.6 | 7.3 | 7.3 | 6.0% |
| Other state taxes | 1.3 | -4.2 | 1.7 | -6.0 | 6.0 | 347.4% |
| Local taxes and fees | | | | | | |
| Property tax | 5.1 | 6.6 | 6.9 | -0.3 | 0.3 | 4.5% |
| Land tax | 91.8 | 133.1 | 123.9 | 9.2 | 9.2 | 7.4% |
| Single tax | 101.8 | 145.5 | 137.4 | 8.1 | 8.1 | 5.9% |
| Other local taxes and fees | 3.7 | 1.4 | 5.0 | -3.7 | 3.7 | 72.9% |
| Grants | | | | | | |
| Grants from other government units | 0.0 | 3.7 | 0.0 | 3.7 | 3.7 | |
| Other revenue | | | | | | |
| Property income | 13.2 | 26.1 | 17.9 | 8.2 | 8.2 | 46.0% |
| Sales of goods and services | 86.6 | 84.8 | 116.9 | -32.1 | 32.1 | 27.4% |
| Fines, penalties and forfeits | 0.8 | 1.6 | 1.1 | 0.4 | 0.4 | 39.0% |
| Sum of rest | 19.3 | 76.3 | 26.0 | 50.2 | 50.2 | 192.9% |
| Total revenue | 808.8 | 1 091.9 | 1 091.9 | 0.0 | 174.2 | |
| overall variance | | | | | | 135.0% |
| composition variance | | | | | | 16.0% |

Data on revenues (without state taxes) for 2016, UAH million

| Revenue types | budget | actual | adjusted budget | deviation | absolute deviation | percent |
|------------------------------------|--------------|--------------|-----------------|------------|--------------------|---------|
| Local taxes and fees | | | | | | |
| Property tax | 5.1 | 6.6 | 7.6 | -1.0 | 1.0 | 13.2% |
| Land tax | 91.8 | 133.1 | 136.4 | -3.3 | 3.3 | 2.4% |
| Single tax | 101.8 | 145.5 | 151.3 | -5.8 | 5.8 | 3.8% |
| Other local taxes and fees | 3.7 | 1.4 | 5.6 | -4.2 | 4.2 | 75.4% |
| Grants | | | | | | |
| Grants from other government units | 0.0 | 3.7 | 0.0 | 3.7 | 3.7 | |
| Other revenue | | | | | | |
| Property income | 13.2 | 26.1 | 19.7 | 6.4 | 6.4 | 32.6% |
| Sales of goods and services | 86.6 | 84.8 | 128.6 | -43.8 | 43.8 | 34.1% |
| Fines, penalties and forfeits | 0.8 | 1.6 | 1.3 | 0.3 | 0.3 | 26.3% |
| Sum of rest | 19.3 | 76.3 | 28.7 | 47.6 | 47.6 | 166.1% |
| Total revenue | 322.4 | 479.0 | 479.0 | 0.0 | 116.1 | |
| overall variance | | | | | | 148.6% |
| composition variance | | | | | | 24.2% |

Data on revenues (with state taxes) for 2017, UAH million

| Revenue types | budget | actual | adjusted budget | deviation | absolute deviation | percent |
|--------------------------------------|----------------|----------------|-----------------|---------------|--------------------|---------|
| State taxes | | | | | | |
| Personal income tax | 595.0 | 717.0 | 803.3 | -86.3 | 86.3 | 10.7% |
| Internal taxes on goods and services | 142.5 | 148.5 | 192.3 | -43.9 | 43.9 | 22.8% |
| Other state taxes | 1.2 | 0.0 | 1.6 | -1.7 | 1.7 | 101.7% |
| Local taxes and fees | | | | | | |
| Property tax | 7.3 | 12.7 | 8.7 | 4.0 | 4.0 | 45.5% |
| Land tax | 130.0 | 141.0 | 156.0 | -15.0 | 15.0 | 9.6% |
| Single tax | 161.4 | 204.5 | 193.7 | 10.8 | 10.8 | 5.6% |
| Other local taxes and fees | 1.4 | 2.6 | 1.6 | 1.0 | 1.0 | 60.8% |
| Grants | | | | | | |
| Grants from other government units | 0.0 | 2.5 | 0.0 | 2.5 | 2.5 | |
| Other revenue | | | | | | |
| Property income | 26.2 | 40.4 | 31.4 | 8.9 | 8.9 | 28.4% |
| Sales of goods and services | 101.9 | 110.1 | 122.2 | -12.1 | 12.1 | 9.9% |
| Fines, penalties and forfeits | 1.4 | 1.4 | 1.7 | -0.3 | 0.3 | 18.6% |
| Sum of rest | 59.7 | 92.6 | 71.6 | 21.0 | 21.0 | 29.3% |
| Total revenue | 1 227.9 | 1 473.2 | 1 584.2 | -111.0 | 207.5 | |
| overall variance | | | | | | 120.0% |
| composition variance | | | | | | 13.1% |

Data on revenues (without state taxes) for 2017, UAH million

| Revenue types | budget | actual | adjusted budget | deviation | absolute deviation | percent |
|------------------------------------|--------------|--------------|-----------------|------------|--------------------|---------|
| Local taxes and fees | | | | | | |
| Property tax | 7.3 | 12.7 | 9.0 | 3.7 | 3.7 | 40.5% |
| Land tax | 130.0 | 141.0 | 161.5 | -20.5 | 20.5 | 12.7% |
| Single tax | 161.4 | 204.5 | 200.5 | 3.9 | 3.9 | 2.0% |
| Other local taxes and fees | 1.4 | 2.6 | 1.7 | 0.9 | 0.9 | 55.3% |
| Grants | | | | | | |
| Grants from other government units | 0.0 | 2.5 | 0.0 | 2.5 | 2.5 | |
| Other revenue | | | | | | |
| Property income | 26.2 | 40.4 | 32.6 | 7.8 | 7.8 | 24.0% |
| Sales of goods and services | 101.9 | 110.1 | 126.6 | -16.4 | 16.4 | 13.0% |
| Fines, penalties and forfeits | 1.4 | 1.4 | 1.8 | -0.4 | 0.4 | 21.4% |
| Sum of rest | 59.7 | 92.6 | 74.1 | 18.4 | 18.4 | 24.9% |
| Total revenue | 489.2 | 607.8 | 607.8 | 0.0 | 74.7 | |
| overall variance | | | | | | 124.2% |
| composition variance | | | | | | 12.3% |

Data on revenues (with state taxes) for 2018, UAH million

| Revenue types | budget | actual | adjusted budget | deviation | absolute deviation | percent |
|--------------------------------------|----------------|----------------|-----------------|---------------|--------------------|---------|
| State taxes | | | | | | |
| Personal income tax | 785.3 | 921.5 | 1 060.2 | -138.7 | 138.7 | 13.1% |
| Internal taxes on goods and services | 148.6 | 149.7 | 200.6 | -50.9 | 50.9 | 25.4% |
| Other state taxes | 1.1 | 2.7 | 1.4 | 1.3 | 1.3 | 91.1% |
| Local taxes and fees | | | | | | |
| Property tax | 13.8 | 18.8 | 15.9 | 2.9 | 2.9 | 18.5% |
| Land tax | 148.0 | 148.9 | 169.9 | -21.0 | 21.0 | 12.3% |
| Single tax | 222.6 | 250.1 | 255.4 | -5.3 | 5.3 | 2.1% |
| Other local taxes and fees | 2.7 | 4.5 | 3.1 | 1.5 | 1.5 | 47.5% |
| Grants | | | | | | |
| Grants from other government units | 0.0 | 5.4 | 0.0 | 5.4 | 5.4 | |
| Other revenue | | | | | | |
| Property income | 31.4 | 34.1 | 36.1 | -2.0 | 2.0 | 5.4% |
| Sales of goods and services | 131.5 | 133.3 | 151.0 | -17.7 | 17.7 | 11.7% |
| Fines, penalties and forfeits | 1.2 | 2.6 | 1.4 | 1.2 | 1.2 | 90.2% |
| Sum of rest | 30.6 | 69.1 | 35.1 | 34.0 | 34.0 | 96.9% |
| Total revenue | 1 516.7 | 1 740.9 | 1 930.0 | -189.2 | 281.9 | |
| overall variance | | | | | | 114.8% |
| composition variance | | | | | | 14.6% |

Data on revenues (without state taxes) for 2018, UAH million

| Revenue types | budget | actual | adjusted budget | deviation | absolute deviation | percent |
|------------------------------------|--------------|--------------|-----------------|------------|--------------------|---------|
| Local taxes and fees | | | | | | |
| Property tax | 13.8 | 18.8 | 15.8 | 2.9 | 2.9 | 18.6% |
| Land tax | 148.0 | 148.9 | 169.7 | -20.7 | 20.7 | 12.2% |
| Single tax | 222.6 | 250.1 | 255.1 | -5.0 | 5.0 | 1.9% |
| Other local taxes and fees | 2.7 | 4.5 | 3.1 | 1.5 | 1.5 | 47.6% |
| Grants | | | | | | |
| Grants from other government units | 0.0 | 5.4 | 0.0 | 5.4 | 5.4 | |
| Other revenue | | | | | | |
| Property income | 31.4 | 34.1 | 36.0 | -1.9 | 1.9 | 5.3% |
| Sales of goods and services | 131.5 | 133.3 | 150.8 | -17.5 | 17.5 | 11.6% |
| Fines, penalties and forfeits | 1.2 | 2.6 | 1.4 | 1.2 | 1.2 | 90.5% |
| Sum of rest | 30.6 | 69.1 | 35.1 | 34.0 | 34.0 | 97.1% |
| Total revenue | 581.8 | 666.9 | 666.9 | 0.0 | 90.3 | |
| overall variance | | | | | | 114.6% |
| composition variance | | | | | | 13.5% |

Annex 5. Disclosure of quality assurance arrangements

| Composition of the Oversight team | |
|-----------------------------------|---|
| Ministry of Finance | Gennady Plis, Deputy Minister (Chair) Oleksiy Zhak, General Director for Strategic Planning and European Integration |
| Ministry of Regional Development | Serhiy Sharshov, Director for Local Governments Development and Territorial Organisation |
| Khmelnyskyi city | Andriy Bondarenko, Deputy Mayor |
| Association of Ukrainian Cities | Oleksandr Slobozhan, Executive Director |
| SECO/Swiss Embassy | Ilona Postemska, Embassy of Switzerland |
| World Bank | Iryna Scherbyna, Senior Public Sector Specialist |
| EU Delegation | Alexandra Janovskaya, PFM Advisor |
| Logica | Milos Markovic, Key Expert |

| Composition of the Assessment Team | |
|--|---|
| International PFM Expert – Team Leader | John Wiggins (UK) |
| Local PFM Expert | Vyacheslav Zubenko, Director of Institute for Budgetary and Socio-Economic Research |
| Local PFM Expert | Olesiia Golynska |

| Review of Concept Note by Oversight team and peer reviewers | | |
|--|-------------------|-----------------------------|
| Concept note draft distributed 1st November, 2019, revised 9 th December 2019 | | |
| Reviewer | Comments received | Date of Assessors' response |
| WB | 10 November 2019 | 6 December 2019 |
| PEFA Secretariat | 15 November 2019 | 6 December 2019 |
| Logica | 5 December 2019 | 6 December 2019 |
| Concept Note final approved by Oversight Team 20 January 2020 | | |

| Review of Draft Report | | |
|---|--------------------------|------------------------------------|
| Draft report distributed on 30 March 2020 | | |
| No comments were received from peer reviewers in the Ministry of Finance, the Ministry of Regional Development and the European Union Delegation. | | |
| Reviewer | Comments received | Date of Assessors' response |
| City of Khmelnytskyi | 6 March 2020 | 23 March 2020 |
| PEFA Secretariat | 21 April 2020 | 21 July 2020 |
| World Bank | 16 April 2020 | 27 April 2020 |
| GIZ | 20 April 2020 | 22 April 2020 |
| Logica | 20 April 2020 | 29 April 2020 |
| Association of Ukrainian Cities | 28 April 2020 | 12 May 2020 |

Washington DC, October 23, 2020

TO WHOM IT MAY CONCERN

PEFA Report for the City of Khmelnytskyi, Ukraine - PEFA Check

The PEFA Secretariat confirms that the 2020 Subnational PEFA Assessment report for the City of Khmelnytskyi, Ukraine has been reviewed by the Secretariat. The high level of compliance with the PEFA methodology is shown by the compliance indexes for the final report which exceeds the 85% quality assurance threshold requirements. Compliance with the indexes for dimensions and indicators are at 93 percent and at 86.6 percent respectively and report coverage at about 97.3 percent. A PEFA Check was not granted because (i) the concept note was not shared with the Secretariat prior to commencement of the assessment process; and (ii) the final version of the CN was not shared with all peer-reviewers, at least not with the PEFA Secretariat, as required by the PEFA Check Guidelines.

Yours sincerely

Srinivas Gurazada

Head of PEFA Secretariat