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## WAYS TO INCREASE THE CAPACITY OF LOCAL BUDGETS TO FINANCE SOCIAL PROTECTION AND SOCIAL SECURITY

## ШЛЯХИ ПІДВИЩЕННЯ ПОТЕНЦІАЛУ ФІНАНСУВАННЯ СОЦІАЛЬНОГО ЗАХИСТУ ТА СОЦІАЛЬНОГО ЗАБЕЗПЕЧЕННЯ МІСЦЕВИМИ БЮДЖЕТАМИ

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The article is devoted to a holistic study of social protection and social security in both theoretical and practical terms, which allowed to identify current problems and challenges in this area, to find new sources of funding and optimisation of expenditures. The social sphere is a rather important indicator of the level of development of a society. At first glance, the social sphere does not seem to be the economic core of the state and the driving force behind economic development. At the same time, an analysis of the subjects of this sphere's jurisdiction allows us to highlight its importance. In fact, the issue of the social sphere is extremely relevant in the current environment, when Ukraine is making every effort to repel armed aggression and prevent the damage and consequences. In addition to direct damage, this armed aggression has created a number of challenges for both the state and citizens: a large number of IDPs, destroyed housing, broken social ties, disability, etc. Therefore, in today's realities, public policy should be more flexible to respond to new challenges.

**Keywords:** social protection, social security, potential, state budget, local budgets, budget expenditures.

Інститут держави є надзвичайно давнім та покликаний виконувати ряд функцій, що на неї покладаються. Тобто держава як інститут діє в конкретних напрямках, визначаючи таким чином своє значення та сутність у життєдіяльності суспільства. Функції держави не є повністю статичними, вони видозмінюються залежно від явищ об'єктивної дійсності та викликів, що постійно з'являються. Поряд з цим, усі науковці серед функцій держави виділяють соціальну функцію, яка включає сфери здоров'я, культури, науки, освіти тощо. Соціальна функція держави існує та існувала завжди, незалежно від кризових чи інших зовнішніх чинників. Навпаки, при наявності більшої кількості деструктивних чинників, соціальна функція держави поглиблюється. Наприклад, при епідемії коронавірусної хвороби держава розробляла нові та використовувала у повній мірі наявні механізми допомоги населенню та його групам. Соціальна сфера є досить важливим індикатором рівня розвитку суспільства. На перший погляд соціальна сфера не є економічним стрижнем держави та рушійною силою розвитку економіки. Поряд з цим, аналіз предметів відання даної сфери дозволяє виокремити її важливість. Насправді, питання соціальної сфери надзвичайно актуалізується в сучасних умовах, коли Україна докладає усі зусилля для відсічі збройної агресії та відвернення завданої шкоди та наслідків. Окрім прямих збитків дана збройна агресія створила ряд викликів як для держави так і для громадян: велика кількість переселенців, зруйноване житло, розірвані соціальні зв'язки, втрата працездатності тощо. Тому в сучасних реаліях державна політика повинна бути більш гнучкою для реагування на все нові й нові виклики. Крім того, важливим вбачаємо наявність у держави ймовірних моделей (сценаріїв) розвитку подій, з метою якнайшвидшого реагування на виникаючі ризики. Моделювання є достатнім способом підготовки до нових викликів, оскільки в відносно спокійній обстановці можливо визначити усі основоположні аспекти проблемного питання, залучити передовий міжнародний досвід соціального захисту та соціального забезпечення, напрацювати план дій за допомогою широкого кола фахівців.

**Ключові слова:** соціальний захист, соціальне забезпечення, потенціал, державний бюджет, місцеві бюджети, видатки бюджету.

**Problem statement.** The area of social protection and social security is extremely sensitive and important, as it is aimed at regulating and overcoming negative social phenomena that arise and exist in society or in a particular group of individuals. In addition, this area is aimed at ensuring the proper provision of certain segments of society that are important to the state, including military personnel. Social protection is particularly relevant during the period of repulsing armed aggression against Ukraine, when it is necessary to respond immediately and find ways to solve new problems instantly. Among the main current challenges in the field of social protection and social security are the protection of IDPs and the poor, orphans, proper maintenance of military personnel and their families, etc [1].

**Analysis of the latest research and publications.** Such scholars as V. Utvenko, O. Bodnarchuk, V. Roshkanyuk, M. Chorna, O. Burlaka, Y. Yaryhina, I. Belova, N. Semenysheva and others have studied the conceptual foundations of financing expenditures on social protection and social security and the problems of this topic.

**Identification of previously unresolved parts of the overall problem.** Along with a significant number of scientific studies, the relevance of the chosen topic is due to a large number of legislative and organisational changes that require their doctrinal analysis and justification.

**Formulation of the objectives of the article (task statement).** The main objective of the article is to conduct a holistic study of the social protection and social security sector in both theoretical and practical terms, which will allow identifying current problems and challenges of the subject, and finding new sources of funding and optimisation of expenditures.

**Summary of the main research material.** Funding of expenses is an extremely responsible process, because in the conditions of limited financial resources, it is necessary to make a correct delineation of the directions and volumes of such funding. At the same time, it must be extremely efficient to achieve maximum results and goals. In this regard, it is necessary to correctly approach the expenditure planning process, responding to all factors that influence or may influence it. Thus, we will conduct a SWOT analysis within the scope of financing social protection and social security expenditures by local budgets on the example of Lviv region. Classically, a SWOT analysis involves the formulation of advantages (strengths), disadvantages (weaknesses), opportunities and threats of the phenomenon or topic under study. Strengths and weaknesses form the so-called internal side of the studied phenomenon. If we talk about advantages and disadvantages, they, respectively, form the external side of the studied phenomenon (Tables 1, 2).

Having identified the internal side of the SWOT analysis, we will now turn to its external

Table 1

**Characteristics of the internal side of local budget expenditures  
on social protection and social security in Lviv region**

<b>Strengths</b>	<b>Weaknesses</b>
Higher level of financial resources to cover expenditures compared to other regions	A high level of the number of subjects in need of social protection and security
Availability of electronic registers of entities receiving assistance	Preservation of the "aging population" trend
Existence of an existing institutional social protection system at the local and national levels	Availability of a wide and unsystematized range of types of assistance
Availability of potential for the development of the social sphere	Low salary growth rates
A large number of European cells in the region	Low social standards
Positive migration balance in the region	Inconsistency of social standards with basic needs
	High bureaucratisation of the sector
	Lack of financial resources
	Poorly chosen and insufficiently substantiated social policy

Table 2

**Characteristics of the external side of local budget expenditures  
on social protection and social security in Lviv region**

Opportunities	Threats
Attracting foreign investment	Rapid rates of inflation
Creation of qualitatively new jobs, including for people with special needs	Increasing number of people in need of social protection and social security
Using grant projects to finance needs	Population outflow from the country
Improving awareness of the real state of the sphere of social protection and provision, as well as their needs	Ageing of the nation
Use of foreign targeted assistance in overcoming the consequences of armed aggression	Population decline as a result of armed aggression
Achieving social and political stability as soon as possible	Further preservation of martial law and active hostilities
Formation of modern legislation aimed at solving modern problems of social protection	Reduced funding for social protection and social security
Developing own infrastructure for the production of material components for people in need of social protection	Preserving the remnants of Soviet standards and Soviet approaches in the social protection system
Cooperation with foreign countries with modern experience in building an effective social protection system	Recession in the national and regional economy
Achieving technological breakthroughs through new ideas and start-ups	Deterioration of the environment
Eradication of corruption manifestations at the expense of already created modern institutions	Persistence of a significant gap in the financial security of the poor and the rich
Improving existing and creating new social infrastructure facilities	Preservation of the trend of shadowing the labor market
Implementation of European standards and norms in the field of social protection	Decrease in gross domestic product per capita

ФІНАНСИ, БАНКІВСЬКА СПРАВА ТА СТРАХУВАННЯ

side to form a holistic concept of the state of social protection and social security within the Lviv region.

After comparing the various elements of the SWOT analysis, the following conclusions can be drawn:

1. Provision of privileges for certain categories of citizens depends on real budget funding, not on the actual need for such privileges.

2. The use of outdated approaches to the allocation of available funds for social protection and welfare without prioritising the provision of such assistance.

3. Social payments and social assistance are made without taking into account the real (not official) income of citizens, which creates a situation where citizens who do not actually need it but are entitled to it receive it.

4. Budget funds are used according to outdated methods and approaches, without

taking into account modern trends in their administration.

5. The lack of a systematic audit of all available benefits and payments leads to inefficiency in their provision.

6. The existence of ineffective forms of social protection leads to the allocation of significant funds for their administration and management, rather than direct assistance to certain categories of citizens in need of real help.

7. Effective provision of social protection and social security can provide real solutions to social problems and, in some cases, eliminate them altogether.

8. The social policy of the state and the region should be comprehensive and holistic, aimed not at simply financing certain problematic manifestations, but at eliminating them, which will lead to the absence of the need to make such expenditures on this group of citizens in the future.

9. The effectiveness of social protection in today's environment is not based on the in-kind provision of benefits or assistance, but on their monetisation with clear control over the use of these funds. This approach helps to reduce funding for the administration of such benefits.

10. An audit of the social security system should ensure the cancellation of benefits for citizens who emigrated from the country, but continue to receive social benefits.

11. Crisis phenomena of the economy as a result of military operations cause the need to find non-budgetary funds and directions for financing forms of social protection by local budgets. This thesis is actualized in the context of the cancellation of the inclusion of "military personal income tax" in local budgets from 2024, which will lead to a significant budget deficit and the impossibility of financing expenses at the appropriate level. In addition, the armed aggression against Ukraine led to a significant increase in the category of persons who need and will need social protection in the coming years.

If we talk about optimising expenditures or increasing the revenue side of local budgets in Lviv region to further finance expenditures, we will turn to the following. In our opinion, the direction of raising additional funds in this area through effective work and policy with the unemployed is promising. Within this aspect, we see three areas as promising, which we will consider.

According to the Lviv Regional Employment Centre, the number of people with unemployment status in Lviv region in 2023 was 23,866 [2]. In our opinion, the employment of unemployed people of working age is extremely effective for the proper financing of other social protection expenditures, given the following.

1. The first direction is to engage the unemployed in official work that pays at least the minimum level, which as of 1 January 2024 is UAH 7100 per month and contributes to the revenues of local budgets in the form of personal income tax (PIT).

Thus, the employment of the unemployed will contribute to the payment of personal income tax to the budgets of the respective level. To do this, we will use the following formula:

$$UAFPIT = MW \times PITR \times PS, \quad (1)$$

де UAFPIT – unreceived amount of funds from personal income tax;

MW – minimum wage;

PITR – personal income tax rate;

PS – a potential sample consisting of the unemployed of the Lviv region.

According to Clause 1, Part 1, Article 64 of the Budget Code of Ukraine, 60 percent of personal income tax is included in the revenues of the general fund of the budgets of rural, settlement, and urban territorial communities.

According to Clause 1 Part 1 of Article 66 of the Budget Code of Ukraine, 15 percent of personal income tax is included in the revenues of the general fund of regional budgets [3].

According to Clause 167.1 of Article 167 of the Tax Code of Ukraine, the personal income tax rate is 18 percent of the tax base [4].

Thus, for the budgets of village, settlement, and city territorial communities in Lviv region, the amount of PIT revenues that were not received is as follows:

$$UAFPIT = (7100 \times 18 \% \times 23\,866) \times 60 \% = 18300448,8 \text{ UAH}$$

If we talk about the regional budget of the Lviv region, the amount of PIT funds that were not received is:

$$UAFPIT = (7100 \times 18 \% \times 23\,866) \times 15 \% = 4575112,2 \text{ UAH}$$

2. The second direction is to engage the unemployed in official work that pays at least the minimum level of UAH 6,700 per month and facilitates the payment of the Unified Social Contribution for obligatory state social insurance (hereinafter – the Unified Social Contribution, USC) to the Pension Fund of Ukraine by the employer.

Thus, hiring the unemployed will help employers to pay the unified social tax on their employees. To do this, we will use the following formula:

$$UAFUSC = MW \times USCR \times PS, \quad (2)$$

де UAFUSC – unreceived amount of funds from Unified Social Contribution;

MW – minimum wage;

USCR – Unified Social Contribution rate ;

PS – a potential sample consisting of the unemployed of the Lviv region.

According to part 5 of Article 8 of the Law of Ukraine «On Collection and Accounting of the Unified Social Contribution for Obligatory State Social Insurance», the Unified Social Contribution is set at 22% [5].

Thus, for the Pension Fund of Ukraine, the amount of Unified Social Contribution revenues that were not received is as follows:

$$UAFUSC = 7100 \times 22 \% \times 23\,866 = 37278692 \text{ UAH}$$



3. The third area is that involving the unemployed in official employment will help to eliminate the need for unemployment benefits to be paid by employment centres.

During the martial law regime, a reduced maximum unemployment benefit amount of UAH 7,100 was introduced. This is because during martial law, it cannot exceed the minimum wage established as of 1 January of the calendar year.

In general, the amount of unemployment benefit depends on a person's insurance experience and is determined as a percentage of his average salary at his last place of work. At the same time, we will make our calculation based on the established minimum wage.

Thus, hiring the unemployed will help employers to pay the Unified Social Contribution on their employees. To do this, we will use the following formula:

$$OUB = ANUB \times PS \times 6 \text{ months}, \quad (3)$$

де OUB – overpayment of unemployment benefits;

ANUB – the amount of unemployment benefit;

PS – a potential sample consisting of the unemployed of the Lviv region.

6 months – the average period of unemployment benefit payments..

Thus, the overpaid amount of unemployment benefits in Lviv region is

$$OUB = 7100 \times 23\,866 \times 6 = 1016691600 \text{ UAH}$$

According to the Lviv Regional Employment Centre, as of 1 January 2023, the average salary for available vacancies at the centre was UAH 10600. At the same time, the highest salaries are observed in agriculture (UAH 16500); water supply, sewerage, and waste management (UAH 13700); professional, scientific, and technical institutions (UAH 13500); construction (UAH 12000); and information and telecommunications (UAH 11500) [6].

Thus, the selected averages for the calculation are relevant and likely to reflect the actual situation in this area.

Thus, the total amount of funds that can be optimised to the maximum extent possible by engaging the unemployed in work only within the Lviv region is:

- UAH 18.3 million for the budgets of village, settlement and city territorial communities in Lviv region;

- UAH 4.58 million for the regional budget of Lviv region;

- UAH 37.28 million for the Pension Fund of Ukraine;

- UAH 1.02 billion for the Compulsory State Unemployment Insurance Fund.

In addition, it is worth taking into account the fact that a significant number of workers are not registered as unemployed, do not receive unemployment benefits, but are employed unofficially. In this regard, local budgets do not receive personal income tax from such employees. Thus, the State Labor Service and the State Tax Service of Ukraine should systematically work to identify such cases and transfer the work of such employees to a legal, official channel.

We consider it necessary to also note that armed aggression against Ukraine is the biggest catalyst for the sphere of social status. As a result, social protection faced qualitatively new challenges that must be resolved as soon as possible in real time. At the same time, these challenges usually have a deep and extremely negative nature for the related spheres of life of the individual, society and the state as a whole, and therefore require a quick and comprehensive solution.

First of all, the significant decline in the birth rate that can be observed now is a negative social phenomenon that manifests itself over time. The decline in the birth rate is the first sign of a demographic crisis. Its consequences in the future may include an ageing nation, population decline, and a reduction in the working-age population, which brings with it extremely negative economic problems.

Disability in the period of martial law received completely different challenges than in peacetime. The number of people who received extremely complex injuries (loss of limbs, organs of vision, hearing, shrapnel injuries, etc.) has increased significantly. All of them require expensive treatment and rehabilitation, which cannot be provided at the expense of local and state budgets. Therefore, this direction is largely supported by foreign targeted aid, volunteer efforts, and various social programs. At the same time, Ukraine has quite powerful and highly qualified medical workers, but it has an outdated material and technical base. Financing the creation of such a base will contribute to the creation of opportunities for the treatment and rehabilitation of such citizens with their own forces and resources, will create new jobs, the development of this direction to the world level, and will also become a prerequisite for the retention of highly qualified specialists within the state.

Protection against unemployment in modern conditions should be comprehensively revised. Today, there are a huge number of highly paid

professions that require specialists and do not require higher education. Thus, at the expense of short-term training, it is possible to attract a large number of unemployed people to employment. Thus, the provision of unemployment benefits should be reformatted from a mainly monetary form to an educational form, while maintaining minimum benefits.

Considering all of the above, it can be concluded that the sphere of social protection has the following complex problematic aspects:

- outdated and insufficiently regulated legislative and regulatory framework;
- an inefficient approach to the financing of social protection and provision;
- “eating up” a significant amount of allocated funds by corruption;
- the monopoly position of the state in the sphere of providing social services;
- insufficient funding.

In addition, it should be noted that the path to the European Union declared by the Constitution of Ukraine, granting Ukraine the status of a candidate for membership of the European Union should create such conditions that will lead to the formation of a system of social protection and provision of the European level. For this, the Cabinet of Ministers of Ukraine and the Verkhovna Rada of Ukraine must conduct thorough, systematic and extremely comprehensive work on the implementation of European standards in the field of social protection into Ukrainian legislation. At the same time, such implementation should take into account Ukrainian characteristics and needs in this area.

Thus, the analysis of international experience shows that countries with a market economy currently have an extensive system of social protection, which includes the following components (directions):

1. Social security.
2. Social insurance.
3. Social assistance.

If we talk about European-style social security, it consists in providing targeted assistance to certain categories of citizens, including military personnel, civil servants, orphans, etc. The financing of this direction takes place at the expense of provided state guarantees and budget funds.

Social insurance is a relatively new, but extremely progressive form of European social protection. This institute provides an opportunity for everyone to get access to the social insurance system, the fulfillment of obligations of which is guaranteed by the state. Financing takes place at the expense of own insurance contributions, which ensures the right to receive payment in the event of an insured event. This type is extremely transparent, as everyone can know the size and conditions of receiving an insurance payment.

Social assistance involves receiving various types of subsidies, benefits, and grants aimed at improving the situation of certain segments of the population. Social assistance is not able to solve the problem of the need for social assistance, but it can quickly and effectively help a person in case of certain difficulties. The institution of social assistance is extremely vulnerable, as some citizens abuse the opportunities to receive this type of social protection, which is unacceptable in a context of limited financial resources. Social assistance can be financed both from the budget and through specific programmes. Therefore, public institutions should exercise constant and clear control over the correctness and necessity of providing social assistance.

**Conclusions.** As for Ukraine, we can state that the existence of two out of three European social protection systems is extremely positive (social insurance by private funds is not widespread in Ukraine). At the same time, the social protection system needs to be updated and to incorporate European modern methods and mechanisms for efficient and effective regulation of social problems. Proposals for addressing certain social phenomena include the following:

- moving away from the principle of providing protection in the event of a foreseen event to the principle of focusing on the needs and situation of an individual;
- restrictions on one citizen's receipt of a set of provided benefits, which should create an individual's interest in becoming more economically active;
- bringing the labour market out of the shadows;
- effective and transparent tax legislation;
- encouraging citizens to use private social insurance funds.

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