

**Siryk Zinoviy**

Candidate of Technical Sciences, Associate Professor,  
Administrative and Financial Management Department  
Lviv Polytechnic National University  
12 Stepan Bandera Str, Lviv, 79000, Ukraine  
[zsiryk62@gmail.com](mailto:zsiryk62@gmail.com)

**POWERS, FINANCIAL AND BUDGETARY RELATIONS  
OF THE STATE EXECUTIVE POWER AND  
THE LOCAL SELF-GOVERNMENT IN UKRAINE**

**Abstract.** The redistribution of powers and the transformation of financial and budgetary relations between local self-authorities and the central government in Ukraine are investigated. It has been established that a change in the basis of budget support and the system of relations between budgets under decentralized conditions is characterized, firstly, by the introduction of direct intergovernmental relations between the budgets of the amalgamated territorial communities and the State budget, which guarantees the local self-government clearly defined volume of intergovernmental transfers, and secondly, the concentration significant financial resources in local budgets (income tax, excise tax, property taxes, single tax). It allows self-authorities to dispose of a powerful resource base, thirdly, the legislative definition of the mechanism for spending from local budgets, formed in the context of achieving and guaranteed provision of basic services to the population because of their financial support from the center, and granting local self-governments with the opportunity to independently own resources, provide residents with public goods. The distribution norms of tax revenues to budgets of different levels are presented. The analysis of the financial and budgetary relations of state power and local self-government is carried out on the example of the amalgamated territorial communities in the Lviv region.

**Key words:** local self-government, budgetary and financial relations, amalgamated territorial communities, capability, Lviv region

**JEL classification:** O18, R11, R51

**Introduction**

Problematic issues related to the formation of financial support for local self-government directly affect the capability of a territorial

community, that should have financial, material and other resources in an amount sufficient for the effective implementation of the local authorities' tasks and functions, the provision of social services to the population at the level provided for by national standards. Expanding the powers of local self-governments, giving them greater autonomy, require the latter to be more responsible in the implementation of local financial policies, create conditions for economic activity and develop business activity by all business entities, and maintain a favourable investment climate in the region.

The study of the features of the territorial communities' development in the context of reforming the local self-government system requires, along with a detailed data research on the formation of the governance territorial basis at the local level and determination of trends in this process, as well as attention to the budget support issue for such communities and financial relations with the state budget.

Research of scientific sources allows us to conclude that both in domestic and in foreign literature, the definition of the term "financial support of local self-government" is predominantly found. The scientists who raised the financial support issue for local self-government are T.H. Bondaruk, H.V. Vozniak (2019), P.V. Zhuk (2015; 2017), V.I. Kravchenko, O.P. Kyrylenko, V.S. Kravtsiv (2015; 2016a; 2016b), O.Yu. Matveieva, L.V. Panasiuk, Kh.O. Patytska, S.L. Shults et al.

**The purpose of the article.** The purpose of the article is an analysis of the financial and budgetary relations between state power and local self-government in Ukraine using the example of the Lviv region and a number of directions are proposed for changing the budgetary support principles for local budgets.

### **Results and discussion**

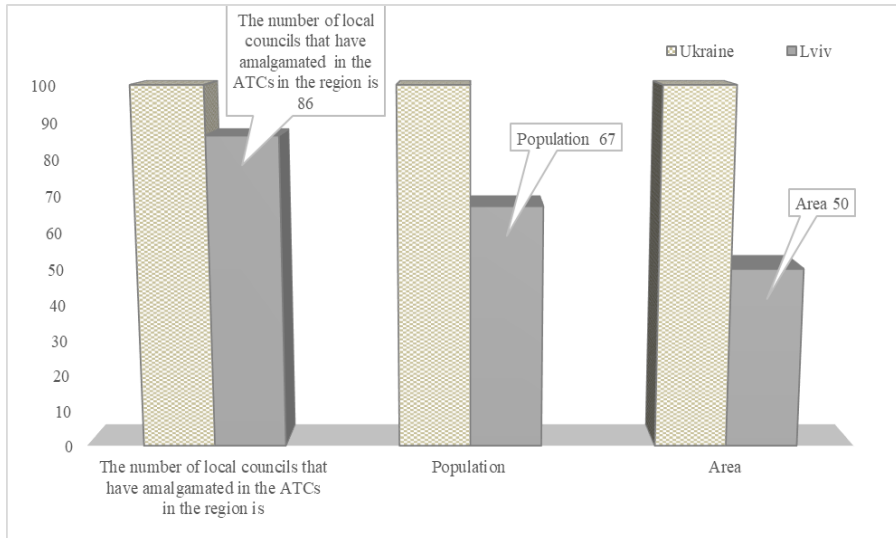
Effective in terms of implementation and regulatory certainty regarding the amalgamated territorial communities (ATCs) development as an element of the territorial organization of power is a decen-

tralization component in the field of budget relations. The methodology for the formation of capable territorial communities is based on the fundamental principles and conditions for the formation of capable territorial communities; the definition of the community capability, which is the basis for the functioning of local self-government in the relevant territory and the key to its sustainable development, is clearly stipulated. A capable community is defined that is able of ensuring an appropriate level of public services, subject to the availability of human resources, infrastructure development and the level of financial support.

Since the research object will be the ATCs in the Lviv region, it is worth focusing on the features of their formation during the period of administrative and territorial reform in Ukraine. So, in 2015-2019 41 ATCs were created in the region as the amalgamation result of 170 local councils. The largest number of ATCs was created in 2015, at the beginning of the reform – 15 communities (48 local councils amalgamated), in 2016 – 7 ATCs (42 councils), in 2017 – 13 ATCs (51 councils), in 2018 – 5 ATCs (27 councils), in 2019 – 1 community (5 councils). Most of the local councils amalgamated around the villages: in the region there are 22 rural ATCs. Around the townships formed 10 ATCs, cities – 9 communities.

In the process of ATC comparing, which are formed in the Lviv region and Ukraine as a whole, noticeably smaller sizes of the communities formed in the region (Fig. 1).

So, the average number of local councils that amalgamated into one ATC in the Lviv region is 4.1, which is 86% of the average in Ukraine (4.8 local councils). The area of communities is on average 50% less in the region than in Ukraine and amounts to 120.9 square meters. The population has also significantly decreased - 7972.1 people (67% of the average Ukrainian value).



**Figure 1: The ATC formation features in the Lviv region and in Ukraine, 2019, % (average indicator in Ukraine = 100%)**

Source: on the basis of Decentralization, 2020

Such comparison results indicate the existence of differences in the ATC formation in the region, may have an impact on the level of financial capability of such communities and the ability to fulfil the powers granted to local self-authorities from a central level. Therefore, it is relevant to conduct an analysis of the ATC development in the Lviv region and determine whether such communities are financially capable to ensure the powers fulfilment granted to them.

To ensure the territorial communities' capability during 2014-2015 the budget legislation was amended by expanding the powers of local self-government at a basic level and securing budget autonomy as well as securing the appropriate financial resources to carry out the functions assigned to self-government bodies.

First of all, the list of taxes assigned to ATC budgets was expanded and the standards for their distribution between budgets of different levels were revised (Table 1), which, given the key role of taxes in filling budgets, was a major step in ensuring the financial autonomy of communities.

These changes contributed to an increase in the financial capability level of territorial communities, but, given the development patterns of administrative and territorial formations of a basic level over a long period of time, we can speak of an increase in imbalances in the financial support of communities. Since the main source of revenue for ATC budgets is tax revenues that are levied on the community territory, today there is a dependence of the financial ability in community on those factors that directly affect the receipt of a particular payment. If before the decentralization reform in Ukraine, almost all local budgets were completely dependent on funding from the State budget, then in the context of the reform, the main task is to encourage communities to make effective use of available resources to ensure their own financial autonomy and the ability to fulfil the powers vested in local self-governments and provide appropriate services to the public.

**Table 1: Distribution norms for the tax revenues to budgets in different levels**

The list of payments	The budget of the Kyiv city	Regional budgets	The budgets of the regional significance cities	ATC budgets	District budgets	The budgets of the district significance cities	Township and village budgets
<b>GENERAL FUND</b>							
National taxes							
Individual income tax and levy	40%	15%	60%	60%	60%	-	-
Income tax (except for income tax of state and municipal enterprises)	10%	10%	-	-	-	-	-
Profit tax for enterprises and financial institutions of communal property	100%	100%	100%	100%	100%	100%	100%
Rental fee for special use of forest resources in part of wood har-	50%	50%	-	-	-	-	-

vested in the main cutting procedure								
Rental fee for special use of forest resources (except rent for special use of forest resources in the part of wood harvested in the main cutting procedure)		100%	-	100%	100%	-	100%	100%
Rental fee for special use of water (except rent for special use of water resources of local importance)		50%	50%	-	-	-	-	-
Rental fee for special use of water resources of local importance		100%	-	100%	100%	-	100%	100%
Rental fee for use of mining subsoil of national importance		25%	25%	-	-	-	-	-
Rental fee for use of mining subsoil of local importance		100%	-	100%	100%	-	100%	100%
Fee for use of other natural resources		100%	100%	-	-	-	-	-
Excise tax on excisable goods sales by retail business entities		100%	-	100%	100%	-	100%	100%
Excise tax share on fuel produced in Ukraine and imported into the customs territory of Ukraine		13,44%	-	13,44%	13,44%	-	13,44%	13,44%
<b>Local taxes and fees</b>								
Property tax	real estate tax other than land	100%	-	100%	100%	-	100%	100%
	land fee	100%	-	100%	100%	-	100%	100%
	transport tax	100%	-	100%	100%	-	100%	100%
Single tax		100%	-	100%	100%	-	100%	100%
Vehicle parking fee		100%	-	100%	100%	-	100%	100%

Tourist tax	100%	-	100%	100%	-	100%	100%
<b>SPECIAL FUND</b>							
Environmental tax	80%	55%	25%	25%	-	25%	25%

Source: compiled on the basis of the Budget Code of Ukraine

Significant disproportions in the available financial resources among the communities are indicated by the analysis of the ATC budgets revenue of the Lviv region calculated per capita in 2016-2018. (Fig. 2).

The level of the amount differentiation of ATC budget revenues per capita between the communities that functioned in 2016 was 1.8 times (if in the Trostianets community there were UAH 6015.2 per capita, then in the Nove Misto community – UAH 3320.1), in 2017 1.8 years (in Trostianets ATC – UAH 7557.0, in Mizhenets ATC – UAH 4203.4), in 2018 – 2.3 times (Slavske ATC – UAH 16423.8, Nove Misto ATC – UAH 5162.5).

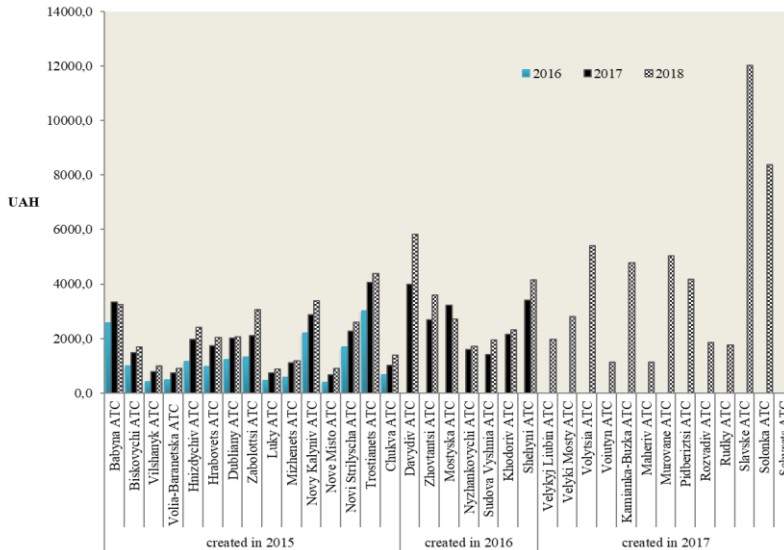


Figure 2: The ATC income dynamics (including intergovernmental transfers) per capita in the Lviv region, 2016-2018.

Source: on the basis of (Open budget, 2020)

High per capita income indicators (including inter-budget transfers) are characterized by ATC created in 2017, namely Slavske ATC (UAH 16423.8), Solonka ATC (UAH 11863.1), Volytsia ATC (UAH 10832.0), and also Davydiv ATC, formed in 2016 (UAH 10460.7). The high level of financial capability of these communities is associated with a favourable geographical location (Slavske township is a widely tourist center as it is located in the foothills of the Carpathian Mountains, and therefore there are numerous recreation centres and sanatoriums on its territory, many residents are engaged in entrepreneurial activities, and contributes to high tax revenues and other payments to the local budget), in the vicinity of a large city (Solonka and Davydiv ATCs, are bordered by the regional center, on their territory there are numerous enterprises, gas stations (as important highways leading to the city pass through these communities), etc.), or the fact that the territory of the communities are registered or placed powerful enterprise, which pays the local budget large amounts of taxes. On the other hand, the relatively high level of financial capability of the ATC budget is also frequent due to the location of numerous gas stations on the territory, possibly when important highways with a high level of traffic are passing through the territory. Analyzing the revenues of the ATC budgets in the Lviv region (Table 2, Fig. 3), the high proportion of transfers in their composition (the average for the region is 62.7%) and a direct relationship between the amount of income per capita and the level of funding from the center are noticeable. The indicator of the share of own revenues, namely tax, non-tax revenues and income from capital operations, in the composition of the total budget revenues, is more than 50% in seven of the 35 ATC in region, namely in Slavske ATC (73.2%), Solonka ATC (70,6%), Kamianka-Buzka ATC (58.6%), Murovane ATC (58.1%), Davydiv ATC (55.6%), Trostianets ATC (52.8%) and Novy Kalyniv ATC (51.4%).

On the other hand, 80% of the region's ATC fulfils its powers, own and delegated, more than half due to financial support from the



state budget. The leaders among these communities are Vilshanyk ATC (13.6%), Luky ATC (16.0% of own revenues as part of budget revenues), Nove Misto ATC (17.4%) and Volia-Baranetska ATC (17.0%). All these communities were formed in 2015 in the first wave of enlargement and over the three years of their existence did not show high development results and the optimal level of capability.

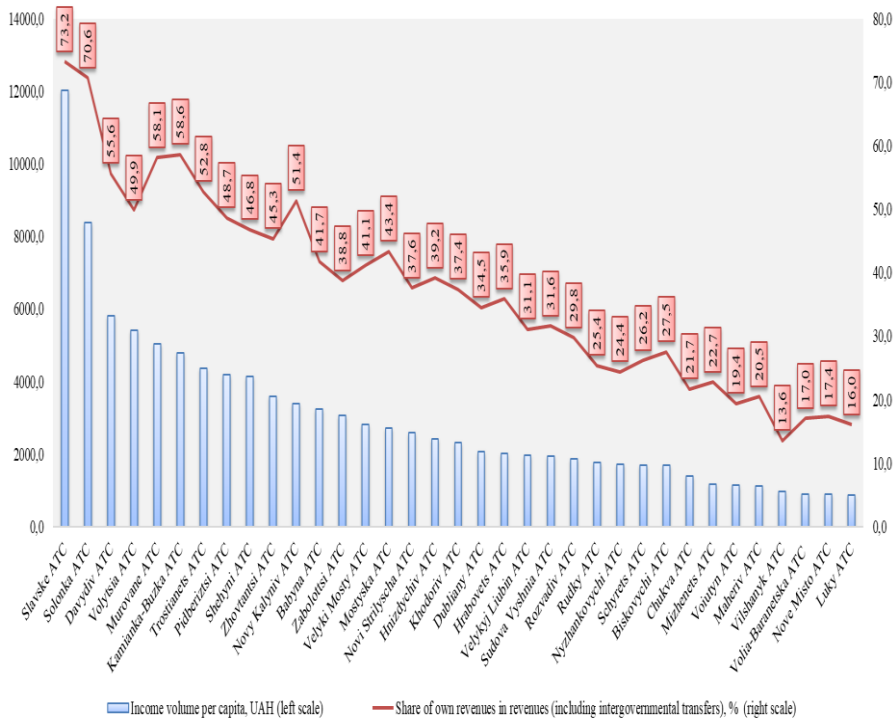


Figure 3: Comparison of the ATC income per capita in the Lviv region, 2018

Source: on the basis of (Open budget, 2020)

**Table 2: Dynamics of ATC own revenues in the Lviv region, 2016-2018**

ATC	Own income, thousand UAH						Growth rate, 2018/2017, %	Share of own revenues as part of revenues (including inter-budget transfers), %
	2016		2017		2018			
	Income volume per capita, UAH	ATC rating	Income volume per capita, UAH	ATC rating	Income volume per capita, UAH	ATC rating		
Babyna ATC	2564,6	2	3343,9	4	3241,7	12	96,9	41,7
Biskovychi ATC	988,1	8	1476,8	15	1687,7	27	114,3	27,5
Vilshanyk ATC	409,8	14	790,1	19	982,6	32	124,4	13,6
Volia-Baranetska ATC	471,6	12	744,2	20	905,9	33	121,7	17,0
Hnizdychiv ATC	1147,2	7	1959,4	12	2416,0	17	123,3	39,2
Hrabovets ATC	965,1	9	1733,4	13	2026,6	20	116,9	35,9
Dubliany ATC	1225,0	6	2015,2	11	2065,8	19	102,5	34,5
Zabolotsi ATC	1328,3	5	2111,0	10	3056,0	13	144,8	38,8
Luky ATC	463,8	13	735,9	21	881,5	35	119,8	16,0
Mizhenets ATC	570,4	11	1120,7	17	1176,5	29	105,0	22,7
Novy Kalyniv ATC	2195,6	3	2865,9	6	3388,2	11	118,2	51,4
Nove Misto ATC	380,0	15	678,4	22	899,3	34	132,6	17,4
Novi Strilyscha ATC	1679,0	4	2271,4	8	2591,5	16	114,1	37,6
Trostianets ATC	3024,1	1	4052,0	1	4374,5	7	108,0	52,8
Chukva ATC	678,0	10	1026,9	18	1387,0	28	135,1	21,7
Davydiv ATC	-	-	3978,3	2	5818,7	3	146,3	55,6
Zhovtantsi ATC	-	-	2691,7	7	3598,5	10	133,7	45,3
Mostyska ATC	-	-	3232,9	5	2711,2	15	83,9	43,4
Nyzhankovy-	-	-	1594,9	14	1711,	25	107,3	24,4

chi ATC					9			
Sudova Vyshnia ATC	-	-	1408,9	16	1945,0	22	138,0	31,6
Khodoriv ATC	-	-	2153,2	9	2307,2	18	107,2	37,4
Shehyni ATC	-	-	3414,1	3	4144,7	9	121,4	46,8
Velykyj Liubin ATC	-	-	-	-	1976,6	21	-	31,1
Velyki Mosty ATC	-	-	-	-	2807,0	14	-	41,1
Volynsya ATC	-	-	-	-	5403,5	4	-	49,9
Voityn ATC	-	-	-	-	1143,0	30	-	19,4
Kamianka-Buzka ATC	-	-	-	-	4776,2	6	-	58,6
Maheriv ATC	-	-	-	-	1127,1	31	-	20,5
Murovane ATC	-	-	-	-	5033,9	5	-	58,1
Pidberiztsi ATC	-	-	-	-	4176,7	8	-	48,7
Rozvadiv ATC	-	-	-	-	1860,9	23	-	29,8
Rudky ATC	-	-	-	-	1761,4	24	-	25,4
Slavske ATC	-	-	-	-	12026,5	1	-	73,2
Solonka ATC	-	-	-	-	8379,3	2	-	70,6
Schyrets ATC	-	-	-	-	1701,9	26	-	26,2

Source: on the basis of (Open budget, 2020)

The formation tendency of obviously insolvent communities is inherent in this period, since in the context of the reform launch and the formation of the first 156 ATCs at the level of central authorities, the first position was posed by the question of its irreversibility and progress, and not its quality of results. The incentives for amalgamation for the communities formed during this period were: the transition to direct inter-budget relations with the State budget and the possibility of additional financing by obtaining a subvention for the infrastructure formation of the amalgamated territorial communities. The main source of income for local budg-

ets in Ukraine, including the ATC budgets, as already noted, is tax revenues. Among the considered ATCs in the region, they make up 92.1% of the total communities’ income, while non-tax revenues account for 6.0%, and income from capital transactions – 1.9% (Fig. 4).

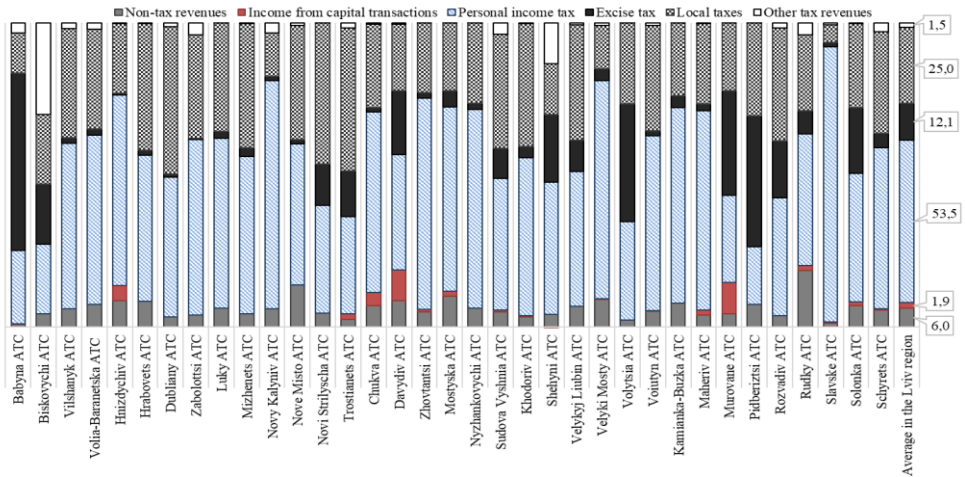


Figure 4: Own revenue structure of the ATC budgets in the Lviv region, 2018, %

Source: on the basis of (Open budget, 2020)

The tax that accounts for the majority (53.5%) of community budgets in the Lviv region, as well as in Ukraine as a whole, is personal income tax received from citizens' incomes and paid to the local budget at the place of registration / location of the enterprise where the person busy. Legislatively defined rules for the collection of personal income tax in Ukraine stimulate the emergence of certain patterns and features of the tax volumes accumulation in the budgets of different administrative and territorial units. First of all, since the tax is paid to the communities’ budgets in whose territory the enterprise is located or registered, the largest volumes of revenue are observed in developed cities, as well as in neighbouring communities of large cities. This is due to the specifics of the enterprises location, because the location of production takes place mainly near infrastructure, the logistics system and labour, capital, and consumer markets are developed. Such centres of economic development are cities; therefore, the business sector is concentrated in the cities and in the communities next to them.

So, the highest volumes of personal income tax per capita are characterized by Slavske ATC (UAH 10875.0; the Slavske township has a developed tourist and recreational direction), Solonka ATC (UAH 3528.0) and Davydiv ATC (UAH 2209.6) located near Lviv and in the territory of which there are many enterprises, the Kamianka-Buzka ATC (UAH 3072.0; the center of the community is the city-district center) (Fig. 5).

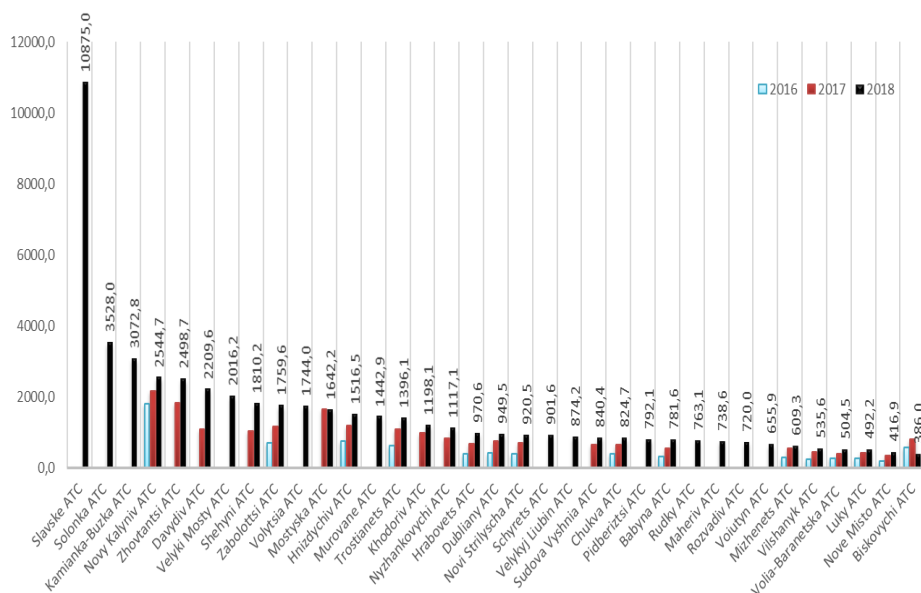


Figure 5: Dynamics of the ATC personal income tax per capita in the Lviv region, UAH, 2016-2018  
 Source: on the basis of (Open budget, 2020)

Among this list of communities are also Novy Kalyniv ATC (UAH 2544.7) and Zhovtantsi ATC (UAH 2498.7). Large taxpayer entities are located on the territory of these communities, due to which local budgets have a high level of financial capability and, as a rule, are non-subsidized.

Important in ensuring the ATC financial capability is to determine the dependence level of local budgets on excise tax revenues. This tax includes three components, namely: excise tax on excisable goods produced in Ukraine (fuel); excise tax on excisable goods imported into the customs territory of Ukraine; excise tax on the sale of excisable goods by business entities of retail trade. In accordance with the Laws of Ukraine dated No-

vember 17, 2016 No. 1762 and No. 1763 (Verhovna Rada of Ukraine, 2017a; Verhovna Rada of Ukraine, 2017b) the excise tax on excisable goods produced in Ukraine and imported into the customs territory of Ukraine will be fully credited to the special fund of the State Budget as a source for the State road fund formation. Therefore, starting from 2021 this part of the tax will be withdrawn from the ATC budget revenues.

To identify possible threats to reduce the level of community financial capability Figure 6 shows data on the volumes of excise tax revenues to the ATC budgets in the Lviv region and the dependence of the respective budgets on tax collection in the territory.

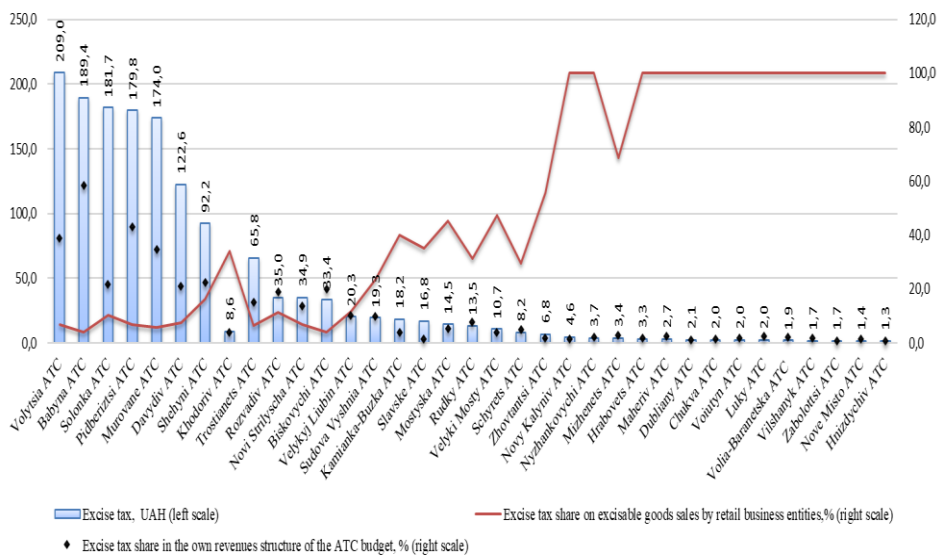


Figure 6: Revenues of the ATC excise tax per capita in the Lviv region in 2018, UAH

Source: on the basis of (Open budget, 2020)

The threat of decrease of a financial viability in the budgets due to the loss of revenues from the excise tax on fuel is relevant for Babyna ATC, the share of tax in its own budget revenues is 58.4%, Pidberiztsi ATC (43.1%), Volytsia ATC (38.7%), Murovane ATC (34.6%) communities, that is, exceeds 1/3 of the revenues collected on the territory.

Regarding the factors influencing the excise tax accumulation, the following can be distinguished: in the case of excise tax levying on fuel, this is a favourable location and important roads for the public to drive, which

stimulates the location of gas stations along such roads and high rates of fuel sales; in the case of excise tax on the sale of excisable goods by retail entities, this is the level of retail trade development in society and, most importantly, the organization of the trade process in excisable goods within the framework of legally defined norms.

In the context of the local self-government reform and financial decentralization, one of the main tasks of changing the fiscal support of communities was to expand local self-authorities to independently establish rules for levying local taxes and fees to stimulate the efficient use of the community's own resources. That is why the amendments to the Budget and Tax codes of December 28, 2014, the composition of local taxes and fees included a single tax, property taxes (land fees, real estate tax other than the land, and transport tax), tourist tax and vehicle parking tax. This made it possible to ensure a significant role of local taxes and fees in filling local budgets, since 2014 the share of these taxes in income has grown from 3.5% to 10.9% in 2018.

In the ATCs of the Lviv region, local taxes and fees make up on average 25%, that is, a quarter of all own revenues (Fig. 7). In such communities as Dubliany, Novi Strilyscha, Trostianets, Khodoriv, Hrabovets their share exceeds 40.0%. But in Babyna ATC, Novy Kalyniv ATC, Shehyni ATC, Velyki Mosty ATC, Slavske ATC this indicator does not reach 20.0%, which is due to the presence of a constant significant source of filling local budgets. For instance, in the Babyna ATC – an excise tax on fuel, in Novy Kalyniv ATC – personal income tax levied by placing a military base on the community territory.

A study of the local taxes and fees composition makes it possible to distinguish two taxes: land payment, which today is the second tax-forming tax on personal income tax, and a single tax. In addition, the important and, which can be called a significant financial reserve of the communities, is also the real estate tax, which is different from the land plot, whose share in the income of local budgets is very small, while in developed countries it reaches 2.5% of GDP. Despite the fact that today local self-governments have the right to independently determine tax rates and tax payers, it is precisely because of the efficient administration of

real estate tax that significant budget revenues can be raised. However, it seems that the potential of this tax is not fully used by communities today.

As a conclusion in the analysis of the formation characteristics of budget revenues in territorial communities, the following can be noted:

- in the context of decentralization reform, the financial basis of territorial communities was significantly strengthened and responsibility for the community development was transferred to local self-government; this was accompanied by an increase in development imbalances of administrative and territorial formations due to the difference in the available financial, labour, land resources and in the existing managerial potential of the communities;

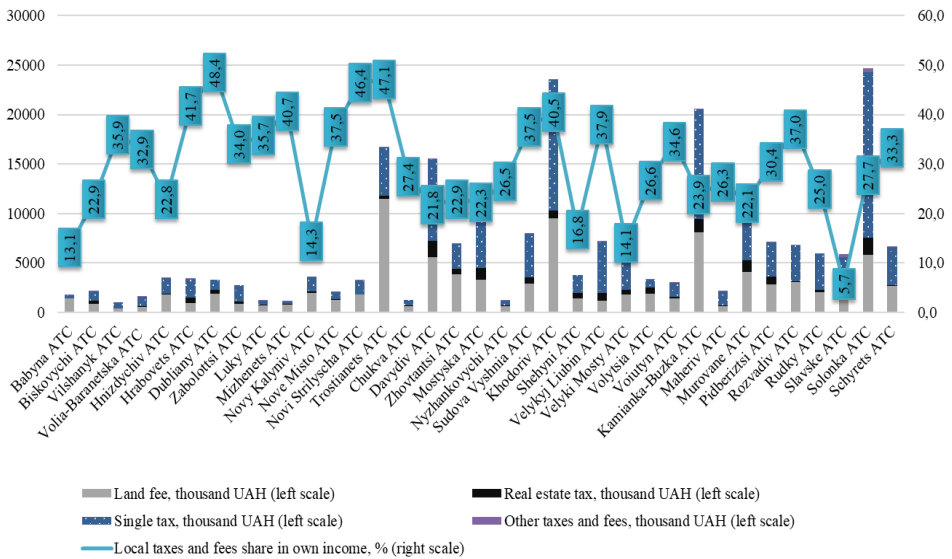


Figure 7: Composition and structure of local taxes and fees in the ATC budgets of the Lviv region, 2018

Source: on the basis of (Open budget, 2020)

- following decentralization, 60% of personal income tax, which today is the main filler of the territory budget, was transferred to local budgets; tax revenue to the local budget is an incentive for self-government bodies to attract entrepreneurship to their territory and to place production here;

- strengthening the composition of local taxes and fees has become positive and promising, mainly due to the inclusion of single tax and property taxes, land payments and real estate taxes as such; namely, the



establishment of such taxes, local self-governments have broad powers within the legislatively defined limits, which allows them to conduct their own tax policies on their territory;

- with the beginning of the reform, excise tax was an one of the sources for filling local budgets, which includes a tax on fuel and excisable goods sold by retail entities; this payment has become one of the main revenue sources for numerous ATCs, therefore, despite the planned changes, excise taxes on fuel are left in local budgets for the second year, but the threat of its loss and reduced financial capability for many communities remains.

The systematic implementation of decentralization changes in Ukraine is manifested both due to the simultaneous mutual expansion of local budget revenue sources, and because of the redistribution of expenditure powers between budgets in the direction of strengthening the role of local self-government on the basis of subsidiarity, taking into account the completeness of the services provision guaranteed by the state and their approximation to the consumer. Therefore, the distinction of expenses types between local budgets is carried out within the allocated groups, namely: the first is costs for the budgetary institutions functioning and the implementation of measures that ensure the necessary priority provision of public services and which are closer to consumers, are carried out from the budgets of villages, their associations, townships, ATC cities and budgets; the second – costs for the budgetary institutions functioning and the implementation of measures to ensure the provision of basic public services for all citizens of Ukraine, are made from the budgets of regional significance cities, district budgets and ATC budgets; the third – expenses for the budgetary institutions functioning and the implementation of activities that provide public services for certain categories of citizens, or the programs implementation that are needed in all regions of Ukraine, are made from regional budgets. Thus, from the ATC budgets expenses are incurred for:

- education – pre-school and secondary education, out-of-school education;
- healthcare – primary medicine;

- protection and social support;
- physical education and sports;
- local fire department;
- municipal units for the public order protection;
- local self-authorities;
- housing and communal services and settlements improvement;
- cultural and art programs of local importance;
- typical design, restoration and protection of architectural monuments;
- transport, road facilities;
- servicing local debt;
- environmental conservation programs of local importance;
- management of communal property;
- regulation of land relations;
- measures of the population and territories protecting from emergencies of a man-made and natural within the powers established by law;
- measures and works on territorial defense and mobilization training of local importance;
- conducting local elections and local referendum;
- advanced training of local councils' deputies and local self-government officials.

Researching the peculiarities of the ATC budgets expenditures in the Lviv region (Fig. 8), one can notice a slightly higher differentiation level of the expenses per capita in the communities (3.0 times) and the income volume (including inter-budget transfers (2.3 times); at the same time, this indicator is significantly lower than the differentiation between own ATC incomes (13.6 times).

First of all, this is due to the fact that delegated powers to local self-authorities are financed by the subventions provision to local budgets. According to this principle, financing is provided in such areas as education and healthcare.

So, financing of general secondary education since 2015 has been carried out at the expense of the educational subvention, which is calculated for each community in accordance with the number of pupils, taking into account the estimated number of classes, pupils contingent and teacher salaries. Thus, these funds are used to cover salary costs, and the maintaining costs of the educational institutions themselves are carried out from the local budget, as are the costs of preschool and after-school education in general. Similarly, financing of health care is carried out – due to a medical subvention.

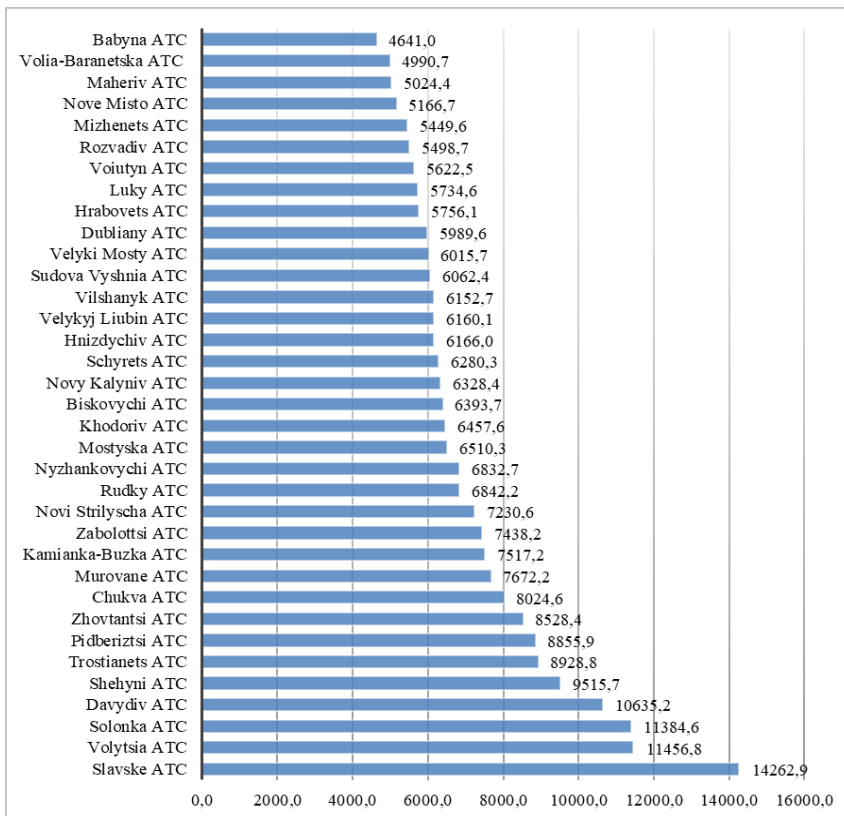


Figure 8: **Expenditures per capita of the ATC budgets in the Lviv region, UAH, 2018**

Source: on the basis of (Open budget, 2020)

The use of such mechanisms in the process of spending at the local level achieves a guaranteed provision of basic services through their financial support from the center, and enabling local self-governments to independently, at their own expense, to provide residents with public goods. The disadvantage of such an expenditure policy is the differentia-

tion of the services quality provided in different ATCs. This is evidenced by the ATC rating in the Lviv region in terms of per capita expenditure (Fig. 8), where the first positions are occupied by economically developed communities – Slavske ATC (UAH 14262.9), Solonka ATC (UAH 11456.8), Davydiv ATC (UAH 11384.6).

An analysis of the expense’s composition and structure from the ATC Budgets in the Lviv region( Figure 9) allows to draw certain conclusions.

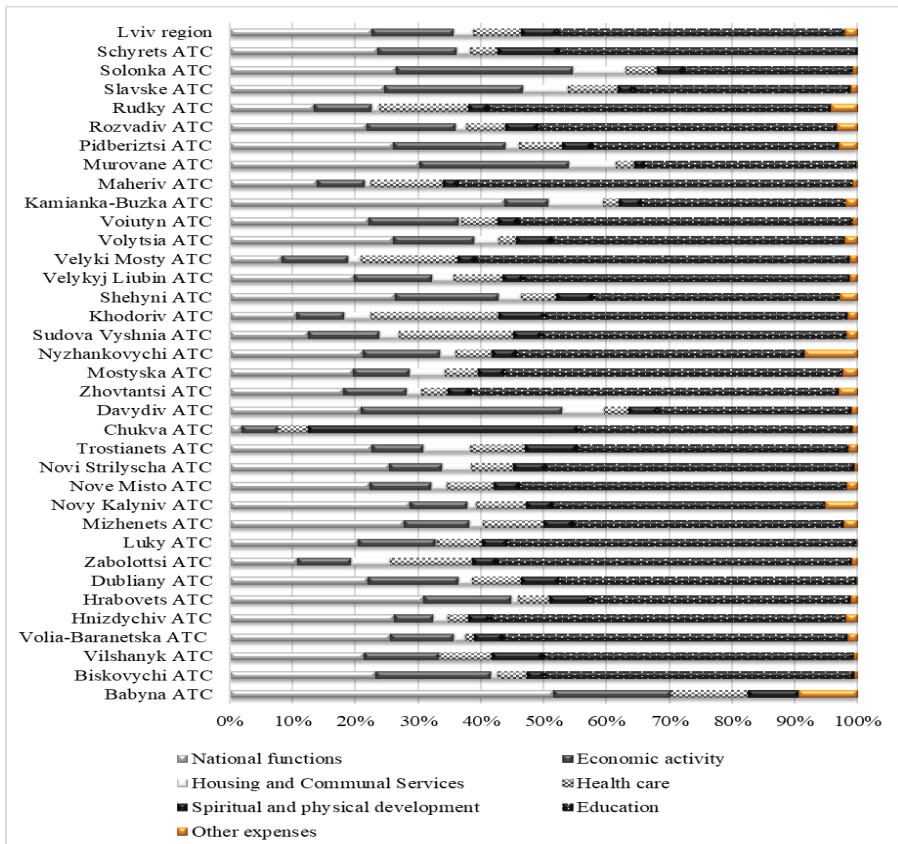


Figure 9: Expenditures structure of the ATC budgets in the Lviv region, 2018

Source: on the basis of (Open budget, 2020)

As a result of decentralization, it was not possible to overcome the total social orientation of expenditures from local budgets, entailing underfunding of economic expenditures. So, on average, in the Lviv region, half of the budget expenditures goes to finance education (46.3%), which is often associated with the "bloating" of the network of educational insti-

tutions and the number of functioning small schools, the financial content of which costs territorial communities much more expensive than schools with optimal filling. A significant part of the financial resource goes to national expenses, which include the content of the management body of the community. The average for the region, this indicator is 22.8%. For healthcare – 7.6%. Significantly lower volumes of expenditures on housing and communal services (3.2%), spiritual and physical development (5.7%), and expenditures on public order and safety are only in four ATCs (Nyzhankovychi (0.2% of budget expenditures), Shehyni (0.5%), Voiutyn (0.5%), Maheriv (0.7%)), in ten communities and on average 0.6% of expenses for environmental protection.

Figure 10 shows that on average, 37.9% of their own income, that is, more than 1/3, is spent on the maintenance of the ATC management apparatus in the Lviv region. Volia-Baranetska ATC spends 84.9% of its revenues on its own management bodies, Mizhenets ATC – 76.3%, Vilshanyk ATC – 73.9%, Nove Misto ATC – 66.2%, Chukva ATC – 60.4%, which indicates the insolvency of these communities at the expense of own resources to ensure the provision of social services to the population and their economic development. The smallest volumes of expenditures in this direction are in the developed Slavske ATC (10.9%), Kamianka-Buzka ATC (12.0%), Velyki Mosty ATC (16.6%), Zhovtantsi ATC (19.0%). On the equalizing peculiarities of the financial opportunities in territorial communities, in the context of changes in the budget and tax legislation in 2014, a horizontal equalization system of tax capacity in local budgets was introduced, which provided a basic subsidy and withdrawal of reverse subsidy for local budgets based on personal income tax revenues.

An analysis of the subsidy level of ATC budgets in the region allows us to highlight a high level of differentiation. There are four ATCs in the Lviv region without subsidies (Slavske ATC, Solonka ATC, Kamianka-Buzka ATC and Novy Kalyniv ATC), three of them pay a reverse subsidy to the State budget. If the budget subsidy level of the Slavske ATC is -19.5%, that is, the State budget receives a reverse subsidy from this

budget, then the Nove Misto ATC budget is 61.7%, that is, this community is unable to ensure the fulfilment of its responsibilities.

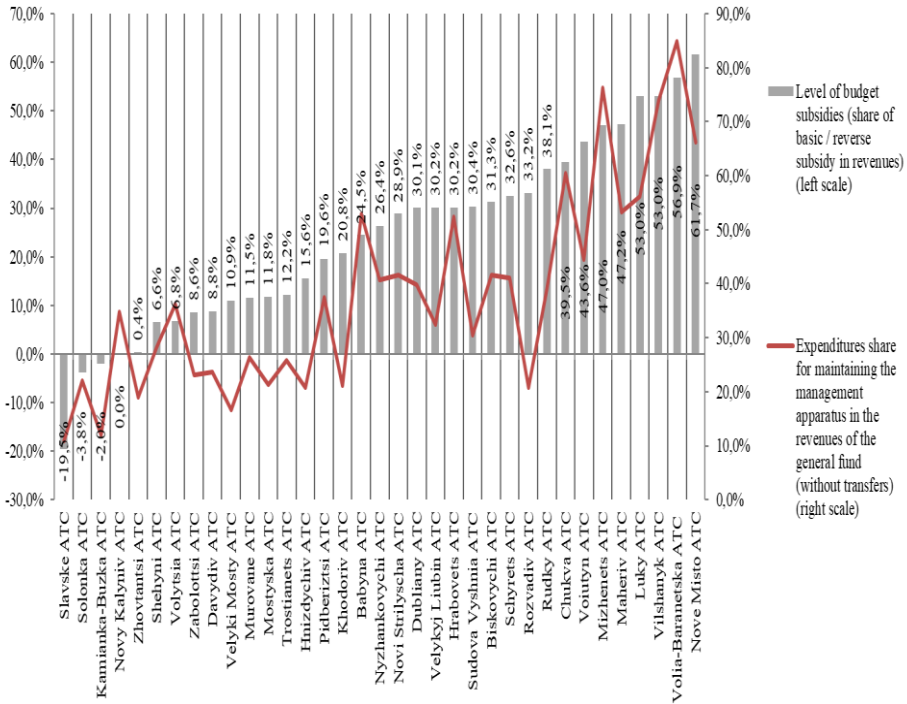


Figure 10: Comparison of the ATC individual capacity indicators in the Lviv region, 2018

Source: on the basis of (Decentralization, 2020)

### Conclusions

Thus, a change in the basis of budgetary provision of local budgets at a basic level and the system of relations between these budgets and the State budget under decentralization is characterized by the following consequences:

- introduction of direct inter-budget relations between the ATC budget and the State budget, which guarantees the local government clearly defined amount of inter-budget transfers, calculated using a universal formula and based on the introduced horizontal equalization of tax capacity;

- concentration of significant financial resources in the ATC budget (personal income tax, excise tax, property taxes, single tax), which allows local self-governments to manage a powerful resource base and effectively provide social services to the population and ensure the community

development; at the same time, the territorial governing bodies are required to apply an optimal approach to building up this resource base, its effective use and quality planning for the community development;

- legislative definition of the mechanism for implementing expenditures from local budgets is formed in the context of achieving and guaranteed provision of basic services to the population due to their financial support from the center, and providing local self-governments with the opportunity to independently provide residents with public goods at their own expense.

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