

PECULIARITIES OF IMPLEMENTING THE BUDGETS OF TERRITORIAL COMMUNITIES ON THE EXAMPLE OF LVIV REGION

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In the modern world, creation and implementation of the resource potential has become a key prerequisite for sustainable development of the society that is related with its impact on formation of economic relations and its use as an instrument to implement the national, regional, and local policy in the field of social and economic development. Apparently, the success of power decentralization and reforming of local government is related with formation of financially capable bodies of local power which are able to exercise administrative functions by applying personal resources.

The authors of the research have studied works of the leading domestic and foreign scientists in the field of budget decentralization. To analyze efficiency of the community performance and the level of its supply with resources for exercising the local government powers, the researchers have made monitoring of the financial and budget indicators of communities' activity. Thus, the article describes peculiarities of revenues and expenditures of the budgets of territorial communities. While assessing the budget financial indicators, a particular attention is paid to analyzing the total revenues of communities in Lviv region, both in absolute terms and per one resident of a community. For the goal of the research, all communities are divided into four groups referring to the number of population. The analysis was made within each group and by comparing consolidated indicators of the groups.

The obtained results demonstrate significant stable differentiation of territorial communities concerning formation and implementation of the resource potential. The research confirms no direct correlation between the size of communities in Lviv region and amount of revenues to the local budgets. A more significant impact is made by geographical position of the territorial community, closeness to the centers of business activity, motorways and curative-recreation zones of the region. The insignificant correlation between the community population and the index of expenditures for the management apparatus per one resident is partially explained by the higher efficiency of their activity.

Key words: resource potential, financial decentralization, territorial community.

Хірівський Р., Східницька Г., Линдюк А. Особливості формування та виконання бюджетів територіальних громад на прикладі Львівської області

У сучасному світі формування та реалізація фінансового ресурсного потенціалу стали ключовою передумовою сталого розвитку суспільства, що пов'язано із його впливом на формування економічних відносин та використанням як інструментарію реалізації державної, регіональної та місцевої політики у сфері соціально-економічного розвитку. З огляду на це очевидно, що успіх процесів децентралізації влади та реформи місцевого самоврядування пов'язаний із формуванням фінансово спроможних органів місцевого самоврядування, котрі мають можливість виконувати адміністративні функції завдяки власним ресурсам.

Розглянуто праці провідних вітчизняних та закордонних учених у сфері бюджетної децентралізації. Щоб проаналізувати ефективність функціонування громад та рівень їхньої забезпеченості ресурсами для виконання повноважень місцевого самоврядування, проведено моніторинг фінансово-бюджетних показників їхньої діяльності. Зокрема проаналізовано особливості формування дохідної та видаткової частини бюджетів територіальних громад. У процесі оцінки фінансових показників бюджетів особливо увагу приділено аналізу загального доходу громад Львівщини, як у абсолютних показниках, так і у розрахунку на одного мешканця. Виявлено громади із найвищими та найнижчими показниками видатків загального фонду, розраховано видатки на утримання апарату управління у розрахунку на одного мешканця громад. Громади розподілено на п'ять груп відносно кількості населення, аналіз здійснено як у рамках груп, так і зіставленням узагальнених показників груп.

Одержані результати продемонстрували стійку значну диференціацію територіальних громад відносно формування та реалізації їхнього ресурсного потенціалу.

Виявлено відсутність прямої кореляції між масштабами громад Львівської області та наповненням дохідної бази місцевих бюджетів. Зауважено більш виражений вплив географічного розташування ТГ, близькості до центрів ділової активності, магістральних доріг та курортно-рекреаційних зон регіону.

Зауважено незначну кореляцію між чисельністю громад та показником видатків на утримання апарату управління на одного мешканця, що частково можна пояснити вищою ефективністю їхньої діяльності.

Ключові слова: *ресурсний потенціал, фінансова децентралізація, територіальні громади.*

Problem setting. The experience of implementing the policy of local government in European countries demonstrates that each democratic developed country is founded on its self-sufficient financially independent territorial communities. They are capable to provide the appropriate level of social services for their local population. Nowadays, Ukraine experiences considerable transformations as well as establishment of a public society with the demands which should be satisfied. Therefore, a new stage of the local government reforming was started by introducing amendments to the Budget and Tax Code (Prots, 2017). The second stage of the reform is currently in the progress. In particular, since 1 January 2021, all communities in Ukraine have passed to the direct inter-budget relations and become equal in their status. Since then, development of communities depends on how efficiently they use their opportunities. Hence, analysis of the practical aspects of the decentralization reform implementation is a relevant issue in order to understand the actual changes and financial conditions of local communities.

Analysis of recent researches and publications. The problem of territorial community budgeting is studied by a great number of scientists and practitioners, namely V. Yu. Nikolenko (2016) who investigates the

role of local budgets as a factor of the regional development stability, Yu. Hanushchak (2012) who discloses principal aspects of local budgets, particularly content, classification, procedures, control. A group of researchers under the supervision of V.V. Zubenko (2015) supplies normative and methodic materials necessary to study the methodologies and to apply the practices of planning local budgets by using the program-target method.

Tasks setting. The goal of the study is to find out consequences of the budget decentralization and its impact on the financial supply of territorial communities. According to the set goal, it is planned to carry out a detailed analysis of the indicators of financial (budget) activity of communities which are voluntarily united. The assessment is made by three indicators:

1. revenues of the general fund per one resident (the ratio of the amount of the general fund revenues without transfers to the number of residents in the corresponding territorial community);

2. expenditures of the general fund per one resident (the ratio of the amount of the general fund expenditures to the number of residents in the corresponding territorial community);

3. expenditures for the management apparatus per one resident (the ratio of the amount of expenditures for maintenance of the

management apparatus from the general fund to the number of residents of the corresponding territorial community).

Methodology of the research and materials. In the process of conducting the scientific research, the authors used a set of scientific methods, particularly the method of theoretical generalization to consider the theoretical fundamentals of implementing the budget decentralization, creating the financial resource potential of the local government bodies; the method of analysis and synthesis – to divide the total number of communities into groups and to combine them afterwards basing on common criteria; the method of system analysis that is related with the analysis of the impact of the number of community population on the efficiency of implementing the budget policy.

Information base of the research includes materials of the Ministry of Finance of Ukraine, the State Treasury of Ukraine, the State Statistics Service of Ukraine, data of web-portal openbudget.gov.ua, experts of the «U-LEAD with Europe» Program and SKL International (Budgets of territorial communities of Ukraine by ulead, 2022).

Main materials. Today, successful implementation of the reform of local government and power decentralization depends on formation of financially capable territorial communities (hereafter – TC) which demonstrate the ability to develop under conditions of the budget system transformation.

Since the start of the decentralization reform in Ukraine, 1469 territorial communities have been established instead of the previous 11509, and 136 new districts - instead of former 490 ones (Chernyshov, 2021). Due to amalgamation of neighboring communities into one, the communities have got more powers and financial opportunities, particularly expenditures for the management apparatus have been several times reduced, whilst revenues increased. Nevertheless, results of the territorial communities' activity demonstrate that development of their resource potential does not always coincide with the increase in the number of community residents. Development of a territorial com-

munity needs a principally new level of administering by strengthening duties and responsibilities of the local government authorities.

Apparently, budgets of the territorial communities have become a system-forming element of the national financial system. Due to the budgets of communities, the government can actively implement its social policy. Basing of the funds of local bodies concentrated in local budgets, local authorities are able to fund above 60 % of expenditures in the social sphere (Nikolenko, 2016). Local budgets (in the current case – budgets of territorial communities), therefore, perform several functions:

1. Provide money funds which are of urgent necessity for exercising the functions of local power authorities.

2. Local authorities distribute the mentioned funds of local budgets between the sectors of economy and make control for their use.

3. Make control for the financial and economic activity of enterprises, organizations and institutions subordinated to the local authorities.

The key sources of revenues to the TC budgets include:

1. tax revenues (national taxes which are legally fixed for budgets communities, local taxes and fees, as well as deductions from the national taxes) (Nezdoimynoha, 2017).

2. financial resources obtained from personal municipal formations due to activity of enterprises and organizations belonging to the territorial communities, as well as payment for the services supplied by the local authorities, and local loans. The correlation of the mentioned sources of revenues to a local community determines self-sufficiency of the community budget (Tataryn, 2017).

According to the legislation of Ukraine, revenues to the local budgets are made of the revenues necessary for exercising personal authorities and the revenues needed to exercise the legally delegated powers of the bodies of executive power. Therefore, local budgets are divided into current budgets and development budgets.

A current budget includes revenues and expenditures of the local budget which are made and used to cover the current expenditures. It is

made of a budget for exercising personal authorities and a budget for exercising delegated powers.

A development budget is defined as a list of legally established revenues and expenditures of local budgets which are made and used to implement the programs of social and economic development of the corresponding territory (Karpyshyn, 2016). The key purpose of the development budget is to fund the social and economic development of regions; to implement investment projects; to make construction; to make major repair and reconstruction of the objects of social and cultural sphere, housing and communal services and others (Verkhovna Rada Ukrainy, 2010).

It is worth noting that reforming of the system of local finance is traditionally a complicated process. Hence, development of an effective system of implementing the resources of local budgets is of key importance.

The main tasks which are performed within the framework of the budget decentralization reform are the following:

1. reconsideration and improvement of the list of personal and delegated authorities concerning local finance management;
2. extension of the financial base of territorial communities;
3. final transition to the system of the target inter-budget transfers to compensate expenditures of the local government bodies (hereafter - LGB) in the process of exercising their delegated functions;
4. achievement of maximum transparency of the process of using budget funds of LGB.

Lviv region is a competitive region with a high level of investment and tourism attractiveness. Its favorable geographical position and developed foreign economic relations contribute to attraction of the different forms of international cooperation (Strategy of Lviv region development for 2021-2027, 2019).

In Lviv region, the process of decentralization started in 2015 according to the Law of Ukraine «On voluntary amalgamation of territorial communities». On 25 October 2015, the first elections of heads and deputies of 15 TCs, established due to amalgamation of 46 local councils (151 settlements), were held in Lviv region. The formation of territorial

communities in Lviv region was finally completed in 2020 in compliance with the plan of territorial community establishment in Lviv region, approved by the Cabinet of Ministers of Ukraine on 27 May 2020. According to the plan, 73 territorial communities were created.

One of the key motifs of such reforming was to increase the level of the territory financial capacity.

According to experts' opinion, financial capacity of territorial communities is considered as the ability of local government to ensure income of revenues in the amount sufficient to satisfy the community needs and to shape a clear structure of the revenue sources (Center of Common Actions, 2021).

The analysis of key indices of revenues to the budgets of territorial communities in Lviv region demonstrates a significant growth of revenues to the budgets of communities in Lviv region even under the martial law. In particular, the total amount of revenues to the general fund of communities in the region increased by 40% (UAH 17217.39 million in the 3rd quarter of 2022 as compared to UAH 12300.99 million in the 3rd quarter of 2021).

During the same period, a significant increase of local taxes and fees was marked (by 17.3 % - UAH 4338.13 million as compared to UAH 3697.79 million – in the 3rd quarter of 2021) as well as fiscal return of the territory of communities (by 35.1 % - UAH 68.24 million as compared to 50.51 million – in the 3rd quarter of 2021) that is demonstrated in Table 1.

It is marked that during the studied period, the rate of growth of the general fund expenditures was much slower than the increase of revenues. Thus, it is obvious, that according to results of the 3rd quarter of 2022, their amount was for the first time lower than the volume of revenues to the general fund (by 6.8 %). During the last year, in particular, expenditures from the general fund increased by 9.6 % (from UAH 14635.5 million to UAH 16054.0 million). The amount of expenditures for salary increased by UAH 801 million (7.7 %), whilst the amount of expenditures for the management apparatus increased only by 9% that was much lower than the inflation level in the country in the similar period, i.e. 24.8 %. that is shown in Table 2.

Table 1

**Structure of revenues of the territorial communities in Lviv region
(by the type of revenues), million UAH, 2021-2022**

Revenues of TCs in Lviv region	Examined period						
	1 st quarter of 2021	2 nd quarter of 2021	3 rd quarter of 2021	4 th quarter of 2021	1 st quarter of 2022	2 nd quarter of 2022	3 rd quarter of 2022
Total revenues to the general fund	3779.77	7974.57	12300.99	17549.00	4696.80	10457.95	17217.39
Profitability of the community lands	1.47	3.00	4.73	6.51	1.38	2.80	4.44
Local taxes and fees	1183.88	2333.31	3697.79	5139.35	1430.54	2824.88	4338.13
Payment for land	318.75	646.65	1021.14	1373.02	312.91	651.84	1036.09
Fiscal return of the community territory	15.65	32.94	50.51	72.70	19.12	41.80	68.24

Table 2

Structure of expenditures of the territorial communities in Lviv region (by the type of expenditures) million UAH, 2021-2022

Expenditures of TCs in Lviv region	Examined period						
	1 st quarter of 2021	2 nd quarter of 2021	3 rd quarter of 2021	4 th quarter of 2021	1 st quarter of 2022	2 nd quarter of 2022	3 rd quarter of 2022
Expenditures of the general fund, total	4299.9	10366.9	14635.5	21703.8	5019.8	10746.7	16054.0
Expenditures for housing and communal services	322.8	705.6	1191.0	2454.6	580.2	1052.4	1680.6
Expenditures for salary	2957.6	7482.8	10292.2	14718.0	3322.5	7600.9	11093.8
Expenditures for comprehensive secondary schools	2019.7	5317.4	6842.0	9980.7	2275.2	5230.4	7359.8
Expenditures for culture	161.6	338.5	535.5	777.2	175.1	356.1	541.7
Expenditures for education	2645.6	6739.3	8981.5	13279.4	3007.6	6748.6	9685.3
Expenditures for the management apparatus	508.6	1071.8	1676.8	2410.5	571.7	1192.6	1827.6
Expenditures for physical education and sport	54.5	131.6	198.0	313.6	56.3	123.2	190.7
Capital expenditures	396.0	1005.8	2560.2	5528.3	275.3	844.0	1473.6

To give more specification to the analysis, the authors of the research grouped communities of the region according to the number of population based on the methodology developed by experts of the «U-LEAD with Europe» Program and SKL International (Ventsel, Herasymchuk and Onyshchuk, 2020).

Because of a higher statistical average number of population, a group of «Communities with population above 50 thousand people» was added, whilst the group of “Communities with population under 5 thousand people” (there was no such community in the region) was excluded of the classification.

Thus, all 73 communities of Lviv region were classified into groups according to their number of population:

1. Communities with the population 5-10 thousand people (10 TCs);
2. Communities with the population 10-15 thousand people (20 TCs);
3. Communities with the population 15-50 thousand people (36 TCs)
4. Communities with the population above 50 thousand people (7 TCs).

First, the authors supply analysis of the indices of revenues to the general fund in terms of the above-mentioned groups that is demonstrated in Table 3.

The values of the Table prove a significant differentiation of revenues per 1 resident depending on the community. In this regard, the ratio of the most successful community (Slavske – UAH 44.67 thousand) to the least successful one (Strilky – UAH 3.3 thousand) accounts for above 13 times that is marked in Table 3.

In terms of groups, grouping of the results demonstrates a considerable advantage in the profit of the 1st and 4th groups. The least populated communities of the region have the annual average profitability of UAH 16.57 thousand per 1 resident. One of the factors contributing to the mentioned result is considered to be a close location of some communities to the regional center, available motorways of international and regional significance on their territory, a great number of large enterprises paying taxes to their budgets (Murovane, Obroshyne, Pidberiztsi, Sokilnyky communities), as well as famous touristic centers (Slavske TC).

Table 3

Assessment of differentiation of the communities of the examined groups in terms of revenues per 1 resident (2021)

Groups	Grouping criteria	Number of TCs in the group	Number of TCs with the index of revenues per 1 resident higher than the average index of all TCs (UAH 16.57 thousand)	Average index of revenues per 1 resident in the corresponding group of TCs, thousand UAH	The highest index of revenues per 1 resident, thousand UAH	The lowest index of revenues per 1 resident, thousand UAH	Difference between the highest and the lowest indices
1	Population from 5 to 10 thousand people	10	3	16.57	39.01	5.5	7.1 times
2	Population from 10 to 15 thousand people	20	2	11.3	44.67	3.3	13.5 times
3	Population 15-50 thousand people	36	2	11.6	17.55	3.9	4.5 times
4	Population above 50 thousand people	7	2	21.62	27.09	9.4	2.9 times

The highest value of the examined indicator is marked in the communities of the 4th group, i.e. UAH 21.62 thousand. It can be explained by location of the cities of region significance on their area, which are traditional centers of business activity in the region (Lviv, Drohobych, Chervonohrad, Stryi and others). The lowest indices of revenues were observed in the 2nd and 3rd groups with the population of 10-50 thousand people (UAH 11-12 thousand). It is known that effective management of budget expenditures is a key instrument to support financial capacity of the community. In the

research, the authors analyzed budget expenditures of the local government subjects in Lviv region in terms of the proposed groups of territorial communities that is demonstrated in Table 4. The study shows relatively similar results in all examined groups (deviations from the average index in the region – 8.1%). It is expected that the highest indices of the average expenditures from the general fund (per 1 resident) are observed in the largest communities of the region, i.e. UAH 22.03 thousand. The indices of other groups of TCs of the region variate within UAH 18.61-18.78 thousand.

Table 4

Analysis of expenditures from the general fund of the territorial communities in Lviv region (2021)

Groups	Grouping criteria	Number of TCs in the group	Number of TCs with the index of expenditures per 1 resident higher than the average index of all TCs (UAH 20.39 thousand)	Average index of expenditures per 1 resident in the corresponding group of TCs, thousand UAH	The highest index of expenditures per 1 resident, thousand UAH	The lowest index of expenditures per 1 resident, thousand UAH	Difference between the highest and the lowest indices
1	Population from 5 to 10 thousand people	10	4	18.78	22.8	13.4	70.1%
2	Population from 10 to 15 thousand people	20	4	18.72	36.4	14.9	2.4 times
3	Population 15-50 thousand people	36	9	18.61	26.7	13.6	96.3%
4	Population above 50 thousand people	7	2	22.03	24.7	15.1	63.5%

A much higher index of deviation is noted within the groups. It ranges within 63.1-140.1%. In absolute terms, the highest index is equal to UAH 36.4 thousand (Slavske TC – 2nd group), the lowest – 13.4% (Pomoriany TC – 1st group).

According to the tasks of the research, expenditures for the management apparatus per 1 resident are considered to be the third indicator of the financial (budget) activity of communities. The expenditures are calculated as a ratio of the amount of expenditures for the management apparatus from the general fund to the number of residents of the corresponding

TC. It means that the index shows the “price” of one member of the TC management apparatus staff paid by each resident of the community (in annual terms). Results of the calculation are composed in Table 5.

The results demonstrate a considerable differentiation of the indices of communities both within the examined groups and the averaged results between the groups. Apparently, the highest indices are marked in small communities which are characterized by a small number of population and engagement of some “needed” administrative staff in case of

necessity. In those communities, the average index is UAH 4507.1 thousand per 1 resident. The larger the number of residents is in a community, the lower its index is, i.e. up to UAH 2414.8 thousand.

In absolute terms, the highest expenditures are observed in Sokilnyky TC, i.e. UAH 7.6 thousand per 1 resident, whilst the lowest ones - in Sokal community, i.e. UAH 1.3 thousand.

Table 5

Analysis of expenditures for the management apparatus of the territorial communities in Lviv region (2021)

Groups	Grouping criteria	Number of TCs in the group	Number of TCs with the index of expenditures for the management apparatus per 1 resident higher than the average index in all TCs (UAH 2.65 thousand)	Average index of expenditures for the management apparatus per 1 resident in the corresponding group of TCs, UAH.	The highest index of expenditure for the management apparatus per 1 resident, UAH.	The lowest index of expenditures for the management apparatus per 1 resident, UAH	Difference between the highest and the lowest indices
1	Population from 5 to 10 thousand people	10	9	4507.1	7657.4	1941.2	3.94 times
2	Population from 10 to 15 thousand people	20	13	3306.2	5163.5	1911.0	2.70 times
3	Population 15-50 thousand people	36	17	2638.6	4457.9	1656.5	2.69 times
4	Population above 50 thousand people	7	0	2414.6	2644.8	1311.2	2.01 times

Conclusions. The results of the conducted research demonstrate a continuous tendency of TCs differentiation in the process of formation and implementation of their resource potential that influences the quality and amount of public services supplied for the residents of those communities.

It is confirmed there is no a direct correlation between the size of communities in Lviv region and revenues to their local budgets. A more vivid impact is made by the TC location, closeness to the regional center, centers of business activity, motorways and curative-

recreational zones in the region. On the other hand, there is insignificant correlation between population number in the communities and the index of expenditures for the management apparatus per 1 resident that is partially explained by the higher efficiency of their activity.

To sum up, the authors of the work consider the key task of the national regional policy is to implement measures on increase of the financial potential of territorial communities to provide a higher level of public services for their residents.

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