

MODERN TOOLS FOR MANAGING LOCAL BUDGETS IN THE CONTEXT OF DECENTRALISATION

Iia Chudaieva¹, Olena Sukach², Lesia Sarana³

Abstract. The crisis in Ukraine's economy requires the government to take significant transformation steps. The issue of decentralization of state powers in favor of local self-government as a basis for the transition to a new administrative-territorial system remains relevant. After all, the current assistance from partner countries to rebuild infrastructure and provide social guarantees does not cover the needs of local governments. Today, the budgets of hromadas, which are formed in accordance with the basic principles of the Concept of Reforming Local Self-Government and Territorial Organization of Power in Ukraine, demonstrate an increase in revenue sources, but these resources are not enough to restore the country's economy. The *purpose* of the article is to highlight the results of decentralisation in Ukraine; to identify the impact of structural changes in the national economy on the financial capacity of local self-government bodies. *Methodology.* To achieve this goal, the article uses the structural method, comparative analysis of empirical data, and abstract and logical generalisation. *Results.* The paper examines the current realities of filling the budgets of hromadas. It finds that, despite the hostilities and the consequences of the coronavirus crisis, some local budgets in 2022–2023 were executed with a surplus. However, one of the factors behind this situation is the increase in "military" income tax revenues, which has significantly strengthened local budgets, but at the same time led to the misuse of funds. At the same time, there was an increase in capital expenditure in local budgets. Subsidies for education and health care, basic, additional and other budgeted transfers were transferred from the state budget to the budgets of local governments. However, the study points out the imperfection of the current equalisation system, which requires the construction of an optimal calculation model. *Practical implications.* As a basis, it is proposed to use the practice of the leading countries of the world, which is to increase the interest of local authorities in independently searching for additional sources of budget revenues and to reduce the pressure from the government to withdraw funds. *Value/originality.* Increasing their own revenues, which do not depend on the government's policy on the distribution of national taxes and fees, will allow hromadas to plan expenditures on priority areas regardless of changes at the political level.

Keywords: local budgets, hromada, income, equalization, financial capacity.

JEL Classification: H61, H72, H77, O18, R50

1. Introduction

The political, economic and social events taking place throughout the world require the construction of new structures to ensure economic growth and social guarantees for the population. The whole world is facing global challenges caused by COVID-19, which will continue to have a negative impact on society for some time to come, both at national and local levels. However, despite the crisis

caused by the COVID pandemic, Ukraine is facing a new challenge – military aggression by Russia, which has aggravated the country's crisis due to a declining economy, loss of territory, outflow of labour, etc. At the same time, a significant portion of the state's resources are being diverted to military needs, reducing funding for territorial development programmes.

These factors led to a significant reduction in the financial resources generated in the country at

¹ Private Institution of Higher Education "Rauf Ablyazov East European University", Ukraine
E-mail: iaandia@ukr.net

ORCID: <https://orcid.org/0000-0001-7759-2372>

² Private Institution of Higher Education "Rauf Ablyazov East European University", Ukraine (*corresponding author*)

E-mail: sukach.o.m@gmail.com

ORCID: <https://orcid.org/0000-0001-7150-0262>

ResearcherID: E-7418-2019

³ Private Institution of Higher Education "Rauf Ablyazov East European University", Ukraine

E-mail: s_lesya@ukr.net

ORCID: <https://orcid.org/0000-0003-0987-0064>



various levels of the budget system. The shortage of funds to finance social guarantees (pensions, benefits and payments) is compensated by assistance from partner countries.

And a significant part of the resources generated in the state is directed to military needs, thereby reducing funding for territorial development programmes. This encourages local authorities to seek and attract additional resources.

One of the fundamental measures to overcome the crisis caused by the pandemic and the war is to strengthen the implementation of the basic principles of fiscal decentralisation of local authorities. After all, in most developed countries, it is local authorities that are responsible for providing basic public services (e.g., education, infrastructure maintenance, waste disposal, water supply), which is enshrined in the principles of the countries' budgetary policies. Thus, according to leading practice, the principles of budget policy are the rules and regulations according to which budgets are prepared, approved and executed (Blöchliger & Kim, 2016). They include fiscal rules, procedural rules and rules on budget transparency, and may be complemented by fiscal or intergovernmental councils and other independent bodies.

2. Literature Review

Decentralisation is the transfer of powers to lower levels of government, giving them greater managerial autonomy but not necessarily greater financial independence. It is worth noting that there is no one-size-fits-all approach to decentralisation and its implementation should be seen as a dynamic and ongoing process.

In European practice, the content of decentralisation depends on three key components:

- 1) Decentralisation of revenues – assignment to local governments of a list of their own revenues and the right to independently set and/or regulate their amounts;
- 2) decentralisation of expenditures – the transfer of tasks and functions to local governments that are appropriate to their level;
- 3) procedural and organisational independence – the right to independently, under the responsibility of local self-government bodies and officials, draw up, approve, implement financial plans, estimates, budgets, and provide reports (Pylypenko, 2018).

In Ukraine, the process of decentralisation of power began in 2014 with the reform of the territorial organisation of power and local self-government. The decentralisation of power and resources that is taking place in the course of the reform indicates a modification of the regional policy itself, which is gradually becoming a regional development policy

with different actors, approaches to formation and principles of implementation. However, most of the decentralisation provisions still remain only on paper, and those areas that have been implemented in domestic practice require significant refinement and legal regulation. In particular, the issues of filling local budgets and targeted use of national funds remain relevant.

The governmental reforms currently taking place in Ukraine are aimed at implementing the main foundations and principles of European legislation to ensure the autonomy of local authorities. Thus, in 1997, the Law of Ukraine "On Local Self-Government in Ukraine" (The Law of Ukraine "On Local Self-Government in Ukraine", 1997) was adopted, which stipulates the following: "Local self-government in Ukraine is a state-guaranteed right and real ability of a hromada – independently or under the responsibility of bodies and officials of local self-government – to solve issues of local importance within the limits of the Constitution and laws of Ukraine." And the basic principles of local self-government are defined as "democracy; legality;... legal, organisational, material and financial independence within the powers defined by the laws..." (The Law of Ukraine "On Local Self-Government in Ukraine", 1997) However, such an interpretation clearly limited the rights of local governments to create and use financial resources. Although the European Charter of Local Self-Government (European Charter of Local Self-Government, 1985), ratified in Ukraine in 1997, states that "local self-government means the right and ability of local self-government bodies, within the limits of the law, to regulate and manage a significant part of public affairs on their own responsibility in the interests of the local population". In fact, the current Ukrainian legislation limited the rights of hromadas. In order to overcome such inconsistencies, in 2014 the government adopted the "Concept of Reforming Local Self-Government and Territorial Organisation of Power in Ukraine" (The Order of the Cabinet of Ministers of Ukraine "On Approval of the Concept of Reforming Local Self-Government and Territorial Organisation of Power in Ukraine", 2014). The Concept provided for the expansion of the powers of local authorities in the management of health care, education and municipal economy, as well as ensuring the financial autonomy of local budgets.

In the first stage of the decentralisation reform, the main legal framework regarding the capacity of municipalities was formulated. For example, the Law of Ukraine "On Voluntary Amalgamation of Hromadas" (The Law of Ukraine "On Voluntary Amalgamation of Hromadas", 2015) regulates the conditions under which the Cabinet of Ministers of Ukraine may recognise a amalgamated hromadas

as capable. The term "capable hromada" is defined in the Methodology for the Formation of Capable Hromadas, approved by the Resolution of the Cabinet of Ministers of Ukraine of 8 April 2015. In 2020, in order to meet the requirements of the Law of Ukraine "On Voluntary Amalgamation of Hromadas", certain changes were made to the Methodology, namely: "Capable hromadas are hromadas of villages (villages, towns), which as a result of voluntary association are able to ensure the adequate level of service provision independently or through relevant local self-government bodies" (The Decree of the Cabinet of Ministers of Ukraine "On Amendments to the Methodology for the Formation of Capable Hromadas", 2015).

The purpose of the article is to highlight the financial problems of decentralisation in Ukraine, to reveal the impact of the development of the national economy and budgetary policy on the financial capabilities of local self-government bodies, as well as to develop and justify conceptual directions and reserves for increasing the financial independence of regions in Ukraine. The research methods used to achieve this goal include the structural method, comparative analysis of empirical data, and abstract-logical generalisation.

3. Results and Discussions

The decentralisation reform envisaged the creation of amalgamated hromadas that are "capable of providing an adequate level of services, in particular in the areas of education, culture, healthcare, social protection, housing and communal services, taking into account the human resources, financial support and infrastructure development of the relevant administrative-territorial unit", which was the result of the successful implementation of the practice of amalgamation in developed countries.

Thus, the international practice of amalgamation of hromadas in different countries of the world shows that amalgamation of hromadas in a more capable way is carried out with the aim of:

- 1) Improving the quality of public services;
- 2) increasing management efficiency;
- 3) promoting participatory democracy (Ebinger, Kuhlmann, & Bogumil, 2019).

More precisely, the interpretation of hromada capacity as the ability to provide public services, management capacity and the ability to ensure participatory democracy depends largely on the chosen goal of forming amalgamated hromadas. In Ukraine, 1470 hromadas have been formed (Table 1). However, as of September 2023, 144 hromadas are located in the temporarily occupied territories Monitoring the process of power decentralization and local self-government reform, 2022).

Table 1
Structure of hromadas in Ukraine

Hromadas		
rural	village	urban
627	433	410
Population centers		
village	settlement	cities
26261	1960	443

Source: <https://decentralization.gov.ua/mainmonitoring>

The results of a comparative analysis of the amalgamation of hromadas in different countries of the world show that local self-government bodies are recognised as the most effective in hromadas with a population of 25...250 thousand inhabitants (Blöchliger & Charbit, 2008).

In Ukraine, the most efficient hromadas are those with a population of more than 15,000 people (Table 2).

As a result of the administrative-territorial reform and the redistribution of powers at the basic and subregional levels, the growth of the budgets of the

Table 2

Execution of budgets of hromadas of Ukraine by revenues and expenditures, by population groups

By population groups	Revenue		Expenses		Subsidy level per capita, %
	general fund, billion UAH	per capita, thousand UAH	general fund, billion UAH	per capita, thousand UAH	
9 months of 2022					
up to 5 thousand people	3,37	4,38	6,82	6,26	39,5
from 5 to 10 thousand people	13,03	4,14	27,7	6,02	51,8
from 10 to 15 thousand people	13,25	4,35	26,51	5,9	54,2
more than 15 thousand people	165,73	6,02	246,37	6,11	22,3
9 months of 2023					
up to 5 thousand people	4,42	5,74	5,77	7,5	41,5
from 5 to 10 thousand people	18,02	5,72	23,14	7,34	54,8
from 10 to 15 thousand people	18,56	6,09	22,22	7,29	56,2
more than 15 thousand people	200,42	7,28	197,85	7,19	20,8

Source: https://public.tableau.com/app/profile/ulead/viz/_16360623127390/sheet0

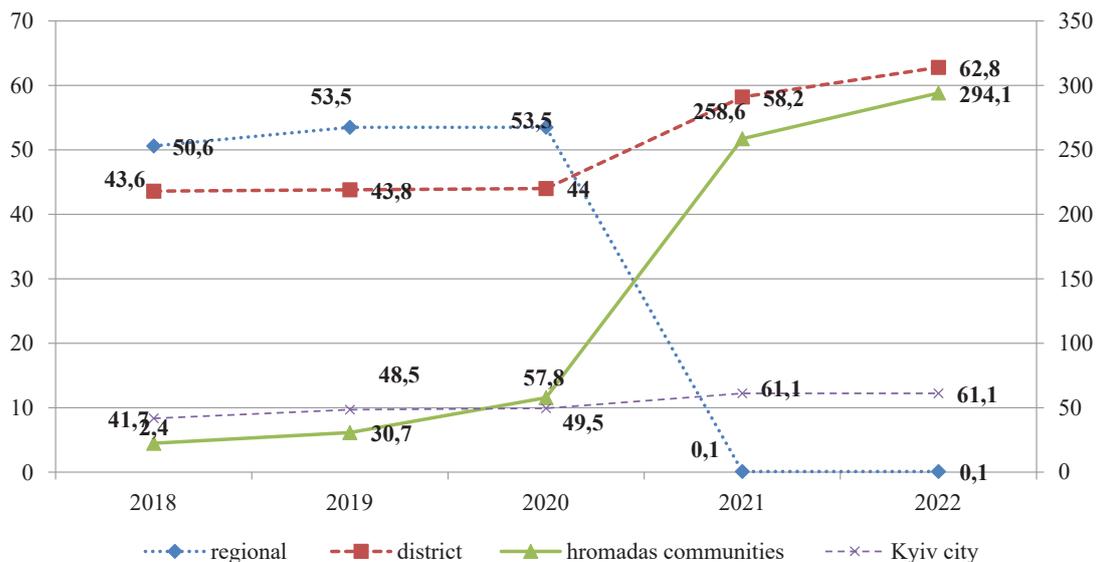


Figure 1. Revenues by type of budget (general and special funds) 2018–2022, billion UAH

Source: <https://decentralization.gov.ua/news/16105>

newly formed hromadas in 2021 is more than 10 times higher than the growth of regional budgets (Figure 1).

During the first stage of the decentralisation reform in the part of the formation of amalgamated hromadas, emphasis was also placed on the interpretation of the capacity of the amalgamated hromadas as financial capacity. A preliminary calculation of the financial capacity of potential amalgamated hromadas allows to make an approximate forecast of the necessary revenues and expenses to meet the needs of the residents of the hromada for the provision of public services, as well as for the local development strategy of local self-government bodies (Analysis of the implementation of local budgets for 2022).

However, it is worth noting that the main source of growth in local budget revenues in 2022–2023 was a significant increase in revenues from "military" income tax (+6.3% compared to 2022). In total, revenues of the general fund of local budgets in Ukraine will increase by 43.8 billion UAH (+11%) in 2023. The increase in revenues in these regions is mainly due to the fact that most of the internally displaced persons and businesses have moved to these regions from the territories where hostilities are or have been conducted, or from the territories that were or are temporarily occupied by the Russian Federation (Decentralization makes it possible).

The Law of Ukraine "On the State Budget of Ukraine for 2024" (The Law of Ukraine "On the State Budget of Ukraine for 2024", 2023), in accordance with the amendments to the Budget Code of Ukraine (The Budget Code of Ukraine, 2010), provides for the transfer of "military" personal income tax to a special fund of the State Budget. However, the PIT rate of

64% to local budgets remains unchanged. This initiative will have a significant impact on budget revenues (Reference on the implementation of revenues from the general fund of local budgets for 2023).

The results of the 2021–2023 reform, presented in Table 3, reflect the real situation regarding the effectiveness of amalgamation of hromadas in meeting the needs of the population of the regions.

Thus, it is worth noting that the fiscal return on the territory (the ratio of general fund revenues to the territory of the hromada) per capita during the study period was highest in hromadas with a population of over 15 thousand people. However, it should be recognised that the indicators of the territory's capacity are calculated based on the existing population, which has decreased by 5.43% due to the military operations in Ukraine and significant internal migration. It should also be borne in mind that as of 01 October 2023, 144 amalgamated hromadas are located in the areas of military (combat) operations or are under temporary occupation, encirclement (blockade).

It should be noted that despite the situation in the country, local budget revenues are showing positive dynamics. According to the latest data, revenues from individual taxes increased by 18.2% in 2023, and from land tax by 16.8%. Revenues from real estate tax increased by 28.4% and from consumption tax by 71.2%. At the same time, some items exceeded their targets. Thus, the fulfilment of the annually approved indicators of revenues of the general fund of local budgets amounted to 102.2% (including the single tax – 106.7%; land payment – 106.4%; real estate tax – 107.4%; excise tax – 108.4%; corporate income tax of the private sector – 123.2%). At the

Table 3

Indicators of the budgets of hromadas of Ukraine by the general fund, per capita

Amalgamated hromada	Local taxes and fees, thousand UAH	Land payment, UAH	Profitability of hromada lands, UAH	Total for the general fund, thousand UAH	Fiscal return on the territory, UAH
2021					
up to 5 thousand people	2,75	15802,3	9,90	6,62	40,58
from 5 to 10 thousand people	1,91	948,9	4,23	5,62	29,07
from 10 to 15 thousand people	1,77	820,43	3,47	5,35	28,55
more than 15 thousand people	2,03	800,12	3,93	6,99	39,33
2022					
up to 5 thousand people	2,49	14621,8	8,87	6,65	39,46
from 5 to 10 thousand people	1,76	858,54	4,03	6,29	33,99
from 10 to 15 thousand people	1,67	754,23	3,56	6,58	37,78
more than 15 thousand people	1,99	715,76	3,43	8,61	49,39
9 months of 2023					
up to 5 thousand people	2,17	12701,0	7,22	5,74	35,01
from 5 to 10 thousand people	1,67	768,88	3,84	5,72	36,0
from 10 to 15 thousand people	1,49	663,66	3,26	6,09	32,94
more than 15 thousand people	1,71	626,82	3,11	7,28	42,7

Source: https://public.tableau.com/app/profile/ulead/viz/_16360623127390/sheet0

same time, it should be noted that for the 3 quarters of 2022-2023, the results of local budget execution (excluding the temporarily occupied territories and territories with active hostilities) are in surplus (Table 4).

Given the hostilities on the territory of Ukraine and the inability of some hromadas to finance their powers on their own, the basic subsidy per capita was increased in 2023 (Figure 2).

The Law of Ukraine "On the State Budget of Ukraine for 2024", in accordance with amendments to the Budget Code of Ukraine, stipulates that "in 2024, no reverse subsidies will be withdrawn from local budgets to the state budget", which will allow funds to be allocated for the development of local hromadas and defence measures (The Law of Ukraine "On the State Budget of Ukraine for 2024"; The Budget Code of Ukraine, 2010).

Imbalances and imbalances in fiscal autonomy may force local governments to finance their functions through debt when tax and transfer revenues are insufficient. High levels of local government debt may reflect institutional weaknesses (e.g., limited taxing capacity) or persistent structural problems, where

own-source revenues and inter-budgetary transfers are insufficient to meet expenditure commitments.

A negative factor in the execution of Ukraine's local budgets for 2018–2023 is the growth of the outstanding domestic debt. During the selected period of the study, namely the first half of 2018–2022, the amount of debt increased by almost 10 billion UAH. The growth rate of domestic debt is 85.7%.

According to the Budget Code of Ukraine, local debt is the total amount of debt obligations of the Autonomous Republic of Crimea or the local government of the city for the repayment of credits (loans) received and outstanding as of the balance sheet date, arising as a result of local borrowing (The Budget Code of Ukraine, 2010). In turn, local borrowings are operations to obtain credits (loans) for the budget of the Autonomous Republic of Crimea or the city budget on the terms of repayment, payment and maturity for the purpose of financing the budget of the Autonomous Republic of Crimea or the city budget.

In the EU, the average outstanding debt of local governments in 2020 is only 13% of GDP and 14%

Table 4

Balance of local budgets in the third quarter of 2022–2023, billion UAH

ARTICLE	GENERAL FUND			SPECIAL FUND			TOTAL		
	2022	2023	GROWTH RATE	2022	2023	GROWTH RATE	2022	2023	GROWTH RATE
Revenue	378,007	451,335	73,328	15,904	51,196	35,292	393,911	502,531	108,621
Expenses	281,612	323,148	41,536	23,938	84,248	60,310	305,550	407,396	101,846
Crediting	0,489	0,037	-0,451	-0,063	-0,026	0,036	0,426	0,011	-0,415
Deficit(-) / surplus(+)	95,906	128,150	32,244	-7,971	-33,025	-25,054	87,935	95,124	7,190

Source: <https://openbudget.gov.ua/>

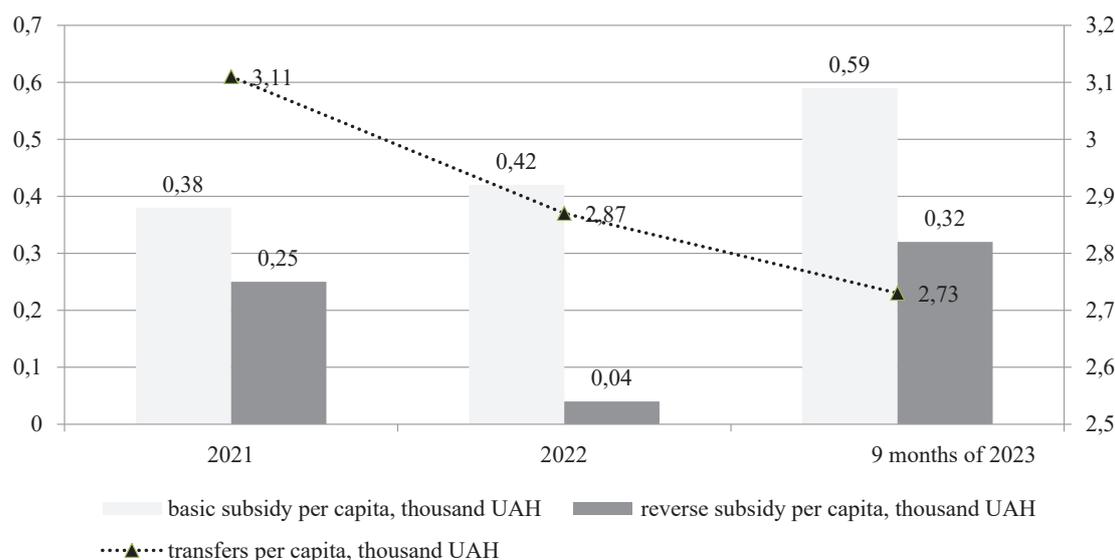


Figure 2. General fund transfers to territorial budgets of hromadas per capita, thousand UAH

Source: <https://openbudget.gov.ua/>

of the combined national and subnational debt in the OECD. However, as local governments have little taxing power and use a much smaller revenue base than central government to assess their debt-paying capacity, it is more appropriate to use the debt-to-income ratio rather than GDP. It is worth noting that total local government debt is quite high in developed countries, averaging 150% across the OECD in 2020 (Fiscal Federalism 2022: Making Decentralisation Work, 2022).

High indebtedness of local governments can lead to serious insecurity, weaken their proper functioning and deteriorate the quality of basic public services.

High levels of indebtedness have short- and long-term effects on local governments, which at the same time generate negative externalities that affect other local governments and the central government. Such indebtedness can also hinder infrastructure financing and public investment, thereby limiting long-term growth. As a result, it will lead to central government intervention in the work of local governments, which can lead to their unstable fiscal policies.

This raises the question of debt management at the local level, and in particular debt restructuring. Debt restructuring should be accompanied by fiscal adjustment. This may involve spending cuts, tax increases and/or new revenue sources. It may also include structural reforms (e.g., improving the efficiency of public service delivery). As such, fiscal adjustment aims to correct inefficient budgetary management, address structural problems and/or mitigate the adverse effects of a negative exogenous shock. In addition, fiscal adjustment allows for a better distribution of the burden of the debt crisis.

However, the scope of fiscal adjustment is limited and involves significant expenditure cuts (Blankart & Klaiber, 2006).

One of the areas of fiscal regulation is budget equalisation, which means the transfer of financial resources to local governments to mitigate regional differences in fiscal capacity and expenditure needs.

European countries use different approaches to developing equalisation mechanisms. Thus, the main elements of equalisation include the following:

- Alignment of net income;
- equalisation of income/expenditure;
- levelling out the filling of "gaps".

It should be noted, however, that the effectiveness of the indicators is based on the change in the per capita indicator.

In accordance with the requirements of Articles 98-100 and item 24 of Chapter VI "Final and Transitional Provisions" of the Budget Code of Ukraine in 2023, the system of budget equalisation continues to operate, which provides for horizontal equalisation of the tax capacity of the territories of Ukraine depending on the level of income per inhabitant. At the same time, horizontal equalisation for the budgets of local governments is carried out only on the basis of personal income tax (The Budget Code of Ukraine, 2010).

The horizontal equalisation mechanism provides that local budgets with a fiscal capacity index below 0.9 of the national average receive a basic grant to increase their fiscal capacity, while local budgets with a fiscal capacity index above 1.1 transfer part of their budgetary resources to support less capable hromadas.

For 2023, equalisation was carried out for 24 oblast budgets separately for personal income tax and

corporate income tax revenues; and for 1438 hromada budgets for personal income tax revenues.

Taking these parameters into account, the average income per capita of the amalgamated hromada, which was used to calculate the basic/reverse grant for 2023, is 4,539.69 UAH (Decentralization makes it possible).

In European countries, equalisation systems combine expenditure, revenue and gap filling. Among the equalisation systems that reduce income inequality, the Gini coefficient (inequality index or equity index) decreases by an average of 8 percentage points after equalisation. This corresponds to an average reduction in fiscal imbalances of almost a third after equalisation.

There are approaches to designing a fiscal equalisation mechanism that focus on reducing incentives to reduce (or increase) BTC revenues (or expenditures). Such approaches often involve the use of a representative tax system or standardised costs to calculate equalisation rights. In the case of revenue equalisation, certain revenues may be completely excluded from the assessment of the LG's fiscal capacity in order to facilitate the development of its own revenues.

There are several good practices around the world that provide a framework for setting up, reforming or evaluating equalisation systems. They build on earlier policy ideas from OECD research on fiscal equalisation, which focus on simplifying equalisation formulae to reduce manipulation by subnational governments, using representative taxation systems (RTS), decoupling equalisation from other grants, and regular monitoring (Dougherty & Forman, 2021).

The results of the implementation of local budgets since the beginning of 2023 (as of 1 October 2023) show that the government has transferred 94.15 billion UAH of inter-budget transfers to local budgets, which is, in particular, 83% of the allocations provided for in the schedule:

- The basic subsidy was transferred in the amount of 20.21 billion UAH, or 100% of the allocation;
- reverse subsidy of 11.10 billion UAH.

Under martial law, such a burden on the state budget is catastrophic, which raises the question of attracting the hromadas' own sources, which in turn does not lead to an increase in the internal debt of the budgets. At the same time, the transfers encourage the hromadas to under-utilise their own tax bases, which in the long run leads to a "comfortable

Table 5

Principal characteristics of selected equalisation systems

Country	Overall classification	Size <i>Equalisation transfers % of government expenditure</i>	Horizontality <i>Horizontal transfers % of total equalisation transfers</i>	Complexity <i>Number of equalisation grants</i>	Equalisation rate <i>Extent to which equalisation fills the gap in revenues of local governments with below average fiscal capacity</i>
Australia	Gap-filling	11.2%	n.a.	1 (GST)	Fiscal relativities fully equalised
Japan	Gap-filling	8.8%	n.a.	3	99% of standardised fiscal needs, in most cases
Italy	Gap-filling	0.7%	n.a.	1	60% in 2021, increasing by 5% every year to reach 100% in 2029
Ireland	Gap-filling	1.7%	48%	2	Topped-up to baseline funding requirement
India	Revenue	52.4%	n.a.	2 (Tax transfer from centre, grants in aid from centre)	n.a.
Germany	Revenue	8.7%	9%	4	60-70% S
Estonia	Revenue/Cost	1.3%	n.a.	2	90%
Lithuania	Revenue/Cost	2.2%	100%	2 part transfer (revenue and cost component)	90%
Belgium	Revenue (National solidarity mechanism)	0.6%5	1 special purpose grant to the Brussels Capital Region is funded horizontally	1 + several special purpose grants for the Brussels Capital Region	80%
Spain	Gap-filling	4.0%	27%	4	n.a.
Sweden	Revenue/Cost	4.4%	10% municipalities, 4% counties	2 for municipalities (cost and revenue), 2 for counties	For revenue component: 95% for municipalities, 90% for county councils.

Source: Dougherty & Forman, 2021

dependence" of the hromadas on centralised distribution.

This raises the question of whether the equalisation system should be reinstated in Ukraine. Taking into account that the main function of the equalisation system in Western countries is to eliminate inequalities that prevent access to public services at the local level, in Ukraine it is advisable to define more clearly the own and delegated powers of local authorities, the financial resources to ensure these powers, and to establish them at the legislative level.

Also, according to the authors, Ukraine should introduce untargeted equalisation transfers that would give local governments more fiscal autonomy, using the experience of EU countries.

The existing tools for building equalisation formulas are not always up-to-date and sometimes contribute to unrealistic and unjustified revenue planning for local governments to fulfil their own responsibilities. Thus, it is advisable to improve the horizontal equalisation formulas:

- To consider taking into account all tax revenues (or excluding local taxes and fees), as there are hromadas that have other resources and still receive equalisation grants;
- to raise the lower limit of the index for determining the basic subsidy, and direct the basic subsidy to the budgets in full (the current norm is 80%);
- to direct a reverse subsidy to the state budget at a level not exceeding 20.5% (the current norm is 50% of the amount exceeding the value of such an index of 1.1).

One of the problems of the equalisation mechanism is the reduction of tax efforts of local authorities to fill budgets. Hence, it is advisable to develop levels

of responsibility of officials at the state level for violations of budget and tax legislation in terms of filling local budgets.

4. Conclusions

Positive results of the implementation of decentralisation at the local level include the expansion of the powers of local governments, the regulation of direct intergovernmental relations, the differentiation of taxes and fees between different levels of the budget, the introduction of infrastructure subsidies, a significant increase in the interest of international donors in providing grant support to newly established hromadas, etc.

Thus, the current state of implementation of the principles of decentralisation in Ukraine shows positive dynamics, both at the level of local government bodies and their financial support. However, there are certain problems with the legislation regulating the administrative-territorial system, it is expedient to establish the internal structure of local self-government and resolve issues of local state administration.

Therefore, given the insignificant influence of local governments on local tax revenues, it is advisable to improve the current legislation regulating local tax revenues.

Recent practice shows that decentralisation at the local level has some positive trends, and further reform of local authorities, improvement of legislation and regulation of local budget revenues and their autonomy will contribute to positive changes not only at the level of a particular region but also in the country as a whole.

References:

- Blöchliger, H. and J. Kim (eds.) (2016). *Fiscal Federalism 2016: Making Decentralisation Work*, OECD Publishing, Paris. DOI: <https://doi.org/10.1787/9789264254053-en>
- Pylypenko, Ya. (2018). Budgetary decentralization in Ukraine: current state and prospects of development. *Scientific notes of Taurida National V.I. Vernadsky University. Series: Public administration*, Vol. 5. Available at: http://www.pubadm.vernadskyjournals.in.ua/journals/2018/5_2018/41.pdf
- The Law of Ukraine "On Local Self-Government in Ukraine" No. 280/97. Available at: <https://zakon.rada.gov.ua/laws/show/280/97-%D0%B2%D1%80/ed20200301#Text>
- European Charter of Local Self-Government (ETS No. 122). Strasbourg 15/10/1985. Available at: <https://www.coe.int/en/web/conventions/full-list?module=treaty-detail&treaty-num=122>
- The Order of the Cabinet of Ministers of Ukraine "On Approval of the Concept of Reforming Local Self-Government and Territorial Organisation of Power in Ukraine" (PRESCRIPTION No. 333-p). Kyiv, 01.04.2014. Available at: <https://zakon.rada.gov.ua/laws/show/333-2014-%D1%80#Text>
- The Law of Ukraine "On Voluntary Amalgamation of Hromadas" No. 157/2015. Available at: <https://zakon.rada.gov.ua/laws/show/157-19>
- The Decree of the Cabinet of Ministers of Ukraine "On Amendments to the Methodology for the Formation of Capable Hromadas" (Decree No. 214) dated 08.04.2015 (as amended by Decree No. 3 24/12020). Available at: <https://zakon.rada.gov.ua/laws/show/34-2020-%D0%BF>
- Ebinger, F., Kuhlmann, S., & Bogumil, J. (2019). Territorial reforms in Europe: effects on administrative performance and democratic participation. *Local Government Studies*, Vol. 45(1), No. 3.
- Monitoring the process of power decentralization and local self-government reform (2022). Available at: <https://decentralization.gov.ua/mainmonitoring>

- Budgets of hromadas of Ukraine (2023). Available at: https://public.tableau.com/app/profile/ulead/viz/_16360623127390/sheet0
- Analysis of the implementation of local budgets for 2022. Available at: <https://decentralization.gov.ua/news/16105>
- The financial capacity of the budgets of the OTG. Calculation procedure / Decentralization makes it possible. Available at: <https://decentralization.gov.ua/uploads/library/file/290/finance.pdf>
- Reference on the implementation of revenues from the general fund of local budgets for 2023. Available at: <https://www.mof.gov.ua/storage/>
- The Law of Ukraine "On the State Budget of Ukraine for 2024" No. 3460/2023. Available at: <https://zakon.rada.gov.ua/laws/show/3460-20#Text>
- The Budget Code of Ukraine. No. 2456/2010. Available at: <https://zakon.rada.gov.ua/laws/show/2456-17#Text>
- State budget web portal for citizens. Available at: <https://openbudget.gov.ua/>
- Fiscal Federalism 2022: Making Decentralisation Work. Available at: <https://www.oecd-ilibrary.org/sites/bce2e3e4-en/index.html?itemId=/content/component/bce2e3e4-en>
- Blankart, C., & Klaiber, A. (2006). Subnational government organization and the sovereign debt crisis. *Economic Affairs*, Vol. 26/3, p. 48–54.
- Blöchliger, H., & Charbit, C. (2008). Fiscal Equalisation. *OECD Journal: Economic Studies*. 2008. OECD Publishing, Paris, France.
- Dougherty, S., & K. Forman (2021). Evaluating fiscal equalisation: Finding the right balance. *OECD Working Papers on Fiscal Federalism*, 36. OECD Publishing, Paris. DOI: <https://dx.doi.org/10.1787/253da2b8-en>

Received on: 25th of January, 2024

Accepted on: 09th of March, 2024

Published on: 05th of April, 2024