JOURNAL OF LAW AND POLITICAL SCIENCES (JLPS)

(17)

REVENUES AND EXPENDITURES OF LOCAL BUDGETS IN CONDITIONS OF DECENTRALIZATION OF POWER: LEGAL ASPECT

Receipt 12-feb.	Approval 21-March	Publishing 1April 2023

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Abstract

The issue of the efficiency of forming local budgets occupies a central place in the process of analyzing the social-economic development of territories. The purpose of the academic paper is to highlight the theoretical features of the legal component in the process of forming local budgets in the conditions of decentralization of power, as well as to clarify the features of the practical

aspects of the issue outlined. In the course of the research, analytical and bibliographic methods were used to study the scientific literature on the formation of local budgets. The research authors also conducted a questionnaire in online mode to practically clarify the most important issues related to managing the budget process under the condition of decentralization of power. Based on the research results, the primary and most significant theoretical aspects of the issue of forming the revenue and expenditure part of local budgets in the process of decentralization of power were established. At the same time, the standpoints of scientists and heads of departments of local self-government bodies regarding key aspects of this issue were studied.

Keywords: Territorial Development, Legislative Consolidation of Local Self-Government Functions, Decentralization of Budget Funds Management, Financial Management of Local Self-Government, Optimization of the Budgetary System.

I. INTRODUCTION

In the modern conditions of financial decentralization of power in many countries of the world, the issues of forming the revenue and expenditure part of local budgets acquire important theoretical and practical significance. This is caused by their structural diversity and different management conditions. In today's realities, local expenditures are implemented at the expense of revenues to the local budget, which creates the necessary conditions for exercising powers by local self-government competent bodies. At the same time, the influence of inter-budgetary transfers makes local budgets, to a certain extent, dependent on political decisions taken at the national level. Therefore, an important scientific and practical task in the conditions of financial decentralization is the legal provision of transiting local communities from subsidized to self-sufficient administrative units capable of independently ensuring their own social-economic development of the environment at a reasonable level.

The theoretical part of the present research comprises the concepts, main components and the most common tendencies in the scientific literature of legal regulation of the process of forming the revenue and expenditure part of local budgets in conditions of decentralization of power.

The practical part of the research includes assessing the most important aspects of the subsidiarity of budget relations in the context of decentralization, the most urgent problems of an organizational and legal nature in the field of budgeting requiring practical solutions at the level of local authorities. It also determines organizational ways of preventing possible mistakes in planning and implementing the revenue part of local budgets in conditions of decentralization and the primary goals of a legal nature in reforming local self-government in order to increase the efficiency of the management of budget funds under the conditions of decentralization. Moreover, this part identifies the most relevant directions of scientific investigation in the field of legal regulation of the process of forming the revenue and expenditure part of local budgets in conditions of decentralization of power.

Based on the research results, conclusions were made regarding the issues raised. In particular, it was established that the most significant aspects related to subsidiarity in allocating budgetary powers nowadays are the provision of higher-level government intervention in the budget process of territories to achieve financial autonomy, the mandatory distribution of powers between different levels of government in the country and delegation of certain powers by the central government bodies to local authorities. At the same time, the most significant problems of an organizational and legal nature requiring practical solutions at the level of local authorities are the lack of competent and versatile monitoring of local communities to determine the needs for providing services, ineffective redistribution and delegation of powers, as well as interaction between state authorities and local self-government bodies. In this respect, according to the respondents' standpoints, the main organizational ways to prevent possible mistakes in planning and implementing the revenue part of local budgets in conditions of decentralization are control of costs at all stages of the budget process and effective analysis of local budgets. Along with this, the priority goals of a legal nature in reforming local self-government include optimization of financial indicators of local self-government bodies and introduction of an effective system of state management of regional development taking into account experience and compliance with the standards of European countries' regional policy. In the course of the research, both scientists and local self-government bodies' managers identified the following most relevant areas of scientific study in the field of legal regulation of the process of forming the revenue and expenditure part of local budgets under conditions of decentralization: the provision of benefits to local self-government bodies regarding the financial and resource support of their activities and the regulation of the issue of providing state subsidies to local self-government bodies.

The purpose of the research is to determine the standpoint of scientists and heads of departments of local self-government bodies regarding the legal features of forming local budgets under the conditions of decentralization of power.

– II. LITERATURE REVIEW

According to the current legislation, local budget revenues are non-refundable tax, non-tax and other revenues, the settlement of which is provided for by law (including transfers, fees for the provision of administrative services, own budget revenues) (Onofrei et al., 2023).

Budget decentralization, together with budget federalism and budget unitarism, is a form of manifesting the country's inter-budgetary relations and the basis of implementing the process of budget regulation. The optimal choice of one or another model of interstate relations is crucial to the country's economic growth (Bueno & Salapa, 2022).

The main principles of organizing relations between communities and budget regulation are established by the central government, which pursues a policy of ensuring uniform standards for the provision of public services throughout the country, equalizing tax imbalances (Kesale, Mahonge & Muhanga, 2022).

Local taxes and fees occupy a special place in the structure of local budget revenues. Local ones include taxes and fees established by decisions of village, settlement, and city councils within their powers in accordance with the list and within the limits of established rates (Abimbola, Baatiema & Bigdeli, 2019).

In many countries of the world, the current legal concepts of local self-government reform, the regulatory framework of territorial authorities and the national system of regulatory legal acts are aimed at optimizing the distribution of powers between authorities at different levels based on the principle of subsidiarity in order to stabilize revenues and rationally use of the accumulated potential toward achieving the regions' financial capacity (Nakatani, Zhang & Valdes, 2022).

In connection with the decentralization of power in countries where such reforms are carried out, changes are usually made to the mechanism for generating local budget revenues in order to increase the financial capacity of local governments. In particular, the list of sources of filling the revenue part of local budgets is usually expanded within the framework of the introduced changes (Savignon, Costumato & Marchese, 2019).

The problems of legal provision of local self-government in many countries of the world are extremely relevant nowadays forasmuch as unresolved issues in this area inhibit the development of the entire economic system. Along with it, the issue of the effectiveness of national and local legal regulation of the budget system arises. Central authorities oftentimes do not support the reduction of their powers in favor of local authorities, leaving behind most of the most important areas, which depend on the quality and level of social-economic support of administrative-territorial units and local residents (Bostan et al., 2022).

It is possible to single out certain legal problems of an internal nature preventing the strengthening of the local self-government's financial base: ineffective application of local financial management methods, lack of self-sufficient local financial systems, misunderstanding or non-compliance by the authorities with the theoretical fundamentals of effective public administration (Carniti et al., 2019).

In addition, local self-government bodies in the vast majority do not have a clear understanding and purposeful attitude to the priorities of their activities. The reasons for this phenomenon are the underdevelopment of party-political institutions and lobbying, preventing local self-government bodies from effectively performing their representative functions on a democratic basis (Hajilou et al., 2018).

Currently, one of the issues of local authorities under the conditions of decentralization is the insufficiently effective formation of the expenditure part of local budgets according to the sectoral principle while using a formal approach. Its essence lies in the availability of financial standards for the security of households per resident of a territorial unit or a consumer of social services while applying correction coefficients used in determining the size of interbudgetary transfers. At the same time, it is often impossible to determine the standards of minimum budgetary support due to the lack of developed and approved standards for the financial support of existing state social standards. Moreover, industry financial regulations do not take into account the specific needs of the territorial community (Papcunová et al., 2020).

An important aspect of this issue is the provision of control by local self-government bodies of the receipt and expenditure of taxes and fees paid to the local budget. Only in this case, local self-government bodies are interested in increasing revenues and their rational use, because they are responsible to local taxpayers for their decisions and using funds (Satoła, Standar & Kozera, 2019).

– III. METHODS AND MATERIALS

A practical study of the features of forming the revenue and expenditure part of local budgets in conditions of decentralization of power was carried out by surveying 217 scientists, as well as 203 heads of departments of local self-government bodies conducting scientific and practical activities in Chernivtsi, Ivano-Frankivsk, Rivne, Cherkasy and Kyiv regions of Ukraine. The research was conducted using the eSurvey service.

IV RESULTS

According to the survey participants' standpoint, the most significant aspects related to subsidiarity in the distributing budgetary powers during the decentralization of power today are as follows (Figure 1). According to the standpoints of scientists and local self-government bodies' experts, the most significant aspect from the perspective of subsidiarity in budget formation is the provision of higher-level government intervention in the budget process of territories only to achieve financial autonomy, the mandatory distribution of powers between different levels of government in the country and delegation of certain powers by the central government to local authorities.

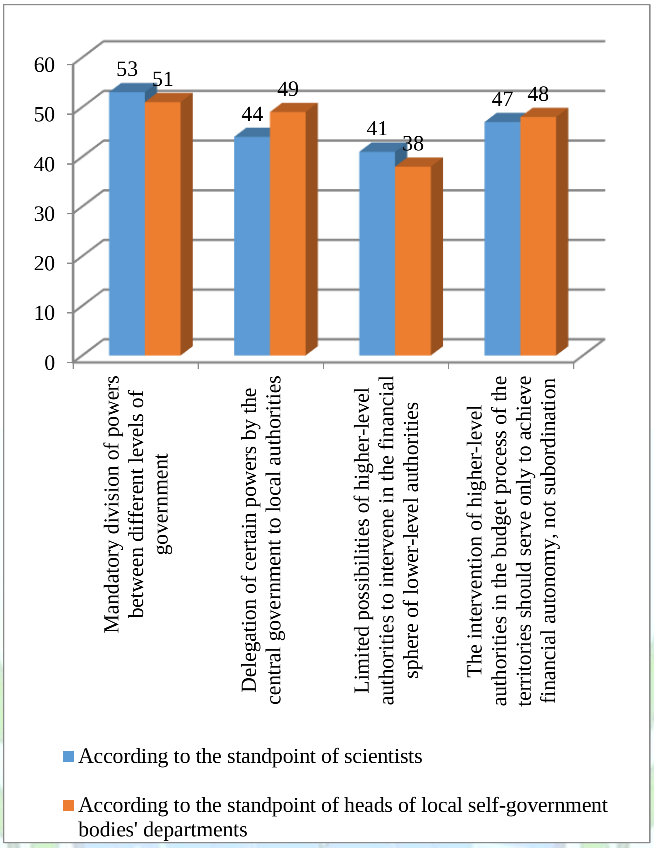

Figure 1. The most significant aspects of subsidiarity of budget relations in the context of decentralization,%

Source: compiled by the authors

At the same time, currently, the most significant issues of an organizational and legal nature requiring a practical solution at the level of local authorities are as follows (Figure 2):

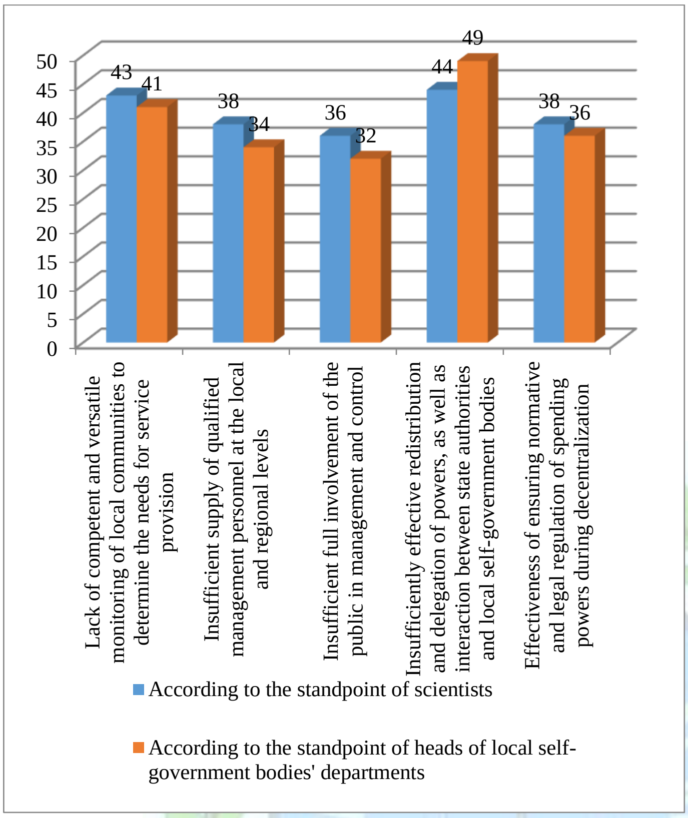

Figure 2. The most significant issues of an organizational and legal nature requiring a practical solution at the level of local authorities, %

Source: compiled by the authors

– lack of competent and versatile monitoring of local communities to determine the needs for service provision;

– insufficiently effective redistribution and delegation of powers, as well as interaction between state authorities and local self-government bodies.

During the survey, the respondents identified the following organizational ways to prevent possible mistakes in planning and implementing the revenue part of local budgets in conditions of decentralization (Figure 3).

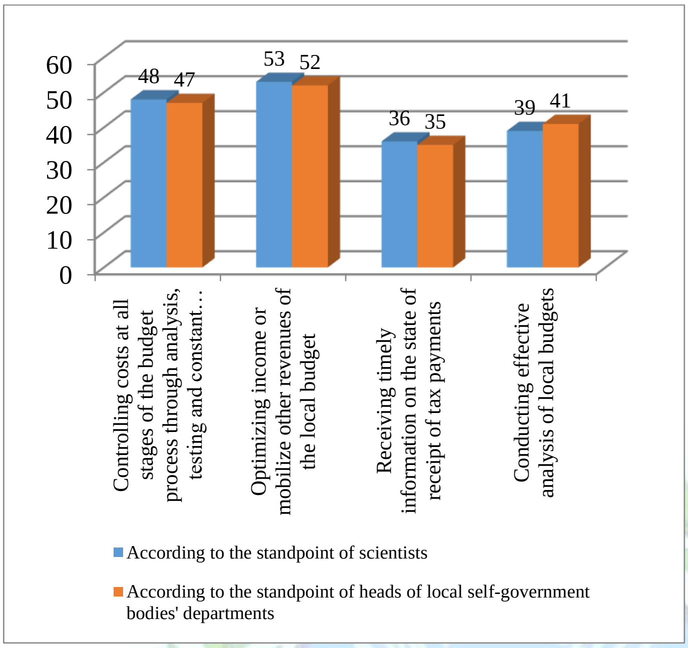

Figure 3. Organizational ways to prevent possible mistakes in planning and implementing the revenue part of local budgets in conditions of decentralization, %

Source: compiled by the authors

As can be seen from Figure 3, in order to avoid negative consequences in implementing revenues and expenditures of local budgets, it is advisable to first of all control expenditures at all stages of the budget process through analysis, testing, and constant monitoring, optimize income, as well as conduct an effective analysis of local budgets, which will contribute to more effective further planning. This will be a solid basis for planning budget indicators for the next year. The survey made it possible to establish the following objectives of a legal nature in reforming local self-government, with the aim of increasing the effectiveness of decentralization in managing budget funds and increasing the independence of local self-government bodies (Figure 4).

The questionnaire showed that it is worth paying special attention to achieving the following goals of a legal nature in reforming local self-government, namely: the optimization of financial indicators of local self-government bodies and the introduction of an effective system of state management of regional development, taking into account experience and in accordance with the standards of regional policy of European countries in order to ensure sustainable social-economic development of administrative-territorial units and strengthen the tax potential of territories, as well as to increase the transparency and efficiency of using budget funds.

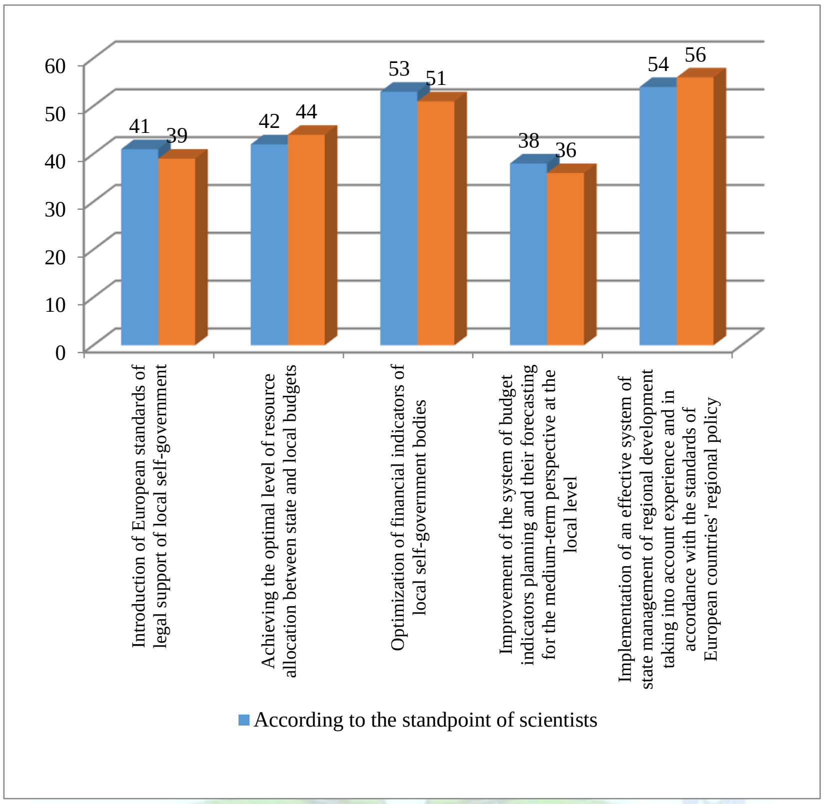

Figure 4. Objectives of a legal nature in reforming local self-government in order to increase the efficiency of managing budget funds under the conditions of decentralization, %

Source: compiled by the authors

The questionnaire showed that it is worth paying special attention to achieving the following goals of a legal nature in reforming local self-government, namely: the optimization of financial indicators of local self-government bodies and the introduction of an effective system of state management of regional development, taking into account experience and in accordance with the standards of regional policy of European countries in order to ensure sustainable social-economic development of administrative-territorial units and strengthen the tax potential of territories, as well as to increase the transparency and efficiency of using budget funds.

In the course of the research, the respondents identified the most relevant directions of scientific studies in the field of legal regulation of the process of forming the revenue and expenditure part of local budgets in conditions of decentralization of power (Figure 5).

As can be seen from Figure 5, the most significant directions of scientific studies of a legal nature in the field of forming the revenue and expenditure part of local budgets in conditions of decentralization are as follows:

– provision of benefits to local self-government bodies regarding the financial and resource support of their activities in conditions of decentralization;

– regulation of the provision of state subsidies to local self-government bodies under the conditions of decentralization of power.

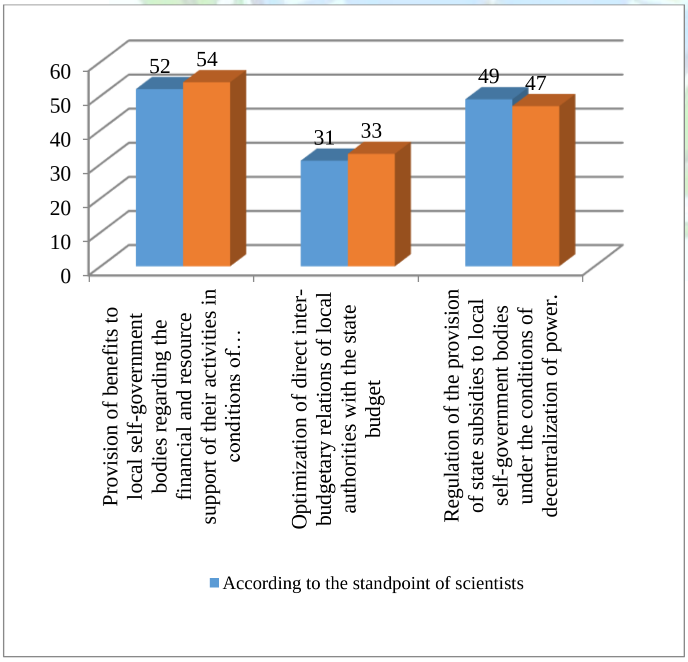

Figure 5. The most relevant directions of scientific studies in the field of legal regulation of the process of forming the revenue and expenditure part of local budgets in conditions of decentralization of power, %

Source: compiled by the authors

V DISCUSSION

A significant step forward has been made in reforming inter-budgetary relations at the current stage of economic development in the world. Relevant legislative changes have been adopted, and the mechanisms of budgetary financing of the local authorities' activities have been modified (Ho, 2018).

The experience of decentralization of authorities in the world has shown that effective regulation of the sphere of forming local budgets strengthens the economic independence of local self-government bodies, activates economic activity, and makes it possible to develop the territory's infrastructure. It strengthens the region's economic potential, identifying and using reserves of financial resources. In the end, all this expands the possibilities of municipalities to improve the welfare of the population (Nemec & De Vries, 2019).

The results of analyzing the practical financial activities of local communities proved that excessive centralization of budget funds, their imperfect distribution, incomplete provision of local budgets with funds for implementation, in particular, development expenditures, low efficiency of management of inter-budgetary transfer funds limit the full implementation of the local self-government's potential, do not ensure the provision of quality services to the population and increase the level of social and economic development of the regions (Oręziak, 2018).

Inter-budgetary relations are being reformed as part of the decentralization of power in all countries where it is implemented, and as a result, changes in the regulatory framework are taking place (Saliterer, Sicilia & Steccolini, 2018).

Vol. (37), issue 2- 2023 P. ISSN 2222-7288 E. ISSN 2518-5551

It should be noted that in the overwhelming majority of cases, even though decentralization gives local governments more authority, the state nevertheless provides for their implementation through interstate transfers, which contradicts the decentralization process (Aivazidou, Cunico & Mollona, 2018).

Taking into account the existing experience of decentralization in the world, it is worth emphasizing that the issue of determining the vector and the degree of influence of budget decentralization processes remains ambiguous. After all, an important condition for the effective social-economic development of regions and the full functioning of local self-government is the presence of sufficient resources to directly provide consumers with high-quality public goods and services (Ferry & McMaster, 2018).

The decentralization reform involves overcoming many challenges, in particular, as follows: the dependence of regions on the center; infrastructural and financial shortcomings in the work of municipalities; worsening dynamics of rural development; high level of municipal subsidies; low investment attractiveness of territories. It is an indisputable fact that implementing budget decentralization can ensure much greater efficiency and quality of public service provision than distributing concentrated funds for state needs through the central level of the budget system (Fandel et al., 2019).

At the same time, in order to solve the challenges of financial decentralization, it is necessary to continue working on issues that would ensure the success of the reform and positively affect the economic system of the country as a whole (Grešová & Fuka, 2018).

VII CONCLUSION

Therefore, the analysis of the scientific literature on the research topic and the questionnaire results showed that the legal provision of increasing the level of profitability of local communities is a key issue in the formation of their effectiveness. Changes in budget and tax legislation can and should strengthen the role of local taxes and fees in filling local budgets. At the same time, analysis and optimization of the structure of the sources of forming local budget revenues make it possible to identify its strengths and weaknesses, find additional ways to fill it, and ensure the financial viability of local authorities.

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