The article examines issues related to the key tasks of forming and implementing local budgets. The main goal of the work is to study the peculiarities of the formation of the budget potential of local finances in Europe and the USA, to determine the key points of local self-government in the world experience, to study the peculiarities and dynamics of the use of local budgets of Ukraine in conditions of decentralization and martial law. The urgency of solving the problem lies in the fact that globalization processes and the course towards European integration of the national economy, and decentralization require a new approach to the formation of local budgets aimed at balancing financial income with expenses, increasing the independence and powers of local authorities.

This publication highlights the global experience of forming and implementing local budgets. The budget structure of the countries of Europe and the USA has been studied. It was noted that economic and financial decentralization in the countries of Europe and the USA led to the formation of intergovernmental financial relations that combine the principles of both budgetary unitarism and budgetary federalism. It was determined that the constitutions of some countries sometimes do not regulate the organization of local self-government at all (for example, in the USA). The article examines the current state and peculiarities of the implementation of local budgets in the conditions of decentralization of financial resources of Ukraine and during the period of martial law, inefficient use of financial resources. The study concludes that in modern conditions, it is necessary to increase the powers of local authorities to fill the local budget with income, and therefore, to increase the share of their potential. Taxes and fees transferred to local self-government departments must be under the clear and full control of these bodies. For the effective formation and implementation of local budgets, it is necessary to constantly analyze them and implement global best practices to increase revenues to local budgets, and as a result, the budget potential of the region.

Keywords: State budget, local budgets, decentralization, budget potential, revenues, expenditures, financial resources, financial support.
Україні в умовах децентралізації та військового стану. Актуальність вирішення поставленої проблеми полягає у тому, що глобалізаційні процеси та курс на євроінтеграцію національної економіки, децентралізація вимагають нового підходу до формування місцевих бюджетів направленого на збалансування фінансових надходжень з витратами, зростання самостійністі та повноважень місцевих органів влади. У даній публікації висвітлені його особливості з метою дослідження та викопання місцевих бюджетів. Досліджено бюджетний устрій країн Європи та США. Відмічено, що економічна та фінансова децентралізація у країнах Європи та США привела до формування міжурядових фінансових відносин, що поєднують у собі принципи як бюджетного унітаризму, так і бюджетного федера лізму.

Визначено, що конституції деяких країн іноді взагалі не регулюють організацію місцевого бюджетування (наприклад, у США). У статті досліджено сучасний стан та особливості виконання місцевих бюджетів в умовах децентралізації фінансових ресурсів України та в період вогненого стану.

Децентралізація вимагає нового підходу до формування та використання місцевих бюджетів, що залежить від глобалізаційних процесів та курсу на євроінтеграцію національної економіки, декласації державного бюджету, місцевих бюджетів, децентралізації, бюджетного потенціалу, доходів, видатків, фінансових ресурсів, фінансового забезпечення. Досліджено бюджетний устрій країн Європи та США, відомих своїми специфічними умовами, в т.ч. соціально-економічною, при дослідженні принципів євроінтеграції національної економіки. Досліджено зв'язок між бюджетними системами країн Європи та США.

Ключові слова: державний бюджет, місцеві бюджети, децентралізація, бюджетний потенціал, доходи, видатки, фінансові ресурси, фінансове забезпечення.

Introduction. Modern trends in the development of financial relations indicate an increase in the role of local communities in ensuring stable economic growth in most countries of the world. The reform of local self-government and territorial organization of power in Ukraine, which lasted from 2014 to 2022, left its mark on the conditions and features of financial relations. A successful solution to the problems of socio-economic development, meeting the needs of the territorial community directly depends on the effectiveness of attracting and using financial resources. For the effective formation of the budgetary potential of territorial communities, a constant process of evaluating all financial flows is necessary, which will contribute to ensuring effective management in the authorities. To date, there is no single system of indicators, with the help of which it is possible to fully and thoroughly assess the formation of the budgetary potential of territorial communities. It is worth noting that the relevance of the study is determined by globalization processes and the course toward European integration of the national economy. That is why studying the global experience of forming and spending local budgets is necessary. It is especially worth paying attention to the experience of neighboring countries.

Materials and methods. The scientific problem of the aspects of the formation of the budget potential of local finances is highlighted in the works of domestic scientists, in particular L.V. Lysiak, M.K. Dyachenko, O.M. Hrabchuk [1; 2], V.I. Pokas [3], I.O. Lunina [4], N.V. Prots. [5], etc. These scientists made a great contribution to the development of theoretical and practical aspects of the budget potential of local finances. Despite the significant number of publications on this issue, among scientists, the global experience of forming and spending the budgets of territorial communities has not been sufficiently studied. The key goals of the article are the need to study the formation of the budget potential of local finances in the countries of Europe and the USA, the determination of the peculiarities of local self-government in the world experience, the study of the peculiarities and dynamics of the use of local budgets in conditions of decentralization.

In the research process, methods of logical generalization, analysis, comparison, grouping, economic-statistical analysis, strategic analysis, and graphical and tabular methods were used, defining the problem and combining the research results into a coherent system.

Discussion. In world practice, as well as in domestic practice, local finances are the main component of the finances of local self-government bodies, while local budgets are formed and approved in separate administrative territories. Changes in budget policy at the regional level, caused by the process of decentralization in Ukraine, require constant study of the problems of ensuring the effectiveness of local budgets and generating new conditions and principles to achieve their independence. In Great Britain, Sweden, Norway, and the Netherlands, for example, the majority of socio-economic services are provided at the local level and are financed from municipal budgets [6]. When forming local budgets, the need to provide financial resources to local self-government bodies is taken into account. Including financing of the powers exercised by these bodies, which are directly related to the performance of tasks of local importance.

In each country, a different administrative system is provided for by legislation, besides, in most countries, there are differences in the social, economic, and historical conditions of the functioning of administrative units. In particular, in foreign countries, two types of organization of budgetary systems can be distinguished: unitarism and federalism [7].
The local government refers to specific institutions or entities created by national constitutions (Brazil, Denmark, France, India, Italy, Japan, Sweden), state constitutions (Australia, USA), the common law of the highest level of central government (New Zealand, Great Britain, most countries), provincial or state legislation (Canada, Pakistan) or under executive authority (China) to provide a set of specific services in a relatively small geographically defined area. Local self-government includes the direct and indirect role of official institutions and government hierarchies, as well as the role of informal norms, networks, public organizations, and associations of neighboring countries in conducting collective actions by defining the system of interaction between residents and the state, making collective decisions and providing local public services [8].

In the EU, nine countries use only one level of sub-state authorities (self-government); the other twelve countries have two regional levels (municipalities and regions); while the remaining seven have three levels below the national level (municipalities, regions, and entities of intermediary activity).

In the Slovak Republic and the Czech Republic, competence was gradually transferred from the state to local self-government, as local self-government was established as a new part of public administration during the decentralization process [9].

In 2008, as part of the adoption of the budget code in the Czech Republic, a new law was adopted, which initially expanded the single criterion of the number of inhabitants of a municipality, calculated according to the coefficients of certain size categories, according to two other new criteria – the simple number of inhabitants and the cadastral area of the municipality. About the next change that took place in 2013 in the financing of local self-government in the Czech Republic, the calculation of revenues from municipal taxes changed, including another indicator – the number of children attending school or a school in the municipality, and at the same time, new size groups of municipalities were determined. An equally important tax revenue group is income from local taxes and fees. In both countries, these revenues belong to own revenues, since they are collected by the municipality. In the Slovak Republic, municipalities can charge eight different types of local taxes, but they must charge a local fee for construction waste and small construction waste. In the Czech Republic, municipalities can levy seven different types of local taxes and one property tax.

Non-tax revenues account for an average of 13% of the current revenues of municipalities in the Slovak Republic and 11% in the Czech Republic. These revenues mainly consist of own revenues and business with communal property. Municipalities often rent out their property. In addition, non-tax revenues also include administrative fees paid by residents for the provision of services (for example, registry services, signature verification, etc.).

The constitutions of some countries sometimes do not regulate the organization of local self-government at all (for example, in the USA), but there are also countries where these relations are strictly regulated, for example in Brazil. The main source of legal regulation of power relations in these subjects is self-government statutes. In some lands (state level), there are cases where federal entities perform the functions of local self-government in addition to their functions. This applies, for example, to cantons in Switzerland, countries and cities in Germany and Austria (Berlin, Hamburg, Bremen, and Vienna).

There are two systems of local self-government organization: Anglo-American and European. "The Anglo-American system is characterized by the presence of local self-government at all levels of the federation or state entity." At the same time, there are no administrative-territorial units of a general nature. The European system is characterized by a combination of local self-government and state administration; in addition, it has other forms in which local self-government bodies are entrusted with certain functions by the state administration.

Today, there is no single definition of the concept of budgetary unitarism and federalism. As a rule, budgetary unitarism is interpreted as "a form of intergovernmental relations in which the central government conducts an active policy on the formation of local finances" [10, p. 512]. The budget system in unitary countries (for example, Italy, France, Ukraine, and Japan) is usually represented by two levels of budgets (state and local budgets). It should be noted that unitarism and federalism in their pure form are quite rare, most budget systems contain signs of both unitarism and federalism [10, c. 512].

A sufficient level of autonomy of local authorities is characteristic of both federal and unitary countries. After the adoption of the European Charter on Local Self-Government in 1985, an active process of decentralization began. 47 countries, including Ukraine, joined this charter. Both economic and financial decentralization led to the active form of intergovernmental relations, which combined the principles of both budgetary unitarism and budgetary federalism. During the implementation of decentralization, an active process of redistribution of functions between authorities began, with a bias towards regional and local self-government bodies.

It should be noted that the indicators of the share of local budget revenues in GDP vary greatly in European countries. Thus, GDP is redistributed the most through local budgets in Denmark – 37.5%, Sweden – 25.8%, and Finland – 23%, Poland, Great Britain, the Czech Republic, and Hungary have values of this indicator within 10-15%. And such countries as Austria, Germany, Belgium, Slovenia, and Spain redistribute
from 5 to 10% of GDP through local budgets. As we can see, all three groups have completely different levels of development in the country [11].

Although it should be noted that the world experience of decentralization has shown that decentralization itself, in particular of financial resources, cannot be a guarantee for the development of local territorial communities. We can also claim that today there is practically no universal effective method of dividing revenues and expenses among budgets at different levels.

It is customary for all foreign countries to divide local budgets into two independent functional types – local current (administrative) budgets and local development budgets (investment budgets) [3]. When forming local budgets, the division of current and capital expenditures is taken into account.

In general, the revenues of local budgets of developed countries, as well as in Ukraine, consist of tax and non-tax revenues. The experience of European countries and the USA shows a general pattern, according to which the formation of the revenue base of local authorities and local self-government is mainly determined by the level of decentralization of power in the country. Sweden (63%) and Switzerland (59%), as well as Spain, France, and Italy – more than 55% – take the lead in terms of the largest shares of tax revenues in the structure of total revenues of local budgets. However, there are countries in which this share ranges from 10 to 15%. (Slovakia, Great Britain) [11, 12]. Local taxes form about 60% of the revenue base of local authorities in Sweden, 66% in the USA, 72% in Austria, 46% in Germany and Switzerland, 37% in Great Britain, etc. The system of local taxation in countries is very diverse. In Germany, it includes 55 types of local taxes, in Italy – about 70, in France – more than 40, in Belgium – almost 100, and in Great Britain, there are only 2 of them [12]. That is, it can be seen that the volume of revenues to the budget from local taxes is in no way related to their number. In European countries, mainly, two or three main taxes are singled out, which make up the main part of the revenues of local budgets.

The reform of decentralization of power, which began in 2014 in Ukraine, led to the fact that on June 12, 2020, the Cabinet of Ministers of Ukraine adopted 24 orders on the determination of administrative centers and approval of the territories of oblast communities. As a result, 1,469 territorial communities were created in the country (including 31 territorial communities in the uncontrolled territory within the Donetsk and Luhansk regions) [13].

The process of decentralization of financial resources, as a rule, is considered from two positions: first, as a process of transfer of powers and financial resources; secondly, because of such reforms, which does the number of powers and financial resources evaluate. The main quantitative indicators of decentralization are the share of revenues that are at the disposal of local authorities (before the transfer of transfers from the state budget), as well as the share of expenditures that are carried out at the local level of management. It is worth noting that the implementation of the decentralization reform was one of the biggest achievements of the authorities after 2014, however, in addition to significant positive results, the newly created united territorial communities faced the problem of inefficient use of financial resources.

The funds were mainly used to implement high-visibility projects (renovation of schools, cultural centers, medical and midwifery centers) to raise the rating of the head of the community and increase the chances of re-election in the next elections. At the same time, the reluctance of the heads of communities to take on additional responsibility and the work of attracting investments (for example, for infrastructure development) was noticeable [14, p. 17–18]. In some places, the management of OTG did not invest the money received from the budget in development but kept it in deposit accounts. According to the data of the Ministry of Regional Development, as of August 1, 2018, UAH 0.5 billion of funds from the budgets of the regional government were in bank deposits [15]. Most often, the reasons for the non-utilization of funds were the procedure for joining new communities, legislative unsettlement, lack of long-term plans for unification and financial regulation, and opposition from interested parties [16, c. 219].

However, along with some uncertainty, the implementation of the reform of financial decentralization made it possible to increase its sources of filling local budgets. One of the key directions of the reform of inter-budget relations is the creation of a two-level model of inter-budget relations. Thanks to the reform of inter-budgetary relations, territorial communities have a new level of budgetary powers and relations with the state budget. A positive aspect of the reform of inter-budgetary relations is the annual increase of investment resources of local budgets and the growth of the share of expenditures for the performance of self-government powers, which indicates an increase in the spending autonomy of local budgets and the effectiveness of the use of budget funds at the local level. The experience of foreign countries shows that the transfer of powers from state bodies to local self-government bodies ensures the strengthening of local self-government and allows them to solve the development issues of their territories [17].

It is worth noting that the financing of the socio-economic development of the territories takes place at the expense of local budgets' revenues, state support for local and regional development, the allocation of significant amounts of budget funds in the form of inter-budgetary transfers, as well as the expansion
of opportunities for attracting additional financial resources of international technical assistance. At the legislative level, the list of local budgets' sources of income has been expanded. Since 2015, local budgets have received the full amount of revenue from the land fee, real estate tax, single tax, vehicle parking fee, tourist fee, fee for providing administrative services, profit tax of communally owned enterprises, rent for use subsoil of local importance, fees for licenses and state registration, administrative fines and penalties, dividends, local loans and fees for issuing local guarantees, own revenues of budgetary institutions. In addition, 25% of the environmental tax, 90% of the funds from the sale of non-agricultural land, etc. are sent to local budgets. Significant financial advantages were received by the united territorial communities, whose budgets were equated with the budgets of cities of regional significance.

The full-scale war in Ukraine made adjustments to the processes of formation and use of the budgetary potential of territorial communities. It is at the local level that it is necessary to solve humanitarian, communal, logistical, and migration problems, to restore the destroyed – and this requires finances. However, the year 2022 showed how stable local self-government is, which can face any challenges with dignity, in particular in the financial part, even in the conditions of martial law. In general, in 2022, local budgets received 555.1 billion hryvnias of revenues from general and special funds. The largest specific weight was tax revenues of UAH 393.5 billion, or 70.9% of all revenues. Official transfers accounted for almost 25%, i.e. a fourth of all income [18] (Figure 1).

Of course, the so-called "blocked articles" of the budget, the implementation of which is impossible in wartime conditions, became important challenges for communities. Thus, small-scale current repairs are carried out with the funds of local budgets, but the community cannot continue the already started construction or start new projects. All capital expenditures on infrastructure projects are frozen, except for the repayment of financial obligations that the community has about infrastructure objects to European institutions, which are financed by the funds of the development budget. Despite all the problems caused by the war, LGUs are working to create favorable conditions for attracting investments, creating jobs, and increasing budget revenues. As a result, in 2022, the share of local budgets in the revenues of the consolidated budget increased significantly, and this is the highest indicator for the previous five years (Figure 2).

The structure of local budget revenues has changed to a large extent. In 2022, the general fund of local budgets received UAH 398.1 billion, which is UAH 46.2 billion more than in 2021. Thus, the main revenues of the general fund of local budgets (excluding interbudgetary transfers) for 2022 were: UAH 272.2 billion – personal income tax (PIT); UAH 114.6 billion – subventions from the state budget; UAH 47.2 billion – single tax; UAH 29.6 billion – land tax; UAH 7.2 billion – real estate tax; UAH 13.1 billion – excise tax; UAH 3.3 billion – payment for administrative services; 13.5 billion hryvnias – income tax for enterprises of the private sector of the economy was received in full [19].

![Figure 1 – The structure of local budget revenues in 2022 (by types of revenues)](image)

Source: built by the authors based on [18]
As can be seen from Figure 3 in the structure of revenues for January-December 2022, the largest specific weight is occupied by the tax on the income of individuals. In the structure of revenues of the general fund without transfers, personal income tax accounts for 68.4%. In the structure of general and special funds (with transfers), personal income tax is 49%. The next important source of income for local budgets is subventions from the state budget – 21% (114.6 billion UAH).

The increase in revenues of the general fund of local budgets in individual regions of Ukraine amounted to more than 30%, namely: Lviv region (+43.2%), Zhytomyr region (+42.0%), Zakarpattia region (+41.9%), Volyn region (+37.7%), Khmelnytskyi (+34.5%), Chernivtsi (+33.9%), Ivano-Frankivsk

![Figure 2 – The share of local budgets in the revenues of the consolidated budget of Ukraine (excluding inter-budgetary transfers)](image)

*Source: built by the authors based on [18; 19]*

![Figure 3 – The structure of local budget revenues for 2022](image)

*Source: built by the authors based on [18; 19]*
Due to the full-scale open invasion of the occupiers, some local budgets did lose their financial capacity. In particular, every fourth community that was in the zone of invasion of the Russian Federation collected at least 50% less income than the pre-war plans. Among the OTGs that were outside the combat zone, two-thirds noted a drop in income [20].

In certain communities, personal income tax revenues decreased due to a decrease in the business activity of enterprises, related to problems with the supply of raw materials, a decrease in the volume of orders and sales opportunities, problems with logistics, the mobilization of employees to the ranks of the armed forces, etc. For many communities, the loss of excise tax on fuel (due to the zero tax rate, which was introduced to maintain stability in the fuel market) is felt, and the ban on the sale of alcohol was widespread (and in some places still is), which affects the underpayment of excise tax on retail alcohol. Also, plans for tax-free payments were not fully implemented – because many registers remained closed, administrative services were not fully provided, and therefore local budgets did not receive administrative fees [21].

That is, the budget items that have suffered the most include: income from personal income tax (PIT), excise taxes, and land tax. As a result, communities were faced with the need to continue financing education, medicine, housing, and communal services when revenues fell by up to 70%. This put a significant imbalance in their finances [20].

**Results.** The conducted research indicates that thanks to the implementation of the decentralization reform in Ukraine, there have been positive changes in the formation of local budgets. However, Ukraine has imperfections in the system of formation of local budgets, this is also a high level of concentration of financial resources in the state budget, which reduces the value of local budgets in solving tasks vital to the population. In addition, it is necessary to increase the powers of local authorities to fill the local budget with revenues, and therefore, to increase the share of own potential. Taxes and fees transferred to local self-government departments should be under the full control of these bodies. Only then, local self-government bodies will have an interest in greater revenues and their rational use and will be responsible to local taxpayers for their choices and ways of spending funds.

The existing problems of formation and distribution of local budgets are characteristic of Ukraine, therefore there is an urgent need to study the world experience of decentralization and the implementation of best practices to increase revenues to local budgets, and as a result, the budget potential of the region. It is also necessary to take into account the world experience in balancing financial income with expenses and the performance of functional duties by local authorities.

**References:**


