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### **BUDGET PROCESS AT THE LOCAL LEVEL: PROBLEMS AND PROSPECTS OF MODERNIZATION**

The article deals with budget process at the local level taking into account modern requirements of decentralized processes and social and economic development support. The essential characteristic features of budget process at the local level distinguishing its stages, procedures, technologies and support system was revealed. Budget reform processes in Ukraine were systematized distinguishing the stages of formation, structural changes and transformation to medium terminal planning. The advantages and disadvantages of some measures according to improvement of local budgets formation in Ukraine were investigated on the basis of critical analysis of some stages of their formation. Possibility to make public choice and support of its interconnection forming budget priorities with the aim of further modernization of budget process at the local level were shown.

**Key words:** budget process at the local level, stages, procedures, technologies, support systems, stages of budget reform, public choice.

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### **БЮДЖЕТНИЙ ПРОЦЕС НА МІСЦЕВОМУ РІВНІ: ПРОБЛЕМИ ТА ПЕРСПЕКТИВИ МОДЕРНІЗАЦІЇ**

Розкрито зміст бюджетного процесу на місцевому рівні з урахуванням сучасних вимог децентралізаційних процесів та забезпечення соціально-економічного розвитку регіону. Розширено сутнісну характеристику бюджетного процесу на місцевому рівні з виокремленням його стадій, процедур, технологій та систем забезпечення. Систематизовано процеси бюджетної реформи в Україні з подальшим виокремленням етапів становлення, структурних змін і

переходу на середньострокове планування. У результаті критичного аналізу етапів реформування вдалося виявити переваги і недоліки здійснюваних заходів щодо вдосконалення формування місцевих бюджетів України. Встановлено важливість здійснення суспільного вибору і забезпечення його взаємозв'язку з формуванням бюджетних пріоритетів з метою подальшої модернізації бюджетного процесу на місцевому рівні.

**Ключові слова:** бюджетний процес на місцевому рівні, стадії, процедури, технології, системи забезпечення, етапи бюджетної реформи, суспільний вибір.

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## **БЮДЖЕТНЫЙ ПРОЦЕСС НА МЕСТНОМ УРОВНЕ: ПРОБЛЕМЫ И ПЕРСПЕКТИВЫ МОДЕРНИЗАЦИИ**

Раскрыто содержание бюджетного процесса на местном уровне с учетом современных требований децентрализационных процессов и обеспечения социально-экономического развития региона. Расширено сущностную характеристику бюджетного процесса на местном уровне с выделением его стадий, процедур, технологий и систем обеспечения. Систематизированы процессы бюджетной реформы в Украине с последующим выделением этапов становления, структурных изменений и перехода на среднесрочное планирование. В результате критического анализа этапов реформирования удалось выявить преимущества и недостатки проводимых мероприятий по совершенствованию формирования местных бюджетов Украины. Установлено важность осуществления общественного выбора и обеспечения его взаимосвязи с формированием бюджетных приоритетов с целью дальнейшей модернизации бюджетного процесса на местном уровне.

**Ключевые слова:** бюджетный процесс на местном уровне, стадии, процедуры, технологии, системы обеспечения, этапы бюджетной реформы, общественный выбор.

Such factors as: current state of budget instability, not adjusted forecasting questions and planning of local budgets indices, ineffective mechanism of division of revenues and costs between budget system stages and considerable differences at the levels of economic regional development and public welfare support show modern conditions of fiscal

relations in Ukraine. It is very important to investigate theoretical base, realities and peculiarities of budget process at the local level for its modernization for further development of decentralization of taking budget decisions according to available regional resources, increasing of clarity of budget procedures, reconstruction of approaches to their argumentation and widening of influence of public institutions taking into account negative influence of above mentioned factors. At the same time it is necessary to improve support systems and technologies of budget process at the local level with a new model of forming of local budgets within social and economic regional development strategy implementation and building up public society.

Such native scientists as: V. Andrushchenko, N. Bak, L. Bezhubenko, O. Vasylyk, V. Demyanyshyn, M. Karlin, O. Kyrylenko, V. Kravchenko, I. Lunina, S. Mykhailenko, V. Oparin, K. Pavlyuk, Iu. Pasichnyk, O. Suntsova, V. Fedosov, S. Iuriy and others investigated theoretical and practical questions of budget process. Next foreign scientists as: Sh. Blankart, G. Bukenen, K. Arrow, R. Musgrave, V. Pareto, A. Pigu, P. Samuelson, G. Stieglitz and others examined theoretical grounds and analyzed practical problems in budget process formation. The investigations of budget of some scholars in the beginning of the 20<sup>th</sup> century among which are: P. Kovanko, I. Ozerova, I. Chernikhova and R. Shturma are of great importance.

Nevertheless, some peculiarities and problems of budget process at the local level in the conditions of democratic and market transformations need to be investigated deeply. Actuality, scientific and theoretical value, practical importance and necessity to solve above mentioned problems are of great importance.

The aim of the article is to define problems and directions of modernization of budget process at the local level in the conditions of democratic and market transformations on the basis of theoretical grounds summarizing and analysis of native practice.

To our opinion, in the conditions of formation of democratic and market bases of state formation the essence of budget process at the local level is very important. Investigation and systematization of scientific approaches to the explanation of budget process create some reasons to differentiate the essence of “budget process at the local level”. Considering above mentioned we propose our own definitions for support systems,

technologies, procedures, stages of planning and studying of local budgets projects, their approving, fulfillment and making some changes, preparation, observing and approving paying attention to necessities of social and economic regional development including public institutions.

System transformations in Ukraine cause the necessity of budget process definition at the local level distinguishing its stages, procedures, technologies and support systems providing market and democratic transformations with the aim of social and economic regional development and public society formation.

There are qualitative peculiarities of budget processes stages which differ specifically and require planning project, observing and approving budget, its fulfillment and reporting.

Procedures of budget process require official fixed order of implementation, fulfillment and formation of budget strategy and policy development, planning, fulfillment, reporting and evaluation of efficiency of fiscal policy. Thus, procedures differ from stages by their quantitative and qualitative characteristics because they include formation of budget project and they are final after reporting.

Technologies of budget process comprise the sum of techniques, methods and ways of development, approving and implementation of budget decisions doing each procedure separately. Budget process fulfillment on stages and procedures using modern technologies is possible owing to effective support systems.

The complex of adjusted and operative systems is defined by support systems for real fulfillment of engagements in budget procedures implementation. The support system comprises organizational, informational, staff, technical, program and financial support.

Distinguishing stages, procedures, technologies and budget support process at the local level supplies its essential characteristic and defines characteristic peculiarities. Budget process procedures differ from stages by their qualitative and quantitative features and their approving is possible under conditions of modern technologies using and effective support systems functioning.

At modern stage in the sphere of fiscal relations in Ukraine there is a combination of two coordinative powers: market regulation and state administrative decisions through the process of public interests representation clearly observed at the local level.

National budget system has been always reformed during the period of market and democratic transformations. We distinguish three stages of budget reform in our country.

The first stage of reforming began in 1991 and it was approved on June 29, 1995 the Law of Ukraine “About Budget System” in which the main issues of functioning of budget system in Ukraine were formed, incomes and expenditures of state budget, local budgets availability, executive power authorities in planning and budget fulfillment at all stages were determined.

At the second stage of budget reforming the processes of resolution and approving of Budget Code of Ukraine were taken in 2001. This stage serves for strengthening of budget system fulfillment and implementation of accurate cash registered reporting. Such main tasks of budget reform as: development of mechanism of the biggest effectiveness of budget management process achieving, strict control support and responsibility for its fulfillment were determined.

The next stage of budget reform which is still in process is resolution of the Law of Ukraine on July 8, 2010 “About Changes to Budget Code of Ukraine” [3]. At the next stage of national budget system the reforming transformation to medium term budget planning and main program method in budget system are expected.

The very important issue of budget process reforming is support of local budgets equilibrium. The principle of budgets equilibrium in our country is in equilibrium of expenditures of state budget and incomes during some period determined by Budget Code of Ukraine. Thus, equilibrium of local budgets of Ukraine is of great importance and budget resources should guarantee this issue. Imperfection of institutional and legal base of interfiscal relations management before resolution of Budget Code of Ukraine was in the next:

◌ there was no clear division of expenditures between state and local budgets and local government was not responsible for budget services, their quality and transfer expenditures to the local budgets without support of corresponding resources;

◌ local governments had no possibility and motivation to plan, foresee and form incomes of local budgets because the main part of incomes of local budgets was formed owing to income deductions standards of which changed every year;

the order of bank transfers between state and local budgets was not clear enough because it was done on the basis of subjective assessments of foreseen income and expenditures which caused local governments to react adequately on budget decisions taken by higher authorities and increase out of budget funds, continue holding ineffective social infrastructure financed by local budget costs and all this caused increasing credit debt [2, p. 168].

Introducing the main norms and regulations according to interfiscal relations reforming on the basis of economic effectiveness, social fair, budget necessity and responsibility for making decisions was done in Budget Code to balance local budgets of Ukraine.

It is necessary to note that income division is a base for differentiation of incomes and expenditures between levels of budgets. The main changes were at the level region – district, city –town – village; it differentiated clearly between all budget levels and gave a possibility to form a base for calculation of bank transfers which is calculated with the help of formula method.

But it is important to say about insufficiently considered legal acts in Ukraine which differentiate enough the functions between state levels solving problems of local budgets equilibrium. The very problem is in insufficiently considered results after making decisions by state governments which influence incomes and expenditures of local budgets.

Such directions of local budgets reforming in Ukraine are defined at the present stage:

- increasing of effectiveness of the process of forming local budgets expenditures and decentralization of budget costs management;

- improvement of control system of interfiscal relations;

- implementation of quality planning of local budgets for medium term prospect;

- deepening of local budgets investment component;

- performance insurance of budget process organization and monitoring at all stages and reinforcement of responsibility for violation of budget legal system;

- increasing of budget process procedures clearance with the purpose of democratic principles state building support [7].

It is necessary to take into account forming of democratic and development of market principles management in budget system

equilibrium in general and reforming in budget and another business spheres in the process of budget process modernization at the local level allowing development of financial independence of local self-management with clear distribution of budget resources and authorizations.

Budget processes determination in democratic state is considered to reflect public advantages and should be based on public choice. But as practice shows it is very large problem to implement this principle at the stage of fiscal policy forming not only in Ukraine but in most countries. Real public life, determination and implementation of fiscal policy give a challenge for democratic public ideology and science, especially for economic one [8, p. 3].

It is reasonable to distinguish such peculiarities of theory of public choice defining analytical schemes of budget decision making developed on its base:

▮for a characteristic of human behavior in political sphere the same hypothesis as in new classic economic theory are used: the hypothesis of own interests observance, completeness and taste transitivity, and rational maximization of the main function;

▮the process of revealing personal tastes is interpreted mostly using terms of market interaction: human relations in political spheres are considered to be described by terms of mutually profitable exchange;

▮the same questions are investigated which are very important for new classic price theory (questions about existence and stability of political equilibrium, the methods of its achieving and evaluation based on cost-benefit principle Pareto) [5, p. 1211].

Public choice is for decision making in the sphere of local finances by the way of voting and decision making at the stages of observing and approving of local budget.

The prospects of budget process modernization are in determination of an important role of public choice which ideally should be a base for fiscal state policy. It is a reflection of advantages of citizens. Because of different opinions about a resolution of budget decisions fiscal policy is developed taking into account interests of majority but also these decisions should be compromise with interests of minority. It is very important to support the balance of interests of different public groups, their different opinions about ways and methods of solving economic problems.

Investigation and approving of budget is a complex phenomenon

combining scientific interests of different directions and cause the definitions of economic and financial aspects. To these aspects belong: economic conditions of developing and approving of budget decisions; economic and political interests of different deputies, political parties and financial and industrial groups in sums of budget fund and expenditures determination; budget procedures, their content and conducting sequence; interconnection between different branches of government in forming and budget costs distribution[4, p. 428].

The results of fiscal policy and assessment of concrete decisions in the sphere of budget relations are explained by positive and normative versions of public choice theory. Positive variant of public choice characterizes political technologies of budget process under conditions of direct and representative democracy using different voting procedures and reveals the motifs of voters' behavior. Normative interpretation of public choice theory explains the problems of social justice, rights and obligations of citizens and moral and ethic factors of financial interaction between society and state [1, p. 120].

Public benefits support should be a result of public choice in the context of budget processes procedures without regard for inhabitation within the same country. The concept of public benefits under modern conditions of democratic and market transformations is distinguished as important and necessary segment of strategic development of Ukraine. Indisputable key factor of economic stability and a guarantee of public welfare is the level of public welfare support at the local level in particular and in the whole country in general.

The important structural characteristic in public welfare support is a degree of decentralization of state finances. Decentralization gives an opportunity to adapt public welfare support to tastes of local citizens, increases the responsibility of local governments and effectiveness of state sector activity implementing some competitive elements. Paying attention to macroeconomic instability which needs to be concentrated on a state level of fiscal policy instruments, a considerable state debt dependency, tendencies of state paternalism and irregularity of territorial development it is necessary to define clearly optimal proportions of costs distribution between state and local budgets.

Support of advantages of public welfare rendering at the local level foresees:



↑ sufficient independence of local governments in questions of determination of size and structure of local budgets expenditures;

↑ clear distribution of expenditures between levels of government considering economic criteria;

↑ sufficient administrative and financial capability of local governments for proper fulfillment of their functions;

↑ effective corresponding stimuli and mechanisms of local governments in the context of support of efficiency of public welfare rendering [6, p. 12].

The main advantage of local support and financing of public services in the context of budget process modernization at the local level is in giving an opportunity to support a wide range of tastes and requirements according to local changes in the models of demand and financial possibilities. Every local public group can require services within its own public choice. It supports a great flexibility of political process and gives a possibility for citizens to choose strategic vectors of regional development on their own or through elected representatives.

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