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Features of budgeting under conditions of the formation of amalgamated territorial communities

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Abstract

Nowadays, amalgamated communities are widely occurring in many parts of the world and with them, the new structure forms of management too. Dollery, Grant, and Kortt (2012) argued that structural reform through amalgamation is very often used in many countries of the world in order to develop local governance systems.

There are many disagreements regarding the economic consequences (Byrnes and Dollery, 2002; Dollery and Crase, 2004; Mabuchi, 2001; Sancton, 2000), the amalgamation of local communities was and continues to be proposed as a potential option for improving public service, financial capacity and the standard of living of citizens.

The aim of this study is to investigate and compare how the role of budgeting has changed in achieving expected benefits of amalgamation. Two Ukrainian cases (Limanskaya and Cherkaskaya amalgamated territorial community) are chosen for investigation. Empirical results are based on the responses of six interviews who work with budgets in amalgamated communities.

I analyzed two cases, and I would like to note that the results were not unambiguous. As for the theoretical basis associated with the expectation of the amalgamation process, they partially overlap with the theory. Both communities had similar expectations of reform. As for the role of budgeting, for the Limanskaya community, this was one of the crucial factors for achieving the expected results, but for the Cherkasy community, intergovernmental relations played a key role.

Keywords: amalgamation amalgamated territorial community, expectations, local budget, budgeting, local governments.

Acknowledgements

This master's work is the final part of my studies both at the Nord University and at the Taras Shevchenko National University of Kyiv.

I decided to dedicate my work to the territorial communities. The unification process is rife throughout the world, but in Ukraine, this reform came into force in 2014. It opens up many prospects for regional development, improving the quality of services, but the essential thing is changes in the budgeting process and filling the budget of local communities.

That is why I decided to write about how the role of budgeting has changed in achieving expected benefits of amalgamation.

I want to thank Toomas Haldma and Nataliia Miedviedkova for constructive criticism of my work, as well as support during the writing of my master's work. This support allowed us to make more qualitative and that the most important is to move in the right direction.

Separately I wanted to say thanks to Anatoli Bourmistrov, who during the seminars acted as an opponent of my work. His advice was constructive in writing the work.

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ABSTRACT

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List of acronyms

ATC – amalgamated territorial community

LC-s – local governments

I. INTRODUCTION

1. Background of the study

Nowadays, amalgamated communities are widely occurring in many parts of the world and with them, the new structure forms of management too.

Dollery, Grant, and Kortt (2012) argued that structural reform through amalgamation is very often used in many countries of the world in order to develop local governance systems. For example, countries such as: USA, Estonia, Norway, Finland, Australia, France, Germany and others, all used amalgamated reform to reduce the number of local authorities and increase their efficiency and effectiveness.

Many well-known scientists and economists have paid attention to studying both the theoretical and economic part of the merger. Faulk and Grassmueck (2012) studied the effects of unification in the United States of America. Dollery and Robotti (2008) reviewed a potential amalgamation of different countries such as Italy, Germany and France. Reese (2004) and Vojnovic (2000) have written and conducted sets of imperial studies on the consequences of unification in Canada.

The importance of the chosen topic and my research work is based on the fact that in the years 2014-2016, several significant steps have been taken in Ukraine to decentralize public administration, including local authorities. First of all, adoption of the Law of Ukraine "On Voluntary Association of Territorial Communities", as well as amendments to the Budget Code and the Tax Code. According to the Law of Ukraine (2016, №1, section 11), the local budget will retain 100% of the single tax, corporate income tax and municipal property tax and real estate tax. Also, 60% of the personal income tax, 25% of the environmental tax, and 5% of the excise tax will remain in the communities. Also, all funds received for the provision of administrative services will also go to the local budget. Under these conditions, the role of budgeting in territorial communities of local self-government in the socio-economic development of the country and regions is growing.

I think that this topic is interesting for research since a lot of work and research was devoted to different countries, but they did not show the connection between the reform and the primary tool (budget) to achieve expected benefits. Moreover, the administrative reform of local governments is new for Ukraine. There are several studies about Western countries, but similar studies in CEE countries (including Ukraine) are missing.

In connection with the implementation of the decentralization of public administration reform, including budget decentralization, a significant part of the powers and responsibilities in the financial and budgetary spheres passes to the local government, in particular, the newly formed amalgamated territorial communities (ATC).

In the purest sense, decentralization of power means the transfer of political, administrative and financial powers to units of the average or lower levels of the state hierarchy. However, the most important component in the process of decentralization is the provision of financial (budget) ATC powers. Conducting fiscal decentralization makes it possible to create conditions for ensuring economic growth and development, ensuring high availability of resources and the welfare of the population in the community.

The issue of association of territorial communities has always been relevant for small local communities (villages, towns).

By focusing on empirical data on municipal amalgamation reforms available by country, state or region, I want to analyze the expectations that were before the decision to amalgamate and the results after (Fig.1) in the amalgamated territorial communities. In order to the fundamental changes have occurred in the budget, especially in the process of budget formation and execution. The crucial task of my research is to investigate the role played by the budget and budgeting in achieving the expected results. It will be executed through corresponding institutions and also compare the obtained results with theoretical approaches.

This work will be a kind of community guide whether or not to pursue this type of territorial reform.

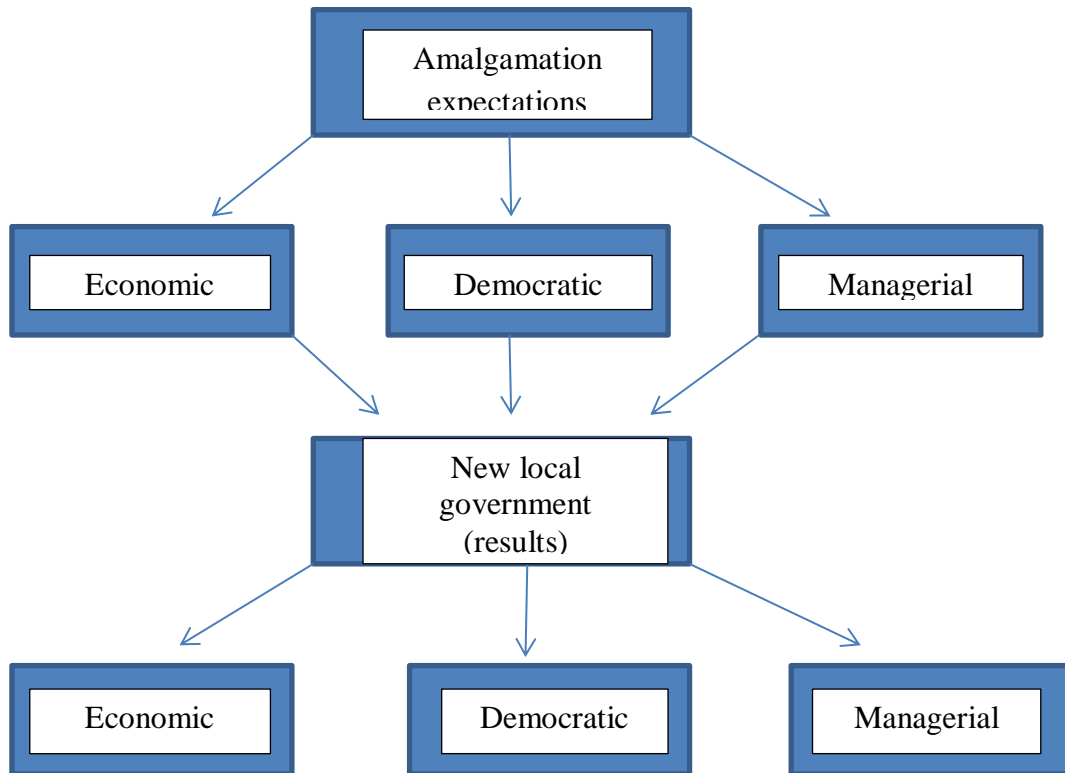


Fig. 1.1 Expectations of amalgamation (Antonio F. Tavares, 2018) and result.

2. The relevance of the research and the need for knowledge

Financial recourses play a vital role in the development of any country. They are the main element of economic relations, as well as an instrument for realizing the main areas of state, regional and local politics.

One of the problems of further development of the country is the state management system, which for a long time required restructuring, especially for local government.

In order to equalize the standard of living in the regions (Ukraine), the state decided to introduce a reform on the voluntary association of communities to which power would be transferred. They should independently fill the budget, distribute and control the implementation of the strategic plan. Over the past four years, 838 communities (28% of the total population in Ukraine) have been formed in Ukraine. It means that this reform is becoming increasingly important among the communities and the study of the driving force (or expectations) is a crucial aspect.

According to the Law of Ukraine "On Local Self-Government in Ukraine", local budget is a plan for the creation and use of financial resources necessary to provide functions and powers of local self-government. Local budgets, including budgets of amalgamated territorial communities, are independent. It is not included in the State Budget of Ukraine and other local budgets. On the part of the state, on a legislative level, full budgetary autonomy and financial independence of local budgets are ensured. Therefore, the analysis of the role of the budget and budgeting process of local budgets is very relevant.

The purpose of the Master Thesis is to analyse and compare the expectations and current results related to changes in the budgeting process after amalgamation. Moreover, I want to highlight the role of the budget in achieving expected benefits of amalgamation.

Moreover, this work will be an excellent example for other communities that decide to amalgamate them or not. It is essential also to reveal what problems the communities had in the early stages.

3. How do I plan to achieve the goals of my research?

For conducting research, I analysed amalgamation documentation, in order to understand theoretical expectations of reform, as well as the other secondary data (information from the official websites, books, theses, earlier publications in the particular field, etc.). In order to find out all the patterns Why and How it happened, I use qualitative method and the semi-structured interviews as a significant instrument of collecting data

To highlight the research problem, I use case-study (2 amalgamated communities) research strategy, communicating directly to the "first persons" of the amalgamation process (public servants) and with managers of financial departments.

The theoretical framework consists of two major parts: Role of budgeting in the performance management (Franzke 2010; Oprea Florin and Cigu Elena 2012; Tetyana Ovcharenko et.al. 2017; etc.) and theoretical background of amalgamation

territorial community (Byrnes and Dollery, 2002; Alesina and Spaloro, 1997; Reingewertz, 2012; Jung, 2013; Calciolari et al., 2013; and others) and in order to highlighted theoretical expectations of amalgamation and the role of budget in achieving expected benefits. Along with the sources mentioned above, I apply to the Theory of Planned Behaviour (Ajzen, 1985) in order to estimate people intentions to changes in budgeting within the amalgamation process, which includes beliefs about behavioural outcomes, evaluations about behavioural outcomes, motivations, belief about capability and control. Moreover, I apply to Budget theory, which helps me to evaluate changes in the budget process after amalgamation from inside the organization. I based on the opinion of experts or higher-level decision-makers in the community to show the role of budgeting.

I use also widely known in Ukraine standard among theoreticians and practitioners – “Practical guidelines on the formation of capable territorial communities” (Association of Ukrainian Cities, 2015), in order to describe the basic definitions of the amalgamation.

4. Research question

The budgeting process is one of the most crucial processes for local governments (Dollery, Grant, and Kortt, 2012). It should be noted that it is quite complicated because local governments must allocate existing resources for specific programs, determine priority programs, and also monitor implementation.

Research question of Master Thesis

How has the role of budgeting changed in the achieving expected benefits of amalgamation?

Sub-question:

- ✓ What are the drivers of budgeting change within the amalgamation?
- ✓ How does the role of budgeting changes during the amalgamation?

In order to answer these questions, I will analyze how the budgeting process has changed, after the reform of the amalgamation in the two territorial communities in the Donetsk region.

- Limanskaya amalgamated territorial community (one of the biggest amalgamated territorial community in Ukraine)
- Cherkaskaya amalgamated territorial community

5. Structure of the thesis

To answer the research questions following the structure of the Master Thesis was chosen (Fig. 1.1): Chapter 1 provides the reader with introduction and background of the research, a theoretical framework is presented in Chapter 2, including the most essential and relevant theories for the problem statement. Chapter 3 describes the methodology used for conducting our research. Empirical findings are described in Chapter 4 and analysis, and discussion is conducted in Chapter 5. Finally, there are conclusions and some other openings for future research.

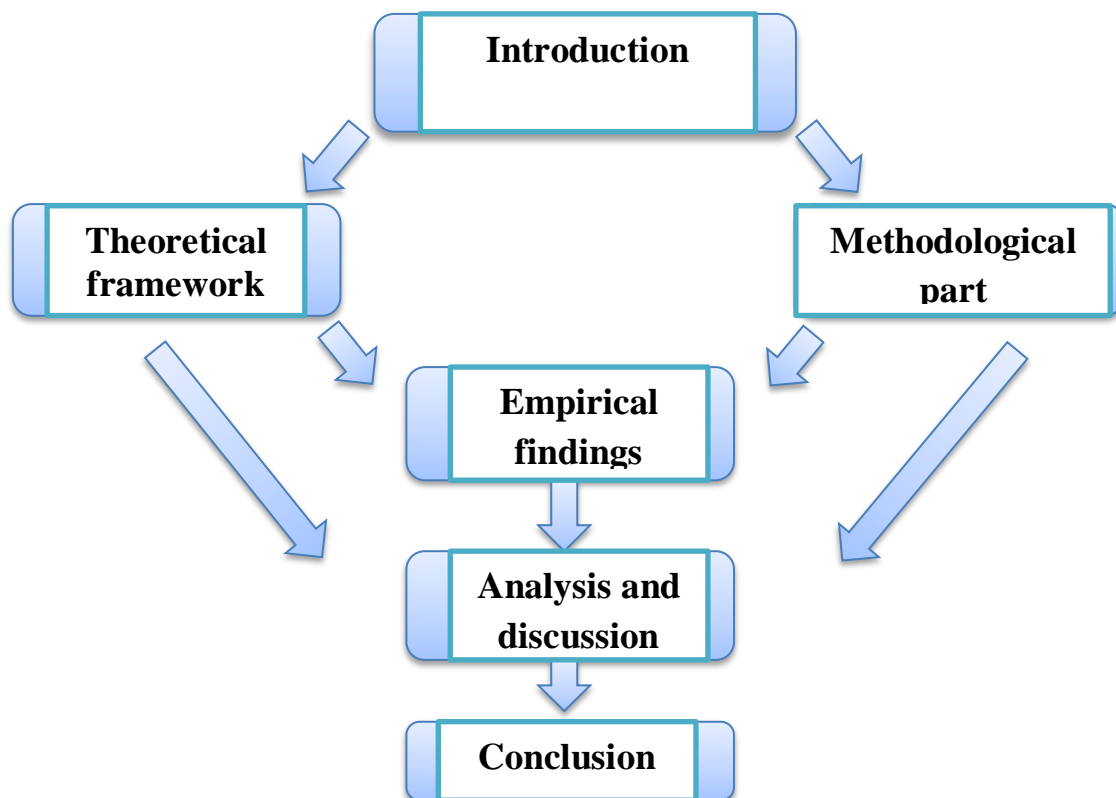


Fig. 1.2 Structure of Master Thesis

II. THEORETICAL PART

In this chapter, I introduce to the reader essential concepts and components that underpin the relevant theory to the problem statement, and hence, help me to design empirical and analytical parts. I describe the theoretical background of amalgamation territorial community and the role of budget in the amalgamation. Then apply the Theory of Planned Behaviour (Ajzen, 1985) in order to estimate people intentions to changes in budgeting within the amalgamation process. I apply to Budget theory, which helps me to evaluate changes in the budget process after amalgamation from inside the organization. At the end of the theoretical chapter, I describe which factors influencing budgeting in amalgamated LG-s.

2.1 Role of budgeting in the achieving expected benefits of amalgamation of LG-s

The process of decentralization is complex and challenging, and its primary goal is to change the whole system of governance. Under this reform, communities are empowered to independently determine socio-economic priorities, make decisions and be responsible for their implementation.

Before the reform, all issues related to budgeting were decided by the central government, which did not always focus on the problems of the local population.

In order to determine the role of budgeting, it is worth analyzing the value of the budget, since budgeting is the main instruments for realizing the goals of the budget.

2.1.1 Role and peculiarities of formation of the budgets of the amalgamated territorial communities.

According to Natalenko N. (2016), the local budget is a plan for the creation and use of financial resources necessary to provide functions, services and decision

authority of local self-government. Consequently, the formation of the local budget is one of the most important issues for the newly established ATC.

It should be noted that the budget of territorial communities is entirely independent of the central government. It is not included in the consolidated budget city or district. The budget of the local governments and territorial community fulfils several essential functions, such as: ensuring the formation of monetary funds, the distribution of funds, control over financial and economic activities (Bastida et al., 2007).

Schwarting (2006) and Mäding (2005) argued that budgetary planning is a crucial element with diverse procedural (Figure 1) and material functions (Figure 2).

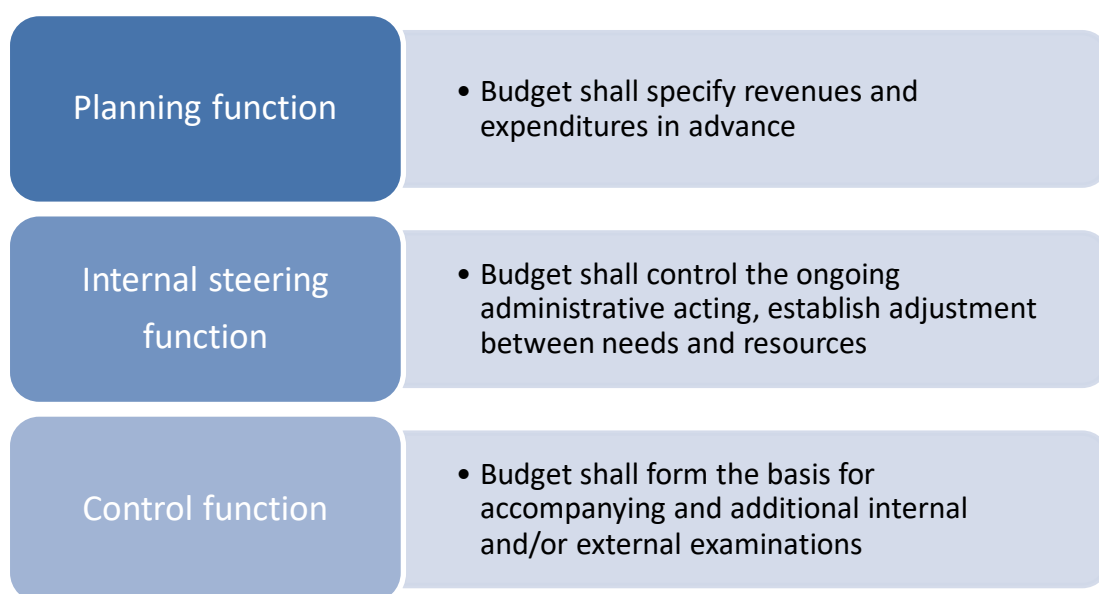


Figure 2.1: Procedural functions of budget.

Source: (Schwarting 2006, p. 49.)

As regards the use of budget procedural functions, Schwarting (2006) identified three key functions: the first one is planning. The main task of which is to plan revenues and expenditures of the budget. The second function is related to internal management. First of all, this refers to the governing bodies, which must build a link between the available resources and the needs of people.

Last but not least, this is control. It can be both internal and external, in order to avoid corruption and support effective and efficient money management.

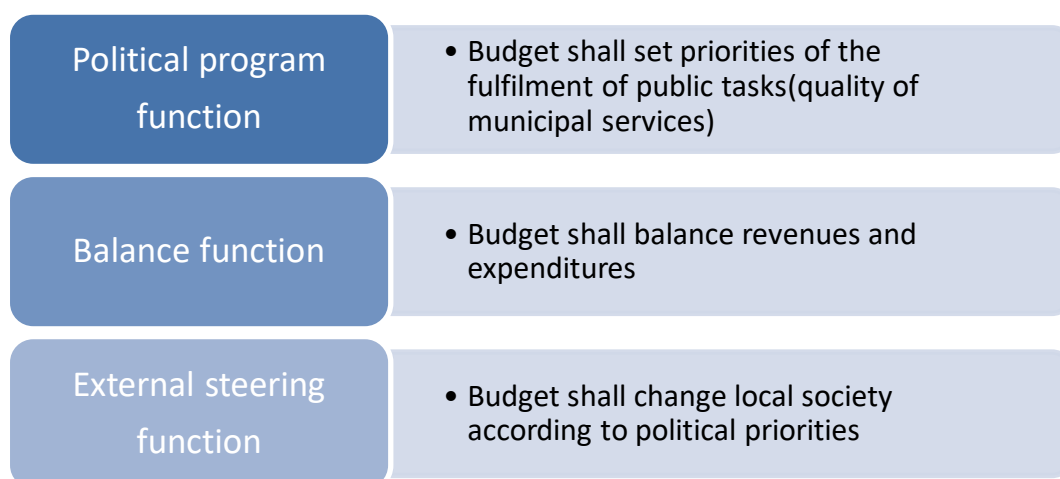


Figure 2.2: Material functions of budget

Source: Mäding (2005, p. 341)

Mäding (2005), in its work, formulated the material functions. First is the political program. The main task of which is to establish priorities, for example, such as increasing the quality of services). The second function is connected with the establishment of a balance between revenues and budget expenditures. The last function that was allocated is external steering function.

In the process of transition from a centralized system to a democratic one, the role of local budgets and its components in the development of independence increases. Oprea Florin and Cigu Elena (2012) argued that administrative decentralization and strengthening local autonomy must be accompanied by financial resources.

The reform of decentralization provides for the transfer of powers to local authorities regarding the formation of the budget. In this case, the weight of the local budget will increase in relation to the central one.

It should be noted that the benefits received from own resources directly affect the economic and social environment in the regions. It also suggests that the state has provided the right tools for implementing local policies autonomy.

As was previously mentioned, the main idea of the reform is to create a sustainable local budget from the central government. Schick (2005) highlighted four measures of the sustainability of local budget:

Table 2.1 Measures of sustainability of local budget

Solvency	The ability to pay its financial obligation
Growth	The capacity of local government to meet future obligations with existing tax
Stability	The capacity of local government to meet future obligations with existing tax burdens
Fairness	The capacity of local government to pay current obligations without shifting the cost to future generations

Source: Schick (2005).

2.1.2 Role and peculiarities of formation of the budgets of the amalgamated territorial communities in Ukraine.

The formation, development and functions of the local budgets of each country are conditioned by the presence of certain national, political, economic, legal and other factors. Turning directly to the analysis of the issue related to local budgets in Ukraine, it should be noted that, traditionally, there are three functions of local finance: distributive, control and stimulating (Karlin, 2008).

The distributive function of local budget is manifested in the order of the formation of revenues and expenditures of local budgets, through which there is a complicated process of providing their financial resources necessary for the implementation of tasks assigned to local self-government. The financial resources accumulated in local budgets and trust funds are distributed and used to meet a variety of local needs.

The control function of local budget is realized, in particular, in the activities of local self-government bodies when drafting, consideration and approval local budgets, as well as the implementation and compilation of a report on the implementation of local budgets. The control function of local finance is aimed at

ensuring the foreseen proportions of distribution and redistribution of financial resources, their purposeful and economical use.

The stimulating function of local budget is to create conditions where local governments are directly interested in increasing budget revenues, additional revenue from local taxes and fees, the search for alternative sources of revenue, the efficient use of cash entering into their disposal.

According to Ovcharenko et al. (2017), local budgets are divided into the current budget and development budget.

According to the Law of Ukraine (№ 280/97), the budget of development is the revenues and expenditures of the local budget, which are formed and used to implement programs of socio-economic development, strengthening of the material and economic base.

The revenue part of the development budget consists mainly of the following revenues: a single tax for small businesses, funds from the sale of non-agricultural land, subventions from other budgets for the implementation of investment programs.

The expenditure part includes: repayment of local debt, contributions of local governments to the authorized capital of an economic entity, conducting an expert monetary valuation of a land plot subject to sale, as well as capital expenditures. Capital expenditures of the development budget are directed to socio-economic development, implementation of investment programs (projects), construction, overhaul and reconstruction of objects of the socio-cultural sphere and housing and communal services.

The development budget is the foundation of economic development for any community; moreover, it contributes to the future improvement of the standard of living of the population, and therefore it is a crucial element of the local budget. The influence of the development budget on the provision of socio-economic development of the territory is depicted in Fig. 2.3.

According to Franzke (2010), the local budget has a direct influence on the cultural and social life in a local community. Moreover, the budget affects future development substantially in amalgamated territorial community.

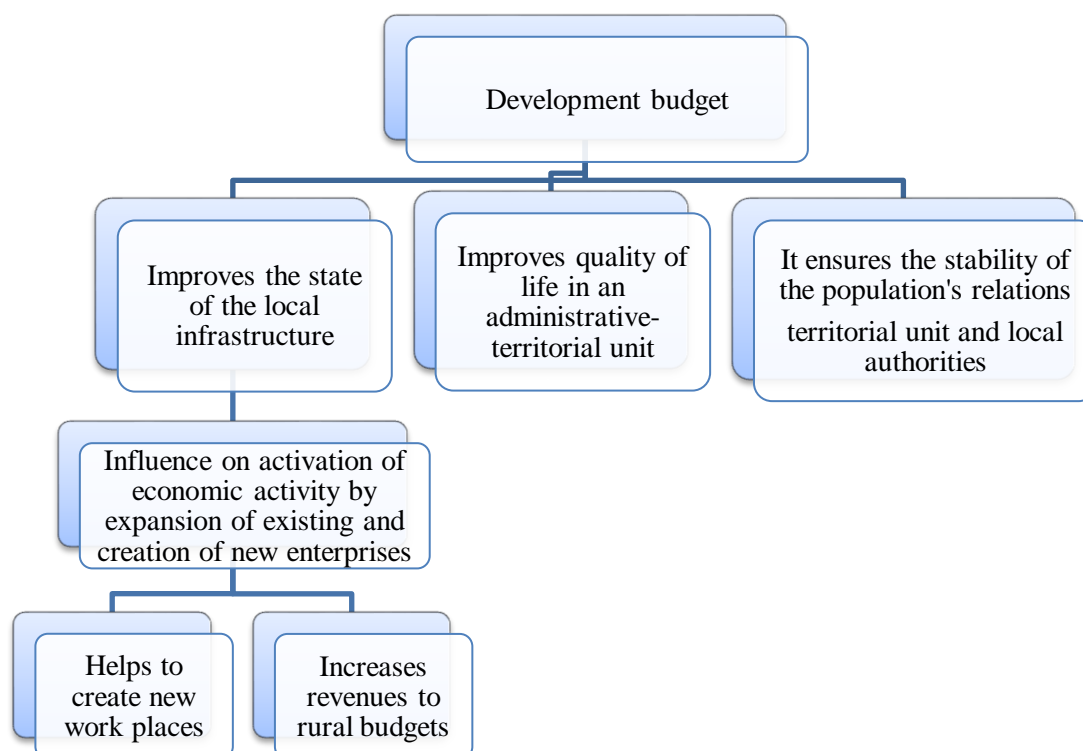


Fig.2.3 Influence of the local budget of development on the socio-economic development of the territory

Source: Ovcharenko et al., (2017).

Pelehata (2013) stated that in rural communities with a population of up to 500 people, the development budget is not formed at all. With a population of 500-1000 people, the budget for development has 11% of these rural communities. In the case of villages with a population of more than 5,000 people, this is about 66%. Also, this is already evidence that there are budgets for self-development.

At the result, after reforming, the population of communities' significant increased and development budget affects future development.

Revenues of the current budget are formed based on taxes (taxes on profits of enterprises and organizations, VAT, excise duty, state duty, income tax on citizens, a land payment, etc.).

The current budget is used to execute both their own and delegated authority. The funds of the current budget are directed to financing institutions and establishments, production and social infrastructure, which are held at the expense of budgetary allocations, as well as financing of measures for social protection of the population.

As a result of changes in the budget and tax code, the budgets of territorial communities will increase not only due to an increase in scale but also since most of the money will remain in the community. It is worth noting, that earlier, money was sent to the central budget and then distributed across regions to specific programs. Now communities themselves can decide how to manage their money. My guess that this is the right way of development because they are better known on the problems of their region.

Proceeding from all the above, the role of the local budget has grown significantly, as well as the value of budgeting.

2.1.3 Budgeting as a vital tool of achieving expected benefits for people

According to Isabel Brusca and Margarita Labrador (2016), budgeting is a process that evaluates income and costs. The budgeting process (BP) is a crucial tool that helps achieve strategic priorities and objectives for both private and public sector, but it should be noted that there are vast differences between budgeting processes in sectors.

In the public sector, budgeting related to the strategic plan, which identifies the main objectives, opportunities, methods for implementing the plan and analysis of the environment. Accountability and transparency are the priority task for BP in the public sector.

The budgeting process is more complicated since the goals do not concentrate on quantitative analysis, and the public sector pays special attention to quality. As a result, it is sometimes challenging to evaluate performance or outcomes.

BP includes various functions such as control, coordination and planning.

Snick (1966) describes the timeline of budgeting development. Initially, the primary function of budgeting is the control of expenditure. It can be said that this was the main field of development. Further, the budget and budgeting began to be used as an executive management tool. The last function of budgeting was developed in the mid-sixties when budgeting began to be used as planning. As a result of the development of economic systems, military systems, it was imperative not only to control the process but also to planning for multiyear expenditure programs.

Most of the budget is formed at the expense of taxes, so the control function is one of the main ones. In this case, budgeting is a guarantor of trust by residents and the state, as well as key to transparency and accountability.

The role of planning has a significant impact on the further development, especially in local communities. In connection with the amalgamation of communities, the budget will be increased by several times and the role of budgeting too Pidgeon C (2010).

Pidgeon C (2010) highlighted the crucial goals of the budgeting:

- ✓ To provide control of expenditures
- ✓ To provide accountability
- ✓ To assist in planning expenditures
- ✓ To support strategic planning
- ✓ To define the objectives for the budgetary period

Luthas, C (1998) highlighted in his work pre-conditions for the successful budgeting process

First, the budget preparation process should be consultative and participatory.

Secondly, the process must be systematic. It means that the choice must be made conscious of the choice of program and the allocation of costs. Thirdly, the planned

results and goals should be achievable and realistic. Last but not least, revenue estimation by local government should be realistic.

Local authorities should be provided with a report on budgetary materials, which will allow evaluating the financial results (outputs) of the past year, the current year, as well as the expected results (Local government Act of Uganda, 1997). It is worth noting that one of the main elements of successful budgeting is the allocation of sufficient time for thought and dialogue, as well as the full participation of the entire local government. In turn, this will avoid a biased selection of priorities and selection of expenses.

2.2 Theoretical background of amalgamation territorial community

The size of the jurisdiction, as well as the amalgamation process, is one of the most discussed topics among economics scholars (Slack, Enid and Bird, 2013). Although there are many disagreements regarding the economic consequences (Byrnes and Dollery, 2002; Dollery and Crase, 2004; Mabuchi, 2001; Sancton, 2000), the amalgamation of local communities was and continues to be proposed as a potential option for improving public service, economic capacity and the standard of living of citizens.

There are different approaches to determining what amalgamation is.

Table 2.2 Definition of amalgamation

Robert Bish (2001)	Amalgamation defines as processes that will decrease the amount of multi-purpose local government units throw amalgamation (Bish 2001: 14).
The Encyclopaedic Dictionary of Public Administration	Amalgamation is the process of creation of a new organization by the merging of one or more communities.
Halsbury's Laws of England	Amalgamation is a mix of two or more existing enterprises into one enterprise

Law of Ukraine (2015, №13, section 91)	Amalgamation is a voluntary association of inhabitants of several isolated villages, settlements or cities into one administrative centre.
Calciolari et al. (2013)	Amalgamation is expansion strategy for various reasons.
Lascoumes and Le Galès (2004)	The amalgamation is one of the tools that allows the state to reorganize local governments.

A considerable amount of economists support the idea of merger and using economies of scale and scope (Alesina and Spolore, 1997; Reingewertz, 2012) in order to increase in managerial and political capacity (Bhatti and Hansen, 2011), improvement in the quality of services to the citizenry (Christenson and Sachs, 1980), internalization of benefit spillovers (Tanguay and Wihry, 2008), and more significant equity in the reduction of horizontal fiscal imbalance (Soguel, 2006).

Antonio F. Tavares (2018) outlines three consequences of consolidations: economic efficiency, managerial effectiveness and democratic outcomes.

With few exceptions (Jung, 2013; Calciolari et al., 2013; Ruggiero et al., 2012; Boyne, 1995, 1996), the merging processes conducted by local governments have been all but neglected by Public Management scholars over the past decade. Some new contributions to the discussion on mergers have appeared, especially those examining the relationship between organizational size and efficiency (Zafra-Gómez et al., 2013; Andrews and Boyne, 2009; Dollery and Byrnes, 2007) and organizational size and effectiveness (Jung, 2013). This paper provides a contribution to the literature on the merging process of local governments as they attempt to increase the capacity of their public administrations to provide public services.

2.2.1 Economic expectations

In general, the main reason for the amalgamation of municipalities is to reduce the cost of services provided by the state. Boyne (1992), Dollery et al. (2008) and Fleming (2006) identified three reasons for which the cost of services in the communities after amalgamation would not change.

The first reason is that the effect of scale is not the same for all the services provided by the local government. Moreover scientists claimed that potential residents would have an economic advantage, as the costs will be distributed over a large number of people. However, in practice, this benefit does not exist as the cost of increasing since providing more services requires more workers to respond to this demand (Boyne, 1992; 1996; Dollery and Fleming, 2006; Dollery et al., 2008)

Secondly, managerial expenses also increase, after consolidation. So the last but not least, population size is an imperfect measure of production costs. The problem is that population size depends on a variety of factors: age, residents, local income, quality of service and seasonal variations.in the population.

According to Holzer et al. (2009), local governments for communities between 25000 and 250000 suffering from inefficiencies when providing capital-intensive and specialized services. Moreover, authors argued that over 80 per cent of municipal services are of a routine and as a result, the scale effect will not be applied.

Holzer et al. (2009) also noted that some services are efficiently performed in small communities than in large ones. For example, routine police patrol service.

Despite all the shortcomings, many economists support the amalgamation of the communities by leading highlight an additional theoretical argument against amalgamations.

Denters et al. (2014) state that consolidated communities tend to be economically developed, not only because they have a complete observation of the planning activities on the territory, but also because they have lower interest rates, constitute a lower risk in investments.

Moreover, the level of economic efficiency can also rise in consolidated communities since the level of professionalism in larger local governments is higher, as well as they have higher degrees of specialization (Denters et al. 2014).

Summing up, we can say that there are scientists (Boyne, 1992; Dollery and Fleming, 2006; Dollery et al., 2008) who doubt the successful implementation of the community amalgamation reforms in achieving economic efficiency.

There are also many economists who support amalgamation reform (Denters et al., 2014; Swianiewicz, 2010) considering that the problems of microregions will be solved by increasing the scale, both geographically and administratively.

2.2.2 Functional and Managerial expectations

Tiebout (1956) argues that, citizens '*vote with their feet*' in order to choose their preferred combination of local taxes and publicly provided services. According to Oakerson (1999), smaller communities are more homogeneous; at the result, local community policies are better aware of the priorities of people in their region. From this point of view, regional policy is more flexible and adaptive.

Wallace Oates (1972) states that a large amount of funds is lost during centralization; fiscal responsibilities should be decentralized. According to the theorem of Oates, the relationship between local government and people is much closer than with the central government. Also worth noting is the fact that local governments are better oriented in the available resources and needs of people..

Despite the increase in management efficiency, Denters et al. (2014) highlighted that amalgamation of municipalities is accompanied by an increase in coordination and management costs due to more complex bureaucratic structures associated with larger local governments.

In contrast to the limitations, public choice scholar underlined managerial efficiency and effectiveness. Swianiewicz (2010) argued that post-amalgamation local governments could deliver more and better quality services to their residents. The other author also gives the argument, the advantage is not only to provide

better services, but also to expand the range of services, including planning, police, public transportation and fire services (Newton 1982).

Summarizing the functional and managerial expectations, outcomes of amalgamation seems to vary, according to the theoretical background of the researcher. Some scientists believe that communities can be more responsive before unification due to Tiebout-type competition effects and higher preference homogeneity within communities. Others believe that after amalgamation, the communities will also be more responsive because of the improved coordination, capacity and professionalization of local bureaucracies.

2.2.3 Democratic Expectations

Denters (2002) states that community and social trust can decrease in turn, to a decline in the political trust after consolidation. The argument is that in small communities, councillors and citizens have close contact between each other and in which voters can control the work of their politicians. Oakerson (1999) concluded that small communities are based on community agreed interests. As a result, each community pursues its own policy, while in a non-competitive style. This in turn creates a situation where more exclusive units of governments are also less competitive.

According to Oliver (2001), people who live in villages, more actively participate in elections, in various local meetings, they communicate directly with officials.

Just as with economic efficiency and managerial effectiveness, democratic expectations seems to vary. A lot of public scholars argued that amalgamation has positive outcomes for citizens.

The increase in the capacity to support more high-quality services in consolidated communities can also improve the quality of local democracy (Dahl and Tufte 1973).

Swianiewicz (2002) argued that an increase in population would generate more prolific political debates, stronger civil society and enhanced pluralism.

As the number of services provided by the state increases, citizens are more likely to be involved in politics since they will consume these services, discuss problems related to the provision of services, possible improvement options.

According to Denters et al. (2014); Verba and Nie (1972), the communities that intend to amalgamation are often very small and have no interest groups. As a result, they are not able to influence the government.

After amalgamation, the number of interested groups increases, which affects the growth of pluralism and political competition. Moreover, it can generate higher responsiveness to policy preferences on the part of elected leaders.

Also, one of the main reasons for consolidation is the equalization of the income level of the population and the standard of living (Swianiewicz 2010).

Summing up the theoretical background of the amalgamation, territorial reforms seeking to merge municipalities have intended and unintended impacts on economic efficiency, managerial effectiveness, and democratic outcomes. However, economists and scholars often disagree with another one about the expected results. Some are inclined that an amalgamation is a potential option for improving public service, financial capacity and the standard of living of citizens, an exploration of the economies of scale and scope, improvement in the quality of services to the citizens, professional management and high standard of living.

Others are prone to the fact that small communities function better; they are better oriented on the problems of their territory.

So now, it is essential to compare these contradictory opinions and analyze the merger that occurred in Ukraine in recent years.

2.2.4 Driving force of amalgamation in practice

I would like to note that the theory does not always coincide with the real reasons for amalgamation. In practice, we have that different countries have their reasons, and they are seeking their benefits from this reform.

According to Wolman (2004), the main task for the government of Germany was to increase the potential of the regions, namely their democracy, increase efficiency, effectiveness and economic potential. The Danish government tried to solve the problems associated with the provision of social services. If we talk about the UK, they wanted to increase the efficiency of local authorities.

Swianiewicz (2010) argued that the Czech Republic had problems with the level of service provision, the level of local democracy and economic development. These reasons served as the main driving force for reform. In the case of Macedonia, their goal was to increase the level of competence of local government.

The Australian government wanted to increased transparency and accountability in the local structure.

As we see, each country had its reasons, but it is worth noting that this reform has a positive effect on all quality criteria. It also affects the quality of services, staff qualifications, transparency and sustainable development.

In my master's thesis, I will also analyze what the local authorities had expectations from this reform, what the driving forces were, and what happened in practice.

After analyzing several countries, I think Ukrainian cases are very interesting for analysis. First, we can compare the expectations that have been singled out in theory, which have been in practice in other countries. However, the critical element of my analysis will be whether the changes in the budgeting process have affected the achievement of expected results.

2.3 Theory

My Master Thesis applies the Theory of Planned Behaviour (TPB) and Budget theory as a research framework. I used TPB theory to estimate people intentions to changes in budgeting within the amalgamation process, which includes beliefs about behavioural outcomes, evaluations about behavioural outcomes, motivations, belief about capability and control.

Budget theory helps me to evaluate changes in the budget process after amalgamation from inside the organization. Reflecting the opinion of experts or higher-level decision-makers in the community to show the role of budgeting.

2.3.1 Theory of Planned Behaviour

The theory of planning behaviour (TPB) is one of the most common theories related to behavioural. This theory is based on the behaviour of the individual, his attitude and personal convictions. In my case, the interviews will be conducted with the managers of the financial departments of ATC, which will also reflect organizational views.

The TPB (Ajzen, 1985) consists of three conceptually independent variables of intention: attitude towards the behaviour, subjective norm and perceived behavioural control. Attitude towards the behaviour relates to the extent to which a person has a positive or negative evaluation of behaviour its expected outcomes, while subjective or social norms are associated with the perceived social pressure to act within or outside of the behavioural expectations. The last set of factors is perceived behavioural control.

The TPB provides a background for conceptualising, measuring and empirically identifying factors that determine behaviour and behavioural intention to offer a systematic approach in information campaign development (Montano et al., 1997).

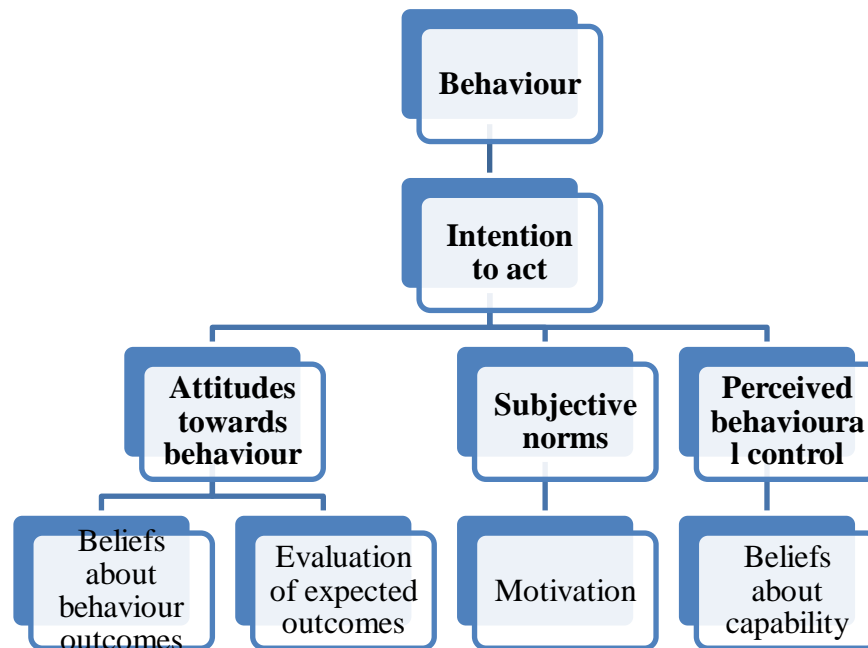


Fig.3.1 The theory of Planned Behaviour

Source: adapted from Munro et al. (2007)

Based on the theory, following factors need to be taken into account in the evaluation of LC-s (local governments) (Lymanska and Cherkaska) to amalgamation and changes in the budgeting process, for a complete overview of the topic and further understanding of current trends and tendencies.

Attitudes and perceived behavioural control (money, opportunities or improvement) are the strongest predictors of intention to amalgamation. In other words, these are people's expectations related to outcomes. Subjective norm is considered to be minor in the decision-making process. It means personal motivations. The personal will to amalgamation is a fundamental right of a person to do, which creates an individual's satisfaction and feeling of worthiness, that supports those intentions and doings (Yazdanpanah & Forouzani, 2015).

It should be noted, that the main reason for the amalgamation of municipalities in Europe is to reduce the cost of services provided by the state (Boyne 1992; 1996; Dollery and Fleming 2006; Dollery et al. 2008).

I think that the Ukrainian case is fascinating for the estimation of people intention and what drivers are the key drivers of budgeting change within the amalgamation.

2.3.2 Budget theory

Rubin (1997) argued that the theory of budgeting is not similar to all other theories since it does not include assumptions, hypotheses about what caused what. Rubin (1997) stated, that this theory is incomplete and at the stage of development. LeLoup et al. (1998), Forrester et al. (1997) and other scholars (William F, 1993) stated that budget theory is complete and study related with political and social motivation to the budgeting process.

There are two types of budget theory: descriptive and normative. The descriptive theory is often associated with politicians, civil servants who are reformers (Irene S. Rubin, 1990). According to Janet M. Kelly and William C. Rivenbark, (2008), the normative budget theory is based on limited research and is governed by values.

Descriptive theory has another approach. It includes multiple observation (survey) and the whole theory based on observations of practitioners. Forrester and Adams (1997) claimed that descriptive theory is a theory about budgeting, but normative is a theory of budgeting. Discretionary theory helps answer the question of whether the government has achieved its goals. Normative answer the question of whether the budget process is the best or theoretically correct.

The budget theory is associated with changes in the budget process, which is investigated from inside the organization. One of the main sources of research is interviews of people who make decisions in an organization or with managers of the financial department.

It is worth noting that the survey of local government finance department managers was major trends in budgeting in the 1980s (Botner, 1991). All this was accompanied by changes in the revenue system, changes in forecasting, as well as program and multi-year budgeting.

In my master's work, namely in a case with Ukrainian communities, I have a similar situation where the budget tax code was changed, as a result of which the budgeting process changed, namely its role.

Therefore, I think that the budget theory, which is associated with changes, will help to answer the question: «How does the role of budgeting changes during the amalgamation? ».

III. METHODOLOGICAL PART

Johnson & Duberley (2006) wrote that the chosen topic and the goals that the researcher sets for himself directly influence the methods that will be used in the future for analysis.

This chapter includes an overview of the methods that were used to gather information. In my master's thesis, I was based on high-quality data collection and analysis methods that will enable me to achieve the goal of my research. At the end of the section, I will analyze validity and reliability issues concerning obtaining and interpretation of the empirical data.

3.1 Timeframe of the research

Previously prescribed work schedule is a very important part of Master Thesis. The timeframe of the research covers a period from January 2019 until May 2019.

During the writing of my research, I followed the strategy that was adopted by Gubrium and Holstein (2002). This strategy includes six stages, such as: thematizing, designing, interviewing, transcribing, analysing, verifying and reporting.

In table 3.1, you can see the execution period of each of the stages. Starting from the thematizing and designing 15.02.2019 and ending with the reporting 05.20.2019. The table also presents the results of each stage.

Table 3.1 examines the description of the main stages of doing my research. The most significant difficulty of the research was the stage of thematizing and designing because the projects under study and respondents were changed several times. It influenced the topic and vector of the research and consequently theoretical frame of references and methods used for conducting research

Table 3.1 Schedule and the main steps of MOPP

№	Period	Result	Stage
1	15.02.2019	Choosing a topic and RQ	Thematizing & Designing
2	13.03.2019- 14.03.2019	MOPP seminar, presentation of MOPP's proposal, discussing the topic, research question and methodology of the research.	
3	13.03.2019	Meeting with scientific advisor	
4	15.04.2019	Taking into consideration all remarks and comments from the advisors and correcting; Getting contact with respondents; Preparing the topics for conversation with my respondents; Reformulation of the research question and discussion about my research strategy and methodology, searching for relevant theory. Writing Theoretical and Methodological chapters.	
6	20.04.2019	Conducting the interviews with my respondents. Receiving the feedback, rewriting the	Interviewing, transcribing, analysing,

		earlier draft; Analysing the legal base and documents, surveys, etc., writing empirical and analytical chapters of MOPP.	verifying
8	10.05.2019	Taking into consideration all remarks and comments from the advisors, correcting, rewriting	
10		Final remarks	
11	19.05.2019	Delivering the MOPP	Reporting

3.2 Philosophical foundation

Philosophical traditions in science determine in which way research work should be structured. Meanwhile, the results obtained are bound to the paradigm in the course of the research design process. The diversity of different philosophical points of view exist, that is why it is complicated to concentrate on components of just one philosophical concept to one particular research.

My topic refers to social science research, where the intention of people, rather than the examination of objects are studied. The positions of internal realism, nominalism and relativism are presented as primary philosophical backgrounds to study social sciences (Easterby-Smith et al., 2015, p. 143). I consider that relativism should be the most important ontological position to discover my topic; that is why it is used in my Master Thesis.

From a relativist ontology, it is considered, that different people can experience a phenomenon differently. In my case, a different point of views regarding the amalgamation process and the budgeting process. The diversity of opinions among managers of the financial department can lead to the point, where each of them may have their way of thinking. As Easterby-Smith et al. (2015)

state: *"there is no single reality, that can be discovered, and observers may have different viewpoints on the topic"*. Consequently, I admit that the views presented in the paper substantially refer to personal considerations of the subject of research.

The nature of the topic widely influenced epistemological approach choice, which took into account the ontological foundation. According to Easterby-Smith (2008) identifies two opposing theoretical attitudes to the nature of social entities: positivism and social constructionism. Positivism is based on the fact that social phenomena and their meanings exist regardless of social objects. These are two factors that existed independently of each other. Social constructivism has a different point of view. It is a belief that social phenomena are continually changing under the influence of social objects, as they are entirely dependent on social interactions.

Considering two points, I have chosen to adopt the ideas of social constructionism, since they are based on the individual perception of the world using own experience and means of language (Easterby-Smith et al., 2015, p. 147). It would be inappropriate to use the ideas of positivism for this research since it describes the social world as external phenomena, and that social world characteristics can be measured by using objective methods. Using the chosen epistemology, we tried to investigate and evaluate the intention of people to amalgamation and role of budgeting process after amalgamation.

According to Easterby-Smith (2008), the social constructionist paradigm has strengths in the ability to look at how processes change over time, to understand people's meanings, to adjust to new issues and ideas as they emerge, and to contribute to the evolution of new theories. They also provide a way of gathering data which is seen as natural rather than artificial. However, there are significant challenges and weaknesses of the social constructionism research paradigm. Data collection can be very time consuming, the analysis and interpretations of data may be challenging, depending on the intimate, tacit knowledge of the researchers, and the results of the research may not have credibility with policymakers. Therefore, I

pay lots of attention to preparing interviews and verifying the results obtained during the research.

By adoption of mentioned before paradigm, I applied the following methodology and methods to conduct this research. In my case, the starting point is questions that should be answered in order to gather rich data from which ideas are investigated. Data sources were equally valued and divided into six small cases, which would be thoroughly compared. As a result, the research is primarily based on qualitative method and case study. Due to a number of the cases, we assume that the most relevant method to analyse the data will be a cross-case analysis. Semi-structured interviews were used as the primary method for data collection. An inductive method was used in order to code the information.

3.3 Research design

According to Mitchell and Jolley (2007), research design may include various construction options such as: descriptive, explorative and causal.

The first method based on the literature and data that is already available. Moreover, I also use in-depth interviews to gather information according to this method. The central gap of this method is that it cannot be used to make any critical decisions by themselves, and you cannot summarize the results for the entire population (Mason, 2004).

The next type of research is descriptive. If we use this method, we describe the objects, data, phenomenon or characteristics of the phenomenon. This method is often used in a survey investigation, as it helps to find answers to the questions who, what, where, when and how. The central gap of this method that it cannot describe what caused a situation. It should be noted, that despite this reason, this method is factual, accurate and systematic.

Last but not least is the causal method. If you compare it with others, then this method is an informal type of research, they may include searching for information on the Internet. The main purpose of this method is to investigate the effect of one thing on another.

In my master's thesis, I combine two types, such as explorative and descriptive in order to analyze the two communities Limansky and Cherkaska, namely the intention of people to amalgamation, their expectations and the role of budgeting. Therefore, empirical data are mainly obtained by qualitative analysis, and notably from the interviews with key figures (managers of economic department). I conducted personal and telephone interviews with my respondents. Telephone and Internet technologies were used for setting up the dates for conducting interviews, getting feedback and approving the information received during the interviews (e-mails, telephone calls).

I have chosen a case study approach for conducting this research. A case study is the most suitable method to examine qualitative data and to answer the questions "how" and "why" (Johannessen et al., 2004, p. 84).

Case studies are often associated with ethnography, where the purpose is to describe and interpret social groups in their natural setting using a number of qualitative techniques over an extended period (Onuchak, 2009).

This study aims to understand people intention to changes in the budgeting process. In our research, I am looking to discover the expectation of amalgamation, as well as factors that influence decision-making, the importance of the budgeting process and the role of budgeting in achieving expected results.

According to Yin (1981), case study is used when the researcher wants to study a modern phenomenon in real life. This empirical method is especially important if the boundaries between the context and the phenomenon are not obvious. In my study, it is impossible to ignore the context of phenomena that is why it would be inappropriate to use barely a historical investigation approach or to take an experiment.

My research design covers: the main question, the unit of analysis (managers of financial department), connections between data and ideas, and approaches, which were used to examine data (Easterby-Smith et al., 2015, p. 263). Moreover, it is based on direct observations, through semi-structured interviews by sampling managers from Lymanska and Cherkaska ATC.

3.4 Methods of Data Collection

When we talk about case studies, it is worth noting that they include one feature. According to Christoffersen, Johannessen, & Tufte (2011), the researcher always wants to collect as much information as possible about the subject of the research. The researcher uses various methods in order to collect as much information as possible and at the same time relevant. The choice of method depends on the objectives of the research and the tasks that the researcher sets himself.

The purpose of my research is to understand how changes in budgeting affected the achievement of expected results. Gripsrud et al. (2010) stated that if we use a case study if we want to understand, and not measure, phenomena.

I used qualitative methods of collecting information as they are preferable, these methods of collecting information using language as a key instrument.

According to Easterby-Smith et al. (2012, p. 126), this approach enables the researcher to discover "the views, perceptions and opinions of both individuals and groups through the language they use; the main method to achieve this is the in-debt interviews".

In order to analyze the essence of budgeting in amalgamated communities, the legislative base, to analyze the theoretical expectations and consequences, I used secondary methods of collecting information. In order to answer the main research, I used in-debt interviews.

3.4.1 Documentation

In order to understand the role of the budget and the budgeting process in the public sector, namely in local governments, the starting point was to study the articles that were related to this topic. These works were also able to give me a theoretical basis for my research, namely what economic, democratic and managerial expectations from amalgamation reform. In the course of work, I can compare how changes in budgeting affect the achievement of expected results.

Then I began to analyze the information associated with the united territorial communities, namely the general characteristics (population, area, etc.), budgets, and budgeting process. To collect this information, I used the official websites of these communities, which made me understand the full picture of the changes.

One of the important stages was the analysis of the legislative framework, namely the changes that are associated with the reform of the amalgamation. Separately, the changes that are associated with the Budget and Tax Code were also studied. For analysis, the Law of Ukraine on the Voluntary Association of Territorial Communities was used.

Yin (2013) argued that secondary sources of information collection should not be relied upon too much, since they may not always be correct. In order to avoid bias, I used various sources of information. The information received served as the basis for developing interview questions related to changes in the budgeting process of ATC.

3.4.2 In-debt Interviews

The interview is one of the most commonly used methods of collecting information. If you compare this method with others, the interview provides an opportunity for the researcher to obtain information first-hand, which will ensure the accuracy and reliability of the data. Moreover, if the researcher does not possess a large amount of knowledge in the field of study, then this method will help him to gain the necessary experience through a survey of experts (Christoffersen et al., 2011).

Easterby-Smith et al. (2012) identified three different structures for interviewing. The first is a structured interview. When using this structure, all questions relating to topics are prepared in advance. In this case, the main task for the interviewer is to ask questions and record the answers to your respondents. It is worth noting that this structure has its drawbacks since you must adhere to the structure of your questions, which makes the interview not flexible enough.

The next type is the unstructured interview. In this case, the interviewer does not prepare a list of questions in advance. The interview takes place in the form of a dialogue. It also allows you to collect a sufficiently large amount of information, as Easterby-Smith et al. (2012) notes, there is a possibility that not all information will be relevant.

Last but not least, it is a semi-structured interview. In this type, two methods are combined, since semi-structured interviews include pre-prepared questions on general topics. Moreover, the interview is held in an open form, where the key point is a discussion of the information received, as well as clarification of not clear points.

In my master's thesis, I used a semi-structured interview. Since all my questions were based on secondary information related to budgeting in local governments, that will allow getting relevant information relating to my topic. I listened and recorded the answers of my respondents, and also if there were any inaccuracies, we discussed them.

All interviews were agreed in advance with the respondents, the place and date of the meeting were discussed. The duration of the longest interview was 45 minutes, the shortest - 30 minutes. Interviews were conducted with people working in local government bodies (ATC) associated with the budget.

3.5 Data analysis

Merriam (1988) argued that data analysis is a process when the researcher examines the data, organizes it in order to present the data in a more accessible and understandable form to the audience.

The data analysis process began with document analysis. This process is one of the keys to my research. Throughout the document analysis, appropriate literature has been selected associated with the amalgamation process, with the budgeting process in the local government. After which certain information was selected and coded by the purpose of the Master thesis.

My master's work is based on qualitative research. I will use a thematic analysis (Attride-Stirling, 2001) and its techniques in order to analyse data. Following Boyatzis (1998), this method is one of the most popular approaches for research.

This analysis includes six consecutive stages, such as: acquainted with data, create codes, identify themes, revise themes, define and label themes, and present the analysis (Braun & Clarke, 2006).

The first step was to collection, transcription and translation of the interviews (as the interview was conducted in Ukrainian). The next part of data analysis was coded based on previously transcribed interviews and alignment to relevant blocks of information. For this study, inductive coding was used. The code is based on the respondents` answers and to provide the research team closest meaningful information possible to skim and quickly navigate through the data process. In order to ease the process of data analysis, the answers were additionally subdivided to the themes. The codes and themes were determined based on common consensus, through reading aloud abstracts, the introduction of code by each member of the research group and further considerations of the best category for whole six answers on a question.

After that, themes were presented and produced for future analysis.

The research work is based on a cross-case analysis. Cross-case analysis is one of the methods when the researcher compares the processes, occurrences, certain actions that will be units in the further analysis (Khan & Robert VanWynsberghe, 2008).”

The cross-case analysis may be performed using comparison and survey research (Yin, 1981). In comparison research, the data of each interview is analysed in full priory to make relevant comparisons. The responses were analysed and compared on the cross-case basis to indicate similarities, differences and links in ideas.

3.6 Trustworthiness of the research: validity and reliability issues

According to Christoffersen et al. (2011), the trustworthiness of the research means how different approaches and results relate to the purpose of the research, moreover, how the obtained results reflect the realities.

Validity and reliability have different meanings within different research traditions. These categories depend on the epistemological approach, methodological skills, sensitivity, and integrity of the researcher. As I mentioned above, I have chosen to use constructionism. Validity concentrates on "whether the study gains access to the experience of those in the research setting?" and reliability is about "whether there is transparency about data collection and interpretation?" (Easterby-Smith et al., 2015, p. 306).

In the Sandberg (2000) paper number of criteria are distinguished for validity and reliability. These criteria include: communicative and pragmatic validity and reliability as interpretative aware.

Patton (1990) argued that the main quality of good research is a researcher. Based on the above, I tried to provide a high level of validity and reliability of my master investigation. Otherwise, my research would have no contribution, if collected data were not accurate and relevant.

To assure the validity and reliability of the research, I discussed every stage on the MOPP seminars and with my supervisor. It includes topic, structure, methods and other elements. In order to create reliable knowledge, people who worked directly with the budgeting process were interviewed. After interviewing and transcribing the materials of the conversations with my respondents, the main results obtained during interviews were typed on the paper and derived back to these persons for approval (via e-mails).

In the analysis, I used people's quotes to confirm the results and my opinion. All data was obtained from competent people, namely, those who work with the budget in the amalgamated territorial communities. This was a critical factor for the reliability of the construction (Yin, 1994). Based on this, I can argue that I measure what I need to measure.

According to (Yin, 1994), there are two types of validity: external and internal validity.

External validity is related to the question of how wide and general the results can be used.

Internal validity calls into question the correctness of the findings. As for external validity, I will analyze the two amalgamated territorial communities in the Donetsk region. I believe that the results can be summarized in this region. As for internal validity, I used different methods of collecting and processing information so that my research would be narrower, and the results would be correct.

IV. EMPIRICAL PART

In order to find out how the role of budgeting has changed after the unification reform, two cases will be used: Cherkaskaya and Limanskaya amalgamated territorial communities of the Donetsk region.

In this part, I will look at changes in the legislative base related to the budget and budgeting process, analysis of people's expectations from the reform of integration in two communities, as well as the main drivers of change.

After that, I will analyze the actual changes in recent years. In the end, I will describe what the budgeting process was in achieving the expected results from the reform.

This section is mainly based on interviews with experts both from Limanskaya and Cherkaskaya (three respondents per each project). The secondary data sources, like official websites, other publications are used in this section as well. The cases are described in connection to budgeting changes. Worth to notice that the term "uncertainty" was not used separately by my respondents.

4.1 Changes in the budget and the budgeting process after amalgamation

According to the Law of Ukraine (Part 4 of Article 67 of the Code), specifics of the budgets of local communities are defined.

First, ATC budgets have intergovernmental relations with the state budget. It means that state budget approves the number of intergovernmental transfers for the planned year. This is a basic grant, an educational subvention, a medical subvention, other subventions and grants if there are grounds for granting and receiving the corresponding intergovernmental transfers (Articles 97, 99, 100, 102, 103-2, 103-4 and 108 of the Code).

Second, to the budgets of ATC, except for the income received by the budgets before their association, 60% of the personal income tax is counted. Previously, this tax was credited to the district budget.

Thirdly, ATC budgets will receive income from land, property, environmental and excise tax. Previously, this tax was credited to the central budget.

The adopted legislative changes are directed to:

Increase of budgetary and financial autonomy of local budgets: self-formation of local budgets based on fixed, stable sources of income and expense powers (Article 75 of the Budget Code of Ukraine);

Expansion of the existing revenue base of local budgets by: transferring from the state budget payments for the provision of administrative services, state duty; increase in the percentage of enrollment of ecological tax from 35 to 80%; consolidation of local budgets stable sources - taxes on personal income under the new regulations and corporate income tax the private sector (regional budgets - 10%); introduction from 2015 of the tax on the sale of excisable goods (beer, alcoholic beverages, tobacco, petroleum products) at a rate of 5% of the value of the goods sold instead of the fee for viticulture, horticulture and hops, which comes to local budgets.

It should be noted that due to changes in the tax and budget legislation in the context of decentralization, the volume of own revenues of local budgets of the

amalgamated communities increased more than two times (by 1046 million UAH) compared to 2015 (from 827 million UAH to 1873 million USD).'

Decentralization of spending powers and a clear division of competences based on the principle of subsidiarity is one of the consequence in the socio-cultural sphere. From the state to the regional and local level, individual activities and institutions are transferred in the educational, medical and cultural spheres; support of local councils, sporting societies and their sports bases, etc.

Granting the right of independent choice of ATC, maintenance of budget funds for the development of local budgets and own revenues of budget institutions

As we can see, these changes carried several changes regarding the filling of the local budget, budgeting process and the powers of local governments. In our case, I will focus on the budgeting process.

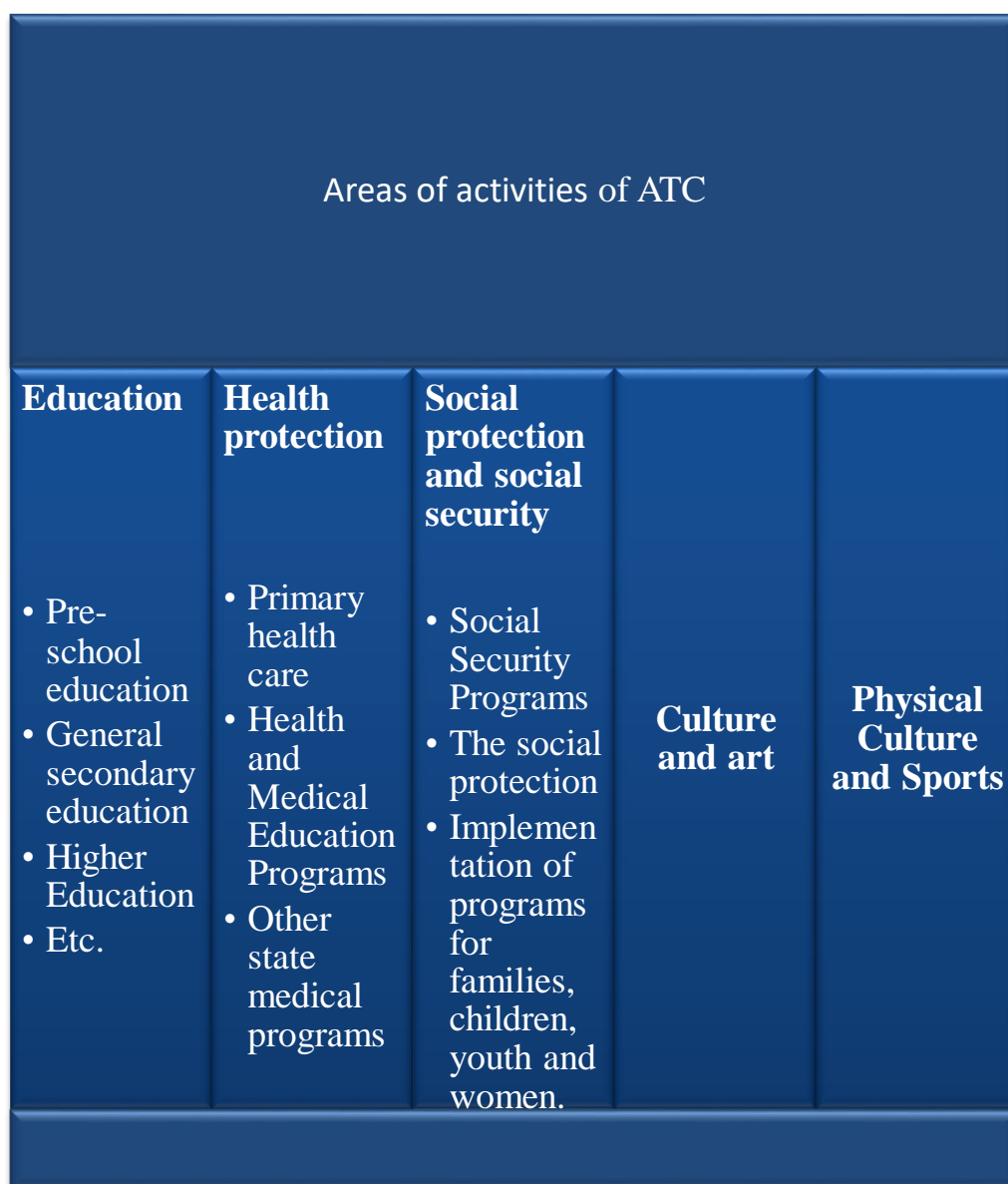


Fig.4.1 Areas of activities of ATC

Source: Article 89 of the Budget Code of Ukraine

The main purpose of local budgets is most clearly manifested in the composition and structure of expenditures. So by the end of 2015, the structure of local budget expenditures shows that they are most socially oriented. More than 82% of all funds from local budgets of Ukraine were spent on social protection and social security, maintenance of objects of the socio-cultural sphere (education, health care, culture, art, mass media, youth programs, physical culture and sports).

In the planning process, local governments themselves decide the amount of spending in each area based on their resources and priorities. Moreover, local

authorities themselves choose the methods of budget planning (coefficients, regulatory, balance or program-targeted).

In order to find out how these changes influenced the achievement of expected results, we turn to the analysis of two cases: Limanskaya and Cherkaskaya ATC

4.2 Limanskaya amalgamated community

4.2.1 Basic information about the community

Thanks to the decentralization reform, in 2015, one of the largest amalgamated territorial communities in Ukraine was created. Namely, the Limanskaya amalgamated community.

Within the framework of the Liman district of Donetsk region and amalgamated the city of Lyman (which is a city of regional significance) and 39 settlements. The total area of the Liman ATC is 1 209.8 square kilometres.

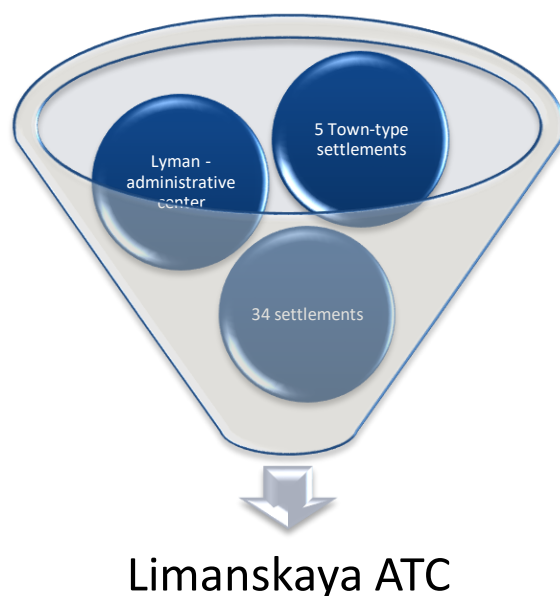


Fig.4.2.1 Composition of Lyman ATC

Source: Official community website (<http://krliman.gov.ua>)

Lyman - administrative center.

- 5 settlements - Drobyshevo, Kirovsk (Zarychne), Novoselivka, Yampil, Yarov.

- 34 villages - Brusivka, Vovchy Yar, Derilovo, Dibrova, Zakotne, Green Valley, Ivanivka, Illichivka (Lake), Kaleniki, Karpivka, Katerinivka, Kolodyazi, Korovy Yar, Krivaya Luka, Krymky, Lipova, Lozova, Novomichaylovka, Novosadov , Aleksandrovka, Ridkodub, Scots, Medium, Old Caravan, Terni, Torsky, Shandrygolovo, Shchurov, Yampolovka, Yatskivka, Yatskivka, Dzerzhinsk (Mirne), Novy, Sosnovy, Stavki.

Before the amalgamation, each village had its budget. In Figure 4.2.2, you can see how money moves from the Consolidated Budget of Ukraine to the budget of the settlement budgets. First of all, the money comes to the regional budget, which further divides the money between the regions that are included in this area. And already the districts, divide the money between the settlements, which are included in them.



Fig.4.2.2 Budget allocation structure of Ukraine

Source: Budget Code of Ukraine, Budgetary system of Ukraine and the basis of the budget process (Chapter 2, Article 5 2014).

4.2.2 Community demographics

"Human is a key element of further economic development."

Tenyakov (2007)

On the territory of Limanskaya ATC, 44 thousand inhabitants live. Unfortunately, in the greater part of all the settlements in the east, the number of pensioners is much higher than the working-age population. In the case of the Ukrainian community, then most of the population (57%) is able-bodied, this indicates the future development of the region, since, with this reform, the number

of jobs will increase. In Table 4.21, you can see the population in each locality and the total number of inhabitants of the OTG over the period from 2016 to 2018.

- 17% - under the age of 16;
- 26% - at the age of 60 and above;
- 57% - aged 16 to 60.

Table 4.2.1 Population of the Limanskaya ATC in the period from 2016-2018 (thousands)

	2016	2017	2018
Lyman (city)	22 315	22 025	21 691
Drobyshevo	2 933	2 896	2 862
Zarechny	2 632	2 596	2 571
Novoselovka	1330	1302	1297
Yampil	2082	2070	2031
Yarova	1986	1977	1955
Total population	44704	44156	43594

Source: Official community website (<http://krliman.gov.ua>)

In table 4.2.1 you can see the changes in the population in the Lyman city and the five largest settlements. Also, the table below shows the total number of population in all territorial units that are part of the Limanskaya ATC.

Following the community's site, the population has decreased in recent years. This decrease is insignificant, the main cause of which is natural migration.

4.2.3 Expectation of residents from the reform

Creation of amalgamated territorial communities is the main direction of decentralization, which confidently moves Ukraine.

The theory highlights a large number of advantages and the lack of creation of amalgamated territorial communities. Therefore, an important task of the master's work is to analyze the expectations of people (residence, who works with

the local budget) who have become the driving force behind the decision to amalgamate.

Interviewee 2 replies: *“Changes begin "bottom". No state reform will be effective unless you start with yourself: from your home, your court, your village or city. I fully support this reform”*.

Every Interviewee called some expectations associated with the reform, which were related, as an economic component and social.

Based on the theory of Antonio F. Tavares (2018), I also divided the answers of my respondents into three groups: economic, managerial and democratic expectations.

The economic expectations of my respondents were associated with a decrease in the cost of services, an increase in the average income level of residents, and an increase in budget revenues. To support this argument, I add the responses of the Interviewee 1 and 3.

Interviewee 1 states: *“...one of the priority goals in creating an amalgamated community was to increase the income level of the population.”*

Interviewee 3 says: *“...increase in community revenue, through a series of reforms, the creation of new jobs, a convenient transport link will be created between the communities, decrease the cost of services.”*

Concerning management expectations, they were associated with the transfer of authority to local governments, which concerns the formation of the budget, the allocation of the budget.

Interviewee 2 stated: *“We hoped that the reform would allow the division of power between the central government and local self-government”*.

Democratic expectations were primarily associated with an increase in the quantity and quality of services. That today is a big problem for villages in Ukraine. First of all, these problems are associated with an insufficient number of professionals, as well as the old infrastructure.

To support this argument, I add the responses of the Interviewee 1 and 2.

Interviewee 1 argued: *"...the standard of living of community residents will improve, the community territory will become environmentally friendly and will have access to high-quality drinking water... locations will have high-quality lighting on all streets, and the birth rate will be higher than the mortality rate"*.

Interviewee 2 said: *"...we expected changes to allow us to build a new administrative service centre, which will increase the quality of services in the community"*.

Interviewee 3 had a similar expectation with Interviewee 1, but he highlighted one very important thing: *"...this will help to amalgamated the population and develop the region as a whole."*

It is also vital to identify whether or not residents get any benefits after amalgamation reform. All respondents answered that the residents benefited from this reform. For example, Interviewee 1 states: *"Administrative services and services of the pension fund were approached to the residents of the community. In the community, a new office was established for the provision of administrative services, equipped with office furniture and appliances"*.

Summing up, I can say that the analyzed expectations of the Limanskaya community were partially similar to the expectations that were presented in the theoretical part of Tavares (2018). The key problems of the community were related to the quality of services in the community, as well as low economic indicators.

4.2.3 Budget of ATC

According to Natalenko N. (2016), the local budget is a plan for the creation and use of financial resources necessary to provide functions, services and decision authority of local self-government. Consequently, the formation of the local budget is one of the most important issues for the newly established ATC.

In theory, Ovcharenko et al. (2017) were presented that local budgets are divided into the current budget and development budget.

In the case, I will analyze the current budget, as it shows the changes over the past four years better, and also has a greater impact on community development and the achievement of expected results.

The data (see table 4.2.2) of the revenue part of the budget for 2014-2017 are calculated based on budget execution of the city of Liman, settlements councils that were part of the Limanskaya ATC.

Table 4.2.2 Revenue part of the Limanskaya ATC budget (thousands UAH)

	City and settlements that entered the ATC		Formed Lymanskaya ATC	
	2014	2015	2016	2017
Tax revenue:	48 618,7	71 051,1	187 201,9	223 885,8
Income tax	34 521,1	43 190,1	144 429,4	180 000,0
Excise tax	0,0	4 004,7	5 908,7	6 500,0
Real estate tax	7,9	221,9	692,2	760,7
Land fee	10 185,5	15 264,8	21 289,1	22 500,0
Single tax	2 144,7	6 124,7	10 459,4	11 860,1
Non-tax	5 197,0	12 511,5	18 921,5	7869,8

revenues				
TOTAL EARNED INCOME	53 835,4	83 601,7	206 143,0	231755,6
Share of own revenues in the budget	29%	30%	41%	47%
The share of transfers in the budget	71%	70%	59%	53%
TOTAL INCOME BUDGET	188 246, 1	281 003,7	497 834,1	496 536,3

Source: Official community website (<http://krliman.gov.ua>)

In the first two columns (City and Settlements that entered the ATC), you can see the total figures of all the communities before amalgamation. In the next two columns (Formed Lymanskaya ATC), indicators are presented, after amalgamation, when one common budget was formed.

After I analyzed data, I can conclude that the changes in the Budget and Tax Code (changes chapter 4.1) presented in had positive consequences for the Limanskaya community. Revenues from taxes increased more than four times from 48,618.7 to 223,885.8 UAH. from 2014 to 2017. The main reason for which was the transfer to the community budget of personal income tax in the amount of 60%. If we look at the structure of the incomes of the community, the total income budget also increased and became more and more independent from the central budget. In 2014, the share of own revenues in the budget was 29%, now it is 47%.

At the same time, the number of transfers from the state decreases every year from 71% to 53%.

Interviewee 1 said "*... changes in the structure of income generation give us new opportunities for creating a strong and independent budget of ATC that will enable us to fulfil all the needs of society.*"

Interviewee 3 noted "*the driving force ... these are most likely the consequences that reform has brought. This is an opportunity to increase the revenue side through a series of changes in tax allocation, and it is an opportunity to plan and distribute the budget regardless of the central budget ... This is an opportunity to develop our city, our villages, and our regions.*"

**Table 4.2.2 Expenditure part of the Limanskaya ATC budget
(thousands UAH)**

	Settlements that entered the ATC		FORMED LYMANSKAYA ATC	
	2014	2015	2016	2017
Total expenditures without transfers	183 054,89	269 061,3	410 926,9	586 534,0
Governance	13 064,0	15 964,0	25 355,2	43 818,3
Education	60 729,6	75 743,5	95 760,4	165 487,3
Healthcare	25 367,4	50 027,0	47 947,8	65 352,9
The social protection	66 874,9	104 678,7	179 662,9	166 624,3

Public services	3 090,7	8 196,4	27 269,5	41 650,8
Culture and art	5 329,1	6 916,8	8 420,4	14 334,6
Construction	0,0	382,9	4 382,2	13 840,8
Transport	6 309,6	1 734,5	12 104,4	26 967,5
Contributions to statutory funds of enterprises	0,0	99,3	337,9	8 523,0
TOTAL EXPENSES WITH TRANSFERASE	186 488,7	273 122,3	412 472,4	595 013,80

Source: Official community website (<http://krliman.gov.ua>)

The three main cost groups, accounting for 79% of total community spending in 2016 and more than 80% in 2014-2015, are expenditures on social protection, education and health.

The increase in the expenditure side is connected with the construction of a new centre for the provision of administrative services; the number of services provided has increased. Moreover, money was allocated for staff development, and a Mobile Center was created. All these reasons and influenced the increase in the expenditure budget.

The share of expenditures on maintenance of the control apparatus is insignificant (<10% of total expenditures).

As we can see, after amalgamation, the revenue and expenditure part of the budget has increased several times. At the same time, the role of budgeting is growing, since, after the reform, the community itself makes decisions regarding planning and resource allocation. To support this argument, I add the responses of the Interviewee 1.

Interviewee 1 said: *"The role of budgeting has changed, now we are analyzing compliance with the costs of plans, risks and "weaknesses", the compliance of the budget policy with the regulatory framework"*.

Interviewee 2 states: *"... the process has become more complex and voluminous"*. This respondent noted that the community very often uses the program-target method, but it has its drawbacks. Interviewee 2 adds: *"the program component does not contain an effective component. Thus, none of the local target programs describes the measurable quantitative performance indicators provided by the normative and guidance framework of the Ministry of Finance and profile ministries"*.

Analyzed the revenue and expenditure side of the budget; I would like to note the positive changes that have occurred over the past four years. The income of the community, as well as expenses, increased several times. As noted earlier, changes in the income structure of local budgets made it possible to accumulate a large amount of money in the community. In place of this, the Liman community began to fulfil the needs of its population, which led to an increase in the expenditure side of the budget.

4.2.5 Role of budgeting in achieving expected benefits

During the interviews with my respondents, it became known that the community had a lot of expectation regarding amalgamation reform. The main task of the master's work is to understand and answer the question concerning the role

of budgeting in achieving expected results. The changes in the budgeting process helped to achieve the expected results, or they did not play any role.

The community amalgamation process took place in 2015, after four years, we can evaluate the changes in the community, and the results they have achieved.

As planned, in one of the villages, a new administrative services centre was built. This centre provides more than 105 administrative services (30% more than before amalgamation).

Interviewee 3 noted: *“Changes in the budgeting process, namely the fact that the community itself allocates available resources, made it possible to implement this project”*.

At the same time, the quality of services provided in the has grown.

Interviewee 3 said: *“In order to provide the services qualitatively and on time, it is necessary to have competent specialists”*. As a result, it was decided to attract specialists and conduct training courses so that the process would be as convenient and understandable for the residents as possible, would not take much time and at the same time be of the highest quality.

Interviewee 2 states: *“The community has a Mobile Office program, approved schedule specialists of departments of the city council and social people's protection come to districts and provide services to the population (registration of subsidies, state assistance, land and construction issues and others in need”*

This comment also confirms that the quality of the services provided has changed for the better. The mobile office is especially important for retirees who are not very comfortable to get to the main office; as a result, they can be used by the Mobile Office service.

I would like to note that the cost of providing services has not decreased due to amalgamation. There are several reasons, and the first is that the number of services provided by the new amalgamated community has increased significantly. Hence the total cost of services has increased. Secondly, an even greater number of

people (workers) who needed advanced training were involved in the service sector. A large number of funds was allocated for training these people.

To support this argument, I add the responses of the Interviewee 1.

Interviewee 1 states: " *we did not achieve the expected result in reducing the cost of services, but they are expected in the next two years*".

It is worth noting that all respondents answered that the cost of services was not reduced.

Summing up, I would like to note that budgeting and budget played a key role in achieving the expected results (quality of services, number of services, increase the standard of living). Newly formed communities were able to increase the budget and the ability to allocate resources, implement those goals and priorities that are important to their inhabitants.

Since the residents of the community had a lot of expectations from this reform, from the unification, not all expectations were achieved, but relying on the analytical data of the budget and the program of further budgeting, expectations, such as reducing costs or building a new police station and others, will be achieved in the next 2-3 years.

4.3 Cherkaskaya amalgamated community

4.3.1 Basic information about the community

Cherkaskaya amalgamated territorial community was established in 2015. It is located in the western part of the Slavic district of the Donetsk region. The community amalgamate 11 settlements, which are part of the Starostinskyi District and the Cherkasy settlement council (see table 4.3.1). Cherkassy ATC is based on the economy of growing crops (the volume of agricultural products in 2016 exceeded UAH 61 million) and extractive industries.

The total area of the Cherkaskaya ATC is 29 thousand hectares.

Table 4.3.1 Composition of ATC

Cherkaskaya ATC

District	Settlements
Cherkasy administrative center	Cherkaske, Ivanivka, Novomikolaevka, Shnurky
Alexandrivskiyi Starostinskyi District	Oktiabrske, Troitske, Krasnoarmiiske, Oleksandrivka
Prelesnenskyi Starostinskyi District	Prelesne, Maidan
Pryvilskyi Starostinskyi District	Pryvillia

Source: Official community website (www.cherkaska.gromada.org.ua).

4.3.2 Community demographics

On the territory of Cherkaskaya ATC lives 9,5 thousand people (including internally displaced persons), of which 37% live in Cherkassy administrative centre. The permanent population (excluding internally displaced persons) is 8.8 thousand people. Since 2011, the permanent population has decreased by 11%. It should be noted, that 55% of the total population is an economically active population (age 18-59). At the same time, the share of vulnerable groups (in particular, pensioners more than 30%), especially in rural areas is significant.

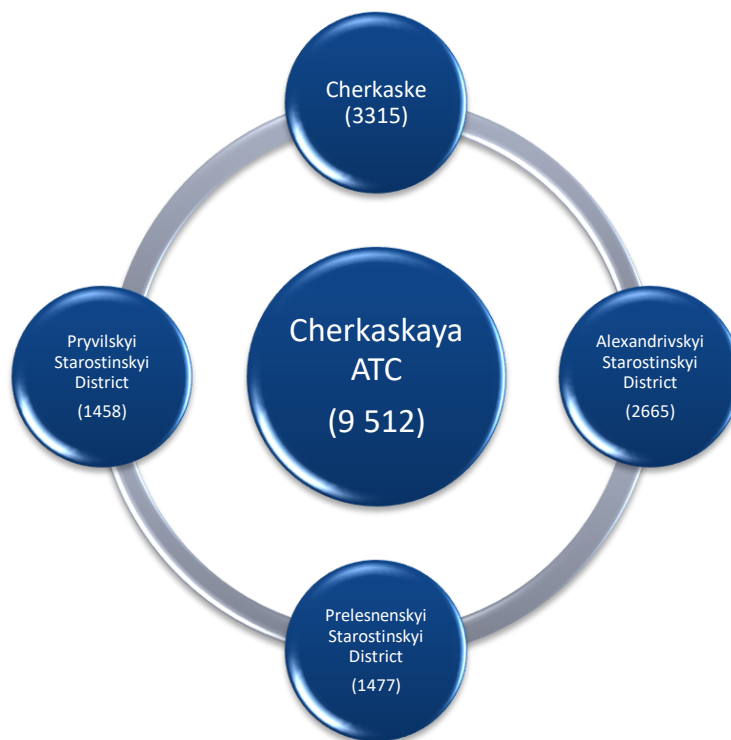
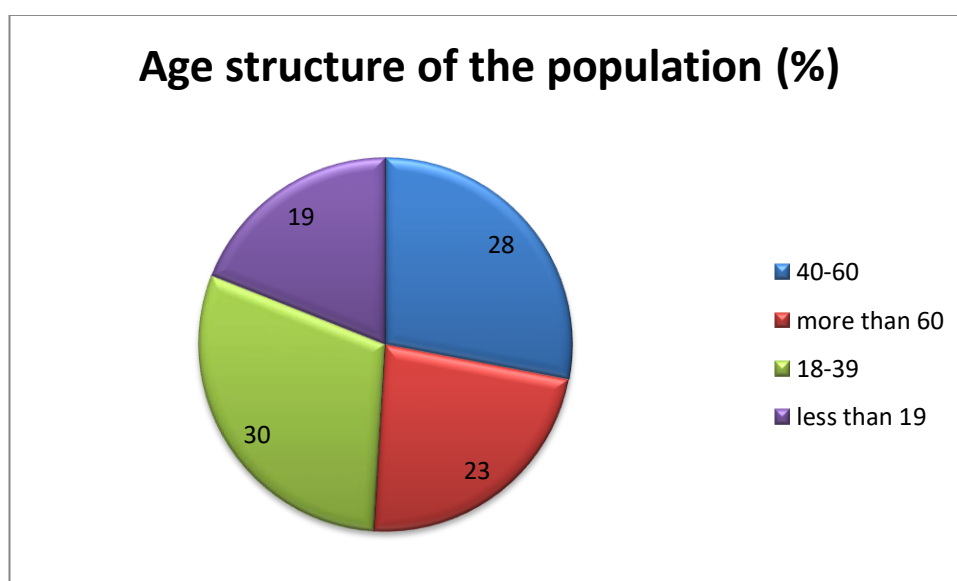


Fig.4.3.1 Number of people in each area of Cherkaskaya ATC

Source: Official community website (www.cherkaska.gromada.org.ua).

Unlike most settlements of the East of Ukraine, where residents of retirement age prevail, the structure of the population of Cherkasy ATC looks better - the proportion of able-bodied population exceeds 60% in its overall structure; the share of children and young people is almost 20%.



The fig.4.3.2 Age structure of the population (%) of Cherkaskaya ATC

Source: Official community website (www.cherkaska.gromada.org.ua).

The number of people in ATC decreases because of a natural decrease. At the same time, the mechanical growth (at the expense of internally displaced persons) has positively influenced the dynamics and structure of the population over the last few years. During the last years, there was no significant decrease in the population in the territory. The sexual composition of the population is characterized by the prevalence of the number of women over men (almost 20%).

4.3.3 Expectation of residents from the reform

In order to make my master's degree more complete, it is also necessary to analyze the expectations that the Cherkaskaya community had.

It is worth noting that the community had a number of reasons why they decided to amalgamate.

Based on the theory of Antonio F. Tavares (2018), I also divided the answers of my respondents into three groups: economic, managerial and democratic expectations.

The economic expectations of the community were associated with filling the budget, as well as with the transition to intergovernmental relations.

Interviewee 6 noted: *"We had a lot of problems associated with the filling of the budget. We only had to survive from the beginning to the end of the year, making ends meet with the ends of small budgets"*.

This problem is present in many Ukrainian settlements. In implementing this reform, the state relied on the development of regions, namely, the villages of Ukraine. Having amalgamated them and allowing filling the budget, plan and allocate resources.

The fifth respondent also notes the positive effect of a change in the tax code.

Interviewee 5 said: *"Filling the budget of the settlement community is mainly due to the tax on land. Cherkasy ATC is an agrarian region in which small*

and large enterprises of agro-industrial complex operate. The budget has already felt the benefits of decentralization when the amount of taxes remaining on the ground has increased”.

Management expectations, as in the case of the past, were associated with the separation of powers.

Interviewee 5 said: *«My main expectations from this reform ... firstly, is the division of powers between state authorities and local self-government. Second, it is fiscal decentralization or the granting of autonomy to local self-government bodies”.*

Democratic problems were related to the quality of services in the community

Interviewee 4 noted: *” The community expects to organize schools in the community because they were twice as costly than other schools in Ukraine”.*

Interviewee 6 added: *“We also needed to improve the quality of services and solve community problems; I mean bad condition of water supply”.*

On the territory of the Cherkassy community with a total population of 9.5 thousand inhabitants, seven schools are functioning - there is no such accumulation of educational institutions in any of the communities established in Ukraine. Seven hundred seventy-six pupils study in these schools, and the filling in them is different, which affects the expenditure of one year's student-state retention. If in Ukraine this figure should equal 9.8 thousand UAH. For one pupil, then in For example in Prelesensk school - 136 pupils (15.3 thousand UAH).

But the trigger is the transition to intergovernmental relations. In order to confirm this statement, I add the responses of the Interviewee 4.

Interviewee 4 states: *” The main advantage of creating an amalgamated community is the transition to direct intergovernmental relations. Earlier, a state subvention for education or medicine went to the regional budget, then to the district, and only later - to the village councils. Now we have a direct relationship: money from the state budget goes directly to our account. ”*

Summing up, we see many different expectations from this reform. They include, as economic perspectives (cost optimization), the solution of management problems (separation of power), as well as democratic ones, which are related to improving the quality of services in society, improving living standards.

4.3.4 Budget of ATC

In the course of conducting this research, I highlight how the role of budgeting and budget changes during the amalgamation.

The revenue part of the budgets is calculated based on consolidated data on the implementation of the budgets of the Cherkasy Village Council, the Prilivska, Prelesnyanska and Oleksandrivka village councils in 2014-2015, as well as the budget of Cherkaskaya ATC (starting from 2016).

It should be noted that at the time of the ATC creation, the main volume of own revenues of the general fund was generated by the Oleksandrivka village council (almost 60% of income) - a large mining enterprise was located on the village territory, which explains the significant amount of VAT revenues from the territory and property tax. The share of the Cherkasy settlement council in its income was 21%; Prelesnenskaya and Privileyskaya village councils - a total of 20%.

Before the creation of the ATC, the main component of the consolidated budget income of the community was the payment of land (45%) and the Single Tax (26%). After the creation of ATC, the main components of own income were Income Tax (37% in 2016 and 40% in 2017), as well as land and property taxes (a total of 42% in the budget of 2016 and 46% in 2017). It should be noted that after the creation of the ATC, the audit/inventory of a significant part of community property was revised and the terms of taxation and lease of property were revised. These actions led to an increase (in comparison with the data of the consolidated budget of settlements ATC) the volume of income from property tax in 2.7 times.

The data (see table 4.3.2) of the revenue part of the budget for 2014, 2016-2017 are calculated based on budget execution of settlements councils that were part of the Cherkaskaya ATC

Table 4.3.2 Revenue part of the Cherkaskaya ATC budget (thousands UAH)

	Settlements that entered the ATC	FORMED LYMANSKAYA ATC		
		2014	2016	2017
Tax revenue:				
Income tax	1071,0	4 856,0	4 988,6	
Excise tax	-	241,1	244,0	
Real estate tax	-	696,7	758,6	
Land fee	1861,0	5 269,9	5 808,7	
Single tax	1243,0	1 947,5	2 058,1	
Other	151,4	151,4	7 563,0	
TOTAL EARNED INCOME	4326,4	13 162,6	21 421,0	
Transfers:		34 176,8	39 864,2	

Basic grant		3 482,3	4 306,7
An additional grant for the maintenance of educational institutions		-	4 195,9
Educational subvention		13 604,2	15 345,8
Medical subvention		5 761,4	7 231,9
Infrastructure subvention		4 636,9	4 854,0
Other		6 692,0	3 929,9
TOTAL INCOME BUDGET	4326,4	47 339,4	61 285,2

Source: Official community website (www.cherkaska.gromada.org.ua).

In this table, you can see the total revenues of the budget of all the villages before the amalgamation in 2014, and the incomes of the amalgamated community after the unification.

After the formation of the ATC, the community's resources grew by 74% per year.

The main source of income is government grants (more than 50%). The community receives a basic grant (horizontal equalization tool), due to the lower volume of personal income tax (per capita), compared to the country's average. It

is worth noting that the community's income has grown 5-fold, thanks to changes in the tax code.

In connection with the introduction of changes to the budget of the Community, in 2017, the total revenues to the budget of the Community have reached the level of 61.3 million UAH. (against UAH 48.0 million in 2016). Growth was due to an increase in incoming target transfers (educational and medical subventions), basic subsidies, key taxes and fees, as well as a significant increase in the development budget (in terms of own funds of budget institutions).

The dependence of the community on the functioning of key budget-making enterprises is moderate (the share of the ten largest in own funds of the general fund in 2016 was 27%; 9 months of 2017 - 40%).

The budget of Cherkaskaya ATC has a significant dependence on transfers from higher-level budgets. At the same time, the volume of own resources tends to increase.

Interviewee 4 said: " *In connection with amalgamation, the standard of living in the community has increased significantly, due to subventions from the state and income tax revenue*".

Interviewee 6 noted: " *Government subventions helped solve some problems in the community related to the optimization of schools and hospitals*".

These statements confirm the fact that the amalgamation process gave its benefits to the residence.

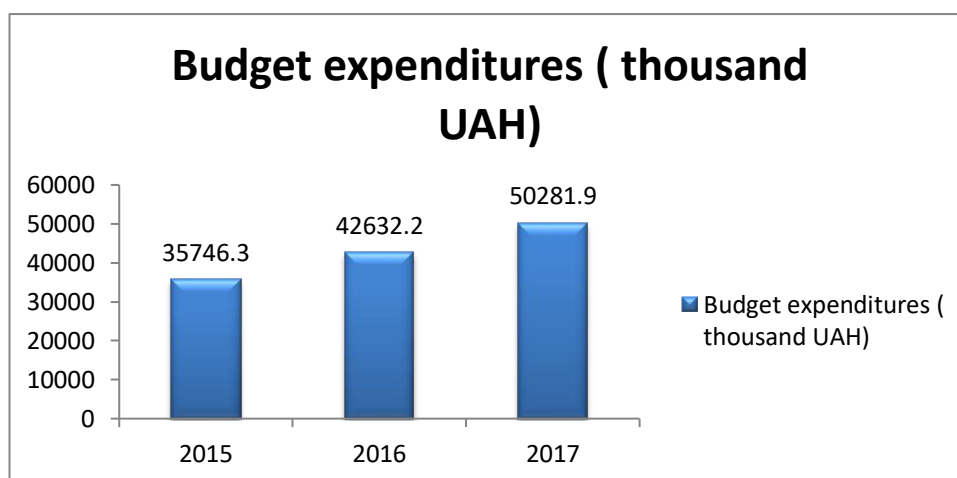


Fig.4.3.3 Dynamic of budget expenditure of Cherkaskaya ATC from 2015 to 2017

Source: Official community website (www.cherkaska.gromada.org.ua).

The next important part is the budget expenditures. I want to immediately note that budget expenditures are increasing every year (see Table). In the period from 2015 to 2017, expenditures increased by 14535.6 thousand UAH. First of all, this is due to an increase in the budget of the community and a large number of government transfers.

In the structure of general expenditures of Cherkasy ATC, expenditures for the maintenance of educational and health care institutions (largely financed by incoming transfers) and expenditures for the maintenance of the apparatus (the Local Self-Government body) are dominated by expenditures.

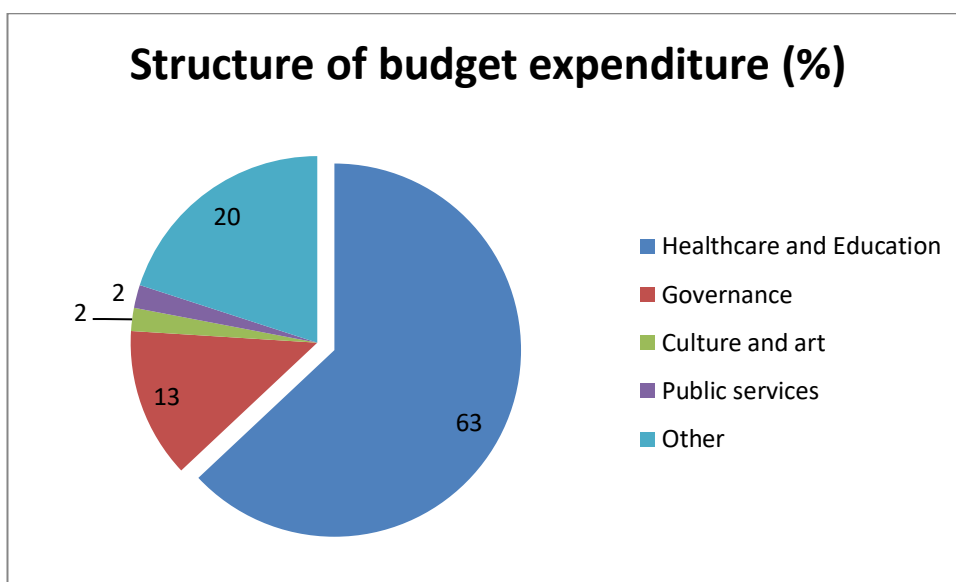


Fig.4.3.4 Structure of budget expenditure (%)

Source: Official community website (www.cherkaska.gromada.org.ua).

Given the rather insignificant number of people in Cherkasy OTG, the Community has one of the lowest in the region, the number of inhabitants per employee (63). At the same time, the share of expenses on the maintenance of the apparatus in financial resources is quite significant (more than 20%) - primarily due to the weak revenue base of ATC, as well as staffing and regular review of the

level of salaries of employees (taking into account the long period of functioning, compared with newly created).

All respondents (4,5,6) confirmed that changes occurred in the budgeting process.

Interviewee 4 noted:” *Definitely there have been changes in the budget process ...*”

Interviewee 5 highlighted two key changes: *“Greater autonomy in decision-making, concerning the distribution of the budget and changes in budget revenues (Income tax, land tax...)”*

Throughout the interviews, three main driving forces influenced changes in the budgeting process. Interviewee 4 said: *“We are more aware of the problems of our area and we can more effectively manage the resources that we have”*. Interviewee 5 noted: *“It was very important for us to switch to inter-subject relations”*. Interviewee 6 said:” *The main driving force is the indicators of the revenue side of our budget, which have long needed change.*

4.3.5 Role of budgeting in achieving expected benefits

Concluding the previous part of the work, I can state that the budgeting process has changed. But the main purpose of the work is answering the question *“How has the role of budgeting changed in the achieving expected benefits of amalgamation?”*.

Two of the three interviews answered that the expected results were partially achieved, and the third answered that the initial goals were fully achieved.

All interviews noted that the quality of services in the community had increased significantly.

Interviewee 4 said:” *There was a clear structure of cost differentiation, which allows us to control where the money goes, what goals ... in turn, we have been sending funds for the creation of centres for providing administrative*

services, solving problems with utilities, so I will say that the quality of services has improved significantly”.

To support this argument, I add the response of the Interviewee 5, who states:” *There was a rise in the level of skills of employees, which affected the quality of service provision”.*

As for the quality of services, this goal was achieved with the help of budgeting, namely, by allocating funds to build a new centre for the provision of administrative services and eliminate internal problems. The budgeting process helped to plan the community budget and allocate the right amount of funds to meet this need.

As for the costs of providing services, the answer here is divided.

Interviewee 4 and 6 answered that the costs practically did not change, they remain at a very high level as before.

Interviewee 6 noted:” *This is a big problem in a small community since communities with a population of 30,000 have the same costs with a population of 9,000”.*

After analyzing, we see that the Cherkaskaya community has a very small population, but with a relatively small budget, the costs are very high. Approximately 75% of their profits go to support the state apparatus. As a result, the cost of services has not decreased.

Interviewee 5 noted:” Interviewee 6 noted:” *I can say that they were partly scaled down by optimizing the service delivery structure”.*

Summing up the cost of providing services. In general, I can say that the expected results were not achieved. The main reason for this is the low population. Positive moments are present, due to optimization costs were reduced, but the budgeting process did not play any role.

As for the increase in the number of services provided, everyone answered unanimously that the number had grown.

Interviewee 4 said:” *First, we took over the authority in education, in medicine. Secondly, we got the right to dispose of land outside the settlements”.*

Interviewee 5 noted:” *We are expanding our range of services, we cooperate with regional councils, as well as expanding the range of services for our inhabitants*”.

Speaking of changes in the number of services being attached, I can say it has increased. It is important to note, the fact that budgeting has played an important role in these changes. Firstly, it is connected with the transfer of authority, which increased the range of services in the community and secondly, changes in the budget revenues, which allows the community to provide an increasing number of services.

Consequently, it can be concluded that most of the expectations associated with the amalgamation (quality of services, number of services and increased revenue part), with changes in the budgeting process were complete or partially achieved.

It should be noted that the process of budgeting has not always been the main tool for achieving the expected results, but most of the goals were realized, precisely because of budgeting and changes that took place in the Budget.

4.4 Main Empirical Findings

After analyzing the two cases, I want to note that they have many similarities and differences. The main differences (see table 4.4.1) in the first place should be the size of the community (scale effect), driving forces to amalgamation, the size of the budget and the population. Although each community had its problems, the expectations of reform and the role of budgeting were similar.

Table 4.4.1 Differences between Limanskaya and Cherkaskaya ATC

Criteria	Limanskaya ATC	Cherkaskaya ATC
Area	1209,8 km ²	290km ²
Population	44000	9,5
Revenue	496,5 million UAH	61,3 million UAH
Expenditure	486,4 million UAH	50,2 million UAH

Driving force to amalgamation	autonomy and self-development	Intergovernmental relations
-------------------------------	-------------------------------	-----------------------------

We can see that these communities are completely different, this comparison helps to estimate the value of budgeting not only by the example of a more successful community, but to show the value as a whole, both for large and for small ones.

In collecting data, despite the difference, I found a number of similarities in the communities.

First, communities had similar expectations from the amalgamation reform. All of them were associated with both economic and social benefits. It is worth noting that the ways to achieve these goals were different. The Limanskaya community relied on realizing these goals with the help of the new budget and changes in the budgeting process, and the Cherkaskaya community, focused primarily on intergovernmental transfers. A common criterion for these communities was the growth of such indicators as: revenues and expenditures of the budget.

Table 4.4.2 and 4.4.3 summarize the main groups of expectation related to the amalgamation, drivers of budgeting changes, evaluation of achieved results with the help of budgeting.

Table 4.2 Lymanskaya ATC: main empirical findings

Expectations:	Role of budgeting (+/-)	Achieved or not (+/-)
Increase the standard of living	+	+/-
Quality of services	+	+
Cost of services	+	-
Number of services	+	+
Increase the revenue part	+	+
Driving force of	The main driving force behind the change in	

budgeting changes	budgeting is the transfer of authority to the local government regarding the allocation of community resources.
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Table 4.2 Cherkaskaya ATC: main empirical findings

Expectations:	Role of budgeting (+/-)	Achieved or not (+/-)
Increase the standard of living	-	+/-
Quality of services	+	+
Cost of services	+	-
Number of services	+/-	+
Increase the revenue part	-	+
Driving force of budgeting changes	Greater autonomy in decision-making, about the distribution of the budget and changes in budget revenues (Income tax, land tax...)	

In this chapter, I provided the answer to my research question about how has the role of budgeting changed in the achieving expected benefits of amalgamation?

V. ANALYSIS AND DISCUSSION

In this part, I analyse the main findings and provide answers to the questions about how has the role of budgeting changed in the achieving expected benefits of amalgamation?

First, I will analyze the difference between theoretical and practical expectations from the amalgamation reform, based on the answers of my respondents.

Next, I will describe the role of budgeting in achieving the expected benefits.

5.1 Comparison of theoretical and practical expectations from the amalgamation reform

Having collected all the data, an important part of the work is the analysis of the data obtained.

In my work, I conducted a theoretical analysis. It included an analysis of the economic expectations of amalgamation reform, managerial expectations and democratic ones. It is worthwhile also to mention the fact that many economists supported this reform, but those were against amalgamation.

The first group was the economic expectations. One of the key expectations is to reduce the cost of services. I analyzed two Ukrainian cases, and I can say that the cost of services in the Limanskaya community decreased slightly due to optimization. Moreover, a lot of funds were allocated for staff development, which also did not reduce the waste in the past five years. In the Cherkaskaya community, the cost of services did not change at all, because due to the size of the population, the cost of servicing one resident increases. In the course of the research, I found out that the costs of community services with a population of 30,000 are equal to the costs of a community with a population of 9,000. As a result, expenses remain at the previous (high) level.

Summing up, it can be said that maintenance costs will decrease, only if the population size is more than 20,000.

Holzer et al. (2009) also noted that some services are efficiently performed in small communities than in large ones.

In the case of Ukrainian communities, I can say with confidence that they showed good performance in the provision of services. First, in each of the communities, new service centres were created. This made it possible to make the process not only simpler but also more effective.

The level of economic efficiency can also rise in consolidated communities since the level of professionalism in larger local governments is higher, as well as they have higher degrees of specialization (Denters et al. 2014).

Denters et al. (2014) were also right, in both amalgamated communities, the level of professionalism increased significantly. First, experts were involved in the budgeting process. Secondly, training was conducted to improve the classification. These factors allowed growing economic efficiency.

The second group includes managerial expectations. Wallace Oates (1972) states that a large amount of funds is lost during centralization, fiscal responsibilities should be decentralized. According to the theorem of Oates "individual local governments are presumably much closer to the people [...], they possess knowledge of both local preferences and cost conditions that a central agency is unlikely to have".

One of the factors that led communities to amalgamate is the distribution of powers between central and local authorities. In our case, most of the powers passed to local governments. They fill and distribute the budget, make plans. In general, Oates is right that the decentralization process will increase the budgets of the ATC, as well as help to realize the needs that are important to residents.

I cannot say that the budget has increased because the funds stopped losing. There were a lot of changes in the Budget and Tax Code, which influenced the budget increase.

Swianiewicz (2010) argued that post-amalgamation local governments could deliver more and better quality services to their residents.

After analyzing two communities and an interview with managers, I can confidently assert that the quality of services in the community has grown. As was said earlier, they have become better because of the advanced training of employees, and also because of the creation of new centres for the provision of administrative services that make services more accessible.

It is worth noting, the Mobile Office program in the Limanskaya community.

Newton (1982) gives the argument that the increase in size can lead to a more diverse and specialized set of services, including planning, police, public transportation and fire services (Newton 1982).

The number of services increased in both communities. In the Limanskaya community, the number of services increased by 30%. In the Cherkaskaya community, the number of services has doubled. This is due to the transfer of authority from central bodies, the construction of a new police centre.

Last but not least, it is a democratic expectation. And one of the main reasons for consolidation is the equalization of the income level of the population and the standard of living (Swianiewicz 2010).

Incomes in the communities have grown. This is primarily due to an increase in budget revenues.

The standard of living also improves due to the qualitative provision of services, increasing budget revenues and residents, through government subsidies.

In my work, I did not analyze the political trust after amalgamation, the participation of residents in political meetings. But the authors (Denters, 2002: Oakerson, 1999) note that these figures decrease after amalgamation.

Summing up, it is important to note that not all theoretical expectations have been achieved on practice. They can vary from place to place. In the case of Ukrainian communities, it is important to note once again that in practice the expected decline in services did not occur, but at the same time all expectations are related to the quality of service provision, their number was completely identical with the theory.

Relying also on the theory, which says that the public sector is more focused on achieving quality indicators, we have logistical results with the Cherkaskaya and Limanskaya communities.

5.2 The role of budgeting changed in the achieving expected benefits of amalgamation

Before amalgamation, all communities have some expectations from this process and the benefits that residents will have. Examples of two amalgamated territorial communities in Ukraine have shown that it was not easy to achieve all the benefits of this process.

According to the theoretical basis, the budgeting process (BP) is a key tool that helps achieve strategic priorities and objectives. Budgeting includes three key functions: control, coordination and planning.

The key element that has changed in the budgeting process is the transfer of authority. At this stage, all key functions are performed by local governments. They do not need to wait for funding and rarities for the implementation of projects. They evaluate all the risks, draw up a plan and control the implementation process.

There are all conditions in communities for successful budgeting. They allocate a certain time for discussion of the projects, set priorities and estimate how achievable the projects are given the available resources.

Turning to the role of budgeting in achieving the expected results, in the case of Ukrainian communities, this was a symbiosis of changes in the budget and tax code and the budgeting process.

Changes in the budget and tax code allowed the community to increase the budget by 2.5 times in the Limanskaya community and five times in the Cherkaskaya community. The main source of the Limanskaya community was the personal income tax (60%). Cherkaskaya community has the same situation. Moreover, they have active intergovernmental relations, namely state grants.

As a result, there are more resources in the community for the realization of their goals.

The second part of the symbiosis is a change in budgeting, namely the transfer of authority. These two components enable communities to meet the needs of their residents.

In the case of the Limanskaya ATC, most of the expectations were achieved through the budgeting process. They have improved the quality of services in their community. The community decided to allocate money to build a new administrative centre for the provision of services, as well as funds for conducting courses and attracting specialists.

Moreover, due to these actions, the number of provided services has increased.

In all villages, street lighting was done. The only thing that could not be done is to reduce the cost of services.

In the case of Cherkaskaya ATC, I want to note that the budgeting process did not play such an important role, since this community, due to low incomes, receives a large number of basic subsidies. Moreover, they also receive medical and educational subvention. As a result, most of the money in the budget is made up of subventions from the central budget, which are allocated for specific purposes and the community cannot distribute them to other areas.

After analyzing a number of expectations of this community, I can summarize that budgeting played a partial role in achieving the expected results.

First, it is an increase in the quality of services. Second, it is also honestly affected the increase in the number of services. All other expectations were achieved through amalgamation reform, but changes in the budgeting process did not affect the achievement of these goals.

VI. Conclusion, contributions and implications

6.1 Summary of the study

This research examines the role of the budgeting process after the amalgamation reform. Have the changes helped to achieve the expected results from this reform? It was carried out gradually, step-by-step.

First of all, I analyzed the theoretical expectations of the amalgamation process. I identified three main groups of expectations: economic, managerial and democratic. Moreover, I analyzed the countries that have implemented this reform, as well as their expectations. It should be noted that they varied from country to country, and all had different reasons for amalgamation.

In the theoretical part, the role of the budget and the budgeting process in local governments was also analyzed in order to assess their role before and after the amalgamation.

Empirical data, consisting of two cases, these cases provide general information about the amalgamated territorial communities (Cherkaskaya and Lymanskaya), changes in the budgets of the communities after amalgamation, as well as changes in the budgeting process.

The most important part of my work is analyzing empirical findings. Examining the role of budgeting in the achieving expected to result in Lymanskaya and Cherkaskaya ATC, I got interesting results, which partly coincide with the theoretical basis, concerning the expected benefits for the inhabitants, and whether this was the merit of the budgeting process.

On the question: "How has the role of budgeting changed in the achieving expected benefits of amalgamation?" I could answer now: "Yes, the budgeting process has certainly changed, but not all benefits were achieved through these changes". I attribute this to the fact that those communities are different in size, population and income sources.

After analyzing the two communities, I can draw the following conclusions:

- I analyzed the expectations from the amalgamation reform, and I can say that the residents of both communities had many positive expectations. Most of which were related to community services.
- After consolidation, budgets increased both communities (due to changes in the tax and budget code).
- A key change in the budgeting process was the transfer of authority to local governments.
- The Limanskaya community, which is much larger than the Cherkaskaya community, was able to realize most of its expectations through changes in the budgeting process since they doubled their budget and could themselves manage available resources, set priorities and goals.

- Cherkaskaya community, in spite of all the changes, was able to realize most of its goals with the help of state subsidies, which are directed to specific projects. In which the budgeting process plays a minor role.
- Theoretical expectations are associated with a decrease in the cost of services due to the effect of scale; they have not been confirmed in any of the communities.
- Changes in the budgeting process had positive implications for both communities.

Based on the above-mentioned findings, I can summarize that the reform of the union, which was accompanied by many changes, including the budgeting process, has positive consequences. These changes help to achieve a number of benefits for residents who are associated with services in the community by their quality, quantity; moreover, these changes help small villages to develop.

6.2 Contributions

I believe that my research has both theoretical and practical contributions. Key data may be available to other researchers who will work in this area. Moreover, it will be effective for practitioners, namely for communities that decide to amalgamate them or not.

The results of my work can be used at meetings of community residents who can visually see the consequences of amalgamation, namely changes in the budget and budgeting process.

The research reported here contributes to the role of budgeting in the ATC.

First, I analysed a group of expectations related to the amalgamation process and the role of budgeting in the ATC, using appropriate literature. In the process of analyzing the literature, it turned out that there is a lot of controversy over the positive effects of the amalgamation process.

Having researched two Ukrainian communities, I can say that the amalgamation process had positive implications for residents. This is very relevant in connection with the dispute about the effect of amalgamation.

Moreover, the key task of the work was to evaluate the role of budgeting in the ATC.

Second, I have shown how the changes in the budgeting process have affected the achievement of expected benefits for residence.

In the end, I would like to add that the unification processes are becoming increasingly popular in the world and Ukraine. Therefore, studying the expectations of people, tools for achieving goals, and results are a very important element primarily for people who live and work in small villages. Before which it is worth amalgamate with other communities or not.

6.3 Limitation of the research

Changes to budgeting processes can have different consequences for communities, as they differ from each other in size, population size, income, etc. Evaluate a large number of communities is impossible in the Master Thesis. Hence, to avoid some potential misunderstandings and to outline where the study is supposed to create value, I have to define the following limitation of the research:

- ✓ First of all, I chose two communities that were located in the same region - the Donetsk region.
- ✓ Secondly, they were completely different in size, population, etc..

6.4 Research opportunities and further disposition of the thesis

Today, the public sector budgeting process is not just a document that displays indicators. This is a process that demonstrates a complete picture of the budgeting procedures, which goals and priorities were established, and public policy analysis.

Thus, it proves the fact that the topic of my research is relevant, both for theorists who have a lot of controversy about the reform of the amalgamation, as

well as for practitioners who can see the role of budgeting in amalgamated communities and needs further research.

In order to get a complete picture of the changing role of budgeting, it is logical to analyze similar cases, I mean communities from other regions of Ukraine and analyze how the change affected the achievement of the expected results.

In order to reveal the topic better, it is worth paying attention to the practical part of the changes, namely to focus on the results that have been achieved. Moreover, the results that have been achieved through changes in the budgeting process.

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VIII. APPENDIXES

Appendix A: Interview Guide

Interview guide

The research question:

How has the role of budgeting changed in the achieving expected benefits of amalgamation?

Sub question:

- ✓ How does the role of budgeting changes during the amalgamation?
- ✓ What are the drivers of budgeting change within the amalgamation?

The aim of the study is to understand the drivers of budgeting change within the amalgamation? Moreover, to identify how the role of budgeting has changed in the achieving expected benefits of amalgamation. I are looking to discover stimulus of people (manager of financial department, directors of municipal institutions, as well as people working in local government.) to amalgamated or not, identify expectation of amalgamation, probable benefits as well as drivers that influence decision-making. One of the key tasks will be to evaluate the role of budgeting in achieving the expected benefits after unification.

At the initial phase of the interviews we focus on establishing relations and relaxed atmosphere by asking leading general questions to make respondents talk and feel comfortable. Prior interviews were started, **written consent** for conducting and recording interviews was obtained:

“This interview is made to identify expectation of amalgamation (benefits) and evaluation of the role of budgeting in the achieving expected benefits. All the information obtained in course of the studies will be handled under strict confidentiality policy. You are able to stop an interview at any point, in this case

all data will be erased immediately from our devices. The data will be recorded exclusively for the studies process and handled anonymously. All the recordings will be shortly deleted after performance of studies. Please confirm your participation.”

The **background information** is asked by us shortly after written consent or on the next priory agreed day. Background information includes the following data:

The name of the respondent

Gender

Age

Position in LG

How long you have been served this position?

Length of service in the LG (ATC)

We will continue to main part of our interview after the introductory part.

Following **questions related to the topic** will be discussed:

- 1) What were your expectations from the amalgamation reform?
- 2) Can you explain driving forces that influenced the amalgamation process?
- 3) Do community residents get any benefits after amalgamation reform?
 - why or why not?
- 4) How budgeting and it's change influenced on the quality of services in the community?
- 5) Has budgeting process changed after amalgamation? What were the main aspects of the change?
- 6) What are the drivers of budgeting changes during amalgamation?
- 7) How budgeting and it's change influenced on the cost of services in the community?

- 8) How budgeting and its change influenced on the number of services in the community?
- 9) Did the changes in budgeting help the local government be more flexible and adaptive (in relation to the needs of the residents)
- 10) Did the changes in budgeting help achieve the expected benefits for the residents?

Appendix B: Agreement form

Agreement form

- I realize that the Master thesis is being conducted by Kondratenko Oleksii, a Master student in the NUPSEE program between Taras Shevchenko National University of Kyiv and Nord University.
- I understand that the topic of this Master thesis is features of budgeting under conditions of the formation of amalgamated territorial communities.
- The main purpose of the research is understand how the role of budgeting has changed since the amalgamation and how these changes have affected the achievement of expected results.
- Taras Shevchenko Kyiv National University and Nord University are the institution responsible for the project.
- The main selection criteria include: a person must be a resident of the Lymanskaya community, age from 21 to 41.
- I interviewed 6 people. The questions were related to their expectations from the merger process and whether they were achieved after. There were also questions related to the role of the new budgeting process. All their answers were recorded on the recorder. I realize that the Master thesis, specifically, investigates to what extent changes in budgeting process. Specifically, the study focuses on exploring the residence responses to national reforms (amalgamation reform), taking into consideration specific characteristics of the community.
- I accept that I will be interviewed and the given information will be recorded, collected and used until the Master thesis will be completed and reviewed.
- The process of data analysis began with diligent transcription of the interviews. The next part of data analysis was coded based on previously transcribed interviews and alignment to relevant blocks of information. For the purposes of this studies, inductive coding was used. The code is based on the respondents`

answers and to provide the research team closest meaningful information possible to skim and quickly navigate through the data process. In order to ease the process of data analysis, the answers were additionally subdivided to the themes. The codes and themes were determined based on common consensus, by means of reading aloud abstracts, introduction of code by each member of the research group and further considerations of the best category for whole 6 answers on a question.

- The project is scheduled to end 20 of May.
- I approve that I have understand an agreement form and confirm to participate in this interview on voluntary basis.
- Based on an agreement with Nord University, NSD – The Norwegian Centre for Research Data AS has assessed that the processing of personal data in this project is in accordance with data protection legislation.

If you have questions about the project, or want to exercise your rights, contact:

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