LOCAL BUDGETING OF EDUCATION

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Ukrainian and regional experience of regulating and executing the budget process in education at the municipal level

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The monograph discusses legal regulation and practical execution of the budget process in education at the municipal level. Two case studies from the region (Poland, Sweden) are contrasted with three case studies from Ukraine (Kyiv, Lviv, Mariumpol). A detailed review of the legal framework of education budgeting in Ukraine is also included. The monograph is addressed to municipal and national experts of education and of local finance

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Chapter 1. INTRODUCTION

Jan Herczyński

Introduction

The conditions under which this publication was initiated and under which it is being finalized could not have been more dramatically different. Back in July 2021, Ukraine was also a country at war, with Crimea and important territories in the Donbas, including provincial capitals of Donetsk and Lugansk, under temporary occupation by Russia, and with daily exchange of fire at the frozen frontline. Still, most of the country was peaceful. Ukraine was a democratic country emerging from its Soviet past, with an experience of peaceful transition of power through national elections, in a democratic manner. It was undertaking a series of structural reforms, certainly modified and corrected by its successive governments, but nevertheless continued and strengthened. Of these reforms, the decentralization process was maybe the most profound rupture from inherited Soviet traditions, and clearly very successful. The first comprehensive reform of education, called New Ukrainian School, was being implemented across the country.

Presently, since February 2022, Ukraine is a country defending itself from unprovoked full-scale aggression by Russian Federation, when continuation of the reforms had to take second place in the face of most pressing emergencies. With many of the budget resources allocated to the war effort, decentralization process was put on hold, if not partially reversed. For this reason, discussions of how the decentralization in education is being implemented at the local level, and how democratically elected territorial gromadas execute the budgeting process, may seem not very relevant.

Especially heart-breaking for the authors of the present book is the destruction of Mariupol, one of three cities selected for detailed review, alongside Kyiv and Lviv. Mariupol was a city which initiated ambitious reforms to become a major center of education, culture, and new technologies. The city adopted its development strategy *Mariupol* 2023, and started to implement changes and improvements in all spheres of city life, including management and budgeting of education. All these achievements now seem distant.

Nevertheless, Ukraine must prepare for post-war reconstruction and for restarting and continuation of suspended structural reforms. In order to successfully address these challenges, the understanding of successes and limitation of the reforms prior to February 2022 is necessary. The authors of the present book recognize the priority of fending off Russian aggression and regaining control over state borders, but consider it useful for future reconstruction effort to complete analysis of the budgeting process in education, which was started in middle of 2021, and to publish the results of this analysis in the present, very difficult conditions. We believe that the lessons from three selected cities, and the recommendations formulated on this basis and using the regional experience of Sweden and Poland, are important for Ukraine. We also think that we have the obligation to fully report on the experience of Mariupol in this book, with its innovative budgeting and managerial practices. This is still a useful lesson for all territorial gromadas in Ukraine, even though the reconstruction of the city will be a painful and long process. We include review of Mariupol experience as a gesture of solidarity with that magnificent city.

The purpose of the present publication is to review the present budgeting process in education in the city of Kyiv, Lviv and Mariupol, together with reporting on the experience of two countries in the region, Poland and Sweden. The book highlights the challenges of budgeting in education and presents specific innovative budgeting procedures introduced in the cities. The three selected cities have long experience of autonomous budgeting at the local level, unlike most of territorial gromadas which were created in the last few years. The experience of these cities is especially useful to all newer territorial gromadas. Further, the three cities were selected to represent regional variation of Ukraine.

The book is limited to secondary education, without special schools, because this represents major social function allocated to all territorial gromadas.

The complete budget process consists of budget preparation (typically, in the second half of the year), budget adoption (typically, in December), budget execution (whole budget year), if required budget amendments (several times during the budget year), and budget reporting (typically, the first quarter of the following year). The present monograph focuses on budget preparation and adoption.

Finally, we need to point out that when talking about education budgets, we are focusing solely on the expenditure side of the budgets. Of course, in the education sphere there are also some revenues, such as payments for parents for food in preschools, renting of space or provision of additional education services in secondary education, paying students in professional or higher education, but those revenues are minor. For this reason, the book analyzes only the expenditures: how the city decides to allocate funds for secondary education and for individual secondary schools.

The present introduction in section 1 reviews briefly the decentralization process in Ukraine, and in section 2 characterizes the role of secondary education as key social function decentralized to territorial gromadas.

Acronyms used in the book are listed in Table 1.1.

Table 1.1. **Acronyms used in the book**

KMDA	State Administration in Kyiv City
KMR	Kyiv City Council
RDA	State administration in rayon
TG	Territorial community (gromada)
RUO	Rayon Education Office
DF KMDA	Department of Finance of KMDA
DO KMDA	Department of Education and Science of KMDA
KEKB	Code of economic classification of budget expenditures
PIT	Personal income tax
CMU	Cabinet of Ministers of Ukraine
MF	Ministry of Finance of Ukraine
MES	Ministry of Education and Science of Ukraine

1.1. Decentralization process in Ukraine

Decentralization process in Ukraine begun in 2016 and has been completed in 2020. It involved the amalgamation of 12 thousand of small gromadas, administratively and budgetarily powerless, into 1438 autonomous, fiscally sustainable, democratically elected territorial gromadas (called *amalgamated gromadas* during the process), and the transfer to them of all functions previously executed by rayons. Territorial gromadas adopt their own budgets and have direct fiscal relationship with the national budget, unlike small gromadas prior to amalgamation. Their provide to their population multiple administrative and social services, including preschools, secondary and extracurricular education. Despite the same name, these are completely different institutions. Prior to 2016, only former cities of oblast significance (about 150 of them) enjoyed the rights now given to all gromadas. These cities did not have to amalgamate, although many of them did, through inclusion within their boundaries of some rural gromadas around them.

Beginning in 2016, the amalgamation process was conducted in an inclusive, democratic manner. Regional amalgamation plans were adopted after consultations with local representatives, and were often adjusted during the process to reflect changed local expectations. The process was initially voluntary, and proceeded only when local population was ready to accept the new responsibilities together with the new rights. Only in 2021 the remaining gromadas had to amalgamate by law. The following Table 1.2 shows the progress of amalgamation, with the former cities of oblast significance separated (they achieved the status of autonomous territorial gromadas prior to the decentralization).

Table 1.2. Progress of amalgamation of territorial gromadas

Year	Number of territorial gromadas
2015 (former cities of oblast significance)	151
2016	137
2017	187
2018	270
2019	97
2020	39
2021	557
Total	1 438

Territorial gromadas now include whole population of Ukraine and cover its whole territory, with the exception of temporarily occupied territories in the east and the Crimea. They all have the same legal status, the same revenues and expenditure responsibilities determined by laws, and the same responsibilities for many sectors of their lives, from basic administrative services to important and expensive social functions such as social protection, education, and health (which previously were administered by cities of oblast subordination and by rayons). The concept of city of oblast significance lost any meaning and was discarded from Ukrainian legislation.

The amalgamation of gromadas and the successive transfer of responsibilities was accompanied by far reaching changes in the management, financing, and monitoring of important social functions, such as education, health, social protection. The sectoral ministries, including the Ministry of Education and Science of Ukraine, have been developing new procedures and new management tools required for decentralized sectors such as education. These tools include new procedures for implementing sectoral reforms (such as New Ukrainian School), new financial transfers (such as education subvention and other subventions for different education goals), new databases (such as DISO/AIKOM), or new instruments to optimize school networks (such as hub and satellite schools). The governance of social sectors in Ukraine now requires dialogue and cooperation of different tiers of independent administrations. This brought Ukraine much closer to the standards of the European Union.

The experience of countries in the region which had adopted decentralization in recent years (including Poland and Lithuania) indicates that this process of adjustment of sectoral laws and procedures to the requirements of democratic dialogue of all stakeholders in decentralized system will continue for many more years, as Ukraine finds its own balance of national and local responsibilities in every sector. An important role in those public discussions will be played by the national and regional associations of local self-government.

One important area, which has not been adapted yet to the requirements of decentralization is the budgeting process. It still remains firmly rooted in inherited top-down approach, which was well suited to the centralized governance, but is becoming obsolete with every passing year. The deficiencies of current budgeting model are of course specific to each social sector, so their review should start with individual sectors, before comprising the whole budgeting process at the local level.

1.2. Secondary education as a decentralized function

According to Constitution of Ukraine, there are three tiers of local public administrations in Ukraine, territorial gromadas, including the city with special status Kyiv, rayons, and regions. However, rayons have been stripped of all functions and revenues and their administrations survive on government grants, so we disregard them further. All tiers are recognized in Ukraine as local governments, even though the budgetary and institutional autonomy of regions is limited. The two actually functioning tiers have different responsibilities in each sector.

To analyze the responsibilities of gromadas and regions, we present shares of local expenditures by functional classification for the budget year 2021. We do not use data from budget year 2022 because they already reflect budget adjustments to the conditions of full-scale aggression by Russia.

The following Table 1.3 presents main competencies of gromadas (including Kyiv) expressed as budget expenditures in 2021. We note that inclusion of Kyiv with territorial gromadas is not a standard Ukrainian procedure, because as a city with special status it has a number of specific features (discussed in chapter 5) and in some respects is similar to oblast. However, as a founder of secondary schools it is certainly just a very large territorial gromada, so is included in Table 1.3.

Table 1.3. Main competencies of gromadas expressed as budget expenditures (2021)

Competency	Expenditures (million HR)	Share of expenditures (%)
General government functions	59 462	12,9%
Social order, security, judiciary	1 602	0,3%
Economic activity	75 442	16,4%
Environment protection	1 470	0,3%
Housing and communal activity	44 264	9,6%
Health protection	21 872	4,7%
Spiritual and physical development	20 597	4,5%
Education	216 146	46,9%
Social protection	19 739	4,3%
Total	460 593	100,0%

We note that education is indeed the largest responsibility transferred to territorial gromadas, accounting for about 47% of all local expenditures. Other important functions are economic activity and general government functions.

The following Table 1.4 presents main competencies of regions expressed as budget expenditures in 2021. Kyiv is not included.

Table 1.4. Main competencies of regions expressed as budget expenditures (2021)

Competency	Expenditures (million HR)	Share of expenditures (%)
General government functions	26 882,24	19,7%
Social order, security, judiciary	137,41	0,1%
Economic activity	36 918,00	27,0%
Environment protection	950,56	0,7%
Housing and communal activity	12 466,55	9,1%
Health protection	11 233,57	8,2%
Spiritual and physical development	6 791,32	5,0%
Education	32 931,87	24,1%
Social protection	8 328,41	6,1%
Total	136 639,92	100,0%

We note that the distribution of main competencies of regions is very different from that of gromadas. Education forms only 24% of the regional budget, these are mostly special schools, institutions of extracurricular education, as well as professional-technical and pre-higher professional schools.

The education responsibilities of TG cover: preschools, secondary schools (grades 1 to 11), extracurricular education, special secondary schools, professional and technical schools (cities which are regional capitals), and exceptionally, a university in Kyiv. The following Table 1.5 presents main educational competencies of gromadas (including Kyiv) expressed as budget expenditures in 2021.

Table 1.5. Main educational competencies of gromadas expressed as budget expenditures (2021)

Competency	Expenditures (million HR)	Share of expenditures (%)
Preschools	48 473	22,4%
General secondary schools	140 003	64,8%
Professional-technical education	4 286	2,0%
Professional pre-higher and higher education	1 808	0,8%
Post-diploma education	48	0,0%
Extracurricular education	12 484	5,8%
Other educational activities	9 044	4,2%
Total	216 146	100,0%

We note that secondary education comprises 65% of all educational expenditures. Taking into account also Table 1.3, we conclude that secondary education is the largest single function executed by territorial gromadas, at 30% of all gromada budgets. Share of preschools in educational expenditures is just over 20%, reflecting low preschool enrollment in Ukraine as well as very low salaries of preschool staff.

Regional administrations are responsible for specialized secondary schools with dormitories, special secondary schools, for centers of extracurricular education, for professional-technical schools and for pre-higher professional education providing secondary education. The following Table 1.6 presents main educational competencies of regions expressed as budget expenditures in 2021.

Table 1.6. Main educational competencies of regions expressed as budget expenditures (2021)

Competency	Expenditures (million HR)	Share of expenditures (%)
Preschools	66	0,2%
General secondary schools	9 555	29,0%
Professional-technical education	9 435	28,6%
Professional pre-higher and higher education	9 240	28,1%
Post-diploma education	855	2,6%
Extracurricular education	942	2,9%
Other educational activities	2 839	8,6%
Total	32 932	100,0%

Regions manage and finance only very few special preschools, and their main responsibilities, at about the same level, are secondary schools, professional schools, and pre-higher and higher education. Moreover, education budget of regions is much smaller than education budget of territorial gromadas (see Table 1.5).

We conclude that education, and in particular secondary education, is the most expensive function allocated to territorial gromadas. This justifies the special focus on budgeting in education at the local level, as done in the present book.

Chapter 2. BUDGET PROCESS IN EDUCATION IN SWEDISH MUNICIPALITIES – AN EXAMPLE

Mats Öhlin

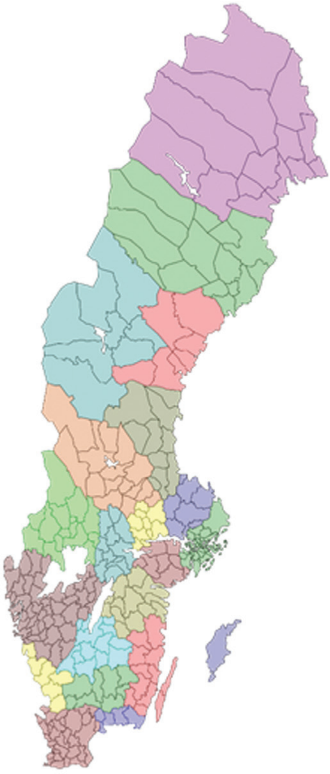
Introduction

Sweden is a highly decentralized state. The main decentralized functions, such as education, social protection, urban planning, communal services, local economic development, emergency and rescue services, environmental protection and similar, are performed by 290 municipalities (*kommuner*), while the responsibilities for health (except for prevention), culture, and regional coordination are delegated to 21 regions (*regioner*). The following Map 2.1 shows Swedish regions and municipalities (white parts within the country represent large lakes).

A unique feature of Swedish local governments is the special role of their association SKR (*Sveriges Kommuner och Regionen*, Swedish Municipalities and Regions). Known as SKL until 2019, this association not only represents municipalities and regions in internal discussions with the Swedish governments, but also performs many national functions. These include collecting and presenting national statistics and performing tax projections. In education, SKR negotiates and concludes collective bargaining agreements with teacher trade unions. SKR also collects selected national statistical data and maintains a national database of local government information and indicators called Kolada (www.kolada.se). Kolada includes full education statistics and many education indicators.

Map 2.1. Map of Swedish regions and municipalities

Swedish local governments have significant autonomy regarding their internal administrative structure, their functioning, and the organization of their budget process. The best way to review the local budget process in education in Sweden is therefore to focus on one municipality.



In the present chapter we have taken the Municipality of Haninge (*Haninge kommun*) in the southeastern part of the Stockholm County as an authentic example. Thus, administrative structures of Swedish municipalities are presented together with the practical solutions adopted by Haninge.

Functioning of local governments in Sweden is regulated by the Local Government Act of 1991 (Kommunallagen). We discuss functions and administrative structure of municipalities in section 2.1. In section 2.2 we provide an overview of the municipality Haninge, including its local network of schools. Section 2.3 is devoted to describing in detail the budget process in education in Haninge.

I thank Jan Herczyński for many useful discussions and for substantive contributions to the present chapter.

2.1. Legal framework of the budget process in education

The budget process in Swedish municipalities is regulated by the Local Government Act. This law mainly regulates when the budget shall be decided, what has to be included and what the budget process should be aiming for, namely for “good economic management” (Local Government Act, Chapter 8, Economic administration, Section 1). The details of the budget process, including detailed budget calendar, is determined by each municipality individually.

“Good economic management” is a set of fiscal principles which all municipalities must meet in their budget process. These principles include first and foremost the requirement that the balance sheet result be positive, meaning that the municipality does not have budget deficit in any budget year. If there is a deficit one year, it should be recovered within three years, which means that for the next three years the budget must have surpluses, which over these three years (or earlier) add up to the one-year deficit.

Swedish municipalities define more precisely how they understand “good economic management” in their strategic and budget documents. For example, in the budget document for 2021, “Goals and Budget 2021-2022” Haninge states that “Good financial management means that the municipality achieves both its operational and financial goals in the short and long term. The business must be conducted in a long-term, effective and efficient manner. As a general starting point for good economic management, each generation must themselves bear the costs of the service it consumes”.

The Local Government Act does not specify what happens if a municipality fails to pursue “good economic management”. In fact, most legal scholars agree that a municipality in Sweden, unlike many other countries, cannot go bankrupt. The bankruptcy legislation does not apply to municipalities (Oskarshamn district court 1996). If a municipality still fails to meet its financial obligations it would in the end be a question for the Government to resolve (Riberdahl 1992, Kallberg 2017).

2.1.1. Administration of Swedish municipalities

The main organ of the local administration is the legislative Municipal Assembly (kommunfullmäktige), elected every four years (at the same time as elections to Swedish Parliament and to the regional assembly). The municipal assembly has between 31 and 101 members, always a multiple of ten plus one, based on municipality population. For example, the municipal assembly of Haninge, with more than 90 thousand inhabitants (see Table 2.4), has 61 members. The assembly usually meets once a month except for July. There is no elected or appointed mayor of municipality.

Elections to municipal assembly are proportional, with the number of seats for each party determined on the basis of the number of votes (using so called modified Sainte-Laguë method, see Laakso, Taageper 1978). Each voter votes either for a party list, or for a selected candidate from a party list. Only parties which win at least 2% or 3% (depending on whether the municipality has one or more voting districts) of the popular vote in the municipality gain seats. For each party, candidates who received most votes are elected members of municipal assembly. Together with assembly members, substitute assembly members are elected. Substitute members is a specific Swedish institution. Each party has the same number of substitute members as real members of the assembly. Substitute members are the candidates from the party list, who received most votes below those who were elected to the assembly. If an assembly member is absent for whatever reason, a substitute member may participate in the assembly meeting and vote in his/her place. This system ensures that the number of votes for each party reflects the results of the elections even if some assembly members are sick or otherwise unable to participate. Further, substitute members may always be present in the meetings of the and assembly and of the committees and can take part in the discussions, without the right to vote.

The Swedish municipalities have large autonomy regarding how to organize their work. The Local Government Act stipulates that: "The assembly shall appoint the committees needed, in addition to the executive committee, for the discharge of the duties of the municipality or county council under special enactments and for the conduct of its other activities".

Thus, each municipality must have an Executive Committee (*kommunstyrelsen*) and may have other committees, as it decides. The Executive Committee represents the municipality, manages its affaires, and prepares decisions to be adopted by the assembly. In particular, it is the Executive Committee which prepares the municipal budget. The number of members of the Executive Committee is decided by the assembly, but cannot be less than 5.

The chairman of the Executive Committee is often considered the mayor of the municipality, although there is no official office of mayor in Sweden. It is a full-time paid position, called municipal commissioner (kommunalråd). All remaining members of the Municipal Assembly, as well as substitute members, are paid only for their participation in the assembly sessions. Municipality may also appoint, if it so decides, additional municipal commissioners representing different parties in the assembly, as well as several political secretaries, who serve these parties. The political secretaries only have a supportive administrative role and no decision-making function. The number and remuneration of municipal commissioners and political secretaries is decided by each municipality according to its needs.

In Haninge, for example, the Executive Committee include six commissioners from the political majority and one from the opposition. There are also nine political secretaries.

Alongside the Executive Committee, the assembly may create other committees to conduct the administration of the municipality. Members of all these committees may be selected from the municipal assembly, but may also be invited professionals who are not part of the assembly. The number and competencies of these specialized committees is decided by the assembly, as is the distribution of powers between them and the executive committee. In particular, in contrast to many countries, there is no obligation to create a budget or finance committee. If no specialized committees are appointed, all managerial duties are performed by the executive committee. Different municipalities select different management models, suited to their needs.

For example, in Haninge there are 9 appointed committees alongside the executive committee, including two committees in the education sphere: Committee for Compulsory and Preschool Education and Committee for Upper Secondary and Adult Education (see Graph 2.2). Haninge does not have a dedicated finance committee or a dedicated finance (budget) department.

Each committee has an executive body, which consists of the chairman, the first and second deputy chairmen. The chairman and the first deputy represent the political majority, the second deputy represents the opposition. As all members of the assembly, they also have three substitutes. The executive body plans the work and prepares meetings of the whole committee.

Committees are political organs of the municipality, they set policy goals and ensure that these goals are met. They are assisted in their work by the departments, that is by administrative units. A department may serve more than one committee. The head of the department is appointed by the executive committee. The leadership of a department, or its management team, consists of the head of the department, heads of different sections within the department, and typically also an economy controller and a human resource manager. The staff of departments, including the leadership, are non-political officials, and are not replaced when the municipal elections change the political majority in the assembly. The function of the departments is to conduct all administrative work to meet the requirements of the committees they serve. The number and roles of departments, their subordination to the committees, is decided by the municipal assembly. The number of their staff and their remuneration is decided by the head of the department depending on the budget allocated.

For example, in Haninge there are 4 departments and also a separate department serving the Executive Committee (see Graph 2.2). Both education committees are served by the Education Department.

2.1.2. Competencies of Swedish municipalities

Municipalities are the main tier of local government in Sweden. According to Local Government Act of 1991, functions of municipalities in Sweden include:

- Childcare and preschools;
- Education (primary, upper secondary, adult);
- Health (only preventive health care);
- Social protection (care for the family, child care, care for the elderly and disabled);
- Public transport (shared with regional public transport authority, road maintenance);
- Urban planning and building issues, public housing;
- Emergency services, including fire protection (except for policing);
- Environment protection;
- Economic development, including employment, industrial and commercial services;
- Sanitation (water provision, refuse and waste management, sewage treatment).

The relative significance of these competencies is illustrated by their share of overall expenditures, reported in the following Table 2.1 (Herczyński 2018).

Table 2.1. Expenditures of Swedish municipalities (2016)

Expenditure	Amount (billion SEK)	Share
Political activities	6,8	1,1%
Infrastructure and protection	43,3	6,8%
Cultural and recreation services	29,8	4,7%
Preschool services, pedagogical care	72,3	11,3%
Compulsory school, preschool class, out-of-school centers	138,3	21,6%
Upper secondary school (with special school)	43,9	6,9%
Adult education and other education	9,3	1,5%
Elderly care	117,5	18,4%
People with disabilities	70,7	11,1%
Individual and family care	43,5	6,8%
Specially targeted action	38,5	6,0%
Commercial activities	21,9	3,4%
Other activities	3,8	0,6%
Total	639,6	100,0%

We note from Table 2.1 that education (from preschools to adult education) comprises over 41% of all expenditures of Swedish municipalities, and is therefore their most important function (we discuss this in more detail in section 2.1.3). They are founders of preschools, compulsory schools (grades 1 to 9) and upper secondary schools (grades 10 to 12). This means that municipalities are responsible for their management, including decisions on the network and appointment of school principals, and for their financing, including recurrent financing and investments.

KWe should add that health is also a decentralized function in Sweden, but it is the competency of counties/regions.

An important competency of Swedish municipalities is their right to set the rate of personal income tax on all inhabitants of the municipality. This means that if the municipality plans higher expenditures, for example on education, it may decide to increase the tax rate in order to increase its revenues. The decision on the level of taxation is an important part of the local budgeting process. Taxes from the dominant revenue of Swedish municipalities, as the following Table 2.2 illustrates (Herczyński 2018).

Table 2.2. Revenues of Swedish municipalities (2016)

Revenues stream	Amount (billion SEK)	Share
Tax revenues	432,9	65,2%
General government grants	88,9	13,4%
Specially defined state subsidy	57,7	8,7%
Fees	34,8	5,2%
Sales of business and premises	5,5	0,8%
Rents and leases	19,4	2,9%
Other incomes	24,9	3,7%
Total	664,2	100,0%

We observe that tax revenues are over 65% of all revenues of Swedish municipalities, while grants and subsidies from the national budget amount to 22%. This indicates that Swedish municipalities are quite independent of the national government and their reliance on funding received from the national budget is limited.

2.1.3. Education in Swedish municipalities

Sweden has two levels of schools: compulsory (or primary) schools, with grades 1 to 9, and upper secondary schools (3 grades). Compulsory school also include non-compulsory introductory grade, sometimes called "zeroth grade", for six-year-olds. The curricula for all levels of education are adopted by Skolverket (the Swedish National Agency for Education).

Swedish municipalities are founders of preschools, of compulsory schools, and of upper secondary schools, as well as of some other education institutions. They decide on their network and finance them, often using local school vouchers (see section 2.1.5). However, they do not receive targeted or general grant education grant from the national budget. As Table 2.2 above illustrates, the main source of local budgets, and the main source of funds for education, is municipal personal income tax.

Upper secondary schools may be theoretical (academic) and vocational. The Ministry of Education mandates 18 educational profiles for upper secondary schools, including both academic and vocational profiles. Individual upper secondary schools may but do not have to teach all of these national profiles. It is the responsibility of each municipality to determine the network of upper secondary schools, that is their number and location, as well as the specific profiles they offer. It is also the responsibility of each municipality to guarantee that all students in the municipality can choose any national program, even if the municipality itself doesn't offer all programs.

There are no external examinations in Sweden. Access to upper secondary schools is based on marks received by the student at the end of compulsory school. For each subject, student may receive marks from A to F, with A the highest and F the failing mark. Students are eligible for academic profile if at the end of primary school, they have non-failing marks in 12 subjects, and for vocational profiles in 8 subjects.

As school founders, Swedish municipalities also appoint school principals. For such appointment, they must conduct an open competition, which starts with advertisement of open vacancy, together with formal and informal requirements for candidates. Formal requirements may include education and prior experience, while informal – expected attitude towards work or towards students. The candidates are interviewed both by the municipal officials and by concerned trade unions. In the case of Haninge, the interviews are conducted by heads of sections of the department responsible for education. Municipality must consult the opinion of the trade unions, but does not have to comply with it. Municipalities also decide on firing of school principals, however this is a rare situation, because if head of the department loses confidence in the principal, she or he will in many cases leave the job voluntarily.

Swedish schools have a high degree of budgetary autonomy. They adopt their own budgets, based on their revenues and planning their expenditures. The revenues of schools include transfers from the municipality and revenues from participation in national and international projects. The main transfer from the municipality has the form of school vouchers, meaning that it is proportional to preschool and school enrollment (by education level and by profile, see section 2.1.5).

Budgetary autonomy of Swedish schools extends to the salaries paid to school staff, including all teachers. Each teacher signs individual work contract with the school principal and negotiates her/his salary for their work contract. There is no national pay scale of teachers. At the same time, there are two types of collective agreements, national and municipal. This is very relevant for the budget process in education, as teacher salaries are the dominant expenditure item of school budgets.

The national collective bargaining is conducted between SKR and the Swedish Teachers' Union (Sveriges Lärare). In previous years, the national collective agreements included decisions such as yearly increase of all teacher salaries by a fixed percentage based on the bargaining result. In the last decade or so, however, due to overall shortage of teachers, they are able to negotiate sufficient increases of their salaries at the local level. As a result, a clause in national collective agreement concerning uniform increase of salaries is not necessary. Instead, these agreements focus on conditions of work and related legal and social issues.

Local collective bargaining is very different. Each year, school principals prepare proposals for increases of salaries of individual teachers, with arguments for each such increase. All these proposals are discussed with the local teacher trade union. In other words, municipal collective bargaining incudes discussions of the salary of every teacher employed in the municipality. In Haninge, this process is organized and overseen by the Education Department with the support of a personnel department organized within the Municipal Executive Committee Department.

Alongside public schools, there are many private schools (free schools), whose founders are commercial or non-commercial organizations (for instance cooperative). The private schools receive school vouchers from local budgets in parallel to public schools and with the same values (see section 2.1.5).

Swedish schools, both public and private, are not allowed to charge their students for anything. Students do not pay tuition, do not pay for their school meals or excursions, for the medical care provided in schools, for extra-curricular activities. All these costs must be included in school budgets. There are no paid “additional” educational services in Sweden. However, there are parental contributions for preschools (see Table 2.17).

2.1.4. Legal requirements for the budget process

As mentioned above, local budget in principle cannot have negative balance sheet results (deficits). This means that both the adopted budget and the executed budget must be either balanced or in surplus. Moreover, it has been a consistent fiscal policy that the consolidated public budget (national and local budgets) should have 1% surplus in each budget year, OECD (2018).). Since 2019, the surplus target was reduced to 0,3%. This policy contributes to good budgeting practices. Comparison of Table 2.1 and Table 2.2 shows that in 2016 overall the revenues of municipalities exceeded their expenditures by 3%.

However, in exceptional cases, when during the execution of the budget a municipality falls into deficit, it should be restored (paid back) in the next three budget years. The requirement for a negative balance sheet result to be restored was introduced in connection with the Municipal Accounting Act (Lag om kommunal bokföring och redovisning) introduced in 1998 and applied from the year 2000. This means that municipalities that have a negative economic result one year have to balance their budget later. The original requirement was a restoration of two years, but this was increased to three in 2005 when also strengthened requirements for goals and new guidelines with significance for good economic management was introduced (SKR 2021).

From 2013, there is an opportunity in the Local Government Act to reserve parts of a positive result (budget surplus). This means that municipalities in Sweden can save money from a one-year surplus to be used during the following budget year. Any such saved funds are registered next year as “earnings equalization reserve”. The funds from this reserve are used for investments as well as for repayment of deficit, if such was made in the previous year. However, the use of this reserve by municipalities is voluntary.

The Local Government Act stipulates that “Municipalities and county councils shall draw up, every year, a budget for the next calendar year (fiscal year) /…/ The budget shall be drawn up in such a way that income exceeds expenditure.” (Chapter 4).

Furthermore, it says that “The budget shall contain a plan for activities and economic management during the fiscal year.” Here “activities” mean what the municipality wants to do the next year, while "economic management" refers to how the municipality plans to fund its activities. The budget of a Swedish municipality is not merely a financial plan, it includes description of the actual activities which are financed. We will discuss in more detail what this implies when we focus on education budgeting in section 2.3.3.

As mentioned above, municipalities must set its taxation rate, the law stipulates: "The plan shall indicate the rate of taxation and funding allocations. The plan shall also show how expenditure is to be financed and what the economic status is expected to be at the end of the fiscal year".

In general, Swedish municipalities decide on the budget for the coming year in June, with a possible corrective decision in November. By deciding on the budget as early as June, departments and committees are given the opportunity to create detailed budgets in their special areas before the beginning of a new fiscal year.

The Local Government Act does not stipulate what the local budget process should look like. It sets only two dates for the budget process:

- "A budget shall be drafted by the Executive Committee before the end of October" (Chapter 4);
- "The budget is adopted by the assembly before the end of November" (Chapter 5).

Therefore, structuring the budget process, including its detailed schedule, becomes a question for local creativity. To study Swedish local budget processes requires studying local examples. This is the reason why the present chapter focuses on one specific example of Haninge.

2.1.5. School vouchers in Sweden

Sweden is one of very few developed countries in which municipalities allocate funds to their public schools using vouchers (per student allocation mechanism). This has been the subject of intensive research and debate, both within Sweden, see for example Hinnerich, Vlachos (2014), Trumberg, Urban (2021), Brandén, Bygren (2022), and outside (Sahlgren 2011, Pelling 2022). Many experts are quite critical of voucher funding of schools.

The background to the school vouchers was the introduction of so-called "free schools" (*friskolor*) in Sweden in 1992. Free schools are privately owned, but publicly funded schools, which cannot charge tuition (they are free for parents, exactly as municipal schools). Before 1992 privately owned schools were almost non-existent in Sweden, with a couple of exceptions that were run without public funding. In the school year 2020/2021, around 17% of compulsory schools and 35% of upper secondary schools were free schools, enrolling about 16% and 29% of all students respectively (Swedish Institute 2021). This indicates that the reform initiated in 1992 had huge impact on the functioning of Swedish education. It is interesting to note that expansion of private upper secondary schools led to increased share of graduates of compulsory schools who choose vocational education (Edmark, Hussain, Haelermans 2020).

Since 1991, private schools receive public funding in the form of voucher, equivalent in value to the funding of public schools. Each municipality must calculate the vouchers schools as average per student expenditures in its public schools. Thus, the value of the voucher is different for each municipality, and is different for preschools, for education level in compulsory (primary) schools, and for different profiles in upper secondary schools. The same vouchers are paid by a municipality to another one, if children registered in that municipality decide to enroll in the public schools of neighboring municipality. Most but not all Swedish municipalities have adopted voucher system also for their own public schools, although this is not required by the legislation (Riksrevisionen 2022). Municipalities which did not do this include some smaller municipalities without free schools as well as municipalities with strong Social Democrat majorities, as vouchers are more popular with right parties. An example of a municipality which did not adopt vouchers to finance its own schools is Smedjebacken Municipality, with a population of just 11 thousand and without any free schools.

The voluntary adoption of vouchers for own schools by the municipality is stimulated by several factors:

- Convenience: it is technically much easier to use vouchers for all public and private schools rather than use separate different budgeting processes. This is especially relevant because until the budget process for public schools is finalized, it is impossible to assess voucher values and thus foresee the budget implications of transfers to private schools.

- Simplicity: when presenting and arguing for the draft budget, first to the education committees and then to the municipal assembly, it is much simpler to use the same set of budget rules and procedures for all schools financed by municipality.
- Transparency: if different budgeting procedures are used for public and private schools, it may become difficult to assess what is the correct value of the vouchers, and this may lead to conflicts and prolonged public and/or legal disagreements. Indeed, to assess the voucher it becomes necessary to review in detail the budget of each public school, to assess which parts of the budget should correspond to the voucher (see below what the vouchers must cover), and finally to take the relevant number of students at a specified date. This complex set of calculations is easily misinterpreted, may always be questioned, and creates confusion. The use of vouchers for all schools avoids all such discussions.

What this means is that recurrent budget allocation for each public school, apart from some specific municipal programs (see section 2.3 for examples), is performed strictly proportionally to the number of students. Moreover, if the number of students changes from a month to the following month, the budget allocation changes accordingly. The setting of values of the values of 22 school vouchers used (for preschool, compulsory, upper secondary education, see Table 2.3) is thus the main step of local budgeting in Sweden.

Thus, each municipality may spend its vouchers in three different ways:

1. For its own public schools, through transfers from the municipal budget to accounts of individual schools (Swedish schools have strong budget autonomy).
2. For free schools, through transfers from the municipal budget to bank accounts of the private company or organization owning the free school.
3. For public schools owned by neighboring municipalities, its children registered in the municipality decide to attend a public school there, through transfers from the municipal budget to municipal budget of the neighboring municipality.

In every municipality, public schools face competition from both free schools and from schools in neighboring municipalities. In addition, there is clear competition between the public schools in the same municipality, if that municipality adopted vouchers.

Movement of students between municipalities is especially significant for upper secondary schools in densely populated areas. For this reason, since 2015, the 26 municipalities located in the Stockholm region, members of the association Storsthlm (Greater Stockholm), to facilitate mutual accounting decided to establish common vouchers for all different programs of upper secondary schools. These vouchers are set every year by Storsthlm through a negotiated process (see Storsthlm 2020). They are determined for 18 nationally mandated programs.

School vouchers include two parts – one per student sum of money (basic amount) and another sum depending on individual special needs (additional amount). The basic amount shall be the average cost for municipal schools, the additional amount is not a specified amount since it depends on individual needs. In principle, the additional amount can be any sum of money. In practice, it is limited since the municipal budgets are limited. But a municipality can never legally defend lack of proper support in schools due to lack of money.

The amount of money allocated for the basic amount is decided per year, but can be changed within a fiscal year. The amount of money allocated for the additional amount can change whenever special needs occur.

The Compulsory School Ordinance (*Skolförordningen*) defines in Chapter 14, §4, what the voucher should cover for free schools:

1. Teaching (covers the salaries of the school principal and other employees with management tasks, of teaching staff, support measures for students, working life orientation, skills development of the staff, and similar costs).
2. Learning tools (cover the costs of textbooks, literature, computers, equipment used in teaching, school libraries, study visits, and similar costs).
3. Student health (covers the costs of interventions such as medical, psychological or psychosocial, that pertain to student health).
4. Meals (cover the costs of food, staff, transport and related administration and other costs).
5. Administration (covers the administrative costs to be calculated at three percent of the basic per student amount).
6. VAT (covers the flat-rate amount amounting to six percent of the total amount of the funding).
7. Premises (cover the costs for rent, operating costs, equipment that is not teaching aids, capital costs in the form of interest on loans and the like, but not costs for amortization).

Regarding the last point, it is worth clarifying that although Swedish public schools in most cases are located in premises belonging to the municipality, in many municipalities they have to pay rent for the use of these premises. This greatly increases transparency of funding and motivates the schools to fully utilize the space they rent (if a school with few students uses facility with excessive surface areas, it will feel this inefficiency in its own budget). Thus, the vouchers cover total recurrent costs of providing education.

Not included in the vouchers is the means-tested support to special needs students or specific educational projects (see Table 2.15 and Table 2.16 for a few examples). Moreover, vouchers do not cover investment costs.

The value of the voucher for free schools is calculated on the average cost of the municipal schools. So, the municipality first decides how much money they want to allocate to the municipal schools, then this sum of money is divided with the number of students in the municipal schools. This sum should be given to free schools according to their number of students. That means that if more money is allocated to the municipal schools, for example due to a new program to help immigrant students learn Swedish, then the free schools have the right to get the same additional compensation, even if their costs remain the same as before and even if they do not enroll immigrant children (Skolförordningen, Chapter 14, §2). Note that the costs of teaching of Swedish to immigrant students is included in the first item of type of expenditures which the voucher must cover listed above. Conversely, if municipal schools have a decrease in funding, then the free schools will have an analogous decrease as well.

The vouchers cover preschools, compulsory schools, and upper secondary schools. The structure of the local voucher system is decided by each municipality. For instance, Haninge decided to use 11 vouchers for different education activities, in addition to 18 vouchers adopted by Storsthlm, as summarized in the following Table 2.3.

Table 2.3. School vouchers used in Haninge

Education activity	Determined by	Number of vouchers
Pedagogical care at home	Haninge	3
Preschools		3
After-class activities		1
Compulsory schools		2
Other allowances		2
Upper secondary schools	Storsthlm	18

The values of vouchers determined by Haninge for budget year 2021 are reported in Table 2.17 in section 2.3.5. Vouchers determined by Storsthlm are listed in Table 2.18 in the same section.

The values of school vouchers for different age cohorts, as shown in Table 2.3, are included in the municipal budget. They form the dominant part of the education budgets of Swedish municipalities (for Haninge, see Graph 2.4 and Graph 2.5).

It should be noted that a school voucher system has an interesting effect on the functioning of the school when the number of students in a school goes up or down. If the number of students is increasing, and the school can fit them into roughly the same classes with the same cost it already has, the additional vouchers will be pure surplus for the school. On the other hand, if the number of students decreases, it is very hard to quickly reduce the recurrent costs of the school (salaries of employees, expenditures on premises etc.). That will quickly create a deficit in the school budget, that is hard to handle in the short term. Typically, public schools must plan some reserve in their budgets for this risk.

Municipality of Haninge, reviewed in the present report, is not an exception and also uses the vouchers for its public schools. For preschools and compulsory schools about 85 percent of the total education budget in Haninge is distributed via per capita school vouchers, for upper secondary and adult education – about 70% (see Table 2.10 in section 2.3.5).

2.2. The municipality of Haninge

Graph. 2.1. Coat of arms of Haninge municipality

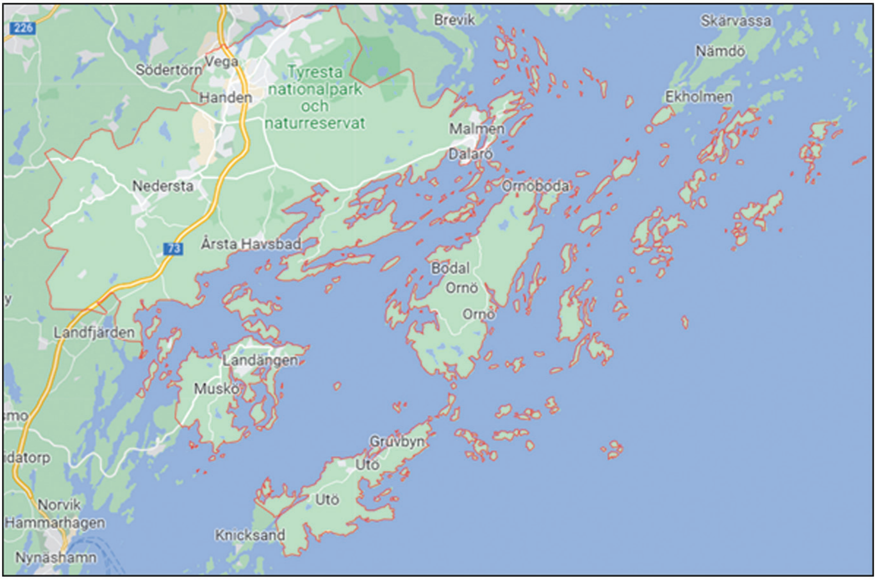
The Haninge Municipality (*Haninge Kommun*) is located in Stockholm County on the Baltic Sea. The anchor in its coat of arms, see Graph 2.1, indicates its relation to the sea. The location of the municipality within the country and within the county is shown in Map 2.2..

The main settlements of Haninge are Västerhaninge (19,2 thousand in 2020), Handen (population 15 thousand), Brandbergen (11,7 thousand), Jordbro (11,6 thousand), Vega (6,6 thousand), Tungelsta (5,6 thousand), and Dalarö (1,9 thousand). The seat of the municipality is the city Handen. It is thus one of the few (but not the only one) Swedish municipalities whose name does not derive from the name of its main city. Moreover, the seat of the municipality is not its biggest city.

Graph 2.2. Location of Haninge Municipality in Stockholm county

The municipality includes about 860 islands, the largest of which are Utö, Ornö and Muskö, the last one connected to the mainland through underwater tunnel (almost 3 kilometer long). More detailed map of Haninge Municipality with its many islands is shown in the following Map 2.3.

Graph 2.3. Map of Haninge Municipality with islands



The following Table 2.4 displays basic information about Haninge Municipality:

Table 2.4. Basic information about Haninge Municipality

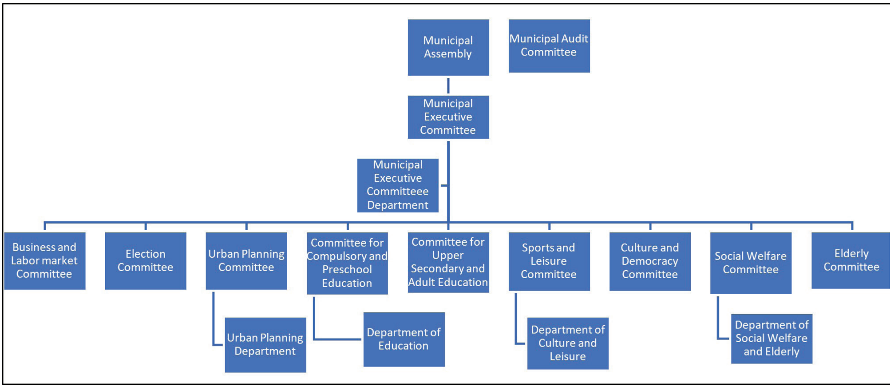
Total area (square km)	2 160,9
Land area (square km)	458,1
Water area (square km)	1 702,8
Population (December 2019)	92 095
Population density	42,6
Population density on land	201,1

Due to the location of the municipality on archipelago, almost 80% of total area of municipality is water. For this reason, standard measure of population density is not fully adequate and we also provide population density on land. We note that on land, municipality of Haninge is rather densely populated.

The Municipality of Haninge has an ethnically differentiated population. Persons of foreign origin, that is persons either born outside of Sweden, or whose both parents were born outside of Sweden, comprise over 35% of total population (as of 2017). This has important consequences for education in Haninge. In particular, schools in Haninge enroll many students for whom Swedish is not the first language and whose parents may find it difficult to communicate with teachers. The largest group of foreign origin is the Polish community.

The Municipal Assembly of Haninge has 61 members. Alongside the Executive Committee and the corresponding Executive Committee Department, Haninge has 9 committees and 4 departments. Two committees, Business and Labor Market Committee and Election Committee, do not have their dedicated departments, they are served by the Executive Committee Department. The following Graph 2.2 present the administrative structure of Haninge municipality.

Graph. 2.2. Organization of the local government in Haninge municipality



The two committees in charge of education are Committee for Compulsory and Preschool Education and Committee for Upper Secondary and Adult Education. Each of these two committees has 9 members and 9 substitute members. Both committees are served by the same Department of Education. These three institutions play crucial role in the budget process in education in the municipality of Haninge.

The following Table 2.5 presents local education network in Haninge Municipality.

Table 2.5. Structure of local school network in Haninge (2020/2021)

	Institutions	Students	Average number of students
Municipal preschools	44	6 663	151
Free preschools	23	2 789	121
Municipal compulsory schools (0-9)	20	8 958	448
Free compulsory schools (0-9)	11	2 011	182
Municipal upper secondary schools	2	2 487	1 243
Total	100	22 908	

We observe that free preschools enroll on average about 80% of municipal preschools, so are of comparable size. In contrast, free schools are significantly smaller than communal schools, enrolling on average 41% of students of a typical municipal school in Haninge. There are no free schools in Haninge at the upper secondary level.

The share of free education institutions for preschools and compulsory schools in Haninge is reported in the following Table 2.6.

Table 2.6. Share of free education institutions and their students in Haninge

	Share of free:	
	Institutions	Students
Preschools	34%	30%
Compulsory schools	35%	18%

We observe that free preschools and free schools comprise about one third of all education institutions in the municipality, however the share of students is very different. The demand for free preschools is much stronger than the demand for free schools, despite the fact that average enrollment in free and municipal preschools is comparable (unlike for schools, see Table 2.5).

We recall from section 2.1.3 that municipalities decide on the network, location and profiles of upper secondary schools. Haninge decided that its two upper secondary schools offer both academic and vocational profiles.

2.3. The budget process in education in Haninge

The budget process starts one and a half years before implementation. The first stage is a document called "Timetable for the Goals and Budget Work YYYY in the Municipality of Haninge", which is adopted by the Executive Committee (here YYY refers to the budget year). This document is called Budget Directive and it establishes the timeframe of the budget process with all key dates. The Budget Directive also looks at possible income for the municipality, population development and gives instructions to special committees and departments on what information is required on needs and circumstances that will impact the performance of the departments in the coming budget year. In Haninge, the Budget Directive for year 2021 was issued in November 2019. All the following dates and activities, as well as quotations, come from this Budget Directive.

The following Table 2.7 provides the overall timeline of the budget process for the budget year 2021 in Haninge municipality.

Table 2.7. Overall timeline of budget process in Haninge

Date	Action
November 22, 2019	Budget Directive
March 3, 2020	Economic Conference
June 8, 2020	Goals and Budget – decision of the Municipal Assembly
October 19-20,2020	Strategy and Budget – decision of committees

The Budget Directive defines overall budget framework and includes instructions for the preparation of budget proposals by all departments and committees. The key element of the budget directive are the budget frames (budget limits) for each committee. The Economic Conference is the key meeting during which all committees present their proposals for the budget, including possible requests to increase the frames. The conference gathers all the departments, all the committees, and virtually all the politicians. The budget decision by the Municipal Assembly is the adoption of "Goals and Budget" document, including adopts budget frames (budget limits) limits for each committee. Based on these overall budget limits, detailed budgets for each sector are prepared and adopted by the committees, in what are called "Strategy and Budget" documents. These major steps of the budget process are described in the following subsections.

In education, the key budget decisions are the determination of the new values of the school vouchers. As indicated in Graph 2.4, allocation of funds to schools through vouchers is the dominant education expenditure of the municipality. Every year, municipality determines the values of over 20 types of vouchers, see Table 2.3. Therefore, the Department of Education must be focused on the discussions leading to this determination. The values of vouchers are proposed during the Economic Conference (step 2 in Table 2.7) and adopted with the overall budget by the Municipal Assembly (step 3).

An important feature of the budget process in Education is Sweden, as shown in Table 2.7, is that there is time during which the municipal administration, in particular the departments, work at the same time on the budget for two consecutive budget years: for the next budget year and for the year following the next budget year. To be specific, in December 2019 all the departments were finalizing the detailed budget for 2020 and simultaneously were already preparing for the budget conference in March 2020 focused on budget year 2021. This approach ensures that when thinking about the budget, municipal administration always must consider long term consequences of budget decisions, and cannot focus only on one budget year.

2.3.1. The Budget Directive

The following Table 2.8 displays activities leading to adoption of the Budget Directive, taking place in 2019.

Table 2.8. Budget Directive

Date	Action
September 30 - October 10	SKL publishes new tax base forecast and financial report on the socio-economic situation and the basis for municipal planning
October 16	The Municipality receives from Statistics Sweden (SCB) the updated population forecast
November 22	The Municipal Administration sends out Budget Directive including frameworks to the committees. The Budget Directive also contain instructions for preparation of the budget by the departments and committees

In Table 2.8, there is the reference to SKL, because the change of the name to SKR, as stated in the introduction, was made at the end of 2019.

The Budget Directive describes the overall budget situation of the municipality and uses forecasts from both SCB and SKL to assess future revenues of the municipality. On that basis it proposes budget limits for each committee as budget user. The directive includes political requirements on the committees regarding their operations.

One such requirement was a decision to allow all municipal staff to work full-time. This means that all staff not already working full time had the opportunity, if they wanted, to change their work contract into full-time. Every department must foresee what additional resources are required to put this policy into effect.

For education, this new policy did not concern teachers, who were already full-time for a number of years, but it did concern some technical staff. The assessed increases in salary expenditures due to this new policy had to be assessed and included in the budget. In this way, the municipality receives feedback regarding the costs of new policies, and can use it in future policy discussions.

Another political requirement was a decision by the Executive Committee regarding overall efficiency of local administration. The Municipal Assembly decided that all committees and department shall make their activities more effective every year with a fixed percentage, recently put at 1%. Every year committees and departments have to present how they intend to increase efficiency. This may mean that they have to show how they can perform the same range of activities as previous year with fewer financial resources, or that they will reduce the activities. Each department in their financial proposal must indicate in which way they propose to achieve this requirement.

In education, there are several ways in which this efficiency target may be achieved. It is possible, for example, to end education programs or school activities that are not essential or are not required by law. Alternatively, increased efficiency may mean lowering the teacher/student ratio, leading to either larger classes or to less education activities per class. ¬¬This means that Education Department must propose specific measures to be taken in the local education network, and must show that the impact of these measures will be the required improvement of efficiency.

The Budget Directive is the first step of the budget discussions in the municipality. In response, all departments and committees must prepare their preliminary plans of activities and their preliminary budgets. To this end, the Budget Directive also provides the format or the template of response of departments and committees, see Graph 2.3 in the following section. This format is based on the assessment how the increase of allocation from one year to another will be used.

For example, in Budget Directive for 2019 it was proposed that the increase of allocation for preschool and compulsory education was 1,3% (see Graph 2.3). Committee for Preschools and Compulsory Education has to propose how to use this increase in its financing decisions, including the increased value of education vouchers.

This shows that the budget process in Haninge is inherently incremental: departments must propose budget for the next year and must provide arguments for the differences, especially for the increase, of the budget from year to year.

The responses of all the special committees and departments to the Budget Directive form the documents which are presented and discussed during the Economic Conference in March.

2.3.2. The Economic Conference

The Economic Conference in March is the second key public step of the budget process. It is a serious undertaking, the participants usually include all the 61 members of the Municipal Assembly, including members of committees, the heads and invited staff of all departments, and representatives of the trade unions, totaling up to 100 people. The conference serves as a basis for the future work to formulate budget proposals, and involves all parties, the political majority as well as the political opposition. The conference also informs concerned trade unions.

The preparatory material for the Economic Conference is prepared by all the departments functioning in the municipality. Each department prepares their own response to the Budget Directive. These responses are reviewed and approved by the different committees before they are sent to the Municipal Executive Committee. The approval by the committees is normally just a formality, since the parties have ways to make their positions heard later on in the process, for example when the committees react to the budget proposal from the Municipal Executive Committee in May.

The conference in March is the occasion to present and discuss this preparatory material from all the committees and departments with participation of all relevant stakeholders. The following Table 2.9 presents the preparatory steps before the Economic Conference.

Table 2.9. Preparation for Economic Conference

Date	Action
February 15, 2020	Opinion of the Committees and the budget material of the departments 2021 and the period 2022-2023 shall be provided to the Municipal Executive Committee.
February 26, 2020	The Municipal Executive Committee Department completed processing of the committees' opinions on the 2021-2022 Goals and Budget
March 3, 2020	Economic Conference (with departments, politicians, trade unions)

It is important to note that the Economic Conference is not taking any decisions and does not approve any resolutions binding on the departments and committees. It is an occasion for the local politicians and other interested parties to hear the proposals of the committees, to ask questions and to understand better the budget proposals from all the sectors, and to create common understanding of the opportunities and priorities.

As already mentioned in the previous section, the materials prepared by the committees need to conform to the format of the Budget Directive, which include the template for the use of incremental increase of allocation compared to the previous budget year. The example of the template for Committee for Compulsory and Preschool Education is presented in Graph 2.3.

Graph. 2.3. Template for accounting

	Template for reporting prioritized cost changes from 2020 to 2021 Amounts in thousands SEK		
	COMMITTEE/BOARD	xxx	Increase %
	2020 budget frame	2 000 000	
	Preliminary increase of frame	25 000	1,30%
	Preliminary frame for 2021	**2 025 000**	**101,30%**
Priority	**Cost changes 2021 compared to budget 2020**	**Annual amount**	**Share of frame**
1	**Unaffected factors existing activities or measures already adopted**		
1.1	Changes in volume[1]		0.0%
1.2	Payroll[1]		0.0%
1.3	Local costs[1]		0.0%
1.4	Capital costs		0.0%
1.5	Other operating costs		0.0%
Sum 1	**Amount priority 1**	**0**	**0.0%**
2	**Unaffected other factors, e.g., decisions taken without specifically allocated funds**		
2.1	New legal requirements, regulations	0	0.0%
2.2	Full-time for everyone	0	0.0%
2.3		0	0.0%
2.4		0	0.0%
2.5		0	0.0%
Sum 2	**Amount priority 2**	**0**	**0.0%**
	Amount cost changes 2021	**0**	**0.0%**
	Preliminary increase of frame		0.0%
	Deviation between cost change and preliminary framework increase 2021	**0**	**0.0%**
	Efficiency commitment 2021 as instructed		0.0%
	Other cost reductions/revenue increases		0.0%
	Total financing		**0.0%**

This template is used to estimation of the increase (or decrease) in costs from one year to another. In this example the budget frame for 2020 (2 billion Swedish crowns, SEK) covered all the costs of Committee for Compulsory and Preschool Education. For the year 2021 there will be a preliminary space of 25 million SEK in budget increase (1,3%), due to an increase in tax revenues and government grants. Committee should fill in this template to indicate how this amount will be distributed between the specific budget lines (rows of the template). These numbers come from the preliminary budget proposal for the budget year 2021, included in the materials.

The reason such a simple template is used is the following: during the Economic Conference, preliminary budget funds for each committee are discussed and compared. While there are many pages of data and arguments for each proposal, the simple table in Graph 2.3 are easier to compare and discuss.

The meaning of consecutive rows is explained below. The first section refers to changes of costs of activities which were already performed in the municipality:

- Item 1.1: The change of volume refers to the projected increase or decrease of the number of children in preschools and in compulsory schools. This projection needs to be performed by the groups of students to which different vouchers apply (see section 2.1.5). The changes in these groups are multiplied by assessed future values of the vouchers to obtain the amount which will be put in the fourth column. The last column assesses what percentage of the overall increase this will be. In case of considerable decline of the student population, this amount may be negative.
- Item 1.2: Here it is necessary to put projected difference between the overall payroll in 2020 and 2021. This of course requires calculation, which is also included in the materials for the Economic Conference. The basis for this calculation is the results of negotiations on the municipal collective agreement on teacher salaries (see section 2.1.2). If for example the wages will increase by 2%, it is possible to estimate the increase in SEK.
- Item 1.3: The local costs are the costs of renting school facilities from the municipal enterprise which owns and manages them. This includes the rent for the use of the facilities, heating, electricity and other form of energy, water and sewage services, and similar. The increase of these costs is decided by the Municipal Assembly , so essentially the Education Department knows this amount before the Economic Conference. There can also be an increase in local costs when a new school facility becomes operational (if there were corresponding investment projects in previous years).
- Item 1.4: Capital costs, which means interest on investments (mainly in school buildings).
- Item 1.5: Other operating costs refer to general inflation for all remaining purchases (materials, telecommunications and similar).

The second section covers new activities or initiatives and their corresponding costs:

- Item 2.1: Here it is necessary to include the forthcoming increase of costs due to new laws and regulations from the government, such as changes in the curriculum or additional obligations of schools towards their students.
- Item 2.2: A policy decision was taken by the Municipal Assembly in Haninge that all employees that work part time will be offered to work full time. The additional costs due to this policy should be assessed and stated here.

- Item 2.3: The place for other expected increases of expenditures.

"Preliminary increase of frame" is the place for entering the projected costs of additionally proposed new activities. If the proposed budget leads to an increase of costs over the previous year different than the 25 million SEK proposed by the executive committee, this deviation will be automatically calculated appropriate place of the template.

The last two lines of the template are used for planned reductions of cost. The first item refers to the obligation to increase efficiency of the sector by 1% in comparison to previous year (see previous section). The template should show the amount of the reduction in SEK, detailed description of how this may be achieved and the supporting calculations should be included in the material for the Economic Conference. The second item refers to possible other measures, which the committee proposes to reduce costs. In conditions of Haninge this may be, for example, closure of small schools located on the island and transfer of their students to a larger school on land. Such measures are not popular politically, so it is not very likely that the municipal assembly will adopt them.

In this manner, the template presents a summary of the incremental budget proposal of the committee, easy to review and compare. For the Economic Conference to proceed, all committees should prepare such templates, with the help of the relevant department. In education, an analogous template must be prepared for the Committee for Upper Secondary and Adult Education, of course.

2.3.3. Goals and Budget decision of the Municipal Assembly

The main general budget document adopted by the Municipal Assembly is *Goals and Budget (Mål och budget)*. This document formulates in detail the policy goals of the municipality and allocates specific funds to reach these policy goals. However, as we discuss below, the budget numbers stated in the document are very general.

Prior to discussion of "Goals and Budget", the frames (budget limits) have been proposed by the Executive Committee in the Budget Directive (section 2.3.1), and each committee prepared, for the Economic Conference, the consequences of the proposed frames, including possible requests to increase the frames (section 2.3.2). The discussions leading to adoption of "Goals and Budget" focuses therefore on the total available revenues for the next budget year, and on setting the final budget frames. Of course, the main initiator in this step of the budget process is the political majority in the Municipal Assembly, because they will provide the main proposal for the final budget. However, as we show below, also opposition parties have important roles to play. In the following step of the budget process, these frames will be then translated into detailed budget of each committee (section 2.3.4 below).

In the present section, we first discuss the steps of the budget process, and then the structure and contents of the budget document "Goals and budget".

The key purpose of the Economic Conference, as discussed in the previous section, was to provide to the politicians' proposals for sectoral budgets, together with data and with arguments. Following the conference, the political majority have separate talks with representatives from the political majority in all the committees and the leadership in the different departments. In this way the political majority can inform themselves more deeply about the proposals from the committees and may ask additional questions to department officials without having to show the opposition what issues are important to them. The political opposition can also have such separate talks if they so choose.

Steps within the municipal administration leading to the adoption of "Goals and budget" are reported in the following Table 2.10.

Table 2.10. Steps of preparation of "Goals and budget"

Date	Action
March 16 – 30	In-depth board talks with the political majority

April 15	New population forecast from Statistics Sweden
April 6 – April 17	The government presents the Spring Fiscal Policy Bill
April 30	The Municipal Executive Committee Department presents a revenue forecast for tax revenues and general government grants in 2021
May 8	The political municipal leadership presents its final proposal for “Goals and budget 2021-2022” to the Municipal Executive Committee.
May 13	Draft budget is under preparation in the Municipal Executive Committee
May 19	The budget proposal of the Municipal Executive Committee is presented to trade unions at 13.00
May 20	Deadline for submission of budget counter-proposal by the opposition to the Municipal Executive Committee Department. If submitted, it is sent to the Municipal Executive Committee
May 25	Budget decision in the Municipal Executive Committee, submission of the final budget to the Municipal Assembly
June 3	Deadline for submission of budget counter-proposal to the Municipal Assembly (if it was not submitted earlier to the Municipal Executive Committee Department)
June 8	“Goals and budget” adopted by in the Municipal Assembly

Two important inputs for the budget process at the local level, included in Table 2.10 above, come from the national government:

- Population forecast is provided by Statistics Sweden (SCB) which is a government agency operating under the Ministry of Finance.
- Spring Fiscal Policy Act, presented by the Government to the Parliament in April, provides overall focus of the budget preparations for the following year (see Government Offices of Sweden 2014).

The government of Sweden typically introduces adjustments to the national budget twice a year, once in Spring and once in Fall. This can have a direct impact on the budget of municipalities, because it may include changes in funding and new laws.

Before the end of April, the Municipal Executive Committee Department revises if needed the forecast for municipal income for the coming year. This is only an estimate of the municipal income. The real income is based on the actual population, not the forecast.

The political majority will a week later present to the Municipal Executive Committee the proposal for the budget of the coming year. This proposal is made public and becomes the subject of further discussions, including negotiations with concerned trade unions, centralized at the municipal level (CESAM, central negotiations with trade unions).

Typically, alongside the budget proposal by the political majority, the opposition parties also publish their counter-proposals. These alternative budget proposals may be more or less comprehensive depending on intensity of opposition to the proposal of the Municipal Executive Committee, and on the resources of the respective opposition parties. Opposition may submit their counter-proposals to the Executive Committee (by May 20), or directly to the Municipal Assembly (by June 3). However, opposition parties are not mandated to deliver any counter-proposal if they so choose.

In general, municipalities make decisions on budget in June, at the last meeting of the Municipal Assembly before summer recess. As said earlier, this budget decision can be revised before the end of November. For example, "Goals and Budget 2021-2022" for Haninge was revised on November 9, 2020. The final version of this document has 68 pages and includes seven sections and an annex, as follows (we provide only minimum necessary description of the relevant sections):

1. Introduction (4 pages). This section includes the vision, core values of the municipality, and the description of the political platform, presented by the parties forming the political majority during the local elections in 2018 for the four-year term of office (mandate) 2019 to 2022.
2. The municipality's operational management (9 pages). The first part discussed the management of goals and results, including a requirement for use of relevant, accepted indicators with target values set for each year of the term of office. Objectives and indicators for the municipality are formulated in section 3, and more detailed in the Annex. Each committee must adopt their own sectoral indicators. The second part addresses quality control. It includes, among others, specification of "good economic management" cited in section 4.
3. Objectives for the term of office (5 pages). The strategic goal of the municipality is broken into 2 target areas, Environment and Citizens, with 5 specific goals and several progress indicators adopted for these goals (between 2 and 4 indicators per goal). These goals and some indicators are discussed in Annex A.
4. Financial operating frameworks per committee and company (11 pages). For each committee this section provides description of policy goals and budget frame (budget limit). The budget frames for education are reported in Table 2.13.

5. Investment budget for 2021 and plan for 2022-2024 (9 pages). For each committee this section provides funds allocated for investments for 2021 and planned level of investments until 2024. For education, preschools and compulsory schools in which investments are planned in the three coming budget years are listed (without amounts for each investment project).

6. Financial plan 2022-2024 (3 pages). Planned revenues and expenditures for the period until 2024 are included.

7. Rules for financial and operational management (13 pages). This section includes information about values of school vouchers for 2021 (see Table 2.17).

8. Annex. Policy goals of the municipality and progress indicators (7 pages). Annex includes more detailed information about how the indicators are measured, how frequently, and who is responsible for them.

This review of the budget document indicates that “Goals and Budget 2021-2022” focuses on policy goals and on managerial procedures, and includes only limited budget numbers. For education, specific budget amounts are limited to:

- Frame (or budget limit) for recurrent spending for Committee for Compulsory and Preschool Education and for Committee for Upper Secondary and Adult Education;
- Funds allocated for investments to Committee for Compulsory and Preschool Education and to Committee for Upper Secondary and Adult Education, with forecasts for 3 future years;
- School vouchers for Committee for Compulsory and Preschool Education (we recall that vouchers for upper secondary education are agreed by all municipalities of Stockholm metropolitan area).

2.3.4. Strategy and Budget decision of committees

When the general budget, named “Goals and Budget2020-2021”, is adopted by the Municipal Assembly (se previous section), a new process is started in the different committees and departments to decide on the specific budget for each special committee. Thus, Goals and Budget is only a framework for the different departments and committees, which have to be reviewed and decided on in detailed budgets within this framework. These detailed budgets are called Strategy and Budget (*Strategi och budget*) and are adopted by each committee. In education, Haninge adopted such documents for the Committee for Compulsory and Preschool Education and for the Committee for Upper Secondary and Adult Education. The detailed budget is decided on in October and must be finalized before mid-December. Further, on this basis school principals adopt the budgets of individual schools.

This process within the Department of Education is discussed below.

As discussed in the previous section, the main elements of local education budget, namely the values of all the vouchers, are decided and published in "Goals and budget" (see Table 2.17 and Table 2.18). The preparation of "Strategy and budget" includes the following main tasks:

- Setting the budget of municipal management organ in the education sector, that is of the Department of Education;
- Deciding on administrative deductions;
- Setting the budgets and rules for all other budget programs supporting schools (see Table 2.15 and Table 2.16);
- Setting the budgets of non-school education institutions subordinated to the two committees;
- Making detailed plans for the investments in the education sectorи.

The budget preparation schedule is managed by the Department of Education in Haninge and is defined in the document "Schedule - to do list after Goals & Budget 2022, working material" adopted by the Department ("working material" means that this is not an official document, it is instead a plan used by the officials at the Department to coordinate their work within the budget process). The schedule has 18 specific deadlines, all of which are stated in parallel for compulsory schools and for upper secondary schools (often separated by a day or two). The main deadlines are listed in the following Table 2.11.

Table 2.11. Key steps of preparation of "Strategy and budget"

Date	Action
Aug 27	Preliminary budget frameworks 2022 central responsibilities for The Compulsory School and Pre-School Committee and The Upper Secondary School and Adult Education Committee
Sep 8	Allocation of central administrative costs between The Compulsory School and Pre-School Committee and The Upper Secondary School and Adult Education Committee shall be completed
Sep 16-17	Budget 2022, planning days with the members of the Committees and the Department of Education
Oct 1-5	Finance sections for the Committees, incl. investments
Oct 8-12	Strategy and Budget handled in Executive bodies for the Committees, incl. investments
Oct 19-20	Committee meetings decisions on Strategy and budget

In late October, the two education committees decide on the final version of "Strategy and budget". We review just one of these documents. "Committee for Compulsory and Preschool Education: Strategy and budget 2021-2022", adopted on December 20, 2019, has 35 pages and is divided into seven sections:

1. Introduction, written by the chairperson of the committee (2 pages). The chairperson gives perspectives and political goals for the next budget period. It also lists areas of responsibility for the committee, laws, regulations and local steering documents.

2. Prerequisites (8 pages). The inner and outer world conditions that sets the stage for activities the coming year. That includes new legislation, the political goals in the municipality, the economic situation as well as an analysis of pros and cons in the municipal schools.

3. The municipal assembly's target areas and objectives (3 pages). The goals of the assembly are specified into the different areas that will be followed up by key figures.

4. Strategic political assignments (3 pages). Specific assignments given to the committee from the assembly that must be carried out and reported back.

5. Priority areas for quality management (3 pages). This includes good economic management, competence supply, digitalization, values and trademark of the municipality.

6. Operation and investment budget (13 pages). Mainly budget numbers with explanations and instructions on how the resources are intended to be used.
7. Reporting (3 pages). A description of how goals and the economy is followed up during the budget year, per month or other intervals.

Following approval of "Strategy and budgets", managers with budget responsibilities (or budget users) need to prepare detailed budgets within "given constraints", including the budget limits and the curriculum norms (Skolverket 2011). Here managers with budget responsibilities include all officials responsible for planning and executing specific parts of the budget. In education, besides municipal officials these are also school principals, who are responsible for school budgets (see section 2.1.2).

It is important to stress here that detailed budgets of municipal schools are the sole responsibility of school principals. On the revenue side of school budgets, there are school vouchers and other municipal budget programs for schools. Preschools and after school activities receive also parental contributions, determined by the municipality (see Table 2.17). Municipal schools may participate in some European and national-wide projects and receive some external funding. Together with projected enrollment, this determines school revenues.

On expenditure side, school principals need to plan the staffing and the salaries (how many teachers and other staff they can afford) and costs of school maintenance. Much on non-salary expenditures are determined by the municipality, including rent for municipal school buildings, heating and other communal costs.

The key requirement on school principals is balanced budget, that is ensuring that school expenditures are not above revenues. They also need to carefully plan the budget reserve. This is especially important for cases when some of their students decide to change school during the budget year. If a student leaves the school, the allocation from vouchers is accordingly reduced starting from the following month. Since school costs will not change in this situation, this creates fiscal risk for the school.

The detailed budgets of schools are reviewed by the Department of Education to ensure they meet all legal and economic requirements. However, the Department is not likely to interfere with specific budget decisions of school principals, unless it is not balanced. Cooperation of school principals with Department of Education and with the relevant committee is usually based on mutual trust and understanding, and is therefore not subject to enforcement or punishment.

After detailed budgets of managers with budget responsibilities have been confirmed by the Education Department, they are entered into the IT accounting system of the municipality and reconciles (verified whether they meet all relevant formal and economic criteria). The deadlines for these final steps are listed in Table 2.12.

Table 2.12. Final steps of adoption of "Strategy and Budget"

October 31	Last day for the Committees to decide on "Strategy and Budget"
December 12	Last day for managers with budget responsibility to put in detailed budgets
January 31, 2021	Detailed budgets 2021 must be uploaded and reconciled in the accounting system of the municipality

This concludes the budget preparation process. After this, execution of the adopted budget begins.

2.3.5. Overview of the education budget for Haninge for 2021

Education budget in Haninge covers the following four sectors: preschools and primary (compulsory) education, upper secondary education, and adult education. The first two of these are overseen by Committee for Compulsory and Preschool Education, and the remaining two by Committee for Upper Secondary and Adult Education. The budgets for both committees are prepared by Department of Education. These two budgets do not include investments.

Budget frames (or budget limits) are decided in in the budget document Goals and Budget 2021 (see section 2.3.3). They are reported in the following Table 2.13.

Table 2.13. Budget frames for education 2021 (thousand SEK)

Committee	Frame 2021	Increase over 2020
Committee for Compulsory and Preschool Education	2 080 000	+ 67 067
Committee for Upper Secondary and Adult Education	484 000	+ 10 550

Detailed budgets are decided in the budget documents Strategy and Budget 2021 (section 2.3.4). The two budgets may be divided into the following categories:

1. School vouchers. This is the primary instrument of financing preschools, primary and upper secondary schools in Sweden (see section 2.1.5).
2. Adult education (for Committee for Upper Secondary and Adult Education only).
3. Administrative deductions. This is the costs of specific services provided by the municipality to municipal schools, including: payroll management, Human Resource management, IT services, economic services, premises, public relations and the leadership for municipal schools. These funds are allocated to municipal schools, who use them by paying the Education Department or its subordinate institutions. The municipality does not provide such services to private free schools. Privately owned schools are handling these activities on their own and therefore do not receive such support and do not have to pay administrative deductions.
4. Department of Education costs. These are administrative costs of the department, covering remuneration of its staff (except for the staff directly involved in providing services to individual schools, see administrative deductions above), and other recurrent costs of the department. Thus, these are the costs of the municipality for political leadership and distribution of vouchers and grants for all schools in the municipality. This budget line also includes costs of administration of Center for Learning and Health (CLH), a dedicated unit of the Department of Education.
5. Other grants provided to schools. This covers two types of expenditures, namely grants to schools for activities not included in the school vouchers, and costs of some education institutions serving all student population, maintained by the municipality.

The following Table 2.14 presents the two education budgets of Haninge Municipality for budget year 2021.

Table 2.14. Education budget for Haninge for 2021 (amounts in million SEK)

	Preschool and primary education		Upper secondary and adult education	
	Amount	Percentage	Amount	Percentage
School vouchers	1 746,4	84,0%	365,2	75,5%
Adult education			48,2	10,0%
Administrative deductions	88,8	4,3%	14,8	3,1%
Department of Education	55,2	2,7%	12,2	2,5%
Other grants to schools	189,6	9,1%	43,2	8,9%
Total	2 080,0	100,0%	483,6	100,0%

Detailed breakdown of other grants to schools, together with their brief description, is provided in Table 2.15 and Table 2.16 below.

We note in Table 2.14 that although overall budget for preschools and primary education is about 4 times higher than the overall budget for upper secondary and adult education, their structure is remarkably similar, if for comparison purposes we combine adult education and school vouchers for upper secondary schools. Thus, school vouchers (with costs of adult education), administrative deductions, costs of the Department, and other expenditures form essentially the same shares of overall budgets.

Table 2.14 shows that education budget may be divided into three parts: school vouchers, additional grants to schools (including administrative deductions and funds for adult education), and administrative costs of Department of Education. Note that 97,3% of all the budget for preschools and for primary education goes directly or indirectly to schools, as does 95,9% of the budget for secondary and adult education. Grants form 13,4% of all budget for preschools and primary schools, and 24,8% of all budget for secondary and adult education.

The following Table 2.15 presents the grants for preschool and primary education, including the administrative deductions.

Table 2.15. Grants for preschools and primary education, 2021 (amounts in million SEK)

Budget line	Amount	Percentage
Administrative deductions	88,8	4,3%
Equivalent school	7,5	0,4%
Open preschool	1,6	0,1%
After school activities 10-13 years old	8,1	0,4%
Sweden-Finnish classes, Viking school	1,6	0,1%
CLH individual-based remuneration	116,0	5,6%
School transport	25,2	1,2%
Mother tongue activities	18,6	0,9%
Archipelago grant	11,0	0,5%
All grants for preschools and primary schools	278,4	13,4%

The grant part of the budget is distributed according to individual needs of students or different projects that may reflect political priorities. In Table 2.15 above they are listed as follows:

Equivalent school is one example of a political priority. Some money is given to schools with low student performance with associated pedagogical measures to improve results.

Open pre-school is an activity for children that don´t regularly go to pre-school. Parents that take care of their children at home can spend a few hours at this activity free of charge.

After school activities 10-13 years is a voluntary before- and after school program that parents partly pays for. Students can get breakfast and afternoon meals and enjoy different leisure activities.

Swedish-Finnish classes are provided for children from Finnish families who want more lessons in Finnish language in their education.

CLH-individual based renumeration. The Center for Learning and Health (CLH) within the Department of Education employs specialists in the sphere of special needs and health, for example psychologists and school physicians. This center distributes money for individual special needs students, based on applications from the schools, both municipal and free schools.

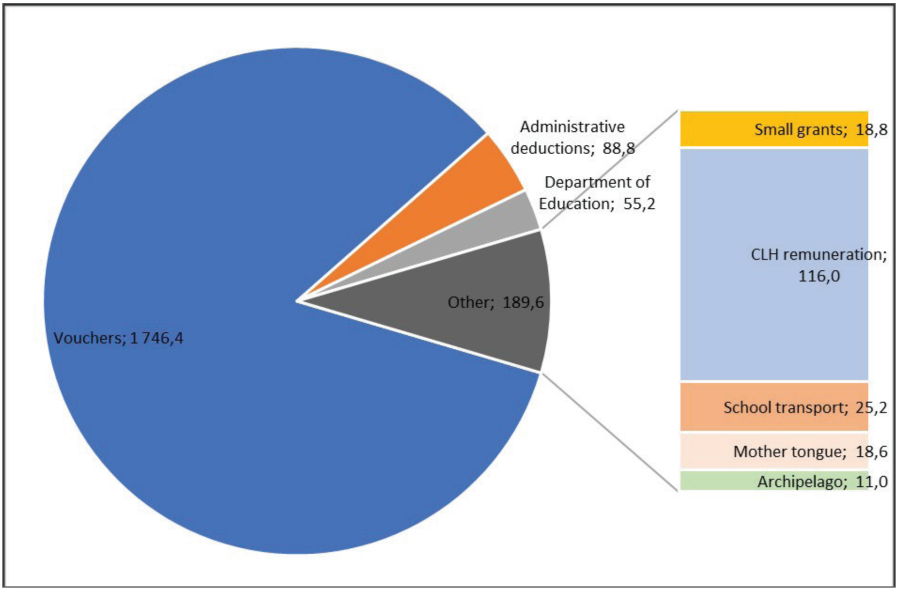
School transport means school buses or taxi for students who live a certain distance from their school.

Mother tongue activities is a voluntary school subject for students with other languages than Swedish in their families where they study that language.

Archipelago grant is a special contribution to schools on islands with very few students, where per student costs are much higher and therefore the school vouchers are insufficient to provide quality education. In order to stay open, these schools receive a special grant to compensate for the low student numbers. There are four such island schools in the municipality.

A pie chart with the content of the education budget for the Committee for Compulsory and Preschool Education is shown in Graph 2.4 below.

Graph. 2.4. Budget for preschools and primary schools for 2021 (amounts in million SEK)



The following Table 2.16 presents grants for upper secondary and adult education, including administrative deductions.

Table 2.16. Grants for secondary and adult education, 2021 (amounts in million SEK)

Budget line	Amount	Percentage
Adult education	48,2	10,0%
Administrative deductions	14,8	3,1%
Additional amount for special needs	21,0	4,3%
School transport	3,0	0,6%
Travelcards	4,6	1,0%
Grants for student accommodation	0,3	0,1%
Torvalla (local sports center)	1,3	0,3%
Academies (local sports profiles)	0,9	0,2%
Rent increase for vocational school	10,4	2,2%
Allocated funds assignments, special investments	0,2	0,0%
Committee reserve for unforeseen costs	1,5	0,3%
All grants for secondary and adult education	106,2	22,0%

All grants for secondary and adult education at 24,8% form a larger share of overall budget then grants for preschools and primary education (13,4%, see Table 2.15), because they include also funds for adult education (equal to 9,8%), not covered by school vouchers.

In the same way as the budget for preschools and compulsory schools, the grant part of the budget is distributed according to individual needs of students or different projects that may reflect political priorities, as well as the grant for adult education. In Table 2.16 above they are listed as follows:

Adult education Municipal adult education in Sweden, includes adult education equivalent to primary and secondary school as well as education for adults with intellectual disabilities. In Haninge this grant also includes Swedish for immigrants.

Central department costs, incl Committee Administrative costs for the Department of Education and for the Committee for Upper Secondary and Adult Education.

Additional amount for special needs In addition to school voucher, students with special needs get an additional amount of money that varies according to individual needs.

School transport Taxi for students with physical disabilities.

Travelcards Students that live more than six kilometers from the school are eligible for travelcards in public transport.

Grants for student accommodation If you live a very long way from your school, you can be eligible for student accommodation grant. In Haninge there are student apartments available for students who live far away.

Torvalla (local sports center) This sports center is used by the sports programs mentioned below.

Academies (local sports profiles) In Haninge there are nationally recognized sports programs that students can combine with any upper secondary school program that is available in Haninge. The sports programs include boxing, football, golf, floorball, ice hockey, karate, orienteering and swimming.

Rent increase for vocational school A new vocational school was built a few years ago, which increased rental costs in a significant way. Therefore, a special grant was introduced to cover these costs. Normally the school vouchers cover these costs.

Allocated funds assignments, **special investments** Development costs for the schools that are decided by the committee.

A pie chart with the content of the education budget for the Committee for Upper Secondary Education is shown in Graph 2.5 below.

To conclude the presentation of the education budget of Haninge, we list the values of vouchers. The following Table 2.17 provides the vouchers for preschools and for compulsory schools in 2021.

Graph. 2.5. Budget for secondary and adult education for 2021 (amounts in million SEK)

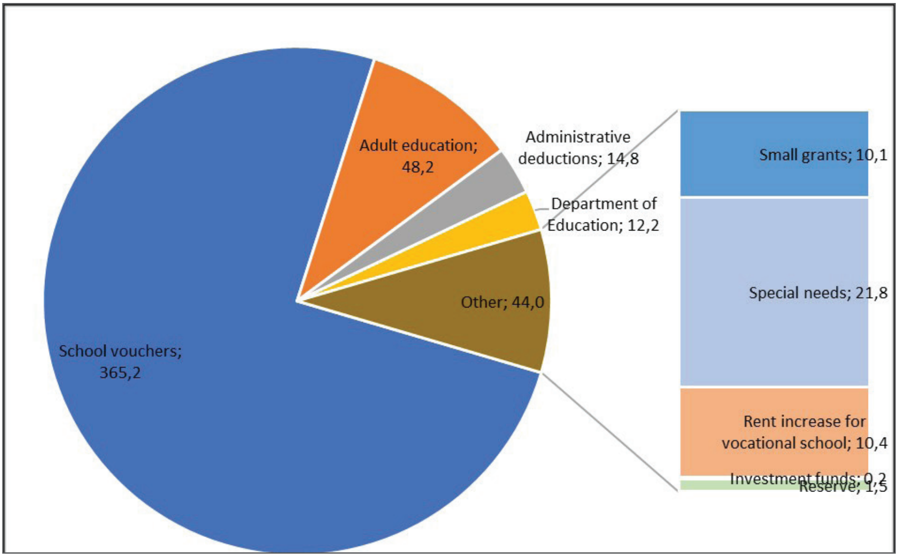


Table 2.17. School vouchers for preschool and compulsory school in 2021 (SEK)

Level of education	Voucher type	Value 2021 SEK	Parental contribution
Pedagogical care	Age 1 – 3 Age 4 – 5 Age 6 - 9	108 542 92 296 37 492	10 840 8 130 6 150
Pre-school	Guaranteed preschool (age 3-5) 15h/ week Age 1 – 3 Age 4 - 5	30 141 127 428 120 565	0 10 840 8 130
After-school activities	Age 6 - 9	44 880	6 150
Primary school	Grade F – 6 Grade 7 - 9	71 542 94 107	
Other allowances	Structural grant for new arrivals Night care	83 725 56 444	Same as preschool

Pedagogical care in Table 2.17 refers to preschool activities organized by care providers in their homes. Care providers needs appropriate licensing to provide pedagogical care to children.

Vouchers for guaranteed preschool is lower (15 hours/week) than for full-time care. It is also assumed that full-time care is more demanding for younger children, who need more assistance and smaller groups. For compulsory schools, on the other hand, older children receive more hours of more varied teaching than initial grades, so the vouchers for them are higher.

Structural grants for new arrivals are additional per student support to those students who recently arrived in Sweden and may need both language lessons and additional pedagogical or psychological support. These grants are provided for up to three years after arrival of student in the country.

Finally, night care refers to a few children whose parents work in night shifts and therefore cannot take care of their children during the night. There is one person in Haninge providing such care for these children in her own home, under a contract with the municipality.

As mentioned in section 2.1.3, values of vouchers for upper secondary schools in Haninge are determined by the association of Stockholm municipalities through a local agreement. The following Table 2.18 presents their values in 2021 for groups of profiles (for a few of these groups, individual programs may have a somewhat different value of the voucher, but we do not report this additional differentiation here).

Table 2.18. School vouchers for upper secondary schools in 2021 (SEK)

Group of academic and professional profiles	Value of the voucher (SEK)	Voucher value relative to lowest (%)
Children's and leisure programs	83 334	105,6%
Building and construction programs	115 874	146,8%
Economics programs	79 099	100,2%
Electricity and energy programs	110 823	140,4%
Arts Programs	107 789	136,6%
Vehicle and transport programs	136 702	173,2%
Business and administration programs	87 182	110,5%
Craft programs	108 349	137,3%
Hotel and tourism programs	87 451	110,8%
Humanistic programs	79 395	100,6%
Industrial engineering programs	142 984	181,2%

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Natural farming programs	166 718	211,2%
Science programs	87 510	110,9%
Restaurant and food programs	128 490	162,8%
Social Studies programs	78 924	100,0%
Technology programs	91 556	116,0%
Plumbing and property programs	112 141	142,1%
Treatment and care programs	87 519	110,9%

The lowest value of voucher for upper secondary education is for social studies programs, at just under 79 thousand SEK. This is very similar to vouchers for economic programs and for humanistic programs. The largest vouchers are for natural farming programs (at 211% of social studies), for industrial engineering programs and for vehicle and transport programs.

2.4. Conclusions

Based on the overview of Swedish process of budgeting of education at the local level presented in the present chapter, the following main conclusions may be formulated:

- The budget process is focused on policy goals. The policy goals are set by the political majority in the municipal assembly and reflect their commitments made during local elections. These goals are explicitly stated in budget documents together with steps required to achieve them.
- Correspondingly, the budget documents include only basic details of actual budget plans of the municipality, but those detailed are presented in the context of stated goals and priorities. The documents are easy to read and comprehend. Unlike Polish or Ukrainian budget documents, Swedish budget documents do not employ complex financial terminology, such as functional or economic classifications.
- The financial data presented in Swedish budget documents at the local level are limited and include:
    - Values of vouchers for preschools (depending on service time), compulsory schools (depending on education level), upper secondary schools (depending on program).

  - Investments in educational facilities.
  - Additional funding programs reaching schools.
  - Budgets of municipal organs managing the education sector.
- There are three levels of budget documents in Swedish municipality.
- The first level is general municipal budget ("Goals and budget, see section 2.3.3). This document by the municipal assembly and establishes budget limits for each sector.
- The second level are budget documents of committees (sectoral budgets, "Strategy and budget", see section 2.3.4). These documents are adopted by education committees and establish financing of municipal education organs and of municipal education programs.
- The third level are specific budgets of individual municipal schools. Adoption of school budgets is the responsibility of school principals. Principals are obliged to adopt balanced budget within the budget limit determined for each school. This limit is almost entirely determined by vouchers, in other words depends mainly on school enrollment.

The budget process in education in Swedish municipalities reflects three main principles:

- High degree of decentralization of education competencies to local governments.
- High degree of institutional and budget autonomy of Swedish schools.
- High degree of transparency and accessibility of budget documents to interested stakeholders.

The most controversial part of the local budgeting process in education in Swedish municipalities, and rather unique in the European Union, are the school vouchers (see section 2.1.5). On the one hand, the vouchers contribute to:

- Transparency of funding schools, with all education stakeholders familiar with the allocation of budget funds for each school;
- Stability of funding, with all education institutions confident about the overall level of funding they may expect in the coming years;
- Support to free schools (private schools), with per student level equal to that financing of public (municipal) schools.

However, it is often pointed out that school vouchers have negative impact on municipal schools:

- Vouchers promote strong competition between public and private schools, as well as between public schools within municipalities or in other municipalities. This is especially significant in larger urban areas. This competition does not always favor the schools providing superior education;
- Vouchers lead to an unstable level of allocation for individual schools (if a student departs during the school year, the allocation for the school is reduced from the next month onwards);
- Use of vouchers makes it difficult for municipalities to recognize needs of individual public schools and allocate extra resources for those needs. Instead, any such additional allocation must be included in the voucher system (in Haninge, for example, special vouchers are used for students who recently immigrated in Sweden, see Table 2.17).

Annex A. Policy goals and progress indicators in education in Haninge

In Haninge, the strategic goals are set by the Municipal Assembly. These goals are intended as guidance towards achieving the overall goal of the municipality, namely A good life in Haninge. The strategic goals are formulated in the document "Goals and budget 2021-2022". There are 5 strategic goals divided into two areas: Environment and Society, and Citizens, as the following Table 2.19 shows.

Table 2.19. Strategic goals for Haninge 2021-2022

Strategic areas	Goal number	Strategic goals
Environment and Society	1	In Haninge, environmental and climate work must be at the forefront
	2	In Haninge, growth must take place in a sustainable manner
Citizens	3	In Haninge, citizens must be safe regardless of their stage of life
	4	Haninge will offer an innovative school with high expectations which creates competitive advantages in life
		Haninge must have an attractive cultural and leisure offer

Strategic Goal 4 refers to education specifically. Its full formulation is as follows:

""Goal 4. Haninge must offer an innovative school with high expectations which creates competitive advantages in life.

It is important that more students become eligible for upper secondary school and then receive high school diploma. The risk of ending up in alienation and mental illness decreases in the school system which is equitable and accessible. Teaching Swedish for immigrants (SFI) is an important part of their integration and allows them to enter the labor market.

Responsibility for this goal rests with the Committee for Compulsory and preschool education, the Committee for Upper secondary and Adult education committee, and the Social committee".

For each of the strategic goals, Haninge adopts specific progress indicators, between 2 and 4 indicators per goal. Overall, 18 such indicators are proposed.

For Strategic Goal 4, three progress indicators are used:

1. Share of students of municipal schools in grade 9, who are eligible for vocational programs.
2. Share of municipal high school students, who graduate within 3 years of completing compulsory school.
3. Share of immigrant students who completed SFI course and entered school or obtained employment.

For ease of understanding, the names of these indicators have been slightly adjusted when translated into English.

For each progress indicators, the document "Goals and budget 2021-2022" specifies how the indicators are measured (that is, on the basis of what data they are assessed), how frequently, and who is responsible for assessing and publishing them. Most importantly, the document specifies the previous (historical) values of the indicator and their target values for coming three years. Setting of target values of indicators represents commitment of the municipality to undertake the necessary efforts to reach those targets. Thus, municipal officials may be criticized if they fail to reach the stated target values of the indicators.

The historical and target values of progress indicators adopted for Strategic Goal 4 are provided in Table 2.20.

Table 2.20. Progress indicators for Strategic Goal 4

Indicator	Fact 2018	Fact 2019	Target 2021	Target 2022	Target 2023
Share of students of municipal schools in grade 9, who are eligible for vocational programs	83%	86%	86%	86%	87%
Share of municipal high school students, who graduate within 3 years of completing compulsory school	51,7%	48%	53%	55%	57%
Share of immigrant students who completed SFI course and entered school or obtained employment	42%	47%	48%	50%	52%

For ease of understanding, it is useful to provide brief comments on the three indicators.

First indicator: Share of students of municipal schools in grade 9, who are eligible for vocational programs.

In Sweden, the Compulsory school (primary school) includes 9 grades. Following the Compulsory school, there is an Upper secondary school divided into vocational programs and academic programs (preparations for university). To be eligible for a vocational program a student needs to have approved grades from the Compulsory school in Swedish (or Swedish as a second language), English, Mathematics, and in at least five other subjects from primary school. For the academic programs, the requirements include also approved grades in at least nine other subjects from primary school.

The municipality in Haninge chose to measure and monitor how many students meet the requirements for starting the vocational programs.

Second indicator: Share of municipal high school students, who graduate within 3 years.

All programs in the Upper secondary schools last for 3 grades. Thus, if the student is succesful, she or he will complete their studies within this three year period. However, there are many different situations when this does not happen.

There are graduates of Compulsory school who are not eligible for national programs, either vocational or academic (14% in Haninge in 2019, see Table 2.20). Thus, in order to start their Upper secondary education they need to enroll in introductory programs, which aim to make them eligible. This creates a delay of at least one year.

In some cases the student may realise that he or she chose the program or the school that didn't suit them. So they change program or school and may have to start all over again. They will not be able to complete their studies in three years either. Finally, some students, due to difficult conditions at home or to their own actions, leave the Upper secondary school before graduation. Students may need help to choose the Upper secondary school and the proghram wisely, and to complete their education after they make their choce.

It is of course preferrable if students complete their studies within three years, for social and economic reasons, so that students do not loose time in their education. As Table 2.20 shows, completion of upper secondary school within 3 years in Haninge is not universal.

Therefore it is natural for the Municipal Assembly to set the goals of making more students from the compulsory schools eligible, to help students make right choices from the start, and to give students support so they will finish school without delay.

Third indicator: Share of immigrant students who completed SFI course and entered school or obtained employment.

This refers to education for immigrants. They will get education in Swedish language (SFI, Swedish for Immigrants) and introduction to Swedish society. A common goal for Swedish municipalities is to integrate immigrants and their children in the society, either to work or to study.

A person has the right to participate in SFI from the second half of the calendar year in which he or she turns 16. The right extends to people who residents in Sweden and whose knowledge of the Swedish language is less than the education standards.

The measure of success in this education is whether the immigrant gets a job or goes to school.

Finally, it is useful to reflect on the actual meaning of the values of the indicators, both historical values and target values, as listed in Table 2.20. Of course, the municipality always wants to achieve better results than the year before. Therefore it is important to monitor and analyze the outcomes. But the setting of target values may be not so important. It may be argued that the outcome values of selected indicators should be just a starting point for analyses. Why did the numbers turn out they way they did? What were the real causes of these outcomes and how they may be corrected and improved?

Two problems may be identified with setting target values of indicators. The first is that they compare different groups of students and teachers, because there is continuous advancement of student cohorts from grade to grade, and always some rotation of teaching staff. Thus, results for different years apply to different, often incomparable groups. The second is that many indicators, like the share of students who graduated from Upper secondary school in 3 years, will have different values for different schools, always due to specific differences in student groups and school conditions. Thus, a review of municipal averages of the indicators may not reveal the actual changes of how schools teach and function. Both problem limit the usefulness of numerical indicators.

We can also state that there are no reliable scientific or practical grounds for setting the target values of indicators for the future. All the committees of Haninge are obliged to do this, but they do not have any rules or guidance how to do this. They need to decide on their own what is ambitious enough and what is at the same time realistic.

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Chapter 3. BUDGET PROCESS IN EDUCATION AT THE LOCAL LEVEL IN POLAND

Jan Herczyński

Introduction

Polish education is highly decentralized (Herbst 2012, Jakubowski 2019). The local governments are responsible for opening and closing of schools, for setting school employment levels and for financing schools. The process of decentralization of education started in Poland in 1993 with decentralization of primary schools and concluded in 1999 with decentralization of secondary schools and other local education institutions (preschools were transferred to newly established local governments already in 1991).

Law on Public Finance of August 27, 2009, together with Decree of Minister of Finance on Conducting of Financial Matters by Budget Units and by Communal Budget Enterprises of December 7, 2010, determine the overall principles and procedures of the budget process at both the national and local level. However, education budgeting has several specific features, which are regulated in other legal acts, mainly by Law on Education Legislation of December 14, 2016, Law on Financing of Educational Tasks of October 27, 2017, and by Decree of Minister of National Education on Specific Organization of Public Schools and Public Preschools of February 28, 2019.

In several places we quote the results of research into the budget process conducted by Jan Filas (2012). This reference is somewhat old, but there were no newer analyses of the budgeting process in education.

3.1. Context of local budgeting in education

With over 36,5 million inhabitants, Poland is a relatively large European country. Correspondingly, its system of local governments is quite developed and includes three tiers:

• 2 489 municipalities (gmina),;

• 373 counties (powiat);

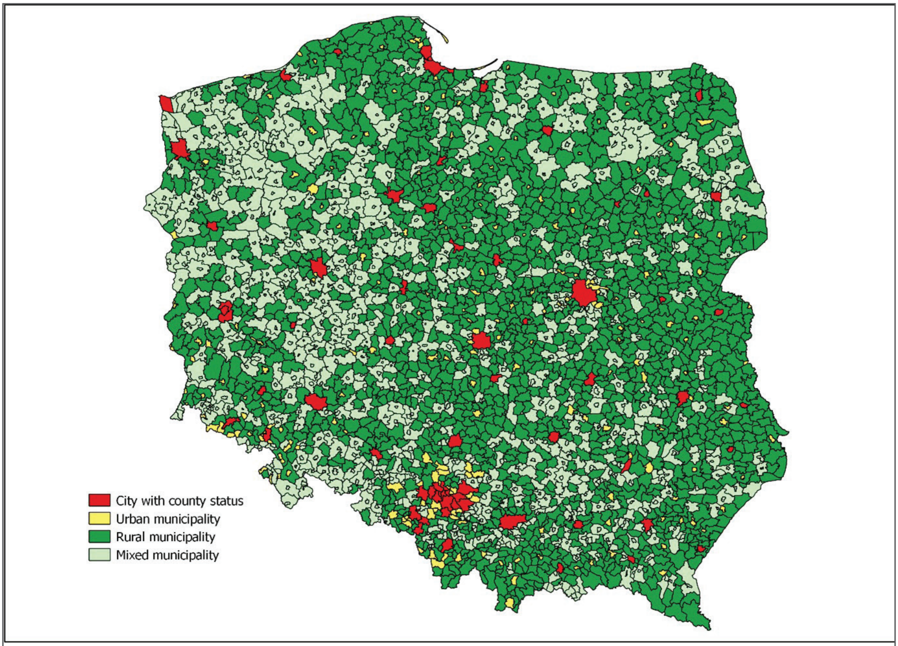
• 16 regions (województwo).

Each tier of local government is independent of other tiers and has direct fiscal links with the national budget. Each local government is ran by democratically elected local council. Specific situation arises in regions, where regional council (called sejmik), with democratically elected members, headed by regional marshal coexist with the regional representatives of the national government (governor appointed by the prime minister). The laws separately regulate the responsibilities of each tier of local government, as well as its revenues (including own revenues, shared taxes, grants and subventions).

Municipalities are responsible for most administrative, public safety, local public transport, preschool and primary education and social functions. There are three administrative types of municipalities, cities, rural municipalities, and mixed municipalities (comprising a city and villages around it). 65 large cities perform at the same time functions of municipalities and of counties, and have revenues of both. They are called cities with county rights (or city counties). When cities with county rights are considered separately, we obtain 4 types of municipalities, as shown on the following Map 3.1.

As Map 3.1 shows, the distribution of rural and non-rural municipalities has a well-marked geographical character. Western part of the country (former Prussian partition) is more urbanized than eastern and Southern parts.

Map 3.1. Polish municipalities by type

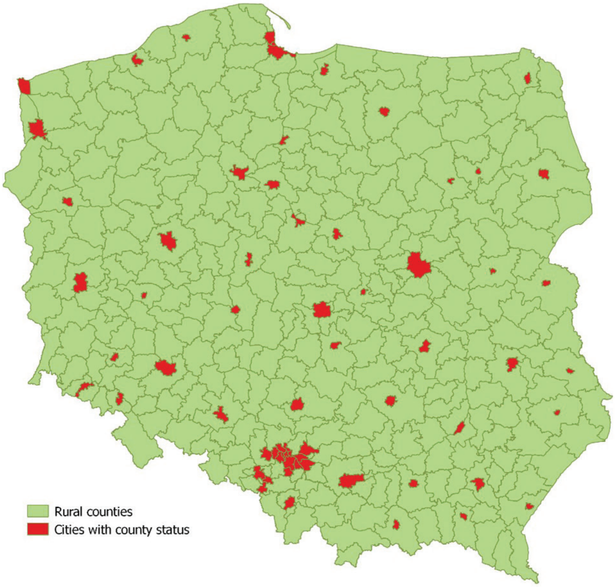


Counties have some administrative functions (issuances of driving licenses), but their main responsibilities are for county roads, hospitals, and special and secondary education, as well as for a number of other educational institutions, including psychological-pedagogical service centers, dormitories for all levels of schools, and larger extracurricular centers. As mentioned, some large cities have at the same time the responsibilities and revenues of counties. Thus we can distinguish two types of counties, cities with county rights and rural counties (which often include some small cities).

Regions are responsible for interregional public transport, and for selected vocational schools of regional importance. There are also limited other education functions executed by regions, such as pedagogical libraries and public institutions of in-service teacher training. An important function of regions is the management of regional strategic programs financed by the EU.

The location of the counties and the boundaries of regions is shown in Map 3.2.

Map 3.2. Polish counties by type



There are only a few metropolitan areas in Poland, shown on Map 3.2. The main are Warsaw, a large Silesian metropolitan area in the South, and so called Tri-City on the Baltic sea. 12 cities belong to the Union of Polish Metropolises.

Nearly all Polish schools are communal schools, that is they are managed and financed by local self-governments as school founders. The budget process in three tiers of local government is quite similar, we focus on the first tier. Recall that municipalities are responsible primarily for preschools and for mainstream primary schools.

Polish primary schools cover the grades 1 to 8. There are two main types of secondary schools, namely general academic lyceums, lasting 4 years (grades 9 to 12), and vocational schools, lasting 4 or 5 years (grades 9 to 12 or 13).

Apart from communal schools there are also public schools managed by non-public legal persons (this includes many schools managed by catholic institutions and schools managed by non-governmental organizations), private schools, and few schools managed by the branches of national government (mainly agricultural professional schools and artistic schools, managed by the respective ministries). The present chapter focuses on communal schools.

Two main documents regulating the work and financing of the school are:

1. Organizational chart of the school (*arkusz organizacyjny*).

2. Financial plan of the school (*plan finansowy*).

Organizational chart of the school is defined for the school year (from September 1 to August 31), while the financial plan is defined for the budget year (January 1 to December 31).

Organizational chart describes how the school will function in the next school year. Its structure and level of detail evolved over time. During the initial years of the decentralization process (mid-nineteens), there was one format for organizational chart of the school, approved in a Decree of Minister of Education and used across the country. The charts were rather general, they included, in particular, the list of all staff of the school, including management positions (directors, their deputies, other managers), as well as overall number of educational activities conducted in the school (Decree of Minister of National Education of May 21, 2001). On the basis of the chart approved by the school founder, the school director designed detailed weekly plan of activities, both obligatory and voluntary. In line with decentralization, approximately in 2000 this requirement was relaxed, and the school founders were given the right to adopt the format and the required data items to be included in the chart. In consequence, there appeared many different formats used by different municipalities in Poland, some rather simple, other quite complex.

However, over time the offer of commercial IT products to facilitate work of the school founder and of the school director increased, and schools adopted these new tools. Presently, there are two dominant suppliers of IT software for organizational chart, which are in fact part of larger packages (which include, among others, also accounting and statistical reporting modules). Moreover, the law begun to prescribe in more detail the contents of organizational charts (see below). Thus, the original diversity of formats of organizational charts gave way to uniformity (the two dominant packages are very similar anyway, because they have to conform to the same legal requirements).

Today, the legal requirements regarding organizational charts of schools (Decree of Minister of National Education of February 28, 2019) are much more extensive and include:

- Number of teachers, including teachers with managerial positions;

- List of all teachers, including name, surname, level of teacher professional advancement, qualifications, type of activities in the school and their weekly time;
- Number of teachers preparing to advance the level of teacher professional advancements, by level;
- Number of administrative and technical staff, with the managing positions, including full time equivalents;
- Number of classes in each grade;
- Number of students in each class.
- For each class:
  - Weekly teaching plan, including lessons conducted in groups;
  - Weekly number of lessons of religion, ethics, language of ethnic or national minority, lessons of history, culture and geography of the state, with which minority is identified;
  - Weekly number of sport lessons for specialized sport classes, if applicable;
  - Weekly number of revalidation classes for special needs students;
  - Number and purpose of lessons, which the school founder may allocate to the school for the given school year, including additional education activities or increased teaching time of obligatory subjects;
  - Specific information regarding professional preparation of students;
  - Weekly or quarterly number and purpose of lessons, allocated by school director from her/his pool of such lessons;
- Number of weekly hours financed by the school founder, including lessons, care of students, revalidation, psychological-pedagogical support and other activities supporting the educational process performed by pedagogues, psychologists, speech therapists and other teachers;
- Number of students covered by support after classes, number of weekly hours of such support and number of teachers providing this support;
- Number of hours of pedagogical work in the boarding house;
- Number of hours of work of school library.

Additional detailed information must be included in the organizational chart of primary schools, which also operate preschool groups.

We note in passing that such wide range of data items in the organizational charts of schools further justifies using electronic preparation, submission, review and adjustments of the charts. Available software packages also allow the school founder to review draft organizational chart in comparison to charts approved for previous years, and identify possible significant deviations. Such deviations, of course, require clarifications from the school director.

Moving to the second key document regulating work of the school, namely its financial plan, we note that Polish schools do not have budget autonomy, their finances are part of local government budget, adopted in the resolution of local council. All revenues generated by the school, such as from rent of facilities (use of school gyms over the weekends, positioning of billboards on school property, and similar) are legally revenues of the school founder, who may but is not required to allocate all or some of this revenue to the school. A typical procedure in such cases is to allocate a part, for example 50% or 60% of such revenues, to the school which generated them, and to allocate the remaining amounts to other schools, which for different reasons do not have the ability to raise such revenues (conditions of the gym, school location). Thus, schools do not have budgets, but only financial plans, which include only expenditure side (no revenues side). Regarding the salary expenditures, financial plans are prepared on the basis of already approved organizational charts of schools. For other parts of the financial plan, typically incremental method of budgeting is applied. This means that the amounts in financial plans of previous years are taken as the basis, and incremental changes from this basis due to inflation or to changes in expected school needs are proposed (with appropriate justification).

There is one exception when the financial plan of the school may have revenue side, although the corresponding revenues are very small. According to Law on Public Finance of August 27, 2009 (art. 223), budget units conducing educational activities (schools and other units of the education system) may have revenues from inheritance and donations in monetary form, from insurance of compensation for assets lost or damaged used by the school, and in case of professional schools – from sale of services in professional education. The amounts of such funds and their planned used must be included in the budget resolution of the council (together with the list of schools which will receive such revenues).

It is important to remember here that public schools may receive donations in kind or in monetary form only with the permission of the school founder. Indeed, school facilities and equipment are owned by the municipality or by the county, so any such donation is in fact donation to the local government. Schools are generally discouraged from seeking and receiving such donations. There were cases when a wealthy parent wanted to equip, for example, the cabinet of school director with new furniture, but this was not allowed by the school founder. In general, this type of donation is seen as bordering on corruption.

An interesting case arises with possible revenues generated from renting school space (for example for some social activities over weekend, or for services such as xeroxing during weekdays) or from using school location (for example to put up a billboard visible from the street). Technically, any revenues from property is the revenue of property owner, in this case the local government. Any contract to rent the property must be signed by the owner. The municipality may agree that parts of the school facilities are rented out, but it decides how to use the resulting revenues. Very rarely will all of these revenues be allocated to the school and be included in its financial plan. This is because the location of schools are different, and most often they have unequal opportunities to raise such additional revenue. Sometimes, the founder may decide to allocate a part of such revenues, for example 50% or 70%, to the school and the rest for other purposes. More often, however, the founder would decide to allocate these funds to all the municipal schools, so that all can enjoy the revenues equally.

Financial plans of schools, as of course complete local budgets, are defined for the budget year. However, due to changes in the school organization with the start of new school year in September, as defined in new organizational charts, financial plans of schools may be – and often are – adjusted for the last 4 months of the budget year.

The responsibility for overseeing the functioning of schools is shared by two institutions:

1. The school founder (organ prowadzący) manages and finances schools, ensures compliance with budget laws, with labor regulations, and with technical requirements on school facilities.
2. Regional curator *(wojewódzki kurator oświaty)* is responsible for pedagogical oversight, ensures compliance with curriculum norms, with pedagogical regulations, organizes external evaluation of schools. There are 17 regional curators in Poland, appointed directly by the Minister of National Educationи.

Correspondingly, both institutions have a legally defined role in the budget process in education, namely they both have to approve the organizational chart of the school (see next section). The assessment of the draft organizational chart by the school founder and by the regional curator is based on different criteria:

1. The school founder assesses the draft organizational chart primarily on the basis of its budgetary implications (salary costs). In particular, school founder will review and try to ensure:

- The efficiency of division of students into classes and of allocation of teachers to conduct lessons;
- The necessity of all pedagogical staff not conducting lessons.

2. The regional curator assesses the draft organizational chart on the basis of its compliance with education legislation and with pedagogical norms. In particular, regional curator analyzes:
   - Whether the obligatory curriculum is followed;
   - Whether all teachers conducing lessons have the minimum required qualifications;
   - Whether the norms of maximum class size are not violated;
   - Whether the minimum requirements for division of classes into groups are met.

The assessment of draft chart by the school founder and by the regional curator are thus very different in nature. As an example, we discuss the problem of division of classes into groups for specific lessons. The school founder may want to ensure that only legally required division is planned, in other words that it will not need to pay for division which is not necessary, while the regional curator will verify whether all division into groups mandated in educational legislation for different subjects is implemented in the plan of work of the school.

It is in order to make both assessments possible that the organizational chart must include all the information listed above.

The organizational charts of schools, once approved, become the basis for the financial plans. They determine completely the dominant past of school finances, that is salaries. However, in this second stage the regional curator plays no role at all. The overview and control of the local budget is the responsibility of Regional Accounting Chambers *(regionalne izby obrachunkowe)*. There are 17 accounting chambers across Poland. The chambers review the budget resolutions of local councils and analyze them regarding the procedure of adoption of the budget, budgets themselves and their adjustments during the budget year, financial obligations of local governments, subsidies from local budget, local fees and taxes. They also control the process of setting prices of communal services such as transportation or rubbish collection.

In some cases the regional chambers have been intervening heavily in the issues of education budgeting. One of repeated topics of review and control were subsidies from local budgets to non-public schools and preschools for provision of education (the issues of their calculation and payments). Another recurrent topic was related to conflicts arising from setting teacher salaries by school founders (the need to meet nationally prescribed minimum averages, see Herczyński, Barkalaja, Turonis 2021). The chambers were also active in the sphere of financing of preschools (setting of prices of preschool services above 5 free hours of care per day, subsidies from municipal budgets to neighboring municipalities for children attending their preschools).

There is no formal requirement in Polish legislation to treat municipal or county schools together as a group. Organizational charts are established for each school individually, in discussions with the appropriate school director, and the same is true of the financial plans. It remains the exclusive prerogative of the school founder to make a judgment whether the resulting allocation of personnel and resources to its schools is just and equitable. The founder may decide, for good or for bad reasons, that individual schools will treated differently either regarding school charts, or financial plans. It is assumed in Poland that the democratic control over local governments, through the electoral cycle, is sufficient to prevent abuse and to motivate school founders to take equal care of all their schools. This democratic control is strengthened by right of public access to public information, and by the obligation of all local governments to publish, every year, a report on execution of educational tasks.

Nevertheless, some local governments in Poland, especially large cities, find it convenient to organize formal or informal working groups or councils of school directors, which include directors of all their schools. The motivation to organize such councils of school directors varies: in some cases this is done to reduce conflicts, in others to receive help and advice from directors when faced with difficult decisions, in yet others to encourage cooperation of schools. Similarly, the contributions of these councils vary: in some cities they may simply discuss together the main issues and challenges of preparing draft organizational charts (this may lead to draft charts which will be easier to review and adopt by the school founder), in others they may discuss and agree on sequencing of school investments for the next few budget years (this may help the school founder to plan the investment part of the local budget). As there are no legal obligations or national guidelines for such cooperation of school directors, this huge differentiation is not surprising. At the same time, the very fact that such local initiatives are undertaken in different cities across the country strongly suggests that there is a clear need for this type of public discussions, which local governments understand and try to organize in their own way.

3.2. Stages of the budgeting process

The budget process in education must take into account two overlapping planning periods, namely the school year, September 1 till August 31, and the budget year, January 1 till December 31. The organizational chart, describing the functioning of the school, is set for the school year, while the financial plan, describing the financial resources available to the school, is set for the budget year. The organizational chart serves as the basis for financial plan, therefore the process of adopting the charts of all schools is the first stage of the budgeting process in education at the local level. The second stage is setting financial plans of schools. These two stages are reviewed in two subsections below.

Stage 1: Organizational charts

The following Table 3.1 lists the main steps of setting school organizational charts in the municipality and in the county (the regulation of charts of primary and secondary schools is the same).

Table 3.1. Setting school organizational charts

Responsible	Step	Deadline
School director	Preparation of draft organizational charts	
Trade unions	Opinion on draft chart	April 19
School director	Submission of draft chart to school founder	April 21
School founder	Submission of draft chart to regional curators	
Curator	Approval of draft chart (as regards pedagogical oversight)	May 20
School founder	Verification and approval of organizational charts	May 29
School	Update of school organization (annexes to charts)	September, October
School founder	Verification and approval of annexes to charts	September, October

We have discussed in section 1 the extensive nature of the organizational charts required by legal regulations. Prior to drafting the chart, local government may issues guidance to school directors regarding the charts. These guidance, for example, may include local standards of employment of support technical staff, such as pedagogues, psychologists or librarians, based on the number of students. However, after numerous court cases regarding this issue, including High Administrative Court, it is now accepted that the guidance are not obligatory to follow. In particular, the guidelines cannot include dates other than those stated in legislation, and cannot include requirement that personnel decisions (regarding employment in school) are consulted by the director with the school founder.

A review of a number of school founders (Filas 2012) analyzed the frequency of issues regulated in the guidelines. The results are presented in Table 3.2. Frequency represents share of school founder who regulate given issue in their guidelines.

Table 3.2. Frequency of issues regulated in guidelines for organizational charts

Issue regulated	Frequency
Class size	90%
Limits of positions or hours of support staff (librarian, pedagogue etc.)	71%
Limits of employment of administrative and technical staff	71%
Priorities in teacher employment	52%
Limits of positions or hours per class or per student	33%
Rules of allocation of support hours	29%

The economic motivation of the school founders when they formulate the guidelines is apparent. Clearly, the dominant concern of the school founders is to ensure that classes are not too small, to limit expenditures on the teaching process.

The chart is formed in April on the basis of the planned number of students and classes in the next school year. Only the future first grade is unknown (students and classes in later grades may be easily foreseen). For primary schools the information is available to the school founder (municipality) in the national registry of all Polish citizens PESEL, including the addresses of all school-age children registered in their territory. This registry is the basis for controlling universal enrollment in obligatory education. Every year primary schools receive from their founders the lists of all expected students of future first grade (that is, lists of children aged 7 registered in the schools' catchment areas). In addition, the relevant information is available from so called zero grade (the last year of preschool education), which is obligatory for all children. Children may attend grade zero either in preschools or in preschool groups in primary schools, so obtaining this information is not difficult, except for cases when they attend preschool in another jurisdiction.

For secondary schools instead of projections schools plan, how many classes with different profiles they plan to open. These profiles cover both different profiles of lyceums (such as mathematical, humanistic, or biological classes), and professional profiles in vocational schools (leading to different professional qualifications). The planned network of profiles of secondary schools as proposed in the organizational charts needs approval from the school founder (county).

Organizational chart of every school in the municipality or in the county is of course influenced by any decisions to restructure local school network. By law, the preliminary resolution of the council must be taken 6 months before actual closure of the school (that is, before the end of February). This means that when preparing draft organizational chart, school directors know already about planned school closures or mergers, and must take them into account. The final decision regarding school network is adopted through council resolution in August. If this final decision is different from the intention expressed in February (which happens quite often due to parental resistance), then an annex to the chart will be needed in September.

As discussed in section 1, the chart includes information about which teacher will conduct what classes in every class in every grade. This information is necessary to assess future costs of the salaries in the school. Indeed, approval of the chart by the school founder is a guarantee that the salaries of all school staff listed in the chart will be covered in local budget. Therefore one of first issues confronting school directors is to foresee changes to employment in their schools in the next school year. These changes may arise for different reasons:

- Declining number of classes due to demographic shifts of student population;
- Closures or partial closures of satellite schools and transfer of their students to the hub school;
- Retirement of some teachers, or planned transfer of teachers to another school;
- Teachers who will not be teaching (for example, due to maternity leave or to one-year-long paid leave "for improvement of health", a privilege of teachers who have worked continuously in one school for more than 7 years);
- Termination of contract with school director or deputy director (typically, school leaders receive from the school founder a reduction of standard teaching workload of 18 classes per week for the duration of nomination, this reduction disappears when they are no longer directors).

In situations of declining student population, when the number of classes also declines, the number of needed teachers of different subjects in the next school year will be of course lower than in the current year. In such cases, the preparation of organizational chart must include decisions which teachers will lose work and which teachers will stay. Polish education legislation, especially Teachers' Charter of January 26, 1982, provides strong labor protection of teachers employed in schools. For this reason, while drafting the organizational chart, school director must reflect on planned changes of teacher workforce in his school and also on legal justification from discontinuing teacher employment.

Teachers employed in the school who will not be performing pedagogical tasks must be included in organizational chart, but with zero planned workload. Teachers whom the director plans to employ from September 1 cannot be included in the chart, in their place vacancy should be stated.

An interesting issue concerns lessons above curricular minimum and lessons above standard teacher workload (18 lessons per week) for fully employed teachers. In the draft chart, the director can allocate these lessons to individual teachers, or may leave them as vacancies. In the second case the director will enjoy more flexibility when adjusting the approved chart in September (see below).

The opinion of the trade unions (representatives of trade unions operating in the school, or local representatives of national trade unions of teachers) is obligatory but not binding on the school director. This means that even if they oppose the draft chart, the school director is not obliged to amend it. However, their negative opinion is attached to the draft, for the review by the regional curator and by the school founder. There is no requirement to seek the opinion of parental board (selected at informal meetings of parents every year) and of the pedagogical board of the school (comprising all employed teachers).

The approval of the regional curator of the draft organizational chart is required. The approval concerns only pedagogical issues, therefore the curator does not review administrative and technical positions. The approval hinges of compliance with legal legislation, and is therefore automatic if there are no violations of obligatory norms and rules. If, on the other hand, the curator finds that the draft chart does not comply with some regulations of the educational process, such as minimum number of lessons of some subject in some classes, then he or she issues a negative decision and the school director is obliged to correct the errors. The same must happen if the curator identifies situation when a class is not divided into groups for some lessons, when the regulations require it (for example, for lessons of IT if the class size is too large). On the other hand, some of software used by the schools includes partial internal verification of entered data.

All regional curators issue guidelines for school founder regarding submission and assessment of draft organizational charts. These guidelines include additional information required from school founders, for example the format and contents of the list of all pedagogical staff employed in the school.

The approval of the draft organizational chart by the school founder is the last step of the process (except for possible amendments of the approved chart in the form of annexes, see below). This approval is required, since it is a guarantee of inclusion of all salaries in the budget of the school founder. For this reason this is not an automatic decision, local governments always very carefully consider draft organizational charts.

The following Table 3.3 presents the most common elements of the organizational chart of school verified by the school founder (based on Filas 2012). Frequency represents the share of school founder who conduct given verification.

Table 3.3. Frequency of items of organizational chart verified by school founders

Item verified	Frequency
Class size in the first grade	95%
Division of classes into groups	95%
Class size in upper grades	81%
Compliance of school curriculum with the obligatory national curriculum	76%
Total workload of teacher in the given school	76%
Compliance of tasks of teachers with school curriculum	71%
Teacher qualifications	52%
Total workload of teacher in the local government	52%

Clearly, the first step of the school founder is to compare the draft organizational chart for the next school year with past approved charts. This is quite easy to accomplish since the documents from previous school years are available in electronic form in the software used by the local government. Thus, school founder may analyze the changes in the level of school employment, proposed by the school director for the future, in the context of changing student numbers.

It is important to note that unlike the regional curator, the school founder cannot issue a negative decision regarding the draft chart, and in this way require the school director to prepare a new version. Instead, the director and the founder need to talk to each other and find a common solution. The school founder must have very good reasons for refusing to approve draft chart, like excessive increase of school staff, or moving teachers, who are no longer needed to conduct lessons, to other pedagogical tasks such as librarian or psychologist, if there is no clear need for this. Both sides must cooperate to achieve agreement, because without approved chart the school cannot operate after September 1. The law gives them limited time for these negotiations and finding an agreement, namely until the end of May (see Table 3.1).

Some legal experts say that school founder must approve the draft organizational chart of school, after its approval by the regional curator. This is because no changes to the chart may be introduced before approval. Indeed, such changes would require further opinion of the trade union and another approval by the regional curator. Such a procedure is not regulated by law, so is not allowed. Accordingly, it is stipulated that in case of disagreement school founder should sign the draft chart and should then expect proposal for a draft annex to the already approved chart, in line with its suggestions. This draft annex must be then reviewed by the trade unions and approved by the curator, and then approved by the school founder. However, this opinion is not shared by all legal experts, who say that school founder can refuse to approve draft chart and in this case discussions between the two sides are necessary. This is a complex legal issue, subject to many rather intricate court judgments, which cannot be discussed in greater detail here due to lack of space. It seems that in practice many school founders come to an informal, unwritten agreement with their school directors regarding the proposals which should appear in draft organizational charts.

After the beginning of the new year, in September or in October, when the new situation in the school is already known, the director typically needs to adjust the already approved organizational chart and to obtain approval of the founder. As mentioned in several places above, this need may arise when for example:

- The preliminary decision regarding school network is not adopted in August;
- There is a need for additional pedagogical activities, such as obligatory lessons of Polish language to foreign students attending the school;
- There are unexpected paid leaves for improvement of health, or unexpected teacher decisions to discontinue employment;
- Some teacher have advanced in their profession advancement, or have acquired new teaching skills;
- More or less classes are created newly enrolled students than expected, during the recruitment process.

Changes to the chart are performed by preparing an annex, although it is good practice to prepare complete new chart (in software packages used by the schools, this is an easy option, because all changes in the organization of school work must be entered into the software anyway). The reasons for all the proposed changes should be explained in accompanying documentation. If the annex is prepared in September, then an opinion of trade unions and the approval by the regional curator are required. No such opinions and approvals are needed for annexes adopted after September 30.

In practice, most school directors need to adjust their approved organizational charts in September, therefore annexing the charts is a standard procedure. The only typical exceptions are quite small schools.

Stage 2: Financial plans

As noted above, the second stage of the budgeting process in education follows approval of all organizational charts of all schools of the given school founder, municipality or county, and consists of defining local budget, together with financial plans of schools. The following Table 3.4 lists the steps involved in setting financial plans of schools (dates based on Filas 2012).

Table 3.4. Setting school financial plans

Responsible	Step	Deadline
School founder	Preparation of guidelines to budget users, typically beginning of September	
School director	Formulation of preliminary financial plan of school, typically September	
School founder	Adoption of draft local budget	November 15
School founder	Submission of draft local budget to Regional Accounting Chamber	November 15
School founder	Sending to school information required to prepare financial plan	November 22
School director	Preparation of school financial plan	December 22
School Board	Opinion on school financial plan	
Pedagogical Council	Opinion on school financial plan	
Parental Council	Opinion on school financial plan	
School founder	Verification of school financial plan, making final changes to financial plans	December 27
Accounting chamber	Opinion on draft budget of the local government	

School founder	Adoption of local budget, preferably before December 31	January 31
School founder	Sending to school directors information about amounts in the adopted budget	21 days after adoption of the budget
School director	Adoption of financial plan based on local budget	14 days after receiving information

Separate roles in the budget process are assigned by legislation to:

- Executive of the local government *(zarząd)*, including its head (elected in the case of municipality, chosen by the council in the case of county and region);
- Local council *(organ stanowiący)*, consisting of elected councilors.

The executive prepares draft resolutions (including draft budget and budget), while local councils adopts these resolutions. This difference is suppressed in Table 3.4 above, when we say "school founder" we refer to both of them.

According to the Law on Public Finance of August 27, 2009, each local government must adopt a resolution defining the procedure to adopt the resolution of draft local budget. This "organizational" resolution should define the detail of the budget resolution (legislation prescribes a certain level of detail, but local governments may adopt more detailed budgets), specific dates of the budget process (other than those specified in the legislation), and requirements regarding the justification of draft budget and information, which should be supplied to the local council by the local executive.

The first step in the budget process is adoption of budget guidelines *(założenia budżetowe)* by the school founder. The guidelines are not obligatory, they may include some indications of expected financial indicators, such as foreseen increase of teacher salaries. On their basis schools in some local governments may start preparing preliminary financial plans.

The real start of the budget process is when the local council adopts draft budget prepared by the local executive. The draft budget may be based on preliminary financial plans (if they are ready). Draft budget is submitted to the Regional Accounting Chamber for verification. The Chamber evaluates the draft budget from different points of view:

- Compliance with budget legislation;
- The level of debt of the local government and the planned effort to repay debt;
- Calculation of fees charged by budget users (in education this is mainly charges of public preschools).

The Chamber may approve the draft budget, may approve it with a list of issues to be corrected, and may reject it. The latter happens only rarely, it requires the local government to restart the process.

On the basis of adopted draft budget, the founder sends to school directors information required for preparation of financial plans. This information may include:

1. Sequence of planning of different expenditures (priorities).

2. Budget indicators.

3. Methods of setting level of expenditures.

The budget indicators may include, for example, allowed increases (in terms of percent) of different spending items, as well as budget limits.

In principle, and by the logic of current legislation, financial plans should be constructed on the basis of organizational charts of schools. In reality, however, this happens only in a minority of local governments in Poland. The following Table 3.5 shows that in more than half of school founders the historical budgeting, based on previous year’s financial plan, dominates (Filas 2012).

Table 3.5. Frequency of methods to construct financial plan of schools

Basis for constructing financial plan	Frequency
Organizational chart of school	37%
Financial plan of the previous year	57%
Some form of school voucher	2%
Other	4%

Draft school financial plan must be presented to the School Board (if it exists), to Pedagogical Council (which includes all teachers employed in the school) and to Parental Council (representatives of parents of school students, typically selected for every school year during meetings of parents in September). The opinions are not binding for the school director.

The financial plans prepared by the school directors are verified by the school founder. The main point of verification is compliance with budget limits. Although the draft local budget does not include budget limits for individual schools, such limits are in the guidelines which school directors receive after adoption of draft local budget, and they must be obeyed. If the financial plan exceeds the budget limit, school founder has the right to correct it downwards. School director should then be informed about this change.

The verification of financial plans of schools is often a contentious process. Sometimes, budget limits for schools are deliberately set unrealistically low, because school founder from experience expects that school directors will try to propose financial plans above those limits.

The financial plans of schools (as well as of all budget users in the local government) are then included in the final local budget, approved in a resolution of local council. Following the adoption of the budget, school directors receive final budget limits and must prepare final financial plans of schools consistent with those limits.

3.3. Conclusions

The budgeting process in education at the local level in Poland is embedded in the structure and functioning of local governments and thus reflects the measure of education decentralization in the country. The process has some specific features:

- Vast majority of Polish schools are communal schools, whose founders are local governments, namely municipalities, counties and regions. Polish local governments are responsible for local school networks, for opening, closing, and merging of schools, for appointing school directors, for adopting local regulations of teacher remuneration within the legal limitations, and for financing schools. At the same time, some participation in all these decisions is reserved for regional curators of education.
- Despite high degree of autonomy of Polish local governments (municipalities and counties), the budgeting process is closely monitored by regional representatives of the national government. Regarding organizational charts of schools, this oversight is performed by the regional curators. Regarding the financial plans of schools, this oversight is performed by Regional Accounting Chambers.
- The budgeting process reserves very important role for the school director regarding the planning of the functioning of the school. The organizational chart of the school is the sole responsibility of the director, even though it requires approval by both the regional curator and by the school founder. The same applies for any annexes to the chart. However, the role of the school director is much more limited during the preparation and adoption of the financial chart. This is in line with basic division of responsibilities in education at the local level, where the school director has primarily educational tasks, and the responsibility for the budget rests with the school founder.
- Within the sphere of pedagogical work of the school, the autonomy of the school director in respect to the school founder is strengthened by the influence of the regional curator. It is not possible for the school founder to demand limitations and reductions of legally required school positions or school activities, because in such a case the curator will not approve the draft chart.
- For many very important issues, the regulation do not allocate full responsibility to any single actor or stakeholder, but instead the responsibility is shared by two actors. In this manner legislation promotes cooperation and mutual understanding, to be achieved through negotiations. This is however a risky design, leading to multiple court cases.

For Ukrainian reformers, still in early phases of the decentralization process, Polish experience is of interest mainly through the lessons that may be learnt, that is through its strengths and deficiencies. The budgeting process of schools in Polish local governments has some strengths:

- With clear allocation of responsibilities for management of different type of schools comes equally clear responsibility for their financing. All needs of schools must be satisfied by the school founder. Parents and teachers unhappy about treatment of individual schools can submit their concerns to the local administration or to the local council. The legislation supports the cooperation between school directors and school founder. However, ultimately it is the school founder who takes the managerial and financial decisions.

- The school directors propose organizational charts of schools, that is plans for how the pedagogical process will be organized in the coming school year. Once approved, the charts become obligatory for the school founder, who must ensure sufficient resources for all approved positions. Thus, pedagogical needs of schools should, at least in principle, be more important than limitations of budget resources.
- Transparency of budgeting is assured through public nature of budget documents, as well as through responsibility of school founders to publish their reports on execution of educational tasks. These reports, published every year, besides all managerial decisions taken by the school founder regarding local school network, typically include significant financial and budgetary information.

At the same time, however, there are serious deficiencies of the budgeting process in education at the local level in Poland:

- There are no obligatory provisions for review of the relative needs of schools or of the budget requests in which all directors will participate. Thus, each school director faces school founder on her/his own, in designing organizational chart of school and in setting school's financial plan. In practice, may Polish local governments include in the budgeting process such group consultations with directors of several schools, but this is their own will and initiative, and can be discontinued at any moment.
- There are no requirements for public access to organizational charts of schools or to financial plans of schools. Indeed, in their present form, both these documents are too complex and include too many details to be easily understood by laymen. However, it should be possible to require that some simplified information in appropriate, clear format is available to teachers, parents, and the local population. Polish regulations do not foresee such requirements for transparency. Some local governments in Poland share such information with their electorate, and so do many individual schools, but this is not a standard practice.
- In particular, there is no comparable, publicly available information regarding different schools managed by the same school founder. For teachers and parents alike, just treatment of all primary schools by the municipality is an important issue, however they do not have adequate means to assess whether this treatment is just, nor even to obtain relevant

information. This is especially important for small, remote rural schools, as well as for satellite schools in the villages. The informal or formal councils of school directors, described in section 1, are only a partial substitute.

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Chapter 4. LOCAL BUDGETING OF EDUCATION IN UKRAINE: LEGAL FRAMEWORK

Jan Herczyński

Introduction

The present chapter serves as introduction to three reviews on local budgeting in education in Ukraine, namely subsequent chapters on Lviv, Mariupol, and Kyiv. It focuses on legal and accounting basis of the budgeting process, with special emphasis on the format of the decision on budget, adopted by local governments in Ukraine. These issues are of utmost importance for the budgeting process, but are rarely discussed in detail and in accessible language. It is hoped that the review will make three city chapters easier to understand, but also that it will be useful to responsible experts, local politicians, and officials at the local level in their work.

According to current legislation (Budget Code, art. 2), the budget process is a legally regulated activity divided into the following phases:

1. Preparation.
2. Review.
3. Adoption.
4. Execution.
5. Reporting.

In addition, the Budget Code foresees also monitoring and control regarding adherence to budget legislation (контроль за дотриманням бюджетного законодавства). In the present publication, we focus attention of the first three phases only. Budget execution and reporting are extremely relevant, especially considering the issues of budget amendments during the budget year and the public availability and readability of budget reports. In particular, the fourth phase includes important decisions such as formulating monthly allocation plan (план асигнувань із загального фонду бюджету) and setting financial plans of all budget users (кошторис бюджетної установи), see Decree of Cabinet of Ministers Nr 228 of February 28, 2002 (with later changes). For every local public institution in Ukraine, including of course schools, these parts of the budget process are strategically important, however they require a separate, different approach.

For all budgets that form the budget system of Ukraine, the budget year coincides with the calendar year and lasts from January 1 to December 31. Nevertheless, the budget process for any budget year starts begins well before January (preparation and adoption) and continues after December (reporting).

The structure and content of local budgets are regulated by budget legislation. They are also obligatorily made public. However, these budget documents are not easy to read. They rely on complex budget codes, which can be understood only by studying in depth relevant orders of the Ministry of Finance of Ukraine (MF), in which these codes are defined. The local budgets, as regulated by Budget Code, art. 10, are prepared by:

1. Program or functional classification (sectors of local activity, such as administration, education, or health);
2. Economic classification (various types of expenditures, such as salaries or energy);
3. Type of funds (general and special fund);
4. Institutional classificationї.

While the first two classifications are universally adopted in budget systems in different countries, the last two distinctions are specific for Ukraine (and some other post-Soviet republics). The division of the budget into general fund (загальний фонд) and special fund (спеціальний фонд) is discussed in detail in section 4.2.2. Regarding the institutional classification, we note that each local administration is divided into several main budget users, and detailed budget breakdown is provided for each budget user, see section 4.2.1. Thus, for example, allocation for education may be split between several main budget users, depending on decisions of local governments (see Table 4.1).

These different classifications make the reading of local budgets as approved by the local councils a real challenge. The common impression is that complexity of budgets of local government budgets makes them incomprehensible and rather mysterious for interested local partners, and prohibit informed discussions at the local level. This impression is certainly partially correct, because to read local budgets with understanding and to comprehend the policy decisions and priorities of local governments which they reflect requires some effort. In particular, planned budget expenditures are presented in annex 3 of the budget decision of local councils (structure of budget decisions is discussed in section 4.3). The format of annex 3 is presented in Table 4.16 below; to read it with understanding requires some acquaintance with Ukrainian budget terminology and budget classifications. The present chapter may be seen as guidance how to read annex 3.

It is hoped that the analysis presented here, and the specific discussions of the budget process in three cities which follow in chapters 4, 5, and 6, will allow Ukrainian experts and citizens better understand the budget decisions of their local councils.

4.1. Legal basis of local budgeting in education

As in most European countries, the budget process at the local level in Ukraine is highly regulated. There are two main sides to this regulation.

The first side is the *budget legislation*. Most countries have special laws dedicated to the budgeting process regulating the formats and contents of accounting documents. In Ukraine, the budget process is primarily regulated by two key laws, namely the Budget Code (Law Nr 2456-VI of 08.07.2010, with later changes) and the annual Law on the State Budget of Ukraine (the current being Law Nr 1928-IX of 02.12.2021 On State Budget for 2022, with later changes). Further, specific procedures, classifications, and formats of documents used in the budgeting process are regulated by decrees of the Cabinet of Minister of Ukraine (CMU), as well as orders of MF. Resolutions of local councils on their budgets have to be expressed in the line with the Order Nr 668 of MF of 03.08.2018 (with later changes), which specifies the format of local budgets. Budget classifications with their codes are defined in Order Nr 11 of MF of 14.01.2011 (with later changes) for the national budget and in Order Nr 793 of MF of 20.09.2017 (with later changes), and the scope and format of obligatory reports on the execution of budgets is Order Nr 44 of MF of 24.01.2012 (with later changes). In addition, Law On Access to Public Information (Law Nr 2939-VI of 13.01.2011, with later changes) regulates the transparency of the budget process and in particular public availability of budget documents of local governments. We refer to the relevant legislation as we go along (all cited legislation is listed in References).

The second side is the *local government legislation*. Ukraine shares with many larger EU countries the high level of decentralization of important social sectors, including education, to local governments. It is therefore the local government legislation which regulates in detail what are the competencies of local governments, which have to be financed from the local budget. The two main laws setting the competencies of local governments in Ukraine are the Law On Local Self-Government (Law Nr 280/97-VR of 21.05.1997, with later changes) and the Law Capital City of Ukraine - City-Hero Kyiv (Law Nr 401-XIV of 15.01.1999, with later changes).

In Ukraine, within the education sector, territorial gromadas are responsible for:

- Preschool education;
- Secondary education;
- Artistic and sport education and extracurricular activities;
- Support functions for secondary education such as Inclusive-Resource Centers.

Oblasts and oblast centers are responsible for professional and technical education. Finally, Kyiv is also responsible for higher education.

When we focus attention on budgeting in the education sector, a third side of regulation appears, namely *education legislation*. Here the key elements are legislation about the educational institutions and their subordination, namely Law on Education (Law Nr 2145-VIII of 05.09.2017, with later changes), Law on Complete Secondary Education (Law Nr 463 of 16.01.2020, with later changes), and multiple orders of the Ministry of Education and Science of Ukraine (MES). The staffing levels in Ukrainian schools (типові штатні нормативи) are determined in Order of MES Nr 1205 of 06.12.2010 (with later changes). We may also single out regulation on individual instruction (order of MES Nr 8 of 12.01.2016, with later changes) and regulation of division of classes into groups (Order of MES Nr 128 of 20.02.2002, with later changes), which have significant impact on the cost of providing secondary education.

Finally, linking school employment levels back to the budgetary issues, we come across the fourth area of legislation relevant to the budgeting of education at the local level, that is *remuneration legislation*. Indeed salaries are the main expenditure item of secondary schools. Here the main legal act is Decree of CMU Nr 1298 of August 30, 2002 (with later changes), defining the universal pay scale within the budget sphere, which covers staff of all public sectors, including teachers and other pedagogical staff. The universal pay scale is based on 25 staffing levels (Тарифні розряди), with a fixed salary coefficient for each staffing level. The basic salary (посадовий оклад) of a teacher is then determined by multiplication of the salary coefficient of his/her staffing level and the basic salary for first (lowest) level. This lowest level of basic salary is also stated in the Decree Nr 1298 (and is updated every year). Teachers are typically assigned to staffing levels from 11 to 14, depending on their category.

Once the basic salary of a teacher is assessed, there are multiple increases and add-ons, typically of multiplicative character, which determine take-home salary. Among these we note the increase of 10% for all pedagogical staff (Decree of CMU Nr 22 of January 11, 2018, with later changes) and the add-on for professional prestige of teachers, between 5% and 30% of basic salary (Decree of CMU Nr 373 of March 23, 2011, with later changes).

In the present book we do not go into the details of determining salaries of individual teachers, although this has direct impact on the planned expenditures for secondary education. We only note that Ukrainian system of teacher remuneration has rather low basic salary and an excessive number of small add-ons. However, reforms of national teacher remuneration systems are politically very difficult, especially so in Eastern-European context (Herczyński, Barkalaja, Turonis 2020). We also note that in EU countries it is unusual to have teachers salaries regulated in national public pay scale covering many other sectors as well. More typical are specific national or local systems of teacher remuneration.

ДWe conclude by stating that the budgeting process in education at the local level is regulated by four separate areas of legislation:

1. Budget legislation.
2. Local government legislation.
3. Education legislation, and,
4. Remuneration legislation.

4.2. Budget classifications

To review local budgets in Ukraine, and the process of proposing and adopting them, it is necessary to understand terminology which is used to formulate these budgets:

- The concept of main budget user оняття.
- The separation of budget into general and special funds;
- The parallel use of program, functional, and economic classifications.

We review these concepts in the consecutive subsections of the present section.

We also note that local budget does not provide separate budget line for individual secondary schools. However, financial plans have to be prepared for each school.

4.2.1. Institutional classification (main budget users)

The complexity of local budgets in Ukraine is in part related to the concept of main budget user (Головний розпорядник бюджетних коштів). Main budget user is an institution with direct responsibility for planning, managing, and reporting of a distinct part of the local budget (same terminology is also used for the national budget). The identification of main budget users at the level of territorial gromada is the exclusive competency of that gromada.

Budget Code in art. 10 requires that expenditures and crediting of the budget are classified by budget program, by code of the main budget user, and by functional classification. Thus, the law requires that the decision on the budget includes detailed budget allocation for each main budget user. For example, in Kyiv each of the 10 rayons is responsible for preschool and secondary education, with considerable autonomy of planning and executing budgets. Thus, each rayon is also a main budget user. No such delegation of budgeting competencies in education is seen in Mariupol and Lviv.

The number of main budget users varies between local governments, as the following Table 4.1 shows. In addition to the three large cities discussed in the present publication, Table 4.1 also includes for comparative reasons a medium size urban TG Apostolove (Апостолове) and a small rural TG Borsuki

(Борсуки). For context, we also provide population of TG in 2021 and the number of city rayons (if applicable).

Table 4.1. Main budget users in five Ukrainian TG

	Kyiv	Lviv	Mariupol	Apostolove	Borsuki
Population (thousand)	2962	780	441	23	6
Number of city rayons	10	6	4		
Main budget users	39	35	13	3	4
Main budget users with budgets in education	14	4	4	1	1
Main budget users with budgets in secondary education	12	1	2	1	1

We note that the number of main budget users, both with and without competencies in education, depends on the population of the gromada, but the dependence is not uniform. Much smaller number of main budget users in Mariupol does not correspond to relative population in the two cities. Borsukivska TG is much smaller than Apostolivska TG, but has more main budget users. As mentioned above, only Kyiv delegated competences in the budget process in education to the rayon level.

This diversity of adopted institutional arrangements appears because the structure of local administration is the result of local priorities and decisions. Indeed, the list of structural units of local administration, their staffing levels are taken by the council of each urban, settlement, or rural TG, depending of the complexity of their tasks and on the financial resources available in the local budget to pay staff salaries. Differentiation observed in Table 4.1 cannot therefore surprise. Similarly a decision is taken whether a structural unit (for example unit responsible for education) will be a department (департамент), a main office (головне управління), an office (управління), a section (відділ) or just a responsible specialist.

Main budget users are identified in the program classification, defined in Order Nr 793 of MF of 20.09.2017 (Про затвердження складових Програмної класифікації видатків та кредитування місцевого бюджету). Program classification has codes with 7 digits, which include:

- 3 digits of typical institutional classification (Типова відомча класифікація)
- 4 digits of typical program classification (Типова програмна класифікація видатків та кредитування місцевих бюджетів).

In the present section, focused on main budget users, we discuss the typical institutional classification The typical program classification is in fact closely related to the functional classification and is discussed in detail in the following section 4.2.3.

Main budget users are coded by the first two digits of typical institutional classification. Selected items of this classification are listed in the following Table 4.2.

Table 4.2. Coding of main budget users (institutional classification)

Code	Description of main budget user
01	Apparatus (secretariat) of local councils (of Kyiv council, regional councils, urban, settlement, and rural councils, rayon councils in the cities)
02	Executive organs of local councils (of urban, settlement, rural councils), state administration (Kyiv state administration, regional state administrations, rayon state administrations)
03	Accounting chamber of Autonomous Republic of Crimea
04	Election commission of Autonomous Republic of Crimea
05	Permanent delegation of Autonomous Republic of Crimea in Kyiv
06	Organ responsible for education and science
07	Organ responsible for health protection
...	....
...	....
37	Organ responsible for finances
38	Organ responsible for internal financial control
40 – 49	Rayon state administrations in cities divided into rayons when no rayon councils are elected

The codes from 08 to 36, not reported in Table 4.2, refer to other competencies of local governments (including children, youth and sport, culture, labor market and similar). As Table 4.1 indicates, it is clearly possible to have fewer main budget users than listed in the above table, because structural units of local administration may be responsible for more than one competence. Such decisions are taken by the local council. Conversely, for very large cities, it may be possible to use additional codes, not listed in Table 4.2 (if, for example, Kyiv would want to have separate department for education and for science). This may be achieved using the concept of responsible agent (see below).

We note that the terminology of "organs", employed in Table 4.2, is used specifically to allow local councils not only to structure their local administrations as they see most aligned with their local conditions, but also to decide freely how the structural units will be called.

The third (last) digit of the code of typical program classification is reserved for responsible agent (Відповідальний виконавець бюджетної програми у системі головного розпорядника). The position of the *responsible agent* is defined in the Budget Code (art. 20). The main budget user may nominate a responsible agent (with approval of the finance organ), for example a subordinate budget user of lower level. The third digit was introduced specifically to implement this option of nominating responsible budget users allowed in the Budget Code. The code 1 is reserved for the apparatus of main budget user, other responsible agents, if any, have higher digits (from 2 to 9). The code 0 is used for subtotals (it does not identify any responsible agent).

Additional responsible agent appears only rarely in Ukrainian local governments. For example, in Kyiv only two main budget users have a second responsible agent. These are Kyiv State Administration (main budget user code 02), with responsible agent State Archive of Kyiv, and Department of Internal Financial Control and Audits (main budget user code 38), with responsible agent Internal Audit Inspection. Mariupol has no responsible agents, while Lviv has 6 of them. This shows that similarly to main budget users (Table 4.1), the number of responsible agents is not directly related to city population, to the administrative complexity (number of city rayons), or indeed to the number of main budget users. Instead, it is the result of local decisions regarding the structuring of budget responsibilities. No responsible agent in three selected cities has any competencies in education.

As an aside, we note that responsible agents in the budget process are more frequent at the national level (see Order Nr 574 of MF of 14.12.2001). In particular, Ministry of Finance as main budget user has enough responsible agents so that its cooperation with them is regulated in a separate legal act (see Order Nr 88 of MF of 22.02.2022).

4.2.2. General and special funds

Specific feature of Ukrainian budgetary system, inherited from the Soviet Union and absent in EU budget systems, is the division of the budget into two separate parts (Budget Code, art. 13):

1. General fund (Загальний фонд).

2. Special fund (Спеціальний фонд).

Each part has its own revenues and its own expenditures, so in fact every local government adopts two parallel budgets. Each part of the budget must also be balanced, with specific conditions under which either part may exceptionally be either in deficit or in surplus (Budget Code, art. 72). The budget may include transfers between the two parts. The special fund is much smaller than the general fund. As an example, the following Table 4.3 provides overview of the general and special fund in Kyiv budget for 2022 (we use this example repeatedly below).

Table 4.3. General and special fund, Kyiv 2022 (thousand Hr)

Side of budget	General fund	Special fund	Total
Revenues	60 183 941	6 094 754	66 278 695
Expenditures	47 810 733	17 537 820	65 348 553
Share of revenues	90,8%	9,2%	100,0%
Share of expenditures	73,2%	26,8%	100,0%

The balancing of both parts of the budget (and of the overall budget at the same time) is achieved through financing and crediting. In the example presented in Table 4.3, the balancing includes major transfer of about 15% of overall city budget from the general fund to the special fund. This transfer is not marked as a cost of the general fund and a revenue of the special fund. It should be understood as allocation of some general revenues of the city to investment projects.

As a general rule, in the local budget the general fund contains funds used for general functions, while special fund includes funds with a specific purpose (most often investments), as well as own revenues of municipal enterprises (including schools). Because of the link between revenues and expenditures evident for the special fund we provide some detail about the revenue side of the budgets (below we return to the main focus of our analysis, that is budget expenditures).

Budget Code specifies which revenues of the local budget flow to the general fund or to the special fund (art. 64 and art. 69[1] of Budget Code). In general:

- Tax revenues flow into the general fund (except for ecological tax).
- Revenues from provision of administrative services and rent from property flow into the general fund.
- Funds from targeted funds created by TG flow into the special fund.
- Subventions and dotations from the national budget flow into the general fund, except for targeted investment subvention for roads.
- Own revenues of communal enterprises flow into the special fund.
- Revenues from sale of land and material and non-material assets flow into the special fund.

Regarding personal income tax, outside of Kyiv it is shared between the national budget (25%) and the local budgets (remaining 75%, of which 15% to oblast budgets, 60% to TG budgets). Personal income tax collected in Kyiv is shared between the national budget (60%) and Kyiv budget (40%). Likewise, the ecological tax is shared between the national budget (45%) and the local budgets (remaining 55%, of which 30% to oblast budgets, 25% to TG budgets).

The main revenue items of general and special fund are listed in the following Table 4.4 and Table 4.5 respectively. For illustrative purposes, we use data for Kyiv for budget year 2022, the proportions for other cities may of course be different.

Table 4.4. Main revenue items of general fund, Kyiv 2022 (thousand Hr)

Revenue item	Amount	Share
Personal income tax	27 889 196	46,3%
Single tax	9 545 924	15,9%
Property tax	6 976 199	11,6%
Corporate income tax	6 212 705	10,3%
Education subvention from national budget	5 407 136	9,0%
Other revenues of general fund	4 152 781	6,9%
Revenues of general fund	60 183 941	100,0%

We note that four taxes are the dominant revenues of the general fund. Of these, the personal income tax constitutes over 45% of all revenues of the general fund, and the single tax 16%. The fifth major revenue item is education subvention from the national to local budgets. These five revenue items comprise over 93% of all the revenues of the general fund.

Table 4.5. Main revenue items of special fund, Kyiv 2022 (thousand Hr)

Revenue item	Amount	Share
Investment subvention for roads from national budget	2 356 169	38,7%
Own revenues of communal enterprises	2 165 563	35,5%
Sale of land	888 112	14,6%
Sale of other property	100 000	1,6%
Other revenues of special fund	584 910	9,6%
Revenues of special fund	6 094 754	100,0%

Similarly to the general fund, a few revenue items comprise over 90% of all revenues of the special fund. The two dominant items are targeted investment subvention for roads from the national budget and own revenues of communal enterprises.

We note that revenues of the special fund are quite heterogeneous. There is no budgetary or logical connection between the revenues from ecological tax, targeted investment transfers, own revenues of enterprises, or sale of land.

Regarding budget expenditures in the general and special fund, we first review in a concrete case (data for Kyiv 2022) main expenditure items from the general fund and from the special fund, characterized by their functional classification, in Table 4.6 and Table 4.7 (functional classification is discussed in more detail in the following section 4.2.3).

Table 4.6. Main expenditure items of the general fund, Kyiv 2022

Code	Expenditure item	Amount	Share
0921	Secondary education	11 686 608	24,2%
0910	Preschool education	7 063 608	14,7%
0111	Organs of local administration and self-government	2 379 639	4,9%
0456	Road management	2 240 483	4,6%
0763	Other activities of health profession	2 165 047	4,5%
0960	Extracurricular education	1 679 790	3,5%
1070	Social protection	1 576 010	3,3%

Not surprisingly, the dominant expenditure items of the general fund, and hence of the whole local budget, are secondary and preschool education. In smaller cities and in rural TG education forms an even larger share of expenditures.

Table 4.7. Main expenditure items of special fund, Kyiv 2022

Code	Expenditure item	Amount	Share
0456	Road management	5 921 343	33,8%
0443	Construction	2 134 706	12,2%
0610	Housing	1 384 947	7,9%
0620	Communal economy	1 282 046	7,3%
0453	Rail transportation	1 229 360	7,0%
0910	Preschool education	1 193 682	6,8%
0921	Secondary education	845 254	4,8%

The dominant expenditure items of the special fund are road management and construction. This is in line with the structure of revenues of the special fund, where the biggest share are targeted grants for roads (see Table 4.5).

It is also of interest to analyze how the distinction of general and special fund is aligned with the division into consumption and development expenditures (these are elements of economic classification, very close to recurrent and capital costs, we discuss them in section 4.2.4). The following Table 4.8 displays these two divisions.

Table 4.8. Expenditures by type of funds and by consumption/ development (thousand Hr)

Type of funds	Consumption	Development	Total
General fund	42 042 652	5 768 081	47 810 733
Special fund	2 137 734	15 400 086	17 537 820
Total	44 180 386	21 168 167	65 348 553
Distribution of general fund	87,9%	12,1%	100,0%
Distribution of special fund	12,2%	87,8%	100,0%
Distribution of total	67,6%	32,4%	100,0%

We note that 88% of general funds are destined for consumption expenditures, and 88% of special funds are destined for development expenditures. We can thus conclude that that overall, as expected, special fund is the main budget instrument for investments. This is of course in line with the dominant revenue of special fund, namely targeted investment grants (Table 4.5).

Using the same specific case of Kyiv budget for 2022, in the following Table 4.9 we review the share of general and special funds in education expenditures. We distinguish general secondary education, other education subsectors (which include preschools, vocational education, higher education and similar), and other (non-education) sectors.

Table 4.9. Share of expenditures of general and special fund, for selected sectors

Sector	General fund	Special fund
General secondary education	93,1%	6,9%
Other education subsectors	88,0%	12,0%
Other sectors	61,4%	38,6%
All budget	73,2%	26,8%

We note that although overall, special fund expenditures amount to over 26%, they are under 7% for secondary education, and 12% for other education subsectors. At the same time, naturally, the share of expenditures from special fund is much higher for non-education sectors of Kyiv budget.

A similar picture arises when we divide expenditures by recurrent and capital. This is not surprising, because as we have seen above (Table 4.5), targeted investment transfer for roads, a non-education sector, is the main revenue item of the special fund.

4.2.3. Functional classification

Functional classification of expenditures (Функціональна класифікація видатків та кредитування бюджету) allows to distinguish expenditures of main budget users by sectors (such as education) and subsector (such as preschools or secondary education). It is defined in Order Nr 11 of MF of 14.01.2011 (Про бюджетну класифікацію). The codes of functional classification have 4 digits.

For secondary education, the functional classification of expenditures is fully determined by the last 4 digits of the code of program classification, which form typical program classification of expenditures of local budgets (Типова програмна класифікація видатків та кредитування місцевих бюджетів, column 2 in Table 4.16). This means that functional classification, which does appear in the budgets adopted by the local councils (column 3 of Table 4.16), is only a derivation of typical program classification and is of limited relevance. For this reason, in the present section we discuss in detail the typical program classification, which is defined in Order Nr 793 of MF of 20.09.2017. However, for completeness, selected codes of the functional classification relevant for education are also presented below in Table 4.13.

In presentation of budget data, the code '0000' of typical budget classification denotes subtotal (for the main budget user or for responsible agent).

The first digit of the code of a typical program classification defines the sector of expenditures. Sectoral codes are presented in the following Table 4.10.

Table 4.10. First digit of code of typical program classification

First digit	Sector of expenditures
0	State governance
1	Education
2	Health
3	Social protection
4	Culture and art
5	Physical culture and sports

6	Utilities and communal enterprises
7	Economic activity
8	Other
9	Intergovernmental transfers

For education, from preschool to higher education, the first digit is 1. The main expenditure of local budgets in the sector of intergovernmental transfers is reverse dotation (реверсна дотація), that is contribution of relatively richer local budgets to the equalization system. Reverse dotation is a part of general budget.

The following two digits of code of typical program classification of expenditures of local budgets identify subsector. Of course, the subsectors depend on the sector to which they belong. For education (first digit 1) these are preschools, secondary education, and other subsectors up to higher education. The meaning of the second and third digit for education is presented in the following Table 4.11 (for clarity, we include the first digit 1 as well).

Table 4.11. First three digits of code of typical program classification in education sector

First three digits	Subsector of education
101	Preschools
102	Secondary education financed from revenues of local budgets
103	Secondary education financed from education subvention
104	Secondary education financed from targeted amounts in remaining funds of education subvention
105	Secure education process (COVID-19) financed from remaining funds of education subvention
106	Secondary education financed from non-targeted amounts in remaining funds of education subvention
107	Extracurricular education
108	Arts education
109	Professional-technical education
110	Professional pre-higher education
111	Higher education
112	Post-diploma education

113	Methodical support to schools
114	Other programs
115	Inclusion-resource centers
116	Centers for professional development of pedagogical staff
117	Program “A capable school for best results”
118	Implementation of the reform “New Ukrainian School”
119	Protection from COVID-19 in secondary schools
120	Expenditures from subvention for special needs students
121	Expenditures from remaining funds of subvention for special needs students
122	Creation of teaching-practical centers

For some subsectors, these digits also identify the source of financing, see in Table 4.11 the difference between 102, corresponding to expenditures on secondary education from own revenues of the city, and 103, corresponding to expenditures on secondary education using funds received from education subvention.

We note that the differentiation of expenditures on secondary education from different types of remaining funds of education subvention (залішки освітньої субвенції), namely budget codes 104, 105, 106 in Table 4.11, is a recent change in program classification. During the budget year, education subvention may be used only for salaries of pedagogical staff providing secondary education (Budget Code, art. 1032, p. 1). However, amounts of the subvention unspent at the end of the budget year (залішки) may be used in the following year for other purposes within secondary education (Budget Code, art. 1032, p. 4). This is exceptional, as for other budget lines, unspent funds at the end of the budget year are returned to the national budget. This specific feature was used by the Ukrainian state to allocate funds for individual TG for different programmatic purposes (purchase of school buses, of school equipment, and most recently Covid-19 prevention) to the education subvention accounts of TG in the State Treasury Service. These targeted allocations, typically from the funds of the reserve of education subvention and made in November or December, could not be rationally spent before the end of the budget year, so using the accounts of education subvention was the preferred option. Recently, it was decided to use program classification to distinguish these different sources of funding.

The fourth and last digit of the code determines specific budget program. Within secondary education (that is, when the first three digits are from 102 to 106), the last digit of the code of typical program classification defines the type of educational establishment (see Table 4.12). We exclude special education from our analysis, which leaves 1 and 3 as possible last digit (for general and specialized secondary schools respectively). To summarize, for secondary education without special schools we take into account the following codes of typical program classification: 1021, 1023, 1031, 1033. We exclude the code 1026, because it covers initial professional preparation (such as driving licenses).

Table 4.12 also specifies, for different first three digits of the code of typical program classification, which code of functional classification is determined by the last digit of the code of program classification (for secondary education only). This digit determines uniquely one budget program and one code of functional classification, except when it is 6.

Table 4.12. Last digit of code of typical program classification in secondary education

Last digit	Program specification	Corresponding code of functional classification
1	Provision of secondary education in general secondary schools	0921
2	Provision of secondary education to special needs students in special secondary schools	0922
3	Provision of secondary education in specialized secondary schools	0922
4	Support to orphans and students without parental support in orphanages (boarding schools)	0910
5	Provision of secondary education to students with complex developmental problems, in teaching-rehabilitation centers	0922
6	Provision of secondary education by interschool resource centers (for 1026)	0921 (for 1026)
	Centralized activities in education (for 1046)	0990 (for 1046)

We conclude by presenting in the following Table 4.13 selected codes of functional classification in the education sector (this facilitates understanding of Table 4.12). We do not discuss in detail the codes for other sectors of local government competencies or the structure of these codes (some other codes of functional classification are reported in Table 4.6 and Table 4.7).

Table 4.13. Selected codes of functional classification in education sector

Code	Functional area
0900	Education
0910	Preschool education
0920	General secondary education
0921	General secondary schools
0922	Special and secondary schools
0930	Professional-technical education
0941	Professional pre-higher education
0942	Higher education
0960	Extracurricular education
0990	Other schools and activities in education

Unfortunately, functional classification uses the same code 0922 for special secondary education (for special needs students) and for specialized secondary education (secondary schools with in-depth instruction of specific languages or specific profiles). This further limits is analytical usefulness.

4.2.4. Economic classification

Economic classification of budget expenditures is their division by economic nature (there is a separate economic classification of revenues of local governments, which is not discussed here). All the expenditures are categorized using specific codes of economic classification (коди економічної класифікації видатків бюджету, KEKB), defined in Order Nr 11 of MF of 14.01.2011. The codes identify, for example, types of salary expenditures (salaries of staff, taxes and social contributions), types of communal services (cleaning, water provision, waste collection, and similar), types of communication costs (travel, telephone, mail, Internet, and similar), or of type of energy (electricity, gas, coal, heating, and similar). The codes have 4 digits, codes with first digit 2 denote recurrent expenditures (поточні видатки), codes with first digit 3 denote capital expenditures (капітальні видатки). Selected KEKB codes are provided in the following Table 4.14.

Table 4.14. Selected codes of economic classification for recurrent expenditures (KEKB)

KEKB codes	Classification
2111	Remuneration
2112	Salaries of military personnel
2113	Awards for judges
2120	Charges on remuneration (taxes and social contributions)
2260	Expenditures and activities of special purpose
2271	Payment for heating of facilities
2272	Payment for water provision and collection
2273	Electricity
2274	Natural gas
2275	Other energy and other communal services
2276	Servicing of energy
2281	Research and development, measures for implementation of regional programs
2610	Subsidies and recurrent transfers to enterprises (organizations)

However, neither specific KEKB codes nor the distinction into recurrent and capital costs are used in presentation of expenditures of local budgets (as discussed in section 4.3.2). Instead, a very close but different division of economic categories is used, namely into:

- Consumption expenditures (видатки споживання)
- Development expenditures (видатки розвитку).

This division is announced in the Budget Code (art. 10) and defined in detail in Order Nr 11 of MF of 14.01.2011. Development expenditures include, besides capital costs, also some recurrent costs:

- Research and development, separate measures for implementation of state and regional programs (KEKB 2281);
- Materials, assets, construction, and activities of special purpose, which are of national importance (KEKB 2260);
- Subsidies and recurrent transfers to enterprises or organizations (KEKB 2610), which are related to "fundamental and applied research and development" in several sectors of public activity.

Thus, consumption costs are less then recurrent costs, and development costs are more than capital costs. Nevertheless, the difference between recurrent expenditures and consumption expenditures for most local budget is not significant.

In the decision on budget expenditures, see Table 4.16, apart from division into consumption and development costs, only two selected economic categories are specified, namely remuneration (KEKB 2111 to 2120, see Table 4.14) and communal services and energy (KEKB 2271 to 2276). This means that all other distinctions of economic character are not stated in the budget.

This approach reduces the clarity of the local budget, but at the same time it makes it much easier to conduct budget rebalance during the budget year. Indeed any change of the budget which does not include shifts of funds between the stated categories does not need to be discussed and approved by the local council, providing considerable flexibility for the executive organs of territorial gromada.

This also means that after adoption of the budget each main budget user within the city must prepare the division of its allocated budget into economic categories, called financial plan (кошто́ рис). Financial plans provide detailed division of expenditures by all elements of economic classification. Their preparation is in fact the first step of the execution of the budget adopted by the local council. Similarly to a budget rebalance, a change of financial plans, if limited to major economic categories listed above, does not require approval by the council of TG.

A separate budget category related to economic classification is development budget of local budgets (бюджет розвитку місцевих бюдже-тів). Development budget is a part of the special fund. It is defined in the Budget Code (art. 71), which specifies its revenues and expenditures. The main revenues of the special fund which do not flow into the development fund are ecological tax and own revenues of communal enterprises. Thus, development budget is significantly smaller than the special fund (compare with Table 4.5). Like the special fund, development budget may be financed partly through transfers from the general fund. Expenditures of the development budget, especially its capital expenditures, are focused on local and regional development. Development budget is also used in local decisions on the budget (Table 4.16).

We conclude this section by noting that investments are covered by 4 different although closely related budget categories:

- Recurrent expenditures;
- Development expenditures;
- Development budget;
- Expenditures from the special fund.

There is no doubt that these many different concepts are quite confusing and make understanding of local budgets difficult. At the same time, the usefulness of these multiple and largely overlapping budget categories for actually managing investment budgets and for monitoring public expenditures may be questioned.

4.3. Budget resolutions of local councils

According to Ukrainian legislation (Order Nr 668 of MF of 03.08.2018), budget resolution of a territorial gromada is adopted by the gromada council in the form of decision on local budget (рішення про місцевий бюджет). This is the terminology we follow, although some TG use a different name for local budget (for example, local budgets of Lviv are adopted in budget resolution, ухвала про міський бюджет). The draft decision is prepared and submitted for voting by the council by the head of the territorial gromada (голова територіальної громади).

In the present section we discuss the obligatory format of the decision on local budgets (section 4.3.1), the format of the budget expenditures in this decision (section 4.3.1), and the expenditure items within the education sector (section 4.3.3). Thus, we provide a form of guidelines to reading and understanding of local budgets in Ukraine (with examples from the three cities).

4.3.1. Format of local budgets

Local governments in Ukraine cannot freely decide the format of the budgets, as it is strictly regulated in legislation. The typical form of the decision on local budget is set in Order Nr 668 of MF of 03.08.2018 (with later changes). This obligatory format includes the budget decision itself in the form of narrative, with selected, most important budget data inserted in the narrative (overall revenues and expenditures, crediting of the budget and similar), as well as detailed annexes with budget numbers presented in specific tables.

Order Nr 668 regulates the decision on budget in great, perhaps excessive detail. It even proposes specific text for the narrative part, with numbered paragraphs (but of course without the budget numbers). Further, it lists seven obligatory annexes and provides a detailed format of their tables. The obligatory annexes are as follows:

1. Budget revenuesy.
2. Sources of financing.
3. Budget expenditures.
4. Crediting of the budget.
5. Intergovernmental transfers from Kyiv budget.
6. Allocation of development budget to investment projects.
7. Local and regional programs.

These annexes are obligatory for budgets of all territorial gromadas and in decisions of local budget they always appear in the same sequence.

Actual decisions on budget may deviate in some parts from the specific text proposed in Order Nr 668, but should in general follow it. For example all three cities studied in the present book adopt decisions on local budgets with only minor changes of text of the narrative compared to the draft text proposed in Order Nr 668. Territorial gromadas may also adopt additional annexes, above the seven obligatory ones, listed above. Of the three cities studied in the present book, Kyiv adopts additional 7 annexes, Mariupol – additional 3 annexes, and Lviv – no additional annexes (except for budget year 2021, when annex 8 listed rural schools which after amalgamation with neighboring rural gromadas came under Lviv jurisdiction).

The decision on local budget should be adopted before the end of the previous year, typically in late December. City budget may be amended multiple times during the budget year. The following Table 4.15 illustrates these processes for three studied cities.

Table 4.15. Adoption and amendments of local budgets in three selected cities

	For budget year				
	2020		2021		2022
	Date of adoption	Number of amendments	Date of adoption	Number of amendments	Date of adoption
Kyiv	12.12.2019	3	24.12.2020	3	09.12.2021
Lviv	29.11.2019	10	29.11.2020	14	20.12.2021
Mariupol	24.12.2019	5	23.12.2020	5	22.12.2021

We can see in Table 4.15 that the frequency of amendments is locally determined and depends on local political culture. In both illustrated budget years 2020 and 2021, Lviv had incomparably more amendments than other two citiesx.

According to art. 6 of Law On Access to Public Information (Law Nr 2939-VI of 13.01.2011), information about budgets of budget users cannot be considered restricted information and therefore must be published. In practice decisions on local budgets, as well as their amendments, are sometimes but not always published on websites of territorial gromadas. This is in part because the legislation does not define comprehensible formats of budget information which should be made accessible. If TG wants to publish its budget on its webpage, it will typically publish the whole document with all the annexes, in Excel or pdf format. As of the writing of the present chapter, due to the state of war following Russian invasion of Ukraine, the obligation to publish local budgets and related public information is suspended.

From the point of view of identifying the allocation of local budget for education, the most important is Annex 3 with detailed budget expenditures. We discuss the format of this annex in the following section.

4.3.2. Budget expenditures in local budgets

The plan (or distribution) of budget expenditures (Росподіл видатків бюджету) is stated in Annex 3 of the decision on local budget. Annex 3 is the most detailed budget document which must be made public by Ukrainian local governments. Order Nr 668 of MF of 03.08.2018 defines the format of this annex, a large table with 16 columns. The headers of this table are reported in the following Table 4.16.

Table 4.16. Format of Annex 3 of decision on budget

Program code	Typical program code	Functional classification code	Name of budget user / program	General fund					Special fund						Total
				Total	Consumption expenditures	of which		Development costs	Total	Development budget	Consumption expenditures	of which		Development costs	
						Remuneration	Communal services and energy					Remuneration	Communal services and energy		
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16

The meaning of the column headers are as follows (for simplicity they have been abbreviated):

- Program code: 7 digit code of program classification of expenditures and crediting of local budget, discussed in section 4.2.1. The first three digits identify main budget user or responsible agent, whose name is entered in the fourth column for relevant budget subtotals.
- Typical program code: 4 digit code of typical program classification of expenditures and crediting of local budget, discussed in section 4.2.3.
- Functional classification code: 4 digit code of functional classification of expenditures and crediting of local budget, also discussed in section 4.2.3.
- Name of budget user/program: Name of main budget user or of responsible agent, name of the budget program in accordance with Typical program classification of expenditures and crediting of local budget. The name of the main budget user or of responsible organ appears when the last 4 digits of program classification are ‘0000’, in that case presented budget amounts are subtotals (for the main budget user or for the responsible agent). The name of the budget program appears in all other cases.
- General and special fund: budget categories discussed in section 4.2.2.
- Consumption expenditures: a category of recurrent costs discussed in section 4.2.4.

- Development costs: a category of investment expenditures, also discussed in section 4.2.4. Sum of consumption costs and development costs is equal to total costs (columns 6 and 9 add to column 5, columns 12 and 16 add to column 10).
- Remuneration: includes salaries paid, together with taxes and social contributions.
- Communal services and energy: includes services such as cleaning, heating, provision and collection of water, and various energy carriers such as gas, coal, electricity. Together with remuneration (column 7 or 13) they are just selected items of consumption costs and as a rule sum of columns 7 and 8 (or of columns 13 and 14) is much smaller than column 6 (or column 12).
- Development budget: a separate category of budget costs, also discussed in section 4.2.4. Development budget is always smaller than total special fund.

We illustrate these principles of presenting budget expenditures in local budgets using the example of Annex 3 of Kyiv. The following Table 4.17 presents budget codes of the few initial lines of the city budget.

Table 4.17. Budget codes of initial budget lines of in Annex 3 (Kyiv)

Program code	Typical program code	Functional classification code	Name of budget user / program
0100000			Kyiv City Council (secretariat)
0110000			Kyiv City Council (secretariat)
0110150	0150	0111	Organizational-analytical support of functioning of Kyiv City Council
0110180	0180	0133	Other activity of state governance
0111142	1142	0990	Other activity in education
0113242	3242	1090	Other activity in social protection
0114082	4082	0829	Other activity in culture and arts

The first row represents subtotal for the main budget user, identified in first two digits of program code 01 (see Table 4.2). The second row represents subtotal for the apparatus of that main budget user. Since it does not have responsible agent (see section 4.2.1), these two subtotals coincide.

The next two programs are programs for state governance (first digit 0, see Table 4.10), corresponding to different functions (as expressed in the codes of functional classification).

Закінчення табл. 4.17

The fifth line is of interest to education. The main budget user is still secretariat of Kyiv City Council. The first three digits of typical program code are 114, corresponding to other programs in education, not linked to a specific level of education (see Table 4.11). Thus this is not secondary education, so Table 4.12 which decodes the last digit of the program code does not apply. Instead, we can read in Order Nr 793 of MF of 20.09.2017 that 1142 represents “other programs and activities in education sectors”, similarly to the code of functional classification 0990 (Table 4.13). No more detailed information about the context and purpose of these expenditures can be learned from the budget classifications.

This example indicates that budget classifications have some limitations, and that budget documents do not allow to fully comprehend planned expenditures. In fact, the funds for budget program 1142 above are used for some city-wide programs within the education sector, such as awards to excellent teachers in Kyiv.

The second example, in Table 4.18 below, also drawn from Annex 3 for Kyiv, presents budget codes of one of main budget users responsible for secondary education, namely Golossivskiy rayon, whose two digit code is 40.

Table 4.18. Budget codes of budget lines of selected main budget user in Annex 3 (Kyiv)

Program code	Typical program code	Functional classification code	Name of budget user / program
4000000			Administration of Golossivsiy rayon
4010000			Administration of Golossivsiy rayon
4010160	0160	0111	Functioning of administration of Golossivsiy rayon
4011010	1010	0910	Provision of preschool education
4011021	1021	0921	General secondary education
4011022	1022	0922	Special secondary education for special needs students
4011031	1031	0921	General secondary education
4011032	1032	0922	Special secondary education for special needs students

Similarly to Table 4.17, and for the same reasons, the first two budget lines here are subtotals and they are equal to each other. The third line represents administrative costs of functioning of rayon administration. The next budget lines represent education, with first three digits of typical program code 101 for preschools, 102 for secondary education financed from own budget revenues, and 103 for secondary education financed from education subvention (Table 4.11). For secondary education, the last digit of the program classification indicates 1 for general secondary schools and 2 for special secondary schools for special needs students (Table 4.12). As in Table 4.17, the fourth column provides either the name of the main budget user (for subtotals), or the name of the program (for other budget lines).

The number budget lines (rows) in Annex 3 depends on the city (through the number of main budget users, see Table 4.1), and on the budget year, but always is significant. In budget year 2022, Annex 3 for the city of Kyiv had 652 rows, for the city of Lviv 298 rows, and for the city of Mariupol – 469 rows (all including subtotals).

In addition to the decision on local budget with its several annexes, regulated by Order Nr 668 of MF of 03.08.2018, there are also more detailed budgetary documents which need to be prepared by local authorities prior to formal adoption of the budget. Order Nr 57 of MF of 28.01.2002 (with later changes) includes as one of its annexes Instruction on Compiling and Execution of Plan of State Budget (розпис Державного бюджету). All TG are obliged to adopt an analogous instruction for their budgets, specifying plan of the local budget (розпис місцевого бюджету). There is a yearly and monthly plan of the local budget. A part of the plan is a detailed plan of revenues (by months). All expenditures in the plan are presented by program classification (including by main budget users), by complete functional classification and by complete economic classification. Moreover the Instruction requires that the plan of the local budget is balanced for the whole budget year and also separately for each month (subject to internal transfers and financing). The plan of the local budget is the most detailed budget document prepared by the TG, much more detailed than Annex 3 discussed here, but it is not formally adopted by the local council and is not public.

4.3.3. Education in local budgets

We have discussed in detail the meaning of budget codes used in the formulation of local budgets (especially of Annex 3 presenting planned expenditures). We can now use those codes to present the position of education in local budgets. For comparison purposes, we provide not actual budget amounts, but shares of allocation (in the tables below, columns add up to 100%).

Table 4.19 presents shares of budget expenditures on different sectors in Kyiv, Lviv, and Mariupol. First digit of the code of typical program classification is used (Table 4.10). The expenditures from general and special fund are taken together.

Table 4.19. Shares of expenditures in local budgets in three cities, by sector

Sector of expenditures	Kyiv	Lviv	Mariupol
State governance	4,2%	5,5%	4,8%
Education	41,2%	50,6%	24,8%
Health	9,2%	2,0%	2,9%

Social protection	8,2%	5,3%	3,2%
Culture and art	2,3%	1,9%	1,7%
Physical culture and sports	2,1%	1,8%	6,2%
Utilities and communal enterprises	6,4%	10,2%	18,5%
Economic activity	23,3%	16,2%	27,5%
Other	3,1%	2,2%	2,3%
Intergovernmental transfers	4,2%	4,4%	8,1%

We note Table 4.19 interesting and unexpected differences between the three cities. Lower share of education expenditure in Kyiv compared to Lviv may be explained by he fact that as a capital city, Kyiv has many more competencies and related budget obligations than Lviv. This also partly explains much higher share of economic activity in Kyiv budget. However, relatively small share of education in Mariupol budget is surprising, as is the fact that expenditures on economic activity in that city have the largest share of the city budget.

Higher share of health and social protection expenditures in Kyiv in comparison to other two cities is due to the fact that Kyiv performs some regional function.

We mentioned in section 4.2.3 that reverse dotation (contribution of local budget to equalization fund) is included in expenditures for intergovernmental transfers. It is dominant expenditure of this sector for Kyiv and for Lviv. Mariupol also pays a reverse dotation, but it is very small. The very large share of expenditures on intergovernmental transfers in Mariupol is due to another budget item, namely subvention from the local to national budget for execution of regional development programs. This subvention is part of the special fund.

Shares of planned expenditures on education broken by subsector are presented in Table 4.20. As in Table 4.19, shares of all expenditures are provided, covering both general and special fund. For this purpose, first three digits of codes of typical program classification are used (Table 4.11).

Table 4.20. Shares of expenditures on education in three cities, by subsector

Subsector of education	Kyiv	Lviv	Mariupol
Preschools	30,5%	14,6%	28,9%
Secondary education	50,2%	66,4%	55,3%

Extracurricular	3,0%	1,9%	3,0%
Artistic education	3,8%	2,2%	4,2%
Professional-technical education	4,1%	12,8%	
Pre-higher and higher education	5,8%		
Other expenditures on education	2,7%	2,1%	8,4%

Distribution of education expenditures on education subsectors in Kyiv and Mariupol is quite similar (except to the absence of higher education in latter city). The very low share of expenditures on preschools in Lviv is unexpected and requires further investigation. At the same time, Lviv has the highest share of expenditures on professional-technical education, due to the historically established network of these professional schools.

Other expenditures on education are especially high in Mariupol. This may be the result of outsourcing of many education functions to external suppliers.

Kyiv is unique among the three cities in that it is a founder of pre-higher education institutions (colleges) as well as of a university. Other two cities do not have expenditures for pre-higher and higher education.

Finally, we focus on expenditures on secondary education depending on source of funds, presented in the following Table 4.21.

Table 4.21. Shares of expenditures on secondary education in three cities, by source of funds

Source of funds	Kyiv	Lviv	Mariupol
Own revenues, general fund	50,4%	45,4%	27,5%
Own revenues, special fund	6,7%	0,6%	2,7%
Education subvention	42,9%	54,0%	69,8%

We note that the share of own revenues in expenditures on secondary education is highest in Kyiv at 57%, lower in Lviv at 46% and lowest in Mariupol at 30%. This reflects both the differentiated ability of local budget to contribute to education from own resources, as well as higher costs of providing education in the capital city (need to pay higher salaries to teachers).

As we have noted in the preceding section, budget classifications have serious limitations and do not allow to understand fully planned expenditures in any sector, including education. Nevertheless, the three tables presented above illustrate the fact that budget codes provide deep information and may be used to draw interesting and sometimes surprising conclusions from the budget documents.

4.4. Conclusions

The review of planned budget expenditures in the education sector in local budgets adopted by councils of territorial gromadas is a difficult task. It requires understanding of the main budget categories like general and special fund (section 4.2.2) and consumption and development expenditures (section 4.2.4). The published budgets use multiple budget classifications and corresponding budget codes (sections 4.2.1, 4.2.3, 4.2.4). It also necessary to understand the structure of education management in TG, that is who are the main budget users (and responsible agents, is applicable), and how they are coded in the budget documents. Serious preparation is needed in order to read Ukrainian budget documents.

In addition, terminology of budget classifications is sometimes quite general ("other programs and activities"), so that precise purpose of allocated public funds may be impossible to decipher.

Nevertheless, budget resolutions of territorial gromadas are the most important decisions taken by Ukrainian local governments and therefore should be the subject of public debate regarding the priorities of local governments and the budget constraints within which these priorities have to be expressed. Such a debate about short-term functioning and long-term development of communities is necessary for healthy local democratic process. It is hoped that the present review may help concerned cities better understand local budgets, especially in the very important sector of education.

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Chapter 5. BUDGETING OF EDUCATION IN KYIV

Jan Herczyński, Igor Ostrovskyi

5.1. Context of the city

5.1.1. The capital city

Kyiv is the capital city of Ukraine and its largest city. With a population of 3 million inhabitants, Kyiv is larger than several European countries. Kyiv is a territorial gromada, but alongside Sevastopol is at the same time a city with a *special status*. Its functioning is regulated by the Law On the Capital of Ukraine - City-Hero Kyiv of January 15, 1999 (with last change of January 1, 2011, «Про столицю України - місто-герой Київ»). As a city with special status, Kyiv administratively does not belong to any oblast. On many accounts it is treated on par with oblast, especially regarding the allocation of responsibilities and of revenues.

Regarding responsibilities in education, as all gromadas Kyiv is responsible for preschools and secondary schools. Together with only oblast administrations and oblast capitals, Kyiv is responsible for professional-technical education. Unlike any territorial gromada, but similarly to oblast administration, Kyiv is also responsible for colleges and higher education of levels I-II. Uniquely in Ukraine, Kyiv is also responsible for a university, namely Boris Grinchenko Kyiv University (Київський університет імені Бориса Грінченка).

The management and financing of Kyiv is regulated by special laws, of which the most important are the Law On the Capital of Ukraine and the Budget Code of Ukraine of July 8, 2010 (with last change of January 1, 2021, «Бюджетний кодекс України»). In particular, art. 64 of the Budget Code states that Kyiv receives share 40% of personal income tax PIT (ПДФО) collected on its territory. This is unlike all other local budgets, which receive 60% of PIT.

Kyiv is governed by the State Administration in Kyiv City (Київська міська державна адміністрація, KMDA), the Head of which is nominated by the President of Ukraine, and by the Mayor of Kyiv (київський міський голова) and the Kyiv City Council (Київська міська рада, KMR), which are locally elected. KMDA is the executive organ of the city, although it is not subordinated to KMR. Legally, the powers of the Head of KMDA are significantly stronger than those of elected Mayor, in particular the execution of the budget is the responsibility of Head of KMDA. All the staff of KMDA, including heads of sectoral departments, are nominated by Head

Map 5.1. Rayons of Kyiv

of KMDA. The fact that the Head of KMDA is appointed and the Mayor of Kyiv is elected, and the possibility that these might be different persons, caused repeated political tensions. In December 2003 the Constitutional Court of Ukraine made a judgement that only the elected Mayor of Kyiv may be appointed Head of KMDA (Constitutional Court 2003). Since 2014, Vitaliy Klichko is both Mayor of Kyiv and head of KMDA.

The city of Kyiv is divided administratively into 10 rayons (or city districts). Importantly, rayons do not have elected councils, they are administered by State Administrations in Rayons (Районна державна адміністрація, RDA), whose head is appointed by the President of Ukraine. However, the rayons have certain degree of budget autonomy.

The rayons are shown on the following Map 5.1.

The rayons are located on both sides of the river Dnipro, three on the left side and 7 on the right side. The three central rayons, Pecherskyi, Podilskyi, and Shevchenkivskyi, have relatively smaller population and perform more city-wide services. The peripheral rayons, called often sleeping rayons, have major residential complexes and their population is growing. Interestingly, the Sviatoshynskyi rayon, located on the Western part of Kyiv, includes inside its territory a separate territorial gromada, namely settlement of urban type Kocyubinske (Коцюбинськe), which belongs to the Kyivska oblast and is not part of the city. Map 5.1 shows this exceptional territorial gromada as a “hole” in Sviatoshynskyi rayon.

Table 5.1. Population of Kyiv city and its rayons

Rayon	Population	Share of city population
Holosiivskyi	253 094	8,6%
Darnytskyi	348 205	11,8%
Desnianskyi	366 168	12,4%
Dniprovskyi	356 831	12,1%
Obolonskyi	316 832	10,7%
Pecherskyi	165 026	5,6%
Podilskyi	210 100	7,1%
Sviatoshynskyi	341 048	11,5%
Solomianskyi	384 911	13,0%
Shevchenkivskyi	212 349	7,2%
Kyiv city	2 954 564	100,0%

The smallest rayon, Pecherskyi, has less than half population of Solomianskyi rayon.

The Law on the Capital City of Ukraine – Hero-City Kyiv regulates among others the division of competencies between the city government, namely KMDA, and the rayon authorities (RDA). In general, KMDA is responsible for city-wide issues, while more localized areas are managed by the rayons. This division may be described in the following general manner:

- KMDA is responsible for city-wide functions, including functions associated with status of capital city of Ukraine, important centralized services (hospitals, social protection, fire protection), and for major infrastructure (roads, bridges, technical networks).
- Rayons are responsible for services provided more locally (preschools, first contact clinics).

This general division of responsibilities is specified differently for different sectors. In education, rayons are fully responsible for preschools, while higher levels of education (professional-technical schools, colleges, universities) are entirely the responsibility of KMDA.

5.1.2. Secondary education in Kyiv

Regarding secondary education, it is important to note that the school network in Kyiv is very large, it includes over 400 secondary schools (excluding special and private schools, see Table 5.2). This makes it very difficult to manage and finance secondary education in a centralized manner. For this reason, responsibilities in secondary education are divided along the following lines: rayons are in general responsible for regular (mainstream), specialized and special schools, while KMDA is responsible for 2 unique schools, namely school for external education and Kyiv sport lyceum (with dormitory). These responsibilities include the budgeting function.

The following Table 5.2 provides the size and relative size of networks of secondary schools in Kyiv rayons.

Table 5.2. Rayonal networks of secondary schools

Rayon	Schools	Share of schools	Students	Share of students	Average class size
Holosiivskyi	35	8,7%	23 322	7,9%	27,7

Darnytskyi	40	9,9%	46 172	15,6%	30,7
Desnianskyi	52	12,9%	37 278	12,6%	27,4
Dniprovskyi	54	13,4%	36 652	12,4%	27,8
Obolonskyi	42	10,4%	30 246	10,2%	25,9
Pecherskyi	24	5,9%	14 513	4,9%	25,7
Podilskyi	32	7,9%	20 964	7,1%	27,2
Sviatoshynskyi	41	10,1%	35 098	11,9%	28,5
Solomianskyi	45	11,1%	27 710	9,4%	27,2
Shevchenkivskyi	39	9,7%	23 220	7,9%	25,2
Kyiv city	404	100%	295 175	100%	27,6

Data in Table 5.2 indicate significant migration of students between rayons. Thus, Solomianskyi rayon has 13% of city population but less than 10% of city secondary school students. On the other hand, Darnytskyi rayon has 12% of population and over 15% of students.

We note that the share of students of secondary schools in rayon populations is quite differentiated, see Table 5.3 below. This provides further indication that there are significant migrations of students, mainly from peripheral to central rayons.

Table 5.3. Share of students of secondary schools in rayon population

Rayon	Share of students of secondary schools in rayon population
Holosiivskyi	9,2%
Darnytskyi	13,3%
Desnianskyi	10,2%
Dniprovskyi	10,3%
Obolonskyi	9,5%
Pecherskyi	8,8%
Podilskyi	10,0%
Sviatoshynskyi	10,3%
Solomianskyi	7,2%
Shevchenkivskyi	10,9%
Kyiv city	10,0%

In addition, there is very significant migration into Kyiv from outside. This migration has many aspects. One is settlement of internally displaced persons from the territories not under the control of the national government. Another is people living and working in Kyiv, while still being registered in their cities or villages of origin. Finally, there is daily migration from communities located along the border of Kyiv, such as Borshchagivska, Irpinska, Buchanska, Brovarska or Boryspilska gromada. Indeed, there are many residential complexes located just outside of Kyiv, and their inhabitants come to work to Kyiv on a daily basis. Often, their children also attend city schools.

An important issue for the budgeting of education is determination of class sizes, that is division of students into classes. This is in general performed in grade 1, after that students learn in the same class till the end of secondary school in grade 11. After grade 9, some students may leave the secondary school to enroll in vocational schools or in colleges. This creates smaller classes in grades 10 and 11, reducing the efficiency of the Kyiv education system. Here we encounter an important problem of education policy. If classes are allowed to continue unmerged from grade 9 to grade 10, school efficiency declines. However, from the pedagogical point of view the disruption due to division and mergers of classes is a significant negative factor. This problem is addressed differently in different rayons, as the following Table 5.4 indicates.

Table 5.4. Class sizes by level of education and by city rayons

Rayon	Average class size in grades			Change of class size	
	1 – 4	5 – 9	10 – 11	Від 1 – 4 до 5 – 9	Від 5 – 9 до 10 – 11
Holosiivskyi	27,65	27,77	27,56	100,4%	99,2%
Darnytskyi	31,71	30,46	28,30	96,0%	92,9%
Desnianskyi	28,02	27,56	25,08	98,3%	91,0%
Dniprovskyi	28,78	27,42	25,90	95,3%	94,5%
Obolonskyi	26,49	26,31	23,09	99,3%	87,7%
Pecherskyi	26,23	26,17	23,14	99,8%	88,4%
Podilskyi	27,84	27,62	23,84	99,2%	86,3%
Sviatoshynskyi	29,45	28,62	24,62	97,2%	86,0%
Solomianskyi	28,26	27,52	24,27	97,4%	88,2%
Shevchenkivskyi	25,90	25,56	22,65	98,7%	88,6%
Kyiv city	28,37	27,72	24,88	97,7%	89,8%

Class sizes are unequal between rayons. They are highest in Darnytskyi, Desnianskyi, and Dniprovskyi rayons, which are the three rayons located on the left side of Dnipro (see Map 5.1). Class sizes are lowest in Shevchenkivskyi, Pecherskyi and Obolonskyi rayons; the first two are the central rayons. These differences of course directly impact the per student costs of education. In general, there is very little change in class sizes between initial education and basic education. Reduction of class sizes by 2% is due to natural school dropout and to migration. However, there is reduction of 10% from basic education to upper secondary education. This decrease is very differentiated between the rayons, it varies from 1% in Holosiivskyi rayon to 14% in Podilskyi and Sviatoshynskyi rayons. This may indicate that Holosiivskyi rayon is conducting a strong policy of merging smaller classes in grade 10, unlike some other rayons in the city.

Budget of secondary education is a lower share of overall budget expenditures in Kyiv than in many cities, and much lower than in rural territorial gromadas, because Kyiv has many unique expensive social and infrastructural responsibilities, related to its status of capital city. The following Table 5.5 provides evolution of the city budget, city education budget, and budget of secondary education in recent years. Data in Table 5.5 are consolidated values, encompassing both city budget (KMDA) and rayon budgets.

Table 5.5. Budgets and education budgets of Kyiv in three recent years (million Hr)

Kyiv	2019	2020	2021	2022
Overall budget of Kyiv	62 238,5	62 661,1	75 032,0	65 748,6
Education budget of Kyiv	17 445,4	20 951,5	25 543,9	27 090,5
Budget of secondary education in Kyiv	8 156,1	9 899,9	12 127,0	12 837,4
Share of education in city budget (%)	28,0%	33,4%	34,0%	41,2%
Share of secondary education in city budget (%)	13,1%	15,8%	16,2%	19,5%

Data for budget year 2022 represent budget plans, while historical data are executed budgets, so are more reliable. We notice steady increase of the share of education in the city budget, from 28% in 2019 to 34% in 2021, and similarly an increase of the share of secondary education, from 13% in 2019 to 16% in 2021. This certainly represents very serious burden on city budget.

It is also useful to review separately the budget of the city itself (KMDA) and the rayon budgets.

Table 5.6. Budgets and education budgets of Kyiv and rayons in 2022 (million Hr)

Kyiv	KMDA	Rayons	Consolidated
Overall budget	37 003 062,7	28 745 490,5	65 748 553,2
Distribution of overall budget (%)	56,3%	43,7%	100,0%
Education budget	3 631 440,4	23 459 010,8	27 090 451,2
Distribution of education budget (%)	13,4%	86,6%	100,0%
Budget of secondary education (%)	222 641,4	12 614 770,4	12 837 411,8
Distribution of secondary education budget	1,7%	98,3%	100,0%
Share of education in the budget (%)	9,8%	81,6%	41,2%
Share of secondary education in the budget (%)	0,6%	43,9%	19,5%

We note that while rayons account for 44% of overall city budget, they are responsible for 87% of education budget and for over 98% of budget of secondary education. Thus, secondary education has been nearly completely entrusted to the rayons. Most of KMDA expenditures on secondary education is financing specialized schools, 54% by DO KMDA and 42% by Department of Culture.

Education forms just 10% of the overall budget in the city (KMDA), with secondary education negligible. For the rayons, education forms 82% of their budgets, and secondary education 44%. Thus education is the primary budgetary responsibility of the rayons. The other major education expenditure of rayons, beyond secondary education, is of course preschool education.

Another useful way of analyzing budget of secondary education is by the source of financing. Two sources may be identified, own revenues of the city and received education subvention. The values and distribution in 2022 are reported in the following Table 5.7.

Table 5.7. Sources of financing of secondary education in 2022 (million Hr)

		Own revenues	Subvention	Total
Amounts	KMDA	194 924,9	27 716,5	222 641,4
	Rayons	7 116 822,1	5 497 948,3	12 614 770,4
	Consolidated	7 311 747,0	5 525 664,8	12 837 411,8

Distribution (%)	KMDA	87,6%	12,4%	100,0%
	Rayons	56,4%	43,6%	100,0%
	Consolidated	57,0%	43,0%	100,0%

We note that full 57% of all expenditures on secondary education in Kyiv comes from own revenues of the city, and only 43% from the received education subvention. This means that for every Hryvna received for this purpose from the national government the city of Kyiv adds 1,33 Hryvna from own revenues. These very large additional funds are spent in part on higher teacher salaries (to ensure that teachers do not seek other employment), and mainly on salaries of technical and clerical staff and on school maintenance (recall that education subvention may be spent only on salaries of pedagogical staff). The share of own revenues in expenditures on secondary education is especially large for specialized schools managed directly by KMDA.

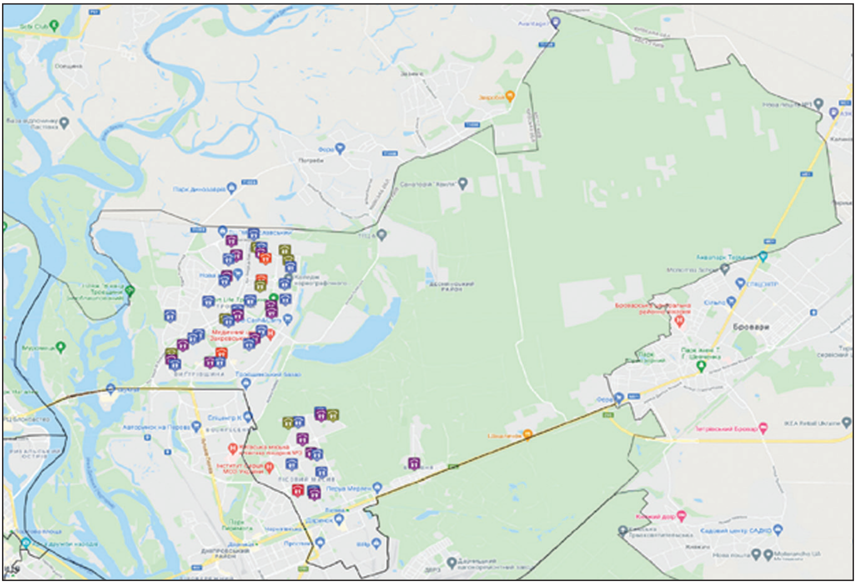
5.1.3. Three selected rayons

Due to the size of the city, review of the budget process in all rayons was not possible. In cooperation with the Department of Education and Science three rayons were chosen, with the following characteristics:

- Desnianskyi rayon: North-Eastern peripheral rayon of Kyiv, located on the left bank of the Dnipro river, second largest in the city after Solomianskyi. Includes one of the largest residential complexes in Kyiv, Troeshchina (300 thousand population). The name of the rayon comes from river Desna flowing through its territory. The only rayon in Kyiv in which secondary schools since mid-nineties have enjoyed budget autonomy.
- Dniprovskyi rayon: Eastern peripheral rayon of Kyiv, located just to the South of Desnianskyi rayon, and bordering river, from which it takes its name. Is one of most industrialized parts of the city, but includes also many islands on Dnipro river with bathing and tourist facilities.
- Podilskyi rayon: a central rayon of Kyiv, second smallest after Pecherskyi. The rayon includes the historical center Podil (Lower city) and new residential areas, including Vynohradar, linked by a narrow corridor (see Map 5.1). Home to many institutions of culture, such as theaters, museums, and libraries. In particular, the oldest Ukrainian university, Kyiv-Mohyla Academy, is located there.

The map of Desnianskyi rayon with its secondary schools is presented in Map 5.2 below.

Map 5.2. Map of Desnianskyi rayon



As Map 5.2 indicates, all schools and living population of Desnianskyi rayon are concentrated in the Western parts of the rayon, while most of the rayon territory are woodlands extending beyond the city of Brovary.

The following Table 5.8 present more detailed information about the network of secondary schools in Desnianskyi rayon.

Table 5.8. Network of secondary schools in Desnianskyi rayon (2021)

School size	Share of schools	Share of students	Average class size
Up to 400	21,6%	7,5%	26,2
From 400 to 600	17,6%	12,7%	26,2
From 600 to 800	17,6%	17,8%	26,5
From 800 to 1000	21,6%	26,9%	26,1
From 1000 to 1200	11,8%	17,6%	29,0
Above 1200	9,8%	17,6%	29,4

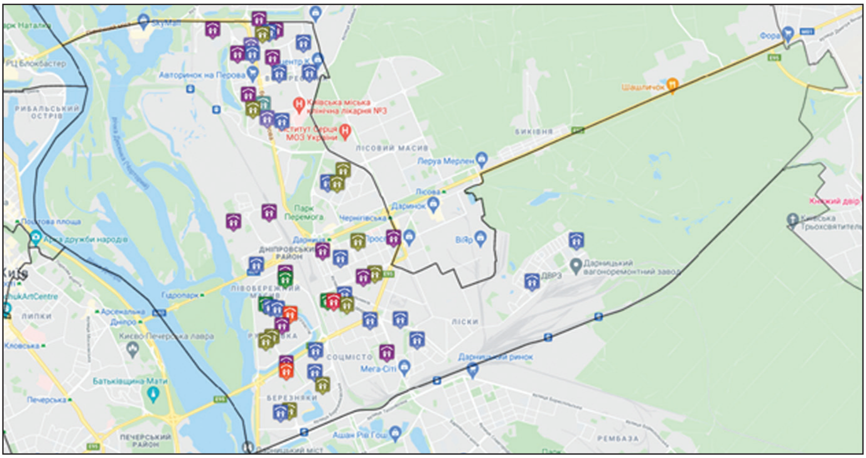
The following Table 5.9 shows education budgets of education in Desnianskyi rayon within overall rayon budget in three recent budget years.

Table 5.9. Budgets and education budgets of Desnianskyi rayon in three recent years (million Hr)

Budget item	2019	2020	2021	2022
Overall budget of Desnianskyi rayon	2 403,3	2 930,9	3 514,2	3 449,0
Education budget of Desnianskyi rayon	1 883,0	2 353,0	2 845,4	2 784,4
Budget of secondary education in Desnianskyi rayon	990,4	1 253,0	1 507,2	1 546,2
Share of education in rayon budget (%)	78,3%	80,3%	81,0%	80,7%
Share of secondary education in rayon budget (%)	41,2%	42,7%	42,9%	44,8%

Like Desnianskyi rayon, Dniprovskyi rayon is located on the left bank of Dnipro, neighboring Desnianskyi rayon from the South. Map 5.3 below presents Dniprovskyi rayon.

Map 5.3. Map of Dniprovskyi rayon



Map 5.3 indicates that schools and living areas are located in the middle of the rayon territory. To the East, we notice river islands including the beach areas of Hydropark (with its own metro station). To the east, similarly to Desnianskyi rayon, we notice extensive forests.

Table 5.10. Network of secondary schools in Dniprovskyi rayon (2021)

School size	Share of schools	Share of students	Average class size
Up to 400	21,6%	6,2%	26,4
From 400 to 600	21,6%	16,2%	24,9
From 600 to 800	25,5%	26,6%	28,0
From 800 to 1000	13,7%	18,6%	25,5
From 1000 to 1200	7,8%	12,9%	25,7
Above 1200	9,8%	19,5%	29,9

Table 5.11. Budgets and education budgets of Dniprovskyi rayon in three recent years (million Hr)

Budget item	2019	2020	2021	2022
Overall budget of Dniprovskyi rayon	2 073,1	2 576,5	2 965,2	3 534,2
Education budget of Dniprovskyi rayon	1 625,5	1 970,6	2 410,8	2 906,9
Budget of secondary education in Dniprovskyi rayon	857,8	1 009,5	1 296,1	1 584,0
Share of education in rayon budget (%)	78,4%	76,5%	81,3%	82,3%
Share of secondary education in rayon budget (%)	41,4%	39,2%	43,7%	44,8%

The last of three selected rayons, Podilskyi rayon, is located centrally in Kyiv, on the right bank of Dnipro. It includes one of historical parts of the city, Podil, as well as new residential districts. The following Map 5.4 presents Podilskyi rayon with its secondary schools.

The curious shape of Podilskyi rayon is clearly visible in Map 5.4. Both parts of the rayon territory, joined by the corridor, have living areas and many schools.

Table 5.12. Network of secondary schools in Podilskyi rayon (2021)

School size	Share of schools	Share of students	Average class size
Up to 400	34,4%	12,6%	24,7
From 400 to 600	12,5%	9,7%	25,4
From 600 to 800	18,8%	19,2%	26,0
From 800 to 1000	9,4%	13,2%	28,8
From 1000 to 1200	18,8%	31,2%	28,5
Above 1200	6,3%	14,1%	30,7

Map 5.4. Map of Podilskyi rayon

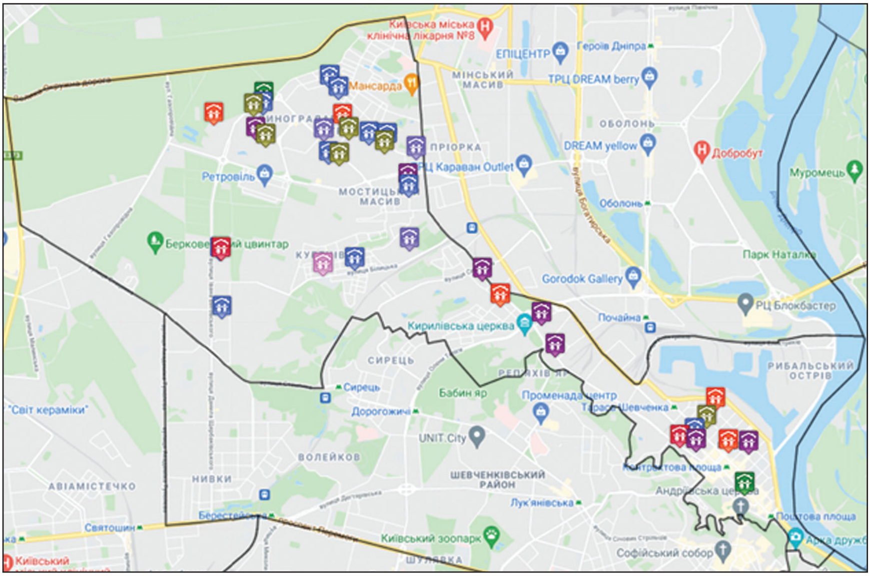
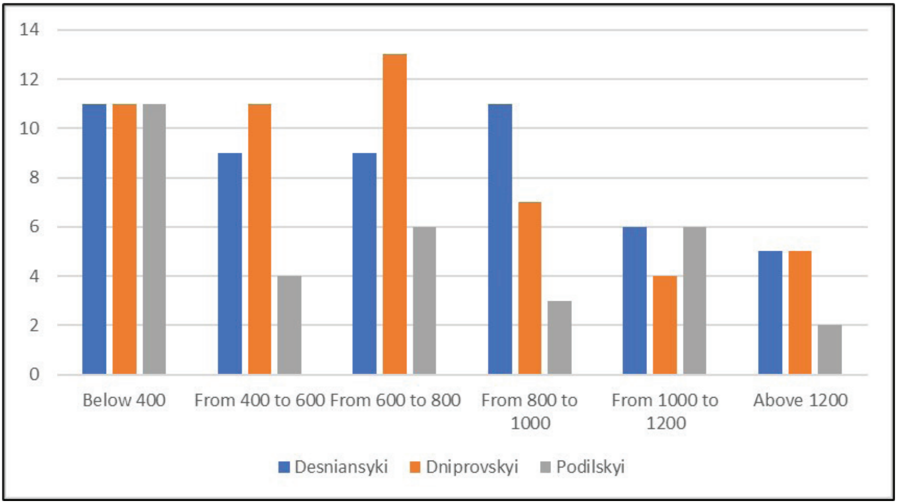


Table 5.13. Budgets and education budgets of Podilskyi rayon in three recent years (million Hr)

Budget item	2019	2020	2021	2022
Overall budget of Podilskyi rayon	2 227,8	2 631,0	3 182,6	2 188,2
Education budget of Podilskyi rayon	1 839,5	2 204,0	2 742,6	1 746,2
Budget of secondary education in Podilskyi rayon	1 018,7	1 181,8	1 404,8	902,9
Share of education in rayon budget (%)	82,6%	83,8%	86,2%	79,8%
Share of secondary education in rayon budget (%)	45,7%	44,9%	44,1%	41,3%

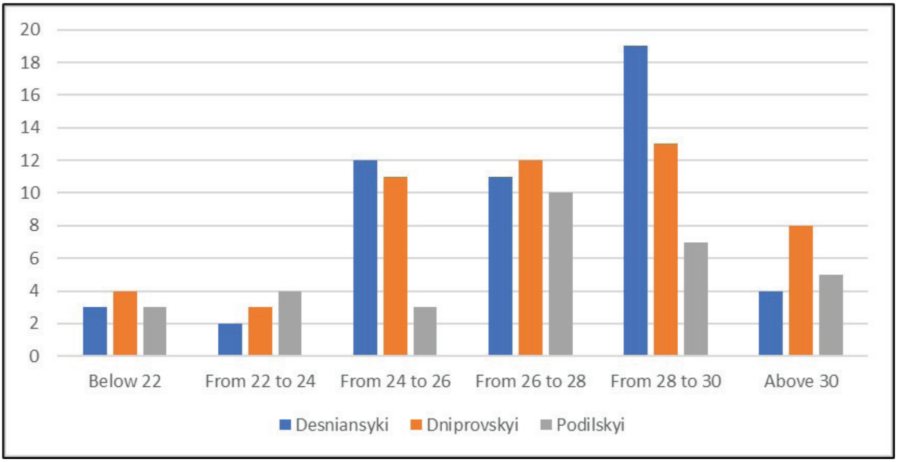
For comparative purposes, the following Graph 5.1 shows histograms of secondary schools by class size in three selected rayon (data from September 2021).

Graph. 5.1. Histograms of schools by school size in three selected rayons (2021)



Similarly, the following Graph 5.2 shows histograms of secondary schools by class size in three selected rayon (data from September 2021).

Graph. 5.2. Histograms of schools by class size in three selected rayons (2021)



5.2. Budget process in education

The city budget of Kyiv for 2021 was adopted as Decision № 24/24 of the Kyiv City Council of December 24, 2020 "On the Budget of the City of Kyiv" (Про бюджет міста Києва на 2021 рік) and includes the narrative part as well as 14 annexes, as follows::

1. Budget revenues.
2. Sources of financing.
3. Budget expenditures.
4. Crediting of the budget.
5. Intergovernmental transfers from Kyiv budget.
6. Allocation of development budget to investment projects.
7. Local and regional programs.
8. Limits of employment for KMDA organizational units.
9. List of administrative units responsible for monitoring of collection of city revenues.
10. Procedure for the creation and use of trust fund.
11. Minimum rent for communal land.
12. Formula for school maintenance.
13. Parameters of citizen budget.
14. Rate of payment to city budget of profit of communal companies.

The text of Decision № 24/24 of the Kyiv City Council is essentially the same as the text proposed in Order Nr 668 of the Ministry of Finance (with only minor deviations). Regarding the annexes, the first 7 are exactly as proposed in Order Nr 668 (and in the same sequence, see chapter 4), while annexes from 8 to 14 are elaborated by the Kyiv City Council. During 2021 Kyiv budget was amended 3 times, on April 22, October 7, and December 7.

For our analysis, the relevant document is Annex 3 (detailed allocation of budget funds to main budget users, broken by program classification, see Chapter 4). We also discuss in some detail Annex 12 (see section 5.3.2 and Annex B).

As discussed in Chapter 4, the plan of budget expenditures is defined for main budget users, identified by the first two digits of the code of program classification. There are 39 main budget users in Kyiv. The following Table 5.14 lists the types of budget users in Kyiv.

Table 5.14. Main budget users in Kyiv

Type of budget user	Number of budget users	Two digit code
City council (KMC)	1	01
State Administration (KMDA)	1	02
Department (Департамент)	23	06 to 38
Office (Управління)	3	
Service (Служба)	1	
Rayon (районна в місті Києві державна адміністрація	10	40 to 49
Total	39	

Of course, not all main budget users have any competencies in education, as expressed though budget allocation. Only 10 rayons and 3 departments do, as the following Table 5.15 indicates (see also discussion in section 5.1.2). In addition, some very small funds are allocated in the education sector to the KMR (for other education activities).

Table 5.15. Main budget users with competencies in education

Main budget user	Competencies in the education sector
DO KMDA	Specialized secondary education, extra-curricular education, professional-technical education, professional pre-higher education, higher education, certification training other education institutions and activities
Department of Culture	Secondary arts education, professional pre-higher education, higher education
Department of Health	Pre-higher education, certification training
10 rayons	Preschools, secondary education, extra-curricular education

The budget preparation and adoption process for secondary education involves three main actors:

- Schools, represented by their directors;
- Rayons, represented by Rayon Education Offices (Районне управління освіти, RUO);
- City, represented by the Mayor of Kyiv and subordinated institutions.

In addition, important role is played by budget information provided to the cities by the national authorities, mainly by the Ministry of Finance.

5.2.1. Steps of the budget process in Kyiv

The following four phases of the budget process may be identified (to some extent these phases overlap, as will be clear from the discussion of the dates, see below):

1. Determination of budget limits for the city (стелі видатків).
2. Preparation of initial rayon budget proposals (Бюджетний запит).
3. Preparation of draft city budget (проект бюджету).
4. Adoption of city budget (прийняття рішення про бюджет).

These phases are discussed separately below.

All main budget users have their budget limits established by the Department of Finance (KMDA) and negotiated during the budget process. The determination of the budget limits is conducted through the activities listed in the following Table 5.16.

Table 5.16. Activities to determine budget limits of main budget users

	Agent	Date	Activity
1	Ministry of Finance	July	Letter regarding formation of local budgets with prognosis of macroeconomic indicators for the next budget year
2	DF KMDA	July 20	On the basis of macroeconomic indicators, revenues and taxes in Kyiv are prognosed, draft budget limits are prepared
3	DF KMDA	July	Letter to main budget users with their budget limits
4	Ministry of Finance	Following adoption of state budget	Letter regarding formation of local budgets with the macroeconomic indicators for the next budget year in the state budget
5	Budget users, DF KMDA		Discussions regarding the budget limits for individual main budget users (sectors)
6	Budget users		Preparation of budget proposals within the updated budget limits

The responsibility for preparing budget proposals (Бюджетний запит) rests with main budget users. The preparation of initial budget proposals of rayons is conducted in dialogue with the schools. In fact, the first activity is the prognosis of the number of students and staff for the next school year. This suggests that the education budget is created bottom-up, from the needs of educational institutions. These needs are then used in the budget negotiations.

Table 5.17. Activities to prepare initial budget proposal of rayons

	Agent	Date	Activity
1	School director	April	Prognosis for draft budget includes: number of students, classes, staff and their salaries, teaching load, division of classes into groups, purchases of furniture, office and other materials, paid services, repairs
2	School director	May - June	Submits draft budget proposals to RUO
3	RUO	May - June	Verifies the data, discusses with school directors priorities for school development
4	RUO	June	Discusses budget proposals from the school and puts them together to create rayon budget proposal
5	RUO, DO KMDA	July	Discuss and agree on planned expenditures on city-wide education programs in rayon budget proposals
6	RUO	July-August	Prepares draft budget proposal in line with budget limits with supporting calculations and submits it to RDA
7	RDA	August 12	Submits draft budget proposal for all rayon expenditures to Department of Finance, KMDA

Initial budget proposals of rayons are prepared in dialogue between the schools and RDA represented by RUO. This is the key moment in the budget process when individual needs of schools are expressed, assessed, and either taken into account when rayon budget proposals are formed, or delayed until future budget years.

In the first step, school directors prepare prognosis of student numbers and on this basis perform so called complectation, which is the division of students into classes and allocation of teaching tasks to all teachers. Complectation serves as the basis for the second step, namely tarrification, that is the calculation of all salaries of pedagogical staff for the coming school year, based on the tasks they are assigned (teachers are paid on the basis of actually worked hours per week). This is performed by school directors in Desnianskyi rayon, and by RUO in other rayons. Tarrification is the main input into draft budget proposals of schools submitted by RUO to KMDA, because salaries are the dominant part of school financial plans (koshtoris).

The preliminary budget proposal from rayons as main budget users is submitted in three forms, as regulated by Order Nr 648 of the Ministry of Finance of 17.07.2015 (Наказ Міністерства фінансів України № 648 від 17.07.2015 Про затвердження типових форм бюджетних запитів для формування місцевих бюджетів). The first form 20__-1 (where '20__' is the number of the year) lists policy goals and indicators how these goals are reached. The second form 20__-2 proposes expenditures within the budget limits. The third form 20__-3 is used to request additional expenditures (above the budget limits) based on the assessed needs of all sectors and public institutions within the rayon. KMDA allows main budget users to submit the additional budget requests exceeding the established budget limits by up to 5%.

Preparation of draft city budget is primarily the responsibility of the Department of Finance of KMDA. These activities are listed in the following Table 5.18.

Table 5.18. Activities to prepare draft budget

	Agent	Date	Activity
1	DO KMDA	June-September	Consolidation and review of prognosis of city budget (including setting medium-term indicators of city budget)
2	DF KMDA	September-October	Review of initial budget proposals of rayons (including relevance of the goals to the directions of development and to tasks in targeted programs, compliance with budget limits), and review the additional budget needs (budget form 20__-3)
3	DF KMDA	September-October	Drafting city budget (calculation of revenues, expenditures and credits, preparation of decision of KMR on city budget)
4	DF KMDA	September-October	Discussions with main budget users (RDA, RUO), with participation of DO KMDA, with RDA responsible to justify the proposed budget amounts and additional budget needs
5	Commissions of KMR	September-October	Education Commission and Budget Commission invite heads of RDA and of DO KMDA as representatives of main budget users to present to deputies the draft budget of education
6	KMR deputies	September-October	Formulation of additional requests for the education budget, such as renovation or reconstruction of individual school facilities, level of municipal add-on to teacher salaries,

7	DF KMDA	September-October	Reviews requests of RDA and of deputies, allocates additional funds if available (adjusting budget limits), reallocates funds between main budget users

It is important to note that preparation of a draft budget is conducted exclusively between city institutions: DF KMDA, DO KMDA, RDA, KMR. The discussions take into account expressed needs of the rayons (form 20__-3 with additional budget needs), budget constraints (the limitations of budget revenues), and political preferences of city administration and of council deputies. School directors and social partners are not included. Their generalized interests are represented mainly by Department of Education and Science.

After draft city budget has been adopted, the last set of activities must be undertaken in order to adopt the budget. These activities are listed in Table 5.19.

Table 5.19. Activities to adopt city budget

	Agent	Date	Activity
1	Main budget users	October	Based on initiatives of deputies of KMR and on possibly adjusted budget limits prepare final budget proposal, in line with budget limits (the form 20__-3 is not accepted)
2	DF KMDA	October	Prepares the final draft budget for review and adoption by RDA, based on submissions of main budget users
3	DF KMDA	October-November	Presents draft budget during the session of KMR for adoption by the deputies
4	KMR	December	Permanent commissions of KMR review draft budget (Розгляд проекту постійними комісіями місцевої Ради), may introduce last minute changes
5	KMR	December	KMR adopts city budget

The final discussions are conducted between the Department of Finance of KMDA and the deputies of KMR. At this stage, most elements of the city budget are firmly established and are not questioned, however discussions may adjust development budget (priorities of investment projects).

5.2.2. The budget process seen by RUO

As discussed in section 1, Kyiv is a city in which ten city rayons have some autonomy regarding management and financing of secondary schools. Indeed, as Table 5.6 shows, education is the dominant function of the city rayons, comprising over 80% of their budgets (of which about half are for preschools, and the rest for secondary education). A survey of budgeting practices conducted among the three rayons has revealed quite uniform approach, with few differences between rayons. This survey is the basis for information provided in the present section.

When conducting preliminary prognosis of student numbers (Table 5.17, item 1) in grade 1, schools use data from registry of children or applications from parents. Different rayons perform the prognosis using different procedures. For prognosis of grade 10, students in grade 9 are asked about their future plans. In September, the prognosis for both grade 1 and grade 10 is compared with actual enrollment, but the deviations are very small.

Prognosis includes determination of future number of classes, especially in grade 1 (with newly enrolled students) and in grade 10 (after some students leave for other types of education). The prognosis is verified by RUO and in case of significant decrease of class sizes RUO may ask school directors to correct the plans. This seems to be an area of internal tensions within city administration. On the one hand, Department of Education tries to ensure that average class size is close to the normative class size as determined in the national allocation formula (which is 27,5). On the other hand, RUO do not want to intervene heavily in school-level decisions and prefer to limit their actions to monitoring the implementation by schools of national standards. As Table 5.4 indicates, in most cases the classes in grade 10 are not merged at all.

Similarly, RUO does not intervene to demand reduction of technical positions in schools. These numbers are also regulated by national standards.

Draft budget proposals submitted by schools to RUO (Table 5.17, item 2) are prepared using a format approved by RUO, to facilitate further review and approval. Some RUO use Word format for this purpose, some use Excel format. Use of a standard format allows RUO to compare budget proposals with the proposals of previous years, as well as with the proposals of other secondary schools in the city rayon. It is generally assumed that such comparative review allows more effective use of public funds.

One important difference between Desnianskyi rayon and the other two rayons is that tarrification in Desnianskyi reyon is conducted by directors of secondary schools, while in other rayons it is prepared by RUO. This seems to be one of the main elements of budgetary autonomy of schools in Desnianskyi rayon.

The discussion of the complete draft budget between RUO and the Department of Finance of KMDA (Table 5.18, item 4) are conducted with participation of the Department of Education of KMDA. In these discussions, the Department is an advocate of RUO and supports them to resolve budget issues. Sometimes the arguments prepared by RUO and supported by the Department of Education have an effect and lead to the increase of previously established budget limits.

The active participation of deputies of KMR in the budget process is most often limited to capital budget, that is to investment projects. They lobby for funding for specific projects located in the territory from which they are elected. However, there are situations when they intervene also in recurrent budget. For example, during budget year 2021 allocation to Dniprovskyi rayon for maintenance (based on per student formula, see section 5.3.2), specifically for food, energy and some other expenditures, was increased by KMR.

In executing their important role in the budget process in education, RUO face difficulties. The main ones are related to the sheer volume of data they need to collect from schools, put into a usable form, and analyze. The deadlines for these tasks, mandated each year by KMDA, are very short and they change from year to year. The very short time available for this makes it also impossible to conduct a serious comparative review of budget needs of individual schools, and to discuss with each school director the specific situation of her/his school. As a result, although RUO know well their school network – indeed, Dniprovskyi rayon has the largest network of 54 secondary schools (Table 5.2) – they find it challenging to use this knowledge to identify and accommodate justified budget requests of all schools.

At the same time, RUO do not encounter problems in their cooperation with school directors. Indeed, RUO have not identified “difficult” directors, who through their insistent demands or strong articulation of school needs create issues for RUO and delay taking decisions. On the contrary, rayons are able to find compromise solutions with all school directors. Given the complex budget process with many administrative steps described above (see table 5.16, 5.17, 5.18, and 5.19), this allows RUO to perform their responsibilities on time. However, this may also indicate a systemic weakness of the position of school directors, who may be afraid to openly disagree with the rayon administration.

Finally, RUO have a long experience of implementing the complex Ukrainian budget regulations in their school networks, and are accustomed to this system. They do not identify any specific problems or inconsistencies of the legal framework. The only regulatory issue which they complain about is the allocation formula for school maintenance (section 5.3.2). This may be due to the fact that this is a very recent budgetary innovation, and the rayon administrations need more time to learn how to apply it.

5.3. Innovative budgeting procedures

The Department of Education and Science of Kyiv administration has been introducing many innovative approaches and procedures in the education sphere. These innovations typically appear as pilot project or as limited experiments, and are fine-tuned and perfected in a step-by-step manner, based on accumulated experience. Over time, if they prove to be well-designed and successful, they may be included into the regular activities of the department.

A very good non-budgetary example of this approach to managing secondary education at the city level are public hearings introduced for the selection of school directors. With many elements of the selection process conducted in public, it has become very transparent. Another important example, directly linked to the budget process, is the per-child allocation formula for schools. By introducing a formulaic setting of budgets of all preschools in the city, DO KMDA has ensured an objective, comparable financing of preschool education. This also reduced the budgetary power of RUO over their preschools.

As discussed in section 2, the budgeting process for secondary education is very heavily regulated by legal norms, which makes it much more difficult to introduce new approaches designed by the city. Nevertheless, Kyiv administration has been making efforts to make this process more transparent and more predictable. In the present section we discuss two innovative budgeting procedures introduced in Kyiv:

1. “Education map”, a web portal designed and maintained by the city with information and data about the system of secondary education (“Education ma” also includes preschools).

2. Formula for allocation of funds for maintenance of secondary schools.

The listed procedures are reviewed in two subsections below. These innovative budgeting procedures in Kyiv are relatively new and are still being developed and adjusted to the real needs of secondary education and of the city administration. For this reason, each subsection ends with statement of strong points of the budgeting procedure and with the list of issues deserving discussion and – if the city agrees – adjustment.

5.3.1. Education map of Kyiv

Education map of Kyiv (EMK, Освітня карта Києва) is an information and analytical web portal of Kyiv education, https://osvita-map.monitoring.in.ua/ , created and maintained by Education Agency of the City of Kyiv («Освітня Агенція Міста Києва»), a communal enterprise subordinated to KMDA. Data entry was piloted in 2020, and since 2021 EMK is functioning in experimental mode.

EMK includes data on different types of education institutions:

- Preschools.
- Secondary schools.
- Professional-technical schools.
- Extra-curricular education institutions.
- Education organizations (RUO, inclusive-resource centers).

EMK includes the public part and the non-public part. The public part is accessible to all interested persons and partners, while non-public part is used for internal management purposes. For the budget process, it is this non-public part which is most relevant (see below).

For secondary schools, the public part includes several categories of information (geographical information on school location, contact data, enrollment, facility data, budget data, student results in national and city-wide tests). Availability of such wide-ranging information about individual schools indicates that EMK is an important tool of transparency of education process in Kyiv.

The main functionality of the non-public part is *Map of Investment Needs of Schools*. This functionality is used by school directors, RUO, and DO KMDA only. However, this is a new functionality, not fully used and understood by all stakeholders.

The functionality consists of entering and assessing needs for specific investment projects in individual secondary schools. This may include total reconstruction, deficiencies of facilities (roofs, facades and similar), kitchen and canteen, subject laboratories, or sport facilities. The needs are entered and described by the school director. An algorithm, based in part on the number of students, on the assessed costs, and on severity of the problem, calculates rating for each entered investment project. The rating is performed together for all schools (thus highest rating schools may be concentrated in a few city rayons). According to some RUO, data entered by schools may contain errors and therefore may lead to incorrect rating of investment projects.

The rating of investment projects is used to determine investment priorities in each budget year. The highest rated projects are selected for implementation in a given year (within overall investment allocation for this purpose in city budget). The funds for these projects are assigned to RUO above the recurrent budgeting limits discussed in section 5.2.

The purpose of this innovative budget procedure is to remove investment projects from the political influences of interested city councilors and of interested rayon administrations, and to base investment decisions on sound objective data. For this reason, Kyiv decided to adopt rating independent of the rayons, so that actual needs of all students across the city are equally addressed (the allocation of investment funds to rayons and letting rayon administrations decide on their investment priorities may benefit students in rayons with secondary schools in relatively good conditions and may punish the schools in rayons where facilities in critical conditions are concentrated).

Rayon administrations cannot influence the data entered in EMK, nor the rating mechanism, however some of them perform verification of data entered into the system by school directors. Nevertheless, it is not possible to entirely remove the political process from investment decisions, and the key interest of councilors in the final stages of the budgeting process (see Table 5.19) is focused exactly on investments.

The following are strong points of the Education Map of Kyiv (as regards the budgeting process):

- Removes setting investment priorities in secondary education from political bargaining and preferences of individual councilors.
- Gives school directors an instrument to identify and formulate main issues and investment needs of their secondary schools.
- Includes place for objective assessment of investment needs of all secondary schools in Kyiv, used by RUO and DO KMDA.

The following are issues for further discussion:

- The process of verification of investment needs formulated in EMK may be insufficient.
- The rating algorithm may require review and adjustment.
- The role of RUO in the process may be strengthened.
- The transparency of selection of investment projects may be improved by allowing some limited public access to the relevant functionality of EMK.

5.3.2. Formula for school maintenance

In 2020, together with the budget decision for 2021, Kyiv has adopted a per student formula to determine maintenance part of school financial plan (Кошторис, budget). To put this into context, we may divide whole financial plan of school into four parts:

1. Salaries with relevant taxes and social contributions, so called "protected part" of the budget, this part of the budget is based upon school employment.
2. Energy (such as electricity, gas, heating) and communal services (such as water supply and sewage), depend on the consumption in school and on tariffs.
3. Other recurrent maintenance costs, mainly materials and small equipment needed to conduct lessons and to operate school facilities.
4. Investment, or capital costs, are allocated through a separate budget procedure from recurrent costs (see section 5.3.1).

The formula adopted in Kyiv covers the third item above, and includes two codes in economic classification of budget expenditures KEKB (Коди економічної класифікації видатків бюджету), namely:

- KEKB 2210, Objects, materials, equipment and inventory (Предмети, матеріали, обладнання та інвентар).
- KEKB 2240, Payment for services except for communal services (Оплата послуг (крім комунальних)).

It should be stressed that recurrent maintenance, excluding energy and communal services, is the part of school budget which is particularly difficult to predict objectively and accurately, in part because purchases of materials and minor equipment may significantly change from year to year.

The formula appeared as Annex 12 to KMR decision regarding city budget for 2021 (see introduction to section 2), and was repeated unchanged a year later, also as Annex 12. The formula takes into account students, classes, and building surface area. A brief description of the formula is provided in Annex B, together with some analysis and an example.

In principle, the formula should facilitate the budget process, because it provides for automated assessment of an important part of school financial plan. It includes many budget lines, which most often are assigned small amount of funding each.

The use of the formula in the budgeting practice is as follows: when Department of Finance established budget limits for secondary education for rayons and other main budget users responsible for secondary school (two departments of KMDA), it assesses potential expenditures in budget lines included in KEKB 2910 and KEKB 2040 not on the basis of historical expenditures, but on the basis of that formula (see Table 5.16). This simplifies determination of budget limits, although for its application requires collection of statistical information about schools. In later stages of the budgeting process, the formula is used when the budget needs of each secondary school are assessed (see Table 5.17).

The allocation for rayons does not include reserve. This means that in theory all funds allocated to the rayon for this part of school budget should be allocated to individual schools. The reserve in city budget appears only as general reserve at the level of the whole city (no reserves at the level of main budget users).

In practice, during the budget year, inevitably some schools underspend within the budget lines included in in KEKB 2910 and KEKB 2040, however RUO said that reallocation is very difficult (opinion based on survey of RUO). In their opinion, the formula was imposed by the Department of Finance and does not fully account for needs of secondary schools. They also would like to have more responsibility for reallocation of some parts of these funds between the schools. In special cases, RUO asks directors of schools which have surplus to agree to have some of their funds moved from their school to another school, which has a deficit. If such an agreement is obtained, the change is conducted by adjusting financial plan of both schools. Otherwise, RUO needs to find a solution to the problem of insufficient allocation. These changes are not monitored by DF KMDA.

The following are strong points of the formula for school maintenance:

- Makes the determination of rayon budget limits for secondary education more objective and easier.
- Provides objective assessment of costs for the part of the school financial plan which is quite difficult to predict for individual schools.
- Provides one budget limit for several small budget lines, thus simplifying the budgeting process.
- Is used in different ways during the budgeting process, for determination of budget limits of rayons, and for setting financial plan of each school.

The following are issues for further discussion:

- In RUO experience, the influence of school surface area on assessed recurrent maintenance costs is too strong. This opinion is supported by the analysis presented in Annex B.
- Lack of adequate reserve mechanism at the rayon level may create problems during the budget year.
- The use of the formula during determination of financial plans for individual secondary schools is not clearly regulated.
- Due to its novelty, the formula is not widely known and understood by school directors, an effective clarification campaign may be useful.

Finally, we note that the use of per student formulas for allocation from city budget to the rayons in Kyiv City since 2021 has its prehistory. Indeed, Herczyński (2008) reviews the specific normatives of budget needs, used by the city in its allocation to the rayons. The formula used since 2021 is clearly more refined and better suited to the Ukrainian budget framework (in particular, it does not cover salaries, which are regulated in very detailed legislation) and, in contrast to the formulas used in 2008, applies also to individual schools. In addition, since 2018 Kyiv uses a per student formula to finance its preschools (KMR 2018, DO KMDA 2018).

5.4. Conclusions

The purpose of the budgeting process in education at the local level is to allocate funds to individual schools and to make sure those funds are used effectively and efficiently. Since the needs of schools are always significant, and the available resources are always insufficient, there cannot be a just and satisfactory conclusion to the budgeting process. For this reason, in most countries the budgeting process is highly regulated, to reduce the opportunities for favoritism and inequitable allocation.

Because of its administrative structure, Kyiv administration faces peculiar challenges in conducting its budgeting process in education. Ten rayons are not independent of the central city administration KMDA and are not subordinated to elected rayon councils, because such councils have not been established yet (the laws allow to introduce them). Therefore rayon administrations enjoy a certain degree of budgetary autonomy, which is rather limited. At the same time, they are not closely monitored by Department of Education and Science, although this is possible and perhaps even desirable.

The following are the main conclusions, which can be drawn from the review presented in sections 5.2 and 5.3.

- The city of Kyiv has established uniform budgeting principles and procedures for all rayons. Even Desnianskyi rayon, which was always assumed to be rather different because of the budgetary autonomy of its secondary schools (Herczyński 2008), follows essentially the same budgetary procedures and calendar. The only difference identified in the discussions with three rayons is that directors of secondary schools prepare both preliminary and final tarrification on their own, while in other rayon this task is performed by RUO (section 5.2.2).
- However, the city has not defined and enforced uniform guidelines for conducting budgeting process for secondary schools. Even the prognosis of student numbers is performed differently in different rayons (section 5.2.3). The formation of classes in grade 1 is left to the initiative of school directors. As a result, class sizes vary significantly between rayons (Table 5.4). When after grade 9 some students leave for professional schools and smaller classes may allow some mergers, this again is left to rayon authorities and to school directors. While some RUO ensure no reduction of class sizes, some have a reduction of 14% (Table 5.4).
- The role of the school directors in the budgeting process is quite limited. They prepare the prognosis of student and class numbers, the initial and

final complectation. However, there is no mechanism for them to argue for the specific needs of their schools. Proposals from school directors may be used by RUO in the allowed 5% exceeding the budget limits, at the discretion of RUO (section 5.2.2). After the initial budget proposals of rayons are formulated, school directors are no longer involved in the budget process.

- Internal dialogue between different levels of city education administration, that is DON and RUO, is insufficient. RUO possess extensive experience of working directly with the school in different areas, including the budgeting, and this knowledge and experience should be better used by DON. For example, RUO have correctly identified a weakness of the allocation formula for school maintenance (section 5.3.2), namely that surface area of school has excessive impact on allocation for school (see Annex B). This understanding may be the basis for constructive discussion of how the formula may be improved.
- The budget process is highly non-transparent. This is especially true regarding recurrent spending (non-investment funds). Apart from city and rayon administration, only school directors participate. At no point are the teachers and the parents involved in the process or informed about its results. There are no mechanisms or even occasions for public discussions of specific needs of different schools and different rayons.
- There are more public discussions and controversies regarding investment funds. The parents demand and participate in all competitions and modernization programs of schools. Also council members (deputies of KMDA) are very interested in allocation of investment funds and try to influence the decisions, not always in a fully transparent manner. Education Map of Kyiv was designed in part to facilitate and organize the selection of investment projects to be included in the budget and funded. This functionality is also non-transparent, as it is not available publicly.
- Public information about the financing of Kyiv secondary schools is limited. Some data on individual schools are presented in the Education Map of Kyiv (section 5.3.1), but it is limited and often outdated, in part because there are no strict procedures and controls of entry of data into this portal. Moreover, data are difficult to compare because of different level of detail. No summary data for rayons or for types schools are available.

The above conclusions served as basis for some of the recommendations presented in chapter 8.

Annex B. Kyiv formula for school maintenance

The allocation formula for maintenance of secondary schools was introduced in the Decision of KMR for budget year 2021 (KMR 2020) as Annex 12. It was repeated without any changes in the Decision of KMR for budget year 2022 (KMR 2021), also as Annex 12. It is therefore a very new budget initiative, still under development. The formula was developed at the request of KMDA by the specialists of Scientific-Research Institute of Social Economic Development of the City, a research institution subordinated to the Department of Economics and Investments of KMDA. The formula is used and applied by the Department of Finance of the city.

Allocation for maintenance covers the following two codes of budget classification, KEKB 2210, Objects, materials, equipment and inventory, and KEKB 2240, Payment for services except for communal services.

In the present Annex B we review this formula, we show that the allocation depends strongly on surface area of the school but does not depend on the number of students, and we illustrate these findings with an example of three secondary schools in Kyiv.

The formula uses three factors:

1. Normative of budget need $\underline{\text{БЗ}}$.
2. Normative number of students, which is an adjusted number of students.
3. School surface area per student.

The normative of budget need is defined as $\underline{\text{БЗ}} = \frac{\text{ЗФ}}{\text{ЗЧУ}_{\text{факт}}}$, which is equal to the allocation for all secondary schools within the two budget codes listed above ЗФ, approved as of January 1, divided by the number of students in all these schools $\text{ЗЧУ}_{\text{факт}}$.

Normative number of students $\text{ЧУ}_{\text{прв},i}$ defined separately for each school indexed with i, using the formula

$$\text{ЧУ}_{\text{прв},i} = \text{ЧУ}_{\text{поч},i}\frac{24}{\text{НК}_{\text{поч},i}} + \text{ЧУ}_{\text{баз},i}\frac{30}{\text{НК}_{\text{баз},i}} + \text{ЧУ}_{\text{проф},i}\frac{30}{\text{НК}_{\text{проф},i}}$$
$$= 24 * \text{КК}_{\text{поч},i} + 30 * \text{КК}_{\text{баз},i} + 30 * \text{КК}_{\text{проф},i}\,,$$

where $\text{ЧУ}_{\text{поч},i}$, $\text{ЧУ}_{\text{баз},i}$, $\text{ЧУ}_{\text{проф},i}$, $\text{КК}_{\text{поч},i}$, $\text{КК}_{\text{баз},i}$, $\text{КК}_{\text{проф},i}$, are actual numbers of students and classes in grades 1 to 4, grades 5 to 9, and grades 10 to 12 respectively, and $\text{НК}_{\text{поч},i}$, $\text{НК}_{\text{баз},i}$, $\text{НК}_{\text{проф},i}$, are actual class sizes in those groups of grades in secondary school i, defined by

$НК_{поч,i} = \frac{ЧУ_{поч,i}}{КК_{поч,i}}$, $НК_{баз,i} = \frac{ЧУ_{баз,i}}{КК_{баз,i}}$, $НК_{проф,i} = \frac{ЧУ_{проф,i}}{КК_{проф,i}}$, respectively. In other words, normative number of students is obtained by taking the actual number of classes and assuming that in grades 1 to 4 there are 24 students in each class, and in grades 5 to 12 there are 30 students in each class. For each secondary school, normative class size $РНК_i$ is defined as $РНК_i = \frac{ЧУпрв_i}{КК_i}$, where total number of classes $КК_i$ is equal to $КК_i = КК_{поч,i} + КК_{баз,i} + КК_{проф,i}$. Taking into account the above formula defining the normative number of students, we can say that normative class size is determine by the following formula:

$$РНК_i = \frac{ЧУпрв_i}{КК_i} = \frac{24*КК_{поч,i}+30*КК_{баз,i}+30*КК_{проф,i}}{КК_{поч,i}+КК_{баз,i}+КК_{проф,i}} = 30 - 6*\frac{КК_{поч,i}}{КК_{поч,i}+КК_{баз,i}+КК_{проф,i}}.$$

We see that normative class size in the school does not depend on the number of students, but only on the number of classes, or to be more precise, on the share of classes in grades 1 to 4 among all the classes in the school $\frac{КК_{поч,i}}{КК_{поч,i}+КК_{баз,i}+КК_{проф,i}}$. If this share is equal zero, that is if there are no students in initial grades in the school, then $РНК_i = 30$. If this share is equal 1, that is if the school has only initial grades, than $РНК_i = 24$. In other cases normative class size is a number between 24 and 30.

In analogous way, taking the total number of normative students and of actual classes in all secondary schools of Kyiv, one defines average normative class size in the city – $\underline{РНК}$. It also depends only on the number of classes.

Finally, school surface area per student $ПЛу_i$ is defined as $ПЛу_i = \frac{ПЛ_{факт_i}}{ЧУ_{факт_i}}$, that is surface area of the school i divided by the actual number of its students. Here $ПЛ_{факт_i}$ is the surface area of the school, and $ЧУ_{факт_i} = ЧУ_{поч,i} + ЧУ_{баз,i} + ЧУ_{проф,i}$ is the actual number of its students. Average surface area per student $\underline{ПЛу}$ in Kyiv is obtained in the same way, by dividing total surface area of all secondary schools in Kyiv by the total number of their students.

Normative class size and surface area per student are used to define adjustment coefficient $К_{прив_i}$ for the school $К_{прив_i} = \frac{РНК_i}{\underline{РНК}} * \frac{ПЛу_i}{\underline{ПЛу}}$.

With these definitions the allocation for recurrent maintenance ФЗЗСО_{i} for school i is determined by the following formula:

$$\text{ФЗЗСО}_{\text{i}} = \underline{\text{БЗ}} * \text{ЧУ}_{\text{факт},i} * \text{К}_{\text{прив}_{\text{i}}} * \text{I}_{\text{c}}$$

$$= \underline{\text{БЗ}} * \text{ЧУ}_{\text{факт},i} * \frac{\text{РНК}_{\text{i}}}{\underline{\text{РНК}}} * \frac{\text{ПЛу}_{\text{i}}}{\underline{\text{ПЛу}}} * \text{I}_{\text{c}},$$

Here I_{c} – is the prognosed index of consumer prices. When we take into account the definition of ПЛу_{i} and put this into the formula above, we see that the number of students $\text{ЧУ}_{\text{факт},i}$ cancels out and we obtain:

$$\text{ФЗЗСО}_{\text{i}} = \underline{\text{БЗ}} * \frac{\text{РНК}_{\text{i}}}{\underline{\text{РНК}}} * \frac{\text{ПЛ}_{\text{факт}_i}}{\underline{\text{ПЛу}}} * \text{I}_{\text{c}}.$$

Further, we recall that РНК_{i} may be rephrased as $\text{РНК}_{\text{i}} = 30 - 6 * \frac{\text{КК}_{\text{поч},i}}{\text{КК}_{\text{поч},i} + \text{КК}_{\text{баз},i} + \text{КК}_{\text{проф},i}}$. With this, we obtain the following formula for ФЗЗСО_{i}:

$$\text{ФЗЗСО}_{\text{i}} = \underline{\text{БЗ}} * \left(30 - 6 * \frac{\text{КК}_{\text{поч},i}}{\text{КК}_{\text{поч},i} + \text{КК}_{\text{баз},i} + \text{КК}_{\text{проф},i}}\right) * \frac{1}{\underline{\text{РНК}}} * \frac{\text{ПЛ}_{\text{факт}_i}}{\underline{\text{ПЛу}}} * \text{I}_{\text{c}}.$$

What is important in this formula is that it does not depend on the number of students in the school at all, only on relative number of classes in different groups of grades. However, the formula depends strongly (linearly) on surface area of the school $\text{ПЛ}_{\text{факт}_i}$.

We illustrate these assessments with comparative review of three schools in Kyiv. These are schools № 31, № 12, and № 224. In the following Table 5.20 we present main data items for these schools.

Table 5.20. Basic data about three sample schools

	№ 31	№ 12	№ 224
Students 1-4	384	160	208
Classes 1-4	12	8	8
Students 5-9	405	208	249
Classes 5-9	16	10	10
Students 10-12	47	42	24
Classes 10-12	2	2	1

All students	836	410	481
All classes	30	20	19
Surface area	5 391	5 723	8 568

We note in Table 5.20 that school № 31 has more than twice the number of student of school № 12 but has similar surface area. On the other hand, school № 224 has similar number of students as school № 12, but has 50% larger surface area.

Class sizes for grades 1-4, 5-9, and 10-12, and overall class size are calculated in Table 5.21. These data allow us to assess normative number of students and normative class size. The three schools were selected to have the same normative class size, although their class sizes are quite different. We also provide surface area per student. It is clear that surface area per student of school № 31 is much smaller than that of school № 12, while surface area of school № 224 is much higher.

Table 5.21. Actual and normative class sizes, surface area per student of sample schools

	№ 31	№ 12	№ 224
Class size 1-4	32,0	20,0	26,0
Clas size 5-9	25,3	20,8	24,9
Class size 10-12	23,5	21,0	24,0
Overall class size	27,9	20,5	25,3
Normative students	828	552	522
Normative class size	27,6	27,6	27,5
Surface area per student	6,4	14,0	17,8

The final Table 5.22 present allocation for recurrent maintenance according to the formula for each school as relative value with respect to school № 12.

Table 5.22. Relative number of students, surface area, and allocation for maintenance

	№ 31	№ 12	№ 224
Relative number of students	203,9%	100,0%	117,3%
Relative surface area	94,2%	100,0%	149,7%
Relative allocation	94,2%	100,0%	149,0%

We observe that for the three selected schools, allocation follows surface area and does not follow the number of students in the school.

We note that the three schools presented in tables above were selected to illustrate the main finding of the present Annex B, but they are not typical. Typically, schools with larger number of students have larger surface area, as exhibited by high correlation coefficient R=0,69 (calculated for 8 rayons only due to data errors). Therefore on average, larger schools do indeed obtain larger allocation. The example of 3 schools indicates that this does not always happen.

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Chapter 6. LOCAL BUDGETING OF EDUCATION IN LVIV

Pavlo Hobzei

Introduction

Lviv is a historical town located in Western part of Ukraine. In different periods, it was an important center of Kingdom of Ruthenia, of Kingdom of Poland, of Habsburg Empire, of the Soviet Union, and since 1990 of independent Ukraine. Since medieval times, it boasts a proud coat of arms, with a lion (Leo) passing through a gate, as Graph 6.1 shows.

Graph. 6.1. Lviv coat of arms

Lviv is the administrative center of Lviv oblast, Lviv agglomeration, Lviv rayon and urban gromada. It is a major center of culture, education and science of Ukraine, as well as an industrial and transport hub. Lviv is the seventh most populous city in the country (717 thousand inhabitants as of 1 July 2021). It is generally perceived as the capital city of historical region of Galicia and its historical center is included in the UNESCO World Heritage List. Lviv used to be a city of regional significance, which means that since Ukraine independence it enjoyed significant budgetary and managerial autonomy, and has long experience of managing its competencies, including secondary education.

In the present chapter, we first discuss the context of the city of Lviv, including the management and the structure of local education network (section 6.1), we describe the budget process in education (section 6.2), and we review innovative budgeting practices introduced in recent years by Lviv city (section 6.3). We close the chapter with relevant conclusions (section 6.4).

I thank Natalia Dzus, main specialist of financial-economic section of Education Administration in the Department of Development, Lviv City Council, for provision of information, data, and for help in preparing this chapte.

6.1. Background and context

6.1.1. The capital city of Galicia

Like all local governments at the municipal level in Ukraine, the city is responsible for pre-schools, lower and upper secondary schools and extracurricular education. On top of it, being an oblast center, the city has competencies in the field of vocational education and training. Its system of management and financing is underpinned by the relevant legal basis, in particular the Law on Local Self-Government in Ukraine (1997), its most recent version of 30 November 2021, and the Budget Code of Ukraine of 8 July 2010.

Lviv is governed by the Lviv City Council and Mayor is elected by residents through direct voting. The City Council’s executive bodies comprise the executive committee, departments, divisions, rayon administrations, sectors and other executive bodies formed by the council. These executive bodies report to and are accountable to the City Council.

For administrative purposes, Lviv is divided into six rayons (or city districts): Halytskyi rayon covers the central part of the city, with Zaliznychnyi rayon in the west, Shevchenkivskyi in the north, Lychakivskyi in the east, Sykhivskyi in the southeast, and Frankivskyi in the south. It is important to note about this set-up that rayons themselves do not have elected councils but have rayon administrations as managing bodies with heads appointed by Mayor. Also, rayons are not granted budgetary autonomy and rayon budgets are decided on by the Lviv City Council. Map 6.1 below shows the administrative division of Lviv gromada.

Map 6.1. Rayons within Lviv gromada

As far as education management is concerned, rayon administrations have no direct powers or competencies. Their main tasks include implementation of socio-economic and cultural development programs, historical landmarks and environmental protection within their respective boundaries as well as management of housing, utility, and urban landscaping services.

The Education Division within the Department of Humanitarian Policy of the Lviv City Council has the overall responsibility for the city's education sector (excluding higher education).

On 23 December 2011, the Executive Committee of the Lviv City Council adopted the Regulation on the Education Division of the Department of Humanitarian Policy of the Lviv City Council and its organizational structure. By this decision, the rayon education offices, and there were six of them at the time, corresponding to the number of city rayons, became subordinated directly to the Education Division and removed from the subordination to rayon administrations. The decision became effective on 1 January 2012, so since then, all education institutions have been under direct subordination to the Education Division, outside the control of rayon administrations.

By its decision No. 1057 of 18 November 2016, the Executive Committee adopted the new Regulation the Education Division of the Department of Humanitarian Policy of the Lviv City Council and its organizational structure, cutting the number of rayon education offices to three, merging the units of Halytskyi and Frankivskyi rayons, Sykhivskyi and Lychakivskyi rayons, and Shevchenkivskyi and Zaliznychnyi rayons, respectively.

These three rayon education offices under the Education Division are functional as of today. Table 6.1 below shows the composition of school networks run by rayon education offices.

Table 6.1. School network of Lviv gromada

Rayon education offices	General secondary schools	Preschools	Informal education institutions
Halytsky and Frankivsky	35	30	6
Sykhivskyi and Lychakivsky	42	35	8
Shevchenkivskyi and Zaliznychny	46	50	2

6.1.2. The core tasks and structure of the Education Division

The Education Division within the Department of Humanitarian Policy of the Lviv City Council is an executive body of the Lviv City Council. It is led by a chief who is appointed and dismissed by Lviv Mayor upon the proposal of the Director of the Department of Humanitarian Policy, in accordance with the law.

The core tasks of the Education Division include:

1. Implementing public policy in the education sector with consideration of specific social and cultural context of Lviv.

2. Conducting education reviews for the city, preparing projections for the development of general secondary, preschool and informal education, designing common approaches in accordance with the national legislation; preparing and organising implementation of the municipal program for the development of education.
3. Ensuring conditions for citizens to access preschools, secondary and informal education.
4. Overseeing compliance with the education legislation, the National Standard of General Secondary Education and the Basic Component of Preschool Education with regard to relevant education institutions of all types and forms of ownership.
5. Providing training and methodical guidance and inspection of preschools, general schools, and informal education institutions.
6. Organising financial resourcing and strengthening of school infrastructure.
7. Organising attestation of general schools, preschools, and informal education institutions of all types and forms of ownership.
8. Promoting self-governance in general schools, preschools, and informal education institutions.
9. Promoting experimentation and innovation in the education process.

The Education Division is assigned the following competences:

- Implementation of the education policy defined by Lviv Mayor, the City Council and its Executive Committee in accordance with their remit and implementation of respective decisions.
- Provision of financial, material and technical resourcing, oversight (also with regard to technical, fire safety and hygienic standards) of the activities of subordinated municipal education institutions and catering companies, review of their draft plans, provision of comments and suggestions to these draft plans, control of implementation, performance, level and quality of provided education services.
- Approval of annual financial plans of subordinated municipal education institutions and organizations, control of implementation, setting of base salaries.
- Submission of budget proposals for subordinated enterprises, institutions, and organizations, ensuring the targeted spending of budget funds. Within the limits determined by the City Council and the Executive Committee, financing of the city's education institutions and catering companies subordinated to the Education Division.

- Management of funds allocated in the Lviv city budget within the limits determined by the City Council, the Executive Committee and Mayor, rational distribution of funds, and control of their targeted spending.
- Needs assessment regarding the functioning of municipal education institutions and organizations subordinated to the Education Division, submission of proposals to the City Council and the Executive Committee on improvement of the school network in accordance with the socio-economic, cultural and educational needs of the city.
- Implementation of a unified financial and economic policy in the education sector in Lviv on the basis of legality, economic expediency, and the most optimal distribution of financial resources.
- Ensuring preparation of education institutions for the new school year, work in the autumn-winter and spring-summer periods, carrying out current and capital repairs of premises, promoting the enhancement of infrastructure, creating appropriate conditions in education institutions of Lviv.
- Approval of curricula and programs of informal education institutions and municipal institutions of Lviv.
- Approval of contracts on the provision of additional educational services in education institutions of Lviv.
- Approval of staffing plans and financial plans of education offices and municipal catering companies.

The Education Division includes the following structural units:

- Education quality assessment section.
- Legal and HR services section.
- Educational work and leisure section.
- Education development section.
- Finance and economy section.
- Audit and control section.

The Education Division has in its subordination:

- Education office of Halytskyi and Frankivskyi rayons.
- Education office of Sykhivskyi and Lychakivskyi rayons.
- Education office of Shevchenkivskyi and Zaliznychnyi rayons.

The remit of rayon education offices includes:

- Implementation of public policy in the field of education and educational programs defined by the Lviv City Council.

- Provision of financial, material, and technical resourcing of subordinated education institutions.
- Control of the activities of subordinated education institutions.
- Management of funds allocated in the city budget of Lviv, within the limits determined by the City Council, rational distribution and control of their targeted and effective spending.
- Needs assessment regarding the functioning of municipal education institutions and organizations subordinated to the Education Division, submission of proposals to the City Council and the Executive Committee on improvement of the school network in accordance with the socio-economic, cultural, and educational needs of the city.

In this way, a common education policy is implemented across Lviv gromada, regardless of the city's division into rayons. The role of rayon education offices with regard to running general secondary schools is to submit budget proposals to the Education Division and to oversee implementation of the municipal education policy, while general secondary schools themselves enjoy broad autonomy. However, with regard to preschools and informal education facilities, rayon education offices are responsible for their financing and organizing the education process.

6.1.3. Analysis of the network of general secondary schools in Lviv

In line with the Law of Ukraine "On Comprehensive General Secondary Education", the network of municipally owned general secondary schools in Lviv comprises 127 institutions, as shown in Table 6.2 below:

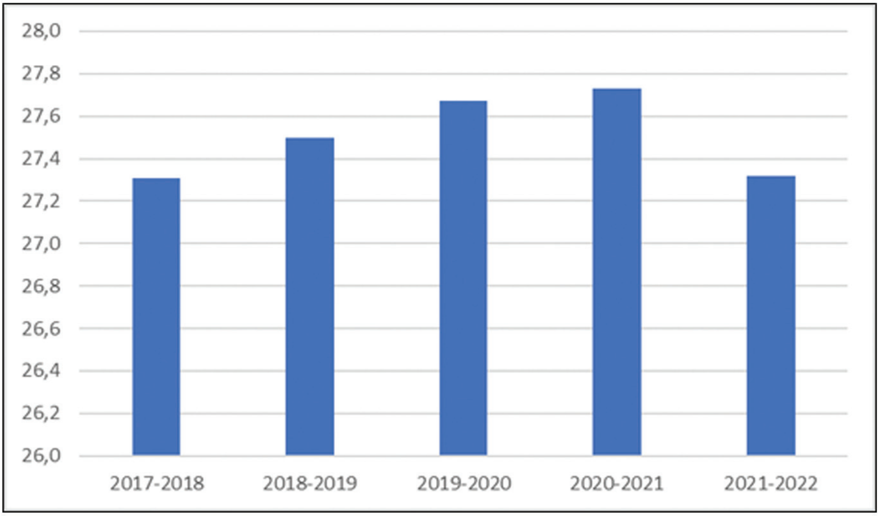
Table 6.2. School network of Lviv gromada

Type of school	Number
Primary schools with preschool	4
Primary schools	8
Gymnasiums with preschool and primary school	1
Gymnasiums with primary schools	5
Lyceums with preschool, primary school and gymnasium	4
Lyceums with primary school and gymnasium	92
Lyceums with gymnasium	13

Looking into the network of classes in these 127 institutions, 3,197 classes were formed for the 2021-2022 school year, enrolling 87,487 students. The average class size is 27.37.

Graph 6.2 below shows the average class size in the city over the past 5 years.

Graph. 6.2. Average class sizes in 2017-2021



As shown on the graph, the class size was growing from year to year, before dropping in 2021-22 which is explained by the merger of the city and surrounding rural areas to form a larger Lviv gromada.

In accordance with the Decree of the Cabinet of Ministers of Ukraine of 12.06.2020 No. 718 “On determination of the administrative centers and approval of territories of territorial gromadas in Lviv oblast”, Resolutions of the Lviv City Council of 29.12.2020 No. 6 “On the functioning of Lviv urban territorial gromada” and No. 7 “On the termination of local councils by way of merger with the Lviv City Council”, ten general secondary schools from the following settlements were transferred to the subordination of the Education Division of the Lviv City Council:

- the village of Mali Hrybovychi
- the village of Big Hrybovychi
- the village of Hryada
- the town of Dubliany

- the village of Malekhiv
- the village of Zarudtsi
- the village of Zashkiv
- the village of Lysynychi
- the village of Pidbirtsi
- the village of Ryasne-Ruska.

The network of classes in general secondary schools transferred to the subordination of Lviv gromada from 01.01.2021 increased by 138 classes with 2 795 students with the average class size of 20,25. This is significantly lower than in the schools of the Lviv city. Table 6.3 shows the distribution of schools and their shares by the number of students enrolled in the 2021-2022 school year.

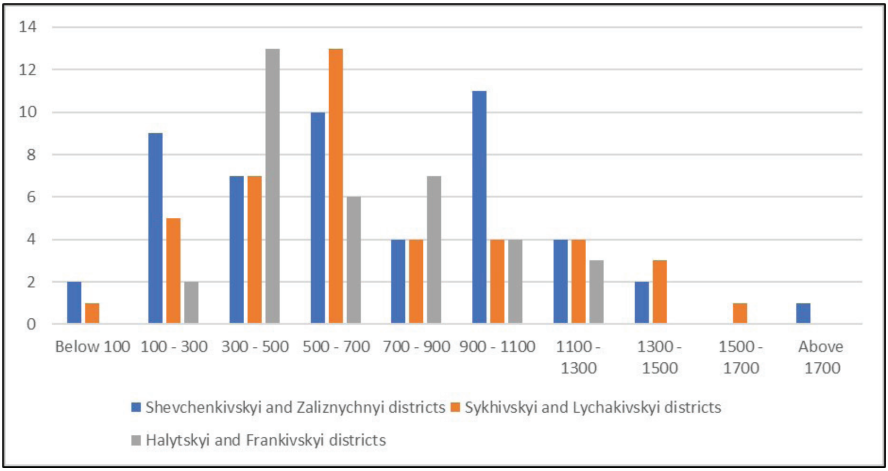
Table 6.3. Distribution of schools in 2021-2022

Number of students	Number of schools	Share of schools
Below 100	4	3%
From 100 to 300	16	12%
From 300 to 500	26	20%
From 500 to 700	30	24%
From 700 to 900	14	11%
From 900 to 1100	19	15%
From 1100 to 1300	11	9%
From 1300 to 1500	5	4%
Over 1500	3	2%

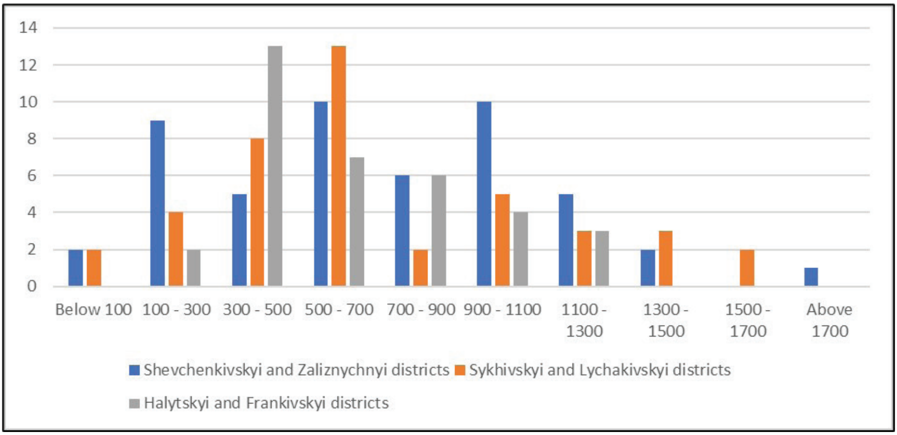
The schools with enrolment below 100 students are all located in rural areas.

Graphs 6.3 and 6.4 below show the schools distribution by the number of enrolled students in the 2020-2021 school year and the 2021-2022 school year, assigned to rayon education offices within the city.

Graph. 6.3. Distribution of schools in Lviv by enrolment in 2020-2021



Graph. 6.4. Distribution of schools in Lviv by enrolment in 2021-2022

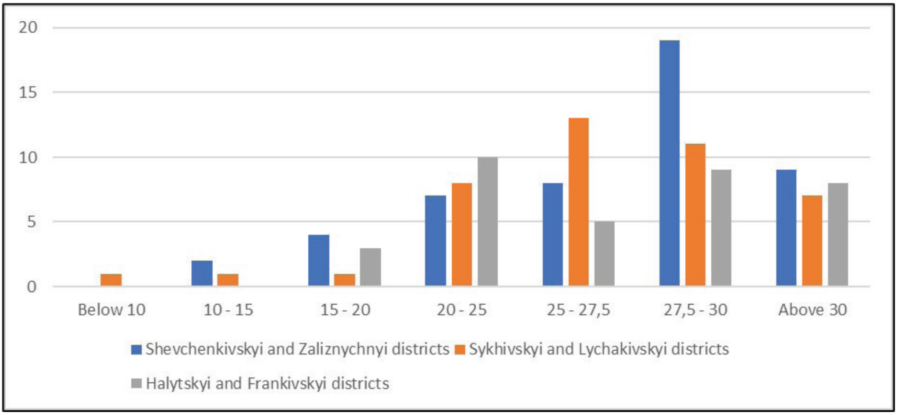


No rural schools were taken over by the education office in charge of Halytskyi and Frankivskyi rayons. The 19 schools that enroll fewer than 300 students call for special attention.

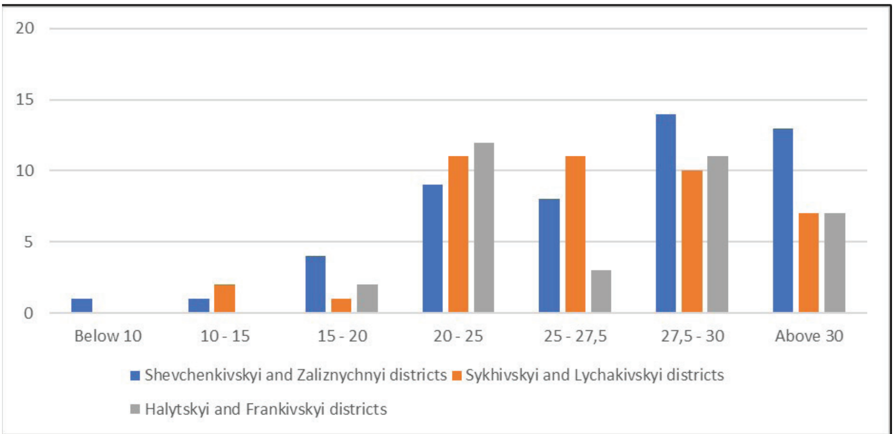
There are 38 large schools that enroll more than 900 students, including 8 very large schools with more than 1,300 students.

Now we look at the average school enrolment in Lviv. Graphs 6.5 and 6.6 present the distribution of schools according to the average class size in the 2020-2021 school year and the 2021-22 school year, by rayon education offices.

Graph. 6.5. Distribution of schools in Lviv by class size in 2020-2021



Graph. 6.6. Distribution of schools in Lviv by class size in 2021-2022



In 2020-2021, twelve schools had the average class size of less than 20, and in 2021-2022 there were eleven such schools. On the other hand, in 2020-2021, there were 53 schools with the average class size of more than 27.5, and in 2021-2022 this number increased to 62. This increase included three schools where the average class size was more than 30 students. The largest number of schools (35) had the class size of 27.5 to 30 students in 2021-2022. It would be safe to say that the class size is steadily increasing.

It should also be noted that the school network in Lviv encompasses schools that operate according to a variety of educational programs: there are schools offering advanced level of foreign languages study, some new types of schools (lyceums and gymnasiums in the meaning used before the adoption of the Law on Education in 2017), schools that have classes with instruction in the ethnic minority language.

There is also a network of the so-called ‘full-day’ schools. This is a project launched by decision of the Executive Committee of the Lviv City Council No. 904 adopted in October 2017. These schools operate from 08:30 (or 09:00) to 15:30 (or 16:00) and within these working hours the duration of the educational process is determined by the school administration. For each class, the schedule is composed individually and approved by the pedagogical council. It includes mandatory routines such as time for meals, creative and cognitive activity, outdoor rest, educational tours, morning meetings, time for silent reading. Learning is active and interactive and is conducted through group work, individual work, or up-front work. Mandatory elements include integrated learning and physical activity in the morning, an hour-long outdoor rest, and creative and cognitive activities in the afternoon. The afternoon educational activities with a class or group are organized and supervised by a staff member with pedagogical background (after-class activity teacher, club supervisor, primary school teacher).

There are 14 full-day schools in Lviv. This experiment has been ongoing for four years and started with the first grade in 2018. Each primary school class has additional 15 hours and 0.5 FTE (after-class activity teacher). Initially, nine schools were included in this experiment, and later all schools were offered the opportunity to join. Two schools joined in 2019, one in 2020, and two more in 2021.

6.2. Education budgeting in Lviv gromada

In Lviv gromada, the 2022 education expenditures were authorized by Resolution of the Lviv City Council of 12.20.2021 No. 1794 “On the 2022 budget of Lviv gromada”. The standard form of a local budget decision is regulated by the Order of the Ministry of Finance of Ukraine No. 668 of 03.08.2018 “On approval of the standard form of a local budget decision”. Thus, decisions on the budget of Lviv for the last four years include a narrative part and seven annexes, namely:

1. Budget revenuesy.
2. Budget financingy.
3. Expenditures distribution.
4. Budget lending.
5. Inter-budgetary transfers.
6. Amounts of capital investments of the budget by investment projects.
7. Cost distribution for implementation of local/regional programs.

This decision, in line with Article 55 of the Budget Code of Ukraine, defines the following protected expenditures of the budget’s general fund:

- Staff salaries and wages;
- Charges on salaries and wages;
- Procurement of medicines and dressing materials;
- Provision of food;
- Payment for utilities and energy;
- Budget debt servicing in terms of interest payments on obligations and payment of related services;
- Recurrent transfers to population;
- Recurrent transfers to local budgets.

Within ***two weeks*** after the adoption of the Lviv City Council decision on the city budget for a corresponding year, the Finance Department sends statements on ceilings for budget allocations and lending to main budget users. As discussed in subsection 6.1.2, the main budget user in education sector is the Education Division. In its turn, the Education Division communicates these ceilings to schools as lower-level budget users to draw up financial plans and plans of allocations from the general fund of the budget, and plans of the special fund (school financial plans with monthly breakdowns).

Monthly breakdown of a financial plan is a rather challenging process due to the uneven receipt of revenues throughout the year. It is always expected that in the first quarter the revenue flow will be less than one-fourth of the annual revenue volume. That is why in the first quarter the protected expenditures are prioritized. In the second quarter, the plan includes payment of vacation allowances to teaching staff, so other expenditure items are again rather limited. The largest amounts are planned for the fourth quarter. If a school needs to finance certain works in the first six months, the Education Division should balance the monthly breakdown at the expense of other schools.

After approving the local budget plans, but ***no later than within 30 days*** after adoption of the budget, local financial authorities send these local budget plans to the Treasury in paper and electronic forms and ***within three working days*** provide to the main budget users extracts from the approved local budget plans that serve as a basis for approval of respective financial plans and plans of allocations of the general fund of local budgets by budget users, according to the prescribed procedure.

Main budget users and lower-level budget users that have their own network (for example, a building with classrooms and dormitory), within ***three working days*** after receipt of an extract, submit to the appropriate Treasury body the distribution of indicators of aggregated financial plans and the distribution of indicators of consolidated allocation plans of the general fund of local budgets.

6.2.1. Amounts of the education budget

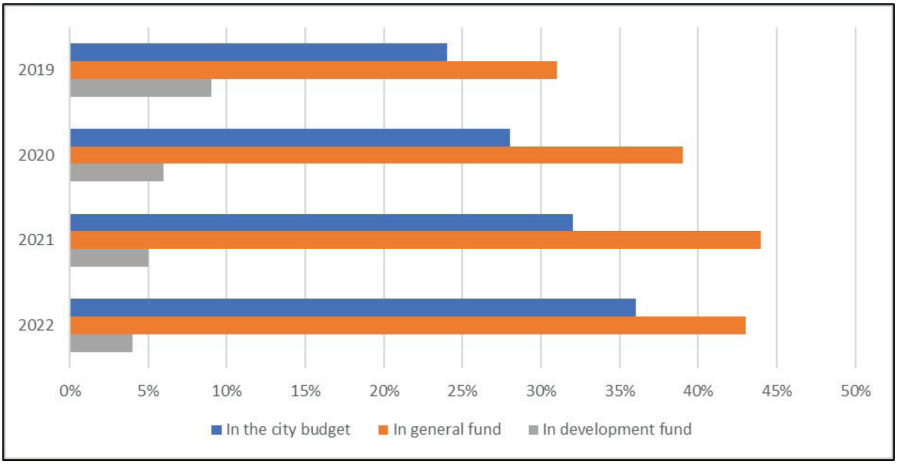
Table 6.4 below shows the share of education budget in the total budget of Lviv and the share of the budget of general secondary schools in the education budget for the last four years (numbers for 2019-2021 reflect actual indicators and for 2022 reflect planned indicators).

Table 6.4. Share of the education budget in the total budget of Lviv and share of the budget of general secondary schools in the education budget

	2019	2020	2021	2022
Total budget of Lviv, thousand hryvnias	10 597 074	9 801 013	12 149 855	13 082 414
including general fund	7 484 308	6 509 3255	8 354 782	10 783 189
special fund (development costs)	3 112 766	3 291 687	3 795 072	2 299 224
Total education budget, thousand hryvnias	2 594 595	2 754 897	3 908 690	4 678 829
Share of education budget in the total budget	24,5%	28,1%	32,1%	35,7%
including general fund	2 317 556	2 563 108	3 714 956	4 575 729
Share of the general fund budget for education in general fund budget of Lviv	30,9%	39,3%	44,4%	42,4%
special fund (development costs)	277 038	191 789	193 733	103 100
Share of the special fund budget for education in special fund budget of Lviv	8,9%	5,8%	5,1%	4,4%
Total budget of general secondary schools, thousand hryvnias	1 740 374	1 909 752	2 617 816	3 065 621
including the general fund	1 536 966	1 742 110	2 465 961	2 984 645
special fund (development expenses)	203 407	167 642	151 855	80 976
Share of the budget of general secondary schools in the total budget, %	67%	69%	67%	66%
including general fund	66%	68%	66%	65%
special fund (development costs)	73%	87%	78%	79%

Graph 6.7 shows the share of the education budget in the total budget of Lviv, including the general fund and in the development fund for the last four years.

Graph. 6.7. The share of education in the budget of Lviv in 2019-2022

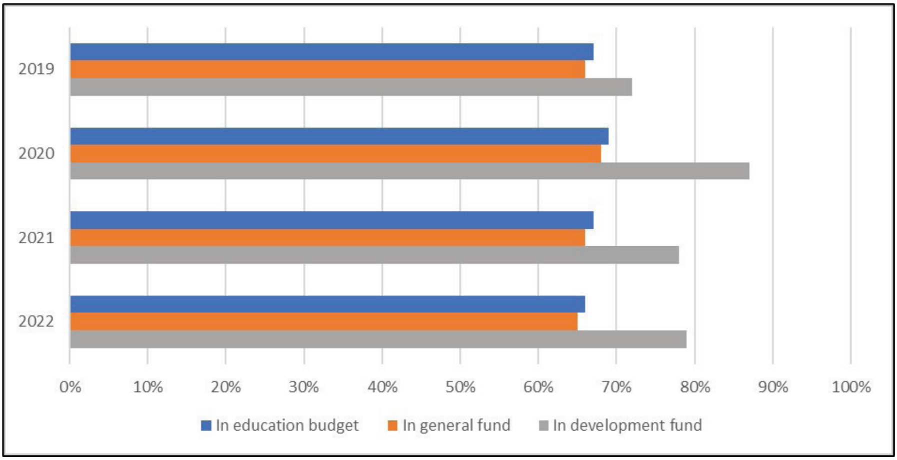


The first observation is that the share of education in the city budget grows annually on average by 4% and constitutes 35,7% in the planned indicators of 2022. The second observation is that this share is even larger in the general fund. In 2021, it constituted 44,4% and 42,4% in the planned budget for 2022. The decrease in 2022 is linked to significant salary increases for doctors. The third observation is that the share of education in the development fund is rather small – only 5% on average – and decreases each year. It is especially noticeable in absolute numbers: from UAH 203 million in 2019 to UAH 81 million in 2022. This is an alarming trend because the investment in the construction of new schools is insufficient compared to the magnitude of demand. During the last four years, the city has not built a single school. However, the number of private schools has increased.

Graph 6.8 shows the shares of the education budget allocated to general secondary schools.

The shares of funds allocated to financing of general secondary schools remain virtually unchanged during the given four years: they stay around 67% of the total educational budget and around 66% of the general fund. On the other hand, about 80% of the development fund is channeled to support the development of secondary education. It means that the city invests far more extensively in the development of secondary schools compared to preschools and informal education institutions. At the same time, we should bear in mind that these funds are quite small, as shown in Graph 6.7.

Graph. 6.8. Shares of the education budget allocated to general secondary schools in Lviv



6.2.2. Steps of the budget process

The budgeting process for general secondary education involves three main actors:

- Schools represented by school principals.
- Rayon education offices represented by managers.
- Gromada represented by the Education Division within the Department of Humanitarian Policy and the Finance Division within the Department of Financial Policy of the Lviv City Council.

The procedure for local budget drafting is regulated by Article 75 of the Budget Code. According to this procedure, in July local executive bodies of respective local councils receive letters from the Ministry of Finance on preparation of local budgets for the upcoming budget period.

In these letters, the Ministry of Finance, as required by part one of Article 75, communicates specific details regarding preparation of estimates for draft local budgets, namely the information about organizational and methodological requirements for drafting of local budgets; projections with regard to core social guarantees and inter-budgetary transfers as well as details about calculation of inter-budgetary transfers for the planned year.

Based on these letters, in August the financial authority of the local council, namely the Finance Division within the Department of Financial Policy, sends a letter about preparation of a budget request for the next budget year by main budget users, including the Education Division.

Then, the Education Division organizes and ensures the drafting of a budget request in September and submits it to the Finance Division in paper and electronic form by the 1st of October 1 using the following forms:

- General budget request for 2022-2024 (Form 2022-1);
- Individual budget request for 2022-2024 (Form 2022-2);
- Additional budget request for 2022-2024 (Form 2022-3).

Alongside the budget request, the main budget users submit detailed calculations necessary for the Finance Division to analyse the budget request. These calculations are based on macro-projections of economic and social development of Ukraine as well as social standards outlines in the letter from the Ministry of Finance. They include planned growth of minimum wage and planned increases of teachers' salaries, projected energy costs, inflation rate, etc. Salaries are calculated according to the staffing plans as of the 5th of September submitted by lower level budget users, considering the minimum wage and base salary in grade 1 of the Common Salary Scheme.

It means that the budget for the upcoming year is prepared for the network of classes and salary scheme effective as of the 5th of September of the current year. The school principal submits the proposed class network, staffing plan and salary scheme to the head of the rayon education office who approves the staffing plan and salary scheme for each individual school. The salary scheme takes into consideration the educational program offered by the school and the type of school determined by decision of the Executive Committee: schools classified as lyceums and gymnasiums before the adoption of the Law on Education in 2017, schools with advanced study of foreign languages, full-day schools, schools with instruction in the languages of ethnic minorities. Another factor to be considered is division of classes into groups for specific subjects (for example, in schools that by decision of the Executive Committee offer advanced foreign language programs, classes are divided into three groups for foreign languages, but only those that started before 2018).

Mandatory elements in this calculation are various salary add-ons, such as:

- Add-on for the prestige of teaching profession – 30%.
- Length of employment – 10% to 30%.
- Other add-ons (for review of student's written work, class supervision, supervision of classrooms, pedagogical title, etc.) – 20% to 25%.

- Financial reward paid to recognize the Day of Educator – 80% of the base salary fund.
- Financial assistance for recreation paid to all employees.
- Bonuses as decided by local authorities.

The head of a rayon education office checks the correctness of salary calculations, coordinates any necessary adjustments with school principals and sends the aggregated needs for all schools to the Education Division.

Schools also prepare estimated energy costs based on indicators defined in the decision of the Executive Committee of the Lviv City Council, and the rates effective as of September of the current year. Essentially, each school has ceilings expressed in physical units for gas, thermal energy, electricity, water, and, if necessary, solid fuel. The ceilings are determined based on average annual needs for the last three years, as well as the city's capacity to meet these needs. Expenditures for utilities are calculated and determined based on the ceilings set by the Executive Committee.

Expenditures for hot meals in general secondary schools were calculated based on average prices provided by the Main Statistics Department in Lviv oblast in September, nutrition standards defined in Resolution No. 305 of 24.03.2021 "On the approval of standards and procedure for the organization of meals and nutrition in schools and recreation facilities for children", and the statistical data on students in the following categories:

- students in grades 1-4.
- children with special educational needs enrolled in special inclusive classes.
- orphans and children deprived of parental care.
- children from low-income families.
- internally displaced children, conflict-affected children and children whose parents are war veterans.
- students in municipal general secondary schools whose parents took part in the anti-terrorist operation, including those who were killed in action (missing) or died as a result of injury, shellshock trauma or mutilation received in the direct participation in the anti-terrorist operation, measures to ensure national security and defence, pushback and deterrence of the armed aggression of the Russian Federation in Donetsk and Luhansk oblasts, affected participants of the Revolution of Dignity and Heroes of the Heavenly Hundred.

The costs for procurement of services (excluding utilities) and goods were planned with consideration of the consumer price index provided in the letter of the Ministry of Finance and the updated budget allocations in the current year.

It should be noted that preparation of budget requests is carried out in cooperation with the rayon education offices and general secondary schools. In fact, budget requests are submitted by schools (each school has an accountant as a member of staff). Schools are designated to be responsible for credibility of the primary data that feed into calculations, such as:

- student population, including groups eligible for free meals.
- staffing plan with indication of grades within the Common Salary Scheme.
- energy consumption measures.

The rayon education offices verify the submitted data and perform regulatory compliance checks. Thus, the budgets of general secondary schools in Lviv are compiled according to the bottom-up approach. Schools submit their financial plans to the Education Division, based on the needs and applicable rules and procedures, as described above. Lviv has always been able to provide necessary financing for its schools in accordance with the established rules and standards when it comes to the general fund, or school maintenance. However, there is a completely different situation with the school development fund. The fund for the development of general secondary schools follows the top-down approach. The city, based on proposals of the Education Division, determines the prioritization of projects to be financed in the upcoming budget year. Apparently, the school development needs are much more substantial than what the city can afford.

6.2.3. Principles of distribution of budget allocations of general secondary schools

The distribution of budget allocations among general secondary schools should be based on the principles of fairness, transparency, openness, and accountability.

Fairness. In general, as far as the general fund is concerned, the distribution of budgetary allocations among the schools in Lviv gromada is fair. As discussed above, all expenditures related to school maintenance can grouped around four categories:

1. Salaries with respective taxes and social contributions, or the so-called "protected" part of the budget that depends on the number of employed staff in individual schools, the number of classes and curriculum offered by the school.
2. Energy (e.g., electricity, gas, heating) and utilities (e.g., water supply and sewage) depend on actual consumption, tariffs, and allocated limits.
3. Other operating costs, such as services (excluding utilities), procurement of goods, material and equipment, other costs.
4. Capital expenses that include procurement of equipment and durable items as well as capital constructiono.

The distribution of budget allocations for salary costs under item 1 is based on the school staffing plans and pay grades of school personnel approved by the heads of rayon education offices. A sound budget situation in Lviv achieved through the nationwide decentralization reform allows heads of rayon education offices to avoid having to impose "austerity measures". Moreover, seeking to improve the quality of the educational process, rayon education offices tend to be more willing to introduce additional staff positions in schools (for example, position of engineer for maintenance of computer classrooms and laboratory equipment) rather than reduce their staffing plans. These proposals are sent to the Education Division. Disagreements between the Education Division and some school principals may arise in the process of enrolment into classes. In some schools, enrolment in grades 1 and 10 appears to be problematic, so heads of education offices try to be more responsible about class sizes compared to school principals.

The issue of "fairness" is likely to depends on the initiatives of the teaching staff and school principal regarding the choice of curricula and the ability defend this choice before the Executive Committee of the City Council. Per student costs in schools offering advanced programs in some subjects or in "full-day schools" are higher than in schools that follow more traditional curricula.

The distribution of budget allocations to cover the costs under item 2 is carried out according to the principle of a single database of energy consumption measures and assigned limits. The needs to cover energy costs are fully met in each school. This is described in more detail above in section 6.2.2.

The costs under item 3 are covered according to the "proportionality" principle: budget costs in code 2210 of economic classification (items, materials, equipment, and inventory) are proportional to the number of students in a given school, and budget costs in code 2240 (payment for services, excluding utilities) are proportional to the area of school premises. This yields a fair formula for distribution of funds. Schools are given discretion to distribute the received funds between these two economic classification codes depending on their needs.

Regarding capital expenditures under item 4, the distribution of funds can hardly be described as entirely "fair". Schools submit their needs to rayon education offices that pass them on to the Education Division. The Education Division, with endorsement from Mayor, implements certain programs to provide schools with equipment or improve learning conditions. (For example, STEM labs, replacement of windows, sports grounds, repair of toilets). When implementing such programs, each school receives appropriate equipment or funding. Schools can also submit applications within the competition of public projects, which will be described below, and if successful, can get access to relevant funding. Here, the school has a decisive role. These are fair and transparent procedures. As for school refurbishment and reconstruction, members of the city council representing the respective rayon where the school is located, have a significant influence. In this case, the influence of an individual council member may even play a bigger role than an urgent need.

Transparency. The distribution of budget allocations, speaking about the general fund, between the schools within Lviv gromada is transparent. The rules according to which the budget of the general fund of each school is formed are generally known to all as well as the staffing plans and salary schemes of each school; there are adopted ceilings for energy and approved categories and number of students entitled to free meals.

Regarding the development fund, it sometimes happens that proposals submitted by the Committee on Education and Science of the Lviv City Council, agreed with the Committee on Finance and Budget Planning, undergo significant changes. These changes are mainly initiated by Mayor.

Openness. In accordance with the Law "On Education", each school shows its budget for the current year as well as implementation of the previous year's budget. School budgets also reflect the funds received outside the city budget. It should be noted that the share of Parental contributions in school budgets is not significant and is steadily decreasing. This is due to two factors: firstly, the basic needs of schools are covered from the budget and the city budget can afford these costs, and secondly, the network of private schools is actively developing in the city and parents who want more comfortable conditions for their children's learning can choose private schools. That is, the "sound" budget of the city and competition with private schools minimizes the inflow of Parental money into the budgets of municipal schools.

As for openness or public engagement in the budgeting process, the achievements in this direction are rather modest. Elaborating proposals for the budget, heads of rayon education offices organize focus group meetings involving selected school principals. However, these meetings are closed, there is no organized streaming or coverage for the wider public.

Regarding the school development fund, heads of education offices have no influence on this process. This is more of a political matter and decisions are made behind the scenes.

Accountability. As mentioned above, school budgets and their implementation are made available on the school websites. Heads of rayon education offices mainly control implementation of the development budgets. The schools' general fund covers the basic needs. There is a problem related to the lack of reserve funds for schools both at the level of rayon education offices and the Education Division. The city has a reserve fund. However, the possibility of emergency situations that would require urgent response without waiting for the city to allocate funds from the reserve fund according to all procedures, has led to an interesting solution. In agreement with the Education Division, each rayon education office has designated a school to whose account a certain amount of funds is additionally allocated for current repairs. All school principals in a rayon know about this sum of money. There is an agreement that the principal of the school that keeps this reserve in its account will not use these funds without the explicit authorization of the head of a respective rayon education office. In this way, the problem of the lack of a reserve fund is solved.

Therefore, all funds allocated to the rayon education office for general secondary education should be transferred to schools. This takes place as follows. A rayon education office receives funds from the Education Division for schools and transfers them directly to schools through its centralized accounting office according to school financial plans and respective statements on ceilings. If necessary, during the first, second and third quarters the rayon education office may within one economic code redirect funds from November and December for additional needs in the first and second quarters, stripping the end-of-year months within the same school. Then, in order to balance the monthly breakdown of funds within the rayon education office, funds from other schools of the rayon should be redirected to December and November from previous months. That is, until the end of the year, funds from schools in accordance with the adopted financial plans are not redistributed between schools. They are only adjusted and balanced by monthly breakdowns.

It should be noted that at the end of the year, based on the spending review of budget allocations by educational institutions, at the level of rayon education offices, it is possible to adjust financial plans between schools within the same code of economic classification of expenditures. Such changes, that is redistribution of funds between schools, are subject to decision of the City Executive Committee.

Changes can be introduced to the city budget in the course of the budget year. The procedure for making such changes is regulated by the Resolution of the Cabinet of Ministers of Ukraine of 28 February 2002 No. 228 "On the approval of the Procedure for compilation, review, approval and basic requirements for financial plans of budget institutions" and the Mayor's Order No. 52 of 20 February 2017 "On the procedure for submitting proposals for changes to the budget allocations of main budget users of the city budget of Lviv".

Changes to budget allocations are introduced:

- If there is a need to redistribute budget allocations in terms of the economic classification of budget expenditures within the total volume of budget allocations under the budget program separately for the general and special budget funds.
- Budget allocations are transferred from one main budget user to another.
- Expenditures are increased for objective reasons.

Main budget users submit requests for changes and apply for additional funds to Lviv Mayor. Proposals addressed to Mayor must be agreed upon with the director of the department to which the main budget user of the Lviv city budget reports. The application should specify the area of spending and provide rationale for the requested changes. The following documents are enclosed in the application:

- Proposals for changes according to the standard form (shown in the annex to the Procedure approved by the Mayor's Order).
- Justification of costs with appropriate calculations for each code of economic classification.

- Other documents justifying the necessity to allocate additional funds from the Lviv city budget of Lviv or to introduce changes.

The Department of Financial Policy, in accordance with the resolution of Lviv Mayor, examines the application with enclosed materials and prepares a draft decision of the Executive Committee and a draft resolution of the City Council. Applications filed by main budget users are introduced to the regular meeting of the Executive Committee, provided that all necessary materials are submitted (including the relevant resolution of Lviv Mayor) at least within 5 days before the meeting. After the requested changes are approved by the Executive Committee, the main budget user submits relevant proposals for changes to the Lviv city budget to the Permanent Finance and Budget Planning Commission for consideration.

6.3. Innovative approaches to financing of general secondary schools in Lviv

Lviv, as a capital of oblast and as a city of oblast significance for many years, has the history of many years of autonomous management and budgeting of its secondary education, and was thus able to introduce many innovative practices and approaches. In the present section, we discuss the following three of them:

1. Centralization of financing of general secondary schools at the city level and broad autonomy of schools.
2. Financial support to school principals.
3. Implementation of public budget projects in Lviv.

A separate brief section is devoted to each of the above.

6.3.1. Centralization of financing of general secondary schools at the city level and broad autonomy of schools

Even in the mid-1990s the city of Lviv abolished rayon councils in city rayons. Since that time, the budget of the city, including rayons, has been formed only by the Lviv City Council. The structure of rayon administrations included units in charge of education to which schools were subordinated. Different rayons had different possibilities for the over-performance of budget. As a rule, Halytskyi rayon that covers the city center had the largest over-performance margin. It meant that schools in this rayon were better financed, even though when the budget was adopted all schools in the city had the same conditions. Since that time, there has been a debate as to whether rayon education offices should be subordinated to rayons or to the city's Education Division. As noted above, since 1 January 2011 rayon education offices have been subordinated to the Education Division, and rayon administrations have been stripped of respective competences. Since then, the financial capacity of schools has been the same for all schools in the city, regardless of their attribution to a specific rayon. Now the heads of the rayon education offices together with the leadership of the Education Division develop rules and procedures for school financing. Thus, the education management function was centralized at the city level.

On the other hand, after the adoption of the Law of Ukraine "On Education" in September 2017, in accordance with Article 23 on the autonomy of educational institutions, the Education Division issued an order requiring from each school to establish its own accounting office starting from 1 January 2018. Schools that had no accounting office at the time introduced two accountant positions in the staffing plan. Moreover, by the decision of the Executive Committee of the Lviv City Council of 05.06.2020 No. 466 the position of legal adviser was introduced to the staffing plans of general secondary schools. Among the key tasks of a legal adviser is to support the school's procurement (tender) process.

The rules for budget preparation are the same for all schools of the city and are determined by the Education Division. Each school prepares budget requests that after coordination with the rayon education offices are submitted to the Education Division and then approved by the city council.

Therefore, the schools in Lviv enjoy rather broad academic, organizational, financial and HR autonomy.

Thus, Lviv has built a model of education management that is centralized at the city level with individual schools enjoying broad autonomy.

6.3.2. Financial support to school principals

The existing broad autonomy of schools in Lviv places high responsibility on school principals that play a key role. In order to attract the best candidates to the competition for vacant posts of school principal and to increase motivation and responsibility of the incumbent principals, bonuses were introduced by decision of the Executive Committee of the Lviv City Council of 14.06.2022 No. 494 “On approval of the Regulation on awarding bonuses to heads of general secondary schools of Lviv urban territorial gromada”.

Bonuses are awarded to school principals on the basis of order of the Education Division of the Department of Humanitarian Policy of the Lviv City Council. The bonus amount equals 200% of base salary based on pre-defined key performance indicators, approved by the order of the Education Division in agreement with the Permanent Commission on Education and Science of the Lviv City Council. Performance-related bonuses for the current month are assigned monthly as a percentage of base salary. This add-on is included in the budget and schools’ financial plans. In practice, 80% of school principals receive this monthly add-on.

6.3.3. Implementation of public budget projects in Lviv

Seeking to ensure the gromada members’ right to participate in self-government, the Lviv City Council introduced the public budget of Lviv as outlined in the Regulation on the Public Budget of Lviv.

The public budget or participatory budget is a way of determining the expenditures of a part of the Lviv budget through direct expression of will of its residents.

Participatory budgeting is a democratic process that provides an opportunity for every resident to participate in the distribution of local budget funds by designing projects aimed to improve the city or gromada or by voting for the proposed projects.

Any resident of the city can submit a project proposal aimed to improve life in the city, take part in the competition, win through the voting process and observe how their project is being implemented within the adopted budget.

An author of a project is a person who has reached the age of 16, is a citizen of Ukraine, a foreign national or stateless person, who has created an idea for improvement of Lviv gromada, presented it in the form of a project as stipulated in the Regulations on Public Budget of Lviv and meets one of the following criteria:

The person’s place of residence is registered on the territory of Lviv gromada (the city of Lviv, the city of Vinnyki, the urban-type settlement of Rudno, the urban-type settlement of Bryukhovychi, the city of Dublyany, the villages of Mali Pidlisky, Sytykhiv, Malekhiv, Velyki Hrybovichi, Zbiranka, Mali Hrybovichi, Hryada, Volya-Homuletska, Zashkiv, Zavadiv, Zarudtsi, Ryasne-Ruska, Pidryasne, Lysynychi, Pidbirtsi). Confirmation of the registered place of residence is based on presented passport or document that according to the Law of Ukraine "On the Unified Demographic Register and Documents Confirming the Citizenship of Ukraine, Person's Identity or Special Status" enables to establish the registered place of residence, as well as Lviv residency card

The enterprise, institution or organization where the person is employed is registered on the territory of Lviv gromada, which is confirmed by passport and notice from place of work.

The person is studying on the territory of Lviv gromada which is confirmed by passport and student ID or other document confirming this fact.

The person owns property on the territory of Lviv gromada which is confirmed by passport and an extract from the relevant register of property rights.

The internally displaced person whose place of residence is registered on the territory of Lviv gromada which is confirmed by passport and certificate of registration of internally displaced person.

The person's place of birth is registered on the territory of Lviv gromada which is confirmed by passport or birth certificate.

All projects are broken into two types: small-scale projects and large-scale projects in two categories: Education and Healthcare Projects and Other Projects.

Small-scale projects are those intended for a street, neighborhood or city rayon with the total value ranging from 50 to 600 thousand UAH. Approximately 70% of the total public budget is allocated to such projects that are evenly distributed among six city rayons and other settlements within Lviv gromada (10% of the total public budget for each city rayon and 10% for other settlements within Lviv gromada) – up to 2% for each settlement.

Large-scale projects are those intending for several city rayons or a city with the total value ranging from UAH 600,000 to UAH 3,000,000. Approximately 30% of the total public budget is allocated to large-scale projectsy.

Educational and healthcare projects are those concerning the premises or grounds of schools, pre-schools, informal education centers, VET schools, higher educational institutions, and health care facilities.

Other projects are those not relating to the premises or grounds of schools, pre-schools, informal education centers, VET schools, higher educational institutions, and health care facilities.

In 2021, owing to the budget of city initiatives, 48 new educational projects worth UAH 35,5 million were implemented in Lviv gromada.

They included three large projects for UAH 3 million each:

- Barrier-free space for practical science «Puliui Science Hub» (Purchase of equipment and durable items for setting up a modern educational and scientific laboratory «Puliui Science Hub» in the Lyceum named after Puliui located at 16 Puliui Street).
- Educational and recreational space «R.E.A.L. patio» (Capital improvement of the courtyard area in the Lvivskyi Lyceum located at 3 Lysynytska Street and purchase of equipment and durable items).
- "Yammy Spot" in the Sykhivskyi Lyceum (Capital refurbishment of the lyceum canteen and purchase of equipment and durable items for the canteen of the Sykhivskyi Lyceum located at 48 Khotkevicha Street).

Schools also won 43 small-scale projects worth UAH 600,000 each. They included 13 projects related to the improvement of school grounds, 10 projects related to the improvement of school canteens, 7 projects related to the improvement of halls or recreation areas, 7 projects related to the improvement of laboratories and 6 projects related to the repair of an assembly hall or gym.

6.4. Conclusions

The purpose of the budget process in the education sector in Lviv is to provide financial support for the implementation of the education policy determined by Mayor, the City Council and its Executive Committee in accordance with their competences and the implementation of their decisions. Speaking about budgeting of general secondary education, it is important to allocate funds to individual schools and ensure effective spending. Since schools have considerable needs, and the available resources are always scarce, seeking to minimize opportunities for favouritism and unfair distribution of funds, the city has adopted certain budgetary rules and procedures for general secondary schools that would equally apply to all. Below are some conclusions about the enabling factors.

1. All educational institutions of Lviv gromada are subordinate to the Education Division of the Department of Humanitarian Policy of the Lviv City Council. School principals are appointed by the Education

Division which is the main budget user for education. Rayon education offices are included in the structure of the Education Division, not rayon administrations. Therefore, the same rules apply to the financing of all schools in the city, regardless of the rayon where these institutions are located.

2. All secondary schools enjoy broad autonomy. Each school prepares a draft annual budget in accordance with the rules adopted by the city, without capital expenditures. Schools also submit proposals to the rayon education offices with regard to the development budget. Therefore, it would be fair to say that the consumption budget of schools is formed from bottom up. It should be noted that schools' draft budgets are submitted in September once students are enrolled, and classes are formed. It means that budgets for the upcoming year are prepared according to the network as of the 5th of September of the current year.
3. Rayon education offices check whether the draft budgets are submitted by schools in accordance with the existing rules and procedures. Most important aspects include teachers' salary schemes, staffing plans, categories of students with entitlements, defined energy ceilings. Moreover, rayon education offices have an impact on the effectiveness of a network of first and tenth grades within rayons. They also prepare proposals on capital expenditures of schools for the Education Division.
4. Rayon education offices have no reserve funds. Their centralized accounting units only distribute the received funds to schools according to the statements on ceilings. Rayon education offices have the right to balance the monthly breakdown of funds between schools within one code of economic classification, and at the end of the year, if necessary, submit proposals to the Education Division on redistribution of funds between schools.
5. From the launch of the decentralization reform in Ukraine and up to 2022, the Lviv city budget has grown significantly. Lviv can afford what many other cities are not able to support. The share of education expenses in the general fund exceeds 40%, thus making it possible to form the school budgets from bottom up, covering all school costs according to the adopted rules. The city supports implementation of effective educational programs in schools, in particular the «full-day school» project that is open to all schools. Therefore, it does not make much sense to compare per student costs in different schools because schools offer different programs and curricula. At the same time, the rayon education offices give more attention to checking the correctness of submitted statistical data or adequacy of the prepared salary schemes and are less inclined to cut proposed budgets.

6. Therefore, it can be stated that the consumption budget of schools is formed in a fair and transparent manner, following the rules that are common for all educational institutions. There are no discussions regarding the formation and distribution of the general fund among the city council members.

7. The share of education in the city's development fund is small – about 5% – and is decreasing with each upcoming year. This is an alarming trend. Over the past 10 years, the city has not built a single school. However, the number of private schools has increased. Schools do not form their own development fund and only present their needs. The School Development Fund is formed by the Lviv City Council. The formation of the school development fund can be divided into three components.

   a. The first component is the education development programs of Lviv relating to provision of modern equipment for schools. According to these programs, all schools are provided with some sort of equipment. This is a transparent component.

   b. The second component is implementation of public projects. Every school can participate in a competition of public projects. The project that receives the largest number of votes from the city residents gets an award. Public projects encourage the wider public, not only educators, to engage in addressing the problems in education or implementation of innovative projects. Lviv residents can directly influence the selection of projects. This is one of the elements of civil society development. This component is also transparent. However, different schools have different possibilities when it comes to organizing voting for a project and to gain more votes.

   c. The third component includes projects approved by the city council members that relate to capital refurbishment of schools or significant improvement of educational environment, which is not part of public projects or relevant city programs. Since the needs of schools are significant and funds are limited, the selection of schools is often determined by the influence of a council member or political force he or she represents. This is a political component. Hot debates take place around this component and educators are virtually excluded from these debates.

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14. Decision of the Executive Committee of the Lviv City Council No. 494 of 14.06.2022 “On approval of the Regulation on awarding bonuses to heads of general secondary schools of the Lviv urban territorial gromada“.

15. Decision of the Executive Committee of the Lviv City Council No. 904 of 13.10.2017 «Full-day school“.

Chapter 7. LOCAL BUDGETING OF EDUCATION IN MARIUMPOL

Lyudmila Borysenko

Introduction

This review had been initiated prior to the Russian full-scale invasion of Ukraine in February 2022 and was completed after the onslaught. Despite being a front-line city since 2014, Mariupol had been showing dynamic development, with the approval of the City Development Strategy in December 2021 and a steady flow of foreign investment. In this vibrant environment the city's local government was introducing innovative management tools, including the budgeting sphere.

In contrast to this, the Russian aggression has reduced Mariupol to rubble, with most of its residential buildings, schools and cultural facilities mercilessly demolished, and its territory occupied. In view of its virtually total destruction as a result of the Russian invasion, with countless victims of blanket bombings and assaults, when almost the entire population of the city has fled, any discussion of pre-war reforms, accomplishments and plans of the city's Education Department may appear to be irrelevant and secondary.

However, there are two predominant reasons why the reforms that had been initiated in the city and so tragically disrupted by the war should be discussed and analyzed in detail. The first reason is that Mariupol succeeded in to carrying out far-reaching reforms and efforts aimed at creating a modern, viable and attractive city facing dire conditions of its frontline position and formidable influx of internally displaced persons. These efforts must be recognized and remembered. The second reason is that in those years Mariupol had introduced a number of innovative approaches and procedures that offer useful lessons to other Ukrainian cities and gromadas. This experience should be made accessible for all educators and education experts throughout Ukraine.

The horrendous destruction of Mariupol and the challenges of its recovery, including restoration of its secondary education system, is a relevant and important topic, but it goes beyond the scope of this publication.

7.1. City profile

7.1.1. Mariupol

Pre-war Mariupol was a city of regional significance and one of the largest cities of Donetsk oblast on the coast of the Sea of Azov. As of 1 January 2021, its population was 432 thousand residents (437 thousand in 2020; 440 thousand in 2019). Mariupol had a strong economic and intellectual potential and was well-known internationally. For many years, its metallurgy companies were leaders in Donetsk oblast in terms of output. Mariupol had over 60 industrial enterprises of various specializations and forms of ownership. The Mariupol Sea Trade Port was a powerful actor in the municipal, regional and national economy.

The territorial set-up of Mariupol City Council includes four rayons (or city districts): Central rayon, Kalmius rayon, Left Bank rayon and Primorskyi rayon, and includes the settlements of Sartana, Stary Krym, Talakivka, Hnutove and Lomakyne.

Mariupol has been the largest front-line city. In 2014-2015, when the city periodically became the epicenter of hostilities, many residents left their homes. However, over time, local population got accustomed to the "new normal" and Mariupol had become home for many refugees from the occupied territories. According to official records, the city welcomed about 100,000 displaced persons.

Among its six higher education institutions, three are "internally displaced". The city had invested considerable effort into making suitable arrangements: found the premises and assisted with necessary refurbishment. In principle,

Map 7.1. The territory of Mariupol City Council

relocated institutions face the same challenges as any other school: how to attract students and talented teaching and research staff, how to develop infrastructure, how to provide dormitories for students and secure housing for employees.

At the same time, all three institutions played a great role for Mariupol as they significantly expanded education opportunities for the city's residents:

- Donetsk Institute of Law under the Ministry of Internal Affairs trained professionals who are particularly important for the security of the city.
- Donetsk State University of Management implemented a whole range of interesting international projects, offered programs in economics and management as well as short-term programs for adults.

- Donetsk National Medical University split its departments between Mariupol, Kramatorsk and Kropyvnytskyi and trained healthcare professionals.

In December 2021, Mariupol adopted a long-term development strategy that outlined the city's plans within the 2030 horizon

The 2030 city development strategy identified the following key strategic areas: technology; economy transformation; healthcare; education and science; culture and sport; city design; city image; functionality; youth creativity; and clean environment.

One of the strategic objectives for the implementation of the Strategy goals was development of STEM education and implementation of the New Ukrainian School framework.

The city planned to:

- Modernize schools, namely to carry out capital repairs, provide necessary infrastructure for specialized classrooms, install modern kitchen equipment for preparation high-quality food.
- Support professional development of teachers and school principals.
- create a Museum of Engaging Science.

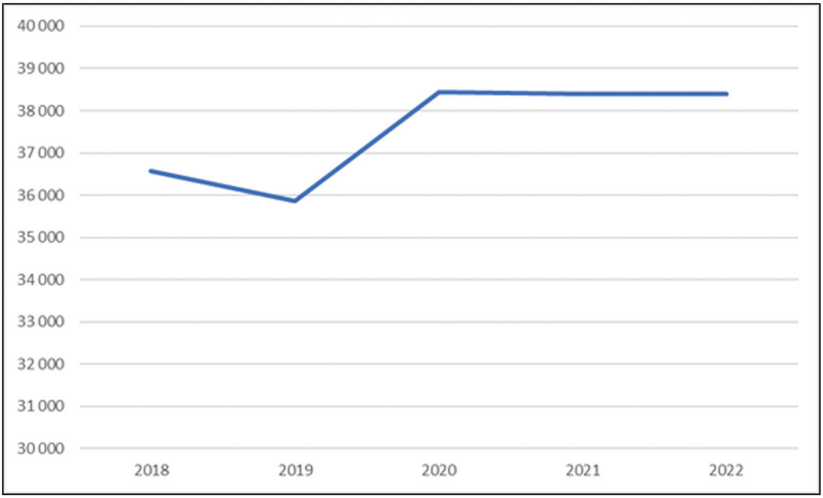
Mariupol identified two strategic directions for its education sector:

- *Quality Municipal Education* with the focus on increasing access to quality education for all residents, deeming it crucial for every family to be confident that their children can get the best education in their city, which is an integral part of the overall quality of life.
- *Education Aligned with the Local Labour Market* with the focus on engaging VET schools, colleges and universities in city projects in order to improve their education programs related to occupations that were in demand in the city.

All municipal activities are carried out in line with the Constitution of Ukraine, the Law «On Local Self-Government in Ukraine» and, speaking about budgeting (local revenues and expenditures) specifically, by the Budget Code of Ukraine, in particular its Article 64 that assigns to urban gromadas (including the city of Mariupol) 60% of personal income tax revenues (unlike the city of Kyiv that receives 40%). The city is also guided by and complies with other national and local legal act.

The city council is the founder of education institutions. The Education Department of the Mariupol City Council is the executive body of the City Council. It is financed from the city budget.

Graph. 7.1. The school network (DISO data, ZNZ-1 form)



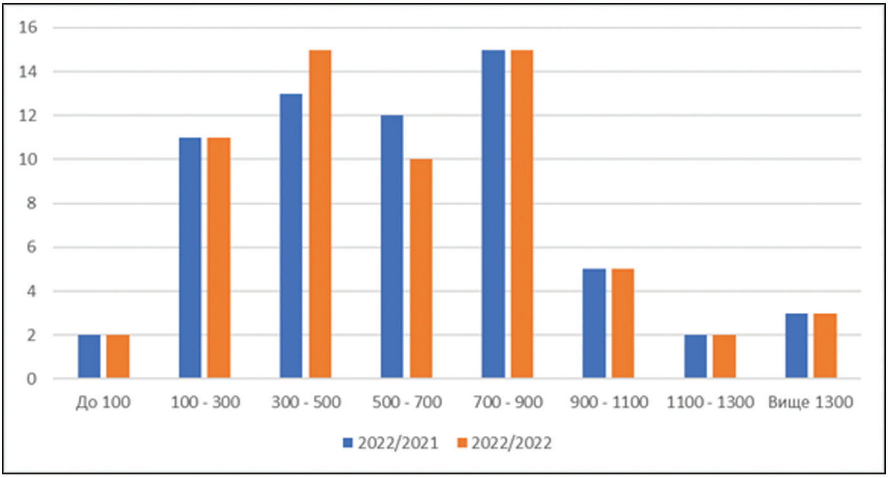
Graph 7.1 shows that enrolment in secondary schools in 2018 and 2019 was about 36,000 students, increasing to 38,400 in 2020, and keeping steady in the following years.

Also, the city was optimizing its school network due to the reform of gromadas:

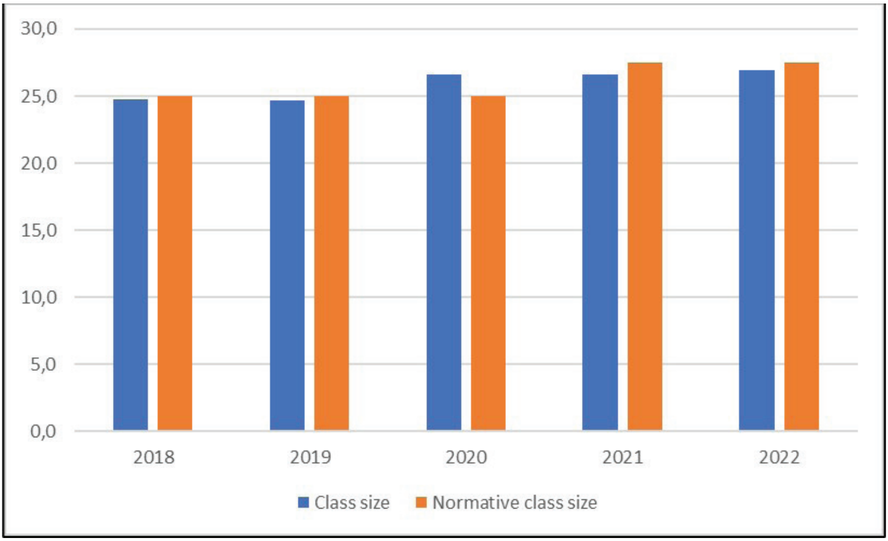
- School No. 58 with 286 students and school No. 8 with 990 students were moved to Sartanska gromada кола № 58.
- Berdyansk gymnasium with 131 students and Priazov gymnasium with 77 students were moved from Mangush gromada to Mariupol.

At the same time, we see from Graph 7.1 that Mariupol schools did not see decrease in the number of students in two years; however, two schools moved from the category of 500-700 students to the category of 300-500 students. The city has two very small schools (less than 100 students) and eleven schools with 100 to 300 students. Over two years, the size of these schools did not increase. Ten schools are categorized as very large (900 to 1100, 1100 to 1300 and over 1300 students).

Graph. 7.2. Distribution of schools by average size



Graph. 7.3. Average class size in general secondary schools in Mariupol (comparison of the actual class size with the normative class size)



In 2018 and 2019, the average class size was 24,7 students. In the following years, this indicator increased to almost 27 students. There are 34 schools with class size below average and 29 schools with class size above average. Generally among schools the average class size ranges from 8,6 to 31,5 students. The largest share of schools in Mariupol have from 25 to 28 students per class (on average). One school has 8,6 students per class (in 2021 it moved from the Mangush gromada), and the number of schools with 25 to 28 students has increased significantly. From 1 September 2021, the class size almost reached the normative indicator of 30. In September 2020, there were two schools with more than 32 students per class.

Table 7.1 shows a steady increase in the share of education in the city budget from 24% in 2020 to 31,2% in 2022, as well as an increase in the share of secondary education from 13,7% in 2020 to 17,6% in 2022. This is certainly a big burden on the city budget.

The data for 2020 is actual budget execution, while the data displayed for 2021 and 2022 are planned allocations.

Table 7.1. The budget of Mariupol and its education sector by years

	2020	2021	2022
Total budget of Mariupol ('000 UAH)	5 110,7	6 800,4	5 722,0
Education budget ('000 hryvnias)	1 225,9	1 689,7	1 785,4
Budget of secondary education ('000 UAH)	702,7	938,7	1 009,5
Share of education in the city budget (%)	24,0%	24,8%	31,2%
Share of secondary education in the city budget (%)	13,7%	13,8%	17,6%

7.1.3. Municipal school circles

Municipal school circles (муніципальні освітні округи) were created and core education institutions were defined in accordance with the Decision of the Mariupol City Council dated 30.06.2021 No. 8/8-700 «On the approval of the Regulation on the municipal school circle and core educational institution» and the Order of the city Mayor dated 04.08.2021 No. 289 «On the approval of municipal school circles with assignment of core education institutions and designated entities».

This was an important step of the city authorities to legalize municipal school circles that had already existed for several years.

The purpose of setting up municipal school circles was to enable a more rational and efficient organization of education. It was envisaged to be achieved by strengthening interaction between individual schools and their joint participation in planning the development of the education process, rational and efficient use of available resources, and their development within the respective boundaries of circles. The idea was that mutual reinforcement of schools within the circle could become key to address inefficient organizational structure and dilution of financial resources.

Municipal school circle is essentially a network of education institutions, i.e. preschools, general secondary schools, informal education institutions, inclusive resource centers, speech therapy center and practical psychology and social work center, subordinated to the Education Department of the Mariupol City Council.

A core educational institution is a general secondary school that provides primary, lower and upper secondary education, has qualified teaching staff, up-to-date material and technical infrastructure, teaching and methodical foundation, convenient location, offers advanced level programs in selected subjects and some level of specialization, i.e. performs education functions that are not performed by other institutions located nearby.

In order to enhance public participation in education management, circle boards were established in all municipal circles. They included representatives of local self-governments, the school circle administration, NGOs, mass media, and stakeholders directly involved in the education process. The main competences of the board were to prepare proposals for the interaction between local self-government bodies and the department of education, performance of public oversight over the situation and conditions of education institutions in the city, implementation of their development programs, respect of the legitimate rights and interests of students and employees, financial and economic activities of education institutions, and participation in independent assessment of students' performance. Thus, the circle board was to ensure transparency of all decision-making related to the municipal school circle.

Mariupol set up seven municipal school circles to which 63 general secondary schools were assigned. They are located in four rayons of the city.

School circles also encompassed preschools and informal education institutions, without actually including inclusive resource centers, speech therapy center, practical psychology and social work center – these were separate institutions subordinate to the Education Department.

For comparative overview of the city's school circles, the tables below show distribution of general secondary schools and their respective budgets.

Table 7.2. The structure of municipal school circles

Number of municipal school circle	Core school	Number of schools	The number of pre-schools	Number of extracurricular education institutions	City rayon
1	School No. 26	10	12	1	Seaside
2	School No. 66	11	11	1	Central
3	School No. 27	11	15	1	Central
4	School No. 10	7	14	2	Left bank
5	School No. 48	7	7	1	Left bank
6	School No. 42	10	9	1	Kalmius
7	School No. 47	7	9	1	Kalmius

From the table 7.2 we see that two circles were created in Central, Left Bank and Kalmius rayons and one circle in Primorskyi rayon, which is explained by the geographic location of education institutions.

Table 7.3. School budgets of municipal school circles in 2021-2022

Number of municipal school circle	School budget in 2021, ml UAH	School budget in 2022, ml UAH	Growth, %
1	131,1	134,40	2,5%
2	161,9	187,20	15,6%
3	177,3	196,10	10,6%
4	106,4	115,60	8,6%
5	121,9	123,30	1,1%
6	110,2	114,20	3,6%
7	96,2	102,10	6,1%

The budget of general secondary schools in municipal school circles in 2022 increased by an average of 7.5% (972.8 million UAH) compared to 2021 (905 million UAH).

Table 7.4. Influence of the number of students on the budget

Number of municipal school circle	Number of students as of 01.09.2020	Number of students as of 01.09.2021	% change of student numbers	Growth, %
1	6 008	5 853	-2,6%	2,5%

2	7 227	7 036	-2,6%	15,6%
3	6 921	7 376	6,6%	10,6%
4	4 678	4 709	0,7%	8,6%
5	5 378	5 383	0,1%	1,1%
6	4 240	4 212	-0,7%	3,6%
7	3 953	4 049	2,4%	6,1%

We observe a higher than average growth rate of the planned budget in three circles – from 8,6% to 15,6% (2nd and 3rd circles in the Central Rayon, 4th circle in the Left Bank Rayon).

Lower than the average growth is observed in four circles – from 1,1% to 6,1% (1st circle of Primorskyi Rayon, 5th circle of Left Bank Rayon, 6th and 7th circles of Kalmius Rayon).

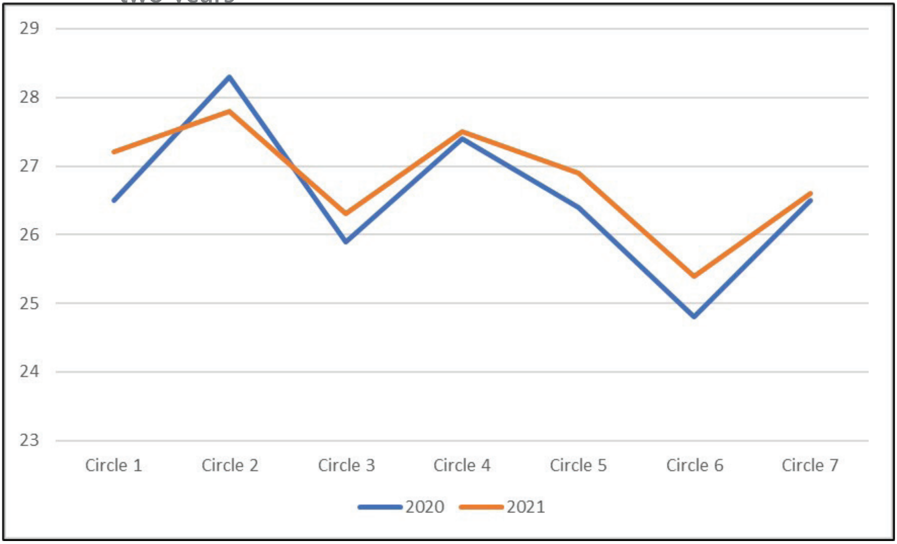
The amounts specified in the approved planned budget depend on the number of schools, number of students, area of the premises, geographic location of a school, and other factors.

Table 7.5. **Operating costs per student in general secondary schools by municipal school circles in 2021-2022**

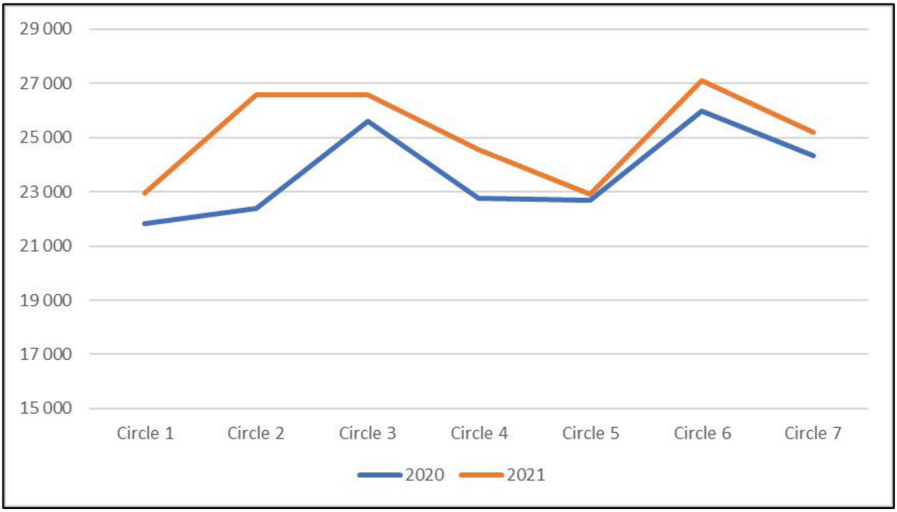
Number of municipal school circle	Average class size as of 01.09.2020	Average class size as of 01.09.2021	Operating per student costs in 2021, UAH	Operating per student costs in 2022, UAH
1	26,5	27,2	21 820	22 954
2	28,3	27,8	22 402	26 599
3	25,9	26,3	25 614	26 580
4	27,4	27,5	22 748	24 557
5	26,4	26,9	22 675	22 906
6	24,8	25,4	25 981	27 121
7	26,5	26,6	24 346	25 215

In the 2021 budget year, the average per student cost was UAH 14,0 thousand. Across school circles, per student costs range from UAH 21,8 thousand in the 1st Circle to almost UAH 26,0 thousand in the 6th circle (with 19% difference). Among individual schools, the differences in per student costs are even greater. The main reason for these disparities are differences of the class size.

Graph. 7.4. Average class size in general secondary schools over two years



Graph. 7.5. Operating per student costs over two years



7.2. Budget process

Budget is a primary tool for city management. The budget period is one calendar year and the budget management period for one year is referred to a budget cycle that includes: preparation of the draft budget, review and approval of the draft budget, implementation of the adopted budget and, finally, reporting on the results of budget execution for a respective year.

The basis for budget preparation is the state of local social and economic development. Furthermore, the budget is a tool for achieving strategic goals the gromada has identified for itself.

The decentralization reform made it possible to significantly increase the revenue part of local budgets. Local revenues are tentatively divided into own revenues (i.e. what local governments can earn) and transferred revenues (i.e. what is transferred to local budgets from the state budget on the irrevocable basis, also referred to as inter-budgetary transfers). Own revenues of any urban gromada, including Mariupol, include:

- Tax revenues (share of national taxes and fees such as personal income tax, local taxes and fees (property tax, single tax, tourist tax, etc.), company income tax, excise tax).
- Non-tax revenues (rent, state fees, fines).
- Other revenues such as proceeds from sale of fixed capital (alienation of municipal property, sale of land plots), target funds.

Budget of an urban gromada is approved by a council decision.

The standard form of a decision on local budget is regulated by the Order of the Ministry of Finance of Ukraine No. 668 adopted on 03.08.2018. It regulates the format of a decision (even proposes a concrete text, without numbers, of course) as well as several annexes. In practice, actual budget decisions may diverge from this standard form, but generally should follow it.

Accordingly, the budget of Mariupol gromada for 2021 was adopted by decision of the Mariupol City Council No. 8/2-7 adopted on 23.12.2020 “On the budget of the Mariupol urban territorial gromada for 2021” consisting of the narrative part and 13 annexes, namely:

1. Budget revenuesy.
2. Budget financing.
3. Distribution of budget expenditures.
4. Budget lending.

5. Inter-budgetary transfers.
6. Allocation of development budget funds by entities.
7. City target programs.
8. List of loans received by the city council to fill the special fund of the city budget in 2021 from international financial organizations for the implementation of investment projects.
9. Entities of co-financing from the State Fund for Regional Development.
10. Grants from the gromada budget.
11. Projected indicative targets of budget revenues and expenditures.
12. List of control bodies.
13. List of budget institutions.

The text of the decision No. 8/2-7 virtually repeats the text proposed in Order No. 668 (with minor deviations in the closing part). As for the listed annexes, the first seven are exactly the same as listed in Order No. 668 (with the same sequence), while the remaining annexes were developed by Mariupol.

For the purpose of our analysis, the relevant document is Annex 3 – *Distribution of Budget Expendituresy*.

It is allowed for the budget to be amended during the budget year. For example, in 2021, Mariupol budget was amended five times: on 26 February, 28 July, 9 September, 24 November, and 22 December.

During the planning process, estimated expenditures of the budget are determined separately for each budget area, based on the general availability of resources and prioritized expenditures.

Three key stakeholders are involved in the preparation and adoption of the budget for general secondary schools:

1. Municipal school circles.
2. Schools represented by school principals.
3. Education Department.

The following are the stages of the budget process:

1. Preparation of the budget forecast.
2. Ground work for the draft budget.
3. Definition of budget thresholds (expenditure ceilings):
   a. Preparation of initial budget requests.
   b. Preparation of the draft budget.
4. Adoption of the budget (budget decision).

These stages are discussed further below.

A local budget forecast is determined according to:

- The Budget Declaration for 2022-2024 (Resolution of the Cabinet of Ministers of 31.05.2021 No. 548) and distribution of inter-budgetary transfers between local budgets for 2022-2024 that have been taken into account in the ceilings set for expenditures and lending from the state budget for the Budget Declaration.
- Budget information determined by the Ministry of Finance (Order of the Ministry of Finance of 23.06.2021 "On the approval of methodological recommendations for the preparation of proposals for the local budget forecast") providing main provisions on the calculation of tentative ceilings and preparation of proposals for the local budget forecast.

On the basis of this order, the main budget user, in this case Mariupol gromada, calculated its revenue and expenditure elements for further elaboration of indicators for the budget forecast.

Unlike the city of Kyiv, Mariupol had two budget users, namely:

- For operating costs, the budget user is the Education Department that finances education institutions.
- For development costs that include refurbishment and construction, reconstruction, the *Capable School* grant to schools from the state budget, the budget user is the Department for the Development of the Housing Fund and Repair of Municipal Property of the City Council.

The next step involved approval of the budget forecast that had been endorsed by the executive committee of the Mariupol City Council by decision No. 371 of 30.08.2021 "On the approval of the budget forecast of the Mariupol urban territorial gromada for 2022-2024" that contained key projections of the economic and social development of Mariupol, budget revenues, and expenditure ceilings.

Main budget users have their own expenditure ceilings established by the Department of Finance of Mariupol City Council and agreed upon during the budget process. Table 7.6 shows in more detail the documents that determined the ceilings during the drafting process.

Table 7.6. Actions to define ceilings for the main budget users

№ з/п	Actor	Time	Action
1	Ministry of Finance	July – August	In line with the first part of Article 75 of the Budget Code of Ukraine, the Ministry of Finance sends the letter on drafting of local budgets with the forecast of macroeconomic indicators for the upcoming budget year (letter from the Ministry of Finance of 12 August 2021).
2	Department of Finance of Mariupol City Council	August	Based on the macroeconomic indicators, projected revenues and taxes in Mariupol are estimated, together with preliminary ceilings (estimates).
	Department of Finance of Mariupol City Council	September	Develops and sends instructions to main budget users for the preparation of budget requests. Note that such instructions are drawn up every year (Order of the Department of Finance of the Mariupol City Council of 21 September 2020 No. 41 "On approval of documents used in the process of drawing up budget requests").
3	Department of Finance of Mariupol City Council	September – October	A letter to main budget users to inform about their expenditure ceilings.
4	Education Department of Mariupol City Council	August – September	Order of the Department of Education and Science of 25 August 2021 No. 206 "On preparation for the budget period and formulation of budget request for 2022".
5	Main budget users	September –October	Preparation of budget proposals by main budget users.
6	Main budget users Department of Finance of Mariupol City	November	Discussion of ceilings for individual main budget users (sectors).

Among the steps of the local budgeting process are elaboration, approval and communication to main budget users of the instructions for preparation of budget requests. This document defines a mechanism for calculation of indicators of the draft local budget for the planned budget year and the forecast for the two subsequent budget periods, and establishes the procedures for formulation, review and analysis of budget requests. General approaches to the preparation of such instructions are outlined in the Order of the Ministry of Finance of 06.06.2012 No. 687 «On approval of the Instructions for preparation of budget requests».

Responsibility for preparation of budget requests rests with main budget users.

In accordance with Article 55 of the Budget Code, the main budget users (in our case, the Education Department) in formulation of budget indicators for the education sector should first prioritize planning of protected budget expenditures. These expenditures include salaries of employees of budget institutions; procurement of medicines and food; payment of utilities and energy bills; and social welfare. The next step is to consider and include maintenance costs for institutions and development budget expenditures (purchase of equipment, capital repairs, etc.).

Preparation of initial budget proposals is carried out by schools. Then, the Education Department together with the heads of school circles review the needs of schools and determine priority areas for development for the Department to take into account in budget request formulation.

The following main documents are used for drafting a budget for the education sector for schools:

1. Indicators of the school network and student enrolment for the school year according to the statistical data of the ZNZ-1 report and the Order of the Education Department on approval of the school network.
2. School curriculum – to determine hours of teaching, compiled at the start of the school year.
3. Salary scheme of teaching staff as of the 1st of September (number of teachers' FTEs, their salaries).
4. Staffing plan of all employees as of as of the 1st of September.
5. Information about the number of children eligible for various benefits.
6. Information on the needs for funds for maintenance and upgrading of the education environment for 2022 (operating costs and development costs broken down to the relevant level of detail, accompanied by justification, detailed calculations and copies of supporting documents, etc.).

In order to prepare substantiated proposals for the draft budget, the main budget user prepares a formal ordinance requesting from heads of education institutions, including school principals, main documents for the formulation of draft budget indicators as well as calculations of their needs as lower-level budget users (Order of the Education Department of 25.08.2021 No. 206 «On preparation for the budget period and formation of the budget request for 2022»).

This Order stipulates that heads of education institutions prepare information on indicators to be used by the Education Department for calculations, namely: indicators of the school network and enrolment for the 2021/22 school year, the staffing plan and actual headcount, the number of children eligible for various benefits, the needs for funds for maintenance and upgrading of the education environment for 2022 (operating costs and development costs broken down to the relevant level of detail, accompanied by justification, detailed calculations and copies of supporting documents specifying the institutional needs.

Table 7.7 shows the main activities carried out to prepare proposals for the draft budget.

Table 7.7. Actions to prepare initial budget requests by school principals

№	Actor	Time	Action
1	Education Department	20 August	Adopt the order on the preparation of draft financial plans, related forms and budget parameters and communicates it to lower-level budget users (institutions subordinated to the Education Department).
2	Principal of general secondary school	from 20 August to 20 September	Prepare proposals for the draft budget that include network indicators (information about enrolment: the number of students, including those eligible for benefits broken down by categories, classes, number of employees, positions in a staffing plan and headcount, broken down by categories (teachers, other pedagogical staff, specialists, etc.). The institution's needs as regards maintenance costs and upgrading of infrastructure (not protected expenditures): purchase of furniture, office supplies, equipment, household goods, etc., equipment maintenance services, refilling of cartridges, repair works, telephone communication, Internet, etc.
3	Principal of general secondary school	20 September	Submit budget proposals to the Department of Education.
4	Centralized accounting office (school accountant)	by 20 September	Based on the indicators of enrolment and the number of employees, curricula, and salary schemes, prepare proposals for the draft budget as regards the need for expenditures on food and salaries; submits these to the Education Department.

5	Education Department	3d or 4th week of October	Conduct a working meeting with heads of school circles to discuss formulation of the draft budget.
6	School circle	3d or 4th week of October	Submit proposals for priority expenditures to the Education Department.

Further on, in line with the current standard forms of budget requests approved by the Order of the Ministry of Finance of 17.07.2015 No. 648, in accordance with Articles 34 and 75 of the Budget Code and taking into account the specificity of local budgeting, main budget users (in our case the Education Department) prepare budget requests to be submitted to the Department of Finance within the established procedure and timelines.

In doing so, main budget users must ensure the timeliness, reliability and adequacy of content of submitted budget requests that should contain all necessary information for the analysis of indicators specified in the draft local budget.

The budget request is submitted in hard copy and electronically according to the following forms: Budget request for ____ - ____ years (general), Form 20__-1, Budget request for ____ - ____ years (individual), Form__-2 – expenditure ceilings and Budget request for ____ - ____ years (additional), Form __-3 is used to formulate additional needs above the ceilings. The Department of Finance does not limit the main budget users in their formulation of additional needs.

It should be noted that the Department of Finance, at any stage of drawing up and reviewing draft local budgets, reviews budget requests submitted by the main budget users for its consistency with the purpose, prioritization, as well as effectiveness and efficiency of the use of budget funds. It also holds working meetings with the main budget users to discuss formulation of the draft budget, including problematic issues and additional needs.

Based on its analysis, the Department of Finance takes a decision to include the budget request in the proposed draft local budget before submitting it to the executive body of the local council for consideration.

Table 7.8 below lists the actions of the Department of Finance and the Mariupol City Council prior to the formulation of the final decision on the budget.

Table 7.8. Actions for the preparation of the draft budget at the city level

№	Actor	Timeline	Action
1	Department of Finance	1st week of November	Review the budget request (for compliance of goals with development areas, objectives of the target program, compliance with the expenditure ceilings) as well as additional needs.
2	Education Department	2nd week of November	Adjust budget calculations upon agreement with the Department of Finance, prepare presentation materials on planned expenditures for the year and additional needs (if any).
3	Deputy mayor	2nd week of November	Conduct budget discussions with budget users and the Education Department.
4	City Council	3d and 4th week of November	Hold a budget committee meeting where the budget is discussed with the Education Department.
5	Education Department	3 days after the budget committee	Provide adjusted calculations to the budget based on the results of the budget committee meeting.
6	Deputy mayor by direction	1st week of December	Conduct budget discussions with the relevant council commission.
7	City Council	2nd week of December	Conduct public discussion of the budget (Council Member Day to be streamed online).
8	Education Department	2nd week of December	Conduct a working meeting on budget allocations between institutions with heads of school circle.
9	City Council	2nd week of December	Publish the draft decision on the budget on the official website of the city council.
10	City Council	3d and 4th week of December	Hold meetings of standing commissions (with all standing commissions) for pre-plenary discussion of the budget.
11	City Council	4th week of December	Conduct a plenary to adopt decision on the budget.
12	City Council	2nd week of December	Publish the draft decision on the budget on the official website of the city council.

During deliberations on the draft budget, the Education Department represents the interests of heads of school circles and school principals. The discussions focus on the compulsory needs of schools, implementation of innovations and priority issues in the field, political preferences of the city administration and council members. If justified and necessity, additional financing is allocated above the ceilings. This mainly concerns repairs, construction and reconstruction of schools. Adjusted budget expenditures must be reflected in budget requests.

7.3. Innovative budgeting procedures

Mariupol and its Education Department were introducing innovative approaches to the education management system to achieve a more rational and effective use of budget funds. As a rule, these innovations would come about as a project or grant award that are refined and improved step by step based on the accumulated experience.

The budgeting for secondary education is very rigidly regulated by legal provisions, which makes it difficult to implement new approaches developed by the city. Nevertheless, Mariupol was making efforts to make this process more transparent and predictable. In this section, we shall consider three innovative budget procedures introduced in the city of Mariupol:

1. Project “Four activities”.
2. The grant program “Parental Fund”.
3. Outsourcing of non-core functions of schools.

These three innovative approaches are discussed briefly in the following subsections.

7.3.1. Project “Four activities”

The goal of this measure was to create a welcoming environment for children’s education in the city schools and to make schools more energy-efficient.

The city administration invests in the improvement of the condition of school buildings through implementation of the «Four Activities» – a program that envisages certain types of repair works and capital refurbishment of buildings.

The types of work are approved in the Program of Economic and Social Development of Mariupol for the corresponding year with the breakdown by individual schools. The program is approved annually by decision of the Mariupol City Council and is published on the website.

The «Four activities» program is financed from the city budget and is partially covered by the state budget expenditures. Interestingly, the unspent amounts of the educational grant from the previous year were channeled to support these activities.

Renovation of toilets, replacement of windows and repair of roofs stipulates that financing and performance of works should be completed within one year, thus enabling gradual renovation of all schools.

It should be stressed that the city made significant contributions to the equipment of classrooms within the New Ukrainian School reform. For example, during two years for this purpose UAH 20 840 thousand was allocated from state subvention and UAH 34 213 thousand from the city budget.

Table 7.9. The Four Activities program (expenditures for schools, thousand UAH)

Use of funds	2020			2021		
	City budget	Grant from the state budget or unspent amounts from the education grant	Total	City budget	Grant from the state budget or unspent amounts from the education grant	Total
New Ukrainian School	21 976	7 401	29 377	12 237	13 439	25676
Renovation of toilets	18 002		18 002	2 181	11 919	14 100
Replacement of windows	8 655		8 655	4 276		4 276
Repair of roofs	10 097		10 097	2 262		2 262

Over the course of two years, renovation of toilets, replacement of windows and repair of roofs were completed in 29 schools in 2020 and in 21 schools in 2021. This helped create a welcoming environment for children to study in the city schools, and made the schools more energy-efficient.

7.3.2. The grant program "Parental Fund"

The main objectives of the program were to facilitate the conditions for solving the issues of development of the material and technical infrastructure of schools and their premises, to encourage the initiative of parents, to ensure transparency and openness of charitable contributions and to pool resources of the local council and the Parental community.

The "voluntary but compulsory" contributions in many schools become an obligation for parents. Their transparency and spending were at a very poor level. Parents did not always know where and what they were spending their money on. Therefore, in order to avoid problems for parents and to ensure an effective mechanism for additional fund-raising, the Mariupol City Council approved the Parental Fund grant program (Decision of the Mariupol City Council of 29.09.2021 No. 8/10-932 «On approval of the Regulation on the Public Participatory Budget of the Mariupol urban territorial gromada»).

The priority areas of financing of the Parental Fund through grants are related to improvement of conditions for the organization of education process (including the rational use of energy resources, improvement of territories, landscaping, arrangement of children's playgrounds, sports grounds, etc.).

The Parental Fund is made up of parental voluntary contributions as well as donations, targeted contributions from individuals and companies, and by matching co-financing from the city budget.

The program is implemented in three steps:

Step I – A decision about participation, determination of funding areas to improve the education process, fund-raising and transfer of money to the identified budget accounts. Parental council makes a decision on participation in the grant program, chooses the area of financing and gathers funds in budget accounts of a school opened in the State Treasury bodies. Parents participate in the grant program exclusively for the development of a school their children attend.

Step II – Co-financing from the local budget. The city provides co-financing for the areas identified by the parental council of a school for which the money has been collected in the budget accounts. The amount of co-financing matches the amount contributed by parents and kept in the accounts.

Step III – Implementation of a grant project. Implementation begins after the city contributes with co-financing. The school in cooperation with the

Education Department uses the Prozorro procurement system implements the grant program by the end of the year.

In 2020-2021, through the Parental Fund UAH 1,498.2 thousand were raised for the implementation of the school grant program with the matching co-financing in the same amount from the city.

Not all schools participate in this grant program – only 36 out of 63. The program also includes preschools, informal education institutions, and inclusive resource centers.

The largest amounts were spent to purchase of computer and multimedia equipment, construction materials and furniture.

Strengths of the Parental Fund program:

- De-shadowing of parental contribution.
- Transparent and open use of parental funds.
- Encouragement of parental initiative.
- Interaction between parents, school administration and city authorities to address the improvement of education process.
- Addressing the development the material and technical infrastructure of schools and their premises.
- Pooling resources of the local council and parental community.

Weaknesses of the program: spending the money through the Prozorro system means that the low price is a decisive factor in procurement and it does not always mean good quality; funds that have not been spent on procurement by the end of the year cannot be redirected by the school to other purposes because the co-financing is always ear-marked.

7.3.3. Outsourcing of non-core functions of schools

The goal of the project was to provide better services for the maintenance of indoor and outdoor premises to education institutions.

The project was launched in 2018 with the establishment of a municipal service «Laundry for Education Institutions» (Decision of the Mariupol City Council of 27.01.2021 No. 8/3-55) to provide laundry and ironing services to municipal education institutions free-of-charge with the aim to improve the service and reducing the workload on preschools.

In 2021, it was renamed into the «Service Center of Education Institutions» (Decision of the Mariupol City Council of 30.06.2021 No. 8/8-706) and tasked with implementation of the project «Outsourcing of non-core functions» in education institutions.

The functions of the Service Center performed on a free-of-charge basis for municipal education institutions were significantly expanded and included:

- laundry and ironing services.
- collection and transportation of laundry from municipal education institutions.
- support services (maintenance, repair) to keep in good working condition the engineering equipment of buildings related to central heating, water supply, sewage, energy supply, electric lighting, sanitary equipment, external and internal drains, repair of furniture, window and door openings and other equipment.
- dry cleaning of carpets and upholstered furniture, etc.

Below are the strengths of the project:

- High-quality and timely repair works.
- Recruitment of skilled employees.
- Optimization of labour costs of education institutions by abolishing some worker positions.
- Improved remuneration conditions.

The weak side of the project is related to the social factor (reduction of positions in education institutions).

The number of staff positions in schools was reduced by 179 with a wage fund of UAH 14 457 thousand (with approximate salary of UAH 6 000).

At the same time, the Service Center performs its functions more efficiently having 113 positions and offering higher salaries (with approximate salary of UAH 12 000).

7.4. Conclusions

We are convinced that the budgeting experience of pre-war Mariupol offers innovative tools that other urban municipalities should learn about and explore. Below are the key conclusions that can be drawn from the overview presented in sections 7.1, 7.2 and 7.3.

The positive aspects of the budgetary process in educational in Mariupol include:

1. 1. Legal framework of budget process and inter-budgetary relations with regard to local budgets are defined by the Budget Code of Ukraine. All norms of the Budget Code that regulate relations at each stage of the budget process equally apply to all local budgets. Mariupol has a clear administrative structure that deals with the budgeting in education. Its Education Department is a main budget user that manages budget funds in the education system and finances education institutions. At all stages of the budget process there is control of *compliance with the budget legislation* and effectiveness of budget funds management.
2. At the stage of budget formulation for education, there is a positive experience of holding public online discussion of relevant indicators – the Day of Council Member.
3. To formulate budget proposals, the Education Department started to involve heads of school circles created in the city by decision of the city council, thus making it possible to address the needs of each school in greater detail.
4. Education institutions in Mariupol have their own financial plans and carry out procurement of goods and services. Servicing and financing of schools with separate budgets are carried out by the centralized accounting office of the Education Department. The school principal independently decides how to prioritize spending of the budget funds stipulated in a school financial plans. The city has common approaches to budget expenditures for general secondary schools. All secondary schools prepare salary schemes as of the 1st of September. Enrolment in the first grade and setting up classes in primary school is at the discretion of school principals and the Education Department plays an oversight role. As a result, the class sizes differ significantly between institutions (graphs 7.2, 7.3).
5. 5. Mariupol and its Education Department were introducing innovative approaches to the education management system to allow for a more rational and effective use of budget funds. These innovations usually

emerged as a project or grant programs that would be refined and improved step by step based on the accumulated experience. Mariupol implemented the following innovative projects:

a. School circles.

b. Four Activities.

c. Parental Fund grant program.

d. Project on outsourcing non-core functions.

The limited role of school principals should be named as a downside in the budgeting process. School principals prepare projections for enrolment and classes and provide proposals regarding the needs of a school. However, they do not have a mechanism to present argumentation to defend their specific needs. The Education Department reviews these proposals and decides on priorities to be included in the budget proposals, because proposals from school principals sometimes exceed the ceilings manyfold. Teachers and parents are not involved in the budgeting process, and there is no public discussion of the urgent needs of schools to be formulated

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Decision of the Mariupol City Council of 22.12.2021 No. XX on City Development Strategy «Mariupol 2030».

Chapter 8. RECOMMENDATIONS

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Introduction

The budget process in education at the local level in Ukraine, as in many countries, is heavily regulated. This regulation comes from three main sources:

1. Education legislation, which defines educational standards (different types of schools, curriculum, school equipment, formation of classes), employment levels in schools, as well as the main processes in schools with direct impact on school budgets (complectation, tarrification).
2. Budget regulation, which defines the format of budget documents (with their many annexes) and the classifications which have to be used. As a result, budget documents are extremely complex and are very difficult to understand to anybody except financing professionals.
3. Local government legislation, which defines the rights and obligations of gromadas as founders of secondary schools.

Further, due to unfinished decentralization process, there is significant confusion regarding key questions of the budgeting process:

1. What is the scope and limitations of budget autonomy of schools? While the laws on education proclaim that schools enjoy budgetary autonomy, this has not been translated into precise obligatory procedures and

instructions. Budget legislation still assumes subservient role of school directors in the budget process. In practice, school directors have no role in all the steps of the budget process after submission of initial budget requests. Moreover, schools do not have budgets, only financial plans (koshtoris).

2. How local priorities in education are taken into account when budget documents are adopted. Typically, initial budget requests are formulated by the schools based on instructions, and this is seen as almost mechanical process. Then these budget requests are aggregated and often exceed what local budget allocates for education. A process of adjustments and internal discussions takes place, largely between the education department and the budget department. In this process, there is no place for formulation of long-term priorities and their implementation in the budgets.
3. How local budgets are discussed and understood. After final agreement between the education department and the budget department, the agreed budget proposal is presented to the local council, who often barely understand these complex documents. Main focus of councilors is therefore on planned investments. School directors, teachers, and the general public face similar difficulties of comprehending the budget document adopted by council. This prevents informed discussion between interested parties and creates division between electorate of the gromada and its elected representatives.

Overall, we can conclude from the three case studies in large cities, as well as the review of legislative basis of education budgeting, presented in this book, that while Ukrainian local government legislation has been reformed to work well with decentralization, this is much less true of education legislation, and not true at all of budget legislation. This means that the decentralization process in education cannot be considered to be completed.

It is premature to formulate detailed recommendations, since they require open in-depth discussions of all stakeholders, including local governments and their associations, the Government of Ukraine and its Parliament, and academic and commercial experts. Moreover, many of the identified problems and the proposed solutions extend beyond the education sector. Instead, we can offer some general recommendations. We group them as follows. Recommendations for the national level are presented in section 8.1. These are proposed changes to overall budgeting system in Ukraine. Recommendations for the local level are presented in section 8.2. Here we review some key changes that territorial gromadas may discuss and begin to implement already, within the current legal system. The third section presents selected good practice of budgeting in education in local level, derived from the three case studies.

8.1. Recommendations for the national level

The budget system in Ukraine, in comparison to modern budget systems in most EU countries, exhibits several peculiarities, especially regarding budget classifications. Excessive fragmentation of the budget, as discussed in detail in chapter 4, namely parallel but independent divisions of the budget into recurrent and investment expenditures, into consumption and development expenditures, and into general and special funds, creates confusion, reduces transparency of budget documents, and does not seem to serve any useful purpose. In contrast, European budgets are typically just divided into recurrent and investment parts, which are sufficient for any planning and communication purposes.

A separate specific feature of the Ukrainian budget system is the contradiction between the definition of some transfers from the national to local budgets and the obligatory budget classification. Specifically, the use of the education subvention, the main budget instrument used in Ukraine to finance educational tasks, is by law limited to payment of salaries of pedagogical staff. However, who is and who is not pedagogical staff is defined only in sectoral (education) legislation, and the expenditures for their salaries are not reflected in budget classification. This contradiction creates significant problems for the execution and reporting of budgets, and more importantly for analysis and planning.

Accordingly, in the present section we review the current legislation and formulate recommendations regarding budget fragmentation and classification of teacher salaries.

8.1.1. Reduce the fragmentation of budgets

Present budget system in Ukraine is excessively fragmented. In particular, it uses three separate divisions of all expenditures (for details and examples see chapter 4), defined in Order of MF Nr 11 of January 14, 2011:

1. Recurrent and investment: this is standard distinction between expenditures which are used for regular functioning of local institutions (recurrent) and expenditures directed at increasing the value of local assets (investments).
2. Consumption and development: this is close to the distinction between recurrent and investment costs, however consumption expenditures are lesser than recurrent, because they do not include some research and development costs of national or regional significance (KEKB 2281, KEKB 2610) nor some special purpose activities on national importance (KEKB 2260).
3. General and special fund: these are in fact two separate parallel budgets, each of which must be balanced (however, transfers from the general to special fund are allowed). Legislation specifies separate revenues of the two funds (see Table 4.4, Table 4.5 in chapter 4).

Further level of complexity arises from the use, in budget documents, of additional category of development budget of local budgets.

This fragmentation makes the reading of budget documents very difficult. It also prevents informed public discussions about the local budgets, how they use the available resources and how they attempt to reach the stated policy goals. At the same time, these distinctions do not seem to serve useful purposes. For example, differences between recurrent and consumption expenditures are already captured in budget classification (namely in KEKB) and may be easily reported in any format, if required. In general, local governments are heavily regulated regarding the general fund and enjoy more freedom in setting their special fund (except for targeted investment grants). The division of the budget into general and special fund is characteristic of several post-Soviet republics and does not have an adequate analog in European budget system. Any reasonable purpose of this distinction may be achieved using well-designed budget reports.

In contrast, the Swedish budget system (discussed in chapter 2) uses only the division of expenditures into recurrent and investments. With this division as the basis, the budget process becomes very much simplified:

- Allocation of recurrent expenditures between sectors (between budget users, or in specific Swedish conditions between the committees) represents overall policy priorities of the local council. Detailed use of the allocated funds, for example by the education committees, is then the sole responsibility of the budget users.

- Specific investment projects are individually discussed and decided at the council level and are stated in the budget documents. These are typically large, multi-year projects, and their selection and approval are the responsibility of the whole council.

The same simpler division of expenditures into recurrent and investment is applied in Poland (chapter 3) and in other European countries.

It is recommended that Ukraine revisits its budget system in view of practices adopted in member states of the European Union, and considers the possibility to completely remove the division of expenditures into consumption and development types, as well as division of all budget into general and special fund. Of course, this recommendation, if adopted by Ukraine, would require very careful analysis and preparation, because it would affect many sensitive aspects of the budget system, including the functioning of the Treasury Service and the details of obligatory budget documents and budget reporting. Therefore, it can only be understood as a long term reform plan. Nevertheless, if implemented, this recommendation would bring Ukrainian budget system much closer to the European budgeting standards.

8.1.2. Separate teacher salaries in budget classification

According to the Budget Code, the funds from the education subvention from the national to local budgets may be used exclusively for the payment of salaries of pedagogical staff during the budget year (following the end of the budget years, the remaining funds may be used to pay for other expenditures for general secondary education). At the same time, the identification of individual employees as being or not being pedagogical staff is performed in education legislation (Decree of CMU Nr 963 of June 14, 2020, with later changes). The concept of pedagogical staff is not reflected in budget classification. This represents a contradiction, because it is not easy to check that the requirements of the Budget Code are respected in practice.

Regarding the execution of the budget this is not a major impediment, because all territorial gromadas have to use the Treasury Service, which identifies each transaction, among others, by stating the source of funds. Thus, it is not technically possible to spend funds from education subvention on anything other than salaries. However, the data items in transactions of Treasury Service do not allow to ensure that salaries paid from education subvention reach only the pedagogical staff. Adherence to the requirements of the Budget Code must be therefore ensured using other means.

On the other hand, budget reports of local governments are not able to adequately and usefully present actual expenditures on general secondary education. Until recently, all expenditures from education subvention were reported together, irrespective whether they came from education subvention allocated in the current budget year, from the remaining funds from previous budget years, or from targeted funds allocated to local governments with a specific purpose (such as school buses or some school laboratories). The only differentiation of expenditures on general secondary education was related to type of educational institution. This very significant deficiency of Ukrainian budget system was corrected in 2020 (Order of MF Nr 781 of December 17, 2020, amending Order of MF Nr 11 of January 14, 2011), when current system, presented in Table 4.12 of chapter 4, was introduced indicating both the type of education institution and the source of funding, namely:

- Own revenues of local budget.
- Education subvention.
- Targeted amounts in remaining funds of education subvention.
- Funds to secure school environment (COVID-19) from remaining funds of education subvention.
- Other funds in remaining funds of education subvention.

This means that from budget year 2021 budget reports differentiate expenditures on general secondary education based on the source of funding, a major improvement of the budget classification. However, this is not enough. While we can be sure that salary expenditures from education subvention are directed only for pedagogical staff (assuming that local governments adhere to regulation of the Budget Code), salary expenditures from other sources may cover salaries of both pedagogical and non-pedagogical staff. Thus, budget reports do not clarify which territorial gromadas have to add to the education subvention from their own revenues, and how much. It becomes impossible to assess, for the whole country or for some regions, the degree to which education subvention is insufficient to meet its primary goal, and the specific gromadas where this insufficiency is especially acute. This limits the effectiveness of monitoring of the use of education subvention at the local level, and hampers efforts to improve the allocation formula itself.

The simple solution to this problem lies in adjustment of the economic classification of budget expenditures, namely by expanding the available codes of economic classification KEKB. Presently, salary and related expenditures, KEKB 2100, are divided into salaries and taxes and social contributions and further differentiated for some groups of employees, as the following Table 8.1 shows:

Table 8.1. **Codes for salaries in economic classification of budget expenditures**

KEKB	Meaning
2100	Salary and related expenditures
2110	Salaries
2111	Remuneration
2112	Salaries of military staff
2113	Awards for judges
2120	Taxes and social contributions

Thus, two groups of staff have separate budget codes for their salaries, namely the military and the judges. It is recommended that this differentiation is also extended to cover separately salaries of pedagogical staff, for example, in KEKB 2114.

We note that the economic classification of salaries is not set in stone. While KEKB 2112 for the military has been used since 2011, KEKB 2113 for the judges was introduced only recently, namely in Order of MF Nr. 615 of October 15, 2020 (amending Order of MF Nr 11 of January 14, 2011). Thus, further expansion of KEKB for salaries is possible.

Of course, extension of the budget classification is always a serious matter and should not be undertaken lightly. In particular, it requires adjustments to all accounting software used by local governments, and changes to the functioning of the Treasury Service. However, it is important to note that pedagogical staff comprise one of the largest groups of public employees, with over 450 thousand people employed (the only sector with more staff is the army during the state of war). Their separate treatment in the budget classification is fully justified.

8.2. Recommendations for the local level

8.2.1. Strengthen transparency of the budgeting process

Transparency in the budgeting process is an important part of democratic society, it empowers citizens to be real actors in the process that influences budget decisions. According to the Budget Code, the principle of publicity and transparency means "informing the public about budgetary policy, drafting, consideration, approval, implementation of the state budget and local budgets, as well as control over the implementation of the state budget and local budgets".

The principle of transparency means that there should be open and accessible information about all aspects of the budget process and options for budget decisions. This information is important because it allows the public to understand which projects and programs are financed from the budget funds, to exercise public control and monitor the quality of budget decisions. Thus, transparency in the budgeting process promotes trust between the government and citizens and serves as a safeguard against corruption and abuse in the use of budget funds, ensuring control over effective and responsible spending.

Transparency of the budgetary process in education deserves special attention. Education expenditures in gromadas generally constitute the largest share of a local budget, which affects the needs regarding access to quality education for every family with children who attend schools or other education institutions. Therefore, residents who have schoolchildren have direct interest in improving the education process and should have access to information about the education budgeting process and possibility influence it.

However, in many cases, such transparency is lacking. One of the problems is citizens and even educators themselves lack adequate skills to work with the publicly available budget information. Some documents may not be easily understood when presented in a format that is not accessible to the public. For example, such information may be presented in the form of complex financial statements and spreadsheets, making it incomprehensible to most ordinary citizens. In addition, there are risks that the budget data may be incomplete or unreliable.

However, even high-quality, timely and reliable publication of information about the budget process may not be enough if citizens are not able to directly influence the process of resolving budgeting issues. Despite the existing legislative norms that establish the right and highlight the importance of citizens' participation in local self-government (Law of Ukraine "On Local Self-Government in Ukraine", Budget Code of Ukraine, Law of Ukraine "On Open Use of Public Funds", Law of Ukraine "On Access to Public Information"), in practice, city councils do not always see citizens as full-fledged participants in governance processes.

In addition, corruption risks exist at every stage of the budget cycle. For example, potential threats can be posed by overstated enrolment numbers intended to solicit additional funding, or by prioritized allocation of budget funds to institutions connected with influential local council members, etc.

Based on the case studies of three cities presented in this study, the following recommendations can be formulated with a view to improving transparency of budgeting in education.

During preparation of an education budget, it would be beneficial to have a dialogue not only with individual school principals, but also wit the collective body of school leaders. The goal would be to share information, jointly discuss priorities, build consensus on what is most urgent and justified, and avoid mistakes. This collective approach can be achieved, for example, by organizing meetings with all involved school principals and by making relevant budget documents available to them.

The process of forming a list of education institutions to receive funds from the development fund outside the city programs and public projects should be made more transparent and less dependent on political influence. For this purpose, it is possible to use various tools to make comparative assessment of needs, build rankings, such as, for example, the mapping of education in Kyiv city.

Application of a common formula contributes to transparency of funds distribution. At the same time, one should bear in mind that each formula has its limitations when we speak about the extent to which all specific needs and conditions of individual schools are accounted for. Therefore, a formula-based allocation system also requires a reserve fund that would help to mitigate its limitations.

It is very important to clarify the division of powers in the budgeting process, in particular between the district education authorities and the department of education and science (as in the case of Kyiv, concerning introduction of a formula-based distribution of funds for school maintenance), or between school circles (as in the case of Mariupol) that have to reach consensus about prioritization in financing of capital expenditures for schools within the circle.

Well-informed aware participation of school principals in the budget process requires enhancement of their financial literacy through seminars, workshops, and other activities.

Budgeting in education can be made more transparent by involving the teaching staff and parents in determining the priority areas for budget spending and by holding public hearings.

Another effective way to ramp up involvement of educators and residents in the budget process is to provide visualization of budget information and to make it available. Various kinds of charts and infographics can help people learn about the progress of works or resourcing of schools and judge about the fairness of funds allocation based on the territorial principle.

8.2.2. Link national and local priorities of education policy

Local self-governments are founders of general secondary schools and determine their local education policy that while taking into consideration local needs and priorities should also reflect the national education policy. After all, state education standards, typical education programs, principles of curriculum financing, teacher in-service training and remuneration are set at the national level and implemented throughout the country. When changes are made at the national level and certain priorities are identified for the national education policy to improve the quality of education, the implementation should take place throughout the country and be applicable to all schools regardless of their location.

Therefore, local budgets should respond to the national policy priorities in the education sector. However, due to limited resources, local initiatives are often prioritized on the ground. Meanwhile, it is extremely important to simultaneously implement changes in all Ukrainian gromadas to improve access to quality education, regardless of local political decisions or preferences.

As the three case studies have shown, an effective instrument for advancement of a centrally determined education policy is for the central government to provide targeted education grants to local communities supporting specific educational changes. For example, implementation of the New Ukrainian School reform was supported by a targeted grant with the same name as a vehicle to channel funds to procure equipment and methodical support in order to modernize the educational setting for grades that start with the new national standard. It also included targeted upskilling of teachers to ensure their readiness to introduce appropriate teaching methods and techniques required by the reform.

Local self-governments used this grant to procure supplies and materials for learning and to arrange classrooms for primary school grades on the principle of co-financing with the following ratio:

- Up to 70% - money from the grant and at least 30% - money from local budgets, for oblast budgets, budgets of urban gromadas and the city of Kyiv with population as of 1 January 2020 over 40,000 residents.
- Up to 90% - money from the grant and at least 10% - money from local budgets, for budgets of urban gromadas and the city of Kyiv with population as of 1 January 2020 below 40,000 residents, and rural gromadas.
- Up to 95% - money from the grant and at least 5% - money from local budgets, for schools located in villages with the status of mountainous settlements and settlements along the contact line.

(Resolution of the Cabinet of Ministers No. 476 of 17 May 2021 "Some issues of providing subventions from the state budget to local budgets to ensure high-quality, modern and affordable general secondary education «New Ukrainian School» in 2021).

With this approach, all gromadas were able to implement the reform and make affordable contribution to its implementation.

City budgets also stipulate several city programs and projects that reflect priorities for the development of the education system. For example, Kyiv enacted the «Education of Kyiv» program that comprises a range of different projects; Lviv launched the «Full-day school» project to increase the duration of students' stay at schools and provide extracurricular activities aimed to facilitate child development; in Mariupol introduced the «Four activity» program in 2020-2021 aimed help with refurbishment of toilets, replacement of windows, repair of roofs in education institutions and arrangement of classrooms for the New Ukrainian School. It is important to encourage school principals and school workforce to achieve good outcomes from innovative educational programs supported by the city, which requires clear definition of performance indicators.

8.2.3. Clarify the links of budget document to policy priorities

It is difficult to find more strikingly different approaches to local budgeting process in education than Swedish and Ukrainian experience:

- In Ukraine, the process is seen largely as technical, with the main difficulty being reducing the expressed needs of schools to fit limited budget ceilings. The repeated rounds of draft budgets are focused on achieving precisely that. This is the topic of disagreements and discussions, and the final decision always rests with the Budget Department.
- In Sweden, the process is seen mainly as a route to achieve policy goals set by the local council, or more specifically by the party or coalition which won last local elections. Budget discussions are focused on how these goals may be achieved. Thus, budget is an instrument of reaching policy objectives. Budget Department is subservient to policy departments as long as they serve these objectives.

One of the results of this profound difference is that Swedish budget documents have relatively few budget numbers but try to clarify the purposes of the allocation. In contrast, Ukrainian budget documents are very difficult to read and do not offer any insight into the process that produced them.

A key example of the rigidity of the Ukrainian system is that budget documents in most cases almost verbatim repeat the typical format of budget decisions, as stated in the legislation (see chapter 4). Likewise, in most cases the annexes of the local decision on the budget are the same as postulated in legislation, although in principle gromadas may add their own annexes as they find appropriate (see chapter 5 for examples of such additional annexes from actual practice in Ukraine).

Nevertheless, it is precisely in these annexes that Ukrainian gromadas have a certain degree of freedom in their budget process, which may be used to better express in official documents their priorities. Here, in line with the Swedish experience (chapter 2), by priorities we mean long term plans of the gromada, valid for the whole mandate of gromada mayor and gromada council. These priorities may be expressed in two relatively easy ways:

1. The changing overall allocation of public funds to different sectors.

2. The selected investment projects.

Both of these are valid for several consecutive budget years, and both are quite easy to explain to the electorate. By showing inherited (historical) shares of different sectors in the budget and by indicating how and why these shares will be adjusted over time, gromada shows how it is planning to pursue its long-term priorities. Similarly, by stating the current and planned investment projects, and by providing the reasons for this selection, gromada directly communicates its priorities to the public.

As mentioned, this can be achieved without changing the format and requirements of the budget documents, which is the exclusive prerogative of the national government and the parliament. Namely, gromada may decide to adopt a few annexes, in addition to annexes present in typical documents, and design their format to include this additional information. These annexes may be used to:

- Formulate priorities of gromada ормулювання пріоритетів громади;
- Explain which elements of the budget express these priorities (even if only partially).
- Identify long-term investment needs.
- Specify which investment projects were selected for the few coming budget years and provide arguments for this selection.

For example, in education these annexes may provide overall position of education within the city budget, and the shares of different education subsectors. They may also clarify what new programs are adopted by gromadas, why they are adopted, how much funds are allocated to them, and what are the plans for the next years. As the three case studies presented in this book indicate, territorial gromadas adopt innovative budget programs, but do not have adequate means to elaborate about their goals and to exhibit their budgets in the current and subsequent budget years.

Analogously, separate annexes may identify main investment needs of education, propose strategy to gradually satisfy those needs, and present to the public immediate and future plans for specific investments.

With this approach, budget decisions of territorial gromadas will be easier to understand and the links between policy goals and the adopted budget will be made more explicit. Design of additional annexes and their number will of course depend on specific needs of territorial gromadas, so the present book is not the right place to propose them.

8.2.4. Use budget goals and progress indicators in budget documents

A separate element of the Swedish experience is the use of progress indicators to monitor how the local government reaches – or does not reach – its stated policy goals. The use of such indicators in Ukrainian budget documents and in budgeting process is not prohibited but is never practiced. There are good reasons why some at least gromadas may wish to adopt this approach. We can formulate three such reasons:

1. Use of indicators shows that gromada is serious about its stated policy goals.
2. Indicators allow gromada officials to assess whether they are reaching their policy goals, and to change their strategy in case they are not.
3. Indicators are a useful communication tool of gromada with their electorate.

In order to be useful, progress indicators must meet some conditions:

- The measured variable must have clear policy relevance. It makes little sense to monitor indicators which do not correspond to any important aspect of local government activities.
- Gromada should be able to influence the measured variable through its actions and decisions. If this condition is violated, the indicator will say nothing about the activities of the gromada.
- The starting value, or the baseline, must be established. Without a baseline it is not possible to assess how much progress has been made.
- The desired value (or goal) of the indicator should be stated by the gromada. Without a desired value it is not possible to assess how much progress is still required.
- The planned time of reaching the goal should be known. Without such a public deadline it is not possible to assess whether the progress is sufficient.
- The calculation of the indicator should relatively simple and should be based on publicly available data. If indicator is either excessively complex or built from data available only to local officials, it will be viewed with suspicion and will not support local discussions of policy goals.
- The indicator should be regularly updated, for example every year. Indicators which are not updated at all, or which are updated too frequently (for example, every month), quickly lose their relevance and interest to the local public.

The choice of the progress indicators should be dictated by adopted policy goals of the gromada. Thus, we should expect that indicators adopted by different gromadas may be very different. This is in contrast to possible national indicators, which for comparative purposes should be defined and assessed uniformly for all gromadas in Ukraine. It is also important not to have too many indicators: with an excessive number of indicators, the administrative burden of calculating and publishing them becomes too heavy, and the additional information contained in them may create confusion rather than mutual understanding. One can say, for example, that for each sector the number of indicators adopted may be between three and five.

A good place for inclusion of the indicators is an additional dedicated annex to the decision of local council on the budget. Gromada administration may include in this annex the list of indicators it plans to use to monitor its progress towards its policy goal, may provide their definition (method of calculation), may state their baseline values (for example, values at the beginning of the local mandate), and their current value (values for the year before the given budget year). Ambitious territorial gromadas may also indicate what are the value they want to achieve within given period. This may become a political risk for the gromada if actions of local administration fail to change the indicator in the planned direction.

In education, one may propose several possible useful indicators, depending on the needs and priorities of territorial gromada. Some examples are proposed in the following Table 8.2.

Table 8.2. Example of policy goals and related progress indicators

Policy goal	Relevant indicators
Improved quality of education	Share of graduates of secondary schools who scored high in ZNO
	Share of students who did not pass to the next grade and will repeat school year
Wider access to extracurricular activities in schools	Share of students who attended more than 10 hours of voluntary education activities (classes) during a school year
	Share of schools which increased their extracurricular offer
Increasing efficiency of local school network	Average class size in TG
	Share of expenditures on salaries of pedagogical staff above received education subvention
Gender balance in local education	Share of girls and boys among students who succeed in national education competitions (olympiads)
	Share of girls and boys among students who participated in extracurricular activities

Some examples of progress indicators in education actually adopted in Swedish municipalities are provided in chapter 4.

8.2.5. 3Include of school principals in the budget process

As the three cases studies (chapters 5, 6, 7) indicate, the functions performed by the school director in the budget process may be summarized in the following manner:

1. Submission of required statistical data (including prognosis of student numbers).
2. Preparation of draft school budget.
3. Preparation of final school budget within the budget limits determined by the city.

Of course, during the different phases of the budget process school principals take part in some negotiations regarding the budget allocation planned for their school, but these are individual negotiations and are in no way formalized. The survey of Kyiv rayons (chapter 5) shows that school principals are in no position to question the decisions of city administration and to successfully require higher allocation to address specific needs of their schools. The same survey indicates that city administration, obliged to collect and process large quantities of statistical data, do not have the time to assess these needs.

At the same time, it must be recognized that within the limited budget resources, comparative review of specific needs of individual schools is necessary to achieve balanced and justified allocation of pedagogical and other staff, and to ensure consistent quality of pedagogical process. Ukrainian cities may consider following the example of some Polish municipalities who introduced into their budget process some additional steps to allow dialogue between city administration and school principals and to empower principals vis-a-vis officials of the gromada. Such additional steps would be new to Ukrainian budgeting practices but would be consistent with the current legislation.

Strengthened inclusion of school principals in the budget process, based on Polish experience, may take the following forms:

- Adoption of simplified, comparative documents describing the needs of schools. Such documents would state, for example, the number of school positions in the previous budget year (or school year), requested changes for the coming year, and brief arguments for these requests. The aggregated documents from all schools may include simple comparative indicators, allowing to see the differences in functioning of schools, such as for example:

  - Class size, number of lessons per class, number of full-time equivalent teachers per class (maybe broken by initial, basic, and upper school).
  - Number of other pedagogical staff (pedagogues, psychologists, etc.) per class and per student.
  - School space per class and per student (maybe broken by type of school space).

- Such comparative documents, shared among all school principals and the public, written in accessible language and with sufficient clarifications to make them easy to understand, would help conduct serious discussions about the differentiated needs of schools and how they can be met within the available budget.
- Adoption of public multi-year investment plans for schools, indicating the priorities of the city. These plans should be discussed with the school principals and agreed as long-term development strategy. The plans should be accompanied by comparative data on the use of schools' facilities (which buildings are underutilized and which are overcrowded) and on their conditions (such as roofs, sanitary facilities, subject laboratories, sport equipment), to justify the sequencing, scope, and costs of the investments.
- Creation of a permanent body including all principals of secondary schools in the city, giving them a chance to discuss common concerns and to agree on common position in negotiations with the city. Such a body would strengthen the position of school directors, but only within the limits approved by the city. It would also contribute to better mutual understanding within the local education community and to more professional conduct of education management.
- Organization of joint discussions of city officials with all school principals (for Kyiv and Lviv, within the city rayons). Such forums would have to be well prepared, in particular some background materials, for example the comparative indicators on functioning of schools and draft investment plans discussed above, should be ready and shared among all participants prior to the meetings. School directors who consider that some of data in the background materials is incorrect should have prior chance to discuss this with the city and to correct them. The agenda of such forums may include:
  - Presentation by city officials of the status quo and of priorities for next budget years.
  - Presentation of the joint position of the school principals (for example, as agreed in the permanent body suggested above).

- o Open but moderated discussion among all school principals, especially those who have separate views or whose schools have specific needs.
- o Adoption of policy proposals for the budget process, not binding on city administration but providing additional professional input into the budget discussions.

Of course, the above draft suggestions should be reviewed in the context of needs of each city, so that the specific format of adopted solutions best suits local conditions and needs.

8.3. Best practices introduced in three cities

The analysis of budgeting in the three cities of Ukraine – Kyiv, Lviv, and Mariupol – highlights the application of useful practices and tools that could facilitate and help improve education budgeting in other urban gromadas. Here we refer to the following innovative budget practices applied in three selected cities:

1. Mapping of Education (Kyiv).
2. Formula-based distribution of funds for maintenance of general secondary schools (Kyiv).
3. Public budget (Lviv).
4. Parental Fund grant program (Mariupol)
5. Outsourcing of non-core functions (Mariupol).

Kyiv introduced the **Mapping of Education** as an interactive web-portal with ‘electronic passports’ of various types of education institutions, including preschools, secondary schools, vocational education and training institutions, informal education institutions, other organizations (district education offices, inclusive resource centers).

Using this resource, citizens can obtain information about the type and level of each institution, its area and premises, present-day technical condition, capacity and size, number of students and employees, students’ performance in national and municipal tests. In addition, an electronic passport provides information about the year of construction of the facility and the year of the latest capital renovation, financial resourcing, types of repair work and budget funds allocated for these needs. The Mapping helps understand the conditions in which the educational system functions as well as education outcomes, ensuring the accessibility and transparency of information about education institutions in the city that can be useful for managing and optimizing the budget expenditure on education.

The purpose of this innovative mapping practice is to ensure the principles of transparency, openness, and efficiency in the city's education system. It is an important management and awareness-raising tool that helps make objective, data-driven decisions about investment priorities, without relying solely on political wish list.

Using this tool, parents can exercise public oversight over the school's financial resourcing, looking into what has been purchased with budget funds for each individual school or organization. This allows parents to check and ensure that they do not make contributions for what the city has already covered from its tax revenues. In general, the tool contributes to a more transparent and responsible use of budget funds.

Also, the system helps managers to allocate and spend budget funds more efficiently, provide material and technical support in a balanced manner, and ensure objectivity and validity of investment decisions.

As a result, the city has achieved greater transparency and efficiency in the education sector that contributes to better quality of education services and responsiveness to the community needs.

Introduction of a similar practice in other gromadas would require defining the key indicators to be displayed in the mapping and relevant data gathering. To this end, it would be necessary to design a monitoring program to identify the critical needs and investment opportunities of education institutions in gromada.

In addition, it is important to determine priorities for investments in education institutions and ensure their implementation with appropriate investment projects. It is also necessary to develop mechanisms for reporting and transparency of costs to ensure public oversight over the budget funds spent on education.

Kyiv also introduced a **formula-based distribution of funds** for maintenance of general secondary schools. It facilitates setting of budget ceilings for secondary education for city districts, and generally makes preparation of school financial plans easier and more objective. At the same time, it should be noted that the formula should be updated and improved based on its application practice. Alongside the formula-based approach, some reserve mechanisms should be envisaged since schools may have very specific and distinct needs that cannot be all reflected and addressed in a formula.

The formula-based distribution of funds for school maintenance is an important step towards objective allocation of budget funds to individual schools. However, the actual impact of a formula depends on its fairness and effectiveness as well as political goals it promotes.

An interesting tool that is being introduced in cities to involve citizens in deciding on priority projects to be financed from the city budget is a **public budget** (or **participatory budget**). It is a democratic mechanism of cooperation between the authorities and citizens that allows every resident of a city to participate in the allocation of local budget funds by presenting a proposal for their own project or by directly voting for their favored initiative to improve the city life.

The purpose of participatory budget is to involve the public in the decision-making process on distribution of local budget funds and to ensure greater transparency and openness in the management of a city or gromada. This practice helps take on board new ideas and projects to improve the lives of local community, enhance accountability of local governments and strengthen trust between local governments and citizens. This innovative practice also increases citizens' awareness of local problems and the ability to influence them, fosters active citizenship, and ensures more effective allocation of budget funds.

To take one example, Lviv has identified a separate category of Education and Healthcare Projects. In 2021, the budget of city initiatives made it possible to implement 48 education projects with the total value of UAH 35,5 million, including the arrangement of education settings in schools, school canteens, laboratories, recreational spaces, etc.

Participatory budget is become an extensive practice in many gromadas. In 2021, it was introduced in 197 gromadas across Ukraine. During implementation, special attention should be given to the level of schools' awareness and readiness to promote their own projects and the gather necessary votes because different schools have different opportunities to organize voting for a project to gain more votes. It would be helpful to organize dedicated awareness-raising activities to present and explain the principles of participatory budget and provide consultations on participation in the planning and prioritization process, submission of project proposals, promotion, and voting.

The **Parental Fund grant program** is one of success stories in Mariupol. The main objectives of the program were to facilitate the conditions for solving the issues of development of the material and technical infrastructure of schools and their premises, to encourage parental initiative, to ensure transparency and openness of charitable contributions and to pool resources of the local council and the parental community.

It is an open secret that parental charitable contributions to education institutions are often part of schools' "shadow economy", their total volume in gromada is difficult to estimate and their spending is rather opaque. The grant program introduced in Mariupol as the Parental Fund is an example of possible solution to this problem. It was based on the interaction between parents, school administration and city authorities with a view to improving the education process.

The project stipulated that the city council would double the amount of funds raised by the parental committee for the class or school with a view to improving the education process, and parents themselves would determine how the money should be spent. This was a way to encourage parental initiative to improve learning conditions and ensure financing of projects they considered as priority for their children. It also contributed to greater transparency and openness of spending, ensured public oversight over the use of funds allocated for the needs of education institutions.

The priority areas of the Parental Fund program included improving the conditions for organization of the education process, including rational energy consumption, improved outdoor premises, landscaping, arrangement of children's playgrounds, sports grounds, etc. Out of 63 schools 36 participated in this grant program.

The findings from the review of allocated costs showed that the funds were mainly used for the purchase of computer and multimedia equipment, construction materials and furniture for schools. It is crucial to involve the local mass media and social networks to build awareness about the program in order to ensure its maximum openness and transparency. Monitoring and evaluation of the program results should be put in place to ensure its effectiveness and achievement of stated goals.

Outsourcing of non-core functions was another interesting project implemented in Mariupol with the aim to achieve better efficiency of public spending. Its goal was to provide better services for the maintenance of indoor and outdoor premises to education institutions.

INon-core functions were removed from education institutions, such as cleaning of premises, washing and ironing, support services (maintenance and repair works) to keep in good working condition the engineering equipment of buildings related to central heating, water supply, sewage, energy supply, electric lighting, sanitary equipment, external and internal drains, repair of furniture, window and door openings and other equipment, dry cleaning of carpets and upholstered furniture. To perform these functions, a municipal **Service Center of Education Institutions** was created to be financed from the city budget and subordinated to the Education Department. It helped significantly improve the quality of non-core functions for the education sector and enabled more efficient use of human resources and city budget expenditures.

Today, the city of Mariupol is destroyed and occupied by the Russian regime, and Ukraine is still fighting the unprovoked war against Russia. Nevertheless, we strongly believe that the recommendations and good practices presented in this chapter are extremely relevant for the efforts to improve efficiency and transparency of the budget process at local level that would be even more desirable and highly anticipated during the post-war recovery and reconstruction.

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LOCAL BUDGETING OF EDUCATION

Ukrainian and regional experience of regulating and executing the budget process in education at the municipal level

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Between 2010 and 2012 Dr. Herczyński coordinated a EU-funded project on strengthening strategic capacities of Polish local governments in the education sector and edited 7-volume Library of Local Government Education (2012). Dr. Herczyński participated in the capacity of consultant and report author in many short-term projects in education finance, strategy and management in transition countries, including Albania, Belarus, Bulgaria, Czech Republic, Georgia, Greece, Kazakhstan, Kosovo, Kyrgyzstan, Lithuania, Macedonia, Moldova, Romania, Serbia, Tajikistan, and Ukraine, as well as in his native Poland. Dr. Herczyński holds a Ph.D. in Mathematics.

Book:
The monograph discusses legal regulation and practical execution of the budget process in education at the municipal level. Two case studies from the region (Poland, Sweden) are contrasted with three case studies from Ukraine (Kyiv, Lviv, Mariupol). A detailed review of the legal framework of education budgeting in Ukraine is also included. The monograph is addressed to municipal and national experts of education and of local finance.