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MULTIANNUAL FINANCIAL PERSPECTIVE AS A TOOL OF LOCAL GOVERNMENT UNIT DEVELOPMENT

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Abstract The implementation of primary functions of local development management, especially its planning, organizing and controlling, cannot leave aside the financial aspects of these processes[1]. This can be attributed to the fact that every decision taken in the commune concerning strategic or operational management is related to the necessity of making specific financial contributions or to the conscious resignation from an opportunity to obtain income (via tax reliefs or exemptions). Moreover, the model of financial management adopted in aparticular commune determines whether its financial methods and instruments perform development or stagnation functions. The implementation of primary functions of local development management, its planning, organizing and controlling in particular, cannot disregard the financial aspects of these processes.

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Introduction

Finance management is an important element of local government unit management. This is an obvious trend if we take into account the efficiency and effectiveness (organizational effectiveness) of local self-government functioning, and within its framework – the efficiency and effectiveness of finance management. The effectiveness referring to local self-government finance may be understood as a requirement for proper formulation of financial plans and investment projects. On the other hand, efficiency should be treated as striving to achieve the goals set in the plan with the lowest consumption of financial and organizational resources. Therefore, not every kind of behavior or decision adopted in the area of finance management of a commune can be assessed in categories of local development management. We should also remember that local government units (LGUs) are public legal entities whose activities are largely regulated by law.

This means that the freedom to take financial actions is significantly limited for LGUs, its framework being defined by valid legal provisions. Therefore, the area of financial decisions affecting local development management covers only those spheres of management in which communes enjoy relative freedom of making decisions and which can influence local development.

An economic and financial instrument which directly influences local and communal development is the determination of local taxes and fees and prices for communal services (the so-called income instruments) (Wołowiec, 2005, p. 297-305; Wołowiec, 2005, p. 65 – 81). They are also the most effective tools of economic influence on the decisions and behavior of taxpayers. For example, entrepreneurs considering

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1 Compare: Skica, T., Kiebała, A., Rodzinka, J., Reśko, D., Wołowiec, T. (2011). Podstawy gospodarki finansowej gminy (wybrane zagadnienia). Rzeszów: Wyższa Szkoła Biznesu–National-Louis University & Instytut Badań i Analiz Finansowych Wyższej Szkoły Informatyki i Zarządzania z siedzibą w Rzeszowie.

the location of their business pay attention both to the commune's policy of tax burdens (mostly its real estate taxes and transport means taxes) and to the preferences used by local authorities in this respect (tax exemptions, lower rates) (Skica, Kiebała &Wołowiec, 2001, p. 118-139). What really matters to business entities is the stability of tax solutions and stability of the adopted regulations, best formulated in the shape of the LGU tax strategy. Also prices for communal services are an important factor. They are established by each commune, which results in a quite significant differentiation of local burdens (for example, for the water supply) born by both households and entities conducting economic activities (Wołowiec & Górka, 2011, p. 38 – 44).

In this context we have to consider an additional issue of the organizational form of providing communal services. It affects the costs generated by provision of these services and the available room for regulating their prices by local authorities. The processes of expending resources also play an important part in finance management. From the perspective of local development, the issue of forms of expenditure seems to be of crucial significance. The commune has a possibility of financing tasks through its own organizational units, appointed partnerships or other entities which do not belong to the public sector (for example, entrepreneurs, public benefit organizations). Each of these options requires a different system (mode, principles) of allocating resources and obtaining the desired effects. The choice of the form of financing depending on the type of tasks is of vital importance. Each form of expenditure is related – through the financial contribution for the performer of the task – not only to economic choice but also to support for the existence of a particular institutionalization of entities. Thus, the organization of financing expenditure in a commune affects, inter alia, the shape and development of particular categories of enterprises, non-profit organizations or other entities. This, on the other hand, translates directly into the assessment of one of the criteria of local development.

Finance management and development of local government units (LGUs)

The new Act on Public Finance, in an attempt at rationalizing public resource management, provides regulations obliging the Council of Ministers and law-making organs of LGUs to adopt documents concerning multiannual planning. This results, inter alia, from the necessity to effectively manage finance in a period of a few years and our presence in the European Union, whose budget is based on a multiannual financial plan. One of the fundamental elements of LGU operations is their financial independence, most often connected with their independence in collecting revenues and obtaining loans and credits as well as planning and making expenditures – both for current and development needs – through proper budget management.

Due to the possibility of shaping incomes and expenditures, the budget is considered one of the main instruments of local development financial management. This is understandable, as in pecuniary management conditions all aspects of LGU activities should be reflected in the budget. However, the financial crisis of 2008-2011 and related – though slightly delayed in Poland – slump in the economy and difficulties with accomplishment of budget plans have shown insufficient effectiveness in using the budget as a tool of financial planning. High changeability of economic processes and financial markets have significantly worsened the conditions of contracting and paying off debt and contributed to the increased costs of debt – also in the local government sector. The available analyses demonstrate that most LGUs are facing the problem of lower budget revenues and in order to avoid reductions in their investments and to utilize the EU aid, they have had to increase their debt level.

Norms of LGU indebtedness according to the Act on Public Finance from 2009[2]

The presented realities affecting the issue of local government debt have been changed by the new legislature on public finance. In 2014 the formula known as the 'individual ratio of local government debt' will come into force (IWZ) (Korolewska & Marchewka Bartkowiak, 2011, p. 4). Its definition can be found in Article 243 of the Act on Public Finance (APF from 27th August 2009. According to the new concept of acceptable norms of indebtedness "(…) possibilities of contracting (…) debt will be mostly determined by the current incomes and expenditures, that is by the so-called budget operational result, and by the effectiveness of managing the communal property, which is by the possibility of generating

2 Skica, T., Wołowiec, T. (2012). Kontrowersje wokół długu. In I. Cichocka (Ed.) Case Study. Materiały dydaktyczne dla studentów TOM II. Rzeszów: Wyższa Szkoła Informatyki i Zarządzania, p. 115-127.

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budget income from it" (Korolewska & Marchewka Bartkowiak, 2011, p. 22). Apart from the individual ratio of debt, the new act introduces the rule of not contracting debt for current needs of the unit by means of limiting the possibility of using the above instrument only to investment activities. This concept aims at implementing in the Polish legislature the solutions used by a number of EU countries (such as France and Finland) as well as other developed countries belonging to the OECD (for example Norway, New Zealand or the USA).

A derivative of new solutions are also provisions of Article 243 section 3 point 1 and Article 244. The first states that the relation of the ratio of local government debt does not incorporate liabilities (with the exception of interest) contracted in connection with implementation of tasks co-financed from EU funds and resources from the aid granted by the EFTA member states until they are finished. The above-mentioned article states that 90 days after the implementation of the task and after obtaining the appropriate refund, the remaining related liabilities (mostly on account of own capital) will be included within the ratio of local government unit debt. According to the already-mentioned Article 244 of the APF, the, we add to the ratio of debt the amount of liabilities of an association co-created by the unit and due in a given budget year, in the amount proportional to its share in a joint investment or in membership payments towards the association. This solution is justified, although not devoid of some controversy. The statutory obligation to add the amounts of liabilities of communal associations to the amount of LGU debt is by all means justifiable. It is necessary to strengthen control and, as a result, the possibility of LGU influence on its association's debt. At the same time, empowering LGUs to act in this scope may lead to unnecessary interference of LGU authorities into activities of such associations, threatening their autonomy.

Taking into consideration the above-presented legislation background and the results of research on LGU debt in Poland and the significance of the above-presented solutions introduced by the Act on Public Finance for the current debt management, we must notice that this ratio is not free of faults. *Table 1* lists them.

Table 1: Construction faults of the individual ratio of LGU debt in the opnion of local authorities

In local authorities opinion, the Individual Ratio of Debt...	
• **makes it impossible to contract debt for the LGUs which do not obtain current surplus;**	• bases on past data and does not reflect the current financial situation of an LGU and the forecast situation;
• **considerably burdens revenues with payments of liabilities, which calls for great prudence in contracting new loans and credits;**	• exerts pressure on the LGU to sell its property in order to improve the ability to service debt;
• **requires shifting expenditure related to debt servicing for the next years, which causes increased costs of that and accumulation of fixed expenses in the next years;**	• may turn out to be 'whimsical', as it depends on numerous variables, which makes it difficult to plan its size, for example in the category "planned versus accomplished values', where the difference may be of a few per cent;
• **shows great susceptibility to budget changes, that is to shifting resources between property and current expenditure in budget classification. Large changes in these figures may significantly influence the ratio, in case it is exceeded, some urgent current tasks may not be accomplished;**	• limits the possibility of co-financing LGU investment tasks with EU funds and other subsidies, therefore in the formula quoted by Article 243 of the APF, in the denominator, we should not have total revenues, but own revenues and subventions (without subsidies and other resources (for example from the EU) allocated for particular purposes);
• **limits the possibility of contracting loans for investments, even though there is a possibility of repaying them in the next budget years (for example when there is an operational surplus that could be used to repay them);**	• introduces the method of calculating an operational surplus which causes that it does not include expenditure on interest on liabilities. The relation between surplus and revenues is compared to the relation of expenditure on interest and repayment of liabilities to revenues. This results in inadequacy of both relations' numerators;
• **double-calculates the amount of debt service, as it is also reflected in current expenditures on the right side of the formula – this decreases the credit rating of the unit;**	• with reference to local government provinces, not excluding the resources coming from returns of subsidies from beneficiaries together with interest from the individual ratio of debt (total revenues) decreases the possibility of servicing debt in the next years, even though these resources cannot be used to finance province tasks as they are returned to the state budget;

Source: Own sources

The above Table demonstrates how widely local government circles comment on the new way of calculating LGU debt limits, even though it has not yet come into force. This raises a number of questions to be answered by the local governments and local authorities implementing this solution. The questions concern its effectiveness in strengthening the effectiveness of LGU finance management, appropriate construction or ability to indicate the financial potential of a particular unit in the calculations of real debt limits. These doubts constitute the subject of our analyses in this paper and we hope to provide answers to most of the questions posed so far.

Multiannual Financial Perspective as a planning tool

The law-making organ of a local government unit cannot pass the budget in which planned current expenditure is higher than planned current revenues increased by the budget surplus from previous years and the so-called free resources. Article 242 of the Act on Public Finance (APF) forbids planning and making current expenditures that are higher than current revenues, a ban relaxed by the possibility of covering a potential deficit from some listed sources. This regulation is connected with the division of revenues and expenditures of local government units' budgets into current and fixed revenues (Article 235 of the APF) and current and fixed expenditures (Article 236 of the APF). The restrictions listed in Article 242 concern both the amounts of current expenditures at the planning stage (section 1) and at the implementation stage (sections 2 and 3). They boil down to de facto the introduction of a statutory requirement of balancing the LGU budget in its operational (current) part, allowing the possibility of covering the deficit with the budget surplus from previous years and with free resources.

The ban formulated in Article 242 of the APF and addressed to the law-making organ of LGUs forbids the passing of a budget in which planned current expenditure exceeds planned current revenues combined with budget surplus from previous years and free resources, understood as surplus of monetary means on the budget current account, resulting from settlement of issued securities, loans and credits from previous years.

Planned current expenditure of an LGU ≤ planned current revenues of an LGU + budget surplus from previous years + free resources

An analogical ban is also valid for expenditure made at the end of a budget year. These expenses cannot be higher than obtained current revenues combined with budget surplus from previous years and free resources.

Current expenditure of an LGU ≤ obtained current revenues of an LGU
+ budget surplus from previous years + free resources

An exception to this rule allows that current expenditure can be higher than the limit expressed in section 2 only by the amount connected with realization of current expenditure together with resources coming from the EU budget and the resources which do not have to be returned and which come from the aid provided by the EFTA member states in case these resources were not passed in a particular budget year.

The law-making organ of an LGU cannot pass the budget whose implementation will cause that in a particular budget year and in the year that follows the budget year, the relation of total amounts due in a particular budget year[3]:

3 Art. 243 of the Act on Public Finance.

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1) payment of loan and credit installments listed in Article 89 section 1 points 2-4 and Article 90, together with due interest on loans and credits mentioned in Article 89 section 1 and Article 90,

2) redemption of securities issued for purposes defined in Article 89 section 1 points 2-4 and Article 90, together with due interest and discount on securities issued for purposes defined in Article 89 section 1 and Article 90,

3) potential payments of amounts resulting from provided guaranties and warranties to planned total revenues of the budget will exceed the arithmetic mean from calculated for the past three years relations of its current revenues combined with revenues from selling property and decreased by current expenditure, to total budget revenues, calculated with the following formula:

$$\left(\frac{R+O}{D}\right)_n \leq \frac{1}{3} * \left(\frac{Db_{n-1}+Sm_{n-1}-Wb_{n-1}}{D_{n-1}} + \frac{Db_{n-2}+Sm_{n-2}-Wb_{n-2}}{D_{n-2}} + \frac{Db_{n-3}+Sm_{n-3}-Wb_{n-3}}{D_{n-3}}\right)$$

Where:

R – planned total amount for a budget year from payment of loan and credit installments defined in Article 89 section 1 points 2-4 and Article 90, and redemption of securities issued for purposes determined in Article 89 section 1 points 2-4 and Article 90,
O – planned interest on loans and credits in a budget year, defined in Article 89 section 1 and Article 90, interest and discounts on securities issued for purposes determined in Article 89 section 1 and Article 90 and payments of amounts due to provided guaranties and warranties,
D – total budget revenues in a given budget year,
Db – current revenues,
Sm – revenues from selling property,
Wb – current expenditures,
n – budget year for which the relation is established,
n-1 – a year before the budget year for which the relation is established,
n-2 – a year two years before the budget year,
n-3 – a year three years before the budget year.

2. When calculating the relations mentioned in section 1, for the year before the budget year, we assume planned values indicated in the statement on realization of the LGU budget made after three quarters of the year. To calculate the relations for the previous two years, we assume the values adopted from annual statements.

3. The restriction mentioned in section 1 is not applied to:

a. redemption of securities, payment of loans and credits contracted in connection with a contract for implementation of a program, project or task financed with resources mentioned in Article 5 section 1 point 2, with the exclusion of interest on these liabilities,

b. guaranties and warranties provided to self-government legal persons implementing the tasks of an LGU within the programs financed from resources mentioned in Article 5 section 1 point 2

- in a period not longer than 90 days after finishing the program, project or task and obtaining a refund from these resources.

4. If the resources defined in Article 5 section 1 point 2 are not transferred, or if after their transfer, they will be decided to be returned, the LGU cannot issue securities, contract loans or credits or provide guaranties or warranties until the relation defined in section 1 is achieved.

Multiannual Financial Perspective (MFP) of an LGU and its functions

Multiannual financial perspective may be treated as a combination of planning documents functioning in a local government before the Act came into force, especially its multiannual investment plan, limit of expenditure on programs and projects realized with EU funds and non-refundable aid of the EFTA member states and the forecast of LGU debt. The attachment to the budget resolution also comprised a list of valid contracts for public-private partnership and limits of expenditure on tasks resulting from province-level contracts concluded between the Council of Ministers and province government, not classified as ventures.

The Act on Public Finance requires that the MFP be realistic. The perspective is realistic if it is based at the preparation and resolution stage on carefully and objectively developed values. The realism of MFP means that in order to create conditions for running rational, responsible and stable financial policy, it should take into account the events that affect or might affect the finance management of LGUs, including also the possibility of unexpected phenomena (changes in economic situation, forces of nature and other random events, economic crisis). To meet the statutory requirement of realism, the MFP should be verifiable and based on appropriate methodological assumptions, without lowering or inflating the forecast values. The description of the adopted methodology, including the econometric methods, should be found in the explanations to the MFP[4]. The resolution on the multiannual financial perspective is passed for the first time by the law-making organ of the LGU not later than the budget resolution for 2011, that is until 31st January 2011, unless the budget resolution for 2011 is passed earlier.

Multiannual planning allows comprehensive analysis of the LGU's financial situation in a longer time perspective than a budget year, it facilitates concentration of resources and assessment and verification of the significance of the undertaken steps for the local government. The most important element of multiannual planning is the ability to prepare a possibly precise forecast of revenues and expenditures, taking into account the influence of various factors on the conditions of finance management in the next years. A realistically prepared MFP may be used by the LGU when applying for non-refundable resources from foreign sources and when launching a program of issuing communal securities. A multiannual financial perspective as an instrument of managing public resources should contribute to better management and increase savings through facilitating assessment of free resources for investments, it should also help absorption of foreign resources and increase correlation of financial planning between various rungs of LGUs.

The scope of the Multiannual Financial Perspective

The multiannual financial perspective covers at least:

1) Current revenues and current expenditure of the LGU budget, including expenditure on servicing debt, guaranties and warranties. Current revenues are budget revenues which are not property revenues, while current expenditure – budget expenditure which is not property expenditure.

2) Property revenues, including revenues from selling property and property expenditure of the LGU. The expenditure should include amounts of current and property expenditure resulting from expenditure limits for planned and implemented ventures, amounts of expenditure on remunerations and contributions calculated on them and expenditure on the functioning of LGU organs.

3) LGU budget result, that is the difference between the budget revenues and expenditure for a particular period (budget year).

4) Allocation of surplus or method of financing deficit. The terms of surplus and deficit and allowed ways of financing the latter are defined in Article 217 of the APF.

5) Revenues and expenditure of the LGU budget, reflecting the debt that was contracted or is planned to be contracted.

6) The amount of the LGU's debt, including the relation defined in Article 243 of the APF and the ways of financing the repayment of this debt.

7) Explanations of adopted values, determining clearly the origin of revenues and expenditure covered by the MFP and the way they were forecast.

A list of ventures is an integral part of the resolution on the MFP. The Act defines a venture as:

1) multiannual programs, projects or tasks, including those related to:

a. programs financed with contributions from the EU budget and non-refundable resources from the aid provided by the EFTA member states, and other resources coming from foreign non-refundable sources,

b. public-private partnership contracts in which a private partner obliges itself to carry out the venture for defined remuneration and to bear all or some expenses related to its realization or that they will be covered by a third party, while the public entity obliges itself to cooperate in order to achieve the goal of the venture, especially through making its own contribution,

2) multiannual contracts, whose realization in a budget year and in subsequent years is necessary to provide continuity of the unit's operations and the payments resulting which exceed the budget year. LGU organs have proper competencies to determine the type of such contracts, as they possess the knowledge in this aspect and are able to make proper decisions. The Ministry of Finance does not provide a catalogue of

4 Article 226 section 1 point 7 of the Act on Public Finance.

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such ventures, as it does not have necessary data to determine which services for particular units are necessary to ensure their continuous operations. The institution of multiannual contracts whose realization is necessary to ensure continuity of operations was known in the legislature before the implementation of the new Act on Public Finance (Article 184 section 1 point 10 of the Act on Public Finance from 2005) and consisted in guaranteeing current functioning of local government organizational units (for example – provision of necessary utilities);

3) multiannual warranties and guaranties provided by LGUs. They mainly concern warranties and guaranties given before the passing of the MFP, in such case it is possible to determine the data in detail required by section 3 (purpose, period of implementation, limits of expenditure in particular years). We should also consider in a venture the determination of the limits in the budget resolution concerning provided warranties and guaranties and the maximum amount to which an executive organ can independently provide warranties and guaranties. In such a situation it is not possible to keep the attachment detailed, as required by the Act.

The list of ventures being an obligatory part of the resolution on the MFP (a resolution on changing the MFP) constitutes part of the attachment to this resolution. For each venture, we individually determine the name and purpose of the venture, an organizational unit in charge of its implementation or coordinating it, time of implementation and total financial outlay, limits of expenditure in particular years and limit of liabilities.

The limit of liabilities results from the power of the executive organ to contract liabilities necessary to realize the venture and the degree of its use does not have to go along with the use of the expenditure limit. The amount for which we can contract liabilities is decreased by the amount of liabilities contracted within the set limit for the venture, whereas the limit of expenses is decreased in line with the degree of realizing expenses. As the act does not provide any restrictions in this scope, the attachment to the MFP should comprise, in required detail, each venture (task, contract, warranty or guaranty), which, especially for large local government units with developed organizational structure, will result in considerable increases in volume and detail of the MFP (Lipiec-Warzecha, 2011). Article 227 indicates the period covered by the MFP according to the following rules: the MFP covers the budget year and at least three consecutive years; this period cannot be shorter than the period of venture implementation for which expenditure limits were adopted for the particular years and the debt amount forecast, being part of a multiannual financial perspective, is made for the period for which the liability was contracted or is planned to be contracted.

The MFP is a progressive forecast, that is supplemented (prolonged) for the next budget year so that it covers each time the budget year and at least three consecutive years. The four-year period of the MFP is a minimum time, which means that it is impossible to pass the MFP covering a period of two or three years. The regulations do not determine the maximum period of time for the MFP, stating only that such a period cannot be shorter than the period in which the venture for which the expenditure limits for particular years was adopted is implemented (Article 226 of the Act on Public Finance). The development and annual changes to the MFP must be made not later than together with the budget resolution for a given year and it must reflect the period of planned implementation of new ventures and those started in previous years and continued. The MFP document may cover the period of 5, 7 or more budget years.

The debt amount forecast which is part of a multiannual financial perspective (a supplementary document) is made for the period for which the liability was contracted or is planned to be contracted.

The time distinction of the validity of the MFP and the debt amount forecast, which constitutes its part, is connected with a longer period of repaying monetary liabilities contracted in order to implement the venture compared to the implementation period of the task itself. The former Act on Public Finance from 2005 obliged the LGU board to develop a forecast for the total amount of debt at the end of the budget year and further years, resulting from the planned and contracted liabilities and attaching it then to the draft of the budget resolution. The current regulations still do not determine the content and scope of the public debt forecast.

Article 228 determines facultative elements of the resolution concerning the MFP, being a supplement of necessary elements listed in Article 226 section 1. The authorization given to the LGU board to contract liabilities is limited by the subject of those liabilities, as it concerns two types of them. The first category covers liabilities related to implementation of ventures included in the MFP. The other one comprises liabilities resulting from contracts whose realization in a given budget year and in the next years is necessary to provide continuous operation of the unit and the payments resulting from which exceed the budget year. It is difficult to understand the intentions of the law-makers who separate liabilities related to points listed in Article 226, since the contracts whose realization in the budget year and in the next year is necessary to provide continuous operation of the unit and the payments resulting from which exceed the budget year, are covered by the concept of venture.

The lack of powers defined in Article 228 means that it is necessary to include the authorization to contract liabilities listed in section 1 in the budget resolution every year (according to Article 212 section 2 of the Act on Public Finance). On the other hand, authorizing the LGU board to pass the powers to contract liabilities to heads of organizational units of the LGU would require a separate resolution of the law-making organ.

Article 229 requires compliance of the values adopted in the MFP and in the LGU's budget. The MFP covers the period of at least four years, while particular values are determined separately for each year covered by the perspective. The minimum compliance of the values refers to three elements, namely the budget result and related amounts of revenues and expenditures and the LGU's debt. Apart from Article 229 the provisions of the Act seldom use the term 'budget result' but do not define it (Lipiec-Warzecha, 2011).

The budget result is an obligatory element of the MFP. It represents the difference between the income and expenditures of the budget for a particular accounting period (budget year). The positive difference denotes the budget surplus, while a negative – the deficit. The current budget result is defined as the difference between current incomes and current expenditures (without expenditure on interest on the existing and planned debt). The compliance of the values means that the amounts of the incomes and expenditures, the LGU's debt and the budget result planned for a particular budget year in the MFP with the values included in the LGU's budget resolution. The Act does not indicate any instruments to provide this compliance. The compliance of the values adopted in the MFP with the data defined in Article 229 is not absolute, especially as further provisions determine the procedure for changing the MFP or its elements. In practice, each change in the LGU's budget related to the values mentioned in Article 226 will result in the necessity of making changes in the strategic document that is in the MFP. These changes may take place many times in a budget year.

Passing and amending the MFP

Article 230 regulates the procedure for passing the resolution on the MFP and making amendments to it, especially the competence of the organs, the mode of expressing opinions and the date of passing it. The resolution-making initiative in this scope, just as in the case of making the draft of the budget resolution, and its amendments and also the resolution on the provisional budget, is restricted only to the LGU's board. The draft of the resolution on the MFP or its amendment prepared by the board should meet the requirement of a realistic forecast. The draft of the resolution presented to the Regional Accounting Chamber (RAC) to express its opinion and to the law-making organ of the LGU should be complete, that is it should cover all the obligatory elements of the MFP required by the Act and – possibly – facultative ones, determining the forecast values separately for each budget year covered by the perspective.

The opinion given by the RAC on the MFP or its amendment, being an ex-ante control of the MFP, should concern mainly the requirements met by the draft submitted by the board related to the content of the perspective and its obligatory elements defined in Article 226. The provisions indicate that a special criterion of this control is to ensure that the regulations concerning the passing and implementing the budgets are observed for the next years in which liabilities were contracted or are planned to be contracted, however the criteria catalogue is not closed and in its opinion the RAC may also focus on other elements of the MFP.

The RAC also expresses its opinion on the correctness of the planned amount of debt of the LGU resulting from its planned and contracted liabilities. The basis for the opinion is the accepted multiannual financial perspective and the budget resolution. "Correct" means "following approved standards, right, without mistakes". The model of "correctness" covered by the RAC control determines the individual ratio of LGU indebtedness, determined in Article 243. However, until the end of 2013, "the correctness of the planned amount of debt should be referred to the quantity limit from 2005, limiting the acceptable amount of debt to the level of 60% of planned incomes (Lipiec-Warzecha, 2011). The negative opinion of the RAC

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on the correctness of the planned amount of debt of the LGU obliges the unit to make appropriate amendments to the resolutions, restoring the relation defined in Article 243. The change may cover the budget resolution or the resolution on the MFP or its amendment. RAC opinions are published following the principles defined in Article 246 section 2 within 7 days from receiving them and constitute public information in the understanding of the Act of 6th September 2001 on Access to Public Information.

The term for passing the resolution on the MFP or its amendment cannot be longer than the term for passing the budget resolution, which – in line with Article 240 – should take place before the 31st January of a budget year. If the budget resolution is made before this term, it is also necessary to finish work on the draft of the resolution concerning the MFP or its amendment and to pass it. The possibility of simultaneous passing of both drafts excludes the possibility of taking the content of the MFP into consideration during the final work on the budget resolution, which contradicts the nature of the MFP as a multiannual plan. The resolution on the MFP or its amendment may be passed later than the budget resolution.

The provisions of Article 240 forbid the law-making organ of the LGU to declare the resolution on the MFP invalid without passing a new resolution simultaneously. This is to prevent a situation in which the LGU is left without a valid MFP, when such a forecast is mandatory for each local government unit. It is also noticed that the consequence of such provision is the lack of protection of the MFP's validity and the ban formulated in it only formally protects the LGU from the time gap in the MFP validity.

The methodology of making the Multiannual Financial Perspective

The multiannual financial perspective is implemented in order to assess the financial situation of a local government unit by the organs of a local government unit, its inhabitants, financial institutions, supervisory organs and other interested parties. By making projections of particular categories of budget incomes and expenditures which reflect the financial situation of the LGU in the next years, we can conduct an analysis of the LGU's investment possibilities and evaluate its credit rating.

The simplified methodology used when making a model of the MFP is shown in the figure below:

Total incomes – current expenditures (without debt servicing) + budget surplus from previous years increased by free resources = RESOURCES FOR SERVICING DEBT AND PROPERTY EXPENDITURE – payment and servicing of debt (installments + interest) = RESOURCES FOR PROPERTY EXPENDITURES – PROPERTY EXPENDITURES = surplus/deficit of financial resources + possible loans/credits/bonds = FINANCIAL RESULT OF THE BUDGET

	Dochody ogłóem
-	wydatki bieżące (bez obsługi długu)
+	nadwyżka budżetowa z lat ubiegłych powiększona o wolne środki
=	ŚRODKI DO DYSPOZYCJI NA ODSŁUGĘ DŁUGU I WYDATKI MAJĄTKOWE
-	spłata i obsługa długu (raty + odsetki)
=	ŚRODKI DO DYSPOZYCJI NA WYDATKI MAJĄTKOWE
-	WYDATKI MAJĄTKOWE
=	nadwyżka/deficyt środków finansowych
+	ew. kredyty/pożyczki/obligacje
=	WYNIK FINANSOWY BUDŻETU

The first stage in the process of developing the MFP should be to assess total incomes of a particular LGU (both own incomes and those received in the form of external transfers) and to compare them against all current expenditures necessary for the LGU's operation. At this stage we do not include expenditure on debt servicing. The difference between total incomes and current expenditures (without debt servicing) increased by the amount of income from budget surplus for the previous year and free resources defined in Article 217 section 2 point 6 of the Act of 27th August 2009 on Public Finance (Journal of Laws No 157, item 1240, as amended), is a pool of resources that can be allocated to serve two purposes, first the payment and servicing of debt and then investments. The more financial resources allocated to service the debt by the LGU, the less for new investments.

The amount of the resources remaining after financing the investments indicates the surplus or, more commonly, deficit of financial means for investments. This value, depending on whether it is positive or negative, indicates the possible need for external financing in the shape of loans and credits or issuing bonds. The value obtained as a result of adding the amounts of contracted loans/credits/bonds is a financial result of the LGU's budget. This is an auxiliary category proposed in the MFP which allows us to determine whether in every budget year the LGU possesses financial resources from incomes and revenues which enable it to make expenditures. The multiannual financial perspective developed in the proposed methodology provides us with a possibility of rational forecasting financial management of the LGU in a longer period of time. It allows us to analyze investment possibilities of the LGU and to assess the possibilities of contracting and paying off debt.

The scope of data in the MFP makes this document transparent and comprehensible not only to financial departments of the LGU but also to a wider group of people interested in the financial situation of a given LGU (inhabitants, entrepreneurs, creditors, etc.). The MFP model concentrates then on a synthetic forecast of the main budget parameters, without unnecessary development of less significant data forecasts and at the same time it provides compliance of the data to the Act on Public Finance. The advantages of this construction of MFP data, apart from the already mentioned ability to analyze real investment possibilities and to assess real possibilities of contracting debt by the LGU are listed below:

1) presenting in one document (without an additional attachment) the forecast of the debt amount in a way that makes it possible for the RAC to verify the forecast data for the whole period for which debt was contracted or is planned to be contracted,
2) showing all financial flows in the MFP in a cause-and-effect way, which allows the receivers and the interested parties to understand the document,
3) relating the amounts from the general part of the MFP to the amounts indicated in the attachment listing the ventures.

In order to ensure the accounting verification of the compliance between the MFP and the budget draft (Article 229 of the Act on Public Finance – budget result and related amounts of revenues and expenditures and debt of the LGU, Article 231 section 2 of the APF – Budget resolutions determine expenditures on realized ventures in the amount allowing their completion on time) the scope of the MFP data also covers the points related to expenditures and budget result of the LGU[5].

Conclusions

Regardless of particular financial categories shown in the MFP, the key element of the MFP is the explanation of the adopted values. The multiannual financial perspective should contribute to the implementation of the principle of openness and transparency of public finance. The draft of the resolution on the MFP is the subject of an open debate (Article 34 section 1 point 4 of the APF). Therefore the explanations concerning adopted values included in the MFP should clearly and reliably determine, for example, what incomes and expenditures are included in this document and how they were forecast. The presentation of macro-economic assumptions, assumptions concerning changes in incomes and budget expenditures and assumptions related to contracting liabilities by

5 Thanks to comparing the value of servicing and paying off debt with the value of resources at one's disposal, we can determine the credit rating of the LGU more precisely. It should be mentioned that the amount indicated in the MFP must comply with the amount shown in the attachment of ventures. The regulations do not require us to indicate the sources of financing particular ventures or to provide classification of expenses. Taking into account: 1) implementation of the principle of openness and transparency of public finance, 2) usefulness of the budget classification for creating and amending the MFP, 3) the requirement to preserve compliance of the MFP and the budget (Article 229 in connection with Article 232 of the APF) – the use of budget classification in the MFP may be helpful for the organs of LGUs and Regional Accounting Chambers, supporting finance management of the local government units.

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the LGU, which show the detailed description of the way the forecasts were made, are an important requirement to be met if we want our forecast to be realistic. The explanations should enable us to conduct an analysis of the assumptions adopted in order to forecast particular items of the MFP and to verify whether in the next budget years the accepted method of forecasting was modified and whether these modifications had substantial foundations. Therefore the explanations should be precise and should refer to each item listed in the MFP.

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