

# Financial Security of the Public Sector Versus the Indebtedness of Local Self-Government

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*Let the people know the facts,  
and the country will be safe  
Abraham Lincoln*

**Abstract.** *The 19th and 20th century in the history of Poland was primarily a time of foreign domination by neighbouring countries, mainly Russia and Germany. Except for the inter-war period of 1918–1939 when there was an attempt to rebuild an independent country, Polish culture in its social and economic dimension underwent a vicious destruction for almost 2 centuries. For that reason, political changes initiated in Poland in 1989 resulted in the emergence of new hope for the revival of its sovereignty and its restoration as a sovereign and democratic country. After years of enslavement the regenerated Poland was economically weak in almost all its dimensions. Due to decisions made in the 1990s and the first years of the 21st century there was a hope for a clear acceleration of social and economic growth. The activities required the necessity of implementation of economic and rational procedures in financial management as well as the allocation of huge financial resources mainly for investment in the area of public utilities, and also for the implementation of modern technologies and methods in nearly all areas of economic and social life.*

*The article is dedicated to the problem of the financial security of the country in relation to the burdens of debt of local authorities, particularly those at the lowest level of the governance structure of the country. Assuming that local authorities in the Polish legal system are public-legal unions equipped with a legal identity that act in their own name and at their own responsibility, it is the members of organisations who are directly responsible for an excessive indebtedness which can affect not only the financial security of the whole public-legal union which is a local self-government, but also the financial security of citizens.*

**DOI: 10.5604/01.3001.0012.7522**

**<http://dx.doi.org/10.5604/01.3001.0012.7522>**

**Keywords:** financial security, public debt, EU funds, gearing ratio, local self-government

## Introduction

The changes which started in Poland in 1989 resulted in the creation of new institutions in the public sector, particularly in respect of the commune authorities which initiated civil societies empowered by a range of rights and duties. By decentralising the country and building a subsidiary system of management in the public sector based on communes, districts, provinces and a central level, it has been acknowledged that local authorities at the lowest level perform the tasks which are the most meaningful for citizens. It is at the level of communes where citizens are organised in local self-governments, democratically elect local authorities and influence the tasks carried

out by the public-legal unions. Not only do they create programmes and accomplish them, but also face the consequences associated with adequacy of the tasks pursued.

In parallel with the reform of the management system of the State there have been attempts to eliminate the divisions in economic development between Poland and Western Europe. These efforts have been primarily determined by the scale of financial resources that could be directed at carrying out these tasks. The lack of the resources in the public sector, and also in the private sector, very often resulted in addressing the offers of financial houses which used to grant loans on terms difficult to fulfil in the long term. Public sector institutions as well as private sector ones started to take advantage more and more extensively of the possibility of using additional European Union funds. Because of the massive backwardness in the local infrastructure concerning the road system, environment protection and public utility facilities in general, on the whole the main beneficiaries of EU funding became local self-government. The beginning of new investment enterprises in the local self-government was connected with the necessity to secure essential financial reserves, including also their own contribution to permit them to gain additional EU funding. On the one hand, the limited financial opportunities for local self-government and, on the other hand, increasing needs disturbed the financial balance of many self-governments and forced them to look for additional resources from banks, also including fringe banks, which was extremely draining for local budgets. As a result it unbalanced the financial security of many commune self-governments. As the survey conducted by the authors demonstrates, the increasing needs, particularly in the field of local infrastructure,<sup>1</sup> implied a demand for financial resources and very often undermined the budgets of local self-government.

The study addresses the problem of financial security which is considered the most significant factor determining an economic security.<sup>2</sup> It should be emphasised that the state of financial resources of all the public and private bodies, as well as of particular individuals regardless of professional activity, is very often the fundamental factor taken into consideration before deciding on purchasing any goods. The state of financial resources and the ability to manage them is a condition directly influencing our security which can have both financial and non-financial aspects. It should be emphasised that in the pathology of management in both public and private sectors, most frequently all types of law violations and offences are connected with money. A desire to possess this is often a factor leading to unacceptable conduct.<sup>3</sup> It should be emphasised that also within the financial management of organisational entities in the public sector legal regulations apply primarily to results and not to reasons for indebtedness, including an excess which violates financial security.

The subject of the study is the analysis of the financial state of communes and districts in connection with the accession to the European Union and the influence

<sup>1</sup> Kozłowski A.J., Czaplicka-Kozłowska I.Z., Samorząd terytorialny w systemie zarządzania państwem. Olsztyn: Pracownia Wydawnicza ElSet, 2010, p. 230 and following.

<sup>2</sup> Raczkowski K., Bezpieczeństwo finansowe, [in:] Płaczek J (Ed.), *Ekonomika bezpieczeństwa państwa w zarysie*. Warsaw: Wyd. Difin, 2014, p. 299 and following.

<sup>3</sup> Kozłowski A.J., Czaplicka-Kozłowska I.Z., Świrski A., *The Phenomenon of Corruption in Public Sector Organizations (Local Government Case Studies from the Warmia and Mazury Regions of Poland)*. *Hyperion International Journal of Econophysics & New Economy*, 2016, Volume 9, Issue 1. Hyperion University of Bucharest, Romania, p. 117 and following.

of EU funds acquired on the state of local budgets and their financial security. It has been assumed in the study that one of the reasons for the rapid increase of the indebtedness of local self-government in Poland is an adverse state of local finances which results in the need to take out loans for their own contribution in connection with investments. The aim of the study, based on the analysis of local self-governments' and districts' budgets, is to analyse fund raising from the European Union. The authors of the study used available literature and statistical data from Local Databank GUS and also activity reports of regional audit offices and implementation of financial plans of self-government units and data included in the Public Information Bulletin. Information provided in the bulletins has been referred to, particularly information concerning indebtedness.

## **Local self-government in the system of public finance management.**

The 19<sup>th</sup> and 20<sup>th</sup> centuries were a time of development for mainly sovereign states making decisions about their own identity and accomplishing programmes of economic and social development. This development had a negative impact on the states and territories dependant on other governments; as it was in the case of Poland. In Poland, during the interwar period there was an attempt to make a recovery in the no longer occupied country, however, the process was disrupted first by a German and next by a Russian occupation lasting till 1989. No later than in 1989, as a result of the endeavour to gain independence, Poland was reborn and took up the difficult task of overcoming differences with countries having a long liberation tradition.

A great step towards sovereign and democratic statehood was the restoration of local self-government at the lowest level of the state management structure. This local self-government is a local unit of the people dwelling in a particular area. Such a unit acting in its own name and on its responsibility, was granted the status of a legal entity which makes its autonomy liable to judicial protection.<sup>4</sup> Communal authorities functioning on the lowest level, due to cultural similarities and a common history of the territory, frequently have similar needs and business. The aim of these local governments is to satisfy basic needs in a local dimension and to provide suitable business conditions and for the development of business entities functioning in their area.<sup>5</sup> Although, since 1999 districts and provinces are also territorial self-governments functioning at the lowest levels, it is mainly communes that have the financial freedom allowing them to decide on the amount of income coming from local resources.<sup>6</sup> The level of financial independence of local government is conditioned by a num-

<sup>4</sup> Art. 1 i 2 ustawy z dnia 8 marca 1990 roku o samorządzie gminnym (na podstawie: Dz. U. z 2016 r. poz. 446, 1579).

<sup>5</sup> Głowińska-Wołoszyn R, Wysocki F, Uwarunkowania społeczno-ekonomiczne samodzielności finansowej gmin województwa wielkopolskiego. *Prace Naukowe Uniwersytetu Ekonomicznego we Wrocławiu*, 2014, No. 346.

<sup>6</sup> Kozłowski A.J, Czaplicka-Kozłowska I.Z, Transparentność zarządzania finansami lokalnymi. Uwarunkowania wdrożenia planu dochodów i wydatków w układzie zadaniowym. Kraków: Oficyna Wydawnicza „Impuls”, Wydanie I, 2014, p. 13.

ber of internal and external factors in their surroundings and also originates from a culture of public management shaped throughout history. Among them are also: demography (including the population and its structure), social factors (including the number of employees and the unemployed), and also the economic situation, e.g. the number of business entities. The aforementioned factors affect the financial affluence of local government, their development and also the opportunities to acquire income from sources based on their territory. These opportunities condition the infrastructure development and also the increase in the level of education, which may consequently affect the satisfaction of current needs. Undoubtedly, the development of infrastructure also means the speed and ease in respect of the flow of goods and services and this is becoming one of the most important tasks undertaken by local government.<sup>7</sup>

## Use of EU programmes funds by local government

The accession of Poland to the European Union provided an opportunity to even out differences in the level of socio-economic development between Poland and Western Europe, as well as between individual regions due to the availability of European Union structural funds. These support economic restructuring and the modernisation of EU countries. They are directed at these sectors of the economy and regions which, without financial aid, would not be able to catch up with average economic levels in European Union.<sup>8</sup> These structural funds and the Cohesion Fund enable implementation of, among other things, projects whose objective is to improve residents' qualifications and economic activity, to help companies to implement the concept of their development and to finance their innovative technologies as well as to create an appropriate infrastructure that will enhance the investment potential of particular regions.<sup>9</sup> There is no doubt that the share of European funds in the local authorities income at every level is an indicator of this local government activity in gaining external funds. The distribution of funds among particular regions is performed on the basis of an algorithm with three variables in relation to population, gross domestic product per capita and the level of unemployment. As a result particular regions in Poland were granted zł16.5 billion to implement regional programmes in 2007–2013 and, in the multi-annual financial framework for 2014–2020, a sum of zł45.1 billion has been planned. The current financial perspective for 2014–2020 brought the first positive actions for regions in Poland only in 2016 because, at that time, local authorities announced calls for local business support for the amount of zł5.95 billion which constitutes 13.2% of all the amount for enterprises performing tasks within the Regional Operational Programmes (pol. Regionalne Programy Operacyjne — RPO). The data on Regional Operational Programmes implementation (table 1) show that regions with the highest population

<sup>7</sup> Głowicka-Wołoszyn R, Wysocki F, *op.cit.*

<sup>8</sup> Czempas J, Środki unijne jako źródło finansowania działalności jednostek samorządu terytorialnego województwa śląskiego (2004–2007), [in:] Patrzalek L (Ed.), *Finanse lokalne. Wybrane zagadnienia*. Poznań: Wyższa Szkoła Bankowa w Poznaniu, 2009, p. 12.

<sup>9</sup> Filip P, *Audyty wewnętrzne jako narzędzie wspomagające procesy zarządzania w jednostkach sektora finansów publicznych*, [in:] *Sprawozdawczość i rewizja finansowa w procesie poprawy bezpieczeństwa obrotu gospodarczego*. Kraków: AE Kraków, 2005, p. 141.

and best financial results, namely Mazowiecki and Śląski regions, benefit the most from this programme, whereas Opolski and Lubuski regions benefit the least.<sup>10</sup> Within the Regional Operational Programmes as a new financial perspective there has been a new instrument introduced which allows local authorities to conduct joint investment activities under the name of Integrated Territorial Investments (pol. Zintegrowane Inwestycje Terytorialne — ZIT). Similarly to the Regional Operational Programmes, Integrated Territorial Investments also fall behind with concluding agreements and in many regions there is a fear that EU funds may not be used.

**Table 1. Money allocated to particular regions for Regional Operational Programmes implementation in 2007–2013 and a plan for next years**

Region	Budget of Regional Operational Programme				
	2007 — 2013	2015 — 2016		2017 plan	Percentage to be used till 2017 of the perspective for 2014 — 2020
	zł	zł	%	zł	
Dolnośląskie	1,213,144,879	472,756,199	15.0	141,558,174	19.5
Kujawsko-pomorskie	951,003,820	227,276,400	8.1	145,983,850	13.2
Lubelskie	1,155,854,549	644,602,889	20.5	389,707,232	32.9
Lubuskie	439,173,096	186,000,000	15.4	67,000,000	20.9
Łódzkie	1,006,380,910	489,787,257	13.9	264,180,000	21.4
Małopolskie	1,290,274,402	323,639,514	8.5	336,713,923	17.4
Mazowieckie	1,831,496,698	383,384,460	12.4	199,183,000	18.9
Opolskie	427,144,813	202,095,211	14.5	94,840,000	21.3
Podkarpackie	1,136,307,823	470,946,209	14.9	170,000,000	20.3
Podlaskie	636,207,883	230,000,000	12.6	275,000,000	27.7
Pomorskie	885,065,762	286,895,814	10.5	171,515,867	16.7
Śląskie	1,747,104,507	619,047,020	12.9	334,693,508	19.8
Świętokrzyskie	725,807,266	280,000,000	12.6	503,834,406	35.2
Warmińsko-mazurskie	1,036,542,041	436,267,097	16.2	423,854,317	32.0
Wielkopolskie	1,272,792,644	537,900,000	15.7	210,000,000	21.8
Zachodniopomorskie	835,437,299	165,300,000	7.3	283,500,000	19.7
<b>TOTAL:</b>	<b>16,589,738,392</b>	<b>5,769,898,070</b>	<b>13.0</b>	<b>4,011,564,277</b>	<b>total 22.0</b>

Source: author's work based on: Regiony zbyt wolno uruchamiają unijne dotacje. Wyniki analizy dystrybucji wsparcia dla przedsiębiorstw w ramach Regionalnych Programów Operacyjnych w perspektywie finansowej 2014 — 2020, Grant Thornton, Raport pod patronatem Kujawsko-Pomorska Organizacja Pracodawców LEWIATAN, March 2017; also data from [www.mr.gov.pl](http://www.mr.gov.pl)

<sup>10</sup> Cf. Regiony zbyt wolno uruchamiają unijne dotacje. Wyniki analizy dystrybucji wsparcia dla przedsiębiorstw w ramach Regionalnych Programów Operacyjnych w perspektywie finansowej 2014 — 2020, Grant Thornton, Raport pod patronatem Kujawsko-Pomorska Organizacja Pracodawców LEWIATAN, March 2017.

The use of funds from Regional Operational Programmes is conditioned by many factors, among which the most important condition for obtaining funding for particular actions is an assurance given by entities who apply for such funding that they will make their own financial contribution. Therefore, local governments are forced to make their financial plans in such a way that permit use of EU funds to support their own limited capabilities.<sup>11</sup> According to the survey of local governments' budgets, due to the possibility of gaining money from the EU budget and therefore to reduce development deficiencies especially in infrastructure (road infrastructure, communication, environment protection etc.), local authorities have been encouraged to invest more in last years. Analysing plans and financial reports one may notice that they were supported not only by EU funds but also by credits from commercial banks which constituted their own contribution needed to obtain EU funds.<sup>12</sup> In the case of commune local authorities this initiated a growing gap between incomes from local sources, subvention and subsidies, and expenses among which funds from external sources are becoming more and more significant, especially those from commercial banks and therefore the consequences of such debt repayment is a national debt at a local or regional perspective.

## **Financial security and the indicator of local governments' debt**

The rising debt of local authorities results mostly from the need to provide their own financial contribution for investments supported by EU funds. In order to fulfil this demand local authorities take credits from commercial banks, however, there are also situations in which they borrow money from quasi-banks which favours mounting debts. Since 2014 indicators defined in art. 243 of the Public Finance Law have been used. They show current income over current expenditure, increased by an income from assets sale, to the income in general. Many local governments will experience problems when executing art. 243, therefore, taking loans and credits for investments would become impossible, and consequently raising money from EU funds for 2014–2020 would be at risk. The debt of local administration is a part of the national debt.<sup>13</sup> Before the accession of Poland to the European Union local authority debt constituted only a small part of the national debt. Local government took loans driven mainly by economic motives because 93% of the financial means forming a commune's budget deficit was allocated for investments. A similar conclusion may be drawn when analysing the results of an evaluation conducted by the Supreme Audit Office (pol. Najwyższa Izba Kontroli) and Regional

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<sup>11</sup> Misterek W, *Zewnętrzne źródła finansowania działalności inwestycyjnej jednostek samorządu terytorialnego*. Warsaw: Difin, 2008, p. 120.

<sup>12</sup> Kozłowski A.J, Czaplicka-Kozłowska I.Z, *Zarządzanie finansami w samorządzie terytorialnym*. Wyższa Szkoła Biznesu w Pile, Olsztyn: Wydawnictwo ElSet, 2011, p. 31.

<sup>13</sup> Art. 72 of the Act on Public Finance from 27 August 2009 (based on: Official Gazette from 2013 item 885, 938, 1646, from 2014 item 379, 911, 1146, 1626, 1877, from 2015 item 238, 532, 1045, 1117, 1130, 1189, 1190, 1269, 1358, 1513, 1830, 1854, 1890, 2150, from 2016 item 195, 1257, 1454.).

Accounting Chambers (pol. Regionalne Izby Obrachunkowe) for financial obligations of local governments in 2000 — 2002. From total credit amount of 1.301m zlotys only 86.6 m zlotys was spent on day-to-day expenses which constitutes 6.6% of the credit sum, whereas the credit share in the total amount of the debt was 72.2%.<sup>14</sup> In 2003 the second term of the functioning of local government bodies in the three-stage system of local governments began. According to the evaluation of National Council of Regional Accounting Chambers during 5 years of fully developed system of local authorities a quite stable division of tasks conducted by state government administration and local government administration was established. The tasks were also assigned to particular levels of local government.<sup>15</sup> The total sum of the obligations of local governments at the end of 2003 (table 2) included obligations resulting from loans and credits, issued securities, received deposit, required public and legal liabilities and obligations to services and commodities suppliers. The issued securities, loans and credits were used to finance obligations which were not covered in the income not only in 2003 alone. Most of them had been taken earlier and a growing debt because of this, along with a decreasing deficit of local government entities, prove a slowdown in debt repayment.<sup>16</sup>

**Table 2. Debt of local government entities in Poland in 2003 and 2004**

	<b>Poland in zlotys</b>	<b>per capita in zlotys</b>
Income at the end of 2003	79,140,450	2.1
Expenditure at the end of 2003	80,954,358	2.1
Budget outcome	-1,813,908	-0.04
Obligations at the end of 2003	17,276,843	0.45
<b>Relation of obligations to income (%)</b>	<b>21.8</b>	<b>0.2</b>
Income at the end of 2014	194,337,188	5.1
Expenditure at the end of 2014	196,754,150	5.1
Budget outcome	-2,416,962	-0.06
Obligations at the end of 2014	72,109,871	1.9
<b>Relation of obligations to income (%)</b>	<b>37.1</b>	<b>0.4</b>

Source: Author's work based on reports on regional accounting chambers activity and budget adherence by local government entities in 2003 and 2014, and data from Local Data Bank Statistics Poland

The share of the local government sector in the debt of the public finance sector increased from 4.7% in 2008 to 5.87% at the end of 2009. In 2009, the debt exceeded PLN 39.3 billion, which means that in the course of that year alone

<sup>14</sup> Kulawik J, Mazurkiewicz M, Polityka Finansowa Polski wobec aktualnych i przyszłych wyzwań, volume II. Warsaw: WSE, 2005.

<sup>15</sup> Sprawozdanie z działalności regionalnych izb obrachunkowych i wykonania budżetu przez jednostki samorządu terytorialnego w 2003 roku. Krajowa Rada Regionalnych Izb Obrachunkowych. Warsaw, 2004.

<sup>16</sup> *Ibid.*



it increased by almost 40% — at the end of 2008 it amounted to PLN 28.1 billion. For comparison, it was just over PLN 10 billion in 2001.<sup>17</sup> The amount of debt of local government units increases when we analyse it in particular years. In 2014, it amounted to PLN 72,109,871.1 and was higher by 4.3% compared to the previous year. Liabilities on account of credits, loans and bonds issued by local government units — constituting 99.7% of the total debt — increased by 4.6%. The liabilities of local government units included in the public debt increased by 79.1% in terms of domestic product. As in previous years, the main group of creditors were banks (72.2% of debt), because liabilities towards the public finance sector accounted for 5.5% of the total amount of liabilities of local government units included in the public debt. These proportions have remained more or less at a similar level since 2005. In the period analysed, an increase in the amount of liabilities occurred in 1 237 local government units (44%), in 465 it did not exceed 10%, in 335 it exceeded 30% (out of which in 207 units it exceeded 50%). The number of local governments not indebted decreased: in 2014 there were 55 (51 districts and 4 counties) but in 2013 this had grown to 60 (56 districts and 4 counties).<sup>18</sup>

As a result of the delay in infrastructure development, district self-governments have spent over PLN 300 billion on investments since 1999, and the quantity of such expenditure has increased significantly, along with the opportunities to access EU funds. For example, according to the data from the Ministry of Regional Development, by the end of February 2013, agreements were signed for EU co-financing of local government investments under the ROP with a total value of over PLN 61 billion. The Ministry of Regional Development estimates that in order to use all available EU funds up to and including 2020, local governments will need over PLN 60 billion for their own contribution. However, as a result of intensive spending of financial resources during the previous years, local governments may have difficulty in finding funds for this purpose. This is all the more important as the individual debt ratio formally came into force in 2014, which may make it difficult for many local government authorities to borrow money for their own contribution. As a result, if the debt of local governments exceeds the calculated level, the authorities will be forced to adopt another budget without deficit. Calculations made by the Ministry of Finance show that a many as 50 local governments in Poland may have problems in maintaining budgetary discipline and therefore will not be able to obtain additional funds for their own contribution to investment projects implemented with the support of EU funds.<sup>19</sup>

As far as districts are concerned, the growing lack of financial resources is visible in the limitation of investment projects due to the inability to take out loans and credit providing funds for their own contribution while applying for subsidies from the European Union budget. This situation poses a threat to the implementation of local investment and the use of EU funds in the new financing period and the implementation of the current tasks of such local government. It will also result

<sup>17</sup> Rekordowe długi samorządów. *Dziennik Gazeta Prawna*, 2015, No. 86.

<sup>18</sup> Sprawozdanie z działalności regionalnych izb obrachunkowych i wykonania budżetu przez jednostki samorządu terytorialnego w 2014 roku. Krajowa Rada Regionalnych Izb Obrachunkowych. Warsaw, 2015.

<sup>19</sup> Jak inwestują samorzady, nie zwiększając zadłużenia. *Dziennik Gazeta Prawna*, 2013, No. 117.



in a decrease in the pace of development of districts and will also have a negative impact on the standard of living of their local residents.<sup>20</sup> It should be stressed that the new method of calculating debt, which is supposed to prevent a rapid increase in the debts of local government, has given rise to much criticism. This applies in particular to the extension of maturities of existing and planned debt obligations in order to comply with statutory requirements. Therefore, in order to maintain the statutory rate and at the same time secure the inflow of money from the European Union, many municipalities extend the acceptable repayment ratio for many years which, at the same time, systematically increases the overall indebtedness of local government.<sup>21</sup> Many experts believe that the new regulations may be disadvantageous primarily for small districts, which will find it much more difficult to take out loans for their own contribution in connection with the planned implementation of EU projects. This will translate, above all, into a drastic decrease in local investment which is of fundamental importance for the local community. On the other hand, large cities may benefit from this situation, and thanks to the new solutions, they will be able to exceed the debt limit of 60% of income<sup>22</sup>, which has held back further investments until 2013. Legal solutions favour local government units with a larger budget than small ones with limited possibilities of obtaining more financial resources for their budgets. Thus, local governments with small financial resources, usually with less than 10,000 inhabitants, which are underinvested and lag behind in the development of modern municipal infrastructure, cannot obtain funds from the European Union without breaching the law in force and also without entering the path of excessive debt threatening to breach financial security. According to the analyses of the reports on the activity of regional chambers of auditors, which are obliged to supervise the financial management of local governments on an ongoing basis, the debt ratio of local governments increased in 2014 to 41% compared to the revenues from 37.7% in 2013. The debt increased mainly in rural districts compared to urban districts with a lower debt ratio.<sup>23</sup> It can be assumed that the higher increase of debt in rural districts compared to urban districts is caused by differences in the size of the financial resources allocated to local budgets. Additionally infrastructure development and the number and size of economic entities paying a public levy to the local budget constitute a barrier to obtaining financial resources which is difficult to eliminate. All this gives rise to investment needs and also to the need to allocate their own contribution in the event of applying for aid from the European Union. It should also be noted that in a larger local government, and such are urban local government entities rather than rural ones, the structure of the office and the number of officials is greater than in a small municipality. This often results in a lack of specialists with qualifications in financial management, including the acquisition of financial resources from the European Union or the

<sup>20</sup> Electronic source: <http://nowaperspektywa.ngo.pl/wiadomosc/866112.html>

<sup>21</sup> Słynny art. 243 po roku: co zmienił w finansowaniu samorządów i co coraz bardziej niepokoi. *Dziennik Gazeta Prawna*, 2015, No. 125.

<sup>22</sup> Grzymała Z, Możliwości wykorzystania środków pomocowych z UE przez gminy polskie w nowej perspektywie finansowej 2014–2020. *Prace Naukowe Uniwersytetu Ekonomicznego we Wrocławiu*, 2014, No. 332.

<sup>23</sup> Based on the reports on the activity of regional chambers of auditors and the budget execution by local government units for 2013 and 2014.

contribution needed from external sources.<sup>24</sup> The research carried out indicates that it is more possible for a person acting as an executive body to consult in respect of their decisions in cities with subordinate clerks or experts. The use of knowledge and its application in shaping the desired decisions in communal self-government by borough leaders and councillors is very important and certainly necessary in the activities aimed at achieving success.<sup>25</sup> However, the question is whether the outcomes of the research, expert opinions and studies relating to the management of public finances by local politicians are used. It should be stressed that changes in public financial management require not only turning towards the world of science, but also undertaking a broad programme of training administration staff in the area of transparent financial management and the use of the latest financial instruments aimed at rationalising the use of finance. Research shows that treasurers of districts are very often a group with a long employment history and deficiencies in basic education related to their duties.<sup>26</sup> The treasurers are often people with agricultural, pedagogical, administrative and often secondary school education — they rarely have an economics education and extensive experience in financial management, especially in the private sector. This is why only a few attempts were made in local governments in Poland to change the system of financial management to a task-based system and to plan budgets in a task-based system, so as to show the effects of action, and not only the flow of financial resources.<sup>27</sup>

## Conclusions and recommendations

After the Second World War, Poland was often subjected to looting and ineffective procedures in almost the entire area of economic and social life. Poland's surrender to the jurisdiction of communist Russia led to the formation of backwardness in relation to the countries of Western Europe. That is why the democratic uprising in Poland and joining the European Union gave rise to an opportunity and initiated the process of reconstruction of the Republic of Poland. According to the rules adopted by the countries of Western Europe, Poland and other countries when joining the European Union direct a part of their financial resources to the common EU budget. From the resources gathered in this way, financial resources are paid for the implementation of tasks covered by the common EU policy aimed at, among other things, equalising the level of development of individual countries. However, unlike countries which were not subject to the destructive Soviet policy of Russia, such as Poland and other Eastern European countries, the need for investment and therefore the need to allocate their own funds to eliminate these differences is incomparably greater. Poland's needs, due to its size among the newly acceded countries to the European Union and its geographical location in the centre of Europe, are disproportionately greater than

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<sup>24</sup> *Electronic source:* [http://www.portalsamorzadowy.pl/prawo-i-finance/zadluzenie-gmin-brakuje-kadr-winna-presja-funduszy-unijnych,71758\\_0.html](http://www.portalsamorzadowy.pl/prawo-i-finance/zadluzenie-gmin-brakuje-kadr-winna-presja-funduszy-unijnych,71758_0.html)

<sup>25</sup> Kozłowski A.J, *Kwalifikacje radnych, a zarządzanie zasobami gminy. Identyfikacja — diagnoza — kierunki zmian.* UWM in Olsztyn, 2012, p. 344.

<sup>26</sup> *Ibid.*

<sup>27</sup> *Ibid.*, p. 344 and following.

those of other countries and often have an impact on the entire European infrastructure system. The implementation of tasks within the programmes financed from the EU funds requires all entities which are beneficiaries of these resources to develop decision-making procedures aimed, on the one hand, at obtaining these resources and, on the other hand, at their effective use. Within these procedures, it is important to coordinate the tasks between the centralised and decentralised administration at the central level and, above all, in individual regions. The local government reform, undertaken in Poland only in 1990, was aimed at decentralising public management and, similarly to Western democracies, at empowering citizens organised into local government to exercise a number of powers, including influencing the shape and implementation of infrastructure programmes.

Apart from competence problems in the area of public administration, the lack of financial resources for their own contribution, which can sometimes amount to 50% of the implementation costs of the whole project, is a substantial obstacle in using the EU funds. It especially concerns small county and commune self-government which do not have a large budget. As an example, one can indicate budgets of commune governments in which the index of basic tax income for one inhabitant of the commune adopted for calculating compensatory subvention for 2018<sup>28</sup> indicates a huge diversity of income and consequently the wealth of the local budget. This has an influence on the allocation of a particular sum of money in respect of for its own contribution in order to use the European Union funds. One might assume that communes with larger financial resources at their disposal, owing to the opportunities to use EU resources, develop faster and increase their abilities for repeated use of EU funds. And the other way around, communal self-governments which have a small income take out loans in order to use EU funds and, consequently, usually compromise the possibility of repeated application for such funds because of their unfavourable financial situation. Thus, the means transferred to the communes for the implementation of programmes aimed at levelling differences in the communes' development often cause the opposite results, as for the most part they do not get to the areas furthest behind in terms of infrastructure development.<sup>29</sup> It seems necessary to increase the participation of centralised funding in building the resources of local self-government, especially communes and counties which have a small revenue stream and whose financial resources are disproportionately lower than the national average per capita. The issue has been discernible in research and studies since the creation of self-governing communes and, on the basis of the analysis of financial economy in the following years, one might indicate, that it has not been addressed in legal regulations which determine the amount of grant directed to communes or counties.<sup>30</sup>

<sup>28</sup> Planned income in accordance with G-index, compare: *Electronic source:* <http://www.portalsamorzadowy.pl/prawo-i-finanse/najbogatsze-i-najbiedniejsze-gminy-w-polsce-2017,99797.html>

<sup>29</sup> Such differences translate into the amount of financial means incoming to the local self-government from the European Union Funds, compare: *Electronic source:* <http://www.portalsamorzadowy.pl/fundusze-europejskie/jerzy-kwiecinski-ciagle-duze-dysproporcje-w-wykorzystaniu-funduszy-ue-przez-regiony,99901.html>

<sup>30</sup> The inaccuracies in calculating the means from the central budget to the communes, and at the same time increasing differences in economical and social development, especially

Another opportunity to increase the participation of local self-government in using EU resources is through a bond issue, which might increase the amount of its own contribution in respect of that necessary to apply for external financial resources. However a bond issue in conjunction with a financial institution is usually associated with high costs in operating such a programme and, as a result, a high cost for the local self-government. Therefore, it would be beneficial to use bonds that self-liquidate within the self-government.<sup>31</sup> Such bonds might be issued for the implementation of infrastructure projects which provide the inhabitants of the commune or county with the access to such utilities as natural gas, sewage system or even local roads. The people buying the bonds would be the inhabitants interested in connecting their properties to these utility systems and who have the financial resources and are able to cover the costs of using such infrastructure with the bonds they have bought. In order for such a procedure for acquiring additional financial resources to be successful it is necessary to intensify activities and participation of local self-government members in the implementation of tasks in these public-law associations that they create. The research conducted indicates a very low level of activity of citizens in the implementation of the tasks of the communes, as well as a lack of transparency in management<sup>32</sup>, which translates into large area of pathological activities in management of communes and lack of trust of inhabitants in relations between local authorities and inhabitants. That explains the citizens' reluctance towards participation in implementation of a commune's tasks and it also stands in the way of co-operation of local authorities with inhabitants in the implementation of local financial policy.

Through the analysis of national debts one might indicate the countries in which the debt is located primarily among the citizens of a country, which means that they agree to the debt by buying bonds. In such countries as Japan the debt of the central budget is placed among the residents and not in foreign banks, therefore the benefits in the form of interest come to the citizens not to the foreign financial institutions.<sup>33</sup> The debt in Poland is mostly located in foreign institutions and therefore the issue of the public debt in Poland including the interest is not the income of the inhabitants as in Japan, but external financial institutions. It is similar in the case of the debt of local self-government as the benefits from the debt are usually on the side of external financial institutions (often foreign and even quasi banks) not members of the local self-government. In case of bonds bought by the members of local self-governments, including the self-liquidating bonds, we have the financial security of the local self-government, as even the excessive debt will translate into the debt of the self-government, which is a public association whose members (in some sense the owners, shareholders) are the residents. Each Polish zloty invested by the local self-government creates assets for all residents, and also every zloty spent

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in the area of eastern Poland were indicated in studies assessing the first term of communes and the following years, *compare*: Kozłowski A.J., *Samorząd Terytorialny — historia, ustrój, finanse, zarządzanie*. Szczecin: Soft Vision Oficyna Wydawnicza, 1997.

<sup>31</sup> Kozłowski A.J., Czaplicka-Kozłowska I.Z., *Samorząd terytorialny... op.cit.*, Olsztyn: Pracownia Wydawnicza ElSet, 2010, p. 99 and following.

<sup>32</sup> *Compare*: Kozłowski A.J., *Kwalifikacje radnych...*, *op. cit.*

<sup>33</sup> *Electronic source*: <http://www.rp.pl/Dane-gospodarcze/170229103-Polski-dlug-w-rekach-zagranicznych-Uczmy-sie-od-Japonii.html>, accessed: 05.11.2017.

badly impoverishes the residents. However, even in this case it does not have any negative consequences in the form of the necessity of disposal of assets by the self-government or residents in relation with the excessive debt and the inability to pay the debt from the local budget. Whereas the excessive debt in commercial banks leads or may lead to stepping over the financial security line of the self-government which may translate into the necessity of selling common assets or even violating the private property of the people making up the local self-government.

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**Streszczenie.** W historii Polski wiek XIX i XX zapisał się przede wszystkim okupacją ze strony państw ościennych, głównie Rosji i Niemiec. Z wyjątkiem okresu międzywojennego, kiedy to w latach 1918–1939 podjęto próbę odbudowania wolnego państwa, przez niemal 2 wieki prowadzona była wobec Polski bezwzględna polityka niszczenia kultury polskiej w jej wymiarze społecznym i ekonomicznym. Dlatego zapoczątkowane w 1989 roku przemiany ustrojowe w Polsce zrodziły nadzieję odzyskania suwerenności i odbudowania państwa suwerennego i demokratycznego. Odrodzona Polska po latach zniewolenia była krajem słabym ekonomicznie niemal we wszystkich jej wymiarach. Podjęte w latach 90-tych ubiegłego wieku oraz w pierwszych latach XXI wieku decyzje zostały zatem ukierunkowane na przyspieszenie rozwoju społecznego i gospodarczego. Działania te wiązały się z koniecznością wdrożenia procedur oszczędnościowych i racjonalnych w gospodarce finansowej i też wyasygnowaniem dużych zasobów finansowych, przede wszystkim na inwestycje w obszarze użyteczności publicznej, na wdrożenie nowoczesnych technik i metod niemal we wszystkich obszarach życia gospodarczego i społecznego. W opracowaniu przedstawiono problem bezpieczeństwa finansowego państwa w odniesieniu do zadłużenia samorządów terytorialnych, szczególnie funkcjonujących na najniższym szczeblu w strukturze zarządzania państwem. Przyjmując, że samorzady w polskim systemie prawnym są związkami publiczno-prawnymi wyposażonymi w osobowość prawną i działającymi we własnym imieniu oraz na własną odpowiedzialność, to właśnie członkowie tych organizacji ponoszą bezpośrednio odpowiedzialność za skutki decyzji finansowych. Można też przyjąć, że ponoszą osobistą odpowiedzialność za skutki nadmiernego zadłużenia, co może przełożyć się nie tylko na bezpieczeństwo finansowe całego związku publiczno-prawnego, jakim jest samorząd terytorialny, ale też bezpieczeństwo finansowe obywateli.

**Резюме.** 19 и 20 век в истории Польши был прежде всего периодом оккупации территории государства соседними странами, в основном Россией и Германией. За исключением межвоенного периода 1918–1939 годов, когда была предпринята попытка восстановить независимую страну, в течение почти двух столетий в отношении Польши велась абсолютная политика уничтожения польской культуры в ее социально-экономическом измерении. По этой причине политические изменения, начатые в Польше в 1989 году привели к появлению новых надежд на возрождение независимости и восстановление суверенного и демократического государства. После многих лет порабощения возмужавшая Польша была экономически слаба практически во всех сферах. Благодаря решениям, принятым в 1990-х годах и в первые годы XXI века, появилась надежда на явное ускорение социально-экономического роста. Эта деятельность была связана с необходимостью внедрения экономических и рациональных финансовых процедур, а также выделением огромных финансовых средств в основном на инвестиции в области коммунальных услуг, внедрение практически



*во всех областях экономики и социальной жизни общества современных технологий и методов. В статье рассматривается проблема финансовой безопасности государства в связи с задолженностью территориальных органов местного самоуправления, с особым учетом органов работающих на самом низком уровне в структуре государственного управления. Предполагая, что местные органы власти в польской правовой системе являются общественными и юридическими ассоциациями, обладающими правосубъектностью и действующими от своего имени и на свою ответственность, то члены этих организаций несут непосредственно ответственность за последствия финансовых решений. Можно также предположить, что они самостоятельно несут ответственность за последствия чрезмерной задолженности, что может влиять не только на финансовую безопасность всего государственно-правового союза, которым является территориальное самоуправление, но и на финансовую безопасность граждан.*

*(mj)*