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THE FINANCIAL POLICY OF LOCAL SELF-GOVERNMENT UNITS

The efficient exercise of the powers and responsibilities vested in local self-government units depends basically on the availability of adequate financial resources enabling the effective realisation of their public tasks. These resources cover both sources of funding that ensure appropriate financial means for local and regional authorities, and the principles of financial management, which safeguard rational expenditure made by local self-government. This, in turn, requires the adoption of financial policies that are aimed at satisfying the goals of local communities. A clear-cut financial policy of central or regional authorities is to pursue the goals which are both commonly approved by society and possible to achieve. Such policy should take account of conditions to be met, social acceptance and attainability of its goals. A financial policy is accompanied by monetary and fiscal policies. The best strategy for the needs of local self-government units would be to adopt a certain concept of financial policy. According to J. Harasimowicz a correct financial policy is understood as one which meets the following conditions:

- goals are attainable under given circumstances, at a certain place and time, and not only theoretically;
- goals cannot be contradictory, *i.e.* one goal should not exclude the achievement of any other,
- ways and means by which goals are achieved should match the objectives and their power of effect,
- goals and measures must be clearly defined and well known to the relevant community,

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- precisely set boundary lines of minimum stability and consistency should be respected and not encroached, and
- highly qualified personnel and appropriate technical facilities should be available [Harasimowitch, 1977, 37].

The fulfilment of the conditions above is possible within the framework of state social and economic policy and of the political parties which are in power. An analysis of the programs of the political parties, which are currently present in the political arena, show minimal effort in reinforcing the position of self-government authorities. Although the importance of local authorities in the performance of public and economic tasks is stressed, the necessity for a relatively autonomous financial policy at the local level is not emphasised. Other political parties, such as the present opposition, do not lay any stress on stronger financial self-dependence of local authorities. The withdrawal of SLD (*Democratic Left Alliance*) from its plans regarding universal and direct suffrage of presidents, mayors and voits (*the chief officer of a group of villages*) is symptomatic. Such elections would strengthen local authorities and their financial policy. One of the most important issues is to adapt the sources of funding at each level of self-government to its competencies and tasks. Generally, a concept of the revenue of local self-government at all levels (municipalities, districts (*poviat*), provinces (*voivodship*)), divided into two categories: the revenue generated by the local government and external sources of funding was implemented in 1990, when it was introduced at the municipal level. This concept is consistent with the general provisions of the Constitution of the Republic of Poland of 2 April, 1997. However, maintaining a proper balance between the two categories of financial resources creates a problem.

Data gathered in the past few years at the lowest level of local authorities point to a steadily decreasing share of the revenue generated by local government and the growing importance of subsidies and grants from the state budget and increasing indebtedness of municipalities due to credits, loans and bond issuance.

The statute currently in force considers revenue generated by local government as:

- 1) taxes on land and real estate, means of transport, individuals carrying out certain economic activities (paid as lump sum), dogs, inheritance, donation, agricultural and forestry taxes,
- 2) revenue from duties, exploitation and local charges and other fees,
- 3) a share of taxes which are state budget revenue (27.6% of the receipts from income tax on individuals residing in the municipality, 5% - corporate tax),

- 4) general subsidies, consisting of basic, educational and compensation funds,
- 5) budget sector revenue,
- 6) earmarked grants from the state budget for carrying out delegated competencies of government administration and statutory tasks,
- 7) interest on the financial resources of a municipality,
- 8) earnings from municipal assets.

The following may be recognised as municipal budgetary income:

- earmarked grants to finance the carrying out of municipal tasks under social service programs, housing benefits, etc.,
- earmarked grants from the state budget to remove any direct threats to public order and security,
- earmarked funds,
- inheritance, legacies and donations,
- interest on loans granted by the municipality,
- charges for delayed payment,
- interest and dividends on company shares,
- penalties and fines,
- other income due to the municipality in accordance with regulations in force.

The allocation of funds to local self-government corresponds to the assignment of competencies: to state and local authorities and within local self-government.

Many factors influence such assignment of tasks, *e.g.* political, statutory, economic, organisational, psychological and sociological.

Governmental concepts adopted in Poland after 1990 have promoted the development of local self-government and delegation of competencies by central government to local self-government, which is acknowledged in the Constitution of the Polish republic (Art. 15). This provision stipulates the territorial structure of the state based on the principle of decentralisation of power and assignment of competencies to perform public tasks to local self-governments. The European Charter of Local Self-Government ratified by Poland enshrines the position of local self-government. This charter introduces the principle of subsidiarity, which endows local authorities, which are closest to the citizen, with real responsibilities for public affairs.

Local self-government expenditure may be classified in accordance with different criteria. A minority of such expenditure is governed by financial law, whereas the majority of expenditure is of a private character. Expenditure borne by municipalities, districts and provinces are above all subsidies to the non-government sector. The principles of allocating such subsidies are laid down by resolutions of the body of local

self-government. The structure of budgetary expenditure incurred by self-government units is commensurate with the responsibilities vested in the units. The distribution of tasks among municipalities, districts and provinces was in general provided for by the following statutes:

- District (*poviat*) Self-Government Statute of 05.06.1998 [Dziennik Ustaw, 1998a],
- Provincial (*Voivodeship*) Self-Government Statute of 05.06.1998 [Dziennik Ustaw, 1998].

Table 1. Tasks of self-government units

| Tasks of self-government units | | | |
|--------------------------------|----------------|-----------------|------------------------|
| A local government's own tasks | | Delegated tasks | |
| Compulsory tasks | Optional tasks | Statutory tasks | Tasks under agreements |
| | | | |

The Public Finance Act defines the expenditure of local self-government units as that which:

- cannot exceed its set limit,
- is designated for the competencies provided for by statutes, including, but not limited to:
 - a local government's own competencies and tasks,
 - competencies delegated by central government administration and statutes,
 - obligations under agreements or contracts,
 - tasks performed together with other self-government units,
- is material or financial assistance given to other self-government units as resolved by the body of local self-government,
- is divided into classified sections and subsections in the self-government budget,
- is current expenditure (salaries, subsidies, debt servicing expenses of the unit, e.g. guarantees and sureties granted by the unit),
- is capital expenditure.

The Constitution of the Republic of Poland of 2 April, 1997 considers public finances to a wider degree than other laws previously in force in Poland. Constitutional regulations governing directly and exclusively public finances are diverse, as they provide the principles of financial legislature, public fees, the state budget, the central bank of the state, monetary policy and the finance management of self-government units.

Local self-government units are public entities separated from the state and their separateness is expressed by their legal identity, rights of ownership and other property rights and, above all, their financial au-

onomy secured by constitutional provisions. The self-governing nature of units at the provincial and district level is prescribed by an ordinary statute, which is not an ideal solution, considering the stability of such regulations or the principles of the assignment of competencies to different levels of self-government authorities, which is reflected in their financial sources. Pursuant to Art. 165, Clause 2 of the Constitution of the Polish Republic the self-governing nature of local self-government units is protected by courts. This self-governing nature is to be founded on precisely defined competencies at each level of local self-government with regard to revenue and expenditure, so that the model of local finances corresponds to the competencies and powers exercised by the units of self-government.

In accordance with Art. 167, Clause 2 of the Constitution, the revenue of units of local self-government consist of the revenue they generate themselves, as well as general subsidies and specific grants from the state budget. Such provision expresses the most significant constitutional rule with regard to the principle of financial autonomy of local self-government. The division of revenue into revenue generated by local government and other revenue, whose source is the state budget, restricts the financial independence of local self-government in Poland. The external sources of supplementary financing condition the financial position of local self-government according to the current state of the national budget. The full financial autonomy of local self-government in Poland is not possible on account of the differing levels of development of self-government units, their size and preparation for the fulfilment of their responsibilities, which are targeted at the present needs of the local population.

Taxes are one of the basic types of public income. The administrative reform of the country did not meet the requirement for local authorities to set their own taxation policy. In accordance with Art. 168 of the constitution, units of local self-government have the right to set the rates of local taxes and charges within the limits established by statute. This means that the scope of tax control by local self-government units is determined by limitations set by ordinary statutes, which provide for certain local taxes and charges. Therefore, the taxation policy local self-government units in Poland is restricted and does not include the right to levy certain taxes in a given area at the discretion of a local authority to meet its own needs. As a rule, taxation policy is narrowed to the right to collect certain taxes for the local budget and to reshape some of the elements of taxation, *e.g.* lowering taxation rates, granting tax allowances and remissions.

The Public Finance Act (26 November, 1998), replaced the Budgetary Statute of 5 January, 1991, which had been the basic source of Polish budgetary law. The Public Finance Act contains a broader scope of regulations and is the major legislative act setting a system of norms in the public finances sector. The Public Finance Act follows the patterns adopted by the countries of the European Union. The Act of 26 November, 1998 on the Income of Self-government Units is only one of several acts with the force of a statute, regulating the acquisition of funds by such units. This issue is also regulated by the Act of 5 June, 1998 on District (*Powiat*) Self-Government, by the Act of 5 June, 1998 on Provincial (*Voivodship*) Self-Government and by other numerous acts governing the principles of tax assessment and collection and local levies and also by the Bond Act. However, each of these acts has a different scope and level of detail. The Act on the Income of Local Self-government Units takes a broad view of financial resources, sets the principles of acquiring funds and means of transferring general subsidies and grants.

Literature

Dziennik Ustaw, No. 91, Item 576, 1998.

Dziennik Ustaw, No. 91, Item 578, 1998a.

Harasimowitch, J., *Finanse i prawo finansowe* (Finance and financial law), Warszawa, 1977.