PRACE NAUKOWE
Uniwersytetu Ekonomicznego we Wrocławiu

RESEARCH PAPERS
of Wrocław University of Economics

Nr 346

Finanse publiczne

Redaktorzy naukowi

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Wydawnictwo Uniwersytetu Ekonomicznego we Wrocławiu

Wrocław 2014

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ISSN 1899-3192
ISBN 978-83-7695-477-6

Wersja pierwotna: publikacja drukowana

Druk i oprawa:
EXPOL, P. Rybiński, J. Dąbek, sp.j.
ul. Brzeska 4, 87-800 Włocławek

Spis treści

Summaries

PRACE NAUKOWE UNIWERSYTETU EKONOMICZNEGO WE WROCŁAWIU
RESEARCH PAPERS OF WROCŁAW UNIVERSITY OF ECONOMICS nr 346 • 2014

Finanse publiczne ISSN 1899-3192

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PROJECT REALIZATION IN LOCAL SELF-GOVERNMENT UNITS AFTER ACCESSION TO THE EUROPEAN UNION

Summary: This article deals with the subject of investment projects' realization after Poland's accession to the European Union and the possibility of European funds utilization. The problem is important because of local self-government units financial system range and, first of all, their financial independence. To depict this, in the first chapter the author presented vital conceptions regarding the rules of running local units after administration reforms. The second chapter deals with the impact of the central government decisions on investment level in local units which are the most exposed to the state financial crisis. In the last chapter, the most important change requirements, which have to be introduced, are mentioned. Otherwise, public financial system will not be efficient and Poland will not take the advantage of the granted European funds. This issue is discussed frequently but still no solution is found.

Keywords: public sector reform, local self-government units, independence, public deficit/debt, investments, EU funds.

DOI: 10.15611/pn.2014.346.07

1. Introduction

This article discusses the investment projects realization using European funds after the accession to the European Union. The aim of the article is to describe the situation and the financial system of self-government units that condition the development of EU funds and their absorption possibilities. To achieve this, the author presented the difficulties which local self-government units are faced with. State government transfers more and more tasks to them, but without sufficient financial support. In this way, the problem is shifted from public financial sectors to local units. The author described the local units' running rules and financial system propositions after administrative reforms. Special emphasis was put on their financial independence. Next, the determining factors which influence investment level were presented. To exemplify this, the scientific research from statistical data from Eurostat and Central

Statistical Office reports was used. Local units of investment will be threatened by slowing down rapidly if state government does not change its policies. The financial crisis and convergence criteria complicate the situation even more. In the last chapter, the author described the challenges for Polish public finance sector. Without their realization, it will be hard to achieve the efficiency of public economy and the proper use of European funds. Despite the popularity of this subject, there have not been final and favourable solutions yet.

2. The rules of running self-government units

Local self-government units are some kind of social organization and local or regional public democratic authority. They differ from state government authority, because they represent local communities on the specified territories. This authority is active on different management level and different territorial extent [Chojna--Duch 2010, p. 325].

Polish local units originated from the transformation reforms: first in 1989, when communes formed, and then in 1999, when the units of local government and self-government provinces were created. On every level these authorities are independent.

To talk about local unites, we have to mention the financial aspect. It includes funds and finance operation (processes), which rely on their own incomes and revenues to cover expenses and expenditure for doing their own tasks or tasks which are commissioned from the state government. Local units finance are an integral part of public sector. Financial system means a panel of rules and institutions. There are also laws and financial instruments which serve decentralization and keeping local funds according to the obligatory principles [Borodo 2012, p. 25]. The base for this system consists of:

– transfer of public tasks in an essential part and some competences to local self-government units. These tasks are conducted by them as their own liability, which is not reserved for other public authorities;
– assets and economic separation from government assets that are independent;
– financial independence of each of local unites and their budgets. The range of it is different in particular aspects;
– financial, on a grand scale, independence of an organization. Local units have ownership and, based on the Constitution, have the right to make their own decision, provide judicial protection of these, and can also take part in creating obligatory law [Chojna-Duch2010, p. 327].

Local self management units have been separated in the view of unconnected subjects (local units), like decentralized tasks and law guarantee.

Unfortunately, the distinction between local unites system, its financial economy and state system is not precise. State and local units finance makes up public finance. Their mutual relationships are based on common economic budgetary incomes, but the division between them is changeable and could move in different directions. There are not constant tasks for local units or for the state, as they depend on political decisions. There are not stable criteria and relations in expenses and income distribution between them, either.

Local self government units exist and act because of the state, within its rules and under its supervision. The state makes a decision to create local units, their form, grades of management, functions, range of powers and financial means [Patrzałek 2004, p. 45].

The division of tasks determines the scope of expenditure for each local unit, the income value and form. This relationship is inverted because the financial possibility could determine the range of expenses and tasks.

Recently the optimum range of decentralization and proper local units action in administrative and economical domain have been observed. The limit of decentralization constitutes the research subject, which depends on the country, role of the state and political conceptions.

The state is obliged to provide essential financial means to fulfill local units' tasks. Their own income, however, should be an advantage. Financial independence does not mean financial autonomy and self-financing. It is only the right to possess adequate financial means to realize projects. This adequacy is one of the local units' problem [Watt 1996, p. 42].

3. Factors influence on local units projects development

More than 20 years of changes in local government units running provokes an analysis and a reflection over the success and failures of their projects. It covers the time before and after the accession of Poland to the European Union. For years a controversy has arisen about the way of public resources distribution between state and local budgets. Year after year, the public debt is growing, created by state government deficit, which causes unprofitable changes in local units' budgets. The gap in the system and the competence of local units management bring down the efficiency of both – state and local sector. It is overlooked that progress does not depend on budget deficit value. Insufficiency in investments, lack of country development conceptions and no reforms, especially in the public finance, leads to deficit and growing public debt. In such circumstances, the government shifts tasks to local units without any financial security, which makes local budgets tight and projects risky because of the lack of reliability in financing [Wierzbicki 2013, p. 20].

As pointed out, fast growth in the deficit of local units in relations to GDP, is on the highest level in the EU. In 2010 it was, for example higher not only in the EU-10 average (0,32% GDP) but also in the EU-17 (0,26% GDP). Furthermore, the local units debt is over 4% GDP and is higher than average in the EU-10, that is in 2010 it amounted to 3% GDP. This argumentation is, apart from the EU convergence requirements, the reason for the limitation in local activity and budgeting. The locals' debt share in the overall public debt is interesting (Table 1). Moreover, in the recent years local units have been enforced to take over the tasks from the state government. As a result, local units are responsible for 30% of public expenditure, while in the EU it is about 23% [Samoń 2011, p. 36].

Table 1. Deficit and debt in government and local units in 2009-2012 (mln PLN)

	2009	2010	2011	2012
GDP	1 344 505	1 416 585	1 528 127	1 595 225
Deficit/surplus government and local units	–100 403	–111 784	–76 373	–62 439
GDP (%)	–7,5	–7,9	–5,0	–3,9
Deficit/surplus government institutions on central level	–73 535	– 91 002	–63 747	–61 772
GPD (%)	– 5,5	–6,4	–4,2	–3,9
Deficit/surplus self-government units on the local level	–14 740	–17 703	–11 278	–4 127
GDP (%)	– 1,1	–1,2	–0,7	–0,3
Government and local units debt	684 447	777 383	859 207	886 873
GDP (%)	50,9	54,9	56,2	55,6
Deficit/surplus social contribution fund	– 12 128	–3 079	– 1 348	3 460
(GDP %)	–0,9	–0,2	–0,1	0,2
Local units debt in all public debt (%)	6,8	7,2	7,9	8,0
European Union budget (art. 117)	–	10736	13 149	11 728
Local units funds	–	8 367	9 195	7 630

Source: own study based on the data from Eurostat (downloaded 04.2014, www.eurostat.eu).

The Parliament and the state government on their own as well as local units committed themselves during negotiating and accepting the EU budget solutions for 2007-2013 perspective that the European funds would be used in the best way. The same was supposed for the next financial perspective.

Since 2009 local units have been the biggest investor in Poland. In 2011 the investment level was around 42-44 mld PLN, in contrast to the level of government investments, which were about 15 mld PLN. The investment boom caused changes in traditional financial balance, due to boosting banking credits and municipal bonds in 2009-2010 [*Stabilność system…* 2012, p. 451-452]. At the same time, the government introduced many changes in law which were disadvantageous for local units. In consequence, local units had relatively less at their disposal, having to fulfill more and more public tasks. As a result it generated five areas, which are negative and which interact one with another. They created a negative condition for projects realisation by local units. There are:

– the necessity of selling local units' assets to finance current needs. It should be abolished because such assets serve as a reserve;
– decelerating the capital expenditures also European funds including those assigned for the next financial perspective;
– the influence of limitation in traditional public tasks on local inhabitants;
– making higher tax rate for both local inhabitants and firms;
– factor that slows down development and creates unemployment.

In 2003 the government on the strength of Local Unit Income Act removed the legacy which obliged the central budget to financial losses compensation, which made changes voted for by the Parliament. As a result, most tasks were transferred to local units. The changes in PIT in 2006-2007 that introduced new tax thresholds and new relief regulations, caused negative financial consequence, estimated at 8 mld PLN for all local self- government units. The government realized the negative effects of changes, but it compensated them by reforming indirect taxes like VAT, excise and controversial mineral tax. Unfortunately, local units could not proceed in the same way, because of the border level of local taxes and fees. The increase of indirect taxes, specially VAT, affected local budgets by rising the tasks and investments' costs. These were the next elements which caused the worst financial situation and risk growth in local projects. Such an activity aimed to transfer the deficit and public debt from state to local units. Existing financial rules (Public Finance Act) base on two essential fiscal rules. First, the planned current expenditures cannot be higher than planned current incomes extended by budget surplus from previous years (the 1tst rule). This is a follow-up of public finance "golden rule". Second, the relations between the sum of credit with interests cannot be higher than three years' arithmetic average for calculated current surplus to all incomes (the 2nd rule). The second fiscal rule is more difficult to realize than the first one. But when the 1st rule is not kept that means serious system problems for the units. Over 900 Polish self-government units in new financial perspective will spoil the 1st fiscal rule, if they want to keep investment expenditure on the average level form in the period 2009-2011. Even the reduction of about 80 p.p. causes problems with budget balance for 400 self-government units in the period 2014-2022 [*Oszacowanie* środków… 2013].

Additionally, many investments, including funds from the EU, are "in danger" in the spite of different system conditions and public fund transfer. Their level can be lowered or even stopped. It can bring about huge losses (the necessity of the UE funds return) and negative consequences for budgets and local units range. It can also result in the investment demand drop and the deterioration in local living conditions and competition.

This situation can lead to an economic and social conflict, which is very difficult to solve. Government has to realize that the budget instability in local units and difficulty in project realization are the results of exogenic factors, i.e. government and Parliament decisions. Debt rise, which was dynamic in local units, served as the best pretext to establish regulations that slowed down the value of investment in 2012. Ministry of Finance showed the data at the end of 2012 confirming the drop of public investments by about 25p.p. (year to year). For local units the value was less than 18 p.p. (y/y) [Central Statistical Office 2012].

When local units have to realize more and more tasks and the financial restrictions are more painful for them, the question arises about economic, social and infrastructure costs of local units investment. At the same time the question about alternative costs of abandoned expenses should be answered. They can be ”snowball effect”. That means public debt reduction, which generates derived costs (direct or indirect) frequently bigger in the middle- and long term perspectives. The macroeconomic effect of slowing economic growth can appear more dangerous than Balcerowicz’s effect i.e. economic cool [Owsiak 2011, p. 37].

4. Challenges for local self-governed units

Solutions to local units’ problems and challenges are not only cosmetic changes in the central budget. Today we need modification in four areas to limit system risk in all public sectors.

Firstly, it is essential to reform public sector deeply in structural and structured way. It should concentrate on reducing costs and expenses and aims at verification that determines the structure of public sources distribution. The overall public sector efficiency is low. The preparation and initiation of public finance reform should be accompanied by equally total and consequent reform of all central and local sections and institutions. These are two challenges conditioning each other. The condition on which the success depends is efficiency improvement in public projects management. Otherwise, it will be unreal to take control over the deficit and public debt and to improve Polish economy.

Secondly, there is a rising necessity to verify public procurement law and change the public control adjustment. At the moment, their activity on behalf of public business protection results in a huge scale public sources waste, which is risky for local units projects.

Thirdly, common relationship between public and private sector is very important as it is to create public-private partnerships. Seeing the current and future challenges, the need of private capital should be realized, which is essential for supplying public goods and service. Without this, the public costs will be much higher.

Moreover, it is necessary to introduce tasks budgets as obligatory, not only for central budget but in all public units. This type of budget reduces instability in financial risk and guaranteesthe inclusion of concerned people in the choice, preparation and realization process [*Gospodarka finansowa*...2013, p. 132-136].

Only the effective implementation of these postulates makes the stabilization in public projects financing both on part of state as well as local units possible.

Here appears a question: what can local units do in the situation when out- and in-macroeconomics factors get worse? The battle about the distribution of the public resources can be difficult. In these situation local self-government units should have to spread reserves. They can be activated by better efficiency, especially in the strategic management. The same teams equipped with better knowledge, new methods and procedures are able to do more for local communities. Citizens look forward to better efficiency, quick reactions to changes and other benefits [Surówka 2013, p. 160].

To finance investment expenditures which do not find a coverage of current surplus and assets incomes will bring on a stable increase of the new debt, which will cause bigger interest and higher expenditure on keeping and exploiting new estates. The relation debt/incomes rises with interest. That is why since 2016 current surplus will gain minus values (about -5%). The debt service indicator since 2014 has passed a limit. The absorption of European funds will cause reasonable reduction in investment expenditures, which are not connected with European funds and/or suspension of ratio liabilities.

It is necessary to maintain fiscal rules, which means investment reduction in local units. In such a situation the question is how big the scale of reduction will be [Chojna-Duch 2013, p. 98].

5. Conclusions

Twenty years it is a long period to reflect on the local self-government units running conditions. They have to be treated with bigger responsibility for local and regional development. The conflict between state government and local units about the competent share and public finance transfer to realize tasks using them, has been going on for years. The second controversial area is the scope of system regulations, which restricts local units financial independence more and more, causing the destabilization of their current running and investment projects. Local units are responsible for local citizens' needs and local development. Unfortunately, existing financial economy rules can slow down investment expenditures and Poland might fail to use European funds properly, which will have consequences. At present, there is still *status quo*.

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REALIZACJA PROJEKTÓW INWESTYCYJNYCH PRZEZ JEDNOSTKI SAMORZĄDU TERYTORIALNEGO PO AKCESJI DO UNII EUROPEJSKIEJ

Streszczenie: W artykule został poruszony temat dotyczący realizacji projektów inwestycyjnych po wejściu Polski do Unii Europejskiej i związanej z tym możliwości skorzystania z funduszy europejskich. Problem nabiera znaczenia w kontekście zakresu systemu finansowego jednostek samorządu terytorialnego, w tym przede wszystkim ich samodzielności finansowej. W celu zobrazowania zagadnienia w rozdziale pierwszym przedstawiono podstawowe pojęcia z zakresu systemu finansowego po reformach administracyjnych. Rozdział drugi przedstawia wpływ decyzji szczebla centralnego na poziom inwestycji jednostek samorządowych, które najbardziej odczuwają kryzys finansowy państwa. W ostatnim rozdziale zostały przedstawione najważniejsze postulaty zmian, które muszą zostać wprowadzone, by system finansów publicznych stał się efektywny i wykorzystał szansę w postaci skorzystania z dużej puli środków unijnych. Mówi się o nich coraz częściej i głośnej, jednak nadal bezskutecznie.

Słowa kluczowe: sektor finansów publicznych, jednostki samorządowe, deficyt/dług publiczny, poziom inwestycji, fundusze europejskie