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**SELECTED PROBLEMS OF FINANCES  
OF MUNICIPALITIES IN THE 25<sup>TH</sup> YEAR  
OF SELF-GOVERNMENT IN POLAND**

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**WYBRANE PROBLEMY FINANSÓW GMIN  
W 25. ROKU SAMORZĄDNOŚCI TERYTORIALNEJ  
W POLSCE**

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**Abstract:** Finances of municipalities determine the realization of public services and shaping of the conditions for local development. The study of the dynamics of changes of budget revenues and expenditures of Polish municipalities shows numerous internal and external conditions of financial management at the local level. The demonstrated tendencies point to the strengthening of the position of local governments, with the passage of time, however, various kinds of problems with financing of current and development tasks appear in many units. In the publication an attempt is made to demonstrate and evaluate trends occurring in financial management of municipalities in this century and to identify current problems occurring in finances of municipalities.

**Keywords:** local government finances, financial management of municipalities, municipal budget, revenues and expenditures of municipalities.

**Streszczenie:** Finanse gmin determinują realizację usług publicznych oraz kształtowanie warunków rozwoju lokalnego. Badanie dynamiki zmian dochodów i wydatków budżetowych polskich gmin wykazuje liczne uwarunkowania wewnętrzne i zewnętrzne gospodarowania finansami na szczeblu lokalnym. Wykazane tendencje wskazują na umacnianie się pozycji samorządów, z upływem czasu w wielu jednostkach pojawiają się jednak różnego rodzaju problemy w finansowaniu zadań bieżących i rozwojowych. W publikacji podjęto próbę wykazania i oceny trendów występujących w gospodarce finansowej gmin w obecnym stuleciu oraz wskazania aktualnych problemów występujących w finansach gmin.

**Słowa kluczowe:** finanse samorządu terytorialnego, gospodarka finansowa gminy, budżet gminy, dochody i wydatki gmin.

## 1. Introduction

In Poland, for many years the process of decentralization of public tasks has been carried out, which is supposed to lead to the improved functioning of territorial units. Important role in this process is played by municipalities, that is, units closest to the residents, and therefore the best acquainted with their needs. As a result of the local government reform, municipalities were granted legal personality, were equipped with assets, they took over the responsibility for providing a wide range of tasks and for shaping local development processes. One of the most important attributes of local authorities is the entitlement to independent financial management, including the adoption of the budget and long-term financial forecast. Bearing in mind the statutory scope of the tasks of municipalities, we can say that they play a key role in the functioning of society and local economy. They are an administrator of public funds, an investor and employer, as well as an entity affecting the competitiveness of the territorial unit. The possibilities of operation of municipal authorities are limited by the amount of financial means.

Finances are a very important element of management, fulfilling the function of supporting the implementation of current and developmental objectives adopted by public authorities. Therefore, it is an extremely important challenge to ensure the effectiveness of financial management, both in terms of acquisition and disbursement of budget funds. The amount of financial resources at the disposal of municipal authorities determines the ability to meet social and economic needs. The multiplicity of tasks carried out by local governments requires efficient and stable sources of funding. The functioning of a local government unit has a continuous character and many undertakings aimed at fulfilling the tasks lasts many years. Therefore, current annual planning must be closely linked to long-term planning

The state of local finances is the resultant of many internal and external conditions. They result from the local economic base potential, demographic situation, financial management skills, but also from legal determinants and the state policy in shaping tasks and finances of local governments. The complexity of these conditions causes the fact that it is not possible to specify uniform mechanisms which would be applicable to finances of all local government units. It is possible, however, to analyze general trends in individual streams of income and expenses as well as to promote the so-called good practice.

In this paper an attempt is made to demonstrate and evaluate trends occurring in financial management of municipalities in this century. It will be achieved by the analyses of streams of income and expenditure, showing the existing differences in this respect. Another aim of the considerations is an attempt to demonstrate the current advantages and risks of finances of municipalities. In preparing the publication the following were used: the literature on the subject, available statistical data on the basis of which calculations were carried out, the author's direct research on municipal finances.

## 2. Revenue and expenditure of municipalities for the period 2000-2013 – main tendencies

Effective implementation of municipal tasks requires access to a sufficiently high supply of budgetary revenue. Undoubtedly, in recent years, there has been an increase of the role of local government finances in the whole system of public finance. This is evidenced by the increasing ratio of local government revenues to GDP and the state budget revenues (66.5% in 2013).

In the period 2000–2013, a dynamic growth of revenues of municipalities took place. In constant prices<sup>1</sup> their value increased during this period by 85%, from 78.1 billion PLN to 144.2 billion PLN. The highest dynamics characterized rural municipalities (201.8%), the lowest – urban municipalities (174.6%). In the first years of the analyzed period, the dynamic growth of income resulted from favorable economic conditions. High revenues from income and local taxes were recorded as well as from the sale of municipal property. However, in 2008 the first consequences of the economic crisis became apparent in local government budgets. In subsequent years, lower revenues from these sources were recorded, which are directly dependent on the economic situation. Generally, however, we cannot say that the crisis in Poland led to a significant deterioration in local government finances. Figures showing the change in the size of budget revenues of municipalities in selected years of the period 2000–2013 are presented in Table 1. In turn, Figure 1 shows the dynamics of growth of their value, calculated year by year.

**Table 1.** Revenue of municipalities and cities with county rights in the years 2000–2013 in million PLN

Municipality type	2000		2005		2008		2010		2013	Dynamics Constant prices 2000 = 1
	Current prices	Constant prices	Current prices							
Municipalities total	56 350	78 073	82 083	100 256	111 762	125 430	126 196	134 828	144 260	1.85
Urban	33 908	46 979	47 148	57 586	64 116	71 958	70 394	75 208	82 024	1.75
Urban-rural	9 795	13 571	14 994	18 314	20 610	23 130	23 937	25 575	26 868	1.98
Rural	12 647	17 523	19 941	24 356	27 036	30 342	31 865	34 045	35 368	2.02

Source: the author's calculations based on the CSO data.

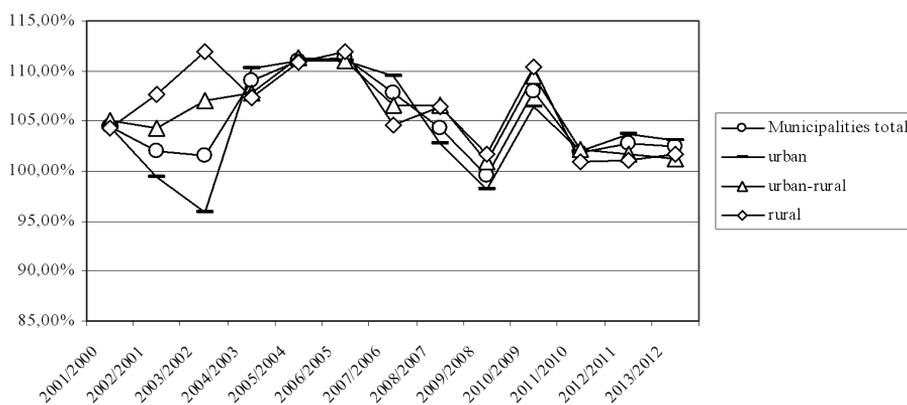
The observation of the dynamics of changes in total revenues in each type of municipalities in the period 2000–2013 allows us to formulate the following relationships:

- the dynamics of the total revenue growth is closely correlated with the overall economic situation in the country. By 2006 positive dynamics was recorded in all types of municipalities. After 2007, i.e. from the beginning of the so-called

<sup>1</sup> Constant prices for the base year 2013 – it applies to the whole paper.

financial crisis, there is a constant decline until reaching the negative level in 2009. After 2010 the dynamics of the revenue growth stabilizes in all categories of municipalities;

- after 2004, i.e. since the Polish accession to the EU, a very similar trend of the dynamics of the total revenue growth is observed in all categories of municipalities;
- in the whole analyzed period there is lack of stability of the formation of the index of the total revenue growth in municipalities.



**Figure 1.** The dynamics of annual changes in revenues of municipalities in total and in categories 2000–2013 (constant prices)

Source: own elaboration based on the CSO data.

Table 2 shows the amount of revenue of municipalities per one inhabitant of the province in the period 2002–2013. Pronounced regional differences are apparent here. The highest level of the index characterizes cities with county rights and urban municipalities and adjacent urbanized and industrialized areas. We can clearly see the correlation between the level of economic development and the financial potential of the territorial unit.

In 2013, with the national average amounting to 3747 PLN per 1 inhabitant, the following provinces achieved the highest level of the index: Masovian (4597 PLN), Pomeranian (4129 PLN), Lower Silesian (3898 PLN) and West Pomeranian (3776 PLN). The lowest income level characterized the provinces: Opole Province (3118 PLN), Subcarpathian (3310 PLN), Świętokrzyskie (3334 PLN), Lubusz Province (3365 PLN) and Lublin Province (3402 PLN).

The analysis of the level of income in total values and *per capita* shows that the size of income generated by municipalities increases with the increasing levels of economic development and the degree of urbanization of the area. Despite many years of investment in municipal infrastructure, we can clearly see the concentration

**Table 2.** Revenue of municipalities *per capita* in the period 2002–2013 in PLN (selected years)

Territorial unit	Revenue of municipalities per 1 inhabitant of provinces in constant prices						
	2002	2005	2008	2009	2011	2013	2013/2002
Poland	2 177.59	2 627.17	3 290.75	3 271.18	3 562.00	3 746.78	172.06%
Lower Silesian	2 252.78	2 754.50	3 329.65	3 303.75	3 739.42	3 897.51	173.01%
Kuyavian-Pomeranian	2 099.23	2 517.65	3 208.15	3 150.27	3 355.32	3 651.09	173.93%
Lublin Province	1 894.72	2 221.36	2 758.16	2 799.39	3 211.62	3 402.56	179.58%
Lubusz Province	2 100.02	2 574.83	2 970.16	3 083.85	3 175.47	3 365.34	160.25%
Łódź Province	2 050.68	2 388.46	3 071.99	3 103.55	3 299.79	3 704.09	180.63%
Lesser Poland	2 031.16	2 462.43	3 148.16	3 202.99	3 469.21	3 518.93	173.25%
Masovian	2 731.50	3 347.80	4 271.82	4 140.03	4 421.84	4 597.56	168.32%
Opole Province	1 894.04	2 298.77	2 816.48	2 766.08	3 023.60	3 118.49	164.65%
Subcarpathian	1 927.46	2 286.02	2 877.54	2 899.43	3 277.97	3 310.40	171.75%
Podlaskie	1 943.63	2 403.26	2 963.20	3 227.13	3 472.61	3 580.31	184.21%
Pomeranian	2 218.40	2 784.01	3 518.92	3 390.92	3 796.48	4 129.15	186.13%
Silesian	2 323.99	2 676.08	3 308.54	3 257.70	3 537.72	3 744.71	161.13%
Świętokrzyskie	1 816.02	2 226.70	2 799.72	2 966.39	3 339.63	3 333.70	183.57%
Warmian-Masurian	2 041.89	2 490.08	3 096.95	3 059.08	3 430.22	3 534.08	173.08%
Greater Poland	2 068.63	2 533.10	3 167.30	3 089.04	3 293.44	3 437.40	166.17%
West Pomeranian	2 157.93	2 640.30	3 257.71	3 239.61	3 418.96	3 776.00	174.98%

Source: the author's calculations based on the CSO data.

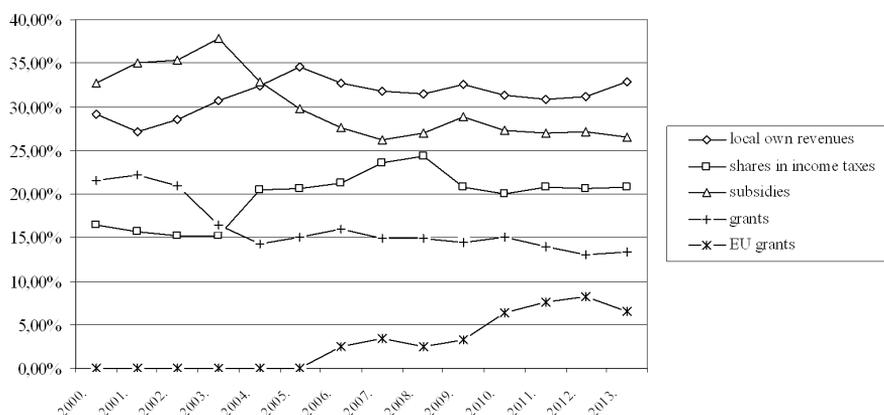
of local government units with high budget income in urban agglomerations and other economically developed areas. Local governments of less urbanized and less industrialized provinces are in a much worse situation. It pertains in particular to agricultural areas of eastern, south-eastern and partially central Poland.

In these conditions, a well-functioning equalization system is necessary, which would protect economically weaker units, but at the same time would not unduly burden municipalities with high incomes, which are characterized by higher costs of ongoing operation and a wide range of investment needs. The income equalization system existing in Poland is not able to compensate for imbalances resulting from different levels of economic development of different types of municipalities. On the other hand, it allows weaker units to generate budgetary resources which can be used to finance investment projects. In many cases, the equalization system too heavily burdens the budgets of municipalities with higher incomes, reducing their potential for development.

It should be noted here that in recent years, differences in the level of affluence of municipalities of individual provinces have decreased slightly. In 2000–2002, the highest growth in revenues was recorded in municipalities of the provinces: Lesser Poland (98.5%), Podlaskie (92%), Świętokrzyskie (92%) and Masovian (89%),

whereas the lowest dynamics characterized: Lubusz Province (68%), Lower Silesian (72%) and Łódź Province (85%). Generally, faster income growth was recorded in regions with a lower basic level of development (year 2000), that is regions of eastern, partially central and northern Poland. It was partially influenced by income obtained from EU grants, allocated by local authorities for infrastructure investments.

An important element of assessing the financial situation of municipalities is the analysis of the structure of budgetary revenues. It allows us to evaluate the level of their financial independence. A measure most often used here is the share of own revenues in the total revenues of the budget. The size of revenues which are at free disposal of municipalities, and the accompanying range of taxation powers should be as large as possible. This condition gives a sense of financial security and frees the conducted activity from the discretionary allocation of external revenue. Figure 2 shows the structure of budget revenues of municipalities and cities with county rights in the years 2000–2013. It illustrates the relationship among five income groups, which are local own revenues, shares of municipalities in taxes constituting the revenue of the state budget, the general subsidy, grants and EU grants.



**Figure 2.** The structure of budgetary revenues of municipalities in 2000–2013 – percentage share in total revenues

Source: own elaboration based on the CSO data.

In 2013 the revenue structure was as follows: own revenue 53.7% (including local own revenues 32.9% and shares in income taxes 20.8%), subsidies (26.6%), grants 13.3% and EU grants 6.5%. A negative phenomenon recorded in the revenue structure since 2005 is the decline in the share of local own revenues, the decreased (compared to 2008) share of revenue from personal income tax and corporate tax. An unfavorable phenomenon (bearing in mind the increasing costs of operation of schools) is low efficiency of the educational subsidy. The Polish accession to the EU

in 2004 gave Polish local governments opportunity to co-finance investment projects with EU funds. The graph draws attention to a significant increase in the importance of EU subsidies as a source of financing the development of municipalities (more on the topic of the determinants of obtaining EU funds by municipalities [Sierak 2013].

Municipal expenditures cover a wide range of tasks, aimed at providing municipal and social services, including, among others: roads, public transport, water supply, drainage and sewerage, education and upbringing, social assistance, public safety, culture, sports and recreation, public administration. In carrying out these tasks, public authorities allocate funds for current and capital expenditures. Table 3 presents figures showing the level of expenditure of municipalities in selected years of the period 2000–2013.

**Table 3.** Expenditure of municipalities in the period 2000–2013 (selected years)

Territorial unit	2000	2005	2008	2010	2011	2013	2013/2000 2000 = 1
Total expenditure in million PLN	59 295	82 329	114 065	138 695	141 197	144 395	2.399
Expenditure per capita in PLN	2 030	2 635	3 357	3 846	3 789	3 785	1.834
Current expenditure in million PLN	48 119	68 572	90 377	106 306	110 910	120 080	2.399
Investment expenditure in million PLN	11 176	13 756	23 688	32 388	30 287	24 315	2.322
Share of capital expenditure in total expenditure in %	18.85	16.71	20.77	23.35	21.45	16.84	-

Source: the author's calculations based on the CSO data.

In the years 2000–2013 budgetary expenditures of local government units increased from 59.3 billion PLN to 144.4 billion PLN. Just like in the case of revenues, there was a high concentration and territorial diversity of spent sums. The amount of spending was closely linked to the level of economic development and the degree of urbanization of the area and correlated with the function of the units. Functional and spatial relationships are similar to the ones described for the revenue side.

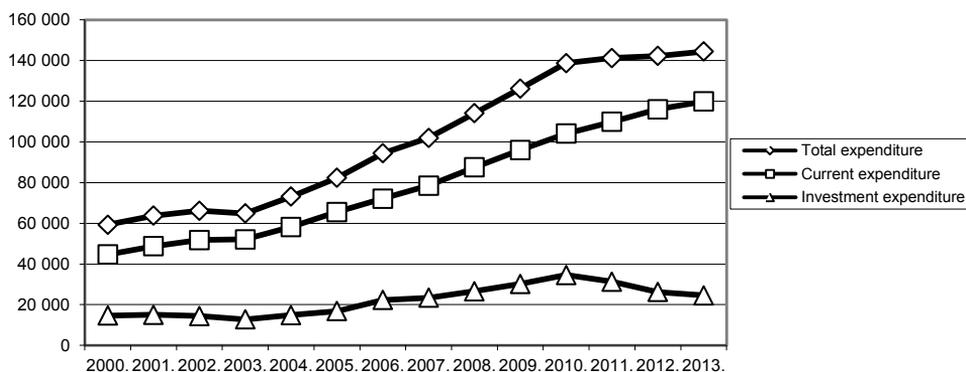
According to the CSO data by provinces, the lowest growth rate of total expenditure in the municipalities characterizes western provinces (Lower Silesian, Lubusz Province, West Pomeranian), the highest – regions of eastern Poland (Lublin Province, Subcarpathian, Podlaskie) and northern Poland (Pomeranian, Warmian-Masurian). This situation may result from relatively lower level of spending in less developed regions in 2000 and from greater opportunities to obtain external resources in the form of EU grants by municipalities located there.

In the whole country, spending increased from 2030 PLN in 2000 to 3785 PLN in 2013 in constant prices *per capita*. The gradual increase in the value of this index took place until 2010, after which its value stabilized until 2013. Total expenditure per 1 inhabitant in 2013 had the highest values in urban municipalities (4344 PLN), followed by rural ones (3192 PLN) and then urban-rural ones (3042 PLN). These

data confirm that urban municipalities are characterized by a relatively much better financial condition.

In assessing the financial situation of municipalities, it is important to study the relationship between current and capital (including investment) expenditures. The proportions between the two groups of expenses directly depend on the scope of services implemented by local governments. All municipalities are required first to perform the tasks associated with maintaining the existing state of services and ensuring the proper functioning of infrastructure resources. Only remaining funds can be allocated for development purposes. The relative proportions of current and investment expenditures take different shapes in different types of municipalities. The level of their relations is affected by many factors which are based on the size of the municipal budget, the state of its infrastructure management and local authorities' politics itself.

Changes in the amount of current and investment expenditures in the budgets of municipalities in the years 2000–2013 are illustrated in Figure 3.



**Figure 3.** The structure of budgetary expenditures of municipalities in the years 2000–2013 (value in million PLN)

Source: own elaboration based on the CSO data.

Investment expenditures of municipalities increased in the years 2000–2013 from 11.2 billion PLN to 24.3 billion PLN (+ 117.6%, with an increase in total expenditure of 143.5%). At the same time, the dynamics of current expenditure was higher and amounted to 149.5%. It is a negative phenomenon because it leads to the lowering of the investment potential of municipalities. An important measure is the share of investment expenditures in total expenditures. The share of investment expenditures in the budgets of municipalities increased gradually in the years 2003–2010, reaching the maximum value (23.4%) in 2010. Starting from 2011, a gradual decrease in the ratio was recorded – to 16.8% of total expenditure in 2013.

In 2013, in the budget expenditure breakdown of municipalities, the largest share of expenditure was allocated to: education and upbringing (33.1%), social assistance (13.8%), transport and communication (14.0%) and administration. In the investment part, spending on transportation, public utilities and environmental protection dominated.

In 2013 the total debt of local governments amounted to 69,493 million PLN. In relation to the previous year it increased by 3.1%. Analyzing the changes in the longer period of time, we can find an important, nine-fold increase of this value in relation to 2000 and more than tripled in relation to 2005. Of the total amount of liabilities, the largest part of the debt is attributable to cities with county rights (43.6%) and municipalities (38.6%).

### **3. Identification of significant financial problems of municipalities**

In analyzing the current financial situation of municipalities in Poland, the level and structure of their income and the degree of financial independence of local authorities in relation to the scope of their tasks and present investment needs, attention should be paid to several issues and problems.

The first of these are relations occurring between the condition of local government finances and the economic situation. Various sources of income are characterized by diverse sensitivity to changes in the economic situation. In the period of economic recovery, the dynamics of income rises and usually stronger than is consistent with then GDP growth. The reverse situation occurs in times of economic downturn. The impact of changes in the economic situation on the financial position of municipalities can be traced by analyzing the effects of the economic downturn of 2008–2009. The most sensitive to economic fluctuations were the corporate tax and transfer tax. Revenues from the share in the personal income tax were much mildly influenced. Revenues from municipal assets also showed high sensitivity (lack of interest in buying the land or of municipal housing, etc.). Real estate tax played a stabilizing role, being the most efficient source of local own income. It did not react significantly to the economic downturn. The situation was similar in the case of the vehicle exercise duty. In the conditions of crisis, the factor stabilizing municipal revenues are also subsidies, the role of which is particularly important in the equalization system.

Another important issue is the adequacy of financial resources to the range of public tasks delegated to municipalities. The need for the decentralization results from the natural right of every individual to decide about himself [Szewczuk 2004, pp. 23-25]. This should be a process of transferring responsibilities and powers of the governing administration to lower level units, while providing them with assets and financial resources enabling them to realize the tasks allocated to them in the framework of decentralization. In spite of the fact that this rule results both from the Constitution [Art. 167 of the Constitution of the Republic of Poland and the provisions

of Art. 3 paragraph 4 and Art. 9 paragraphs 1, 2 and 4 of the European charter of local self-government, which Poland is a signatory of] (the delegation of tasks should be accompanied by changes in the share of public revenues), and the European charter of local self-government (financial systems should match the actual changes taking place at the cost level), it is frequently violated in Poland [Guziejewska 2010, pp. 129–131]. This most often happens by transferring new tasks or increasing spending without providing adequate funds for their implementation. The most famous example is the necessity of increasing salaries of teachers as a result of changes in regulations of the Teacher Charter. The imbalance between decentralization of tasks and public finances occurring for a long period of time leads to the gradual increase in current expenditure, thus limiting the development potential of municipalities. The phenomenon of financial decentralization asymmetry (this concept appears, among others, in the publication [Bucholski 2009]) poses a threat to the financing of local development processes.

In the literature it is emphasized that the closer to local and regional communities the administrators of public funds and institutions responsible for providing public and social goods are, the more efficient the processes of accumulation and distribution of public funds [Patrzałek 2005, p. 60]. In response to the occurring budget revenue deficits, local authorities look for opportunities to reduce operating costs, improve the efficiency of public tasks and improve the effectiveness of non-budgetary fundraising (the problems of the effectiveness of budget management and liquidity in financial management are addressed in: [Dylewski, Filipiak 2012; Owsiak 2011]).

A positive trend in the finances of municipalities is a gradual nominal increase in budget revenues. Less favorable are changes in the structure of funding sources, in particular, a decrease in the share of own revenues recorded in many budgets. The high share of this income group contributes to the strengthening of financial independence and also gives the opportunity to shape a rational budget. Stable and efficient sources of budget revenues are also the basis for multiannual financial planning and are, therefore, a condition for rational shaping of local development processes. The decrease in the share of own revenues in total revenues recorded in recent years in many municipalities and the accompanying increase in the importance of grants-in-aid mean greater dependence of local budgets on external sources of funding and decisions on their development.

An essential problem of local government finances is low autonomy of local authorities in shaping budget revenues. Polish local governments cannot introduce new taxes, their taxation power and the possibility of shaping local charges are severely limited. This limits the creation of their own effective financial policy and also reduces the responsibility of local authorities for the conducted budget management. We can pay attention here to the relatively low effectiveness of the real estate tax which in many countries is an important source of funding for local governments. Its counting method adopted in Poland refers to the surface of the property. An alternative solution, used in many countries, is the connection of the tax

burden with the property value. It is undoubtedly a more financially efficient formula, but its introduction in Poland does not seem possible in a short time. There are formal and legal barriers (e.g. the lack of a comprehensive system of property valuation), economic and social ones (the risk of a significant increase of the fiscal burden for taxpayers and reducing the high level of tax collection) and political ones (the concept is not very popular in society). The possibility of the introduction of the *ad valorem* system is also an important logistics process – it would, in fact, have to be connected with many changes in the whole tax system. An intermediate solution might be works on changing the real estate tax structure towards linking it with the local economic base. The rates could be linked to the size of the entity, its functions in the settlement, the scope of its tasks. It would be connected with the necessity to prepare the standards of public task realization costs in various types and groups of territorial units.

Taxes play a role of management tools, they can be useful in creating competitiveness of the territorial unit. From this point of view, an important drawback of the Polish system is the total absence of taxation powers in relation to the portion of income taxes reinforcing local government budgets (personal income tax and corporate tax). Especially the shares in the personal income tax are an efficient source of income for many municipalities and cities with county rights. For some time we have heard in Poland demands to introduce a local personal income tax, which will go directly to the local government treasury. However, it should be pointed here that the personal income tax to a large extent determines the wealth of big cities. In contrast, the consequences of such changes in municipalities with lower levels of socio-economic development could turn out to be problematic. It seems necessary to carry out here a number of simulations showing the effects which may appear in various types of municipalities and the whole system of public finance.

Another important problem of local government finances in Poland is a system to compensate budget revenues. The current mechanism for calculating payments born by richer local governments for the benefit of poorer units are widely criticized. Certainly, a large diversity of income potential of Polish municipalities requires the equalization system to function. It should not, however, unduly burden the budgets of units with higher income, and it does so even sometimes to the extent which hinders the execution of their own tasks. In the system there are no regulations protecting municipalities against excessive diminution of their own income in the period of cyclical changes which would take into account their actual financial condition. An important problem with the calculation of payments of municipalities for the benefit of the equalization system is the two-year time gap in the determination of the calculation base. With rapid changes in the economic situation and at the same time a high rate of the budget burden for the equalization system, it may happen that the due payment will be disproportionately high (or low) in relation to the actual income. A disadvantage of the existing system is also the failure to take account high operation costs of large urban centers, performing much broader, compared to

smaller units, range of municipal and social services (e.g. road and railways infrastructure, environmental protection, public safety). The preparation of changes in the equalization system became necessary after the Constitutional Court asserted on 4 March 2014 that the provisions of Art. 31 and 25 of the Act on the income of local government units do not conform to the Constitution of the Republic of Poland.

A problem of local government finances relating to both individual units and the entire system is the lack of standardization of the cost of providing municipal and social services (e.g. financing of schools). Such standards may, for example, specify: the scope of the service, the manner of its provision, access time, a reasonable level of costs and fees, and the conditions which must be fulfilled by the provider and the recipient. It is also important to establish a system for monitoring public services and to build objective rules and criteria for the identification of territorial areas with the lowest values of parameters of public service provision and to determine eligibility for financial support. The lack of such standards makes it difficult to assess the cost-effectiveness of the operation of individual objects, devices and networks.

A feature of Polish local government finances is considerable variation in operating results of individual municipalities. Operating surplus and its arrangement over a long period is also a very good measure of the local government unit's own development potential and creditworthiness. Its level determines to a large extent investment opportunities and changes of its values provide information about the financial condition of individual local governments. In recent years, the highest absolute level of operating surplus was present in the biggest Polish cities and the most intensively developed municipalities surrounding these cities. The largest clusters of municipalities having negative operating surplus occur in the eastern border provinces (Lublin Province, Podlaskie), northern (Warmian-Masurian, West Pomeranian) and western provinces (Lubusz Province, a part of Lower Silesian). According to the author's forecasts, in the following years the number of such municipalities can significantly increase.

Another significant problem identified in the budget management of municipalities is too high rate of growth of current expenditure in relation to the dynamics of the income growth recorded in many units. It leads to the decrease of their own investment potential, which negatively affects the pace of local and regional development processes. This is an important problem because local government investment, implemented in the field of communal and social infrastructure, are a prerequisite for shaping local development processes.

In recent years, in connection with the implementation of investment projects co-financed by EU funds, municipal authorities are forced to seek external sources for financing investments. Here, debt market instruments are most commonly used. The strong upward trend in local government liabilities has been recorded especially since 2007, the percentage of municipalities with high levels of debt in relation to total revenue steadily increases. Problems with the repayment of liabilities occur primarily in units with a low level of economic development, recording a low share

of own revenues and low operating surplus, but the difficult situation also occurs in large cities where high indebtedness results from the implementation of capital consuming infrastructure projects realized over a long period of time. Debt management mistakes made by local authorities often result in undermining or even temporary loss of financial liquidity. Decisions about incurring a debt should be strictly preceded by a long-term analysis of the creditworthiness of the municipality.

Due to the limited volume, only selected current problems of local government finances were presented in the publication. The examples given show, however, that the sphere of local government financial management is very complex. The number of units, their diverse nature, as well as the external conditions of their operations make it hard to draw definite conclusions or indicate uniform solutions. Undoubtedly, it should be stressed that the current experiences of local government operation demonstrate the necessity of further improvement of financial system of municipalities, as well as of financial management processes at the local level.

#### **4. Conclusions**

Concluding the considerations, we can indicate the directions of actions aiming at the improvement of efficiency and enhancement of the stability of local government finances. The following activities will serve these purposes:

- the creation of mechanisms ensuring the observance of constitutional guarantees of providing municipalities with a share in public funds adequate to their tasks and adjusting changes in the share of public revenues to changes in the range of the tasks;
- a reform of the system of local taxes with an increase in the role of municipalities in shaping the amount of taxes which constitute their income, in particular the real estate tax;
- a change of the economic character of the shares in the personal income tax and corporate tax from transfers to taxes, which requires their transformation into “local” additions to taxes constituting the state budget income;
- the establishment of reasonable standards of public service provision and the costs of their implementation;
- the preparation of a stable equalization system, in close liaison with the financial potential and expenditure needs of municipalities and a rational system of transferring subsidies for municipalities at the same time ensuring transparent rules for using EU grants;
- further work on the principles of reducing local government debt, taking into account individual ability to incur debt obligations;
- improving the quality of financial management, dissemination of good practices in specific areas of financial management, internal control and audit, as well as the quality of provided public services.

Taking into account the scope of current and development tasks realized by municipalities, it seems necessary to enhance their income potential. It should pertain primarily to the increase of the share of own revenues in total income and building of a stable structure of budget revenues. The system of financing basic, current tasks should be as much as possible resistant to economic fluctuations. The process of decentralization of tasks should be accompanied by the process of financial decentralization. Local authorities in their activities should strive to ensure the highest efficiency of management of public funds. The fulfillment of these postulates should lead to greater efficiency in the use of local resources and improvement of the quality of municipal and social service provision, thereby increasing the competitiveness of territorial units.

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