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## Analysis of the implementation of the budgets of local government units

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### ABSTRACT

The subject of the following study is the budget of local government units. The first part of the study defines the budget with particular emphasis on the local government budget. The empirical part of the study analyzes the budgets of local government units

**Keywords:** Central budget, budget of local government units, analysis of budget implementation

### 1. INTRODUCTION

The concept of self-governance is a term that should be clearly associated with independent functioning. It is differently self-organization of an entity or group of entities operating in a certain team. Understanding self-governance as an activity not influenced by other entities should be treated as an attribute of independent functioning not only of a person but also of teams aiming to achieve a specific goal. Among the various forms of self-government, the self-governing operation of decentralized administration deserves special attention. The feature of decentralization of administration is the statutory entitlement of self-government units to act independently through their systemic, property and financial separation.

Local government units that operate in Poland consist of: a commune, a city and a poviast. The basic activity of these units is to set a budget, or financial plan, through which the collective needs of local communities are met. Local government units have their own income, create

their own budget and implement their own financial policy, which is a complex system due to multitasking [1].

The provisions of the fiscal criminal law, a special branch of criminal law with far-reaching autonomy, protect the financial interest of the State Treasury and local government units. The national components of the subject of protection of this area of law are primarily the budget (the state budget and the budget of local government units. The state budget as an economic category is a centralized resource of funds collected and used by state authorities for the implementation of specific duties and tasks. The basis of financial management of local government units are primarily the provisions of the Public Finance Act and the Act of 13 November 2003 on the income of local government units (Journal of Laws 2017 item 1453). The analysis of the implementation of the budgets of local government units for 2017 is carried out by the Ministry of Finance on based on reports on the implementation of the revenue and expenditure plans and commitments of all subsector units [2].

## **2. BUDGET CHARACTERISTICS OF LOCAL GOVERNMENT UNITS**

It is difficult to imagine a situation in which local government units would independently carry out the tasks imposed on them without the property needed for this purpose. It can even be said that the independence of these units is in a simple dependence on their property. Equipping local government units with property has become possible thanks to the legal personality granted to them (within the meaning of civil law), which means having legal capacity (i.e. the possibility of being a subject of civil law rights and obligations, e.g. the subject of property rights and other property rights) and the ability to legal actions (acquiring rights and obligations by own declarations of will). Local government property is therefore one of the basic attributes of independence of local government units, resulting from the civil law personality (subjectivity) granted to them [3].

The basic attribute of a local government unit as a decentralized unit is its legal and actual independence. This independence depends on how the legal system of the local government unit, its tasks and competences, assets and finances as well as state supervision are regulated by law. These elements shape the scope and content of the independence of the local government unit. Equipping communes (poviats, voivodships) with legal personality (subjectivity), owning own assets, as well as the resulting possibility of liability for damages for their own actions should be considered the basic premises (determinants) of their independence. This independence in the sphere of public law is shaped by the provisions of the acts in which the limits of freedom in the performance of tasks and competences as well as the principles of exercising state supervision over the implementation of these tasks were defined.

Income independence of local government units is part of the broader concept mentioned in the introduction, which is financial independence. It indicates the financial possibilities of local government units in the scope of collecting revenues and obtaining revenues, on the one hand, and the scope of expenses incurred and expenditures, on the other hand. The following types of financial independence can be distinguished [4]:

- income,
- revenue
- the expenditure,
- the outgoing.

Considering the definition of the concept of independence, it should be mentioned that the financial independence of local government units does not mean self-sufficiency in financing or independence in the field of financial management. The above-mentioned aspects are regulated by law, allowing limited decisions on the issue of obtaining funds for financing own and commissioned public tasks.

Financial independence is a kind of immanence and a key value of territorial self-government [5]. It is one of the priority principles of local government finances, and its core is expressed in the process of decentralization of public finances, which consists in transferring to the local government units appropriate monetary resources and power to allocate them. The very scope of local authority independence may, however, be different in individual countries, being a derivative of the functions fulfilled by public authorities and the manner and proportion of their division between central and local authorities. Local authorities should be more widely involved in the implementation of the allocation function of public finances, while the redistributive and stabilization function should be primarily the domain of the central level. The financial independence of local government units should be understood as: a specific scope of local government decision-making independence in the context of the possibility of conducting their own fiscal policy in a given area [6]. In economic terms, this independence refers to management and economic independence. The legal approach distinguishes the systemic and legal and financial aspects [7].

Income independence of local government is part of the broader concept of financial independence. It requires not only an adequate level of income, adequate to the tasks carried out, but also the ability to freely make decisions in tax matters, i.e. both tax authority in terms of specific sources and the ability to influence the amount of tax revenues, as well as the possibility of their administration. Income independence understood in this way requires the transfer of local government units to the disposal of own income. In theoretical terms, a larger share of own revenues in total revenues undoubtedly means a greater scope of income independence of local government.

In the economic sense, the income independence of local government units should therefore be understood as guaranteeing by the state sufficient resources of financial resources for the implementation of public tasks [8]. Equipping local communities only with a package of competences, without ensuring adequate sources of income, harms the essence of local government. Similarly, the transfer of funds should be assessed without giving the right to dispose of the accumulated resources in parallel. Income independence of local government units is therefore directly linked to the so-called local tax authorities. In addition to the transfer of revenues and authority to dispose of them, in this case it is also necessary to transfer the powers to shape them, and in particular to shape taxes constituting the own revenues of local government units [9].

Measuring financial independence, as well as the level of financial decentralization, is not easy. So far, it has not been possible to construct a single, universal measure in this respect, but also individual measures, constructed in relation to local government revenues and expenses, do not allow for the assessment of financial decentralization, and thus also financial independence.

Most of the measures used are quantitative, which undoubtedly makes it impossible to assess the qualitative characteristics of the phenomenon under study. However, this does not mean that the above measurement should be considered as devoid of purpose. The following measures are most often used to assess the degree of financial independence of an entity [10]:

- own revenues in relation to total revenues,
- own revenues excluding shares in taxes constituting state budget revenues in relation to total revenues,
- tax revenues in relation to total revenues,
- investment expenditure in relation to total expenditure.

To show the financial situation in the context of the financial independence of municipalities in Poland, the authors decided to choose only some of them, because the purpose of the analysis is not to show the empirical dimension of the financial independence of municipalities in Poland, but rather an attempt to assess its theoretical, legal and organizational foundations in relation to the concept of local government management.

The concept of independence means independence, self-sufficiency and separateness, which in relation to local government units is not possible to unequivocally state. Units of local self-government are in fact part of the common territory of the state, in accordance with the three-level division of the territorial state and the state is uniform legal provisions for these units. Territorial self-government units, performing public tasks, participate in the scope specified by the legislator in exercising state power, but they do so on special principles, the most important of which is the principle of the right granted and the right of protected independence. The principle of this independence has been extended and is guaranteed by the Constitution of the Republic of Poland. The independence of local government units is therefore considered in several areas [11]:

- Legal,
- assets,
- financial,
- tax
- organization.

The state budget policy is shaping the revenues, revenues, expenses and expenses of the state budget to achieve social and economic goals set by the government and parliament. The main tool of this policy is the state budget, whose functions are reduced to [12]:

- redistribution of income,
- budget allocation,
- stabilization of the economy.

Public expenditure is the main instrument for implementing the allocation function of public finances, including the state budget. From a legal point of view, budget expenditure is the financial resources allocated by the government and parliament to maintain the power and organs of the state and the final and non-returnable satisfaction of collective needs, both through organizational functions and the provision of public services to individual beneficiaries, on the basis of democratically undertaken and open decisions in the name of the common good

The structure of budgetary inflows is determined by public funds, defined as having all the financial inflows supplying units of the public finance sector. The literature on the subject knows various classifications of public funds. They include, in particular, tax and non-tax, compulsory and voluntary, budgetary and extra-budgetary measures, domestic and foreign. The income aspect of financial independence of local government units is guaranteed by the

provisions of the Constitution of the Republic of Poland. The Basic Law guarantees local government units a share in public revenues in line with their tasks. The basic category of public funds are public revenues, which include public levies, which include taxes, contributions, fees, payments from the profit of state-owned enterprises and sole proprietorships of the Treasury as well as other cash benefits which are to be borne by the state and local government units, special purpose funds and other units of the public finance sector result from separate acts. The Public Finance Act lists the types of state budget revenues, which are divided into tax and non-tax. The primary source of tax revenues for budgets are taxes [13].

Taxes as own revenues of local government units are characterized by a fairly close connection with the inhabitants and the territory of a given unit, however, these factors will not uniformly determine the amount of budget revenues, depending on the structure of a given tax and the competences assigned to local governments. Among taxes, the most fiscally autonomous group are taxes defined as local (on real estate, forestry, agricultural and on means of transport). They constitute the entire income of municipalities and pursuant to the laws regulating these taxes, municipalities are granted a wide range of powers in the area of income formation. However, these are revenues allocated only to municipalities and only these local government units can therefore freely shape tax revenues. Total property, agricultural and forest taxes can be defined as land taxes, as the basis for their calculation are differently classified lands located in a given commune, so they are very strongly related to the structure of these lands in two ways. In the case of local taxes and fees, the amount of real inflow of funds depends on the amount of local taxes and fees set by the municipal council as part of its certain tax authority. The authority of the commune council in this respect allows it to shape budget revenues by adopting the amount of tax rates, making decisions on the application of tax exemptions other than those provided for in the Tax Act [14].

In accordance with the principle of budget balance, budget revenues are the basic source of financing planned expenditure of local government units. Changes in revenue introduced during the financial year are reflected in changes in expenditure. For this reason, budget revenue planning should be ahead of expenditure planning, both in the budget adopted for one calendar year and in the multiannual financial forecast [15].

In recent years, significant transformations have been made in public finance management in many countries around the world. For this reason, the term new public finance management was used. The consequence of introducing new public finance management instruments in individual countries are, among others changes regarding the extension of the period of planning expenditure and public revenues, or the way of accounting for them. In connection with this, local government units and residents are increasingly deciding to create a participatory budget. Local authorities allocate a certain part of budget funds to residents who determine what to spend their money on. A participatory budget is a democratic process in which members of the local community are safe [16].

### **3. ANALYSIS OF IMPLEMENTATION OF BUDGETS OF LOCAL GOVERNMENT UNITS**

The main source of data on the implementation of the budgets of local government units are reports on the implementation of income and expenditure plans and commitments of these units, prepared in accordance with the principles set out in the Regulation of the Minister of

Development and Finance of 9 January 2018 on budget reporting (Journal of Laws, item 109 and 1395) and the Ordinance of the Minister of Finance of March 2010 on reports of public finance sector entities in the field of financial operations (Journal of Laws of 2014, item 1773), and long-term financial forecasts of local government units prepared according to the principles set out Regulation of the Minister of Finance of 10 January 2013 on the long-term financial forecast of a local government unit (Journal of Laws of 2015, item 92).

Pursuant to the provisions of these regulations, all local government units prepare and submit to the Ministry of Finance, quarterly, reports on the implementation of budget revenue and expenditure in full detail, i.e. department, chapter, paragraph, reports on the budget surplus / deficit, reports on balance of liabilities by title and guarantee, and sureties.

Reports and long-term financial forecasts of local government units are sent to the Ministry of Finance - via regional accounting chambers - in electronic form [17].

The tables and charts present data compiled by the Ministry of Finance on the basis of annual reports received from local government units, including budgetary units, local government budgetary establishments (operating under the Act of 27 August 2009 on public finance), income accounts and expenses referred to in art. 223 paragraph 1 of the Public Finance Act.

The table below presents data on the implementation of the budgets of local government units in 2018.

**Table 1.** Implementation of the budgets of local government units in 2018.

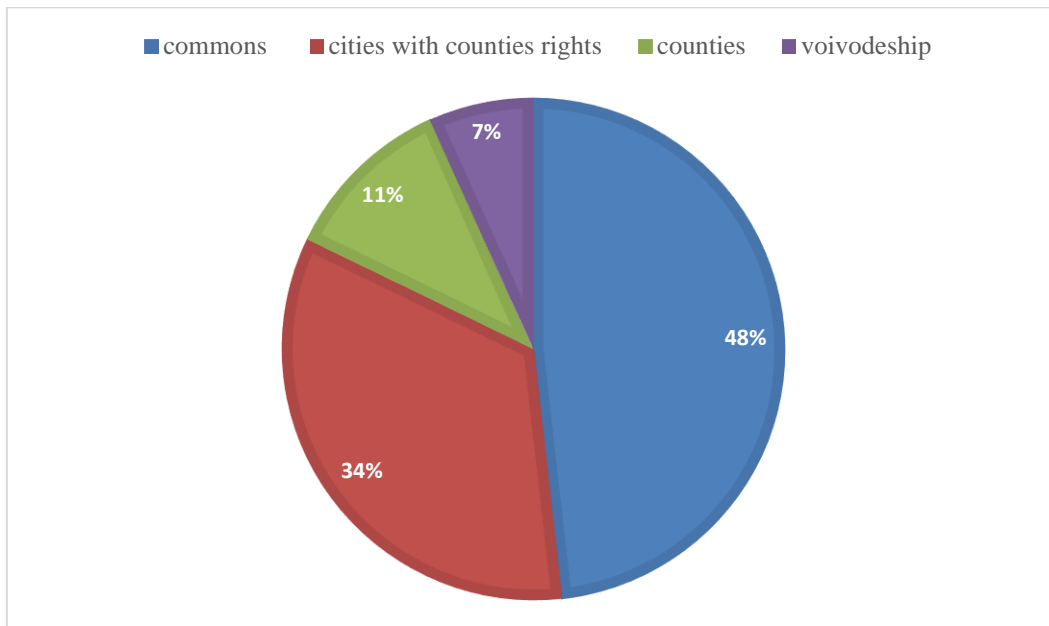
Specification	Execution 2017	Plan (after changes)	Execution 2018	Performance /Plan indicator	Dynamics Implementation 2018 / Execution 2017
	thousands of PLN			%	
Revenues	229878742	255559008	251846419	98,5	109,6
Expenses	230166344	278439273	259386268	93,2	112,7
Score	-287603	-22880265	-7539849	-	-

[Source: report on the implementation of the state budget for the period from 1 st January to 31 th December 2018 information on the implementation of the budgets of territorial government unists council of ministers, Warsaw 2019]

In 2018, local government units generated a total income of PLN 251,846,419 thousand. PLN, i.e. 98.5% of the annual plan and expenses in the amount of PLN 259,386,268 thousand. PLN, i.e. 93.2% of the plan. The budgets of local government units closed with a deficit in the amount of PLN 7,539,849 thousand. PLN, with the planned deficit of PLN 22,880,265 thousand PLN.

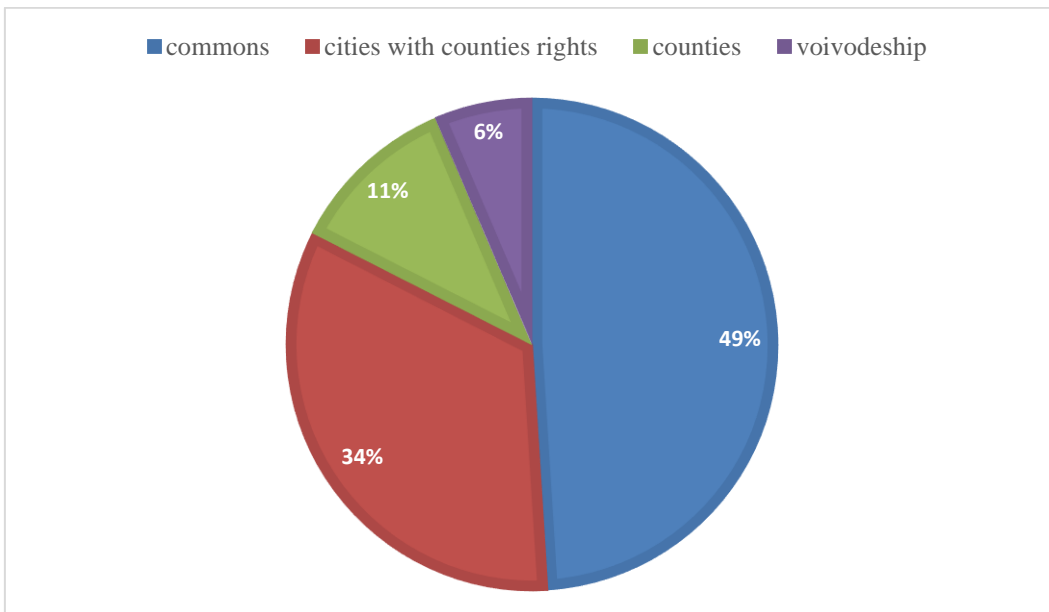
In the structure of total revenues realized in 2018 by local government units, total revenues of municipalities and cities with poviats rights accounted for 82.2% of total revenues

realized by all local government units, and their total expenditure accounted for 82.5% of all expenditure financed by local government units.



**Figure 1.** Structure of income by JST category in 2018.

[Source: report on the implementation of the state budget for the period from 1 st January to 31 th December 2018 information on the implementation of the budgets of territorial government unists council of ministers, Warsaw 2019]



**Figure 2.** Structure of income by JST category in 2018.

[Source: report on the implementation of the state budget for the period from 1 st January to 31 th December 2018 information on the implementation of the budgets of territorial government unists council of ministers, Warsaw 2019]

The table presents total revenues and expenses of local government units, including funds for financing and co-financing of EU programs and projects. In 2018, the revenues generated by local government units related to the implementation of EU programs and projects accounted for 6.7% of total revenues. On the other hand, expenditure on the implementation of EU programs and projects accounted for 9.8% of total expenditure.

**Table 2.** Total revenues and expenses of local government units

Specification	Execution 2017	Plan (after changes)	Execution 2018	Indicator Execution / Plan	Structure	Dynamics of Performance 2017/2018
	thousds of PLN			%		
1	2	3	4	5	6	7
<b>Total income including:</b>	<b>229 878 741</b>	<b>255 559 008</b>	<b>251 846 419</b>	<b>98,5</b>	<b>-</b>	<b>109,6</b>
for the implementation of programs and projects financed with the participation of EU funds from this:	8 753 923	22 154 938	16 818 699	75,9	100,0	92,1
- municipalities	2 260 207	8 878 209	6 166 594	69,5	36,7	272,8
- counties	947 008	2 415 444	1 797 877	74,4	10,7	189,8
- Cities with counties rights	2 345 524	5 528 433	4 301 897	77,8	25,6	183,4
-province	3 201 184	5 332 853	4 552 331	85,4	27,1	142,2
<b>Total expenses including:</b>	<b>230 166 344</b>	<b>278 439 273</b>	<b>259 386 268</b>	<b>93,2</b>	<b>-</b>	<b>112,7</b>
for the implementation of programs and projects financed with the participation of EU funds from this:	12 774 761	31 512 081	25 352 342	80,5	100,0	198,5



- municipalities	4 624 505	13 680 134	10 989 910	80,3	43,3	237,6
- counties	1 284 559	3 148 116	2 375 963	75,5	9,4	185,0
- with counties rights	3 342 923	8 213 858	6 580 568	80,1	26,0	196,9
- province	3 522 774	6 469 972	5 405 901	83,6	21,3	153,5
share of revenues for EU programs and projects in total revenues	3,8	8,7	6,7	-	-	-
the share of expenditure on EU programs and projects in total expenditure	5,6	11,3	9,8	-	-	-

[Source: report on the implementation of the state budget for the period from 1 st January to 31 th December 2018 information on the implementation of the budgets of territorial government units council of ministers, Warsaw 2019]

In turn, revenues and expenses without funds for financing and co-financing of EU programs and projects by category of local government units are presented in the table below.

**Table 3.** Total revenues and expenses of local government units without funds for financing and co-financing of EU programs and projects.

Specification	Execution 2017	Plan (after changes) 2018	Execution 2018	Indicator Execution / Plan	Dynamics Execution 2017/2018
	thousds of PLN			%%	
<b>Total revenues</b>	<b>229 878 741</b>	<b>255 559 008</b>	<b>251 846 419</b>	<b>98,5</b>	<b>109,6</b>
Revenue without revenue for the implementation of EU programs and projects	221 124 818	233 404 070	235 027 719	100,7	106,3
of which:	108 929 078	115 142 811	115 259 003	100,1	105,8
municipalities	24 441 523	26 038 041	26 161 470	100,5	107,0
counties	76 184 016	80 263 753	81 205 893	101,2	106,6
Cities with counties rights	11 570 201	11 959 465	12 401 353	103,7	107,2

<b>Total expenses</b>	<b>230 166 344</b>	<b>278 439 273</b>	<b>259 386 268</b>	<b>93,2</b>	<b>112,7</b>
Expenses excluding expenses for the implementation of EU programs and projects	217 391 583	246 927 192	234 033 926	94,8	107,7
of which:	107 359 942	122 910 956	116 142 864	94,5	108,2
municipalities	24 075 857	27 588 334	26 280 608	95,3	109,2
counties	75 161 129	84 565 313	80 434 044	95,1	107,0
Cities with counties rights	10 794 655	11 862 589	11 176 410	94,2	103,5

[Source: report on the implementation of the state budget for the period from 1 st January to 31 th December 2018 information on the implementation of the budgets of territorial government units council of ministers, Warsaw 2019]

In 2018, compared to 2017, total revenues increased by 9.6%, while total revenues excluding revenues for the implementation of EU programs and projects increased by 6.3%. During this period, total expenditure increased by 12.7%, while total expenditure excluding expenditure on the implementation of EU programs and projects increased by 7.7%

#### **4. CONCLUSIONS**

Since the beginning of the transformation, local government units have somehow got used to the budget institutions. Invariably, since the reactivation of local government in Poland, the basis for the financial management of local governments is the annual budget. It is the basic document for the implementation of public tasks by local government units regardless of their level - commune, poviats or self-government voivodships. However, a lot has changed since the re-emergence of local government in the public finance sector in Poland. The budget is not the only reflection of JST's financial resources. Tasks are implemented not only by typical budget entities, but more and more often we are dealing with other forms that are not always connected with the budget [18].

The tasks carried out by local government units serve to meet the collective needs of the population, which, in principle, are therefore of general interest. Government revenues and expenses are subject to various legal and economic divisions that are important for the assessment and functioning of the budget. When using them, it is assumed that they are not the same in terms of the nature of the mass of income and expenditure, but are, or at least can be, appropriately separated. Budget divisions are important for identifying investment and property expenses, which may indicate their sources. Units of local self-government in Poland, within the limits specified by law, may choose the organizational forms for carrying out tasks. These forms are characterized by different financing rules and, which is a direct consequence of this, different possibilities of application for the implementation of specific tasks, however, the basic tool for the implementation of tasks of local government units is the budget.

Each local government unit, in the legal act regarding its appointment, in addition to indicating the purpose of appointment (performing tasks), has been provided with attributes to enable it. One of them, next to the assets, is the budget revenue system. The scale and sources of income generated by the municipality depend on the pace of socio-economic changes in the investment development process. In the interest of the commune - to be able to develop dynamically, it is necessary to use all kinds of available sources of financing to carry out tasks in the field of technical and social infrastructure, environmental protection, and to reduce unemployment [19].

The state budget is a particularly important segment of the public finance sector not so much due to the scale of fiscal operations, but as the most mobile and flexible segment in the public finance system regulating the financial supply of other sector entities. According to the commonly accepted doctrine of public finances, the state budget as a power regulator equalizes or at least should level out deficits of other sector segments (apart from local government budgets), which should lead to the concentration of the deficit in the state budget. However, this does not happen in Polish practice and the budget deficit is only one of the elements making up the total public finance sector deficit in a variable relation to this total deficit. [20]

The budget is usually characterized and defined in a descriptive way by indicating its most important features. This is a reflection of the ways and means used to achieve the assumed goals through influencing and influencing the behavior of societies. The budget is a centralized public fund for collecting cash. The budget and budget processes are not only about legally preparing the document.

The budget planning process takes into account the political, management, planning, communication and financial dimensions. According to the recommendations, a good budget should include a long-term perspective, links with general organizational goals, focus budgeting decisions on results and effects, promote effective communication with stakeholders and employees [21].

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