

System of specific grants for local government units in Poland

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Abstract

The article analyses the system of specific grants in local governments in Poland. First, main revenue sources of local self-governments are presented. Their presentation is based upon the consideration of one of the basic important principles in democratic states today, i.e. decentralization. The text then, in more details, describes specific grants with respect to the European Charter of Local Self-Government. Subsequently, the reflections touch upon the characterisation and categorization of grants from the point of view of legal regulations that exist in Poland. Concluding, and with help of statistical data, empirical verification of the significance of specific grants from the state budget is undertaken.

Key words: revenues, grants, local government in Poland

JEL Classification: H71

1 Groups of revenue sources for territorial entities: decentralisation view point

Decentralisation is one of the general important principles in a functioning democratic state. It is often understood as an indication of and insurance for another general principle of developed democratic states, i.e. the principle of subsidiarity, also known as ‘auxiliary’ principle (more hereto see [1]). It is from the decentralization principle that the idea of local self-government is derived. Its definition in a more general form refers to a decentralised public administration. Application of this principle in public administration in Poland is guaranteed by law, more concrete, by the Constitution, which in its first part contains a formulation that local government participates in executive branch of government through carrying out a number of public tasks. [2].

Decentralisation may also be conceived of in terms of public spending. In this case, it must be analysed in relation to another important principle which is the financial self-determination. This principle, also understood as financial autonomy, makes part of decentralisation of public spending. In accordance with financial autonomy, the Constitution differentiates between three basic sources of revenues of local government units:

- own revenues (*dochody własne*),
- general subsidies (*subwencje ogólne*),
- specific grants from the state budget (*dotacje celowe z budżetu państwa*).

Referring the above enumerated sources to the level of financial autonomy, one could assume that own revenues as a financial sources are defined to a largest extent by the financial autonomy, especially in respect of ‘shaping’ and ‘spending’ revenues coming from this source. The financial autonomy seems lowest in case of specific grants while general subsidies are considered as a neutral source for the autonomy of the units of local government, and this mostly

due to the centralised method of granting them and their decentralised spending. In the literature, they are also often described with the term ‘general grants’ rather than with the term ‘general subsidies’, to differentiate them from specific grants, which are subject of reflections in this article.

Despite the largest autonomy characterising own sources, general subsidies and specific grants are accepted as one of the sources for the territorial entities. One can ascribe different roles for both categories. General grants for their part shall rather play a ‘levelling-up’ role, especially in relation to asymmetrical distribution of revenues from potential sources, as well as a ‘weighing-up’ or balancing role, when it comes to asymmetries in spending. Such objectives are formulated in the European Charter of Local Self-Governments. One can also find there proposals saying for example that, grants shall not - as much as possible - be used for specific purposes [3]. This proposal gives way to assumption that the existence of specific grants is allowed for bettering the financial condition of units of local government, however, their role in local government’s budgets cannot be dominant but should rather be completing, i.e. having only a completing function.

2 Main characteristics of the specific grants from the state budget

As already mentioned, specific grants are one of the three groups of sources for the budgets of local entities. The Polish Constitution defines them as obligatory, that means that a situation in which a given unit of local government does not receive them cannot arise. Only, a difference in amount of grants may arise between different units of local government. On the basis of the European Charter of Local Self-Governments, however, they shall be considered as a source of additional revenue.

Like subsidies, specific grants belong to the group of revenue sources that arrive from the state level, i.e. from the national budget. They are transferred in order to finance and with that to finalise public tasks. While on the level of spending subsidies are decentralised, the use of grants is not determined by the decentralisation principle. They are used for purposes and for tasks directly defined by the institution that granted a given grant. However, the Polish law allows a number of exceptions to this principle; some that for instance have to do with subsidies that are meant to compensate losses in own revenues and sources. A decision to do so is usually taken by the governing body, in this case either a commune or town council or steering committee. However, a general principle of financing or co-financing with help of grants says that the way and the extent of distributing financial contributions depend on the subject’s own resources (e.g. state budget). That is the main reason why grants are considered as the most centralised source of revenues, which furthest intervenes into economies of local entities. With them, both own or ordered tasks are financed. Unlike subsidies, receiving grants does not work as a function of specific general criteria.

The above mentioned characteristics, in particular the lack of specific criteria of allocating grants as well as the intervention of the grant-giving institution into the ways and extent of carrying tasks, needs to be understood as a disadvantage of specific grants. A question thus arises in which situations shall the described scheme govern the financing of tasks? Advantages of specific grants are visible from the point of view of the institution giving and distributing financial resources. That is a relatively strong means that a central government institutions have at their disposal to channel and influence spending into projects relevant from their own perspective. At the time being, Poland at the national level prioritises spendings related to the football European Championship, known as Euro 2012. This project disciplines the identification of all actions relevant for construction of motorways. Equally, at local levels, the central

government invests into a lot of projects for this purpose, for instance constructions of public and free-of-charge sport complexes in communes equipped with possibilities for relating social activities and changing rooms. With this project, which is also called "Moje Boisko – Orlik 2012" (My football pitch – Orlik 2012), the central government authorities promise to harmonise and to enlarge sport infrastructure in Poland. The central government can, exactly by using specific grants from the state budget, shape all the prioritised activities according to its own policies; however the very same actions are considered by the local entities as a means of controlling and reducing the local executive autonomy. Granting them "(...) not only means defining the ways of financial spending but also controlling and monitoring the spending as well as returning the not-used resources" [4]

Given the above reflections, one can assume that to the characteristics of specific grants belong:

- linking sources with tasks for which the sources are meant and used,
- linking sources with time tables in which they are at disposal for territorial entities – mostly until the end of every year,
- obligation to reimburse sources back to the state budget in case when they are not used in the amount they were meant for and in a specific time table given,
- increase in acceptance of administrative institutions by distribution of financial resources.

For these reasons specific grants in democratic states shall only function as a completing source of revenues at the level of local government.

3 Classification of specific grants in relation to legal regulations in Poland

There are many different ways of classification of grants (com. table 1). One of the most general criteria seems to be the obligation to finalise a project. According to this criteria, there are obligatory grants ordered by law, and there free ones, thus facultative. In the latter case, granting of financial sources is not guaranteed by law and thus not always ensured even after signed agreements. Considering objective of grant, one can differentiate between grants meant for financing or co-financing own tasks as well as financing ordered tasks, both based on legal regulations and agreements. Depending on the source of finances for territorial entities, they are either of national origin or from other sources, for instance specific funds. In the first of group, which is most significant, are grants [5]:

- for tasks at the level of governmental administration,
- referring to security, sporadic or extraordinary events,
- financing or co-financing own-defined tasks,
- for tasks derived from international agreements.

Table 1. Classification of specific grants

criteria	type of grant
obligation to finalise a project	obligatory
	facultative
objective of grant	own-defined tasks
	ordered tasks
sources of financial means	from state budget
	other sources e.g. specific funds

Source: compiled by the author

Concerning grants for tasks referring to governmental administration one can distinguish between two types of groups. The first group includes those, the finalising of which is guaranteed by law. Tasks ordered by the governmental administration usually relate to health care system, culture and health security. Ordered by law is also the organisation of referenda or elections. The second group makes up tasks that are not ordered and regulated by law but rather by mutual agreement of actors involved. Territorial entities are allowed to enter agreements not only with central administration. However, one has to keep in mind that grants from budgets of other actors at the local level count as own source.

Grants meant for ensuring security, prevention and/or reducing negative consequences of different events or other insecurities are meant for:

- removal or avoiding of dangers of any kind for public order,
- liquidation of consequences of flooding, landslides and other natural catastrophes,
- in communes – for deploying town or fire men guards or inspection guards.

The third group encompasses co-financing, or financing of own tasks. Co-financing touches mainly upon [5]:

- agreements in provinces,
- regional development,
- investments for school and cultural institutions,
- education projects in rural regions, among others scholarships and material help for rural youth,
- carrying out reforms in cultural and education system, improving chances in education and practical education,
- re-management of immobility estates after returning of Russian troupes,
- sport projects involving children, youth and handicapped peoples, such as for instance constructions or reconstructions of sport complexes and developing sport for those groups in society,
- road projects in communes and districts,
- cultural projects with state level involved.

As one can see financing or co-financing with help of specific grants taken from the national level mostly is linked to education and culture, as well as – further – to infrastructure and development in selected regions.

It is worth mentioning that the idea to fully finance projects with own sources brings about a number of controversies. On the one hand, it can be assumed that they are a good source of financial revenues positively influencing needs of a number of local entities and populations in regions. Getting such grants is then considered as a sign of activity of local government units, which aiming at finalising given projects look for optimal budgetary solutions. On the other hand, however, if one takes a look on principles and procedures of getting additional sources, a question arises as to whether financing ensured according to the principles presented above does not at the end manifest itself as denial of the concept of local autonomy, local independence and responsibility by carrying out own tasks.

Grants for tasks agreed upon in international agreements, which present here the last group, mainly encompass sources coming from regional funds of the European Union. They are used for projects in ways as if they were co-financed by the state budget, however, one has to add that principles and rules of getting, using and justifying their spendings are the same as those specific grants coming from the state budget.

In every case, independent of where a grant comes from and for what objective it is used, the allotted amount of money shall be sufficient for correct and right realisation and finalisation of a project for which it was granted.

4 Meaning of specific grants in the budgets of Polish local government units

The idea of specific grants, in particular in time spans in which they to a large extent made up the sources of revenues for territorial entities, was strongly criticised. Two points of criticism were addressed to this source of revenues:

- development of forms of increasing budgets in local governments not intended originally, which was rather to create sources for complementing the local budgets,
- slowing down of the decentralisation process of public finances at the local level since specific grants are a good example of de-concentration.

Table 2 shows, first, a total amount of specific grants received from the state budget as revenues of units of local government as well as, second, differences between provinces, districts and communes. Data refers to selected time periods relevant for the local government evolution in Poland [6]. Two dates seem important in this respect:

- year 1999, in which districts and provinces came into being as new local entities. Until the year 1998, the first phase of the administrative reform was in place, which only established local entities at the level of communes,
- year 2004, with which came the reform about revenues for territorial entities, especially the reform's objective, which became legally binding, about reducing the influence of national sources and increasing the influence of own sources.

Table 2. Amount and part of specific grants received from the state budget in revenues of units of local government in the period between 1995 and 2007

year	revenues total in mln zł	in it specific grants from the state budget							
		in mln zł	in distribution in			part in %	in distribution in		
			communes	districts	provinces		communes	districts	provinces
1995	19 993	4 116	4 116	---	---	20,6	20,6	---	---
1996	30 956	4 290	4 290	---	---	13,9	13,9	---	---
1998	46 119	6 572	6 572	---	---	14,3	14,3	---	---
1999	64 877	13 727	7 508	4 775	1 444	21,2	14,5	48,5	43,9
2003	79 141	11 985	6 459	3 474	2 052	15,1	10,2	31,3	44,9
2004	91 503	11 928	7 816	2 819	1 293	13,0	10,8	22,6	18,6
2006	117 040	17 755	13 966	2 738	1 051	15,2	15,1	18,4	11,1
2007	131 391	18 785	14 579	2 928	1 278	14,3	14,0	18,1	11,3

Source: Compiled by the author on the basis of [7]

The changes that one could observe in the structures of local government's finances in the last twelve years seem to be adequate. From the year 2003 on, part of the specific grants received from the state budget by units of local government amounts to 13-15 percent. The tendency to increase those sources, prevailing at the beginning of this century, seem now to slow down, which means at the same time that its role in local entities is becoming less significant. However, such a situation may still look quite different for different units of local government. In some communes in years 2003-2004, every tenth zloty came for the state budget, while in the following years this level stabilised or even increased to 14-15 percent. However, districts after their inception in year 1999 almost half of their revenues received from specific grants of the

state budget, which may look like a wrong measure thereby making these local entities completely dependent on the central level. Such a situation was improving with every year. However, even nowadays, the level of subsidising districts is the highest among all the local entities, which receive grants and subsidies in Poland. The biggest changes in the financial structures conditioned by the diminished significance of specific grants came about in provinces. The law about local governments' financial sources has significantly changed the system financing territorial entities i.e. from over 40 percent at the beginning until a little more than 11 percent.

5 Conclusion

Based on the empirical data, one can conclude that specific grants used in financing the units of local government in Poland play its right role, i.e. a completing function. However, its extent does not only depend upon how high the subsidies are but also upon general revenues, one part of which are also local government's own financial means. The latter, in particular in year 2009, has so far been lower compared with what the state budget project assumed. That would indicate that specific grants, generally considered as relevant in the structure of financial revenues of local government units, are likely to increase in the coming years and may amount to, on average, 15 percent.

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