

Current problems of the budgets of
Polish local government units, with particular
emphasis on the role of
Regional Chambers of Audit as supervisory
bodies over the financial
management of local governments

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Plan of speech

1. The causes of the problems of the budgets of local government units in recent years and the scale of these problems
2. Actions taken by the Polish government in connection with budget problems of local government units
3. The role of Regional Chambers of Accounts in the context of budget problems of local government units
4. Summary

The causes of the problems of the budgets of local government units in recent years and the scale of these problems

1. COVID pandemic - 19

- affected both revenues of local government units and expenditures
- reduction in revenues from PIT and CIT, as well as property tax on business entities
- emergence of new expenses related to preventing the spread of COVID-19

1. armed attack by Russia on Ukraine on February 24, 2022

- increase in expenses related to the maintenance of buildings owned by local government units (schools, kindergartens, cultural institutions, municipal offices, etc.)
- the emergence of a new category of expenses:
 1. for the implementation of tasks related to assistance to refugees in Poland, and
 2. to assist local communities in Ukraine.

Law of March 12, 2022 on assistance to citizens of Ukraine in connection with the armed conflict on the territory of that country (OJ 2024.167 t.j.).

Assistance to citizens of Ukraine in Poland

1. **local government units, on their own initiative and within the scope of their resources, may provide assistance to citizens of Ukraine.** The assistance may concern, among other things:
 - accommodation;
 - providing all-day collective feeding;
 - providing transportation to places of accommodation, all-day boarding, as well as to places where medical care is provided to citizens of Ukraine;
 - financing travel by public transportation and specialized transportation designed for persons with disabilities, in particular, to or between the places mentioned above;
 - provision of cleaning and personal hygiene products and other products.

Assistance to citizens of Ukraine in Poland

2. local government units were required to perform statutorily defined tasks, such as performing activities related to:

- assigning PESEL numbers to citizens of Ukraine
- payment of a monetary benefit to entities providing accommodation and food to citizens of Ukraine
- payment of a one-time cash benefit intended for subsistence, in particular to cover expenses for food, clothing, footwear, personal hygiene products and housing fees
- provision of free psychological assistance.

3. local government units were required to carry out orders given to them for execution by the voivode. The orders were subject to immediate execution and did not require justification.

These tasks were in the nature of mandated tasks of government administration financed from the state budget in the form of an earmarked grant.

Assistance to citizens of Ukraine in Poland

Municipalities, inter-municipal unions and associations of local government units may provide assistance to each other or to other local government units, including financial assistance.

The assistance may be:

- financial - transfer of funds or
- in-kind - the transfer of funds to provide humanitarian aid in connection with the ongoing war (e.g., food, hygiene and medical products, generators, communication equipment, etc.), or to remove the consequences of the war (e.g., the purchase of building materials to rebuild or repair damaged local government infrastructure).

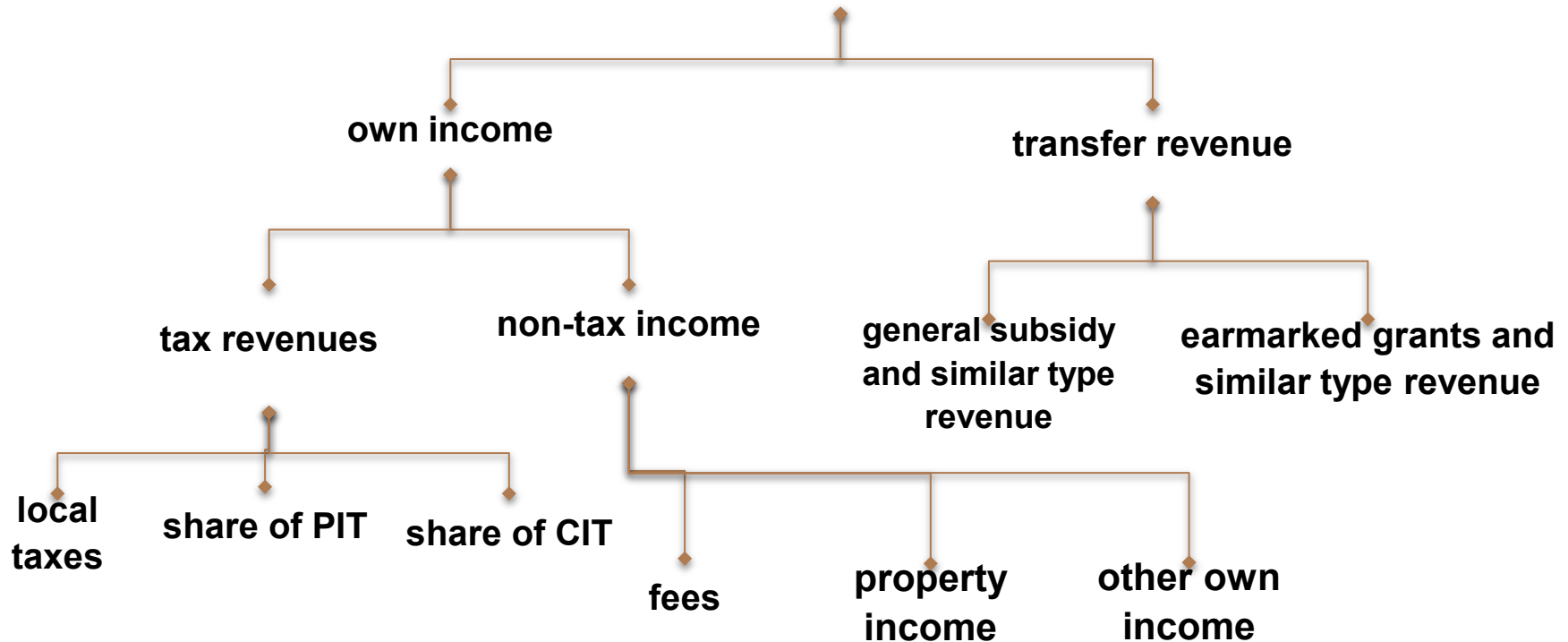
Tax reforms 2019-2023

- in 2019 - exempted people under 26 from PIT + reduced the tax rate from 18% to 17%
- in 2022 - raised the free amount from PLN 8,000 to PLN 30,000 + increased the amount of the first tax threshold from PLN 85,528 to PLN 120,000 + reduced the tax rate from 17% to 12%
- in 2023 - raising from 1% to 1.5% the amount of tax due at the rate of 1.5% that a taxpayer can donate to a public benefit organization of his choice

These reforms have resulted in a significant decrease in local governments' own revenues from their share of PIT revenues

Article 167(2) of the Constitution: The revenues of local government units are their own revenues, as well as general subventions and earmarked subsidies from the state budget

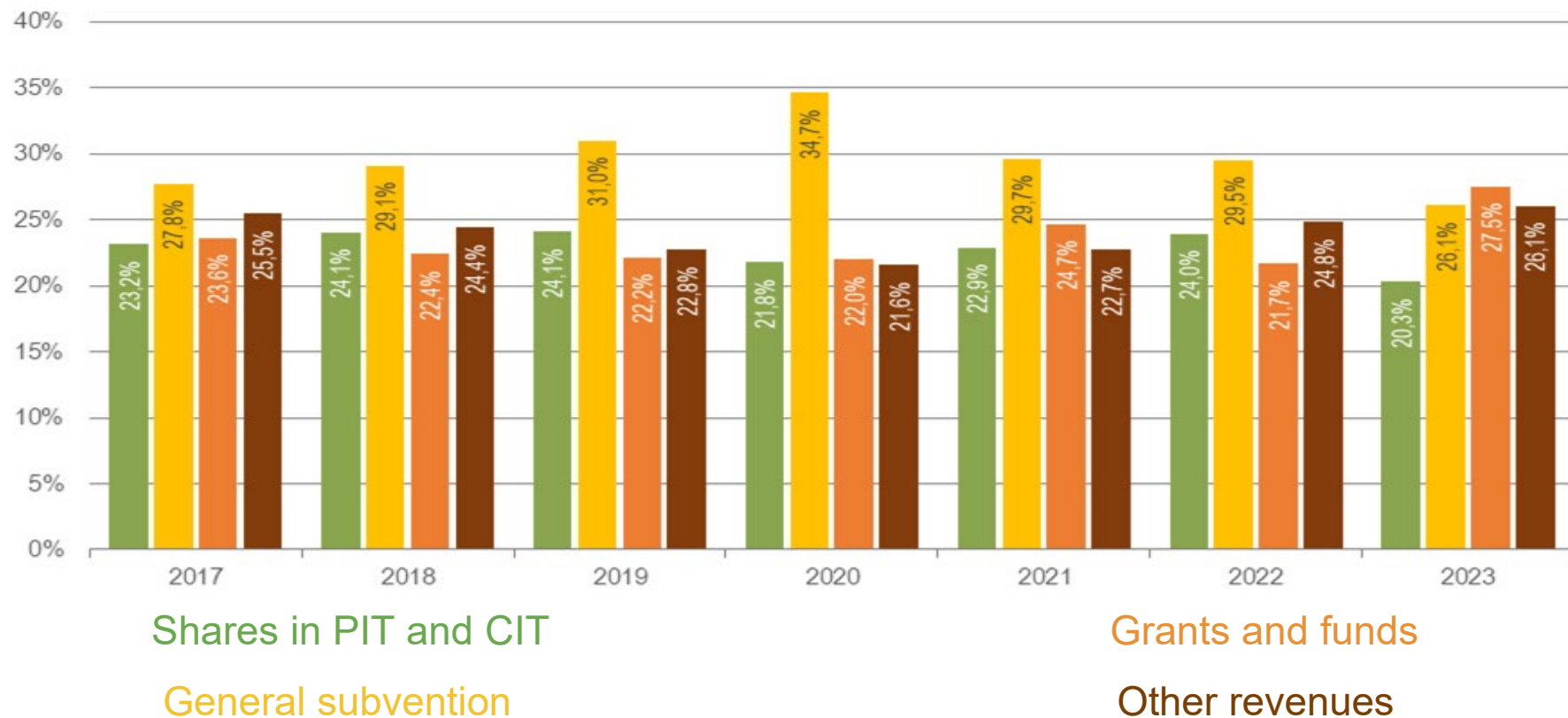
Revenues of local government units



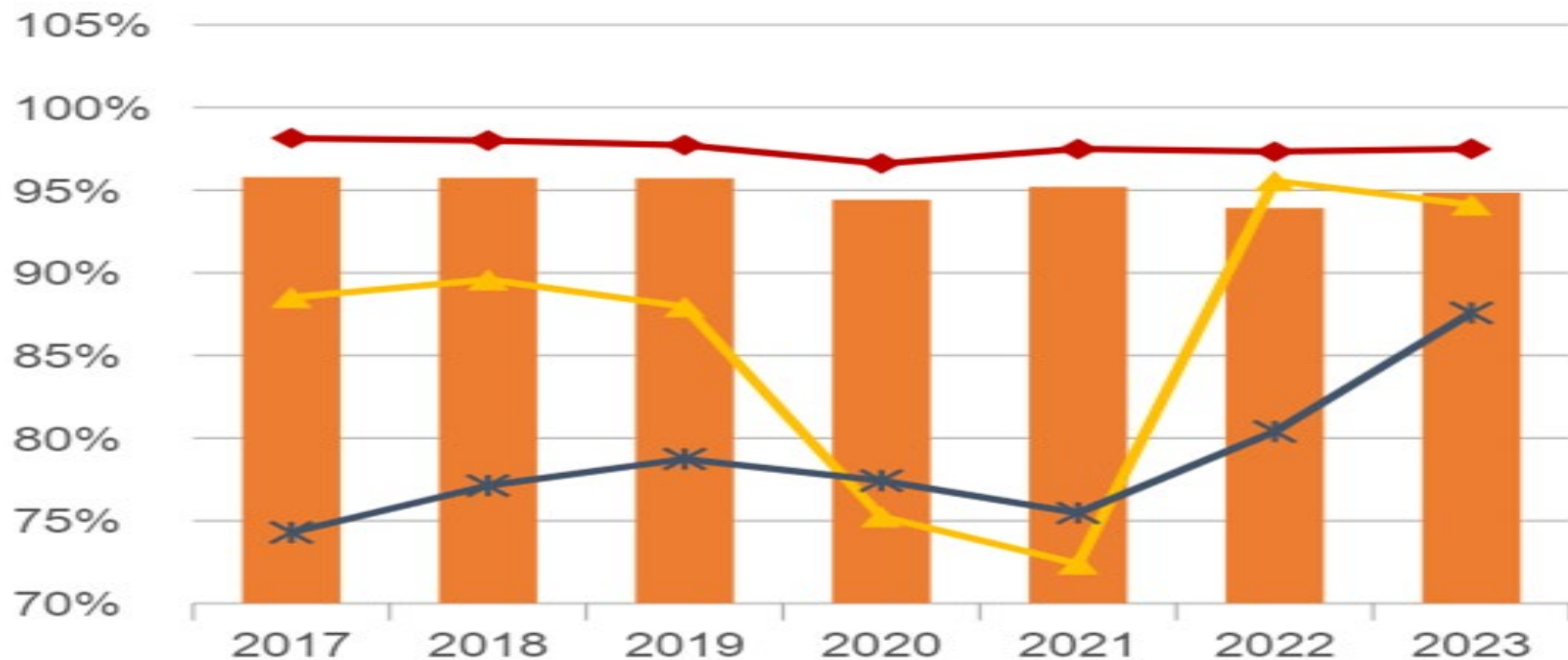
Article 163 of the Constitution: Local government performs public tasks not reserved by the Constitution or laws for the bodies of other public authorities.

Article 165(2) of the Constitution: The independence of local government units is subject to judicial protection.

Structure of total income of local government units in 2017-2023



Debt service expenses from 2017 to 2023



current expenditure salaries and contributions debt service expenses

The causes of the problems of the budgets of local government units in recent years and the scale of these problems

1. underfunding of educational tasks

- are own tasks of local government units but are financed in the form of educational subvention, i.e. funds transferred from the state budget.
- there are legal guarantees to provide local government units with the right amount of funds for the implementation of educational tasks
- despite the guarantees, these tasks are permanently underfunded = the need to pay extra from own income

The causes of the problems of the budgets of local government units in recent years and the scale of these problems

2. underfunding of delegated tasks

- own tasks are public tasks to meet the needs of the local government community, whose primary source of funding is own income.
- commissioned tasks, on the other hand, are other public tasks, state tasks, which the state commissions to local government units to perform and provides funds for their implementation in the form of a targeted grant, such as the conduct of the registry office, conducting elections for president or the parliament, senate.
- there are legal guarantees to ensure that local government units receive an appropriate amount of targeted subsidy for the implementation of commissioned tasks
- despite the guarantees, these tasks are permanently underfunded = the need to pay extra from own income

Effects in the sphere:

- investment expenditures: as a result of reforms reducing local governments' own revenues and the low growth rate of subventions to local governments from the state budget, which resulted in the lack of real compensation for lost revenues - especially from PIT, and as a result of increasing pressure on the growth of current expenditures, the fiscal situation of local governments in 2018-2022 significantly deteriorated. The natural reaction of local governments was to **reduce self-funded investments** in a multi-year perspective.
- income and current expenditures: the number of municipalities whose current income did not allow them to finance even expenditures for basic tasks tripled between 2018 and 2022.

Expenditure rule (Article 242 of the Law on Public Finance) - a general obligation to balance current income with current expenditure. As a rule, therefore, there is a prohibition on a deficit on this part of the budget. From the prohibition there are exceptions allowed by law.

Actions taken by the Polish government in connection with budget problems of local government units

- 1. Financial transfers from the state budget and from another extra-budgetary source** - funds operating at the Bank of National Economy:
 - Government Road Development Fund (formerly the Local Government Roads Fund)
 - Governmental Fund for the Polish Deal: Strategic Investment Program
 - Government Monument Reconstruction Program
 - COVID-19 Counteracting Fund
 - Assistance Fund.
- 1. change in legislation:**
 - lack of comprehensive reform of the system of financing local government units
 - change of the expenditure rule - Article 242 of the Law on Public Finance
 - change of the debt rule - Article 243 of the Law on Public Finance

The role of Regional Chambers of Accounts in the context of budget problems of local government units

- Regional Chambers of Accounts are state bodies for supervision and control of the financial management of local government units.
- Within the scope of supervision and control, the Chambers also conduct information, instruction and training activities.
- The activities of regional chambers of audit must have a clear legal basis - Article 7. of the Constitution: Public authorities act on the basis and within the limits of the law.
- The activities of regional chambers of auditors must be the least burdensome for local government units - Article 165 (2) of the Constitution: The independence of local government units is subject to judicial protection.

The role of Regional Chambers of Accounts in the context of budget problems of local government units

1. Action to prevent the emergence of financial problems - “preventive”.
 2. Action to reduce the scale of the problem and help local government units to overcome it
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1. Preventive actions are **opinions** issued by the regional chambers of audit on:
 - the correctness of the planned amount of debt included in the multi-year financial forecast,
 - the possibility of financing the deficit planned both in the submitted draft budget and in the budget, including an assessment of the source of financing the deficit,
 - the possibility of repayment of credit, loan and other liabilities included in the debt title.

Opinions of regional chambers of auditors are not binding on local government units.

Opinions of regional chambers of auditors are mandatory (the local government unit must obtain them in the above-mentioned cases).

The role of Regional Chambers of Accounts in the context of budget problems of local government units

2. Preventive activities are **the supervisory activities** of regional chambers of auditors.

Surveillance activity consists in assessing the legality of resolutions and orders adopted by local government units, including those relating to their financial management.

The regional chamber of auditors supervises the budget resolution, the multi-year financial forecast, and resolutions/orders on incurring a debt obligation of a credit/loan/bond issue.

If it is determined that resolutions/orders on incurring debt obligations are not in compliance with the law - the regional chamber of auditors declares them invalid. It does the same in the case of illegality of the multi-year financial forecast.

On the other hand, in the case of a budget resolution that is not in compliance with the law - the local government is first summoned to correct it by a certain date, and if the local government fails to do so, the regional chamber of auditors declares the resolution partially invalid and sets the invalid part of the budget.

The role of Regional Chambers of Accounts in the context of budget problems of local government units

3. Preventive activities of regional chambers of auditors to prevent financial problems in local government units may also include **information and training activities** of the chambers.

Regional chambers of audit organize training courses, conferences, cooperate in the development of publications by other institutions, provide instruction in the practical application of regulations in direct contact with local government employees.

In turn, the conduct of information activities by the regional chambers of audit consists primarily in providing written answers and oral explanations to inquiries made by local government units.

The role of Regional Chambers of Accounts in the context of budget problems of local government units

Activities of regional chambers of auditors to reduce the scale of the problem and help local government units overcome it.

1. **Calling on the local government unit to develop and adopt a recovery program and submit this program to the regional chamber of auditors for its opinion** (Article 240a)
 - If the local government unit does not develop a recovery program or if the regional chamber of auditors does not give a positive opinion to the program, the unit's budget is determined by the regional chamber of auditors.
 - The corrective program is a document containing a plan of actions that the local government unit will undertake to restore in its financial management a state in compliance with the law, and therefore with the requirements of the basic rules: spending and debt.
 - The budget may be set by the regional chamber of auditors without observing the relations of Article 242-244 of the Law on Public Finance.

The role of Regional Chambers of Accounts in the context of budget problems of local government units

2. Determination by the regional chamber of accounts of the budget of a local government.

It can take place only in strictly defined situations:

- in the event of failure to enact a recovery program after a prior call for its enactment, or when the recovery program submitted by the local government unit has not received a positive opinion of the regional chamber of auditors (Article 240a (8)), or
- when it is not possible to adopt a multiannual financial forecast or a budget for the local government unit, in accordance with the principles of Articles 242-244

The budget may be established by the regional chamber of auditors without observing the relationship with Articles 242-244 of the Law on Public Finance.

Summary

- The financial situation of local government units has been deteriorating in recent years
- the emergence in many local government units of problems with compliance with the expenditure rule and the debt rule; these units are now operating in the reality of loosened rules
- as a result of the replacement of own revenues with transfer revenues, there has been a reduction in the financial independence of local government units
- lack of systemic solutions that would permanently provide local governments with own revenues at a level realistically equivalent to own revenues received in 2018
- the government's actions taken in 2020 - 2023 were characterized by temporariness, inconsistency and manual control of the process of distribution of funds among local government units
- the practice of transferring additional funds to local government units during the fiscal year = problems with the preparation of draft budgets and long-term financial forecasts
- unequal treatment of local governments



Thank you for your attention!