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SELECTED ASPECTS OF THE FINANCIAL STRATEGY OF THE LOCAL GOVERMENT UNIT'S ORIENTED TO THE DEVELOPMENT OF ECONOMIC AND SOCIAL ACTIVITY (FINANCIAL AND LEGAL ANALYSIS)*

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Abstract. Fiscal burden, especially taxes, is undoubtedly one of the factors influencing business decisions. Taxpayers often prefer one location for their business to another based on the local fiscal policy. It can also lead to a decision to relocate the company's headquarters or to start a branch or plant elsewhere. The intervention function (stimulative, incentive) of taxation is linked to its non-fiscal impact on taxpayers. The results of tax interventions depend on the proper selection of incentives and their intensity. Despite doubts that have been raised around the rationale for the use of taxes as a stimulus influencing economic decisions (due to the interference with the principle of fair competition), tax incentives are widely used in practice.

Keywords: public finance act; financial strategy; local government units; public administration

INTRODUCTION

Local finance is distinguished from state finance by its territorial scope and the place of concentration of monetary resources. The essence of local self-government is the exercise of state power using administrative authority in municipalities, counties and provinces, within the framework of the applicable legal order, by entities separate from the state with a corporate structure regulated by laws. Local government units (LGU's) are non-state and decentralized entities that have been granted public administration

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tasks and powers by law. A form of ensuring that the actions of decentralized entities comply with the law is verification supervision, that is, supervision whose criterion is legality and which is exercised over an autonomous and independent entity.

1. PURPOSE OF ARTICLE, CRITERIA OF ANALYSIS AND RESEARCH METHODOLOGY

The social sciences use the typical methods found in the social sciences and humanities, i.e.: the study of documents (legal acts, expert reports, opinions, analyses), comparative methods (scientific articles, reports, analyses derived from linguistic, grammatical and historical interpretation) and case studies. The result of cognitive research is new claims or theories. On the other hand, the results of research for the purposes of economic practice are determinations of whether and by how much existing theorems and theories on entrepreneurial development are effective from the perspective of contemporary requirements of social and economic development. In other words, they serve the purpose of clarification and piecemeal verification of existing theorems and theories. Induction was used as the main research method. It involves drawing general conclusions or establishing regularities on the basis of analysis of empirically established phenomena and processes. It is a type of inference based on details about the general properties of a phenomenon or object. Inductive methods include the various types of analysis of public and private institutions (including consulting forms), expert opinions, statistical data and scientific documents (scientific articles and monographs) used in social research, which were examined for the purpose of this study. In addition, the paper uses two general research methods, i.e. analytical and synthetic methods, characterized by a particular approach to the study of reality. Analytical treats reality as a collection of individual, specific features and events. Following this research method involves breaking down the object of study into parts and studying each part separately or detecting the components of that object.

The research methods used in the study are: comparative analysis, functional analysis, questionnaire, interviews with municipal managers through a direct interview with the respondent, and the method of research in dynamic terms. The synthetic method treats reality as a collection of characteristics, its implementation consists in searching for common features of various phenomena and events, and then tying them into a unified whole. Thus, the synthetic method examines and determines the totality of the object of study. Using a comprehensive (hybrid) research approach, the so-called triangulation of data sources, i.e. comparing information on corporate social responsibility from different periods, as well as economic systems, and theoretical triangulation – which consists in analyzing the acquired data from the perspective of many different theoretical concepts describing the functions, purpose and tools of managing the economic and social development of the local municipality (LGU) – were also applied.

2. SOCIO-ECONOMIC DIAGNOSIS OF THE LOCAL GOVERNMENT UNIT IN THE CONTEXT OF FINANCIAL PLANNING

Socio-economic and spatial diagnosis of the municipality is most often carried out in dynamic and comparative terms, using public statistics and relevant analytical studies. It is essential for long-term forecasting of local finances and investments. It is crucial to analyze the socio-economic and spatial trends and tendencies occurring in the municipality and its surroundings in recent years, together with the identification of development consequences and challenges. The diagnosis should therefore be conducted in a dynamic (several years) system, allowing to obtain information on the changes taking place. A good period is the last five years (or more, e.g., 10, if justified), taking into account the delays that occur in the publication of data within the framework of public statistics. The most up-to-date data is, of course, available to the municipality, but in this case there is the problem of comparability with other units, which would have to make similar data of their own available at the municipality's request. Stretching the analysis over several years makes it possible to determine the direction of change, its dynamics, identify "turning points" and set development trends in the future. Such an approach also minimizes the risks associated with disturbances, obscuring the full picture of a given phenomenon. For example, the COVID-19 pandemic caused an economic collapse and a difficult situation in the labor market – failure to include in the analysis the most recent data or information from previous years, which were characterized by prosperity and declines in unemployment, can affect the misinterpretation of the level of local entrepreneurship.

In addition, statistical forecasts are very important for the planning process. Most often, they relate to population or economic development. In the work on the strategic diagnosis, it is worth using, first of all, the forecast of the population of municipalities until 2030, developed and made available by the Central Statistical Office in 2017. However, when formulating conclusions and making possible strategic decisions, it is important to keep in mind the imperfection of forecasts. In summary, a reliably developed diagnosis of the municipality should include: the current state, the state preceding the current state – for example, five years back and the predicted state in the form of forecasts – where possible [Wołowiec and Bogacki 2019, 7-27].

Ultimately, the diagnosis should contain information allowing to formulate key conclusions for the social, economic and spatial development of the municipality. The use of comparison – benchmarking in the diagnosis allows to place the LGU's in a broader context, and at the same time serves as a basis for self-improvement. Key in this case is the selection of a comparative background. The basic criteria that can be used to select benchmarks are: similarity – in terms of characteristics and development conditions, e.g. selected municipalities from a given county, region or country with similar characteristics; benchmark – on the basis of measuring development distance and learning from the best, e.g. district, subregional or regional leaders and neighborhood – when the comparative background is made up of units from closer or further surroundings.

The aforementioned similar nature of municipalities, which allows their comparative juxtaposition, is usually determined by taking into account key development factors – the most common in this role are: 1) location (e.g., within an agglomeration, near a state border or in a mountainous area); 2) terrain (e.g., lowland, hilly or mountainous); 3) similar settlement structure (e.g., urban-rural municipalities headquartered in a small); 4) above-average potential in a given area – e.g., agricultural, tourist, industrial; 5) similar nature and scale of existing problems – e.g., demographics or structural unemployment.

In practice, it is worthwhile to present the municipality against the background of neighboring units, assuming that they most often have a similar character, while taking into account that the strategy will be consulted with their participation. Keep in mind the good practice of showing the analyzed municipality in relation to the district, provincial and – in justified cases – national average. In particularly important thematic areas for the municipality, it is also good to introduce a comparison with selected leader municipalities, for identification and creative adaptation of best solutions and practices. In all these cases, it is necessary to use conversion rates of indicator values per one, one thousand or ten thousand residents to increase the authoritative nature of the information.

It is important to take into account the spatial variation of the presented phenomena within the analyzed unit. Differences may exist between separate units, such as city versus rural areas, comparison of localities or auxiliary units (socio-districts, neighborhoods, settlements and others). Today, functional areas are even more important, where administrative boundaries recede into the background [Krupa and Wołowiec 2010, 7-35].

3. LGU BUDGET AS A TOOL FOR PLANNING AND MANAGING LOCAL DEVELOPMENT

According to Article 211 of the Law on Public Finance (LPF), the municipal budget is an annual plan of income and expenditures, as well as revenues and expenditures of the unit. The budget of a local government unit is adopted for the fiscal year. The fiscal year is the calendar year. The basis for financial management of a local government unit in a given fiscal year is the budget resolution. The budget resolution consists of the budget of the local government unit and annexes. In accordance with Article 212 LPF, the budget resolution specifies:

1. The total amount of planned revenues of the budget of the local government unit, distinguishing current and property revenues. The amount of income in the budget resolution has the character of a forecast, however, it should be based on the most accurate possible calculations, premises and simulations. The main sources of income are: taxes, fees, general subsidy, grants;
2. The total amount of planned expenses of the budget of the local government unit, distinguishing current and property expenses. Expenditures in the budget resolution are an impassable limit, they are determined by the type of tasks performed by the local government. In the plan of expenditures of the budget of the l.g.u. the planned amounts of current expenditures and property expenditures are specified, by division and chapter of the budget classification;
3. The amount of the planned deficit or planned surplus of the budget of the local government unit, together with the sources of covering the deficit or allocating the surplus of the budget of the local government unit (the definition of budget surplus and deficit of the budget of the local government unit is contained in Article 217(1) of the LPF, while the sources of financing the deficit are specified in Article 217(2) of the LPF);
4. The total amount of planned revenues of the budget of the local government unit. The amount of revenues is in the nature of a forecast, while the sources of revenues are specified in Article 5(1)(4) of the LPF;
5. The total amount of planned outgoings of the budget of the local government unit. The outgoings are an impassable limit, and the types of outgoings are specified in Article 6(2) of the LPF;
6. Limit of liabilities on account of incurred credits and loans and issued securities, referred to in Article 89(1) and Article 90 of the LPF. This limit is determined in the case of planning a budget deficit and indicating as a source of its financing in whole or in part a credit, loan or issued

securities, this limit is also determined in the case of financing from these sources of previously incurred liabilities, or in the situation of financing in advance of activities financed from sources originating from the budget of the European Union;

7. The limit of liabilities included in the debt title;
8. The amount of expenditures due for repayment in a given fiscal year, in accordance with the concluded agreement, under sureties and guarantees granted by the local government unit. The local government unit shall be obliged to secure in the budget on the expenditure side an amount that makes it possible to cover potential repayments of obligations under the suretyship or guarantee, in the event of a party's failure to comply with the terms of the agreement;
9. Special rules for the execution of the budget of the local government in the fiscal year, resulting from separate laws. These rules relate to the obligation under the law to allocate income from specific sources to finance specific tasks;
10. The powers of the auxiliary unit to conduct financial management within the municipal budget. Auxiliary units such as villages, neighborhoods, or settlements may be separated within the framework of the local government [Wołowiec 2020, 25-40].

The decision-making body may, in the budget resolution, authorize the management board of the local government to incur short – and long-term liabilities on account of credits and loans and to issue securities. Detailed specification in the budget resolution of the limit for the management board of the local government to incur liabilities in the budget year on account of credits, loans and the issuance of securities sets the limits of the authorization. The lack of such authorization for the management board of the local government in the budget resolution gives rise to the necessity of adopting a resolution in this regard by the decision-making body of the local government unit each time, if necessary.

Speaking of local government revenues, it is important to emphasize the financial independence of these units both in terms of collecting revenues and making expenditures. According to the provisions of the Law on Municipal, County and Provincial Self-Government, it follows that they carry out independent financial management on the basis of the budget resolution). In order to finance its own and state-commissioned tasks or joint tasks, the local government unit collects funds, which it then distributes, hence the amount of income raised by the local government units to carry out these tasks is extremely important. The starting point for discussing the income of local government units should be the European Charter of Local Self-Government (hereinafter: EKSL). This Charter contains provisions on, among other things, the ways of financing of local government units, in accordance with the principle of financial independence, including the right to dispose of their own financial resources adapted to the nature and scope of the tasks performed. Particularly noteworthy in the aspect of the income of the l.g.u. is the content of the provisions of Article 9(1), (2), (3) of the EKSL, which emphasize the financial independence of the l.g.u., pointing to the need to provide them with sufficient financial resources to carry out their tasks, as well as the share of taxes and fees in the budget, the amount of which is determined by the l.g.u. within the limits of the law (Article 9(1) of the EKSL stipulates that local communities have the right, within the framework of national economic policy, to sufficient resources of their own, which they may freely dispose of in the exercise of their powers. According to Article 9(2) of the ECSL, the financial resources of local communities should be proportionate to the competencies provided by the Constitution or the law. It follows from the wording of Article 9(3) of the EKSL that at least part of the financial resources of local communities should come from local fees and taxes, the level of which they have the right, within the limits of the law, to set themselves).

Article 216(1) of the LPF does not indicate the sources of income of local government units, it only states that they are determined by a separate law. The consequence of this is the establishment and clarification of the sources of income in the Law on Income of Local Government Units (Law of 13.11.2003 on Income of Local Government Units). From it's content it follows that the revenues of local government units are: own revenues, general subvention and targeted subsidies from the state budget. This mirrors the content of Article 167(2) of the Polish Constitution, with the legislator specifying that local government units' own revenues also include shares in personal income tax and corporate income tax revenues.

Revenues of local government units may also include funds from non-reimbursable foreign sources, funds from the budget of the European Union and other funds specified in separate regulations. However, the latter are of an optional nature, which means that they may or may not appear as revenues of a given local government unit. The Law on Revenues of Local Government Units defines the sources of income of the municipality, county and province. From its content it follows that the budget of a municipality, county and province is based on both its own income and income from external sources – mainly from the state budget.

Other normative acts relating to the income of local government units are individual laws of a constitutional nature. According to Article 54(2) of the Law on Municipal Self-Government, municipal revenues may also include revenues from self-taxation of residents. Self-taxation can only take place through a municipal referendum. Pursuant to Article

56(3) of the Law on County Self-Government, the transfer of new tasks to the county, by law, requires the provision of funds necessary for their implementation in the form of increased revenues. According to Article 67(3) of the Law on Provincial Self-Government, the transfer of new tasks to the province, by law, requires the provision of the necessary financial resources for their implementation in the form of an increase in revenue, however, the norms in this regard are very limited and one would like to say chaotically written.

The Systematics of Sources of Revenues of Municipalities lists own revenues first, but does not provide a definition of own revenues. Sources of own income of the municipality are:

1) proceeds from the following taxes: real estate tax, agricultural tax, forest tax, tax on means of transportation, personal income tax, paid in the form of a tax card, tax on inheritances and donations, and tax on civil law transactions;
2) proceeds from additional tax liability related to tax avoidance in the following taxes: real estate, agricultural, forestry, transportation means;
3) revenues from the following fees: stamp duty, market, local, spa and dog ownership, advertising, exploitation and other fees constituting municipal income, paid under separate regulations;
4) income received by municipal budget units and payments from municipal budget establishments;
5) income from municipal property;
6) inheritances, bequests and donations to the municipality;
7) income from fines and penalties specified in separate regulations;
8) 5.0% of income received for the benefit of the state budget in connection with the implementation of tasks of government administration and other tasks assigned by law, unless otherwise provided by separate regulations;
9) interest on loans granted by the municipality, unless separate regulations provide otherwise;
10) interest on untimely transfer of receivables constituting income of the municipality;
11) interest on funds accumulated on the municipality's bank accounts, unless otherwise stipulated in separate regulations;
12) subsidies from the budgets of other local government units.

The municipality's own income also consists of shares in income tax from natural persons, from taxpayers of this tax residing in the area of the municipality in the amount of 39.34%, and from income tax from legal persons, from taxpayers of this tax residing in the area of the municipality in the amount of 6.71%.

Revenues of a public-law nature are taxes, levies, as well as shares in the proceeds of state taxes, i.e. personal income tax and corporate income tax. Their public-law nature is due to the fact that they are established exclusively by the state authority, so they are not a private-law benefit based on a legal relationship arising from the will of the parties. These revenues play the most important role in the budget of the local government, while it should be emphasized that local government taxes and fees are exclusively municipal revenues [Miemiec, Sawicka, and Miemiec 2013, 102-105]. Speaking of taxes that constitute a municipality's own revenue, it is important to note the two categories of these taxes, i.e. local and local government, with local taxes being local government taxes, but not all local government taxes being local taxes [Tyrakowski 2017, 121].

Local taxes are defined in the Law on Local Taxes and Fees. These taxes are directly collected by the municipality. Under the provisions of the Constitution of the Republic of Poland, the municipality has the right to determine the amount of local taxes to the extent specified by law (Article 168 of the Constitution of the Republic of Poland). Other local government taxes are collected by the heads of tax offices and transferred to the budgets of the municipalities. The amount of funds due to the municipal budget from taxes collected by the heads of tax offices is influenced by the municipality only through its participation in decisions on granting relief from their repayment (concerns remission, installment, deferral of payment).

Income of a private-law nature includes income of a property and capital nature. Income of a proprietary nature should include income derived from the own economic activity of the bodies of the local authority and its subordinate units. These may include income from rental, lease, sale of property owned by the l.g.u. or from the acquisition of such property in the form of, for example, inheritance, bequests or donations, 5.0% of the income received for the benefit of the state budget in connection with the implementation of tasks of government administration and other tasks assigned by statute. The budget of the local government units is also supplied with income of a capital nature, i.e. interest on loans granted, interest on overdue receivables, interest on funds accumulated on bank accounts, dividends on capital contributed to companies.

4. MULTIANNUAL FINANCIAL FORECAST (WPF) OF THE MUNICIPALITY AS A FINANCIAL MANAGEMENT TOOL

The multi-year financial forecast should be realistic and specify for each year covered by the forecast at least:

1) current revenues and current expenditures of the budget of the local government unit, including for debt service, guarantees and warranties;
2) property income, including income from the sale of assets, and property expenditures of the budget of the local government unit;
3) the result of the budget of the local government unit;
4) allocation of the surplus or method of financing the deficit;
5) revenues and expenditures of the budget of the local government unit, taking into account the debt incurred and planned to be incurred;
6) the amount of debt of the local government unit and the manner of financing its repayment.

Multi-year planning in the area of public finance is a general trend related to professional management of resources in an organization. Within the framework of such management, one can enumerate not only planning, but also directing or controlling. Planning over a longer period of time – in this case, in 3-year episodes – gives the opportunity to predict certain events related to income and revenue. In addition, the current law makes these processes dependent on the occurrence of so-called undertakings (programs financed with funds referred to in Article 5(1) (2) and (3) of the Law and public-private partnership agreements). The multiannual financial forecast of the local government is introduced by means of a resolution of the executive body of a given entity, although other entities also participate in the process of adopting such documents.

Court rulings point out that the multiannual financial forecast of a municipality is a forecast of the multiannual budget of the municipality, expanded to include financial forecasts of multiannual financial programs with the participation of European funds, multiannual public-private partnership agreements, as well as other multiannual agreements and guarantees and warranties. It is required to be realistic, which means that it should be based on premises that make it possible to realistically assess the development in the financial situation of a given local government in the period to which the multi-year financial forecast is to apply.[1] This court also notes that the LPF does not list such prerequisites, so the assessment of the future financial situation of a local government is entirely up to its decision-making

[1] Judgment of the WSA in Szczecin of 28 November 2013, ref. no. I SA/Sz 1129/13, Lex no. 13789.

body. Thus, it can be concluded that this provision, through the phrase "realistic," contains an undefined legal norm, which in this respect should be filled with appropriate content by the local government's decision-making body adopting the resolution in question and, if necessary from this point of view, controlled by the college.[2] Another interpretation of this phrase by the College of the Regional Chamber of Accounts in Opole (No. 4/8/2019) has recently emerged. The College pointed out that the term "realistic" means "juxtaposing intentions, action with reality, with facts, based on sober judgment." This means that, of the data included in the forecast, at least the historical and current data for determining the level of acceptable debt should be presented correctly. Presentation of unreliable data in the forecast is not legally justified.

The long-term financial forecast of the local government is not an act of local law within the meaning of the provisions on sources of local government law. This is because it is not an act of general and abstract nature, which could have direct legal effects on the part of entities outside the public administration. Therefore, the multi-year financial forecast should be qualified as an act of an internal nature, which is the basis for action for administrative entities in the internal sphere of public administration. As it is rightly pointed out in court rulings – the multi-year financial forecast is a document that allows to assess the investment opportunities and credit capacity of the local government; it concerns the basic budget parameters, i.e. the projected level of income (including current income from the sale of property and investment grants), the level of expenditures (divided into investment and current) and the resulting: deficit or surplus amount of credit and the amount of debt service; it is implemented in order to assess the financial situation by, among others, local government units, its residents, financial institutions, supervisory authorities. However, the question of the compatibility of the multiannual financial forecast with the budget resolution adopted by the local government remains a matter of debate.

Methodology for preparing the multi-year financial forecast. The multi-year financial forecast is a financial model that should be characterized by internal consistency. It should be borne in mind that the dependencies and the requirement for consistency are not only intra-periodic, but equally apply to inter-periodic relations. A change in any income or expenditure item in the first year covered by the WPF causes changes in all the years covered by the forecast, up to its final year. This applies not only to the deficit and the level of debt, but also to the cost of servicing LGU's debt, and therefore to the overall level of spending. When constructing the WPF, it is

[2] Judgment of the Supreme Administrative Court in Warsaw of 15 September 2015, ref. no. II GSK 1601/14, Lex no. 23290.

necessary to distinguish between forecasting the primary part of a local government's budget and forecasting its part related to the level of debt. Primary expenditures are defined as the sum of expenditures less the cost of debt service (interest payable in a given period) . On the other hand, the difference between primary revenues and primary expenditures is the primary budget balance of the local government. If this difference is negative, it is more convenient to use the category of primary deficit, representing the difference between primary expenditures and revenues. The starting point for interim budget analysis is the equation: Bt = (1 + Rt) x Bt-1 + (Gt – Ht), where:

t – fiscal year designation;

B – nominal debt level as of December 31 of year t;

R – average nominal interest rate on TSU debt in year t;

H – level of total revenues;

G – level of primary expenditures (i.e., excluding debt service costs).

The primary balance is defined as: St = Ht – Gt. This means that the level of debt at the end of the year is equal to the amount of debt at the beginning of the year (or at the end of the previous year), plus debt service costs and minus the amount of the primary balance. Debt service costs are the product of the amount of debt at the beginning of the period and the average nominal interest rate on the local government's debt instruments R. The total debt level at the end of the year can be converted using the formula: Bt = Bt-1 + Rt x Bt-1 – St.

The debt level is thus "pushed up" by the cost of servicing existing debt. For the sake of balance, it should also be "pulled down" by developing a sufficiently high primary surplus. If the amount of the primary balance for several years (3-4 years) in a row is not enough to cover the cost of debt service, one can speak of the TSU finding itself in a debt spiral. This is because if the primary balance is less than the amount of interest (i.e.), the amount of debt in the following year is greater than in the previous year (i.e. St < Rt x Bt-1). Such a situation is referred to as a "debt loop" because the characteristic tendency is to deepen and increase in intensity. As debt increases, interest costs rise, making an ever-increasing primary surplus necessary to break the debt growth process. Holding the primary balance constant, in turn, causes the debt level to grow exponentially, in a self-accelerating manner. Such a phenomenon can be avoided if one accepts as a rule of thumb that the primary surplus should be at least sufficient to cover interest expenses on existing debt. Such a rule can be written as: Ht – Gt >_ Rt x Bt-1.

In general, the maintenance of such a rule avoids an increase in debt and is a guarantee of rational budget management in interim terms. The above rule is referred to in the literature as the so-called "balanced budget rule". In practice, property-related expenditures are of key importance on the activities of local self-government units, as they are the most common cause of indebtedness of local self-government units. While indebtedness to cover current expenditures should be treated as a manifestation of fiscal irresponsibility and poor management of local government finances, incurring debt to finance investment (property) expenditures in certain situations has its justification. The so-called "golden rule" of public finance says that only public expenditures of a current nature should be covered by current revenues, while the proper source of coverage for expenditures of an investment nature is the incurring of debt. According to proponents of the "golden rule," it ensures the proper distribution of wealth between successive generations. This is because investment expenditures create wealth that will largely benefit future generations, hence it is also reasonable to burden them with the need to repay debt. It should be remembered that it is most often not possible to comply with the requirements of the fiscal rules in the short term. The most important budget categories – revenues, expenditures and debt – are characterized by considerable inertia, which greatly limits the possibility of quick action in case financial stability is threatened. The formation of revenues is still mostly beyond the influence of local government units, while the process of reducing expenditures is difficult and lengthy, usually impossible to carry out from year to year. Debt accumulation, on the other hand, is most often the result of budget imbalances for a number of years in a row, hence its reduction is also a multi-year proces [Wołowiec 2019b, 131-35].

Therefore, one of the key expectations placed on the multi-year financial forecast is to provide an "early warning system" against negative trends emerging in the formation of the entity's finances. This is to enable countermeasures to be taken well in advance when their implementation is both effective and allows costs to be spread over many years. In the absence of timely information and consequent countermeasures, when liquidity problems arise or fiscal rules are broken, the necessary corrective actions become drastic and costly.

The first step in the process of creating the WPF should be to estimate a given LGU's total revenues (both its own and those received in the form of external transfers) and compare them with all current expenditures necessary to ensure the LGU's operation. Debt service expenses are ignored at this stage. The difference between total revenues and current expenditures (excluding debt service) plus the amounts of revenues from the budget surplus of the previous year and free funds, as referred to in Article 217(2)(6) of the LPF, constitutes a pool of funds that can be allocated for two purposes, in the following order: debt repayment and service, and investments. The more LGU funds are allocated for debt repayment and debt service, the less for new investments. The amount of funds remaining after financing investments indicates a surplus, or, as a rule, more often, a shortage of funds for investment. This value, depending on whether it is positive or negative, indicates a possible need for external financing in the form of loans/loans or bond issues [Wołowiec 2019b, 129-40].

5. INDIVIDUAL DEBT RATIO OF THE LOCAL MUNICIPALITY

The new debt limitation rules (Articles 242-244 of the LPF), which have been in effect since 2014, have been a major setback for most local government units (LGU's) in planning and managing local finances. Over the 4 years of their validity, many defects and inconveniences in the application of the new norms have become apparent, and the "creativity" of the LGU's financial sector has shown that they can be circumvented with relative ease. The construction of the maximum indicator limiting the liabilities of the titles specified by the legislator, falling due in a given year, is closely related to the provisions of the Law of the Public Sector. for the first time it was applied to the assessment of budgets passed in 2014. The essence of this legal regulation is the comparison of two indicators, included in the formula of the equation (formula). A positive condition for the adoption of the budget is to obtain a relationship in which the left side of the formula (annual repayment ratio) is less than or equal to the right side (maximum repayment ratio). The maximum repayment ratio is calculated on the basis of the budget values of the three years preceding the budget year, which is intended to ensure that the ratio is individualized for each LGU's, in a way that takes into account the results of previous budgets. The ratio of the annual repayment ratio to the maximum repayment ratio (debt repayment ratio) is presented by is in the debt forecast, which is part of the WPF (Long-Term Financial Forecast) [Walczak 2019]. The LGU's sector saw a rapid increase in property expenditures in 2019. This was related to the implementation of numerous projects co-financed by European Union funds. Due to the large number of commercial projects carried out by construction companies, the execution of many LGU's planned in 2018 was postponed until 2019 and 2020.[3]

In the budgets of local government units, one can notice a decrease in 2020 in relation to 2019 in property expenditures and the total amount of new debt. This is the result of formal requirements related to the creation of planning documents in local government units. Another problem (ballast) is the education subsidy received by the local government units, which allowed in 2019 to cover on average only 60% of education expenses (there is no indication that in 2020 education funds are to be increased). At the same time, it is worth noting that some of the costs incurred and planned were

[3] Raport INC Rating 2019, p. 4-10.

due to the introduced educational reform. The growing disparity indicates that the costs of financing the reform have been passed on to municipalities, which is particularly evident in municipalities with the smallest budgets. Another challenge for some local governments is also the need to regulate the liabilities incurred in the current year, mostly related to the implementation of numerous property investments. Since 2013, one can observe improving conditions for repayment of liabilities by units at all levels. In 2013, the average term of repayment of liabilities, assuming that local governments allocate the entire operating surplus for this purpose, was 4.80 years. In 2017, the value of this indicator fell to – 3.25 years. Due to the acceleration of the implementation of expenditures co-financed by EU funds, a significant increase in debt is planned for 2019-2023. The value of the discussed indicator rises for this reason to the level of – 6.61 years [Wołowiec, Skrzypek-Ahmed, and Gliszczyński 2021, 34-46].

Article 243 is a legal instrument for limiting and monitoring LGU debt, which limits the level of repayments on the titles listed by the legislator, falling in a given year, without limiting the size of LGU debt itself. Restrictions on the amount of repayment of certain obligations (including debt obligations) may indirectly affect the level of debt, although they may also result in its incurring on particularly unfavorable terms, such as for long periods, with repayment of debt in the last two or three years of the contract, and thus the need to incur debt service costs [Martyniuk and Wołowiec 2021, 15-26]. The pressures associated with the need to raise European funds, the cyclical nature of local elections and the obligation to continue investment projects that have been started increase the risk of incurring debt obligations on terms that may be evaluated in terms of the economy (rationality) of the local government bodies when making decisions. The debt repayment ratio is supposed to somehow ensure the security of the local government in the fiscal year by adjusting the level of repayment of certain obligations to its financial potential. Regional chambers of auditors still have not developed a uniform methodology for examining and evaluating the WPF. For example, they allow free forecasting of the amounts of repayment of debts, without linking them to the credit or loan agreements in force at the time of adopting the WPF, or the terms of issuance of securities, setting the dates and amounts of repayment. From the point of view of debt limit procedures, two indicators are the most important: The "X" indicator, which is the ratio of the sum of operating surplus and income from the sale of assets of a given local government unit to total income: $X = No + Sm / Do$, where: No – operating surplus, Sm – income from sale of assets, Do – total income. A negative value of this indicator is dangerous. It shows that the local government unit does not achieve an operating surplus and this is not compensated by income from the sale of assets. At this point it should be noted, the convergence of the formula under discussion with the components of the right side of the inequality that determines the limits of the debt of each local government unit.

Indicator "Y", expresses the ratio of interest and principal installments on borrowings and funds for the redemption of issued papers to total income. $Y = R + O / Do$, where: O – interest on borrowings, R – the amount of repayment of capital installments and interest on loans taken by the local government unit, Do – total revenues. The convergence of the formula in question with the left side of the inequality limiting the debt of each local government unit is important. Debt financing capacity is evidenced by the excess of the arithmetic average of the "X" indicators from the three consecutive years preceding the budget year over the "Y" indicator estimated for the budget year [Walczak 2019].

Thus, with limited financial resources at their disposal, it is important to project and manage finances in such a way as to ensure the implementation of tasks, while guaranteeing the financial stability of the local government. With the limited financial resources available to the jsts, effective and efficient financial management becomes one of the most important tasks to achieve the intended objectives. The budget planning process has its beginning in the multi-year financial forecast and be consistent with it throughout the fiscal year. This connection is evident not only through the implementation of multi-year projects, but primarily through the individual debt ratio. The numerical model for analyzing the indicator makes it possible to constantly monitor the amount of deviation of the planned indicator from the permissible one [Grad 2018, 108-11].

Since 2014, the legislator has introduced a structure limiting the level of repayment of financial liabilities, expressed in Article 243 of the LPF, thus departing from the rigid indicator formula that had been in operation for many years, used by all local governments. Under the current formula, the limit of repayments, possible to be planned in the budget year, on account of obligations indicated in Article 243 of the LPF is determined. The legislator based it on the category of operating surplus, which, in his opinion, reliably characterizes the financial situation of the local government. To make the result more authoritative, the legislator decided that when calculating the ability of a local government to repay its obligations (maximum repayment ratio), data from several years preceding the fiscal year for which the maximum repayment ratio is set is adopted. For the relationship set for 2019-2025, this is a three-year period, and for the relationship for 2026 and subsequent years, the financial values will be for the seven previous fiscal years (2019-2025). It should be borne in mind that in the relation set forth in Article 243(1) of the LPF, the legislator excluded the possibility of adding revenues from previous years (e.g., from the budget surplus) to the current revenues of a given year, that is, the opposite of the solution adopted in Article 242 of the LPF. Thus, it is possible that the enacted budget will maintain the relationship described in Article 242 of the LPF, but the annual value of the indicator adopted for calculating the maximum repayment ratio will be negative [Wołowiec 2021, 515-27; Bogacki and Wołowiec 2021, 17-31].

6. DIRECTIONS OF REFORM OF LOCAL GOVERNMENT SECTOR FINANCES

Financial problems of the local government sector. The Law on the Revenues of Self-Governments, passed in 2003 and still in force today, assumed an increase in the volume of own revenues, including shares in PIT and CIT taxes, while reducing the scope of subsidies and eliminating the road part of the general subvention. The result was to be an increase in LGU's financial self-reliance and a stronger link between LGU's financial situation and the state's economic prosperity. Poland's self-government reform set a number of important tasks for local and regional communities, among which local and regional development is one of the most important. This is evidenced by the following data – investment expenditures of decentralized budgets amounted to more than 535 billion zlotys (cumulative) in the period from 2004 to 2020, which is clearly more than investment expenditures of the central budget. The own investment potential of local governments (gross operating surplus) amounted to PLN 232.8 billion in this period, which means that 56% of the investment expenditures of TSUs financed with funds obtained from other sources, including repayable instruments (mainly loans) [Wołowiec 2018, 129-40]. The structure of LGU's income has changed significantly in recent years – the share of own income and subsidies has fallen, and the largest part of it has become – originally the smallest – grants. The share of own income fell from 31 to 25.2%, and the share in state tax revenues (PIT and CIT) increased from 22.7 to 24.1%. At the same time, the share of general subvention fell from 29.5 to 22.4%, including the educational part – from 22.9 to 17.1%, and the share of subsidies increased from 16.9% to 28.3% (including targeted subsidies to 22%).

The importance of the supply based on the redistribution of funds from the state budget in the form of a general subvention, including primarily its most important component – the educational part – is declining. With regard to the educational part of the general subvention, the 2003 law maintained the principle that part of educational tasks were carried out with funds received from the state budget, and part with own income. It was assumed that the subvention would be determined annually in the budget law, in the amount of the total amount of the educational part of the general subvention adopted in the budget law in the base year, adjusted by the amount of other expenses due to changes in the educational tasks carried out. The dynamics of the educational subvention was surprisingly low in the period under review: own revenues increased from PLN 62.9 billion to PLN 124 billion (by 97%), and the educational part of the general subvention increased from PLN 26.8 billion to PLN 43 billion (by 60%). The size of the educational subvention in relation to state budget expenditures fell during the period in question from 12.69% to 11.04%, and in relation to GDP – from 2.72% to 2.04%. At the same time, the expenses of local governments on education more than doubled (by as much as 111%), which was caused by the increase in the cost of running it, also as a result of the 2015 education reform. The period under review also saw the loss of the original importance of the correctional-equalization system, especially for provinces and districts. This was caused by the non-systemic nature of the purely arithmetic solutions adopted back in 1999. The municipal system, which includes a double equalization mechanism (also in the educational part), was based on substantive criteria, which is why it still functions, although it also needs updating. Between 2004 and 2019, the amount of subsidies to LGU's increased from 13.1 to 71.4 billion zlotys, or 5.5 times. The increase in earmarked subsidies was related to the transfer of new government administration tasks to municipal governments, especially in the field of social policy. During the period in question, targeted subsidies for government tasks increased from PLN 8.0 to 43.8 billion, that is, by more than five times. Subsidies for own tasks increased over the period from PLN 3.6 to PLN 8.2 billion, that is, only slightly more than twice. The majority (75.4%) are grants for current expenses. Investment subsidies in this group totaled PLN 23.7 billion over the entire 2004-2018 period. Funds for investment in the form of subsidies were also obtained by local governments from other sources (from subsidies for commissioned tasks, for tasks entrusted by the government administration and other LGU's from earmarked funds and as part of aid between LGU's). In total, over the entire period in question, local governments raised PLN 26.9 billion in this way, almost half of which in the form of transfers between local governments (PLN 12.5 billion), and PLN 6.6 billion from earmarked funds.

Recent years have seen a significant increase in LGU's expenses, both in the group of current and investment expenses. This is, on the one hand, the result of an increase in the scope of tasks and the level of investment, but on the other hand, the result of a significant increase in most of the costs of performing tasks. With regard to current expenditures in 2015-2018 – there was an increase in the current expenditures of LGU's in the basic component of task execution costs, which is salaries and derivatives, which increased by PLN 11.26 billion (from PLN 71.44 billion to PLN 82.70

billion). Thus, one must conclude that almost all of the increase in PIT revenue over the same period was used to finance the increase in wages in the self-government subsector, which is the largest employer in Poland. If you add to this the increase in current spending on the purchase of materials and services, which amounted to nearly PLN 8 billion, you can see that the increase in revenue from the PIT share was not enough even for basic current spending. It should be noted that in 2018, the number of local government employees fell by more than 2,100 people, and the average gross salary was lower by PLN 900 than the average gross salary in the government administration, which instead saw an increase in employment by about 2,100 people. Of course, LGU's wage expenditures include all local government employees, not just administrative officials.

LGU's investments are the main driver of the country's socio-economic development. The main determinant of the state of TSU finances, related to their role in development policy, is the level of investment. Over the 15 years under discussion, LGU's investment expenditures have reached as much as PLN 494 billion, of which nearly 223 billion were local governments' own funds, another nearly 171 billion – non-refundable foreign funds (120.1 billion) and grants from domestic sources (50.6 billion), and the rest – loans. The increase in PIT revenues contributed to the generation of a net operating surplus of PLN 14.4 billion in LGU's budgets in 2018, all of which was spent on development. LGU's capital expenditures totaled as much as PLN 52 billion in 2019. This was possible thanks to the disbursement of about 21.5 billion in EU subsidies and the incurring of new liabilities for a total of about PLN 16.2 billion [Wojciechowski and Wołowiec 2021, 101-11].

CONCLUSIONS

The previous rules of Article 243 of the LPF did not provide for the possibility of early repayment of debt in excess of the calculated ratio (even if the local government had such possibilities), nor did they provide for the possibility of restructuring it in order to reduce costs or spread repayments more favorably over time. The revised LPF regulations, effective January 1, 2019, have partially solved these problems [Gołaszewski 2018, 32-33]. Thus, it is possible to make early debt repayment if the local government has funds from repayment of a previously granted loan, free funds, privatization proceeds or surpluses from previous years. At the same time, the law stipulates that only early repayments, i.e. those originally planned for future fiscal years, are excluded from the indicator. Repayments planned for the fiscal year must fit within this limit [Bogacki and Wołowiec 2021, 17-31].

A serious problem related to financing investments and balancing LGU's budgets are changes in the construction of personal income tax (re-education of tax progression, increase in deductible expenses, exemption from income tax for people under 26 years of age). These changes are generating a revenue loss to the entire public finance sector of PLN 13.3 billion a year, including PLN 6.6 billion in local government units [Wołowiec 2021, 515-27].

It is possible to restructure debt, that is, to replace one debt with a new one, but on condition that the cost of the new debt is lower than the cost of the restructured debt. Assessment of the fulfillment of the condition of lower cost of debt service will be made by the applicable regional chamber of auditors. undoubtedly, the problem will be to assess the fulfillment of the condition of lower costs in situations where we will actually know the cost of the new loan or bonds only after the award of the tender [Rutkowski 2015, 281-82].

Starting in 2019, additional debt titles have been included in the limitation rules. Thus, for example, leasebacks or debt buybacks are included in the left-hand side of the Article 243 LPF indicator starting in 2019. The amendment introduced in Article 243(1) was intended to include in the limitation of the repayment of obligations of local governments (except for loans and credits) all obligations that produce economic effects similar to a loan or credit agreement. Thus, this applies to all liabilities classified under the debt title "loans and advances," and therefore also to securities whose marketability is limited, sales contracts in which the price is payable in installments, leasing contracts concluded with a manufacturer or financier in which the risks and benefits of ownership are transferred to the lessee of the property, as well as non-negotiable contracts with a maturity of more than one year, related to the financing of services, supplies, construction works, which produce economic effects similar to a loan or credit agreement. In particular, this applies, for example, to sale-leaseback agreements, sale-leaseback agreements, debt restructuring agreements, including installment sales, forfaiting, unnamed agreements with a term of payment longer than one year, related to the financing of services, supplies, construction works, which have economic effects similar to a loan or credit agreement [Wołowiec 2019c, 45-54]. Importantly, the biggest flaw in the Article 243 LPF ratio will be eliminated in 2020. The current creditworthiness is calculated as the arithmetic average of three one-year indicators, which are formed by the sums of current surpluses and asset sales relative to total income. This structure results in the fact that the higher the asset subsidies (the component of total income that is the denominator of the fraction), the lower the creditworthiness (i.e. the value of the percentage representing the allowable repayment for the year). This is despite the fact that subsidies should in no way affect the LGU's creditworthiness. Beginning with budget planning for 2020, the right side of the formula is already calculated as the average of the last 3 years of one-year ratios, which are the ratio of the sum of current surplus and asset sales to current income for the year, less current subsidies from the EU. In addition, the current surpluses in the numerator of this fraction will be adjusted for EU current subsidy income and expenses, respectively. After this change, EU current grants (both current and property) will have no effect on creditworthiness. We calculate the left side of the formula as the ratio to current income minus EU current grants.

In 2020-2025, the sum of the current surplus and asset sales will be related to current income. In 2022, there will be a rather significant change in Article 242 of the LPF – until now, the condition required by this provision that current income be higher than or equal to current expenses could be met by adding free funds available to the local government. Free funds are, according to the law, previously borrowed and unspent loan funds. Thus, the legislator allowed current expenditures to be higher than current revenues, provided that the local government had unsettled funds from loans. This generated unnecessary (unreasonable) situations of taking loans "in reserve" just to have the "security" requirement of Article 242 of the LPF fulfilled (from 2022 such a situation will be completely eliminated).

Starting in 2019, current or asset expenditures related to debt titles are treated like installments or interest on loans, and are subject to the limitation set by the formula in Article 243 of LPF (left). In addition, their incurrence requires that the local government set an appropriate limit in the budget resolution, as well as obtain an appropriate opinion from the regional chamber of auditors. In addition, as of 2019, the right side of the formula has changed – it is possible, when calculating the limit for 2020, to exclude current expenditures related to repayment of obligations under non-standard debt titles for the last 3 years. From 2020, when calculating the indicator, the LGU must take into account only current income (income from the sale of assets is no longer relevant), and the calculation of the average itself has been extended to 7 years [Wołowiec 2019a, 467-502].

Starting in 2026, there will be significant changes. First, there will be an extension of the period on the basis of which the average operating surplus is calculated to 7 years, while replacing the arithmetic average with a weighted average; second, there will be the exclusion of property income from the sale of assets from the numerator's right-hand side, and the exclusion of debt service expenses from current expenses on the right-hand side of the formula. Extending the period for calculating the index was the LGU's main demand. Basing the average on three years of data could have generated the risk that the data for the formula could have come from a period of, for example, a downturn or economic crisis. Starting in 2026, the indicator will be calculated based on a weighted average of the last seven years, with the first four years having a weight of 40% and the last three years 60%. Budgetary results for 2019 will enter the indicator for 2026 with a weight of 6%, and subsequent ones with weights of 9%, 11%, 14%, 17%, 20% and 23% [Gołaszewski 2018, 33].

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