

Magdalena Kogut-Jaworska*

**SCOPE OF INCOME INDEPENDENCE
OF LOCAL SELF-GOVERNMENTS:
SITUATION OF WESTERN POMERANIAN LOCAL
SELF-GOVERNMENT UNITS
IN THE NATIONWIDE COMPARISON**

Summary

Scope and importance of income independence of territorial self-government units determines to a large extent their opportunities of development, as well as their real possibilities to meet existing challenges. Income independence of local governments should, by definition, denote independence of local communities in establishing income sources for the local budget. Assessing the level of income independence is crucial in order to measure the actual scope of financial decisions which can be taken by self-government units. The aim of the paper is to assess the scope of income independence of local self-governments in Western Pomerania and to compare it with local self-governments in the other regions of Poland.

Keywords: self-government finance, financial independence, income independence, communes

* Magdalena Kogut-Jaworska, dr, Uniwersytet Szczeciński, Wydział Zarządzania i Ekonomiki Usług, e-mail: magdalena.kogut@wzieu.pl.

Introduction

The importance of income independence and the ability to measure it have a crucial cognitive function because they provide the necessary information on the actual range of financial decisions which can be taken by executives of the self-government. The scope of independence of self-government units determines to a large extent their opportunities of development and existing possibilities to reach the goals set for future. Income independence of communal self-governments should by assumption, denote independence of self-governmental executives to establish sources for the local budget.

The aim of the paper is to analyse, and assess the scope of income independence of local self-governments. The research has included all communes divided into country communes, city communes (boroughs) and mixed country/city communes, and also taking into consideration their location, i.e. regional, being the Western Pomeranian region (“voivodship”) and countrywide, being the communes all over Poland. The analysis of type and structure of income is based on the assessment of the size and share of participation of the particular, terms of own income in financing self-governing activities.

1. Theoretical approach to income independence of local communities

Financial independence of self-government units is perceived as one of the most important attributes of self-governing activities in local communities. The financial independence is here guaranteed by legal regulations, and it is included into the European Charter of Territorial Self-Government, into the Polish Constitution as well as into The Territorial Self-Government Income Bill. Both the Constitution and the Regulations are the guardians of self-governments’ independence, in particular, of their financial independence. However, the material aspect of the independence, i.e. financial resources and other assets are also of crucial importance.

Financial independence does not mean the necessity to generate own income, but involves the freedom of using it even if the income comes as a subsidy. Financial independence also involves responsibility for results of the financial decisions taken, which has unilateral character according to the existing regulations.¹ It is stressed in the literature that self-government units are not independent

¹ Financial independence of territorial self-government units does not have unlimited character. It can be limited through an Act of Parliament, under the condition that the limitations

in the application of budgetary means, but only within the pursued financial policies. In the above context expenditure independence seems to be less important than income independence,² and thus, the latter is associated with independence as such.³

Table 1

Income aspect of financial independence of territorial self-governments
– the legal framework

European Charter of Local Self-Government (of 15.10.1985, in Strasbourg)	Indicates, that local communities have a right, within national economic policies to have own, adequate financial resources, which existing regulations. Moreover, the European Charter gives the local communities a right to create own financial resources through imposing local taxes and fees within the brackets given in the parliamentary bill.
Constitution of The Republic of Poland of 2.04.1997	The Constitution guarantees to all self-government units a share in public revenues according to the undertaken scope of activities. The regulation is widely interpreted as “means to goals adequacy rule”. However the financial means will only cover the outlays for goals set by parliamentary bills, not for those set freely by the self-government’s sole decisions. The constitution also indicates the sources of income for realization of the goals to be reached by the self-government.
Parliamentary Act of 13.11.2013 on self-government income sources	In accordance with the Constitution which sets frame for self-government financing, the Act describes obligatory sources of, separately for local communities counties (“powiaty”) and regions (“voivodships”), and gives them right to collect additional financial means.

Source: own compilation based on: *Financial Independence of Territorial Self-Government Units as Guarantee for successful Self-Governing of Local Communities* by E. Feret; *Law of Our Neighbors, volume 1, Constitutional Base for Creation and Development of Civic Society in Poland and Ukraine – Good Practices* by W. Skrzydło, W. Szapałow, K. Eckhardt, D. Steciuk, Rzeszów–Przemysł, pp. 126–147.

have justification in goals and values protected by the Constitution. M. Dylewski, *Financial Independence of Territorial Self-Government Units in Time of Economic Slowdown*, Szczecin University Scientific Book, Finance, Financial Markets, Insurance, no. 26 (587), 2010, p. 475.

² The scope of financial independence of territorial self-government units can be considered in three following dimensions: in collecting income, in relation of expenditures and in financing budget deficit of the territorial self-government. L. Patrzalek, *Finances of the Territorial Self-Government*, Academy of Economy in Wrocław, Wrocław 2004, p. 6.

³ See M. Dylewski, B. Filipiak, M. Gorzałczyńska-Koczkodaj, *Analytical Methods in Activities of Self-Governmental Subsector Units*, Difin, 2010, p. 477.

Income independence is explained as independence of territorial self-government units in establishing income sources for the local budget. Such independence is only possible through being a subject of law⁴. However, it must be stressed that independence in pursuing self-governmental financial policies does not mean total freedom in receiving and spending the money. Financial independence does not refer to creating and shaping the legal framework for financial policies but it does refer to the application of law and to creation of independent financial policies within legal frames. In this context, an important role is given to the superiority rule of the income side of the budget over the expenditure side. According to that rule the level of expenditures of the self-governmental budget is more determined by financial accessibility than by the existing needs.⁵ The income aspect of the financial independence, which guarantees self-governing activities of communes, can be found in the laws and regulations referring to the subject.

Transferring the above considerations to the local community level, it must be stated that income independence of local communities confirms the self-government activities within realization of public goals⁶. The range of independence will be conditioned by different aspects of material character, including factors dependent or independent from activities and actions performed by local communities. Among factors independent from the local community, there must be mentioned the following creative factors:⁷

- legal framework, i.e. the consideration of the local community financial system (which influences the independence level of the self-government finances), conditioned by the scope of decentralization of public finance,
- economic conditions resulting from economic situation in the country and in the local community and determining stability and efficiency of particular income sources, as well as volume and structure of expenditure.

Among factors depending on the local community and having influence on the scope of financial independence, there are, in the first place, those resulting

⁴ M. Dylewski, *Financial Independence...*, p. 477.

⁵ M. Łyszkiewicz, *Importance of Income Independence*, "Self-Government and Administration Newsletter" 2013, no. 7, p. 19.

⁶ Income independence is usually given more importance than expenditure independence. The reason of this phenomenon are complex. However it is mainly indicated that the level of own income enables the territorial self-government units to take own decisions. K. Brzozowska, M. Gorzałczyńska-Koczkodaj, M. Kogut-Jaworska, M. Ziolo, *Financial Policies in Territorial Self-Government Units*, CeDeWu Publishing, Warsaw 2013, p. 93.

⁷ J. Zawora, *Financial Independence of Communal Self-Government in Podkarpackie Region*, scientific Newsletter of SGGW – "Economics and Organisation in Food Industry" 2010, no. 81, pp. 141–142.

from political and organizational conditions which influence the quality of the decisions taken according to the local budget policies. Factors independent from local community activities are essential in order to broaden the scope of financial independence. These factors create the necessary legal and economic framework.

On the other hand, it must be considered, that the scope of income independence of communes or boroughs will decide about the income structure, taking into consideration an assessment of amount and shares of particular components of own income. Moreover, the scope of tax imposing power which mirrors the level of financial independence of local communities will shape the structure of their tax income. The legal power to impose non-tax fees will be decisive in order to gain income from own assets.

2. Analysis of income independence of territorial self-government units

Trying to find proper measurement tools to assess the level of independence of self-government units, it needs to be stressed that the sources of budget income for self-governments are not uniform economic categories, and therefore they determine, to a various extent, the independence of self-government executives.⁸ However, in order to assess the level of income independence, some synthetic measures can be applied, which generally refer to categories of income as such. They are mainly the basic indicators of income structure, indicators of budget balance and indicators of financial independence.

Two following basic indicators are applied to analyze income independence of particular levels of the territorial self-government:⁹

- self-government's own income to overall income ratio,
- self-government's own income to overall income ratio calculated without a share in PIT and CIT.

Self-government's own income to overall income ratio characterizes a possibility to pursue income policy by territorial self-government units.¹⁰ However the ratio without participation of PIT and CIT ("the narrower ratio") enables to establish the executive powers for a particular territorial self-government through a selection of sources, methods and various ways for gaining income, on which

⁸ M. Kosek-Wojnar, *Problems of Financial Independence of the Territorial Self-Government*, The Economic University in Bochnia, Bochnia 2014, p. 13.

⁹ P. Galiński, *Income Independence of Territorial Self-Government Units – Situation in Poland*, Municipal Finances, [http:](http://) access 15.07.2015.

¹⁰ *Ibidem*, p. 1.

a particular unit has influence.¹¹ This ratio, showing the level of financial independence from the state budget, indicates which level a self-government unit has power to generate own income being dependent only on the unit itself. The lower the ratio, the more dependence of the self-government unit on the condition of the state budget, on general economic situation or on the level of unemployment.¹²

In the summary, it can be concluded that self-reliance of territorial self-government units in pursuing own financial policy is closely connected with their empowering to collect own income and to shape own expenditure policy. However, it is difficult to find criteria for a precise measurement of the level of territorial self-governments financial independence. One of the most important criteria to assess the financial policies, appears to be effectiveness in implementation and realization of the commended tasks.

3. Assessment of the level of financial independence in local communities of Western Pomeranian region

The basic information about the level of financial independence of the territorial self-government is the own income to overall income ratio. High share of own income favours creating own financial policy by the local community and supports its development. High share of own income in the total income indicates vast opportunities of the self-government to influence economic and social development, and in particular a possibility to use instruments of self-governmental interventionism. It needs to be stressed that in the researched period, both the share resulting from local taxes and fees in overall revenues, and the share in those taxes which are the central budget income, have all been growing steadily. Both, the dynamics and the average level of the ratios for local communities of the Western Pomeranian region have shown similarities with the nationwide tendencies. However, the share of subsidies and grants in the total income of the local communities in the region has been decreasing.

The scope of income independence of Western Pomeranian local communities featured hefty tendency to increase in the researched period and was higher than the average indicator for a typical local community in Poland. The ratio of income financial independence for local communities in Western Pomeranian region positioned itself at the level higher than 50%, whereas the countrywide

¹¹ Ibidem.

¹² See M. Dylewski, B. Filipiak, M. Gorzałczyńska-Koczkodaj, *Analytical Methods in Activities of Self-Governmental Subsector Units*, Difin, 2010, pp. 93–96.

Table 2

Basic indicators of income independence of local communities
in the Western Pomeranian region compared with countrywide analysis (%)

Items for comparison		Local communities in Poland					Local communities in Western Pomerania				
		2010	2011	2012	2013	2014	2010	2011	2012	2013	2014
A	Revenues from local taxes and fees/total revenues ratio	17.03	17.37	18.35	19.10	18.86	20.47	20.50	21.96	23.52	22.82
B	Share in taxes being state budget revenues/total revenues ratio	14.79	15.95	16.41	16.95	17.37	12.86	13.71	13.38	13.83	14.53
C	Subsidies/total revenues ratio	31.36	30.68	31.44	30.97	29.09	25.99	24.82	24.65	24.11	22.68
D	Grants/total revenues ratio	24.02	23.83	21.98	20.87	21.57	19.18	18.26	16.88	17.49	17.47
E	Revenues from local taxes and fees/total expenditures ratio	15.44	16.53	18.33	19.24	18.74	18.37	19.34	21.85	23.52	22.54
F	Share in taxes being state budget revenues/total expenditures ratio	13.42	15.18	16.39	17.08	17.26	11.54	12.93	13.32	13.83	14.35
G	Subsidies/total expenditures	28.44	29.20	31.40	31.21	28.92	23.33	23.42	24.53	24.11	22.41
H	Grants/total expenditures	21.78	22.68	21.96	21.03	21.44	17.22	17.22	16.80	17.48	17.26
I	Own income/total income (financial self-reliance/income self-reliance ratio)	44.62	45.48	46.58	48.16	49.33	51.29	50.97	52.65	54.19	54.79
J	Own income – share in PIT and CIT/total income (income independence ratio)	29.83	29.53	30.17	31.21	31.97	38.43	37.26	39.27	40.36	40.26
K	Own income/total expenditures (income independence ratio)	40.46	43.28	46.53	48.52	49.03	46.03	48.08	52.38	54.19	54.12

Source: own summary based on local community budgetary reports.

average was approx. 46,83% (see Table 2). Detailed analysis of the data leads to the conclusion that in 2014, city boroughs featured the highest level of the ratio – 61,08%, followed by mixed city/country communes featuring 51,08%. Country communes showed the ratio of 41,95% (see Table 3). However, taking into consideration the second indicator of income independence, it must be concluded that the share of own income, without PIT and CIT, in total income was considerably lower and showed only 37,25% for city boroughs, and respectively 33,23% for the mixed city – country communes and 28,27% for country communes (see Table 3).

Table 3

Basic indicators of independence local community income (%)
according to commune characteristics

Type of commune	Local communities in Poland					Local communities in Western Pomerania				
	2010	2011	2012	2013	2014	2010	2011	2012	2013	2014
Own income/total income (financial self – reliance/income self-reliance indicator)										
City boroughs	58.79	58.64	59.75	60.70	61.08	58.00	52.82	58.79	60.49	59.88
Country communes	35.87	37.14	38.52	40.34	41.95	47.98	49.78	50.48	52.27	53.85
Mixed city/country communes	46.50	47.43	48.31	50.13	51.08	50.55	50.85	51.66	53.04	53.34
Communes in total	44.62	45.48	46.58	48.16	49.33	51.29	50.97	52.65	54.19	54.79
Own income – share in PIT and CIT/total income (income self-reliance indicator)										
City boroughs	37.07	35.64	36.11	36.86	37.25	39.15	34.09	38.77	40.05	40.58
Country communes	25.00	25.24	26.14	27.26	28.27	37.54	38.28	39.43	40.94	41.49
Mixed city/country communes	31.25	30.98	31.47	32.66	33.23	38.62	37.98	39.35	40.14	39.52
Communes in total	29.83	29.53	30.17	31.21	31.97	38.43	37.26	39.27	40.36	40.26
Own income/total expenditure ratio (income self-reliance indicator)										
City boroughs	53.96	56.29	59.74	61.28	61.24	52.33	52.10	57.63	61.32	60.77
Country communes	32.37	35.30	37.88	40.73	41.52	41.59	46.75	51.22	53.72	52.54
Mixed city/country communes	42.07	44.94	47.50	50.30	50.74	46.13	47.27	51.15	52.02	52.49
Communes in total	40.46	43.28	45.97	48.52	49.03	46.03	48.08	52.38	54.19	54.12

Source: own research based on budgetary performance report.

The presented analysis indicates that the changes in the own income/total income ratio have shown slight but steady increase, which proves evidently an important of the developing trend of income self-reliance in the communes and boroughs of the Western Pomeranian region. The above is the result of two processes: one being a progressing process of decentralization of public finance and

the other, relatively large dependence on legislative activity of the central level of government (e.g. increase of territorial commune share in PIT and CIT, changes in the tax system).

It can be concluded that the adequate level of own income ensures freedom in shaping financial policies of local communities in the Western Pomeranian region. The level should be as high as possible so that the local communities can manage their assets independently, which in consequence leads to stable growth of communes. Between years 2010 and 2014 the own income/total income ratio reached every year the level of 52,8%. The largest group among own income were revenues resulting from the share in taxes making the state budget income (at present they are 40,26%). This category of income has shown the highest dynamics. In the last couple of years they have grown in real terms.

When discussing the questions concerning income independence and structure of financing of the goals set for communes in Western Pomeranian region a necessity for further changes and reforms in public finances needs to be stressed. Further conclusions involve the necessity to deepen the beneficial changes introduced through the crucial self-government reform dated 25 years ago which initiated evolutionary process based on modern public governance. However, there is still a needed to improve ways and methods of communal financing despite unquestionable and positive changes in debt and liquidity management or in other related issues. The changes have been made possible as a result of growing experience and expertise among the decision makers working in or for the structure of the self-government. The future directions aimed at faster progress should comprise further decentralization of self-government finances being the result of broaden decentralization of public objectives.

Conclusions

When analyzing financial independence, and in particular the Polish situation in this respect, it must be taken into consideration that, due to the complexity of legal, social, economic and political processes it is difficult to indicate properly the framework and criteria to determine the actual autonomy in pursuing financial policies. Income self-reliance of territorial self-government units depends, in fact, on numerous and interconnected factors of social, economic or urban planning nature.

The level of income independence is the result of own income participation in the total budget income. The own income share, both in the broader and narrower

meaning, compared with total communal income in Western Pomeranian region was increasing between 2010 and 2014. The steady tendency of improving the level of income independence of Polish communes and boroughs brings about increased possibilities to pursue autonomous financial policies and greater freedom in making financial decisions. Generally speaking, the level of financial self-reliance of communes and boroughs in Western Pomeranian region has maintained a satisfactory level for the last couple of years, although the dynamics of particular indicators, concerning the share of grants or subsidies in total income has shown a considerable volatility level.

It should be concluded that despite improved tendencies concerning financial self-reliance of communes or boroughs in Poland, the scale of application of tools shaping local tax policies still remains too small and unsatisfactory. Income independence ought to be interpreted more widely, including use of instruments of self-governmental interventionism, namely, practical application of tax instruments, i.e. outlining of tax rates and brackets and introduction tax exemptions within the existing legal framework. The analyses performed in the paper lead to the conclusion that financial self-reliance is implemented into various aspects of communal self-government activities.

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ZAKRES SAMODZIELNOŚCI DOCHODOWEJ SAMORZĄDÓW GMINNYCH – SYTUACJA GMIN WOJEWÓDZTWA ZACHODNIOPOMORSKIEGO NA TLE OGÓLNOPOLSKIM

Streszczenie

Pomiar samodzielności dochodowej pełni ważną funkcję poznawczą ze względu na dostarczaną informację na temat rzeczywistego zakresu decyzji finansowych, jakie mogą podejmować organy jednostek samorządu terytorialnego. Zakres samodzielności dochodowej jednostek samorządu terytorialnego w dużym stopniu determinuje ich możliwości rozwojowe, a także realne możliwości realizacji postawionych przed samorządem zadań. Samodzielność dochodowa samorządów gminnych z założenia powinna oznaczać samodzielność organów gmin w stanowieniu źródeł dochodów budżetu lokalnego. Celem artykułu jest określenie zakresu oraz przeprowadzenie oceny samodzielności dochodowej samorządów gminnych. Badaniem objęto wszystkie gminy w podziale na gminy wiejskie, miejskie i miejsko-wiejskie i z uwzględnieniem zasięgu terytorialnego, tj. w układzie regionalnym – gminy województwa zachodniopomorskiego i w układzie krajowym – gminy w Polsce. Analizę rodzaju i struktury dochodów oparto na ocenie wielkości i udziału poszczególnych składników dochodów własnych w finansowaniu działalności samorządowej.

Słowa kluczowe: finanse samorządowe, samodzielność finansowa, samodzielność dochodowa, gminy

Tłumaczenie Magdalena Kogut-Jaworska

