

ORGANIZATION AND CHANGES OF LOCAL GOVERNMENT FINANCE SYSTEM IN VIEW OF IMPLEMENTATION OF PARTICIPATORY BUDGETING

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Abstract. According to the Constitution of the Republic of Poland, the basic unit of local government in the country is a commune (Constitution of the Republic of Poland 1997). Since 27 May 1990 the term “commune” is used to refer to every basic unit of local government. In the relevant literature one can find the idea that “...the primary task of local government is to provide adequate living conditions to local communities with regard to population growth, progressive urbanization, dangers to the natural environment of humans and the willingness to provide equal living conditions to the populations of cities and rural areas” [Kosek-Wojnar, Surówka 2007]. For this reason, it seems essential for the local government finance system, in particular with regard to the possibility of funding the growing needs and expectations of the local communities, to continuously improve and become more flexible when it comes to the adjustment to the changing surroundings. The principal aim of this paper was to demonstrate new possibilities in the organization and performance of the tasks of local authorities offered by the implementation of participatory budgeting in Poland.

Key words: commune, residents, budget, participation, expenditure

INTRODUCTION

Participatory budgeting is a new form of dialogue with the citizens who are allowed to decide how to allocate public funds with regard to selected projects [Hartz-Karp 2012]. According to the Act on local governments and the Act on public finance, councillors, directly elected representatives of local communities, are those who, as a rule, are entitled to decide how the budget is allocated.

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In the participatory budgeting, the citizens may submit proposals and then vote. The project proposal which receives the highest number of votes is then granted funding from the local budget [Thompson 2012].

First participatory budgeting processes were developed in America and Southern Europe, and the best known and, at the same time, the most successful case is the implementation of this kind of budgeting in Porto Alegre, Brazil. The participatory budgeting there has been practiced since 1989.

In 2011 Sopot became the first Polish city implementing participatory budgeting [Kłębowski 2013]. Since then, the city has seen dozens of investments, both large-scale and small ones, and the residents feel they play significant role in the public debate on the city's appearance and its functionality. Shortly after the success of participatory budgeting in Sopot, the system has been introduced in other Polish cities.

MATERIAL AND METHODS

In this paper the Authors attempted to present selected formal and legal aspects of the organization of financial economy and implementation of participatory budgeting in local governments in Poland (since 2004 until 2014). In the study the Authors analyzed the provisions of legal acts, relevant literature and the experiences of local authorities who decided to develop participatory budgeting process. The theory is presented as a description, with the use of tables, schemes, charts and pictures. The aim of the paper was accomplished through elemental and casual analysis and deductive and inductive reasoning.

RESULTS AND DISCUSSION

Local goverment tasks and role in community management

All the actions undertaken by local government are performed by local authorities which are chosen by election. Commune council is the legislative and supervisory body, commune head (in rural communes) or mayor (in communes whose local authorities reside in a city within the territory of the commune) or a city mayor (in cities with a population of at least 100,000) is the executive body. The most important tasks of the commune council include budget and commune statute adoption. The executive body manages the current affairs of the local government, represents the commune and implements the resolutions of commune council [Borodo 2006].

Figure 1 shows a classification of tasks of communes. The internal tasks are financed with the commune's own financial resources and on the basis of the presumption of competence. This means that the commune performs all the tasks which are not reserved to districts and provinces. It is worth to mention that a detailed list of tasks imposed on communes can be found in the Local Government Act (Act of 8 March 1990 on local governments). The obligatory tasks, singled out from the internal tasks, concern basic public services with which the citizens have to be provided by the commune. To be able to do so, the commune should secure an adequate amount of financial resources. The optional

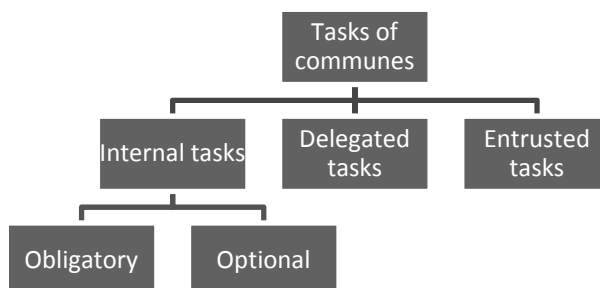


Fig. 1. The tasks of communes

Source: Authors' on the basis of: M. Podstawka (Ed.). *Finanse. Instytucje, instrumenty, podmioty, rynki, regulacje* (Finance. Institutions, instruments, subjects, markets, regulations). Wydawnictwo Naukowe PWN, Warszawa, 151–152.

tasks are accomplished to the extent allowed by the remaining financial resources at the disposal of the local government. The delegated tasks are those tasks which are delegated to the communes by central authorities. These authorities have to provide the funds indispensable to perform such tasks, and the communes are obliged to complete them. The entrusted tasks are fulfilled through an agreement or contract with central authorities or other local government entities [Podstawka 2010].

The internal tasks of communes concern, above all, the so-called public utilities which include, among others, providing the residents with energy sources and water, providing fire protection systems, road lightning, and the basic social services in the area of education, social care and health care [Sochacka-Krysiak 2008]. Thus, the tasks of local government inevitably entail budgetary expenditure.

The amount of expenditure depends on the regulations connected with the scope of public tasks performed. Current expenditures which ensure commune's operation hold a leading position. These include: purchase of goods and services, assistance to natural persons, debt service and the remuneration of employees. The aim of capital expenditures is to upgrade assets of the local government, and at the same time ensure social and economic development in a commune [Borodo 2006].

According to the Act of 27 August 2009 on public finance, a budget, an annual plan of expenditure and revenue, income and costs of the entity is a foundation of financial economy of a commune.

One should notice, however, that a budget adopted as an act concerns state finances, while the most important financial plan which concerns local finances assumes the role of a resolution. A well-prepared budget shows the availability of internal sources of funding and commune's demand for external sources. Moreover, it allows local authorities to control and verify the expenditures. For the residents of a commune it may serve as an indicator of the efficiency of decision-making processes of local government.

While a draft of budget resolution is prepared by the executive body, the resolution itself is passed by the commune council and has to take place before the year preceding the financial year ends. One should remember that communes are supervised by the Regional Chambers of Accounts with regard to their finances. The Chambers supervise

budgeting procedures, collection and usage of public funds. For more information see A. Miszczuk's "Gospodarka samorządu terytorialnego (The economy of local government)" [2007].

The local government and the decentralization process

The notion and specificity of local finances, with regard to widespread decentralization, take on a new significance in the light of public finances.

According to Kornberger-Sokołowska [2009], the term decentralization means: "delegating public tasks to be performed at a local and regional levels. As a result, such an organization structure of the public administration is founded, where alongside the central entity there are other entities entitled and obliged to perform some part of the public tasks". The advantages of decentralization have been emphasized in the literature many times. Among the most significant one could list efficient recognition of priority needs by local authorities, lack of anonymity of the said authorities which makes them feel more responsible for the consequences of their decisions in an attempt to earn the trust of a local community. It also increases the control over expenditure and the efficiency of operation [Ziółkowska 2005]. Decentralization connected with the right to generate income exercised by local authorities is called an income decentralization. One can also analyze this process from the perspective of expenditure. Expenditure decentralization is connected with the right of local governments to manage the acquired public funds. Decentralization is also a result of the subsidiarity principle which says that the public tasks and the relevant expenses should be handled at the lowest possible level, as close to the citizens as possible, satisfying the requirements of efficiency and reasonable costs at the same time [Czudec 2010].

The situation of Polish public funds contributed to the introduction of a new Act of 27 August 2009 on public finance. In practice, the Act contains solutions with regard to performance-based budgeting. The prudential standards concerning the government debt were reinforced both for the country and the local governments. For more information see C. Kosikowski's, "Reforma finansów w Polsce w świetle nowej ustawy o finansach publicznych (Reform of finances in Poland in the light of the new public finance law)" [2009].

Changes in legislation and numerous amendments of the existing acts introduced after 1989 resulted in increased instability of the public finance system, in particular local finance systems, in this period.

Financing system and sources of income at the commune level

To enable commune governments to operate efficiently it is essential to provide a solid fundraising system and instruments, i.e. a financing system. In this system, the sources of budgetary funds which point to the resources of local governments play a key role. They are divided into internal sources – created within the commune system, and external sources – created outside such systems [Dylewski et al. 2006]. The financing systems of local governments are inseparably connected with the quality of public goods offered by local governments at a given time [Jones 1996]. This is why it is vital for the created financing mechanism to be able to guarantee the provision of goods and services of a specified quality.

The funds which the commune uses for its operation consist of public income and public revenue. The former are more permanent and prevail.

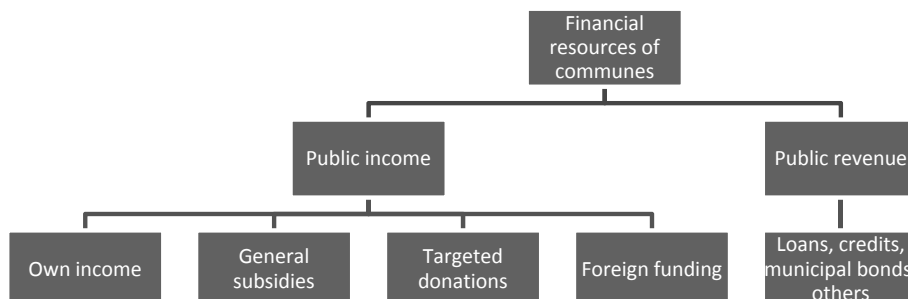


Fig. 2. Classification of financing resources of communes

Source: Authors' work on the basis of: Act of 13 November 2003 on the income of local governments.

Own income is “the inflow whose source is located within the territory of a given commune and has been allocated to the commune in whole and for an indefinite period” [Guziejewska 2005].

This type of income comprises, first and foremost, public levies such as taxes and charges.

According to the Act, taxes and charges which constitute a source of income for communes include (Act of 13 November 2003 on the income of local governments):

- property tax,
- land tax,
- forestry tax,
- vehicle tax,
- personal income tax, paid as constant amount tax,
- inheritance tax,
- tax on civil law transactions,
- stamp duty
- toll,
- visitor’s fee,
- dog fee,
- service charge.

The taxes of local governments apply only to commune budgets. As a consequence of the system, since 1998 the communes in Poland are the only local governments to have their own tax income. Districts and provinces which came into being in 1999 took over part of the responsibilities of the government, thus leaving the scope of responsibilities of communes untouched. Hence, the communes did not have the income from local taxes taken away [Mackiewicz-Lyziak 2008].

Apart from the items listed, own income includes the income generated by local governments or their organizational units during their operation and the income earned from fixed and current assets which belong to a commune. The Act lists, as follows (pursuant to Art. 4):

- income generated by budgetary units and the income of commune budgetary entities and auxiliary enterprises of commune budgetary units,
- income from commune assets,
- inheritance, legacy or donation for the benefit of a commune,
- income from financial penalties and fines,
- 5.0% of the income generated for the benefit of state budget with regard to the performance of tasks connected with government administration and other tasks which the Act mentions,
- interests earned from loans granted by a commune,
- interests earned from overdue amounts which constitute income for a commune,
- interests earned from the amounts accumulated by a commune in a bank,
- donations from the budget of other entities of local government.

External sources of funds, such as subsidies from the central budget, are also an essential instrument used by the state at the time of decentralization of public funds. However, they will not be considered in this paper.

The analysis of the organization of the income system which is carried out in this part of the article is justified. For whenever one speaks of participatory or traditional budgeting, it should be noted that the citizens, as a rule, do not exert influence over the type and amount of the income (with the exception of levies imposed on residents as a result of local referendum). There are no consultations between the local authorities and the community on the material and practical scope, rates (or taxation scale) or tax reliefs and exemptions. They are non-refundable, compulsory and unilateral. Only the expenditure is subject to negotiation with the citizens.

Participatory budgeting in Poland

As has been already mentioned, the first participatory budgeting process in Poland was developed in Sopot. From May to November 2011 the residents had a chance to submit their own proposals of future projects, which in their opinion could be financed from the local budget. The next stage involved a voting procedure in order to make a decision on the recommendation of the project which would be funded in the end.

To engage the residents in the decision-making process concerning the expenditures from the local budget, information on the procedure were made available on the Town Council website, in the local press, the radio and the municipal newsletter. 18,000 leaflets were printed and distributed among the households of Sopot (in the first stage they included information on the procedure and project proposal application form, then a voting paper and further information about consultation meetings). Additionally, posters were put up throughout the city, e.g. on advertising columns.

From the 30 August to 14 October 2011 the residents could submit their own proposals on special forms. The proposals were not limited to any thematic range or any particular level of expenditure – the residents could submit a proposal from any area and regardless of its costs¹. In practice, the proposals which were submitted were mainly small-scale investments which concerned infrastructure and renovations. One should observe though

¹http://partycypacjaoywatelska.pl/uploads/pdf/praktyka_budzet_obywatelski_sopot.pdf [accessed 14.04.2014].

that a lack of limitations placed on the proposals is not an ideal solution. It has to be remembered that local governments operate under strict legal and formal conditions (scope of internal tasks). Independence in the process of decision-making with regard to expenditure is not equal with unlimited freedom. In 2014 the residents of other local community – Kraśnik commune (Lubelskie province) – had a chance to experience it. The residents chose an investment which concerned roof covering of a new sacral building. The investment, however, could not be realized as it is outside the scope of commune tasks². The Regional Chamber of Accounts rejected this part of the resolution of the commune councillors which concerned the roof covering of the sacral building.

In Sopot there were in total 500 proposals and comments on the 2012 budget submitted by 200 residents of the city. It took almost two weeks to process all the applications. Each of the four electoral areas of the city had several proposals selected and there were 22 proposals which concerned the whole city. The proposals were put on the voting paper in two tables along with their estimated costs and anticipated completion date. The first table contained small-scale investments in the immediate proximity which could be completed in 2012 and whose total cost would not exceed PLN 1 million, such as: construction of new playgrounds, minor renovations of engineering structures, acquisition of new benches etc. The second table contained more elaborate projects aimed at the benefit of the whole city, such as: new bus connection between Sopot and Gdańsk, modernization of the animal shelter, construction of a Contemporary Art Museum. Each resident could select 5 projects which concerned the immediate proximity and the whole city, which in his opinion were the most important.

The Town Council received in total 2448 completed surveys, out of which 136 were delivered through the Internet (Sopot has a population of around 33,000 which means the turnout of voters was around 7%).

With the votes counted by a special committee which consisted of councilors and clerks, the Mayor decided to recommend the realization of investments of a total value of PLN 7 million of the 2012 budget. The projects concerned:

- waste sorting,
- subsidizing and renovation of the animal shelter,
- road renovation and construction of bicycle trails,
- constructing facilities for families, playgrounds – sports facilities.

In 2012 Elbląg, Gorzów Wielkopolski, Poznań and Zielona Góra followed the example of Sopot. Moreover, ideas inspired by the participatory budgeting formed at the level of provinces (Podlaskie province), quarters (in Gdańsk, Lublin and Kraków) and institutions.

The last case concerns participatory budgeting which was implemented in one of the cultural centers in Warsaw – Śródmieście Cultural Centre. On 24 November 2012 a final meeting concerning the expenses of this institution in 2013 took place. During the meeting the residents selected one of the projects prepared at earlier meetings. The project 4

²<http://krasnik.naszemiasto.pl/artukul/dach-na-kosciele-w-krasniku-rio-stwierdzi-niewaznosc,2260106,t,id.html> [accessed 06.05.2014].

“Creativity and Education” which was selected emphasized the need to involve the residents and the importance of activities which encourage creativity³.

In 2012 1564 residents of Sopot participated in the survey (almost 400 of whom participated via the Internet) and in 2013 there were 2151 votes (556 persons voted via the Internet).

This year, with the fourth edition of the participatory budgeting, the voting took place between 9 and 22 June. In total 4800 voters have participated, which makes 15.14% of the residents who are entitled to vote. 2982 voters participated via the Internet.

In all the years considered, the residents voted mainly on investments in the area of infrastructure. Since 2012 to this day 56 investments and projects were realized thanks to the participatory budgeting process of a total value of over PLN 10 million. This year, the residents of Sopot had PLN 4 million to use, half of which was dedicated to general investments in the city, the other half to local investments (half a million for each electoral area).

The residents of Warsaw will for the first time have a say in the expenditure of the municipal budget, in the scope of 2015 quarter budgets. The total amount at the disposal of the residents will not be lower than 0.5–1.0% of the quarter budget. According to the schedule, the proposals were submitted during the first months of 2014 and were subsequently discussed. In the end they were put to the vote of the residents. The voting took place between 20 and 30 June 2014. In each of the 63 areas, the voting papers were different and contained different projects to choose from. The residents could vote in three ways⁴:

- on the website: www.twojbudzet.um.warszawa.pl/glosowanie;
- by completing a form (which they placed in a ballot box in the Borough Hall or other designated places);
- by sending their vote in a letter at the address of a Borough Hall chosen in view of the place of residence of the voter with a note “Participatory budgeting 2015” (the latest possible date of the letter’s arrival was 30 June).

The residents could select at most 5 projects, granting each of them a vote of equal value. In a few of the boroughs (Białołęka, Ochota, Wola) it was possible to vote both for projects which concerned the whole quarter (at most 5), and projects aimed at particular areas (at most 5) – thus, in these boroughs one could vote for 10 projects in total.

CONCLUSIONS

The introduction of participatory budgeting in Poland is a new phenomenon. The participation of residents in decision-making on part of the expenditure from the local budget raises many questions and is not free of errors. In order to understand rules of operation of budget, one should know more about own tasks of the self-government, the possibility of financing them and provisions of the local law. The first misunderstandings are occurring at the stage of planning the budget procedure, since citizens do not have a full economic

³http://konsultacje.um.warszawa.pl/budzet_partycypacyjny_DKS [accessed 30.04.2014].

⁴<https://twojbudzet.um.warszawa.pl/o-bud-ecie-partycypacyjnym/o-bud-ecie-partycypacyjnym> [accessed 30.05.2014].

and legal awareness and offices are often awkward (or reluctant) for sharing this knowledge. This knowledge is often given for residents in the incomprehensible form, therefore they are not having chances of free acquainting oneself, understanding and concluding. The ignorance of these procedures is leading for incorrect accepting assumptions of participatory budget what in consequence the impossibility of his realization causes (for example Kraśnik commune).

Increase awareness of the inhabitants and the necessary changes in the law in the long run it will avoid mistakes and inaccuracies.

A properly constructed budget not only creates the possibility of co-residents of the priorities of many years of development of the commune, but also strengthens democratic institutions. Helps build and integrate the local community. This contributes not only to the financial performance but also to citizen participation and to introduce a more open and horizontal way of making key decisions. On the example of other countries can point out that to a large extent also facilitates the integration of local communities.

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ORGANIZACJA I PERSPEKTYWY ZMIAN SYSTEMU FINANSÓW LOKALNYCH W ASPEKTCIE WPROWADZENIA BUDŻETU PARTYCYPACYJNEGO

Streszczenie. Zgodnie z treścią Konstytucji Rzeczypospolitej Polskiej podstawową jednostką samorządu terytorialnego jest gmina. W literaturze przedmiotu odnaleźć można pogląd, iż: „...podstawowym celem działalności samorządu jest stworzenie warunków życia wspólnotom lokalnym w związku ze wzrostem m.in. liczebności ludności, postępem urbanizacyjnym, zagrożeniami dotyczącymi środowiska naturalnego człowieka, chęcią zrównania poziomu życia ludności miast i wsi” [Kosek-Wojnar, Surówka 2007]. Rozwój ten oraz zmiany zachodzące w otoczeniu społeczno-gospodarczym powodują ciągłe zwiększenie skali oferowanych dóbr publicznych. Dlatego też niezbędne wydaje się, aby finanse samorządowe, a w szczególności możliwości finansowania stale rosnących potrzeb i oczekiwań społeczeństwa lokalnego ulegały ciągłej poprawie i dostosowywaniu się do otoczenia. Głównym założeniem artykułu było ukazanie obecnych oraz nowych możliwości w organizacji i realizacji zadań jednostek samorządu terytorialnego poprzez wprowadzenie budżetu partycypacyjnego w Polsce.

Słowa kluczowe: gmina, mieszkańcy, budżet, partycypacja, wydatki

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