

THE ROLE OF THE BUDGET IN THE MANAGEMENT OF LOCAL GOVERNMENT UNITS IN POLAND

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Abstract: Local government is distinguished in the structure of the Polish state as a union of a territorial community, which has the right to independently exercise public administration, and supervision and control over it are allowed within the limits provided for by law. The article aims to define the role played by the budget in the management of local government units in Poland. It has been characterized by what a budget is and what features it consists of. It also outlines the functions and principles that the budget must fulfil to create and implement it correctly.

Keywords: budget, management, local government, Poland

ROLA BUDŻETU W ZARZĄDZANIU JEDNOSTKAMI SAMORZĄDU TERYTORIALNEGO W POLSCE

Streszczenie: Samorząd terytorialny wyróżnia się w strukturze państwa jako związek wspólnoty terytorialnej, który ma prawo do samodzielnego sprawowania administracji publicznej, a nadzór i kontrola nad nią są dozwolone w granicach przewidzianych prawem. Celem artykułu jest określenie roli, jaką pełni budżet w zarządzaniu jednostkami samorządu terytorialnego w Polsce. Scharakteryzowane zostało to czym jest budżet i z jakich cech się składa. Nakreślono również funkcje i zasady jakie budżet musi spełniać, w celu jego poprawnego stworzenia i wykonania.

Słowa kluczowe: budżet, zarządzanie, samorząd, Polska

1. Introduction

Local government is the basis of the democratic system of the state. Its main purpose is to manage local issues. Local government is a community of inhabitants of a given region of the country, which is the same concerning the goals, they are guided by a common awareness and a common fate. Local governments cannot have sovereign tasks, i.e., they are to perform only public tasks, which are listed in the provisions of the constitution and law. This makes the local government bring citizens closer to the state (Pyndt, 1990). This means that the local government should allow the local community to participate directly and indirectly in the exercise of power. This leads to the fact that the government meets the current needs of residents and creates conditions for the development of society in terms of culture, economy, and generally understood social development. The purpose of the creation of local government can be mentioned the reasons that decided to decentralize public administration (Kotulski, 2000)

The first goal was to increase motivation among employees because independent decision-making by employees with appropriate competences makes work more effective, i.e., it gains in its quality.

The second goal was to increase the influence of residents on the decisions of the authorities, here you can find fact that if society feels that it has its contribution to something, it will be more responsible, which will make it less inclined to rebel by imposing all kinds of matters from above because the community has partial power.

The third goal was the need for better use of public funds, local governments influenced their residents to more rationally manage the property and funds of the municipality.

The article aims to define the role played by the budget in the management of local government units in Poland. It has been characterized by what a budget is and what features it consists of. It also outlines the functions and principles that the budget must fulfil to create and implement it correctly. The article also contains a description of the formation of the budget, revenue, and budget expenditure.

2. The concept and features of the budget

The essence of budgeting is the allocation of scarce resources, which is an obstacle in choosing between the potential directions of expenditure. Therefore, the creation of the budget is based on the choices that must be made between the feasible expenditure in terms of financial resources. The difficulties that occur consist primarily in the fact that they usually do not concern two equal and rationally justified needs. (Marshall, 1974). Therefore, in the

budgeting process, it is possible to limit the options for the elections that occur by considering grouped cases of a similar nature. It is also important to accurately and reliably determine the needs and benefits that will occur after the implementation and to determine who received the benefits last time and who is the next turn to receive them. It is also necessary to consider what consequences may cause failure to complete one of the tasks. Therefore, when making budgetary decisions, it is important to draw up a list of the priorities that the authorities intend to implement in a given financial year (Rubin, 1997).

The budget is seen as:

- Financial plan – by determining planned income and expenses as well as revenues and expenditures;
- Public fund – decentralised public funds;
- Legal act – it is adopted by the body constituting a local government unit in the form of a budget resolution;
- Instrument of strategy development of a local government unit;
- Instrument of the financial policy of the local government unit;
- Instrument of financial management of a local government unit.

The budget of a local government unit is a financial plan set for the year, including revenues, expenses and revenues and expenditures, which have been indicated by the legislator. On the other hand, a budget resolution is a legal act that is adopted by a body of a local government unit, which includes a budget. The budget is therefore one of the elements of the budget resolution, therefore this resolution must be recognized as a budget resolution (Jastrzębska, 2012).

The features that characterize the budget of a local government unit are that (Owsiak, 2005):

1. It is a cash fund that is collected and shared by a local government unit in connection with the implementation of tasks assigned to it;
2. It is a compulsory collection of budgetary resources;
3. Revenue and expenditure are subject to constitutional and constitutional principles, which also determine the powers of the decision-making and executive body in a local government unit;
4. The collection and spending of funds is of an economic and social nature;
5. Budget revenues are generated through a non-refundable takeover by local government authorities from entities;
6. The budget of a local government unit is a plan of revenues and expenses as well as revenues and expenditures of a local government unit set for a predetermined period;
7. The budget of a local government unit is streamed and is obliged to collect revenues and implement budget expenditures on time;

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8. The budget of a local government unit, following the legal regulations in force in Poland, is based on a budgetary classification, where revenues are presented by sources and expenses by tasks (which local government units perform) and type of expenses;
9. The activity of a local government unit is reflected not only in the budget, so it cannot be the only determinant of the assessment of the financial prowess of a local government unit.

3. Budget as a financial plan for local government activities

Local authorities (Bell, 1993), work under the applicable provisions of law, therefore they must pay attention to questions such as the extent of the responsibilities of officials in relation to the budget and what actions should be taken to adopt the budget, what should be the details of the budget setting, how to make changes to the designated budget and how to behave concerning the budget deficit. The constituent bodies of local government units can lay down the rules of the budgetary procedure, that is, they can determine: the responsibilities of entities in relation to the budget, what are the legal actions necessary to adopt the budget, the rules for making changes to the budget during the financial year and the rules for financing the budget deficit. These issues constitute the legal prerequisites for the existence of the budget of a local government unit (Jastrzębska, 2012).

Budgetary control, therefore, prevents public funds from being misused, thereby ensuring that these funds are used for the purposes pursued. These issues constitute the economic prerequisites for the existence of a budget of a local government unit (Kornberger-Sokołowska, 2012).

The budget of a local government unit is also a source of management data, which is necessary to manage the activities of a local government unit to the most effective extent possible because it determines how financial resources should be used to perform the assigned tasks. Furthermore, the budget of the local government unit helps to determine future demands for services. Therefore, entities implementing the budget must carefully and carefully manage money and other resources at their disposal (staff, assets, information). These issues constitute the administrative prerequisites for the existence of the budget of a local government unit.

The budget of a local government unit is also political in nature and is an instrument for implementing the policy of a local government unit. The budget takes into account the financial consequences of each decision taken and is a means that makes it possible to account for the authorities' activities and is a means of connecting the community with the local government. From the perspective of managers and members of the community, which wants

to have a real impact on the policy of a local government unit, the budget is an important tool to help in planning and control, because it allows influencing how public funds are managed by determining what is a priority and how to implement this task. These features constitute the political prerequisites for the existence of a local government unit (Jastrzębska, 2012).

4. Budgetary functions and rules

The budget, at its core, is a carrier of goals and a planning tool, as it aggregates the results of the planning and goal-setting process (Jarosz, 2021). The budgetary management of a local government unit should be carried out in accordance with the budgetary principles that are defined (Jaworski, 2000). Budgetary principles can also be divided into two groups, that is rules that concern the content and essence of the budget and rules that concern the structure of the budget and its features. (Głuchowski, 1995). In addition to the listed budget rules, they can also be divided into static and dynamic. These principles are reflected in the regulations of the Public Finance Act and partly in the Act on Municipal, District, and Provincial Self-Government in the field of financial management. The basic principles include the principles of unity, universality, detail, annual preparation, balance, transparency, and economic use of budgetary resources (Gajl, 1993).

The principle of unity postulates how to capture public revenues held by central and local government bodies utilizing a single legal act, i.e., respectively:

- In the state budget – the budget law;
- In the budget of a local government unit – a budget resolution.

The principle of the material unity of the budget, on the other hand, is intended to prohibit the allocation of public funds to finance expenditure mentioned by name. This means that budget revenue should be the only monetary resource from which all expenditure is financed.

The principle of universality, otherwise known as the principle of completeness, in the original sense, stipulated that all existing revenue and expenditure of the State should be included in the budget, which was to enable full control over the calculation and collation of anticipated expenditure and revenue by the decision-making body. At a time when the tasks of the state and diversity in the field of the economy were expanding, the principle of universality (gross) could no longer be applied. Therefore, to improve administration, a deviation from this principle was introduced, this deviation was called the net budgeting principle or a combination of gross and net (Majchrzycka-Guzowska, 1992).

The principle of detail, otherwise known as the principle of specialization, refers to the construction of the budget. It says that the budget should be created and implemented by revenue and expenditure and not in general terms (Jastrzębska, 2012). This rule also says that the budget should be arranged in such a way that it is transparent and legible. The budget

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should be such that the body is able during the debate to know and decide on the direction and level of revenue received.

The principle of annual preparation says that the budget should be drawn up for one year. Annual planning is subordinated to the priorities of multiannual planning. Therefore, it often exceeds the one-year deadline, since it is not possible to stick to this period. The budget should be adopted before the beginning of the financial year and expenditure should expire at the end of the year for which it was adopted.

The principle of balance states that budget revenues and expenditures should be balanced. In Poland, in public finance law, this balance is perceived in the second approach, i.e., balancing income and expenditure by indicating sources of revenue that cover the surplus of planned expenses over planned revenues. The condition to be met in this principle is the timeliness of the implementation of planned tasks by the units performing the budget¹.

The principle of transparency is expressed in the obligation to inform the community about the assumptions presented in the budget, about the directions of social or economic policy, and about how public funds are used. This principle is implemented at the level of a local government unit through the openness of debates, reports on the executed budget, the project from the multiannual financial forecast. This obligation is also incumbent on the executive body, which is to provide half-yearly information on the level of implementation of the budget by the end of the month following the end of the quarter.

The principle of the economic use of funds is of particular importance for the performance of public tasks. The budget of local government units is a financial plan, therefore budget funds should be fully used in a correct, purposeful and economical way, and all this is in accordance with the regulations. Savings may be used to co-finance tasks that did not have sufficient resources.

All these principles form the budgetary system of a local government unit, which is a set of standards and procedures defining competences, organizational forms of budgetary and extra-budgetary management, rules for collecting/spending funds, accounting and budget reporting, and budgetary procedures.

In addition to the rules that appear in the budget, attention should also be paid to the functions of the budget. Such functions include (Jastrzębska, 2012):

1. System function. The budget of a local government unit presents the adopted division of tasks and competences, spread over different levels of public authority in a given country;
2. Democratic function. The budget of a local government unit connects the authorities with the community, especially during budget planning and implementation;
3. Legal function. The budget of a local government unit is a document in the form of legal acts, which is used to achieve specific policy objectives;

¹ Regulation of the Council of Ministers of 23 December 2016 on the list of public funds not included in the funds referred to in Article 5(3)(5c) and (6) of the Public Finance Act (Journal of Laws of 2021, No. 43).

4. Location function. The budget of a local government unit is designed to allocate resources, which are then made available to the community;
5. Redistributive function. The budget of a local government unit is designed to regulate changes in the level and structure of revenues;
6. Stimulation function. The budget of a local government unit, by obtaining revenues and distributing them, affects the pace and direction of development of the local government community;
7. Planning function. The budget of the local government unit helps to plan the demand for future municipal services and allows for the appropriate targeting of policies to enable the tasks to be properly carried out;
8. Optimization function. The budget of a local government unit is designed to properly use the financial resources held by local government units;
9. Control function. The budget of a local government unit allows to account for the activities of local government authorities;
10. Promotion function. The budget of the local government unit supports the local government in the implementation of the policy. The information contained in the budget is vetting on the development and policy of the local government unit.

In order for the budget to be properly constructed and then implemented by the local government unit, it is necessary that the bodies that determine the size and scope of the budget follow the above-mentioned principles in order to fully fulfil the functions that the budget is to perform.

5. Budget revenue and expenditure and budgeting procedure

The local government performs a variety of tasks in terms of the degree of duties and competences. For this reason, the income system of local government units must be adapted to the tasks of those units within the scope of the powers of the authorities to shape these revenues. Mutual adaptation of solutions to the system of income and expenditure allows for full and effective implementation of tasks entrusted to the local government and better satisfaction of the needs of the local community. The correct distribution of revenues between the different levels of the public financial system is of the utmost importance for smooth functioning and should affect the efficiency of the management of assets of public origin. Sources of income and the structure of income are important for the administration and economic policy. The fact that local authorities have their revenues, established and clearly defined in terms of collection criteria, increases the degree of autonomy of local authorities. The degree of difficulty in achieving this income is also important. On the other hand, a significant part of the income from grants and subsidies is largely based on the discretionary

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nature of their distribution, limiting the economic independence of local government units. In addition, the problem of the distribution of revenues as a result of the adoption of a specific concept of the state system is crucial for balancing the budgets of local government units (Patrzalek, 2010).

Expenditure is public funds transferred by the relevant local government units for the implementation of tasks assigned to them. These tasks include meeting the needs of the community in the field of public utility. The expenditure of local government units can be classified according to several criteria: the legal nature of the tasks of local government units, the directions of budget distribution, the type and economic nature of the transaction, the impact on the local economy, the entity making the expenditure and the issues of financial independence of the expenditure of local government units. The basic criterion for the distribution of expenditure of local government units is the legal nature of the tasks of local government. The tasks of local government units are generally defined goals and directions of activities of local government units, mainly concerning the scope of material and subject activities of local government units. Local government units incur expenditure on specific tasks, and this task should be defined locally, as the responsibility of specific public authority. According to this criterion, municipalities, counties, and voivodeships perform the tasks entrusted to them on their account (Miemiec 2004).

The process of creating a budget since it is repetitive at certain intervals can be called the term "budget cycle". Between the participants, during the creation of the budget, there are multifaceted impacts, which are determined by the structure of the organization of the local government unit and the budget procedure.

The budgetary procedure is a principle of how a state or local government body is to act when implementing the budget and when controlling its implementation (Roškowski, 2000). This principle regulates how the entity acts, within what deadlines it performs certain activities, what is the scope and nature of the materials provided. All this is important for the proper functioning of the budgetary economy. Compliance with these rules or not affects the substantive shape of the budget of a local government unit. In addition, the rules of the budgetary procedure and how they are implemented determine the relations between state bodies and local government.

Local government budgets are prepared by the local government authorities themselves; the central authority only performs a supervisory and information function. The independence of the local government in the field of work on the budget has improved the process of its creation, however, it has increased the responsibility of local government units' bodies for the correct creation of the budget and how public funds are managed.

The course of the budget procedure is influenced by internal and external conditions, which cause that the schedule of work on the draft resolution is varied in individual local government units, they also affect the layout and content of the budget. The internal conditioning of the budgetary procedure is the size of the local government unit, what forms

of dialogue between the authorities and residents of the local government unit have been developed, what is the territorial identity of the inhabitants, what are the historical conditions, what is the activity and what are the qualifications of administrative employees, what is the level of involvement of councillors in the process of solving community problems, what is the level of economic development at the given area and what are the forms of organizational units and whether changes are being designed (privatization). On the other hand, external conditions include the formal and legal framework for the construction of the budget resolution, the existing limitations in the scope of accurate determination of the level of income, what is the impact of the price level of goods and services, what is the average salary and pension and social benefits, what are the changes in the public debt management strategy, what are the changes in the municipal economy and what are the unpredictable factors (Patrzalek, 2010).

The budget planning of a local government unit cannot be carried out in an arbitrary manner. The implementation of tasks must be carried out in a manner already planned in advance and regulated by the relevant legal provisions. The draft resolution is prepared by the executive body of the local government unit and is forwarded by 15 November of the year before the financial year to the decision-making body. Within 7 days from the date on which the draft budget resolution was submitted, the executive body shall provide the subordinate units with the information necessary to prepare the drafts. These units shall draw up draft financial plans within 30 days and no later than 22 December.

The budget of a local government unit should be built on certain political, economic, financial, demographic, and social assumptions and local realities. Therefore, residents should be interested in the activities of local government bodies to receive social participation during the implementation of the budget. To achieve this, you must first make the document more readable. Residents have the right to participate in budget decisions. It should therefore be possible for citizens or groups of citizens to inform the decision-making body of matters of concern to them.

In the process of drawing up the budget of local government units for the next financial year, it is important to determine what are the sources of income. Therefore, it is necessary to decide which sources of income are available to a given local government unit and which are used. It is also necessary to provide a basis for estimating income and to specify the expected income from specific sources. The ability of local government units to estimate future revenues depends on the structure and financial situation of local authorities and their inhabitants, as well as units conducting business activity in their area. The choice of sources of budget revenue should be determined by the following factors: efficiency, flexibility, neutrality and administrative feasibility. Sources of revenue for the municipality's budget, which are directly related to the provision of services, allow the application of the principle that local public goods are, as far as possible, financed by the persons using them (local taxes, wealth and financial income). In order to understand the structure of local government

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revenues and the factors influencing the increase or decrease of this level, local authorities need to know the conditions for the most important sources of income. Only in the income budget, the starting point is the estimated income, so the expenditure is determined by income. The classification of the income budget and the cost-effective method of its creation is the greater the influence of local authorities on revenues.

The next step in budget planning is to balance the budget. Demand for ancillary services often exceeds the capacity of existing sources of financing. Therefore, a budget review is necessary to balance the budgetary needs of the different headings with the expected revenues. The Public Finance Act creates the possibility of planning the difference between budget revenue and expenditure, which is a budget surplus or deficit, respectively. The local government unit was forced to balance the budget by indicating the sources of covering the shortage. Therefore, in the draft budget of local government units, the size of the budget deficit and the source of coverage should be determined, and in the case of a budget surplus, indicate the directions of its distribution (Jastrzębska, 2012).

6. Summary

A budget is an annual plan of income and expenditure and revenues and expenditures of a given local government unit. It takes the form of a normative act (i.e., it is a resolution), adopted by a local government authority for a financial year, this period is a calendar year. The budget is the basis of any financial management of a local government unit. A given entity pursues the statutory objectives of its operation based on its provisions. Proper preparation of the budget – taking into account the social and economic needs of the municipality – is the primary duty of the representative of the local government unit. The Public Finance Act contains the principles and deadlines for the preparation and adoption of the budget, as well as its detail and necessary elements. However, regardless of the requirements of the Act, the preparation of the budget should additionally take into account the principles of planning and management. In the light of the challenges faced by local government units, behaviour against the background of a purely administrative model of financial management is insufficient. Therefore, an appropriate analysis of the financial capabilities of a given entity provides the basis for determining the directions of development and strategy of this entity's activities both from the budget perspective and beyond.

It should also be remembered that in the event that the budget is not adopted promptly, the local government administration body will lose the right to collect revenues and incur expenses. If it is not possible to adopt a budget, a solution may be used, which is the prorogation of the budget.

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