Strengthening fiscal capacities for subnational public investment. The case of Poland

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Subnational government in Poland

Commune
County
(and county-level communes)
Region
Private and public investment expenditure in the Polish regions

Source: Ministry of Finance and Development
Key characteristics of the policy and financial framework for subnational public investment

- Extensive strategic autonomy of subnational governments in design and implementation of investment policies – strong foundations of local and regional autonomy established by the reforms of 90s;

- Detailed legal and institutional framework established in the context of the EU integration:
  - Steering and supervisory role of the central government
  - Regional government as a key actor of regional development policies
  - Quasi-contractual relations between central and regional government (territorial contracts)

- Limited fiscal autonomy of subnational governments – fiscal decentralization as unfinished business
Policy architecture for subnational public investment

- National Strategy for Regional Development
- Territorial contracts
- Regional development strategies (+ operational programmes) + local development strategies (+ multi-annual financial plans)
- Central government
- Central and regional government
- Regional government and local government
Policy instruments: regional level

**Territorial contract**
Agreement concluded by central government and every regional government specifying long-term objectives and priorities for investments co-financed from the EU funds, state budget and budgets of the regions. Territorial contract contains also a catalogue of priority investments for each region.

**Regional development strategies**
*(accompanied by operational programmes)*
Strategic documents adopted by the regional council, specifying long-term objectives for regional development, priority projects and financial allocations.
Policy instruments: local level

**Local development strategies**
Long-term planning documents specifying key local challenges and development priorities, including priority areas for public investments. Adoption of strategies is not mandatory, but vast majority of communes and counties have adopted them while preparing for absorption of the EU funds.

**Multi-annual financial plans**
Mandatory plan for a budgetary year + 3 years adopted by the local and regional governments, specifying i.a. planned revenue and expenditure (including investment expenditure) and authorizing executive bodies to incur long-term liabilities.
Fiscal capacities of subnational governments. Major sources of revenue

- **Own revenue**
  - share of PIT and CIT;
  - local taxes (real estate tax, forest tax, agricultural tax) and fees (e.g. parking fee);
  - revenue from economic activities;
  - property income

- **Block Grant**
  - school grant - covering the local expenditure on education
  - compensatory grant (co-funding welfare services and reducing the regional/local inequalities)

- **Earmarked Grants**
  - grants for tasks assigned by the central government
  - grants for the projects co-financed from the EU funds
  - grants for the tasks performed upon agreement with the government
Fiscal capacities of subnational governments. Budgetary sources of revenue (aggregated for all levels)

OWN REVENUE

BLOCK GRANT

EARMARKED GRANTS

Source: National Statistical Office
Fiscal capacities of subnational governments. Major sources of revenue (regional and local governments, 2015)

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<td><strong>Regions</strong></td>
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<td>Earmarked Grants</td>
<td>18.7</td>
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Source: National Statistical Office
Role of innovative methods of generating funds for investment. Local fees

- **Traditional local fees/taxes:**
  - Real estate tax
  - Transportation tax
  - Visitors’ fee
  - Pets’ fee
  - Parking fee

- **New local fees/taxes:**
  - Waste collection fee (2013)
  - “Billboard” tax (2016)

- **Major obstacles:**
  - Lack of autonomy in setting new fees/taxes (exclusive competence of national authorities)
  - Unrealistic statutory limits of fees/taxes (lack of adequate adjustments)
  - Anachronistic model of real estate tax – not based on market value of property
Role of innovative methods of generating funds for investment. Public—private partnerships

- **Key features of the Polish PPP market**
  - Concession as a major form of PPPs (special law on concessions for public works and public services)
  - PPPs with regional governments - around 15 projects, main focus: broadband networks, touristic infrastructure, healthcare
  - PPPs with local governments - around 100 projects, main focus: waste management, parkings, public transport, healthcare, thermal renovation projects

- **Major obstacles:**
  - EU funds undermining attractiveness of PPPs
  - Lack of analytical capacities / adequate support from central government
  - High level of political/legal risks
Investment expenditure of subnational governments (2015), bln PLN

Source: National Statistical Office
Investment expenditure of regional governments

Source: National Statistical Office
Investment expenditure of local governments (2015)

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<td>14.4%</td>
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<td>Current expenditure</td>
<td>40.5%</td>
<td>53.0%</td>
<td>50.9%</td>
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<td>Salaries</td>
<td>44.9%</td>
<td>28.5%</td>
<td>32.2%</td>
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Source: National Statistical Office
Local and regional government debt indicator

Number of local/regional government units

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<td>0-10</td>
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<td>60&lt;</td>
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Source: National Statistical Office
Financial stability of regional governments. Regional government debt (% of the total revenue)

Source: National Statistical Office
Financial stability of subnational governments. Key fiscal rules

- Mandatory multi-annual financial planning (3 years-perspective)
- Individual limit of total liabilities calculated on the basis of the values of the following variables from past three years: revenues, expenditure and repayments
- Local or regional government cannot adopt a budget in which planned current expenditures are higher than planned current revenues increased by budget surplus from previous years and "free funds"
- Financial supervision of the regional accounting chambers
### Fiscal capacities of subnational governments. Major strengths and weaknesses

#### STRENGTHS
- Extensive strategic and operational autonomy in design and implementation of regional development policies
- Well-established policy and institutional framework
- Strong fiscal rules safeguarding financial stability of local and regional governments

#### WEAKENESSES
- Limited fiscal decentralization – narrow autonomy of regional and local government with regard to income generation
- Lack of clear perspective for financing investments after the 2014-2020 EU Financial Framework
- Limited use of private capital for public investment (marginal role of PPPs)
- Recentralization tendencies
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