

**PRACE NAUKOWE**

Uniwersytetu Ekonomicznego we Wrocławiu

**RESEARCH PAPERS**

of Wrocław University of Economics

**271**

# Zarządzanie finansami firm – teoria i praktyka

Tom 2



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Wydawnictwo Uniwersytetu Ekonomicznego we Wrocławiu  
Wrocław 2012

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Projekt okładki: Beata Dębska

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Wrocław 2012

**ISSN 1899-3192**

**ISBN 978-83-7695-219-2 (całość)**

**ISBN 978-83-7695-227-7 t. 2**

Wersja pierwotna: publikacja drukowana

Druk: Drukarnia TOTEM

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## PROPERTY REVENUES (PRs) AND EXPENDITURES OF LOCAL GOVERNMENT UNITS (LGUs) IN POLAND

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**Summary:** PRs are a new category of local government revenues, which was introduced by changing the law on public finances at the end of 2006 and which took effect in 2007. By principle, these revenues should be converted into property expenditures. Their formalisation did not only allow assessing their absolute size but also a comparison with the longer existing property expenditures. Both categories were the subject of analysis in this article. The theoretical part analysed the PRs in terms of their ownership and location in the structure of total revenues; compared them with other property related incomes; as well as characterised revenue expenditures. The empirical part examined the absolute size of both categories, their relationship to various elements of LGUs, as well as the share of property related revenues and expenditures in relation to total income and expenditures.

**Keywords:** property revenues, property expenditures, local government finances.

### 1. Introduction

The last twenty years of existence of local governments in Poland has been the time in which their existence and concept was subject to multiple, more or less significant, modifications. The consequence of systemic changes, which resulted from the changing way the local government has been regarded over time, brought decisions interfering into the local government finances. There has been more such changes than those of political character, mainly because local governments make up the public finance sector, and are also partly beneficiary of changes within the very functioning of the system.

The internal conditions of changes in legislation coincided in addition with external factors, mainly the geopolitical reorientation of Poland. Not only was the legislation on budget revenues modified, but also legislation specifying the manner of budgetary and fiscal management. The latter issues are regulated by the Public Finance Act. One of many changes that this act introduced was a directive on clear presentation of PRs and other income assets.

The main objective of this paper is to introduce and discuss the legislation on PRs and their categories and existence as mandatory items in the budget resolutions



at the local government level. Since such categories and solutions are relatively recent, the number of publications, especially empirical, on these issues is also relatively small. The aim of this study is therefore to analyse the categories of PRs from the theoretical and empirical perspective and to introduce components and features differing from common to other categories of income. Its aim is also to show their background in relation to other categorisations of local government revenues and to examine their dependent and independent elements, in particular, again, in relation to other categories of revenue from, and expenses on, property to which they are related and compared.

Time scale of the study encompasses the years 2007-2010 and is limited on the one hand by the availability of data and on the other by the time of introduction of new categories of PRs to law and to statistics. The study includes all government units of the country, i.e. regional and local: communes and counties (non-urban *powiaty*).

## 2. Classification of revenues of LGUs and their criteria of division

PRs are one of the categories of revenues of LGUs. Due to a wide variety of different elements of revenues they can be classified in a number of ways emphasising different features. Table 1 presents the most common classification of revenues along with a brief description (there are exceptions in some categorisations).

With the help of the categorisations visible in Table 1, it can be seen that the distinction between current and revenue-based incomes is not the only way of classifying the LGUs' finances.

Generally, such features can also be distinguished: first as legislative legalisation – it is a recent mechanism introduced into the Polish legislation in 2007, and second, as obligatorily transparent. The article 165a of the Public Finance Act, which was added into the legislation in 2006 [Ustawa z 8 grudnia 2006...], was supplemented with a provision in the section devoted to the budget of local authorities saying that the revenues must be presented in a way to split between current and property-based. In addition, a strict calculation is expected as to what makes part of these. Among many items associated with the assets of LGUs as PRs only three were distinguished [Ustawa z 30 czerwca 2005...]:

**Table 1.** Most common classifications of LGUs' revenues

Classification criteria	Categories and their elements	Examples
Source and transfer	own – transferred in total and permanently	own incomes <i>sensu stricto</i> , e.g. market fees, property tax, betterment levy
	external – other	subsidies, e.g. regional, balancing, grants, governmental administration tasks



Manner of obtainment	payable – obtainment is related to service provided by a LGU	fees e.g. parking on a public road, stamp duties
	free of charge – service not provided	taxes, e.g. rural, civil-law-based, inheritance, donations
Obligatory transfers	mandatory – compulsory transfer	taxes, fees, fines
	voluntary – non-compulsory transfer	inheritance, legacies, donations
Significance	essential – in terms of volume they are essential for the budget	income tax from legal personalities (voivodships), physical (communes, counties), educational subsidies
	sidewise – relatively small amount of revenues for the budget	products' fees, cemetery services, agricultural tax in communes, interests
Decentralisation level/ scope	decentralised as to expenditures and revenues	own revenues <i>sensu stricto</i> , such as vehicle tax, "spa" fees
	decentralised as to expenditures, centralised as to revenues	general subsidies, tax interest from the state budget
	centralised as to revenues and expenditures	grants, e.g. for tasks arising from international agreements
Character	tax – levied as taxes	local taxes, e.g. property tax, shares in CIT-, PIT-tax, other local taxes, such as forestry tax
	non-tax – other	general subsidies, grants, revenues from property
Aims/ objectives	property related – funding long-term tasks	resources for investment, from sales of assets, from transformation of permanent usage right into ownership
	current – for current operations	Other

Source: A. Sekuła, *Kształtowanie się dochodów majątkowych jednostek samorządu terytorialnego w latach 2007–2008*, [in:] *Gospodarka lokalna w teorii i praktyce*, ed. R. Brol, Uniwersytet Ekonomiczny, Wrocław 2010, p. 250.

- grants and other funds received for investments,
  - revenues from the sales of property,
  - revenues resulting from the conversion of perpetual usage right into ownership.
- The current revenues are those which do not belong to just one category of revenues mentioned above.

### 3. Property revenues (PRs) versus other revenues based on property

Before the sum of PRs and their share in total revenues are analysed, one has to consider isolating and separating such a category of income, just in addition to the already existing need to present incomes by source and budget classifications. The existence of only three types of PRs, and especially the first one, the funds received for investment, suggests an attempt to modify the presentation of the budget of LGUs



regarding specific tasks' budgeting. As noted by L. Patrzalek, the separation of current and PRs was due to the necessity and the need to separate the operating and the capital budget [Patrzalek 2010, p. 139]. It is also a way to show a closer relation between property expenditures and PRs. The separate presentation of the current and capital financing is also desirable from the standpoint of organising the financial activities of LGUs. PRs are a source of financing investment projects. "Capital expenditure can be carried out only if PRs are obtained. When PRs are lacking, capital expenditure (investment) should not be implemented. This solution serves to prevent financing of investments without resources for them" [Borodo 2011, p. 39].

The solution in its current form shows no continuity as regards its earlier interpretation. This is highlighted by E. Ruśkowski and J. Salachna who argue that the classification in its current form is not related to PRs conceptualisation based on the possession of property ownership and property rights [Ruśkowski, Salachna 2008, p. 152]. And property rights relate among others to the possibility of obtaining revenue from management of existing properties. Their financial manifestations are for instance revenues from renting and leasing assets or fees coming from management or use of a given property. These incomes are certainly related to the assets of LGUs. However, the income assets are not included, although they may make up a fairly significant amount in some of the LGUs' budgets. We mainly divide them to material and financial assets [Kotlińska 2009, p. 90].

Another feature of revenues based on property is a relatively high predictability and stability, an element that from the perspective of planning and investment should be considered as an advantage. From the standpoint of classification introduced by T. Lubińska [Lubińska, Franek, Będzieszak 2007, p. 78-79] they rather belong to the group of stable current incomes from property. Statutory income category of property shows characteristics of the second group, called irregular property incomes. They are rather incidental, though situations may arise in which they contribute to the local government budgets for several years. Their role is to finance the tasks carried out over a longer period of time than one year, the results of which may also be beneficial in the long run. Thus from the point of view of revenue stability for a budget, PRs are a category of irregular property income. However, although the lack of such stability in the long run is a feature of all three types of property incomes listed in the legislative acts, funding of long-term tasks does not need to be seen in that way. While specific grants of funds link the resources and the purpose of a task for which they are provided and may be used, it is not the case about revenues coming from sales of assets.

E. Ruśkowski and J. Salachna suggest to call the PRs defined in the legislation as PRs in the strict sense, in contrast to a situation of the analysis of the revenues from the standpoint of own property, which they call PRs in the broad sense [Ruśkowski, Salachna 2008, p. 152]. Under this scheme, the subject of this article analyses the PRs in the strict sense.



#### 4. Property expenditures

Analogously to the revenues, an article from within the same legislation text stipulates that expenditures should be divided into the current and property-based. Although the article itself was incorporated into law in late 2006, the concept of property expenditures had already existed since the first enactment. It was a definition of property expenditure presented in the section on the state budget as well as an instruction to divide the budget into current expenses and property-based expenditures.

The division of expenditures into current and property-based mirrors the current, medium and long term objectives adopted by LGUs. It also plays an important role in the determination of operating results. The form of operating budget allows for separation and presentation of financing the current expenditures (operational) and the property-based ones. It also allows verifying if the current expenses are covered by current revenues. This leads to greater transparency of the budget, financial management and finance rationalisation which is a prerequisite for assessing how the financial situation is from the perspective of financial commitments [Patrzalek 2010, p. 244, 248].

**Table 2.** Definition of property expenditures in the public finance legislation

Legislation of public finances – year 2005 (state budget)	Legislation of public finances – amendments from the year 2006 (budgets of LGUs)
Categories of property expenditures	
<ul style="list-style-type: none"> <li>– purchase and acquisition of shares and making contributions to commercial companies</li> <li>– investment expenditures of state budget units and grants for financing or subsidising for investments made by other units.</li> </ul>	<ul style="list-style-type: none"> <li>– purchase and acquisition of shares</li> <li>– making contributions to commercial companies</li> <li>– investment and investment purchases.</li> </ul>

Source: compiled by the author based on government legislation Ustawa z 30 czerwca 2005 r. o finansach publicznych, DzU 2005, nr 249, poz. 2104, z późn. zm., art. 106 and 165a.

Table 2 presents a definition of property expenditures. Amendments to the law did not change much in terms of interpretation of property expenditures. Only the explicit reference to the state budget was removed. Just the idea of spending, thus investments and investing, remained unchanged. For this reason, and because of the importance of these expenses as a tool to keep and enlarge the assets of LGUs, as an example of “non-overfeeding” investments as financial means as well as the forward-looking approach to management of LGUs, property expenditures became the subject of many studies and analyses (e.g. [Bury 2007, p. 134-142]).



## 5. Property revenues (PRs) in LGUs budgets

Tables 3-5 present PRs in relation to total income, to property expenditures as well as the latter in relation to total expenditures. It can be noticed that PRs are smaller than the property expenditures in any combination: both in absolute terms (Table 5) and in terms of percentage points in relation to revenues (Table 3) and expenditures (Table 4). This regularity is noticeable in all analysed years. This means that in the current situation PRs are not able to meet the investment needs of Polish local governments. The difference can be covered by the current incomes and other revenues. As for the share of PRs in total incomes, it grew steadily over the last four years. Initially, it reached a single-digit value and ranged from 8 to 9% of the local government subsector, later, however, with the exception of rural communities, it exceeded 10% threshold, and in the case of voivodeships it even reached 36.5% in 2009. It should be noted that the municipalities generate nearly 80% of the revenues of the local government subsector, hence the higher shares of the voivodeships, i.e. more than 10% already in the first year analysed. However, it still does not change the overall statistics.

**Table 3.** Total and property related revenues in local government subsector in years 2007-2010

Revenues type	Year	Communes, type	Urban*	Urban-rural	Rural	Counties (non-urban powiats)	Voivodeships	Local government subsector
Property revenues [in mln zł]	2007	8 827.4	5 772.9	1 399.0	1 654.6	1 216.6	1 566.6	11 610.6
	2008	8 393.3	5 423.5	1 475.0	1 494.8	1 554.3	1 634.2	11 581.8
	2009	8 924.4	5 391.2	1 658.4	1 874.8	2 121.0	7 135.1	18 180.5
	2010	13 417.0	7 677.4	2 623.7	3 115.9	3 090.7	3 488.2	19 995.9
Total revenues [in mln zł]	2007	103 876.6	60 492.9	18 746.4	24 637.3	16 154.8	11 348.9	131 380.2
	2008	111 761.6	64 116.2	20 609.6	27 035.9	18 147.2	12 660.2	143 569.0
	2009	115 209.7	65 185.6	21 547.5	28 476.6	20 084.5	19 548.3	154 842.5
	2010	126 196.1	70 393.6	23 937.2	31 865.3	22 496.5	14 104.0	162 796.6
Income share in total assets [in %]	2007	8.5	9.5	7.5	6.7	7.5	13.8	8.8
	2008	7.5	8.5	7.2	5.5	8.6	12.9	8.1
	2009	7.7	8.3	7.7	6.6	10.6	36.5	11.7
	2010	10.6	10.9	11.0	9.8	13.7	24.7	12.3

\* including cities with county rights.

Source: compiled by the author based on Bank Danych Lokalnych, [http://www.stat.gov.pl/bdl/app/strona.html?p\\_name=indeks](http://www.stat.gov.pl/bdl/app/strona.html?p_name=indeks), 26.02.2012.



## 6. Property expenditures in LGUs budgets

A similar observation, as for revenues, can be done for expenditures. Table 4 shows that the voivodeships make up the largest share of property expenditures in relation to total expenditures – they exceeded in each year 35% and in 2009 amounted to nearly half of total property expenditures. However, the average for the local government subsector is about 15 percentage points lower and amounts to about 21-25%, mainly due to the large impact of the communal subsector on the overall statistics. While analysing the table, one can notice the alarmingly low value which was first reached by counties, i.e. 13-14%. Only in 2009 the shares of local government reached a relatively comparative level. The data should be regarded as further evidence that the current legal-financial system of LGUs was designed in such a way as to only allow the county authorities to administer the property items. They lacked instruments, funds, and even adequate institutions [Sekuła 2009a, p. 400-409] to manage the territory for which they are responsible. In addition, some financial structures [Sekula 2009b, p. 107-115] did not encourage county authorities to act in favour of a given item/property area. It would require further examination to establish whether this tendency (from 2009) with increased investment activities in counties will become a sustained trend.

**Table 4.** Total and property expenditures in local government subsector in years 2007-2010

Expenditure type	Year	Communes, type	Urban*	Urban-rural	Rural	Counties (non-urban poviats)	Voivodeships	Local government subsector
Property expenditures [in mln zł]	2007	20 892.7	12 882.8	3 373.8	4 636.1	2 107.1	4 066.7	27 066.5
	2008	24 526.4	14 850.8	4 214.3	5 461.3	2 621.6	4 774.5	31 922.5
	2009	29 091.4	16 749.1	5 305.6	7 036.7	4 075.7	9 959.0	43 126.1
	2010	33 105.8	17 347.5	6 429.8	9 328.5	5 200.8	5 942.6	44 249.2
Total expenditures [in mln zł]	2007	101 951.2	59 126.0	18 538.6	24 286.7	16 069.6	11 092.2	129 113.1
	2008	114 065.0	66 031.3	20 933.5	27 100.3	18 114.9	13 002.7	145 182.6
	2009	126 203.7	72 669.6	23 338.5	30 195.6	21 155.8	20 468.7	167 828.0
	2010	138 694.8	76 938.4	26 454.8	35 301.6	23 826.4	15 245.0	177 766.0
Property share in total expenditures [in %]	2007	20.5	21.8	18.2	19.1	13.1	36.7	21.0
	2008	21.5	22.5	20.1	20.2	14.5	36.7	22.0
	2009	23.1	23.0	22.7	23.3	19.3	48.7	25.7
	2010	23.9	22.5	24.3	26.4	21.8	39.0	24.9

\* including cities with county rights

Source: compiled by the author based on Bank Danych Lokalnych, [http://www.stat.gov.pl/bdl/app/strona.html?p\\_name=indeks](http://www.stat.gov.pl/bdl/app/strona.html?p_name=indeks), 26.02.2012.



## 7. Comparative analysis of PRs and expenditures

A comparison between PRs and expenditures is made in Table 5. The analysis leads to the conclusion that – apart from voivodeships – they do not meet even half of their value. The average for the local government subsector fluctuates around 40%, though for example for rural communities it was approximately one fourth in 2009. Other property expenditures, i.e. their 75%, were not levelled off by relevant revenues at the level of rural communities. In the case of voivodeships, which are leaders in their shares of incomes and expenditures related to property from the total incomes and expenditures, the relationship between these two values as analysed over four years more than doubled from 34.2% in 2008 to 71.6 a year later. The most stable situation in this respect, i.e. with almost 60%, occurred in the case of counties, but such a situation does not result from high PRs, which in relation to their own incomes reach an average value for the local government subsector (Table 3), but is rather due to low property expenditures, the shares of which in total expenditures are generally lower than the average in the subsector and which began to reach levels similar to other local entities only in 2010.

**Table 5.** PRs and expenditures in local government subsector, years 2007-2010

Expenditure type	Year	Communes, type:	Urban*	Urban-rural	Rural	Counties (non-urban poviats)	Voivodeships	Local government subsector
Property revenues [in mln zł]	2007	8 827.4	5 772.9	1 399.0	1 654.6	1 216.6	1 566.6	11 610.6
	2008	8 393.3	5 423.5	1 475.0	1 494.8	1 554.3	1 634.2	11 581.8
	2009	8 924.4	5 391.2	1 658.4	1 874.8	2 121.0	7 135,1	18 180.5
	2010	13 417.0	7 677.4	2 623.7	3 115.9	3 090.7	3 488.2	19 995.9
Property expenditures [in mln zł]	2007	20 892.7	12 882.8	3 373.8	4 636.1	2 107.1	4 066.7	27 066.5
	2008	24 526.4	14 850.8	4 214.3	5 461.3	2 621.6	4 774.5	31 922.5
	2009	29 091.4	16 749.1	5 305.6	7 036.7	4 075.7	9 959.0	43 126.1
	2010	33 105.8	17 347.5	6 429.8	9 328.5	5 200.8	5 942.6	44 249.2
Property revenues vs. property expenditures [in %]	2007	42.3	44.8	41.5	35.7	57.7	38.5	42.9
	2008	34.2	36.5	35.0	27.4	59.3	34.2	36.3
	2009	30.7	32.2	31.3	26.6	52.0	71.6	42.2
	2010	40.5	44.3	40.8	33.4	59.4	58.7	45.2

\* including cities with county rights

Source: compiled by the author based on *Bank Danych Lokalnych*, [http://www.stat.gov.pl/bdl/app/strona.html?p\\_name=indeks](http://www.stat.gov.pl/bdl/app/strona.html?p_name=indeks), 26.02.2012.





## 8. Concluding remarks

The aim of the article is to describe and compare two local government property categories, i.e. PRs and expenditures. They have long been in place, in particular since the reactivation of the LGUs. However, the regulations as to their clear disclosure in statistics, which allow and facilitate their analysis, have been introduced only recently. It is difficult to clearly assess whether the level 8-12% of PRs as regards the total property incomes of about 40% of revenue expenditures is sufficient from the perspective of realisation of long-term investments. One of the categories of revenue are property investment grants, which due to some unfavourable factors such as for instance total dependence in spending funds from the grant allocating authority, should not have a significant impact on the overall budget. In particular findings allotted to the realisation of LGUs' own tasks belong to grants that are criticised. The least controversial are grants on investment within the tasks of government administration. They usually make up a small portion of total grants. Nevertheless grants co-financing local governments' own tasks automatically receive partial funding from the current revenues. For these reasons, a high level of PRs, in contrast to their incomes, cannot be a measure of local government's financial independence. Thus, because of the lack of clear links with property expenditures, PRs do not reflect the investment activity of individual local governments either. Moreover, the current legislative design does not give a complete picture of incomes and revenues related to property as its source. It appears that the proposed form of PRs would better apply to the operational part of the budget. It can certainly be concluded that reductions in scope of investments by LGUs to the amount of PRs would at least reduce them by half.

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## DOCHODY I WYDATKI MAJĄTKOWE JEDNOSTEK SAMORZĄDU TERYTORIALNEGO

**Streszczenie:** Dochody majątkowe to nowa kategoria dochodów jednostek samorządu terytorialnego, wprowadzona poprzez zmianę ustawy o finansach publicznych pod koniec roku 2006, która zaczęła obowiązywać od roku 2007. Z założenia przekształcane powinny być one w wydatki majątkowe. Formalne ich ustanowienie pozwoliło nie tylko na ocenę wielkości bezwzględnych, ale i na porównanie z istniejącymi nieco dłużej wydatkami majątkowymi. Jedna i druga kategoria stały się przedmiotem badań niniejszego artykułu. W części teoretycznej przeanalizowano dochody majątkowe z punktu widzenia ich własności i miejsca w strukturze dochodów ogółem, porównano z dochodami z majątku oraz scharakteryzowano wydatki majątkowe. W części empirycznej przebadano bezwzględne wielkości wspomnianych dwóch kategorii, ich wzajemne relacje w odniesieniu do różnych szczebli jednostek samorządu terytorialnego, a także udział dochodów i wydatków majątkowych w dochodach i wydatkach ogółem.

**Słowa kluczowe:** dochody majątkowe, wydatki majątkowe, finanse samorządu terytorialnego.

