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Local government autonomy and self-governance – the Polish perspective

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Abstract: The article analyses the state of local governance in Poland by illustrating the degree of decentralisation and financial autonomy on the level of communes.

To that end, the article approaches the notions of subsidiarity, decentralisation and sub-national governments' autonomy, outlines the relations between them, and provides an illustration and discussion of these concepts using data on revenues of communes and urban districts in Poland between 1995 and 2020. The analysis was conducted for territorial units divided into five size categories.

The results indicate that the decentralisation of public finance, measured by the ratio of sub-national government expenditure to central government expenditure and sub-national government expenditure to GDP, is growing. However, the degree of autonomy of communes is decreasing. Therefore, the question arises of whether it is not a straight path from self-governance derived from the concept of decentralised state to government administration taken from the concept of a deconcentrated state. The ongoing re-centralisation removes the local authorities' capacity to manage local affairs, turning them into mere administrators and – in part – spectators, bystanders to these processes, and as such is of significance for the management of local development.

The analysis of the degree of local government's autonomy and self-governance offers a historical perspective (1991-2020), carried out for five size categories of communes and offers the capacity of being extended to other levels of sub-national governments in Poland, and also to sub-national governments in other countries.

Keywords: sub-national governments, decentralisation, financial autonomy

1. Introduction

The debate between supporters of a decentralised state and of a centralised state, initiated by Tiebout (1956), has been going on for nearly seven decades. This problem has been recognised and studied by many researchers (such as: Oates, 1993; De Mello, 2000; Besley & Coate, 2003; Letellier, 2005; Akai et al., 2007; Martinez-Vazquez et al., 2017; Blöchliger & Akgun, 2018). The article aimed to contribute to this vivid debate by highlighting some of the critical arguments for and against fiscal decentralisation, and providing sub-national governments with financial autonomy, concerning revenues and expenditures, that is the foundation of their self-governance.

From this starting point, further discussion was initiated on the state of local and regional governments in Poland, recreated in the 1990s amidst a wave of severe socio-economic reforms and transformations aimed at breaking off Poland's ties to the centrally planned economy that was typical for a Soviet-backed regime, and turning it into a modern liberal democracy with a free market economy. The three ensuing decades witnessed a series of legislative and structural changes that gradually changed the initially envisaged role of the sub-national governments, to a point where the existence of actual local and regional self-governance is being questioned (Turała, 2020). Some of these changes are assessed as not sufficiently substantiated, founded on political rather than objective criteria and diminishing the position of local governments (Kisała, 2022).

The tendency to re-centralise has been noted in Central and Eastern European countries (Horga & Florian, 2011), Nordic countries (Minas et al., 2018), Switzerland (Flèche, 2021; Patel, 2021), France (Simonet, 2017) as well as across the world with evidence coming from, amongst others, Japan (Ohashi et al., 2022), Thailand (Gilley & Laochankham, 2022), Turkey (Akilli & Akilli, 2014) and Uganda (Grossman & Lewis, 2014). Given this context, the article approaches the notions of subsidiarity, decentralisation and sub-national governments' autonomy with the aims of assessing the past and present degree of local self-governance in Poland and testing the following hypotheses:

- H: local governments in Poland are facing a process of re-centralisation.
- H_1: a growing share of public expenditure in Poland is carried through sub-national governments.
- H_2: the financial autonomy of local governments in Poland is decreasing.

2. Literature review

Subsidiarity and decentralisation provide the foundation for the functioning of contemporary sub-national self-governments.

Subsidiarity as a concept is not solely reserved for political studies or administrative science. This philosophical and political principle may be perceived as guiding the establishment of order in society by regulating the interactions between various actors. The list of actors may include – amongst others – public authorities in sub-national governments, but also national governments themselves, as is the case in the European Union where the principle of subsidiarity serves as one of the its cornerstones, alongside enumeration and proportionality (Schütze, 2009). The principle of subsidiarity was meant to reassure those who were sceptical or who feared that a transition from the European Community to the European Union might lead to the centralisation of power and a significant decline in national governments' importance and influence (Teasdale, 1993).

Insofar as the sub-national governments are concerned, the principle of subsidiarity is the philosophy that derives from multi-level governance (Horga & Florian, 2011). Subsidiarity provides a framework for competence sharing between authorities on various levels of administrative territorial division with the intention of creating synergies from the varied actors' inputs of expertise and resources. Assuming the principle of subsidiarity as the guiding principle for organising the state leads to a reduction of central government prerogatives, decentralising and passing them on to the sub-national governments.

In the case of Poland, the principle of subsidiarity has a normative meaning, derived from it being mentioned in the Constitution of the Republic of Poland, yet a limited operational application – being often used as a point of reference by local government representatives but not featured elsewhere in legislation (Gawłowski et al., 2020). It is also reported that the principle of subsidiarity is not fully implemented in Poland causing, amongst others, delays in fiscal decentralisation (Alexandru & Guziejewska, 2020). These reports are in contrast with the requirements of self-governance which is understood as the local community's right and ability to manage its own affairs (Jakubek-Lalik, 2019), and which can only exist in a decentralised state where citizens have the right to make their own decisions according to their interests.

The very concept of **decentralisation** may be approached in varied ways. A distinction can be made between territorial decentralisation, meaning the transfer of tasks and resources necessary for their implementation to local and regional public authorities (territorial self-governments), and functional decentralisation assuming the transfer of only some functions to territorial self-governments. Functional decentralisation focuses on the vertical organisation of the public sector in terms of tasks and finances. In order to achieve optimal efficiency of the system, a clear separation of tasks and financial resources is made between authorities of different levels. At the same time, the scope of functions for which local and regional governments are responsible is a feature of local autonomy, as autonomous local and regional governments increase the allocative efficiency of services, responding to the specific circumstances and preferences of citizens (Ladner & Keuffer, 2021). Other types of decentralisation that may be outlined include: systemic, administrative and financial.

The literature suggests that significant decentralisation in the scope of performed tasks (and thus also in terms of public revenues and expenditure) is beneficial and desirable, as it increases the efficiency with which public authorities allocate available resources to satisfy the collective and individual needs of residents (Guziejewska, 2010; Treisman, 2007). One of the approaches to decentralisation in the Polish context was defined by the Polish Constitutional Tribunal in its judgement of February 18, 2003 (file ref. no. K. 24/02): "Decentralisation means the process of constant expansion of the powers of lower-level public authorities by entrusting them with tasks, competences and necessary resources. Decentralisation, as provided for in the Constitution of the Republic of Poland, is not a one-off organisational undertaking, but a permanent feature of the state's political culture built on appropriate statutory solutions, consistent with the constitutional principles of the Polish system."

The Constitutional Tribunal's interpretation confirms the requirement of transferring resources adequate for the implementation of entrusted tasks. The issue of decentralisation of the state (in terms of in particular administration and public finances) is thus directly linked to the concept of (financial) **autonomy** of territorial self-government. The interpretations offered by literature indicate that autonomy in the context of local governments is a multidimensional concept.

Fleurke and Willemse (2006) defined three dimensions of territorial self-government's autonomy. The first is the extent to which the local and regional governments define their own programme, and refers to the freedom that local and regional governments have in choosing, from among the available alternative solutions, the most advantageous from the point of view of the given territory. The second dimension of autonomy relates to political independence and indicates the extent to which local and regional governments are free to shape their policies, including organising local and regional elections. This dimension relates to the source of initiative for decision making – the decision is considered to be on the self-government's own initiative when no external motivator from another actor can be detected. The third dimension of autonomy relates to decision-making independence and determines the extent to which local and regional governments are dependent on other bodies for their decision-making practices. A decision is considered dependent when it cannot be implemented without the cooperation of another actor (this dependence may take various forms, such as financial, informational or legal). A completely autonomous decision is one that is taken independently of other bodies, with a considerable degree of political freedom and on the local or regional government's own initiative.

Other authors (Wolman et al., 2008) comparing the autonomy of local governments in individual states, also distinguished three dimensions of autonomy: (1) importance, (2) freedom, (3) potential of local government. The importance of territorial self-government relates to the significance of the tasks undertaken by the local and regional governments and their role for society and the economy. The freedom of territorial self-government means the ability to engage in fiscal, functional and organisational activities without restrictions from higher levels of government. Finally, the potential of territorial self-government refers to its resources (including financial, human and property) and the ability to achieve its goals in terms of policy as well as in terms of management.

Ladner and Keuffer (2021) distinguished eleven variables describing seven different dimensions of local autonomy presented in Table 1.

Table 1. Territorial self-government autonomy dimensions

Dimensions	Variables	Description
Political discretion	Institutional depth	The degree to which territorial self-government is formally autonomous and has the choice of tasks to be performed
	Effective political discretion	The extent to which territorial self-government has a real influence on the functions it performs
Policy scope	Policy scope	The scope of tasks in which territorial self-government is effectively involved in the provision of services using its own funds and/or its own employees
Financial autonomy	Fiscal autonomy	The extent to which territorial self-government can independently tax its population
	Financial self-reliance	Proportion of territorial self-government revenues from own / local sources to total revenues
	Borrowing autonomy	The extent to which local and regional authorities can get into debt
Organisational autonomy	Organisational autonomy	The degree of freedom of territorial self-government in deciding on its own organisation and electoral system
Legal autonomy	Legal protection	The existence of a legal framework to ensure local autonomy
Non-interference	Administrative supervision	The scope of central government's control over territorial self-government
	Fiscal transfer system	The proportion of unconditional financial transfers to all financial transfers received by territorial self-government
Access	Central or regional access	The extent to which local and regional authorities are consulted for policy making by higher-level authorities

Source: prepared by the authors based on Ladner et al. (2016) and Ladner & Keuffer (2021).

Local autonomy also means respecting democratic values, which are guided by the principle that political decisions should be made as close as possible to those who are affected by them. This is in line with the idea that those who share a common interest and do not share it with the general public can manage this common interest themselves (Karlsson, 2015). However, the more the central government decentralises services provided in important policy areas, the more it is tempted to control local governments in their role as national policy makers (Hernes, 2017). Ironically, the stronger local and regional authorities become as service providers, the more vulnerable they are to political intervention by the central government (Haveri, 2015).

Literature indicates three types of control over local and regional governments by central governments (Goldsmith, 2002). Firstly, it is the control over local and regional governments' revenues and expenditures. In terms of revenues, central governments can decide about the degree of **tax sovereignty** that local and regional governments have (i.e. which taxes they are allowed to collect, for which taxes they can set tax rates or in which other ways they can influence local and regional taxes), and also decide on the amounts of transfers in the form of targeted or general grants. In relation to spending, central governments can seek to control local and regional governments' access to borrowing for investment purposes, set limits on current spending and prohibit certain types of spending. The central authorities may also require that local and regional governments cover part of service provision costs from their own resources. Secondly, the central government may pass administrative regulations or prescriptions for how certain local functions or services should be provided – for example, over the nature of school programmes. Thirdly, control may be exerted over the access of local and regional governments to the central decision-making processes and the degree of influence that they can exert on these processes.

Such a tendency to re-centralise may appear once a significant degree of local autonomy results in growing disparities in local tax (revenue) bases and increasing divergence in terms of the scope and quality of locally provided services. **Re-centralisation** aims at restoring equality in those areas across all local and regional governments. This comes about as organising public administration in line with the principle of multi-level governance (subsidiarity) means that local and regional governments take over a significant part of public duties. By definition, this requires the development of local and regional policies in response to the specific requirements and needs of local communities. The provided public services will therefore vary in terms of both quantity and quality, depending on the specific situation in a given territorial unit, its capacity and efficiency of operation. The scope of activity of local political leaders thus depends on the degree of local autonomy, hence a system with stronger local autonomy is likely to produce greater differentiation in terms of provided services. It follows that the concept of multi-level governance contains a built-in conflict of values between local autonomy for communes and regions, and national equality and uniformity of services for all citizens in the country (Karlsson, 2015). This leads to the increased role of centrally implemented mechanisms for vertical and horizontal redistribution of public revenues and, ultimately, to the question whether such redistribution – in the form of equalising grants (vertical) and balancing grants (horizontal) – does not adversely affect the degree of local autonomy.

The main reasons for redistribution (both vertical as well as horizontal) are considerations of fairness, striving to implement the principle of solidarity and to ensure equal access to local and regional public services. Yet, redistribution may hinder the efficient allocation of resources and lead to a situation that territorial units are not economically rewarded when they manage to strengthen local development or reduce unemployment, which means that there is no incentive to improve the economic situation in the commune or region (Karlsson, 2015; Kańduła, 2015).

Two issues seem to be of key importance for the analysis of the impact of equalising and balancing grants on the level of local and regional governments' financial autonomy. Firstly, the requirement that some of the territorial units, namely those with above-average tax revenues, transfer a part of resources obtained from local taxes and fees as well as shares in income taxes to the state budget with the intention of boosting revenues of other territorial units (Sekuła, 2017). This regulation clearly reduces the level of financial autonomy of 'taxed' local and regional governments. At the same time, the revenues obtained through equalising and balancing grants to a certain extent (potentially) increase the financial autonomy in terms of revenue but also expenditure, as local and regional governments are not formally obliged to spend them for predetermined purposes. However, should general grants be replaced with targeted grants, the process of re-centralisation may provide ample ground for replacing a decentralised organisation of the state with a deconcentrated one.

In a decentralised state, power and financial resources are transferred between autonomous entities, where the autonomy is provided for and guaranteed by law. In the case of **deconcentration**, the state is organised in a hierarchic way, where lower levels of territorial / administrative division are subordinate to those higher in the structure and where competences are passed down to lower levels of the same management system. As mentioned above, creating limitations for financial autonomy of local and regional governments and setting restrictions with regards to spending (the policy scope) by, amongst others replacing general (unconditional) grants with targeted grants may lead to a *de facto* deconcentrated organisation of the state, even if appropriate legislation is not formally approved.

3. Self-governance in Poland

3.1. Historical background

The first act of the political system that not only announced reactivation but caused the restoration of local self-government in Poland was the Act of March 8, 1990, on Communal Self-Government (Journal of Laws 1990, no. 16, item 95, as amended). This Act introduced the system of local government councils and institutions at the communal level. From that time on, the local community was to have a legal personality. The Constitution also determined commune's tasks – it was to perform public duties: (1) on its own behalf in line with the terms specified by legal acts, (2) tasks commissioned by the government administration in the scope regulated by the statutes. Moreover, the commune's independence was to be protected by the courts. The next step in strengthening local self-government was Poland's 1994 ratification of the European Charter of Local Self-Government which defined *local self-governance* as "the right and capacity of local communities, within limits set by law, to govern and manage a substantial part of public affairs on their own responsibility and in the interest of their inhabitants." This is a document that regulates the status of local self-government and also promotes the idea of local self-governance as the main element of democracy.

The subsequent constitutional changes of 1997 (the Constitution of the Republic of Poland of 2 April 1997) resulted in the unambiguous incorporation of the Charter into the Polish legal system and gave it a high position in the hierarchy of sources of law, in particular the principle of its direct application, and establishing the priority of its application over statutes and lower level acts of law (Sługocki, 2020). The provisions of the 1997 Constitution also addressed the fact that local government in Poland was limited only to the communal level which was widely criticised. The Constitution laid the foundations for the establishment of two additional levels of sub-national government that were then reflected in two Acts adopted on 5 June 1998, i.e. the Act on District Self-Government and the Act on Regional Self-Government (Sługocki, 2020). Since 1999, Poland's sub-national governments have been organised on three levels: regions (16), districts (1999: 308 rural districts and 65 urban districts; 2022: 314 rural districts and 66 urban districts) and communes (1999: 2,489 communes; 2022: 2,477 communes).

Comprehensive legal regulations regarding the financing of local and regional government units appeared much later. The Act on Territorial Self-Government Revenue (Journal of Laws 2003, no. 203, item 1966) entered into force in 2004. The Act defined three primary sources of revenues for local and regional governments: own revenue, general (unconditional) grants and targeted (specific) grants from the state budget. Within the meaning of the legal act mentioned above, the own revenue of local and regional governments also includes shares in the proceeds from Personal Income Tax (PIT) and Corporate Income Tax (CIT) – this is at times controversial and subject to debate as local and regional governments do not have any tax sovereignty whatsoever over these revenue sources (further discussion of this issue is included later in this section). The Act has been amended many times since its entry into force. The last amendment came in 2021 (Journal of Laws 2021, item 1672), introducing further changes in financing of local and regional governments – amongst others: new rules for determining the shares in PIT revenues and a new part of the general grant for communes, districts and regions – the so-called developmental part.

3.2. Method

The quantitative analysis aimed at determining the state of decentralisation and self-governance of Polish local governments was carried out with the use of data on revenues and expenditures for 2,476 out of 2,477 communes in Poland (as they were in 2022, data for one unit were missing in the dataset). Data were collected for the period between 1991 and 2020 from the Local Data Bank and the Polish Ministry of Finance. Table 2 lists and describes all the variables use in this study.

Table 2. Descriptive statistics for local governments in 1991-2020

Variables	Description	Number of territorial units	Number of years	Years covered	Number of observations
Rev	Total revenue of all communes	1*	30	1991-2020	30
Rev_1	Total revenue – communes with less than 5,000 inhabitants	647	26	1995-2020	16822
Rev_2	Total revenue – communes with at least 5,000 and less than 10,000 inhabitants	941	26	1995-2020	24466
Rev_3	Total revenue – communes with at least 10,000 and less than 25,000 inhabitants	640	26	1995-2020	16640
Rev_4	Total revenue – communes with at least 25,000 and less than 100,000 inhabitants	211	26	1995-2020	5486
Rev_5	Total revenue – communes with at least 100,000 inhabitants	37	26	1995-2020	962
OwnRev	Own revenue of all communes	1*	30	1991-2020	30
OwnRev_1	Own revenue – communes with less than 5,000 inhabitants	647	26	1995-2020	16822
OwnRev_2	Own revenue – communes with at least 5,000 and less than 10,000 inhabitants	941	26	1995-2020	24466
OwnRev_3	Own revenue – communes with at least 10,000 and less than 25,000 inhabitants	640	26	1995-2020	16640
OwnRev_4	Own revenue – communes with at least 25,000 and less than 100,000 inhabitants	211	26	1995-2020	5486
OwnRev_5	Own revenue – communes with at least 100,000 inhabitants	37	26	1995-2020	962
PCRev	Revenue from PIT and CIT of all communes	1 *	30	1991-2020	30
PCRev_1	Revenue from PIT and CIT – communes with less than 5,000 inhabitants	647	26	1995-2020	16822
PCRev_2	Revenue from PIT and CIT – communes with at least 5,000 and less than 10,000 inhabitants	941	26	1995-2020	24466
PCRev_3	Revenue from PIT and CIT – communes with at least 10,000 and less than 25,000 inhabitants	640	26	1995-2020	16640
PCRev_4	Revenue from PIT and CIT – communes with at least 25,000 and less than 100,000 inhabitants	211	26	1995-2020	5486
PCRev_5	Revenue from PIT and CIT – communes with at least 100,000 inhabitants	37	26	1995-2020	962
Sub_exp	Expenditure of sub-national governments	1 *	30	1991-2020	30
Com_exp	Expenditure of communes	1 *	30	1991-2020	30
Urbdis_exp	Expenditure of urban districts	1 *	22	1999-2020	22
Dis_exp	Expenditure of rural districts	1 *	22	1999-2020	22
Reg_exp	Expenditure of regions	1 *	22	1999-2020	22
Central_exp	Central government expenditure	1 *	30	1991-2020	30
GDP	Gross domestic product	1 *	30	1991-2020	30

* data aggregated for Poland by the Ministry of Finance

Source: prepared by the authors based on the Polish Ministry of Finance and Statistics Poland.

The leading indicators employed in this paper are the decentralisation index and the financial autonomy index. Decentralisation is understood as the process of continuous expansion of the powers of sub-national public authorities thanks to the tasks, competencies and necessary resources assigned to them. Not all indices frame decentralisation in the same way (Harguindéguy et al., 2021). The indicator that reflects the degree of decentralisation can be measured by analysing the share of local and regional government expenditure in GDP or state budget expenditure (see: OECD/UCLG, 2016). The decentralisation indices were determined for Poland using formulas (1) and (2):

$$Decentralisation\ Index\ (a)_{(1991-2020)} = \frac{Sub\_exp_{(1991-2020)}}{Central\_exp_{(1991-2020)}} \times 100\%, \quad (1)$$

$$Decentralisation\ Index\ (b)_{(1991-2020)} = \frac{Sub\_exp_{(1991-2020)}}{GDP_{(1991-2020)}} \times 100\%. \quad (2)$$

The primary indicator of financial autonomy is measured by the share of own revenue, identified by Polish legislation, in the total revenue. The financial autonomy index (FAI) was calculated for each commune using the following formula (3):

$$Financial\ Autonomy\ Index_{(1995-2020)} = \frac{OwnRev_{(1995-2020)}}{Rev_{(1995-2020)}} \times 100\%. \quad (3)$$

In order to better capture the actual tax (or revenue) sovereignty that local and regional governments have over particular taxes (or other revenue sources), the authors proposed a modified indicator of financial autonomy that excludes from own revenue a large portion (although not all) of the revenue that the local and regional authorities do not have tax sovereignty over – namely the revenue from PIT and CIT. This enabled relating to the legal capacity of the local governments to raise their own revenue (Siwińska-Gorzelak et al., 2020). Therefore, the FAI described by formula (3) should be adjusted for the amount of centrally collected tax revenues. Finally, the adjusted financial autonomy index (AFAI) is defined by formula (4):

$$Adjusted\ Financial\ Autonomy\ Index_{(1995-2020)} = \\ = \frac{OwnRev_{(1995-2020)} - PCRev_{(1995-2020)}}{Rev_{(1995-2020)}} \times 100\%. \quad (4)$$

3.3. Measurement of self-governance in Poland

The legislative changes mentioned in Section 3.1, impacted on the degree of Polish sub-national governments' self-governance which was examined in this article. In their approach to the issue, the authors emphasised two dimensions outlined by Ladner and Keuffer (2021), namely policy scope and financial autonomy.

The policy scope dimension is reflected by the degree of decentralisation that can be measured by analysing the share of expenditure carried out by local and regional governments in relation to GDP, or in relation to expenditure carried out from the central budget. However, such an analysis does not reveal much about the actual financial autonomy of these units, as it does not consider the structure of revenues nor of expenditure. That is why the analysis of decentralisation is followed by an analysis of local governments' financial autonomy, mainly from the financial self-reliance perspective, i.e. the share of own revenues in total revenues.

Figure 1 presents an overview of the degree of decentralisation in Poland between 1991 and 2020. Data on expenditure by all communes between 1991 and 1998, as well as all sub-national governments (communes, districts and regions) between 1999 and 2020, are shown in relation to central budget expenditure and to GDP. The data on GDP levels for the years between 1991 and 1994 were calculated in line with the 1995 European System of Accounts (ESA 1995) and in line with ESA 2010 for the period between 1995 and 2020.

The growing trend of decentralisation is relatively apparent. In 1991, the first full year of operation for the reinstated local government on the communal level, the expenditure of all communes amounted to 3.90% of the GDP and 18.52% of central budget expenditure. The figure grew to 7.82% and 33.99%, respectively, in 1998, and further to 9.76% and 47.58%, respectively, in 1999 when new sub-national government levels were added. Sub-national government expenditure in relation to GDP reached the highest level (12.79%) in 2020. As far as the relation to central budget expenditure is concerned, the highest value was noted in 2019 (67.64%) with a visible decline in 2020 (59.28%) that resulted from the greatly increased central government spending due to the COVID-19 pandemic. These observations confirm that the role played by local and regional governments in socio-economic life is essential. However, the indications coming from the analysis of financial autonomy (below) are somewhat less obvious.

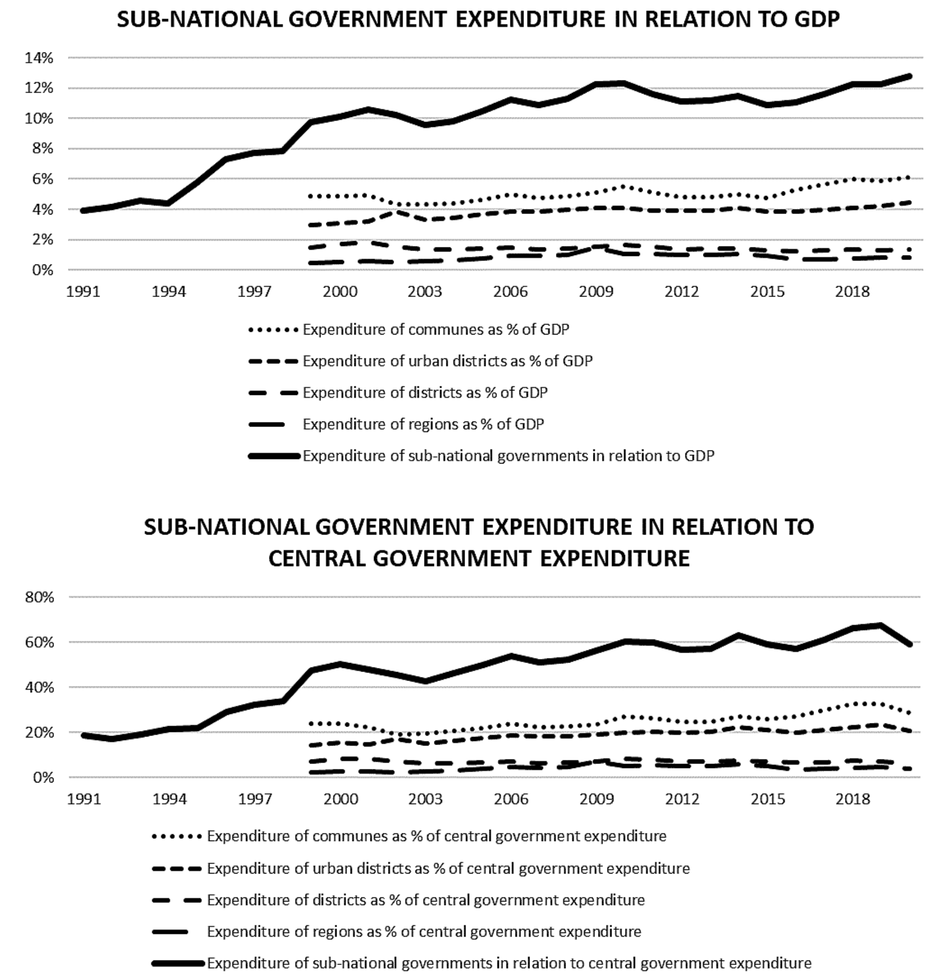

Fig. 1. Decentralisation in Poland, 1991-2020

Source: prepared by the authors based on data from Statistics Poland.

The financial autonomy of territorial self-government refers to the situation in which territorial units have a level of financial independence adequate to their tasks and expectations, which consists, on the one hand, of the amount of revenue remaining at their disposal, and on the other, of adequate structure of the said revenue, one which ensures an appropriate level of decision-making capacity with regard to both revenue and expenditure. Ladner and Keuffer (2021) indicated that the full assessment of financial autonomy should be based on analyses of fiscal autonomy, financial self-reliance and borrowing autonomy. Fiscal autonomy relates to the extent to which territorial self-government can independently tax its population, financial self-reliance emphasises the portion of own revenues in total revenues, while borrowing autonomy indicates the degree to which sub-national governments can take on debt. Other authors suggest that apart from the revenue side, the expenditure side of local and regional government finance should also be taken into account when assessing financial autonomy. The analysis of expenditure autonomy is somewhat more difficult than the analysis of revenue autonomy – in order to carry it out, all expenditure carried out by the local government should be assigned to one of at least three categories that reflect the local and regional governments' decision-making capacity with regard to their tasks. The list should include: (1) optional tasks, the implementation of which is fully decided by the sub-national government; (2) obligatory tasks, the implementation of which is imposed by law that can be defined as framework legislation, not determining in detail the scope and form of necessary activities; (3) obligatory tasks that are precisely defined by law as to the standard and conditions of services provided to residents (Oulasvirta & Turala, 2009).

The analysis presented in this article rests on the assumption that the degree of local and regional governments' financial autonomy is easiest to assess (and most reliably) by analysing their revenue structure (i.e. financial self-reliance). This approach is presented, among others, by the OECD (2001), which recognises that autonomy is primarily determined by tax revenues. However, various taxes differ with respect to the degree of financial autonomy that they provide. Autonomy is determined to a greater extent by those taxes over which local and regional governments exercise greater tax sovereignty, controlling at least some of the core structural elements of these taxes.

Transfers from the state budget are perceived as much less important for ensuring the autonomy of local and regional governments, although the OECD points to a significant difference between general grants and targeted (specific) grants. While the former provide greater freedom in the implementation of expenditure and are at the same time less discretionary and awarded based on more measurable, objective criteria, the latter demonstrate a significant degree of discretion and can be considered the most restrictive form of financing in terms of financial autonomy.

The share of own revenues in total revenue (FAI) is by far the simplest and the most widespread measure of the degree of financial autonomy. Figures 2.1 and 2.2 show how the proportion of own revenues in total revenue changed between 1995 and 2020. The data are presented for communes (including the largest of cities that operate as communes and districts at the same time) as this level of sub-national government is responsible for most of sub-national government expenditure, and enjoy the greatest degree of financial autonomy from amongst all levels of sub-national governments in Poland. To illustrate the differences between communes of varying sizes, the data are shown separately for communes with the population (as of 30 June 2020) of:

- less than 5,000 (647 units);
- at least 5,000 and less than 10,000 (941 units);
- at least 10,000 and less than 25,000 (640 units);
- at least 25,000 and less than 100,000 (211 units);
- at least 100,000 (37 units).

The first notable observation is that the median values for the presented variable significantly decreased between 1995 and 1996 for communes of all size categories with the largest cities excepted. This can be explained by the fact that all communes were obliged to take over financing of primary and secondary education and a new type (part) of a general grant – the educational grant – came into being in 1996, significantly changing the revenue structure of local governments. The largest cities were not affected as they mostly took over this tsk in 1994 or 1995 and were receiving a targeted grant in those years. The introduction of the new general grant was thus close to neutral for their budgets, whilst the share of own revenues in total revenues visibly increased in the largest cities, largely due to the fact that the second half of the 1990s was a period of dynamic economic growth, concentrated in urban centres and reflected by growth of revenues from income taxes (both personal and corporate).

Thus, the degree of financial autonomy as measured by the share of own revenues in total revenues remained largely correlated (positively) to the size of local governments and generally decreasing over time, with periods of notable exceptions. The median values for the smallest of communes (less than 5,000 inhabitants) ranged from 61.6% in 1995, 39.4% in 1996, reaching an all-time low of 27.0% in 2006 and then peaking several times: at 30.9% in 2008, 35.6% in 2015 and 34.2% in 2020. The situation for the largest of communes was significantly different with median values ranging from 55.4% in 1995, 72.6% and 73.8% (an all-time high) in 1996 and 1997 respectively, then dropping to an all-time low (47.1%) in 2001, gradually growing to 65.2% in 2008 only to drop back to 51.5% in 2020.

The accumulated data for communes and city-districts of all sizes confirmed the general trend of decreasing financial autonomy. Own revenues amounted to 74.5% of total revenues in 1991, 64.2% in 1995, 52,6% in 1999 and only 48.8% in 2020. Figure 2.3 presents an overview of this data.

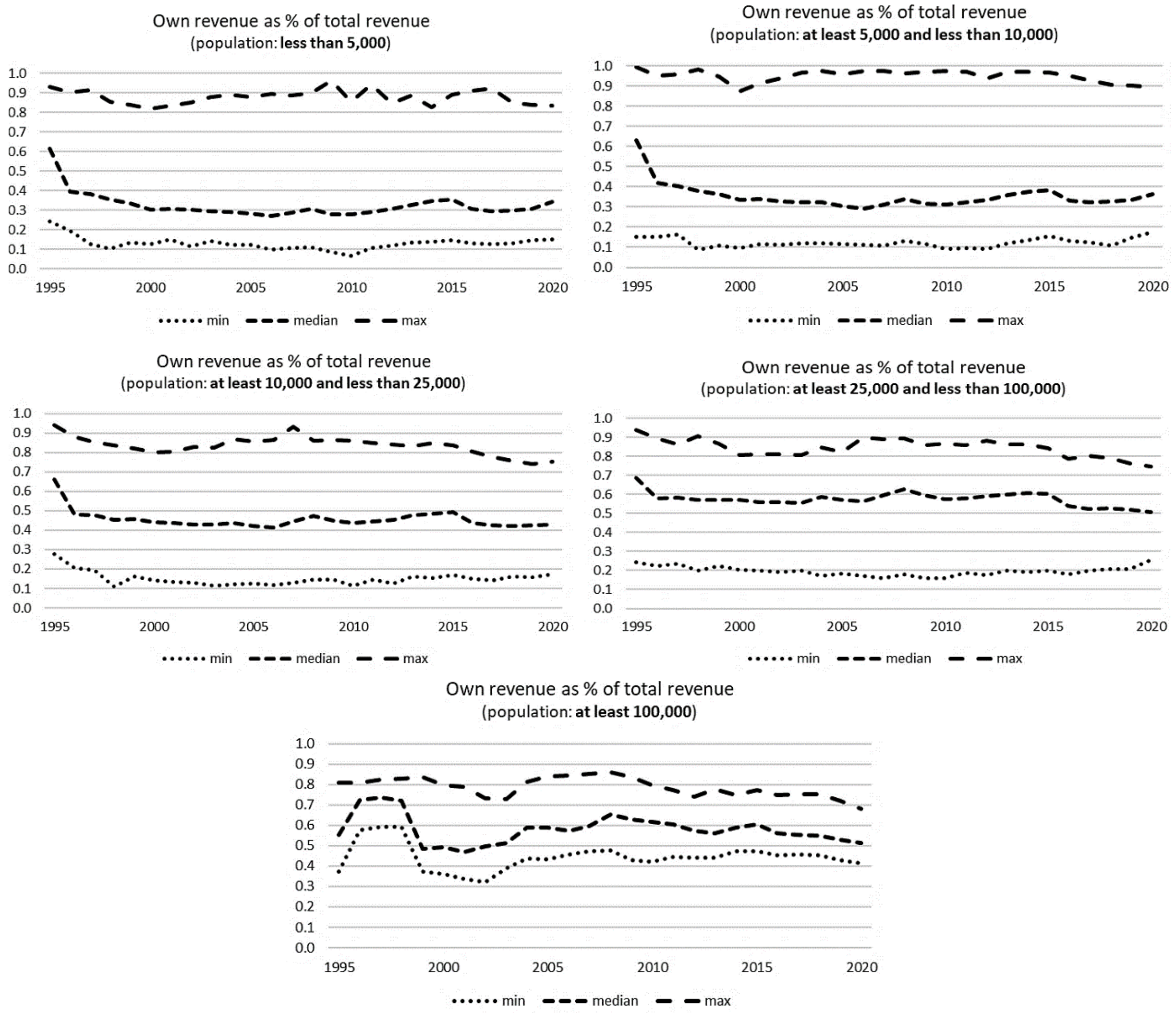

Fig. 2.1. Own revenue as % of total revenue, communes by size category in Poland, 1995-2020

Source: prepared by the authors based on data from Statistics Poland.

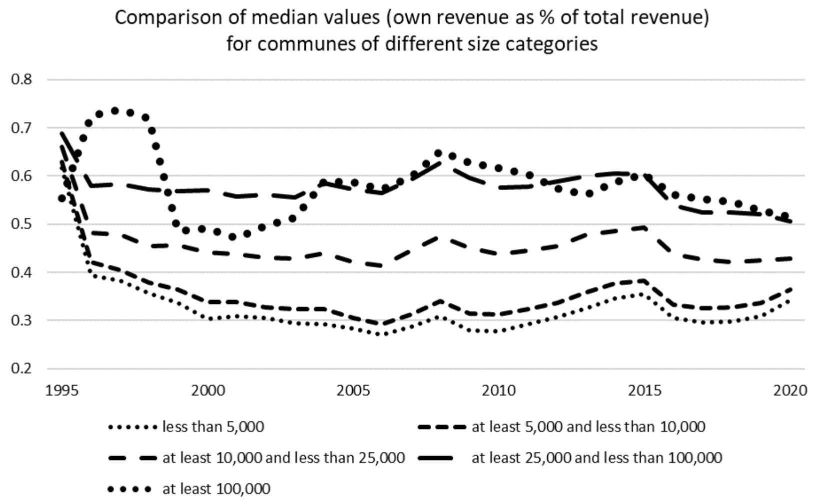

Fig. 2.2. Own revenue as % of total revenue, comparison of median values for communes of different size categories, 1995-2020

Source: prepared by the authors based on data from Statistics Poland.

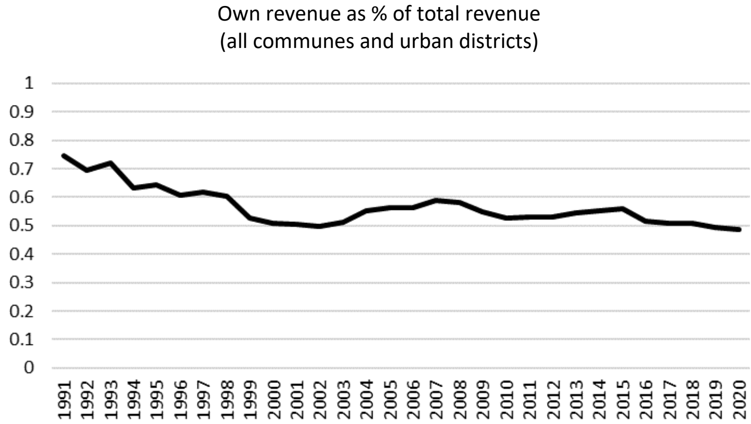

Fig. 2.3. Own revenue as % of total revenue, all communes in Poland, 1991-2020

Source: prepared by the authors based on data from annual reports on the implementation of local government budgets (Ministry of Finance).

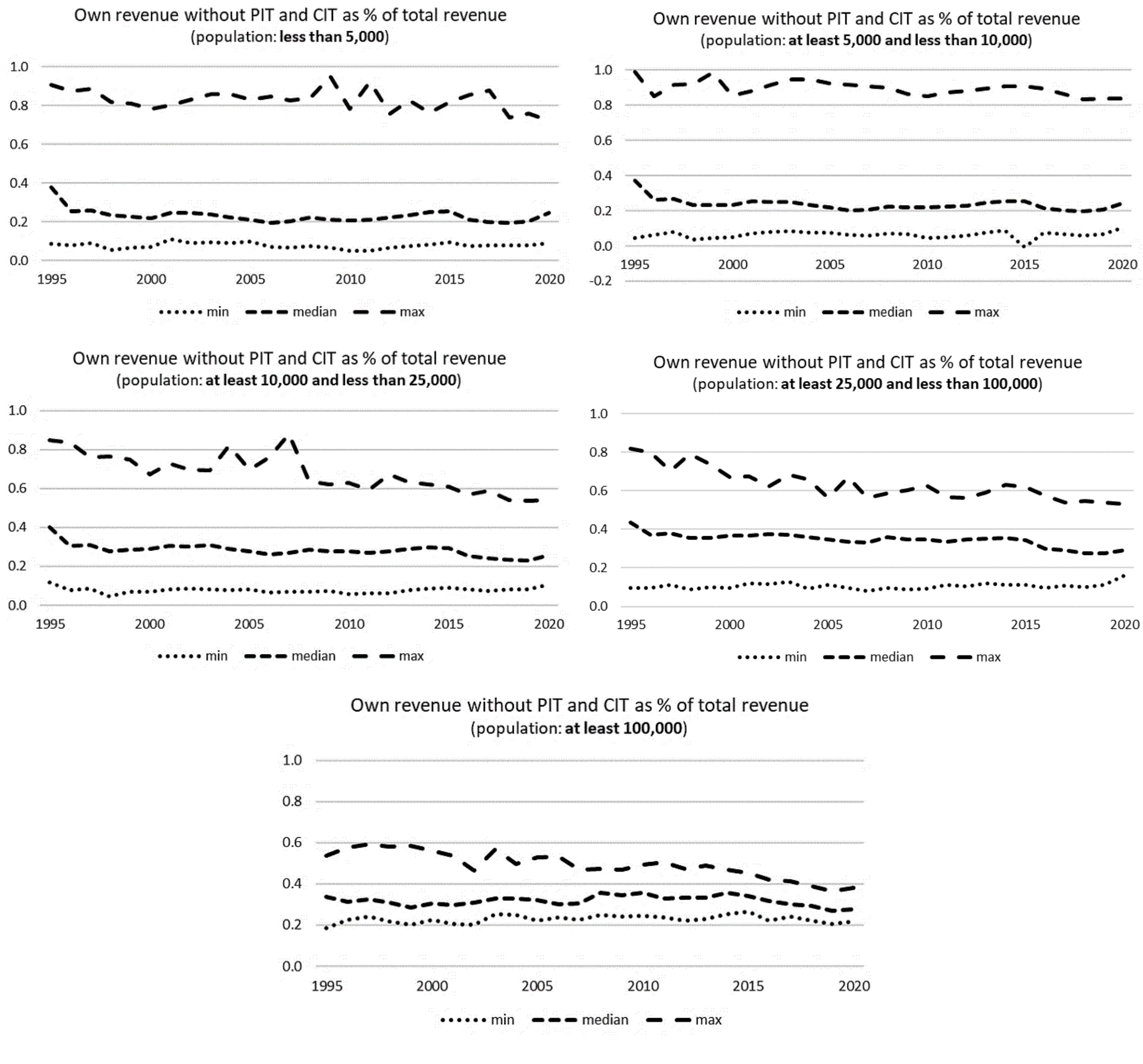

Fig. 3.1. Own revenue without PIT and CIT as % of total revenue, communes by size category in Poland, 1995-2020

Source: prepared by the authors based on data from Statistics Poland.

As indicated above, using the share of own revenues in total revenues as the measure of financial autonomy (financial self-reliance) may be misleading in that the legal classifications of revenue types do not always reflect the actual tax (or revenue) sovereignty that local and regional governments have over particular taxes (or other revenue sources). This is particularly true of revenues from income taxes over which local and regional governments do not exercise any tax sovereignty and which therefore constitute a specific group of *de facto* general grants and not own revenues. This is also true of some other tax-related revenues (i.e. tax on inheritance and donations or tax on civil law transactions), but their impact on the revenue structure is marginal compared to that of shares in PIT and CIT that local and regional governments in Poland receive. Therefore Figures 3.1, 3.2 and 3.3 present data on own revenues with the exception of PIT and CIT in relation to total revenues (AFAI).

Changing the measure for financial autonomy does not alter the previously noted observations: the positive correlation between the degree of financial autonomy and the size of local governments was maintained, as was the general trend to decrease it over time. However, the degree of financial autonomy is indicated at a much lower level than previously. The median values for the smallest communes (less than 5,000 inhabitants) ranged from 37.9% in 1995, 25.4% in 1996, reaching an all-time low of 19.7% in 2006 and then peaking at 24.9% in 2020. The median values for the largest communes ranged from 33.84% in 1995 to 35.9% (an all-time high) in 2010, reaching an all-time low of 27.1% in 2019 and settling at 27.9% in 2020. This data set indicates a significant convergence of financial autonomy levels between communes of different sizes, especially in the late 2010s.

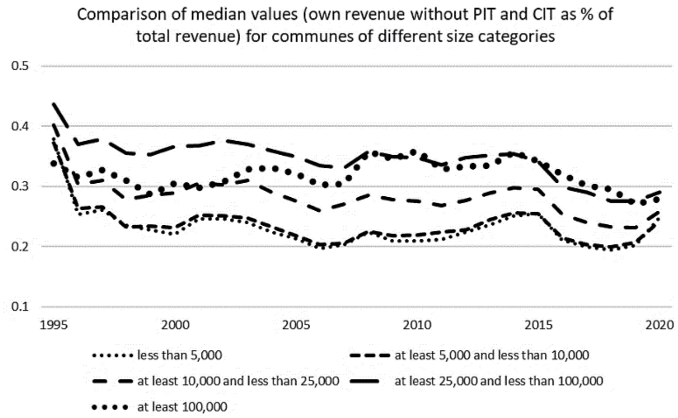

Fig. 3.2. Own revenue without PIT and CIT as % of total revenue, comparison of median values for communes of different size categories, 1995-2020

Source: prepared by the authors based on data from Statistics Poland.

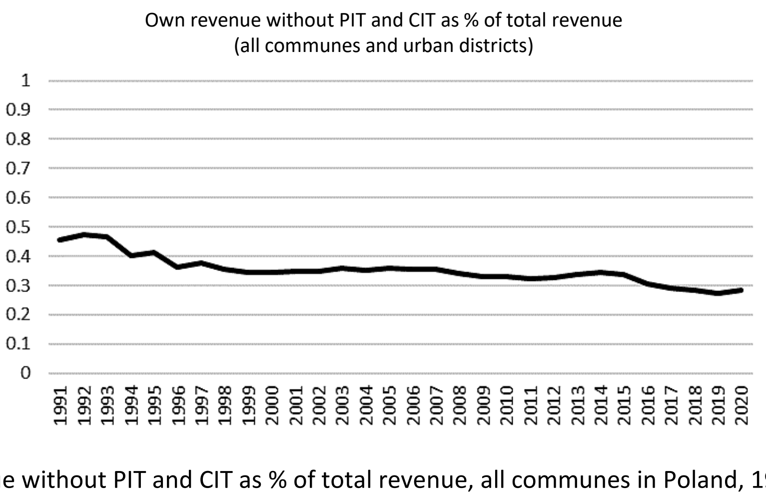

Fig. 3.3. Own revenue without PIT and CIT as % of total revenue, all communes in Poland, 1991-2020

Source: prepared by the authors based on data from annual reports on the implementation of local government budgets (Ministry of Finance).

The accumulated data for communes and urban districts of all sizes (as shown in Figure 3.3) confirm the general trend of decreasing financial autonomy, should this modified measure also be applied. Own revenues (without PIT and CIT) amounted to 45.5% of total revenues in 1991, 41.1% in 1995, 34.4% in 1999 and only 27.2% in 2019 and 28.6% in 2020.

4. Discussion

A holistic view of the relation between central and sub-national governments helps to decide how a decisive role of local authorities can go hand in hand with a robust national policy. Strengthened local authorities can, in some respects, further strengthen supra-local power as higher and lower government levels play different roles in expanded state activity. Modelling such a relationship requires separating the upfront control or supervision from local governments' administrative and fiscal capacities (Sellers & Lidström, 2007). The idea of a robust, complex state and the centralisation of its resources and activities in the face of decentralised threats give the appearance of power, however it actually reduces the state's resistance to shocks caused by sudden events (Kańduła, 2015). It appears that the trends in the public administration system, including the financing of local governments, do not respond to the existing tasks, especially in the context of recent crises (the pandemic, the war-related economic shocks and the refugee crisis). The resilience to crises provided by the decentralised structure of the state may be demonstrated by, for example, the war in Ukraine – many analysts argue that the significant decentralisation of the state that took place after 2014 allowed for a significant increase in the effectiveness with which Ukraine defends itself against Russian aggression.

Despite the declared and formally implemented decentralisation, territorial self-government may become superficial. Threats to self-governance were revealed, among other things, in the following dimensions (Kowalewska, 2018):

1. re-centralisation tendencies are manifested by the re-centralisation of some tasks and the deprivation of powers from local governments;
2. transferring competencies to local self-governments without ensuring sufficient funds results in decision-making dependence on finance distributed in a discretionary way by the central government;
3. delegation of tasks with a restriction of tools and how to carry them out;
4. delegation of competencies without decision-making powers;
5. exclusion of local governments from consultations in the law-making process;
6. unclear and imprecise legal provisions;
7. too much supervision over local governments resulting in a lack of local governments' independence.

It should be noted that the problem of re-centralisation or abandoning decentralisation is not only a question of changing the financing of local governments but, above all, a matter of attitude and mentality. This problem often results from a misunderstanding of the importance and role of local governments, a lack of willingness by both residents and private entities to become involved in local affairs, and the still existing image of a strong state that is resistant to shocks caused by crises. As a result, local government is perceived as an extended arm of the government and the re-centralisation of resources in an emergency, such as pandemic or war, is perceived as justified or even necessary.

The research results presented in this article show that local governments in Poland are increasingly dependent on central funds, and the possibility of increasing their own revenue is limited. This is not a sudden change of policy, but rather a process that has been ongoing for several years, one that especially small territorial units are affected by. To a degree this process is fuelled by the local governments themselves, perhaps unconsciously, as they tend to use first state subsidies, before other financial instruments such as public-private partnership or the issuance of municipal bonds. The local governments aim to obtain funds quickly, without the need to acquire and apply special skills and additional workload. Such a solution is convenient in the short term but one which negatively affects local governments' independence in the long run. The impacts are visible primarily in smaller territorial units where the degree of financial autonomy, as illustrated by the revenue structure, is significantly lower (see Figure 4).

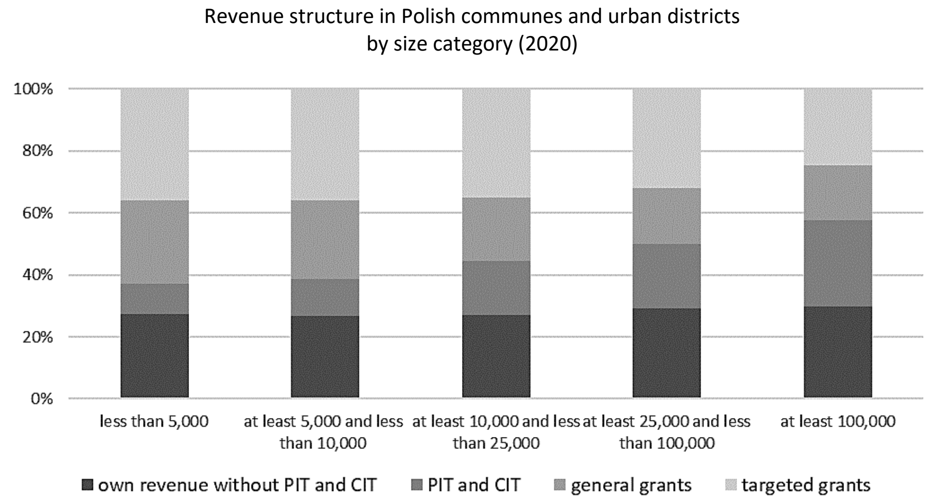

Fig. 4. Revenue structure in Polish communes of different size categories, 2020

Source: prepared by the authors based on data from Statistics Poland.

Therefore, a specific cause-and-effect process takes place, which leads from the assumptions of decentralisation and subsidiarity to deconcentration. In order to enable local governments to function, it is necessary to provide them with the financial resources necessary for the implementation of the tasks entrusted to them. One way is to increase the local governments' decision-making power in taxation and generating revenue, which consequently causes an increase in the financial autonomy of local government units, along with inequalities related to different chances of achieving own revenue.

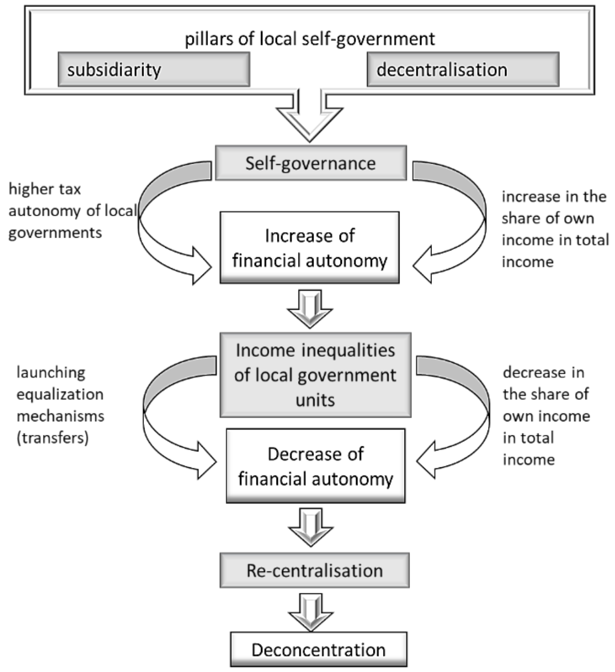

Fig. 5. Territorial self-governance cycle

Source: prepared by the authors, see also (Guziejewska, 2007).

The top-down equalisation of these inequalities between local government units is mainly due to the pursuit of solidarity and equal access to local and regional public services. Launching equalisation mechanisms in the form of general grants and targeted grants changes the proportion of own revenue in total revenue and decreases financial autonomy, which de facto leads to re-centralisation and deconcentration; Figure 5 illustrates these processes.

The structure of revenues that this article discusses is of significance for the management of local development processes. Public management at local and regional levels requires a holistic view of local issues, up-to-date knowledge, comprehensive skills, and a credible and sustainable system of financing local and regional governments. It should be remembered that the needs of the local communities are constantly increasing. Public funds, transferred from the central budget or based on local revenue bases, and collected locally, are no longer sufficient to meet these needs. Therefore, it is necessary to build and strengthen cooperation between all sectors to meet common needs, ultimately increasing financing from external sources. In the long run, management of the local development processes will only be possible if sufficient space is left (or created) for locally designed projects that boost the local revenue base. The ongoing re-centralisation, as evidenced by the decreasing degree of financial autonomy and growing dependence on targeted grants or even general grants, removes the local authorities' capacity to manage local affairs, turning them into mere administrators and partly spectators, bystanders to these processes. To stop this process, the attitude of local government authorities has to change as the most convenient solutions in local government finance will inevitably lead to the suppression of territorial self-governance.

5. Conclusions

Measuring real change with variables and indicators is essential to ensure sustainable development and good governance (Ladner & Keuffer, 2021). The constant monitoring of development also applies to local governments' level of actual self-governance. The empirical aim of the article was to analyse the state of local governance in Poland by illustrating the degree of decentralisation and financial autonomy on a local, communal level.

The results of the conducted research indicate a growing trend in the relation of local government expenditure to state expenditure and the relation of local government expenditure to GDP. Therefore, it should be stated that the decentralisation of public finances in Poland has been progressing since 1995. It does not allow for rejecting the hypothesis H_1 that the growing share of public spending in Poland occurs through local governments.

However, studies conducted on all communes in Poland indicate a systematic decline in the share of own revenue in the total revenues of communes. It follows that the financial autonomy of local governments is decreasing, which confirms the hypothesis H_2.

The observed increase in local governments' revenue, especially in recent years, is often a consequence of policies that are not aimed at increasing the self-governance of local governments but are related to the implementation of state tasks. The actual picture of the financial situation of local government units is thus distorted by fiscal, discretionary government interventions (e.g. subsidies from the Government Fund for Local Investments or the Government Road Development Fund), as well as targeted grants obtained by communes and urban districts under the government programme Family 500+. At the same time, the arbitrary and non-transparent allocation of funds by central government contradicts supporting the idea of decentralisation and subsidiarity.

It should be highlighted that while the constitutional and financial frameworks are essential indicators of local autonomy, they only provide a partial picture of local autonomy. They can be used, among other things, to regulate the potential autonomy that local governments may have. Thus, to understand the extent of autonomy enjoyed by local governments, it is necessary to investigate how and why local autonomy is regulated (Hernes, 2017).

As this research is not without its limitations, the authors proposed further research directions. Firstly, while this study mainly analysed how local autonomy is shaped from the financial autonomy perspective, further research should concentrate on checking the degree of local autonomy in Polish sub-national governments in accordance with the other criteria mentioned by Ladner and Keuffer (2021). Secondly, the study focused on one level of territorial self-government in Poland, i.e. communes, whereas a further study should check and compare the degree of autonomy of all sub-national government levels in Poland (mainly districts). It is of particular interest whether the threat of re-centralisation occurs only at commune level, or if it is a general trend that occurs at all levels of territorial self-government in Poland. Thirdly, the study could be extended to include other countries. The authors expect to identify similar processes in other European countries, even though the intensity and speed of the changes may differ. Therefore, future research will verify whether the results obtained for other countries are consistent with this study of Poland.

In conclusion, the research shows that the decentralisation of public finance, measured by the ratio of the sub-national government budgets to the state budget and the sub-national government budget to GDP, is growing. However, the independence (autonomy) of communes is decreasing. This may mean a tendency to create a façade of self-governance, which is, admittedly, established by legal acts but not reflected in reality as the fundamental right of communes to self-determination about their revenues and expenditure is limited. It appears that funds in the communal budgets are often not at their actual disposal but are only a tool for implementing assigned administrative tasks. Therefore, the question arises as to whether this is not a direct path from self-governance derived from the concept of decentralised state to government administration taken from the concept of a deconcentrated state.

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