

## **Financial independence of local government units in Poland**

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### **Abstract**

In the proposed paper the financial autonomy of a local government is understood as an independence of local authorities in shaping their budgets: deciding about the revenues and expenses. Discrepancies between the level of decentralization in public services and decentralization in public finances is the constant issue of public debates as well as a frequent subject of academic discussions.

The aim of the paper is to assess the actual potentials of local authorities in the formation of their budgets. The key hypothesis is that local authorities, having limited control over their finances, cannot be entirely accountable for the quality of delivered services. The authors analyze the current legal regulations and institutional solutions as well as the structure of local income and expenses. They also discuss the activities of local governments to shape their budgets and in that way upgrade the quality of public services delivered locally, especially focused on the education as one of the most difficult and cost consuming public tasks.

**Key word:** self-government units, finance autonomy, local budget,

### **Introduction**

One of the first far-reaching and successful reforms undertaken in Poland under the transformation period started in the late 80's was the reconstruction of a local government system. The introduced reform was a result of the political arrangements, but also brought considerable social and economic effects. The idea of bringing back the power to the people in the local communities had started to be elaborated on by the political opposition since the early 80's and supported by arguments appealing to rich traditions of Polish local governments (Pawłowska & Kołomycew, 2014, pp. 101-104).

In March 1990, local government in the municipalities (*gmina*) was restored by the Act of the Territorial Government. Subsequently, other related regulations – on local administration employees, division of competencies and responsibilities between central and local authorities, and representation of central authorities on the local level were passed. The implementation of the above-mentioned acts was preceded by the introduction of relevant amendments to the applicable Constitution Act.

The socio-economic transformation during the 90's was accompanied by work on further reforms of the public administration and the introduction of successive tiers of local government. In 1997, a new Constitution Act was adopted, in which self-government units were granted legal personality, range of powers and the right to financial independence. General constitutional regulations have been clarified in a series of legal acts adopted in 1998 as part of another, far-reaching reform of the public administration. The idea was supported by the following arguments: a) improving the performance of executive power through transmitting duties on lower tiers of administration, closer to recipients of public services, and enhancing central administration located in voivodships; b) improving the governability of the state through devolution of responsibilities that would enable central authorities to focus on the strategic issues of public policy; c) improving democracy by giving the citizens of territorial units the right to elect their representatives, the right to control the local administration and the system of the delivery of public services; d) improving the efficiency and effectiveness of state revenues and expenditures through decentralization of public finances; e) adjusting territorial division and administrative structure of the state according to the expectations of the European Union due to the plans of integration (Pawłowska & Kołomycew, 2014, pp. 101-104).

The effect of the implemented reforms was a three-tier structure of the territorial government including municipalities (*gminy* – 2479), districts/counties (*powiaty* – 313 counties and 66 cities that combine the powers of municipality and county) and regions/voivodships (*województwa* – 16) as well as a new division of public tasks, according to the capabilities and range of power of each level of a self-government.

The changes in the structure of public administration and division of tasks introduced in the late 90's meant in practice that most of the public tasks were assigned to municipalities. These units, due to their small area and the proximity to the citizens, were considered the most appropriate for the efficient provision of public services. In accordance with the principle of subsidiarity, as indicated in the Constitution of 1997, the presumption of competence in favor of the municipality was also introduced. Agreement to such a formula means that the municipality is the basic local unit and its authorities are responsible for

performing all local tasks that are not reserved for other territorial units. Furthermore, the tasks enumerated in the Local Government Act (Ustawa o samorządzie gminnym...) are only exemplary, and can be extended beyond the given catalogue. Actually, the tasks designed by law are regarded by municipal authorities as obligatory, although others – not expressed in legal acts and refer to local administration will – are considered as optional. The tasks of municipalities specified by law refer to: use of the land, environmental protection (waste disposal), technical infrastructure (provision of water, sewage services, electricity, gas) and roads, public transportation, health care and social assistance, culture and heritage, sport and tourism, green areas, public order and safety, and cooperation with non-governmental organizations and the promotion of municipality as well as providing education (pre-school, primary and secondary) which seems to be the hardest and currently the most expensive task.

### **Revenue of local government in Poland**

The important elements of the decentralization of public administration tasks started in early 90's were the elimination of hierarchical subordination of local authorities from the central government, granting legal personality, new powers and competencies to the local administration, but also providing them with financial independence. In particular, the financial independence was extremely important for the development of self-government in Poland. The decentralized bodies to act independently and implement public tasks must have their own sources of income and the ability to fully dispose of them. Dependence on subsidies from the central budget contradicts the essence of decentralization. It makes that decentralization remains only a normative/formal solution with no practical significance (Zieliński, 2001, p. 38).

The basic regulations on the revenue of local administration were contained in the Constitution Act of the Republic of Poland established in 1997. The provisions of the Constitution guaranteed local governments the access to the public funds, adequately to the assigned tasks. In accordance with applicable law, the revenues of the local government units can be divided into three groups of income: 1) the own revenues of local self-governments, 2) general subsidies and 3) grants. The last two groups of income are directly transferred from the state budget. The presently observed changes in the scope of the tasks and competences of local government bodies require a new model of the public funds distribution to allow them to fulfill a wide range of public tasks. In general, the Constitution Act grants local governments the right to fix the amount of local taxes and local fees. The detailed regulations concerning

the local fiscal policy are contained in the separate legal acts (Konstytucja Rzeczypospolitej Polskiej...).

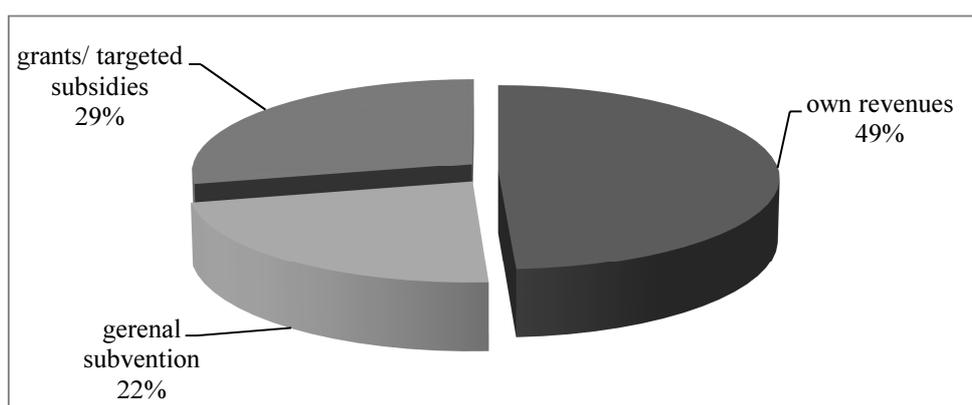
The constitutional principles of financing local governments were detailing in several laws, among which are essential: The Act on the Income of Government Units (Ustawa o dochodach jednostek samorządu terytorialnego...) and The Act of the Local Taxes and Fees (Ustawa o podatkach i opłatach lokalnych...). The first of the acts mentioned below contains a catalogue of income sources for local governments, the principles of determination and collection of the local revenue, as well as the rules of transferring the general subventions and grants (targeted subsidies). According to this act, the revenues of the local governments are:

- own revenues, including shares in the proceeds from the personal income tax (PIT) and corporate income tax (CIT);
- general subvention;
- grants (targeted subsidies) from the state budget and national targeted funds (such as the National Fund for Environmental Protection and Water Management).

The revenues of local governments might also be:

- funds from foreign sources, non-refundable;
- funds from the budget of the European Union;
- other sources specified by separate regulations.

Chart 1. Income structure of local government in Poland in 2012



Source: Sprawozdanie z wykonania budżetu państwa za okres od 1 stycznia do 31 grudnia 2012 r. Informacja o wykonaniu budżetów jednostek samorządu terytorialnego, Rada Ministrów, Warszawa 2013, s. 12.

## Local governments' self-reliance of on the revenue

In the context of the financial autonomy of local governments, it seems to be interesting how they can independently decide, affect and shape the level of income? And how much their income is dependent on the adopted regulations by the central authorities? First of all, it should be noted that the catalogue of income, as well as a catalogue of their own revenue sources (see Table 1) is defined by the national law. Therefore, in practice, the local governments cannot take any independent action in this range. The lack of flexible solutions in this matter means that the only thing that remains for local authorities is to formulate the demands to extend their competences.

Table 1. The main source of government units income

Source of income	Territorial Units		
	Municipality	District/ county	Voivodship /region
tax revenues (real estate, agricultural, forestry, means of transport, inheritances and donations, civil law actions)	yes	no	no
revenue from local charges (stamp duties, market fee, local fee, spa, dog ownership fee, exploitation fee )	yes	no	No
income from its assets	yes	yes	yes
income received by units of local government	yes	yes	yes
inheritances, bequests/endowment, donations	yes	yes	yes
interest on loans and local receivables	yes	yes	yes
subsidies from the other local governments	yes	yes	yes
participation in the Corporate Income Tax (PIT)	yes (39,34%)	yes (10,25%)	yes (1,6%)
participation in corporate tax (CIT)	yes (6,71%)	yes (1,4%)	yes (14,75%)

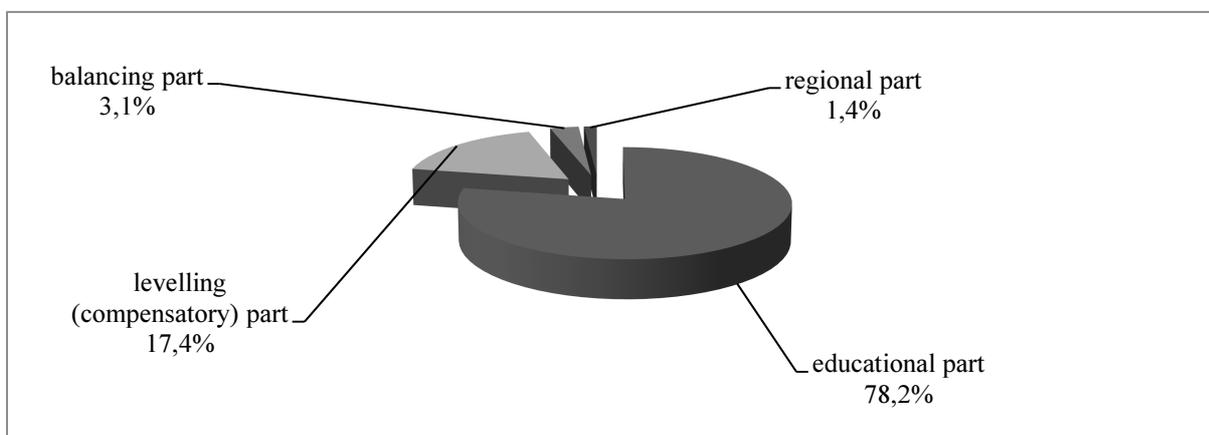
Source: own elaboration based on: Ustawa o dochodach jednostek samorządu terytorialnego z dnia 13 listopada 2003 r., tekst jedn. Dz.U. 2010 nr 80, poz. 526 z późn. zm.

The abilities of local governments to influence the height of income are limited. One might indicate three possibilities: 1) the absence of such an effect; 2) indirect influence and 3) direct influence. The first situation we can observe in case of the grants/targeted subsidies transferred directly from the state budget. The local authorities have no effect on the size of the support received. The specificity of the above-mentioned grants/targeted subsidies is that they are granted on the implementation of specific tasks. It should be remembered that the

assigned tasks are actually government tasks. For practical reasons, they are transmitted to local governments based on specific laws. The assigned tasks are generally systemic and the same for all local units. Therefore, the individual local governments have no effect on the costs of its implementation.

In the case of the general subvention only an indirect influence might be observed. And in fact, the influence of local government units on the height of the general subvention is very limited. The general subvention is composed of the following parts: 1) for municipalities and districts—levelling (compensatory), balancing and educational, and 2) for the voivodships/regions—levelling (compensatory), regional and educational.

Chart 2. The structure of the general subvention transferred to self-government units in 2012



Source: Own calculations based on: Sprawozdanie z wykonania budżetu państwa za okres od 1 stycznia do 31 grudnia 2012 r. Informacja o wykonaniu budżetów jednostek samorządu terytorialnego, Rada Ministrów, Warszawa 2013.

Each part of the general subvention is calculated individually for a particular self-government unit, according to the statutorily defined criteria. According to the given diagram, the vast majority of the general subvention is intended for the educational part and levelling (compensatory) part. It means that the general subvention is one of the rigid financial instruments on which local governments have no impact nor can they shape its structure. Nevertheless, the governments' ability to influence the size of the received funds in a form of subvention would have a real meaning for their financial situation. However, the height of the educational part of the general subvention is calculated according to the algorithm in which the main importance is the number of students attending schools run by the individual self-governments.

Theoretically, self-governments can indirectly influence the level of general subvention in its educational part by increasing the number of students at schools they run (for instance by creating an attractive educational offer and/or admission of students from outside their administrative area. Nevertheless, in practice, this rarely happens, especially at the level of primary and secondary schools. In this case, location of schools (distance from students' residence) mainly determines the decision of school enrollment. The daily school commuting is burdensome for children and their parents, especially due to the costs and time. Furthermore, it is worth remembering that the flow of students among self-government units (local) is significant exclusively for the particular units and their income from the educational part of the general subvention. The mentioned students' flows are not relevant to the amount of expenditure from the state budget. The total amount of educational subvention provided by the central authorities for self-governments is unchanged. The state expenditures on the general subvention (in its educational part) would increase due to favorable demographic changes and larger number of students in general.

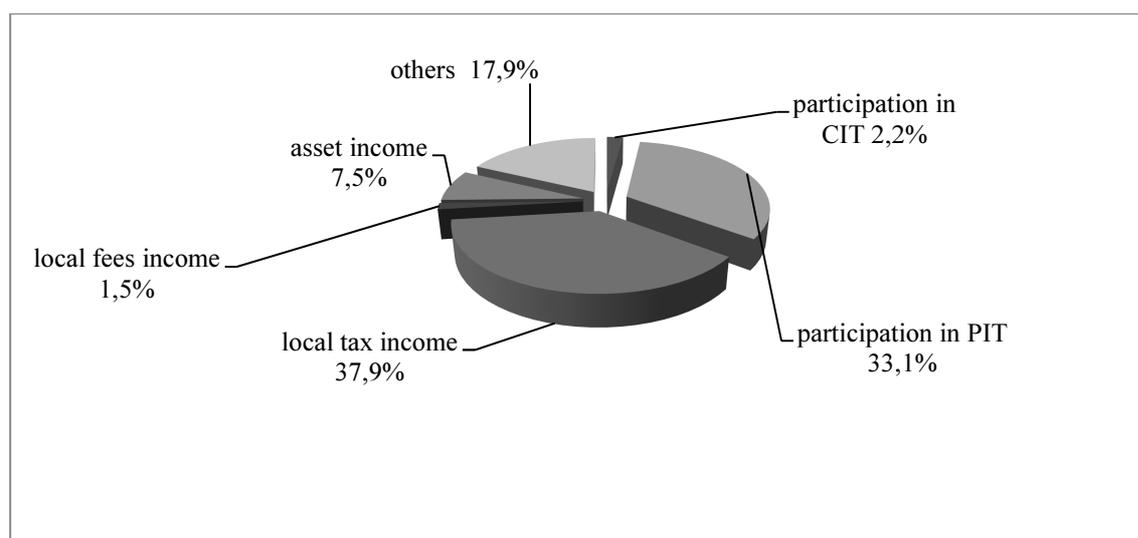
In turn, the levelling (compensatory) part of the general subvention is determined on the basis of: 1) the number of inhabitants of the individual self-government unit and 2) the achieved ratio of tax revenue per capita by governments in relation to the average ratio of tax revenues for all self-government units (calculated separately for municipalities, districts and voivodships/regions). In the case of levelling part of the general subvention, its amount depends on tax revenues per capita. Increasing tax revenues results in less income from the levelling part of the general subvention. This dependence induces that authorities on both local and regional level may only indirectly affect the size of the general subvention through the changes in tax rates.

However, due to the structure of an own income (see: Table 1) the different levels of self-government units have unequal ability to shape the tax revenues. In fact, only municipalities have the right to impose local taxes and fees. However, their taxation power is limited. Generally, it is limited to the determination of local tax ratio but only within the limits set by law. Therefore, the possibility of a direct influence on the tax reduction has no practical significance. In the process of the general subvention calculation (in its levelling part), such activities undertaken by local authorities as tax reduction, tax relief and exemption are not compensated by the state budget (in a form of subvention). This solution seems to be reasonable, otherwise self-governments would willingly reduce taxes, implement tax reliefs and exemptions, gaining public support without incurring the financial consequences. The lower income would be compensated by the state budget.

Substantially, self-governments in Poland have the possibility to affect indirectly the source of revenues such as participation in the personal income tax (PIT) and corporate income tax (CIT) and thereby to impact the size of the general subvention. By undertaking projects focused on the territorial development, self-governments actions may result in residents' and local enterprises' income improvement. Consequently, the increase in PIT and CIT tax revenue directly transmitted to the state budget will also increase self-governments' revenue from these taxes. However, in this situation the amount of general subvention will decrease, but the general revenue (from all possible sources) will rise. The above-mentioned situation should be considered solely only in terms of theoretical considerations, since there is no doubt that the increase in their income tax revenue and share in taxes brings more benefits. The financial aspect of self-governments' activity due to reduction of subvention is compensated by higher tax revenues. However, the financial independence of self-governments remains limited, in practice dependent on the central government and its condition.

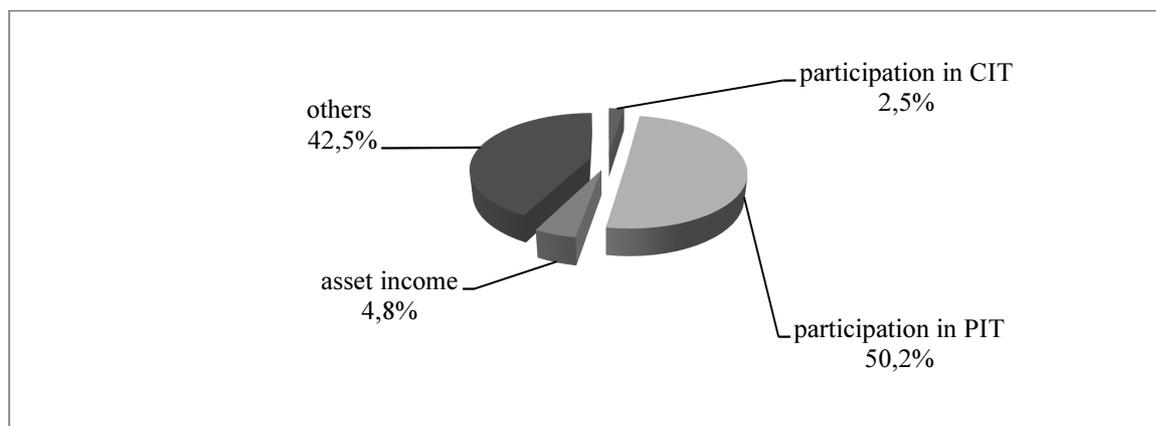
As follows from the previous analysis, on two of the main sources of income (representing more than half of total income) (see Figure 1) self-governments do not have much effect. For the third source of income - the most significant - that are own revenues, the significant differences among the various levels of self-government units might be seen. They result from already mentioned differences in local and regional governments income sources (see Table 1), that determine their structure.

Chart 3. The structure of revenues of municipalities in 2012



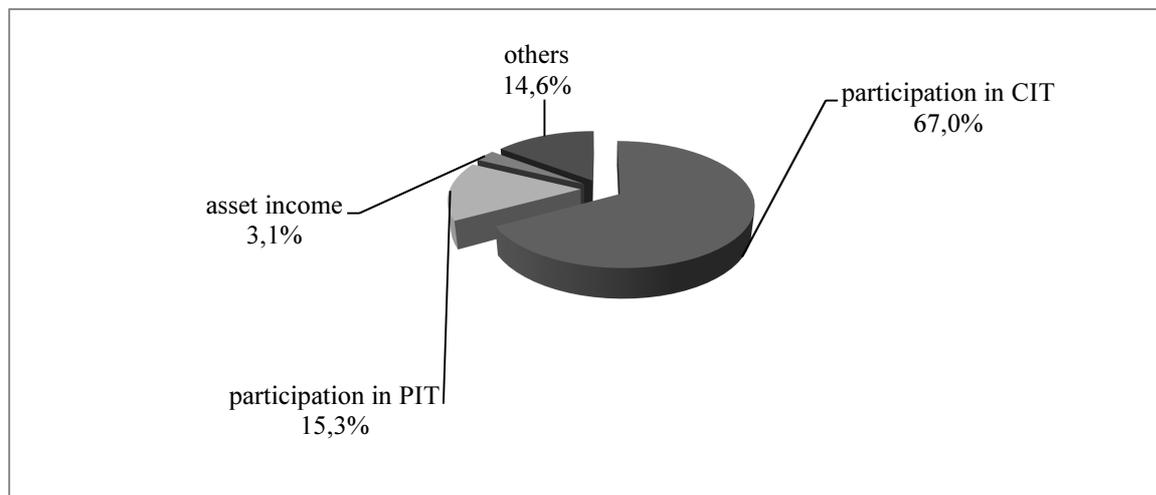
Source: Own elaboration based on: Sprawozdanie z wykonania budżetu państwa za okres od 1 stycznia do 31 grudnia 2012 r. Informacja o wykonaniu budżetów jednostek samorządu terytorialnego, Rada Ministrów, Warszawa 2013.

Figure 4. The structure of own income districts in 2012



Source: Own elaboration based on: Sprawozdanie z wykonania budżetu państwa za okres od 1 stycznia do 31 grudnia 2012 r. Informacja o wykonaniu budżetów jednostek samorządu terytorialnego, Rada Ministrów, Warszawa 2013.

Figure 5 The structure of own income voivodships/regions in 2012



Source: Own elaboration based on: Sprawozdanie z wykonania budżetu państwa za okres od 1 stycznia do 31 grudnia 2012 r. Informacja o wykonaniu budżetów jednostek samorządu terytorialnego, Rada Ministrów, Warszawa 2013.

The Charts 3 - 5 show that generally two sources of own revenues play a significant role at each level of self-government. These are shares in income taxes from individuals (PIT) and corporates/enterprises (CIT). In the case of municipalities (Figure 3) an important source

of revenue are local taxes and fees, while in the case of districts a significant share of total income (42.5%) are 'others' (Figure 4).

It was already mentioned that self-governments may indirectly influence the shares in PIT and CIT revenues by implementing pro-growth policies. Creating favorable conditions for economic activities may encourage businesses to invest and create jobs, while a well-developed system of infrastructure and quality of public services may favor and intensify the population. The number of people and enterprises seem to be crucial for the revenue from PIT and CIT that are paid by the residents and businesses registered in individual units. This solution has some limitations, though. First, the tax rate of PIT and CIT are not determined by self-governments, but by the central government. In addition, the size of the tax revenue to the state budget depends on the national and global economic downturn. This significantly reduces the possibility for local governments to shape that part of their income.

Municipalities as the only level of local government receive income from local taxes and fees. For the analysis of their financial independence it is important to verify the extent of the local tax policy. It should be noted that, in accordance with the Constitutional Law the imposition of taxes, other public imposts, the specification of tax subject and tax rates, as well as the principles for granting tax reliefs and remissions are governed by laws not administrative (individual) decisions (Konstytucja Rzeczypospolitej Polskiej..., art. 217). However, the Constitution granted local governments the right to set the rates of taxation within the limits set. The detailed principles of rates' determination as well as tax reliefs and exemptions are governed by the Law on local taxes and fees, as well as the Law on the agricultural tax (Ustawa o podatku rolnym...). The same legislation lays down the rules for the granting of the reliefs and tax exemptions by municipalities.

For the financial autonomy of the municipalities the maximization of the income has a significant meaning. However, the adopted laws on local taxes and agricultural tax only allow local self-governments to lower the tax rates, but their maximum size (in the case of transportation tax also the minimum) is set in the legal acts. The maximum rates on goods and prices of services are updated annually. Municipalities – in comparison to other levels of the government – have more flexibility in respect to tax policy. Regardless of these systemic solutions the executive body of a municipality may, in justified individual cases, partially or completely discontinue the tax claims (Ustawa ordynacja podatkowa...).

Despite the above-mentioned competences of local (municipal) authorities, their taxation power is limited and includes such activities as the right to determine the tax rates as well as the introduction of exemptions and reliefs. All these treatments cause a loss of

governments' revenue, but despite the negative fiscal impact some municipalities still use the existing possibilities. In 2012 such actions of local authorities resulted in a reduction of municipalities revenue by 10.3% (4.8% of total revenue). However, lowering the top tax rates is an instrument of municipalities competitiveness (See more: Miszczuk, 2012).

The high share of "others" in the income structure in the districts total revenue is a result of performed tasks. Some of the services supplied by the counties are fully or partially paid (for example, retirement homes, social care services, surveying and mapping services, transport fares). It should be noted that due to the regulations governments do not operate for profit. These revenues basically cover the costs of the performer's tasks. In the context of a financial independence - especially in the acquisition of income - they do not play a greater role.

### **Freedom of self-governments expenditures**

Freedom of government expenditure in Poland is closely related to their income structure. Particularly limited possibilities of government's expenditures are in the field of outsourced tasks, which are financed directly from the state grants/targeted subsidies. The received grants may be issued only to the specified target and any unused funds must be returned to the state budget. The governments autonomy is also limited due to the performance of the tasks commissioned by central administration. The specificity of these tasks, their standards and rules of implementation are indicated in the detailed provisions and their implementation is mandatory. Freedom of governments is therefore limited to organizational solutions. In fact, this aspect of their activity is also limited by the amount of received subsidies. There is a slightly different situation in the case of general subventions and self-government units' own revenues. These two sources of income may be spent on any purpose in accordance with the decision-making body. Unused financial resources are at the disposal of self-governments, can be transferred to next year's budget and spent on any purpose.

The fact that the funds from general subvention and own revenues may be used freely does not mean that local governments have a complete freedom in this case. Self-government units are a part of public administration and are created to meet the collective needs of their residents. The range of self-government's tasks were established and defined by the laws. The autonomy of self-governments generally applies only to those activities. The catalogue of their own tasks stays open for a practical reason. The emerging changes lead to new

expectations and social needs that governments are obligated to deliver. In the case of tasks that are not clearly assigned to individual units– in accordance with the law principles – they stay in favor of the municipalities (Ustawa o samorządzie gminnym..., art. 6). The self-government units at district and regional level are obliged to perform only the tasks clearly indicated in the legal acts.

The autonomy of self-government units is largely determined by the scope of tasks assigned to them. Generally, they can be divided into mandatory and optional. Naturally, the performance of optional tasks is connected with a with greater freedom of spending (of course within the limits of the law) (Ustawa o finansach publicznych..., Ustawa prawo zamówień publicznych...).

On the other hand, performing the compulsory (mandatory) tasks causes the need to allocate funds for their implementation regardless of the self-governments' will and opinion. It is also important to what extent the quality standards of the compulsory tasks have been determined in the applicable legislation. In practice, precisely defined margins of the tasks to be performed lead to the limiting of the self-governments' freedom, which simultaneously influences the activities and determines their expenditures.

Table 2. Expenditure by departments (category), having the largest share in the total expenditure of particular types of local government in Poland in 2012

Self-governments units/level of self-government	Category of expenses	Share in total expenditures (%)
municipalities	Education	37,1
districts	Education	32,0
regions/voivodships	Transport and communication	37,9

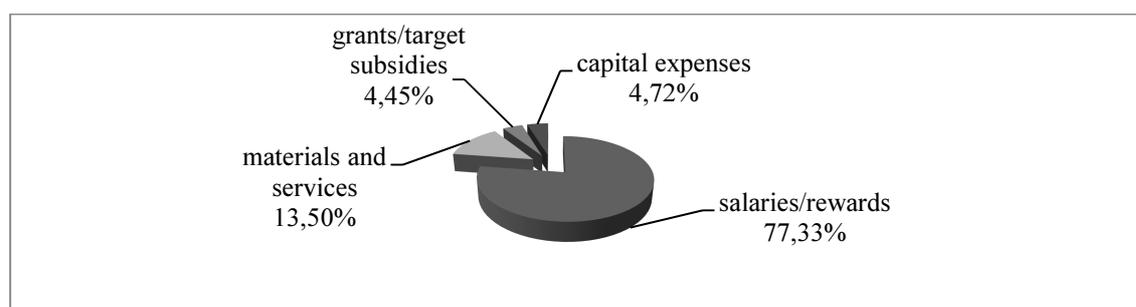
Source: Own study based on: Opracowanie własne na podstawie: Sprawozdanie z działalności regionalnych izb obrachunkowych i wykonania budżetu przez jednostki samorządu terytorialnego w 2012 roku, Krajowa Rada Regionalnych Izb Obrachunkowych, Warszawa 2013, s. 161.

According to the data presented in Table 2 municipalities and districts have the largest financial expenditures related to education, which are in fact mandatory. The education expenditures seem to be a good example of the presentation of the self-governments' autonomy. The structure and basic principles of the Polish education system are regulated by the Law on the Education System (Ustawa o systemie oświaty...). In accordance

with the provisions of this act self-government units are responsible for school administration, organizational issues, financial and human resources. The pedagogical supervision over the schools led by self-governments is provided by Board of Education (Polish: Kuratorium Oświaty), which represents the central administration. Each level of self-governments is responsible for a different type of schools. The units at the municipality level are responsible for primary/elementary education. The district level is obliged to run secondary schools as well as vocational establishments. The specific situation can be observed at the regional level, which is responsible for public institutions dealing with teachers' education and training, pedagogical libraries and other regional educational institutions.

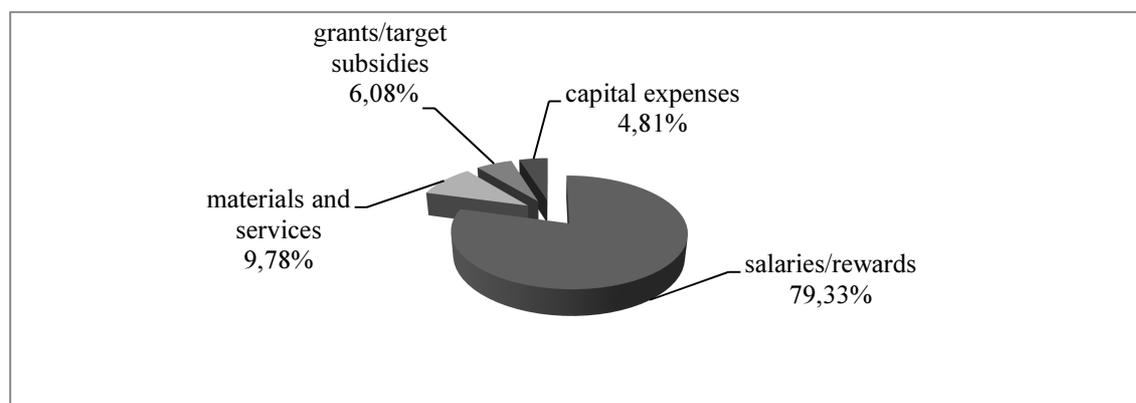
Analyzing the educational expenditures at the local level (municipalities) we can conclude that the majority of their spending is allocated for teachers' pay (see Figures 6 and 7).

Figure 6. The structure of educational expenses in municipalities in 2012



Source: Own elaboration based on: Sprawozdanie z wykonania budżetu państwa za okres od 1 stycznia do 31 grudnia 2012 r. Informacja o wykonaniu budżetów jednostek samorządu terytorialnego, Rada Ministrów, Warszawa 2013.

Figure 7 The structure of educational expenses in the districts in 2012



Source: Own elaboration based on: Sprawozdanie z wykonania budżetu państwa za okres od 1 stycznia do 31 grudnia 2012 r. Informacja o wykonaniu budżetów jednostek samorządu terytorialnego, Rada Ministrów, Warszawa 2013.

It would seem logical that local authorities, as school-running bodies, should have adequate discretion to the remuneration of their employees, especially teachers. However, in Poland the central authorities have the most to say when it comes to teachers' salaries. The main instrument of the adopted solution is the Teachers' Charter, which includes the principles of determining the remuneration for teachers (Ustawa Karta Nauczyciela...). This model preserves the central government's right to intervene in the self-government's educational policy. On the one hand, due to the importance of the education system for the socio-economic development of the territorial units such an interference might be justified. On the other hand, the encroachment of the central authorities into the area of self-governments' activities seems to be a violation of decentralization as well as subsidiary principle.

In accordance with the Teachers' Charter the salary of this professional group consists of: 1) the basic salary; 2) various additions to salary (e.g. seniority, incentive, functional (additional responsibilities), and for working conditions; 3) the remuneration for overtime and temporary replacement; 4) awards and of any other benefits arising from the employment relationship, excluding the benefits of the staff social fund and teachers' social allowances (e.g. housing and a so-called rural allowance, both for work in rural areas). The amount of the teacher's basic salary depends on work experience, qualifications and the level of compulsory classes. The amount of perks to the salary depends on the period of employment, quality of work and additional tasks assigned, additional functions and working conditions respectively. The above-mentioned rules do not give rise to controversy. They are not so much different from the generally applicable rules of other groups of employee remuneration. However, the Teachers' Charter contains far-reaching provisions. The most important are those that guarantee the reaching of average teachers' salaries (in each group of career advancement) in the schools which are run by a given local government. The possibilities of local authorities' actions are limited in this case due to the fact that the average salary is annually determined by the central regulation (indicated in the Budget Act) (Ustawa Karta Nauczyciela..., art. 30 ust. 6; Obrębski, 2012, [http](http://)).

At the discretion of local governments remains the determination of the mentioned salary-related allowances (including the most important incentive addition), the detailed

calculation and payment of wages for overtime work and temporary replacements, and the payment of other benefits arising from the employment relationship. The flexibility of local governments units in terms of teachers' remuneration in Poland is definitely limited. The adapted solution, at the same time, points to reduce the disposal of their own means of local government units and conduct independent education policy. As stated by one of the representatives of local government units „no one asks me how much I want to pay teachers, but the minister gives the table and I have to pay" (Finansowanie i zarządzanie..., 2012, p. 160).

Rigid regulations on the teachers' remuneration interfering with the independence of local government units has one more negative result on the financial autonomy of self-governments. Theoretically, current expenditures associated with running schools (including staff salaries) should be covered from the state budget within the educational part of general subvention. However, in practice the calculated amount of the general subvention is insufficient to fully cover all educational expenses, which actually result from the regulations imposed by the central government. Such a solution forces the authorities of local government units to supplement the missing part of the subvention from other sources, often sacrificing the execution of other tasks. This consequently limits the possibilities for action and implementation of tasks in other areas of local development (Kotarba, 2012, p. 54).

## **Conclusions**

The financial independence of local government units is an important element of the decentralization of public administration and an effective system of the delivery of public tasks. This allows for the actual empowerment of local communities and an independent implementation of public policies essential for the creation of local development. Obviously, local government units, as parts of the public administration system, must respect some general solutions and implement the tasks determined at the central level, especially those which affect the society and start functioning in the macro scale. However, it seems to be important whether the interference of the central government in the self-governments' activity does not go beyond the legitimate scope. The analysis shows that in Poland it may raise doubts. Generally, the essential regulations for a financial autonomy of local government units defined in the Constitution Act do not cause objections. However, the provisions of the specific laws governing these issues are more detailed. Consequently, self-government units

have a very limited impact on both the amount of their income and the freedom of spending the available resources.

In terms of income shaping, local government units have no effect on the amount of targeted subsidies received from the central budget for the assigned task's implementation. In the case of targeted subsidies, their role is limited to applying for such a grant. This form of support is possible, only if the state government has provided enough budget funds for this purpose. Regarding the general subvention, the impact of self-government authorities on their amount is limited to indirect actions and in fact is limited to the impact on the local tax revenue. In accordance with the applicable regulations, such a possibility was granted only to the authorities of municipalities. However, it's worth remembering that the increase of local tax revenue results in the decrease of the amount of subvention.

Greater possibilities of the independent actions of self-government units are visible in shaping their own income. However, in practice, this only applies to the municipality, which is the only level of local government in Poland with the right to collect local taxes and charges. It should be emphasized that the adopted legal solutions, practically enable municipalities to lower taxes and introduce exemptions. They do not have the right to impose new taxes or introduce new fees and determine their rates at will. Shaping the local tax and fee revenues can bring indirect impact on local development. Similarly, as a limited way, all levels of self-government can influence the shares of personal (PIT) and corporate income tax (CIT).

As regards the freedom to spend the available funds, it should be noted that it is different in the case of the implementation of obligatory and optional tasks. The way of funding and implementation of the compulsory tasks is strongly determined by the regulations established at the central level. On the one hand, the state authorities create the catalogue of obligatory tasks for self-government units. On the other, by defining the standards of these tasks' implementation, they affect the scope of the financial freedom of self-government units. The imposed requirements and other conditions of educational policy implementation (such as demographic, distance from school to the students' residents) at the level of municipalities and districts/counties practically deprive self-government authorities of the freedom to carry out these tasks. At the same time, they restrict the liberty of spending the resources which are at the disposal of self-government authorities. Although the educational policy is only one of the many areas of self-governments activity, the costs of its implementation (the majority of local unit expenses) makes it play a vital role in terms of their financial independence.

The far-reaching interference of the central authorities in local authorities' compulsory task performance, simultaneously affects their discretion in terms of optional tasks. The need for the implementation of mandatory tasks, imposed by the central government, substantially affects the amount of funds that remain available to local authorities and could be used according to their will (on the optional tasks). This approach reduces the possibilities of the optional tasks implementation due to the lack of sufficient funds. Paradoxically, in case of these tasks the freedom of self-government authorities is the largest.

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