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ORIGINAL PAPER

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FINANCES OF MUNICIPALITIES GOVERNMENTS IN POLAND AND TURKEY

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ABSTRACT

The paper is dedicated to the analysis the financing situation and level of decentralization in the municipalities in Poland and Turkey. The analysis covers years 2012–2016. Due to decentralisation reforms in both countries the basic level of subnational governments are municipalities. The decentralization process includes three categories: political, administrative, and fiscal. Because of above the municipalities in Poland and Turkey are various with the number of units, average municipal area, average municipality size, sources of the revenues and directions of money spending.

Key words: subnational government, municipalities, financial independence, own revenue, grants and subsidies, credits and loans, debt, Poland, Turkey

INTRODUCTION

Subnational government (SNGs) in Poland and Turkey have been reconstructed in order to provide effective and productive delivery of the services by local governments, in parallel with European practices. This restructuring process brings very important changes to the functional, institutional, fiscal, and the manpower structures of local governments. The main objective of subnational governments including municipalities, is to provide favorable conditions for the functioning and development of the local communities by satisfying their needs. The implementation of this objective requires ensuring a constant inflow of financial resources necessary to finance the appropriate level of public goods and services necessary to meet the needs of these communities and development projects. The municipality budget is the basis of the autonomy of the local government, aimed at satisfying the public's local community's needs [Guziejewska 2008, Kotarba and Kołomycew 2014, Sayan and Óvgun 2014].

Municipalities which are closest to the citizens in the management structure are lowest level of subnational governments. Municipalities bring about indispensable and important elements of public administration in all countries. There are so important in terms of democracy that they are indispensable administrations that are providing management of local services which aiming at efficiency. The financial structures of municipalities that are the most important components of the local governments is one of the most important factor that determine the quality and dimension of the services that are given by the town. Important is to determinate qualified local incomes, the transfer by the central government, the level of sources created by leanings as well as the efficiency and productivity of expenditures have an important place in the formation of financial structure [Dylewski et al. 2011, Kablan 2013, Staszel 2016].

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MATERIAL AND METHODS

The aim of research was to evaluate and compare financial independents of municipalities and level of decentralisation of subnational governments in Poland and Turkey. Due to the research interest of authors, the municipalities in Poland and Turkey are an object of financial investigation. Analyses, carried out, cover the period of 2012–2016. The research time is influenced by the legal changes which took place in Turkey in 2012.

The data about theoretical and financial issues were taken from the official sources: the applicable literatures, legal acts, the Ministries of Finances, Central Statistical Offices and the OECD Data. The descriptive and comparative methods were used in the research paper, as well as the simple statistical method and selected financial indicators in order to analyse the problem from the economic point of view.

The paper starts with the presentation of the main legal principles and financial issues of municipalities in Poland and Turkey. In the last part, the evaluation of financial situation, financial independence of municipalities and applicable conclusions are offered.

RESULTS AND DISCUSSION

Legal issues of municipalities in Poland and Turkey

Due to decentralisation reforms Poland has a three-tier system of subnational government, enshrined in the Constitution ratified in 1997. Municipalities, re-established in 1990, are divided into three categories: urban municipalities, rural municipalities and mixed municipalities [Parlińska 2014]. Turkey has two-tier system of subnational governments which are regulated by the 1982 Constitution, followed by a string of Laws on subnational governance in 2004 and 2005. In 2008, the Scale reform Act reduced the number of municipalities from 3,225 to 2,950. Implemented in March 2014, the Local Government Act further reduced the number of municipalities to 1 396 are divided into three categories: provincial or district municipalities, town and metropolitan municipalities [Sozen 2012, Akilli and Akilli 2014].

The data in the Table 1 presents the difference of municipalities in Poland and Turkey with their competences and size. The municipalities in Poland and Turkey various with the number of units, average municipal area and average municipality size. Poland has bigger number of municipalities with smaller average number of inhabitants (15,530) and average municipal area (126 km^2). More than 60% of Polish municipalities has between 5,000 to 19,999 inhabitants. In the same time Turkish municipalities are bigger almost 3.5 times with the average number of inhabitants and 4 times with average municipal area.

In Poland the Law of 8 March, 1990 of Municipalities gave large responsibilities in terms of spatial planning, infrastructure development including local roads, bridges and public transport, utilities (water supply and sewerage, waste management since 2013, energy), municipal housing, social services (including family benefits since 2004), pre and primary education, environmental protection, basic healthcare, recreation and culture. During decentralisation reforms municipalities in Turkey received wider range of competences.

Law No 5393 on Municipalities regulates the duties, authorities, debts and obligations of the municipalities in the provinces, districts and town. Their responsibilities are urban infrastructure facilities (town planning, water supply and sewage, local transport), geographic information systems, environmental and public health issues, urban traffic, parks and recreation, housing, social and cultural services, economic development and construction and schools maintenance. Metropolitan municipalities have additional responsibilities such as urban planning, urban police or disaster management.

The municipalities need to generate income in order to run the public services efficiently in the boundaries of the towns. The growth and diversity of local services made income sources important. Income of municipalities in Poland are laid down in the Law of 2003 on Local Government revenue. The 2004 reform profoundly modified the financial relationship between the central government and subnational governments giving more fiscal

Table 1. Characteristic of Municipalities in Poland and Turkey

Description		Poland	Turkey
Year of municipalities creation and important changes		1990/1998/2003	1924/2004/2012
Number of municipalities		2 478 Within: 1 559 rural municipalities 616 mixed municipalities 303 urban municipalities	1 397 Within: 970 provincial and district municipalities 397 town 30 metropolitan municipalities
Average municipality size (number of inhabitants)		15 530	53 940
Median municipal size (number of inhabitants)		7 540	8 595
Municipalities by population size class (% of municipalities)	Less than 2000	1	7
	2 000 to 4 999	24	32
	5 000 to 19 999	61	23
	20 000 or more	14	37
Average municipal area (km^2)		126	550
Competences		• Public transport • Social services • Housing • Environment • Culture • Pre-school and primary education	• Urban planning • Water supply and sewage • Transport • Environment and environmental health • Hygiene • Police, fire fighting, emergency, rescue and ambulance services • Urban traffic • Funerals and cemeteries • Parks and green spaces • Housing • Culture and tourism • Youth and sports • Social services and assistance • Weddings • Vocational and skills training • Services for economic and commercial development

Source: Own study of Act of Law No 5393 Municipality Law, Act of Law of 8 March 1990 on Local Governments, data from Subnational Governments in OECD countries – Key Data from 2016 and Local and Regional Governments in Europe Structures and Competences from 2016.

autonomy to them. The incoming revenues include following types of sources: own source revenues, shares in revenues from central taxes, general subsidies, grants and others from foreign sources and European Union budget. Within the own source revenues can be pointed out: local taxes, fees for services, revenues from selling or renting local governments' property. Municipalities are free to set tax rates within limits set out in law and to allow certain exemptions. Shared tax revenue come from the share of the PIT and the CIT which are respectively

Table 2. Incoming revenue of municipalities in Poland and Turkey

Description	Poland	Turkey
Own income	Taxes: • Property tax on land and buildings • Agriculture land tax • Forest tax • Transportation tax • Receipts from lump sum taxation • Tax on inheritance and gifts • Tax on civil law transactions Fees: • Stamp duty • Market fee • Local fee • Administrative fee • Exploitation fee – law on geology and Mining: • Waste fee • Advertising fee • Other municipal incomes paid due to separate regulations Others revenue: for example: • Incomes collected by municipal budget units and incomes from municipal budget companies • Incomes from municipal possessions • Inheritance, bequests and donations to municipality • Incomes from fines specified in separate regulations	Taxes: • Property tax • Electricity and natural gas consuption tax • Environmental tax • Publication and Advertising tax • Entertainment tax • Communication tax • Fire insurance tax Fees: • Occupancy fee • Building construction fee • Development related fees • Other fee incomes • Working in free days licence fee • Natural spring water fee • Brokerage fee • Butchering, controling supervision of animal fee • Control of measuring and weighing tools fee • Registration and copy fee • Inspection, licence and report fee • Healt certificate fee Others: • Participation shares to road expenditures • Participation shares to drains expenditures • Participation shares to water systems
Shares from State Revenues	Shares in the state taxes: • 37.42% for PIT • 6.71% for the CIT	Shares from the General Budget and State Revenues • ratio of the shares allocated to municipalities has been accepted as 9.25%
State Aids	Grants: • Grant from state budget or appropriated funds for: government administration-related tasks, own tasks, tasks realized on the basis of agreements with bodies of the government administration or other tasks on the basis of self-government agreements Subsidies: • General subsidies are transferred from the state budget for supplementing own revenue which are used to finance municipalities' tasks among which the most important are educational tasks. • Compensatory • Equalizational • Educational	• Municipal Fund • Local government's fund • Fuel consumption fund • Preventing environmental pollution fund • Municipalities zoning application fund • Municipalities fund development applications • Slum fund • Zoning amnesty fund • Fund of the Ministry of Culture • Aid to municipal government of tourist regions fund • To help the families of soldiers who need fund • Developing traffic services fund • The aids which are transferred to locale municipalities which have priority in development within SPO.

Source: Own study of Act of Law No 2464 Law on Municipal Revenues and Act of Law 13 November 2003 on the income of local governments.

37.42% for PIT, and 6.71%. for the CIT. Own sources revenue determined the financial independence and investment opportunities of community. General subsidies and grants provide complementary revenue and allow municipalities to finance their own and contracted responsibilities.

The income system of the municipalities in Turkey operates in a central dependent structure. Municipalities have three types of financial income. One of the sources is core incomes that are obtained from local incomes. According to 2,464 number of Law of Revenues Municipality these are revenues generated through sale and rental of real property owned by municipalities, operating profits and the authority to collect taxes, fees, co-payments. The second and third sources serve has the quality of transferred income. These sources consist of transfers in the form of aid and debt and the shares from central government incomes. The incoming revenues of municipalities in Poland and Turkey were pointed out in Table 2.

In Poland the 2009 Public Finance Act already stipulated to balance local current budgets and strengthened debt limitations requiring that the sum of loan instalments and interest payments must not exceed 15% of total debt. From 2014 onwards, the mode of calculation for debt ratios is changed in order to reduce SNG debt: the debt limit – outstanding and debt service – which will no longer be set based on revenue but rather on gross savings calculated over a three-year period. Moreover, SNG debt should not exceed 60% of GDP [Parlińska 2014, Satola 2015]. Subnational governments in Turkey are able to borrow funds under the provisions of Law 4749 (regulation on public finance and debt management) to finance investment projects only (golden rule). In addition, there is a series of borrowing limits and procedures. In particular, domestic borrowing is limited to an amount of 10% of previous year's revenues modified with the revaluation rate. Total outstanding debt stock (including external debt) cannot exceed the revaluated amount of the latest annual budget (Table 3).

Table 3. Deficit and debt regulation of municipalities in Poland and Turkey

Description	Poland	Turkey
Financial sources	• Credits and loans • Issue of municipal bonds • Surplus form a previous years	• Domestic Loans • Municipal Bonds • Foreign Loans via Project Financing (through Export Credit Agencies-Export Credit Banks) • Program Loans: These loans, which do not depend on any specific Project, are typically used for filling current year's financing gap. Program credits can be utilized in unspecified projects, debt refinancing, new investments etc. • Supplier Credits • Financial Leasing • Guarantees to Municipal Affiliates and Subsidiaries
Limits of deficit and debt	Since 2013: • Max level of local governments debt – 60% of incoming revenues • Interests and instalments – 15% of incoming revenues From 2014: • Individual indicator depending on the size of the operating surplus • Total public debt max 60% GDP	• Domestic borrowing is limited to an amount of 10% of previous year's revenues modified with the revaluation rate • Total outstanding debt cannot exceed the revaluated amount of the latest annual budget

Source: Own study Act of Law of 27 August 2009 on Public Finance and Act of Law No 4749 on Regulating Public Finance and Debt Management.

Financial situation of municipalities in Poland and Turkey

During the year 2012–2016 Turkish municipalities incoming revenue increased by 79.5% and reached the level of 80.99 billion TL. In the same time their expenses were presented faster growth dynamics which resulted in a five-fold increase in deficit. Turkish municipalities represent the lion's share of subnational governments incoming revenue and expenditure (respectively 90.58 and 92% in 2016). However within the Polish municipalities incoming revenue and expense were observed slower growth dynamics. This caused that since 2014 all municipalities closed budget with the surplus (Table 4).

Table 4. The municipalities budget in Poland and Turkey in 2012–2016

Specification		2012	2013	2014	2015	2016
		Poland				
Incoming revenues	million PLN	78 407.48	80 043.42	84 548.98	87 667.24	101 794.83
Incoming revenue' dynamics	(previous year = 100)	103.4	102.1	105.6	103.7	116.1
Municipalities incoming revenues/all local governments' incomes	%	44.2	43.6	43.5	44.0	47.6
Expenditure	million PLN	78 491.4	79 442.5	85 070.1	85 944.4	98 175.1
Expenditure dynamics	(previous year = 100)	98.5	101.2	107.1	101.0	114.2
Municipalities expenditure/ /total local governments' expenditure	%	43.5	43.2	43.2	43.8	47.6
Budget result,	million PLN	–83.9	600.9	–521.2	1 722.9	3 619.8
Budget result/incoming revenue,	%	–0.1	0.8	–0.6	2.0	3.6
		Turkey				
Incoming revenues	million TL	45 131.5	53 931.3	62 544.8	72 159.8	80 994.4
Incoming revenue' dynamics	(previous year = 100)	110.8	119.5	116.0	115.4	112.2
Municipalities incoming revenues/all local governments' incomes	%	78.39	77.30	89.74	89.91	90.58
Expenditure	million TL	46 988.11	59 964.44	63 266.22	73 756.96	91 269.96
Expenditure dynamics	(previous year = 100)	114.2	127.6	105.5	116.6	123.7
Municipalities expenditure/ /total local governments' expenditure	%	80.3	80.0	90.2	90.7	92.0
Budget result,	million TL	–1 856.59	–6 033.16	–721.42	–1 597.12	–10 275.55
Budget result/incoming revenue	%	–4.11	–11.19	–1.15	–2.21	–12.69

Source: Own calculation on the base of Information on the implementation of budgets of Local Government Units. Ministry of Finance in Poland and Turkey 2012–2016.

The structures of incoming revenues and expenditures of Polish and Turkish municipalities in the year 2012–2016 were presents in Figure 1. It can be observed diversified structures of revenues. In both countries 1/3 part of municipalities revenue come from taxes, fees and property income. The primary Turkish municipal tax is property tax on land and buildings providing around 50% of tax revenue, followed by the electricity and gas consumption tax and environmental cleaning tax. There are also minor taxes (publication and advertising tax, entertainment tax, communication tax, etc.). Turkish municipalities are responsible for collecting prop-

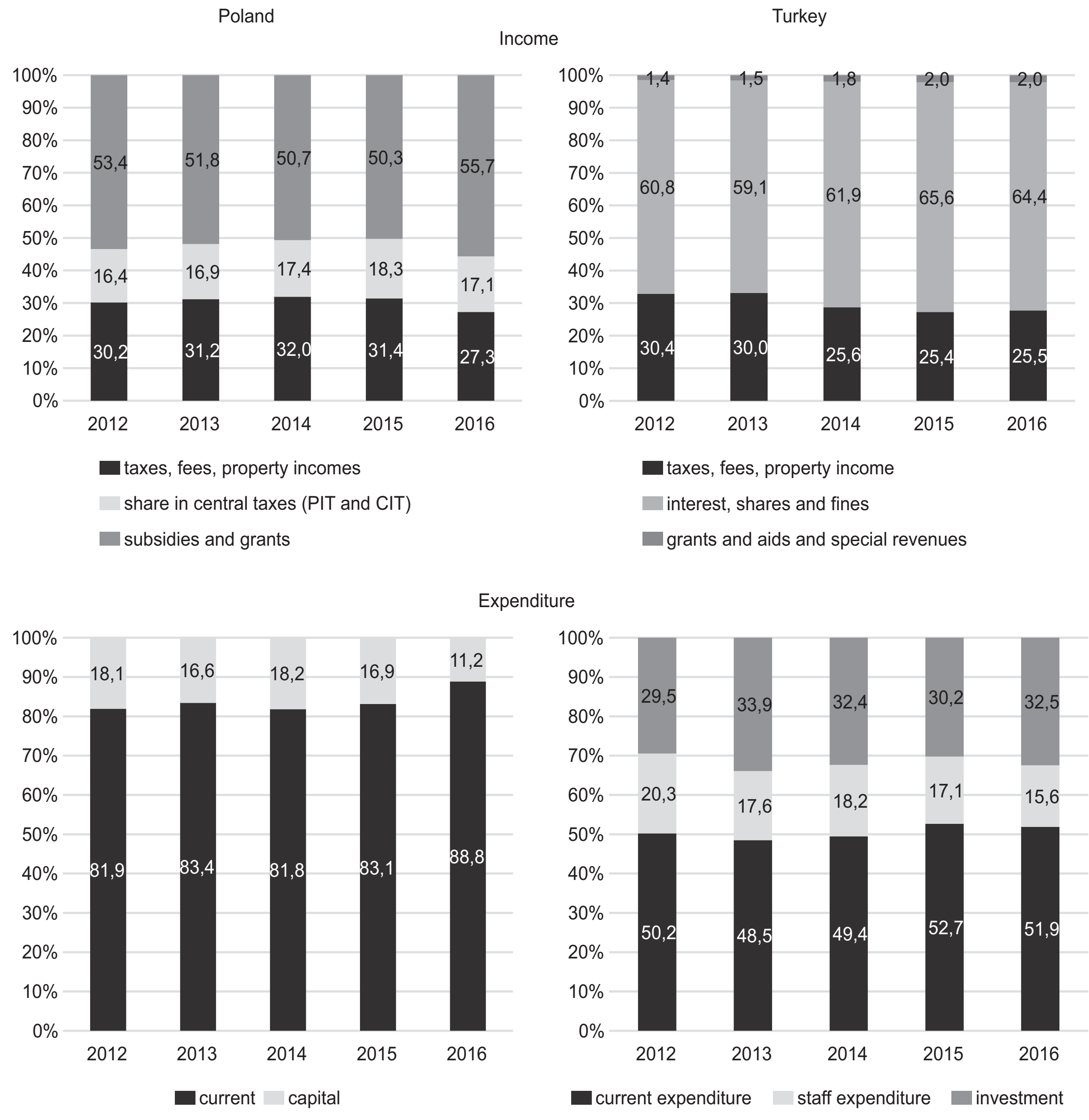

Fig. 1. Budget structure of municipalities in Poland and Turkey

Source: Own calculation on the base of Information on the implementation of budgets of Local Government Units. Ministry of Finance in Poland and Turkey 2012–2016.

erty tax but they cannot set the tax rate which is determined by the central government. In the same time Polish municipal own-source taxes include a property tax on land and buildings, an agriculture land tax and a forest tax. These three tax on immovable property accounted for 43% of tax revenue in 2016. Polish municipalities are free to set tax rates within limits set out in law and to allow certain exemptions. Other municipal taxes includes a transportation tax, a tax on vehicle registration, etc.

In Poland and Turkey within municipal financial source can be noticed the shares in central taxes. However the system of Turkish national tax revenue sharing (PIT, CIT and VAT) is the most important component. It represents around 60% of total municipal revenue. In Poland shared tax revenue come from the share of the PIT (16% of municipal revenue) and the CIT (0.9% of municipal revenue), which are redistributed according to a fixed percentage of the total proceeds collected in their respective area.

Central government transfers in Turkish municipalities come from different sources: Central Government Budget Agencies, special State programmes and the system of national tax revenue sharing which is the most important component. These funds are redistributed according several criteria: population (80%) and a "development index" (20%) for the municipalities. In Polish system the general grant (non-earmarked) con constitutes the most important grant. It is made up of several shares, including the education share, the equalisation share and the balancing share.

The education share is by far the largest, accounting for over 20% of municipal revenues. It aims at covering educational expenses, including teacher's salaries, but it is not earmarked. The equalisation share (7% of municipal revenue) is allocated to all municipalities with below-average tax capacities. The blending share aims at financing social expenditure. Earmarked transfers include specific transfers for central government delegated tasks (e.g. social spending), capital expenditure, etc. A reform of the equalisation system is currently being explored.

In the research time in both countries the current expenditures have a biggest share in municipalities budgets. The most important were the expenses connected with employed staff. However within Turkish municipalities can be observed bigger part of investment expenditures. In the same time Polish municipal primary area of spending is education, as municipalities are responsible for both capital and current expenditure including teachers and staff remuneration. Education is followed by healthcare and economic affairs/transport and then by social protection. In addition, SNGs are responsible for the large majority of overall public spending in the areas of environmental protection, housing and community amenities and recreation and culture (over 75% of public spending). In Turkey for municipalities, the main budget items are economic affairs, housing and environmental protection, general administrative services representing 85%. About 31% of municipal budget is dedicated to investment.

CONCLUSIONS

The municipalities' governments in Poland and Turkey experienced decentralization reforms and adapted national law to EU. However can be notice the differences within the municipalities competences, numbers, size and the budgets structures.

The municipal income in total income ratio, the shares given from general budget revenues constitutes 50% in Turkey and 17% in Poland. Auxiliary incomes expressed as; fines, municipal property income, special assistance, funds and other incomes by taking second place reaches a rate of 30%. Within both countries municipalities' revenues, the most important are local taxes on the property. However Turkish municipalities (in contrast to Polish municipalities) cannot set the tax rate which is determined by the central government.

Comparing the main incomes of municipality in researched countries with state aids which is transferred to municipalities by ignoring the factor of loaning lead to the conclusion that the municipalities in terms of financing are dependent on central government. As confusion it has been observed that financing of municipalities are provided by the central government largely. This situation constitutes an obstacle to the administrative and financial autonomy of local governments.

Structures of the municipalities' expenditure are determined by the numbers and types of competencies. During decentralisation reforms municipalities in Turkey received wider range of competences then Polish one. In both countries the current expenditures have a biggest share in municipalities budgets. The most important are the expenses connecting with employed staff. However Polish municipal primary area of spending is education especially connected with teacher's salaries. In the same time within Turkish municipalities can be observed bigger part of investment expenditures.

In Poland and Turkey the municipalities faced problems of deficit and debt. Both countries regulations introduced the limitation of deficit and debt ratios. In Poland from 2014 onwards, the mode of calculation for debt ratios was changed and it helped to reduce municipalities deficit. In Turkish municipalities increased deficit level can be observed. In both researched countries most of financial outstanding debt comes from loans.

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FINANSE SAMORZĄDÓW GMINNYCH W POLSCE I TURCJI

STRESZCZENIE

Artykuł przedstawia porównawczą analizę finansową samorządów gminnych w Polsce i Turcji. Analiza obejmuje lata 2012–2016. Celem autorów jest ocena poziomu samodzielności finansowej i poziomu decentralizacji podstawowych jednostek samorządu terytorialnego w wybranych krajach. Reformy decentralizacyjne w obu krajach spowodowały, iż podstawowym poziomem samorządów terytorialnych są gminy. Proces decentralizacji obejmuje trzy kategorie: polityczne, administracyjne i podatkowe. Z tego powodu gminy w Polsce i Turcji różnią się od siebie liczbą jednostek, średnią powierzchnią i średnią wielkością, źródłami przychodów i kierunkami rozdysponowania środków budżetowych.

Słowa kluczowe: samorząd terytorialny, gmin, samodzielność finansowa, dochody własne, dotacje i subwencje kredyty i pożyczki, dług i deficyt, Polska, Turcja