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Budgeting in local self-governments in Poland

This chapter analyses selected aspects of budgeting in Polish local self-government units (LSGUs) in relation to the OECD Recommendation of the Council on Budgetary Governance. The chapter describes the central elements of the institutional arrangements of public finances at the LSGU level, such as the design of fiscal rules, and identifies key challenges for sound budgetary policies in the medium term. The chapter gives an overview of the budget cycle at the LSGU level. Based on that, the chapter focuses on improving budgetary mechanisms that help align budgeting with strategic priorities beyond the annual decision-making cycle, including the more extensive use of medium-term budgeting and performance budgeting. Moreover, it examines the inclusiveness of budgeting, in particular, the use of participatory budgeting.

Introduction

For all levels of government, the budget is a central policy document showing how to finance public activities and how annual and multiannual objectives will be prioritised and achieved through resource allocation. The budget, particularly when containing a medium-term dimension, is a planning tool and a reflection of a government's activities and priorities. It requires sound governance to make it efficient, strategic, transparent and trusted by citizens at all levels of government.

For this review, focusing on Polish LSGUs, key areas of budgetary governance have been selected where progress has been made or where improvements or more extensive use of budgetary tools are considered beneficial. The review examines these areas against the corresponding principles of the OECD Recommendation of the Council on Budgetary Governance (OECD, 2015^[1]) and highlights OECD good practices.

The OECD Recommendation of the Council on Budgetary Governance (OECD, 2015^[1]) states that budgets should be closely aligned with the medium-term strategic priorities, through organising and structuring budget allocations in a way that corresponds readily with objectives and developing a stronger medium-term dimension in the budgeting process. Effective medium-term budgeting beyond the traditional annual cycle is a supportive measure toward creating a greater link between budgets, plans and policies – complementary to programme and performance budgeting. Medium-term budgeting provides predictability to policy-making and supports fiscal sustainability at all levels of government.

According to the eighth principle of the OECD Recommendation on Budgetary Governance, programme and performance budgeting tools are key to enabling governments to assess periodically whether policy objectives are being achieved (OECD, 2015^[1]). Depending on the budgeting tools in place in the different LSGUs, steps in this direction or more extensive use of these tools are considered important to improve budgetary governance.

Recent experience has underlined how budgeting is an essential element for increasing trust between governments and citizens (OECD, 2017^[2]). To ensure acceptance and increased accountability, the fifth principle of the OECD recommendation calls upon governments to “provide for an inclusive, participative and realistic debate on budgetary choices” (OECD, 2015^[1]). In this context, the chapter discusses a major public governance innovation in LSGUs, i.e. participatory budgeting.

This chapter first describes central elements of the institutional arrangements of public finances at the LSGU level, such as the design of fiscal rules, and identifies key challenges for budgetary policies in the medium term. Second, the chapter gives an overview of the budget cycle, including formulation, approval, execution and supervision. On this basis, the focus is on budgetary mechanisms that are helpful in aligning budgets with strategic priorities in order to guarantee that planning is accompanied by the necessary financial resources. Therefore, the tools of medium-term expenditure frameworks and performance budgeting are discussed. Furthermore, the inclusiveness of the budget process is examined. In particular, the chapter analyses the use of participatory budgeting at the local level to increase citizen participation, empowerment and trust in local self-government. Finally, the chapter provides recommendations for the future development of budgetary governance at the LSGU level.

For the analysis and recommendations, in particular, one has to bear in mind the large disparity among Polish LSGUs in terms of their population size, administrative capacity, economic situation and geographic location, in particular, their accessibility to functional urban areas (FUAs). While this report distinguishes between three types of LSGUs, namely inside a FUA (big and small), outside a FUA with high accessibility (big and small) and outside a FUA with low accessibility, for budgeting, the assessment and recommendations are principally directed to all LSGUs. This is because the underlying budget law applies to all LSGUs and the focus is on institutional aspects of budgeting. However, one important dimension of heterogeneity among LSGUs that is taken into account for the recommendations for budgeting is the size and the corresponding administrative capacity of LSGUs.

A challenging budgetary environment for LSGUs

Institutional context

As discussed in more detail in Chapter 6 on multi-level governance, the subnational government in Poland is based on a three-tier structure, including 16 regions (voivodeships), 314 counties (powiats) and 2 478 municipalities (gminas). Subnational governments are responsible for a third of all public expenditures (Statistics Poland, 2019^[3]). With more than 80% in 2018, the budgets of municipalities and cities with county status account for the largest part of total public spending managed at the subnational level, reflecting their higher number of tasks. In 2018, the consolidated gross debt of the LSGUs amounted to 3.6% of gross domestic product (GDP) (Statistics Poland, 2019^[3]).

The municipalities bear the main responsibility for local development, including spatial planning, real estate property management, housing, social services, early childhood care, primary and secondary education, sports, culture and environmental protection. Municipalities also manage infrastructure, including roads, water supply and waste collection. They also perform “commissioned” tasks required by law or through individual agreements – regarded as “state-level tasks” with dedicated funding and closer oversight. From a budgetary perspective, municipalities depend less on national government transfers than counties and regions and, thus, have more scope to levy taxes and use their own resources for their initiatives.

Subnational government revenues come mainly from four sources: i) own-source tax revenues (levied through limited taxation powers in accordance with nationally determined maximum rates) and non-tax own-source revenues (user tariffs and fees; revenue from property, leasing and sales, including revenues from municipal companies); ii) shares in personal and corporate income taxes (24% of total subnational government revenues in 2018) (Statistics Poland, 2019^[3]); and iii) grants, including general-purpose grants and conditional (or earmarked) grants (22% and 34% of total subnational revenues) (Statistics Poland, 2019^[3]). Apart from grants from the state budget, the latter includes resources from European Union (EU) funds (e.g. Structural and Cohesion Funds).

Municipalities are the only subnational tier with the power to tax. The property tax is the most important among these taxes (5.5% of total subnational revenue in 2018 for municipalities) (Statistics Poland, 2019^[3]). The amount of the local taxes and fees is determined by each municipality but must comply with frameworks and upper tax rates determined by national legislation.

Shared tax revenue at the LSGU level comes from the share in personal income tax (20% of total subnational revenue in 2018) and corporate income tax (4% of total subnational revenue in 2018) (Statistics Poland, 2019^[3]). Shares of income taxes are redistributed to all three levels of subnational government according to a fixed percentage of the total proceeds collected within the territory of the jurisdiction. Municipalities receive the largest share of the personal income tax transfer and regional self-governments receive the largest share of the corporate income tax. Accordingly, there is an incentive for municipalities to increase their populations and for regional authorities to foster business.

The general-purpose grant (22% of total subnational revenues in 2018) consists of four main shares: education, equalisation, balancing and regional. Despite these delineations, LSGUs can spend these grants at their own discretion – they are not tied to a particular purpose. The education share is by far the largest, accounting for over 17% of total subnational revenues in 2018 (Statistics Poland, 2019^[3]). It covers educational expenses, including teachers’ salaries. The equalisation share is allocated to all subnational governments with below-average tax capacities. The final group of conditional or earmarked grants (34% of total subnational revenues in 2018) are related to the LSGU responsibilities that have been delegated to LSGUs; the most important being provisions for social assistance. Grants from the EU are included under conditional or earmarked grants.

Fiscal rules

According to the Public Finance Act (PFA), the general rule for all LSGUs is that current expenditures planned for a budget year cannot be higher than the sum of current revenues, the budget surplus from the previous year and unassigned resources (Polish Government, 2009^[4]). In other words, LSGUs follow an annual balanced budget rule and effectively target a small operational surplus, as they are required to have a small reserve (0.1 to 1%). In addition, there was a general rule requiring that the overall debt of each LSGU could not exceed 60% of the revenues at the end of the year, while interest payments could not exceed 15% of revenues. As of 2014, a new rule is in force, allowing for greater flexibility at the cost of more complexity. The new rule states that debt is to be used for government investment activities and introduces a unit-specific coefficient of debt that defines debt thresholds for each LSGU (calculated on a three-year average ratio of the sum of the current surplus and sales to total revenues. As of 2020, the LSGU-specific coefficient of debt is based on seven budget years.

When the LSGU prepares a budget and a multiannual financial forecast (*wieloletnia prognoza finansowa*, MFF) not compliant with the individual debt ratio and/or the principle of balanced budgets, the regional audit chamber (*regionalne izby obrachunkowe*, RAC) calls the LSGU to prepare and adopt a three-year remedial programme/corrective action plan (Article 240a of the PFA). The remedial programme has to include: i) an analysis of the financial situation of the LSGU including identification of the reasons for the threat to the implementation of public tasks; ii) a corrective action plan with an implementation schedule; and iii) the expected financial results of the corrective actions along with their measurement (Kowalska, 2018^[5]). If the remedial programme is approved by the RAC, the budget can be adopted without compliance with the balanced budget rule and the individual debt ratio. When the LSGU does not prepare a programme or the RAC does not approve it, a remedial programme will be drawn up which imposes a budget, bypassing the mayor and the LSGU council (Zawadzka-Pąk, 2014^[6]).

Overall, LSGUs are subject to strict fiscal rules with a clearly defined correction mechanism. These fiscal rules align well with the OECD Recommendation on Budgetary Governance (OECD, 2015^[1]). They principally constitute clear and credible limits for budgetary policies and a commitment to pursue sound and sustainable budgetary policies. However, as in many other subnational fiscal frameworks, the fiscal rules at the LSGU level do not take into account the economic cycle and thus run the danger of being procyclical.

Challenges for sound budgetary policies of LSGUs

As outlined in the first chapter, Poland faces substantial challenges, such as population ageing, low fertility rates, a decreasing workforce, outmigration, environmental pollution and, consequently, fiscal sustainability concerns. Drawing on the OECD questionnaire administered by the Association of Polish Cities as part of this project, these issues directly translate into challenges for LSGUs depending on their socio-economic composition and geographical location in terms of their accessibility as FUAs. These challenges are also reflected in a deteriorating current balance of the LSGU budgets over recent years. In addition, at the time of writing, Polish LSGUs were grappling with additional responsibilities and pressures in relation to the COVID-19 pandemic, further increasing uncertainty and accentuating the economic and budgetary challenges in the short and medium terms. In light of the budgetary objective of presenting balanced budgets and sustainable debt, LSGUs face the following key challenges for sound budgetary policies in the medium term:

- **Revenue**
 - Decreased shared revenues due to a reform that lowered personal income tax at the national level in 2016.
 - Revenue uncertainty due to reforms at the national level.
 - Increasing revenue uncertainty regarding public investment supported by EU funds.

- **Expenditure**

- Increase in responsibility for education: The scale of (co-)funding for education as a key policy area of LSGUs has been increased following the educational reform in 2016, resulting in a sharp and permanent increase in LSGU educational spending, while keeping national government transfers for education increasing at a much lower scale.
- To maintain balanced budgets, LSGUs have to cut back on other expenditures or increase debt to finance public expenditures in the short to medium terms. This implies:
 - A risk of not enough funds for public investment, which may lead to systematic under-investment in the medium term.
 - Necessity to spread repayments of debts through longer periods, which leads to increased costs of debt servicing.
 - Risks due to increasing public investment financing via bonds that could result in medium-term fiscal sustainability concerns and lead to increased vulnerability to interest rate changes.
- Increasing investment costs, as providers for infrastructure projects are getting more expensive.
- Increasing current expenditures over the very recent years – related especially to salaries and energy costs, as well as to other direct costs of services rendered by LSGUs.

Obviously, individual LSGUs encounter these challenges to different degrees – depending on their size, economic situation, industry structure, geographic location and exposure to COVID-19. While LSGUs – as different as Katowice (292 000 inhabitants, inside a FUA), Międzyrzec Podlaski (16 800 inhabitants, outside a FUA with high accessibility) and Ziębice (8 700 inhabitants, outside a FUA with high accessibility) reported these challenges, representatives of Płock (120 000 inhabitants, inside a FUA) and Krotoszyn (40 400 inhabitants, outside a FUA with high accessibility) highlighted the need to invest in transportation infrastructure to maintain and improve accessibility and connectedness as a further key challenge.

In light of competitive pressures on the tax side and limited autonomy of LSGUs (for instance, property tax and transportation taxes), a conceivable option to improve the budgetary position and maintain sound budgetary policies in the medium term is increasing revenue shares and revenue certainty in relation to national government transfers and shared national taxes. As to revenue certainty, LSGUs need consistency in their operating environments in order to be able to plan adequately beyond the annual budgetary cycle.

Proposals, for instance, regarding increasing the educational grant or the share in income taxes as well as lobbying for a stable revenue environment in general, should be addressed in close co-operation with the national government in general and the Ministry of Finance in particular. Regular dialogue addressing public finance topics across levels of government should take place, for instance, within the Joint Committee of National Government and Territorial Self-government – reinforced in terms of its capacity and advisory functions. This joint committee brings relevant national ministries together with associations representing regional and local authorities (including the Association of Self-governing Voivodships of the Republic of Poland, the Association of Polish Cities, Association of Polish Counties and the Association of Rural Municipalities of the Republic of Poland).

Within such regular dialogue of the Joint Committee of National Government and Territorial Self-government, Poland may also consider addressing the vertical fiscal imbalance between spending and own revenues at the LSGU level to reduce the central government transfer dependence. In fact, it has often been remarked that LSGUs have seen an increasing number of responsibilities devolved to them and yet very little in the way of increased fiscal decentralisation to match it (OECD, 2008^[7]; 2013^[8]; 2018^[9]). One option could be to align spending responsibilities with a stronger and more decentralised tax autonomy for LSGUs. This would benefit budgetary policies and underline the importance of medium-term planning

as the budgetary responsibility of LSGU decision-makers for own resources would increase and citizens would face stronger incentives to evaluate the provision of local public services.

The budget process at the local self-government unit level

According to Article 211 of the PFA, the LSGU budget is an annual plan of revenues and expenditures as well as incomes and expenses, passed for a calendar year in the form of a budget resolution. The budget resolution constitutes the basis for the financial management of the LSGU. The draft budget resolution is discussed by the LSGU council (i.e. the legislative body) and, simultaneously, submitted to the regional audit chamber (RAC) for an opinion. Typically, the draft budget resolution is approved by the LSGU council by the end of the year preceding the budget year. The LSGU council is involved in the budget process and has access to budgetary information. LSGU budgets are made public in the electronic Public Information Bulletin. The budget process comprises four stages: formulation, approval, execution and supervision.

Budget formulation

The mayor has the exclusive responsibility for setting up the draft budget with the support of the LSGU's treasurer and all administrative units. Starting the budget formulation process in spring, the administrative units typically submit their budgets until early September to the treasurer. The consolidated draft budget resolution then has to be submitted to the LSGU council and RAC by 15 November of the year preceding the budget year.

The Municipal Self-Government Act (1990) and the Public Finance Act (2009) did not stipulate any direct public participation in planning public spending until very recently, though citizen and interest group are involved (see also Chapter 8 on open government). In Kutno for instance, these groups are significantly involved at the early strategy-setting phase, though not during the budget approval process. In Płock, there is no formal process; however, citizens can take part in LSGU council committee sessions and make project proposals. Moreover, representatives of Płock directly express local needs to the mayor. This is particularly relevant for setting priorities regarding smaller public investments.

Budget approval

The LSGU has to submit the draft budget resolution by 15 November of the year preceding the budget year to the LSGU council for adoption and the RAC for an opinion. Having obtained the RAC's opinion on the draft budget resolution, the LSGU shares the opinion with the LSGU council before the budget is approved (Article 238 of the PFA). The LSGU council receives the draft budget resolution and normally has six weeks for debate. The council scrutinises and discusses the budget in committees, for three to four weeks, including expert hearings with LSGU officials, and can put forward motions and amendments. Every motion and amendment has to indicate the financing sources. The budget approval sessions take place at the end of the year and the budget should be adopted before the budget year starts.

In exceptional cases, adoption may take place in the budget year, however, no later than 31 January. By the time of passing the budget, financial management is then based on the draft budget resolution submitted to the LSGU council. If the budget resolution is not passed by end of January, the RAC establishes the budget by the end of February (Zawadzka-Pąk, 2014^[6]).

Budget execution

The local self-government executes the budget over the course of the budget year. The mayor, assisted by the treasurer, exercises the general supervision over the implementation of revenues and expenditures. Within 21 days from the day of passing the budget resolution, the mayor provides subordinated units with

information about the final amounts of allocated revenues and expenditures and regarding the amount of grants and transfers in order to enable these units to adjust their draft financial plans, according to specific budgetary classification codes. The provisions of the PFA stipulate the general principles of public financial management that are binding during budget execution as to enforceability, deadlines, public procurement, budget reserves, unforeseen expenditures and amendments during budget execution.

Budget supervision

The supervision and audit of financial management are conducted by a separate body, i.e. the RACs. Poland announced the creation of RACs when passing the Local Self-Government Act in 1990. The RACs were established under the Regional Chambers of Auditors Act in 1992. In 1997, the role of RACs was anchored in the constitution. The functions of the RACs cover supervision, audit, opinions, adjudication in the event of public finance discipline violation and activities related to instruction (Box 5.1).

Box 5.1. The functions of the regional audit chambers

The functions of the RACs cover supervision, audit, opinions, adjudication in case of public finance discipline violation, and activities related to instruction.

As to supervision, the only criterion is the legality of LSGU actions. RACs do not scrutinise the merit of public expenditures. The supervision covers LSGU resolutions and bylaws concerning the procedure of passing the budget, budget modifications, liabilities, loans, the principles and scope of the allocation of subsidies, local taxes, fees and charges, the approval of the budget execution, and the LSGU multiannual financial forecast for example. In the event of a serious breach, the RAC declares a resolution or directive invalid. Regarding budgetary supervision, RACs have special competencies: if the budget is not adopted by the LSGUs by 31 January, they establish the budget before the end of February.

There are four categories of audits carried out by RACs. First, a comprehensive audit of the financial management of an LSGU takes place at least every four years. Second, there are problem-focused audits, for instance, concerning procurement by LSGUs or their subsidiaries. Moreover, unscheduled reviews and review audits monitor the implementation of previous audit recommendations. The RAC issues information explaining the sources and causes of errors, their extent, responsible persons and proposals to remove errors and improve the concerned activity. The post-audit information is transmitted to the LSGU no later than 60 days from the date of signing the audit minutes. The LSGU is obliged, within 30 days of receipt, to inform the RAC of the implementation of the recommendations or the reasons for deviations. LSGUs can raise an objection against the motions of the post-audit information. Audit reports are published.

The RAC also issues opinions supporting LSGUs within the budget process. These opinions concern: i) ways of redeeming securities or paying back credits and loans; ii) ways of financing the budget deficit and the predicted debt; iii) submitted budget drafts; iv) information on budget execution reports for the first half of the budget year as well as annual reports submitted by the LSGUs; and v) the draft of the multiannual financial forecasts.

RACs also host commissions adjudicating cases of public finance discipline violation concerning cases of non-compliance with principles of public finance management and procurement. Moreover, the RACs offer information and training to LSGU officials in matters of budget and financial management, public procurement and issues relating to supervision and auditing.

Source: Zawadzka-Pak, U. (2014^[6]), *Polish Financial Law*, Białystok Law Books, Faculty of Law, University of Białystok, Temedia 2.

Assessment of the budgetary process

Overall, given the time pressures under which budgetary decision-making takes place, the design of the annual budget cycle is reasonable for the LSGU level and corresponds to OECD practices. In particular, Polish LSGUs have a budget calendar that is well specified and understood by the different stakeholders involved in the budget process. LSGU budgets are made public. The budget approval procedure is clearly codified in the PFA and ensures time for the LSGU council to perform an essential role in the oversight of the LSGU by scrutinising the draft budget resolution and, where it considers appropriate, introduce amendments. The procedure also provides time for the RAC to fulfil its supporting mandate. The supervision of the financial management of LSGUs is conducted in a strict and transparent manner by the RACs. While the RACs' involvement in the budgetary process seems rather strong, the merit of RACs as long-standing supervisory institutions with multiple tasks and broad coverage is widely accepted and appreciated by key stakeholders. As a counterbalance to the strong RAC role, appeals by the LSGUs against RAC resolutions can be filed in the administrative courts. This option is appreciated by LSGUs to avoid the excessive intervention of RACs.

In the following, the focus is on the medium-term expenditure framework (MTEF), performance budgeting and participatory budgeting as mechanisms that help to strengthen budgetary governance and address the challenges that LSGUs face. Against the background of increased budgetary pressures, the MTEF and performance budgeting help to prioritise expenditures and increase transparency and accountability of the budget process beyond the annual cycle. These tools help to match public revenues and spending, maintain balanced budgets and contribute to fiscal sustainability in the medium to long terms. Participatory budgeting supports budgeting as a mechanism to strengthen citizen engagement. It also helps to identify spending priorities and align budgetary decision-making with citizens' preferences. This is particularly relevant at the local level, where citizens and decision-makers closely interact.

A reinforced medium-term budgeting perspective

According to the second OECD Principle of Budgetary Governance (Box 5.2), governments at all levels should closely align budgets with their medium-term strategic priorities. However, aligning budgets with strategic priorities is a challenge in all countries, as the budget follows an institutional logic, while planning requires a transversal, multidisciplinary approach and presupposes a medium-term perspective.

Box 5.2. OECD Budgetary Governance Principle 2

Closely align budgets with the medium-term strategic priorities of the government, through:

- Developing a stronger medium-term dimension in the budgeting process, beyond the traditional annual cycle.
- Organising and structuring the budget allocations in a way that corresponds readily with national objectives.
- Recognising the potential usefulness of a medium-term expenditure framework in setting a basis for the annual budget, in an effective manner which: i) has real force in setting boundaries for the main categories of expenditure for each year of the medium-term horizon; ii) is fully aligned with the top-down budgetary constraints agreed by government; iii) is grounded upon realistic forecasts for baseline expenditure (i.e. using existing policies), including a clear outline of key assumptions used; iv) shows the correspondence with expenditure objectives and

deliverables from national strategic plans; and v) includes sufficient institutional incentives and flexibility to ensure that expenditure boundaries are respected.

- Nurturing a close working relationship between the Central Budget Authority (CBA) and the other institutions at the centre of government (e.g. prime minister's office, cabinet office or planning ministry), given the interdependencies between the budget process and the achievement of government-wide policies.
- Considering how to devise and implement regular processes for reviewing existing expenditure policies, including tax expenditures (see also Principle 8 below), in a manner that helps budgetary expectations to be set in line with government-wide developments.

Source: OECD (2015^[11]), *Recommendation of the Council on Budgetary Governance*, <https://www.oecd.org/gov/budgeting/Recommendation-of-the-Council-on-Budgetary-Governance.pdf>.

Essential tools to help align the budget with strategic priorities involve:

- Medium-term strategic planning: Based on the priorities, governments should identify their strategic objectives and develop a set of measurable medium-term objectives for their implementation.
- Medium-term budgeting: Greater assurance about multi-year resource availability should be provided to policy planners and appropriate medium-term goals, with which the resources should be aligned should be identified.
- Budgeting around programmes: Budget allocations should be organised and structured in a way that corresponds readily with the strategic objectives, i.e. budgets should be structured according to programmes, rather than institutional organisations and inputs (see next section).

As described in the chapter on strategic planning, a key step towards aligning the budget with strategic objectives is to have an effective strategic planning framework. Moreover, aligning budgets with strategic priorities also requires intra-LSGU co-ordination capacity as discussed in Chapter 2 on co-ordination. To be effective, development strategies should be costed, include indicators, targets and measurable goals, and should provide a tool for the public administration to develop sectoral plans and thereafter annual plans. This layering of planning tools is key to establishing effective medium-term expenditure management. MTEFs should be developed based on the policy prioritisation that has been developed in these plans. At the same time, the use of MTEFs supports the process of defining and focusing on strategic plans.

In Poland, the LSGU's local development strategy (LDS) is the most important document identifying strategic objectives. However, while the LDS is needed as a strategic document for applying for EU programme funds, it is only loosely related to the budget process. It relates to the medium-term budgeting framework, i.e. the MFF. However, the feedback into the budget process is underdeveloped: in its current form, it does not strongly guide policy priority setting within the budgetary process.

Strengthening medium-term budgeting

OECD countries have implemented different public financial management tools that contribute to the alignment of the budget with strategic objectives. Most OECD countries have a medium-term expenditure framework (MTEF) in place (OECD, 2019^[10]). A well-designed MTEF forces stakeholders to deal with the medium-term perspective of budgeting and budgetary policies rather than adopting a year-by-year approach. It provides greater assurance to politicians, stakeholders and public officials about multi-year resource availability and helps to align these resources with governments' medium-term goals.

MTEFs typically cover a period of three to four years and aim to improve the quality and certainty of multiannual financial planning by combining prescriptive yearly ceilings with descriptive forward estimates. For the medium-term framework to operate effectively, estimates and ceilings need to be reconciled within the context of a forward-looking approach to budgetary planning and policy formulation.

With the multiannual financial forecast (pl. *Wieloletnia Prognoza Finansowa*, MFF), Polish LSGUs have the foundations for medium-term budgeting in place. The MFF covers the budget year and at least three subsequent years. The debt forecast, which is part of the MFF, is drawn up for the period for which liabilities have been incurred or are planned to be incurred. Therefore, MFF forecasts are prepared for longer periods. For instance, the current MFF forecast in Płock covers the period until 2040. The MFF in Kutno presents a forecast for the next ten years. As in the case of Kutno, LSGUs refer to the macroeconomic assumptions used by the Ministry of Finance. These assumptions are often complemented with regional specificities, such as industry structure or regional economic development. When preparing the estimates, the assumptions are also compared with past economic and budgetary developments.

The MFF is used in the annual budgetary cycle. Together with the draft budget resolution, the MFF is sent to the RAC for an opinion and the LSGU council for adoption. The MFF specifies the revenues and expenditures, deficits and debt of the LSGU and the method of financing the repayment of debt or the allocation of surplus. In the annex of the MFF, an overview of multiannual programmes is presented. The multiannual programmes include private-public partnership agreements and other programmes, including those related to EU funds. Once the MFF is approved, the LSGU can incur multiannual contracts and agreements including related debt issuance (Zawadzka-Pąk, 2014^[6]; Wolowiec, 2013^[11]).

Consistent with OECD practices, the description shows that the MFF used by LSGUs covers plausible planning horizons and is underpinned by economic assumptions. The MFF is anchored in the PFA and is used as part of the draft budget resolution in the annual budget cycle. It is particularly relevant for financing multiannual LSGU contracts and agreements. However, the use of the MFF as a tool for priority setting within the budgeting process and its relation to the local development strategy and other strategic priorities is overall underdeveloped. In practice, many LSGUs and in particular small LSGUs almost entirely set priorities within the annual budget cycle and focus on small-scale projects, mostly paying little attention to the MFF.

Developing a stronger medium-term dimension in the LSGU budgeting process is a key element to address the budgetary pressures identified above. A stronger reliance on the MFF and a politically more binding medium-term dimension in budgeting would help LSGUs to: i) ensure that budgets are directed towards existing medium-term priorities; and/or ii) help to set clear medium-term priorities. This is particularly true with the COVID-19 crisis further increasing uncertainty and accentuating the economic and budgetary challenges in the medium term. A stronger medium-term dimension also strengthens the ability of the LSGU in general and the treasurer in particular to plan and enforce a sustainable fiscal path, match public revenues and expenditures and thus increase the LSGU's financial market credibility. At the operational level, strengthening the MFF would also imply the preparation of more standards and baseline data to produce reliable medium-term forecasts of the revenues and expenditures of LSGUs.

A stronger medium-term dimension helps stakeholders in identifying the policy choices and trade-offs that are necessary beyond the annual budget cycle. In other words, a stronger emphasis on the medium-term dimension of budgeting, based on the MFF, would help LSGU decision-makers developing clear medium-term priorities in the first place. The beneficial impact of the medium-term budgeting perspective depends ultimately on the credibility of the expenditure estimates, their link to priorities and annual budgets as well as on how the MFF information is used by decision-makers and civil society. Efforts to use the MFF more extensively in budgetary decision-making and to make it more binding and, at the same time, setting up comprehensive medium-term local development strategies, that are more closely related to the budget, would mutually reinforce each other.

Steps towards performance budgeting

Budgets centred around programmes

Many OECD countries have undertaken reforms to ensure that budget allocations are organised and structured in a way that corresponds readily with strategic medium-term objectives (Box 5.3). In particular, some countries have introduced programme budgeting, structuring the budget by reference to functional and/or strategic programmes (as distinct from traditional financial “line items”, heads and subheads of expenditure) in order to facilitate a focus on the outputs, outcomes and impacts of public spending and thus promote close linkages with the medium-term planning and developmental processes. The advantages of the approach include enhanced monitoring of programme effectiveness, improved allocative efficiency and greater transparency to stakeholders with respect to the use and impact of public funds. A programmatic classification is recognised to be more appropriate for a policy prioritisation function of the budget. With programmes, the medium-term dimension of budgeting gains importance.

Box 5.3. French programme budgeting system

In 2001, France enacted a new organic budget law including a well-defined programme structure, shifting budget classification from nature of expenses to public policy objectives. According to this approach, the budget must be divided into missions, programmes and actions:

- A mission covers a series of programmes designed to contribute to a specific public policy. A mission can involve a single ministry or several ministries. The parliament cannot change or adjust the missions. It has to accept the budget allocations proposed by the executive government and has the power only to vary the allocation between programmes.
- A programme covers a coherent set of activities of a single ministry targeted to a specific public policy objective. If more than one ministry participates in a large public policy, each should have a separate programme, covering its own responsibility in that matter, and ensuring co-ordination. Thus, a programme corresponds to a centre of responsibility. Accordingly, for every programme, a programme director is appointed. All resources from the state budget should be allocated and spent within a programme. In a similar way, resources allocated by the parliament to a particular programme cannot be spent on another programme.
- An action covers a set of operational means to implement the programme. The budget breaks down resources allocated to the actions of each programme; however, this breakdown is indicative and not committing. There is indeed a high degree of freedom for expenditure choices for ministers, in order to allow the programme to reach its forecasted performance. However, there is one exception to this increased freedom: staff appropriations are not indicative but binding in an asymmetrical way: personnel appropriations can be used for other purposes but appropriations for other purposes cannot be used for staff costs.

The budget law prescribes extensive performance reporting to integrate performance information in the budget system through the following two mandatory documents: annual performance plans (*projets annuels de performances*, PAP) and annual performance reports (*rapports annuels de performances*, RAP). For a given mission, the PAP provides a description of its purpose, goals, policy targets and performance indicators. As part of the annual budget act, PAP documents are forward-looking and contribute to the public debate about the costs and benefits of public policy. RAPs are published in the first quarter along with the budget review act; they focus on performance achievements and provide information on programme implementation and results. RAPs are thus backward-looking and tend to contribute to the public debate on the administration's performance.

Source: Moretti, D. and D. Kraan (2018^[12]), “Budgeting in France”, <https://dx.doi.org/10.1787/budget-18-5j8jt0pt4c0q>.

Introducing a programme structure in the budget requires a cultural change. Prior to the introduction of programme budgeting, there is often a lack of a defined mission about the activities carried out, how much these activities cost and how they are linked to the results they aim for. International experience suggests that programme budgeting should be implemented in a progressive manner, shifting from detailed financial “line-item” budgeting to programmatic and thematic budgeting, in an effort to promote engagement with the policy content and “meaning” of budget allocations. In many countries, programmes are selected within the context of a policy “cascade” from rather high-level strategic goals which inform medium-term, specific outcome goals, which in turn inform departmental or sectoral objectives and associated output targets. Once programmes have been selected, countries move to assign responsibility for the achievement of the selected programmes and targets. A critical lesson from OECD countries in advancing programme budgeting is the need to avoid information overload and to secure the interest and buy-in of decision-makers, the public and the public administration for the programme budget as the focal instrument. In the medium term, LSGUs, depending on their capacity and their political will, may consider steps towards organising their budgets around programmes in combination with performance budgeting.

Performance budgeting

In OECD countries, programme-centred budgeting has been accompanied by efforts to develop and use performance information to inform, influence and/or determine the level of public funds allocated towards those programmes in the budgetary context (Box 5.4). A performance budgeting system provides relevant information that facilitates annual and multiannual budgeting, including the core task of deciding on where limited resources are best allocated or reallocated. Likewise, a clear linking of budgets with results and impacts helps to lay the basis for an evidence-based approach to policy-making. The OECD classifies four forms of performance budgeting, including presentational, performance-informed, managerial and direct performance budgeting. In this order, each form represents a progressively stronger link between performance measurement and budgetary decision-making. In 2018, OECD countries were almost equally divided between the first three approaches. None reported using “direct” performance budgeting, which directly links budget allocations to performance measures (OECD, 2019^[13]).

Box 5.4. OECD Budgetary Governance Principle 8

Ensure that performance, evaluation and value for money are integral to the budget process through:

- Helping parliament and citizens to understand not just what is being spent but what is being bought on behalf of citizens – i.e. what public services are actually being delivered, to what standards of quality and with what levels of efficiency.
- Routinely presenting performance information in a way that informs and provides useful context for the financial allocations in the budget report; noting that such information should clarify, and not obscure or impede, accountability and oversight.
- Using performance information, therefore, which is: i) limited to a small number of relevant indicators for each policy programme or area; ii) clear and easily understood; iii) allows for tracking of results against targets and comparison with international and other benchmarks; and iv) makes clear the link with government-wide strategic objectives.
- Evaluating and reviewing expenditure programmes (including associated staffing resources as well as tax expenditures) in a manner that is objective, routine and regular, to inform resource allocation and re-prioritisation both within line ministries and across government as a whole.

- Ensuring the availability of high-quality (i.e. relevant, consistent, comprehensive and comparable) performance and evaluation information to facilitate an evidence-based review.
- Conducting routine and open *ex ante* evaluations of substantive new policy proposals to assess coherence with national priorities, clarity of objectives and anticipated costs and benefits.
- Taking stock, periodically, of overall expenditure (including tax expenditure) and reassessing its alignment with fiscal objectives and national priorities, taking account of the results of evaluations; noting that for such a comprehensive review to be effective, it must be responsive to the practical needs of government as a whole (see also Principle 2).

Source: OECD (2015^[1]), *Recommendation of the Council on Budgetary Governance*, <https://www.oecd.org/gov/budgeting/Recommendation-of-the-Council-on-Budgetary-Governance.pdf>.

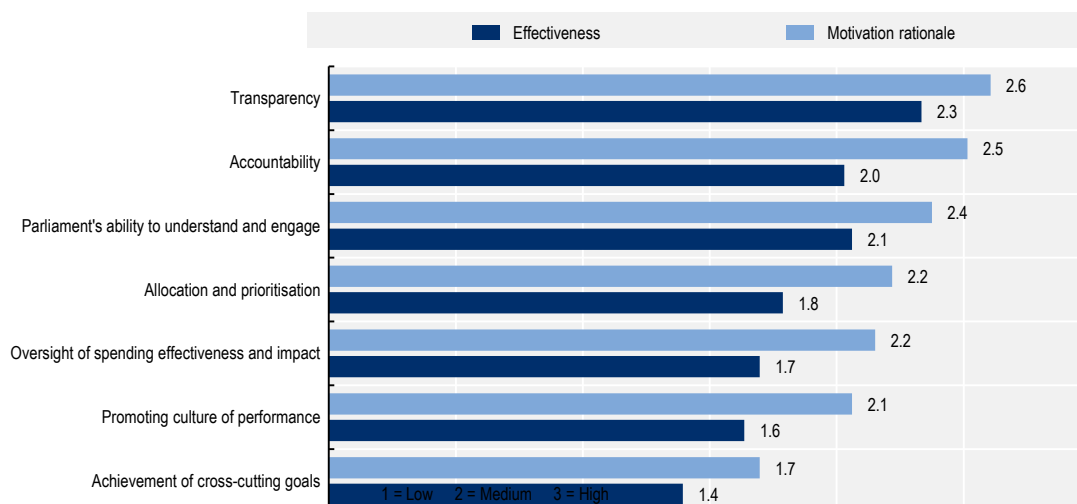
In Poland, to describe the conception of performance budgeting (*budżet zadaniowy*), the aspect of “tasks” (not programmes) and not results (performance) as in the original terminology is emphasised. The first Polish experiences in performance budgeting were made at the LSGU level in the early 1990s. Kraków introduced performance budgeting in 1994. It has also been implemented, for instance, in Lublin, Gdańsk, Płock, Poznań, Szczecin and Warsaw, as well as in smaller LSGUs, such as Goleniów. Larger LSGUs often have a stronger political will and ambition to introduce performance budgeting as a means of making local politics more transparent and performance and outcome-oriented. Larger LSGUs are also more likely to have the required administrative capacity. Moreover, citizens of larger LSGUs typically expect a performance-based budget complementing the traditional line-item budgets in order to relate the budget to outcomes and hold politicians accountable (Zawadzka-Pąk, 2014^[6]).

The national government has neither obliged LSGUs to implement performance budgeting nor prohibited them to do so. On the one hand, this arrangement has not contributed to the widespread preparation and implementation of performance budgets among LSGUs. For instance, guidance or a common framework where LSGUs could refer to was not provided. On the other hand, this arrangement allowed LSGUs to gradually develop their own models of performance budgeting, adapted to the individual needs of LSGUs that differ in terms of size and economic development. Compared to the national level, the implementation of performance budgeting in LSGUs tends to be conceptually easier and can bring greater benefits in a shorter period. This is primarily because the definition of objectives and indicators pose fewer difficulties as LSGU tasks mainly consist of the provision of concrete public services to citizens.

The PFA does not contain any legal provisions concerning the performance budget at the LSGU level, thus, only the traditional line-item budget is legally binding. Where performance budgeting is used, it complements the traditional budget in form of presentational performance budgeting. Indirectly, some of the PFA provisions promote the use of selected elements of performance budgeting, i.e. the obligation to conduct management control that aims at, *inter alia*, ensuring efficiency and effectiveness of public task execution and the obligation to plan multiannual programmes within the MFF (Zawadzka-Pąk, 2014^[6]).

In LSGUs that present a performance budget in parallel to the traditional budget, the performance budget provides a basis for the strategic use of the budget process. Steps towards wider use of performance budgeting at the LSGU level are therefore welcome. Wider use of performance budgeting will increase transparency, accountability and align identified priorities with the budget and beyond the annual cycle (see Figure 5.1 for OECD country experiences). It would align LSGUs closer to OECD good practices. In light of the medium-term challenges, supporting the priority-setting function of the budget by means of performance budgeting is important.

Figure 5.1. Ranking of different rationales for introducing performance budgeting and their effectiveness in practice



Note: 1 = Low; 2 = Medium; 3 = High.

Source: OECD (2019)^[13].

However, consistent with OECD experiences, several challenges exist concerning performance budgeting in the Polish LSGU context. Next to challenges, such as human resource capacity constraints (see Chapter 7 on human resource management), setting up information technology (IT) systems in performance-based budgeting format, finding appropriate ways to integrate performance information into the budget process and gaining the attention of decision-makers, a key issue is the lack of quality data on performance information of LSGUs on an individual as well as on a comparative basis. In this context, Płock, having a performance and monitoring unit in place, also reported that the delay with which performance information is available, for instance, often more than one year, depending on the policy area, constitutes another obstacle. An additional challenge related to performance information is that the budget codes, as well as financial reporting, apply only to administrative units within the LSGU structures, i.e. not to local self-government independent entities (such as public libraries or museums) and public enterprises at the LSGU level. This makes the collection of comparable and broad performance information to assess the efficiency of local public services often difficult.

To improve the availability of data on LSGU performance, there are pilot projects on performance information, performance measurement and performance benchmarking of LSGUs. For instance, there is a collaboration of the Ministry of Internal Affairs, the Central Statistical Office, the Association of Polish Cities and the Association of Polish Counties under the project Public Service Monitoring System (SMUP). This large-scale pilot project, with more than 30 LSGUs and more than 600 LSGUs in 2022-23, covers the areas of education, social services as well as technical and administrative public services. It aims at building over 100 key indicators, involving the financial, qualitative, quantitative and access dimension of public services at the LSGU level. Such efforts are welcome. When this database on the Statistics Poland website is fully functional (2022-23), introducing performance budgeting in Polish LSGUs is likely to be facilitated, as performance measurement and management with the use of evidence, including cost-effectiveness, will become easier. When functional, such a system, with financial data, can allow for performance benchmarking and preparing performance budgets based on programmes. In other words, next to the obvious benefits of establishing benchmarking, such efforts are valuable for linking performance information to budgets in all LSGUs in a subsequent, complementary step. Another basis for improving performance information is learning from experiences within the framework of EU-funded projects. The European Commission has introduced a results-based imperative in its cohesion policy. These monitoring

requirements could be used to modernise and extend performance information and establish comprehensive performance-monitoring frameworks at the LSGU level.

Performance information could also be used to take stock of existing expenditure within tailor-made spending reviews in larger LSGUs (Box 5.5). In fact, spending reviews are widely used as a strategic budgeting tool in OECD countries (Figure 5.2) and have recently been set up at the Polish national government level. On the expenditure side, where LSGUs have discretion, public spending efficiency should be systematically scrutinised. Potential areas of interest are the public administration and the educational sector. In these areas, huge cost and quality differences are anecdotally reported among LSGUs. Well-designed performance indicators and performance evaluation frameworks can provide regular and timely feedback to policy-makers, foster learning and capacity building, create transparency and accountability, and help to better set policy priorities beyond the annual cycle.

Box 5.5. Spending reviews

A spending review is a political and administrative process of developing and adopting saving measures by systematically scrutinising baseline expenditures relative to the government's budgetary objectives and priorities. A spending review is an examination of the efficiency and effectiveness of existing policies. Governments can opt to implement a review to help identify areas of wasteful or inefficient spending. This can also increase the profile to the implementation of policies and bring awareness to the budgetary constraints and challenges.

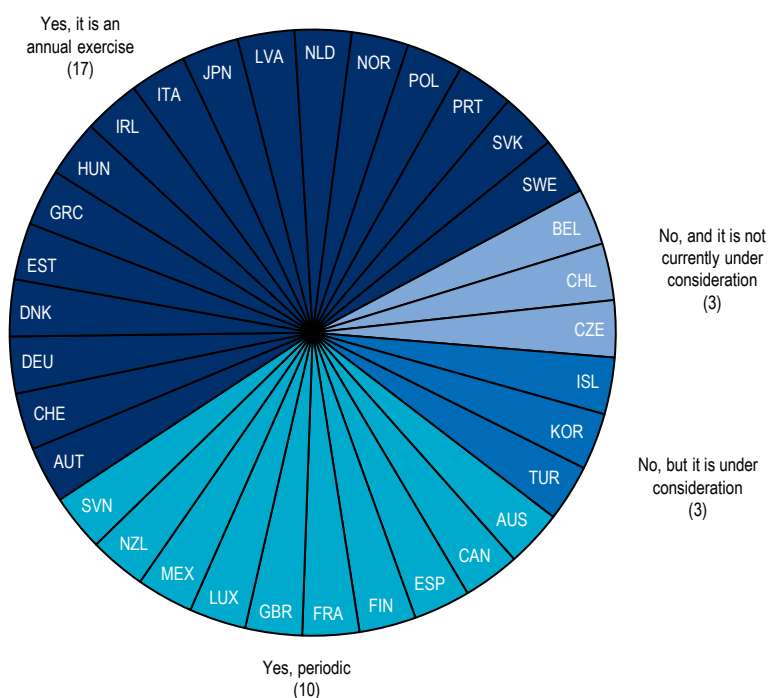
Spending reviews are often used in OECD countries as a tool to: i) create fiscal space to give the government improved control over the level of aggregate expenditure; ii) improve the prioritisation of expenditure within a sector and/or across government; and iii) improve the efficiency of programmes and policies and manage potential risks. Spending reviews can also be a powerful tool to strengthen the link between evaluation systems and budget allocation, especially if it becomes a permanent feature of the budget process.

Even though there is no one-size-fits-all methodology for spending reviews, previous experiences point out a common set of factors that are crucial when designing and implementing a spending review:

- Clear objectives and scope of spending reviews: from the start, the scope can be narrow, broad or comprehensive and it can be cyclical or annual.
- Good governance throughout the review process, including strong political leadership, clear roles for each actor (the Central Budget Authority [CBA] at the heart, strong ownership in line ministries) and a clear institutional setup.
- Alignment with the budget process, including results available at decision-making stages of the budget process, alignment with the multiannual framework and underpinning informed decision-making.
- Capacity and alignment with existing frameworks, including building up capacity among civil servants (resources and skills), outsourcing for filling gaps and alignment with performance budgeting and information (increase the stock of analysis and performance information).
- Accountability and transparency, including implementation and monitoring in co-ordination with the CBA, findings publicly available for independent oversight with a role for parliament and the national audit institution, and a necessary for follow-up.

Source: OECD (forthcoming^[14]), *Spending Reviews: Experiences from OECD Countries*, OECD Publishing, Paris.

Figure 5.2. A majority of countries use spending reviews



Note: 2018 data for Israel and the United States are not available.

Source: OECD (2018^[15]), *OECD Performance Budgeting Survey, Question 36*, <http://dx.doi.org/10.1787/888933947084>.

For the heterogeneous Polish LSGUs, it is important to take into account the different states of development of performance budgeting when planning steps forward. For LSGUs that are at the early stage, good practices cover the whole process from the design of performance budgeting through to implementation, operation and oversight. For those LSGUs that already use performance budgeting in parallel to the traditional line-item budgeting, benchmarking against good practices may offer ideas.

Moreover, careful attention should be paid to the balance between effort and reward. Introducing performance budgeting, running in parallel with a line-item budget, imposes a substantial additional burden to the budget and staff. This calculus is likely to be positive above a certain size of individual LSGU public administration. In addition, an incremental approach may be better than a “big bang” approach, especially where there are constraints in terms of staff capacity and the quality of performance data. Incrementalism may imply initially piloting performance budgeting in a smaller group of policy areas before a phased expansion to all policy areas and administrative units can take place that gradually expands and presents the performance budget as supplementary information. It also means starting with implementing a presentational form of performance budgeting, before moving towards performance-informed budgeting and including programme performance in the budget. In an advanced phase, LSGUs would make routine use of performance information for programme designs and budgeting.

More concretely, larger LSGUs already using performance budgeting could consider developing their performance budgeting framework gradually in terms of budgetary coverage and terms of monitoring performance information. This may also imply including performance information on public enterprises delivering local services to gain a comprehensive picture at the LSGU level. Larger LSGUs. They should ensure the use of performance information as explained in the OECD Budgetary Governance Principle No. 8 (Box 5.4). Smaller LSGUs could consider steps towards performance budgeting over time. If so, they should take an incremental approach to introducing performance frameworks and be aware of the

corresponding challenges, e.g. the availability and use of performance information. Smaller LSGUs should first consider selecting the areas best suited for performance budgeting and develop corresponding indicators and targets. Smaller LSGUs should first build capacity for introducing performance budgeting in terms of human resources, data and infrastructure, and learn from peer-group experiences. The national government, and in particular the Ministry of Finance, could provide guidance to LSGUs for developing performance budgeting frameworks.

Improving the inclusiveness of the budget process

In line with the fifth OECD Principle of Budgetary Governance (Box 5.6), strengthening the involvement of citizens and civil society in budgetary processes can increase responsiveness, efficiency, impact and trust. Heightened citizen engagement also reduces opportunities for corruption and strengthens the culture of open democracy (OECD, 2017^[2]). While citizen and interest group involvement takes place at the LSGU level in Poland, the Municipal Self-Government Act and the Public Finance Act (PFA) did not stipulate any direct public participation in planning public spending until very recently. In addition to participative budgeting as an innovative form of direct citizen involvement (see next subsection for a discussion), a more formalised approach to increase the inclusiveness of the budgetary process should be considered at the LSGU level.

International experience suggests the following starting points for regular opportunities for a more participative approach to budgeting: i) more timely consultative processes during the budget cycle, taking into account the knowledge, interests and capacities of citizens; and ii) enhancing LSGU council engagement and consultation with citizens during the phases of the budget cycle where the LSGU council is most actively involved (OECD, 2017^[2]).

For a more formalised approach to inclusiveness, international models of pre-budget consultation and debate should be considered, allowing the budget formulation phase within the local self-government and the LSGU council to benefit from a range of views on budgetary priorities before the draft budget is prepared. Box 5.7 provides international examples, which LSGUs may use to reflect on how to strengthen the consultative character of the budget process.

In any case, designing a more formalised participative process should demonstrate its usefulness for budgetary policy-making, thus helping to sustain the approach across policy cycles and different administrations. It is helpful if the legal framework supports an orderly and transparent approach. Suggested starting points regarding the design of a participation process include:

- Publishing clear objectives, scope and process of public engagement in budgeting.
- Tailoring methods of engagement that are best suited to the various participants.
- Using a mix of mechanisms, proportionate to the nature of the issue concerned.
- Allowing enough time for the results from participation to impact budget policy.
- Following up and giving citizens timely feedback about progress and results.
- Making sure that the most vulnerable parts of the population are included.

Box 5.6. OECD Budgetary Governance Principle 5

To ensure a wider acceptance, increased accountability and a more realistic debate on budgetary choices, the OECD Recommendation on Budgetary Governance calls upon governments to “provide for an inclusive, participative and realistic debate on budgetary choices” by:

- Offering opportunities for the parliament and its committees to engage with the budget process at all key stages of the budget cycle, both *ex ante* and *ex post* as appropriate.
- Facilitating the engagement of parliaments, citizens and civil society organisations in a realistic debate about key priorities, trade-offs, opportunity costs and value for money.
- Providing clarity about the relative costs and benefits of the wide range of public expenditure programmes and tax expenditures.
- Ensuring that all major decisions in these areas are handled within the context of the budget process.

Source: OECD (2015^[1]), *Recommendation of the Council on Budgetary Governance*, <https://www.oecd.org/gov/budgeting/Recommendation-of-the-Council-on-Budgetary-Governance.pdf>.

Box 5.7. Consultative budgeting practices in OECD countries

Ireland’s National Economic Dialogue

In 2015, Ireland introduced a number of improvements to its annual budget cycle, including the institution of a new National Economic Dialogue (NED). The dialogue is a pre-budget consultative forum, convened by the government, bringing together the various civil society interests, social partners and parliamentary stakeholders to discuss priorities for the October budget. The forum is held in June after the government has determined (from its spring budget semester) the level of “fiscal space” available in the coming year and before line ministries have submitted budget proposals. An independent chairperson moderates the NED and all of its sessions are held in public. After the dialogue, the chairperson submits a report on key messages to the government during the pre-budget deliberations. In the October budget, the minister for finance includes a report on the extent to which the “key messages” from the NED have been addressed in the budget.

Korea

Six mechanisms are used that span the entire budget cycle. During the budget formulation stage: i) formalised open discussions for the public are held; ii) representatives from the Ministry of Finance hold meetings with local government officials and citizens; iii) a “fiscal policy advisory council” reviews and finalises the budget; and iv) an assembly expert hearing is conducted. During the implementation stage: v) a “budget waste reporting centre” can be used by citizens to report any suspected misuse or waste of public funding. In the auditing stage, vi) citizens have the opportunity to make suggestions to the board of audit and inspection on which public entity operations or expenditures to audit.

Source: OECD (2017^[2]), *OECD Budget Transparency Toolkit: Practical Steps for Supporting Openness, Integrity and Accountability in Public Financial Management*, <https://dx.doi.org/10.1787/9789264282070-en>.

Further strengthening participatory budgeting

As outlined in the chapter on open government (Chapter 8), one effective tool for citizen involvement used at the LSGU level is participatory budgeting. Its essence is the ability of local residents to decide on one-year public tasks, financed from public funds in a given year. Participatory budgeting aims to enhance empowerment and strengthen the connections between governments and citizens. It reflects the willingness of formal and informal groups of citizens to participate in the formulation and implementation of local policies (Sześciło, 2015^[16]). From the perspective of decision-makers, it can also help to understand citizens' needs. Participatory budgeting is particularly promising at the LSGU level, where politicians and citizens closely interact and are close to the issues at stake.

The expansion of participatory budgets is the most remarkable innovation in local governance in Poland in recent years. The first LSGU to establish it was Sopot in 2011, which served as a role model for other LSGUs. In 2013, participatory budgeting already appeared in about 50 LSGUs. Currently, participatory budgets are used in about 200 LSGUs, including municipalities, counties and regions (Budziarek, 2019^[17]). Box 5.8 presents two LSGU examples. However, according to a study by Polish researchers (Olejniczak and Bednarska-Olejniczak, 2018^[18]), the funds allocated to the participatory budget as a share of the overall budget mostly amounted to a rather small 0.2% to 0.8% in 2018.

Box 5.8. Participatory budgeting in Lodz and Płock

In Lodz, participatory budgeting was used for the first time with an amount of PLN 20 million in 2014, i.e. around 1% of the LSGU's budget (Olejniczak and Bednarska-Olejniczak, 2018^[18]). The amount allocated for the participatory budget for 2020 is PLN 50 million. All local residents may submit proposals; each submission must be supported by 15 residents. Every person can vote for five county tasks and for five extra-residential tasks. In 2018, about 30% of the submissions (1 300 in total) were rejected. The most common reasons for rejections include the unregulated legal status of real estate in the case of investment projects, completion of a task exceeding one year and unlawfulness. Voting takes place electronically or on paper. The participation for voting in 2018 amounted to 10%, which is low compared to participation in the last local elections (58%). Many tasks selected concern education and children (for instance, buying books for libraries, school computer equipment, construction of playgrounds), sports and recreation (renovation of gyms, sports events), road and communication infrastructure, green areas and environmental protection, and cultural events. Residents can indicate the disadvantages of the consultation process in order to eliminate them in the budget for the next year. In Lodz – for the first time in Poland – a participatory budget does also cover a part of the public university expenditure. In 2018, the Faculty of Economics and Sociology of the University of Lodz decided to carry out participatory budgeting on a faculty level. Funds earmarked for distribution within the participatory budget were divided into two parts: the university employee's and the student's. Under the first pool of funds, the right to submit projects and the right to vote was awarded to employees and doctoral students. These rights are available to students under the second pool of funds.

In Płock, participatory budgeting was also introduced in 2014. It currently covers PLN 5-6 million, mainly for small local investment projects such as real estate projects and new bicycle pathways. While the debate on the participatory budget was previously taking place in autumn, it is now held before the summer holidays in order to include it into the budget process from mid-August onwards. In the past, Płock included only the total amount of funds for the list of potential projects submitted into the draft budget resolution. Starting with the new regulation on participatory budgeting in 2018, the concrete ideas and projects are now already included in the draft budget resolution in more detail. In Płock, LSGU officials evaluate the proposals, together with individuals or groups submitting the

proposals. The number of votes decides on the implementation of the project proposals within the predefined budget ceiling for participatory budgeting. In 2018, 80 project proposals were submitted, 16 were selected for implementation. The voter turnout was 6.3%.

Source: Budziarek, M. (2019^[17]), "Participatory budgeting in Poland - New legal regulations and rules for implementation", <https://ojs.imodev.org/index.php/RIGO/issue/view/23>.

While the use of participatory budgeting was previously voluntary and defined by the individual LSGU council, in 2018, Poland redefined and formalised the participatory budget institutions and obliged LSGUs with county status to use participatory budgeting in order to ensure a wider use and increase the participation of citizens (Sześciło and Wilk, 2018^[19]). The new regulation also sets a minimum amount for the obligatory participatory budget – it must amount to at least 0.5% of the LSGU's previous year budget. LSGUs are now also obliged to include tasks selected in the participatory budgeting in the draft budget resolution. In smaller LSGUs, participatory budgeting is still optional. The minimum amount for the participatory budget has not been established in relation to budgets of LSGUs without county status or regions (Budziarek, 2019^[17]). Box 5.9. The village council fund describes a related initiative to encourage engagement in rural areas, i.e. the solectwo (village council) fund.

The procedures for participatory budgeting in Poland remain heterogeneous; however, the majority of LSGUs follows several common stages. In a first stage, the local authorities define the ceiling for the participatory budget. In a second stage, residents submit project proposals to be included. The proposal includes a description of the task and its potential benefits. Proposals are assessed as to their compliance with the rules of the participatory budget. In a third stage, the public votes on proposals positively evaluated by a tasked commission and the local authorities. Finally, the selected projects are announced and included in the LSGU budget for the following year. Typically, proposals for tasks that receive the largest number of votes are recommended for implementation until the participatory budget ceiling is reached. At this stage, residents often have the opportunity to propose improvements for next year's process.

Overall, while being heterogeneous, participative budgeting practices appear well-designed and have recently become more formalised. The introduction of provisions directly regulating participatory budgeting for LSGUs with county status can be positively assessed. These provisions introduce clear incentives to use this instrument of citizen empowerment more widely. The provisions reduce the concerns of LSGU decision-makers regarding the legality of activities that are not clearly regulated. The statutory regulation of the participatory budget also functions as a guarantee, as it effectively ensures a transparent and fair procedure. As highlighted in the chapter on open government, the new provisions also strengthen the principles of open government at the subnational level by fostering more collaborative and participatory governance. In addition, defining a minimum amount of the participatory budget in cities with county status counteracts a critique that has often been raised (Sześciło, 2015^[16]). To increase the incentives for active citizen involvement and a better formalisation of the process, an extension of these provisions to all LSGUs should be considered. This could go hand in hand with LSGUs' attempts to expand the share of the budget involved in participatory budgeting.

Even with the new provision, low voter participation remains a matter of concern for participatory budgeting and may make the voting process prone to special interests. Polish voters are still learning how to commit to and assume budgetary responsibility for local matters. On a more basic level, an important role in this regard is played by the educational system preparing pupils for participation in civic life and helping to better understand and assess public policy debates, including budgetary topics. In this context, an interesting practice is children/youth/school participatory budgets, which are slowly appearing in LSGUs.

Box 5.9. The village council fund

The sołectwo (village council) fund was established by national law in 2009 in order to promote participatory budgeting by allowing rural municipalities to separate a portion of the budget for local citizens to decide its use. The voluntary funds, established by LSGU councils, are based on a combination of local budget and national funding, which is higher for lower-income rural LSGUs. The fund is presently being used in almost 90% of rural LSGUs and is an instrument for public participation in the country in terms of the number of community members that could be engaged and the size of the funds. However, a challenge for these village funds to be operational is the relatively low tendency of citizens to participate in local activities. This results in a rather small group of residents participating in the debates or consultations at an early stage of project submission.

Source: Olejniczak, J. and D. Bednarska-Olejniczak (2018^[18]), *Participatory Budgeting in Poland in 2013-2018 – Six Years of Experiences and Directions for Change, in Hope for Democracy: 30 Years of Participatory Budgeting Worldwide*, Epopeia Records; OECD (2018^[20]), *OECD Rural Policy Reviews: Poland*, <https://doi.org/10.1787/9789264289925-en>.

Recommendations

Recommendations for LSGUs and the national government

Strengthen the co-ordination between LSGUs and the national government in general and the Ministry of Finance in particular to jointly address the medium-term budgetary policy issues across levels of government

Regular dialogue on public finance topics across levels of government should take place within the Joint Committee of National Government and Territorial Self-government – reinforced in terms of its resource capacity and advisory functions. Within such a regular dialogue, Poland may also consider addressing the vertical imbalance between spending and own revenues at the LSGU level. One option could be to align spending responsibilities with greater tax autonomy for LSGUs. This would benefit budgetary policies and underline the importance of medium-term planning as the budgetary responsibility of LSGU decision-makers for own resources would increase.

In order to strengthen and better prepare the regular dialogue within the Joint Committee of National Government and Territorial Self-government at the operational level, an improved regulatory impact assessment should be considered to better assess draft legislation, in particular regarding financial and budgetary consequences. This would allow for a fact-based debate within the joint committee.

Recommendations for all LSGUs

Undertake efforts toward increasing revenue shares and revenue certainty in relation to national government transfers and shared national taxes

In light of competitive pressures on the tax side and limited autonomy of LSGUs, a conceivable option to improve the budgetary position and maintain sound budgetary policies in the medium term is increasing LSGU shares in revenue and thus revenue certainty in relation to national government transfers and shared national taxes. As to revenue certainty, LSGUs need consistency in their operating environments in order to be able to plan adequately in advance and beyond the annual budgetary cycle. This also calls for more co-ordination and dialogue between LSGUs and the national government.

Scrutinise public spending efficiency on a systematic basis by means of spending reviews and systematic performance benchmarking

On the expenditure side, where LSGUs have more discretion, public spending efficiency should be systematically scrutinised. A helpful tool to assess the effectiveness and efficiency of public spending for large LSGUs is the use of tailor-made spending reviews, which have been recently set up at the national government level (led by the Ministry of Finance). Spending reviews help to prioritise public funds and identify saving options, in particular in light of competitive tax pressures and limited autonomy of LSGUs. Large LSGUs could also benefit from experiences with spending reviews at the national level. LSGUs of any size should consider promoting performance benchmarking as a complementary tool to inform budgetary decisions.

Strengthen the medium-term budgeting perspective to support a better link between budgets and strategic priorities in a comprehensive way and beyond the annual cycle

The multiannual financial forecast (MFF) must develop into a more important document for budgetary decision-making to support a better link between budgets and strategic priorities in a comprehensive way and beyond the annual cycle. At the operational level, this also presupposes the preparation of more standards and baseline data to produce reliable medium-term forecasts of the revenues and expenditures of LSGUs within the MFF. A stronger reliance on and use of the MFF and a politically more binding medium-term dimension in the annual budgetary decision-making process would help LSGUs to: i) ensure that budgets are directed towards existing medium-term priorities; and/or ii) support setting up clear and comprehensive medium-term priorities in the first place. Efforts to use the MFF more extensively and make it more binding and, at the same time, setting up a comprehensive medium-term local development strategy, closely related to the budget, should be of mutually reinforcement.

Strengthen the use of performance budgeting frameworks by means of an incremental approach

A performance budgeting system provides information for annual and multiannual budgeting and supports the core task of deciding on where limited resources are best allocated or reallocated. Performance budgeting helps to increase transparency and accountability, align identified priorities with the budget and beyond the annual cycle, and improve the effectiveness of public services.

Larger LSGUs already using performance budgeting should consider developing their framework gradually in terms of budgetary coverage and monitoring performance information. This may also imply including performance information on public enterprises delivering local services to gain a comprehensive picture at the LSGU level. Larger LSGUs should ensure the use of performance information, which is: i) limited to a small number of relevant outcome-oriented indicators for each policy area; ii) clear and easily understood; iii) allows for tracking of results against targets and for benchmarking; and iv) makes clear the link with LSGU objectives. They should ensure the inclusion of all administrative units in the process and the development of quality information to facilitate evidence-based reviews.

Smaller LSGUs could consider steps towards performance budgeting over time, taking an incremental approach to introducing performance frameworks, being aware of the challenges. Smaller LSGUs should first consider selecting the areas most suited to performance budgeting and develop corresponding indicators and targets. Smaller LSGUs are recommended to build capacity for introducing performance budgeting frameworks in terms of human resources, data and related infrastructure first and learn from peer-group experiences.

The development of quality performance information, indicators and benchmarking for informing future budgetary decision-making and, at the same time, underpinning the value of performance budgeting should be supported – politically and with resources – by all levels of government. This may also imply

collecting and harmonising performance-relevant information on LSGU independent public entities and public enterprises to gain a more comprehensive picture of public service delivery at the LSGU level, currently only partly covered in the financial reporting.

Ensure a participative approach to budgeting by setting up more formalised opportunities for citizen involvement

Strengthening the involvement and participation of citizens and civil society in the budgetary process increases responsiveness, efficiency, impact and trust. Options to be considered by LSGUs include: i) more timely and formalised consultative processes with citizens during the budget cycle, taking into account the knowledge, interests and capacities of citizens; and ii) enhancing LSGU council engagement and consultation with citizens during the phases of the budget cycle where the LSGU council is most actively involved.

Sustain efforts to further reinforce the use of participatory budgeting in LSGUs of all sizes

LSGUs should consider strengthening supportive elements of budgetary governance. The recent reform of legally anchoring requirements for participatory budgeting for LSGUs with county status promotes a citizen-centred culture of governance. To foster the incentives for citizen involvement and a better formalisation of the process, an extension of these provisions to small LSGUs should be promoted. This could go hand in hand with LSGUs' attempts to expand the share of the budget involved in participatory budgeting.

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