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FINANCIAL INDEPENDENCE OF SMALL COMMUNES IN POLAND'S LUBELSKIE VOIVODESHIP: IMPORTANCE FOR FINANCIAL STABILITY

The aim of the study was to determine the level of financial independence of 81 small communes of Poland's Lubelskie Voivodship (up to 5,000 inhabitants per commune) and to assess its significance for their financial stability. The following methods were used: literature analysis, ratio analysis and diagnostic survey. Financial data from 2017-2021 was adopted for the analysis. 69 heads of communes participated in the conducted survey. It was established that in the opinion of these leaders, income potential and financial independence are important factors affecting the financial stability of small communes, and their low level poses a threat to this stability. Three ratios were used to assess financial independence. The analyses showed that small communes were characterized by a low level of income independence and a high dependence on revenues transferred from the state budget, which is evident in the value of the expenditure independence ratio achieved.

Keywords: financial independence, financial stability, ratio analysis, local government unit
JEL codes: R51, H72

Introduction

It has become increasingly important for governments to seek solutions that help satisfy social needs, especially in the case of local government units that have relatively low levels of economic development. Undoubtedly, Poland's Lubelskie Voivodeship is such a region. Local government units perform public tasks and exercise state authority within the scope set forth by lawmakers, where the principle of independence granted by the law and protected by the law is of key importance. Studying the level of financial independence of local government units, and seeking sustainable ways to build and maintain this independence, is one of the most important challenges of financial management for these entities. Therefore, the aim of this study is to assess the level of financial independence of a group of small communes in Poland, and to determine its importance for ensuring their financial stability. By assessing their level of financial independence, it can then be possible to take measures to better cope with the problem of insufficient financial resources with which Polish local governments are constantly struggling.

The study discusses the issues of defining and measuring the independence and financial stability of local government units. The research was systematized and divided into the following two stages: making calculations with the use of an index analysis, and then conducting a survey of the opinions of the heads of small communes of Poland's Lubelskie Voivodeship on the factors determining financial stability and the sources of threats to this stability. The author is aware of the limitations of this study and wants to point out that possible future work should also consider the problem of income stability and potential.

The essence of financial independence of the local government unit

The independence local governments is legally protected. However, it is not absolute, as they may only act within the limits of the law, as defined by the provisions of Article 16 Paragraph 2 of the Constitution of the Republic of Poland, which states that local governments participate in the exercise of public authority, and perform a significant part of public tasks entrusted to them by law in their own name and on their own responsibility. Therefore, a local government is the basic link of decentralised public administration, so it is necessary to transfer by law at least some public tasks to local oversight. A local government's independence should be treated as one of its basic features. It is a legal principle, with axiological value, the purpose and effect of decentralisation, along with the authority to make independent decisions regarding its own development¹.

The concept of local government independence may be examined from various points of view resulting from the specificity of the rules of how these units function. The areas of independence include: legal, competence (or task-competence), organizational, financial, sociological and political aspects, which are interrelated and should be analyzed together². The essence and scope of independence should be considered in both subjective and objective terms. The subjective relation between the state and the local government units manifests itself in the superiority of the state over local government units. The state bodies decide on the existence of local governments, formulate the principles of their operation, and specify the number of tiers, the system of organization, competences, the scope and types of tasks and the system of financing the tasks, at the same time supervising the activities of local government units.³ It should be noted that local government independence should not be equated with complete independence from the state, but with a precise definition of the scope of the state administration's interference in the area of local government bodies' independent activities.

In terms of subject matter, independence should be considered in relation to the real sphere of activity, i.e. the tasks to be performed and the financial sphere⁴. In the real sphere of activity, the area of economic independence is determined how local government units

¹ A. Kopańska, *Zewnętrzne źródła finansowania inwestycji jednostek samorządu terytorialnego*, Difin, Warszawa 2003, s. 10.

² M. Kosek-Wojnar, *Samodzielność jednostek samorządu terytorialnego w sferze wydatków*, *Zeszyty Naukowe Wyższej Szkoły Ekonomicznej w Bochni* 4/2006, s. 75.

³ M. Jastrzębska, *Analiza samodzielności finansowej i sytuacji finansowej jednostek samorządu terytorialnego w latach 1999–2003*, *Finanse Komunalne* 5/2004, s. 34–49.

⁴ E. Denek, *Płaszczyzny rozpatrywania samodzielności samorządu terytorialnego*, *Zeszyty Naukowe Akademii Ekonomicznej w Poznaniu* 7/2001, s. 7–8.

can conduct their economic and financial policy, including budgetary policy. The economic independence of local government units means they have the right to perform public tasks in their own name and on their own responsibility, as well as the right to take their own actions, including the right to conduct business activities and the freedom to choose the organizational and legal forms by which they perform their operational tasks. It is also the power to choose the types of instruments and the scope of their application and influence on entities operating within the territory of a given local government unit⁵. The levels at which the concept of independence of local government units may be examined are presented in Table 1.

Table 1. Levels of independence of local government units

The name of the level	The description of the level	Legal basis
legal	Local government units have legal personality, the independence of local government units is subject to judicial protection.	Art. 165 paragraph 1 of the Constitution of the Republic of Poland, Art. 165 paragraph 2 of the Constitution of the Republic of Poland,
property	Local government units shall enjoy ownership and other property rights.	Art. 165 paragraph 1 of the Constitution of the Republic of Poland,
financial	Local government units shall be provided with a share of public income, depending on the tasks assigned to them. Local government units shall have the right to decide on the structure and amount of income and on the types and extent of expenditures.	Art. 167 paragraph 1 1 of the Constitution of the Republic of Poland,
taxation	Local government units have the right to determine the amount of local taxes and charges to the extent specified in laws.	Art. 168 of the Constitution of the Republic of Poland,
organizational	Local government units have the right to associate, to join international associations of local and regional communities and to cooperate with local and regional communities in other countries.	Art. 172 paragraph 1,2 1 of the Constitution of the Republic of Poland,

Source: Author's own study based on A. Czarny, *Samodzielność dochodowa jednostek samorządu terytorialnego na przykładzie wybranych miast wojewódzkich*, „Folia Pomeranae Universitatis Technologiae Stetinensis, Folia, Oeconomica” 2015, nr 317(78)1, s. 37–46.

Taking into account the definition of the concept of independence, it should be noted that the financial independence of local government units does not mean self-sufficiency in financing or independence in terms of financial management. The activity of local government units is top-down regulated by legal regulations, which allow, to a limited extent, for taking decisions on the issues of raising funds for financing their own and commissioned public tasks. The essence of "self-governance" is the possession of necessary financial resources, and its basis is independence in this sphere. The extent of a local government unit's independence results from decentralisation of the power to influence the sources of income and the power to make independent decisions on the use of financial resources. A local government unit's independence is therefore determined by its financial resources and assets used to perform its tasks. Thus, financial independence

⁵ M. Jastrzębska, *Samodzielność ekonomiczna i finansowa jednostek samorządu terytorialnego*, *Ekonomia* 13/2004, s. 104

is a kind of eminence and a key value of local governance. It constitutes one of the priority principles of local government finance and its essence is expressed in the process of decentralisation of public finance, which consists in transferring to local government units appropriate financial resources and the authority to disperse them.

Financial independence of local government units should be understood as a specific scope of decision-making independence of local government authorities in the context of their ability to pursue their own fiscal policy in a given area⁶. The literature on this subject distinguishes several types of financial independence (Figure 1).

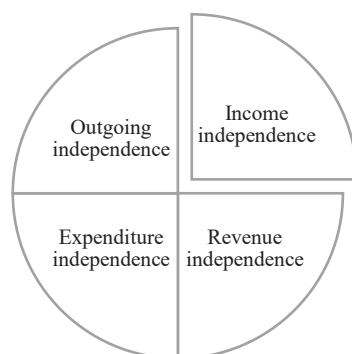


Figure 1. Types of financial independence

Source: Author's own study based on A. Kobińska, *Samodzielność finansowa jednostek samorządu terytorialnego w Polsce*, [w:] *Sektor finansów publicznych a rozwój gospodarczy: problemy i dylematy*, M. Żukowski (red.), Wydawnictwo KUL, Lublin 2017, s. 233-243.

On the one hand, the financial independence of local government units⁷ is closely related to the possibility of free decision-making by local government bodies as regards income and revenue, the size and direction of expenditures and outgoings, as well as the preparation and execution of the unit's budget⁸. It is worth noting that the financial independence of local government units is a broad concept and includes the issues of income independence, including tax independence, revenue independence, expenditure independence and outgoing independence. The concept of local government financial independence should be considered firstly from the point of view of income independence and independence in the field of budget expenditures and management of budget resources.

Financial independence of local governments may also be understood as the right to independent financial management, i.e. collection of statutorily specified incomes, and

⁶ M. Poniatowicz, *Determinanty autonomii dochodowej samorządu terytorialnego w Polsce*, „*Nauki o Finansach* 1(22)/2015, s. 15-16.

⁷ J. Heller, E. Farelak, *Finanse i samodzielność ekonomiczna a ustrój samorządów terytorialnych w Polsce*, *Studia Regionalne i Lokalne* 2(52)/2013, s. 81.

⁸ K. Surówka, *Samodzielność finansowa samorządu terytorialnego w Polsce*, Polskie Wydawnictwo Ekonomiczne, Warszawa 2013, s. 21-27; P. Soltyk, *Finanse samorządowe. Teoria i praktyka*. Wydanie 2, Difin, Warszawa a 2020, s. 63; R. Głowicka-Wołoszyn, F. Wysocki, *Uwarunkowania społeczno-ekonomiczne samodzielności finansowej gmin województwa wielkopolskiego*, *Prace Naukowe Uniwersytetu Ekonomicznego we Wrocławiu* 346/2014, s. 34-44; F. Wysocki, *Metody taksonomiczne w rozpoznawaniu typów ekonomicznych rolnictwa i obszarów wiejskich*, Wydawnictwo Uniwersytetu Przyrodniczego w Poznaniu, Poznań 2010, s. 35.

thus the exercise of so-called income power and the right to dispose of incomes – within the limits specified by law – to implement legally specified tasks (expenditure power). Financial independence cannot be interpreted as full autonomy in the field of income collection and management of acquired funds, but as an authorisation to act within the framework of the law⁹. The literature on the subject also mentions income independence, expenditure independence and mixed independence¹⁰.

Independence with regard to the determination of income sources is referred to as income independence. Expenditure independence is connected with the distribution of income. Mixed independence is identified with both income and expenditure and is the most common. These three types of financial independence condition decision-making independence¹¹.

Income independence requires not only an appropriate level of income adequate to the tasks performed, but also the ability to make free decisions on tax matters, i.e. both the power to tax specific sources and the ability to influence the amount of tax income, as well as the ability to administer it. The independence of income understood in this way requires that local government units have at their disposal income defined as their own. In theoretical terms, a greater share of own income in total income means a greater scope of independence for the local government. The income independence of local governments is thus directly connected with so-called local tax authority. Apart from the transfer of income and the power to dispose of it, in this case it is also necessary to transfer the power to shape income sources, and in particular to shape taxes constituting a local government's own income. In the economic sense, the income independence of local government units should therefore be understood as a guarantee of sufficient financial resources by the state to carry out public tasks¹².

Providing local communities only with a bundle of competences, without ensuring adequate sources of income, compromises the essence of local government. The transfer of financial resources to local government units without granting them the right to dispose of the accumulated resources should be assessed in a similar way¹³. Expenditure independence, understood as the freedom of spending funds at the disposal of the local government, also plays an important role in the activities of the local government¹⁴. Expenditure independence means an appropriate scope of decision-making freedom in the scope of: directions of budgetary expenditures, the structure of expenditures by type and the value of budgetary expenditures¹⁵.

The financial stability of local government units is mainly determined by their income system, which is required to meet two demands that are quite difficult to fulfil simultaneously: stability and flexibility. A solution to the collision of demands for stability

⁹A. Borodo, Niektóre współczesne problemy prawne finansów samorządu terytorialnego w Polsce, *Samorząd Terytorialny* 6/2004, s. 6.

¹⁰ L. Jańczuk, *Samodzielność jednostek samorządu terytorialnego jako podmiotów administracji publicznej w Polsce*, Wydawnictwo KUL, Lublin 2013, s. 123.

¹¹ M. Dylewski, B. Filipiak, M. Gorzałczyńska-Koczkodaj, *Analiza finansowa ...*, op. cit., s. 115.

¹² M. Miemieć, W. Miemieć, K. Sawicka, *Prawo finansów publicznych sektora samorządowego*, Wolters Kluwer, Warszawa 2013, s. 55.

¹³ W. Wójtowicz (red.), *Zarys finansów publicznych i prawa finansowego*, Wolters Kluwer Polska, Warszawa 2011, s. 100

¹⁴ L. Jańczuk, *Samodzielność jednostek samorządu ...*, op. cit., s. 64.

¹⁵ M. Poniatowicz, *Determinanty autonomii ...*, op. cit., s. 17.

and flexibility of the income system should be the establishment of clear rules specifying the cases when it is necessary to make changes to compensate local government units for the adverse effects of legislative actions. It seems that the starting point for the construction of these rules should be the adoption – after necessary corrections of the present system of local government financing – of the "zero option", i.e. an assumption that at the moment a new system enters into force, all conditions described above will be fulfilled to ensure that local government units will be able to fulfil the tasks imposed on them¹⁶.

Material and methods

The Lubelskie Voivodeship is one of the less developed regions of Poland and the EU, and the level and dynamics of development in this region is influenced by the dominant share of agriculture in the structure of the economy. In 2020 the share of the voivodship's GDP in Poland's total GDP was 3.7%, which placed it in the 11th position. The value of GDP per capita in the Lubelskie Voivodship is significantly lower than the national average and much lower than the EU average (48% of the EU average). There are as many as three Polish regions among the poorest regions in the EU, including the Lubelskie Voivodeship, which has the worst situation and occupies the 13th position¹⁷.

Table 2. A set of ratios for assessing the level of financial independence of a local government unit

Name of the ratio	Formula	Interpretation of the ratio value
<i>Income Financial Independence Index</i>	$IFII = \frac{OI}{TI} * 100$	It informs about independence in generating income. The higher this ratio, the less dependent on funds from the state budget is the unit, and thus on the level of ratios regulating the national economy.
	IFII - Income Financial Independence Index, OI - Own Income, excluding shares in revenues from state taxes, TI - Total Income.	
<i>First Degree Expenditure Financial Independence Index (FDEFII)</i>	$FDEFII_1 = \frac{OI + SiT}{TI} * 100$	It informs to what extent a given unit decides on the allocation of its own income, taking into account the shares in revenues from state taxes.
	FDEFII ₁ - First Degree Expenditure Independence Index, OI - Own Income, SiT - Shares in revenues from state taxes, TI - Total Income.	
<i>Second Degree Expenditure Financial Independence Index (SDEFII)</i>	$SDEFII_2 = \frac{OI + SiT + GS}{TI} * 100$	It informs to what extent the unit decides fully and without restrictions on the allocation of its own income, shares in revenues from state taxes and general subsidy.
	SDEFII ₂ - Second Degree Expenditure Financial Independence Index, OI - Own Income, SiT - Shares in revenues from state taxes, GS - General Subsidy, TI - Total Income.	

Source: Author's own study based on M. Kowalczyk, Podstawy analizy ekonomiczno-finansowej w jednostkach samorządu terytorialnego, Difin, Warszawa 2017, s. 122.

¹⁶ E. Malinowska-Misiąg, W. Misiąg, Dostosowanie dochodów do zadań samorządu terytorialnego w Polsce. Praktyka i rekomendacje, Studia BAS 1(65)/2021, s. 21–41.

¹⁷<https://ec.europa.eu/eurostat/documents/2995521/9618249/1-26022019-AP-EN.pdf/f765d183-c3d2-4e2f-9256-cc6665909c80> (dostęp: 24.11.2021).

The research on the levels of financial independence was focused on the small communes of the Lubelskie Voivodeship with populations not exceeding 5,000. All small communes (81 communes) were covered by the research, whereas 69 heads of those communes took part in the diagnostic survey, which accounted for 85% of all communes of that type in the Lubelskie Voivodship. A time horizon of 2017-2021 was taken into account and secondary sources of data from budget reports of the surveyed communes published by the Regional Chamber of Accounts in Lublin (Rb-27, Rb-NDS) were used. The assessment of the level of financial independence was made using ratio analysis that allows to identify processes and phenomena affecting the financial management of a local government unit¹⁸. Thus, the starting point for making an attempt to assess the financial situation is to define a set of ratios describing various aspects of how a local government unit functions¹⁹. The catalogue of ratios used for assessing the financial condition of local government units proposed by the Ministry of Finance²⁰, which includes the income independence ratio, is widely used. The basic method of assessing the financial independence of communes is the use of an appropriate set of ratios. A detailed list of ratios adopted in the assessment of financial independence is presented in Table 2.

The basic dependency characterising income independence is the ratio of own (self-generated) income to total income, as it defines a local government units' decision-making freedom. The income independence of local government units may be measured by the following ratios: the share of own income minus the share in income taxes from natural and legal persons in the total income, as local government units have no influence on the level of this income, as well as the share of tax income of local government units in the total income²¹. Expenditure independence may be assessed by establishing a relationship between the following categories: investment expenditures and total expenditures²²; own income, including the share of taxes constituting the state budget income and total budget income (expenditure independence index of 1st degree)²³; total own income, including the share of taxes constituting the state budget income, general subsidy and budget income (expenditure independence index of 2nd degree)²⁴.

Financial independence of local government units is important for the stability of their finances, as one can talk about the stable finances of local government units when this stability is achieved on a permanent basis or there is a tendency to maintain it. The stability of income potential is crucial and constitutes a starting point for consideration of

¹⁸ M. Dylewski, B. Filipiak, M. Gorzałczyńska-Koczkodaj, *Analiza finansowa ...*, op. cit., s. 117; M., *Jastrzębska Polityka budżetowa jednostek samorządu terytorialnego*, Wydawnictwo Uniwersytetu Gdańskiego, Gdańsk 2005; J. Jaworski, *Metody analizy finansowej w ocenie budżetu gminy*, *Monitor Rachunkowości i Finansów* 4/2009, s. 23.

¹⁹ B. Filipiak, *Dylematy pomiaru potencjału finansowego jednostek samorządu terytorialnego – dobór czynników i ich pomiar*, *Prace Uniwersytetu Ekonomicznego we Wrocławiu* 451/2016, s. 75–87.

²⁰ <https://www.gov.pl/web/finanse/wskazniki-do-oceny-sytuacji-finansowej-jednostek-samorządu-terytorialnego-w-latach-2017-2019> (dostęp: 16.09.2021)

²¹ A. Kozera, R. Głowicka-Wołoszyn, F. Wysocki, *Samodzielność finansowa gmin wiejskich w woj. Wielkopolskim*, *Wiadomości Statystyczne* 2/2016, s. 74–75.

²² J. Zawora, *Samodzielność finansowa samorządów gminnych Podkarpacia*, *Zeszyty Naukowe SGGW. Ekonomika i Organizacja Gospodarki Żywnościowej* 81/2010, s. 142.

²³ A. Mrówczyńska-Kamińska, A. Kucharczyk, J. Średzińska, *Analiza finansowa w jednostkach samorządu terytorialnego na przykładzie Miasta i Gminy Środa Wielkopolska*, *Zeszyty Naukowe SGGW* 89/2011, s. 179.

²⁴ M. Dylewski, B. Filipiak, M. Gorzałczyńska-Koczkodaj, *Analiza finansowa w jednostkach samorządu terytorialnego*, MSK Municipium, Warszawa 2004, s. 120.

other dimensions of financial stability, as M. Kosek-Wojnar²⁵ points out, stressing that the financial stability of communes is a state in which their budget income base is adjusted to the expenditure base.

The empirical research focused on the income aspect of financial stability, based on the possibility of financing own tasks. Quantitative analysis, based on the assessment of ratios for financial independence of small communes, was complemented by qualitative analysis in the form of a diagnostic survey method using the technique of questionnaire surveys among commune heads.

Research results

Research on the opinions of heads of small communes in the Lubelskie Voivodship regarding factors that determine financial stability, and the sources of threats to this stability, was the starting point for further in-depth considerations. The most important factors influencing the level of financial stability of small communes in the Lubelskie Voivodship in the opinion of their leaders are presented in Chart 2.

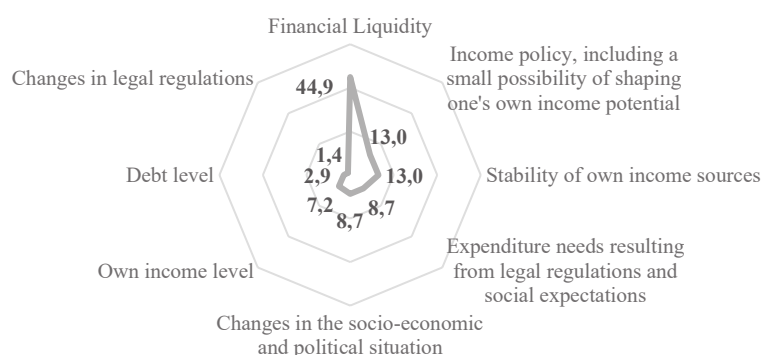


Chart 1. Factors that have the greatest impact on the level of financial stability of the commune in the opinion of the leaders of small communes (% of responses)

Source: Author's own study based on survey research.

On the basis of the obtained results, it may be stated that in the opinion of the leaders of the small communes in the Lubelskie Voivodship, the most important factor influencing the level of financial stability is financial liquidity (nearly 45% of responses), while another very important factor is income policy, income stability and the level of own income, which together constitute 30% of responses. These results underline the importance of income potential which determines both the financial independence of these communes and their level of financial stability.

Leaders of the small communes (up to 5,000 inhabitants) considered budget expenditures that are inadequate to the local income potential as the greatest threat to the financial stability of their units. Nearly half of the provided answers indicate that the income potential determines the level of a commune's expenditure possibilities and its

²⁵ M. Kosek-Wojnar, Pożycзки z budżetu państwa jako instrument stabilizacji finansowania zadań jednostek samorządu terytorialnego, *Finanse, Rynki Finansowe, Ubezpieczenia* 2016/6, s. 30.

inadequacy disturbs the financial stability of the unit. It is therefore reasonable to analyse the income potential of these units by determining their level of financial independence.

Using ratio analysis, ratios of financial independence were calculated for all 81 small communes in the Lubelskie Voivodship. The first ratio relates to the level of so-called "pure" own income potential based on own income decreased by participation in taxes belonging to the state budget (PIT and CIT). The communes were classified into three groups according to the value of the IFII index (extremely low, low and medium). The communes with an IFII value below 15% were determined to be units with an extremely low level of income independence; those with an index below 25% were determined to be units with a low level of income independence; and those with an index exceeding 25% were deemed to have a medium level of income independence (close to the average value for all communes in Poland – Chart 3).

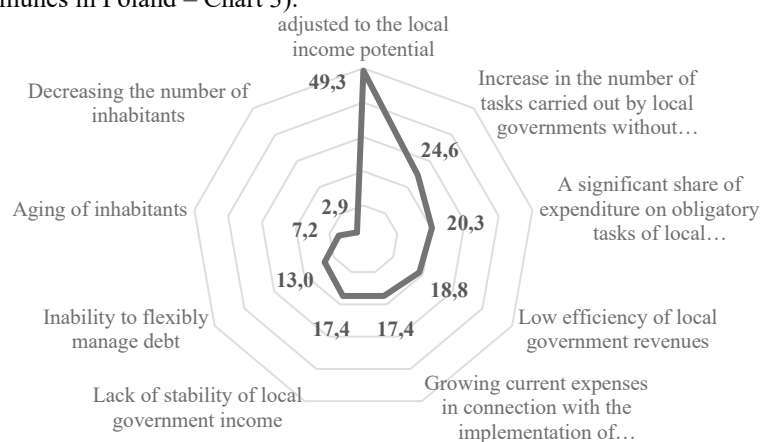


Chart 2. Factors that are the greatest threat to the financial stability of the communes in the opinion of the heads of the small communes

Source: Author's own study based on survey research.

The obtained results indicate that the level of income potential based on own income decreased by the share in taxes payable to the state budget (PIT and CIT) was changed. The number of communes with an extremely low (less than 15%) level of income independence decreased from 28 communes in 2017 to 17 communes in 2021, and the number of communes with a medium level of income independence index (more than 25%) increased significantly by as many as 11 communes. This indicates a tendency to strengthen the income policy of the small communes in the Lubelskie Voivodeship and an attempt to build a stable income potential based on own income over which the local government unit has influence.

However, it should also be emphasized that in each year the majority (65% in 2021) of the small communes achieved a low level of income independence, as the value of the ratio of the share of own income after excluding PIT and CIT shares in total income ranged from 16 to 25%. This is a very low result (in the literature on the subject, a result below 30% is treated as low) and indicates low fiscal autonomy. It is a worrying phenomenon of low level of income independence, especially as it is this category of income that gives the possibility to exercise so-called tax authority.

Another ratio analyzed is expenditure independence, of which own income is an important determinant. According to the European Charter of Local Government, local communities are entitled to have their own sufficient financial resources, which they can freely dispose of in the exercise of their powers.

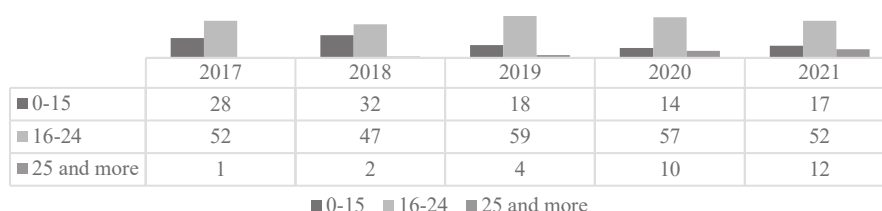


Chart 3. Income Financial Independence Index (IFI)

Source: Author's own study based on Implementation of budgets by Lubelskie local government units in the period 2017-2021, budget reports (Rb-27, Rb-NDS) collected by the Regional Accounting Chamber in Lublin, www.lublin.rio.gov.pl (27.10.2021).

The 1st degree expenditure independence ratio (Chart 4) shows the ratio of own income increased by PIT and CIT shares to total income. Taking into account shares in natural and legal persons tax, there were still small communes in the Lubelskie Voivodship whose share of increased own income in total income did not exceed 15%, which significantly limited their freedom in making decisions about expenditures. It is noteworthy that in 2017, more than 85% of all small communes in the Lubelskie Voivodship achieved a value of the ratio between 16% and 30%, which was below the average value for all communes in Poland (average value for communes in Poland was 34-35%). This indicates a very low level of expenditure independence based on own income, which in turn indicates a lack of freedom in expenditure decisions and low possibilities for financing pro-development activities of these units.

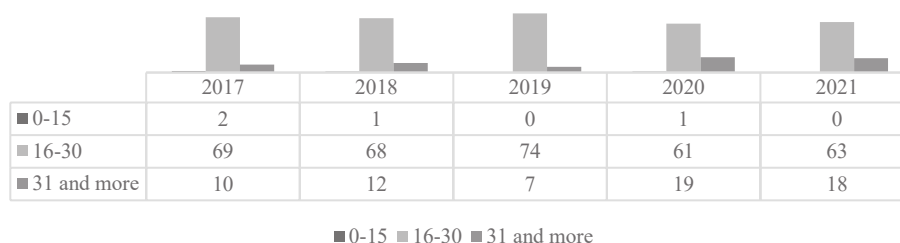


Chart 4. First Degree Expenditure Independence Index (FDEII)

Source: Author's own study based on Implementation of budgets by Lubelskie local government units in the period 2017-2021, budget reports (Rb-27, Rb-NDS) collected by the Regional Accounting Chamber in Lublin, www.lublin.rio.gov.pl (27.10.2021).

After taking into account the amounts of the general subsidy transferred to the small communes in the Lubelskie Voivodship (Chart 5), it should be stated that this transfer income significantly changed the level of expenditure independence of the surveyed units. The largest group (respectively: 79% in 2017 and 77% of communes in 2021) were the small communes, whose value of the ratio of own income share together with the share in

the PIT and CIT taxes and the general subsidy in the total income ranged from 56% to 65%, which means that more than a half of the small communes in the Lubelskie Voivodeship build their financial independence on the basis of funds transferred from the state budget.

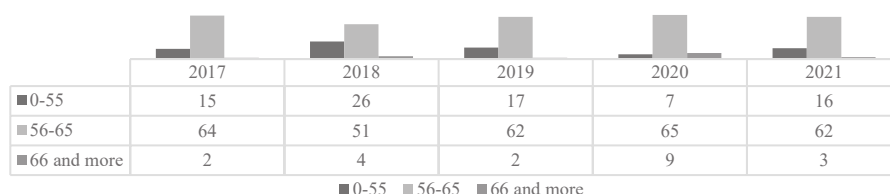


Chart 5. Second Degree Expenditure Financial Independence Index (SDEFII)

Source: Author's own study based on Implementation of budgets by Lubelskie local government units in the period 2017-2021, budget reports (Rb-27, Rb-NDS) collected by the Regional Accounting Chamber in Lublin, www.lublin.rio.gov.pl (27.10.2021).

This is a disturbing phenomenon as it reveals a lack of full freedom in the process of financial management of those units, shows their dependence on the state budget situation and makes it difficult for those units to build financial stability on their own. However, in the period under review, the communes with the highest 2nd degree expenditure independence that achieved a result above 66% were only 2% in 2017 and nearly 4% in 2021.

Summary

On the basis of the conducted evaluation on the financial independence of small communes (up to 5,000 inhabitants) in the Lubelskie Voivodeship in Poland, it was found that over 85% are characterized by an extremely low level of income independence, reaching a ratio below 25%. The situation was similar in the case of 1st degree expenditure independence (own income increased by PIT and CIT shares), as in 2021 nearly 80% of the small communes recorded a level of expenditure independence lower than the average value for all communes in Poland.

The obtained results show the weakness of the income policy of these units and the failure to make use of fiscal autonomy expressed in the use of tax authority. Only by taking into account the amount of the general subsidy transferred from the state budget were the results of the 2nd degree income independence index changed. This presented a much more favorable situation for the small communes, as more than a half of those units build their expenditure independence using funds transferred from the state budget. The number of communes with the highest value of the 2nd degree expenditure independence index increased in 2020, to as much as 11% of all small communes. Therefore, this result should be treated as a forecast of improvement in the situation of small communes in terms of their financial independence. What is worrying, however, is the fact that to a large extent this independence is built on the basis of transfer income, which makes these units dependent on the socio-economic situation in the country, as reflected in the situation of the national budget. Such a situation confirms the reality of the key threat to the stability of those units' finances as perceived by the heads of small communes, i.e. the inadequacy of income potential to determine the level of those communes' expenditure capacity.

Taking into account the results of the index analysis of the small communes' financial independence and the author's own research using the diagnostic survey method, it should be emphasized that small communes of the Lubelskie Voivodeship noticed their inability to build financial stability without having a stable income base. Therefore, small communes should actively work towards increasing income potential based on their own self-generated income, because it is mainly that category which helps create stable local financial management.

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Samodzielność finansowa małych gmin województwa lubelskiego i jej znaczenie dla ich stabilności finansowej

Streszczenie

Celem opracowania było ustalenie poziomu samodzielności finansowej 81 małych gmin województwa lubelskiego (do 5 tys. mieszkańców) oraz ocena jej znaczenia dla stabilności finansowej tych jednostek. Zastosowano następujące metody: analizę piśmiennictwa, analizę wskaźnikową oraz sondaż diagnostyczny. Do analizy przyjęto dane finansowe z lat 2017-2021. W badaniu ankietowym przeprowadzonym wśród zarządzających małymi gminami wzięło udział 69 wójtów. Ustalono, że w opinii wójtów potencjał dochodowy i samodzielność finansowa stanowią ważny czynnik wpływający na stabilność finansową małych gmin, a ich niski poziom stanowi zagrożenie dla wspomnianej stabilności. Wykorzystano trzy wskaźniki służące ocenie samodzielności finansowej. Z przeprowadzonych analiz wynika, że małe gminy charakteryzował niski poziom samodzielności dochodowej i duże uzależnienie od dochodów transferowych przekazywanych z budżetu państwa, co widoczne jest w osiągniętej wartości wskaźnika samodzielności wydatkowej.

Słowa kluczowe: samodzielność finansowa, stabilność finansowa, analiza wskaźnikowa, jednostka samorządu terytorialnego

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