

PRACE NAUKOWE

Uniwersytetu Ekonomicznego we Wrocławiu

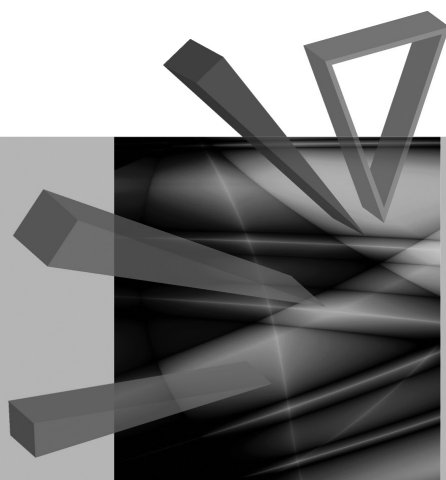
RESEARCH PAPERS

of Wrocław University of Economics

283

Local Economy in Theory and Practice

Local Development Governance Aspects



edited by

Ryszard Brol

Andrzej Sztando



Publishing House of Wrocław University of Economics
Wrocław 2013

Copy-editing: Elżbieta Macauley, Tim Macauley, Marcin Orszulak

Layout: Barbara Łopusiewicz

Proof-reading: Barbara Łopusiewicz

Typesetting: Adam Dębski

Cover design: Beata Dębska

This publication is available at www.ibuk.pl, www.ebscohost.com,
and in The Central and Eastern European Online Library www.ceeol.com
as well as in the annotated bibliography of economic issues of BazEkon
http://kangur.uek.krakow.pl/bazy_ae/bazekon/nowy/index.php

Information on submitting and reviewing papers is available
on the Publishing House's website
www.wydawnictwo.ue.wroc.pl

All rights reserved. No part of this book may be reproduced in any form
or in any means without the prior written permission of the Publisher

© Copyright by Wrocław University of Economics
Wrocław 2013

ISSN 1899-3192

ISBN 978-83-7695-333-5

The original version: printed

Printing: Printing House TOTEM

Contents

Introduction.....	7
Anna Mempel-Śnieżyk: Local actors and local development. The case of Poland	9
Małgorzata Rogowska: Local development in times of crisis.....	17
Dariusz Cichoń: Environmental aspects of residential property management in Poland	24
Alicja Sekuła: Does the source matter? Generation of investment expenditure by different types of local government revenue	32
Magdalena Łyszkiewicz: Control over local government in England.....	44
Sławomir Kłosowski: Determinants of organisational changes in municipal property management in Poland.....	52
Justyna Danielewicz, Maciej Turała: Scope and forms of cooperation in Polish local government.....	60
Lech Jańczuk: The public health care system reform as a barrier to local and regional development in Poland.....	73
Joanna Cymerman: Polish system of property taxes – property appraisal....	82
Iwona Maria Ładysz: Management of financial security of the city of Wrocław	90
Grygorii Monastyrskiy: A rationale for a territorial-administrative reform in Ukraine in development terms	97
Zbigniew Piepiora: The occurrence of natural disasters in South East Asia and the international cooperation in the field of preventing their negative consequences	106
Michał Flieger: Specific forms of entrepreneurship support by Polish local government – research results	121
Dominika Cyrek, Justyna Weltrowska-Jęch: Aerotropolis – the city of the future	130
Marcin Feltynowski: The level of implementation of the informational function of spacial planning documents using GIS. The Polish example ..	139
Tomasz Holecki, Joanna Woźniak-Holecka: The cooperation of Polish local government and non-governmental organizations in the area of health promotion.....	148

Streszczenia

Anna Mempel-Śnieżyk: Lokalni aktorzy i rozwój lokalny. Przykład Polski	16
Małgorzata Rogowska: Rozwój lokalny w czasach kryzysu	23

Dariusz Cichoń: Środowiskowe aspekty gospodarowania nieruchomościami mieszkaniowymi w Polsce	31
Alicja Sekuła: Czy rodzaj źródła jest istotny? Generowanie wydatków inwestycyjnych przez różne typy dochodów jednostek samorządu terytorialnego	43
Magdalena Łyszkiewicz: Kontrola działalności władz lokalnych w Anglii ..	51
Sławomir Kłosowski: Determinanty zmian organizacyjnych w zarządzaniu nieruchomościami komunalnymi w Polsce	60
Justyna Danielewicz, Maciej Turała: Zakres i formy współpracy jednostek samorządu terytorialnego w Polsce	72
Lech Jańczuk: Reforma systemu opieki zdrowotnej jako bariera dla rozwoju lokalnego i regionalnego w Polsce.....	81
Joanna Cymerman: Polski system opłat od nieruchomości – problematyka wyceny	89
Iwona Maria Ładysz: Zarządzanie finansowym bezpieczeństwem miasta Wrocławia.....	96
Grygorii Monastyrski: Rozwój jako przesłanka administracyjno-terytorialnej reformy Ukrainy.....	105
Zbigniew Piepiora: Występowanie katastrof naturalnych w Azji Południowo-Wschodniej i międzynarodowa współpraca w zakresie zapobiegania ich negatywnym konsekwencjom	120
Michał Flieger: Specyficzne formy wspierania przedsiębiorczości przez polskie gminy – wyniki badań	129
Dominika Cyrek, Justyna Weltrowska-Jęch: Aerotropolis – miasto przyszłości	137
Marcin Feltynowski: Poziom realizacji funkcji informacyjnej dokumentów z zakresu planowania przestrzennego przy użyciu systemów informacji przestrzennej. Studium przypadku Polski.....	147
Tomasz Holeccki, Joanna Woźniak-Holeccka: Współpraca polskiego samorządu lokalnego i organizacji pozarządowych w zakresie promocji zdrowia.....	155

Iwona Maria Ładysz

University of Lower Silesia

MANAGEMENT OF FINANCIAL SECURITY OF THE CITY OF WROCŁAW

Summary: The article presents the possibility of the safe execution of budget tasks of the city of Wrocław. An attempt was made to evaluate the stability of the financial policy conducted by the self-government authorities as well as the level of the financial security of the city of Wrocław. The aim of the article was to analyse the debt situation and to evaluate the way of managing the financial security of the city, with an emphasis on the size of the deficit and the debt level of the Wrocław metropolis. What should be particularly taken into account is the danger of the possible underestimation of the official debt of the city, which may result in threatening the financial security of Poland.

Keywords: management, financial security, metropolis, Wrocław.

1. Introduction

Wrocław is the capital city of the Lower Silesian voivodeship and a city with county rights [Act dated 5 June 1998...]. It belongs to a group of the richest Polish cities whose distinctive feature is a relatively high local development. In 2009 the level of gross domestic product per capita was higher than the country's average by over 46% and in 2010 – by over 53%. The city owns a well-developed and diversified economy, which facilitates the city's development and a preliminarily positive evaluation of the management of the financial security.

The official financial situation of the metropolis is shown in the budget resolutions and budget reports which are presented to the Regional Accounting Chamber and the City Council. These documents allow to evaluate the stability of the financial policy carried out by the local authorities as well as of the level of financial security. The execution of investment requires from the authorities securing financial liquidity and creditworthiness [Act dated 29 August 1997..., art. 70].

The financial security of the city of Wrocław depends on the amount of income, the size of expenses and also on the sources of financing numerous investments. Wrocław has to perform a lot of tasks, e.g. the area of education, social aid, health programmes, public transport, building and maintaining roads, etc.

The aim of the article was the analysis of the debt and the evaluation of the way of managing the financial security of the city, taking into account the size of the deficit and the level of debt of the Wrocław metropolis.

2. The capability of Wrocław to execute financial tasks safely

The analysis of financial reports of the city of Wrocław allows us to notice that every year the operational income of Wrocław's budget increases [Reports on budget... 2011]. Furthermore, the city authorities have demonstrated great achievements in the amount of European Union funds granted compared to any other Polish metropolis. This is the chief asset of the city. Non-repayable subsidies allow the improvement in the quality of life of the inhabitants. The funds from the European Union refund the investment expenses. Therefore, it is necessary to seek ways of limiting the risk of carrying out such type of projects.

Due to the large needs of financing the debt, Wrocław has limited possibilities of further indebtedness, which causes pushing a part of investment onto municipal companies and the increase in the indirect obligations of the city. Attending to the security of Wrocław's finances, the city authorities decided to use alternative ways of financing investment, which unfortunately caused a further increase in the indirect obligations of the metropolis and thus negatively influence the security of finances of the investigated unit of territorial self-government. Unfortunately, the self-government documents clearly show the rapidly growing indirect obligations of the city. They result mainly from the indebtedness of municipal companies and from the support contracts for these companies. It was necessary to inject capital into floundering companies. In 2011 the indirect obligations amounted to 1.35 billion PLN and they are systematically growing.

A negative factor for the financial security of the city of Wrocław, is the great pressure on the increase of investment expenses, followed by a clear increase of indebtedness in the investigated period and in the subsequent years. The increase of debts resulted chiefly from the execution of the investment programme and the city's ability to finance investment from the low operational excess. As a consequence of the undertaken actions the indebtedness of municipal companies increased, which simultaneously caused an increase in the indirect obligations of Wrocław and the necessity of supporting these subjects through capital injection. As a result of executing tasks by companies with the shares of the city, there appeared difficulties with a realistic evaluation of the budget deficit and city debt.

The reason for the high investment expenses in Wrocław was large investment which had fixed schedules and the financial obligations taken on by the city. The willingness to perform the tasks set up by the city authorities brought about the necessity of increasing very high property expenses during recent years, which on average totalled 1.5 billion PLN per year. These activities are connected with heavy financial obligations and the necessity of stricter management of the financial security

of the city. What should also be taken into account, is the high risk of excessive investment and the risk of the so-called ill-advised investments. However, on the other hand, abandoning the investment activity of Wrocław's authorities would cause a much greater risk, because it could result in no longer keeping up the so-far high competitiveness of the metropolis in relation to the leading cities of Poland.

The investment activities conducted in Wrocław should result in the improvement of the conditions of carrying out a business activity and in activating the local and regional community. The infrastructure necessary for further growth of economic potential of the city of Wrocław and its inhabitants is being extended. At the end of 2011, Wrocław received European Union funding, thanks to which it will be possible to partly pay back the loans taken for building the investments needed for the preparation of the city to the European Football Championship Euro 2012. This means the possibility of paying back the loans taken for building the inner ring road (175 million PLN) and the modernization of Wyścigowa street (7 million PLN). Thanks to it, the city's debt was reduced by several tenths of a percent as well as the costs of paying interest.

The budget analysis for the city of Wrocław shows that the investment undertaken by the self-government authorities is financed mainly externally. This is a disadvantageous situation because it creates systematic indebtedness of the city. Therefore, the self-government authorities, managing the financial security of the city, should try to find more possibilities of financing the investment outside the budget.

3. Financial security of Wrocław

Wrocław is a centre of regional development, and its goal is to sustain and increase its importance in the settlement system of the country and Europe. Therefore, the local authorities are trying to use the debt reasonably, so that the effect of financial leverage can be efficiently applied.

The budget results of the city of Wrocław were improving from 2003 and to 2007. The operational surplus in those years explicitly exceeded the expenses for debt servicing, however in recent years the city has had a significantly lower operational surplus in relation to the operational income, which significantly reduced the debt carrying capacity of this local government unit [Reports on budget... 2011]. In 2009 the operational surplus grew from the level of 104 million PLN to 192 million PLN, therefore, it constituted 7,5% of income [Reports on budget... 2011]. The costs of servicing the debt amounted to 306 million PLN net. These data indicate that in 2010 the operational results of the Wrocław budget decreased, while in 2011 the operational margin dropped to 6.2% and therefore the operational surplus was not sufficient to service the debt. Currently, there is still a strong pressure on the growth of operational expenses, particularly in the sector of education and administration. One may be afraid of the high indebtedness of the city, which has insufficient funds

from the operational surplus. Therefore, it is necessary to undertake actions that will reduce operational expenses.

From year to year the growing indebtedness of the city can be observed, which results in low indices of servicing the debt. For instance, already in 2009 the value of servicing the debt was 1.9 times higher than the value of the operational surplus. Furthermore, the index of debt repayment increased to 32 years. The direct debt of the metropolis increased from 413 million PLN in 2007 up to as much as 1,95 billion PLN at the end of 2011 [Reports on budget... 2007, 2011]. It should be expected that the further growth will have a negative impact on the possibilities of its servicing in subsequent years.

An important feature of the financial security of Wrocław is the relation of the budget deficit to budget income, which should not exceed the level that results from the Act dated 27 August 2009, on public finances. The lower its value, the better the situation of a given unit of territorial self-government. For Wrocław it is slightly less than the required threshold. However, taking into account the realistic deficit level, i.e. corrected by the sum of the growth of long-term and short-term debt of companies whose shares are owned by Wrocław, and considering the share of the city in the total capital of these companies, we receive a result that exceeds 11%. The difference in the results is also very alarming, because it indicates the authorities' attempts to push the deficit outside the sector of public finances.

Furthermore, the Act dated 27 August 2009, on public finances imposes on the units of territorial self-government another obligation of setting such a relation of the level of accumulated debt towards the budget income of a given unit that the calculated ratio does not exceed 60% of total budget income. This limit is adopted from the level that corresponds with state finances, which may, but does not have to, mean that exceeding it will bring about serious consequences for Wrocław. At the end of 2009 the city debt totalled 1.8 billion PLN, that is 77% of operational income, while in the next year it grew to 2.2 billion PLN [Reports on budget... 2009]. In turn, in 2011 the debt amounted to 1.95 billion PLN [Reports on budget... 2011]. The forecast is that it will be maintained at this level because of undertaken investment obligations. Also Wrocław did not officially exceed the statutory limit, but with its index it is very close to the precaution threshold. This means that the amount the city borrows is higher than its half yearly income.

Another threshold mentioned in the Act on public finances says that the legal limit of debt service cannot exceed 15% of the city's annual income. In Wrocław this level is only slightly lower. In 2010 the index of servicing the debt amounted to almost 13%, which was the result of changing the loans from 2009 into obligations. In 2010 the city authorities started to try changing the expensive loans into a cheaper source of financing the tasks.

Therefore, it is estimated that undertaking such an action by the authorities will cause a decrease in costs of servicing the debt in the subsequent years.

In order to complete the deficit analysis of Wrocław, it is necessary to specify the extent of the deficit pushed out of the budget, that is how much both the debt as well as the amount of the budget deficit will grow if we take into account the debts of municipal companies.¹ The estate of Wrocław includes in particular the shares and stocks of the commercial law companies. These companies, similarly to the metropolis itself, are characterised by a certain extent of long-term and short-term indebtedness and by the increment of those values. Therefore, the level of financial security of the city with county rights will form itself differently if the total increment of long-term and short-term deficit of companies which have city shares will be added to the accumulated deficit, taking into account the city shares in the total capitals of those companies. Having counted the real budget deficit of Wrocław in relation to the budget income, it turns out that Wrocław debt equals nearly 83% [*Monitoring zadłużenia... 2011*], i.e. it exceeds the acceptable debt level assumed in the Act dated 27 August 2009 on public finances. Despite the growth of the budget deficit in Wrocław, the city did not increase investment expenses equally. The growth of the deficit is higher here than the growth of investment expenses, therefore it can be said that the existence of companies with city shares/ownership do not fully compensate the debt growth of this unit of territorial self-government.

The value of the hidden debt of Wrocław can be calculated by dividing the value of the real debt by the value of the official one, while the extent of the hidden deficit can be calculated by dividing the real deficit by the official one. The accumulation of the values of the budget deficits was gradually taking place in the investigated unit of territorial self-government. Currently, the authorities of Wrocław are hiding about 35% of its debt, while the budget deficit is over twofold higher than the official one. It is worth noting that the act does not specify the access to real data or how the big divergences between the official and real results can be restricted.

It can be clearly noticed that there is a strong connection between the real deficit and debt, and official deficit and debt, because the higher the official deficit or debt the higher will be the real values and divergences between the results.

The city's debt is high. It should be remembered that in Polish conditions going bankrupt by a city is not possible in the legal sense; it is only (or as much as) the loss of financial liquidity. However, the reason for losing the liquidity by the units of territorial self-government is not usually the excessive investment loans, but poorly controlled current expenses.

In future it is possible that a threat for the city of Wrocław may be the too low financial effectiveness of investment. The investment undertaken by Wrocław must pay for itself, similarly to private investment, i.e. it should at least achieve a financial

¹ There are differences in the application of accounting rules between the public and private sector. Therefore, it is impossible to add revenue and profits of municipal companies to the indices of deficit and indebtedness. However, it is possible to take into account all city investment expenses and investment flows of companies according to the cash accounting method.

rate of return from the investment assumed by the city. It pays for the cities to take risks, because it increases the possibilities of dynamic development, despite the fact that at the same time the level of financial risk goes up.

What results from the conducted interviews is that the city authorities are not afraid of a high city debt level, yet these data are alarming, because for eight years there has not been such a high indebtedness. The actions undertaken by the city authorities constitute an element of the long-term management of the financial security of the city budget. One of the goals is the reduction of the debt servicing costs in subsequent years. The attempts undertaken, which have an impact on the security of self-government finances are very important for the possibilities of the development of the local market, for limiting the debt, for the deficit and the possibilities of a free formation of the budget policy of this unit of territorial self-government in subsequent years.

4. Conclusions and recommendations

Wrocław has a quite well-managed budget, however, as a result of large investment executed by self-government authorities there appeared a very high level of indebtedness. As a result, it restricted the possibilities of obtaining funds from the market in subsequent years.

What can be evaluated positively, is the willingness of self-government authorities to diversify the forms of financing the budget tasks and, in consequence, the risks (currency and interest rate) by the means of using the funds from the issue of bonds, and also from the bank loans on the domestic market and from another tranche of the investment loan from the European Investment Bank.

The results of the conducted analysis of the financial security of the city of Wrocław confirm that the authorities make use of the possibility of hiding the real status of the debt of the city with county rights. A worrying signal is not showing all the expenses in the budget of Wrocław, which means breaking one of the basic rules of public finance, i.e. the rule of transparency and openness. Monitoring the indebtedness in the existing legal status becomes very difficult and one can be afraid that the debt level of Wrocław could be even higher if we take into account other possibilities of hiding the real amount of the debt.

In the long-term perspective, the policy of Wrocław's authorities should be focused on their own sources of financing investment due to the high unreliability of external sources. Furthermore, it becomes necessary to obtain, from the units of territorial self-government, compliance with the rule of transparency and openness of public finances, because otherwise we are not able to evaluate the real status of the indebtedness of public finances. What results from this, is that the official statistical data have a negative impact on the real evaluation of the financial security of not only the units of territorial self-government, but also on the whole country. This problem is even more crucial if we also take into account the scale and importance

of the problems of financial security of the member countries of the European Union and the security of Poland's membership in its structures.

References

- Act dated 29 August 1997 – Banking law, Journal of Laws from 1997, no. 140, item 939 with further amendments.
- Act dated 5 June 1998 on district self-government, Journal of Laws from 1998, no. 91, item 578 with further amendments.
- Act dated 5 June 1998 on province self-government, Journal of Laws from 2001, no. 142, item 1590 with further amendments.
- Act dated 27 August 2009 on public finances, Journal of Laws from 2009, no. 157, item 1240 with further amendments.
- Monitoring zadłużenia miast wojewódzkich, [in:] *Brief programowy Instytutu Kościuszki*, Instytut Kościuszki, Kraków marzec 2011.
- Reports on budget execution of Wrocław Municipality as of 31 December 2001 to 2011.

ZARZĄDZANIE FINANSOWYM BEZPIECZEŃSTWEM MIASTA WROCŁAWIA

Streszczenie: Artykuł prezentuje zdolność do bezpiecznego realizowania zadań ze środków budżetowych Wrocławia. W artykule podjęto próbę oceny stabilności realizowanej polityki finansowej przez władze samorządowe oraz poziomu bezpieczeństwa finansowego miasta Wrocławia. Celem artykułu była analiza stanu zadłużenia oraz ocena sposobu zarządzania bezpieczeństwem finansowym miasta pod kątem wielkości deficytu i poziomu zadłużenia metropolii wrocławskiej. Zwrócono uwagę na niebezpieczeństwo ewentualnego niedoszacowania oficjalnego zadłużenia miasta metropolii, co może skutkować zwiększeniem problemu bezpieczeństwa finansowego Polski.

Słowa kluczowe: zarządzanie, bezpieczeństwo finansowe, metropolia, Wrocław.