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EFFECTS OF THE „POLISH DEAL" PROGRAMME ON LOCAL GOVERNMENT UNITS

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Abstract

The aim of this paper is to present the „Polish Deal" program in the context of its influence on budget management of local government units. The paper puts forward a thesis that changes in the tax system, as specified in the „Polish Deal" programme, will have a negative impact on the finances of local government units. The study was based on selected literature, documents on the financial perspective for 2021–2027, the „Polish Deal" programme, financial information on the state of finances of local government units in 2018–2020 and opinions of the Union of Polish Metropolises and the Association of Polish Cities to the draft Polish Deal programme. The period of the SARS-CoV-2 pandemic coincided with the beginning of the next financial perspective in the European Union for the years 2021–2027. EU institutions have prepared a number of instruments relevant to the post-pandemic era, including the Next Generation EU. At the same time, they imposed on Member States the obligation to prepare their own post-pandemic plans. Poland prepared the National Recovery Plan. This was followed by the government's presentation of the „Polish Deal" program, which is a promise of socio-economic reforms. The projects included in the „Polish Deal", in many areas will require the activity and involvement of local authorities. The effects of these activities will be not only financial but also organizational, which will translate into increased spending. Changes in the tax system, especially in the personal income tax, will considerably affect revenues from PIT shares, which will disturb the stability of territorial self-government units' financial system. Therefore, it is necessary that the government and self-government representatives jointly work out solutions, which will guarantee the compensation of losses for the self-governments in a long-term, and a stable way to restore the principle of adequacy.

Keywords: the „Polish Deal" program, finances of local government units, pandemia COVID-19, changes in the tax system.

JEL Class: H71, H72, H 76, H79.

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INTRODUCTION

On December 17, 2020, the Council of the European Union adopted a regulation (Council Regulation, 2020) laying down the EU's multiannual financial framework for the period 2021–2027. The Regulation establishes a long-term EU-27 budget of EUR 1,074.3 billion. and provides for the inclusion of the European Development Fund together with the Next Generation EU Recovery Facility worth of nearly €750 billion. In total, the Union will gain resources of an unprecedented amount of €1.8 trillion for the coming years, to be used for the socio-economic recovery of the Member States after the COVID-19 pandemic and for the implementation of long-term priorities in various Union policies.

In order for a member state to receive Next Generation EU funds, it must be ratified and a country's own recovery plans must be prepared and sent to the European Commission. The Polish government ratified the EU document by developing and adopting the National Recovery Plan (NRP) in May 2021. This is a programmatic document that sets out the goals for rebuilding and building Poland's socio-economic resilience after the crisis caused by the COVID-19 pandemic.

The strategic objective of the NRP is to rebuild the development potential of the economy lost as a result of the pandemic (recovery) and to support the building of sustainable competitiveness of the economy and increase the standard of living of the population in the long term (resilience), which will be done in particular by accelerating the development of a low-carbon, closed-loop economy that makes responsible use of environmental resources (green growth), as well as digitally-based development (digital growth) (Ministry of Development Funds and Regional Policy, 2021: 25). The document formulates three specific objectives, which include:

1) qualitative, innovative development of the economy leading to an increase in its productivity, taking into account the digital transformation of the country and society,

2) green transformation of the economy and development of green, intelligent mobility, objective,

3) increase in social capital and quality of life, in particular by ensuring improvement in the health of citizens and higher quality of education and skills adapted to the needs of a modern economy.

The assumptions set out in the NRP were further refined in the „Polish Deal" Programme. It contains investment plans and proposals of changes concerning many areas of social and economic life in the context of recovery from the crisis caused by the COVID-19 pandemic. It envisages reform of the tax system, energy and digital transformation of the country, launching measures to support young people and Polish farmers.

The aim of this paper is to present the „Polish Deal" program in the context of its influence on budget economy of local government units.

The paper presents a thesis that changes in the tax system in the „Polish Deal" program will have a negative impact on the finances of local government units.

The study was based on selected literature, documents on the financial perspective for 2021–2027, the „Polish Deal" program, financial information on the state of finances of local government units in 2018–2020 and opinions of the Union of Polish Metropolises and the Association of Polish Cities to the draft „Polish Deal" program.

1. THE „POLISH DEAL" PROGRAM – FOUNDATIONS AND KEY PROJECTS

The adopted National Reconstruction Plan was submitted to the European Commission on May 3, 2021. The directions of Poland's development indicated in the document require the adoption of specific actions and legal solutions. These have been signaled in the Polish Deal strategic investment program presented on May 15, 2021.

The „Polish Deal" is presented as „a comprehensive strategy to overcome the effects of the pandemic, a plan for economic reconstruction of the country" (*Polski Ład*, 2021: 5). The document is divided into five foundations (consistent with the National Recovery Plan), within which ten key areas are defined. Additionally, the plan includes ten key investment projects and systemic solutions (Table 1).

The proposed program concentrates on five major areas of socio-economic life: health, labor and remuneration, investment, agriculture.

The socio-economic development of Poland and the whole world was shocked by the outbreak of the SARS-CoV-2 pandemic. The epidemiological crisis caused by COVID-19 led to a serious economic crisis. One should also not forget about the social consequences resulting from the prolonged lookdown.

Public attention has been focused and stillcontinues to focus on *health issues.* The time of the pandemic has clearly exposed the ills and shortcomings of the health service. Undoubtedly, this is an area that requires special attention on many levels, starting with the medical staff and ending with prevention programs and patient care. In this plan, the first foundation is dedicated to health. It plans to take measures to increase spending on health care to 7% of GDP for: investment in hospitals, digitization, higher quality of service, shorter queues and increased salaries for medics. The second project included in this area is free prevention after the age of 40 in oncology and cardiology, and finally the third, concerning the abolition of limits to the services of specialists in all areas of medicine, including for patients under the age of 18.

Table 1. Planned directions of activities in the „Polish Deal”

Foundations of the „Polish Deal” plan	„Polish Deal” areas	Planned cost for 2021–2030 (in PLN billion)	Key Projects „Polish Deal”
More money for health	Plan for health	122,4	Tax free amount – tax reduction for 18 million Poles
Own flat or house	Fair work, decent pay	108,0	Pensions without taxes up to 2500 PLN
Higher pension	A decade of development	97,2	Elimination of patients limits to specialists
Lower taxes	Family and home at the center of life	30,6	7% GDP on health
500,000 new jobs	Poland – our land	45,0	Apartment without own contribution
	Friendly school and culture for a new century	64,8	Home without formalities
	Good business climate	63,9	Family Caregiving Capital
	Clean energy, clean air	36,9	Polish Deal Strategic Investment Program
	CyberPoland 2025	36,9	Higher farm fuel subsidies and facilitation of direct sale by farmers
	Golden autumn of life	45,9	Small Science Centers

Source: own study based on: *Polski Ład*, 2021; *Polski Ład – główne założenia i wstępna analiza*, 2021.

In addition, it is planned to improve medical night care by changing the system of hospitals. They will work on the basis of three stages of contact with a patient within the framework of night and holiday medical aid. The first level is the initial diagnosis and e-registration of the patient; the second – a network of district 24-hour ambulatories, the third – the intervention of the medical ambulance and transport to the hospital emergency department. The research program on COVID-19 will be continued. Research teams from the best Polish universities and hospitals will receive financial support to work on drugs and vaccines protecting against further mutations of the virus. For patients who require assistance in postcovid recovery, a rehabilitation program will be implemented (*Polski Ład*, 2021: 36–37).

Own flat or house, another foundation in which programs to increase the availability of financing for own housing are to be implemented. It is to be aimed at three target groups of beneficiaries: those who want to have their first apartment from the primary or secondary market, those who look for it in social housing, and those who want to build a house. It is assumed that the state will guarantee a maximum of PLN 100 thousand as an own contribution for those taking out a loan who do not have the financial means for an own contribution. The amount of funding received will depend on the number of children in the family – PLN 20,000 for the second child, PLN 60,000 for the third and each subsequent child. In order to reduce the risk of price increases, a maximum price level will be introduced for 1 m^2 of real estate, which will qualify for the program. Similar solutions are to be adopted with regard to social housing. For those beneficiaries who decide to build their own house, the government envisages simplification of formalities: construction without a permit, manager and construction log – but only on the basis of a notification, assuming that the area of the house will not exceed 70 m^2 (*Polski Ład*, 2021: 68–69).

The third foundation, *Higher Pension*, covers the area called in the plan Golden Autumn of Life, which proposes solutions dedicated to seniors. These include: making working hours more flexible for people over 55 so that when they reach retirement age, they do not have to decide whether to continue working or retire. The proposals also relate to launching senior citizen activity, care and support programs with the participation of local government units, volunteers, local communities. The program of free 75+ medicines is to be expanded to younger people. The „Polish Deal" also includes proposals of systemic changes in the area of taxes for pensioners, for example, increasing the amount of pensions by the amount of tax collected for benefits up to PLN 2500 as well as the implementation of of PIT-0 for seniors who do not retire after reaching retirement age but continue to work.

Lower taxes is the fourth pillar of the „Polish Deal" programme that arouses most emotions, as it concerns the tax system. In this area, the proposed changes affect all social and economic entities, from households to businesses. The proposed changes included in the plan concern: raising the free amount of personal income tax to PLN 30,000, the aforementioned changes in the taxation of pensions, raising the tax threshold from PLN 85,000 to 120,000, joint taxation of spouses starting already in the year of their marriage, changes in corporate income tax taking the form of investment and innovation tax allowances (*Polski Ład*, 2021: 96–99).

The fifth foundation was entitled 500 thousand new jobs. Under this slogan the projects included in the Programme of Strategic Investments „Polish Deal" are planned to stimulate investment activity of local government units, to develop local entrepreneurship, to improve living conditions for citizens, to create new jobs, to support sustainable development and effectively engage the financial sector. The Program is coordinated by Bank Gospodarstwa Krajowego. It is addressed to local self-government units which will be able to apply for nonrefundable financing for investments in the amount depending on the priority area where the investment is planned (*Polski Ład*, 2021: 49–60).

In addition, the programme pays attention to issues and directions of development in such areas as education, culture, environment and agriculture.

The document contains planned changes and directions of activities, the implementation of which requires the adoption of relevant laws and regulations and full acceptance of the National Reconstruction Plan by the European Commission, which is the basis for the release of payments.

2. THE STATE OF LOCAL GOVERNMENT FINANCES DURING THE COVID-19 PANDEMIC

In December 2019 the world heard for the first time about a new COVID-19 infection, commonly referred to as coronaviru, which broke out in the Chinese city of Wuhan (Huang et al., 2020: 497). Initially, the information was treated as remote and limited to China only. The situation changed drastically in 2020. The number of sick and dying people in the world grew exponentially. At the beginning of March, the first case of coronavirus in Poland was reported.

The Director General of the World Health Organization on March 11, 2020 announced that the rapid rate of increase of the disease is characteristic of an epidemic. In Poland, in order to limit the spread of the virus throughout the country a lockdown was introduced, which changed the image of the state, local government, businesses and citizens at that time.

Polish local governments have long struggled with financial problems that translate into the state of their budgets. The year 2020 has left a particular mark on local government budgets as a result of two major changes. The first is the coronavirus pandemic, which has forced local governments to make a number of increased expenditures in areas such as health care, education, and local businesses. The second set of changes were changes to the tax system (Kostyk-Siekierska, 2021: 33), which were introduced in 2019 and involved a reduction in the personal income tax rate from 18% to 17% as well as the introduction of zero PIT for those under the age of 26.

In 2020 a number of surveys in local government units were conducted (OECD, 2020; BGK 2020; Swianiewicz and Łukomska 2020). Among the respondents, the conviction about the negative impact of the COVID-19 pandemic on the financial situation of local government units was commonly dominant. Local government officials expected that the introduced restrictions would drastically affect the decline in income from personal income tax (PIT), corporate income tax (CIT) and property tax.

Did this pessimistic scenario come true?

The reports of the National Council of Regional Chambers of Accounts (KRRIO, 2021) and summary information of the Ministry of Finance (Ministerstwo Finansów, 2020) show that at the end of 2020 the budgets of local government units (JST) closed collectively with a surplus of PLN 5,689 million. Budget revenue was realized in the amount of PLN 304,930 million, i.e. 100.4% of the plan and compared to the 2019 revenue increased by 9.5% (after taking into account the inflation rate – by 6.1%). The revenue growth rate was lower than a year earlier by 1.1 percentage points Budget expenditures were realized in the amount of PLN 299,240 million. and, as in previous years, they were not implemented in full (92.1% of the amount of planned expenditure). In relation to 2019, the execution of expenditure was lower by 1.4 percentage points (93,5%). Current revenues amounted to PLN 271,873 million. and were higher than current expenditure by PLN 21,385 million. Current revenue was realized in 99.7% and current expenditure in 94.4% (Table 2).

Table 2. Performance of local government budgets from 2018 to 2020

Specification	2018	2019	2020		Dynamics	
	Implementation (in PLN million)	Implementation (in PLN million)	Implementation (in PLN million)	Implementation of the plan (in %)	2019/2018	2020/2019
Total revenue including:	251 846	278 507	304 930	100.4	110.6	109.5
Current revenue	229 630	253 381	271 873	99.7	110.3	107.3
Property income	22 216	25 188	33 056	106.4	113.4	131.2
Total expenditure including:	259 386	280 276	299 240	92.1	108.0	106.8
Current expenditure	206 508	229 219	250 488	94.4	110.9	109.3
Property expenditures including:	52 877	51 057	48 751	81.8	96.5	95.5
Capital expenditure	51 075	48 979	46 633	81.4	95.9	95.2
Budget result	–7 539	–1 706	5 689	x	22.6	333.4
Operating result	23 122	24 162	21 384	x	10.5	88.5

Source: own study based on: KRRIO, 2021: 163.

Total revenue in 2020 was higher than total revenue in 2018–2019, with growth rates of: 110.6% and 109.5%. An analogous situation occurred with regard to total expenditure, which grew by 8% compared to 2018 and 6.8% to 2019. In contrast to the pandemic year, the 2018–2019 budgets recorded a deficit of PLN 7,539 million in 2018 and PLN 1,706 million. in 2019. The operating result in 2020 decreased by 11.5% from PLN 24,162 million to PLN 21384 million in 2019.

In publications devoted to the analysis of the financial situation of LGUs in 2020, the question often arises whether, despite the covidian crisis, the financial situation of LGUs turned out to be more favorable than in precovidian years? (Kostyk-Siekierska, 2021: 34; Gołaszewski, 2021). The positive result of the budget in 2020 is the effect of grants from the Government Fund for Local Investment (GFLI) in the amount of PLN 10.35 billion. This sum in documents compensates for the shortfall and creates an artificial surplus. The funds, although entered in the budget as their own, can only be used for investments. They cannot be used to cover current needs or loan repayments. The GFLI funds have enabled local governments to reduce the incurrence of new debt. In 2019 the budget deficit of local governments amounted to PLN 1.7 billion, if not for the government aid in 2020 the deficit would have reached PLN 4.8 billion. Many local governments would have been forced to incur debt to cover the planned budget deficit, but thanks to the subsidy this was not necessary, or the debt incurred was lower than previously assumed (Golaszewski, 2021).

Table 3. Total revenue by category of local government units from 2018 to 2020

Specification	2018	2019	2020		Dynamics	
	Implementation (in PLN million)	Implementation (in PLN million)	Implementation (in PLN million)	Implementation of the plan (in %)	2019/2018	2020/2019
Total income in local government units	251 846	278 507	304 930	100,4	110.6	109.5
Communes	121 426	135 162	149 090	102,0	111.3	110.3
Poviats	27 959	30 696	34 568	102,6	109.8	112.6
Cities with county rights	85 508	93 894	100 314	99,6	109.8	106.8
Provinces	16 954	18 755	20 956	102,3	110.6	111.7

Source: own study based on: Rada Ministrów, 2021.

Data for 2020 on the general financial and income situation of the local government sector shows that it is not as good as presented by the central government, but also the situation is not as dramatic as described by local government officials and analysts. The group of self-government units is diversified both in terms of size, tasks and competences (communes, poviats, cities with county rights and provinces) (Kostyk-Siekierska, 2021: 41) (Table 3).

Total revenues of territorial self-government units in 2020 increased by 9.5%, while the growth dynamics was weaker than the year before (an increase of 10.6%). Analyzing individual categories of self-governments, revenue growth oscillated at a similar level from 10.3% in communes, 11.7% in voivodships to 12.6% in poviats. The lowest increase in revenues was observed in cities with poviat rights. The dynamics of changes in revenues a year earlier was similar in all four groups of local governments and oscillated between 9.8% in poviats and cities with poviat rights to 10–11% in communes and provinces.

From the point of view of self-governments' financial situation and their development potential, the most important category is current income. Throughout the analyzed period there is an increase in current income, and its trend is similar to the growth of total income. In 2019 there was a nearly 10% increase in current income at all levels of local government. In the pandemic year, the highest dynamics of current income growth was recorded in provinces (12.3%), counties (9.7%), communes (8%) the lowest growth was in cities with county rights – 4.9% (Table 4). The differences in the spread of current income growth should be considered significant, given that it is in cities that business is located and most income comes from taxes. They are the ones most affected by the lockdown.

Table 4. Current revenue by local government unit in 2018–2019

Specification	2018	2019	2020		Dynamics	
	Implementation (in PLN million)	Implementation (in PLN million)	Implementation (in PLN million)	Implementation of the plan (in %)	2019/2018	2020/2019
Total current revenue in local government units	229 630	253 381	271 873	99.7	110.3	107.3
Communes	111 706	123 796	133 619	99.4	110.8	108,0
Poviats	24 732	27 103	29 738	100.0	109.5	109.7
Cities with county rights	79 473	87 331	91 582	91.3	109.9	104.9
Provinces	13 720	15 081	16 931	10.,5	110.0	112.3

Source: own study based on: Rada Ministrów, 2021.

A full picture of the situation of local governments emerges from an analysis of the data in Table 5 on operating surplus. In 2019, a decrease in operating surplus was recorded only in cities with county rights. Then the decrease was 11.4%. The other types of local governments showed an increase in operating result in their reports. The largest increase of over 30% was registered by poviates, followed by provinces – 19% and communes – 5%. In 2020 in all local government units, except for voivodships, there was a decrease in operating result. A record decline of 48% occurred in cities with county rights. In communes and poviats the decrease amounted to 2%. In voivodships, the operating result increased by more than 14% compared to the previous year.

Table 5. Operating result by local government unit in 2018–2019

Specification	2018	2019	2020		Dynamics	
	Implementation (in PLN million)	Implementation (in PLN million)	Implementation (in PLN million)	Implementation of the plan (in %)	2019/2018	2020/2019
Operating result in local government units	23 122	24 162	21 384	x	104.5	88.5
Communes	10 815	11 377	11 155	x	105.2	98.0
Poviats	2 058	2 762	2 710	x	134.2	98.1
Cities with county rights	7 162	6 343	3 306	x	88.6	52.1
Provinces	3 088	3 673	4 211	x	119.0	114.6

Source: own study based on: Rada Ministrów, 2021.

The reduction in the operating result was a decrease in current revenue with an increase in expenses, both total and current. This was the result of increased expenditures resulting from anti-covid programs and recurring expenditures that cannot be abandoned, even in periods of economic downturn.

In the entire presented period, there was an increase in total expenditure in all types of local government units. In 2019 the growth dynamics was the highest in cities with poviat status (11.3%), and the lowest in poviats (3.4%). In communes, the increase in expenditure amounted to almost 6.5%, and in voivodships over 10%. The situation in 2020 looks surprising. Despite the increase in total expenditure at all stages, their dynamics is slightly different. In 2020 expenditure in poviats grew the fastest (9%), while on the remaining levels this increase fluctuated in the range of 6–7% (Table 6).

Table 6. Total expenditure according to local government units in 2018–2020

Specification	2018	2019	2020		Dynamics	
	Implementation (in PLN million)	Implementation (in PLN million)	Implementation (in PLN million)	Implementation of the plan (in %)	2019/2018	2020/2019
Total expenditure in local government units	259 386	280 276	299 240	92.1	108.0	106.8
Communes	127 132	135 316	143 716	91.4	106.4	106.2
Poviats	28 656	29 630	32 313	91.7	103.4	109.1
Cities with county rights	87 014	96 885	103 502	93.4	111.3	106.8
Provinces	16 582	18 375	19 707	91.2	110.8	107.2

Source: own study based on: Rada Ministrów, 2021.

The picture of changes in current expenditure is similar to the changes in total expenditure. In 2019 the greatest increase was recorded in cities with poviat status (12%) and in communes (11%). Poviats and voivodships recorded an increase in current expenditure at the level of 7%. A year later, poviats and voivodships showed an 11% increase in current expenditure. Communes and cities with poviat status achieved an increase of 8–9% (Table 7).

Table 7. Current expenditures by local government unit from 2018 to 2020

Specification	2018	2019	2020		Dynamics	
	Implementation (in PLN million)	Implementation (in PLN million)	Implementation (in PLN million)	Implementation of the plan (in %)	2019/2018	2020/2019
Current expenditures in local government units	206 508	229 219	250 488	94.4	110.9	109.3
Communes	100 890	112 419	122 464	79.3	111.4	108.9
Poviats	22 673	24 341	27 027	93.7	107.4	111.0
Cities with county rights	72 311	80 987	88 276	95.7	112.0	109.0
Provinces	10 632	12 073	12 720	91.9	107.3	111.5

Source: own study based on: Rada Ministrów, 2021.

The picture of the financial situation of local government units is best presented by the dynamics of changes in the basic groups of revenue sources. Over the analyzed period, own income of LGUs increased by nearly 10% in 2019 and by 7.8% in 2020 on a year-to-year basis. Tax revenue from CIT in 2019 increased by 12.4%, in 2020 it also increased on a year-to-year basis by nearly 4%, but the growth rate was weaker by 8.5 percentage points. Income from PIT in 2019 increased by 10.3%, while in 2020 there was a decrease of nearly 2%. In the case of property tax there is a steady upward trend from 3% in 2019 to almost 4% in 2020. Revenues from other taxes and fees were increasing in 2019. Only in 2020 there was a decrease in revenue from fees by 5%. In 2019 there was a 2.8% decrease in revenue from property, but a year later revenue increased by 7%. Surprisingly, there is a high growth rate of other income, which in 2019 was over 17% and in 2020 nearly 32%. The amounts of subsidies and grants in each of the years examined increased by 8–9% and 13% respectively.

This situation shows the dependence of local government units on funding from the state budget, thus losing their financial independence (Table 8).

Table 8. Revenues of local government units by source from 2018 to 2020

Specification	2018	2019	2020		Dynamics	
	Implementation (in PLN million)	Implementation (in PLN million)	Implementation (in PLN million)	Implementation of the plan (in %)	2019/2018	2020/2019
Total revenue	251 846	278 507	304 930	100.4	110.6	109.5
Own income including:	124 042	135 768	146 356	103.9	109.5	107.8
CIT	9 698	10 901	11 325	109.8	112.4	103.9
PIT	50 908	56 140	55 077	100.3	110.3	98.1
Property tax	22 617	23 299	24 215	100.5	103.0	103.9
Other taxes	6 031	6 321	6 462	106.5	104.8	102.2
Fees	1 046	1 074	1 020	98.5	102.7	95.0
Property income	7 700	7 492	8 023	96.4	97.2	107.1
Other income	26 038	30 535	40 227	111.2	117.3	131.7
Total grants	71 374	80 992	91 544	95.5	113.5	113.0
General subsidy	56 429	61 745	67 029	100.0	109.4	108.6

Source: own study based on: Rada Ministrów, 2021.

The COVID-19 epidemic significantly affected changes in the entire economy, thus exerting a significant impact on the financial situation of local government units. Recognizing the need to support the economy and level out the effects of the COVID-19 epidemic, a package of legal regulations (Ustawa z dnia 2 marca 2020 r.; Ustawa z dnia 31 marca 2020 r.; Ustawa z dnia 16 kwietnia 2020 r.; Ustawa z dnia 14 maja 2020 r.; Ustawa z dnia 19 czerwca 2020 r.) was introduced and aimed at, among other things, facilitating the realization of tasks by local governments.

The noted changes in the dynamics of revenues and expenditures in 2020 are a result of these changes. The most important ones include:

1) Departure from the principle of balancing the current side of the budget of the local government unit (Article 242 of the Public Finance Act). The local government unit was allowed to exceed the relation for balancing of revenues and current expenditures by the amount of decrease in revenues of the unit resulting from the COVID-19 epidemic (revenues from PIT and CIT, property tax, agricultural tax, forest tax, tax on means of transport, tax on civil law transactions, PIT in the form of tax card, revenues from stamp duty and exploitation fee, local and spa fees) (Nelicki, 2020: 20).

2) Revision of the approach to debt repayment limit by providing additional exclusions from the debt repayment limit. Borrowings, loans and bond issues incurred in 2020 due to the entity's revenue shortfall resulting from the COVID-19 outbreak are excluded.

3) Introduction of the possibility of earlier transfer of general subvention installments from the state budget to local governments in 2020.

4) Allowing installments of payments to the state budget made by entities with above-average tax revenues to be deferred to subsequent months.

5) Increase of county government revenue from management of state-owned properties from 25% to 50% of revenues.

6) Making the spending of funds from liquor license fees more flexible also for activities related to preventing, counteracting and combating the COVID-19 epidemic and crisis situations caused by it (Rada Ministrów, 2020: 10–12).

7) Establishment of the Government Local Investment Fund, from which local governments can only allocate funds for investment, and the time horizon was extended beyond 2020. The allocation algorithm was modified on the basis of subjective solutions, which resulted in a hybrid mechanism of support for territorial self-government units of a non-transparent character, where the equalizing purpose was not determined empirically, but on the basis of a general conviction that cities with poviat rights were in a better financial situation than other communes. In its function of supporting LGUs whose revenues have been affected by the crisis, the algorithm has even been misdirected (Nelicki, 2020:18).

Dedicated to local government units, the budget figures show that they have mitigated the impact caused by the COVID-19 pandemic. It is too early to conduct a deeper analysis, especially in the context of the proposed new solutions.

3. CONSEQUENCES OF „POLISH DEAL" PROGRAME FOR LOCAL GOVERNMENT UNITS

The assumptions and proposals of the Polish Deal are to enter into force on January 1, 2022. Implementation of many of the proposed projects assumes active involvement of local government units, especially municipalities. Consequently, it will be necessary to engage financial resources, which will undoubtedly be reflected in the financial situation of the units. Table 9 presents the areas of the „Polish Deal" Plan that assume the active participation of the territorial self-government units.

Table 9. Programs of the „Polish Deal" requiring involvement of local government units

Areas of the Polish Deal Plan	Impact on the local government unit
Direct financial impact	
Fair work, decent pay	▪ increasing the tax-free amount to PLN 30 thousand.
A decade of development	▪ introduction of a new subvention for local governments for investment purposes.
Financial and organisational impact	
Plan for health	▪ transferring funds to local governments under the Hospital Modernization Fund and the Medicare Fund for investments in health care facilities operating in their areas.
Fair work, decent pay	▪ creation of local remote work centers, in which employees living in smaller centers will be able to work remotely using the full technological infrastructure, ▪ funding for the construction of local community centers, which will have the advantage of quick implementation time and a form that allows adaptation to the needs of the local community, ▪ infrastructure grants for municipalities investing in housing, ▪ implementation of a fund for financing communal revitalization programs, with grants to be transformed into grants upon achieving specific goals, ▪ a new form of cooperation between local governments and investors, in which the local government may provide the investor with land in exchange for the right to use part of the built premises for social purposes, e.g. housing, education, ▪ reform of spatial planning and development, which will enable all municipalities to have a plan linked to the development strategy.
Family and home at the center of life	▪ a nursery in every commune. The communes concerned are to receive a grant for this purpose.

Friendly school and culture for a new century	▪ launching additional voluntary activities in schools to bridge the gap caused by the COVID-19 pandemic, ▪ Green school – school thermo-modernisation programme, ▪ The Friendly and Accessible School for All is a programme that prepares teachers to work with children with disabilities and finances investments to remove architectural accessibility barriers in schools, ▪ Daycare programme, expanding childcare provision during parents' working hours, ▪ a municipal youth fund which will provide grants for attractive youth projects. These are to be developed in cooperation with municipal councils, ▪ construction of small Copernicus Science Centres in poviats.
Clean energy, clean air	▪ the removal of concrete and asphalt in city centres as well as planting of trees and shrubs and the creation of micro-parks, green walls and roofs, ▪ increase in the civic budget to 1% for environmental projects.
CyberPoland 2025	▪ creating local digital support points (e.g. in libraries) so that residents can use e-services, ▪ strengthening bottom-up community initiatives in e-participation using IT tools.

Source: own study based on: *Polski Ład*, 2021.

The projects proposed in the „Polish Deal" will require not only the involvement of the authorities of local self-government units in their implementation but, above all, appropriate financial resources. Some of these projects directly translate into the budget. These are changes in the tax system and a change in the general subsidy structure, which will be supplemented with a development (investment) part. The remaining projects listed in Table 9 will to a large extent require local authorities to take over the role of investors and organiser of activities, which in consequence will also translate into the necessity to allocate funds from the budget (e.g. a nursery in each commune). Hence, the issues of depleting own revenues of LGU as a result of increasing the tax-free amount to PLN 30 thousand, raising the second tax threshold from PLN 85.5 thousand to PLN 120 thousand and introducing tax relief for the middle class are widely discussed in the public space (Majewski, 2021).

Local authorities are counting the losses their budgets will suffer from the tax changes. In the case of Warsaw, it is estimated that it will amount to PLN 1.7 billion a year, and in Cracow – to over PLN 500 million. Other cities, e.g. Rybnik, mention the loss of about PLN 57 million annually, Wrocław – PLN 416 685 256, Augustów – PLN 9 006 692 and Kołobrzeg – PLN 13 849 706. Bydgoszcz will lose PLN 141 353 708 to the „Polish Deal", Poznań over PLN 300 million and Gdańsk around PLN 250 million (Związek Miast Polskich, 2021a). The estimate is based on the average loss in PIT provided by the Ministry of Finance in the Regulatory Impact Assessment (RIA) of the draft act amending the act on revenues of local government units and certain other acts (Koślicki, 2021).

According to the RIA, revenues of local governments will fall by PLN 11,922m in 2022 and PLN 112,426m by 2031 (*Polski Ład: ile kosztować będą zmiany podatkowe?*, 2021, Związek Miast Polskich, 2021b). Local government losses are to be compensated and stabilised by the act on support for local government units in connection with the implementation of the „Polish Deal" in 2022 and in subsequent years through, e.g. additional funds in the amount of PLN 8 billion for implementation of own tasks of local government units, a development subsidy, solutions guaranteeing local government units predictable revenues from PIT and CIT in a given budget year and an income rule which will ensure long-term financial stability for local government units (Pawłowski, 2021; Klimas, 2021).

The draft law on support for local government units in connection with the „Polish Deal" programme assumes a one-off subsidy of PLN 8 billion, which has already been paid in advance in 2021, and a development subsidy of PLN 3 to 4 billion a year. Taking into account the projected loss of revenues of local governments at the level of PLN 112.5 billion, within 10 years the budget hole of local governments will reach the level of nearly PLN 97 billion. This means that local self-governments may lose income amounting to PLN 15 billion annually on the PIT changes alone, and in return, according to the draft bills, they are offered only PLN 3 to 4 billion for development purposes. This means less money not only for investments, but also for current activities, which means reduced spending on education, public transport, municipal services, culture and sport. As a result, local governments will be forced to liquidate some services, cut investments or raise local taxes and fees. Local government officials agree that the announced changes, some of which will be introduced under the Act on amending the act on incomes of local government units and some other acts (Dz.U. 2021, poz. 1927), they will drastically affect the current functioning of the units. It is from current income that subsidies to education, public transport and all other things that build the comfort of functioning of local authorities and their inhabitants are financed. Until now, the aim of local authorities has been to keep the price of this comfort as low as possible. Unfortunately, as a result of the announced changes, the financing of current expenditures will consume increasing amounts, which means that part of them will be transferred to the citizens (portal komunalny.pl, 2021).

In order to compensate the shortages, the government proposed the following solutions. Firstly, as a result of the above-mentioned act, the manner of determination and transfer of revenues of territorial self-government units from participation in PIT and CIT shall be unified. The global amount of self-governments' revenues from the above-mentioned taxes is to be based on the planned receipts, which will allow for transferring revenues from the share in revenues from income taxes in fixed, equal monthly instalments.

Secondly, a new part of the general subvention has been introduced – the development one, ensuring support in the investment area. The distribution of the subsidy is to be based on an objective algorithm, taking into account two key parameters: the level of property expenditure of territorial self-government units and the number of inhabitants. The global amount of the subsidy is to be stable and not subject to annual changes as a result of fluctuations in the level of self-governmental investments (Horbaczewski and Ojczyk, 2021).

In the opinion of the Union of Polish Metropolises (UPM) on the draft law, the proposed mechanisms of compensation to mitigate the loss of revenue are far from sufficient. Not only is the lack of full compensation for the loss of revenue objectionable, but also the complicated manner of its distribution. The distribution of the extraordinary subsidy for 2022, as well as the distribution of the development subsidy is disproportionate and does not take into account the amount of PIT revenue losses in individual municipalities. The discriminatory treatment of the most populous municipalities in both cases is particularly objectionable. The objective of compensation should be the introduction of a simple and transparent mechanism ensuring constant and systematic supplementation of revenues of territorial self-government units. The way to achieve this goal would be to increase the share of self-governments in PIT.

The UPM is of the opinion that in order to compensate only for the loss of territorial self-government units caused by the introduction of the „Polish Deal", the share in PIT should be increased by 12.8 percentage points, i.e. from 50.19% to 63.97%, including:

– for municipalities the share increase by 9.76 percentage points, i.e. from 38.34% to 49.1%;

– for towns with poviat rights – increase in the share by 12.37 percentage points, i.e. from 48.59% to 61.96%;

– for poviats share increase by 2.61 percentage points, i.e. from 10.25% to 12.86%;

– for voivodships increase in the share by 0.41 percentage points, i.e. from 1.60% to 2.01%.

In order to compensate for the effects of the „Polish Deal" programme (PLN 13.5 billion per year), as well as the changes in the PIT tax enacted in 2019 and 2020 (PLN 7.8 billion per year) – the share in this levy should be increased by 23.6 percentage points i.e. from 50.19% to 74.78% including:

– for municipalities share increase by 18.02 p.p., i.e. from 38.34% to 57.36%;

– for cities with poviat rights share increase by 22.84 p.p., i.e. from 48.59% to 72.43%;

– for poviats – increase in the share by 4.82 p.p., i.e. from 10.25% to 15.07%;

– for voivodships increase in the share by 0.75 p.p., i.e. from 1.60% to 2.35% (Unia Metropoli Polskich, 2021).

The concerns of local government officials are not surprising. Fears about the state of local government finances are exacerbated by the growing inflation, which increases the cost of labour, services, energy and materials. This, too, will ultimately translate into a fall in local government cash flow. A lack of income in local government budgets means a slowdown in local and regional development, and, as a consequence, a failure to meet the needs and expectations of local communities. It comes as no surprise, then, that self-government activists who are aware of this are demonstrating to make the public aware of what may happen in the future if the constitutional principle of adequacy is destroyed.

CONCLUSION

The COVID-19 pandemic has disturbed the foundations of the socio-economic life of the country. It changed the optics and prioritisation of different areas of life. Lockdowns froze many areas of the economy, changed the way of life of society. They forced the government and local governments to take decisions and actions that no one had to take before. However, they have not changed one thing – every action taken must have guaranteed sources of funding.

The period of the SARS-CoV-2 pandemic coincided with the beginning of the next financial perspective in the European Union for 2021–2027. The original assumptions had to be modified and adapted to the situation of the health and economic crisis. The EU institutions prepared a number of instruments adequate to the post-pandemic times, including the Next Generation EU. At the same time, they imposed an obligation on Member States to prepare their own post-pandemic plans. Poland submitted such a programme, the National Recovery Plan, in May this year. This was followed by the presentation of the Polish National Recovery Plan, which is an announcement of social and economic reforms.

Is the „Polish Deal" a programme for Poland's development?

The debate about the impact of the postulated reforms on the state of finances of the entire public finance sector, and in particular the local government sector, responsible for local development, investment attractiveness, the development of local entrepreneurship, or the degree to which the needs of local communities are met, is rife in the public domain. Maintaining this development requires a stable financing system. In recent years, however, there have been constant changes which have a direct impact on local government budgets. The most severe are caused by changes in the tax system, which are immediately reflected in a decrease in own revenues. Also those included in the „Polish Deal" contribute to the loss of income, especially from personal income tax, as confirmed by the analyses of the Ministry of Finance, the Association of Polish Cities, the Union of Polish Metropolises and the Association of Rural Municipalities of the Republic of Poland. Investments and projects included in the „Polish Deal" in many areas will require the activity and involvement of local authorities. The effects of these activities will have not only financial but also organisational dimension. It will be necessary to involve local government organisational units and new staff. This will translate into an increase in expenditure and, consequently, into a disruption of the financial system.

At the moment, the legislative process of acts which will constitute the basis for the implementation of the assumptions of the „Polish Deal" is underway. It is already known that under the adopted act on amending the act on revenues of local self-government units and some other acts, self-governments suffer a loss in budgetary revenues from taxation of around several million Polish zloties, which confirms the thesis presented in the introduction to this paper. However, there is still time for responsible and well-thought-out decisions guaranteeing the restoration of stability in the system of self-government finance. Therefore, it is necessary that the government and self-government representatives jointly work out solutions that will guarantee the self-governments compensation for losses in the long term and in a stable way as well as will restore the principle of adequacy.

It should also be made clear that a wide-ranging debate on a new system of self-government finance ensuring the independence and self-governance of local self-government entities seems necessary in the near future.

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