Financing of Social Services Towards the Challenges of the Local and Regional Development

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Abstract

The research focuses on the changes in financing of social services at regional and local level in a market economy in Poland. The important problems are also efficiency issues which can be implemented in public sector entities in the process of supporting social and economic development. In the study there were applied analytical methods relating to the gathered empirical data and research methods related to determining the real impact of the self-government units on the processes of socio-economic development. The key part of the text is analysis of the empirical source data regarding financial potential and directions of expenditures of self-government. Previous research results showed that the development of social services in a market economy in Poland was mainly the result of activities the entities and agencies of the public sector, whose role was to support and stimulate the development. As a challenge for the future it can be indicated strengthening the cooperation with entities of the third sector and sharing the responsibility both for the economic processes and social problems.

Keywords: social services, public finances, local and regional development.

Introduction

In contemporary unstable conditions of global economy, determining more and more volatile market mechanisms in Europe and in the world, it is necessary to verify both possibilities and challenges with regard to supporting social and economic processes in the market economy. In the market economy conditions, the social and economic development is a result of interaction of entities and organizational units of the public sector whose role is to support and stimulate the development, and of the private sector organizational entities, which are responsible for the actual course of economic processes related to market-based production of goods and services. It is even more important to pay attention not only to a significantly diverse scope of tasks and responsibilities of entities and organizational units functioning as the public sector but also to goals of the enterprises operating in the real sphere of market conditions.

It should be noticed that the broader context of development processes, including the role of the public sector and social services, can’t be overlooked, especially regarding to global development problems, generally identified in the concept of development economics. According to the concept of development economics it is important to look for optimal resource allocation and support economic growth for poor countries which not always participate in globalization and development processes. Undertaking research on the connections between entities, organizational units being part of the public sector and enterprises operating in the sphere of market conditions leads to establishing the actual cause-and-effect relationship, as well as the role and the importance of particular groups of entities and their impact on the changes in economic processes in the market-based conditions. The principles of providing social services and methods of their financing have a special role here. In the context of the presented study, social services include all administrative activities that address the social needs of citizens, health care services, education, personal social services, care services, housing services, employment services and specialized services and also money transfers for various groups of the society. What should be emphasized is that the level of investment expenditure is the most important factor directly affecting the range and quality of public service delivery, including the level and quality of social services.

The purpose of the analysis presented in the paper is identification an evaluation of current possibilities and limitations occurring in the socio-economic development at the regional and local level processes in the conditions of the market
Dilemmas concerning the role of public sector in economic development and social services

In the contemporary conditions of the market economy, economic and social phenomena should be studied both in the macroeconomic dimension and from a specific territorial perspective. Analogic methods concern the shape of the abovementioned relations between entities of public and private sector. The significant scope of impact of the public sector on the economy is being implemented at the state level by actions of government administration, including both functions of creating legal regulations at the executive level and a number of activities at the level of public interventions with a strong financial component, as well as control functions. From the point of view of the subject of the presented paper, the particular attention should be paid to activities having a direct financial dimension, implemented through investments financed from the state budget or through a system of project-oriented subsidies addressed to various areas of economy and used for supporting implementation of specified social and economic goals, and especially supporting the processes connected with delivery of social services.

Important role of the public support given at the central level and the present tendencies of social and economic changes indicate the need for a thorough analysis of the development problems from and local perspective. The essence of regional approach to economic and social processes refers to the identification of development potential of the region itself, external conditions forming the position of the region in respect of the business environment, as well as the determination of competencies and interrelations between entities having access to different economic resources of the region and forming possibilities and forms of their application (Parr, 2001, pp. 11-12). On this background, it is worth indicating a special role of the public sector entities at the regional and local level.

The self-government of the region fulfills important functions at the administrated territory. These are in particular coordination functions of a number of activities focused on development, implemented by local government authorities of communes and districts. From the point of view of shaping future social and economic phenomena at the local and regional level, certain attention should be paid to instruments of strategic management, long-term investment programmes, long-term financial management of material property owned by local government units as a basic sphere of decision-making process whose effects have a direct connection the process of achieving a growth in quality of living for the inhabitants of a given unit (Jarosinski, Grzymala, Opalka, Masloch, 2015, pp. 33-39). The scope of competencies, and the scope of responsibility of the local government may be reflected in many areas of administrative activities, as well as by investment activities, determining to a large extent the efficiency of short-and long-term shaping of development conditions (Wojciechowski, 2003, pp. 136-138). An important task of the local government is to conduct analyses and make decisions with regard to implementation of both investments proposed by social groups, as well as take into consideration initiatives and proposals from potential external investors.

According to investments undertaken directly by the self-government authorities, it is necessary to properly evaluate the rationality of such projects, which may be demonstrated by preparation of each investment project in terms of its scale, by referring to factors, such as the number of future users and features typical for elements of technical and social infrastructure. One of the more important factors may be the massiveness of infrastructure elements, which often determines lack of substantiality for undertaking investment projects of small material, and therefore financial scope, and consequently – imposing the need for implementation of large-scope complex projects with high financial expenses.

The importance of the local government in the context of shaping the development phenomena manifests itself by fulfillment of the planned intentions, describing comprehensively all spheres of functioning and the special character of a given unit, and, at the same time, preserving the scope of competencies that is adequate for the public sector. The present conditions of the market economy force, to a greater extent, the drive to achieve a certain level of economic efficiency of actions undertaken by local communities (Laursen, Myers, 2009, pp. 1-8). Along with civilization progress, the social expectations increase, including both stricter environmental requirements and the need for implementing new technologies, which generates the necessity of providing a bigger volume of funds meant for construction, maintenance and modernization of infrastructure components (Messere, de Kam, Heady, 2003, pp. 44-46). The pursuit of achieving growth in the degree of
social satisfaction in the conditions of market economy in reference to the public sector, corresponds to the development of new management concepts, including managerialism, based on the analogy between the management of units providing public services and the company management focused on the profit (Newman, 2000, p. 48-55). It constitutes a part of the on-going debate on the role that the public sector should play in the economy and on the methods used in the management processes.

It is necessary to stress that in Poland, like in any other developed countries, the change in ways of approaching a problem of management of entities and organizational units in the public sector, including local government units, moves towards improving the effectiveness and efficient functioning and also delivering of social services (Fedan, 2011, pp. 209-216). Important changes in the sphere of shaping development processes are connected with the increase in the autonomy of local government units and the popularization, at least in the indicative perspective, of the attitude of "a manager" who induces greater activity and responsibility for undertaken tasks, including the need for new, more effective solutions of strategic planning and forecasting the effects of actions for the future periods.

Presented problems have a broader social and economic character, because it goes beyond the borders of states and regions. This manifests itself in a number of problems in the varied forms of organization and functioning of the state and society, in many demographic problems, and in many problems of delivering of public services. There are many examples where these problems have led to a number of dangerous tensions in the world. One of possible solutions is to refer to the concept of development economics.

Financial determinants of development at the local and regional level

In self-government units the important problem remains the function of the system of pooling resources and financing diverse public tasks. In this aspect, this is a problem of both decisions concerning global size of public funds, and decisions regarding their detailed use (Flynn, 2012, pp. 59-62). It is also related to the issues of financial independence of local government, and therefore the level of independence of particular units in respect of state authorities of the central level. To a great extent, the independence and financial stability of local government, and thus, the capacity to provide a proper process of public services provision and possibilities of long-term approach in shaping the development of a given administrative unit, are determined by the structure of budgetary income resources (Spearman, 2013, pp. 221-226). At the same time, it is worth emphasizing that the basis of financial economy of local government units is constituted by the budget, which is a decentralised plan of income and expenses, as well as of revenue and expenditures.

Provided considerations indicate a critical problem of systemic shaping of budget income sources of local government units, particularly including the search for optimal relation of income referred to as own and external income, including in this case transfers from the state budget and subsidies from public funds. A high level of own income, assuming at the same time their stability, can be considered one of vital determinants of financial independence of the local government (Swianiewicz, 2011, pp. 39-43). This does not diminish, at the same time, the importance of external income, because, despite its undoubtedly limiting nature of financial independence, this income constitutes an important element of regional policy, performing the support function in selected areas and, at the same time, being in control of selected domains of financial economy of a local government through public institutions of state administration. While analysing the problem of independence, we should thus define the scope of freedom that local government units actually possess, not only with regard to pooling the budget funds, but also with regard to spending them (Knox Lovell, 2002, pp. 11-32). The greater the scope of such independence of local government units, the more autonomous the entities that participate in the process of development become.

According to a simplified approach towards the issue of financial independence, based on characteristics of the aforementioned category of income, it can be stated that independence as to the income may be ensured only when the dominant role in financing local governments is played by own income. As for the autonomy of expense, it will increase along with the increase in share of own income and general subventions within the structure of income of local government units. It would be much easier to ensure the autonomy in terms of expenses, because both own income and the general subventions are disbursed on the basis of decisions made by legislative and executive authorities of local government units. However, such an approach would be too simplified due to the fact that income originating from their own sources, as well as subventions, should be allocated for the implementation of the own tasks of a commune that rarely have a facultative character. The actual level of disbursement independence depends therefore on the degree of regulation of those actions by legal regulations and on the scope of competencies being the responsibility of a local government.
The data concerning the actual degree of financial independence of the local government seems to be quite a difficult task while taking into consideration the ambiguous evaluation of the criteria of these problems. Nonetheless, it is possible use the analysis of specified indices, including the assessment index of share of local government units' own income in the income of the sector of public finances units in total or an index of share of local government units' own income in its income in total. The growth in size of the aforementioned indices means the improvement in the financial independence of the local government. For the purpose of the analysis of the aforementioned phenomena, Figure 1 illustrates the percentage share of local government units' own income in budgetary income in total with division into communes (gmina), districts (poviat) and regions in Poland in years 2006-2016.

Figure 1: The index of own revenues in the total revenues of budgets of self-government units at regional and local level in Poland, in the years 2006-2016, in %


Among all the examined groups of self-government units, the highest index values were observed in the communes functioning as cities with the status of a district. This is a specific group of large cities, usually characterized by a strong economic base resulting from a high level of development in the private sector, which makes the units classified into this category the growth centres of different impact range. In the studied period, the index value for the aforementioned group reached the maximal value of 69.5% in 2008, and then experienced a gradual decrease that lasted until 2012 when the value of the index amounted to 61.1% and then again, a slowly growing tendency was recorded in the subsequent years. The index of share of local government units' own income in budgetary income in total determined for all communes reached a definitely lower level, despite the fact that changes in the studied period were similar to the ones in cities with the status of a district. After a period of growth in 2006-2008, the index reached a maximum of 58.2%, followed by a short-term decline to 52.7% in 2010. In subsequent years, stable growth was observed, to 55.8% in 2015, but in 2016 the index decreased to 51.6% which was the minimum value in the researched period in that group of self-government units. At the local level the group of self-government units with relatively lowest values of the examined index were districts. In the similar situation like in the case of communes, after the initial fluctuations since 2011, an expressly gradual increase in the value of the index was observed, its maximum value, which was achieved in 2016, amounted to only 35.4%.

During the studied period, the budgetary situation of regions was characterized by significant changes. However, the recorded dramatic decrease of the index value in 2009 resulted not so much from the actual reduction in the volume of own income, as from significant changes in overall structure of the budget funds. A significant role was played by the funds from the European Union budget that were transferred under subsidy development programs prepared by self-governments of regions as components of cohesion policy. It should be noted that in years 2006-2008, the level of the examined index in
the regions was maintained at the level of approx. 60.0%, which would indicate a high level of financial independence. However, it is difficult to directly compare the situation of regions and communes, due to different scope of tasks and structure of budgetary income. It may be stated that in the case of self-government of regions both the scope of budgetary income and the actual possibility to influence economic processes in the region were significantly limited before 2009.

The role of self-government units in financing of development processes and social services in Poland

In case of a deteriorating economic situation and a decrease in revenues in the real sphere cause, as a common consequence there appear limitations of current activities, a cost reduction (often by reducing the level of employment) and a limitation of the scope of investment, as well as an increased frequency of decisions on suspension or total closure of business activity. For the public sector, the aforementioned phenomena lead to a significant risk of reducing the volume of taxes for the state budget from which shares are transferred to budgets of local government units. The characteristic tendency for the contemporary systems of public financing to make budgetary income depend on the volume of public levies, causes an intensification in sensitivity of the public sector both to changes in the real economy, and to cross relations. The example of the economic situation in Poland in comparison to the economic slowdown in many countries of the EU in the period after 2008 indicates the leading role of entities of the public sector in shaping the phenomena of development under conditions of financial crisis, and with the involvement of existing financing sources of public expenses. The lack of activity of the public sector would cause an additional deterioration in the condition of institutional infrastructure, weakening of regulatory functions of public administration and decreasing of quality of public services, including social services – which, as a result, would worsen the management conditions for the private sector.

Concerning the equivalence of the terms of development and investment, the author assumed that the investment expenses can be considered as an equivalent of development. It results from the observation that by means of investment we maintain the economic potential, making it possible to increase its scope, both quantitative and qualitative and also referring to the public services, including also social services. When it comes to self-government units the principle of development is recorded in the strategic planning documents including projects concerning quantitative and qualitative changes in the future. Therefore, in order to indicate the development of the public sector in local and regional economy the following scope of investment expenses within budgets of these units was adopted.

In order to identify general changes in financial potential and investment activity at the regional and local level, the research covered the analysis of index of the share of capital expenditures in total budget expenditures of self-government units, with adopting the division into regions, districts and communes. The results are presented in graphic illustration of changes in the index value in the aforementioned groups of units in Figure 2. During the examined period the highest value of the index of share in investment expenses in expenses budget in total, maintained at the level of more than 30.0% was recorded in the case of regions where, despite fluctuations of the index level, existed a visible growing tendency. Especially interesting was the leap increase in the value of the index which occurred in 2009 (up to 47.3%), and which was related to the intensive use of the funds from the European Union’s budget under organizational solutions, introduced as an element of implementation of the cohesion policy in Poland in the programming period 2007-2013. The reverse tendency was observed in 2016, when the index declined rapidly to 24.4%.

In the case of the above index calculated for districts, there were significant fluctuations, including the growth from 2007 to 2010, when was recorded the maximum value in the audited period equal to 21.7%. However, in the subsequent years there occurred a decrease and then a stable level concerning the value of the examined index did not exceed 14.5%. The situation in gminas, in terms of changes of the index value of participation in investment expenses in total budgetary expenses should be described as the most stable one among the distinguished groups of local government units. During the analysed period, until 2010, there was a gradual increase in the value of the index and amounted to 23.4%. The following years brought, however, a decreasing tendency and in general a significant decrease of the concerned values to the level of even 10.8% in 2016.

Figure 2: Capital expenditures as a share of total budget expenditures of self-government units at regional and local level in Poland, in the years 2006-2016, in %
Financing of self-government tasks is still strictly connected with the need of catching up with the development in the sphere of both economic and social infrastructure. One must also note that the observation of self-government units’ financial involvement in public services tasks might have been distorted during the examined period by frequent cost-saving activities attributable to the global financial crisis and its impact on public finances. On the budgetary expenses side, an important area of change is found in the efforts of the Polish public administration, which indicate that it is joining the path of reform of public finances that is already present in many EU member states. The main direction of organizational changes and the financing of cohesion policy in European Union is a strategic approach, concentrated on social aspects becoming the key factors of long-term development processes (Schiek, 2013, pp. 75-81). However, it is also connected with the concept of new public management and a concentration on outcomes and evaluation of the public tasks’ efficiency (Komorowski, 2012, pp. 46-52). New ways of managing financial resources by institutions of the public finance sector should be considered in the context of restructuring the financing system, which is necessary given the deficit of the state budget. It is expected that the newly developed solutions could be applied at the level of self-government budgets and used in various areas of the local economy, for example the development of infrastructure, social and health care policy as well as education (Opałka, 2014, p. 42).

In order to illustrate the problem in the local and regional scale it is worth noting the structure of expenditures for basic activities in the sphere of social services provided by the self-government. During the study extensive empirical data was collected, however, due to the limitations in this paper, the results for the major items of relatively high level of expenditure were presented. The highest share between 2006 and 2016 was related to education expenditure, achieving approx. 30.0% of total budgetary expenditures. This is related to the established systemic solution whereby self-government units at various levels are responsible for governing and financing this part of social services. Another important part of public expenditure was social assistance expenditure. Their share in the budget expenditures of self-government units was also relatively stable, reaching the level of approx. 14.0%-15.0% and is the result of adopted systemic division of the competences between government agencies and self-government units. The empirical results are presented in Table 1.

Table 1: Expenditures on activities in the sphere of selected social services provided by the self-government in total budgetary expenditures of the self-government in the years 2006-2016, in %

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<tr>
<td>Education</td>
<td>30,9</td>
<td>30,5</td>
<td>30,0</td>
<td>28,3</td>
<td>28,4</td>
<td>29,2</td>
<td>30,8</td>
<td>30,6</td>
<td>29,3</td>
<td>30,2</td>
<td>29,6</td>
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<tr>
<td>Healthcare</td>
<td>2,6</td>
<td>2,4</td>
<td>2,5</td>
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<td>2,3</td>
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One of the most relevant challenges in the decision-making process concerning started investment projects by local government authorities is the rationality of spending public funds. At the stage of preparation of development plans or investment programs we should therefore perfect the methods of analysis concerning the economic efficiency of particular investment projects, but also the impact of a particular project on the functioning of the local economy (Fuguit, Wilcox, 1999, pp. 38-42). Services of general interest and social services are usually characterized by low price flexibility and an income of demand, which means that both changes taking place on the part of prices and income have little effect on changes in the demand, thus on the level of demand. The phenomenon of low flexibility of demand in this area of services has its specific effects on the whole process of services provision (Stiglitz, 1983, pp. 17-41). In addition, some public services, especially social services, are provided free of charge, which means that their effectiveness cannot be assessed only by using instruments of financial analysis (Jaroński, 2003, p. 91). Similarly, the investments made in order to increase the fixed assets of serving provision of the aforementioned services should be, to a larger extent, evaluated with the use of tools allowing measurement of not only the financial effects, but also the impact on the condition of natural environment and social effects, which shapes the future attractiveness of the areas of a given territorial unit as a place of residence and development of local entrepreneurship.

Despite a positive situation observed in the previous periods with regard to capacity of generating funds allocated on investment projects, more attention should be paid to the issues of participation of external capital in financing investment expenses, as well as the issues of growth in the public debt, being factors that indicate a presence of structural mismatch of base of budgetary incomes to actually identified ones in new conditions of needs of social services of local communities. Taking into consideration the anticipated limitations of the availability of external investment capital of non-returnable character, in the budget economy of a given local government unit there is an important element which is to maintain the balance of the budget and a safe level of indebtedness (Leithe, Joseph, 1991, pp. 71-87). In the view of an insufficient level of social and technical infrastructure still present in numerous local government units in Poland, and the phenomenon related to this insufficiency, namely expectations with regard to faster satisfaction of collective social needs, many units undertake the implementation of capital-absorbing investments in tangible assets. The excessive level of debt and long-term costs of incurred debt associated with it may significantly block or reduce the capacity of a given unit to make new investment projects. These problems appeared in Poland quite commonly in the past. In the period of transition, it was possible to rebuild the structures of the state and society and to direct socio-economic processes to the development path. Numerous difficulties in the functioning of the state and provision of services within the public sector are still present in poor countries. In broader context, in many poor countries of the world development dilemmas are still waiting for effective solutions. The accumulation of socio-economic changes and the increase in demand for services expected to be delivered by public institutions combined with financial challenges are creating a mix, in which inaction of public authorities will increase the risk of leaving many groups of society without the necessary support (Błędowski, Kubicki, 2014, p. 36).

As it has been stated, in the conditions of market economy, the social and economic development is a result of enterprising tasks implemented in the companies operating on the open market. We can formulate the thesis that a need for interaction of public sector and private sector entities results from the fact that local government units are responsible only for a small scope of tasks, including mainly public ones (Jaroński, Opalka, 2015, pp. 11-14). It is worth indicating the growing importance of dynamically increasing groups of participants of development processes on a local scale - the cooperation of local government with NGOs with regard to services provision and social investments. These organisations, which are regarded as part of the sector of non-profit organizations and constituting at the same time facilities of social economy, may be considered as an important and still developing group of participants of social and economic processes in Poland, and gradually acquiring a significant part of social tasks, which have traditionally been the state’s domain.
Conclusions

According to the results of the conducted analysis we can state that the role of entities and the public sector entities in the processes of social and economic development is undoubtedly significant and, as it results from a survey, it grew in the years 2006-2016. The self-government units are still responsible for shaping the development phenomena. The role remains limited, while the centre of gravity of economic effects was transferred to the real sphere and to the private sector. The economic independence of local government units was weakened due to the fact that local governments became significantly dependent on external both return and non-returnable sources of financing. In particular, the refundable sources of financing meant for achievement of investment goals have a long-term dimension. The decisions-making processes in many cases may have long-term consequences, exceeding the term of office of a local government authorities. Despite the existing guarantee of decision continuity in the public administration, it is worth highlighting the importance of direct liability for any potential effects of undertaken actions that may negatively affect the budget situation in the future periods.

The conducted analysis shows that the responsibility for the decisions on development and their future economic and social results belong to the most significant in social and economic sense. They are also the most difficult elements of participation of entities of the public sector in the economy at the local level and in the process of shaping and stimulating its development. Among many challenges that are still valid, we must enumerate proper assessment of the needs of the social services, the improvement in processes of preparation of investment projects, including taking into account all the relevant instruments of planning and evaluation of the material and financial scope of the projects, as well as the responsibility of a local government manifesting itself in the implementation of investment projects, describing comprehensively all the spheres of functioning of a given unit.

Taking into consideration all the past experiences related to the functioning of self-government units in Poland it should be stated that these entities are responsible for a considerable scope of delivering process of public services, including social services, that often involve undertaking capital-absorbing investments. In this context there are serious restrictions consisting in mismatching the scope of measures and the scope of tasks. The consequence of this mismatching is the search of local government units for the source of extra-budgetary character, including mainly sources of returnable nature. However, it may constitute a limitation in future possibilities of development financing. Coordination of social services is still a complex process. These services have many characteristic features, for example: high demand for investment capital and high operating costs. A distinctive feature of social services is gratuitousness or a partial charge. In practice it means that all costs related to the provision of services must be financed from the public financial resources.

References


