Sources of Income and Financial Autonomy of Local Self-government

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An important feature of local self-government which differs from other public authorities should be the independence of its organs from the government system of administration. The empowerment of local communities, which takes place in all democratic states, has been achieved by giving the guarantee of autonomy to local self-government, including financial autonomy. These are fundamental assumptions of local self-government functioning. The subject of this paper is to present issues relating to the financial autonomy of local self-government, in the field of shaping the basic sources of its financial supply in cash, enabling the performance of public tasks.

Keywords: local self-government (SGU), financial autonomy, public tasks, local and central taxes, income from property, state transfers

Introduction

Local self-government is alongside with the government and social security sector a part of the public finance sector. Despite the fact that it functions at local and regional levels, it is not government authorities, but local self-government that satisfies social needs of primary significance to society. They include for instance the tasks in the range of education, social aid, administration, culture, health care, municipal infrastructure. The level of service in these areas is a symptom of civilization development.

An important feature of local self-government which differs from other public authorities should be the independence of its organs from the government system of administration. The empowerment of local communities, which takes place in all democratic states, has been achieved by giving the guarantee of autonomy to local self-government, including financial autonomy. These are fundamental assumptions of local self-government functioning.

The scope of financial autonomy of local self-governments is defined in most countries by high level legal acts, including the basic laws. They guarantee local self-government to protect its autonomy and provide financial independence, but within the framework of the legal system in force. Financial autonomy entails assigning the local self-government units legal status, giving them a specific area of competence, providing sources of income and equipment for their own property.

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Although the financial autonomy of SGU cannot be compared with the autonomy of private entities, due to the correlation of contemporary local self-government with the state as a whole, the empowerment of local and regional communities must involve transferring specific freedoms within conducting financial management.

The subject of this paper is to present issues relating to the financial autonomy of local self-government, in the field of shaping the basic sources of its financial supply in cash, enabling the performance of public tasks.

**Methodology**

**The Essence and Scope of Financial Autonomy of Local Self-government**

Local self-government (SGU) is a part of the public sector. Therefore, its primary task is to satisfy public needs by providing services. These tasks can only be performed by SGU if they are provided with adequate sources of funding.

Local self-government performing its tasks has guaranteed autonomy and is subject to judicial protection in this regard. An important element of SGU autonomy is financial autonomy.

The concept of financial autonomy consists of income autonomy, i.e. the right of local self-government units to own and shape their own income as well as expenditure autonomy, i.e. independence in the scope of carrying out own tasks.

The concept of income autonomy of SGU should be understood as the right of self-government authorities to dispose of financial resources but also to determine and acquire them. This law is however not unconditional for at least two reasons.

First of all, it is because in an economic sense, local self-government means decentralization of the tasks and financial resources by the state in favor of public-legal unions, although hierarchically not subordinated to the state, but formed by the will of the state. Since, therefore, these unions are independent but not autonomous (they cannot exist without state, are subject to state jurisdiction, etc.), in the scope of profit-making activity the competence of local authorities is reduced. Local self-government authorities have restrictions on the formation of e.g. high tax rates, they must accept statutory reliefs, and they cannot freely shape fees for services, etc.

Secondly, income autonomy is also limited by the fact that local self-government cannot maximize its income without limits. If it has the excess of them, in relation to the scope of carried out tasks, it is forced to redistribute them. The examples may be balancing and compensatory subsidies, which rely the amount of income transferred to the local self-government on the tax potential, the scope of tasks carried out etc.

The above two limitations define the self-government income autonomy framework. They also cause that this autonomy cannot be considered in isolation from the tasks carried out by local self-government units.

Due to the obligatory nature of some tasks carried out by the local self-government and their role in satisfying the needs of the society (e.g. educational services, social assistance services, utilities), relying on stable, although fixed sources of income can be a much better solution than granting of own but dependent for example on the economic situation, sources of own income.

When analyzing the scope of income autonomy of SGU, two essential elements should be considered, i.e.:

- certainty and efficiency of particular sources of income and;
- influence of local self-government authorities on their formation.
Taking into account the above elements, two opposing models of financing local self-government units can be distinguished:

- Local self-government budgets are based mainly on income from property and tax revenues, which is connected with a specific tax authority, giving the local self-government considerable autonomy,
- Local self-government budgets are primarily subsidized by the central budget, which can cause local government authorities dependence on government administration.

The first solution is more favorable to local self-government, because it allows (through reliefs, exemptions, change in scale and tax rates) impacting business entities located in the given area. Without the power of taxation, limited even to less efficient tax income, local authorities are no longer interested in the development of entrepreneurship in their area. With the exception of jobs for residents, they do not directly receive tangible financial benefits, bearing a variety of burdens related to difficulty with economic entities functioning in a given area (e.g. using public infrastructure, degrading the environment, etc.).

On the other hand, the second option is safer for local self-government authorities, as they can always count on the inflow of “due” income from the central budget. However, in the case of domination of targeted subsidies, it may mean that local self-government is dependent on government administration, which will exercise control over SGU not only from the point of view of legality but also the rationality and appropriateness of financial resources spent. This model is characterized by the lack of SGU income autonomy.

Therefore, in practice of local self-government functioning, mixed financial systems are used in the particular countries (although the income structure may even vary widely). In general, local government units, however, have a certain degree of freedom in shaping their own income, including in particular the rules for the construction of local public contributions (Wollmann, 2016).

**Financial Autonomy and the Adequacy of Local Self-government Income With the Scope of Tasks**

The current considerations show that when analyzing the concept of income autonomy of local self-government, there are numerous doubts. The basic problems are connected with the answer to the questions: what should be the scope of income autonomy? whether income autonomy of SGU can be considered in isolation from the scope of tasks? what happens if the self-government authorities abuse income autonomy? (e.g. through excessive use of tax reliefs and tax exemptions) There can be more such questions. The answer to these questions leads to the hypothesis that the basic characteristic of the SGU financing system, which is more important than income autonomy (which as a part of its nature is limited in the public sector), should be the adequacy (stability) of SGU income, that is adapting financial resources to the scope of carried out tasks (Wierzbicki, 2008).

The local self-government financing system, in the scope of carrying out basic tasks and in particular obligatory tasks, should be more resilient to economic fluctuations than in the case of carrying out other tasks (Bolivar, Galera, Muñoz, & Subirés, 2016). This is due to the fact that compulsory own tasks, as well as tasks commissioned by law, must be provided as long as it follows from the laws in force, irrespective of the income of the SGU for their implementation.

It should be also noted that the extent of financial autonomy of local self-government in terms of generating own income is limited (Vanags & Vilka, 2006). It is the legislator, not the local self-government, who determines the scope of tax authority, the amount of fees for access to many public and social services, the principle of transferring own income by SGU with high economic potential to the economically weak, etc. The
state also defines the legal limits of local self-government indebtedness and introduces various rigors to protect the local self-government from the probability of bankruptcy.

Therefore, given the above limitations, it can be concluded that the financial autonomy of local self-government in the implementation of mandatory tasks is of secondary importance. In this case it is more essential to adjust the income to the scope of carried out tasks, i.e. to meet the adequacy principle.

Improving the financial system of local self-government, in the scope of financing mandatory tasks, should consist in shaping such a mechanism for the design of subventions and targeted subsidies that would guarantee the proper financing of expenditure. This is not a simple task for two reasons:

Firstly, it is essential to define the necessary level of service financing (and therefore their standardization).

Secondly, these funds are planned in the state budget (both subventions and targeted subsidies), and the central authority has above all priority in financing its tasks.

Therefore, it seems that own income, which is a symptom of local self-government financial autonomy, should, together with returnable revenue, be a source of funding for those tasks that are not obligatory, i.e. current optional tasks and investments. This applies in particular to tasks related to communal infrastructure and social-cultural tasks of fundamental importance.

In the further part of the considerations, individual financial sources were presented, taking into account their importance both from the point of view of income autonomy of the local self-government and the appropriateness of funds for the scope of tasks being carried out.

**Research Results**

**Self-government Autonomy in the Area of Income From Taxes and Local Fees**

An important source of local self-government income is income from taxes and fees. By classifying taxes supplying the budgets of local self-governments, they can be divided into:

- independent taxes, introduced independently by local authorities,
- statutory taxes and local fees, but entirely given to the local self-government.

The proceeds of self-taxation on the inhabitants are an example of the ultimate autonomy of local self-government in shaping its own sources of income (Surówka, 1999). Local authorities, on the basis of their own local legislation, decide whether to impose additional public levy on natural or legal persons, taking appropriate resolutions in this respect. They also have a duty to set out in their resolutions individual elements of taxation technique.

Due to the fact that these are the competences generally reserved to the legislative authorities of the state, in most of the countries where independent taxes are introduced, their introduction in a given region is decided by all of the inhabitants through referendum. They are introduced rather exceptionally to implement a project of significant importance: the most common is the collection of funds to finance investment expenditure.

Independent taxes are rarely used as a source of local budget power. This is for two basic reasons:

- firstly, for political reasons: the mere application by local authorities of the proposal to introduce an additional public levy is accepted with dissatisfaction, at least by a part of the community, and they are potential voters,
- secondly, for procedural reasons, connected with the fact that the referendum is expensive and that it is valid if a certain percentage of the eligible voters participate.
Summing up, it should be noted that existing in many countries power of local authorities to impose additional taxes, despite the fact that it is an example of significant financial autonomy, from the perspective of certainty and efficiency of income it is of no importance.

Local taxes and charges are the primary source of tax revenue, especially local budgets. They differ from the independent taxes in that they are introduced statutory in a uniform manner throughout the state and not through the resolutions of the local self-government constituting organs. Due to the fact that they were donated as a source of income to the local self-government, local authorities receive the tax power from the legislator. It is based on the fact that these authorities determine the amount of tax rates, the amount of fees, can apply the reliefs and exemptions, and they can remit receivables, distribute them into installments, etc. Maximum rates are, however, determined statutory, consistently across the country.

There is some danger, however, connected with the local tax authorities, which is the possibility of reducing budget revenues by lowering tax rates (much below maximum rates) by local authorities, using in a wide range of tax reliefs, tax remissions, and even many objective and subjective exemptions. Local self-government has also generally larger than central tax authorities, problems with the efficiency of tax enforcement. All this is caused by the pressure of the inhabitants of the municipalities to which local authority is exposed. This power is closer to the taxpayers, so less anonymous and moreover elected by them. As a result, it is less resistant to the various pressures of local communities. This in turn causes the local community to lose as a whole as it is deprived of the part of the income that can be earned by applying maximum rates or restricting the use of tax preferences in a larger way.

Not denying in any case the powers of local self-government to decide on shaping the elements of taxation technique in local taxes in order to pursue a specific policy in their own area, there are therefore justified concerns about the efficiency of this source of income.

Despite the critical remarks on the tax authority of municipalities, it is also essential to emphasize the positive qualities of these powers. In many municipalities shaping the tax rates, applying tax preferences stimulates the economy, attracts investors (Kogut-Jaworska, 2011). This power is also important during times of economic recession when local self-government income is declining (Wollmann, 2012). The economic crisis has made it clear to local authorities that taxation cannot relate only to reliefs and remissions.

The Share in Central Taxes and the Problem of Financial Autonomy of Local Self-government

Low efficiency of local taxes, as well as the lack of income from these taxes in the indirect budgets of SGU levels makes local self-governments also have access to central taxes from the given area. It should be emphasized that the income from these taxes is an important source of financial support, enabling local authorities to fulfill their basic tasks. In many cases state tax revenues outweigh local tax income.

The budgets of individual levels of local self-government are generally not supplied by all central taxes. They rarely have access to indirect taxes, contributing only to the distribution of income taxes. It has its explanation in the fact that local authorities do not have a greater impact on the formation of income, for example from excise taxes. The level of this tax income depends primarily on the amount of sales in a given area of monopoly and luxury goods. The implementation of this source of income to SGU budgets would encourage the allocation of tobacco plants and spirits enterprises in every municipality or refinery region, which is not always appropriate and rational. Therefore, in practice, the financing of local and regional budgets is limited to the transfer of some of the revenues from income taxes to local authorities.
The amount of income tax revenue from both natural and legal persons is a symptom of the economic development of a given area. SGU should participate in the division of the national income generated within a given territory, also in that part which is redistributed to the central budget. However, the question arises what form this redistribution of cash should take.

In practice, local self-governments participate in the distribution of central taxes, either through the establishment of self-government additives to income taxes or by the percentage share in income taxes. The meaning of both forms varies.

The fundamental difference between a tax share and a tax additive is that in the case of the share the local authorities do not have a greater impact on the amount of budget revenue. The due funds owed to the local self-government are calculated somewhat automatically. The legislature decides on the amount of the share. Depending on the amount of tax receipts obtained in a given area, local authorities receive a percentage of the income from these taxes. However, this income does not have motivation functions, because:

- they do not require more efforts from local authorities to obtain them,
- self-government authorities cannot through them actively influence the entities located in their territory,
- they have no significant impact on their growth.

All this makes the tax shares be treated as complementary and not own sources of financial support for local self-governments (Denek, 2011). Their character resembles general subsidies. The difference between general subsidies and central taxes shares is basically that general subsidies are used to balance the budgets of financially weaker local communities, while central taxes shares dominate as a source of budget income for self-governments with considerable economic potential.

Tax allowances differ fundamentally in their economic character from shares in taxes. The introduction of a local allowance to state tax means that local authorities have the statutory right to impose a fiscal burden. The allowance affects the budget of the local self-government and operates in addition to the tax rates determining the level of central budget income. The maximum amount of allowance may be determined by central authorities. On the other hand, self-government authorities determine the size of the allowance below the maximum, differentiating it in particular periods (less often for specific entities), but within the scope of their tax authority.

The right to determine state tax allowances means that local authorities have the instruments by which they can actively influence the entities forming economic base of a given area. Therefore, as long as the tax share is of fiscal importance only, the allowance, in addition to the fiscal function, may also have significant stimulating effect under certain conditions, exerting an influence on the behavior of the entities operating in the given area.

Given that income taxes are quite an effective source of public income, by establishing allowances to state taxes, local self-governments gain double benefit, i.e. access to an efficient source of income, and, in addition, using it (by setting the size of the allowance) can stimulate enterprise development on their own area (Kosek-Wojnar & Surówka, 2002).

**The Scope of Self-government Autonomy in the Area of Obtaining Income From Property**

Local self-government owns the majority of public property in its area. These are primarily buildings, lands, as well as economic entities whose founding body is, or in which its shares are owned by SGU. This asset brings local self-government units a variety of income in the form of ground rents, dividends, budgetary
entities surplus funds, income for services provided, communal infrastructure charges, income from property sales, etc. (Patrzalek, 2010).

Income from property is a heterogeneous source of local self-government budgets income. The dominant role in this group is assigned to the fees charged for services provided by local self-government units. These are fees for services such as garbage removal, sewage disposal, street cleaning, road maintenance, water, heat and electricity supply, fees for kindergarten, use of swimming pools, museum entry, etc. Most often, receipts from the services rendered do not cover the expenses incurred for this purpose. It should be emphasized, however, that the primary purpose of local self-government activity is to satisfy the needs of the local population. Therefore, local self-government should, in principle, provide the local community with assets not to benefit (generate the profit), but to provide the inhabitants with adequate living conditions.

The population using self-government property satisfies their basic living needs. Therefore, charging for the services provided is justified. You can even assume that the fees paid for the services are more “fair” from taxes imposed on the population. Taxes are though free and there is no mutual benefit. The question however arises, what should be the relation between the cost of the service and the fee for the service? It is difficult to give a clear answer to this question. This relation depends on many factors, especially on the type of service and its role in satisfying the living needs, on the economic condition of the state and local self-government, on the progress of civilization, national traditions in satisfying the social needs, etc. The expenditures incurred for the creation of the service also play an important role, but not always prime.

The source of receipts from local assets may also be the sale or lease of particular pieces of property, especially land, communal buildings, technical infrastructure, etc. (Poniatowicz, 2011).

The law of local self-government for management of own property (including its sale) should not be questioned. Asset management involves though the need of incurring various, direct and indirect costs that can significantly affect budget expenditures. Then getting rid of property, even at a symbolic price, in the long run, may prove to be beneficial. In some countries, however, there are some legal restrictions limiting the possibility of getting rid of communal property, and in particular the allocation of the means obtained in this way to satisfy current needs.

Basically, in all countries, local self-government is also conducting business activity within the scope of its public tasks. Then, the source of budget income may be the receipts from the income that this activity brings. The scope of business activity conducted by local self-government units, however, raises many doubts and leads to discussions. This applies in particular to profit-driven business activity.

Activity in the sphere of public utility has different character. It results from the obligation of the local self-government to provide services to the local community, e.g. in the field of water supply, heat supply, wastewater treatment, etc. Therefore, such activity cannot raise doubts.

The problem, however, is that one and the other activity often cross each other, and additionally in many countries there is no explicit definition of public utility (Pyziak-Szafnicka & Plaszczyk, 1997). This makes the boundaries between public utility sphere activities and other business activities less transparent.

The admission of local self-government to commercial activity has a considerable number of supporters. There are historical reasons for conducting such activities. In the initial period of local self-government functioning there were no legal obstacles to the conduct of economic activity by municipalities (Gogolewska, 1994). Such an approach of conducting a business activity is supported by legal personality of all local self-government units, which allows them to use various forms of civil law.
On the other hand, the following arguments are brought against the commercial activity of the local self-government (Wasilewski, 1991):

- the primary task of local self-government is to perform public tasks rather than to conduct commercial activities,
- the freedom to conduct a business activity constitutionally guaranteed in a legal state should not concern public authorities,
- any business activity can also bring about losses, and this will endanger the fulfillment of mandatory tasks of local self-government units,
- the involvement of local authorities in direct business activity may result in violation of the rules of economic freedom and economic competition.

These arguments make the practice here different in each country (Najnigier, 1998). In general, however, extreme solutions are avoided. Therefore, self-government authorities in European countries fostering the development of entrepreneurship, sometimes intervening directly in order to activate private capital, e.g. through the creation of businesses, the preparation of areas and facilities for conducting business activity, but not being directly involved in production activity.

When analyzing income from property and property rights in the context of the financial autonomy of SGU, it can be stated that this is income, which was influenced by the self-government authorities in the biggest way. However, in terms of their availability, there are also various limitations. These include, among other things, that the management of public property should serve satisfying the needs of society rather than the multiplication of profit. On the other hand, the sale of property as well as the investment activity of SGU is supervised from the point of view of the action legality of self-government authorities. Hence, among other things there are restrictions on the sale of property by the local self-government.

Transfers From the State Budget and Target Funds and Local Self-government Financial Autonomy

The main source of budget income for most SGU is formed by compensatory subsidies and subventions. The need for external power supply is essential since the income from taxes and assets of self-government communities in any country are not sufficient to finance budget expenditures.

Transfers from the state budget are for local self-governments a form of compensation for “lost” income from a given area caused by the fact that the most efficient taxes supply central budgets. Unlike taxes, income from subsidies, however, does not have motivating function and self-government authorities can not actively influence the entities in their area. They also do not have greater ability to increase them.

Occasionally it is possible to encounter the view that the idea of self-government will be fulfilled only when the receipts of all taxes remain in those municipalities and regions in which they are collected. Centralizing the most efficient tax revenues in the state budget, and then redistributing them to local self-government, is, according to these views, a denial of the essence of self-government.

Such an approach to local self-government should be regarded as marginal and incorrect. It cannot be ignored, however, that there are rich regions and municipalities in which a significant part of the country national income is being formed, but that there are also regions and municipalities that could not develop from the income generated in the area without the help of central government. Therefore leaving all financial resources in those regions where they arise would lead to significant disproportions in the economic, social, and cultural development of the country. Subsidies and subventions are to counteract these disproportions and the
correct mechanism of their charging does not necessarily have to limit the rules of self-management. However, in order for this to happen, two basic conditions should be met:

- firstly, compensatory measures should be based on objective criteria and local self-governments should know what receipts they are entitled to,
- secondly, local self-governments should decide autonomously on the use of received funds.

General subsidies (subventions) meet the above conditions. The long-term history of local self-government in developed countries shows that the criteria under which general subsidies are passed to local self-government are sometimes significantly extended. The amount of the allocated funds may depend on many factors. The most common is the number of inhabitants, the age structure of the population, the value of communal infrastructure facilities located in the municipality, county, region, tax potential etc.

Second form of external financing of SGU, apart from general subsidies, is targeted subsidies. These funds are provided to local self-governments for the financing of specific projects, most often for carrying out the assigned tasks, and for investment financing. Targeted subsidies as a source of SGU are, however, generally criticized. This is because they cause dependence of the recipient of local self-government subsidies on the governmental administration and from other entities. They are given to a strictly defined purpose, they must be settled and the unused amount returned to the subsidizing entity. It is also unfavorable that the amount of funds allocated is always decided by the subsidizing entity, guided by his own calculations, which may not always be beneficial to the recipient.

Subsidies for tasks carried out by local self-government can be divided into:
- subsidies for commissioned tasks,
- subsidies for funding own tasks.

By evaluating this source of SGU income in the context of financial independence it can be analyzed at least in two aspects, i.e. the security in access to financial resources and the independence and autonomy of SGU.

From the point of view of financial security, targeted subsidies should be assessed in a positive way. Given that they are provided for carrying out tasks delegated by law and by agreement (and the need to secure financial resources lies with those entities who have delegated tasks to implementation), self-government authorities should not be obliged to secure budget resources but only their legitimate use. This is certainly a comfortable situation for any entity performing the task. Therefore, in those countries where SGU income is based on subsidies, there is not necessarily a critical assessment of this source of income. Targeted subsidies allow maintaining a consistent level of funding for tasks throughout the country. The problem may arise when they are transferred to perform a task on an order basis without adequate financial security. Such danger can, however, be reduced by taking specific measures to standardize the cost of performing public tasks.

The evaluation of targeted subsidies from the point of view of local self-government independence and their financial autonomy will be negative. These measures are subject to settling, both from the point of view of the legality, as well as the purpose, reliability, and economic efficiency of the local self-government. They certainly cause dependence of the recipient of the subsidy on the provider. Given, however, that these incomes generally enable the financing of repetitive tasks of major importance to society as well as tasks occurring throughout the country, their settlement is governed by law.
Discussion: Reasons for Local Self-government Indebtedness and the Problem of Financial Autonomy

Income from taxes, public property as well as general and targeted subsidies (except income from the sale of property and investment subsidies) is intended to finance the current tasks of local self-government. Generally, it is rarely the case that the generated surplus of current income over current expenditures would be an efficient source of funding for property expenditures. Meanwhile, self-government authorities are undertaking various development decisions on their territory. At that time they must reach for extraordinary financial sources such as loans, credits, or issued bonds.

Basically in all countries, local self-government has the right to use this form of financial support. In western countries there is an extensive system of potential lenders. They are municipal banks, self-government compensatory funds, insurance institutions, various state agencies. In addition, local self-government authorities collect funds for development activities through the issue of securities.

Local self-government generally has no problem with access to repayable financial sources. It is an entity that, in the opinion of lenders, is characterized by credibility and high financial liquidity, due to constant cash inflow.

Loans and credits differ, however, from other budgetary income. They are returnable and should be handled continuously. Consequently, this may lead to excessive debt of SGU. At that time, financing the basic, current needs of residents in education, social care and living may be at risk.

For banks and other institutions providing local self-governments with credits and loans, the budget plan is not a binding document. The repayment of liabilities is legally guaranteed in every credit and loan application. In the case of insolvency of SGU, financial institutions (due to the legal security of the credit and the loan) have the right to demand repayment of debt (conducting enforcement proceedings). Even in the situation when it would threaten carrying out public tasks. Therefore, for safety reasons, both for local self-government and for lenders themselves, there are statutory restrictions on the use of the repayable system of financing SGU. Such restrictions do not apply to private entities, where the only barrier to the granting or non-granting of credit and loans is credit capacity.

In the case of SGU, these statutory restrictions are on the one hand to determine the needs that can be financed by return revenue and on the other hand to determine the limits of local self-government debt.

A public debt is a consequence of taking out credits and loans by SGU. It is a commitment of the local self-government authorities for taken out credit and loans and issued securities. As a consequence, the funds for future periods must include planned resources for the service. However, these expenditures limit the possibility of financing other budgetary expenditure, especially current expenditure.

The model of division of tasks and financial resources between government administration and local government has a significant impact on the amount of loans taken by the local self-government (Aben, 2003). The burden of local self-government with excessive tasks in relation to the received income may cause the rise of local self-government debt. Then the state budget deficit is transferred to the budget of SGU. With limited public resources such a situation is very likely.

The debt of a local self-government unit is the sum of the various financial liabilities incurred by that entity in connection with expenditures that exceed the income possible to finance them. The basic debt category of local self-government units is still taken out loans and bank credits. However, the target on which the local self-government authorities take out loans and credits is essential.
The principle of balanced budget clearly postulates that local self-governments avoid loans to finance current tasks by limiting them to exceptional situations, such as connected with misfit of income and expenditure streams during the budget year. The debt is differently treated, the basis of which is the willingness to finance investment expenditure to improve the standard of living of the local community. Basing on the concept of fiscal federalism, there are a number of arguments in favor of financing return investment rather than long-term engagement of own income to this purpose. One of the advocates of this concept is D. S. King (1984), who on the advantage side indicates, among others the possibility of:

- achieving the benefits of accelerated economy growth exceeding debt service costs,
- lowering the running costs of the local government unit functioning,
- shortening the project implementation time and thus reducing the real costs of the investment undertaken,
- getting an access to European Union funds, including pre-accession assistance, from structural funds and the Cohesion Fund.

Indebtedness policy of the self-government units and binding constraints are very important elements of procedures ensuring the security of the public finance system. Self-government debt is an integral part of state public debt, which according to a number of legal regulations is subject to numerous statutory regulations.

**Conclusions**

Integrity of local self-government finances with the system of public finances and at the same time political and legal independence of local self-government are the causes of numerous problems connected with its functioning, especially in the scope of obtaining income, financing of tasks and debt limits.

It seems, however, that the underlying cause of these problems is the very nature of local self-government. The two opposing theories of local self-government, namely naturalist theory, referring to the principle of subsidiarity and bottom-up self-organization of the state, and the state theory treating local self-government as a system of state management, have become the source of numerous doubts about the scope of local self-government financial autonomy.

Certainly there should be another distribution of public income between the state and the local government, if the local self-government is only a public service provider and public funds should be distributed in a different way, if we treat local self-government as the entity responsible for local and regional development.

Although in the contemporary world no single theory of local self-government is promoted as exclusive, in particular countries the elements of both theories are still visible in the considerations on the organization and functioning of the state.

The problem of financial autonomy of local self-government will always be controversial as the institution decentralizes or the state centralizes. However, this subject should be taken, for example so that theoretical considerations of local self-government would contribute to its evolution, which in the future will lead to actual empowerment of local communities.

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