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FEES AND USER CHARGES IN POLISH LOCAL GOVERNMENT

The aim of this article is to assess the importance of fees and user charges in Polish local finance. To achieve this aim the article starts with theoretical justification of fees and user charges, followed by literature review. The research results show there are many tax-like fees, but they generate relatively low revenues. In the case of user charges for services, as a group they are more efficient. Polish local governments use the ability to generate additional revenues, and since no new taxes are being introduced, it can be considered as a permanent trend.

Keywords: local government; fees; user charges; budget revenues.

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ЗБОРИ ТА ПЛАТЕЖІ ДО БЮДЖЕТІВ МІСЦЕВОГО САМОУПРАВЛІННЯ ПОЛЬЩІ

У статті продемонстровано важливість зборів та платежів для місцевих фінансів у Польщі. Представлено теоретичне структурування всіх зборів та платежів, надано огляд літератури з питання. Продемонстровано, що більшість зборів мають риси податків, однак при цьому вони генерують значно менші прибутки для бюджетів. Група платежів за послуги набагато більш ефективна щодо прибутків. Місьцеве самоуправління у Польщі використовує різноманітні джерела отримання додаткових прибутків, оскільки немає можливості запровадити нові податки законодавчим шляхом.

Ключові слова: місцеве самоуправління; платежі за послуги; збори; прибутки бюджетів.

Табл. 4. Літ. 24.

Марцин Бенджешак

СБОРЫ И ПЛАТЕЖИ В БЮДЖЕТЫ МЕСТНОГО САМОУПРАВЛЕНИЯ ПОЛЬШИ

В статье показана важность сборов и платежей для местных финансов в Польше. Представлено теоретическое структурирование всех сборов и платежей и дан обзор литературы по вопросу. Показано, что многие сборы имеют особенности налогов, однако они генерируют значительно меньше прибыли для бюджетов. Группа платежей за услуги гораздо более эффективна в плане генерируемых прибылей. Местное самоуправление в Польше использует различные источники получения дополнительных прибылей, так как нет возможности ввести новые налоги законодательным путём.

Ключевые слова: местное самоуправление; платежи за услуги; сборы; доходы бюджетов.

Introduction. Local government units as public authorities are responsible for the implementation of specific public tasks, in many cases — provision of public goods. In this regard two basic questions must be settled: what specific goods should be delivered by public sector entities, and what sources of funding will be used. An answer to both questions is provided to a large extent by the theory of public finance. In the first case, those goods that must (classic public goods) and those that can be provided by the state (excludable public goods) should be indicated. In the latter: an appropriate funding mechanisms exist: tax, paratask and the one related to payment.

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Fees and user charges in public finance and financial law. Public institutions in order to finance tasks need to collect funds from various sources. The main means used to redistribute are taxes. Next, due to the diverse nature of the tasks carried out by the state and local government entities, there are other instruments, such as fees and user charges. E. Denek, J. Sobiech and J. Wolniak (2005: 137) distinguish the following groups of fees and user charges: for activities of public administration, for services of public entities, for the use of goods covered by special protection in public interest. M. Jastrzebska indicates that "units of local government or companies providing public services, for example, charge for the use of water and sewerage facilities" (Jastrzebska, 2012: 113).

Similarly, W. Ziolkowska sees the issue of economic substance of fees and user charges. She demonstrates that "a user charge as opposed to a tax, raises a claim for a specific benefit to the beneficiary" (Ziolkowska, 2005: 151–152). From the strictly financial point of view, the relationship between revenues collected from user charges and expenditure on the provision of specific service is important. If costs of the service are disproportionately low in relation to the charge, than from the point of view of economic content it is a fee (tax-like), not a user charge. In turn, as indicated by A. Drwillo (2006: 656), in the case where a user charge is reciprocated specific advantages, it conforms to a price.

A. Kopanska (2008: 102) stresses that user charges are not market prices, and may be used only under certain conditions and at the same time create a number of socioeconomic problems. In many cases, user charges for public service are associated with covering only part of costs. This arises on one hand from sociopolitical reasons – too high user charges may limit the availability of services, which ultimately can lead to negative situations (e.g., selection of private instead of public transport), on the other hand, with economic factors. J. Stiglitz (1999: 154) refers to this problem as the so-called "deadweight loss".

An important feature of fees and user charges, a remuneration, is very complicated. B. Huber and M. Runkel (2009: 335) indicate that remuneration is introduced in the case of excludable public goods (education, health etc.). They also emphasize that a supply of these goods is appealing for public authorities, as user charges are usually an additional source of revenues. While the first argument is certainly undeniable, as is apparent from the very nature of this type of goods (if the state does not cater for them, they would have to be purchased on the market, or as indicated by S. Blomquist and V. Christiansen – can be supplied by private operators, which introduces the possibility of determining payment), whereas in the case of the second argument, it is doubtful. In many cases, it is not possible, inter alia, for political and social reasons, to introduce a full payment for a specific service, such as public transport (Blomquist and Christiansen, 2005: 74). If, therefore, the situation of voluntary choice between the ability to provide or not is considered, the second option is more attractive for public authorities from the financial point of view, because they will not have to pay extra for this service with other sources of revenues. It should be emphasized, however, that in this place considered is when a public sector entity provides the actual service that could be provided by the market.

In the case of excludable public goods differently than in the case of classic public goods the issue of financing can be solved. While classic public goods are financed

from taxes, whereas in the case of other goods, if they are provided by a public entity, a remuneration paid by the person benefiting from the good may be introduced. A. Smith pointed out that institutions, in which young people are educated can generate revenues that are sufficient to cover expenses. (...) even when teachers' salaries do not come entirely from this natural source, it is not necessary to charge the general revenues from the society (Smith, 2007: 423). Currently, in the case of education, the approach is different, but this explanation reflects the idea of financing a provision of certain services by users of these services. As indicated by R.G. Batina and T. Ihori (2005: 299), in some cases, goods provided by government entities may be treated as public goods. In other cases public goods are provided with direct payment, but this levy reflects the allowance for consumption, not a cost per unit. This means that in this case the payment of the user charge opens unlimited access to the public good (Brennan and Walsh, 1985: 811–819).

It is assumed that the basic principle of determining an amount of user charges for public services is its alignment with a marginal cost (Bos, 1985: 129–211). At the same time, this means that the user charge for the service implemented by a local government is a substitute for a similar service provided by a private entity, although the literature emphasizes that these concepts do not coincide. However, there is a second group of fees charged by public institutions, with a completely different character, which stems directly from the nature of the benefit. J.P. Gaudemet and J. Molinier (2000: 435) highlighted this distinction comparing the tax levy, which is not directly related to the subject of service and which is collected "by the way" (hereinafter referred as "fees"), and paratax charges, which are payments for a certain service (hereinafter referred as "user charges"). In the former case, as A. Wernik (2007: 48–49) stated, the service associated with the payment, has a fictional character or use of the service is a compulsory, while the fee is disproportionate in relation to the incurred cost.

G.E. Metcalf and J. Park (2007) conducted a study based on the amount of user charges for public services and their usefulness. They found among other things that its amount is dependent primarily on the characteristics of goods. For an alternative, but with nearing characteristics of excludable public goods, it appears that the utility increases if the incremental user charge is applied to the public good (starting from zero), as long as the public facility is separated from a private and public good consumption on one hand, and leisure on the other.

Fees and user charges justification. The main reason for the introduction of non-tax instruments by public authorities, especially local government, is the need to generate additional funds. Specific objectives in this area will be on the one hand to provide self-financing or partial financing of the provision of certain public services, on the other – finance specific group of expenses, such as property. An introduction of user charges may also lead to a reduction of demand for the service, and therefore, also financial implications associated with the need to reduce the supply of these services.

Both in the world (Borge, 2000) and in Poland (Bedzieszak, 2013), a noticeable trend of increased share of fees and user charges for public services in revenues of local government can be observed. D. Downing (1922) in his research indicates that those municipalities that do not charge users yet, in the future will, suggesting the

potential to increase revenues from this source up to 400% for some services. R. Sun and C. Jung (2012) show a different aspect of the introduction of user charges for public services. In their opinion, the introduction of user charges was motivated by limiting taxes and spending. Their authors confirmed the thesis that greater reliance on user charges for public services to finance leads to a reduction in municipal expenditure.

As in a case of taxes, an amount of fees and user charges is important. Intrinsically it is not possible to introduce a payment for all goods and services provided by public entities or at their request.

R. Nallathiga (2009) points out that only in the case of water supply and waste management, it is possible to achieve a high coverage ratio of direct costs of providing services by the users of this service. It is worth stressing that a very important issue for determining an amount of fees and user charges is the law which regulates them. It can lead to the situation in which the user charge for the service depends directly on the cost of providing service, because the aim is to provide a self-financing for services' provider. This is the case in Poland in the provision of water or heat supply. In other cases, the decision on charges will cause a smaller or greater degree of payment.

From the economic perspective, however, the basic principle of determining the amount of user charges is the marginal cost to deliver the service. This is highlighted by S. Feldstein (1972). In his opinion, if price (cost) is equal to the marginal cost and received annual payments does not motivate any potential consumers to any purchases at all, allocation of resources is the Pareto efficient. He points out, however, that there is no single correct amount of user charges structures, such as their changes when they affect demand for other services.

Fees and user charges in Polish local financial system. For each of the 3 tiers (municipalities, districts and voivodships) of administrative division in Poland legal acts define their tasks. Financial rules of self-government are also defined. According to the rules of the European Charter of Local Self-Government: local government units have the right to have their own sufficient financial resources and may use them freely within the framework of their powers, and some of the resources should come from local taxes, fees and user charges, which amounts these communities have the right to determine to the extent specified by law. Polish Constitution indicates, in turn, that local government units should receive public funds according to their tasks. The same act divides revenues of local government units in own-source revenues, general subsidies and specific grants. The analysis of fees and user charges will be conducted only for municipalities and districts.

The most diverse group of revenues are own-source revenues, because they consist of both tax revenues (local taxes and share in central taxes), tax-like fees, user charges, revenues from property etc. In accordance with the principle of budget generality (Owsiak, 2005: 124), it is assumed that all revenues brought to the budget of a local government shall have general purpose and, therefore, do not serve to finance specific tasks. Exceptions to this rule are the situations when the law governing the specific task provides such a link. This situation mainly concerns specific grants, but also a number of revenues with minor financial importance, such as the fee for issuing permits on alcohol sale, user charge for waste management, fees and environ-

mental penalties etc. For example, in the case of revenues from license fees for the sale of alcoholic beverages issued by the mayor shall be used for the implementation of municipal programs on prevention of alcohol problems and municipal drug prevention program and cannot be spent for other purposes. Moreover, in the case of local government budgets also the principle of completeness applies, indicating that the budget includes all revenues and expenses. In reality, however, there are derogations from this rule, because the financial system of local government units includes budgetary and off-budget entities, both in terms of specified public fund and from the point of view of allocating these funds. Non-budgetary entities manage separated public revenues and perform specific tasks.

User charges are introduced by local government units in different areas, such as public transportation, as well as kindergartens and social welfare homes. Depending on the task a local government unit regulates user charges for a particular service, but also there are the ones in which strict rules for determining their amount were set, or the ones in which state government completely determines their amount (e.g. user charges for kindergarten). User charges of this type are introduced in order to finance at least part of the expenses related to the implementation of the related tasks.

Fees and user charges collected by local governments in Poland, using the considerations set out in the previous section, can be divided into 3 types of charges (Table 1). Firstly, fees enforced by law for collection in certain situations. Secondly, fees that some local government units can charge due to certain characteristics, such as health resort fee. Thirdly, user charges connected with the provision of a particular service by local authorities. In the latter case, there will be both user charges which amount is centrally regulated, as well as those in which a decision on the amount is taken by local authority. As a general rule it can be assumed that fees which amount is regulated centrally refer to certain administrative actions, such as the fee for issuing licenses. In the case of fees and user charges which amount is regulated locally, they relate to services in the narrow sense, such as the user charge for kindergarten or public transportation.

Table 1. Classification and selected examples of fees and user charges in Polish municipalities, districts and cities, own study

Fees		User charges
Amount determined by legislation	Amount determined by local government	
<ul style="list-style-type: none"> - Stamp duty - Transport charge - Fee for road transport licence 	<ul style="list-style-type: none"> - Dog licence fee - Visitors' tax - Market dues - Health resort fee - Fee for right of perpetual usufruct - Fee for occupation of roads - Betterment levy - Product fee¹⁾ - Environmental fee¹⁾ - Licence to sell alcoholic beverages 	<ul style="list-style-type: none"> - Kindergartens - Nurseries - Water supply - Public transportation - Parking - Care services - Waste management - Municipal tenant

¹⁾ there is a maximum amount set.

In Poland fees (fiscal nature) and user charges (payments for services), function as a supplementary source of budget revenues (Table 2). At the municipal level, the

share of all fees and charges in the total revenues does not exceed 5%. In the case of supra-local level (districts) and most of the big cities the share is under 10%.

Table 2. Share of fees and user charges in local government revenues, own study

	2004	2008	2012	2004	2008	2012
	Revenues, in 000 000 PLN			Structure, %		
Municipalities	47264	74978	93644	4.2	3.6	4.3
Districts	12471	18147	22523	9.1	6.8	9.0
Cities	31754	49444	61247	9.6	9.0	10.7

The lowest share of user charges in revenues from fees user charges is in municipalities (Table 2). This is justified by other sources of revenues, such as local taxes and shares in central taxes. In the case of districts the cause is exactly the opposite, i.e. lower revenues from other sources. In the case of cities the share of user charges is related to the nature of this group of local government units – these are large entities with a complicated structure, which manage large property. User charges, which usually supply budgets of cities are the revenues from tickets on public transport (Annex). Moreover, a significant range of activities, such as running kindergartens, benefit residents of neighbouring communities, thus has a significant impact on the amount of user charges collected by cities.

The greatest part of revenues (approximately 40–50%) from fees and user charge for all types of local government units are those connected with local services (Table 3). In case of those revenues the highest increase in revenues occurred. These two features are derived in part from the flexibility with which local government can regulate this type of revenues, and partly due to a conscious revenue policy, according to the theory of benefits of local government.

The lowest share of user charges for services occurs in municipalities. This is due to performance of tax-like fees and the expansion of titles with which they are charged. One of the most important tax-like fees is the fee for licence to sell alcoholic beverages. Revenues collected this way by a municipality for must be earmarked to anti-alcoholic prevention. Other fees do not have a specific purpose. Fees with a specific nature are: market dues and exploitation fees. They are both associated with economic activity. Market dues associate with a possibility of a marketplace or a public space use to conduct sales of goods. Exploitation fee is associated with the extraction of natural resources, hence only some part of municipalities can charge it.

Thoroughly different is the cause of high share of service charges in districts. Due to the nature of supralocal government tasks, those entities to a much lesser extent have the ability to charge fees associated with administrative actions. There are no fees associated with business activity. The lack of differentiation of tasks causes slight differentiation of fees.

The causes for revenues diversification from fees and user charges in cities are different than in other local government units. As it was previously indicated, high share of fees and user charges, particularly user charges for services, is affected by 3 types of factors. Firstly, it results from the fact that cities perform tasks form both, municipalities and districts, competence at the same time. Secondly, a part of bene-

ficiaries of cities' services are also citizens from surrounding municipalities. Thirdly, cities perform certain tasks, which aren't usually performed by municipalities or districts. The best example of such a task is public transport which is found only in heavily urbanized areas (Annex).

Table 3. Revenues from fees and user charges and its structure, own study

	2004	2008	2012	2004	2008	2012
	Revenues, in 000 000 PLN			Structure, %		
Municipalities	1962	2695	4025	100.0	100.0	100.0
Stamp duty	190	284	203	9.7	10.5	5.0
Market dues	156	149	144	7.9	5.5	3.6
Exploitation fee	202	227	211	10.3	8.4	5.2
Fee for the right of perpetual usufruct	131	170	216	6.7	6.3	5.4
Fee for the licence to sell alcoholic beverages	342	393	472	17.4	14.6	11.7
Other local fees collected on the basis of specific legislation	29	174	199	1.5	6.4	4.9
User charges	586	989	1605	29.9	36.7	39.9
Other fees	325	308	975	16.6	11.5	24.2
Districts	1130	1234	2017	100.0	100.0	100.0
Transport charge	781	581	542	69.1	47.1	26.8
User charges	309	584	1138	27.3	47.3	56.4
Other fees	40	69	337	3.6	5.6	16.7
Cities	3042	4433	6540	100.0	100.0	100.0
Stamp duty	293	346	282	9.6	7.8	4.3
Transportation charge	330	273	241	10.8	6.2	3.7
Fee for the right of perpetual usufruct	584	649	540	19.2	14.6	8.3
Fee for licence to sell alcoholic beverages	186	228	269	6.1	5.1	4.1
Other local fees collected on the basis of specific legislation	157	382	459	5.2	8.6	7.0
User charges	1223	2186	3738	40.2	49.3	57.2
Other fees	269	368	1011	8.8	8.3	15.5

Conclusions. Fees and user charges are an important source of revenues for local government budgets. Their characteristics contains relation to a feedback provision from public entity to the payer, but the nature of benefit may be different. Due to this feature two groups of revenues can be distinguished: fees of nature similar to tax and user charges of nature similar to price.

In Polish local government financial system both groups can be found. Characteristics of the two groups are, however, different. There are many tax-like fees, but they generate relatively low revenues. In the case of user charges for services, as a group they are more efficient, and independently of local government units' group, generates revenues close to the sum of tax-like fees. It should be emphasized, however, that a group of user charges associates with a number of services. This does not change the fact that in Polish local governments a phenomenon of rapid growth of revenues from user charges occurs – they grew in all groups of local government units from 260 to 360%. Polish local governments use the ability to generate additional revenues, and since no new taxes are being introduced, it can be considered as a permanent trend. Revenues from fees have also increased during the research period, but to a much lesser extent. In the case of fees, their lesser importance results mainly from the specific nature of feedback provision – its cost is difficult to assess.

Given the structure of own-source revenues of Polish local government units, i.e. limited capacity to regulate some taxes and heavy dependence on transfers from state budget on the one hand, and the need to finance tasks on the other one, user charges seem to be the optimal solution. They allow linking directly a payer and a beneficiary, to balance revenues and expenditures related to a particular task. User charges may also cause an occurrence of other effects, such as reducing services availability, and also the ability to regulate the demand on a particular service.

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Annex. Revenues from user charges and its structure

User charges	2004	2008	2012	2004	2008	2012
	Revenues, in 000 000 PLN			Structure, %		
Municipalities	602	989	1605	100.0	100.0	100.0
Water supply	94	141	225	15.6	14.2	14.0
Housing management	32	27	29	5.2	2.8	1.8
Land use and real estate management	31	43	55	5.2	4.3	3.4
Town halls	11	9	13	1.8	0.9	0.8
Kindergartens	136	225	280	22.6	22.7	17.5
School and kindergarten canteens	0	102	248	0.0	10.3	15.5
School clubs	27	8	6	4.5	0.8	0.4
Sewage management and water protection	39	69	127	6.5	7.0	7.9
Sports facilities	8	26	56	1.3	2.7	3.5
Institutions of physical culture	17	31	49	2.7	3.1	3.1
Other	207	308	516	34.4	31.1	32.2
Districts	309	584	1138	100.0	100.0	100.0
Geodetic and cartographic studies	0	0	57	0.0	0.0	5.0
Vocational schools	10	13	17	3.2	2.2	1.5
Training centers and practical and vocational training centers	6	13	21	2.0	2.3	1.9
Nursing homes	248	475	843	80.2	81.4	74.0
Houses and holiday packages to children	6	8	9	1.9	1.3	0.8
Other	39	75	192	12.6	12.8	16.9
Cities	1223	2186	3738	100.0	100.0	100.0
Public transportation	797	1254	2044	65.1	57.4	54.7
Housing management	98	84	355	8.0	3.8	9.5
Land use and real estate management	2	271	352	0.2	12.4	9.4
Kindergartens	73	164	234	6.0	7.5	6.2
Nursing homes	104	156	230	8.5	7.1	6.2
Institutions of physical culture	10	27	54	0.8	1.2	1.5
Other	138	231	469	11.3	10.6	12.5

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