

Costs Of Local Government Administration – The Results Of A Pilot Study

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Abstract— The significant elements in the structure of expenditures of local government units (LGUs) are expenditures in the section "Public administration" covering, among others, expenditure on remuneration and derivatives of remuneration. The aim of the paper is to present the results of a pilot study on the administrative costs of local government units. The survey took place in September 2017 and covered one hundred local government units at the basic level, including five cities with district rights. In the units surveyed, the share of administrative costs in total expenditure is diversified, but the lowest occurs in cities with district rights.

Index Terms— local government units, public administration, public finances

I. INTRODUCTION

The process of decentralization of public administration, which has been progressing in Poland since 1990s, has forced decentralization of public finances. The reactivated territorial self-government has been burdened with numerous tasks, the aim of which is to ensure the best possible living conditions for the local and regional community. To accomplish these tasks, it was necessary to provide the local government units (LGU) with the necessary financial resources. The changes that have been introduced result not only from the ongoing processes of an internal nature, but also depend on external factors - civilization and cultural processes, globalization or regionalization. With limited amount of public resources, it is particularly important to spend and use them effectively and efficiently. The basic objective of LGU's financial policy should be efficient and effective management of financial resources, ensuring adequate access of local communities to public goods and services. In addition, such services should be provided at the highest possible quality level (Dylewski, 2007, p.45). On

one hand, it requires efficient and effective action to collect public funds, but also their rational spending. One of the essential elements in the structure of local government expenditure is expenditures in division 75023 "Public administration" including expenditure on remuneration and derivatives of remuneration (Ordinance, 2010). The aim of the paper is to present the results of a pilot study on the administrative costs of local government units. The study took place in September 2017 and included one hundred local government units of the basic level, including five cities with district rights.

II. EFFICIENCY AND EFFECTIVENESS OF PUBLIC FUNDS MANAGEMENT

The rationalization of public finances is a current problem for both theoreticians and practitioners. In a situation of constantly growing social needs, both the optimal division of income and expenditure, the optimal scope of decentralization of the state, as well as methods and instruments ensuring the efficiency of using funds at all levels of public authorities are sought (Guziejewska, 2008, p.71).

The main task of local government units is to meet collective social needs. To carry out the tasks entrusted to local government units, they must rationally manage their property and financial assets, and maintain an efficient financial policy. The challenges facing public sector entities are primarily the growing demand for public services and limited public resources. That is why it is important to look for methods that allow better use of limited financial resources for effective implementation of public tasks. Measuring the results of the activity of local government units is a complex and multithreaded issue. Some researchers even believe that it is not possible to fully measure the results of public administration activity due to the variety of criteria, in many cases very

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difficult to measure (Łukasiewicz and Kłosowska, 2006, p.361).

According to article 44 paragraph 3 of the Act of 27 August 2009 on Public Finances (UOFP) public expenditure should be made (Act of 27 August 2009 on Public finances):

- In a deliberate and economical way, following the rules:
 - getting the best results from the inputs;
 - optimal selection of methods and means to achieve the assumed goals;
- In a manner enabling timely implementation of tasks.
- In the amount and dates resulting from the previously contracted liabilities.

In a formalized approach, the study of the effectiveness of any undertaking (task) means the possibility of determining the results achieved by comparing the obtained effects with the incurred expenditures. Such comparison may give a positive result (economic surplus, profit) or a negative result (loss, deficit). The classic approach to efficiency, applicable to commercial activities, is difficult to apply to public entities. This is due to the specific way of collecting money and the way they are allocated. Areas in which public expenditure is incurred are usually not susceptible to the use of precise tools for measuring the effects of expenditure, and in some cases it is not possible to determine their effectiveness in the short term, but only in special situations, such as during natural disasters (Owsiak, 2002, p.51). In the case of health protection or education, there are difficulties in measuring the results of public expenditure incurred for the provision of these services. This also applies to public administration. Nevertheless, it is possible to determine the relationship between the size of expenses and the amount of services produced. The problem is, however, to determine the economic and social effects of these expenses. The impact of certain expenses on a given field is revealed with considerable delay. One can measure the effects of expenses e.g. on health care, counting the number of pieces of medical advice, number of treatments, etc. However, measuring the efficiency of public spending is about establishing the relationship between the level and structure of public expenditure and the real benefits that society and the economy will receive as a result of these expenses. Such difficulties should not be exaggerated, or even treated as an important argument in improving the methods of budget planning (Owsiak, 2002, p.52).

In the public sector it is much harder to apply economic criteria and measure results and outcomes than in the private sector. Public institutions in search of criteria helpful in determining the quality of services provided to citizens for public money, should use the concepts of: effectiveness, efficiency and savings (understood as resources and expenditures at the lowest possible price) (Modzelewski, 2009, p.33). These concepts are more difficult to define for the public sector than for private entities.

Demonstrating the effectiveness of local self-government units is difficult due to their reduced autonomy and flexibility of action in relation to private entities, despite the greater complexity of the problems they consider. An important step to determine the methods of measuring the results of the LGU

operation is to precisely define and distinguish the concepts of: effectiveness and efficiency (Modzelewski, 2009, p.34).

In the simplest definition of effectiveness, it was determined that it is the ratio of effects to inputs. Efficiency is a measure of the rationality of enterprises and concerns their ability to raise their market position and improve their financial results. It is the result of undertaken actions described by the relation of the obtained effects to the expenditures incurred, e.g. production, distribution, sale, promotion. Measurement and efficiency testing is the main subject of the economic calculation (Masternak-Janus, 2013, p.112).

The commonly used efficiency assessment methods are based on three approaches:

- indicator, which boils down to building relationships between various values (e.g. debt ratios, liquidity ratios or profitability); it is important to properly estimate these values and their interpretation, made on the basis of a comparison of the calculated indicators with the adopted reference databases;
- parametric approach, which is based on econometric methods, determination of the technical dependence between inputs and production, introduces the production function to the performance evaluation, e.g. SFA (Stochastic Frontier Approach), TFA (Thick Frontier Approach) and DFA (Distribution Free Approach) (DFA);
- non-parametric, in which the linear programming procedure is used. This approach does not take into account the impact of the random factor on the effectiveness of objects and potential measurement errors, and also does not analyze the relationship between inputs and outputs, e.g. DEA (Data Envelopment Analysis) method, FDH (Free Disposal Hull) (Masternak-Janus, 2013, p.113).

Measurement of effectiveness is made on the basis of partial, synthetic indicators of resource use (labour, capital). Efficiency is identified in the ex post and ex ante approach. When calculating the ex ante effectiveness, the expected effects are estimated with the use of specific measures, time. However, ex-post efficiency applies to determining the results of specific actions.

Economic efficiency is expressed numerically, and it can take the form of the following relations (Winkler 2010, p.112) (1):

$$\begin{aligned} W_{e1} &= \frac{E}{N} \\ W_{e2} &= \frac{E-N}{N} \\ W_{e3} &= E - N \end{aligned} \quad (1)$$

where:

W_e – economic efficiency index;

E – effect (result) of an action;

N – expenditures incurred on the action, task.

Efficiency in a universal sense is an intentional action that allows you to get the result that is the most beneficial in terms of the purpose of this action (Winkler 2010, p.112). In practice, there are no reliable and uniform measures, the use of which will enable the assessment of the efficiency of spending public funds by local government units.

The basic goal of local government units is to create the best possible living conditions and development of residents. This is particularly important at the municipal level, when the implementation of public services, their availability, level and scope determine the elementary conditions of the local community life. Therefore, it is important to manage resources in a rational way, that is, in a way that enables to finance self-government tasks effectively and efficiently. With limited resources, and most often this is the situation of the institutions of the public sector, budgetary policy in the scope of expenditures is of a crucial importance.

III. EXPENDITURE ON LOCAL PUBLIC ADMINISTRATION

The Public Finance Act does not formulate the definition of budgetary expenditure; however, any expenditure of public funds that cannot be included in expenditure is expenditure (Smołkowska, 2018).

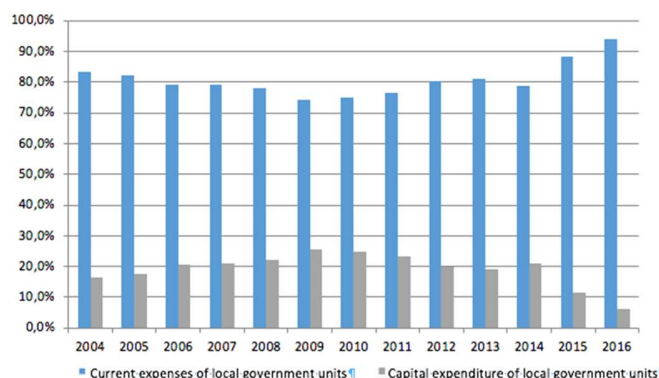
According to article 236 (Act of 27 August 2009 on Public finances) of the Public Finance Act, the expenditure plan of the budget of a local government unit specifies, in the layout of divisions and chapters of the budgetary classification, the planned amounts of current expenditure and assets-related spending. Current expenditure on the budget of a local government unit is budget expenditure that is not an assets-related spending.

In the current expenditure plan, the planned amounts of current expenditure are distinguished in the layout of divisions and chapters, in particular:

- expenditure of budgetary units, including:
 - remuneration and contributions charged,
 - expenses related to the performance of their statutory tasks;
- grants for current tasks;
- benefits for individuals;
- expenditure on programs financed with the use of funds from the European Union budget and non-reimbursable funds from assistance provided by the Member States of the European Free Trade Agreement (referred to in Article 5 paragraph 1 items 2 and 3), in the part related to the implementation of tasks of a local government unit;
- payments due to sureties and guarantees granted by the local government unit, to be paid back in a given budget year;
- servicing the debt of a local government unit.

The current expenditure structure of LGUs is dominated by current expenses. In 2016, in the structure of expenditures, compared to 2015 and previous years, fundamental changes occurred (Chart 1). The share of the current part was the highest since 2004. In 2016, this share in the total expenditure of all local government units accounted for 87.5% (at 80.4% in 2015). An undoubted factor affecting this phenomenon was the "Family 500+" program, whose funds in 2016 appeared for the first time and were of a current nature, but this was not the only element determining the changes in the structure (RIO 2017, p.153).

CHART 1. STRUCTURE OF TOTAL EXPENDITURES OF LOCAL GOVERNMENT UNITS IN THE YEARS 2004 – 2016



Source: Regional Accounting Chamber reports for particular years.

Invariably for many years, LGU expenditure has been concentrated mainly in the following sections of the budget classification: education and upbringing, social assistance, transport and communication, public administration, municipal management and environmental protection (Table 1).

TABLE 1
DIVISIONS OF BUDGETARY CLASSIFICATION

Division of budgetary classification	2004	2006	2008	2010	2012	2014	2016
Education and upbringing	36.6	30.9	30.0	28.4	30.8	29.3	29.6
Transport and communication	12.7	15.7	16.0	18.0	16.3	17.7	13.2
Social assistance	12,8	15,2	13,6	12,5	12,6	12,4	21.7
Public administration	9.9	8.8	9.2	8.4	8.8	8.7	8.7
Municipal services management and protection of environment	5.7	5.4	5.4	5.7	5.0	6.4	5.9
Physical education and sport	1.5	1.9	3.2	3.6	2.6	2.3	2.2
Culture and protection of national heritage	3.3	3.5	3.7	3.9	3.8	3.9	3.2
Housing economy	3.1	3.5	3.8	3.4	3.7	3.4	3.2
Protection of Health	2.3	2.6	2.5	2.2	1.9	2.0	1.9
Educational care	2.9	3.3	2.5	2.3	2.5	2.5	2.5
Public safety and fire protection	2.2	2.1	2.3	2.2	2.0	2.0	1.9
Other expenses	7.0	7.1	7.8	9.4	10.0	9.4	6.0
	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Regional Accounting Chamber reports for particular years

Expenditures on public administration in the budgets of local government units on average account for between 8% and 10% of all expenditures on annual basis. This is one of the major indicators in the structure of budget expenditure.

As part of a pilot study conducted in September 2017, five hundred local government units were asked questions about budget revenues and expenses, focusing on administrative expenses. The answers were given by one hundred local government units, of which rural municipalities predominated (51), urban-rural communes - 35 units, 9 urban communes and 5 cities with district rights (Table 2).

TABLE 2.
CHARACTERISTICS OF COMMUNES PARTICIPATING
IN THE SURVEY

Kind of commune	No of municip.	No of residents as at 31.12.2016	Av. No of residents/ muni.	Impl. own revenues [PLN]/ inh.	Impl. own revenues in total [PLN]/inh.
Cities with district rights	5	546 307	109 261.4	2 774.0	5 107.30
Urban commune	9	148 554	16 506.0	2 139.8	3 876.71
Urban-rural	35	512 658	14 647.4	2 087.2	4 058.56
Rural	51	403 208	7 906.0	1 943.1	4 218.57
Total	100	1 610 727	16 107.3	2 288.9	4 437.54

Source: Own research

The financial situation of the surveyed units varies. The cities with district rights have the highest total income per capita, PLN 5,107 and PLN 2,774 of their own income respectively. The lowest own income per capita is obtained by rural communes (PLN 1,943.10) and the lowest is also the average number of inhabitants in these communes – 7,906 people. However, when calculating the total income per capita, the lowest value applies to the urban communes under study (PLN 4,058.56).

Just as cities with district rights obtained the highest income per capita, they also had respectively the highest total expenditures - PLN 5,078 (Table 3).

TABLE 3.
BUDGET EXPENDITURES OF THE EXAMINED LOCAL GOVERNMENT
UNITS AT THE END OF 2016

Kind of commune	Total expend. implemented [PLN] / inhabitant	Asset-related expend. implem. [PLN] / inhabitant	Prop. of property expend. in total expend.	Exp. Impl. in division 75023 [PLN] / inh.	Prop. of Expend. Impl. in division on the total expend.
Cities with district rights	5 078.2	618.34	12.2%	204.74	4.0%
Urban commune	3 859.6	427.73	11.1%	241.42	6.3%
Urban-rural	3 979.8	495.14	12.4%	257.02	6.5%
Rural	4 032.3	573.38	14.2%	275.49	6.8%
Total	4 354.4	550.29	12.6%	242.47	5.6%

Source: Own research

The lowest number of funds for a statistical inhabitant was spent by municipalities (PLN 3,960). Realized property expenditure per capita is similar. In the first place there are cities with district rights, where, on average the sum of PLN 618 per capita was allocated for this purpose, which accounted for 12.2% of all expenditures. Rural communes spent a lower amount on property, but it was the largest part of all expenses, as much as 14.2%.

Also, the rural communes provided the largest amount for administrative purposes - PLN 275.49 per 1 inhabitant, which constituted the highest (6.8%) share in total expenditure. Urban and rural communes allocated 6.5% of expenditures, municipalities 6.3%, and cities with district rights allocated only 4% to administrative purposes.

Administrative activity measured by the number of decisions issued in the examined local government units in 2016 is most visible in cities with district rights – 429,194 decisions, the number amounts 0.8 decisions per capita (Table 4).

TABLE 4.
ADMINISTRATIVE EXPENDITURE IN THE SURVEYED
LOCAL GOVERNMENT UNITS AT THE END OF 2016

Kind of commune	The No of admin. decisions issued at the end of 2016	No of admin. decisions / inh.	The cost of issuing an adm. decision	No. of registered official letters at the end of 2016	Cost of handling of 1 incoming official letter
Cities with district rights	429 194	0,8	260,60	473 347	236,29
Urban commune	52 653	0,4	681,12	136 944	261,88
Urban-rural	250 483	0,5	526,05	724 187	181,95
Rural	204 018	0,5	544,47	420 210	264,35
Total	936 348	0,6	417,11	1 754 688	222,58

Source: Own research

Much less i.e. 250,000 decisions were issued in urban-rural communes, 204,000 in rural communes and only 52,653 decisions in urban communes. In these communes, there was the highest cost of issuing one administrative decision - PLN 681.12, and the lowest - PLN 260.60 in cities with district rights. Having analyzed the correspondence addressed to the surveyed municipal offices, it can be stated that also in 2016, the lowest number of official letters was registered in urban communes (136,944), but the largest number, over 724,000 in urban-rural communes, where the cost of one letter was the lowest - PLN 182.

The efficient functioning of public administration depends, to a large extent, on the skills of office employees. At the end of 2016, there were 6,803 full-time jobs in the municipal offices the most of which – 2,238 in urban-rural communes, 2,076 urban, 1,869 rural and only 620 in cities with district rights (Table 5).

The average gross remuneration in 2016 in the surveyed offices is PLN 3,887.90 (without bonus salary, jubilee bonuses, half-year bonuses and retirement compensation of administrative employees along with remuneration of the commune head/mayor excluding remuneration of service officers), but in rural communes the average salary of an official is higher and amounts to PLN 4,034, whereas in cities with district rights, it is the lowest amount - PLN 3,684.

This allows estimating the average cost of remuneration in 2016 in the analyzed communes. The highest cost - PLN 8,932,838.77 refers to urban-rural communes, almost a million lower is the cost of remuneration in urban communes, and the lowest - PLN 2,283,023 in cities with district rights.

TABLE 5.
ADMINISTRATIVE EXPENDITURE ON REMUNERATION IN THE EXAMINED
LOCAL GOVERNMENT UNITS AT THE END OF 2016.

Kind of commune	No of full-time jobs at the commune office at the end of 2016	Average gross remuneration in 2016*	The average cost of remuneration in 2016
Cities with district rights	619.70	3 684.08	2 283 023.14
Urban commune	2 076.42	3 842,91	7 979 488.26
Urban-rural	2 238,36	3 990.80	8 932 838.77
Rural	1 868.71	4 033.83	7 538 055.16
Total	6 803.19	3 887.90	26 450 138.03

* Average gross salary in 2016 (excluding bonus salary, jubilee bonuses, half-year bonuses and retirement compensation) of administrative employees along with remuneration of the commune head/mayor excluding remuneration of service officers)

Source: Own research

Among the surveyed units, an average of 5.6% of expenditures are funds allocated to public administration, however, the level of these expenditures in particular local governments was very diverse. Among 100 units surveyed in nine of them, administrative expenditure at the end of 2016 amounted to over 10% of total expenditure. These are mainly rural communes, but in two cases it concerns urban communes (Szczawno Zdrój and Sulmierzyce), as well as urban- rural commune of Wiązów (Table 6).

The lowest share of expenditure of the division 75023, not exceeding 5% of total expenditure, concerned twelve local government units. Among these units there are four cities with district rights, four rural communes, two urban and two urban-rural ones. The lowest level of expenditure on public administration took place in Chybie, a rural commune located in the southern part of the Śląskie Voivodship, in the Cieszyn District.

TABLE 6.
PROPORTION OF ADMINISTRATIVE EXPENDITURE IN TOTAL EXPENDITURE
IN SELECTED LOCAL GOVERNMENT UNITS AT THE END OF 2016

Name of commune	Kind of commune	Proportion of division 75023 in total expenditure
Bogaczowice	R	17.14%
Wapno	R	14.58%
Wiązów	UR	12.25%
Tuplice	R	12.01%
Gierałtówice	R	11.45%
Dobromierz	R	10,94%
Szczawno Zdrój	U	10.29%
Świdnica	R	10.28%
Sulmierzyce	U	10.11%
Żary	U	4.91%
Koszęcin	R	4.80%
Sulechów	UR	4.79%
Boguszów Gorce	U	4.57%
Tamowo Podgórne	R	4.37%
Leszno	CD	4.10%
Żory	CD	4.08%
Bielsko-Biała	CD	3.97%

TABLE 6.
PROPORTION OF ADMINISTRATIVE EXPENDITURE IN TOTAL EXPENDITURE
IN SELECTED LOCAL GOVERNMENT UNITS AT THE END OF 2016

Nowe Miasto nad Wartą	R	3.62%
Częstochowa	CD	3.59%
Środa Wielkopolska	UR	3.32%
Chybie	R	0.69%

R- rural commune; U- urban commune; UR – urban-rural commune; CD- city with district rights

Source: Own research

IV. CONCLUSION

Expenditure of local government units on public administration constitutes one of the essential elements in the structure of self-government expenditure - their share in the total expenditure of the surveyed units ranges from 4% to 6.8%. The lowest level (4%) occurs in cities with district rights, where at the same time the most administrative decisions and registered incoming letters are issued. At the same time, in cities with district rights there is the lowest number of municipal officials employed, and the average salary is the lowest. On the other hand, the lowest number of administrative decisions was issued in rural communes, but the average remuneration of a municipal official is the highest there. In the analyzed communes, the average cost of remuneration per year is an expenditure of 7 to 9 million PLN.

With limited range of public resources and unlimited social needs, rational resource management is particularly important. In order to improve the efficiency of municipal offices' operation, modern methods of e-administration should be used to a greater extent. Reducing administrative expenses means a potential increase in funding opportunities for other social needs.

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