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## THE RULE OF RATIONAL MANAGEMENT OF PUBLIC FUNDS

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### Abstract

The rule of rational management of public funds means managing the funds in a transparent and open manner, and – in particular as far as public spending is concerned – in a purposeful and economical way, timely and efficiently. The principle of transparency in managing public funds is a value, which – backed up by the rule of openness – determines the degree of reliability and predictability of actions taken within the financial management in question. And the purposefulness in public spending provides that the expenditures should be made properly in terms of their reasonability (regularity) and (cost) efficiency. The examination of efficiency is aimed at determining the result of the activities by comparing the effects achieved with the outlays made. Two situations can be distinguished here: that of the entity being guided by the intention to achieve maximum effect at given expenditures or that of minimising outlays to arrive at a specified effect. Examining the efficiency of public expenditures is a demanding task, considering the way in which public funds are accumulated, and the administrative procedure of their allocation. The difficulties also arise from the fact that the areas on which public outlays are made do not lend themselves to measurement. Determining the cost-efficiency relation is

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not possible, for instance, as far as expenditures on national defence (in short-term perspective, in particular) are made, and is also hard to do in the case of healthcare and education, where measurement of the efficiency of the public funding, consisting in establishment of the relation between the level and structure of the spending and the actual advantages gained by the society, meets with an obstacle being the quality of the results achieved.

The rule of reasonable spending of public funds is definitely an uncontested principle and the legal steps taken in Poland's legal system to consolidate it certainly go in the right direction. It must not be lost of sight, though, that the measures are not able to provide adequate assurances of implementation of the rule. There is still a risk that the list of the solutions is not complete and perhaps other tools whereby rationalisation of public spending could be achieved should be sought.

**Key words:** Public funds, rational management rule, rule of transparency of public funds, rule of openness of public funds management

**JEL Classification:** H11, H50

## 1. Introductory remarks

As a preliminary point, it is worth indicating that the principle presented in this study stems from legal standards, being a rule of the law in force and not a general budgetary principle proposed by theorists and independent of what the law says. Formulation of the rules whereby the budgetary law of Poland should be guided, just as an analysis and assessment thereof makes it possible to find the weak points or deficiencies of legal solutions and indicate the areas of necessary changes or additions.

In view of the ambiguity of the notion of „rationality” it should be also clearly stated, for the rule to be clearly understood, that it means managing public funds in a transparent and open manner and – in particular as far as public spending is concerned – in a purposeful and economical way, timely and efficiently.

## 2. The rule of transparency

Transparency, as an essential rule of managing public funds, has long been mentioned in legal writings. In 1925 S. Głąbiński wrote that the budget must be „(...) transparent and readily understandable to each and every citizen” [Głąbiński 1925: 147]. The conditions of the budget transparency were formulated, in 1936, by M. Małek [Małek 1936: 558]. And

M. Weralski argued that „transparency is, meanwhile, a demand stemming from the assumptions of the rational budgetary technique and as such being independent of the socio-economic environment” [Wersalski 1982: 48].

It must not be neglected that the rule of public fund management transparency is a value which, backed up by the principle of openness, determines the degree of reliability and predictability of actions taken within the financial management in question. It is, in fact, a value in itself, concurrent with the idea of market economy. The information about the decision-making processes and appropriate communication with the public makes the choices and decisions of those who administer public funds better understood. Not only does observance of the requirements stabilise the expectations towards the decision-makers but it also improves effectiveness of the financial policy conducted. Since the notion of “transparency” has not been defined and set out in law (although the Act on Public Finance mentions transparency and openness of public finance in the title of its Part I, thus counting them towards the most fundamental values by which the managing of public funds should be guided), it is only a subjective understanding of the rule that may prove useful in further considerations. Transparency can be understood as a feature making financial legislation comprehensible, clear, logically ordered and easy to understand; hence it certainly is the opposite of incomprehensibility, confusion, lack of clear links between various elements of the same. In management of public funds the principle of transparency is mirrored in a set of harmonised requirements aimed at providing necessary and sufficient information about the management. Consequently, the rule wants the information on the collection and disposal of public funds to respond to what the public expects. In addition, the information should be delivered in a standardised way, using clear-cut notions and terms, so badly needed in each and every professional field. The financial law is no exclusion in that respect, as it abounds in specialist terminology. Moreover, the subject of its regulations is complex and the matters the law provides for are not only interlinked with one another, but reveal numerous links with other areas. Many aspects of socio-economic life thus depend on accurate and clear interpretation of the notions used by the financial administration system. A conceptual chaos, if any, could be extremely harmful, from both the social and political point of view.

### **3. Detailed classification of budget revenues and expenditures as a precondition for rational management of public funds**

The rule of rational (transparent, open, purposeful, economical, timely and efficient) public fund management is obviously related to the issue of detailed classification of budget revenues and expenditures, of which R. Rybarski, to quote an example, wrote that “the very essence of the budget requires it to display a minimum level of detail” [Rybarski 1935: 33].

In that respect the degree of detail of the classification is an everlasting problem, reflected mainly in the number and types of the budget's headings. The two extreme ends of possible solutions in that respect, i.e. a budget with no classification at all and a budget with excessively elaborate classification are both unacceptable, considering the rationality principle, the rule of transparency in particular. A budget lacking internal classification, one not broken down by types of revenues and expenditures, but displaying a single, general amount of revenues and one total amount of expenditures, would actually be a mock budget and its content would hardly be transparent at all. It should be noted at this occasion, however, that it is not only the number of budget headings, determining how detailed the budget is, that is crucial for its transparency. Perhaps ever more essential in that respect is the content of specific budget's heads of accounts. For instance, the placement of a group of important budgetary expenditures (e.g. those concerning education) under a single heading should be assessed negatively from the point of view of the rule discussed here. And vice versa – an enormous degree of detail regarding classification of office expenses is of no importance for the budget's transparency.

The other extreme is a very detailed budget, with numerous revenue and expenditure headings arranged to form a multi-tiered structure. Understanding the content of such a budget would be very difficult - if not impossible - to an average reader or even a member of a body of representation (the Parliament or a local legislative assembly) not being an expert on budgetary matters. Given such circumstances, the search for a compromise solution seems to be indispensable (not an easy task considering the varying conditions of time and place). Nevertheless, if the budget is to be a document at least relatively transparent, the degree of detail shown by it has to be a resultant between its comprehensibility and the legal and political requirements. The latter, in particular, should not be overlooked. In terms of law, classification of the budget determines responsibilities of the entities executing it, both as regards the revenues available and the limits of expenditures. That legal aspect is closely related to the political importance of the details, in particular as far as expenditures are concerned, since it is by law that firm limits for the use of the funds are established to specific administrators. The expenditures, as set in the budget and financial plans of budgetary units, reflect the firm upper limit of the amount that can be spent. The said means, firstly, that making an expenditure is conditional upon the expenditure having been qualified to a specific heading within the budget classification, the planned amount being sufficient to make it. Secondly, unauthorised exceeding of the limit means a breach of the budgetary discipline and is liable to a penalty. That rule is subject to exclusions, though. The expenditures can be changed if two conditions are met: a) revenues higher than those forecast have been obtained, b) a change in the expenditures would not mean exceeding a budgetary grant or an increase of the planned level of liabilities. In any case, the changes require making a correction in the annual financial plan.

The political aspect of the degree of detail of budget expenditure classification is of importance for both the parliament and the representative bodies of individual local government units, with various political parties having various expectations regarding distribution of the financial resources destined to cover budgetary expenditures.

Looking for an answer to the question whether and to what extent the rule of transparency is met by Poland's financial (budgetary) legislation, the issue of details of the budget should be examined. In the Act on Public Finance the budgetary classification is mentioned several times (in Articles 39, 41, 114, 116, 119, 235 and 236), albeit using slightly different approaches. It is also addressed in various chapters of the Act, those concerning the openness and transparency of public finance, the budget act and the budget resolution, respectively. In addition, the rules determining the details of local government budgets have been established separately. Without going into a substantive evaluation of the above presented way in which the rule of the public budget's due degree of detail has been implemented, it should be observed that the adopted solution is not actually conformant with the principle of transparency. This is, for example, illustrated by the fact that alongside the division marked with symbols, a division not specifying the classification criteria ("by codes", "by purposes", "by sources of revenues") is at times applied and that the clear indication, made in Article 39, that public revenues and expenditures are divided into sections, chapters and paragraphs appears to be incomplete, since (Article 114) they are additionally divided into parts. It is also hard to understand why revenues and expenditures of the state budget are, at one time, recognised in the Budget Act, by sections, chapters and paragraphs of the budget classification (Article 39), while at other occasions they are classified by parts, sections, chapters, paragraphs and groups of expenditures.

The author does not intend to contest the relevance of the solutions mentioned above, as it is transparency of the classification system created thereby which is discussed here (which transparency the solutions, anyway, lack). The general rule of transparency in public fund management, as proclaimed by the legislator, is not fulfilled. It can be talked of only as far as certain parts of the sector are concerned, but not the public fund management as a whole.

#### **4. The rule of openness**

The public fund management is open to the public.

The rule of openness in public fund management has two aspects: political and economic. The need for information on activities of the state in the public finance sector, the assumptions, grounds and forecast effects of the financial policy, is closely related to the democratic control exercised over them. It is supposed to protect the policy against the

influence which various economic and social interest groups may want to exert on it, in order to have a say on its priorities.

Viewed in another plane, the openness of the state activity in its financial dimension, that of the conducted financial (budgetary) policy, reveals close links with the earlier mentioned rule of transparency. A public disclosure, by any entity administering public funds, of its choices and decisions in the public finance sector, including also the assumptions and grounds for the financial policy and its results, can be regarded as the essence of democratic responsibility [Baran 2001; Misiąg, Niedzielski 2001: 5]. Difficulties in pursuing good information policy lie in the necessity to properly balance the effects exerted by it on market mechanisms.

It is stressed in the literature that the openness of public fund management may have both formal and substantive meaning. From the formal point of view it is achieved by making information on the course of the work done under the budgetary proceeding schemes, figures and documents concerning public finance, available to the public [Rybarski 1935: 33]. Openness in the substantive meaning means the existence of opportunities for examining and true understanding of the processes of which the public fund management is composed. Related to them is clarity and comprehensibility of the processes, in practical terms much harder to achieve than the openness in the formal meaning. Implementation of the rule is only possible where the collection and spending of public funds is presented in a transparent manner [Lipiec-Warzecha 2011: 151].

The rule of openness of public fund management has to be strictly observed by any entity managing such funds. The entities spending public resources are subject to control by relevant authorities, and also political control and the control exercised by the citizens themselves, since in the democratic country based on the rule of law the national voters (being, at the same time, taxpayers) are entitled to know how the management of public funds coming from their taxes, exercised by members of the executive authorities, is assessed by their representatives (members of Parliament, councillors) [NSA ruling III SA 1901/00; NSA ruling III SA 1699/99]. This having been said, it is worthwhile to add that the notion of „public funds” should be understood broadly, to include all the processes related to the collection of such funds and their distribution [Kamińska, Rozbicka-Ostrowska 2008: 66], and it is also the content of civil law contracts concerning the funds that may constitute public information [WSA ruling IV SA/Po 224/06].

Any restrictions placed on the information on execution of public tasks must have, as their grounds, arguments based on the Constitution of the Republic of Poland, since regulations concerning public information is an expression of the right to information, as derived from the basic law [WSA ruling IV SAB/GL 73/12]. The solutions stemming from the Act on Public Finance are ones of systemic nature and provide a proof of the legislator's will to

implement, through the means of ordinary legislation, the citizens' constitutional right to information about the activities of the public agencies, as a subjective right (Article 61 of the Constitution). While the right in question is not absolute and the Constitution allows, in extraordinary circumstances (Article 61 § 3), its limitations by means of a statute, the regulations show that exclusions from the rule of openness must be based on statutory regulations and may be dictated only by protection of the rights and freedoms of other persons, business units, and the need to protect public order, safety and an important economic interest of the State [TK ruling K 38/01; NSA ruling II SA 3572/02; WSA ruling II SAB/Wa 193/05].

Against that background it can be stated that only two exemptions from the rule of openness of public finance have been provided for. The openness may be excluded regarding public funds, the origin or destination of which is considered confidential or if the exclusion is derived from international agreements binding on the Republic of Poland [WSA ruling IV SA/Po 212/06]. The rules for protection of the information, the non-authorised disclosure of which would or might cause harm to the Republic of Poland or would be disadvantageous from the point of view of its interests (also at the stage of the information being developed and regardless of the form and way of expressing thereof) are set out in the Act on Protection of Confidential Information. Confidential information may only be disclosed to a person trustworthy to keep the secret and solely to the extent needed by the person to do his or her work or to perform service at their current role or to undertake the commissioned activities.

Many arguments speak in favour of the rule of open management of public funds. It can be even recognised as obvious in modern democratic political systems as one allowing members of the society to get informed on what happens with the financial resources pooled by them, as taxpayers, in the state budget. Also educational arguments can be raised when advocating openness [Rybarski 1935: 33]. The rule allows the citizens to feel themselves, in a sense, the genuine rulers of their country, responsible, to a certain extent, for its destiny. The openness of public fund management is a clear obstacle to commitment of any irregularities; the prospects for revealing them is likely to act as a brake on the activities of prospective criminals.

For the implementation of the rule of budget openness, certain requirements should be met. First of all, the budget has to be drawn up in a way which allows it to be properly and relatively easily read, understood and assessed. It thus has to be clear, accurate and detailed to the optimum degree. A precondition for meeting the above demand is the application of uniform accounting standards. In order to make the image of budget management realistic, the document must be developed, the requirements of the theoretical postulates of completeness and uniformity being responded to. And an obvious

condition of budget openness is also freedom and professionalism of the press and other mass media.

The issue of budget openness is relatively seldom touched in Polish literature. It has been included, by one of the authors [Stahl 1934: 89], into the definition of the budget, as its indispensable component. In Polish law the openness of public finance is, besides transparency, regarded as an important general rule.

The openness of budget consists in its contents being made available to the society during the stage of development of its draft, establishment and implementation of the budget, parliamentary debate over its draft and publication of the adopted budget. A reflection of the rule of openness is also access to information on the public finance situation in the country, provided to the public.

A precondition for proper implementation of budget openness is due organisation of the control of its execution. As the Constitution of the Republic of Poland provides, the execution is subject to control by the Sejm (Parliament) and takes the form of a debate over the annual report on budget execution. The Council of Ministers is required to submit the report until 31 May of the year following the budget year to the Sejm, presenting it also to the Supreme Audit Office (NIK) for an opinion. Elements to be included in the report on the execution of the Budget Act are specified by the Act on Public Finance.

Attached to the annual report by the Council of Ministers should be a statement confirming the observance of the principle stating that the total of the national public debt along with the total funding of the State Treasury and the amount of the guaranties and sureties provided by the public sector entities and the Treasury not yet matured should not exceed  $\frac{3}{5}$  of the annual gross domestic product in a specific budget year. Information on the debt, deficit, public guarantees and warranties must be also appended.

The submitted report should be additionally supplemented by the Council of Ministers with summary information on the execution of budgets of local government units, which should contain (separately for each level of local government) a statement of revenues (by major sources) and expenditures (by sections and major types), a statement of income and expenditure of budget institutions, a commentary on implementation of budgets of local government units and the amount of surplus or deficit of the units.

It is over such an extensive report (and the Supreme Audit Office's opinion on it) that the Sejm holds a debate (which the public can access), being another guarantee of the budget's openness. The debate has to be completed within 3 months and within that time a resolution must be adopted by the Sejm whereby the government is granted or refused discharge for budget implementation. The concept of the discharge is not explained in our law; it is a traditional institution and granting it means that, in the Sejm's opinion, the

government has implemented the Budget Act, in principle, correctly, in abidance to the will of the legislator [Sokolewicz 1993: 95].

A thing most important for the process of control is the criteria of the latter<sup>1</sup>. As far as the Supreme Audit Office is concerned, three options are available. Applied to the state entities are the criteria of legality, thrift, purposefulness and reliability. As regards local government units the criteria include legality, thrift and reliability. For other entities the criteria of legality and thrift are used.

A few general rules follow from the Act on the Supreme Audit Office and the acts implementing it, concerning the way in which control is performed by the body in question<sup>2</sup>. These are:

1. the comprehensive and separate nature of the legal regulations in question, ruling out the application of analogous solutions provided for by other statutes (such as the Tax Procedure Act or the Code of Administrative Procedure),
2. a non-imperious character of the control, meaning that it is aimed at ascertaining the facts of the case and juxtaposing them with relevant expectations, using the criteria established for a given controlled entity, no administrative regulations and decisions being issued or made,
3. the application of what is termed adversarial procedure, manifested in a number of rights the controlled entity is vested in, such as the right to raise objections to the findings of the control or to file reservations to the post-control interventions of the Supreme Audit Office,
4. the rule of objective truth, which principle is observed through the application of the above mentioned adversarial procedure and an extensive system of evidence.

The concept of rules of control exercised by the Supreme Audit Office is rightly seen as a paragon among the systems of control in Poland [Ruśkowski 2000: 351].

As the above made remarks reveal, the rule of budget openness is well and fully secured in the Polish system and is duly supported by provisions of the Act on Public Finance making the Minister of Finance and other authorities of financial administration obliged to inform the society about the country's budget situation. In particular, when making available (by 31 May of the year that follows) the summary data on public finance, the Minister provides the information on the amount (and ratio against the GDP) of: a) the national public debt, b) State Treasury funding, c) amount of the guaranties and sureties extended by the State

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<sup>1</sup> For a broader discussion of the scope and criteria of the control carried out by the Supreme Audit Office (NIK) see [Sylwestrzak 1997: 364].

<sup>2</sup> These have been formulated by E. Ruśkowski in: [Ruśkowski 2000: 344].

Treasury and guaranties and sureties provided by public sector entities, not yet matured<sup>3</sup>. Attention should be drawn, at this occasion, to the fact, that separation of non-matured guaranties and sureties provided by the State Treasury from guaranties and sureties provided by public sector entities fosters the idea of transparency of public finance management. It is also well-worth adding that making the earlier mentioned statements public does not prejudice the fiscal secrecy [Gliniecka 2007]. The agencies that decide to remit non-tax state budget liabilities provide the public, on a quarterly basis, with information about the remission granted, at a generally accessible place, by the end of the month following the end of the quarter.

In the local government units, the rule of openness in public fund management is put into effect by the board, making public the quarterly information about execution of the budget of the local government unit, including the amount of the deficit or surplus and the granted remissions of liabilities to the budget. When discussing the implementation of the openness rule, yet another forms of it should be mentioned, such as providing to the public the information on: execution of the unit's budget in the preceding year (the amount of the deficit or surplus being again stated); the amount of the utilised funds coming from the EU budget and non-returnable resources being part of the assistance rendered by member states of the European Free Trade Agreement (EFTA); amounts of matured liabilities resulting from separate statutes, final administrative decisions or recognised as uncontested by a relevant entity of the public finance sector being the debtor; amounts of subsidies received from budgets of local government units and subsidies provided to other units of local government; a statement of guaranties and sureties granted (the entities to whom the guaranties and sureties pertain being named); a statement of legal and natural persons and organisational units not vested in legal personality to whom – as far as taxes and fees are concerned – reliefs, deferrals and remissions were granted or the repayment was spread into instalments, of total amount exceeding PLN 500 (with indication of the number of the amounts remitted and reasons for the remission and a list of the legal and natural persons and organisational units not vested in legal personality to whom public aid was granted).

The reporting on budget execution in local government units resembles that done at the national level.

The board of the relevant unit submits to the legislative body of the local government and the regional audit chamber the annual report on the execution of the unit's budget, including a statement of revenues and expenditures resulting from the closure of accounts of the budget of the unit (of a degree of detail not smaller than that of the financial plan)

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<sup>3</sup> The duty concerning the 2012 budget year was met by the Notice of the Minister of Finance on the declaration of the amounts mentioned in Articles 38 and 38a of the Act of Public Finance.

and information about the state of assets of the local government unit including data on the unit's ownership rights, data on property rights other than ownership (including limited rights in rem, the right of perpetual usufruct, receivables, capital interests, company shares, data on the municipal assets owned, information about changes in municipal assets), data on the income derived from ownership and other property rights, and – finally – other data and information on events affecting assets of the local government unit. The legislative body of the unit considers and approves the report by 30 June of the year following the reporting year and adopts a resolution on granting or refusal of a discharge to the implementing authority.

The regional audit chambers analysing reports on the execution of local government budgets operate under the Act on Regional Audit Chambers. They perform functions of control and supervision, but also those of opinion-providing, training and decision-making towards local government units. Their main and leading function is that of control, though [Krawczyk 1999].

## **5. The purposefulness principle**

The rule of purposeful making public expenditures means that the spending should be made properly, in terms of its reasonableness (regularity) and (cost) efficiency. The examination of efficiency is aimed at determining the result of the activities by comparing the effects achieved with the outlays made. Two situations can be distinguished here: that of the entity being guided by the intention to achieve maximum effect at given expenditures or that of minimising outlays to arrive at a specified effect. Examining the efficiency of public expenditures is a demanding task, considering the way in which public funds are accumulated and the administrative procedure of their allocation. The difficulties also arise from the fact that the areas on which public outlays are made do not lend themselves to measurement. Determining the cost-efficiency relation is not possible, for instance, as far as expenditures on national defence (in short-term perspective, in particular) are made, and is also hard to do in the case of healthcare and education, where measurement of the efficiency of the public funding, consisting in establishment of the relation between the level and structure of the spending and the actual advantages gained by the society, meets an obstacle being the quality of the results achieved.

The Act on Public Finance provides for the general objectives of state budget expenditures (Article 124). 7 groups of such expenditures can be distinguished, the division being based on the type of the public spending (as referred to the types of goods purchased and the nature of the relationship existing between the entity making the expenditure and the beneficiary). Differences between current and capital expenditures should be noted. Current spending of state budgetary units made from the state budget is the direct cost of

operation of such units; they can be also referred to as the costs of functioning of the public sector. These can be divided into: staff expenditures (salaries and the costs paid on top of them, fees paid to natural persons under contracts for performance of services); material expenditures (purchase of goods and services, costs of maintenance of budgetary entities); other expenses (taxes, charges, business travel costs, contributions paid to international organisations, litigation costs).

Capital expenditures can be defined as any transfers (understood as expenditures) from the state budget to an entity other than a State Treasury, under which transfers the ownership right or other rights in rem are acquired. The capital expenditures can be further divided into those made to purchase tangible and financial assets and can also include subsidies provided from the budget to finance or co-finance the investments made by other entities. Capital outlays of the state budget are ones related to the State Treasury activity regarding making capital contributions to companies and acquiring shares of the companies, but first of all – to investment expenditures, or expenditures of state budgetary units made to that end and earmarked grants provided to finance or co-finance costs of investments undertaken by other entities. The list of types of public expenditures, as contained in the Act, is not exhaustive. Nor is it uniform in terms of the terminology applied.

The Act of Public Finance also includes (Article 236) regulations concerning budgetary expenditures and classification thereof, as made in the plan of budget expenditures of a local government unit. The expenditures can be divided into current ones (in particular the expenditures on: salaries and contributions paid on top of them and costs related to meeting the entities' statutory tasks; grants for current tasks; benefits to natural persons; expenditures on programmes financed with the involvement of funds coming from the EU budget and non-returnable resources from the aid provided by member states of the European Free Trade Association in the portion related to meeting the tasks of the local government unit; payments on account of guarantees and securities granted by the local government unit, maturing in a specific budget year; payment of the debt of the local government unit) and capital expenditures (those made on investments and investment purchases, e.g. the construction and extension of public utility facilities, purchase of real estate, machinery and plant and other fixed assets; expenditures on purchase and acquisition of shares and interests and making capital contributions to the established companies, since local government units may – albeit with certain limitations – create limited liability or joint-stock companies, and they may also establish limited partnerships or partnerships limited by shares). It should be added at this occasion that the role of the distribution is not independent, as it is related to the comparable division of revenues of local government units (into current and capital ones) and is supposed to serve the newly introduced measures whereby financial management of the entities is rationalised. The latter concern first of all, separation within the budgets of the entities of a current

(operational, administrative) section covering only the amounts of current revenues and expenditures and being an actual statement, a financial plan of the “ordinary” (i.e. current) operation of local government units, and a capital section (an investment one, forming a capital budget). A second measure is the introduction of the requirement to balance the budget in the current section (that rigour is mitigated by the possibility to cover the deficit, if any, within that section of the budget, by the budget surplus of the preceding years and the free resources being an excess of funds in the current amount of the local government unit budget, resulting from the settlement of the issue bonds, credits and loans of previous years, the latter rule not applying during execution of the budget nor being imperative as regards the expenditures funded from the so-called aid funds, i.e. the resources coming from the EU budget and the aid provided by the EFTA member states).

The Act on Public Finance (Article 112, § 1 items 3, 4, 6 and 7) proclaims that the expenditures of the state budget shall be utilised, inter alia, as general subsidies to local government units, subsidies to political parties, grants to local government and ones funding the tasks set out by separate statutes. It thus follows from the said provisions that the concept of subsidies refers to two financial instruments, viz. the general subsidies to the local government units provided pursuant to Article 167 § 2 of the Constitution of the Republic of Poland and the Act on the Revenues of Local Government Units and the subsidies to the political parties for their statutory activities, paid throughout a specific term of the Sejm under Article 28 of Act on Political Parties; these are provided to the parties and electoral coalitions which, in elections to the Sejm received, in the country as a whole, at least the legally determined portion of the validly cast votes. The parties that have been granted the subsidy are expected to draw up annual information about the way of using the funds, and the settlement of the subsidy is based on the cash realisation of revenues coming from the subsidy and the expenditures made from it [Ordinance of the Minister of Finance on the Report on Sources of the Financial Resources Obtained]. Under Polish law it is thus not clear whether a subsidy is a form of financial relationships between the State and local government units or a form of support to social organisations (political parties). Resolution of the issue is essential, as regards a public law claim for a payable amount of the allowance from the central budget. The term „subsidy”, as applied to that legal financial architecture, is justified by the general and uniform criteria for granting it, yet the purpose for which the resources are allocated allows them to be qualified as a recipient-specific subsidy, thus removing the above mentioned ambiguity.

The demand for rational nation-wide public fund management, in particular as far as spending is concerned, involves a duty of the Minister of Finance to draw up a schedule (an operating plan being an internal document of a forecast (planning) nature and of a twofold function: the organisational one (allowing to specify dynamics of the spending) and that of information and control, making it possible to analyse the implementation of the budget

based on the criterion of the size of the expenditures as provided for by the spending schedule. The document is developed by the minister with the agencies administering individual parts of the budget. For the budgets of local government units such a schedule may be worked out by the boards of specific units, informing the entities reporting to them and supervised by the boards about the same. Public funds should be spent in accordance with such a schedule. Its obvious purpose is to rationalise the expenditures, all the more that for making a single expenditure, higher than the amount following from the schedule, winning the consent of the minister of finance or the local government unit board is required.

The violation of the rules of purposefulness and thrift may also take place when normative acts are issued by the Council of Ministers or governmental agencies. In order to prevent this, the Act on Public Finance provides for a few measures. If drafted legal acts have been submitted to the Council of Ministers, and the financial effect of the acts is to increase the spending of public sector units against the amounts resulting from the legal provisions in force, the size of their impact has to be determined, the sources of their funding must be indicated and the new tasks and indicators measuring the degree of attainment of the objective should be described. Where a bill is to change the level of the expenditures of local government units, it has to specify the size of the impact and indicate the sources of their funding; an opinion of the Joint Committee of the Government and Local Government is additionally required [The Act on the Joint Commission of the Central and Local Government and on Representatives of the Republic of Poland in the Committee of the Regions of the European Union]. It should be added that it is the potential financial effects, both for the public sector as a whole and individual units of the sector that are meant in that respect.

## **6. Final remarks**

Certain general comments can be made against the background of the above presented considerations. Both the structuring of the rules of Polish financial (budget) law, and the analysis and assessment thereof are of importance, since they make it possible to find weak points or deficiencies of the statutory solutions and indicate the areas of the required changes or additions. Among the rules, those of transparency and openness in public fund management occupy a particular place. The transparency of public finance management and appropriate communication with the social environment are extremely essential as they allow for a greater flexibility in the selection of short and long-term objectives, and a smooth and efficient translation of the uniform financial policy into economic decisions of the entities. Also general reliability of those administering public finance is enhanced thereby and their actions, taken during the economic crises in particular, are more

efficient. But for a proper implementation of the rule of transparency in public fund management, it is the form and way of transfer of information that are matters of particular significance.

It should be also added that the rule of reasonable spending of public funds is definitely an uncontested principle and the legal steps taken in Poland's legal system to consolidate it certainly go in the right direction. It must not be lost of sight, though, that the measures are not able to provide adequate assurances of public spending being carried out in a purposeful, economical, prompt, efficient and effective way. There is still a risk that the list of the solutions is not complete and perhaps other tools whereby rationalisation of public spending could be achieved can be sought.

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