

## **PROBLEMS OF BUDGET ALLOCATION IN THE DEVELOPMENT OF LOCAL EDUCATION SYSTEM**

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**Abstract.** Excluding the market mechanism allows the state for allocating public funds to finance educational tasks. Responsible for the quality of educational services offered are mainly the units of local self-government that are assigned funds to realize this aim within the frames of the educational part of general subvention. However, the basic indicator of decentralization of competencies is the principle of adequacy of financial means and the tasks assigned. The aim of the paper is to highlight the defects in the construction of the educational part of the general subvention that make it virtually impossible to prove the realization of the principle of the adequacy of means to the tasks assigned.

**Key words:** allocation, subvention, local self-government, education

### **INTRODUCTION**

There is a widespread consensus on the question of the necessity of state funding of the classical public goods and services. The range of state engagement in the provision of these goods is implied by the fact that the market mechanism does not guarantee a just redistribution of national income. Thus, thanks to the allocative function of state budget, a part of goods and services is allocated beyond market mechanisms through the activities of government and local self-government. Exclusion of market mechanism allows the state to allocate public funds, among others, to finance the educational tasks. According to article 70 of the Constitution of the Republic of Poland [DzU 1997 No 7, item 483 with amendments], education is compulsory in Poland until the age of 18. The subjects responsible for enforcement of this provision are mainly the local self-government units (JST). This is due to the education system reform introduced in 1999 that put the burden of realization of most of educational tasks on communes, districts, and regional governments. Special attention should be paid to the commune level among the JST, because it is characterized by:

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- the longest self-government experience in public fund management (since 1990);
- is most numerous among the JST (nearly 2500 units);
- the highest degree of social and economic development differentiation among three administrative types (communes: urban, rural-urban, and rural).

According to art. 5a paragraph 2 of the Education System Act [DzU 2004 No 256, item 2572 with amendments], the educational task of communes is providing for education, upbringing, and care including social prevention in public kindergartens (including integrating groups in special kindergartens), primary schools and gymnasias (including those with integrating groups). Communes may also, based on an agreement with districts, carry out the tasks ascribed to the latter as if they were ascribed to the communes (for instance post-gymnasium schools). In order to accomplish this, JST are guaranteed a share in the budgetary income of the educational part of the general subvention (SO). The basic indicator that should lead to the systemic and legal changes connected to decentralization of competencies is the principle of the adequacy of financial means received in relation to tasks assigned (Konrberger-Sokołowska 2001). European Charter of Local Self-Governance sees this principle as fundamental in stating that, the adequacy of financial means received in relation to tasks assigned, the value of financial resources directed to local communities should be adjusted to the range of competencies assigned to them by the constitution or the law<sup>1</sup>. The aim of this paper is to highlight the defects in the construction of the educational part of the general subvention that make it virtually impossible to prove the realization of the principle of the adequacy of means to the tasks assigned.

## PLANNING THE EDUCATIONAL PART OF GENERAL SUBVENTION

The amount of the educational subvention is planned on a yearly basis, together with the passing of budgetary statute. JST do not have a direct influence on the works on the budgetary statute draft, and even more so, on the procedure of passing this kind of law. The task of drafting a proposal of the amount of the subvention lies with the Minister of Finance. The Minister of Finance presents to the Council of Ministers his proposal concerning the public budget for the following year together with justification. The draft is passed by the Council of Ministers and submitted to the Sejm (Lower Chamber of the Polish Parliament) and the Senate before September 30<sup>th</sup> of the year preceding the planned budgetary year. If it turns out to be impossible to submit the budgetary statute draft, the Council of Ministers is obliged to submit a statute draft called interim budget. In this case the Sejm passes a statute on the provisional budget that sets only the general expenses for short term and in a simplified form. The budgetary statute should on principle be passed before January 1<sup>st</sup> of a given year – however this is not clearly settled. In the case when the budgetary statute of interim budget are not passed before the beginning of the year, the state public finances economy is based on the statute draft that has been presented to the Sejm. Polish law does not allow for the possibility to apply the prorogation of state budget – that is to say the possibility to prolong the enforcement of the budgetary statute

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<sup>1</sup> See European Charter of Local Self-Government, DzU 1994 No 124, item 607.

from the previous to the following year. Within 21 days from the day of the promulgation of the budgetary statute the units responsible for budgetary parts present to the Minister of Finances a detailed revenues and expenditure plan of a given budgetary part that is later called 'implementation agreement'. The by the Constitution, and the public finances statute [Public finances statute of June 30<sup>th</sup>, 2005. DzU No 249, item 2104] implied schedule of passing the State Budget is not without impact on the schedule of passing the budgets of the local self-government units, and also on the financial plans of the organizational units subject to the JST (schools for example). The Minister of Finances, knowing the assumptions of the State Budget draft, submits to the JST on October 15<sup>th</sup> of the year preceding the fiscal year, at the latest, the planned amounts of the educational part of general subvention (which constitutes one of the most important revenue source in communes' budgets). The communes' Executives are obliged to prepare, before November 15<sup>th</sup> of the year preceding the fiscal year, drafts of the budgetary resolution (including the expenditure in part 801: Education and upbringing, and 854: Educational upbringing care that are both financed mainly by the SO). Local self-government units enacting budgetary resolutions should base on the final public funds transfer quota, including the SO quota. Those means are enforced only after the State Budget is enacted. The legislative bodies of the JST should nevertheless pass the budgetary resolutions until March 31<sup>st</sup> of the fiscal year at the latest<sup>2</sup>. Depending on the date when the budgetary statute is passed, the final deadline for the enactment of the financial plans of the organizational units subject to the JST can be prolonged even until May 21<sup>st</sup> of the fiscal year. In the school calendar this virtually means the end of classes realized in the spring semester.

In the process of establishing the rules of division of the educational part of general subvention for JST, an important role is played by the Ministry of Education and the Joint Committee of Government and Local Self-Government (KWRiST). The first of these institutions realizes the educational policy of current authorities. This concerns most of all the promulgation of implementation acts to the two most important legal acts of the field: Educational system statute, and the Teachers' Charter statute. The Joint Committee of Government and Local Self-Government in turn, is assumed to enable the JTS a real influence on the shape of state policies concerning the socio-economic development. The tasks assigned to the Committee include among others:

- analyzing the information concerning the preparation of drafted legal acts, documents, and governmental programs concerning issues connected to self-government, and especially the envisaged financial impacts;
- expressing opinion on normative acts programs, and other governmental documents concerning issues connected to local self-government, including also those that determine relations between local self-government and other organs of public administration<sup>3</sup>.

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<sup>2</sup> If the Budget is not passed by this deadline, regional accounting chamber, within April 30<sup>th</sup> of the fiscal year determines the JST budget in reference to its own tasks and assigned tasks. Until the day the budget is determined by the accounting chamber, the basis for activities remains the State Budget draft.

<sup>3</sup> Statute of May 6<sup>th</sup>, 2005 on the Joint Committee of the Government and Local Self-Government and the representatives of the Republic of Poland in the Committee of Regions of the European Union. DzU No 90, item 759.

In the framework of works concerning the allocation of the subvention to finance educational tasks for JST especially important are works undertaken by the Group on Education, Culture and Sport of the Joint Committee of Government and Local Self-Government. Resolution drafts concerning the allocation of the educational part of general subvention constitute one of the most important and most difficult at the same time, fields of opinion-expression by the Committee. Negative opinion by the representatives of JST, concerning the drafts of educational legal acts is not binding for the governmental side. Similar legal effects are the result of a negative opinion of the representatives of groups who are participating in social consultation on legal basis (among others: labor unions, National Executive Committee of the Polish Teachers' Union, the Secretary of the Episcopate of Poland). It is worth noting that the self-government circles demanded multiple times that in the case of legal acts drafts that concern local self-government the opinion of the self-governmental side of the KWRiST should be obligatorily submitted by the first reading of a statute draft in the Sejm. Also in further proceedings the participation of the self-governmental side should be granted the right, with the possibility to express her opinion in a given case. The only active participation within the frame of institutional dealing with the SO is assigned to JST in the process of expenditures control.

### **REDISTRIBUTION OF THE EDUCATIONAL PART OF GENERAL SUBVENTION**

According to art. 28 of the statute of November 13<sup>th</sup>, 2003 on the revenues of local self-government units [DzU No 203, item 1966 with amendments] the method of redistribution of the educational part of general subvention should take into account especially the types and kinds of schools, and units led by JST, the degrees of teachers' promotion, and the number of pupils in these schools and educational establishments. The distribution of the educational part, after deducting a reserve at the disposal of the proper minister responsible for public finances, is based on the algorithmic formula determined in the attachment to the resolution of the minister responsible for education. This way of regulating the method of redistribution of subvention means is contrary to the provisions of art. 167 of the Constitution and has its legislative effects:

- 1) it is established arbitrarily by one minister, most often without considering the opinion of the local self-government part of the Joint Committee of the Government and Local Self-Government, or respective self-government organizations;
- 2) causes an unacceptable instability of the greatest part of financial support of JST (over 25% on average) through introducing unjustified changes at least once a year (even if the range of educational tasks remains the same);
- 3) is passed and promulgated on a date much later than the legal deadline indicating when the Minister of Finance should inform JST about the indicators necessary to construct draft budgets (within October 15<sup>th</sup> of the year preceding the fiscal year);
- 4) local self-governments do not have at their disposal the initial data that would enable reliable analysis of the algorithm proposal (it happens that the minister refuses to disclose data).

The rules of subsidizing should take into account the principle of law stability, and 'should not be changed too often' [Ofiarski 2002]. This principle is not respected in the case of educational subvention. For every unit of local self-governance it has been established that the indicator for the subvention redistribution should be the general number of 'calculative' pupils (Up). This is a wrong approach because calculative pupil does not constitute any of the educational tasks categories that are listed in Art. 5a of the School Education Act. The number of calculative pupils determines in turn the amount of the financial standard A of subvention redistribution (a calculative unit quota per pupil). In absolute quota terms the amount of standard A in 2006 was 1028.86 PLN higher than in the year 2000, whereas in absolute relative terms standard A was in 2006 153.2% of standard A in 2000. It is difficult however to look, on the basis of this analysis, to what extent the increase in standard A corresponded to real increase in educational tasks. This catalogue includes so differentiated in financial terms tasks as for example:

- financing current expenditures (including wages and their derivatives) of schools and establishments administered by units of local self-government;
- financing expenditures connected to individual teaching;
- additional funding for pupils who are not Polish citizens.

To responsibly use the word 'financing' would mean to guarantee the full coverage from the subvention of the expenditures for a given task, and the wording 'additional funding' would mean determining the degree of support by state budget.

The algorithm in current form refers to a partial refund of the teachers' remuneration costs that the JST actually bear (see Table 1). In the face of the lack of the standard number of pupils per teacher with an expected promotion degree JST arbitrarily shape the local hiring policy. Therefore the teachers' wages costs are territorially highly differentiated.

Table 1. The amount of financial standard A per pupil in relation to the minimal teachers' wage according to their promotion degree

Tabela 1. Wielkość standardu finansowego A na ucznia w odniesieniu do minimalnej płacy nauczycieli w zależności od ich stopnia

Fiscal year	Amount of standard A per pupil [in PLN]	Minimal monthly teachers' wage (university degree and pedagogical training) according to promotion degrees [in PLN]			
		Trainee teacher	Contract teacher	Appointed teacher	Chartered teacher
2000	1932.97	1009	1177	1401	1513
2001	2122.43	1046	1220	1453	1569
2002	2271.41	1046	1240	1568	1883
2003	2403.77	1078	1278	1617	1941
2004	2644.24	1110	1316	1666	1999
2005	2769.80	1160	1375	1742	2090
2006	2769.80	1160	1375	1742	2090

Source: Economic Department of the MEN and the resolutions of the minister responsible for education concerning minimal wages of teachers<sup>4</sup>.

Źródło: Wydział Gospodarczy MEN oraz rozporządzenia ministra odpowiedzialnego za edukację dotyczące minimalnych płac nauczycieli.

<sup>4</sup> Ruling of the Minister of National Education of May 11th, 2000 on the amount of minimal teachers wages, the method of calculating the basic wage amount per calculative hour, list of positions and additional tasks and activities that allow for granting a functional bonus, general conditions of

Educational part of the general subvention does not influence the selection of teaching cadre at schools, and it does not have direct connection to the state of the material educational basis in the region. Applying in the algorithm the weightings that increase the standard A does not guarantee a full differentiation of education costs according to the type and kind of an educational establishment. For example, for the I, II, and III education phase (level of primary school and gymnasium) a common weighting has been worked out. Costs of education in secondary general schools, secondary vocational schools, and vocational schools are unified through a common weighting for all post-gymnasium schools. The weightings applied do not also reflect the variety of costs of administering one type of educational unit within a JST of the same administration type but different functional type (e.g. rural communes surrounding agglomeration with high density of population versus rural communes with low population density). This lack of differentiation of means adjustment results in a situation where some JST manage to cover current expenditures from the subventions, whereas others do not.

The third indicator of SO redistribution, which is the number of pupils in the educational units is made visible only in the case of educational services for national minorities that in Poland constitute an insignificant percentage of population of pupils in general. Finally, educational part of general subvention does not also generate effects corresponding to the costs incurred in the light of external monitoring, i.e. the results of final tests after primary school, and the gymnasium exam (see Table 2).

Table 2. Pearson's Correlation Coefficient in sections 801 (education and upbringing) and 854 (educational upbringing care) with annual average results of 6<sup>th</sup> class test, and the gymnasium exam

Tabela 2. Współczynnik korelacji Pearsona w działach 801 (oświata i wychowanie) oraz 854 (edukacyjna opieka wychowawcza) z rocznymi średnimi wynikami testu na koniec 6 klasy oraz egzaminu gimnazjalnego

Characteristics	Test			Exam					
				Humanities part			Mathematics and biology part		
	U	UR	R	U	UR	R	U	UR	R
General expenditures per pupil	0.09	0.15	0.11	0.16	0.11	-0.02	0.05	0.06	-0.09
Expenditures covered by subvention per pupil	-0.21	-0.21	-0.08	-0.11	-0.10	-0.21	-0.06	0.06	-0.11
Expenditures covered by other means per pupil	0.16	0.25	0.14	0.19	0.15	0.03	0.07	0.03	-0.06

Legend: U – urban communes excluding towns with district rights, UR – urban-rural communes, R – rural communes

Source: Economic conditioning of the results of the 6<sup>th</sup> class tests and the gymnasium exam conducted in years 2002–2004. MEN, Warsaw 2004.

Źródło: Economic conditioning of the results of the 6<sup>th</sup> class tests and the gymnasium exam conducted in years 2002–2004. MEN, Warszawa 2004.

granting motivation bonus, list of difficult, and onerous work conditions constituting the basis for granting work conditions bonus, and detailed cases of including the work periods and other periods granting the right to the years service bonus. DzU No 39, item 455. Amended. DzU 2001 No 52, item 544; 2002 No 160, item 1323; 2003 No 34, item 286; 2004 No 74, item 667, and the Ruling of the Ministry of National Education of January 31<sup>st</sup>, 2005, concerning the level of minimal basic wage of teachers, general conditions of granting of the bonuses to the basic wage, and increases for work on Polish bank holidays, DzU No 22, item. 18. Amended 2006 No 43, item 293.

In the regression analysis of 'bi-deciles groups, that is to say according to means embracing successive 5% (1/20) of the whole set, the decrease in education results was also noted together with the increase in the amount of subvention. In case of rural communes was noted even that the highest average test results were obtained in those bi-deciles, where the indicator of the amount of the financial means coming from the educational subvention per pupil was the lowest. The research shows that the greatest influence on the education results is not by the amount and structure of education funds, but the family and local environment of pupils (overwhelming impact of social status expressed in the level of education, and wealth of a pupil's parents).

### **THE SPECIFICITY OF RURAL COMMUNES IN THE ALGORITHM OF REDISTRIBUTION OF EDUCATIONAL PART OF THE GENERAL SUBVENTION**

Rural communes incur additional costs of administrating educational units because of, among others:

- objectively smaller rural schools which is correlated with the population density per square kilometer,
- lack of decrease of the teachers number corresponding to the service to a decreased number of pupils (demographic trend effect),
- the obligation to provide for school transport (due to the reorganization of school network),
- existence of dayrooms, implied by commuting and with it connected times of waiting
- payment of rural and rent allowance to teachers working (but not necessarily living) in rural areas,
- performing additional educational services, given the poorer (than in cities) scientific and cultural infrastructure (financed in the frames of the school system).

It is nevertheless difficult to prove that an increased standard A covers totally or to a significant extent the greater financial needs in the field of educational tasks performance in rural areas (Kowalska 2003). Additionally it is worth mentioning that the rural education is characterized by a difference that can be notice every school year between the number of births, and the number of pupils attending schools. The reason for that should first of all be traced to the fact of the 'flight' of pupils to rural schools (especially in communes located in the neighborhood of bigger cities), and to the change of living place by whole families. The pupils' flight from villages to cities usually limits the educational subvention that remains at the disposal of the commune. The limitation of the subvention brings with it the necessity to introduce various kinds of savings, generally assuming the dissolution or reorganization of primary and filial schools, or creeping combination of classes from these units. This in turn causes increasing for the pupil the distance between home and school, and impoverishes the educational offer, which further enhances the migration of pupils to cities. In this way a kind of vicious circle emerges, multiplying the effects of the already very disadvantageous for rural education, financing solutions.

## CONCLUSIONS

The construction of educational part of general subvention is so designed as to make it impossible for JST to prove the lack of adequacy between means and assigned tasks. Even though the currently existing law does not include a provision that would imply the state budget's responsibility to finance – within the frames of the educational part of general subvention – all costs of performing educational tasks by JST, this means transfer in practice constitutes the most important educational tasks funding source at every level of local self-government in Poland. So far, in the field of administration theory and theory of public finances, the exact enough criteria useful for evaluating the degree of realization of the adequacy of means and ends principle have not been worked out. The officers in local self-governments expect from the government that it launches works on the 'educational standard' that would determine the minimal educational offer that will allow to create comparable teaching and care conditions in towns, and villages. Such standards should include, apart from the realization of framework teaching plans, the determination of conditions in which the activities would be pursued. The MEN representatives are rather skeptical towards realization of these expectations referring to the definition of the notion 'standard' – pattern, determining an average norm, average type, and as a consequence securing an average or minimal realization of the assumed aim. According to MEN the determination of standards in the field of education could as a result be perceived as establishing an average educational norm (not only in the financial and organizational, but also quality aspects), and thus – as a systematic solution that would exhaust the expectations of the state and local societies in this respect. Whereas, *raison d'état* in the field of education is to introduce legal solutions that allow for, and initiate activities above average expectations. Establishing standards in this area does not correspond with the qualitative development of schools and educational units that should be the fundamental aim of the state's educational policy<sup>5</sup>. However, given the prepared by the Ministry of Finance proposal to enact task-oriented budgets, the financial responsibility for realizing educational tasks should be divided between JST and the government [Kowalska 2000a, b]. The first step of the analyses should be to establish what the costs of realization of the framework teaching plans are according to the type and kind of the educational establishment. This issue is the most fundamental for the proposed research direction due to the multi-aspect approach to education financing. The framework teaching plans' analysis highlights for example the factors that actually differentiate the financial needs of JST. Basing on this, the educational subvention model, in which the basic weighting is connected to the administrative division into rural and urban communes, could be abandoned.

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<sup>5</sup> Minister of Education's response to the position of the Regional Assembly of Lublin Communes on the expected changes in the government's education policy. MEN (DKOS - ZF - 048 -117/06), Warsaw 2006.



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## **PROBLEMY ALOKACJI BUDŻETOWEJ W ROZWOJU LOKALNEGO SYSTEMU OŚWIATY**

**Streszczenie.** Wyłączenie mechanizmu rynkowego pozwala państwu na alokację środków publicznych na realizację zadań z zakresu oświaty. Odpowiedzialność za jakość świadczonych usług oświatowych spoczywa w głównej mierze na jednostkach samorządu terytorialnego otrzymujących na ten cel środki w ramach części oświatowej subwencji ogólnej. Podstawowym wyznacznikiem decentralizacji kompetencji jest jednak zasada adekwatności środków finansowych do przekazanych zadań. Celem artykułu jest próba uwypuklenia wad konstrukcyjnych części oświatowej subwencji ogólnej, które praktycznie uniemożliwiają udowodnienie realizacji zasady adekwatności środków do zadań.

**Słowa kluczowe:** alokacja, subwencja, samorząd, oświata

Accepted for print – Zaakceptowano do druku: 10.08.2007