

## FINANCIAL ASPECTS OF CRISIS MANAGEMENT IN LOCAL GOVERNMENTS IN POLAND

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**Abstract:** *The paper characterizes financial issues of crisis management in local governments in Poland. First and foremost, the author studies the literature in order to present the idea of this concept. It is discussed the definitions of crisis management and crisis and the possibilities of their application in the public administration. Furthermore, it is analyzed the regulations which define the place of local governments in crisis management system in Poland. It is presented a typical set of tasks of local authorities in this field. Subsequently, the paper shows the system of financing crisis management in local governments in Poland. Author examines the structure of funds available for this sphere of public activity. Moreover, it is characterized the expenditures, especially the budget statistics and empirical indicators in order to indicate the significance of crisis management for the finances in the local governments. It is also emphasized that there are some obstacles to estimate these expenditures precisely. An important part of the paper is the analysis of the documents which show main mistakes during the process of spending funds for the tasks of crisis management. Author indicates that the removal of the effects of crisis does not relieve the authorities of keeping the public finance discipline. Therefore, they are exposed to the legal consequences if they would spend the funds incorrectly.*

**Keywords:** *local government, crisis management, budget*

**JEL Classification:** *H7, R1*

### 1. INTRODUCTION

In Poland, in the aftermath of a process of decentralization local governments play an important role in the management of particular areas. They are responsible for a lot of public tasks in the field of education, public health, housing, spatial planning etc. It also concerns the issues of crisis management. Thus, it is crucial to implement proper mechanisms of responding to the potential threats because a crisis can negatively affect functioning of the local community. It may also threaten the financial stability of the entity. As a result it may disturb proper delivery of the public services. Therefore, local governments are obliged to create funds in their budgets in order to realize tasks in the field of crisis management.

### 2. SCIENTIFIC AIM AND METHODOLOGY

The aim of the paper is to characterize financial aspects of crisis management in local governments in Poland, especially to indicate financial resources for this purpose as well as irregularities during the process of spending. The author shows the concept of crisis management and outlines the significance of these units there. Against this background it is studied the budget expenditures of local governments concerning this problem between 2007 and 2012 and the main financial indicators, which expound an importance of this issue. Moreover, author analyzes some documents of the Supreme Audit Office which present barriers during the process of financing the crisis management in Poland.

### 3. THE IDEA OF CRISIS MANAGEMENT IN THE PUBLIC ADMINISTRATION – THE LITERATURE REVIEW

Some researchers claim that the impact of man-made or natural catastrophes is compounded because policy makers have prepared neither themselves nor the public for

appropriate responses once tragedy strikes [15, p. 277]. In most cases local governments are the first institutions which are affected by some disasters as well as have to contend with disorganization of the previously functioning system [10, p. 255]. Therefore, in the public administration crisis management can be generally defined as the implementation of management principles, such as: planning, organizing, decision making, coordinating, and controlling in a crisis or emergency situation. There are at least three specific phases of such crisis management. The first is the preventive aspect resulting from the issues, such as planning, preparedness as well as mitigation. The second one is the rehabilitation aspect, which involves issues of relief, recovery, response, or aftermath actions. Simultaneously, it is considered as a key sphere of crisis management. The third concern is coordination that ensures the convergence of the variety of actions during the crisis situation [15, p. 154-155]. This is also perceived as a high-tempo and high-consequence activity that works to tight deadlines and requires decisions under the circumstances of uncertainty and time limitations [11, p. 3]. In some definitions crisis management is understood as a process, in which planned actions are implemented quickly when a negative situation occurs [7, p. 27]. It is also a set of factors used to overcome crises and to reduce the actual damage inflicted by them [4, p. 8]. These definitions underline the necessity to maintain enough resources as well as operational plans, strategies etc. in order to respond quickly to the threat.

In literature there are a lot of definitions of the term "crisis". It refers to a wide variety of phenomena such as policy failures, urban riots, terrorist attacks, hurricanes, flood, transport accidents etc. [5, p. 14]. Crisis marks a phase of disorder in the seemingly normal development of a

system [3, p. 2]. Some authors regard it as an unpredictable, major threat that can launch a negative effect on the organization, industry or stakeholders if handled improperly [4, p. 8]. Therefore, it is caused either by unexpected events or by the unpreparedness of an entity in the face of emerging danger. Consequently, there are two contexts of crises: natural and man-made. Furthermore, some researchers argue, that there are four aspects of crises, such as: political, economic, leadership, and environmental [15, p. 152]. Therefore, crisis may be also defined as a situation or episode in which different actors and groups seek to attribute meaning to a particular set of circumstances which pose extraordinary threats to an individual, institution and/or society in a specific territorial system [5, p. 2]. From the organizational point of view crisis is an event or trend that threatens the viability of the organization within which it occurs. Then, it is an extraordinary event with great potential to do harm. Finally, the negative consequence of the crisis in the organization may determine entities associated with the unit (e.g. with local authorities) [13, p. 27]. Crises are also disasters precipitated by people, organizational structures, economics or technology that cause extensive losses to human life or natural and social environment. These events inevitably debilitate both the financial condition and the reputation of the organization [12, p. 283]. They consist of a short chain of cases that destroy or drastically weaken a condition of equilibrium, effectiveness or productivity of a system [6, p. 3].

According to N. R. Augustine almost every crisis contains within itself the seeds of success as well as the roots of failure. Thus, potential success is the essence of crisis management, while the essence of crisis mismanagement is the propensity to take a bad situation and make it worse [2, p. 4].

In crisis management an important role is attributed to the activity of the public administration, even if it concerns commercial organizations or individuals [8, p. 7-8]. It is said here about the involvement of local governments. Therefore, they should have their own crisis management organization (e.g. institutions) as a result of the process of decentralization. It is not only meant to empower local governments in the process of decision making, but also provides enough funds and other necessary resources. Hence, in a large scale crisis, central government needs to do coordination of interstate borders and aid victims without constraining local authorities by central impact [14, p. 160]. Moreover, F. Putra claims that there are also some specific crisis management requirements that especially apply to urban areas. Firstly, local governments need to have their own strong crisis management systems and decision-making strategies, which will allow them not to rely heavily on central government when crisis occurs. Secondly, this system should include multi-ethnic and multi-cultural awareness in order to protect the most vulnerable groups during a crisis [14, p. 155-156].

#### **4. THE PLACE OF LOCAL GOVERNMENT IN THE SYSTEM OF CRISIS MANAGEMENT IN POLAND – LEGAL PERSPECTIVE**

In Poland, according to the Act of 26 April 2007 on Crisis Management, the crisis management is the activity of the public administration, as a part of the national security,

which refers to the crisis prevention, preparing to take over the control of the crises by way of planned actions, responding in the case of emergencies, removing their effects and recreating critical resources and infrastructure. In turn, the crisis situation is understood as a situation that affects negatively the safety of people, property in large sizes or the environment, producing significant restrictions on the operation of the competent authorities of public administration due to the inadequacy of the possessed capabilities and resources [1]. Therefore, the crisis management aims at maintaining the appropriate functioning of critical infrastructure, which includes systems in the field of: energy supply, energy resources and consumption, communications, ICT networks, finance, food and water supply, health protection, transportation, rescue, ensuring the continuity of the public administration as well as the production, storage, handling and use of chemical and radioactive substances, including pipelines of dangerous substances [1].

The duty to undertake the crisis management measures shall rest with the body competent for crisis management which was the first to receive the information about the threat. The body shall immediately notify the higher and lower level bodies about the threat event, while at the same time presenting the analysis of the situation and the information of intended activities [1]. Therefore, in Poland local governments are strongly included in the structure of the crisis management system. This system is internally coordinated and is consisted of three subsystems, i.e. management authorities, information structure as well as methods and activities. Its purpose is to reduce a degree of crisis factors within the organization, and if they occur, to minimize their impact and consequences. Simultaneously, the objectives of the crisis management act indicate that this process is mainly conducted in local governments, while at the central level coordination activity is carried out [16, p. 49-51].

In Poland the administrative structure of the local government provides functioning of voivodeships/regions (regional level), counties and communes (local level). However, on the regional level the practical responsibility for the crisis management is transferred to a governmental body, i.e. region governor (voivode), who is a representative of the Cabinet (Prime Minister) there. Thus, the real power in this field belongs to communes and counties, as well as cities of county status which realize both the communal and county tasks on the urban areas.

At the county level crisis management authority is the county manager (staroste), while on the territory of the commune and city of county status is voiv, mayor or president. Their tasks in the field of crisis management include [1]:

1. Management of monitoring, planning, response and removal of the results of the threats on the territory;
2. Performance of civil planning tasks;
3. Management, organisation and conducting of courses, exercises and trainings on crisis management
4. Carrying out of undertakings resulting from the operational plan of the functioning of an entity;
5. Preventing, counteracting and removal of the effects of terrorist acts;

6. Cooperation with the Head of the Internal Security Agency to prevent, counteract and eliminate the consequences of terrorist acts;
7. Organization and performance of the critical infrastructure protection tasks.

Moreover, the staroste performs the tasks through the county crisis management team. On this level of local government are also established the county crisis management centers. In turn, mayor and president are assisted by the subsidiary body - the communal crisis management teams. In order to perform the tasks specified in the crisis management act at local level can be created municipal (urban) centres for crisis management. The county and commune managers may invite to work in their crisis management teams people outside the public administration [1]. They can be, for example, representatives of businesses which are key for the local economy and are vulnerable to the negative effects of the crisis (e.g. floods, hurricanes, fires). This allows faster identification of potential emergency events and the integration of anti-crisis activities of these organizations with the local plans.

## 5. PRINCIPLES AND PRACTICE OF FINANCING THE CRISIS MANAGEMENT BY LOCAL GOVERNMENTS IN POLAND - RESEARCH FINDINGS

At the local government level own tasks of each unit in the field of crisis management are planned in the budgets. Resources may derive from own revenues of these entities and the grant-in-aid from the central budget. Moreover, they may receive additional grant-in-aid for the task assigned from the central administration. Additionally, each local government has to create a special reserve for the realization of their own tasks in the field of crisis management. Its value is 0.5% and is reduced by the expenditures for investments, salaries and debt service. It means that local government should not reduce the value of this reserve even though during the year the possibilities of crisis situations were decreased. Hence, the legislator requires constant maintenance of the special reserve in the local budgets. In turn, expenditures are mainly planned under the section of budgetary classification no. 754, which relates to public safety and fire protection. It concerns both the current and investment ones. In this budget category there is a chapter no. 75421 aimed at crisis management. However, in Poland in many budgets of local governments these expenditures are sometimes wrongly classified, i.e. into a proper section, but into the inappropriate chapter. It results in difficulties in the process of appraisal the actual expenditures for crisis management there. Moreover, in the public statistics in Poland it is not common to reveal the expenditures of chapter no. 7541 [17, p. 41].

As far as the expenditures on public safety and fire protection is concerned its highest value in local governments in Poland occurs in cities of county status. However their highest share in the total expenditures is in the counties. In turn, communes relatively spend most on investments in this field. In 2012 the share of investment expenditures in total expenditures of this section was nearly five times higher there compared to the counties (table 1). Moreover, between 2007 and 2012 in the counties was observed the significant decrease of this share, which was

the highest in 2008. As a result in 2012 communes, cities of county status and counties spent 3 629 million PLN for public safety and fire protection. Nevertheless, in relation to 2010 this value declined when these units allocated for this purpose 3 913 million PLN.

**Table 1** Indicators characterizing the significance of expenditures on public safety and fire protection in the budgets of local governments in Poland between 2007 and 2012

Details	2007	2008	2009	2010	2011	2012
<b>Communes</b>						
Ind. 1	653	799	910	1 243	986	969
Ind. 2	1.16	1.27	1.30	1.56	1.24	1.23
Ind. 3	29.01	32.03	31.89	33.08	30.06	26.39
<b>Cities of county status</b>						
Ind. 1	1 134	1 334	1 436	1 449	1 401	1 459
Ind. 2	2.47	2.61	2.55	2.46	2.28	2.29
Ind. 3	12.08	13.80	13.87	12.63	8.12	9.40
<b>Counties</b>						
Ind. 1	951	1 134	1 207	1 221	1 186	1 200
Ind. 2	5.92	6.26	5.71	5.13	4.93	5.34
Ind. 3	13.27	15.14	12.55	11.37	6.71	5.66

Ind. 1 – expenditures on public safety and fire protection (million PLN); Ind. 2 – share of expenditures on public safety and fire protection in the total expenditures of the units (%), Ind. 3 – share of investment expenditures on public safety and fire protection in the total expenditures in this section (%).

Source: own study based on [9]

In this period in local governments in Poland appeared some faults in finances in the field of crisis management. On the revenue side they concerned the lack of the creation of special reserve for own tasks in the field of crisis management. Furthermore, in some cases its amount was not consistent (too less) with the mentioned provisions of the act on crisis management [18]. In turn, on the expense side the expenditures were sometimes, as it was indicated earlier, incorrectly classified. In addition, there was a case when the funds were spent contrary to the principle of making them in a targeted, cost-effective and enables the timely execution of tasks, as a result of the Public Finance Act regulations. Moreover, Supreme Audit Office in Poland revealed that in one commune, during the removal of natural disaster, funds were spent in violation of the rules of public procurement. In this case the local government commissioned the work without an inappropriate procedure of the contractor selection. As a result Supreme Audit Office sent to Public Finance Discipline Ombudsman a notification of a breach of public finance discipline [17, p. 41].

## 6. CONCLUSION

Summarizing the above considerations it is seen that local governments in Poland play an important role in the crisis management system. Apart from regional governments they were allowed to actively operate in this field. First and foremost, communes, cities of county status and counties have to project crisis management tasks in their financial plans. Therefore, they are obliged to allocate certain funds in the budgets. However, the established legal structure of financing crisis management could be more tailored to the individual crisis issues in the units. For example: special reserve for this purpose depends on the size of the budget but not on the scale of threats in the area. This could be determined by the risk map and risk

evaluation approved in some legal procedure. Thus, in the current system might occur a danger of mismatch between the scale of the crisis and available resources to combat it. Furthermore, in Poland it is difficult to precisely specify the value of funds aimed at crisis management in local governments. This is often due to incorrect classification of these expenditures. Nevertheless, cities of county status

spend the most for the public safety and fire protection. Besides, despite the need for fast removal the effects of disasters, local governments must maintain the legal procedure of spending. It means that even during the crisis management local authorities should be careful not to violate the public finance discipline.

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