



## **Krakow Calls for Better Solutions to Protect Local Government Finances**

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**The epidemic is a powerful blow to local finances. The government proposes shielding solutions for local governments, but in Krakow's view they are far from enough.**

The city authorities are calling for the loosening of the fiscal rule planned for this year until the end of 2025.

They also consider it necessary to suspend the so-called *Janosikowe* tax. After all, the financial effects of the current crisis will be felt for several years, they argue.

Krakow has made several critical comments to the government's draft amendment to the Act on Specific Solutions Related to the Prevention, Counteracting and Combating of COVID-19. It also proposed additional solutions in other acts important from the point of view of the local government, residents and entrepreneurs forced to operate during the epidemic. The issues were discussed at the Association of Polish Cities whose representatives met on April 15 to give an opinion on the draft changes in the so-called coronavirus setting.

One of the government's proposals concerns supporting local government budgets by loosening the fiscal rigors that burden them. It regards, among others, the introduction in 2020 of a relaxation of the requirement to balance the current budget side and loosening the fiscal rule limiting debt - so that local governments could spend additional funds and incur new commitments for activities related to counteracting the effects of the epidemic.

According to Krakow, this is a proposal going in the right direction, but far too insufficient, because the financial effects of the pandemic will go beyond 2020. The loss of income will be visible for several years - this is the period that it may take to return to the path of growth from before the crisis. Therefore, while 2020 can be closed with external financing without the need for cuts threatening the implementation of public tasks, in the following years the need to balance the budget with reduced revenues and the lack of a generated operating surplus will result in cuts in budget expenditure - both current and investment budgets. And this, in turn, will mean that there is no possibility to finance tasks for which contracts have already been signed. For this reason the Krakow authorities postulate for the loosening of the fiscal rule to be maintained longer - until 2025.

The so-called *Janosikowe* tax, the funds that richer municipalities pay to the poorer, is another important issue. In 2020, Krakow is to pay PLN 116 million to the state budget in this respect. The city believes that in view of the crisis we are currently facing, this obligation should be suspended.

-A few days ago, despite our increasingly difficult financial situation, we paid almost PLN 10 million in *Janosikowe* tax to the state budget. As part of aid for local governments, the government proposed postponing two installments for May and June. This only means that during the coming holidays, when we do not know what the situation of the budget will be, we will have to pay installments equal to approximately PLN 13 million - emphasizes Jacek Majchrowski, the Mayor of Krakow.



-That is why we urge, alongside other large cities associated in the Polish Cities Association, that this year, as part of helping local governments, the government should exempt us from paying *Janosikowe* tax. Not only because we take on financing some of the tasks related to fighting the epidemic, which should be paid from the state budget, such as equipping hospitals with additional equipment, personal protective equipment or financing public quarantine. We also reduce our own revenues to help local entrepreneurs survive the crisis. This all costs a substantial amount of money - the Mayor emphasizes.

Krakow has also made several suggestions for changes in other laws. They are to help solve the current problems of residents and entrepreneurs. These regard, among others, extending the validity of ID cards that expire during the epidemic. After the transition of offices to remote work, completing the formalities related to the issuance of a new document is much more difficult, especially for people who do not have Internet access. What is more, the production of ID cards and the need for personal collection pose a risk of infection.

According to the city authorities, it is also necessary to change the provisions regarding fees for licenses for the sale of alcohol. At present, they are payable in three equal installments: until January 31, May 31 and September 30, and severe penalties and the termination of the licenses will result if one fails to meet the deadlines. Krakow suggests that due to the state of the epidemic, the payment of the May installment should be postponed until September 30, so that entrepreneurs can pay the second installment together with the third. Another solution could be to postpone the payments to the end of the year, guaranteeing entrepreneurs that they will not suffer from this as a result. The financial situation of entrepreneurs selling alcohol (especially owners of gastronomic establishments that have been closed) is exceedingly difficult. License fees are a heavy burden for them, but on the other hand they contribute to the municipal program for preventing and solving alcohol problems and are a significant source of income for the city to carry out tasks in this area.