

## **Description for the general public**

How to improve the financial position of a municipality? Additional transfers from the central budget are the best option from the beneficiary's perspective. However, if that is not possible (which is usually the case), then one has to look into the pockets of the local residents or local businesses. Cutting expenditure might be an alternative, but that is not easy and may involve political cost. Ultimately local authorities have to increase local taxes or user charges for services provided directly and indirectly by the municipality. There is little room for manoeuvre on the tax side, since both, the role of taxes in local budgets and local tax autonomy are relatively low. Therefore, user charges are best suited for bringing additional money to local budgets. In some cases the tariffs are limited by law and they must be set in accordance with costs. But even these regulations leave some space for getting additional resources. This may take also the form of reducing subsidies for locally provided public services.

Why is the cost of tap water in one municipality many times higher than in another one if they are similar in terms of its geographical and economic characteristics? By how much, if at all, one has to subsidize public transportation? What is the role of rent for community housing? What determines the amount, chargeable period and the scope of parking fees? We focus our research on these main questions with respect to abovementioned four services. We take into account costs, externalities, economies of scale and redistribution policies related to setting the tariffs. However, the analysis of the political mechanism of tariff setting will constitute the most important part of the research.

If the hypothesis of higher elasticity of user charges compared to other sources of municipality revenue proves to be valid, then we may be able to note a positive correlation between tariffs (measured, inter alia, as their share in municipality budget), and the financial standing of the municipality. This should be particularly visible in the recent crisis years, where the need for additional funds for co-financing of EU projects coincided with the worldwide economic turmoil.

The heterogeneity of the tariffs among municipalities is another interesting research area. Much can be attributed to the size – the bigger the municipality, the higher the tariffs. But is this the result of the cost of service provision, wealth of the inhabitants, or maybe the political pressure of the voters which tends to be higher in small communes? Some services exhibit economies of scale, therefore the cost in big municipalities should be lower than in small ones. We would also like to examine non-financial and non-political motives for tariff differentiation; for instance the awareness of externalities. Do local decision makers take into account environmental effects of tariffs? Are citizens aware of this effects? What are their expectations towards policy makers? Are local authorities reluctant to, for instance, use tariffs to protect environment, because they are afraid of adverse reaction of unconscious inhabitants?

How does politics affect tariff setting? Is the political cycle hypothesis valid i.e. no tariffs increase in election years (or prior to the local referenda to recall local authorities before the end of regular term)? How does the political power of local authorities influence the tariffs? Does a big majority in local constituencies result in higher tariffs? Does the partisan affiliation of the local politicians influence tariff policy?

Lastly, we would like to examine how the organizational and legal status of the service provider influences the tariffs. Are the companies separated from the municipality more cost efficient than entities belonging directly to municipality? Does this result in lower tariffs? Or maybe their profit-maximizing behaviour leads to higher tariffs, particularly where they can exert the monopoly power?

We will approach this research questions by applying statistical tools. The qualitative part of the research will be based on semi-structured in-depth interviews with local politicians and managers of service delivery units in selected regions of Poland.