Financial Determinants of Public Investment Strategic Management

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Abstract

Strategic management of investment projects in the public sector seems to be one of the more complex phenomena observed in the sphere of implementation of public investment tasks. The complexity of investment processes is influenced by a number of factors with varying impact. First of all, attention should be paid to the high capital intensity of public investment and the associated significant extension of the investment cycle. As a result of the impact of these factors, public investments in most cases require large capital expenditures, and their implementation takes much longer than, for example, in industry. Secondly, public entities responsible for the implementation of investments are in a quite specific situation, which means the continuous development of various components of technical and social infrastructure. Therefore, it is necessary to indicate the strategic dimension of these investments and, consequently, the necessity to use appropriate methods of financing and managing these investments. In principle, the main source of financing public investment is, and probably will remain, the state budget, and in relation to local self-government - the budgets of these units, and therefore public resources. The purpose of the paper is therefore to present the complexity of the issue of financing public investments in relation to the identified conditions for the development of socio-economic infrastructure, financed from public funds. The study has undertaken theoretical research on public investment and research on the possibility of implementing effective management methods in strategic perspective.

Keywords: management in public, public finance, strategic management, investments.

Introduction

Socio-economic transformation in the countries of Central and Eastern Europe and changes in the system of transnational economic connections triggered new development impulses and pointed to the new position of public sector entities and units. In democratic systemic conditions, the scope of tasks and competences of the state as well as the tasks and competences of the reactivated territorial self-government were re-defined. The public sector has become a full-fledged institution of public life organization at the local and regional level, with far-reaching competences in the area of creating directions of development.

The budgets of public sector entities have become an important instrument for the implementation of the socio-economic development policy at the regional and local territorial level. In particular, regional and local government units obtained within their budgets the right to collect income and finance current tasks and development investments. What's more, the tendencies of contemporary changes in the area of financing development processes are related to the increase of autonomy of public sector units at the regional and local level and with the promotion of managerial competences, directed at greater activity and responsibility for undertaken tasks, with successive implementation of new, more effective strategic planning and forecasting solutions effects of activities for future periods.

The submitted study is aimed to determine the financial factors defining the activity of public sector entities in the scope of shaping the level of socio-economic development in the strategic perspective through planning, financing and implementation of public investments, including the division into different levels of competence. In the budget economy of public sector entities, the most important financial category that is related to the financing of investments are resources that can be used within the balanced budget for financing investments. In such circumstances, therefore, attention should be paid to the autonomous nature of the budget and restrictions resulting from the financial policy taken to conduct specific investment projects. Despite the existing possibilities of using funds for investments from other sources, in the form of subsidies or credits and loans, the basic condition for the correct financial management of public entities is to maintain the principle of balance between budget expenditures and incomes. Regardless of the choice of the investment financing path, the condition of budget balance must be maintained in the long term.

Paying attention to the financial determinants of strategic management of investments in the public sector, one should first examine the own investment financing options based on the own resources. This approach seems justified even when the financing of investments is based on external sources of financing, as the situation may be short- or medium-term, while the condition of budget balance must be maintained in the long term. Bearing in mind the various complex methods of financing investments using funds from diversified sources, it seems that the main position here is the possibility to use the own funds and only then the funds coming from outside the resources of a given public entity, and even outside the public finance sector. An important role here is played by long-term management of public resources and the search for optimal structures from the point of view of financing socio-economic development.

Strategic management of the investments in public sector

In the research on shaping future social and economic phenomena, the particular attention should be paid to strategic management instruments, long-term investment programs, or long-term asset management being the subject of public sector entities' activity. Strategic management in the above approach is connected with practically continuous implementation of the decision-making process, the effects of which are directly related to achieving the quality of life of the inhabitants of a territorial unit (Jarosiński, Grzymała, Opałka, Maśloch, 2015, pp. 33-39). The scope of competences and responsibilities of public sector entities may be reflected in many areas of administrative activity, but also in investment activities, which largely determine the effects of shaping development conditions in the short term and in a long-term perspective (McCartney, 2015, pp. 23-42).

Long-term socio-economic development is a complex process, which consists of factors of varying strength and range of impact. Thus, we are dealing here with short-term impact factors, which come from sphere of operational management, referring to the existing resources and we are dealing with a group of factors that affect the development processes in a multi-year perspective. It cannot be unambiguously determined which group of factors is more important from the point of view of improving living conditions and objectives of socio-economic development. On the one hand, the level and quality of current consumption, which constitutes the assessment of living conditions, will have a greater subjective significance for recipients. On the other hand, strategic development factors are essential to meet society's needs in future years.

In practice, the strategic dimension of development must refer directly to investments that will be carried out in the future or investments that will have a reconstruction character in relation to economic entities operating currently, and maintaining their technical efficiency will require this type of investment. For these reasons, it seems that the strategic dimension of development is much more complex than running the current operating activity of public sector organizational units. This complexity results from the need to determine the scope of future tasks, which could successively be defined and implemented as investment projects, and this complexity is connected with the necessity to establish a long-term path of financing future investment projects. It is the time dimension that makes forecasting of future phenomena a methodological problem and may become a development barrier in the financial dimension.

The long-term nature of the activities of public sector entities, practically unlimited in time, means that the correct implementation of tasks and achieving goals involves taking into account a large number of variables that appear both during ongoing operations as well as when defining future goals and methods achieving these goals in the strategic planning process. The key problem is therefore the approach to the development processes of public sector entities, where it would be possible to combine and correlate individual residents' goals, economic goals of enterprises operating in market economy conditions, social goals of the state and local government units. An additional difficulty associated with the long-term recognition of development processes is the uncertainty strongly associated with forecasting future phenomena, which are considered to be elements of risk affecting the achievement of the assumed goals.

The strategic dimension of development can be the platform for making long-term decisions of a comprehensive nature at a defined level of generality, which is why it is considered to occupy the top-level hierarchy of the management process. Hence, decisions regarding future and remote matters fall into the category of strategic management. An interesting, though complex definition of strategic management was proposed by D. Schendel and Ch. Hofer. They focused on four key stages of strategic management. The first stage is to set the goals of the organization being studied, the second stage is to formulate strategies based on defined goals. The third stage is the implementation of tasks included in the strategic plan, which means implementing the strategy as a necessary transition from the analysis stage to the administration stage, that is to the activities that should lead to the achievement of the set objectives. At this stage, the main stimulators are internal processes in the organization and individual reactions that can force a change in the adopted strategy. The fourth stage, which is strategic control, provides the management of the organization with feedback on the progress achieved in the implementation of the strategic plan (Schendel, Hofer, 1978, pp. 12-64).

In the case of Central and Eastern European countries, which faced the necessity to implement the strategic management methodology in the newly shaped public sector, external role models using the experience of highly developed countries played an important role. An example of the practical approach to the methodology, which can be considered as still valid are the elements of strategic management formulated by N. Berman in relation to local government units at the local level. The author proposed the separation of eight stages in the process of preparing a municipal development strategy (Berman, 2000, pp. 16-20).

Particular importance in his methodology N. Berman applied to ensure the proper composition of the team undertaking work on the strategy document. He drew attention to the great importance of cooperation between representatives of public sector entities and private sector entities. This solution was supposed to increase the chances of a social consensus towards goals and future projects. The appointment of team members should lead to full use of the intellectual potential of the local community. He paid attention to conducting a diagnosis of the existing state and gathering as wide a range of information as possible about factors both internal and external, which may affect the development opportunities of the community. An important part of strategic management would be to identify the most important socio-economic issues that will form the core of the strategic plan. For this purpose, it would be necessary to conduct a SWOT analysis and identify the most important opportunities and threats (external conditions) and strengths and weaknesses (internal conditions) of the community. Only on this basis would it be possible to define objectives, programs and tasks. This work should be done by task subgroups created as a part of the main team appointed to prepare the strategy. After such activities, it would be possible to compile partial results and integrate the prepared action plans in one document to achieve individual strategic goals. At the same time, a social agreement should be reached regarding the final provisions of the strategy, the financial resources needed for their implementation, as well as the determination of competences and responsibilities for the implementation of particular parts of the strategy.

The next stage would be to implement a strategic plan with the cooperation of public authorities, institutions and organizations, private enterprises, involving their resources for development. An essential element of the strategic management process should be monitoring and, as if necessary, updating of the plan. The monitoring process should include an assessment of the state of implementation of strategic projects, along with an assessment of the real impact of the strategy on socio-economic factors. The basic aspects to be monitored are: compliance of project implementation with the planned schedule, funds spent compared to the planned ones, changes among process partners and the external environment that may trigger the need to change the plan and significant changes in the core indicators of economic development. An important scope of activities should be periodic adjustments in the strategy, taking into account the society's needs, in which significant changes may occur in time points of plan verification.

Financial issues determining investments processes in the public sector

There is no doubt that investments carried out in the public sector are considered one of the most important factors affecting growth and socio-economic development. This is because public investment can significantly stimulate the processes of socio-economic development, especially by stimulating private investment. Taking into account the fact that public investments usually refer to infrastructure in the social and economic dimension, it can be assumed that development is determined to a large extent by factors of an infrastructural nature. In addition to other factors, whose list is long and the range of their impact varies - from the local scale to the global dimensions, it is the infrastructural condition of development that seems to play the most important role. The low level of infrastructure development is a serious limitation of the potential conditions for socio-economic development and is usually of interest to economists who are looking for methods and ways to quickly remove the infrastructure barrier. However, this problem involves significant financial outlays that must be allocated to financing infrastructure investments.

It can therefore be assumed that in most cases the determinants of socio-economic development are related to the possibilities of financing investments in the public sector. This paper is not about considering the scope and impact of different development factors determining long-term socio-economic processes, but rather focusing on paying attention to several of them, i.e. the availability of own budgetary resources for investments, the availability of private enterprises' funds targeted at public investment, the possibility of subsidizing public investment, the possibility of implementing investments under the public-private partnership formula and some other indirect factors.

It should be remembered that investment processes in the public sector for many reasons are characterized by high complexity and always require research in a broader context of conditions. As it results from the observation of the current course of the implementation process of strategic development plans, the implementation of investments in the technical and social infrastructure, encounters significant difficulties, not only in terms of acquiring investment capital. The actual scale of the problem covers a broader subject range, however, the financial barrier limiting the acquisition of key resources enabling correct implementation of all stages of strategic management is not without significance.

Taking into account the presented specifics of investing in public sector conditions, the main groups of factors of a financial nature can be distinguished, which determine the effectiveness and efficiency of shaping socio-economic development in strategic terms through the implementation of investment projects.

The first group should be the issues of the possibility of raising funds for investments. As indicated earlier in this study, the starting point should be the assessment of financial factors underlying the basic activity of public sector entities in the context of own investments. The basic source of financing the investments of public sector entities are usually own funds collected and expended within the budget of the relevant units. The analysis of budgets of public sector entities is an important direction in the study of factors shaping investment opportunities due to the direct dependence of sources of budget revenues on the condition of the economy and previously shaped development processes. For these reasons, investment policy at various territorial levels of the public sector requires the collection and updating of information from research on the systematic development of sources of budget revenues of state government and local government sector entities and the identification of real flows of financial resources within budgets of these units .

Previous research carried out within the European Union shows that in some Member States there is a persistent shortage of budgetary resources that could be allocated in local government units for financing development tasks. The list of disclosed investment needs and budgetary resources of these units, which may be allocated for investments, leads to unequivocal assessments of the current situation in the public sector characterized by the occurrence of serious difficulties in the implementation of statutory own tasks. This results in dilemmas in how to finance infrastructure projects, which in particular in rural areas or in the vicinity of metropolitan areas are considered as a necessary factor in improving the quality of public services, conditioning the achievement of a sufficiently high dynamics of economic development processes (Kessides, 1993, pp. 3-39).

The main source of support in financing public investments in the situation of the deficit of own funds of public sector entities in the European Union countries is still the EU cohesion policy and, consequently, support in the form of subsidies from the EU budget under structural funds, as well as other forms of financing. Due to well-recognized and characterized in the literature the conditions and principles of shaping the assumptions and actions of cohesion policy, it was recognized that in this paper there is no need for their detailed presentation. It is worth noting, however, that the implementation instruments of cohesion policy have resulted in significant changes in the approach to the creation of own investment policy at the level of both Member States as well as regions and local territorial self-government structures. These changes from the perspective of states benefiting from subsidies from the EU budget included, on the one hand, the possibility of increasing the volume of investment expenditures, and thus increasing the material scope of new investments, on the other hand, cohesion policy affected through pre-defined development priorities preferences and decisions regarding directions and scope of investments in the public sector. It can be concluded that the use of subsidies from the EU budget has significantly changed the rigors of public investment financing by including in the investment part of the budgets an additional volume of financial resources, which in practice are equivalent to own funds. However, it should also be borne in mind that this is a temporary situation and, in a certain perspective, it will be necessary to return to financing the development based on own funds or turn to a wider use of funds for investments coming from the financial market.

In the above situation, in terms of the significant determinant of long-term investment opportunities, external return sources of financing should be analysed, mainly in the form of commercial loans or bond issues. It is worth emphasizing that the specifics of investments in the public sector and their socio-economic conditions do not have to cause little interest in such investments from capital markets and resign from the possibility of financing investments by raising funds through credit or bond issuance. However, the problem is the limited ability of public sector entities to increase the level of public debt, assessed primarily in the context of the ability to provide ongoing debt service. The criteria for assessing this ability arise from the law, while the results of its assessment shape the creditworthiness of public sector entities, and consequently affect the attractiveness of the conditions for raising investment capital from the financial market.

In the above conditions, and at the same time in view of the significant pressure on the state budget and budgets of local government units, towards the implementation of new investment projects, there was interest in joint investment projects in the public-private partnership in the scope of public sector tasks. The mismatch of own revenues of public sector entities to the changing scope of their own tasks, which is observed mainly in countries with significant investment needs in the field of infrastructure, should be considered as the basic premise for seeking new forms of co-financing investment projects. On the other hand, the issues of benefits from the involvement of private capital in investment projects, which at the same time allow social functions and provide a source of income for private enterprises acting as an investor or operator of infrastructure facilities, are no less important. In strategic terms, an important feature of public-private partnership is the establishment of long-term cooperation between a public entity and a private entity in order to implement projects in the field of services of general interest, it is important to preserve the principle of separateness of participating entities and to guarantee conditions for achieving separate goals of these entities with simultaneous division of responsibility for managing project risk factors between partners.

The shaping of new forms of cooperation between the public and private sectors is connected with the necessity of transferring instruments and forms of management of relevant private sector entities to the functioning of the public sector. In recent years, this was due to the impact of market factors, but also as a result of active processes supporting the development of public-private partnership by the European Union. The formula of hybrid projects developed and settled by EU regulations was used to take advantage of the combined subsidy possibilities from the EU budget and the public-private partnership formula. Following the definition of this form of investment financing, meeting the compliance criteria in the EU cohesion policy directions and allowing the use of investment capital and know-how of private partners, detailed organizational solutions and management methods in the current and long-term are developed.

At the end of this part of the research, it is worth paying attention to some factors having an indirect impact on the possibilities of making and successfully implementing investments in the long-term perspective. It should be mentioned here the financial outlays necessary to acquire qualified human capital resources for public sector entities, which would allow to gain or strengthen the ability to financially compete in the labour market for the acquisition of specialists with high competences in the field of strategic management and implementation of investment projects. Taking into account the conditions of investment processes characterized earlier, it can be expected that the involvement of specialists with qualifications that ensure abilities to multilevel and complex analysing of investment projects in the public sector is a prerequisite for obtaining satisfactory results from the implemented strategic development plans (Randolph, Hefley, Bogetic, 1996, pp. 37-47). In this group, one can also indicate the need to bear the financial outlays necessary to acquire knowledge and methodology in support of planning processes and implementation of public investments. Such expenditures may refer to providing access to current methods of strategic management and evaluation instruments of investment projects, metohods of social cost and benefits assessment, as well as to purchase of computer software supporting project management processes and also providing employees in public sector units with opportunities to improve their skills and competences on the strategic management issues.

The above-described indirect factors determining the financial aspects of management of public investments result from the contemporary conditions of the market economy, forcing to a greater extent the pursuit of achieving a certain level of economic efficiency necessary for operations, in particular investments undertaken by public authorities (Laursen, Myers, 2009, pp. 7-17). The increasing pace of civilization progress is shaping the rise in social expectations, including both the need to implement new technologies and stricter environmental requirements, which usually requires more funds for the construction, maintenance and modernization of infrastructure elements (Messere, de Kam, Heady, 2003, pp. 45-46). Striving to achieve an increase in the level of meeting social needs in market economy conditions in the case of public sector activities requires adapting contemporary management concepts, including searching for solutions that enable strategic management of financial resources used for programs and projects serving social and economic development goals. This corresponds to the directions of an ever-current debate on the role that the public sector should play in the economy and on the methods used in the processes of managing public service units adopted from management practice of profit-focused enterprises (Newman, 2000, pp. 49-52). The practical dimension of the responsibility of entities and public sector organizational units for financing and implementation of their own tasks therefore takes various forms in the organizational, technical, legal and financial dimensions and shapes the ability to adapt to changing internal conditions and the external environment.

Financing of the long-term public investments

Financing investments of public sector entities should be considered a much more complex issue in relation to the situation occurring in enterprises in the private sector, where investments are aimed at achieving quite narrowly defined development goals. In the public sector, we are dealing with a process approach to development problems, consisting in the implementation of a long-term investment policy, developed as a result of a social consensus in the form of a democratically set hierarchy of goals, tasks and securing financial resources for their implementation. This process is strongly conditioned by endogenous factors, and therefore factors characterizing the general potential of a given unit. These factors play a fundamental role in the long-term development process, although to some extent they are in a permanent or only transient manner, modified by groups of exogenous factors (Diamond, 2006, pp. 24-25). In fact, public sector entities must focus their attention on a properly conducted long-term budgetary economy and implementation of identified hierarchical development goals. It is also important to identify potential sources of investment financing under external measures, in particular non-repayable funds, but also to use commercial credit facilities. An essential stage in planning and design activities should be the development of the financing path, including the identification of sources of financing, as well as establishing the rules for servicing possible debt. In practical terms, it allows to provide sources of financing for development policy and adopted strategic goals.

The subject of the conducted empirical research, the results of which were included in this study, were investment expenditures in relation to GDP, made in EU Member States in the enterprise sector and in the public sector in 2006-2017 and also gross fixed capital formation in the general government and at the local government level in 2009-2018. In the period covered by the study, business investment expenditures in relation to GDP in EU Member States were at a clearly varied levels, however in 2016 they did not exceed 20.0%, except for Ireland, where they amounted to 31.9% in 2016. The relatively high level of the indicator in the discussed period was recorded in rich EU countries. Selected data in this respect are presented in Table 1 and illustrated graphically in Figure 1 and Figure 2.

Table 1: Investment by institutional sectors as % of GDP in selected EU countries in selected years (2010-2017).

Specification	2010			2014			2017		
	Total investment	Business investment	Government investment	Total investment	Business investment	Government investment	Total investment	Business investment	Government investment
Greece	17.6	6.6	3.7	11.5	5.3	3.7	12.9	6.0	4.5
Portugal	20.5	10.7	5.3	15.0	9.8	2.0	16.6	11.3	1.8
Italy	19.9	9.9	2.9	16.7	8.9	2.3	17.6	10.1	2.0
Poland *	20.3	9.7	5.6	19.7	10.4	4.5	18.07	10.35	3.28
Germany	19.4	11.4	2.3	20.0	11.7	2.1	20.3	11.9	2.2
Spain	23.0	12.5	4.7	19.3	14.2	2.2	20.5	15.2	2.0
Netherlands	19.7	10.2	4.2	17.6	9.7	3.5	20.5	11.3	3.4
EU 28 countries	20.5	11.5	3.5	19.9	12.1	2.9	20.8	12.9	2.8
Latvia	19.4	12.2	4.7	22.6	15.0	4.5	20.9	13.5	4.4
Denmark	18.1	10.4	3.3	19.2	11.6	3.9	21.2	13.3	3.4
Slovakia	22.1	13.6	3.6	20.7	12.4	4.0	21.4	13.6	3.2
Finland	21.9	11.8	3.7	20.6	10.5	4.2	22.2	11.5	4.1
Hungary	20.2	12.6	3.7	22.2	13.8	5.3	22.2	13.9	4.5
Romania	26.1	14.7	5.7	24.3	14.6	4.3	22.4	13.9	2.6
France	22.1	11.8	4.2	21.8	12.4	3.7	22.5	13.2	3.4
Ireland	17.5	10.7	3.4	20.7	16.5	2.2	23.5	19.7	1.8
Belgium	21.8	13.4	2.3	23.0	14.8	2.3	23.5	15.5	2.2
Austria	21.6	13.1	3.3	22.7	14.6	3.0	23.6	15.4	3.1

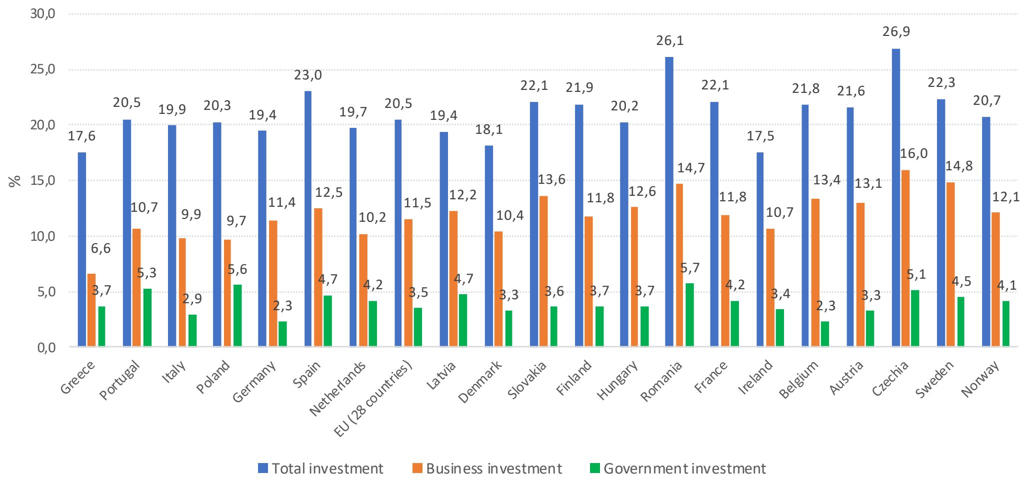
Czechia	26.9	16.0	5.1	25.1	16.5	4.1	24.8	16.7	3.4
Sweden	22.3	14.8	4.5	23.1	16.3	4.4	25.0	17.0	4.6
Norway	20.7	12.1	4.1	23.8	13.6	4.6	25.0	13.1	5.3

* data for Poland in 2017 were estimated on the basis of Eurostat information for 2016.

Source: own study based on data from Eurostat https://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&language=en&pcode=tec00132&plugin=1, connection of 11.04.2019.

In the initial period of the analysis, i.e. in 2006, a relatively high share of business investment expenditure in GDP was recorded in Bulgaria 20.9%, in Romania 19.8%, in Lithuania 18.0%, in Slovakia 17.9% and in Slovenia 17.2%, as well as in the Czech Republic 17.1%. The general regularity in 2006, which was noted during the research, was the relatively higher value of the indicator in poorer EU countries, which joined the EU in 2004 and at the same time relatively lower value of the index in rich states: in Germany 11.9%, in France 11.8%, the Netherlands 9.7% and in Denmark 12.6%. It should be assumed that this relatively higher value of the indicator was associated in some of the countries mentioned above (except for Bulgaria and Romania), including them in the system of financing programs within the EU cohesion policy. In the following years, the investment situation in the enterprise sector was similar, although the values of the indicator in some Member States fluctuated slightly. And so, in 2017 the highest value of the index was recorded in Ireland 19.7%, in Sweden 17.0% and in the Czech Republic 16.7% and in Austria 15.4%. The lowest value of the indicator was recorded in 2017 in Greece at 6.0%. It is worth noting that the level of the indicator in Greece significantly differed from the situation in other Member States and fluctuated around 7.8% - 4.5% throughout the discussed period. It should be noted that in 2017, as in previous years, there were marked differences in the values of this indicator.

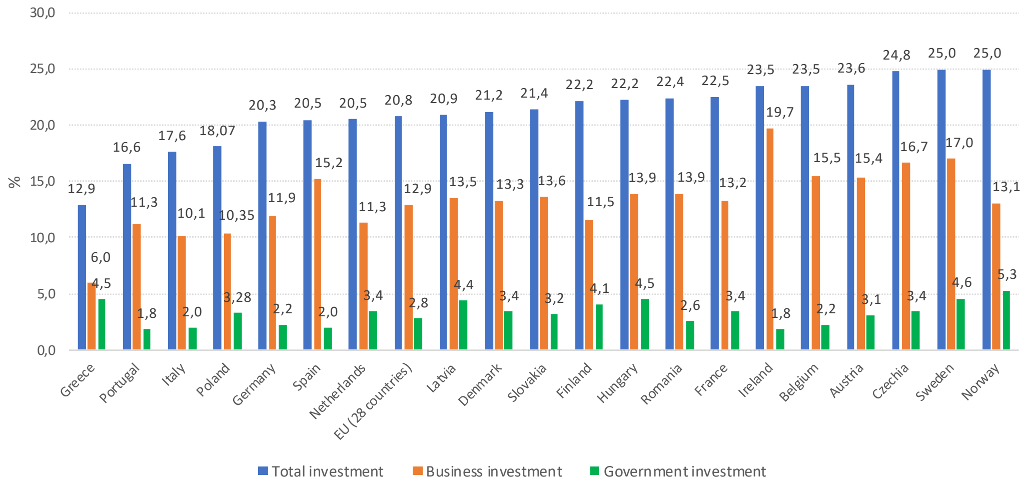
Figure 1: Investment by institutional sectors as % of GDP in the year 2010.



Source: own based on data in Table 1.

The value of the indicator covering government sector investments was significantly lower and varied in individual Member States throughout the period considered. In 2006, the highest value of the indicator was recorded in Greece, 5.7%, and then in Estonia 5.4%, in Hungary 5.1% and also in Romania 5.3%. At the same time, the lowest values of the indicator were recorded in relatively richer countries, i.e. in Belgium 1.9%, in Germany 2.0% and in the United Kingdom 2.5%. Such a distribution of the value of the ratio seems to be justified because public expenditure on investments in a wider scope was implemented in countries with a low level of infrastructure development, while they were lower in rich states with good infrastructure equipment. Noteworthy is the relatively high value of the indicator in Estonia. In 2017, it reached the highest value among the Member States and amounted to 5.4%. The asymmetry of the indicator value in 2017 was maintained in accordance with the previously noted regularity, that in less wealthy countries the value of the indicator was higher than in the relatively richer countries. The distribution of the indicator in 2017 suggests that the process of equalizing the disproportions in infrastructure equipment has not yet finished, hence the greater share of investment expenditure in GDP was observed in some countries.

Figure 2: Investment by institutional sectors as % of GDP in the year 2017.



Source: own based on data in Table 1.

The conducted analyses may indicate, therefore, that the investment policy pursued by the public sector entities still concentrates on identifying and implementing infrastructural tasks, which in detail includes investments to maintain and restore existing fixed assets, as well as the implementation of new material investments, in accordance with the needs of society and local communities. The ability to effectively implement the above investment policy objectives results from both the legal and organizational conditions of the functioning of public sector entities as well as the degree of their financial independence. These conditions are reflected in the structure of strategic goals of socio-economic development, defined in the planning documents of the state and public sector units at various territorial levels (Szostak, 2009, pp. 66-67).

In the strategic plans of local government units, it is evident that these units are focusing on the pursuit of the highest possible share of investment expenditure in the total budget expenditure. However, such assumptions of the local investment policy are connected with numerous conditions, especially on the side of current expenditures, including those related to servicing previously contracted obligations. Therefore, the funds to be targeted in the future to support development are inherently a result of two basic cash flows, i.e. budget revenues and current expenditure. This means that investment projects cannot always be transformed into real investment projects, which can be financed and implemented, precisely because of the shortage of own budgetary resources for investments. The more valuable are the possibilities of obtaining non-returnable external aid for development purposes, resulting, for example, from subsidizing ventures from the European Union budget as part of cohesion policy and specific instruments for its implementation.

Current trends of changes in the global economy and a significant scope of public support directed to the objectives of social economic development through plans and programs created and coordinated not only at the central administration level indicate the need for in-depth analysis of development problems from a regional and local perspective (Parr, 2001, pp. 10-12). The essence of the regional approach to economic and social processes refers to the identification of development potential of the region itself, external conditions constituting the region's position in relation to the business environment, as well as defining competences and interdependencies between entities having access to various economic resources of the region and creating opportunities and forms of exploitation these resources. Against this background, it is worth pointing out the special role of public sector entities at the regional and local level in shaping development phenomena (Nafziger, 2006, pp. 362-391).

As for the value of gross fixed capital formation in the public sector, there were very significant differences between the EU Member States. As a general rule, in terms of the value was higher gross fixed capital formation in large countries with a relatively large population, while at the same time small outlays in small countries. For example, in 2018 in France, the value of gross fixed capital formation at the level of general government reached almost EUR 80 billion, while at the same time in Lithuania amounted to just over EUR 1.5 billion. Selected data in this respect are presented in Table 2 and illustrated graphically in Figure 3.

Table 2: Gross fixed capital formation in General government and in Local government in selected EU countries in selected years (2010-2018) in bln euro.

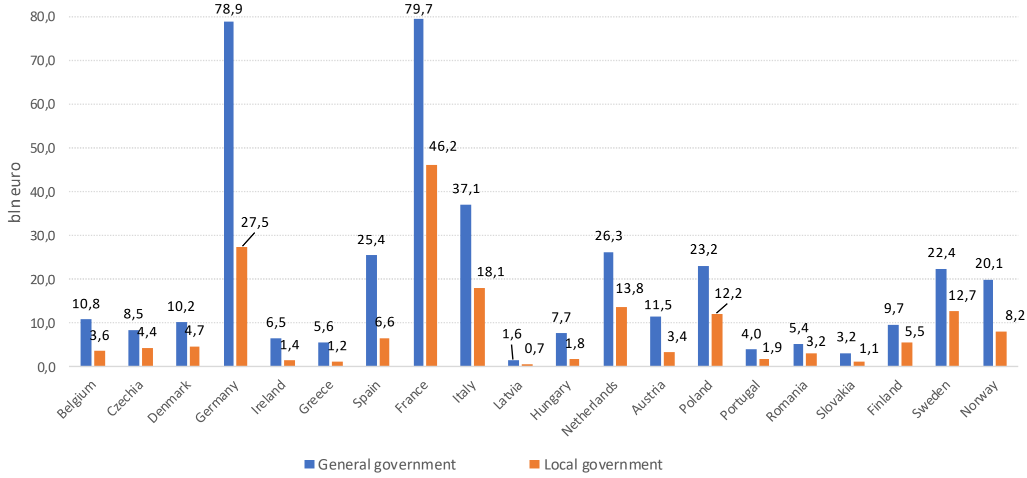
Specification	2010		2014		2016		2018	
	General government	Local government	General government	Local government	General government	Local government	General government	Local government
EU 28 countries	451.0	196.9	409.7	180.7	405.2	169.5	454.1	198.3
Belgium	8.4	2.8	9.4	2.9	9.3	2.6	10.8	3.6
Czechia	8.0	3.8	6.5	3.5	5.7	2.3	8.5	4.4
Denmark	8.0	3.7	10.3	4.5	10.7	4.5	10.2	4.7
Germany	59.5	22.6	60.6	21.6	68.2	23.2	78.9	27.5
Ireland	5.7	3.2	4.3	0.7	5.3	1.2	6.5	1.4
Greece	8.3	2.1	6.6	1.2	6.1	1.2	5.6	1.2
Spain	50.7	15.5	22.3	5.4	21.7	5.1	25.4	6.6
France	82.9	44.2	79.6	46.1	75.1	40.3	79.7	46.2
Italy	46.8	25.4	37.0	20.2	35.8	19.2	37.1	18.1
Latvia	0.8	0.5	1.1	0.5	0.9	0.3	1.6	0.7
Hungary	3.6	2.2	5.6	2.0	3.5	0.9	7.7	1.8
Netherlands	26.7	14.6	23.5	12.8	24.7	12.9	26.3	13.8
Austria	9.6	2.5	9.9	2.9	10.6	3.0	11.5	3.4
Poland	20.2	10.6	19.1	10.3	14.0	5.6	23.2	12.2
Portugal	9.5	3.0	3.4	1.5	2.9	1.4	4.0	1.9
Romania	7.2	2.7	6.4	3.3	6.2	3.1	5.4	3.2
Slovakia	2.4	1.1	3.0	0.7	2.6	0.6	3.2	1.1
Finland	6.9	3.6	8.6	4.6	8.9	4.8	9.7	5.5
Sweden	16.7	7.1	19.0	9.5	20.4	10.7	22.4	12.7
Norway	13.4	6.2	17.3	7.1	17.8	7.6	20.1	8.2

Source: own study based on data from Eurostat
https://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&language=en&pcode=tec00132&plugin=1, connection of 11.04.2019,

The general value of public sector investment expenditures consists of government sector expenditure and expenditures of the local government sector. The combination of these two groups of entities clearly shows that in the discussed period, the government sector's gross fixed capital formation prevailed, although in some countries its value in the self-government sector was significant. Discrepancies in this respect were also very large and were conditioned by the size of the state, population, economic and development potential. These differences were not without impact on the financing possibilities of infrastructure investments, the more so as the investment costs are similar in all EU countries, and therefore, in those with smaller resources, the factual investment volume may be limited.

The structure of public gross fixed capital formation broken down by the state government and the local government was diversified. In 2009, a relatively higher share of gross fixed capital formation in the local government sector was recorded in Ireland, 62.4%, in France 57.2%, in the Netherlands 57.2% and in Latvia 55.6%. In the majority of EU Member States, this share was at a level of 30 to 45%. The relatively lowest share of local government gross fixed capital formation was recorded in Cyprus and Malta. It should be assumed that the structure of public gross fixed capital formation in general was conditioned by organizational solutions referring to the relationship between the government and the local self-government. Thus, a greater range of competences and greater financial independence could result in relatively higher expenditures compared to EU Member States. Diversification in this respect persisted throughout the period considered. It should be emphasized, however, that in 2018 the share of gross fixed capital formation of the local government sector in general government's gross fixed capital formation in the majority of the countries surveyed was slightly lower than in the base period of the analysis. In some of them, the structure has changed in favour of the local sector, such as in Bulgaria, the Czech Republic, France, Italy and Romania. It should be recognized that the existing structure of general government's gross fixed capital formation in general, broken down by the state government sector and the local government sector, is relatively stable and stable, which confirms the proper relations between public administration at the state level and public administration at the local government level.

Figure 3: Gross fixed capital formation in General government and in Local government in selected EU countries in the year 2018 in bln euro.



Source: own based on data in Table 2.

In the examined countries of the European Union, there was undoubtedly a change in ways of approach to the problem of management in public sector organizational units, including local government units, which aimed at improving the efficiency and efficient conduct of public investment, as well as the current functioning of public service providers. Therefore, it can be expected that also the role of local government units at the regional and local level in the implementation of the total volume of investments in the public sector will increase in the coming years.

Conclusions

Strategic management in the public sector is an important factor influencing the effective and efficient use of endogenous financial and organizational resources to meet the collective needs of the local community. Contemporary challenges and development trends increasingly require the use of strategic management instruments in an integrated approach, which strengthens the possibilities of identifying future needs, on the basis of which specific investment projects can be formulated, and leads to better organization and sequential financing of investments in the longer term.

Strategic management and long-term financing are at the same time an important factor in improving the internal situation of public sector entities. Recognition of the current situation and reliable development of the diagnosis of the existing state is a good starting point for the preparation of strategic development plans, defining the path of financing future investment projects and facilitating operational management and strategic management of public sector entities.

Strategic planning in the public sector is a good starting point for a broader approach to the processes of socio-economic development. This applies to issues related to the planning of technical and social infrastructure, which is the basis for both business activity and for improving the quality of life of residents. The strategic approach to development problems provides a basis for prospective analysis in the area of public finances and enables proper selection of sources of financing investment projects in the longer term, including own resources, as well as funds from subsidies and repayable funds.

In the period 2006-2018 it became clearly visible that the level of financing investments included in public sector investments in European Union countries is strongly diversified, which indicates the need to continue the comprehensive approach so that public resources could be used more efficiently across the EU. It is important to study the factors determining the public sector investment policy in the conditions of a market economy. Active participation of public sector entities in economic and social development is noticeably manifested by a change in the approach to public resources and the search for new management methods aimed at increasing the efficiency of the use of funds, in particular in the long-term perspective.

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