

Financing Municipal Tasks in Slovenia

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The paper examines whether the system implemented for financing local communities (municipalities) in Slovenia in the period 2010-2016 is compliant with the European Charter of Local Self-Government. We examined the cost coverage for performing the tasks of municipalities, the cost structure and the rate of interconnections between the budgeted funds under the eligible expenditure mechanism and the data collected on costs by municipality. Our hypothesis states that the principles whereby funding would be commensurate with the tasks were not fulfilled in the period between 2010 and 2016 in the Republic of Slovenia given that the average per capita costs exceeded the funding under eligible expenditure. The findings show that although the principles of the European Charter of Local Self-Government have been satisfactorily included in the country's laws, certain discrepancies have been found with regard to funding where the principle of municipal funding had not adequately been taken into account to ensure that funding is commensurate with the tasks.

Keywords: local self-government, municipalities, fiscal decentralisation, municipal tasks, Slovenia

1. Introduction

The paper examines whether the current system of local self-government funding in the Republic of Slovenia complies with certain principles of fiscal decentralisation as laid out in the European Charter of Local Self-Government. The research concerns the period between 2010 and 2016. Decentralisation is generally defined as the transfer of some of the powers, responsibilities and funding from the central (national) to the local government authorities. The principal aim of fiscal decentralisation is to establish and maintain an efficient system for financing local communities, exercising the powers of decentralised levels and performing tasks to meet the needs of the local population. This aim can be viewed as a traditional view of fiscal decentralisation (Finžgar & Oplotnik, 2013, p. 14). An underlying principle of the European Charter of Local Self-Government – ratified by Slovenia in 1996 – is that the funding of the local government should be commensurate to its powers and that the local govern-

ment should be autonomous in the allocation of its financial resources. It should be noted that Article 140 of the Constitution of the Republic of Slovenia states that the powers of a municipality comprise local affairs, which may be regulated by the municipality autonomously and that affect only the residents of that municipality. The tasks performed by municipalities can be separated into primary tasks concerning the residents of a municipality, which the municipality can handle on its own, and tasks transferred by the state administration (by law) to the municipality, which are subject to *ex-ante* approval by the municipalities, with the aim of organisational streamlining and improved efficiency. Primary tasks can further be divided into those set forth as such by a piece of legislation and local affairs, which are in substance primary municipal tasks performed in the municipalities and laid out by municipal regulations (Vlaj 2004, summarised from Drozdek Djurić & Bojnec, 2010, p. 40). The national government may transfer particular tasks to the local self-government, within the scope of its powers, provided that the necessary funding is budgeted for their performance. The Local Self-Government Act specifies that a municipality independently manages local affairs of a public nature (primary tasks) as laid out by a general regulation of the municipality or by law. Financial resources necessary to perform such tasks are also set forth by law, namely the Financing of Municipalities Act adopted in 2006. A central feature of the Act is the model of calculation of the eligible expenditure of a municipality and the fiscal equalisation. The model is based on a pre-defined national average per capita amount of funds with which a municipality can ensure the performance of all its tasks as laid down in the Constitution and the law and which are deemed appropriate funding for financing local affairs of a public nature. The appropriate per capita funds are set annually as the eligible per capita expenditure.

It is unclear whether the current system of local self-government funding in Slovenia complies with the fundamental principles of the fiscal decentralisation theory and the guidelines set forth in the European Charter of Local Self-Government. The paper thus focuses primarily on the issue of covering the costs for performing the tasks of municipalities as defined by law, the cost structure and the rate of interconnections between the budgeted funds under the eligible expenditure mechanism and the data collected on costs by municipality. Our aim was to determine whether the system used for financing local self-governments in Slovenia complies with the principle of funding to be commensurate with the tasks performed by local communities, which is a fundamental principle of the European Charter of Local Self-Government. We sought to address the

question whether and to what extent the funding provided in accordance with the eligible expenditure equation is commensurate to the actual costs incurred by Slovenian municipalities in the performance of their tasks as laid out by the law for the period between 2010 and 2016. A similar examination had already been made for the 2007–2009 period and it was found that, in aggregate, Slovenian municipalities were adequately funded in the examined period with regard to their declared needs. In fact, the average per capita costs were roughly nine percent lower on average than the corresponding funding provided under the eligible expenditure mechanism. However, it was also found that the disclosed costs grew by an average of 25.9% in the 2007–2009 period, whereas the eligible expenditure funding of municipalities grew only by an average of 15.3% in the same period, thus lagging behind the increase in municipal expenditure by more than ten percentage points (Oplotnik & Brezovnik, 2014, p. 2).

As part of the research, we formulated a hypothesis that the effective municipality financing system in Slovenia in the period between 2010 and 2016 increasingly deviated from the basic principles of the European Charter of Local Self-Government in terms of resources being commensurate with municipality powers. In compliance with the European Charter of Local Self-Government's commensuration principle, the calculated coverage of costs for the legally determined responsibilities of municipalities in the Republic of Slovenia through the eligible expenditure mechanism should correspond to actual costs incurred by the municipalities in relation to the implementation of their responsibilities. Eligible municipality expenditure, as determined by the applicable Municipalities' Financing Act, is the established volume of resources for an individual municipality per annum that corresponds to the financing of its legally determined responsibilities. Our hypothesis states that the principles of financial resources to be commensurate with the tasks in the period between 2010 and 2016 in the Republic of Slovenia were not fulfilled, as average costs per capita were greater than the determined relevant eligible expenditure resources. Compared to the 2007–2009 period (Oplotnik & Brezovnik, 2014), this deviation has seen a further increase.

In the empirical research section, we:

- 1) analyse aggregate financing system indicators, namely the average eligible expenditure and costs, calculate such data per capita, analyse the average deviation of expenditure per capita by municipality, and review and present the changes in these indicators;
- 2) make a cross-comparison of allocated eligible expenditure and eligible expenditure proportions, collect municipality cost data, calcu-

late the standard deviation from the average, and review and present indicator change; and

- 3) calculate eligible municipality expenditure and cost proportions, thus establishing how allocated eligible expenditure corresponded to actual municipality costs.

Furthermore, we analysed the structure of costs in accordance with the so-called program classification, that is, the classification of municipal budget expenses in terms of 21 main segments. All the observed data and calculated indicators are presented for the observation period running from 2010 to 2016. Following the obtained analysis results relating to Slovenia's municipality financing system and a mutual cross-synthesis of these results, we provide a few key findings and decisions regarding current system compliance and a comparison with the research done for the period from 2007 to 2009.

2. Literature Overview

Pursuant to its various components, fiscal decentralisation is considered as highly complex. Therefore, the selection of a suitable approach to analyse such a phenomenon in individual countries is vital. Fiscal decentralisation systems greatly differ amongst European countries due to each country's historical, geographical and administrative backgrounds. In literature, fiscal decentralisation is generally defined as a shift of some of the responsibilities, powers and financial resources from central (national) to local government authorities. Its primary purpose being the establishment of an effective financing system that enables the suitable and cost-effective manufacture of products and services by local authorities, as well as improving economic growth and achieving increased societal benefit with respect to that which would be achieved without decentralisation. The basic tasks of a country are the provision of macroeconomic stability, national security and income allocation, whereas local authorities/decentralised units should exercise those responsibilities that the country, pursuant to its nature, cannot carry out as effectively as it should. Thus, it is primarily a matter of ensuring those public goods and services whose utilisation and consumption is limited to the borders of said decentralised units (Brezovnik, 2008, p. 99).

Based on an effective public finance theory, the establishment of a decentralised public sector should provide a solution for the conceptual public problem of choice, whose central issue is connected to the ability to effec-

tively allocate responsibilities, powers and financial resources from the central to the local authorities keeping in mind local population heterogeneity throughout the world (Finžgar & Oplotnik, 2013, p. 655). In the past, it was assumed that local authorities in individual countries would only be effective once given suitable powers and access to financial resources in a fitting combination with their own financial revenue and intergovernmental transfers (Boex, 2009, p. 8). The traditional concept of fiscal decentralisation was provided by pioneers in this area, such as, Tiebout (1956), Musgrave (1959), Buchanan (1965), Olson (1969), and Oates (1972).

According to Tiebout, who laid the first foundations for fiscal decentralisation in 1956, mobility enables families and individuals to choose to live in environments that best suit their personal needs in terms of taxation and public good (Boex, 2009, p. 8). Furthermore, Tiebout says that rivalry exists between the various government strata in individual countries, all aiming to achieve the most effective production of local public goods and creating the most favourable tax structures to attract people to migrate to their territories (Cheikbossian, 2008, pp. 217–218). While local authorities can balance population migration with their tax policy and with the price and supply of public goods, we cannot conclude that decentralisation will not deliver a net increase in joint benefit without mobility. In 1954, in his *The Pure Theory of Public Expenditure*, Samuelson presented the condition of equating the sum of the marginal rates of substitution to marginal cost according to which joint benefits can differ between jurisdictions; e.g., water or air purity levels in cities are definitely different from those in rural areas (Brezovnik & Oplotnik, 2003, p. 121).

In post-Tiebout (1956) times, this area was further investigated by Musgrave (1959), who presented his three most important functions of public finance: stabilisation, redistribution, and allocation. While the first, stabilisation, is primarily typical for central authorities, where the fundamental objectives are the achievement of high employment levels, price stability and overall economic growth, the other two functions alternate between central and local authorities in individual countries in terms of their suitability in performing certain activities and the supply of public goods.

Buchanan, the founder of the Public Choice Theory, presented his Club Theory in 1965. The primary objective of Club Theory is the crossing of the gap between private and purely public goods. Club Theory is based on two assumptions, namely that crowd presence requires group size limitation, whereby in certain models the limitation is the price; and that group size be observed in co-dependence with the assurance of membership in a certain group (Sandler & Tschirhart, 1997, p. 336).

Our overview of the fiscal decentralisation theoretical baselines is concluded with two authors, Olson (1969) and Oates (1972). Both Olson (1969) with his principle of Fiscal Equivalence, and Oates (1972) with the so-called Correspondence Principle, are deemed to have been the first to develop the theory which determines an optimal structure of funding of lower levels of the government in accordance with the level of fiscal decentralisation. Both of them focus on managing public goods and services. Accordingly, each public good should be supplied by the level of government that can best supply it. Important factors to be determined are: where does the need arise and the nature of the need for public goods. The need for public goods can arise at the local level, such as public utility activities, the management of local roads, and the like, or they can be goods of a broader character, such as national defence, economic policy management, diplomacy, and the like. Olson and Oates' theory is a form of compromise whereby, on the one hand, the fragmentation of a substantial public good's allocation to smaller decentralised units is supposedly beneficial as smaller governments are more sensitive to local population need, but on the other hand, spillover effects must be avoided.

The mentioned authors present their conclusions, suggestions, and findings regarding fiscal decentralisation from a theoretical perspective, but without suitable quantitative or qualitative empirical research that would otherwise reflect the actual situation regarding fiscal decentralisation in individual countries and, consequently, enable direct comparison. In spite of the gap between the authors' theoretical findings regarding assumptions concerning the effectiveness of central authority work and the practice in many developed countries, their work has been used as the central foundation for further research in the field of fiscal decentralisation.

The awareness that fiscal decentralisation systems must be looked at from a broader perspective has greatly increased among contemporary authors in the field of fiscal decentralisation, such as, Weingast (1995), Seabright (1996), Basley and Coate (2003), and Wagner (2007). They attribute an important role to citizens who, by cooperating in public matters, impact decision making in relation to the environment they live in and, consequently, enable more effective central authority operation in relation to the supply of public goods and the implementation of general administration responsibility.

In 1995, Weingast presented the idea of market preservation of federalism with the aim of investigating how competitiveness amongst various central authority units creates initiatives for credible commitment and lower transaction costs. Weingast points out that the fundamental political dilemma of the economic system is that governments stable enough

in terms of protecting ownership rights and executing contracts must, at the same time, also be strong enough to credibly respect the agreed to rules (Weingast, 1995, p. 1). Research in the field of fiscal decentralisation was continued by Seabright, who pointed out in 1996 that elections are incomplete contracts where certain information cannot be verified. According to Seabright, political accountability can be an organisational motivation for decentralisation, but it can also be an advantage to centralised governments when compared to decentralised ones, as centralisation supposedly ensures better cooperation between the various levels of government under the effect of various external impacts (Vo, 2010, p. 674).

Basley and Coate's main contribution is the idea that the allocation of costs for local public consumption will create a conflict of interest between citizens at various national management levels (Basley & Coate, 2003, p. 2611). They also point out that the effectiveness of centralised and decentralised systems depends on spillover and differences in preferences and/or needs of local populations.

Our final author in the field of fiscal decentralisation, Wagner, shifts attention from the power and responsibility inherent in the various strata of government to the governments' competitive, polycentric character. Wagner emphasises the importance of processes in which the various strata of government respond to public good and service demand in ways that are integrated with the market economy (Slavinskait, 2015, p. 125). This means that individual government stratum can respond to local community needs, which he believes to be directly connected with the ability to increase their own individual government stratum revenue.

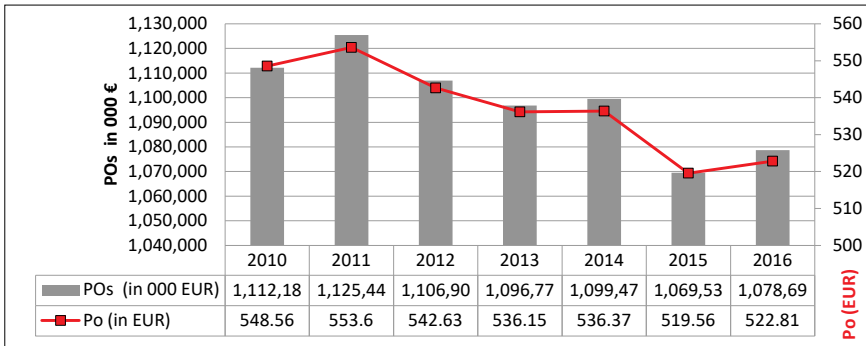
3. Research

Based on an analysis of aggregate values, we can establish that the share of self-sufficient municipalities in the 2010–2014 period was stable, yet at the same time indicating a downward trend and falling every observed year. In 2015 and 2016, the number of self-sufficient municipalities plunged to four out of a total of two hundred and twelve. In a similar manner the eligible volume of resources and eligible municipality expenditure and revenue pursuant to the Municipalities' Financing Act, dropped by nearly eight percent in the period between 2010 and 2016. At the same time, current municipality costs increased by three percent, primarily in 2010, 2011, and 2012 where the annual average increase was 3.6%. In 2013 and 2014, costs fell minimally, remaining stable in 2015 and increasing again by 2.2% in 2016.

The Fiscal Balance Act, which was adopted in 2012 with the aim of ensuring fiscal sustainability and fiscal expenditure management, resulted with the introduction of provisional measures that affected municipality operations. The effects of the Act on municipalities in the sense of reducing current costs were significantly lower than those planned, with some solutions having caused and expected to cause either delays in incurred costs or back payments; whereas, in aggregate terms, current municipality costs increased despite the Act's enforcement. Additional financial compensation from the state's budget was necessary in 2011, 2012, 2015, and 2016, but not in 2010, 2013, and 2014, when available personal income tax was sufficient for municipality solidarity financing.¹ It was found that eligible expenditure increasingly lagged behind incurred current costs, reaching 18% in 2016. We should point out that the Rules on Determining Sub-Programmes for Calculating Average Expenditure for Financing the Activities of Municipalities (Official Gazette of the Republic of Slovenia, No. 53/2009) were effective for the 2010 budgets, whereby certain sub-programmes where current costs and current transfers were incurred were exempt from the data for the calculation of average municipality expenditure. The difference was seemingly small, but it evidences an automatic and „silently introduced” reduction of the basis for average expenditure by almost one percent. Similarly, with the new Rules on Determining Sub-Programmes for Calculating Average Expenditure for Financing the Activities of Municipalities (Official Gazette of the Republic of Slovenia, No. 48/2017), a new „silently introduced” reduction of the basis for average expenditure can be expected. Furthermore, we can see that total municipality revenue in the discussed period dropped on average by 0.7%. A yearly comparison shows a steep reduction in total municipality revenue by nearly 15% in 2016 when compared to 2015. The result would have been significantly worse if revenues hadn't increased in 2014 and 2015, which we believe to be the result of increased municipality investment activity, particularly with the use of EU resources for the co-financing of investments, since this was the end of the 2007–2013 programming period under the n+2 rule. The data shows the effect of the general economic crisis, as well as the constant worsening of cost and revenues and financial resource and municipality task proportions, which means increased shift and deviation from the commensuration principle pursuant to Article 9 of the European Charter of Local Self-Government.

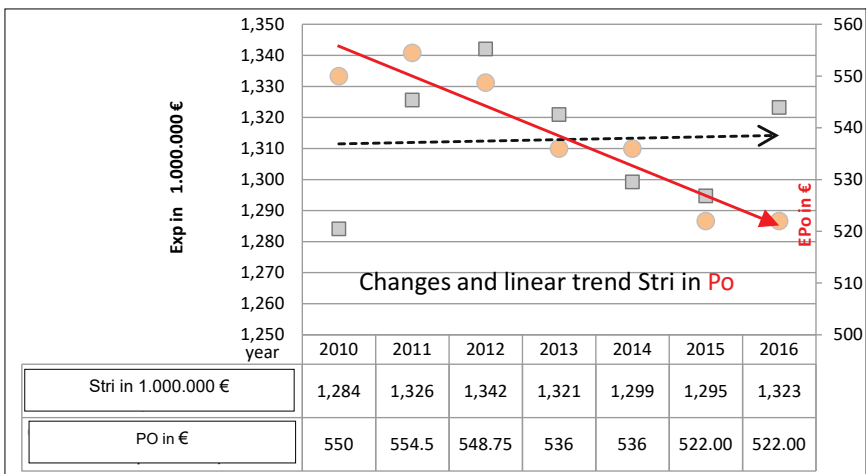
¹ „Solidarity equalisation“ refers to municipal revenues from income tax, which are granted to the municipality if its income tax revenue provided by law is lower than the funding necessary to finance its eligible expenditure and the eligible expenditure as such.

Figure 1: Changes in eligible funding (POs) and the average per capita expenditure (Po)² in 2010–2016



Source: “Calculations of eligible expenditure of municipalities and amounts of financial equalisation” Table 6; Ministry of Finance (http://www.mf.gov.si/si/delovna_podrocja/lokalne_skupnosti/izracuni/izracuni_primerne_porabe_obcin_in_zneskov_financne_izravnave/) and our own calculations

Figure 2: Changes in and linear trend of average eligible expenditure per capita (Po) and current costs (Stri) in 2010–2016



Source: Ministry of Finance, 2018; own calculations

Stri in 1.000.000 €; PO in €

² POs = eligible funding in €.

Po = average eligible per capita expenditure calculated by using the following equation: $Po = SPP / O_i$ (where SPP is the aggregate eligible expenditure of municipalities, i.e., the sum of eligible expenditure of all municipalities for a given budget year; and O_i is the number of citizens with permanent residence in the Republic of Slovenia).

By analysing eligible expenditure and expenses (costs) between 2010 and 2016, and the level of correlation between eligible municipality expenditure (P_i) and realised costs, including current expenses and transfers, we determined whether the volume of municipality financial resources allocated as part of the eligible expenditure mechanism complies with realised costs. Although municipalities have similar determined responsibilities regardless of size, they are all objectively different in terms of their characteristics; and as these are not standardised, they do not incur similar costs with respect to the proportion of total costs. The eligible expenditure calculation method takes this into account by using certain elements to differentiate between municipalities, such as P – the surface area of a municipality, C – the length of local roads and routes, M – the structure of the population below 15 years of age, and S – the structure of the population above 65 years of age, and ratios/weighting³; the difference being

³ The eligible expenditure of a municipality for a given budget year is determined by the ministry of finance by using the following equation:

$$(P_i * 0.61 + 0.13 * C_i + 0.06 * P_i + 0.12 * P M_i + 0.04 * \check{S} M_i + 0.015 * S U_i + 0.025 * S D_i)$$

where:

- P_i = the eligible expenditure of a municipality;
- C_i – the ratio between the per capita length of municipal roads and public paths in a municipality and the per capita length of municipal roads and public paths in the country as a whole;
- P_i – the ratio between the per capita area of a municipality and the per capita area of the country as a whole;
- $P M_i$ = the ratio between the share of municipal residents under the age of six in the total population of a municipality and the average corresponding shares for the country as a whole as of January 1st of the year in which the eligible expenditure of the municipality is being determined;
- $\check{S} M_i$ = the ratio between the share of municipal residents between the ages of six and fifteen in the total population of a municipality and the average corresponding shares for the country as a whole as of January 1st of the year in which the eligible expenditure of the municipality is being determined;
- $S U_i$ = the ratio between the share of municipal residents between the ages of 65 and 75 in the total population of a municipality and the average corresponding shares for the country as a whole as of January 1st of the year in which the eligible expenditure of the municipality is being determined;
- $S D_i$ = the ratio between the share of municipal residents over the age of 75 in the total population of a municipality and the average corresponding shares for the country as a whole as of January 1st of the year in which the eligible expenditure of the municipality is being determined;
- P = lump-sum expenditure;
- O_i = the number of residents in a municipality.

represented by the sum of adjusted criteria (VKK), or difference index. A big difference between the maximum (2.45) and minimum (0.84) values of VKK point to the extreme difference and non-homogeneity of Slovenian municipalities. Although such a difference may be socially interesting, as it represents the diversity of Slovenian society and bestows on it many additional qualities; in terms of financing, it points to consideration of the existing arrangement suitability, particularly in terms of virtually similar tasks needing to be carried out by all municipalities regardless of actual needs or the ability to meet them.

Table 1: *Selected limit values of VKK, annual average for 2010-2016*

Municipality	O	VKK	P	C	M	S
SOLČAVA	543	2.45	19.09	5.95	1.00	1.11
LUČE	1,596	1.98	6.93	5.76	1.00	1.06
KOSTEL	670	1.91	8.44	4.73	0.70	1.64
JEZERSKO	691	1.74	10.06	2.51	1.00	1.10
HODOŠ	333	1.71	5.48	4.60	0.76	1.34
	422	1.67	8.66	2.93	0.66	1.40
SVETA TROJICA V SLOV. GOR.	2,159	1.14	1.21	2.00	0.87	0.93
LAŠKO	13,771	1.13	1.45	1.87	0.96	1.07
LITIJA	15,035	1.13	1.49	1.77	1.06	0.87
DESTRNIK	2,682	1.13	1.29	1.90	1.02	0.84
LUKOVICA	5,499	1.13	1.37	1.59	1.21	0.83
Average – all municipalities	4,029	1.12	1.82	1.58	1.00	1.00
APAČE	3,721	1.12	1.45	1.89	0.90	0.94
TREBNJE	12,497	1.12	1.39	1.64	1.14	0.85
ROGATEC	3,217	1.12	1.24	1.75	1.02	0.88
RADLJE OB DRAVI	6,284	1.12	1.51	1.67	1.02	0.96
MISLINJA	4,779	1.12	2.37	1.29	1.03	0.86
	13,004	1.12	1.10	1.91	0.95	1.02

Municipality	O	VKK	P	C	M	S
VELENJE TOWN MUNICIPALITY	33,130	0.86	0.25	0.40	0.97	0.79
JESENICE	21,586	0.86	0.35	0.30	0.97	0.97
ANKARAN	3,130	0.86	0.26	0.39	0.90	1.02
LJUBLJANA CITY MUNICIPALITY	269,235	0.85	0.10	0.24	0.97	1.10
MARIBOR TOWN MUNICIPALITY	108,454	0.84	0.14	0.34	0.81	1.25
max:	269,235	2.45	19.09	5.95	1.42	1.64
min:	333	0.84	0.10	0.24	0.66	0.72
Avedev:	8,287	0.15	1.20	0.72	0.10	0.10
above-average municipalities	54	89	59	86	97	107
below-average municipalities	158	123	153	126	115	105

Source: Ministry of Finance of the Republic of Slovenia (2016 b) and our own calculations regarding average annual values of elements

Between 2010 and 2016, Slovenian municipalities spent €1.31 billion on average per year on performing their legal tasks, the majority of which was spent in the years of greatest crisis, i.e., 2011 to 2013, and in 2016 when current expenses were by far the highest in the discussed period, whilst revenues pursuant to the Municipalities' Financing Act were at their second lowest level in comparison with the preceding seven years. Calculated per capita, the average annual amount was €639; whereas in urban municipalities the average was €689, representing a 7.8% higher average burden, whilst the average annual burden for municipalities with less than 5,000 inhabitants (€654) was 2.2% above the average. The gap between the maximum and minimum levels of costs per capita is large. With the ratio between minimum and maximum average annual cost per capita being 1:3.7, a large majority of municipalities, 188 municipalities in total, or 89% of all municipalities, was within 25% of the average band and only 17% within five percent of the average band, pointing to great municipality dispersion. The standard deviation of the average being €100.50, there are 65, or 31% of municipalities outside standard deviation, 39 municipalities outside standard deviation below average annual current costs per

capita, and 26 outside standard deviation above average annual current costs per capita. Municipalities with large surface areas (P) evidence highest average costs (€743), which is 16% above average. Municipalities with above-average length roads (+7.1%) and those with more elderly populations (+7.7%) are also above average, whilst municipalities with younger populations statistically evidence lower costs than average (-6.7%).

Table 2: *Distribution of municipalities around per capita Stri average, annual average 2010–2016*

Stri +- 5% of average:	607.45	639.42	671.40	35	municipalities =	17%
Stri +- 10% of average:	575.48	639.42	703.37	89	municipalities =	42%
Stri +- 25% of average:	479.57	639.42	799.28	188	municipalities =	89%
Min / aver / max:	439	639.42	1641.12			

Source: own calculations

Table 3: *Limit and average current costs (Str), eligible expenditure (Ppi), revenue under the Financing of Municipalities Act (Prih) in €, per capita, by municipality, classification in line with the average annual costs, 2010–2016*

Municipality	O	Str (PK 1-23)	Ppi/Str	Ppi	Prih/O	Pr-ih-Ppi	VKK
CERKLJE NA GORENJSKEM	7,149	438.78	1.33	585.15	574.35	-10.81	1.09
TURNIŠČE	3,468	445.78	1.13	501.57	503.31	1.75	0.93
MIKLAVŽ NA DRAVSKEM	6,515	459.52	1.03	473.69	485.14	11.45	0.88
HOČE-SLIVNICA	11,107	470.78	1.08	507.70	510.56	2.86	0.94
KRIŽEVCI	3,561	471.08	1.20	563.97	554.64	-9.34	1.05
HRASTNIK	9,966	630.70	0.79	500.41	504.75	4.33	0.93
KOČEVJE	16,486	631.32	0.93	587.10	573.90	-13.20	1.09
TOLMIN	11,659	634.01	1.11	705.50	676.19	-29.31	1.31
VITANJE	2,341	636.92	1.08	686.19	658.33	-27.87	1.28
PESNICA	7,633	637.03	0.97	618.39	600.69	-17.70	1.15
Average – all municipalities	9,662	639	0.97	604.25	590.58	-13.67	1.12

Municipality	O	Str (PK 1-23)	Ppi/Str	Ppi	Prih/O	Pr-ih-Ppi	VKK
BREŽICE	24,462	639.79	0.92	590.55	578.63	-11.93	1.10
SLOVENJ GRADEC TOWN MUNICIPALITY	17,192	647.35	0.83	537.15	533.96	-3.20	1.00
LOŠKA DOLINA	3,802	649.13	1.01	653.28	632.53	-20.75	1.22
LAŠKO	13,771	649.96	0.94	610.26	594.54	-15.73	1.13
GORENJA VAS-POLJANE	7,425	650.25	1.17	762.33	724.37	-37.96	1.42
OSILNICA	422	1147.08	0.78	898.77	838.49	-60.28	1.67
PUCONCI	6,333	1194.33	0.55	654.63	630.61	-24.02	1.22
HODOŠ	333	1219.92	0.75	919.65	855.24	-64.40	1.71
SOLČAVA	543	1465.00	0.90	1318.46	1198.00	-120.47	2.45
KOSTEL	670	1641.12	0.63	1026.53	951.62	-74.91	1.91
max:	269,235	1641.12	1.36	1318.46	1198.00	19.37	2.45
min:	333	438.78	0.46	449.20	451.74	-120.47	0.84
avedev:	8,287	100.50	0.13	78.20	65.25	13.08	0.15
above-average municipalities	54	79	116	90	90	117	89
below-average municipalities	158	133	96	122	122	95	123
Town and city municipalities (11)	62,989	689.45	0.70	482.44	493.47	11.02	0.90
max:	269,235	787.16	0.83	537.15	533.96	19.37	1.00
min:	17,192	618.20	0.61	453.30	470.86	-3.20	0.84
Municipalities under 5000 residents (111)	2,929	653.69	1.01	647.58	626.21	-21.37	1.20
Mun. with P>averages: (59)	4,168	743.13	1.00	720.30	688.12	-32.18	1.34
Mun. with C>averages: (86)	4,578	685.06	1.04	690.23	662.03	-28.20	1.28
Mun. with M>averages: (97)	8,443	596.47	1.01	597.85	585.38	-12.47	1.11

Municipality	O	Str (PK 1-23)	Ppi/Str	Ppi	Prih/O	Pr-ih-Ppi	VKK
Mun. with S>averages: (105)	11,335	688.40	0.93	622.32	606.33	-15.99	1.16

Source: Ministry of Finance of the Republic of Slovenia (2016 a & 2016 b), and own calculations

In the analysed period, average eligible expenditure per capita as an element in the calculation of eligible resource volume for the performance of municipal tasks is allocated in the amount of €604. We point out again that due to difference elements (VKK) from the equation for the calculation of eligible expenditure, not all municipalities are allocated the same volume of resources per capita. The range between municipalities is again large, being between €1,318 and €449. The standard deviation from the average volume of eligible expenditure stands at €78.20. Ninety municipalities received more resources than the average and one hundred and twenty two received less. An analysis of the distribution presented in Table 4 found that the concentration of municipalities in the range of five percent of the average under Ppi (25%) is slightly higher than is the case under Stri (17%), whereas the majority of municipalities (93%) are in the range of 25% from the average.

Table 4: *Distribution of municipalities around per capita Ppi average, 2010–2016*

Ppi +- 5% of average:	574.04	604.25	634.46	53	municipalities =	25%
Ppi +- 10% of average:	543.83	604.25	664.68	97	municipalities =	46%
Ppi +- 25% of average:	453.19	604.25	755.31	197	municipalities =	93%
Min / aver / max:	449	604.25	1,318.46	212	municipalities =	100%

Source: own calculations

We can see a close connection between the difference index VKK and Ppi in the fact that all municipalities with above-average Ppi (€604.25) also have an above-average VKK index (1.12), and vice versa for municipalities with below-average Ppi. Urban municipalities have an average Ppi of €482, which is 20% below the average, and no urban municipalities exceed the average. On average, municipalities with less than 5,000 inhabitants evidence 7.2% above the average. According to distinguishing

elements from the equation for the calculation of Ppi, we can see that municipalities with larger surface areas deviate the most, with an average Ppi of €727, which is 19% above average; whereas only municipalities with larger shares of the younger population lie below the average by 1.1%.

Tables 5 and 6 show the ratio between the indicators of eligible expenditure and current costs (Ppi/Stri). This ratio will be used to show if and how allocated eligible expenditure corresponds to current costs on average in the period between 2010 and 2016. The lower the correlation between Ppi and Stri, the poorer the local self-governance financing system.

Table 5: *Dispersion of municipalities in relation to average Ppi/Stri per capita, 2010–2016*

Ppi/Str +/- 5% of average:	0.92	0.97	1.02	52	municipalities=	25%
Ppi/Str +/- 10% of average:	0.87	0.97	1.06	97	municipalities =	46%
Ppi/Str +/-25% of average:	0.73	0.97	1.21	185	municipalities =	87%
Min/AVG/Max:	0.46	0.97	1.36	212	municipalities =	100%

Source: own calculations

Analysis shows that the average periodic value of the Ppi/Stri indicator for 2010–2016 is 0.967 or -3.3, indicating that coverage of the realised current costs of Slovenian municipalities by means of eligible municipality expenditure is negative in the period between 2010 and 2016. Cumulatively speaking, Slovenian municipalities are inappropriately financed in relation to the legally determined volume of assets for carrying out their tasks and responsibilities. On average, municipalities received 3.3% less assets per capita than realised current costs. The results of the Ppi/Stri ratio also show lower coverage of urban municipality costs in terms of allocated eligible expenditure financial resources. The ratio for urban municipalities is 0.70, which is 70% of actual current costs, or 30 percentage points below the average for all municipalities. Municipalities with populations below 5,000 do not significantly deviate from the average, the deviation being less than 1 percentage point, which could, *prima facie*, be estimated as sufficiently financially supported without taking into consideration the often present development deficits. According to distinguishing elements from the eligible expenditure equation, the dispersion of municipalities around the average lies in the interval of around five percent in the share

of 25% of all municipalities; municipalities with a high index of roads are mostly above average (four percent), whilst municipalities with the highest index of elderly population are below average (-7%). At this point, the meaning of the average values of the average ratio should be understood. There is great dispersion around the average ratio, ranging between 1.36 and 0.46. Ratio values above one mean that these municipalities receive a greater volume of eligible expenditure than the amount of their costs. The reason for this could lie in the more rational operations of these municipalities, or in the fact that municipalities do not carry out all of their tasks in comparably equal volumes, or the reasons could be systemic in terms of the method used for calculating relevant resources. We believe that the inequality is primarily a result of decisions regarding priorities, which often derive from municipality developmental inequality and the availability of basic public utility and social infrastructure facilities, such as, roads, water systems, sewage systems and purification plants, nurseries, schools, and the like, which are vital for the normal everyday life of inhabitants. A municipality in developmental deficit usually tries to earmark a maximum amount of assets to eliminate the deficit. Such efforts require increased investment, with limited resources also on account of the type and volume of implementation or financing of other tasks from the field of current expenditure. Until the basic infrastructural conditions are ensured to all Slovenian citizens regardless of the territory in which they live at a level comparable to that of citizens from other environments, the requirement that all municipalities implement all of the determined tasks at equivalent levels is not feasible, as it does not prioritise satisfying individual environment needs. With regard to developmental inequality, such requirements represent a deviation from the freedom of local authorities to realise their initiatives, as determined by the European Charter of Local Self-Government, and it is not commensurate with responsibilities as determined by the constitution and law. It needs to be emphasised that the tasks of municipalities are not only those expressed as current costs, but also developmental ones, realised in the form of investments. The elimination or reduction of developmental deficits was one of the guidelines in the preparation of the local self-government system following Slovenia's independence, as it was an essential element in inhabitants' decision to establish new municipalities.

Table 6: *Classification of municipalities by indicators Stri, Ppi and Ppi/Stri in 2010–2016*

Stri			
Stri < €479.57	3%	or 7 municipalities	
€479.57 to €799.28 (+-25% of aver.)	89%	or 188 municipalities	
Stri > 799.28	8%	or 17 municipalities	
minimum-average-maximum:	438.78	639.42	1,641.12
Ppi			
Ppi < €453.19	0%	or 1 municipality	
€453.19 to €755.31 (+-25% of aver.)	93%	or 197 municipalities	
Ppi > 755.31	7%	or 14 municipalities	
minimum-average-maximum:	449.20	604.25	1,318.46
Ppi/Stri			
Ppi/Stri < €0.73	8%	or 17 municipalities	
€0.73 to €1.21 (+-25% of aver.)	87%	or 185 municipalities	
Ppi/Stri > 1.21	5%	or 10 municipalities	
minimum-average-maximum:	0.46	0.97	1.36

Source: own calculations

Cross-analysis of cost aggregates, eligible expenditure and their mutual relationship shows that in the discussed period, municipalities were improperly financed, as average costs per capita were on average 3 percent higher than relevant eligible expenditure. Big differences can be seen between the utmost values of indicators, which deforms the actual situation. In the observation period, average urban municipality costs stood at €689 per capita or €50 above the average for all municipalities, whereas eligible expenditure per capita was €122 lower, representing a difference of €172 per capita. In municipalities with less than 5,000 inhabitants, average cost was €14 higher than the average for all municipalities and eligible expenditure per capita €43 higher, meaning that the difference in this group of municipalities was €29 per capita. In municipalities with a greater surface area than average, average cost was €104 higher, whilst

eligible expenditure was €116 higher, representing a difference of €12 per capita. For municipalities with a greater share of roads than average, average cost was €46 higher and eligible expenditure €86 higher than average, representing a difference of €40 per capita. In municipalities with larger shares of young people, the cost was €43 below average and eligible expenditure €6 lower, representing a difference of €37 per capita. In municipalities with larger shares of the elderly, the cost was €49 higher and eligible consumption €18, representing a difference of €31. Based on this data alone, we could say that it is “best to live” in small municipalities with less than 5,000 inhabitants with a large number of roads and many young inhabitants under the age of 15.

In the discussed period between 2010 and 2016, municipality costs grew by an average of 3 percent, and average eligible expenditure per capita fell by 4 percent, meaning that the resources allocated by means of the eligible expenditure mechanism were, on average, seven percentage points less than Slovenian municipality current costs. Around 63% of the municipalities recorded an increase in costs, of which 44% recorded an increase in costs above 25% of the average, and a similar share (41%) recorded a decrease in eligible expenditure by more than 25% of the average. According to the observed groups of municipalities, current costs increased most in municipalities with a large share of young people aged below 15 years old (+3.2%), whilst current costs did not fall for any of the discussed groups. The smallest increase was recorded in municipalities with a large share of roads and the elderly (+1.1%), with primary expenditure falling most in municipalities with less than 5,000 inhabitants.

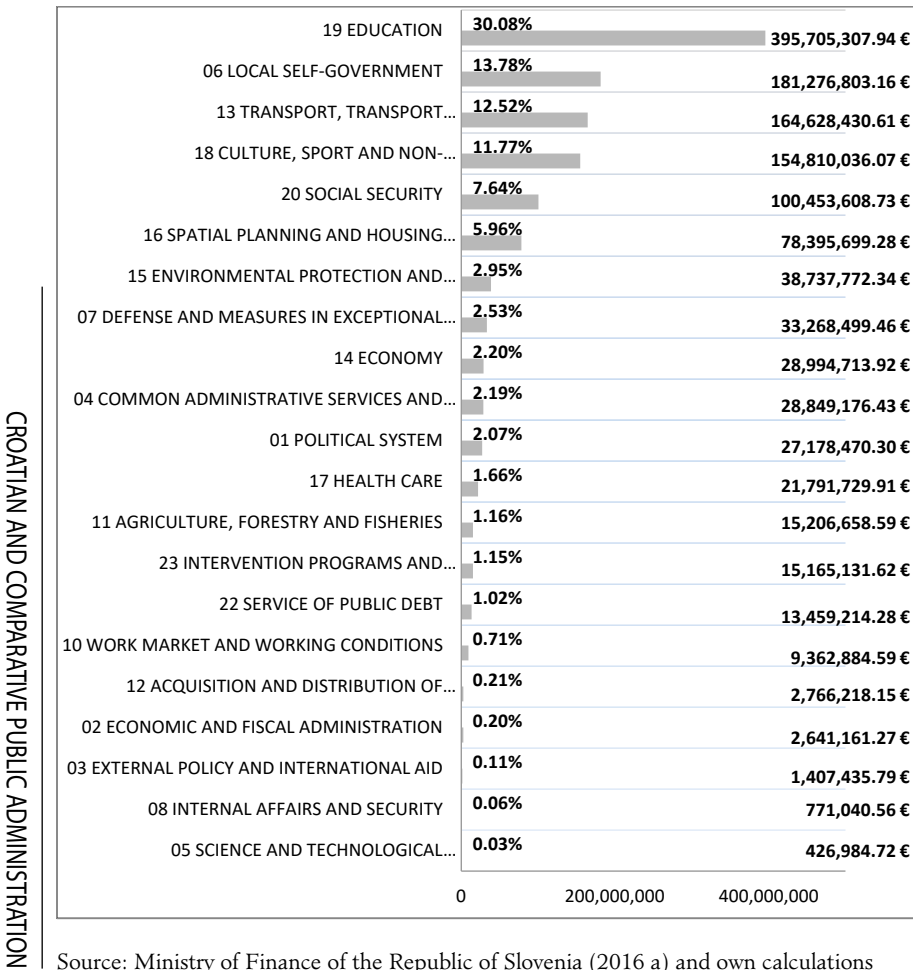
We analysed the structure of costs (Stri) and other expenses by municipalities under the program classification, that is, in relation to the segment or in terms of what the resources were spent on. In terms of purpose, budget expenses are stated as current expenses and current transfers, which are called (current) costs or Stri. We also present investment expenses and investment transfers (INV), loans given and increases in capital shares (P&K), and debt payments (OD). All the data was taken from the Consolidated Budget Realisation for 2010 to 2016. In the period between 2010 and 2016, municipalities, on average, spent €1.315 billion a year on covering current costs, which is €639.43 per capita (arithmetic average). Current costs account for 60% of the total structure of budget expenses. In terms of investment, municipalities, on average, spent €811.50 million a year, or 37% of total expenses, which is €466.50 per capita. In terms of debt repayment, €65.90 million or €36.80 per capita was, on average, realised per year, with a three percent increase in the structure of expens-

es. Loans given and increases in capital shares on average amounted to €6.90 million a year, representing 0.3% of the total structure of expenses and €2.40 per capita. On average, total expenses stood at €2.2 billion a year, or €1,145 per capita. The increase in current costs in 2016 compared to 2010 was 3 percent, and in relation to total expenses, a fall of 18% was primarily due to the reduction in investment expenses. Under the program classification, the largest amount of resources by observed budget expense category was allocated to education (23.2%), followed by 15 percent for transport and transport infrastructure and communications, 11.4% for culture, 11% for spatial planning and residential public utility activity, and so on.

The analysis based only on municipal budget (current) costs for 2010 to 2016 inclusive, however, points to a slightly different distribution of these costs by programme when compared to the analysis of total expenses. In terms of current costs, by far the largest share (30%) was intended for the area of education. A yearly average of €396 million, of which €278 million, or €136 per capita in the Republic of Slovenia, or 70% of the total segment for the education of preschool children primarily represents subsidies for preschool education. Unlike total expenses, where education is followed by transport and transport infrastructure in terms of the share, the next segment when considering current costs is local self-government expenditure at a level of nearly 13.8 percent, where the main program of municipal administration activities exceeds 92% of this segment; the largest sub-program of municipal administration evidences per capita “costs” of €76, followed by transport and transport infrastructure with 12.5%, which is slightly below the share when considering total expenses. On average, municipalities earmark €80.40 per capita in the Republic of Slovenia on transport and transport infrastructure and communications, and almost entirely on road transport and infrastructure; with the majority for road transport, i.e. 63%, or €50.50 per capita for the management and regular maintenance of municipal roads, and €13.80 for road illumination. Culture, sport and NGOs follow with an 11.8% share of current costs, and total yearly average of €155 million, which is €75.60 per capita. As the main PK-18 program, culture accounts for the largest share (57.7%), of which just under half (44%), or on average €19.3 per capita, is accounted for by the librarianship sub-program. The main program for sport and leisure activities receives 36.5% of total PK-18 program expenses, cultural heritage preservation 3.8%, and support for special groups two percent. The next segment, PK-20, social assistance, accounts for €100 million, where 92.7% of funds is intended for the implementation of the

social assistance program, of which more than half (56%), or €25.60 per capita, is intended for the social assistance for the elderly sub-program, primarily representing co-financing by municipalities for nursing home care. The next segment, with just under 6 percent, is spatial planning and residential public utility activity, on which close to €38.30 per capita is spent, mainly on public utilities (61%), followed by residential construction promotion (17.2%), management and disposal of land 11.5%, and spatial planning (10.3%).

Figure 3: Amount (in €) and share (%) of current costs Stri of municipalities under the PK programme classification (annual average, 2010–2016)



Source: Ministry of Finance of the Republic of Slovenia (2016 a) and own calculations

The analysis of municipality current cost structure (Stri) under the program classification shows that municipalities are heterogeneous. The greatest similarity in structure can be seen in the largest program, i.e. education, which includes 185 municipalities in the determined range. Most heterogeneous are the programs representing smaller shares in terms of total structure current costs: there are only six municipalities engaged in science and technological development, these being less typical programs for municipalities. Greater homogeneity is present in the programs that are better regulated and where municipalities have virtually no choice in terms of type and costs. In these segments, standards and norms are usually very clearly set out in the legislation, as well as being controlled by state authorities, and municipalities have practically no influence on them. In segments with greater structural inconsistency, there is clearly much more confusion and different interpretations of the meaning of relevant programs, both in terms of the legislative framework and municipality power *vis à vis* the implementation of tasks and related costs. These are obviously not understood by municipalities as „their own”, as they are often allocated without the consent of local communities and without clear and suitable financial resources. Such heterogeneity points to deviation of the financing system of Slovenian municipalities from the principle of tasks being commensurate with financial resources pursuant to the European Charter of Local Self-Government, and it is primarily a result of confusion, frequent and overzealous legislation, and individual vertical and horizontal inconsistencies.

We see that urban municipalities on average face 7.8% higher current costs. For programs representing the largest shares in terms of the total structure of current municipality costs, urban municipalities do not deviate significantly from the average in terms of the share of costs of programs. They allocate the most for education (27.2%), followed by local self-government (15%). The order is slightly changed in relation to resources for culture (14.2%), transport (10.9%), the social segment (7.7%), and spatial planning (6.6%). Urban municipalities are close to the average for the majority of the most significant programs; education being 1.8% below average, local self-government 0.8% above average, transport 1.7% above average, but not in terms of culture where current costs are 79.2% above average; spatial planning, which is 33% above average; environment, which is 12.9% above average; and social security, which is 10.6% above average. We believe that the reason for such higher costs in the field of culture lies in the fact that urban municipalities finance certain large cultural institutions which are often, at least regionally, important.

Municipalities with less than 5,000 inhabitants structurally deviate the most from the average in the fields of labour market and labour conditions (+34.4%), political systems (+29.1%), acquisition and distribution of energy commodities (+28.5%), and agriculture (+27.1%); while municipality costs most below average are those related to foreign policy (-36.5%), which accounts for a negligible share (0.03%). According to the most important segment's share, the group of municipalities in the majority of programs is very close to the average for all municipalities, only slightly deviating in the field of culture (6.9%), where costs are 17.3 percentage points below the average for all municipalities and the segment of local self-government (17.9%), where costs are 14.1% above the average for all municipalities. In these municipalities, the largest share is accounted for by the program for education, with its 29% share of all current costs, or €189.57 per capita.

4. Comparison of the 2007–2009 and 2010–2016 periods

The analysed period of seven years is sufficient to establish the basic features and results of the municipalities' financing system. It is definitely interesting to compare the findings with the previous period, especially because this research attempts to follow, methodologically, the research (Oplotnik & Brezovnik, 2014) which discussed the 2007–2009 period. Overall, the entire period from 2007 to 2016 could be deemed as a period of great socioeconomic and political change. It was impacted by important changes from the past, such as, Slovenia's EU membership from May 1st 2004 and the adoption of the Euro on January 1st 2007, and the adoption of new legislation in the field of financing local communities with an eligible expenditure mechanism. It was also a period of deep economic crisis in the world, as well as in Slovenia, when the position of local communities changed. In 2007, the last tranche of newly formed municipalities started operating, all with great expectations and hopes that development deficits would be reduced and that better living conditions would be created for their inhabitants. By comparing the total volume of local public finance in terms of GDP, we can conclude that in Slovenia this share is well below the EU average. It also points to a relatively low level of actual decentralisation in Slovenia. Considering the features of the introduced eligible expenditure mechanism, which includes the costs

of municipalities from the previous periods, it is understandable that the consequences of the worsened economic situation were a delay in the public financing of municipality endeavours.

The financing system in part protected municipality revenue and enabled the proper financing of municipalities, which was particularly evident in 2008 and 2009. Despite the fall in state sector revenue starting in the second half of 2008, municipalities substantially felt the drop in revenue in and after 2010, when the state started getting increasingly involved in the field of municipality financing in order to transfer the burden of the crisis onto the local government. Consequently municipality revenue started decreasing, which was, however, not followed by financial obligation. State measures to reduce municipality costs were mostly present on paper only; with the greatest impact in this field seen in the measures that affected public sector salaries. A drop in municipalities' revenues pursuant to the Municipalities' Financing Act was noticed virtually throughout the entire analysed period, particularly in 2013 and 2015. Joint revenues followed a similar path where, primarily on account of EU resources, the increase was evident in 2014 and 2015, followed by another major drop in 2016 to the level it was in 2010. On aggregate, the authors found that Slovenian municipalities were properly financed in the period between 2007 and 2009. Their average costs per capita were around nine percent lower than the relevant sources from eligible expenditure (Oplotnik & Brezovnik, 2014, p. 58). For the period encompassing 2010 to 2016, however, we found that the ratios substantially changed for the worse. The performed analysis shows that the average periodic value of the Ppi/Stri indicator for the period between 2010 and 2016 was -3, thus the coverage of the realised current costs of Slovenian municipalities by means of eligible municipality expenditure was negative in the period between 2010 and 2016.

Cumulatively speaking, Slovenian municipalities are inappropriately financed in relation to the legally determined volume of assets for carrying out their tasks and responsibilities. Municipalities on average received three percent less assets per capita than realised current costs. This means that municipalities received nine percent higher eligible expenditure of costs per capita in the period between 2007 and 2009; whereas the result for the 2010–2016 period is that average costs exceeded relevant sources from legally determined eligible expenditure by three percent; in other words, the ratio is 12 percentage points worse. Based on this situation we can conclude that municipalities were not properly financed in the 2010–2016 period. In the 2007–2009 period, the share of municipalities which stood within the range of +/- 25% of the average in terms of aggre-

gate indicators was high; in current costs 83%, and in eligible expenditure indicator 93% (Oplotnik & Brezovnik, 2014, p. 58). A similar conclusion can be made for the 2010–2016 period, as 89% or 188 municipalities are inside the determined range in terms of the current costs indicator, and 93% or 197 municipalities in terms of the eligible expenditure indicator. As in the 2007–2009 period, big differences between the minimum and maximum value of the observed categories can also be seen in the 2010–2016 period, which is presented in Table 7; the basic ratios between limit values stayed virtually unchanged.

Table 7: *Comparison of amounts and shares for 2007–2009 and 2010–2016*

	2007 – 2009	2010 – 2016
Average current costs Stri min / max and (average) value R ratio min:max	319/1167 (527) R = 1:3.7	439/1641 (639) R=1:3.7
Volume of relevant eligible expenditure min / max and (average) value R ratio min:max	416/1196 (558) R= 1:2.9	449/1318 (604) R= 1:2.9
Coverage of resources with costs index (Ppi/Stri) min / max and (average) value	0.5/1.09 (1.09)	0.46/1.36 (0.97)

Source: Oplotnik & Brezovnik, 2014, p. 58 for the 2007–2009 period, own calculations for the 2010–2016 period

The analysis for the 2007–2009 period for urban municipalities showed that, on average, they faced 13% higher costs with an average 26% lower amount of relevant allocated eligible expenditure (Oplotnik & Brezovnik, 2014, p. 59). For the period between 2010 and 2016, we see that the situation for urban municipalities improved, but they still faced 7.8% higher costs with an average 20.2% lower amount of relevant allocated eligible expenditure.

5. Discussion

Having formulated a hypothesis that the effective municipality financing system in Slovenia in the period between 2010 and 2016 increasingly deviated from the basic principles of the European Charter of Local

Self-Government in terms of resources being commensurate with municipality powers; our research has confirmed this hypothesis.

Our analysis of eligible expenditure and expenses (costs) between 2010 and 2016 and the level of correlation between municipality eligible expenditure (Ppi) and realised costs, including current expenses and transfers, confirms the hypothesis. The volume of municipality financial resources allocated in the framework of the eligible expenditure mechanism does not correspond to realised costs. We found that the average periodic value of the indicator Ppi/Stri for 2010–2016 is minus three. This means that coverage of the realised current costs of Slovenian municipalities by means of eligible expenditure is negative for 2010–2016. On average, in terms of the legally determined volume of pro rata resources, municipalities obtained three percent less resources per capita than the amount of realised current costs. Comparing this finding with the situation for 2007–2009, we see that the ratio substantially worsened. In the period between 2007 and 2009, municipalities were adequately financed as their resources exceeded average costs by nine percent. However, in the period between 2010 and 2016, costs were higher than the obtained resources by three percent, meaning the ratio worsened by 12 percentage points. This result also confirms that in the 2010–2016 period municipalities were not properly financed. We see that the share of self-sufficient municipalities took a downward trend, plunging to four in 2015 and 2016. The same applies for the eligible volume of assets, and eligible municipality expenditure and revenues pursuant to the Municipalities' Financing Act /ZFO-1/, which fell by nearly eight percent in the 2010–2016 period; whereas current municipality costs increased by an average three percent, with increases of 3.6% in 2010, 2011, and 2012. Between 2013 and 2014 costs fell marginally, remaining at that level in 2015, followed by a rise of 2.2% in 2016. The Fiscal Balance Act adopted in 2012, with the aim of ensuring fiscal sustainability and managing fiscal expenditure, resulted in the introduction of provisional measures affecting municipality operations. The realised effect of the Act on municipalities in terms of reducing current costs was significantly lower than planned, and some solutions have caused, or will cause, either delays in incurred costs, or back payments; whereas in aggregate terms, current municipality costs increased. Additional financial compensation from the state's budget was necessary in 2011, 2012, 2015, and 2016, yet none was necessary in 2010, 2013, and 2014 when available personal income tax was sufficient for the solidarity financing of municipalities. Eligible expenditure was already increasingly lagging behind incurred current costs, standing at a level of 18 percentage points in 2016.

Slovenian municipalities are highly heterogeneous and noted for their inequality, both in terms of limit values and, within individual groups of municipalities, in terms of shared characteristics. Ppi/Stri ratio results evidence lower coverage of urban municipality costs by means of allocated eligible expenditure financial resources. The ratio for urban municipalities is 0.70, which means 70% of actual current costs, or 30 percentage points below the average for all municipalities. Municipalities with less than 5,000 inhabitants do not significantly deviate from the average, nor exceed it by more than four percent, which could, *prima facie*, be assessed as being sufficiently financially supported without taking into consideration the often present development deficits; where resources surpass current costs by only one percent. According to the distinguishing elements from the eligible expenditure equation, the dispersion of municipalities is around the average in the interval of around five percent; with municipalities with a high index of roads mostly above average (4%), while municipalities with a high index of elderly population are below average (-7%). There is great dispersion around the average ratio, with ratio values ranging from 1.36 to 0.46. A ratio value above 1 means that such municipalities receive a greater volume of eligible expenditure than their costs. The reason for this could be in more rational municipality operations, or in the fact they do not carry out all of their tasks in comparably equal volume, or the reasons could be systemic in terms of the method used for calculating relevant resources.

We believe that the inequality is primarily a result of decisions regarding priorities, which often derive from municipality developmental inequality and the availability of basic public utility and social infrastructure facilities, which are vital for the normal everyday life of inhabitants. A municipality in developmental deficit usually tries to earmark a maximum amount of assets to eliminate the deficit. Such efforts require increased investment, with limited resources also on account of the type and volume of implementation or financing of other tasks from the field of current expenditure. Until the basic infrastructural conditions are ensured to all Slovenian citizens, regardless of the territory in which they live, and at a level comparable to that of citizens from other environments, the requirement that all municipalities implement all of the determined tasks at equal levels is not feasible as it does not prioritise satisfying individual environment needs. With regard to developmental inequality, such requirements represent a deviation from the freedom of local authorities to realise their initiatives, as determined by the European Charter of Local Self-Government, and it is not commensurate with responsibilities as determined by the constitution and law.

6. Conclusion

The implementation of the European Charter of Local Self-Government also affects the financial relationships between the central and local authorities, as local communities must be financed in such a way that they can effectively and individually be able to satisfy the public needs of the local population and increase the welfare of the society as a whole. In Slovenia, a certain local self-government phase has virtually been completed; outwardly, it was primarily expressed in the division of once large communities and the formation of a large number of new, mostly small, municipalities. In terms of the territorial and organisational formation of the basic local self-government units, Slovenia is in line with the European Charter of Local Self-Government. What we lack is the second level of local self-government that could substantially contribute to the improved operation of the entire system by naturally leading to greater municipality connectivity, perhaps even amalgamation. Overall, it could be said that the European Charter of Local Self-Government is appropriately accounted for in the State's legal order. However, a significantly larger number of deviations from the fundamental principles of the European Charter of Local Self-Government, primarily the subsidiarity principle, in terms of determining the tasks of municipalities, and the connexity principle, in relation to the provision of funding municipality tasks, are in reality present. It can be said that although suitable legal foundations are in place, yet at the decision-maker level, the understanding of the meaning of local self-government apropos of the comprehensive functioning of the social system is often low. Regardless of the number of municipalities, Slovenia is considered a country with a low level of (fiscal) decentralisation according to financial indicators (e.g., the total volume of local public finance in the percentage of GDP).

Our findings and confirmation of the hypothesis point to the need to improve the existing municipality financing model. Eligible expenditure must take into consideration real costs in real time for the implementation of tasks performed by local communities; moreover, greater unity in terms of cost structure must be achieved. In relation to cost structure, we notice that the most important share is accounted for by activities on which municipalities have virtually no affect. In the field of pre-school education and nursery home care for the elderly and disabled, every change in the number and/or structure of payments significantly affects the municipal budgets, whereas the financing system does not observe/follow these actual situations. It therefore depends on coincidental events and/

or situations whether an individual municipality is better or more poorly financed in a certain period, as well as on how they finance the performance of their other tasks, particularly developmental ones, taking into consideration that such payments are mandatory and a basic priority. We also point out the time deficit integrated in the eligible expenditure mechanism. The use of realised cost data in the previous period causes big problems for Slovenian municipalities in terms of current year task financing, as data from this period, which experienced an economic crisis, is used for realised cost assessment. During the crisis, certain provisional intervention measures were established delivering fewer positive effects for municipalities than anticipated. Such measures ceased to be applied pursuant to both the improved economic situation and industrial relations legislation and agreements. All of this lead to increased municipality costs resulting from activities on which they had no direct impact, and which will not increase municipality revenue. The suggestion that the weighting of adjusted criteria needs be updated in the eligible expenditure calculation model, particularly in order to improve the situation of urban municipalities, is often heard. However, we need to bear in mind that such change only makes sense if total resources allocated to municipalities are increased. If a change in weighting occurs in order to improve the situation of certain municipality groups, it will worsen the situation of other groups. Municipality heterogeneity in terms of situation and development needs means that such measures would represent most irresponsible behaviour. Most of all, the model must be changed so that resources immediately correspond to tasks, and it should include and enable the implementation of municipality developmental tasks expressed as investment expenses and investment transfers. Municipality financing by means of its own tax resources must be increased without increasing the total burden on the population and economy. Municipality consultation and consent systems must be improved alongside the adoption and implementation of legislation imposing consequences on municipalities, and existing agreements/legislation must be adhered to. Direct and indirect tasks performed by municipalities must be checked, and those that are unnecessarily repeated at various levels must be eliminated. In this way, costs can be reduced not only for the municipalities, but also for the state. Suitable methodology for the regular monitoring of municipality financing must be established. Such monitoring must enable sectoral legislation which corresponds to requirements in terms of content, and which can be changed where it causes financial consequences. In case such legislation imposes financial liability on municipalities that is unplanned and/or higher than expected in terms of the proposal on which

the legislation's discussion was based, there must be an immediate mechanism in place to either change the legislation, or to ensure resources for its implementation are immediately available.

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FINANCING OF MUNICIPAL TASKS IN SLOVENIA

Summary

The paper examines whether the system implemented for financing local communities (municipalities) in Slovenia in the period 2010-2016 is compliant with the European Charter of Local Self-Government. We examined the cost coverage for performing the tasks of municipalities, the cost structure and the rate of interconnections between the budgeted funds under the eligible expenditure mechanism and the data collected on costs by municipality. Our hypothesis states that the principles whereby funding would be commensurate with tasks were not fulfilled in the period between 2010 and 2016 in the Republic of Slovenia given that the average per capita costs exceeded the funding under eligible expenditure. The discrepancy had increased from the previously examined period of 2007-2009. The findings show that although the principles of the European Charter of Local Self-Government have been satisfactorily included in the country's laws, certain discrepancies have been found with regard to funding where the principle of municipal funding had not adequately been taken into account to ensure that funding is commensurate with the tasks. Between 2010 and 2016, municipalities received less funding than the scope of their tasks would require. The situation deteriorated in 2010–2016 with respect to the 2007–2009 period when the existing funding model was introduced. The municipal funding model should be improved so that the eligible expenditure calculation takes into account in real time the real costs needed to perform the tasks of local communities; and the cost structure should be made more homogeneous. The model should be changed to consider and enable the performance of development tasks of municipalities through investments.

Keywords: local self-government, municipalities, fiscal decentralisation, municipal tasks, Slovenia

FINANCIRANJE POSLOVA OPĆINA U SLOVENIJI

Sažetak

Rad ispituje usklađenost sustava financiranja jedinica lokalne samouprave (općina) u Sloveniji, kakav je postojao u razdoblju od 2010. do 2016. s načelima Europske povelje o lokalnoj samoupravi. Ispituje se pokriće troškova za obavljanje općinskih poslova, struktura troškova i stupanj korelacije između proračunskih sredstava dodijeljenih sukladno mehanizmu priznatih troškova i prikupljenih podataka o troškovima po općini. Osnovna je hipoteza da se u razdoblju od 2010. do 2016. u Republici Sloveniji nije poštovalo načelo sukladno kojem bi prihodi lokalnih jedinica bili razmjerni njihovim ovlastima jer je prosječni trošak po stanovniku bio veći od dodijeljenih sredstava na temelju priznatih troškova. Odstupanje je bilo veće od prethodno analiziranog razdoblja 2007.–2009. Rezultati istraživanja upućuju na to da je, unatoč formalnom usvajanju načela Europske povelje o lokalnoj samoupravi, došlo do njihova odstupanja u pogledu financiranja općina jer se načelo koje osigurava da su prihodi razmjerni ovlastima općina nije uzelo u obzir. Od 2010. do 2016. lokalne jedinice primile su manje prihoda nego što je bilo potrebno za obavljanje njihovih ovlasti. Stanje se u periodu 2010.–2016. pogoršalo u usporedbi s prethodnim razdobljem 2007.–2009. u kojem je bio uveden aktivni model financiranja. Potrebno je unaprijediti model financiranja općina tako da se za utvrđivanje priznatih troškova uzmu u obzir stvarni troškovi obavljanja lokalnih poslova u realnom vremenu te da se ujednači struktura troškova. Model je potrebno promijeniti da bi uključio i omogućio preuzimanje razvojne uloge općina kroz investicije.

Ključne riječi: lokalna samouprava, općine, fiskalna decentralizacija, lokalni poslovi, Slovenija