

Zan Jan Oplotnik¹, Bostjan Brezovnik²

LOCAL SELF-GOVERNMENT FINANCING AND COSTS OF MUNICIPALITY IN SLOVENIA

The paper focuses on compliance of the actual system of financing the local self-government in Slovenia with the basic principles of the theory of decentralisation and guidelines of the European Charter of Local Self-Government. The paper studies the level of coverage of costs within the municipal competence by using the allocated appropriate expenditure resources calculated by the Financing Municipality Act. We seek an answer to the question whether and to what extent the obtained funds correspond to the actual workload that municipalities have for performing statutory tasks, and for exercising their competences. The analysis shows that on aggregate level, actual system ensures to local government more or less enough resources to cover their actual costs and current expenditures, but some groups of municipalities (e.g., larger urban municipalities, municipalities with high level of elderly people etc.) are facing some lack of funds, according to the actual costs data available, while other groups of municipalities at the same time receive more funds than they need.

Keywords: public finance; fiscal decentralization; local self-government; finance; municipalities.

Жан Ян Оплотнік, Бостян Брезовнік

ФІНАНСУВАННЯ МІСЦЕВОГО САМОВРЯДУВАННЯ І ВИТРАТИ МУНІЦИПАЛІТЕТІВ У СЛОВЕНІЇ

У статті проаналізовано відповідність діючої системи фінансування місцевого самоврядування в Словенії основним принципам теорії децентралізації і керівним принципам Європейської хартії місцевого самоврядування. Увага зосереджена на рівні покриття витрат у рамках муніципальної компетенції з використанням виділених відповідних ресурсних витрат, розрахованих відповідно до Закону про фінансування муніципалітету. Віднайдено відповідь на питання, чи відповідають і в якій мірі отримані кошти фактичному навантаженню, яке мають муніципалітети для виконання статутних завдань, а також для здійснення своїх повноважень. Аналіз показав, що на агрегованому рівні чинна система забезпечує органам місцевого самоврядування більш-менш достатні ресурси для покриття їх фактичних і поточних витрат, але деякі групи муніципалітетів (наприклад, великі міські муніципалітети, муніципалітети з високим відсотком літніх людей і т.д.) стикаються з певним браком коштів, відповідно до доступних фактичних даних за витратами, тоді як інші групи муніципалітетів отримують більше коштів, ніж їм потрібно.

Ключові слова: державні фінанси; фіскальна децентралізація; міське самоврядування; фінанси; муніципалітети

Жан Ян Оплотнік, Бостян Брезовнік

ФИНАНСИРОВАНИЕ МЕСТНОГО САМОУПРАВЛЕНИЯ И РАСХОДЫ МУНИЦИПАЛИТЕТОВ В СЛОВЕНИИ

В статье проанализировано соответствие действующей системы финансирования местного самоуправления в Словении основным принципам теории децентрализации и руководящим принципам Европейской хартии местного самоуправления. Внимание сосредоточено на уровне покрытия затрат в рамках муниципальной компетенции с

¹ PhD, Associated Professor, Faculty of Economics and Business, University of Maribor, Slovenia.

² Dr., LL.D, Assistant Professor, Faculty of Law, University of Maribor, Slovenia.

использованием выделенных соответствующих ресурсных расходов, рассчитанных в соответствии с Законом о финансировании муниципалитета. Найден ответ на вопрос, соответствуют ли и в какой степени полученные средства фактической нагрузке, которую имеют муниципалитеты для выполнения уставных задач, а также для осуществления своих полномочий. Анализ показал, что на агрегированном уровне действующая система обеспечивает органам местного самоуправления более-менее достаточные ресурсы для покрытия их фактических затрат и текущих расходов, но некоторые группы муниципалитетов (например, крупные городские муниципалитеты, муниципалитеты с высоким процентом пожилых людей и т.д.) сталкиваются с некоторой нехваткой средств, в соответствии с доступными фактическими данными по затратам, в то время как другие группы муниципалитетов получают больше средств, чем им нужно.

Ключевые слова: государственные финансы; фискальная децентрализация; местное самоуправление; финансы; муниципалитеты.

1. Introduction. The paper examines the compliance of the system of financing the local self-government in Slovenia with some basic principles of the theory of decentralisation, and guidelines of European Charter of Local Self-Government (MELLS), focusing primarily on defraying the costs of carrying out the statutory tasks (Council of Europe, 1988), on their structure, and degree of correlation between financial resources (calculated through the appropriate expenditure mechanism) and actual expenditures. The main principles of a sustainable decentralized system of public finance recommended by the theory can be found at Oates (1972), King (1984) and especially Buchanan et al. (1999) or Tanzi (2002). On this basis, we wanted to find out to what extent the applicable system of financing local self-government fulfils the principle of resource proportionality to tasks, therefore seeking an answer whether and to what extent the obtained funds correspond to the actual costs of municipalities. Financing the local self-government in Slovenia is regulated by the Act of Financing Municipalities (ZFO-1, 2007). It primarily governs financing of fundamental tasks within the competence of municipalities. In theory, meeting the financial needs of local self-government is supposed to be based primarily on the principle of resource proportionality to tasks and autonomy (Buchanan et al., 1999; McKinnon et al., 1997). The basic indicators of (non)achieving the above principles are the volume of financial resources provided by law through calculating the appropriate expenditure amount and actual expenditure, and especially their mutual relationship as an indicator of resource sufficiency (DeMello and Barenstein, 2001). In this context the so-called financial equalisation mechanism needs to be mentioned. It is provided by law to enable the state to ensure the lacking financial resources if a municipality is not able to cover the calculated amount of appropriate expenditure by using its own funds (Oplotnik et al., 2004). The data analysis shows that prior adopting the currently applicable legislation, there were only few municipalities that managed to cover the calculated amount of appropriate expenditure by using their own revenues. On average, there were only 10% of such municipalities in the period between 2004 and 2007 (Fig. 1). After enforcing the amendments the situation improved because out of 210 municipalities, there were only around 50% of the municipalities that received funds through the financial equalisation mechanism where the total amount of these resources did not exceed even 1% of the total amount

of appropriate expenditure. It is not insignificant that during that period, the remaining 50% of the municipalities had recorded 83 mln surplus allocated to development and investment. The situation was similar also in 2009. Therefore, this period can be regarded as a pattern of observing the fundamental principles of local self-government where should be a high correlation between own revenues generated by the decentralised units and the needs for financing the statutory municipal tasks. However, such a correlation existed only at the aggregate level. Less correlation was found at the level of individual municipalities because in 2008, there were 30 municipalities, and in 2009, there were 47 municipalities that had from 10% up to 50% higher expenditures than their calculated appropriate expenditure amount was. But on the other hand, 87 municipalities in 2008, and 44 municipalities in 2009 had from 20% up to 100% lower expenditures than those anticipated by appropriate expenditure. Despite a promising start, we again witness the worsening of the self-sufficiency level of municipalities. In 2010, a sudden change occurred when only 19 municipalities had a revenue surplus and as many as 191 municipalities needed fiscal equalisation. Therefore, the percentage of self-sufficient municipalities has decreased to the level prior to 2008. The encouraging fact is that the extent of equalization has not reached the old levels. On the other hand, the increase in the amount of appropriate expenditure was implicitly brought about by actual municipal expenditures that increased by 21% in the period from 2008 to 2010. These anomalies are among the main reasons for the re-examination of the existing system of financing the municipalities in Slovenia. With regard to the indicated facts, it would certainly be easier if the state directly covered all the actual expenditures of individual municipalities because this would provide a complete correlation between resources and expenditures (Oplotnik, Z., Brezovnik, B., 2004). However, the reason why this is not appropriate lies in the consequences of such actions. By doing so, the principles of autonomy and self-sufficiency would be violated, and there would be a real risk that over time expenditures would no longer show the actual needs, but would grow in accordance with the power of a municipality to provide for itself as many financial resources as possible and thereby "adjusting" its expenditure to them. Such a mode would also poorly reflect some actual differences between the municipalities that arise from their diversity and the status they have. The analyses show that Slovenian municipalities are far from being standardised to the extent that they would have equal needs with regard to their equal tasks and powers. This primarily shows the division of municipalities according to their demographic and geographic characteristics that are also the basis for calculating their appropriate expenditure directly associated with their costs. But the question is how and to what extent the system should take this into account.

1.1. Analysis of the appropriate expenditure and actual costs values. In order to get the answers to all of the above questions, an analysis of aggregate indicators in the system of financing the municipalities was made, i.e., an analysis of the average appropriate expenditure and actual costs. The analysis shows that Slovenian municipalities spend, on average, *euros* 1.11 bln performing their tasks. Measured on a per capita basis, this means an average of 527. Of course, the average per capita is only an approximate value of actual cost because it ranged from *euros* 319 in the municipality of Cerklje to *euros* 1.167 per capita in the municipality of Solcava (Table 3.).

During the observed period 40% of all had above-average per capita expenditure, and the remaining 60% of the municipalities had below-average per capita expenditure. In 1/5 of the municipalities per capita expenditure deviated from the standard deviation. It was below *euros* 439 per capita. During this period, urban municipalities recorded an average per capita cost of *euros* 594, which suggests a greater average burden of an urban municipalities by around 13%. The analysis of the selected groups of municipalities shows that the municipalities with around 5.000 residents were most homogeneously distributed around the average, whereas the sharpest decline occurred in the large-area municipalities where the average per capita costs/expenditures of around *euros* 597 were recorded (13% above average). A group of municipalities with an above-average proportion of elderly people (9% above average) are also slightly above average whereas no statistically significant deviation was found in the remaining groups. In spite of all that, we need to cross-compare at least two more indicators to get a complete picture of adequacy of the existing system of financing the municipalities, i.e., the appropriate expenditure amount allocated to municipalities and the relationship between appropriate expenditure and actual costs in municipalities.

Table 1. Main aggregates in the system of financing the municipalities in Slovenia

in mln EU	2004	2005	2006	2007	2008	2009	2010
Appropriate exp. (Ae)	758,92	781,93	858,69	899,38	938,46	976,24	1.084,09
Revenue by ZFO (Rev)	697,81	701,73	732,03	765,67	1.011,98	1.045,31	1.041,26
Fiscal equalization (Fe)	158,21	162,19	193,68	202,80	9,18	10,17	54,70
Percentage Fe in Ae	20,8	20,7	22,6	22,5	1,0	1,0	5,0
% of self-sufficient mun.	14,0	12,4	10,4	8,8	49,5	49,0	9,0
Current expenditure (Ce)	775,31	815,45	860,45	972,86	996,45	1.120,43	1.208,40
Coverage Ce with Ae	0,98	0,96	1,00	0,92	0,94	0,87	0,90
Total revenue	1.280,56	1.374,56	1.509,45	1.689,74	1.710,50	1.875,19	2.036,56
Total expenditure (Texp)	1.285,48	1.373,95	1.453,46	1.724,20	1.722,59	2.047,95	2.192,46
Balance	-4,92	0,61	55,99	-34,46	-12,10	-172,76	-155,90
in this revenue by law	54,5%	51,1%	48,5%	45,3%	59,2%	55,7%	51,1%
in this expenditure	60,3%	59,4%	59,2%	56,4%	57,8%	54,7%	55,1%
in this investment	37,6%	37,1%	37,6%	41,3%	42,2%	45,3%	44,9%

Source: The Ministry of Finance data and in-house calculations.

Table 2. Values of VC and other indicators as a one of main criteria for calculating Ae

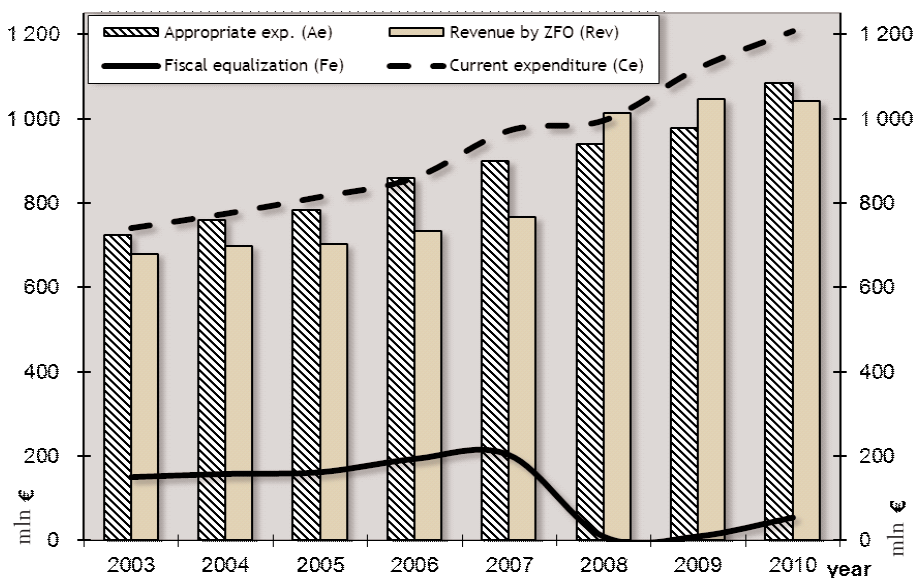
MUNICIPALITY	VC	P	C	M	S
SOLCAVA	2,4028	18,57	3,70	0,94	1,18
LUCE	1,9547	6,67	5,54	1,12	1,10
KOSTEL	1,8807	8,17	4,58	0,72	1,74
JEZERSKO	1,6909	9,65	2,34	0,98	1,03
OSILNICA	1,6820	8,53	3,05	0,64	1,53
BOVEC	1,5979	11,17	1,07	0,79	1,28
AVERAGE	1,1200	1,80	1,56	1,00	1,00
PIRAN	0,8709	0,26	0,60	0,78	1,10
MO KRANJ	0,8703	0,28	0,37	0,97	1,00
MO MURSKA SOBOTA	0,8675	0,32	0,49	0,86	0,93
MIKLAVZ NA DP	0,8667	0,20	0,51	0,87	0,98
SEMPETER-VRTOJBA	0,8632	0,23	0,42	0,88	1,10

The End of Table 2

MUNICIPALITY	VC	P	C	M	S
IZOLA	0,8589	0,19	0,50	0,82	1,06
MO VELENJE	0,8559	0,25	0,39	0,95	0,70
MO CELJE	0,8552	0,19	0,37	0,89	1,07
MO MARIBOR	0,8365	0,13	0,34	0,79	1,18
MO LJUBLJANA	0,8352	0,10	0,24	0,89	1,12
max	2,40	18,57	5,54	1,40	1,74
min	0,84	0,10	0,24	0,64	0,70

MO – urban municipality; VC – variability coefficient - mix of factors P,C,M,S P – relative factor of municipalities area – C – relative factor of local roads – M – relative factor of residents younger than 15 – S – relative factor of residents older than 65.

Source: The Ministry of Finance data and in-house calculations.



Source: The Ministry of Finance data and in-house calculations.

Figure 1. Main aggregates in the system of financing the municipalities in Slovenia

When looking at the appropriate per-capita expenditure, we may ascertain that in the analysed period on average, euros 558 per capita were allocated through the appropriate expenditure calculation mechanism, whereby due to the weights that take into account demographic and geographic differences between municipalities, an equal per capita amount of funding was not allocated to all the municipalities. For example, on average, euros 1196 per capita were allocated to the Municipality of Solcava, and 973 per capita were allocated to the Municipality of Luce, whereas some municipalities, especially urban municipalities of Ljubljana, Celje, Velenje, and Maribor, were allocated even less than euros 426 per capita (Table 4.). The deviation analysis shows that according to the appropriate expenditure indicator, homogeneity between municipalities is slightly greater than according to the cost burden indicator because within a range of plus or minus 10%, around a half of municipalities fall with-

in it. Nevertheless, the statistically significant deviations can be found even within this indicator. To a larger extent, they are a consequence of the amended criteria index and weight within the formula for calculating appropriate expenditure. We have ascertained that in the upper part of the scale of the allotted amount of appropriate expenditure, 10 municipalities have their amended criteria index considerably above average which consequently brings them a larger amount of appropriate expenditure. But on the other hand, 10 municipalities in the lower part of the scale (most urban municipalities) have their related index value below 0.87.

Table 3. Average and max/min deviations values of costs (Ac) by municipalities

Municipality	NP	Tot Ac in EU	Ae/Ac	Ae	Inc	Bal	VC
SOLCAVA	551	1.167	1,03	1.196	946	-250	2,40
KOSTEL	683	1.106	0,85	937	784	-153	1,88
PUCONCI	6.454	1.086	0,55	601	557	-44	1,20
BOHINJ	5.320	913	0,71	648	619	-29	1,30
PIRAN	17.366	866	0,50	434	502	68	0,87
average – all municipal.	9.603	527	1,09	558	541	-17	1,12
STRAZA	3.837	366	1,34	490	520	30	0,98
CERKVENJAK	2.108	362	1,67	604	547	-57	1,21
KRIZEVCI	3.589	358	1,46	521	499	-22	1,04
STORE	4.228	358	1,33	475	480	5	0,95
GORISNICA	3.970	353	1,42	500	499	-1	1,00
CERKLJE	6.720	319	1,75	559	556	-3	1,12
Urban municipalities	average	594	0,75	442	490	48	0,89
	max	719	0,89	487	519	75	0,98
	min	514	0,61	416	472	18	0,84
Mun. < 5000 inhab.	average	527	1,01	517	521	4	1,04
Mun. with P>average	average	597	1,13	657	602	-55	1,32
Mun. with C>average	average	522	1,11	557	542	-15	1,12
Mun. with M>average	average	540	1,03	549	533	-15	1,10
Mun. with S>average	average	573	1,07	591	564	-27	1,19

NP – number of population; Tot AC – total actual costs per capita; Ae/Ac – appropriate expenditure to actual costs; Inc – revenue by ZFO; Bal – balance.

Source: The Ministry of Finance data and in-house calculations.

On average, the appropriate expenditure (Ae) amount is only *euros* 442 per capita, and it is 26% smaller than the average. When analysing the averages of the groups of municipalities with regard to their other characteristics, we can detect the statistically significant deviation also in the municipalities with an area larger than the per capita average area (above 1.8), and they are entitled to, on average, around *euros* 657, or 18% more than the average (Table 5). As we can see, the picture of possible anomalies of the existing system is already clearer now. Still let us add a third indicator (the relationship between appropriate expenditure and actual costs in municipalities, as shown in Table 6) to the aggregate analysis. It shows how the allocated amounts of appropriate expenditure met actual costs in municipalities. During the analysed period, the actual cost coverage through the appropriate expenditure amount added up, on average, to 1.09, which means that, cumulatively speaking, municipalities were adequately covered by the funds, and that, on average, they got around 9% more funds than the actual costs totalled.

Table 4. Values by municipalities classified according to the calculated amount of Ae

	NP	Tot_Ac in EU	Ae/Ac	Ae	Inc.	Bal.	VC
SOLCAVA	551	1.167	1,03	1.196	946	-250	2,40
LUCE	1.632	692	1,41	973	796	-177	1,95
KOSTEL	683	1.106	0,85	937	784	-153	1,88
JEZERSKO	709	656	1,28	842	721	-120	1,69
OSILNICA	422	748	1,12	837	719	-119	1,68
BOVEC	3.271	783	1,02	796	707	-88	1,59
average - all municip.	9.603	527	1,09	558	541	-17	1,12
MO KRANJ	53.353	514	0,84	433	482	49	0,87
MO MURSKA SOBOTA	19.963	543	0,79	432	472	40	0,86
SEMPETER-VRTOJBA	6.334	576	0,75	430	490	60	0,86
IZOLA	15.179	680	0,63	428	479	51	0,85
JESENICE	22.044	496	0,86	427	463	36	0,85
MO VELENJE	33.392	539	0,79	426	478	52	0,85
MO CELJE	48.983	570	0,75	426	481	55	0,85
MO MARIBOR	110.982	595	0,70	416	472	55	0,83
MO LJUBLJANA	265.172	683	0,61	416	485	69	0,83
urban municipalities	average	594	0,75	442	490	48	0,89
	max	719	0,89	487	519	75	0,98
	min	514	0,61	416	472	18	0,84
Mun. < 5000 inhab.	average	527	1,01	517	521	4	1,04
Mun. with P>average	average	597	1,13	657	602	-55	1,32
Mun. with C>average	average	522	1,11	557	542	-15	1,12
Mun. with M>average	average	540	1,03	549	533	-15	1,10
Mun. with S>average	average	573	1,07	591	564	-27	1,19

Source: The Ministry of Finance data and in-house calculations.

The range between the municipality with the least satisfactory cost coverage through the appropriate expenditure amount and the municipality with the highest level of cost (over)coverage through the appropriate expenditure was between 0.50 and 1.75. Consequently, we found that some smaller municipalities were allocated a substantially larger amount of funds than their actual expenses were. In these municipalities, the overcoverage index was even above 1.45. But on the other hand, the picture was just the opposite in 68 municipalities that were found to be either below average or even below 1.00 cost coverage indicator, which means that the calculated and allocated amount of the associated funds did not cover the actual costs. In this part of the scale, there are all urban municipalities but in general, only around 41% of the municipalities through more or less accurately covered their actual costs the allocated amount of appropriate expenditure, which shows certain deviations in the system of financing the municipalities.

2. Analysis of the actual cost (Ac) structure. Before the final assessment we are going to look at the analysis of the actual cost structure, that is, in addition to the aggregate indicator analysis, of utmost importance for understanding the problems in this field. We have been monitoring expenditures according to the so-called programme classification that divides the municipal budget into 21 main areas (PC —

program classification). The analysis shows that out of the above-mentioned *euros* 527 average expenditure per capita, the municipalities spent over 80% of this amount within only 7 largest programme groups (See Tables 7 and 8 in Appendix). Unlike the aggregate values, a more detailed analysis of costs by structure shows a considerable non-homogeneity, which means that we are not able to find most of the observed units within a range of plus or minus 25% of the average. However, a greater degree of homogeneity can be found in some larger programme groups such as education (89% homogeneity), local self-government (63%), social welfare (59%), and partially in transport. Large disparities in average expenditures stir doubts about a proper understanding of each programme group because costs per unit should not have deviated so excessively.

Table 5. Values classified according to the calculated amounts of Ae/Ac

	NP	Tot Ac in EU	Ae/Ac	Ae	Inc	Bal	VC
CERKLJE	6.720	319	1,75	559	556	-3	1,1216
CIRKULANE	2.363	373	1,72	642	593	-49	1,2879
CERKVENJAK	2.108	362	1,67	604	547	-57	1,2136
MAKOLE	2.115	408	1,60	653	602	-51	1,3124
LOSKI POTOK	2.078	461	1,58	729	639	-90	1,4650
average – all municip.	9.603	527	1,09	558	541	-17	1,1200
MO KOPER	49.090	631	0,70	444	519	75	0,8919
MO MARIBOR	110.982	595	0,70	416	472	55	0,8365
IZOLA	15.179	680	0,63	428	479	51	0,8589
MO PTUJ	24.006	719	0,61	440	474	34	0,8840
MO LJUBLJANA	265.172	683	0,61	416	485	69	0,8352
PUCONCI	6.454	1.086	0,55	601	557	-44	1,2063
PIRAN	17.366	866	0,50	434	502	68	0,8709
urban municipalities	average	594	0,75	442	490	48	0,89
	max	719	0,89	487	519	75	0,98
	min	514	0,61	416	472	18	0,84
Mun. < 5000 inhab.	average	527	1,01	517	521	4	1,04
Mun. with P>average	average	597	1,13	657	602	-55	1,32
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Mun. with M>average	average	540	1,03	549	533	-15	1,10
Mun. with S>average	average	573	1,07	591	564	-27	1,19

Source: The Ministry of Finance data and in-house calculations.

We have also noticed that considerable statistical deviations from the average can be found in certain groups. As the aggregate analysis show, urban municipalities have total costs, that are 13% higher than the average. Anyway, social activity (PC18) expenses stand out to the greatest extent. They are as much as 70% above average, and expenses in the PC16 area (spatial, housing, and municipal affairs) are 50% above average. Local government and transport expenditures show a minor upward deviation. As it is apparent from the aggregate analysis, the group of large-area municipalities also shows higher average cumulative expenditures, although financially, these municipalities are not so weak since they receive 18% more revenues than other municipalities. Within the framework of the cost structure analysis, these municipalities have higher costs (27% above average) in the field of political system. Their actual costs are also higher (21%) in the field of local government, and finally, their actual costs are higher (12%) in the field of social welfare. A group that statistically sig-

nificantly deviates from average is the group of municipalities with a high proportion of elderly people. However, according to the structural analysis, the social activity expenses stand out to the greatest extent (14%). Slightly higher expenditures are also in the fields of system operation management, spatial management, housing affairs management and social welfare management. In other groups there are no statistically significant deviations at the aggregate level. But if we look at the groups of municipalities that are best adjusted to the average cost schedule, then, at the aggregate level and according to the structural analysis, these are the municipalities with a higher proportion of roads and young people.

Table 6. Municipalities sorted by Ac, Ae, and Ae/Ac indicators and divided into classes

Ac – actual costs	
Actual cost ≤ 395 EU	7% - 14 mun.
395 EU - 659 EU (+25% of average)	83% - 175 mun.
Actual cost ≥ 659 EU	6% oz. 12 mun.
Min – average - max	319 EU - 527 EU - 1.167 EU
Ae – appropriate expenditure	
Approp. expend. ≤ 419 EU	1% - 2 mun.
419 EU - 698 EU (+25% of mun.)	93% - 195 mun.
Ae ≥ 698 EU	6% - 13 mun.
Min – pov – max	416 EU - 558 EU - 1.196 EU
Ae/Ac	
≤ 0,82	1% - 2 mun.
0,82 - 1,36 (+25% of average)	93% - 195 mun.
≥ 1,36	6% - 13 mun.
Min – average - max	0,50 – 1,09 – 1,75

Source: Own calculations.

3. Conclusions. In the view of the obtained analysis results regarding the system of financing Slovenian municipalities, and in the view of the cross-synthesis results, we may give a few conclusions on the actual system compliance. In the first place, it can be ascertained that Slovenian municipalities were, in the aggregate, financially supported in an adequate manner with regard to their actual needs because the average costs per capita were, on average, around 9% lower than the pertinent resources. According to the aggregate indicators, the proportion of the municipalities was mostly high according to the actual cost indicator (83%) in the plus/minus 25% range from the average level. This proportion was even 93% in the appropriate expenditure indicator. Despite the seemingly balanced relationship between the actual needs and pertinent resources, major system anomalies can be detected either through a detailed analysis of the selected groups of municipalities or through the structural analysis of the financing system. The first anomaly is a relatively big range between the lowest and highest values of the observed categories. Thus, the range between the lowest and the highest value of average expenditures is between *euros* 319 and *euros* 1.167 per capita. In the amount of the pertinent appropriate expenditure, the range is between *euros* 416 and *euros* 1.196. When speaking about the index of resource coverage with expenditures, the range is between 0.50 and 1.75. Despite the fact that there are fewer than 15% of the

municipalities that fall under such threshold, the sustainability of the entire system significantly worsens. The latter is especially obvious when making an analysis of the above mentioned indicators by some selected groups and with regard to their outstanding characteristics, e.g., by urban and large-area municipalities etc. Such an analysis shows that there are actually considerable differences between them. Thus, urban municipalities recorded actual costs on average, 13% higher with, on average, 26% lower value of the pertinent amount of appropriate expenditure. As a result, this worsened the cumulative position of urban municipalities. Similar cross-multiplied deviations were also observed in the group of municipalities with a relatively large area, but in a somewhat different direction, because they obtained around +18% more resources through the appropriate expenditure mechanism after recording 13% higher actual costs. In other observed groups deviations were smaller. However, they were non-negligible especially if they were connected to the analysis of the actual cost structure. It showed that the municipalities generated over 80% of the expenditures only in 7 programme groups. Unlike the previous indicators, the structural analysis showed greater non-homogeneity, which stirred doubts about an adequate understanding of each programme group. In addition, the structural analysis confirmed considerable statistical deviations from the average as they had been detected by the aggregate analysis. In this context, urban municipalities stood out again with higher expenditures in the fields of social activities, spatial, housing, and municipal affairs. The group of large-area municipalities recorded higher average expenditures in the fields of system operation and social welfare. The group of municipalities, statistically significantly deviating from the average, was also the group with a high proportion of elderly people where expenditures stood out in the fields of social activities, system operation, and social welfare. In the remaining groups of municipalities, there were no statistically significant deviations at the aggregate level. In the end, the analysis findings regarding the changes of the observed categories over the observed period need to be mentioned. They indicate that the actual costs grew on average by 25.9% during the last three-year period, whereas the appropriate expenditure amount allocated to municipalities grew, on average, by 15.3%, and therefore it was behind by more than 10 percentage points in the increase in municipal spending. All of the above indicates that at the aggregate level, the existing system shows no excessive non-compliance with the basic principles and theory of fiscal decentralism. Nevertheless, a more detailed analysis points out to certain system anomalies that are unsustainable in the long run, and that call for certain corrections, especially in some selected groups of municipalities, in amended criteria weights within the formula for calculating the appropriate expenditure amount, and in broader uniformity of cost structure.

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Appendix: Table 7. An overview of costs and other expenditures of municipal budgets under a programme classification (PC)

PC	2008 to 2010 (in 000 EUR)				2008 to 2010 (in EUR per capita)				Change in %			Structure in % of total				
	Costs EU	INV	P&K	OD	TOTAL	Costs	INV	P&K	OD	TOTAL	Costs	INV	P&K	OD	TOTAL	
01	26.916	175	0	166	27.258	13	0	0	0	14	4.5%	2.8%	2.4%	0.0%	0.6%	1.3%
02	3.451	27	463	12	3.953	2	0	0	0	2	-11.5%	-12.4%	0.3%	0.0%	6.6%	0.2%
03	1.095	94	0	0	1.189	1	0	0	0	1	0.9%	-8.4%	0.1%	0.0%	0.0%	0.1%
04	24.323	22.616	2.379	229	49.546	12	11	1	0	25	23.0%	26.5%	2.2%	2.6%	34.0%	2.5%
05	858	30	0	0	888	0	0	0	0	0	0.4%	2.2%	0.1%	0.0%	0.0%	0.0%
06	165.148	18.836	146	139	184.270	82	9	0	0	91	21.9%	20.8%	14.9%	2.1%	2.1%	9.1%
07	26.970	15.857	0	15	42.843	13	8	0	0	21	29.4%	22.1%	2.4%	1.8%	0.0%	2.1%
08	594	70	0	0	664	0	0	0	0	0	32.9%	38.4%	0.1%	0.0%	0.0%	0.0%
10	7.742	86	0	0	7.829	4	0	0	0	4	25.2%	27.1%	0.7%	0.0%	0.0%	0.4%
11	13.423	3.320	51	0	16.794	7	2	0	0	8	24.4%	35.7%	1.2%	0.4%	0.7%	0.8%
12	1.569	2.433	592	21	4.615	1	1	0	0	2	88.9%	21.5%	0.1%	0.3%	8.5%	0.2%
13	140.053	203.23	405	45	343.736	69	101	0	0	170	26.6%	38.6%	12.6%	23.1%	5.8%	17.0%
14	25.964	20.282	708	2	46.955	13	10	0	0	23	20.4%	26.0%	2.3%	2.3%	10.1%	2.3%
15	31.044	154.218	36	158	185.456	15	76	0	0	92	9.8%	48.7%	2.8%	17.5%	0.5%	9.2%
16	70.949	204.486	1.360	140	276.935	35	101	1	0	137	22.1%	24.2%	6.4%	23.3%	19.4%	13.7%
17	21.910	8.024	0	0	29.933	11	4	0	0	15	1.0%	-2.4%	2.0%	0.9%	0.0%	1.5%
18	127.661	87.489	28	570	215.748	63	43	0	0	107	18.3%	27.5%	11.5%	10.0%	0.4%	10.7%
19	328.618	127.126	3	255	456.003	163	63	0	0	226	20.7%	18.1%	29.6%	14.5%	0.0%	22.6%
20	67.675	5.157	198	0	73.031	34	3	0	0	36	28.5%	30.6%	6.1%	0.6%	2.8%	3.6%
22	8.169	202	634	24.569	33.574	4	0	0	12	17	62.6%	100.6%	0.7%	0.0%	9.0%	1.7%
23	14.295	5.478	0	17	19.790	7	3	0	0	10	33.0%	23.5%	1.3%	0.6%	0.0%	1.0%
SK	1.108.426	879.242	7.003	26.338	2.021.010	550	436	3	13	1.002	21.3%	27.8%	100.0%	100.0%	100.0%	100.0%

* INV – investments, P&K – loans and acquisition of equities, OD – debt liquidation

** PC- from 01 to 23 – for explanation of each category (PC) or programme, see Table 8.

Source: The Ministry of Finance data and in-house calculations.

Appendix: Table 8. An analysis of actual costs/expenditures (AC) of municipal budgets under a programme classification (PC)

PC	ACTUAL COSTS	ALL MUNICIPALITIES (Actual costs)					MO		Municip. with P ≥ pov		Municip. with C ≥ pov		Municipalities with M ≥ pov		Municip with S ≥ pov			
		Av	+/- 25%	min	max	% tot	Av	dif	av	dif	av	dif	av	dif	av	dif		
01	Political system	21	44%	5	126	3.9%	10	-50%	15	-29%	26	27%	20	-4%	19	-6%	23	12%
02	Fiscal administration	2	79%	0	42	0.4%	3		2		1		2		3		2	
03	External cooperation	0	82%	0	24	0.1%	1		0		0		0		0		0	
04	Public administration	12	34%	0	155	2.3%	14		12		17		13		15		15	
05	Research and development	0	90%	0	8	0.0%	1		0		0		0		0		0	
06	Local self-government	87	63%	44	616	16.6%	96	9%	79	-10%	106	21%	82	-6%	93	6%	97	11%
07	Civil defense	11	41%	2	39	2.0%	19		10		13		10		11		13	
08	Internal affairs, security	0	87%	0	3	0.0%	0		0		0		0		0		0	
10	Labour market	5	17%	0	95	1.0%	3		4		6		6		7		6	
11	Agriculture	10	34%	0	0	2.0%	5		8		18		9		11		13	
12	Energy	1	83%	0	78	0.3%	2		1		3		2		2		2	
13	Transport infrastructure	60	49%	0	169	11.4%	65	9%	61	2%	64	7%	60	1%	62	3%	61	1%
14	Economy	14	49%	0	143	2.6%	12		14		22		16		15		20	
15	Environment	15	16%	0	507	2.8%	23		19		17		13		13		20	
16	Spatial develop., housing	26	33%	0	163	5.0%	40	50%	31	16%	26	-1%	27	1%	27	2%	29	10%
17	Medical security	10	62%	1	26	2.0%	12		10		10		10		10		11	
18	Social activities and NGO	47	34%	12	190	8.9%	81	72%	56	20%	50	6%	46	-1%	49	5%	53	14%
19	Education	157	80%	62	254	29.8%	164	5%	160	2%	162	3%	160	2%	155	-1%	15	0%
20	Social welfare	33	59%	9	71	6.3%	34	3%	32	-4%	37	12%	32	-2%	33	0%	36	9%
22	Public debt repayment	4	25%	0	54	0.8%	3		3		7		4		5		5	
23	Intervention affairs	9	13%	0	79	1.8%	6		8		11		10		9		9	
	Total all areas (01 to 23):	527	83%	319	1.167	100%	594	13%	527	0%	597	13%	522	-1%	541	3%	57	9%

MO – urban municipalities, Av – average in euros per capita, % tot- % in total, dif – difference from average.
Source: The Ministry of Finance data and in-house calculations.