LOCAL SELF-GOVERNMENT FINANCING AND COSTS OF MUNICIPALITY IN SLOVENIA

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Abstract

This research paper focuses on the compliance of the actual system of financing local self-government in Slovenia with the basic principles of the theory of decentralization and guidelines of the European Charter of Local Self-Government. It addresses the level of costs coverage within the municipal competence by using the allocated appropriate expenditure resources calculated according to the Law of Financing Municipality Act. The purpose of the paper is, therefore, to look for 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. Analysis shows that, on an aggregate level, these actual systems ensure enough resources for local governments to cover their actual costs and current expenditures; some groups of municipalities, e.g. larger urban municipalities, municipalities with large proportions of elderly people etc. are faced with lack of funding, according to the actual costs data available, while other groups of municipalities receive more funds than they need.

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

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1. Introduction

This paper examines the compliance of the system of financing local self-government in Slovenia with some basic principles of the theory of decentralization, and guidelines of the 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 on the degree of correlation between the financial resources (calculated through the 'appropriate expenditure' mechanism) and actual expenditures. The main principles of a sustainable decentralized system of public finance recommended by theory can be found in Oates (1999, pp. 1120-1149; 2008, p. 315), King (1984), DeMello and Barenstein (2001, pp. 87-92) and Buchanan and Musgrave (1999, pp. 234-243), Tiebout (1956), and Tanzi (2008, pp. 705-712). On this basis, we intended to find out to what extent the applicable system of financing local government in Slovenia fulfills the main principle of resource proportionality to tasks, therefore seeking an answer if and to what extent the obtained funds correspond to the actual costs regarding the performed tasks of municipalities.

Thus far Slovenia does not have a so-called regional level of decentralization. The only decentralized level is represented by municipalities, totaling 211, out of which 11 are the so-called 'urban municipalities' or municipalities with urban status[1] (such as the capital city of Ljubljana and other large cities). During the last decade, approximately 12% of total public finance (5.5% of GDP) was earmarked for local finance. Regarding the structure of local revenues in Slovenia, currently around 35% of total municipalities' revenues come from their own or partly own resources (property taxes, concession fees etc.), while the rest are either shared taxes with the national government (personal income tax) or directly given funds from the national level through an equalization scheme (Fe, fiscal equalization, see Table 1). Financing the local self-government in Slovenia is regulated by the Financing of Municipalities Act (ZFO-1, 2007). According to this Act, municipalities are entitled to the yearly sum of funds, calculated upon a so-called appropriate expenditure formula[2], and it primarily governs the financing of fundamental tasks within the competence of municipalities. The exact numbers for the last decade on

1 Their main feature is that they represent gravity centers for smaller cities and rural areas due to their special geographical and administrative position. Therefore much of the public, like day-to-day migrants, students, business people etc., use their administrative, social, cultural, educational, transportation and other infrastructure, although not being residents of that municipality.

2 The 'appropriate expenditure' formula, according to which an appropriate expenditure level of resources for each municipality is calculated, is defined as the amount of financial resources that should be sufficient to cover all current municipality costs from performing tasks defined by the law. Those funds do not include resources for investments. The amount for an individual municipality is determined on the basis of a mathematical equation in which the yearly 'lump sum' amount per inhabitant represents up to 70%, while up to 30% of amount is defined by correction factors that try to embrace actual differences between municipalities regarding their size, extent of local roads, population under 15 years, and population over 65 years.

an aggregate level can be seen in Table 1, and as we will see later, of special importance is the comparison between the appropriate expenditure (Ae) amount, calculated according to the formula and actual funds raised by municipalities by law (ZFO – 1, Rev).

According to theory, the meeting of financial needs of local self-government is supposed to be based primarily on the principle of resource proportionality to their tasks (Buchanan and Musgrave, 1999, pp. 234-243). Other interesting references are also Horvathova *et al.* (2012, pp. 265-276), Sun and Jung (2012), Koethenbuerger (2011), and Tanzi (2001). The basic indicators of (not) achieving the above principles are some indicators that show the volume of financial resources raised by law according to the amount calculated through the appropriate expenditure formula and according to actual costs (resource sufficiency). In this context the so-called financial equalization 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. More about Slovenian local tax structure and the equalization mechanism can also be found in the previous works of the authors (e.g. Oplotnik and Brezovnik, 2004). The data analysis showed that, prior to adopting the currently applicable legislation, there were only a few municipalities that managed to cover the calculated amount of appropriate expenditures by using their own revenues. On average, this accounted for only 10% of such municipalities in the period between 2004 and 2007 (Table 1 and Figure 1). After enforcing the amendments the situation improved, showing that out of 211 municipalities there were only around 50% that received funds through the financial equalization mechanism where the total amount of these resources did not exceed even 1% of the total amount of appropriate expenditure. It is significant that during that period the remaining 50% of municipalities had recorded an €83 million surplus. The situation was similar in 2009. Therefore, this period can be regarded as a pattern of observing the fundamental principles of local self-government where a high correlation between own revenues generated by the decentralized units and the needs for financing the statutory municipal tasks should exist. However, such a correlation existed only at the aggregate level. A weaker 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. 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 their appropriate expenditure calculations. Despite a promising start, we again witness the deterioration 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 192 municipalities needed fiscal equalization. Therefore, the percentage of self-sufficient municipalities has decreased to the level prior to 2008. An encouraging fact is that the extent of equalization has not reached old levels. On the other hand, the increase in the amount of the appropriate expenditure was implicitly brought about by actual municipal expenditures, which increased by 21% in 2008-2010. These anomalies are among the main reasons for the re-examination of the existing system of financing the municipalities in Slovenia. Regarding the indicated facts, it would certainly be easy

if the state would directly cover all the actual expenditures of individual municipalities because this would provide a complete correlation between resources and expenditures. However, the reason for which it is not appropriate lies in the consequences of such an action. By doing so, the principles of autonomy and self-sufficiency would be violated, and there would be a real risk 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).

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

In million €	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 equalisation (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 municipalities	14.0%	12.4%	10.4%	8.8%	49.5%	49.0%	9.0%
Current costs (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 current costs	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%

Notes: Appropriate expenditure (Ae) – explained in the text and footnote no. 2, Revenues by Law (ZFO) – revenues raised by Municipalities following Financing of Municipalities Act, also partly explained in the text above.

Source: The Ministry of Finance Bulletin, 2004-2011 and in-house calculations

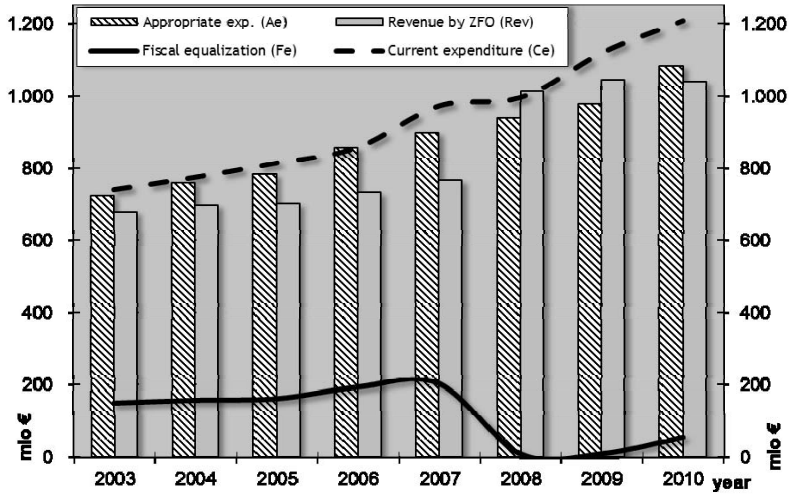

Figure 1: Main aggregates in the system of financing the municipalities in Slovenia

Note: Appropriate expenditure (Ae) – explained in the text and footnote no. 2, Revenues by Law (ZFO) – revenues raised by Municipalities following Financing of Municipalities Act, also partly explained in the text above.

Source: The Ministry of Finance Bulletin, 2004-2011 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
SOLČAVA	2.4028	18.57	3.70	0.94	1.18
LUČE	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
MIKLAVŽ NA DP	0.8667	0.20	0.51	0.87	0.98
ŠEMPETER-VRTOJBA	0.8632	0.23	0.42	0.88	1.10
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

Notes: MO – urban municipality, VC – variability coefficient as mix of factors P, C, M, S (P – relative factor of municipalities; area, C – relative factor for local roads, M – factor for residents younger than 15, S – residents above 65).

Source: The Ministry of Finance Bulletin, 2004-2011 and in-house calculations

Such a system would also poorly reflect some actual differences between the municipalities that arise from their diversity and status. The analyses show that Slovenian municipalities are far from being standardized 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.

2. 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 the Slovenian municipalities spend, on average, €1.11 billion for 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 the actual cost because it ranged from €319 in the Municipality of Cerklje to €1.167 per capita in the Municipality of Solcava (see Table 3). During the observed period 40% of all municipalities had above-average per capita expenditures, and the remaining 60% of the municipalities had below-average per capita expenditures, regarding the average euro amount. In one-fifth of municipalities per capita expenditure diverged from the standard deviation. That fifth was below €439

per capita. During this period, urban municipalities recorded an average per capita cost of €594, which suggests a greater average burden of urban municipalities of around 13%. The analysis of 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 large-area municipalities where the average per capita costs/expenditures of around €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 the adequacy of the existing system of financing the municipalities, *i.e.*, the appropriate expenditure amount allocated to municipalities and the relationship between the appropriate expenditure and actual costs in municipalities.

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

Municipality	NP	Tot_Ac in €	Ae/Ac	Ae	Inc	Bal	VC
SOLČAVA	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

Notes: 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 Bulletin, 2004-2011 and in-house calculations

If looking at the appropriate per capita expenditure, we may ascertain that in the analyzed period on average, €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 municipalities. For example, on average, €1,196 per capita were allocated to the Municipality of Solcava, and €973 per capita were allocated to the Municipality of Luce, whereas to some municipalities, especially urban municipalities of Ljubljana, Celje, Velenje, and Maribor, even less than €426 per capita were allocated (see 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 around a half of municipalities fall within a range of plus or minus 10 percent. 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 4: Values by municipalities classified according to the calculated amount of Ae

Municipality	NP	Tot_Ac in €	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 Bulletin, 2004-2011 and in-house calculations

On average, the appropriate expenditure (Ae) amount is only €442 per capita, and it is 26% smaller than the average in all municipalities. When analyzing the averages of the groups of municipalities with regard to other characteristics, we can detect the statistically significant deviation also in the municipalities with an area that is larger than the per capita average area (above 1.8), and they are entitled to, on average, around €657, or 18% more than the average (see 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 to the aggregate analysis, i.e. the relationship between appropriate expenditure and actual costs in municipalities shown in Table 6. It shows how the allocated amounts of appropriate expenditure met actual costs in municipalities. During the analyzed 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 funds, and that, on average, they got around 9% more funds than the actual costs totaled.

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

Municipality	NP	Tot_Ac in €	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
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 Bulletin, 2004-2011 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 compared to their actual expenses. In these municipalities,

the over-coverage index was even above 1.45. On the other hand, the picture was just the opposite in 68 municipalities that were found to be either below average or even below the 1.00 cost coverage indicator coefficient, which means that the calculated and allocated amount of associated funds did not cover the actual costs. This part of the scale includes all urban municipalities, but only around 41% of municipalities more or less accurately covered their actual costs through the allocated amount of appropriate expenditure, which shows certain deviations in the system of financing the municipalities.

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

Ac – actual costs	
Actual cost ≤ 395 €	7% - 14 municipalities
395 € - 659 € (+/-25% of average)	83% - 175 municipalities
Actual cost ≥ 659 €	6% oz. 12 municipalities
Min – average - max	319 € - 527 € - 1,167 €
Ae – appropriate expenditure	
Approp. expend. ≤ 419 €	1% - 2 municipalities
419 € - 698 € (+/-25% of municipalities)	93% - 195 municipalities
Ae ≥ 698 €	6% - 13 municipalities
Min – pov – max	416 € - 558 € - 1.196 €
Ae/Ac	
≤ 0.82	1% - 2 municipalities
0.82 – 1.36 (+-25% of average)	93% - 195 municipalities
≥ 1.36	6% - 13 municipalities
Min – average - max	0.50 – 1.09 – 1.75

Source: Authors' own calculations

3. 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 program classification that divides the municipal budget into 21 main areas (PC – program classification). The analysis shows that out of the above-mentioned €527 average expenditure per capita, the municipalities spent over 80% of this amount only within the seven largest program groups (see Table 7 and 8 in the 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 program groups such as education (89% homogeneity), local self-government (63%), social welfare (59%), and partially in transportation. Large disparities in average expenditures stir doubts about a proper understanding of each program group because costs per unit should not have deviated so excessively. We have also noticed that considerable statistical deviations from the average can be found in certain groups. As the aggregate analysis shows, urban municipalities have total costs that are 13% higher than the average.

Nevertheless, 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 appears in 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 the 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 significantly 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. Other groups show 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 higher proportions of roads and young people.

4. Conclusions

In view of the obtained analysis results regarding the system of financing the Slovenian municipalities, and in view of the cross-synthesis results, we may formulate a few key findings and conclusions on the actual system compliance. In the first place, it can be ascertained that the 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 percent 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 observed categories. Thus, the range between the lowest and highest value of average expenditures is between €319 and €1,167 per capita. In the amount of the pertinent appropriate expenditure, the range is between €416 and €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 municipalities that fall under such a 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 percent higher with, on average, 26 percent 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 percent more resources through the appropriate expenditure mechanism after recording 13 percent 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 percent of expenditures only in seven program groups. Unlike the previous indicators, the structural analysis showed greater non-homogeneity, which stirred doubts about an adequate understanding of each program 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 planning, 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 percent during the last three-year period, whereas the appropriate expenditure amount allocated to municipalities grew, on average, by 15.3 percent, and therefore it was behind by more than ten percentage points in the increase in municipal spending. All of the above indicate 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.

Regarding the analytical results that we presented throughout the text, some short recommendations and guidelines can be given to improve the current system of Slovenian local government financing. First, it would be beneficial to make a clear distinction between urban and non-urban municipalities, since analysis has proved that urban municipalities, due to their special function and role, have different needs concerning financing some program activities. We have to be aware that many non-residents (like day-to-day migrants, students, business people etc.) use social, cultural, educational, transport and other infrastructure of urban municipalities, while not being

residents of those particular municipalities that provide them and consequently do not pay for them through local fiscal systems. Interesting reference from other countries can be also found in Benito, Bastida and Guillamon (2010, pp. 245-264), Lais and Penker (2012), McGregor and Swales (2005).

With a clear distinction between urban municipalities and other areas, some common and shared costs can be identified and recognized and thus paid through an appropriate expenditure mechanism. Similar corrections should also be performed in some other groups of municipalities that have been identified as non-common. Concerning the stability of the total system of local government financing, some higher level of cost structure uniformity should be established, since it is not always justified that such enormous differences are noted between municipalities. It is true that in some cases, costs per resident cannot be the same in all municipalities, but some basic guidelines could be beneficial for municipalities and supervisory institutions to follow real financial needs and costs through a longer period of time. Although it is not easy, some benchmark should be performed to find a common denominator for costs and tasks performed by the municipalities. Thus our future research will definitely try to include some good practice from other EU countries and try to follow guidelines of the European Charter of Local Self-Government as we need to reach a level of optimal system of fiscal decentralization. Nevertheless, it is good to mention that the current Slovenian local government system does not contain the so-called second level of decentralization, which should be represented by regions or provinces. It is likely that Slovenia will establish this level of decentralization in the future, and this will be the best moment to make some further improvements toward an effective system of local government financing.

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Appendix

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

	2008 to 2010 (in 000 €)					2008 to 2010 (in € per capita)					Change in %		Structure in % of total				
PC	Costs €	INV	P&K	OD	TOTAL	Costs	INV	P&K	OD	TOTAL	Costs	TOTAL	Costs	INV	P&K	OD	TOTAL
01	26,916	175	0	166	27,258	13	0	0	0	14	1.5%	2.8%	2.4%	0.0%	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%	0.0%	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%	0.0%	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%	0.9%	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%	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%	0.5%	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%	0.1%	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%	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%	0.0%	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%	0.0%	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%	0.1%	0.2%
13	140,053	203,233	405	45	343,736	69	101	0	0	170	26.6%	38.6%	12.6%	23.1%	5.8%	0.2%	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%	0.0%	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%	0.6%	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%	0.5%	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%	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%	2.2%	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%	1.0%	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%	0.0%	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%	93.3%	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%	0.1%	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%	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 program, see Table 8.

Source: The Ministry of Finance Bulletin, 2004-2011 and in-house calculations

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

ACTUAL COSTS		ALL MUNICIPALITIES (Actual costs)					MO		Municip., under 5,000 inhab.,		Municip., with P ≥ pov		Municip, with C ≥ pov		Municip. with M ≥ pov		Municip. with S ≥ pov	
PC	PROGRAMME CLASSIFICATION	Av	+/-25%	min	max	% tot	Av	dif	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	19%	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	89%	62	254	29.8%	164	5%	160	2%	162	3%	160	2%	155	-1%	158	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%	573	9%

MO – urban municipalities, Av – average in € per capita, % tot- % in total, dif – difference from average

Source: The Ministry of Finance Bulletin, 2004-2011 and in-house calculations