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THE EVALUATION OF THE RELATIONS BETWEEN THE STATE BUDGET AND THE LOCAL SELF-GOVERNMENT BUDGETS (CASE STUDY OF THE SLOVAK REPUBLIC)

Hodnotenie vzťahov štátneho rozpočtu k rozpočtom miestnych samospráv (na príklade Slovenskej republiky)

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Annotation

The reform of the public administration, which took place in the conditions of the Slovak Republic, aimed to reduce the dependence of the subjects of territorial self-government on the state. Despite changes in the local and regional funding system, this aim has not been met in full. The state contributes to municipalities not only to carry over the transferred competences, but also for their individual needs. The aim of the paper is to evaluate relations of state budget with the local self-government budgets in the condition of the Slovak Republic in the period 2001-2017. The basis for the analysis were cumulative data for municipalities in the Slovak Republic reported by the Ministry of Finance of the Slovak Republic as part of the results of budget management of cities and municipalities. The analysis revealed the fact that in the comparison of 2001 and 2017, the volume of financial resources received by municipalities from the state budget in the form of special-purpose subsidies increased and they are primarily linked to the transferred competences of municipalities. Despite the fiscal decentralization, municipalities in the Slovak Republic depend on the state budget not only within the tax incomes but also for subsidies.

Key words

local self - government, state budget, budget of local self - government, transfers from state budget

Anotácia

Reforma verejnej správy, ktorá prebehla v podmienkach Slovenskej republiky mala za cieľ znížiť závislosť subjektov územnej samosprávy na štáte. Napriek zmenám v systéme financovania miestnej aj regionálnej samosprávy sa tento cieľ nepodarilo naplniť v plnom rozsahu. Štát zo svojho rozpočtu prispieva obciam nielen na prenesený výkon štátnej správy, ale aj na ich individuálne potreby. Cieľom príspevku je hodnotenie vzťahov štátneho rozpočtu k rozpočtom miestnych samospráv v období rokov 2001 až 2017. Podkladmi pre analýzu boli kumulatívne údaje za obce v Slovenskej republike, ktoré vykazuje Ministerstvo financií SR v rámci výsledkov rozpočtového hospodárenia miest a obcí. Z analýzy vyplynula skutočnosť, že v porovnaní rokov 2001 a 2017 sa zvýšil objem finančných prostriedkov, ktoré získavajú obce od štátu vo forme účelových dotácií, ktoré sú viazané predovšetkým na prenesený výkon štátnej správy. Z uvedeného hodnotenia vyplýva, že napriek uskutočnenej fiškálnej decentralizácii sú obce v podmienkach Slovenskej republiky závislé na štátnom rozpočte nielen v rámci daňových príjmov, ale aj dotácií.

Klíčové slová*miestna samospráva, štátny rozpočet, rozpočet miestnych samospráv, transfery zo štátneho rozpočtu***JEL classification:** H71, H72**1. Introduction**

The financing of local governments defines an important framework for their successful existention. Optimization public finance system in general, and more specifically the distribution of finances and competences between the central (national), regional and local levels are also discussed in the theory of public finance. Roubínek, et al. (2015) note that one of the basic theories of public finance is the theory of fiscal federalism. Especially in the context of the increasing role of local governments and of the process of the reform of public administration - decentralization and deconcentration. Partial decentralization of the public sector also helps to increase the intensity of public control over the spending of public funds (Hornýák Gregáňová et al., 2017). Also Sedláková (2012), Fil'a et al. (2015) note that the decision on the direction of the financial flows of municipalities, their priorities, and the mutual relations between the various financial resources in the municipality is the most important expressions of democratic decision-making at the level of municipalities. The relationship between financing at the level of local self-government and the state is also written by Portella and Teixeira (2016) who state that, despite the constitutional law, Brazilian municipalities are moving towards a situation of strictly administrative entities or satellites of the implementation of federal government options, with very little bit allowing them to implement local policy options. Political administrative autonomy, for the vast majority of Brazilian municipalities, is limited to normative support and the implementation of social policies.

Klimovský (2004) notes that in the Slovak Republic until the implementation of fiscal decentralization, municipalities were funded in such a way that about 15% of their incomes was generated by local taxes and fees, and another 25% of their income was incomes from the share tax. After 2004, subsidies for the performance of self-government functions and subsidies for public transport were discontinued. This process has led that the differences between the smallest municipalities and the biggest municipalities and the other municipalities had stopped. The main argument in this case, however, was the fact that municipalities are required to finance the performance of their own competences from their own resources. The loss of subsidies they can be compensated for example, with the active use of local taxes. Urbaníková (2017), Adamišin and Tej (2012) note that local taxes and fees represent for municipalities economic instrument of territorial regulation, or social instrument for selected groups of population. Despite the fact Sedláková (2012), Kováč (2015) note that an increasing amount of finance is being transferred to local self - government, full financial self-sufficiency is not guaranteed. The performance of state administration in the local self-government is traditionally financed by a transfer system. In terms of financing the performance of the original competencies, we are confronted with the problem that smaller municipalities cannot satisfactorily finance these original competences from their own resources. Therefore, there must be important redistributive relations based on the principle of solidarity, fairness and decency in the structure of public budgets, which are, in particular, present the subsidies under vertical and horizontal financial equalization. According to Nižňanský and Valentovič (2004) subsidies for the performance of self-governments serve to offset the socio-economic disparities between municipalities. Balancing the disparities has several forms. Some of them are direct state intervention to facilities, state programs or specific projects, without any influence of self-government bodies (for example housing support, construction of industrial parks, social assistance, etc.). Others intervention present transfers to budgets of local self-governments, in which self-government bodies have an impact on their use. Extent of impact of self-government bodies depends on the transfer category. Grůň and Pauličková and Vydrová (2005), Dvořák (2017) note that formation of the income base of municipalities is considered to be a long-term process, which is characterized to the links and relations between the state budget and the budgets of self-government and among other types of public budgets. The income's base for self-government should be fairly robust, relatively stable, legally guaranteed and flexible to fulfil the tasks that will change during the budget year. Municipalities in the Slovak Republic according to Grajciarová, et al. (2009) have only limited possibilities autonomously to regulate the level of their revenues by their own financial and tax policy. Maximizing your own tax incomes and fee incomes can be achieved either increasing rates or extending the "tax base". The first procedure is very risky, because it can have major negative impacts - the problem of relation between tax rate and the tax yield is expressed by the Laffer curve, which indicates that if tax rates rise will can reduce tax yield. Expanding the "tax base" may mean for municipalities, for example, to increase the attractiveness of the municipality for new inhabitants, business entities, but also expanding or improving local services. Under the conditions of the Slovak Republic, the municipalities are well aware of this instrument and are building industrial parks, preparing zones for developers or individual construction, etc. Also Eslambolchi et al. (2018), Petrášová and Beresecká (2012), Vojtech and Levický (2016) note that the strategy of securing sustainable income

and financing resources for municipalities pursues the enhancement of the performance of urban management on the basis of sustainability of municipalities' income and financing resources; and evaluates the former on the basis of factors such as sustainable economic growth, enhancement of the participation of private sector, amendment of the structure of municipalities' income system, amendment of the structure of municipalities' system of detection and collection of taxes, borrowing and grants and, strategic management of resources.

2. Objectives and methods

The aim of the paper is to evaluate relations of state budget with the local self-government budgets in the condition of the Slovak Republic in the period 2001-2017. The object of the paper were cumulative data of municipalities in the Slovak Republic (2 890 municipalities) and data of state budget. The data sources for the individual indicators were obtained from the Ministry of Finance of the Slovak Republic. The conversion of SK into € (years 2001-2008) was made on the basis of the Slovak National Bank's exchange rate in the appropriate year. Analysis and results were processed in MS Excel. We analyse following relationship:

$$S_1 = \frac{\text{total funds from the state budget intended for municipalities}}{\text{total funds of the municipalities}} \quad (1)$$

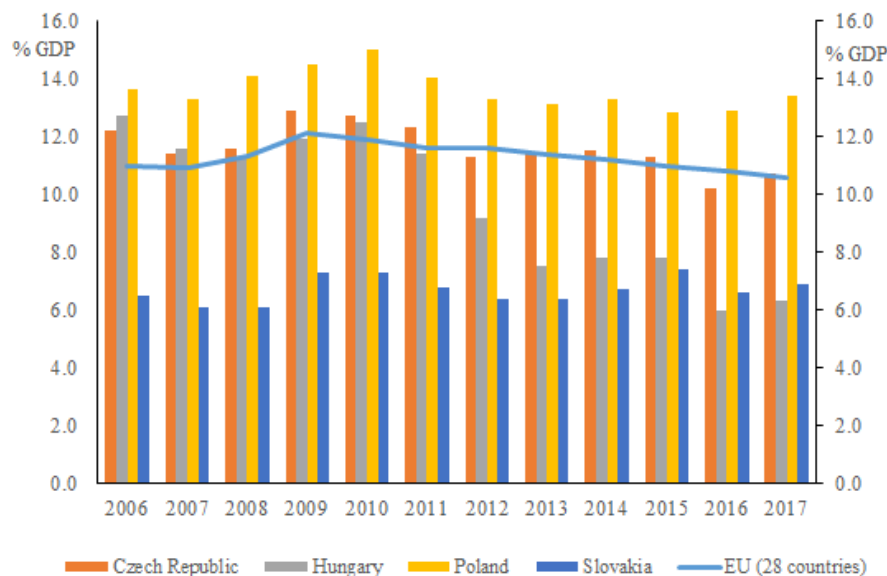
$$S_2 = \frac{\text{total funds from state budget according to functional classification of municipalities}}{\text{total funds from state budget intended for municipalities}} \times 100 \quad (2)$$

$$S_3 = \frac{\text{total funds from state budget according to budget chapters of municipalities}}{\text{total funds from state budget intended for municipalities}} \times 100 \quad (3)$$

We analyse also the total general government expenditure as a share of GDP issued at local government level in selected EU member countries over the years 2006 - 2017. Expenditures of government institutions are defined in ESA 2010 in paragraph 8.100 and Chapter 20 with a reference to the list of items: intermediate consumption, gross capital formation, employee remuneration, other taxes on production, subsidies, property income, ordinary taxes on pensions, property and other benefits, social benefits other than social transfers in kind, transfers - purchased market output, other current transfers, changes in pension entitlements, capital transfers and net transactions in non-produced assets. The data sources for this indicator was obtained from Statistical Office of the Slovak Republic.

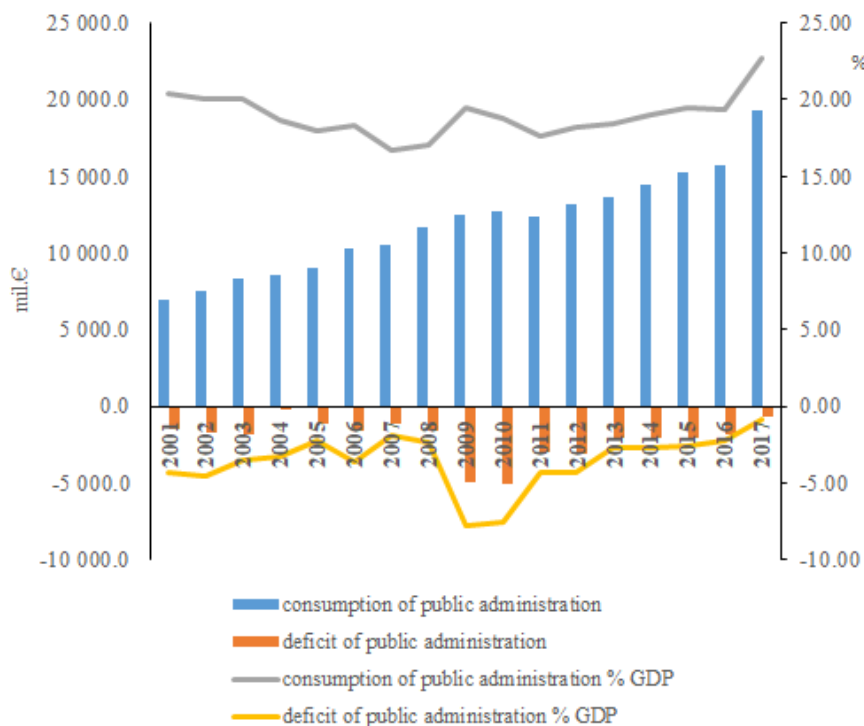
3. Results

On the local level, we talk about financial sustainability when the local self-government bodies can do their financial obligations consistently in the long term. Financial sustainability also reflects the adequacy of available incomes to ensure the provision of the services which the public demands (Fisher, 2007, Vavrek, 2015). The level of financing of local government in the individual EU member countries depends on the model of public administration in the country. Government expenditures for local governments in selected EU-28 countries (V4 countries) is on average 10%. The share of expenditures declined slightly in 2017 compared to 2006 (11% in 2006, 10.6% in 2017). Within the V4 countries, Poland (13.6%) and Slovakia (6.5%) recorded the highest share of these expenditures in 2006. This trend can also be seen in 2017. During the analyzed period, in the V4 countries and also the average of the EU -28 increased significantly these expenditures in 2009, as a result of the economic crisis when individual states more to an increased extent subsidized the local governments due to a decline in their incomes. We also see this trend in the other V4 countries with the exception of Hungary, where this expenditure fell by 4.13% in 2009. Compared to 2006 and 2017, in the V4 countries, with the exception of the Slovak Republic, there was a decrease of these expenditures, with the most pronounced decreasing was in Hungary (50.39%). The Slovak Republic increased these expenditures by 6.15% in 2017 compared to 2006 (fig.1).

Fig. 1: Development of the total general government expenditure, Local Government in 2006-2017 (% GDP)

Source: owns processing on the base Statistical Office of The Slovak Republic

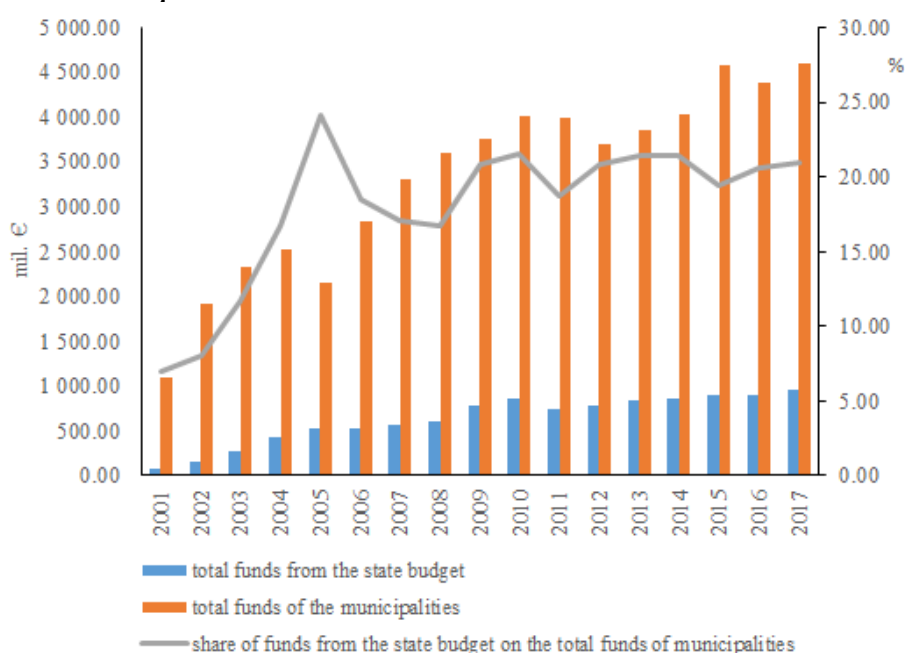
Consumption of public administration in the Slovak Republic during the period 2001 - 2017 trade grew year-on-year, with the exception of 2011. Consumption of public administration, if we compare year 2001 (consumption of public administration was 6991.9 mill. €) and year 2017 (consumption of public administration was 19260.5 mill. €) was almost triple (fig.2). Consumption of public administration on average, is at level 20% of GDP, even in 2017 compared to 2001 has increased from 20.38% of GDP to 22.69% of GDP. Another analysed aspect was the deficit of public administration, which means that expenditures of public administration exceeded the incomes of public administration each year. The highest deficit was achieved by the public administration in 2009 (-7.8% of GDP) and the lowest in 2017 (-0.8%).

Fig. 2: Development of the selected financial characteristic of the public administration in Slovak Republic in 2001 - 2017

Source: owns processing on the base Ministry of Finance of Slovak Republic

The negative impact of the economic crisis in 2009 was reflected not only in the excess of the budgeted deficit but also in the significant exceedance of the 3% Maastricht criterion for the deficit ratio to the gross domestic product. According to the Aggregate Annual Report of the Slovak Republic for 2017 within the European Union (28 countries) in 2017, 9 countries reached a higher deficit of public administration and 16 countries achieved also higher debt of public administration than the Slovak Republic. The average deficit of EU (28 countries) were 1.0% of GDP (Slovakia 0.8% of GDP) and the EU average debt of public administration of EU (28 countries) were 81.6% of GDP (Slovakia 50.9% of GDP) in 2017. The economic is involved in reducing of the deficit of public administration, both on the consolidation of public finances and on the improvement of accrual incomes of the taxes. Municipalities participated on this result with a deficit of 7.7 mill. € in 2017. The negative development of the balance of municipalities caused to increased capital expenditures, especially for the construction and reconstruction of infrastructure (for example construction of canalizations and sewage treatment plants). The deficit of municipalities also affected the increase of liabilities to suppliers, to decrease receivables from non-tax incomes of municipalities, which consist mainly of incomes from the rent of property, fines, administrative and other charges.

Fig. 3: Development of the selected financial characteristic of the municipalities' budget and state budget in Slovak Republic in 2001 - 2017



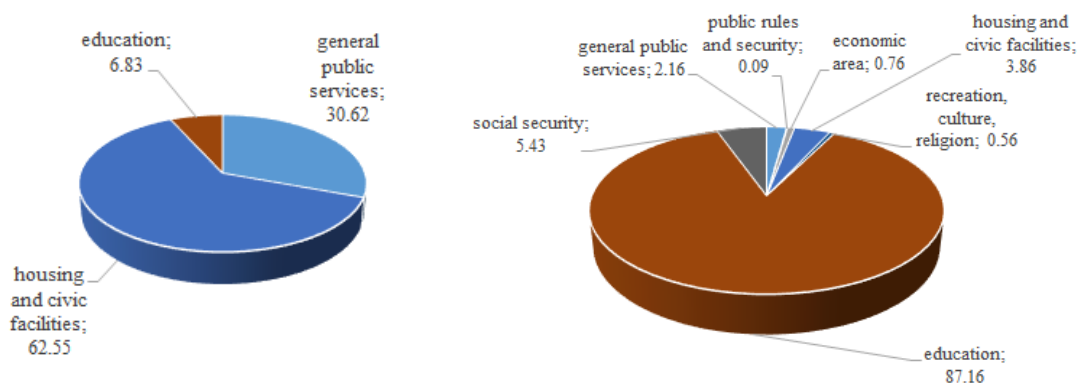
Source: owns processing on the base Ministry of Finance of Slovak Republic

Total incomes of municipalities in the period 2001-2017 showed a fluctuating trend (fig.3). By 2004, we recorded an annual increase of total incomes. In 2005, total municipal incomes decreased by 15.14% compared to the previous year. This year, fiscal decentralization under which the system of local government financing was changed took place in Slovak Republic. The only share tax divided by the state to the municipalities was the tax from the personal income and local fees were transformed to local taxes, except for the fee for solid municipal waste and small construction waste. The new financing method showed positive in 2006, when the total incomes of the municipalities reached 2.835 mil. €, which was an increase of 32.10% with previous year. In the following years, the Slovak economy started to become more active, increasing not only GDP, but also incomes from tax of the personal income, which was also reflected municipal incomes. As a result of the positive growth of the Slovak economy, there was also an annual increase of the total incomes of the municipalities. The economic crisis, however, hit the Slovak economy in 2010, slowing the development of the Slovak economy, which had a negative impact on the total incomes of the municipalities. The decline of total municipal incomes in 2011 compared to 2010 was 0.42%. We also see a slight decline of municipal incomes in 2012. In the period 2011-2016, total income has increased annually. The decrease again occurred in 2016 (the decline in total municipal incomes compared to the previous year was 4.19%). However, compared with 2001 and 2017, total municipal incomes grew more than 4 times.

Financing municipalities through the state budget is not only typical for the Slovak Republic. For example, Portella and Teixeira (2016) note that total incomes from taxes and contributions amounted to only 7.83% of consolidated public incomes, so the municipal incomes with intergovernmental transfers exceeds in 80.33% the incomes with

tributes and contributions of its competence. Also Roubinek et al. (2015) note that the financing of cities and municipalities in the Czech Republic is different from other European countries. Bigger cities have higher tax income per capita (because they perform the functions which are used by the inhabitants of smaller municipalities). In contrast, small municipalities have lower tax income per capita. In the Poland, Parlinska (2014) notes that all types of municipalities use credits, loans, and municipal bonds for financing expenditures. The municipalities' debt rose quickly but the payments of interest were not a problem in the examined years and took less than 1.78% of budget incomes. The shares of the investment expenditures in total expenditures of municipalities were at about 20% for 2005-2009 but they increased significantly in 2010. Provažníková (2014) found out in the examined sample of cities in the years 2006-2011 that the level of funding of delegated competences through the Ministry of Finance of Czech Republic in municipalities with extended competencies ranges from 65-85%.

Fig. 4: Share of subsidies to municipalities from the state budget according to the functional classification of municipalities in 2001 and in 2017



Source: own processing on the base Ministry of Finance of Slovak Republic

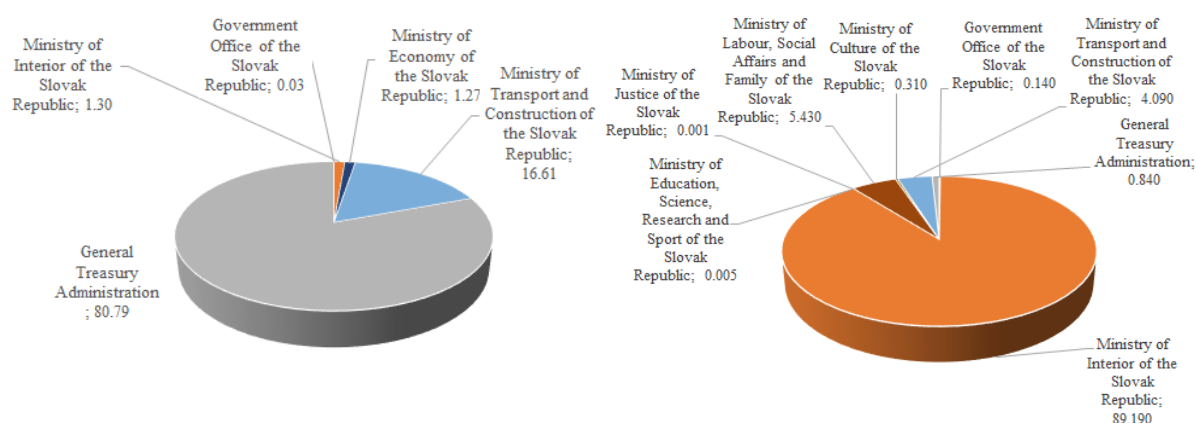
If we look at the functional classification of reallocation of funds from state budget in relation to municipalities (fig.4), in 2001 the state sent the biggest amount of funds to housing and municipalities facilities (62.55%). Almost 31% state sent to general public services (registry of population, register office) and almost 7% to education. When comparing the years 2001 and 2017, it is possible to monitor the growth of areas where the state contributed to the municipalities. Most of the funds were sent from the state into municipalities in 2017 into the field of education (87.16%). The reason for this increase is the fact that in 2002 there was a delimitation of primary schools from the state to the municipalities. Thus, the state sends the funds to the municipalities on the delegated performance of the state administration in the field of education through a normative which is purpose - bound to ensure the operating and wage costs of primary schools. It is also confirmed by Soltes et al. (2017), Hudáková (2016) who notes that municipalities are required to ensure the suitable operation of primary schools and pre-school facilities. Municipalities receive funds from the state budget for the operation of these types of schools. These funds from state budget have to be redistributed among these types of schools. Expenditures on the social security are mainly related to co-financing of social services in municipalities - social facilities, nursing service. Nearly 4% went to housing and civic facilities (support of rental housing) and 2% to general public services. Expenditures associated with implementation of the program "Integration of Marginalized Roma Communities", expenditures for flood works, for crime prevention, for recreation, culture, religion and for economic area, represented into 1% (pic.4). In the area of health care in Slovakia, in the framework of public administration reform, passed to municipalities competences, the establishment of ambulance stations and ambulance stations in social services facilities, and the establishment of specialized outpatient care facilities. However, the state does not contribute to these competences with funds. Another situation is in the Brazilian communities mentioned by Portella and Teixeira (2016), who note, that the competences of municipalities in Brazil to provide utilities of general interest, including public transport, pre-school and school facilities, health facilities and the preservation of historical and cultural heritage are covered by Article 30 in the jurisdiction of the municipalities. Expenditures by Brazilian municipalities in the area of health in 2014 totalled 97.381 mld. USD. Municipalities expenditures for public health present for more than 1/3 (36.58%) of the total public health expenditure in Brazil.

If we look at the funds that the state sends to the municipalities through the state budget through the individual ministries (fig.5), in 2001 the biggest share (80.79%) was made up of funds sent through the general treasury administration (support of self-government functions of municipalities, financing of public transport in regional cities, individual needs of municipalities), almost 17% state send to the municipalities through the Ministry of Transport and Construction (support for housing policy in municipalities - building of rented flats through the

State Housing Development Fund) and to a lesser extent through the Office of the Government (0.03%), Ministry of the Interior (1.30%) and the Ministry of Economy (1.27%).

In 2017, the biggest share of funds to municipalities (support for the transfer competences) was sent by the Ministry of the Interior (89.19%). More than 5% funds were allocated by the Ministry of Labor, Social Affairs and Family (co-financing of social services). Almost 4% was sent to the municipalities by the Ministry of Transport and Construction for building and reconstruction of the housing fund. The same share of subsidies was sent to the municipalities by Government Office, Ministry of Justice, Ministry of Education, Science, Research and Sport for reconstruction and modernization of school buildings, Ministry of Culture for suffering and restoration of cultural monuments.

Fig. 5: Share of subsidies to municipalities from state budget according to the budget classification of municipalities in 2001 and in 2017



Source: owns processing on the base Ministry of Finance of Slovak Republic

Kalamarova et al. (2015) note that local government can apply various tools to promote cultural heritage in the municipalities. One of them is preferential rental facilities at lower than market prices as a support tool of the restoration of immovable cultural heritage object or production of public services, but only 33% of surveyed local governments use this option. The General Treasury Administration also contributes to the individual needs of the municipalities from its budget (fig.5).

Conclusion

The analysis of general government consumption as well as the general government deficit showed that, despite rising public consumption, the public administration is trying to reduce its deficit. From the point of view of municipal funding through the state budget, we can state that, despite fiscal decentralization, the state, through its departmental ministries, contributes to the municipalities not only for the transferred competences but also for the individual needs of municipalities. Although territorial self-government has a relatively big decision-making power, its budget is still significant dependent on the state budget. However, the financial crisis has shown that such a way of financing can be dangerous for municipalities at a time of deteriorating economic situation of the state and therefore municipalities should also look for other possibilities to obtain financial resources in their budget in future (for example through from non-tax incomes).

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