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'MODEL OF LOCAL GOVERNMENT FINANCE IS THE OPTIMAL MODEL A REAL OPTION?'

(review of Slovenian experience)

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Working Paper are preliminary and are circulated to promote discussions and comments. Any reference should state that the paper is preliminary.

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MODEL OF LOCAL GOVERNMENT FINANCE
IS THE OPTIMAL MODEL A REAL OPTION ?
(review of Slovenian experiences)

Žan Oplotnik

1.   Short introduction into Slovenian system of LG

Slovenia, small CE transitional country with a great demographic and geographic diversity, although comprise only a little bit more than 20.000 km^2. Its GDP amounts around € 21 bill with moderate real growth by 3-4% per year. With *only one 'live' lower level* of self-government (193 municipalities), belongs to the countries with a relatively low degree of decentralisation. Total share of sub-national government amount 5,31% of GDP (in 2001) or as a proportion of general government revenue around 12,3% (the mean value in EU is around 26% of the general government). In 2001 all local communities in Slovenia have gathered €1,108 bill and with this they have covered €1,116 bill of their expenditures. Although The Law on LG (Official Gazette of RS no.72/93, 57/94, 14/95, 26/97,70/97,10/98, 74/98, 70/00) allows creation of more level of LG (*e.g.* wider local communities like regions and narrower sections like local, village or quarter communities) no regions have yet been created[1]. On the other hand, the narrow sections totally depend from municipalities and may not incur debts or raise taxes.

There are currently 193 municipalities in Slovenia. Although by the law, 5.000 inhabitants represent a minimum for funding a municipality, currently 95 fail to fulfil this basic criteria. Many of them were politically enforced and created on the basis of a provision in the local government act that states that in exceptional cases a municipality may have fewer than 5.000 inhabitants for reasons of geography, border location, ethnicity, history or economics (let us call them *'fictitious units')*. The municipalities vary greatly in terms of population (see Table 1).

Table 1: Municipalities in Slovenia according to the number of inhabitants

	<1.000	1.001-5.000	5.001-10.000	10.001-50.000	50.001-100.000	>100.000
% of municipalities	**3,1**	**46,1**	**22,8**	**26,4**	**0,5**	**1,0**
number of municipalities	6	89	44	51	1	2
Lowest	390	Hodoš (390) , Solčava (573), Jezersko (669)				
Average	10.376	Rogaška Slatina (10.860) Laško (12.122) , Bled (11.181),				
Highest	270.854	Ljubljana (270.854), Maribor (115.880), Kranj (51.124)				

Local government functions (responsibilities) and expenditures. According to Slovene constitution and The Law on Local Self-Government as a principal act of the area, a municipality is in a whole competent for local matters, which it can manage independently and which concern only the inhabitants (kindergarten, housing and community amenities, communal activities, environmental protection, local road activities, etc). In carrying those tasks (original or own functions) municipality anticipates them in the municipal budget, which is formulated for the period of a single year and are financed by the local community revenues set by The Financing of Municipalities Act and *financial equalisation* from the state budget. The legislation

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[1] The reason lies in fact that regions should be founded on the basis of independent decisions by municipalities. In practice they never come to rise, as given their differing interests, the municipalities failed to agree on founding regions. Amendments to the constitutions allowing regions to be founded on the basis of an act of law are under preparation. Regarding to the number of regions and their size, there are several variants (6, 8,12), but it is hard to reach consensus, since the constant pressures are exerted to undermine the basic concept.

also defines that the state can by previous consent of municipality or wider self-governing local community, transfer to them the operation of *individual task* from the state competence if it provides also the funds, but till now that was not the regular practise. For more detailed data and descriptions of expenditure structure, see Tables and Figures in appendix, where it can be seen that in 2001, total expenditures of municipalities amounted € 1,1 bill. (12,3% of general government or 5,3% of GDP in Slovenia).

It can be asserted that in Slovenia exist *formal* distinction between original (own) functions that municipalities should perform according to The Law on Local Self-government and transferred (delegated, individual) tasks subject to the prior consent of the municipality and defined in Article 24 of previous stated Law, but reality brings many constant struggles between central government (ministries) and municipalities over the interpretation of tasks listed in legislation. The fact is, that tied financial situation, special in the field of health, education and some social services, causes some *pretend ignorance* who is responsible for what.

Analysis showed that there is a high degree of variability in expenditures among municipalities; *e.g.* the average amount of total local expenditures is 522 € per capita, yet according to frequency distribution of municipalities, only 40% of them fit into group that deviate less than 10% from average (*see* Figure A2 in appendix)[2]. Analysis showed that smaller units (by the number of inhabitants) confront with higher expenditures for administration (even more than 50% of total budget) while larger ones (*e.g.* urban municipalities) confront with higher expenditures for housing (up to 80% more than smaller one), communal activities (up to 25%) and culture and sports (up to 40-80%). Further research showed that considering the area criteria, spacious rural (special high alpine) municipalities are more expensive regarding some economic activities, like local road maintenance, agricultural subventions, school transport, etc.

2. Model of financing LG main financial sources   (own, assigned, shared, transfers)

Financial resources are of essential importance for the estimation of the actual situation of local self-government. Without autonomy and sufficient financial resources, local self-government is nothing more than an external appearance. To avoid the risk of local bodies remaining without funds for performing the tasks laid down by the law, financial resources which pertain to them should be defined in correlation with competences. In continuation, to achieve a basic purpose of fiscal decentralism, some basic conditions should be fulfilled: *a)* decentralized unit should exercise a sufficient degree of fiscal autonomy, thus a variety of local taxes should be available by the Law to local government, *b)* locals should be capable to extract such a list of taxes, charges and fees to suit the most to their local specifics (tax base, wealth, etc), *c)* such instruments as a referendum are benevolent to find out what tax structure could gather the widest support, *d)* the absence of correlation between local specifics, tax structure and actual/normative expenditures can result in excessive burden for general government, foundation of non-rational units, '*flying paper*' effects (corruption, political pettifoggers, etc…).

The most important source of local government budget (around 42% of total local revenues) in Slovenia pertain to shared tax (personal income tax), and totally own property tax on unmovable property (around 9% of total) while the general government provide local communities with some forms of financial aid, such as general or special transfers (around 20% of total) . Next to

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[2] The most *expensive* municipality is *e.g.* a remote rural alpine municipality with only 573 inhabitants and 1431 € of expenditures per capita. On the other side the '*cheaper*' municipality, Kidričevo, with 7.000 inhabitants and 319 € of total expenditures per capita.

that, local communities (municipalities and narrower units) dispose of their property (assets[3]) that the former state transferred to them after reforming self-government in 1994. Some additional property local units also acquired through privatisation process. Listed sources give the local communities the necessary liquidity. However, those resources sometimes are just not sufficient for the level of services demanded by local inhabitants or legislation, at least not in the long term. Small local communities are often stricken by a low tax base and poor tax administration. Particularly remote rural municipalities, with small number of inhabitants, enterprises or any other sources from which they could draw appropriate revenues, are not capable of providing the necessary funds for many social services within their competence.

In general, the municipalities in Slovenia are financed according to the Financing of Municipalities Act adopted as a temporary act in 1994 prior to the beginning of new municipalities' operations. The central contents of the Act were determining amount of financing of necessary tasks (*appropriate expenditure*), determining the criteria for financing the necessary tasks, and *financial equalisation, i.e.* the state budget funds intended for municipalities' operations that should balance the difference between the municipalities' current income and funds required for fulfilment of necessary tasks. In 1998, amendments to the Financing of Municipalities Act were adopted which established a new system of municipal financing that was introduced in 1999. The essence of these changes lies in the introduction of new bases for the financing of those tasks which are performed by municipalities according to the Constitution and European Charter of Local Self-Government[4]. The leading principle of the now-days valid Financing of Municipalities Act is that a municipalities in Slovenia are financed through *tax revenues* collected under Article 21, 22 and Article 23 of that Act, *non-tax revenues* as public utilities charges, administrative fees, penalties, self and voluntary contributions, etc, *other revenues* deriving from municipal assets and *transfers/grants* (general and special grants) received from general government or other institutions (see also Table A3 in appendix).

The most burning problem of the current LG financial system is disproportional distributed volume of sources collected by municipalities. The latter together with previous discussed matters present a real *merry-go-round story* of LG system in Slovenia. *For example*, an average amount of operating revenues per capita by municipality is 391 € per one fiscal year, but divergence between the lowest and highest amount to seventeen times of the smallest (*e.g.* 79 € was amount collected by *the poorest* municipality while *the richest* collected 1.400 € per capita in 2001). Frequency distributions of municipalities, regarding *operating revenues* collected, shows that only 34% of them succeed to collect 80% or more of average while the rest of 66% failed to do it (see also Figure A3 in appendix). Almost 21% couldn't gathered even 50% of the average (mostly already mentioned *'fictitious' units*). On the other side of the scale we can found highly tourist jurisdictions and economic strong urban municipalities (like Ljubljana, the capital, although the highest amounts are usually collected by municipalities that border on strong urban units since the income tax is most important local tax in Slovenia and it pertain to the municipality where the tax payer has a permanent residence – *'sleeping zones'*.

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[3] Municipal assets consist of movable and immovable property, financial assets and rights. Municipalities manage the following property: a) land (building land, vacant building land, agricultural land), acquired by a municipality through payment or by other means; b) municipal infrastructure (roads owned by the municipality, waterworks, hot water supply, gas supply, etc.); c) housing (subsidized and non-profit municipal housing); d) commercial space (available for rent for various purposes); e) capital shares (in public companies, institutions and commercial companies, banks, etc.); f) financial resources from the budget, public funds and agencies; g) other.

[4] In Article 9 of the Charter it is stipulated that local authorities are entitled to certain proper financial resources within national economic policy, to be used by them freely within their authority. At least part of their financial resources must come from local taxes and contributions, with the amounts or limits determined by local authorities. Next to that, the procedures of financial equalisation should be introduced in order to protect financially disadvantaged local authorities. All this also states in Article 142 of the Slovenian Constitution.

With the purpose to explore *the level of financial autonomy of LG in Slovenia* in continuation above listed revenues of were divided into those taxes pertaining to the state and municipalities *(shared taxes),* those pertaining to the municipalities but the basis, rates and payers are determined by acts of law and are assigned to municipalities by the central government *(assigned revenues)* and on those pertaining solely to the municipalities and the locals have some competence in determining the tax base, rate and exemptions *(own and partly own revenues)*. Within the total LG revenues, the major part is occupied by only one shared revenue, personal income tax, that it is shared with general government. Income tax represent 42% of the total local revenue and almost 70% of local tax revenues. It is extremely disproportional distribute and represent a major cause of increasing horizontal in-balance in Slovenian LG fiscal position. Further, *assigned revenues* represent only around 4% of total local revenues while *own and partly own resources* amounted for around 34% of the total. The rest 20% pertain to transfers from the state budget and other grants received and amount for around additional 1% of GDP (more detailed data can be found in Table A4 in appendix and in continuation).

2.1. Own revenues of LG in Slovenia (around 34% of total revenues)

According to Article 22 of the valid Financing of Municipalities Act we can determinate 11 categories of taxes and revenues (fees and charges) that pertain to the local community and local authorities have some competence at prescribing rates, bases, etc (in continuation: *own tax revenues,* see also Table A4 in appendix). Next to that into category of own revenues we can also include some revenues defined by legislation but they are not taken into considerations in calculations of appropriate revenues/expenditures level formula explained in section 2.3. (in continuation: *own non-tax and capital revenues*, like for *e.g.* capital revenues, participation on profits and income from property, rental incomes and incomes from concessions and business premises, self contributions, etc). As have already been said, around 34% of total LG revenue is collected through original LG revenues. Within own revenues, around 45% pertain to own tax revenues and 55% pertain to own non-tax and capital revenues. The most important own tax revenue is actually only one tax, named *compensation tax for the use of building land* and within category of total taxes (Table A3) it represent around 15%. Within category of own revenues (Table A4) represent the only majority and for that reason it is described in continuation:

Compensation tax for the use of building land (26-28% of own revenues). This tax is actually predecessor of a *tax on unmovable property* that should be introduced in the beginning of 2005. It is wholly and only real original municipal revenue where the level of tax is entirely formulated by the local authorities. It actually represent a real autonomy of LG and together with revenues of administration from sale of goods and services accounted for around 10% of total local revenues. Unfortunately two principal weaknesses preventing it to be almost 'perfect' local tax. **First**, it is poorly administrated due to incomplete land register and lack of local authorities incentive to collect it, since this reduce their amount of *fiscal equalisation* received from the state budget on yearly basis (explained in section 2.3.). **Second**, it is very disproportional distributed across the regions, since some local authorities have no tax base to collect it or the others have no incentive or even knowledge to collect it. Frequency distribution analysis showed, that only 28% of municipalities are able to administer more than 80% of average amount administer in Slovenia (34 € per capita per year)[5].

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[5] The smallest amount in 2001 (7 €) was gathered by mostly rural units, while the highest was administer by municipalities Markovci (350 €) and Vuzenica (159 €) where big hydroelectric power station stands.

Other important own tax revenues (around 15-20% of own revenues). Comparatively, the remainder of actual local fiscal autonomy represent only 9,4% of total taxes that to some degree pertain to local authorities and only 5,2% of total local government revenues. The only significant tax within that group, and due to that worth to be mentioned, is Concession fee (tax) from special games of chance. Its pitfall is that pertains only to those municipalities that actually have any gambling industry on their territory (25 municipalities). Other taxes in that group are group of taxes on disposal sale and licences, local tourist tax, communal taxes, forest road maintenance tax, etc. Together with above mentioned predecessor of a tax on unmovable property and Concession fee (tax) from special games of chance, this group of taxes represent *a hard-core of Slovenian LG autonomy level*, which is frankly speaking low and it account for around 15-16% of total LG revenues or around 25-26% of total tax revenues.

Own non-tax and capital revenues (around 55% of own revenues). Although the group of own revenues that derive from municipalities assets, property rights and other formal power of local authorities to charge economic subjects represent almost 55% of total own revenues it hardly deserves that name, since its distribution is again highly disproportional. Almost 61% of municipalities isn't capable to derive even 50% of average amount gathered (97 € per capita per year). The picture is almost the same as already discussed above. Most of this revenue pertain to wealthier units (urban and urban-bordering municipalities) that inherited substantial assets after the reform of self-government in 1994 or through privatisation process. According to this, the highest amount gathered in 2001 from this address, pertain to municipality Vodice, situated near Ljubljana. It amounted for 1.109 €. On the other side, the lowest amount, only 11 € per capita in year 2001 pertain to one rural municipality situated near Drava region. At that time it has to be mentioned, that data on this category of own revenues should be taken by some doubts, since they vary from year to year. Usually, the level of this revenue depends from current needs and plans of locals: *e.g.* recently, the nine years elementary school system has been introduced in Slovenia and numerous municipalities had to raise some additional resources and efforts to invest in appropriate infrastructure. Some of them also had to sell their shares in local companies. Another factor that significantly influences the ability of local communities to earn some substantial revenue from this category is *knowledge and inventiveness of locals*. Many of local communities town councillors, majors or other local servants are just not adequately skilled and educated to successfully cope with larger projects and budgets that demand some specific treatment (*e.g.* PPP, public private partnership is very poor knew and used concept among local municipalities, similarly like usage of temporary capital markets instruments, bond issues, debt management, etc).

2.2. Assigned and shared LG revenues (around 46% of total revenues)

According to Articles 21,22 and 23 of the valid Financing of Municipalities Act 7 categories of taxes and revenues that pertain to the local community can be determined, over which local authorities does not have any competence at prescribing rates, bases, exemptions, etc. Next to own resources over which local authorities are able to exercise autonomy and revenue raising power, those sources are prescribed by legislation and only allocated (transferred) to the locals for their own, but unconditional use. At this point the real fiscal strength and autonomy of local self-government is actually lost and consecutively also a substantial part of the purpose of fiscal decentralization. Nevertheless, in Slovenia this category represent a principal source of local government revenues and it accounted for around 46% of total local revenues or 5-6% of general government and around 2,4% of GDP in Slovenia (see also Table A4 in appendix).

Within this group, the majority is reserved for personal income tax, the tax that it is shared between the general government and local municipalities in proportion 65:35 in favour of the general government. The tax is based on place of origin. Mentioned tax represent around 91% of this group and therefore 42% of total local revenues. The rest of the group is composed of: tax on real estate transactions (6,1% of the group and 2,8% of total local revenues), tax on movable property, tax on heritage and gifts, administrative fees and special tax on use of gambling machines (together 3,9%).

Personal income tax is shared with general government at a ratio of 65: 35 in favour of the state, wile 35% is allotted to the municipalities, based on place of origin. As a principal fiscal source should actually be the most responsible for vertical and horizontal balance of local self-government in Slovenia. Unfortunately, its disproportional distribution makes differences among the units even deeper and deeper every fiscal year. As it can be seen from Figure A4 in appendix, according to the frequency distribution, around 60% of municipalities fail to attain the average amount of income tax (78 € per capita), while 4,7% of units attain more than 120% of average amount. The rest of them (around 36%) attain between 80 to 120% of the average amount of income tax. The lowest amount in observing year 2001 was attained by the smallest municipality Hodoš (390 inhabitants). In 2001 to Hodoš municipal budged was allocated only 43 € of income tax. On the other side can be found municipality Trzin, municipality bordering Ljubljana and where many wealthy individuals reside. Trzin attained 418 € of income tax in fiscal year 2001. Almost as a rule we can expect, that the highest amount of income tax is gathered by urban units and those bordering on them while the smallest pertain to already mentioned, politically founded units from north-east Slovenia, many times for the sake of more symmetrical regional economic development, but sometimes also just to gain some additional political points before elections. Those municipalities to great extent depend on *transfer payments* from the national government (sometimes attain even 95% of their budget from this address). System of *fiscal equalisation* (transfer payments) is described in continuation.

2.3. Transfers and Financial equalization system (around 20% of total revenues)

In order to achieve horizontal balance and that inhabitants in poor municipalities would have access to the same level of services for the relatively same price, some instruments have been introduced in LG financing model. Generally, every year around 20% of total LG resources are acquired through vertical reallocation of funds, either directly from the state budget to local municipalities budgets through so called *general grants* in the form of *financial equalisation* funds or through so called *special grants* from the national government budget or other institutions for investment expenditures or any other current expenditures (PHARE programs, intergovernmental cooperation, contributions of a local companies, etc). In the period from 1998 to 2001, general grants accounted for between 65% and 75% of total transfers to low level government, while special grants accounted for between 25% and 35%. For example, according to 2001 official data, transfer revenues amounted to 20,6% of total local government revenues what represent around 2,5% of general government funds or around 1,1% of GDP in Slovenia. As already mentioned, also within this group of revenues, the differences between municipalities are considerable. According to 2001 data and frequency distribution analysis, only 25% of municipalities received less than 20% of their total budget funds from the state budget. Up to 49% received 21% to 50% of their total budget funds from the state budget and almost 26% of municipalities (50), received in 2001, more than 50% of their total resources from general government funds. The highest proportion of their total revenues (even up to 88%) pertain to already mentioned small municipalities from north-east area of Slovenia.

General grants system of financial equalization (around 70% of transfers). Municipalities usually get their general grants (*financial equalisation*) from the state budget for funding the municipality's *current expenditures* calculated upon so called *the formula of appropriate expenditure* which is determinate in The Law on the Financing of Municipalities (Article 20 and 20a). Amount of appropriate expenditure should assure that municipality constitutional and legal functions are carried out. Municipalities which are able to cover the expenditure calculated by the *formula of appropriate expenditure* with their collected revenue under Articles 21,22 and 23 are not entitled to any financial equalisation. As stated, the legislation differentiates between two kinds of municipality revenues upon which the judgement for allocation on additional funds from state government budget is done: *i.e.* revenue under Articles 21 and 23 and revenue under Article 22 of the Act. Detailed data upon those revenues, volume of appropriate expenditures for 2001 and 2002 and other ratios can be found in the appendix, Table A5 – column 3, abb. as *ar*. If municipality is unable to cover calculated amount of appropriate expenditure with their own resources as stipulated in Articles 21, 22, and 23 of the Act, it can rely upon the state for *financial equalisation*. ***Financial equalisation is then the difference between the amount determinate by appropriate expenditure formula and the amount of municipalities' resources actually collected under mentioned Articles***. In theory that means that a municipality that didn't gathered even a single € upon mentioned articles would receive all its funding from the general government budget. In practice such cases do not occur, but local authorities certainly are not stimulate to administer as much taxes as they could, or to strengthen its fiscal base since they are actually '*punished*' with smaller amount of fiscal equalization for such (from national point of view) lucrative behaviour. On the other side any extreme deviate behaviour is also not an option, since as a rule, taxes in Slovenia are collected by *the national tax administration* (yet happens, that local authorities fail to collect even those taxes over which they have a certain degree of autonomy, like already mentioned compensation tax for the use of building land). In order to prevent that and to force local authorities to administer usually poor administrated own taxes, general government prescribed so called *optimum level* of compensation tax for the use of building land. Currently, if local authorities fail to collect mentioned optimum, it is consider as it was collected during the appropriate expenditure amount calculation process. Described deviation is only one problem concerning the valid system of financial equalization and it point out that *local authorities are usually more political negotiators and lobbyists* than experts knowing how to extract the optimum of economic potentials out of its decentralized unit.

Appropriate expenditure determination. The Act specifies that all resources which allow the municipality to perform its constitutional and legal responsibilities, represent the so-called scope of resources for the financing of matters of local public interest. *The amount of appropriate expenditure per inhabitant* (*abb*. ZP in equation) is defined for each single year by the Slovenian National Assembly when the state budget is passed for a set fiscal year. This expenditure is determined as an average amount of resources per inhabitant and does not include funds for investments, nor urgent investments in the public utilities no for other public infrastructure investments. In continuation, the amount of *appropriate expenditure for an individual municipality (abb. Ppi)* is determined on the basis of a mathematical equation in which the appropriate scope of resources per inhabitant amounts to 70% of resources, while correction factors amount to a total of 30%, all together multiplied by number of inhabitants in an individual municipality. The amount for individual municipalities is determined in such a manner that appropriate per-capita expenditure is corrected by the ratio between area, length of local roads, population under the age of 15 and population over the age of 65 in an individual municipality and the average in Slovenia and it is calculated in the following manner (for data and amounts see Table A5 in appendix):

[6] $Ppi = (0.70 + 0.05*Ci + 0.05*Pi + 0.16*Mi + 0.04*Si) *ZP*Oi$

According to official data in 2001, total amount of appropriate expenditure accounted for € 695,3 mill what represented 62,8% of total local government revenues or 3,31% of GDP in Slovenia. On the other side, upon Articles 21,22 and 23 of the valid Law, municipalities collected € 681,7 mill of revenues or 3,24% of GDP in Slovenia. Thus, the differences in total amounted for € 13,6 mill. or 0,07% of GDP, but total amount of financial equalization (general transfers) to municipalities in 2001 amounted for 151 mill. and it has been transferred from state budget to the municipalities that were entitled for such fiscal equalization (165 out of 193). The reason for evident discrepancy lies in regulations where states that eventual surpluses of wealthier municipalities shall not be returned to the general budget, so in Slovenia there is no such method as *'Robin Hood tax'*, in which less affluent LG are supported by the richest jurisdictions of the same tier through horizontal equalization schemes. Currently there are some attempts to change this regulation, but since 28 units that actually have any surpluses are politically to influenced and powerful (like Ljubljana, the capital which actually collect around 60% of the total surpluses) there is no much hope for any *new Robin Hood*. Mentioned amount of € 151 mill. in 2001 represented around 14% of total local government revenues.

Since in 2002 preliminary data show even higher amount of total financial equalization and at the same time almost 25% higher amount of surpluses it is obviously, that the gulf between municipalities increase. Frequency distribution analysis showed, that in 2001 the average amount of financial equalization payment accounted for 9% of revenues collected upon the above mentioned articles. Only 14,5% of municipalities were self sufficient (i.e. they accounted surpluses), 10% pertained around 10% of self-collected revenues, 17% pertained up to 50% of financial equalization, 26% of municipalities were entitled up to 100% of financial equalization according to their collected revenues and calculated volume of appropriate expenditure, 20% were entitled to additional 100 to 200% of their initially collected revenue under Articles 21,22, and 23 while 13% of them were entitled to more than 200% of their initially collected revenue[7].

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[6] The following shall mean:
Ppi - appropriate volume of funds for the financing of the local needs of an individual municipality;
Ci – ratio between the per-capita length of local roads in an individual municipality and in Slovenia;
Pi – ratio between the per-capita area of the municipality and the per-capita area of Slovenia;
Mi – ratio between the share of the population under the age of 15 in the entire population of an individual municipality and the average of these shares in Slovenia as of 1 January of the year in which the amount of appropriate expenditure is determined for the subsequent year;
ZP - appropriate expenditure per-inhabitant defined by Slovenian National Assembly;
Oi – number of persons whose permanent residence in an individual municipality as of 1 January of the year in which the amount of appropriate expenditure is determined for the subsequent year.
The basic sum of all coefficients shall be 1.00. In calculations for municipalities with head offices in areas where municipal head offices existed prior to the implementation of the Law on the Establishment of Municipalities and the Determination of Their Territories and which are not considered urban municipalities, the 0.74 coefficient shall be used in place of the 0.70 coefficient in such a manner that the total sum of the coefficients is 1.04. In calculations for urban municipalities, the 0.78 coefficient shall be used in place of the 0.7 coefficient in such a manner that the total sum of the coefficients is 1.08
[7] The highest per cent of financial equalization payment pertain to already mentioned the smallest municipality in Slovenia Hodoš, that accounts only 390 inhabitants and border to Hungary. Municipality Hodoš in 2001 collected only 70 € per capita of taxes, fees and charges determinate in Articles 21,22 and 23, while upon the appropriate expenditure formula it was entitled to almost 420 € per capita in 2001. The difference, 350 € or 500% of its own revenue, was allocated to its budget through the valid system of financial settlement in Slovenia. Similarly, such enormous per cent of financial equalization was also allotted to other, mostly small, undeveloped municipalities in north east region that were founded outside of any economic rational, usually politically enforced. Such *'fictitious units'* actually don't have any true ability to derive income from its local base (fiscal strength). Due to inadequately set boundaries of some municipalities Slovenia is present-day faced with substantial deviation from true vertical and horizontal balance. On the other hand, such transfers represent some *'second best temporary solution'* to lead an active regional policy of more symmetrical economic development.

2.4. Critical comment on current LG financial system

Regarding yet mentioned great Slovenian diversity, it is hard to imagine finding some substation level of similarity among decentralized units. For the sake of this fact, let us presume a fictitious (model) unit, named **Slovenia**, representing a simple average of all municipalities in Slovenia. Such jurisdiction would extend over 105 km^2, it would have 72 km of local roads, 15.9% of young people, 13.9% of aged, 37.2 enterprises per 1.000 inhabitants, 0.39 employed per one inhabitant, it would collect 519 € of total revenue per capita in one fiscal year and spent around 522 € per capita, of which 37.5% would be spent on investment and the rest on above listed common current expenditures. Next to that it would exercise around 9.9% to 15.2% of autonomy over its revenue raising capacity (tax power) but it would have a very low incentive to raise those revenues since that would decrease its amount of *financial equalisation* (general grant to alleviate horizontal imbalances) received from state budget. The latter would probably account for 8,8% of total local revenues or 18,2% of revenues collected according to 21st, 22nd and 23rd Article of The Law on the Financing of Municipalities (stated in Tables in appendix). Further, it would probably spent 24,8% of its total income on education, 23,5% on economic activities, 15,2% on administration, around 10% on social activities and the rest on housing and spatial development, fire and civil protection, health care, etc.

As we have said this is only a presumption. In reality such *model jurisdictions* are extremely rare and many problems stated latter on steam from this fact and inadequately set boundaries of municipalities in Slovenia. Table A1 and other Figures in appendix shows a great diversity of current Slovenian municipalities according to their characteristics, collected revenues and responsibilities (expenditures or costs). Actually it is a question if setting more uniform jurisdictions (thus changing actual boundaries) would solve the problem of vertical and horizontal imbalance, but higher degree of autonomy, more suitable vertical tax structure and especially higher correlation with municipality characteristics would certainly lead toward that direction. According to recent analysis it is almost impossible to classify existent Slovenian municipalities in less than 6 to 8 clusters and consecutively expect that existing legislation would be able to assure satisfactory position for majority of them.

Most of the described discrepancies derive from following reasons: *a)* inappropriate set vertical tax structure allocated to local self-government and low level of local government autonomy, *b)* current valid system of financial equalization which should be changed, together with *(in)appropriate expenditure formula* determination system (totally disincentive system for revenue mobilization), *c)* absence of correlation between normative and actual expenditures and revenues in jurisdictions, disregarding local characteristics and tax base, *d)* politically enforced decisions to found some '*fictitious*' units and the role of local officials, reduced on political bargains and lobbyism (also as a consequence of poorly skilled local officials).

Namely, neither current local tax structure (plus lack of degree of local autonomy) nor determination of appropriate level of local expenditures are not in adequate correlation with actual situation within decentralized units and their characteristics and abilities to employ local resources and derive sufficient income from its local tax base, *e.g.* small municipality Saint Andrew in north east Slovenia counts 1.285 inhabitants and its real expenditure per inhabitant in 2001 amounted for 214 €. According to Articles 21,22, and 23 it succeed to collect 71 € of taxes, fees and charges per capita. Fair financial adjustment would thus be around 143 € per capita or 200% although existence of such decentralized unit it should be highly questionable. But in reality, municipality Saint Andrew received 346 € of financial equalization, since according to appropriate expenditure formula (Article 20) its expenditure should be 417 € per capita, instead of a real 214 €. On the other side, around 15% of municipalities failed to cover their actual

current expenditures through assigned amount of appropriate expenditures (*e.g.* municipality Lukovica, with 4825 inhabitants in central Slovenia in fiscal year 2001 accounted for 506 € of actual expenditures per capita and it succeed to collect 206 € of taxes, fees and charges. The difference amounted for 300 € and it should at least roughly covered by financial equalization. But municipality Lukovica for fiscal year 2001 was allotted exactly 134 € of fiscal equalization, according to valid appropriate expenditure formula. Discordance of current appropriate expenditure formula is more than obvious[8].

More than obvious is also *an appeal* for local tax system corrections, since local authorities have almost no incentive to employ their own resources and encourage local revenue mobilization. Their role of locals should thus be changed through higher degree of autonomy and wider assortment of local taxes where they will have full competence in determining tax base, rates and exemptions and exercise revenue raising power. Next to that, the level of education, knowledge and contemporary mentality of local officials should be improved although there some local *brain draining* can be noted.

2.5. Investment activities, debt policy and other LG related subjects

Investment activities in municipalities (around 37% of total local revenues). Municipalities are also entitled to state co-financing of municipal investments (elementary schools, kindergartens, road construction, infrastructure for public utilities) in the amount of 10%-70% of the value of investment. The state share of co-financing depends upon the economic standing of a municipality, so that municipalities with smaller revenue receive greater share of funds for investments. The law defines the scale for such co-investments, while the decision on co-financing is made by the Government. Municipalities are also entitled to raise loans for the co-financing of their programs and projects in the area of regional development, for advancement of agriculture, small business and for other developmental tasks. Findings show that the appropriate expenditure resources provide at least 25% (approx.) of the resources for investments. On the basis of the system of financial equalisation, municipalities can finance the performance of their functions as specified in the current legislation, while also investing some of their resources in development. Municipalities with a better economic standing whose total resources exceed the calculated appropriate expenditure are certainly in a stronger position. The adequacy of financial resources for the implementation of their functions also depends on the extent of a local authorities' readiness to impose liabilities on their residents.

Municipal policy on debts. Municipalities may only borrow on the basis of prior consent of the Ministry of Finance by issuing securities and taking out loans. Municipalities may not borrow abroad, except pursuant to the law. Municipalities may take on long-term borrowing for investment confirmed by the municipal council. Municipalities may only borrow if the total level of existing indebtedness and the anticipated new indebtedness does not exceed 10% of the revenues generated by the municipality in the year prior to the year of borrowing, while the total payment of principal and interest in an individual year of payment may not exceed 5% of revenues generated.

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[8] Most discrepancies in negative side appears at *city municipalities* that confront with higher expenditures for spill-over, *i.e.* amenities pertaining also those who migrate daily into areas (students, workers, tourists, etc). The main problem is because ponders of correction factors that determinate a significance of singular municipal specific (characteristic) do not reflect the actual situation that causes higher or lower expenditures, although it is questionable if its possible embrace them all in only one formula? Due to that the differences between counted (formula based) expenditures and actual expenditures are sometimes even twofold on negative and positive side.

General budget co-operation: The same regulations apply for the composition, adoption and implementation of municipal budgets and the state budget: The Government must at the proposal of the Ministry of Finance determine by 30 September the amount of the financial settlement (general grants) for the following budget year. This must be communicated to the municipalities. The Government submits the draft state budget for the following budget year to the National Assembly by 30 September of the current year. Mayors submit proposed municipal budgets for the following budget year to the municipal council within 30 days of submission of the state budget to the National Assembly. The National Assembly or municipal council must adopt the budget within an interval enabling the entry into force of the budget by 1 January of the year for which the budget is adopted. Pursuant to the Public Finance Act, budget inspectors of the Ministry of Finance may supervise the use of transferred funds from the state budget. Such supervision also includes supervision of the lawfulness and purpose of funds transferred to municipalities from the state budget (special grants).

3. Short summary, major dilemmas and needed corrections

The basic purpose of decentralisation is to achieve greater benefit for the national economy in total as it would be achieved in the absence of optimal level of decentralisation. The latter assure that needs of the local population are met in a more effective way. Among others the achievement of this goal is based on an appropriate vertical tax structure and its tight correlation with actual financial need of decentralised unit and its ability to derive income from its local base (fiscal strength and its characteristics).

Slovenia, with only one *'live'* lower tier of self-government (193 municipalities), belongs to the countries with a relatively low degree of decentralisation. Total share of sub-national government spending as a percent of total government revenue account for around 12,5% of the total general government or around 5,3% of Slovenian GDP, while the mean value in EU member states is around 26% of the total government revenue. One reason for mentioned discrepancy is also an absence of second tier (regions) which introduction in Slovenia is anticipated for a near future.

The problems of financing the municipalities in Slovenia mainly derive from following reasons: *a)* inappropriate set vertical tax structure allocated to local self-government and low level of local government autonomy, *b)* current valid system of financial equalization which should be changed, together with *(in)appropriate expenditure formula* determination system (totally disincentive system for revenue mobilization), *c)* absence of correlation between normative and actual expenditures and revenues in jurisdictions, disregarding local characteristics and tax base of highly diversified municipalities, *d)* politically enforced decisions to found some *'fictitious'* units and the role of local officials which is actually reduced on political bargains and lobbyism (also as a consequence of poorly skilled local officials and *local brain draining*).

Currently, around 70% of LG tax (fiscal) revenues represent a shared 'income tax', while municipalities do not have much influence on setting the level of other tax revenues. Many units can not met their legal responsibilities with their own resources. Differences between units are high on the both side, expenditures (*e.g.*: total expenditures between unit vary between 319 € per capita up to 1431 € per capita) and revenues (*e.g.* around 26% of the municipalities, mostly remote, rural and small units, receive more than 50% of their total revenues through system of financial equalization, some even more than 80%).

Neither current local tax structure nor determination of appropriate level of current expenditures are not in adequate correlation with actual situation within jurisdictions and with their characteristics and abilities to employ local resources, deriving sufficient income from local tax base (fiscal strength). Policy reform considerations so *appeal* for some major local tax system corrections since local authorities have no incentive to employ their own resources and encourage local revenue mobilization. Their current role of *negotiators and lobbyists* should be changed through higher degree of autonomy and wider assortment of local taxes where they will have full competence in determining tax base, rates and exemptions. Only through more autonomy they will be able to exercise their revenue raising power and show inventiveness, even sometime skills of locals are questionable. Some degree of responsibilities for now-days situation should also be appertained to political pettifoggers, through which many economic irrational municipalities has been foundered while their boundaries were inadequately set.

Listed reasons cause a substation deviation from vertical and horizontal balance. Namely, on the basis of current system all municipalities whose own income fail to reach the formula based level of *appropriate expenditure,* are entitled to *equalization funds* from the national budget. Thus in 2001 such funding was received by majority (164) of the 192 municipalities (85%) although the wealthier, self-sufficient municipalities (25) accounted for € 137,8 mill. of surpluses (so no *'Robin Hood'* concept in Slovenia). The problem is, because ponders of correction factors that determinate a significance of singular municipal specific (characteristic) do not reflect the actual situation causing higher or lower expenditures. Due to that differences between counted (formula based) expenditures and actual expenditures are sometimes even twofold on negative and positive side[9]. Actual and formula calculated expenditures coincide only by 18% of municipalities, the rest attributed amount of expenditure deviate for more than 10% (sometimes even by 50-100%, *e.g.* in some small municipalities from the north-east part of the country (over Mura and Drava region) the counted expenditures exceed the actual one by more than 60%. The letter example can be explain by political enforced decisions to create some *'fictitious'* units for the sake of the more symmetrical regional economic development).

Consequently the existing financing model should be corrected at least in two fields: a) in the field of revenues, change the existing financing model in the direction of increasing municipalities' own revenues (degree of local self-government autonomy) and consequently reducing number of municipalities receiving *equalization* funds from the national budget *and b) toward determination of more adequate formula calculating appropriate expenditures level.*

Next to that, the municipalities should be more autonomous in employing alternative financial resources. It would be advisable to make a move toward the market as a provider of property in public domain and as a subject of financing the development of infrastructure facilities. The instruments as concessions granting, various forms of public, private partnership and transformation of the municipal property have not been widely applied concept yet, although such instruments can considerably improve the budget situations of the local communities.

Current incentive instruments to encourage local revenue mobilization are almost completely inefficient and absent since the municipality that increase tax administration effectiveness it is actually *'punished'* by decreasing its *'fiscal adjustment position'*. Till now it has turned out that *'pure altruism'* to reduce total amount of 'adjustment funds' that state should transfer to the municipalities, is not real or frequent option.

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[9] *E.g.*; upon the formula to some units pertain more than 100% of resources above their actual expenditures, while some are actually *punished*, since normative amount calculated by the formula fall bellow their actual costs (*e.g. to* Piran, an ancient coastal municipality in 2001 pertain 40% less expenditures that actually had).

Appendix[1]

[1] Sources of data:
  Ministry of Finance, Bulletins of Government Finance, http://www.sigov.si/mf/
  Ministry of Interior, Bureau for Local Self-Government, http://www.sigov.si/loksam/
  EIPF, Economic Institute of the Law School, internal data base and calculations, http://www.eipf.si/
  SURS, Statistical Office of the Republic of Slovenia, http://www.stat.si/default.asp

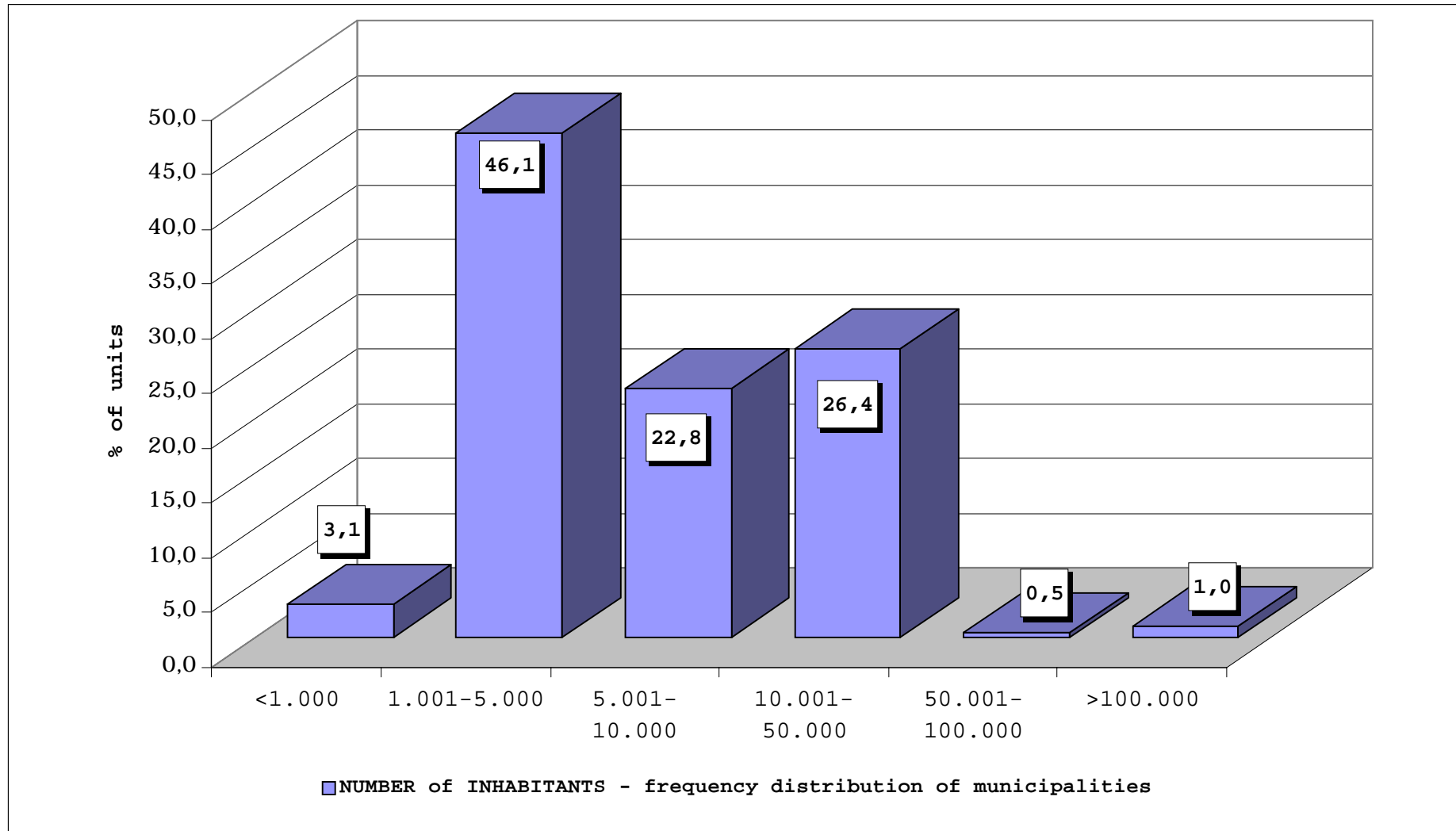Figure A1: Municipalities in Slovenia regarding the number of inhabitants (average no. of inhabitants: 10.376)

Table A1: Diversity of Current Slovenian Municipalities

	lowest	avarage	highest
Inhabitants	390	**10.376**	270.854
Area (in km2)	7	**105**	555
Local roads (km)	1	**72**	819
young (in % of total)	8.4	**15.9**	22.4
aged (% of total)	8.0	**13.9**	28.7
Enterprises per 1.000 inhabitant	20.7	**37.2**	175.8
Employed per 1 inhabitant	0.10	**0.39**	0.88
Total revenues per capita (€)	**363 €**	**519 €**	**1.482 €**
(% of total)	**%**	**%**	**%**
operating revenues	11.9	**75.2**	98.8
tax revenues	*9.4*	*60.3*	*87.8*
income tax	4.4	42.0	64.9
property taxes	0.1	12.4	59.5
taxes on goods and services	0.2	5.8	22.0
non-tax revenues	*1.8*	*14.9*	*74.9*
capital revenues	0.0	**3.8**	23.4
grants received	0.0	**0.3**	13.2
transfers	0.0	**20.6**	87.9
Financial equalization (% of collected revenue)	(+) 54.1	**8.8**	495.5
Autonomy (% of own and partly own revenues)	**9.9 - 15.2**		
Total expenditures per capita (€)	**319 €**	**522 €**	**1.431 €**
(% of total)	**%**	**%**	**%**
investments	11.6	37,5	74.0
current expenditures	**26.0**	**62.5**	**88.4**
education	4.4	24.8	61.9
economic activities	6.1	23.5	55.8
administration	7.6	15.2	45.6
recreation, culture, non-profit organisations	0.6	10.3	39.6
environment protection	0.0	5.8	54.2
social security	0.9	5.0	29.2
housing and spatial development	0	3	57
fire protection	0.6	2.0	14.6
health care	0.0	1.4	23.9
civil protection	0.0	0.3	9.2

Table A2: Composition of Slovenian Local-Government Expenditures (official data for 2001)

Local government (LG)	total	% in total	in mio of €	in % of GG	in % of GDP
	2001	2001	2001	2001	2001
	bil.of SIT	in %	mil.of €	in %	in %
Total expenditures of LG	**242,52**	**100,00**	**1.116,65**	**12,32**	**5,31**
Current expenditures (also appropriate exp.)	**151,46**	**62,45**	**697,38**	**7,70**	**3,32**
Investment expenditures	**91,05**	**37,54**	**419,23**	**4,63**	**1,99**
Administration	**36,82**	**15,18**	**169,54**	**1,87**	**0,81**
Defence	**0,83**	**0,34**	**3,81**	**0,04**	**0,02**
Public security and fire protection	**4,81**	**1,98**	**22,16**	**0,24**	**0,11**
Economic activities	**56,92**	**23,47**	**262,08**	**2,89**	**1,25**
Agriculture, forestry, fishery and hunting	5,72	2,36	26,36	0,29	0,13
Energy feedstock (heat and gas supply system)	0,77	0,32	3,55	0,04	0,02
Traffic, road manitenance	26,28	10,84	121,02	1,34	0,58
Tourism and catering industry	2,34	0,97	10,78	0,12	0,05
Other economic activities*	21,87	9,02	100,70	1,11	0,48
Environmental protection	**13,96**	**5,76**	**64,30**	**0,71**	**0,31**
waste collection	2,54	1,05	11,70	0,13	0,06
waste water management	9,43	3,89	43,42	0,48	0,21
other environmental protection activities	1,99	0,82	9,18	0,10	0,04
Housing activity and spatial development	**28,31**	**11,67**	**130,36**	**1,44**	**0,62**
Health care	**3,35**	**1,38**	**15,41**	**0,17**	**0,07**
Recreation, culture and non-profit organisations	**25,10**	**10,35**	**115,55**	**1,28**	**0,55**
sport and recreation activities	8,89	3,66	40,92	0,45	0,19
cultural activities	14,03	5,78	64,60	0,71	0,31
other activities (media, non-profit organisations, etc)	2,18	0,90	10,03	0,11	0,05
Education	**60,19**	**24,82**	**277,13**	**3,06**	**1,32**
Social security, health and care contributions	**12,23**	**5,04**	**56,30**	**0,62**	**0,27**
Debt increase	**3,01**	**1,24**	**13,87**	**0,15**	**0,07**
Debt repayment	**2,26**	**0,93**	**10,38**	**0,11**	**0,05**

*small business, cemeteries, maintenance of streets, green areas, parks, etc...

Figure A2: Current expenditure variability across Slovenian municipalities (average amount per capita per year: 522 €)
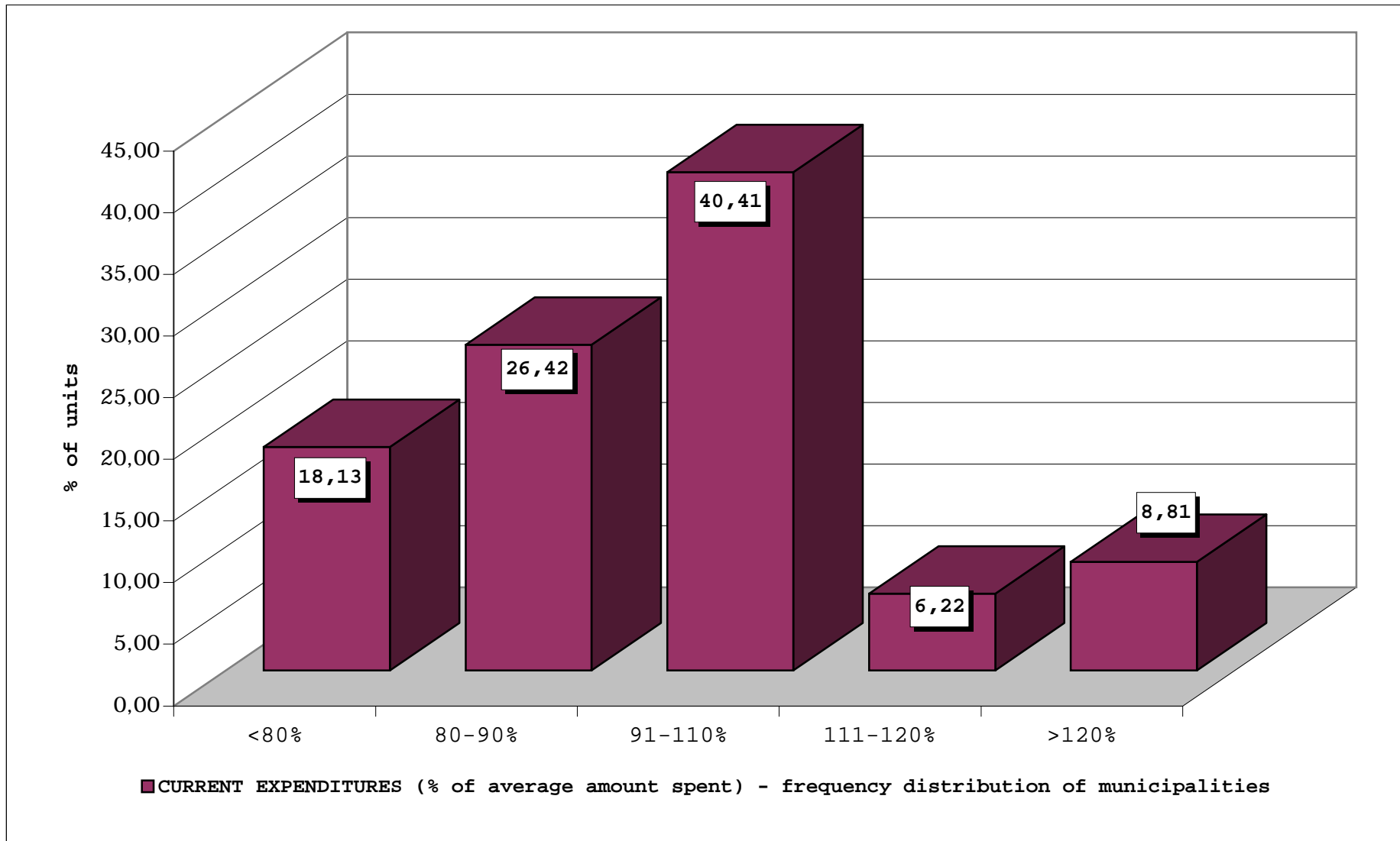

% of units

Value	Category
18,13	<80%
26,42	80-90%
40,41	91-110%
6,22	111-120%
8,81	>120%

CURRENT EXPENDITURES (% of average amount spent) - frequency distribution of municipalities

Table A3: Composition of Slovenian Local-Government revenues (official data for 2001 and 2002 by OECD and GFS statistic classification)

Local government (LG)	Au.	Ar*.	total revenues		% in total		% of category		in mio of €		in % of GG		in % of GDP	
			2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002
			bil.of SIT	bil.of SIT	in%	in%	in%	in%	mil.of€	mil.of€	in%	in%	in%	in%
Total revenues of LG			**240.63**	**264.56**	**100.00**	**100.00**			**1,107.97**	**1,169.46**	**12.23**	**12.70**	**5.27**	**5.24**
Operating revenues			**181.13**	**201.76**	**75.27**	**76.27**			**833.99**	**891.89**	**9.20**	**9.68**	**3.97**	**4.00**
Tax revenues			**145.13**	**164.58**	**60.31**	**62.21**	**100.00**	**100.00**	**668.24**	**727.52**	**7.38**	**7.90**	**3.18**	**3.26**
Income tax (shared tax: 35%)	C	23	101.19	111.74	42.05	42.24	69.72	67.90	465.92	493.96	5.14	5.36	2.22	2.21
Property tax			29.85	32.60	12.41	12.32	20.57	19.81	137.46	144.13	1.52	1.56	0.65	0.65
Tax on movable property	D	22	0.55	0.60	0.23	0.23	0.38	0.37	2.54	2.67	0.03	0.03	0.01	0.01
Tax on real estate transactions	D	21	6.42	7.52	2.67	2.84	4.42	4.57	29.56	33.25	0.33	0.36	0.14	0.15
Tax on heritage and gifts	D	21	0.46	0.51	0.19	0.19	0.32	0.31	2.14	2.25	0.02	0.02	0.01	0.01
Compensation tax for the use of building land	A	22	22.42	23.97	9.32	9.06	15.45	14.56	103.22	105.95	1.14	1.15	0.49	0.47
Taxes on goods and services			14.07	20.19	5.85	7.63	9.69	12.27	64.76	89.26	0.71	0.97	0.31	0.40
Concession fee from special games of chance	B	22	3.20	2.40	1.33	0.91	2.21	1.46	14.74	10.62	0.16	0.12	0.07	0.05
Tax on games of chance revenues	D	21	0.42	0.46	0.17	0.17	0.29	0.28	1.93	2.02	0.02	0.02	0.01	0.01
Special tax on use of gaming machines outside casinos	D	21	1.05	0.42	0.43	0.16	0.72	0.26	4.82	1.86	0.05	0.02	0.02	0.01
Local tourist tax	B	22	0.34	0.37	0.14	0.14	0.24	0.23	1.57	1.65	0.02	0.02	0.01	0.01
Communal taxes	B	22	2.26	7.64	0.94	2.89	1.56	4.64	10.41	33.77	0.11	0.37	0.05	0.15
Forest road maintenance tax	B	22	0.44	0.44	0.18	0.17	0.30	0.27	2.02	1.96	0.02	0.02	0.01	0.01
Taxes for changing purpose of farm land use	B	22	0.40	0.43	0.17	0.16	0.28	0.26	1.85	1.89	0.02	0.02	0.01	0.01
Taxes for degradation and usurpation of space	B	22	0.02	0.03	0.01	0.01	0.01	0.02	0.09	0.12	0.00	0.00	0.00	0.00
Other taxes on disposal, sale and licences	B	22	5.35	7.36	2.22	2.78	3.68	4.47	24.62	32.53	0.27	0.35	0.12	0.15
Fire tax	B	22	0.59	0.64	0.25	0.24	0.41	0.39	2.72	2.85	0.03	0.03	0.01	0.01
Other taxes	B	22	0.02	0.04	0.01	0.01	0.01	0.02	0.09	0.16	0.00	0.00	0.00	0.00
Non-tax revenues			**36.00**	**37.19**	**14.96**	**14.06**	**100.00**	**100.00**	**165.75**	**164.38**	**1.83**	**1.78**	**0.79**	**0.74**
Participation on profits and income from property			16.14	19.29	6.71	7.29	44.84	51.86	74.32	85.25	0.82	0.93	0.35	0.38
Administrative fees	D	21	1.50	1.60	0.62	0.61	4.16	4.31	6.90	7.08	0.08	0.08	0.03	0.03
Pecuniary penalties			0.40	0.53	0.17	0.20	1.11	1.44	1.83	2.36	0.02	0.03	0.01	0.01
Revenues of local administration from sale of g.&s.			1.42	1.60	0.59	0.60	3.94	4.29	6.53	7.06	0.07	0.08	0.03	0.03
Other non-tax revenues (also add.social security)			16.54	14.17	6.87	5.36	45.95	38.10	76.17	62.63	0.84	0.68	0.36	0.28
Capital revenues			**9.22**	**12.79**	**3.83**	**4.84**			**42.43**	**56.56**	**0.47**	**0.61**	**0.20**	**0.25**
Grants received			**0.73**	**0.89**	**0.30**	**0.34**			**3.37**	**3.94**	**0.04**	**0.04**	**0.02**	**0.02**
Transfer revenues			**49.56**	**49.11**	**20.59**	**18.56**			**228.17**	**217.08**	**2.52**	**2.36**	**1.09**	**0.97**

Au- degree of LG autonomy at prescribing rates, bases, etc
A-totaly own   B-partly own   C-shared revenue
D-assigned by central government
***Ar.-article of Financing of Municipalities Act no.**

Figure A3: Operating and Total revenues after *financial equalization,* collected by the municipalities (frequency distribution)
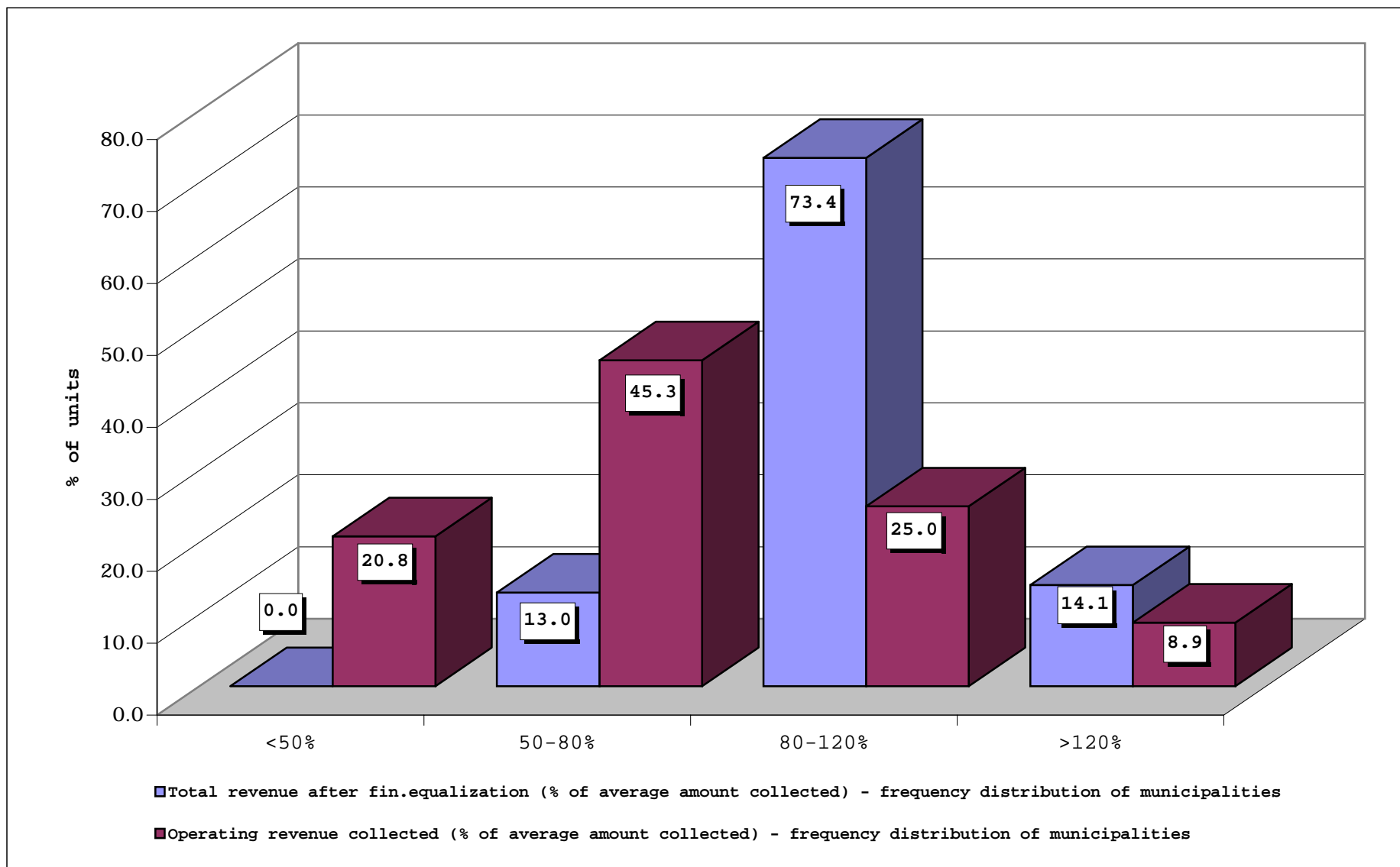
Table A4: Slovenian Local-Government own, shared and assigned revenues (official data for 2001 and 2002 by OECD and GFS statistic classification)

Local government (LG)	Au.	Ar*.	total revenues		% in total		% of category		in mio of €		in % of GG		in % of GDP	
			2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002
			bil.of SIT	bil.of SIT	in%	in%	in%	in%	mil.of€	mil.of€	in%	in%	in%	in%
Total revenues of LG			240,63	264,56	100,00	100,00			1.107,97	1.169,46	12,23	12,70	5,27	5,24
Grants received			0,73	0,89	0,30	0,34			3,37	3,94	0,04	0,04	0,02	0,02
Transfer revenues			49,56	49,11	20,59	18,56			228,17	217,08	2,52	2,36	1,09	0,97
Shared revenues			101,19	111,74	42,05	42,24			465,92	493,96	5,14	5,36	2,22	2,21
Income tax (shared tax: 35%)	C	23	101,19	111,74	42,05	42,24			465,92	493,96	5,14	5,36	2,22	2,21
Assigned revenues			10,40	11,11	4,32	4,20	100,00	100,00	47,89	49,13	0,53	0,53	0,23	0,22
Tax on movable property	D	22	0,55	0,60	0,23	0,23	5,31	5,43	2,54	2,67	0,03	0,03	0,01	0,01
Tax on real estate transactions	D	21	6,42	7,52	2,67	2,84	61,72	67,68	29,56	33,25	0,33	0,36	0,14	0,15
Tax on heritage and gifts	D	21	0,46	0,51	0,19	0,19	4,46	4,58	2,14	2,25	0,02	0,02	0,01	0,01
Administrative fees	D	21	1,50	1,60	0,62	0,61	14,41	14,41	6,90	7,08	0,08	0,08	0,03	0,03
Tax on games of chance revenues	D	21	0,42	0,46	0,17	0,17	4,03	4,12	1,93	2,02	0,02	0,02	0,01	0,01
Special tax on use of gaming machines outside casinos	D	21	1,05	0,42	0,43	0,16	10,06	3,78	4,82	1,86	0,05	0,02	0,02	0,01
Own and partly own revenues			78,75	91,70	32,73	34,66	100,00	100,00	362,62	405,35	4,00	4,40	1,72	1,82
Compensation tax for the use of building land	A	22	22,42	23,97	9,32	9,06	28,47	26,14	103,22	105,95	1,14	1,15	0,49	0,47
Concession fee from special games of chance	B	22	3,20	2,40	1,33	0,91	4,06	2,62	14,74	10,62	0,16	0,12	0,07	0,05
Local tourist tax	B	22	0,34	0,37	0,14	0,14	0,43	0,41	1,57	1,65	0,02	0,02	0,01	0,01
Communal taxes	B	22	2,26	7,64	0,94	2,89	2,87	8,33	10,41	33,77	0,11	0,37	0,05	0,15
Forest road maintenance tax	B	22	0,44	0,44	0,18	0,17	0,56	0,48	2,02	1,96	0,02	0,02	0,01	0,01
Taxes for changing purpose of farm land use	B	22	0,40	0,43	0,17	0,16	0,51	0,47	1,85	1,89	0,02	0,02	0,01	0,01
Taxes for degradation and usurpation of space	B	22	0,02	0,03	0,01	0,01	0,03	0,03	0,09	0,12	0,00	0,00	0,00	0,00
Other taxes on disposal, sale and licences	B	22	5,35	7,36	2,22	2,78	6,79	8,03	24,62	32,53	0,27	0,35	0,12	0,15
Fire tax	B	22	0,59	0,64	0,25	0,24	0,75	0,70	2,72	2,85	0,03	0,03	0,01	0,01
Other taxes	B	22	0,02	0,04	0,01	0,01	0,03	0,04	0,09	0,16	0,00	0,00	0,00	0,00
Participation on profits and income from property			16,14	19,29	6,71	7,29	20,50	21,03	74,32	85,25	0,82	0,93	0,35	0,38
Pecuniary penalties			0,40	0,53	0,17	0,20	0,51	0,58	1,83	2,36	0,02	0,03	0,01	0,01
Revenues of local administration from sale of g.&s.	A	22	1,42	1,60	0,59	0,60	1,80	1,74	6,53	7,06	0,07	0,08	0,03	0,03
Other non-tax revenues (also additional social security)			16,54	14,17	6,87	5,36	21,00	15,45	76,17	62,63	0,84	0,68	0,36	0,28
Capital revenues			9,22	12,79	3,83	4,84	11,70	13,95	42,43	56,56	0,47	0,61	0,20	0,25

au- degree of LG autonomy at prescribing rates, bases, etc

    A-totaly own   B-partly own   C-shared revenue

        D-assigned by central government

*Ar.-article of Financing of Municipalities Act no.

Figure A4: Disproportional distribution of Income tax (average per capita: 218 €) and property taxes (average per capita: 64 €)
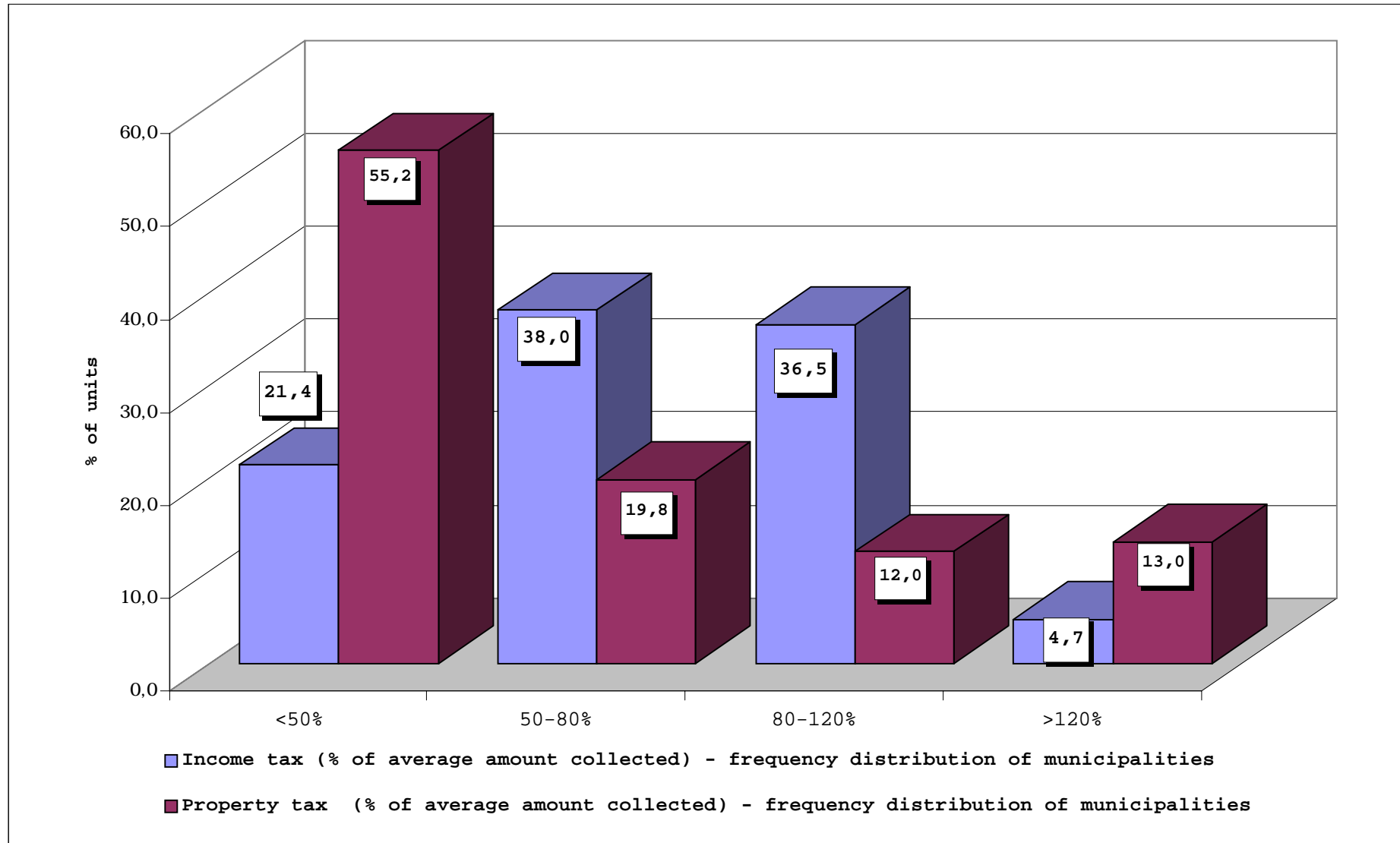
Table A5: Level of appropriate expenditures accounted upon Articles 20,20a and 21,22 and 23 of the valid Law

Local government (LG)	Au.	Ar*.	total revenues		% in total		% of Category		in mio of €		in % of GG		in % of GDP	
			2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002
			bil.of SIT	bil.of SIT	in%	in%	in%	in%	mil.of€	mil.of€	in%	in%	in%	in%
Total revenues of LG			240,63	264,56	100,00	100,00			1.107,97	1.169,48	12,23	12,70	5,27	5,24
Total appropriate expenditure (calculate by formula)	D	20	151,01	163,65	62,76	61,86			695,33	723,41	7,67	7,85	3,31	3,24
Sum of surpluses of some municipalities	A		29,92	37,97	12,43	14,35			137,77	167,85	1,52	1,82	0,66	0,75
Transfers – *only financial equalization*	B		32,88	33,83	13,67	12,79			151,42	149,57	1,67	1,62	0,72	0,67
Revenues that enter app.ex.for.(21.&22.&23.art.)			148,05	167,78	61,53	63,42	100,00	100,00	681,69	741,68	7,52	8,05	3,24	3,32
Income tax (shared tax: 35%)	C	23	101,19	111,74	42,05	42,24	68,35	66,60	465,92	493,96	5,14	5,36	2,22	2,21
Tax on real estate transactions	D	21	6,42	7,52	2,67	2,84	4,34	4,48	29,56	33,25	0,33	0,36	0,14	0,15
Tax on heritage and gifts	D	21	0,46	0,51	0,19	0,19	0,31	0,30	2,14	2,25	0,02	0,02	0,01	0,01
Tax on games of chance revenues	D	21	0,42	0,46	0,17	0,17	0,28	0,27	1,93	2,02	0,02	0,02	0,01	0,01
Tax on movable property	D	22	0,55	0,60	0,23	0,23	0,37	0,36	2,54	2,67	0,03	0,03	0,01	0,01
Special tax on use of gaming machines outside casinos	D	21	1,05	0,42	0,43	0,16	0,71	0,25	4,82	1,86	0,05	0,02	0,02	0,01
Administrative fees	D	21	1,50	1,60	0,62	0,61	1,01	0,95	6,90	7,08	0,08	0,08	0,03	0,03
Compensation tax for the use of building land	A	22	22,42	23,97	9,32	9,06	15,14	14,29	103,23	105,96	1,14	1,15	0,49	0,47
Revenues of local administration from sale of g.&s.	A	22	1,42	1,60	0,59	0,60	0,96	0,95	6,54	7,07	0,07	0,08	0,03	0,03
Concession fee from special games of chance	B	22	3,20	2,40	1,33	0,91	2,16	1,43	14,74	10,62	0,16	0,12	0,07	0,05
Tourist tax	b	22	0,34	0,37	0,14	0,14	0,23	0,22	1,57	1,65	0,02	0,02	0,01	0,01
Fire tax	b	22	0,59	0,64	0,25	0,24	0,40	0,38	2,72	2,85	0,03	0,03	0,01	0,01
Communal taxes	b	22	2,26	7,64	0,94	2,89	1,53	4,55	10,41	33,77	0,11	0,37	0,05	0,15
Forest road maintenance tax	b	22	0,44	0,44	0,18	0,17	0,30	0,26	2,02	1,96	0,02	0,02	0,01	0,01
Taxes for changing purpose of farm land use	b	22	0,40	0,43	0,17	0,16	0,27	0,25	1,85	1,89	0,02	0,02	0,01	0,01
Taxes for degradation and usurpation of space	b	22	0,02	0,03	0,01	0,01	0,01	0,02	0,09	0,12	0,00	0,00	0,00	0,00
Other taxes on disposal, sale and licences	b	22	5,35	7,36	2,22	2,78	3,61	4,39	24,62	32,53	0,27	0,35	0,12	0,15
Other taxes	b	22	0,02	0,04	0,01	0,01	0,01	0,02	0,09	0,16	0,00	0,00	0,00	0,00

Au- degree of LG autonomy at prescribing rates, bases, etc

a-total autonomy

b-partial autonomy

c-shared revenue

d-assigned by central government

*Ar.-article of Financing of Municipalities Act no.

Table Map: Distribution of municipalities in Slovenia (current position, 2003)