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Fiscal Decentralisation in Slovenia

Authors:
dr. Boštjan Brezovnik
Mateja Finžgar
dr. Žan Jan Oplotnik



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Authors: assoc. prof. dr. Boštjan Brezovnik, Mateja Finžgar, prof. dr. Žan Jan Oplotnik

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**dr. Boštjan Brezovnik
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dr. Žan Jan Oplotnik**

May 2016

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BOŠTJAN BREZOVNIK, MATEJA FINŽGAR & ŽAN JAN OPLOTNİK

Abstract: The purpose of the analysis presented in the book was to examine the compliance of the local self-government finance system in Slovenia with certain underlying principles of the decentralisation theory and guidelines of the European Charter of Local Self-government (MELLS), whereby focus is placed primarily on the coverage of costs incurred with the performance municipal tasks as provided by the law, their structure and degree of correlation between the funds allocated via the mechanism used to calculate eligible expenditure and the costs reported by municipalities. Based on the stated, we wished to find to what extent the applicable finance system satisfies the principle of the proportionality of resources to tasks, as one of the underlying principles of local self-government. Hence, the aim was to find an answer to the question whether and to what extent the amount of financial means acquired through the eligible expenditure formula matches the actual costs incurred by municipalities due to the performance of their tasks and powers.

Keywords: • fiscal decentralisation • local self-government • local democracy • municipality • Slovenia

CORRESPONDENCE ADDRESS: Boštjan Brezovnik, Ph.D., Associate Professor, University of Maribor, Faculty of Law, Mladinska ulica 9, 2000 Maribor, Slovenia, email: bostjan.brezovnik@um.si. Mateja Finžgar, Ph.D. Student, Faculty of Economics and Business, Razlagova ulica 14, 2000 Maribor, Slovenia, email: mateja.finžgar@um.si. Žan Jan Oplotnik, Ph.D., Professor, University of Maribor, Faculty of Economics and Business, Razlagova ulica 14, 2000 Maribor, Slovenia, email: zan.oplotnik@um.si.

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Introduction

As far as our knowledge reaches back in time about man, we always find that human beings have lived in a society in the company of their peers, as this was the only way for them to go through life, ensure their own survival, provide for the continuation of their lineage and meet their own needs (Dautbašič, 1980: 17-18).

A man being a social being or ‘zoon politikon’, as stated by the ancient Greek philosopher Aristotle, it was easier to meet their needs in social harmony (social community) than by themselves alone. And to ensure the existence of the community, a man living in a social community had to contribute to meeting its (general social) needs.

It is true that we can find some forms of social co-existence also in the life of some other animal species, which enable the existence of a community (for example, ants or bees), however, ever since we’ve known them, these forms of community haven’t changed, while the social forms of co-existence of humans are constantly developing and transforming; the reason for this being that in meeting their own needs and the needs of the social community man rose to a level of a ‘living being who produces,’ that is, to the level of a being who with its own work consciously influences nature in order to receive goods, necessary to its survival. There is no doubt that the production of life-saving material goods was, is and certainly will be the foundation for social communities of people, in other words, a society.

The concept of society is understood as a community of people who produce and consume material goods, who ensure the preservation of the human race, who develop material and spiritual culture in a way to enable and encourages various socially beneficial and important activities. All these activities consist of actions of individuals, which have to be harmonious and coordinated if they are to achieve the desired social effect and success. The concept of society involves elements of order, i.e. a system of certain behaviours and conducts of individuals who are part of it. This order is supported by relevant rules of social behaviour and conduct and the actual efficiency of such rules, namely, by the fact that the members of society submit themselves to such rules. The mentioned rules are therefore used to regulate socially important conduct and the behaviour of individuals and social organisations into an orderly whole. The latter reflects itself in human society, understood as a universal and holistic organisation of social life, as a specific, narrow functional organisation, which is today known under the term state organisation (Kušej et al., 1992: 24-26).

The Concept of State

According to Plato cosmos, as he says, 'is not a simple world, but an arranged, decorated, in measure and order brought community of all that exists', and, further on, 'polis is not a simple state, but an internal structure in which a community of people is harmoniously united, either with each other or in relation to the entirety of everything else. The essence of an internal structure of cosmos and polis is first and foremost revealed in the nature of the soul (Barabič, 1995: 12).

Plato therefore sees cosmos – a community of all that exists – as something orderly and given. This idea of order is also the basis for the establishment of a state, which strives to implement the order. Of course, to achieve the mentioned order, the state, which does not represent only an origin of law, but is itself a legal construct, has to form its own laws. The state and the law are to each other like organism and organisation. The state serves to the law as an activity that standardises, while the law serves the state as a standardised condition. It is possible to distinguish them, but it is not possible to separate them (Radbruch, 1973).

To achieve, as Plato says, 'the internal structure, which harmoniously unites the community of people with each other as well as in relation to the entirety of everything else,' we strive for the perfection of order, which we implement in the state (rule of law).

The very concept of the state has several dimensions. In any case it is a central social phenomenon and it is therefore not surprising that the state has always encouraged a rich intellectual response, which from various philosophical and political positions tried to highlight its essence and social function. It has been the subject of philosophical, sociological and legal research, which led to various argumentations of its fundamental characteristics (Kušej et al., 1992: 30-31).

This is how philosophy was dealing with the state as an idea (ideal concept), while the ancient philosophical thought (of which Plato with his objective idealism is undoubtedly the most prominent representative) derived from the fundamental conclusion that the essence of the state is not in empirical reality, but that the state is an independent spiritual form, while in real life all we can find is its reflection. The modern version of this concept has been developed by the German philosopher Hegel, who saw the state as the most complete and highest form of development of the human spirit, and the realisation of a moral idea and human freedom at its most complete state. His

philosophical reasoning of the state was later more or less arbitrarily included in totalitarian political ideologies, with which they tried to explain the demands for complete subordination of an individual to state authority.

The authors further mention contractual theories (at least those that were important for the formation of the modern liberal state), which in 17th and 18th Century derived from division of social development into social (before-state) and state condition. The social condition, at least according to the optimistic version (John Locke), was a condition in which people did have some basic natural rights, but which in a before-state condition were not properly secured. In order to achieve their effective security, people established a state through a 'social contract' and outlined the limits of its interference with human rights. At the same time this theory offers an appropriate organisational configuration of state authority as a minimum guarantee for efficient performance of its basic function (theory of divided authority and of the right to control over its functioning).

In the 19th Century, under the influence of important discoveries in biology, a biological theory about the state was developed, which, with more or less consistent usage of findings in science tried to explain the complex essence and functioning of the state. They argued that the state is also a kind of singular living organism, to which similar laws applied as to all other living organisms.

A modern legal theory about the state sees it as either exclusively or predominantly legal phenomenon. If there was no legal element in the state, argue its advocates, we would not be able to distinguish the state from other, more or less similar, organisations. Legal conception of the state was most strongly established during the forming of the modern legal state. The most radical representative of this theory is Kelsen, who argues that the state and the law are identical phenomena, and that the state is merely another term for the whole legal system. The state, according to him, is only a personification of this system and has no own existence outside the law.

Sociological theories about a state perceive the state as a special social phenomenon, formed by people in order to achieve public order and the protection of general social interests. The solidary version, which derives from the complexity of modern life and diversified division of labour, points out that the state is a product of social solidarity, which requires effective protection of general social interests. Division between the rulers and their subjects is primarily an inevitable consequence of the division of labour in a complex social organism. The force theory, meanwhile, sees the essence of the state primarily in the fact that the state is an effective tool used by the ruling social group for the subordination of the majority. Such a view of the state has in a sharpened form been developed by Marxism, for which the main reason for establishing a state is a class divided society, its irreconcilable social conflicts, which mostly stem from private property and on the notion of private property based claiming of the surplus value. These conflicts can be contained in favour of the ruling class only through an organised force, which is available to the state. With the elimination of social classes and other

characteristics of a class society the state would become redundant and would therefore gradually become redundant (Kušej et al., 1992: 30-31).

According to Spektorski, all attempts so far to capture the concept of the state in one definition have been simplified. Usually the authors tried to define the concept of the state either only at one level of the state development, or, for example, only from a legal, political or sociological point of view. However, irrespective of the simplified attempts to define the state, there is another possible definition of the state, which is limited only by the basic elements that constitute the concept of the state (formal notion of state). Based on this, it is possible to say that each state is represented by three elements: land or territory, population and authority (Spektorski, 2000: 21).

For a state, according to Jovanović, all the mentioned elements are conditions for its existence. That a state has to have its own territory stems from the fact that a state without physical boundaries of its territory can't be separated from another state and that no force in a state can keep people in a community, if they are not, at least in a physical sense, limited by the territory. Therefore, of course, such a territory has to be populated with people since, after all, a state is a 'social phenomenon'. There also has to be a legitimate authority within the state. Its organisation depends on legal rules which apply to each state. This means that every state should be in some way organised, otherwise there would be anarchy in which individuals would impose their own power upon each other, instead of all being subordinated to a common social power (Jovanović, 1922: 18).

In theory this classical concept of elements of a state has not been met with unanimous acceptance: one part of the theory accepts it, the other part extends it, while the third part is negative towards it and completely rejects it.

However, one part of the theory particularly emphasises that a state is a legally regulated organisation. Without law a state could not exist, and this is why it is necessary to define law as a component (element) of the state. *Mutatis mutandis*, this reasoning is also applied vice versa. This means that law is also the element of a state, since it is a state that creates it and sanctions it. According to this concept, state and law permeate each other and form a dialectical entirety (Kušej et al., 1992).

1 The Concept of Land (Territory)

According to Pitamic, a legal union of people can be established anywhere where people exist. If the legally unified people do not have a permanent residence, but move from place to place, then the rules of such an organisation are enforced always there where these people are located. The territory, where rules of such an organisation of people are enforced, is in such situations transforming. Because everything that happens has to happen somewhere, the question of territory in this sense cannot be disputed. What can be disputed is whether continuity, definitiveness and limitation of territory are essential to the concept of the state. When people settled in one place, the rules of

society started to be enforced on the one and the same permanently populated territory, which thus merged with a state has become known as a 'state territory'. To the previously legally organised nations, the permanent settlement gave an opportunity to permanently determine the territorial scope of the legal rules of the state. This is how the territorial scope became the essential sign (element) of present states (Pitamic, 1927: 23-24).

During the development of society and thus the state the concept of territory extended from the continental notion of territory to the so called territorial waters and airspace above the continental territory of the state. The modern definition of state territory stipulates that state territory is a part of the Earth's globe, upon which, below which and above which extends the state sovereignty (Spektorski, 2000: 66).

According to the above mentioned view, the state territory could be therefore identified as a three-dimensional space, which consists of the surface of the territory, airspace above, and the subterranean space below the territory. Of course, it also includes the coastal waters of the state along with the water mass and seabed, while the mentioned territory is limited within state borders (Vrban, 1995: 65).

The latter are represented by the line (or, in exact words, vertical surface, which demarcates the surface of the land, sub-terrain and airspace), which demarcates the terrains of neighbouring states and to which the sovereignty of the state reaches.

The concept of sovereignty is a territorial and personal dimension of the state's authority, which holds a monopoly on resources for physical coercion in society. This monopoly gives the state organisation in a narrow sense the character and quality of the most powerful and the highest force in society. This is why we refer to the state authority as sovereign or even talk about state sovereignty.

State sovereignty is usually divided into so called external and internal sovereignty. The external is a synonym for independence of one state organisation against other such organisations of the same type, while the notion of internal sovereignty is an expression for the fact that the state authority within the limits of the state territory is considered to be supreme, independent, original, all-embracing and unified (Kušej et al., 1992: 31, 33, 40, 54, 55, 187).

Thus, for example, the state borders of the Republic of Slovenia and therefore its territory are determined in the Basic Constitutional Charter on the Sovereignty and Independence of the Republic of Slovenia (Official Gazette RS, No. 1-I), namely, in the II. section of the document, which states that: 'The state borders of the Republic of Slovenia are the internationally recognised state borders between the hitherto SFRY and the Republic of Austria, the Republic of Italy, and the Republic of Hungary in the part where these states border the Republic of Slovenia, and the border between the Republic of Slovenia and the Republic of Croatia within the hitherto SFRY.' Within these

borders, after its independence in 1991, Slovenia was recognised by all its neighbouring states and the United Nations (Rupnik, Cijan & Grafenauer, 1996: 45).

2 The Concept of Population

In addition to a territory, population is also a condition for the existence of a state. A state without a population simply cannot exist. Population, living on the territory of a state, can be considered from two perspectives, a narrow one and a wide one (Perić, 1981: 126).

According to the narrow one, a population is comprised of individuals, who have a special connection to the state, i.e. citizenship. Some definitions define citizenship as a collective term for all legal rules, which bind an individual to a certain state (citizenship is a legal affiliation to a specific state – a set of rights and obligations or duties which bind an individual to a state). A set of these rules has in many countries of ancient times been almost equated with the entire law, and ‘legal benefits’ in a state have applied only to their citizens, while the foreigners were without rights. With the general development of civilisation and democracy, the scope of rights that also apply to foreigners has also spread. Therefore, foreigners nowadays have most of the same rights as citizens do.

A citizen is therefore a person, who is legally bound to a state and has on this basis the rights and obligations according to the regulations of this state. The legal system of every state recognizes a special legal position (status) to persons, who are considered to be its citizens. Thus, citizenship can be defined as a special legal relationship and a person’s connection to a state. Citizenship represents a permanent legal position and relation of a person (citizen) to the state, and, thus, a special set of rights and obligations (for both the citizens and the state) (Rupnik et al., 1996: 58).

According to the wide perspective, besides the mentioned population in a narrow sense, a population is also comprised of other individuals who live in the territory of a state. The latter can be foreign citizens (foreigners), individuals without citizenship (apatrids) and individuals with dual citizenship (Perić, 1981: 127).

3 The Concept of Authority

The concept of authority is a social concept, which can be understood as a relationship between two entities. Authority means that one entity is superior to the other, that is, it determines (dictates) the behaviour of the other entity, while the latter is subordinated to the former. Authority therefore means giving orders to the other about their behaviour, while the other listens to these orders and is obliged to fulfil them, meaning that the authority means superiority of the will of one entity over a will of another (Lukič, 1961: 33).

A state is a legal entity of public law, which is given the power of issuing orders. On the basis of this power it imposes legal order or law, which binds its population and its

bodies to specific behaviours and conduct. Precisely because it creates legal order or law, a state can, according to Jovanović, use ‘physical coercion to enforce its will. State ‘physical’ coercion is seen as a reflection of state authority and this is why in the eyes of an individual a state authority equals state bodies, which in specific situations decides to use physical coercion.

State coercion as a reflection of a state authority is not the greatest reflection of the legal power of the state. In itself, taken as a fact, it is no different than any other coercion which could be used by the stronger over the weaker. However, it is its characteristic that it is, unlike other forms of coercion, used on the basis of legal order as a legally permitted coercion. The largest reflection of the legal power of the state is not state coercion, but the imposing of legal order. According to this, state authority is not only a reflection of the use of state coercion, but also a reflection of the power of imposing legal order (Jovanović, 1922: 127).

From a legal point of view state authority is the highest in its field. This particularity of state authority mostly derives from the position and role of the state in a wider society. This particularity of the state being the highest in a certain territory is understood as ‘sovereignty’ (more in: Kušej et al., 1992; Mandič, 1959, Jovanović, 1922).

And it is this peculiarity, sovereignty, that gives a state the right on its territory to impose, introduce and determine the amount of taxes and other duties, which in regard to the state’s wealth represents the financial basis for its functioning. This so-called fiscal sovereignty is an attribute of state sovereignty and in relation to an individual demands that they contribute to the functioning of the state with their own means and according to their capabilities. The power to impose duties is as a rule written in the basic documents of the state. Thus, for example, the first paragraph of the 146th Article of the Constitution of the Republic of Slovenia states that ‘The state and local communities raise funds for the performance of their duties by means of taxes and other compulsory charges as well as from revenues from their own assets.’ And further on in the first sentence of the 147th Article, that: ‘The state imposes taxes, custom duties and other charges by law.’

As mentioned before, a state authority is the highest authority, but not the only authority in a state territory. In addition to the state, there are also other entities under public law with the power to give orders (impose taxes and other duties) and use coercion. Such, for example, is a municipality as a form of local community, which in a sense of power is not equal to the state, but still has a certain degree of (financial) sovereignty in a limited territory within the state territory. For example, in Slovenia, the above mentioned stems from the provision of the above mentioned first paragraph of the 146th Article of the Constitution of the Republic of Slovenia, and from the provision of the second sentence of the 147th Article, which states that ‘Local communities impose taxes and other charges under conditions provided by the Constitution and law.’ At this point it is important to note that the right to impose and use coercion, which other entities under public law have and exercise derives from the legal order of the state (this is

especially noticeable in the case of a municipality, which is organised on the basis of state law). The state is therefore the original entity under public law, while all other entities under public law are derived, as their authority derives from it.

As with the general concept of authority, the state authority is also a social concept, specifically, a social relationship in which one party gives orders, while the other party is obliged to respect these orders. Entities that command are state authorities, while entities that are obliged to respect the commands are citizens and hierarchically lower situated state bodies of authority (Pupić, 1974: 73). To distinguish the state authority from other authorities in the state it is not enough for it to be only the most powerful of any other authorities in the state, but it is also about the authority that protects the wider social interest. In a narrower sense, state authority is understood as an apparatus of coercion of the state or a state organisation in a narrow sense, respectively, that is, state bodies of authority as a special apparatus of coercion (Friškovec, 1997: 49-50).

Therefore, it is necessary for the existence and harmonious civilizational development of the state to have actual force (state coercion), with which they can ensure the realisation of their commands (Pupić, 1974: 73).

4 Forms of State Systems

Over the course of the social development in the world, a state has also developed, being consisted of three fundamental elements: land or territory, population and authority, of which characteristics we talked about in previous chapters. Thus, in a modern world we know several forms of state systems, which we will describe below.

4.1 The Concept of State System Forms

Forms of state system are dependent on a legal (non)independence of organisational parts from which the state consists of, and of legal relations that are established between them. These relations are either centralised or decentralised (Kušej et al., 1992: 54).

The general characteristic of an organisation is to have a central authority. Central authority extends over the entire organisation, which means that its decisions are mandatory and binding for all the members of the organisations. If we see a state as an organisation, it is therefore its characteristic to have a central, i.e. state authority. It is also important that, along with a branched organisation, there are also non-centralised bodies of authority being established, which extend to the organisationally limited space, and decisions of which are not mandatory and binding for all the members of organisation.

State organisation is most often divided along territorial lines. Thus, the power of central authorities extends to the whole state territory, while the authority of non-central authorities extends to certain parts of the territory (Lukić, 1961: 154-155).

The system, according to which central and non-central bodies of authority exist in a state, is described with a concept of 'actual decentralisation'. In such a system authority is not executed only by the central bodies of authority, but also by the non-central bodies, since they make decisions and enter them into being. Based on this we can say that no state exists that is completely centralised. Yet, according to Lukić, it is necessary to separate the actual decentralisation from 'legal decentralisation'. From a legal point of view non-central bodies of authority can be in different relations with the central authority. If they execute authority as subordinate bodies of authority in the name of central bodies of authority and have at that no independent authority, then the legal centralisation is in place and non-central bodies of authority are centralised. However, if non-central bodies of authority have original independence, then we talk about decentralisation.

At that, as already mentioned, we should not neglect the relationship between the individual bodies of authority, which can be centralised or decentralised. We talk about centralisation as a concept of interrelations when higher bodies of authority do not control whether lower bodies of authority act constitutionally and legally, but can nullify and change decisions of the lower body of authority also in the case when lower bodies have not acted sensibly. For centralised bodies of authority this means that they are not independent when executing the rules which fall under their jurisdiction. In this regard decentralisation is sharply different to centralisation: where relations between state bodies are decentralised, lower (decentralised) bodies are independent executors of working tasks (Lukić, 1961: 154-155).

States are therefore classified into various forms of state systems according to the criterion of the above mentioned legal decentralisation. If decentralised units have the same level of authority as states do, then we are talking about a so-called composite state, and when the level of decentralisation is lower, then we are talking about a unified or a unitary state. The latter could, however, be centralised or decentralised (Friškovec, 1979: 83).

4.2 Unitary state

In a unitary state the relations between the state bodies of authority are centralised and form a unified organisational system. Of course, the unitary unit can actually be decentralised and divided into administrative territorial units, which have local self-government or have some type of recognised autonomy. What is important is that the degree of independence of these units and the extent of authority and decentralisation does not reach the limits, as is typical for a federal state (more in: Kušej et al., 1992; Lukić, 1961; Friškovec & Perenič, 1979).

A unified state is not necessarily centralised, but may have a high degree of decentralisation. With its established local self-government, Slovenia is also included among the latter.

4.3 Composite state

The composite state is, as the very concept suggests, composed out of several states. This means there is a central body of authority in the state with characteristics of a sovereign body, and is in possession of sovereign state authority. Apart from the latter there are also territorially decentralised bodies of authority who execute such a high level of state authority that they are regarded as sovereign, although they are to a certain extent subordinate to the central authority. This means that the relationship between the member states, although they are very independent, is so strong that this union of several states also appears as a common state. Based on their form composite states are divided into confederations and federations.

A confederation is created by an international treaty with which the union of states is established, along with some shared bodies of authority with various jurisdictions and in various forms. In this case it is a union of states, as states in confederation remain sovereign and unlimited in their authority. Authority of the union is completely dependent on the member states, and not vice versa. Confederate authorities are only an auxiliary tool of the member states and coordinate mutual operations, however, their decisions are not binding to the member states. Confederations are not known in a modern day world, although there are some composite states which also show some elements of confederation.

In a federation, contrary to confederation, the body of authority of the member states is a holder of the state, i.e. sovereign authority in the true sense. Thus, the central body of authority has the right to make decisions that are mandatory for the state bodies of authority. In a federation, member states maintain a wide range of state authority, however, they are subordinate to the central body of authority (Friškovec & Perenič, 1979).

5 Limitation of Authority

Throughout history there has been a regularly occurring tendency to regulate state and society, which would lead to provide personal freedom and limitation of state authority. There have been various attempts to limit the authority, resulting primarily in various ways of dividing the established authority (which are not only historically different, but they seem to follow completely different logical reasoning), such as opposition or prevention of any self-will. If we define the term limitation of authority, then we have to first and foremost consent to the value, which could be presented as the defence of rights of a person, individual and citizen (Matteucci, 1991: 250-267).

The need for limitation of authority (which must not be absolute) has already been discussed by the ancient philosophers, especially Aristotle, Plato and Cicero. First serious attempts to limit the authority appeared in the Middle Ages. In the year 1215, English barons, gathered in the field Runnymede near London, made King John Lackland declare and sign The Great Charter of Liberties (Magna Carta Libertatum).

The latter is the oldest constitutional act of feudal England and signifies the limitation of the then absolute ruler's authority in favour of the feudal lords and to them associated towns and freemen. It is interesting to read from the text of *Magna Carta Libertatum* that John Lackland had to commit himself to obtain consent of the ruling before introducing new taxes. He says: 'For obtaining the common consent of the kingdom concerning the assessment of ... a scutage, we will cause to be summoned the archbishops, bishops, abbots, earls, and greater barons, individually through our letters ... In all such letters of summons we will specify the reason of the summons. And when the summons has thus been made, the business shall proceed on the day appointed, according to the counsel of such as are present, although not all who were summoned have come.' And further on: 'All counties, hundreds, wapentakes and trithings shall remain at old rents, and without any increase, except our demesne manors' (Rupnik et al., 1996: 177-188). Although the above text is a distinct product of feudal circumstances, it has a universal historical significance as it clearly opens the demand that the authority has to act within the limits of the law.

Historically, this attempt to limit the authority was followed by the period of the famous English bloodless revolution in 1688, which led to a compromise between the feudal aristocracy headed by the monarch, and emerging middle class. This period was a transitional period in which the mentioned parties shared authority and in which the aristocracy gradually became transformed into the middle classes. From such circumstances grew institutions of the English parliamentary system, which were ideationally established by John Locke in a form of the theory of the separation of powers.

The mentioned English structure of authority also influenced Montesquieu, who accepted the principle of separation of powers as a means against an absolute monarchy. The separate implementation of the legislative, executive-legal and judicial function suited the then social forces and holders of economical (political) power. In his opinion, parallel to the separation of authorities, there should also be a corresponding system of checks and balances (Kušej et al., 1992: 42-43).

Montesquieu also warns that freedom (of an individual) is only possible, where power is not abused, but distributed in a deliberate proportion in accordance with the constitutional order. He does not stem from some for all of eternity defined organisational structure, but emphasises the need for a set of state functions and their holders that always provide controls and checks on the authoritative power with the help of the given potential opposing forces. According to this doctrine, the authoritative power is divided into three state authorities, namely the representative, executive and judiciary authority, while each of them is assigned the relevant state function (legislative, executive and jurisdiction). The distribution of state authority and state functions onto three holders in itself is not yet enough to provide an ideal of freedom of an individual and to prevent oppression. This is why it is necessary to establish an additional sophisticated system of mutual control, limitation, curbs, intertwined co-dependence and balance, or, in the words of Montesquieu: 'For authority not to be

abused it is necessary to arrange things in such a way that one authority hinders or checks the other authority' (Šturm, 1998: 13).

According to Šturm, today's modern doctrine does not see the division of power as a rigid concept of separation of authority, but as a flexible model which accepts the recognition that each branch of authority performs several state functions, however, only on the condition that the mutual balance between various state bodies of authority is ensured. In a search for the answer to the question how to ensure in modern democratic societies effective distribution of political power, the new forms of distribution of power, in accordance with the realisation that the separation of powers in every time period has their own content, which are neither eternal nor absolute, have proven itself effective in theory and within a state and legal regulations (Šturm, 1998: 18).

The principle of separation of power, of which we have talked about, features a horizontal level of limitation of power, while through development, especially in the USA and Germany, the so called vertical separation of power has been established. The latter is the most explicit in federatively regulated states, especially in modern interstate forms, like the emerging European Union. In the latter the so called principle of subsidiarity as a principle of vertical limitation of power is of particular importance, its fundamental significance being that every territorial unit performs that part of the authoritative functions for which they are most qualified.

The mentioned vertical separation of power is of great importance in the states that are not federatively regulated, since the significant share of the vertical separation of power belongs to the local self-government. According to Šturm, the constitutional systems, where local self-government is explicitly defined as a constitutional category, have a specific form of vertical separation of powers; at that, he highlights the autonomy of local self-government and minimal requirements for autonomy (legal entity, right to property, jurisdiction and justification for the execution of public duties at the local level). Modern constitutional systems strengthen the mentioned autonomy also by its explicit declaration in the constitution and by ensuring it the effective protection, since they give it a status of fundamental freedom. On one hand it is about political self-government of a local community, while on the other it is about the executive authority of local self-government (Šturm, 1998: 18-19).

5.1 Principle of subsidiarity

Subsidiarity is a modern idea, whose historical origins date back to Aristotle. In recent times this concept has explicitly appeared as a legal principle in the Maastricht agreement of the EU (Schilling, 1995), while in itself it has no legal implications (Vlaj, 2001: 23-33).

At this point it is important to note that there is an important qualitative difference between legal principles (since we are talking about subsidiarity) and legal rules. The

legal principle mediates only the criterion of value (for example the principle of a legal and welfare state in constitutional law) on how to handle legal relations in which we act as holders of behaviour and conduct, while the legal rule expresses a certain type of behaviour and conduct (Pavčnik, 1997: 79).

The message contained in the legal rule is formed in an ‘all or nothing’ way, as Dworkin says, while the legal principle itself expresses merely “foundation, criterion and regulatory reason”, which is at times more and at times less pronounced and can be realised through various types of behaviour and conduct, which are formed by legal rules (Dworkin, 1985: 26-27). Legal principle is not directly applicable and is not even defined or fixed enough to exclude valuation. The above mentioned principle of subsidiarity is therefore merely a criterion of value which influences the content of legal rules and how to execute them. As mentioned above, the principle of subsidiarity is the foundation or, better yet, a criterion for the vertical separation of power or public affairs, respectively, to the state, regional and local authorities. The basic idea on which this principle is based on is that political authority can interfere only to the extent when society and its constitutive parts, from an individual to a family, and from local communities to various major classifications, are not capable of meeting various needs. According to Vlaj, subsidiarity in this sense is nothing else but a simple principle of institutional organisation, applicable to relations between an individual and society, and relations between society and institutions, before the possible definition of division of power between the basis and the top. The principle of subsidiarity therefore represents a general principle of institutional organisation which tends to favour the base before the top and has, as such, various definitions.

The principle of subsidiarity as a principle of social organisation means that the higher authority, especially the state authority, can interfere only to the extent where the lower authority showed or proved their inability. This primary meaning is the basis of the principle of non-interference of the state authority in the work of structurally lower authorities. Therefore the principle of subsidiarity is primarily the principle of limitation of authority, however, it has no normative nature. Rather than determining a norm, the principle of subsidiarity indicates a trend. It leaves a way to specific conditions of its usage, which can vary in accordance with the circumstances of time and place. The second meaning evokes the idea of help to the lower levels of authority. In this context, the issue is the evaluation of not whether the authority has a right to interfere, but whether it is its duty to do so. It is about help which strengthens and gives the right to autonomy (Vlaj, 1998: 244-245). However, to adequately ensure this, the state and the authority need to be appropriately organised.

5.2 Decentralisation

Decentralisation is therefore a system of relations between central and local state bodies of authority, where the local bodies have a certain degree of independence, determined by the constitution and law.

Decentralisation occurs in various types and forms. Thus, depending on the extent of decentralisation, we talk about a *one-tier* and a *two-tier* decentralisation. A one-tier decentralisation is the one where the same body of authority is decentralised regarding certain matters, and centralised regarding other matters. In the matters where it is centralised, duties are performed on the principle of subordination, while in performing other duties they enjoy a certain degree of independence. In the case of a two-tier decentralisation, however, along with the local bodies of authority, there are also state bodies of authority. The latter means that the matters which are centralised are in the same unit dealt with by one type of bodies of authority, while decentralised matters are dealt with the other type of bodies of authority. Having said that, there is also a third system, which does not include centralised bodies of authority (Friškovec, 1979: 93-94).

To understand this part it is particularly important to divide decentralisation on bureaucratic and democratic decentralisation, that is, divide it according to the reason why decentralised bodies of authority were established in the first place. According to Friškovec, we talk about bureaucratic decentralisation when higher bodies of authority are appointing and deposing decentralised bodies, while democratic decentralisation happens when local bodies of authority are elected by the people.

In this regard Lukić warns that the bureaucratic decentralisation, as opposed to the democratic decentralisation, is disadvantageous to immediate social communities, since a bureaucratic body, which does not originate from the ranks of the people who are subjected to its power and does not depend on them, will not be able to empathise with the life of the immediate social community and understand their needs. Therefore it will always act in accordance with the will of the central body of authority. It is important to note, of course, that it is possible to set a bureaucratic organisation in such a way that decentralised bodies are not appointed by the central authority, but by someone else. As already mentioned, the characteristic of democratic decentralisation, on the other hand, is that the bodies of authority are elected by the people living in local communities and that the elected body is under the authority of a local community. Such decentralisation is widely known as a *self-governing decentralisation*. The characteristic of this concept is that the population of the immediate social community manages it through elected bodies. Decentralised units, managed by elected bodies, are in modern democracies known for their direct democracy when managing the immediate social community (Lukić, 1961: 162).

The above mentioned direct democracy in managing the immediate social communities is also known in the Slovenian legal system. The 44th Article of the current Local Government Act /LGA/ states that: 'Members of a municipality shall directly participate in decision-making in the municipality through their assembly, referendum and people's initiative.' This means that there are three institutes of direct cooperation of members of the municipality regarding the managing of the (immediate) local community. According to the 45th Article of the mentioned act and in accordance with the law and the statute of municipality, members of a municipality use their assembly to discuss particular matters, form opinions, give suggestions, initiatives and opinions, or decide

on them. Members of municipality can hold a referendum to decide on questions, which are part of a municipality's general acts, except on the budget or final accounts of the municipality, and on general acts, which are in accordance with the law used to implement municipal taxes and other duties (46th Article of LGA). The initiative to voters, i.e. public initiative, for submission of request to call a referendum can be given by any voter, political party in the municipality or the council of the immediate part of municipality (47th Article of LGA).

Having said that, it is important to note that Slovenian regulations allow direct participation of citizens in the management of the local community only to the point of financial sovereignty (more in: Pernek, 1997: 39) of the local community (municipality), as it is impossible to participate in the management on a financial basis.

5.2.1 Self-Government

The characteristic of decentralisation as a general concept is transferring duties from the state to other organisations, which are not an integral part of the state, but are relatively independent. German legal theory talks about decentralisation with the help of self-government. According to Grafenauer, self-government is based on the idea that every individual and every social group should have a say and influence on matters that relate to their interests and benefits, that matters, therefore, should be decided on by those who are affected by them (Grafenauer, 2000: 31-36). Self-government in a broader sense thus means that a certain circle of those concerned should themselves manage their own duties.

According to Vrban, self-government in a broader sense is subjected to democracy as it reflects the request of the residents of an area to decide for themselves on issues that directly affect them (Vrban, 1995: 194).

The concept of self-government should not be confused with the concept of administrative decentralisation. The latter means that, in addition to the unified central state authorities, the lower authorities at middle and local level should also be organised and given autonomous administrative decision-making authority. Administrative decentralisation is an institute which in French legal theory is referred to as de-concentration. De-concentration and decentralisation have, technically speaking, a common element: in both cases it is about the transfer of functions from the central bodies of authority to other – immediate authorities; the differing element between them is that in the case of de-concentration the functions are transferred to the subordinate authorities, while in the case of decentralisation the transfer is made to the non-subordinate authorities (Šmidovnik, 1995: 33).

Conceptual and legal foundation for decentralisation is based on the unity of the entire sphere of authority, represented by the central state bodies. Part of this authority or part of public duties, respectively, namely duties of local importance (in practice we refer to them as local matters) the state hands over to local communities, which should in

principle perform these duties autonomously with their own bodies of authority, but under a certain supervision from the central state authorities. These mentioned duties are their own or self-governing functions of local communities, respectively. The second set of the functions are those ordered by the state to the local communities to be performed instead of them. These are the transferred functions which are performed by the bodies of authority of local communities. When performing these duties the bodies of authority of local communities appear as some kind of extended arm of the state authorities, but work more autonomously than the state bodies of authority (Šmidovnik, 1995: 33).

If we stated in the introduction to the previous chapter that the fundamental characteristic of self-governing decentralisation is the fact that inhabitants of the immediate social (local) community manage this social community through elected bodies (indirectly) and that it (self)governs through the institutes of direct democracy (assembly of residents, referendum and people's initiative), then autonomy and independence are the foundation of the self-government of local communities. The best general definition of the concept of self-government is that it is a right to autonomously decide about their own matters on the basis of their own power.

However, it is not possible to say that such autonomy and independence of the self-government of local communities is an absolute category, since, as it has been established in the previous chapters, limits of a local authority are determined by the state with its legal system. The latter does not allow an authority, which would in force and effect be equal or similar to the state authority, to appear on the territory that the state authority is controlling. This is why the state authority will, regardless of the degree of decentralisation and democracy, always keep control over the work of the authority of the immediate social communities.

The concept of autonomy is very similar to the concept of self-government, but it differs from it in relation to the fact that, for example, in continental European legal tradition self-government is as a rule limited only to the executive authority, and not to the adoption of general legal acts – laws (Grafenauer, 2000: 80).

The condition for relative autonomy and independence of self-governing local communities is an appropriate level of decentralisation, which has to be territorial, administrative, political and fiscal decentralisation.

5.2.2 Territorial Decentralisation

The concept of territorial decentralisation is closely linked to the concept of local community and local self-government, since throughout history decentralisation in general started to develop as territorial decentralisation.

As already mentioned the territory is one of the fundamental elements for the existence of a state and is as such the vital element for defining the concept of local community.

The territory as a concept merely indicates physical components of human residence and is important only in connection to the settlement of people on it. Throughout history, states as well as local communities were as a rule frequently transformed in the process of territorial reorganisations, while there have always been attempts to bring in certain criteria of rationality. At this point it is important to mention that local communities, i.e. municipalities and wider self-governing local communities, just like the state itself, do not form themselves on the basis of certain criteria of rationality, upon which it would be estimated in advance if they are capable of performing duties they need to perform. Modern territorially decentralised local communities are mostly a result of historical developments, traditions, political compromises, geographical and other factors, which have very little to do with the criteria of rationality in relation to the duties and needs that they must perform or meet, respectively.

As far as an understanding of a territorial decentralisation is concerned, we are interested in a consequence of territorial decentralisation rather than in its historical development.

5.2.3 Administrative Decentralisation

The concept of administrative decentralisation or decentralisation of administrative systems, respectively, consists of transferring the administrative functions from the centre of the system to its individual parts. This mainly concerns the transfer of three basic functions: execution, decision-making and control. The aforementioned functions can be transferred to a various extent, and on this extent depends also the degree of decentralisation of the administrative systems. In cases of a low degree of decentralisation only functions of execution can be transferred, while in cases of high degree of decentralisation functions of execution and decision-making, and part of the function of control are transferred to the lower levels. At this point it is important to note that it is not possible to transfer all three functions entirely, since their transfer in its entirety would mean the end of the decentralised system and the emergence of new decentralised systems (Trpin et al., 1998: 186).

According to Trpin, the administrative decentralisation is not only a technical process, but it frequently carries a distinctive interest charge. The nature and extent of decentralisation also depend on the realisation of interests. Thus, regarding the decentralisation of administrative systems, we distinguish between the administrative-technical aspect and the aspect of interest. The goal of the first is to maximise rationality and efficiency of administration, while the goal of the other aspect is to maximise the possibility of promoting the interests of its holders. When implementing the decentralisation, however, both aspects intertwine.

The aforementioned starting points of decentralisation of administrative systems are the foundation of the relation between the local self-government and administrative centralisation. The basic goal of administrative decentralisation is to ensure an efficient and rational administrative system, while in the case of local self-government the

interests are a direct foundation of the decentralisation of the administrative system. The mentioned interests are a fundamental element of the concept of local self-government, which is formed as a territorial administrative system in the immediate area precisely for reasons of satisfying the interests, which derive from the common needs. Regarding a transfer of functions under administrative decentralisation in the case of local self-government it is first and foremost about the transfer of functions of decision-making (regarding interests), logically followed by the transfer of functions of execution of these decisions. As a rule, along with the mentioned functions, a part of control is also transferred, the part that is directly related to the execution of the first two functions, while the other part of control, which is to ensure the harmonious operation of all units of the local self-government, is kept in the centre (Trpin et al., 1998: 186).

Administrative decentralisation and local self-government are mutually intertwined and, given that they have completely different starting points, can't avoid each other. In the case of a stable organisational and territorial structure, a decentralisation of administrative systems is logical, in which the local self-government with performance of the functions of the state administration becomes its integral part. Of course this is not possible in the systems with unstable structures – constant changing of territory and organisational forms of local self-government. This is why in such cases it is necessary to establish a so called *two-tier system* of administration, where the state itself establishes its own territorial structure completely independent of the local self-government.

Slovenia does not have a stable network of municipalities, while provinces have not been established yet. The local self-government in Slovenia, according to Trpin, is still looking for its own organisational forms, functions and territorial structure. This is why a two-tier system is necessary in order to finalise the construction of the system.

We have 58 administrative units in Slovenia, which are territorial bodies with their own jurisdiction, function and leadership. In relation to jurisdictions, conferred by the state, administrative units have jurisdiction above one or more municipalities.

5.2.4 Political Decentralisation

As previously mentioned, with regards to the transfer of functions under administrative decentralisation, in the case of local self-government the functions of decision-making (about interests) are primarily transferred, which is logically followed by the transfer of functions of execution of these decisions.

It is essential for the local self-government that the residents of local communities manage their own affairs alone. Managing means making decisions, which members of the local community make directly or through the bodies of local self-government. This is why the key question of a local democracy is what possibilities do the residents of a local community have to participate in local decisions (Grad, 1998: 20).

The essential foundation of decentralised authority is by all means a transfer of jurisdiction of decision-making about local affairs to lower levels. This is how the central authority is being decentralised. This is only possible with a sufficient level of political decentralisation, which ensures local democracy and creates a system of participation in decision-making of the local population in managing their own affairs.

From the perspective of democratic rule it would, according to Grad, be necessary for the residents of a local community to directly manage the community by themselves and make their own decisions on it. However, in modern democracy this is not possible, since the needs that are being met within it are too diverse and complex for all the members of the municipality to make decisions about them, and since the modern way of life requires constant decision-making. This is why making all or most decisions that concern local self-government is entrusted to various bodies of authority within local self-government among which the representative body has a central role and significance for local democracy.

As we shall see later, this is how The European Charter of Local Self-government understands a local self-government since, according to the Charter, the local self-government is as a rule implemented by councils and assemblies, whose members are elected through free and secret ballots on the basis of direct, equal and universal suffrage. These bodies of authority can have their own executive bodies, which they are accountable to. Although the Charter is a result of a prevailing situation in European states, it especially stresses that this does not affect the solving of matters at residents' assemblies, referendums or any other form of direct participation of citizens, where the law allows it. This means that the Charter considers the decision-making by representative bodies as a necessary condition of local self-government, while direct democratic decision-making is not its mandatory part, but depends on the tradition of an individual state, which varies greatly among European states (Grad, 1998: 20).

Based on these fundamental thoughts we can conclude that political decentralisation, whose consequence is decentralisation of authority by elected representatives of local communities, is a necessary condition of local self-government.

The comparison of regulations in individual compared systems shows that regulations of local self-government are in this regard the same.

Local Self-Government

Based on the introductory notes on decentralisation and especially on its manifestations, i.e. territorial, administrative and political (due to methodical organisation of this work we will talk about the fiscal decentralisation later), it can be concluded that an appropriate degree of political decentralisation (whose consequence is decentralisation of power by elected representatives of local communities), territorial decentralisation (by which territorial and population-rounded units are formed) and administrative decentralisation (with which functions of decision-making (on interests) are transferred to local communities, which is logically followed by the transfer of functions of execution of these decisions and also part of the functions of control) is the condition and at the same time foundation for the existence of local self-government.

1 The Concept of Local Community

Similar to the already mentioned concept of a state, a concept of a local community also has several dimensions. It is one of the central social concepts and therefore, as is the case with a state, it is not surprising that this concept also stimulates rich intellectual response. Theorists try to highlight with various philosophically-political foundations the essence and social function of this social phenomenon. It is of course the subject of philosophical, sociological and legal research, which leads to various reasoning of the characteristics of a local community and its position in a wider social community.

According to Grafenauer, a local community forms when a closer cooperation and integration of people, who live in a certain rounded area (territory), is established. Thus, the concept of a local community indicates a territorial community of people, who meet their common needs through common activities. The local community therefore represents people on a rounded territorial area, who are mutually interrelated due to the common interests of meeting their needs. It is also important to note that in theory there is no unified definition of local community that would define this concept precisely and unambiguously (Grafenauer, 2000: 15).

Šmidovnik tries to unify the definition of a local community by summarising the findings of George Hillery who, for example, only in the English speaking area gathered 94 definitions of a local community and classified them according to various elements. His classification shows the following essential elements of a local community (Šmidovnik, 1994: 9):

- a specific territory,

- people living on this territory,
- people's needs
- activities to meet these needs, and,
- people's awareness of the community that they are part of.

The fact is that a local community is the lowest in the hierarchy of territorial communities, which on a higher level occur as either local communities of a wider significance or as state territorial communities.

Similar to the concept of a state, it is undeniable that territory is an essential element for defining a local community, while on the other hand it is important to take into account that a territory indicates only physical components of a human residence and is important only in regards to people settling on it.

Under the current regulation, the fundamental self-governing community in the Republic of Slovenia is a municipality with at least 5000 residents (Article 13.a of LGA). Territorially, Slovenia is nowadays divided into 211 or 212 municipalities, respectively, of which more than half (109 or 51.7%, respectively) has less than 5000 residents, as required by the Local Government Act /LGA/ in the mentioned Article 13.a.

It is therefore evident that local communities (municipalities), like the state itself, are not formed on the basis of a certain criteria of rationality, by which it would be possible to assess in advance if municipalities are able to meet the needs and interests of their residents.

We can establish that territorial local communities (also in Slovenia) are a result of historical developments, traditions, political compromises, geographical and other factors, which have very little to do with criteria of rationality in relation to the tasks and needs that they have to carry out or meet, respectively. Although modern local communities were as a rule many times transformed in the process of territorial reorganisations, which have time and time again tried to include certain criteria of rationality, it has been impossible to level the economic and financial potential of the country with territorial transformation.

The settlement of people in a certain territory creates interactions (mutual relations and integration) between people, which lead to the co-existence of an individual and a community on a certain territory. Although it is possible to mention numerous exceptions and limitations, it is regarded that the closer the residence of an individual in a territory, the more possibilities and needs there is in principle to come together and cooperate. And it is the latter that leads to a stronger bond between the residents of a local community due to meeting their common needs and common interests. The meeting of numerous interests and needs can also happen on the basis of a joint action. In this regard the most deciding are the needs that are common to all individuals, which due to their similarity motivate people for a coordinated common activity, and which

are in everyday life so indispensable that meeting these needs brings people living in an area necessarily closer. In addition to the needs, an individual's awareness of belonging to a local community is also an important cohesive factor (Grafenauer, 2000: 11).

From a legal point of view, people's territorial affiliation to a self-governing local community (municipality) is determined by a permanent residency. People with permanent residency in the area of a particular municipality are regarded as its members. The latter have a right to decide on the matters of the local community through councils (representative bodies), members of which are freely elected on secret ballots on the basis of a direct, equal and universal suffrage. In addition, the members decide about the matters of self-governing communities also on their assemblies, through a referendum and people's initiatives.

1.1 Wider Local Communities

At this point it would be right to also mention wider local communities as social communities which occur on a wider territory and unite residents of several local communities, primarily in order to meet wider needs and interests. In this case we can talk about a regional community, which represents an intermediary space between a local community and a state. According to Šmidovnik, this space is on one hand an area of interest for a state, and on the other hand an area of interest, which in the modern world meets conditions for the institutionalisation of a local self-government, therefore an area of interest for a local self-governing community, namely, for a wider local self-governing community which in a particular case can be referred to as a region, province or otherwise (Šmidovnik, 1995).

Under the current constitutional regulation in Slovenia the provinces are to be established by law, which also determines their area, official home and a name. The law is adopted by the National Assembly by a two-thirds majority of the Members present. In the process of adoption of the law, the participation of municipalities has to be ensured. However, regardless of the foregoing constitutional provision from 2006, Slovenia to this day still hasn't established its provinces as self-governing local communities, which would manage local matters of a wider interest and statutory matters of regional importance.

1.2 The Concept of Local Self-government

The concept of local self-government signifies more than just the concept of the local community; it signifies a local community with a status of self-government. Local community is merely the holder of a (local) self-government, its subject, while a local self-government is a systematic legal institution which defines a position of a local community. The position of a local community, meanwhile, is reflected in its independence from the state and any other organisation (Šmidovnik, 1995: 22).

To understand the mentioned concept it is necessary to establish the meaning of the concept of self-government, which Pitamic in his work *Država* (State) appropriately explains in the discussion about self-governing bodies, when he states that: 'Self-government exists when a set of transactions are carried out by the people of that organisation, which is directly interested in these transactions, and not by the central government or administration that is subjected to it' (Pitamic, 1927: 396). By that, of course, he indicates local interests of a local community.

The most self-governing in any case is the state, which is independent of anyone and has itself the power to impose its decisions on anyone within it. Thus, all other social communities in the state claim their right to local self-government from the state. The state therefore can assign them the right to independently decide on certain matters. It is also important that no territorial community can occur against the will of the state (Vlaj, 2001: 23-33).

When attempting to define a concept of local self-government it makes sense to follow Djordjevič, who states that the following conditions must be met for local self-government to take place (Šmidovnik, 1995: 10):

- The local population has to have a right to elect their representative bodies, while these bodies have certain rights of decision-making, which they execute directly or via their executive bodies;
- These bodies should have a real and territorial jurisdiction, that is, that they manage a certain set of matters in their area, as their own authority;
- That the jurisdiction of local bodies of authority, according to their content and their powers for their execution, represents such issues, with which it is possible to actually and formally influence the life and development of a local community.

Based on these and other theoretical definitions Šmidovnik concludes that essential elements of an institution of local self-government are as follows:

- That territorially precisely defined local communities are established as subjects of local self-government (municipalities, regions, provinces);
- That these local communities have a recognized scope of work duties, which reflect the interests of their residents (functional element of self-government);
- That these duties are carried out by members of the community under their own responsibility, either directly or via their elected bodies of authority (organisational element of self-government);
- That the community has its own material and financial means to carry out their own duties (material-financial element of self-government);
- That the community has the characteristics of a legal entity (legal element of self-government) (Šmidovnik, 1995: 11).

Regarding the interpretation and meaning of the concept of local self-government, the modern theory follows the first paragraph of the 3rd Article of The European Charter of Local Self-government /ECLS/ which states that: 'Local self-government denotes the right and the ability of local authorities, within the limits of the law, to regulate and manage a substantial share of public affairs under their own responsibility and in the interests of the local population.'

The already mentioned European Charter of Local Self-government (ECLS) was agreed by the Member States of the Council of Europe on the 15th of October 1985 at the 20th plenary session of the CLRAE. The Charter was entered into force on the 1st of September 1988, when it was ratified by four states.

The objective of the ECLS is to ensure The European standards for defining and protecting the rights of local authorities, which represent the closest level of administration to citizens and enable effective participation in forming decisions that concern their environment.

The Charter delegates to its signatories to meet the fundamental rules which ensure political, administrative and financial independence of local communities. Since the Charter came into force, it created, according to Vlaj, a decisive contribution to the protection and enhancement of universal European values (Vlaj, 2001: 101).

To sum up, the fundamental objective of The European Charter of Local Self-government /ECLS/ is the harmonisation of systems of local self-government across Europe.

1.3 Harmonisation of Systems of Local Self-government

In Europe, there are two fundamental conceptions of local self-government: one is continental and is based on the principle of decentralisation, and the other is a British one, which considers a local self-government as an original institution. In the modern world the functions of the state and the functions of the local self-government are being more and more equalised, and thus also the relations between them. Irrespective of whether the mentioned relations are based on the principle of decentralisation (Continental conception) or on the principle of originality (the British one) of the local self-government, it is not possible today anywhere in the world to exclude a state from the sphere of local self-government. All states regulate their systems of local self-government by their constitution and laws, and these laws basically regulate the same issues. There is an increasing harmonisation of systems, especially in the Member States of the European Union (Šmidovnik, 1995: 35).

Differences in the systems of local self-government are reflected in all matters that are regulated by laws, that is, in all essential elements which compose the concept of Local self-government. In order to systematically address the topics discussed it is important to get acquainted with the essential traits of the main European models of local self-

government and with the comparative review of local self-government regulations in some states of the European Union and its associated states.

1.4 Main European Models of Local Self-government

1.4.1 The French Model

The French model of local self-government has had, same as the French state and political system in general, the biggest influence on the regulation of local self-government in the European states – except in Great Britain. It is based on the theory of decentralisation, which is the result of French political doctrines. This model has been kept in its purest form at home in France, and in a somewhat less pure form in other, neighbouring, especially Romanic countries.

As a general rule, the French model is a model for all local self-governments with a relatively narrow scope of work duties. In the German model and other models of local self-government the state transfer part of its duties to local communities – these are the transferred duties of local communities, but the centralistic system of the French state is not inclined to such transfers. Thus, the French system does not know the category of transferred duties; if at all, it transfers its duties onto local communities, into their original jurisdiction.

In accordance with the centralistic system of the state, the system of a thorough state control over local self-government is put into place. Theory of decentralisation reflects the idea that local communities are not the original holders of their powers, since these powers are authorised by the state (more in: Šmidovnik, 1995: 37-43).

1.4.2 The German Model

The German model of local self-government is, according to German and other theorists and practitioners, a good model. Its organisational and territorial structure allows for an efficient and rational functioning of local communities. These have a great meaning and big significance in the system of the German state. German local self-government has a long historical tradition and has strongly influenced the systems of local self-government, especially in the neighbouring countries, mostly in the countries of Central Europe, including those in the area of Austria and the former Yugoslavia, which at the time were part of the Austro-Hungarian Empire.

Prevalent notion in German legal theory is that all duties in local self-government have their primary origin in the state authority. These are the ideas of centralisation which are being imposed and confirmed by the actual relationship between the modern state and local self-government. The state ensures and measures the space of local self-government within its own frame, therefore the state regulates the system of local self-government in that it establishes and delimits local communities.

The theory of decentralisation does not eliminate the distinction between own and delegated duties, but it partly conceals it. The dispositions of the legislator regarding duties of local communities are limited since it has to respect the autonomy of local communities which are in principle free to take care of their own affairs, while they are not limited regarding the rest of their duties since they are state duties, although they are carried out by local communities. In German and Austrian legal theory, the theory of local self-government as an indirect state administration is based on the concept of decentralisation. According to this theory, a local self-government – along with numerous organisations which provide public services – form a group of holders of an indirect state administration which, together with the state bodies, integrate into the so called state in a broader sense, however, they are relatively independent in relation to the state (Šmidovnik, 1995: 43-52).

1.4.3 The British Model

Historically, local self-government is most rooted in England. It has evolved in this country continuously for eight centuries and has been an essential component of the English political and state structure.

Today, British local communities are autonomous bodies of local self-government, and at the same time executive bodies of the state authority. In the British model there is no division on own affairs and delegated affairs, since all their affairs are homogenous public duties (they are all based on law). According to the British concept, all execution of public affairs is an implementation of the law and thus has to be based on laws, and this is why in this type of system there is no room for assumptions regarding the universal jurisdiction of local communities in local affairs, as is the case with local communities on the European continent. British local communities therefore can't determine their own duties in any scope – not even in the narrowest (most immediate) area, which is on the continent referred to as local affairs. In England the opposite doctrine applies – the *ultra vires* theory.

The essence of British local self-government lies more in political elements of governing over local communities, and this political concept of local community provides the English local communities much less autonomy (self-government) than German municipalities and counties on the basis of their self-governing tradition can claim. In principle, the British model as a whole is not suitable for other countries, while some individual solutions within the framework of this model can be (Šmidovnik, 1995: 52-62).

1.5 Comparative Legal Overview of Organisation of Self-government

The characteristic of each of the compared states, which in regards to the organisation of local self-government mostly follow the described models of local self-government, is the fact that their local communities have certain structural features.

Within the legal examination of local communities it is possible to distinguish mainly three types of the mentioned structural features:

1. Territorial – it concerns issues primarily related to the territorial component of local self-governing communities (questions regarding which territory, what size, number of residents and other features influence the forming or establishing self-governing local communities) (Grafenauer, 2000: 82);
2. Organisational – it concerns issues about what types (sorts) of local communities are formed in a certain state in certain time periods and on what levels or stages (one, two, three), respectively; which are the basic features of the individual types (sorts) of self-governing local communities; and what characterises their mutual relations and relations to the state (Grafenauer, 2000: 82);
3. Functional – it concerns issues regarding questions about identifying and studying the scope of work and jurisdictions and all activities and duties of self-governing local communities in a certain state and in a certain time period (Grafenauer, 2000: 82).

When comparing functional structural features it is important to know the distinction between the state authority and local self-government since the scope of the work of a local government depends on it.

The fact is that Slovenian municipalities manage only local affairs. The scope of work and jurisdictions of municipalities in Slovenia are determined in sectoral legislation through which the state allows to self-governing local communities to manage local public affairs. Otherwise, the basis for determining jurisdictions is mainly the constitutional provision in the first paragraph of the 140th Article of the Constitution of the Republic of Slovenia, which states that ‘The competencies of a municipality comprise local affairs which may be regulated by the municipality autonomously and which affect only the residents of the municipality.’ The overview of the competencies (jurisdictions) of Slovenian municipalities (in the appendix) shows that Slovenian municipalities have quite a lot of jurisdictions and are in this sense comparable to other systems in EU countries. Thus, the self-governing local communities (municipalities) in Slovenia independently manage local matters of public interest (original duties), which they determine by the general act or are determined by law. To meet the needs of their residents they perform mostly duties, such as, for example: manage the assets of the municipality; provide the conditions for the economic development, in accordance with the law carry out tasks in the areas of hospitality industry, tourism and agriculture; plan spatial development, in accordance with the law carry out tasks in the areas of encroachments in physical space and the construction of facilities; create the conditions for the construction of housing and provide for an increase in the rent/social welfare housing fund; regulate, manage and provide for local public service within its jurisdiction; promote the services of social welfare for pre-school institutions, for the basic care of children and the family, for socially disadvantaged, disabled and elderly people; provide for protection of the air, soil and water resources, for protection against

noise and for collection and disposal of waste; regulate and maintain water supply and power supply facilities; create conditions for adult education, important for the development of the municipality and for the quality of life of its residents; construct, maintain and regulate) local public roads, public ways; provide for fire safety and rescue services; organise the performance of funeral and burial services etc. (21st Article of LGA).

The fact, however, is that Slovenian municipalities manage purely local affairs of public interest, while none of the state jurisdictions are transferred to be carried out by municipalities. The reason for this is also found in the second paragraph of the 140th Article of the Constitution, which states that ‘the state may by law vest specific duties within the state jurisdiction to the municipality, if the state provides financial resources for this purpose.’ It has to be noted that in Slovenia there is a sharp distinction between the state authority and local self-government (as opposed to the system in the Member States of European Union, where, as previously mentioned, duties intertwine).

1.6 Local Self-government in Slovenia

When talking about the fundamental characteristics of local self-government in Slovenia it is important to note that the roots of legal regulation of local self-government date back to the year 1849. It was in this year that the Provisional Law on Municipalities was adopted, which determined the establishment of self-governing, administrative, political, local municipalities. In addition to that, the above mentioned law is also important because it was the first that applied to almost the entire territory, inhabited by Slovenians (more in: Šmidovnik, 1995; Rupnik et al., 1996; Grad, 1998; Grafenauer, 2000).

At this point we will mostly focus on the modern regulation of local self-government in Slovenia, which has its roots in the foundation of the independent and sovereign Republic of Slovenia and the newly formed Constitution of the Republic of Slovenia.

In provisions of the new Slovenian Constitution, in which the basic political principles and social values with which Slovenia defines its state system are written down and defined, the local self-government has been given pride of place. It concerns political issues, such as democracy, the rule of law, the welfare state, people’s sovereignty, separation of powers etc., however, among these principles there is also the provision on local self-government, which under the 9th Article of the Constitution of the Republic of Slovenia is provided for also in Slovenia.

After the independence of the Republic of Slovenia, the introduction of local self-government was one of the most important and difficult tasks for the new state, since the introduction of classical local self-government of the Western European type meant the radical change from the previous system. The Constitution represented the foundation for the regulation of local self-government, but was left loose enough for subsequent legal changes. As already mentioned, with the ratification of The European

Charter of Local Self-government /ECLS/ Slovenia has also pledged to follow its provisions regarding the legislative regulation of local self-government.

One of the central issues when introducing the new system of local self-government in the Republic of Slovenia was the issue of territorial formation of new municipalities (Grafenauer, 2000: 353). Previous municipalities were as communes conceptualised as the basic social and economic unit to carry out de-concentrated duties of the state (state administration) and therefore too big to realise the role of the classical or traditional municipality. The views regarding the introduction of the new system of local self-government varied greatly among the parties in the National Assembly, both in terms of the content as well as the pace of establishing the new system. This was particularly evident when deciding on the establishment of new municipalities. In early 1994 the Referendum for the Establishment of Municipalities Act was adopted (Official Gazette RS, No. 5/1994); professional foundations for defining the referendum areas (Bulletin of the National Assembly of RS, No. 21.2.1994) were prepared, which contained two basic models for establishing municipalities: the model of 163 municipalities with at least 5000 residents, and the model of 239 municipalities with at least 3000 residents; citizen's assemblies were carried out all over Slovenia; and the government prepared the proposal for referendum areas for the establishment of municipalities. After discussing the proposed documentation and numerous objections, the National Assembly determined that the referendum will be carried out in 340 referendum areas (Decree on Defining Referendum Areas for the Founding of Municipalities; Decree on holding a Referendum for the Founding of Municipalities (Official Gazette RS; No. 22/1994)). The results of the referenda (carried out in May 1994, except in the municipality of Koper, where the referendum was held in September 1994) were such that they could not be fully taken into account. Of the total 339 referenda the voters on only 111 of them voted for the establishment of a municipality in the proposed area (Report on the Results of the Referendum for the Founding of Municipalities on the day 29th of May 1994 and 11th of September 1994 (Official Gazette RS, No. 33/1994) and Report on the Result of the Referendum for the Foundation of municipality of Koper from the day 11th of September 1994 (Official Gazette RS, No. 57/1994)). Out of the total number of voters (1.471.665) for the new municipalities 29.7% or 430.000 people voted, with mainly the voters from proposed small municipalities deciding on the founding of municipalities. On this basis the National Assembly of the Republic of Slovenia adopted the Establishment of Municipalities and Municipal Boundaries Act/EMMBA/ (Official Gazette RS, No. 60/1994) and founded 147 municipalities, out of which 11 were town municipalities, while later in 1997 and 1998 a further 45 municipalities were established, 1 municipality was founded in 2002, 17 municipalities in 2006, and in early 2011 another one was established. (Grafenauer & Brezovnik, 2011: 83-86).

1.6.1 Slovenia and The European Charter of Local Self-government

As already mentioned, The European Charter of Local Self-government /ECLS/ delegates to its signatories to meet the fundamental rules which ensure political, administrative and financial independence of local communities. Local self-government

represents a *constant struggle* even in the states where it has long been in existence. The bodies of the Council of Europe therefore constantly draw attention to the need for the re-enforcement of the fundamental principles of the Charter, especially due to financial problems and the fact that the duties of local communities are on the rise.

The aforementioned fundamental issues with which to ensure political, administrative and financial independence of local authorities, and which need to be resolved in accordance with the Charter, are, according to Vlačj, as follows (Vlačj, 2001: 102):

- Legal foundation, that is, the recognition of local self-government in domestic law (Constitution, legislation);
- Scope of activities and structures of local self-government, that is, the determination of methods and criteria for the division of jurisdictions between the state and the local self-government;
- Guarantee of autonomy, which includes regulation of the status of the elected representatives, protection of borders of local communities, ensuring of judicial resources etc.;
- Adequate financial resources, which requires regulation of the system of financing of a local self-government;
- Exercising political rights of the citizens in local communities (right to vote, democratic electoral system of local elections, freedom of expression and association etc.);
- And other.

1.6.2 The Constitution of the Republic of Slovenia and Provisions on Local Self-government

Despite the fact that it has been ratified in the 1996, The European Charter of Local Self-government /ECLS/ has been to some extent included also into Slovenian constitutional and legislative system. The analysis and comparison of The European Charter of Local Self-government, the Constitution of the Republic of Slovenia and the legislation on local self-government shows the following:

- That the principle of local self-government from the 2nd Article of The European Charter of Local Self-government /ECLS/, which states that ‘the principle of local self-government shall be recognised in domestic legislation, and where practicable in the constitution,’ is recognised in the 9th Article of the Constitution of the Republic of Slovenia, which states that ‘local self-government in Slovenia is guaranteed.’

The Constitution of the Republic of Slovenia has therefore placed Slovenia among the countries that want to provide common European standards for defining and protecting the rights of local authorities, which are for citizens the closest level of administration and enable them efficient participation in forming and making decisions which relate to their everyday environment. The citizens’ right to

participate in managing public affairs is one of the democratic principles which are common to all Member States of the European Union. This right, however, can be most directly exercised at a local level (Šturm et al., 2002: 152). Thus, as stipulated in the 138th Article of the Constitution, ‘residents of Slovenia exercise local self-government in municipalities and other local communities,’ while the first and second paragraph of the 139th Article determine that ‘municipalities are self-governing local communities, and, further on, that ‘the territory of a municipality comprises a settlement or several settlements bound together by the common needs and interests of the residents.’

- That the principle of subsidiarity in the 4th Article of the ECLS, which determines the scope of activities of local self-government, is insufficiently defined in the Constitution of the Republic of Slovenia in the first paragraph of the 140th Article, which determines that ‘the competencies of a municipality comprise local affairs which may be regulated by the municipality autonomously and which affect only the residents of the municipality,’ however, it is appropriately regulated in the 2nd Article of the Local Self-government Act /LSA/, which states that ‘a municipality shall, in accordance with the Constitution and laws, independently regulate and perform the matters, duties and functions vested in it by law.’

The above mentioned provision of the first paragraph of the 140th Article of the Constitution emphasizes the autonomy of a local community, while it also limits the National Assembly of the Republic of Slovenia since it is not allowed to interfere in matters which concern only the residents of the municipality. The latter means that a municipality is an autonomous community, which, in accordance with this provision, determines their own duties. The state therefore must not interfere in those relations that represent the manners and forms of life in their local communities. The Constitution treats the state authority and the local self-government equally. Therefore, they both have a common starting point, that being that their conduct has to be democratic, legal and social. The autonomy is also reflected in the case when the state wants to transfer its jurisdiction to local communities, but cannot do it without the consent of the local community and assurance of appropriate resources (Šturm, 2002: 559).

- That the manner of exercising the citizens’ right to local self-government, which is defined in the second paragraph of the 3rd Article of The European Charter of Local Self-government /ECLS/, under which the right to local self-government ‘shall be exercised by councils or assemblies composed of members freely elected by secret ballot on the basis of direct, equal, universal suffrage, and which may possess executive organs responsible to them. This provision shall in no way affect recourse to assemblies of citizens, referendums or any other form of direct citizen participation where it is permitted by statute,’ is appropriately defined in the second and third paragraph of the 11th Article of the Local Self-government Act, which states that: ‘Members of municipalities shall take decisions on matters of local self-government through councils consisting of members elected by free and secret

ballot on the basis of direct, equal and universal suffrage.’ And, further on, that: ‘Members of municipalities shall also take decisions on matters of local self-government directly – at their assemblies, by referendum or by people’s initiative.’

This manner of exercising of the citizens’ right to local self-government is appropriately defined in the provisions of the Local Elections Act (LEA/ (Official Gazette RS, No. 94/2007-UPB3, 45/2008, 83/2012), which ‘governs elections to municipal councils, elections of mayors and elections to the councils of district, village and urban communities.’

- That the changing of local authority boundaries, subject to prior consultation with local communities, as stipulated in the 5th Article of The European Charter of Local Self-government /ECLS/, under which ‘changes in local authority boundaries shall not be made without prior consultation of the local communities concerned, possibly by means of a referendum where this is permitted by statute,’ is provided for by a referendum, defined in the third paragraph of the 139th Article of the Constitution of the Republic of Slovenia, which states that: ‘A municipality is established by law following a referendum by which the will of the residents in a given territory is determined,’ and further on, in the third paragraph of the 12th Article of the Local Self-government Act /LSA/, which states that, ‘the territory of a municipality can change or new municipality can be established by law following a referendum by which the will of the residents is determined.’
- That solutions for the local authorities to set their own administrative structure, as determined in the first paragraph of the 6th Article of The European Charter of Local Self-government /ECLS/: ‘The conditions of office of local elected representatives shall provide for free exercise of their functions,’ and further on, that it establishes appropriate conditions of work for those employed in local self-government, as determined in the second paragraph of the 6th Article of The European Charter of Local Self-government /ECLS/: ‘The conditions of service of local government employees shall be such as to permit the recruitment of high-quality staff on the basis of merit and competence; to this end adequate training opportunities, remuneration and career prospects shall be provided,’ are included in the 49th and 50th Article of the Local Self-government Act /LSA/ and in the second part (Special Provisions for Civil Servants in the State Bodies and Local Community Administrations) of the Civil Servants Act /CSA/ (Official Gazette RS, No. 63/2007-UPB3, 65/2008, 69/2008-ZTFI-A, 69/2008-ZZavar-E, 40/2012-ZUJF).
- That work conditions of the locally elected representatives under the provisions of the 7th Article of The European Charter of Local Self-government /ECLS/, which states: ‘1. The conditions of office of local elected representatives shall provide for free exercise of their functions; 2. They shall allow for appropriate financial compensation for expenses incurred in the exercise of the office in question as well as, where appropriate, compensation for loss of earnings or remuneration for work done and corresponding social welfare protection; 3. Any functions and activities

which are deemed incompatible with the holding of local elective office shall be determined by statute or fundamental legal principles,' are stipulated in the above mentioned second part of the Civil Servants Act /CSA/.

- That the administrative control of the operation of local authorities, as determined in the 8th Article of The European Charter of Local Self-government /ECLS/, which states that: '1. Any administrative supervision of local authorities may only be exercised according to such procedures and in such cases as are provided for by the constitution or by statute; 2. Any administrative supervision of the activities of the local authorities shall normally aim only at ensuring compliance with the law and with constitutional principles. Administrative supervision may however be exercised with regard to expediency by higher-level authorities in respect of tasks the execution of which is delegated to local authorities; 3. Administrative supervision of local authorities shall be exercised in such a way as to ensure that the intervention of the controlling authority is kept in proportion to the importance of the interests which it is intended to protect,' is regulated by the Constitution of the Republic of Slovenia, which in its 144th Article determines that 'State authorities supervise the legality of the work of local community authorities,' and by the Local Self-government Act /LSA/ in the Chapter X (Supervision by State Bodies).
- That the financial resources of local authorities (9th Article of ECLS²), are provided by the 142th Article of the Constitution of the Republic of Slovenia, which states that 'A municipality is financed from its own sources. Municipalities that are unable to completely provide for the performance of their duties due to insufficient economic development are assured additional funding by the state in accordance with principles and criteria provided by law,' however, the current

² The 9th Article of ECLS states:

'1. Local authorities shall be entitled, within national economic policy, to adequate financial resources of their own, of which they may dispose freely within the framework of their powers.

2. Local authorities' financial resources shall be commensurate with the responsibilities provided for by the constitution and the law.

3. Part at least of the financial resources of local authorities shall derive from local taxes and charges of which, within the limits of statute, they have the power to determine the rate.

4. The financial systems on which resources available to local authorities are based shall be of a sufficiently diversified and buoyant nature to enable them to keep pace as far as practically possible with the real evolution of the cost of carrying out their tasks.

5. The protection of financially weaker local authorities calls for the institution of financial equalisation procedures or equivalent measures which are designed to correct the effects of the unequal distribution of potential sources of finance and of the financial burden they must support. Such procedures or measures shall not diminish the discretion local authorities may exercise within their own sphere of responsibility.

6. Local authorities shall be consulted, in an appropriate manner, on the way in which redistributed resources are to be allocated to them.

7. As far as possible, grants to local authorities shall not be earmarked for the financing of specific projects. The provision of grants shall not remove the basic freedom of local authorities to exercise policy discretion within their own jurisdiction.

8. For the purpose of borrowing for capital investment, local authorities shall have access to the national capital market within the limits of the law.'

regulation of financing municipalities does not appropriately take into account all the principles of the 9th Article of The European Charter of Local Self-government /ECLS/, which states that: '1. Local authorities shall be entitled, within national economic policy, to adequate financial resources of their own, of which they may dispose freely within the framework of their powers; 2. Local authorities' financial resources shall be commensurate with the responsibilities provided for by the constitution and the law.'

Having said that, we must not overlook the fact that the Constitution of the Republic of Slovenia in the first paragraph of the 146th Article states that 'local communities raise funds for the performance of their duties by means of taxes and other compulsory charges as well as from revenues from their own assets,' and further, in the second paragraph of the 147th Article, that 'local communities impose taxes and charges under conditions provided by the Constitution and law.'

Proceeding from the above mentioned provisions of the Constitution of the Republic of Slovenia, the Financing of Municipalities Act /FMA/ and the provisions of the ECLS, the analysis of the existing system of financing municipalities shows that the following principles were not adequately considered in the current regulation (Šturm et al., 2002: 965-966):

- 'The principle of adequacy', which requires that the local community has its own adequate financial resources to dispose of freely within the framework of its responsibilities;
- 'The principle of proportionality', which requires that all financial resources of local communities be in proportion with the duties that are assigned to them by the constitution and law;
- 'The principle of self-financing', which requires that at least part of financial resources of local communities have to derive from their own taxes and other duties, the amount of which the local communities determine themselves in the context of the law;
- Under 'the principle of flexibility' the financial resources of local communities have to be sufficiently versatile and flexible so they can as soon as possible follow the actual movement of their performance costs;
- Under 'the principle of balancing' the state has to, not only via financial balance, but also via other adequate measures ensure the balance between local communities regarding financing of local matters;
- 'The principle of cooperation' requires that local communities in an appropriate way cooperate in determining the manner of allocation of the disposed financial resources;
- 'The principle of autonomy', which requires that the assets that the state allocates to local communities, will not be strictly intended for financing certain projects;

- ‘The principle of borrowing’, which requires that local communities have access to domestic capital markets for acquiring loans for bigger investments within the limits of the law.

Research shows that the key problem of the current model of financing municipalities is insufficiency and disproportionality of sources with duties that are allocated to them by the constitution and the law. The latter is also evidently inconsistent with provisions of the 9th Article of the ratified European Charter of Local Self-government /ECLS/.

The Municipal Finance System in Slovenia

The existing model used for financing municipalities in Slovenia comprises three model functions, namely: • the function of eligible expenditure of a municipality; • functions of own revenues and • the function of financial equalisation (Oplotnik & Brezovnik, 2006-2011).

Costs that are taken into account when determining a municipality's eligible expenditure are incurred by tasks that a municipality is required to perform based on relevant acts and within the scope specified by those acts, referring to:

1. the provision of public services and implementation of public programmes in:
 - pre-school education,
 - primary education and sports,
 - primary healthcare and health insurance,
 - social security,
 - culture;
2. the provision of local public utility services;
3. regulation of municipal transport infrastructure and provision of traffic safety on municipal roads;
4. fire safety and protection against natural and other disasters;
5. spatial planning of municipal importance, environment protection and nature preservation;
6. payment of rent and housing expenses;
7. operations of municipal bodies and performance of administrative, professional, promotional and development tasks as well as tasks related to the provision of public services;
8. performance of other tasks as laid down by the law (Article 11 of the Financing of Municipalities Act).

The average costs for financing the mentioned tasks are determined by taking into account the data on current expenses and transfers for these tasks, which municipalities are required to report to the ministry responsible for finance based on an act or a regulation based on such act, as a lump sum that is calculated using the methodology specified by a Government decision following preliminary coordination with municipalities and their associations (Decree of methodology for calculation of the lump sum for the financing of municipal tasks (Official Gazette of the Republic of Slovenia, No. 51/2009)). The lump sum for the subsequent fiscal year is calculated by the ministry responsible for finance based on the data submitted for the previous four years, whereby taking into account the inflation rate applicable at the time, in the year preceding the year and in the year for which the lump sum is to be determined.

The calculation takes into account the average costs as specified in an agreement made by the Government and representative municipal associations before submitting the state budget to the National Assembly that specifies the average costs for financing the tasks indicated and those set anew by an act laying down the municipal tasks to be performed in the subsequent fiscal year (Articles 11 and 12 of the Financing of Municipalities Act).

The ministry responsible for finance sends the lump sum calculated for the subsequent fiscal year and the year that follows to municipalities, so that they can issue their opinion to the calculation by 1 September of the current year at the latest. The lump sum is determined by the National Assembly with an act regulating the implementation of national budget (Article 12 of the Financing of Municipalities Act).

The stated lump sum provides the basis for the calculation of eligible expenditure of a municipality, as established by the ministry responsible for finance for an individual fiscal year. Along with the lump sum and the number of residents in a municipality, the formula for the calculation of eligible municipal expenditure also takes into account the data on its surface area, length of municipal roads (local and public rights of way), the number of residents under the age of 15 and the number of residents over the age of 65, which comprehensively reflect the specificities of an individual municipality and affect the financing of mandatory tasks to be performed by a municipality.

The ratios calculated from the data concerning an individual municipality affect 39% of its eligible expenditure, i.e. surface area 6%, the length of municipal roads 13%, the number of residents under the age of 15 16% and the number of residents over the age of 65 4%. The remaining 61% of eligible expenditure depends on the lump sum and the number of residents (Article 13 of the Financing of Municipalities Act).

The criterion for determining municipal revenues from income tax for financing eligible expenditure is an eligible volume of funds as calculated by the ministry responsible for finance for an individual fiscal year using the formula:

$$POs = Oi * Po * (0.3 + 0.7 * Iro).$$

Whereby:

POs is the eligible volume of funds;

Oi is number of residents in a municipality;

Po is the average eligible expenditure per capita in the State calculated using the following formula: $Po = SPP/O$, whereby SPP is the total eligible expenditure of municipalities for an individual fiscal year; O is the population in the country; Iro is diversity index calculated using the following formula: $Iro = PPI/Oi * Po$, whereby: PPI is the eligible expenditure of a municipality for an individual fiscal year.

If the calculated eligible volume of funds exceeds the calculated eligible expenditure of a municipality by more than 15%, the surplus exceeding 15% is decreased by 50% (Article 13.a of the Financing of Municipalities Act).

To finance eligible expenditure, a municipality is entitled to 70% of the revenues deriving from the 54% of the income tax paid in in the year before last, increased by the inflation rate for the year preceding the year and the year for which eligible municipal expenditure is to be calculated pursuant to the Financing of Municipalities Act, as established based on the sum total of the assessed income tax as per income tax statements for the income taken into account for the annual tax base (tax statements), which are issued to persons liable having their permanent residence in the municipality as at 31 December of the year to which the tax statements refer – in the sum total of the income tax assessed for these persons for the same period. The calculation takes into account the tax assessments for the year preceding the year in which income tax was paid in, i.e. according to the balance as at 30 June of the year preceding the year for which eligible municipal expenditure is calculated pursuant to the Financing of Municipalities Act.

Income from the remaining 30% of municipal revenues deriving from the 54% of income tax paid in in the year before last, increased by the inflation rate for the year preceding the year and the year for which eligible municipal expenditure is to be calculated pursuant to the Financing of Municipalities Act and the share of individual municipality's revenues from the stated 70% exceeding its eligible volume of funds, are funds used for solidarity equalisation of municipal revenues that derive from income tax. This solidarity offset belongs to municipalities with income from the stated 70% lower than their eligible volume of funds, i.e. in the amount of the difference between the revenues from the stated 70% of the pertaining income tax and the eligible volume of funds. If the funds used for equalisation are not sufficient to cover the eligible volume of funds, the solidarity equalisation for an individual municipality is determined in percentage that is calculated by taking into account the difference between the income from the stated 70% of pertaining income tax and the eligible volume of funds, in the sum total of all differences of municipalities that are eligible to solidarity treatment.

The difference between income tax revenues and total municipal revenues from pertaining income tax as well as solidarity equalisation payments are funds used to provide additional solidarity offset of municipalities from income tax. Additional solidarity equalisation for an individual municipality belongs to municipalities with a smaller eligible volume of funds than eligible expenditure, i.e. to the maximum amount of eligible expenditure. Additional solidarity equalisation is determined for each municipality in the percentage calculated by taking into account the difference between eligible expenditure of a municipality and its revenues deriving from the pertaining income tax and solidarity aid, i.e. in the sum total of all differences of municipalities that are entitled to a further solidarity offset. The data on the mentioned pertaining revenues for the next fiscal year and the year that follows are communicated to municipalities by the ministry responsible for finance as preliminary data for the preparation of municipal budgets by 15 October of the current year at the latest, while the final data are communicated after the adoption of the State budget.

Along with the stated functions of eligible expenditure and own municipal revenues, the function of financial equalisation holds special significance, specifying that financial equalisation is allocated to a municipality that is unable to finance its eligible expenditure in an individual fiscal year from the State budget, i.e. in the amount of the difference between the eligible expenditure of a municipality and the revenues as set forth in Article 14 of the Financing of Municipalities Act. Financial equalisation payments are determined by the ministry responsible for finance after adopting the State budget and are communicated to municipalities that have been allocated the financial equalisation, publishing the information on its website (Article 15 of the Financing of Municipalities Act).

In relation to financial equalisation payments, the ministry responsible for finance is required to communicate preliminary data on financial equalisation amounts to municipalities by 15 October of the current year for the next fiscal year and the year that follows it (Article 16 of the Financing of Municipalities Act).

The stated revenue (Article 14 of the Financing of Municipalities Act) is transferred to a municipality weekly in equal amounts, starting with week 1 of the fiscal year for which they are calculated, while equalisation payments are made to the municipality by twelfths, i.e. by the 20th day of the month for the current month, except for the equalisation payments amounting up to €5,000, which are made in two instalments, i.e. by 20 June and by 20 December of the current year. The stated funds are freely available to a municipality and the Financing of Municipalities Act further stipulates that the relevant asset cannot be confiscated to pay overdue liabilities arising from debts, compensations ordered by court decisions and compensations based on the Denationalisation Act (Articles 16 and 17 of the Financing of Municipalities Act)

1 Financial Sources of Local Authorities in the Republic of Slovenia

Pursuant to the provision of paragraph 1 of Article 142 of the Constitution of the Republic of Slovenia, a municipality is financed from own resources. Hence, one of the basic conditions to carry out the constitutional principle of local self-government is the provision of own financial resources to finance the original powers of municipalities, i.e. the ones that are specified by the municipality with its act deriving directly from its constitutional position and legal authority and those that are provided by the State as municipal resources. This is to ensure primarily the execution of public interests (of the authorities) at a lower level, pursuant to the constitutional principle of local self-government. Hence, sufficient financial resources also determine the level of local self-government autonomy and, as a result, its self-governance. Within the scope of its legislative function, the State adopts regulations governing local self-government and, within this scope, the regulations governing the funding of local communities. Article 147 of the Constitution of the Republic of Slovenia stipulates that local communities impose taxes and other duties under the terms and conditions specified by the Constitution and the law; however, the State never waived its fiscal sovereignty in the past two decades. When prescribing tax and other duties, municipalities are limited by legal frameworks, so that their rights referring to the material basis for the

implementation of local self-government are always executed based on the acts adopted or deriving directly from the Constitution.

When specifying the material basis, the legislator is obliged to derive from the stated Article 142 of the Constitution of the Republic of Slovenia, while the scope of the material basis must comply with the tasks the municipality would perform within the scope of its area of operations – there must be an adequate relationship between the revenues of a particular municipality and the constitutional and legal tasks that the municipality is supposed to perform. The municipal finance system must hence provide municipalities with a volume of funds that the legislator has defined as sufficient for the municipality to provide the performance of its constitutional and legal tasks (according to the Constitutional Court of Slovenia in its Decision No U-I-82/1996 as of 17 April 1997 (Official Gazette of the Republic of Slovenia, No 35/1997)). Pursuant to the statutory principles and criteria (Article 142 of the Constitution of the Republic of Slovenia), the State is required to provide additional funds to those municipalities that are unable to entirely provide the performance of its tasks as a result of their underdevelopment. This constitutional provision was one of the fundamental reasons for irrational territorial breakdowns we have witnessed in the past. After the introduction of local self-government, the legislator adopted the first Financing of Municipalities Act in 1994 (ZFO; Official Gazette of the Republic of Slovenia, No. 80/1994), under which all municipalities were provided with the so-called "guaranteed expenditure" by 1999, when the latter changed to "eligible expenditure". Despite subsequent amendments and supplements to the municipal finance system, a new Financing of Municipalities Act (ZFO-1) was adopted in 2006. Due to the diversity of municipalities and the fact that all municipalities, regardless of their size, hold the same powers, it is in fact impossible to devise a transparent and economically fair municipal finance model (Grafenauer & Brezovnik, 2011: 89-90). Furthermore, the scope of municipal powers and tasks has at least doubled since 1999, while municipal revenues increased from 4.80% of GDP in 2003 to 5.70% of GDP in 2011. For comparison, municipal expenses (expenditure) ranged from 4.82% in 2003 up to 5.80% of GDP in 2011 (Table 1). Nevertheless, municipalities received between €1,209 million in 2003 to €2,061 million in 2011 during that time. The latter shows that the volume of funds is increasing; however, it is not proportionate, in relation to GDP, to the tasks assigned due to a nearly 100% increase in powers and tasks (Bradaschia, 2012: 16-18).

As already stated, municipalities are financed from own resources pursuant to the provision of the stated Article 142 of the Constitution of the Republic of Slovenia. A provision with the same content can be found in Article 52 of the applicable Local Self-Government Act (ZLS), which stipulates that local affairs of public significance are to be financed from own resources, State funds and debt. Own municipal resources are: **1.** taxes and other duties and **2.** revenues from its property. The State provides a suitable amount of additional funds to municipalities that are unable to finance local affairs of public significance from its own resources. The amount and manner of providing additional funds are specified by the Act.

Table 1: Total local (municipal) revenues, expenses and surplus/deficit from 2003 to 2011

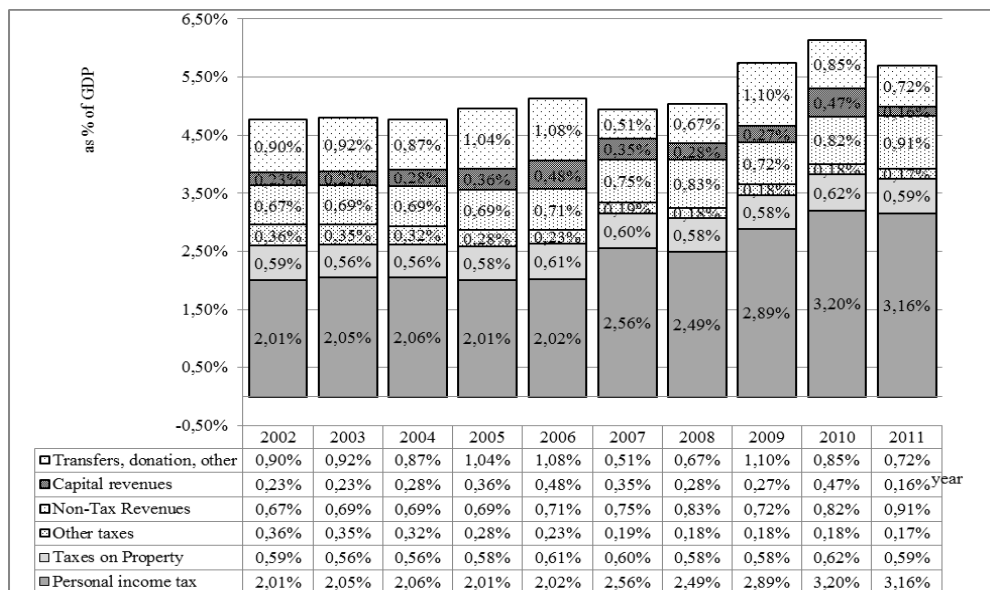
	2003	2004	2005	2006	2007	2008	2009	2010	2011
Total local revenues in mio €	1.209	1.298	1.425	1.595	1.710	1.875	2.037	2.180	2.061
Total local expenses in mio €	1.214	1.297	1.372	1.628	1.723	2.048	2.192	2.313	2.097
Surplus/deficit in mio €	-4,65	0,58	52,86	-32,53	-12,10	-172,76	-155,90	-132,23	-36,23
Total local revenues as % of GDP	4,80%	4,78%	4,96%	5,14%	4,94%	5,03%	5,75%	6,14%	5,70%
Total expenses as % of GDP	4,82%	4,77%	4,78%	5,24%	4,98%	5,50%	6,19%	6,52%	5,80%
Surplus/Deficit as % of GDP	-0,02%	0,00%	0,18%	-0,10%	-0,03%	-0,46%	-0,44%	-0,37%	-0,10%
GDP in mio €	25.196	27.164	28.722	31.045	34.593	37.245	35.420	35.484	36.151

Source: Ministry of Finance, Bulletin of Government Finance (2012)

Table 2: Local (municipal) revenues in € millions – structure by source of revenue in mio €

in mio €	2003	2004	2005	2006	2007	2008	2009	2010	2011
Personal income tax	516	559	577	628	885	928	1.023	1.137	1.142
Taxes on Property	142	153	167	189	206	215	207	220	214
Other taxes	88	87	81	73	64	68	65	63	60
Non-Tax Revenues	173	187	198	220	258	308	256	293	329
Capital revenues	57	76	104	150	120	106	97	168	57
Transfers to local level	233	236	298	336	176	251	388	300	259
Total revenues	1.209	1.298	1.425	1.595	1.710	1.875	2.037	2.180	2.061

Source: Ministry of Finance, Bulletin of Government Finance (2012)

Figure 1: Municipal budgets revenues by financial source as % of GDP

Source: Ministry of Finance, Bulletin of Government Finance (2012)

The largest share of municipal budget revenues is represented by income tax, ranging between 2,01% GDP in 2002 and 3.16% GDP in 2011. This source is followed by: transfers, donation and other, ranging between 0,90% in 2002 and 0,72% of GDP in 2011, than there are non-tax revenues ranging between 0.67% GDP in 2002 and 0,91% GDP in 2011, property tax ranging between 0.59% GDP in 2002 and 0.59% GDP in 2011; other tax revenues ranging between 0.36% GDP in 2003 and 0.17% GDP in 2011 (see also Figure 1 for details, and also in Bradaschia, 2012: 22).

1.1 Tax Revenues

As laid down in Article 53 of the Local Self-Government Act (ZLS), municipalities are entitled to the following revenues for the purposes of financing local affairs of public significance:

1. property tax,
2. inheritance tax and gifts,
3. tax on prizes from games of chance,
4. tax on real property transactions,
5. other taxes as specified by the law.

Article 6 of the Financing of Municipalities Act (ZFO-1) stipulates that the sources of financing municipalities are municipal budget revenues deriving from:

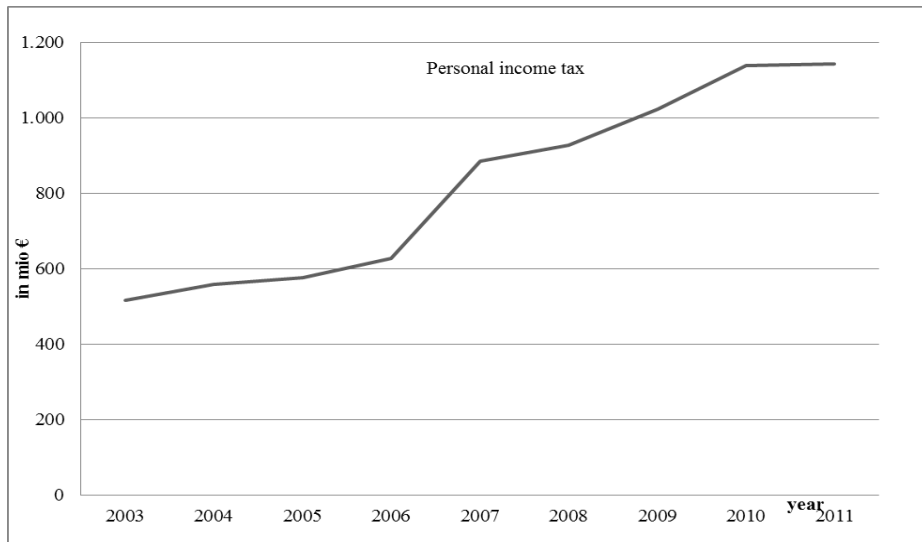
1. real estate tax,
2. tax on water vessels,
3. tax on real property transactions,

4. tax on inheritance and gifts,
5. tax on prizes from classical games of chance.
6. other taxes if so provided by the act regulating the relevant tax.

A municipality is entitled to revenues from the mentioned taxes pursuant to the act regulating the relevant tax. In the 2003-2011 period of comparison, municipal budget tax revenues ranged from just over 3% GDP in 2003 to 4,01% GDP in 2011 (Bulletin of Government Finance, 2012) (Bradaschia, 2012: 22).

1.1.1 Income Tax

One source of municipal finance are revenues from the 54% of income tax that was paid in the year before last, increased by inflation rate for the year before the year and the year for which eligible municipal expenditure is calculated pursuant to the Financing of Municipalities Act (Article 6 of ZFO-1). As tax, income tax refers to the total income received by a person liable to pay tax. Along with the principle of generality of tax, another fundamental principle within the scope of income tax is the so-called principle of comprehensiveness. Income tax hence falls under the so-called "global income taxes", meaning a tax that is levied from the total income received by a person liable to pay tax. Typically, such taxes take into account the sum total of all income received by a person as the tax base. Such tax base provides a starting point for the subsequent application of a uniform tax tariff. The stated starting point also provides the basis for the Personal Income Tax Act (ZDoh-2; Official Gazette of the Republic of Slovenia, No 13/2011). Pursuant to the provision of Article 15 of the stated act, income tax is levied from all income and profit gained by a natural person in the year for which income tax is assessed. Exceptions to this rule can be laid down by the law. Opposite to synthetic taxation is analytic or schedular taxation. This is a system of charging various independent types of tax on individual types of income received by a natural person. Each type of tax is subject to a special tax rate. The Personal Income Tax (Z-Doh-2) foresees such manner of taxation for levying income gained from capital, including interest, dividends and capital gains (Škof et al., 2007: 152-153) (Bradaschia, 2012).

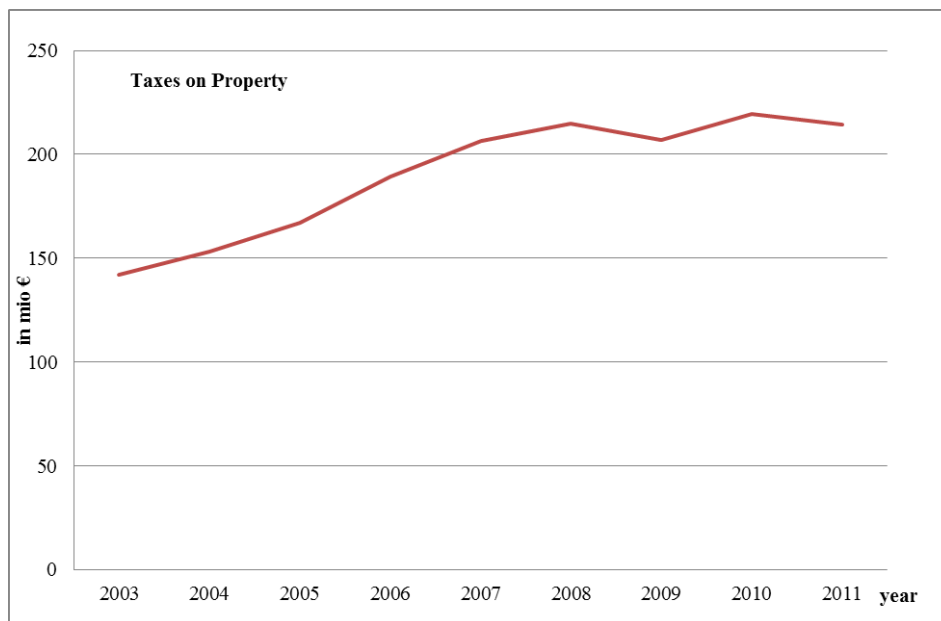
Figure 2: Revenues from income tax (in mio €)

Source: Ministry of Finance, Bulletin of Government Finance (2012)

Deriving from the data provided by the ministry responsible for finance, municipalities reported revenues from income tax in the amount of €516 mio in 2003, €559 mio in 2004, €577 mio in 2005 and €628 mio in 2006. In this period, municipalities were entitled to a 35% share of income tax revenues pursuant to the provisions of the then applicable Financing of Municipalities Act (ZFO). By amending the municipal finance system in 2006, the new Financing of Municipalities Act (ZFO-1) stipulated that the source of municipal finance are also revenues from the 54% of income tax that was paid in in the year before last, increased by inflation rate for the year before the year and the year for which eligible municipal expenditure is calculated pursuant to the Financing of Municipalities Act (Article 6 of ZFO-1). Hence, municipalities reported revenues from income tax in the amount of €885 mio in 2007, €927 mio in 2008, €1,023 mio in 2009 and €1,137 mio in 2010 and more than 1.142 mio € in 2011

1.1.2 Property Tax

Property tax represents the largest tax source for municipalities. Deriving from the data provided by the ministry responsible for finance, municipalities reported revenues from property tax in the amount of €142,186 thousand in 2003, €153,140 thousand in 2004, €167,244 thousand in 2005, €189,124 thousand in 2006, €206,421 thousand in 2007, €214,909 thousand in 2008, €206,973 thousand in 2009 and €219.553 thousand in 2010 and 214 mio € in 2011 (Bradaschia, 2012: 26).

Figure 3: Revenues from property tax (in € thousands)

Source: Ministry of Finance, Bulletin of Government Finance (2012)

1.1.3 Domestic tax on goods and services

Domestic taxes on goods and services are not an abundant source of tax for financing municipalities; however, such revenues ranged between €88 mio in 2003 and more than €60 mio in 2011 (also in Bradaschia, 2012: 27).

1.2 Non-tax revenues

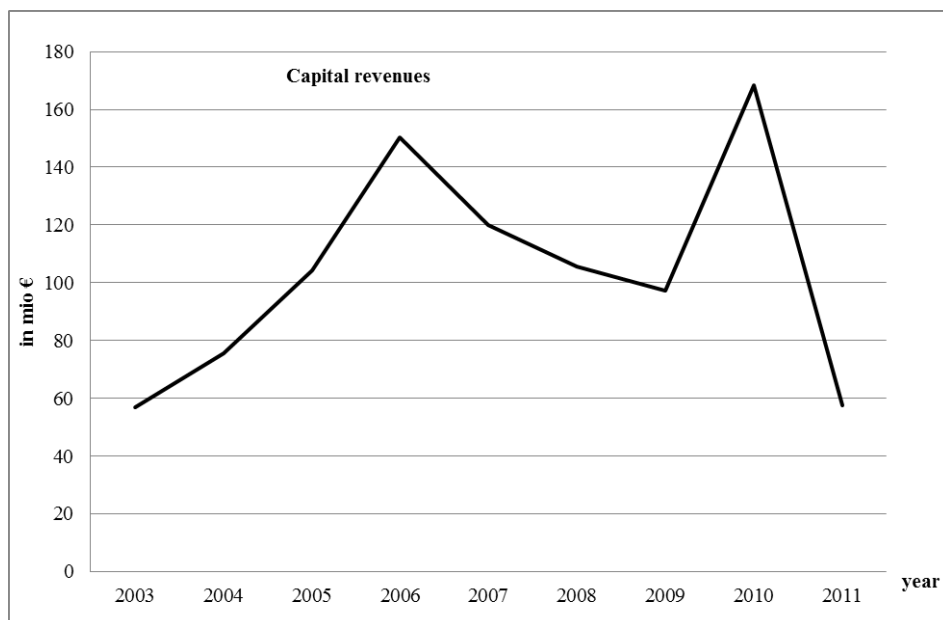
Within the scope of non-tax municipal revenues, there are revenues from profit participation and property management, fees and charges, fines and forfeits, receipts from the sale of goods and services and other non-tax revenues (Bradaschia, 2012: 27).

1.2.1 Profit participation and revenues from asset management

Pursuant to the provision of Article 7 of the Local Self-Government Act (ZLS), municipalities are bodies governed by public law that are entitled to broker, obtain and have at their disposal all types of assets. Their assets consist of the movable and immovable property owned by the municipality, financial means and rights (Article 51 of ZLS). The mentioned provision complements the provision of Article 67 of the Public Finance Act (ZJF; Official Gazette of the Republic of Slovenia, No 11/2011 – official consolidated text 4), which stipulates that municipal property is the financial and real property owned by a municipality. Financial property includes financial means, receivables, debt securities and shares and equity shareholdings in legal entities as well

as other investments, while real property includes movable and immovable property. The value of the total assets is reported by a municipality in its balance sheet according to the law (Article 51 of ZLS). Revenues from municipality assets are principally: revenues from leases and rents for land and structures owned by the municipality, revenues from capital investments, revenues from securities and other rights purchased by the municipality and revenues from annuities, profits made by public enterprises and from awarding concessions (Article 54 of ZLS).

Figure 4: Capital revenues from assets (in mio €)



Source: Ministry of Finance, Bulletin of Government Finance (2012)

1.2.2 Other non-tax revenues

Other non-tax revenues include fees and charges, fines and forfeits, revenues from the sale of goods and services and other non-tax revenues. Based on a comparison of revenues deriving from the mentioned non-tax revenues, it may be concluded that the mentioned revenues rose continuously, amounting to €95,044 thousand in 2003 and reaching €144,044 thousand in 2010 (Bulletin of Government Finance, November 2011) (Bradaschia, 2012: 28).

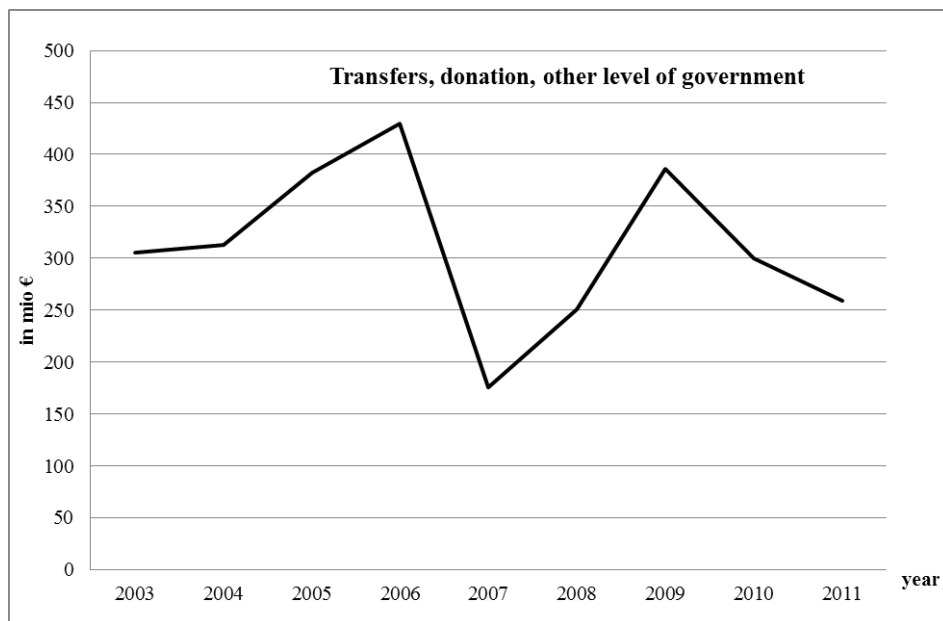
1.3 Transfer revenues

As stated in chapter 2 of this section, the existing municipal finance model in Slovenia comprises three model function, i.e.: • the function of eligible municipal expenditure; • function of own revenues and • the function of financial equalisation (Oplotnik & Brezovnik, 2001-2011). The last one represents the difference between the first two functions, i.e. the function of calculating eligible municipal expenditure and the function

of own revenues. The optimum municipal financing model would be a result in which the sum total of equalisation payments made to all municipalities equals zero, meaning that municipalities become or are entirely independent of the State. In such case, municipalities are entirely self-financed or, in other words, completely autonomous in financing and implementing their tasks. In order to achieve the optimum model, the function of eligible municipal expenditure must be devised to approximate the values of eligible expenditure of an individual municipality to the values of own revenues. However, any amount of the eligible expenditure calculated that exceeds own revenues of a municipality requires a positive difference in the financial equalisation, which means losing a share of autonomy of the local community and a direct "annuity" from a higher management level, i.e. the State budget (Brezovnik & Oplotnik, 2006: 5-6).

Financial equalisation represents funds that are allocated to a municipality that is unable to finance its eligible expenditure from the revenues specified by the act (Article 2 of ZFO-1) from the State budget in an individual fiscal year. Pursuant to the provision of Article 15 of the Financing of Municipalities Act (ZFO-1), a municipality that is unable to finance eligible expenditure in an individual fiscal year is allocated a financial equalisation, from the State budget, between the calculated eligible expenditure and revenues for financing eligible expenditure. Financial equalisation payments are specified by the ministry responsible for finance after adopting the State budget and communicated to municipalities that have been allocated the financial equalisation, publishing it on its website (Article 15 of the ZFO-1).

Based on the data available, municipalities received €305 mio of transfers, donation and other non-tax grants from other levels of government in 2003, and prior to the reform of municipal finance system in 2006 they received more than 430 mio €. After the reform in 2006, those amount of transferred sources fell to only 176 mio € in 2007, and €251 mio in 2008 to back again on old levels in 2009 (€386 mio) and fell again in 2010 and 2011. The data reveals that Slovenia never achieved the optimum municipal finance model; however the reform managed to decrease the volume of financial equalisation funds allocated from the State budget, consequently raising the level of financial autonomy of the Slovenian municipalities (see also Bradaschia, 2012: 29).

Figure 5: Receipts from transfers (State budget and other)

Source: Ministry of Finance, Bulletin of Government Finance (2012)

1.4 Borrowing

Among other, sources of finance also include borrowing. A municipality can borrow money pursuant to the Public Finance Act (ZJF), unless stipulated otherwise in the Financing of Municipalities Act (Article 10 of ZFO-1) Article 85 of the Public Finance Act stipulates that a municipality can borrow money based on a prior consent given by the minister responsible for finance under the terms and conditions laid down by ZFO-1. Any debt transactions that have not been approved by the ministry responsible for finance are void. A municipality can hire a liquidity facility if it is unable to balance the implementation of the budget due to an uneven flow of receipts. In this case, the Public Finance Act (ZJF) stipulates that a municipality can hire a liquidity facility up to the maximum amount of 5% of the last adopted budget. The municipality is required to report to the ministry responsible for finance in relation to the borrowing and repayment of debt principal amounts in the manner and within the deadlines set forth by the minister responsible for finance. Also relevant here is the provision that, during the term of temporary funding, a municipality can only borrow funds up to the amount required to repay the principal amounts of the municipal debt in the current fiscal year (Article 85 of ZJF).

Furthermore, in order to implement the municipal budget in the current fiscal year, a municipality can only draw loans at home for the investments planned in the municipal budget. A municipality that is included in the system of a single treasury account of the State can only borrow money from the asset manager of the single treasury account system or from the State budget. The volume of municipal borrowing for the purposes

of implementing the municipal budget in an individual fiscal year is laid down in a decree adopting the relevant municipal budget. In relation to the funds received from the EU budget for co-financing an investment, a municipality can borrow up to the amount of the funds granted and only for the period of receiving these funds. As laid down by the Financing of Municipalities Act (ZFO-1), the debt of the municipal budget in the temporary financing period cannot exceed the amount required to repay the principal amounts of the municipal budget debt falling due in the current fiscal year (Oplotnik & Brezovnik, 2001-2011).

If, however, the implementation of the budget cannot be balanced due to uneven flow of receipts, a municipality can hire a liquidity facility up to the maximum amount of 5% of all expenditure in the last adopted budget. This restriction, however, does not apply to municipal borrowing for the purposes of co-financing investments from the EU budget.

Prior to each instance of borrowing in which loan drawing and repayment are not made in the same fiscal year, a municipality must obtain consent from the minister responsible for finance. The manner, procedures and deadlines for the issue of the consent are prescribed by the minister responsible for finance (Article 10.a of ZFO-1).

The maximum volume of borrowing includes borrowing for the purposes of implementing the municipal budget other than borrowing funds for co-financing investments from the EU budget, the effects of borrowing in relation to the municipal budget debt management, the guarantees given to indirect municipal budget users and public enterprises that have been founded by the municipality, financial leases and merchant credits of indirect municipal budget users.

As laid down by ZFO-1, a municipality can only borrow funds in the current fiscal year if the repayment of its liabilities arising from the loans (principal amount and interest), financial leases and merchant credits (instalments) and its potential liabilities arising from the guarantees made for the settlement of the liabilities of indirect budget users and public enterprises that have been founded by the municipality does not in an individual year exceed 8% of the revenues realised as per the municipal budget balance sheet for the year preceding the year in which the borrowing was made, less any donations, transfers from the State budget for investment and any funds received from the EU budget as well as any revenues of public utility units (Article 10.b of ZFO-1).

Notably, indirect users of the municipal budget, public service agencies and public enterprises that have been founded by the municipality as well as other legal entities over which the municipality has direct or indirect control can borrow funds and issue guarantees with the consent of the municipality under the terms and conditions stipulated by the municipal council and provided that these entities have secured funds for servicing the debt from non-budget sources. The consents issued are not included in the maximum volume of municipal borrowing. Furthermore, ZFO-1 stipulates that contractual provisions in loan agreements or guarantee insurance agreements concluded by indirect municipal budget users, public utility services and public enterprises that have been founded by the municipality, and other legal entities over which the municipality has direct or indirect control are void if they stipulate insurance by real property that is intended for the provision of a public or public utility service. The

mentioned consent is issued by the municipal council. The volume of borrowing and the scope of the public sector guarantees issued at municipal level is specified by a decree adopting the municipal budget (Article 10.g of ZFO-1).

The volume of municipal borrowing has increased over the years reaching €556 million in 2010, not including the debt of legal entities at local level. The comparison of the municipal debt to GDP reveals that municipal borrowing reached as much as 1.5% of GDP in 2010. Interestingly, 31 of the 210 municipalities had no liabilities arising from own debt in 2010 (Report on the borrowing of municipalities and public sector legal entities at municipal level as at 31 December 2010) (Bradaschia, 2012: 31-32).

Analysis of the Effects of the Applicable Municipal Finance System in Slovenia

The financing of Slovenian municipalities is regulated by the Financing of Municipalities Act (ZFO-1), which primarily governs the financing of the fundamental tasks within the scope of municipal powers and, at the same time, lays down the rules of borrowing funds and co-financing the investments carried out by municipalities. The financing of municipalities is based on the principles of local self-government, primarily the principle of proportionality of the source of finance to municipal tasks and the principle of municipal independence in financing municipal tasks. The Financing of Municipalities Act (ZFO-1) does not provide the content of the principle of proportionality of the sources of finance to municipal tasks; however, the legislator has introduced a series of instruments in order to achieve the mentioned principle. One of the more important ones is no doubt the instrument of "eligible expenditure" (hereinafter "Ppi"), which is an eligible volume of funds that is determined for an individual fiscal year to finance the tasks imposed by the law. The eligible volume of funds, Ppi, is based on a formula that allocates the so-called per capita lump sum (P) to individual municipalities by way of a pondering mechanism taking into account the number of residents, Oi, and other criteria based on the identified demographic and geographic differences between Slovenian municipalities. The actual needs (costs) link eligible municipal expenditure with the mechanism identifying eligible expenditure via a "lump sum" that forms the eligible expenditure formula, Ppi, along with certain criteria or diversity factors for each municipality, as follows:

$$P_{pi} = 0.61 + 0.13 \cdot C_i + 0.06 \cdot P_i + 0.16 \cdot M_i + 0.04 \cdot S_i \cdot P \cdot O_i \quad (1)$$

Whereby:

- Ppi - the volume of eligible expenditure funds of i municipality
- Ci - the diversity factor of i municipality with respect to the scope of the local road network in i municipality and represents the ratio between the length of local roads and public rights of way per capita in an individual municipality and the length of local roads and public rights of way per capita in the entire State.
- Pi - the diversity factor of i municipality with respect to the surface area of i municipality and represents the ratio between the per capita surface area of an individual municipality and the per capita surface area of the entire State.
- Mi - the diversity factor of i municipality with respect to the share of

- residents under the age of 15 in the municipality and represents the ratio between the share of residents under the age 15 in the entire population and the average of these shares across the State in the current year.
- the diversity factor of i municipality with respect to the share of residents over the age of 65 in the municipality and represents the ratio
- Si - between the share of residents in the municipality over the age 65 within the entire population of the municipality and the average of these shares across the State in the current year.
- the lump sum representing the volume of average per capita expenses (costs) in the municipality that are intended for the implementation of statutory tasks and powers of municipalities in an individual year. The methodology used to calculate P takes into account the mentioned
- P - expenses (costs) for the previous four years, translated into real values, corrected by the recorded increase in the cost of living in the State and the estimate of any new powers (tasks) imposed on municipalities in the current year.
- Oi - the number of residents of i municipality

If a municipality is unable to provide the volume of eligible expenditure (P_{pi}) set by the calculation with its own and assigned resources, as laid down in chapter 2 of the applicable Financing of Municipalities Act (ZFO-1), the latter foresees the inclusion of a so-called financial equalisation mechanism which is used by the State to provide the missing financial means. This guarantees the realisation of one of the fundamental principles of local self-government regarding the proportionality of financing sources to the tasks and powers and therewith related costs. Another important principle, the principal of municipal autonomy, can only be realised if municipalities obtain the majority of their revenues from own resources and depend on any aids or grants from the integral budget to the minimum possible degree. As a rule, it applies that the municipal finance system should enable the maximum possible level of self-sufficiency, meaning that they should not be required to use the financial equalisation mechanism. Prior to the adoption of the currently applicable Financing of Municipalities Act (ZFO-1), only a few Slovenian municipalities managed to cover the eligible expenditure set by calculation from own revenues. The data reveals that only around 10% of municipalities on average reported revenues in excess of eligible expenditure between 2003 and 2006, while the remaining 90% of municipalities received annually only about 20% of financial resources from the financial equalisation mechanism in order to meet the requirements laid down by the legislation or, rather, the volume of eligible expenditure. After the new Financing of Municipalities Act (ZFO-1) entered into force in 2007, the situation improved significantly, with only around 50% of the 210 (in 2007) municipalities receiving funds from the financial equalisation mechanism, whereby the total volume of these funds never exceeded 1% of the total volume of eligible expenditure (in 2007, P_{pi} amounted to €938 million, while the funds received from the financial equalisation mechanism amounted to €9.2 million).

Not to be neglected is the fact that the remaining 50% of municipalities recorded as much as €82.7 million of surplus over eligible expenditure in the current year, which was directed in development and independent funding of investments that should otherwise be co-financed by the State. The situation in 2008 was similar, with €79.2 million of revenues exceeding the calculated volume of eligible expenditure recorded by 103 municipalities, while 107 municipalities drew integral budget funds via the financial equalisation mechanism in the total amount of €10.2 million. The years following 2007 can thus be considered as a sort of a "sample" case of taking into account the fundamental principles of local self-government, where there should be a high correlation between decentralised units' own revenues and the amount of eligible expenditure as the volume of financial means used by local communities to finance the tasks and powers imposed by the law. Nevertheless, as will be seen in the continuation of the analysis, such correlation existed merely on aggregate and calculative level, i.e. on the level of comparison of a certain volume of eligible expenditure to current municipal revenues. There was less correlation between the volume of eligible expenditure by municipalities and the actual (expenses) costs reported by individual municipalities, with 30 municipalities (in 2007) and 47 municipalities (in 2008) reporting higher expenses by 10 to 50% than "permitted" by the eligible expenditure formula, while 87 municipalities (in 2007) and 44 municipalities (in 2008) reported decreased expenses by 20 to 100% than those provided by the eligible expenditure formula. In 2009, there was a minor turnover in the correlation between eligible expenditure and own municipal revenues, with only 19 municipalities reporting revenues exceeding eligible expenditure in the amount of €11.9 million, but relatively small financial equalisation payments required; while there is practically no municipality receiving financial equalisation since 2009 due to the introduction of the so-called "solidarity equalisation indicator", which offsets any non-conformities between municipalities already in the process of calculating needs. Table 3 below and Figure 6 in continuation provide a brief summary of some of the key aggregated values of the eligible expenditure, revenues and expenses (costs) of Slovenian municipalities used for covering the statutory tasks and responsibilities (current expenses and transfers) and the total revenues and expenses of Slovenian municipalities between fiscal year 2003 and 2011.

Table 3: The trend of the main aggregates in the Slovenian municipal finance system between 2003 and 2011

in mio €	2003	2004	2005	2006	2007	2008	2009	2010	2011
expenditures (PPi)	758,92	781,93	858,69	899,38	938,46	976,24	1.084,09	1.112,18	1.141,10
by Law (Rev)	697,81	701,73	732,03	765,67	1.011,98	1.045,31	1.041,26	1.131,57	1.161,17
lization (FE)	158,21	162,19	193,68	202,80	9,18	10,17	54,70	19,57	20,08
FE in PPi	20,8%	20,7%	22,6%	22,5%	1,0%	1,0%	5,0%	1,8%	1,8%
self-sufficient municipalities (%)	14,0%	12,4%	10,4%	8,8%	49,5%	49,0%	9,0%	9,0%	9,0%
xpenses (CE)	775,31	815,45	860,45	972,86	996,45	1.120,43	1.208,40	1.284,15	1.325,66
Rev/CE	0,98	0,96	1,00	0,92	0,94	0,87	0,90	0,87	0,86
CE growth	1,05	1,05	1,06	1,13	1,02	1,12	1,21	1,29	1,18
venues (TRev)	1.208,87	1.297,60	1.424,94	1.595,14	1.710,50	1.875,19	2.036,56	2.180,40	2.061,17
penses (TEx)	1.213,51	1.297,03	1.372,08	1.627,67	1.722,59	2.047,95	2.192,46	2.312,64	2.097,40
i (TRev-Tex)	-4,65	0,58	52,86	-32,53	-12,10	-172,76	-155,90	-132,23	-36,23
share in TRev	57,7%	54,1%	51,4%	48,0%	59,2%	55,7%	51,1%	51,9%	56,3%
share in TEx	63,9%	62,9%	62,7%	59,8%	57,8%	54,7%	55,1%	55,5%	63,2%
expenditure in TEx	37,6%	37,1%	37,6%	41,3%	42,2%	45,3%	44,9%	44,5%	36,8%

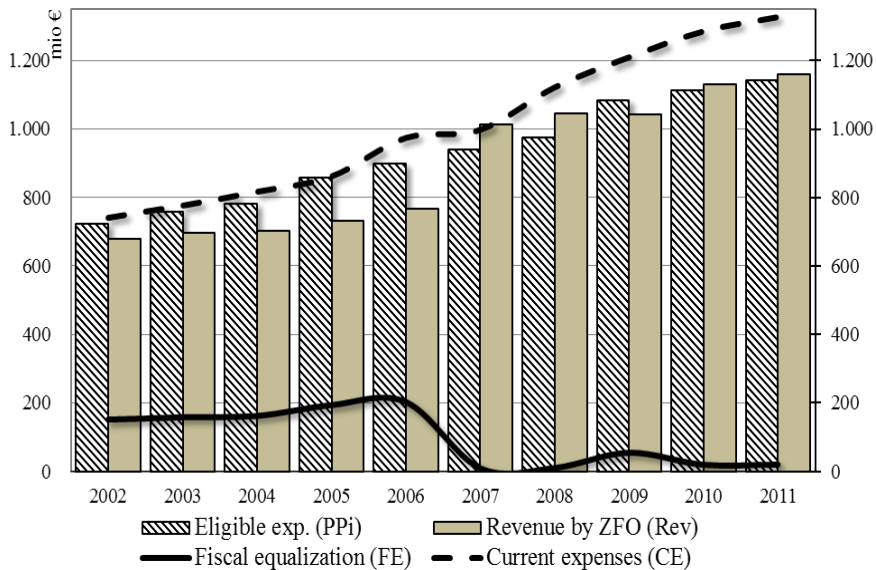
Source: Ministry of Finance, 2012, own calculations

The aggregate image of the trend of principal items within the Slovenian municipal finance system reveals a clear distinction between the period preceding the enforcement of the Financing of Municipalities Act (ZFO-1) in 2007 and the period following recent changes. As a positive correction, one could highlight greater self-sufficiency of municipalities and a smaller share of the financial equalisation required. After 2006, the latter fell from the previous 20% to barely 1% in 2007 and 2008, reaching 0% after 2009 in light of the introduction of solidarity equalisation instrument. Unfortunately, in 2010, the coverage of municipal costs from municipal revenues was again impaired, primarily due to increased volume of expenses upon simultaneous stagnation or a slight decrease in municipal own revenues with respect to the Financing of Municipalities Act (ZFO-1). On the other hand, it should be noted that the increased volume of eligible expenditure was implicitly "pressured" by higher expenses reported by Slovenian municipalities, which increased by around 25% between 2007 and 2010, while, in the 2002-2006 period, expenses nominally increased only by 31%, despite the longer period and a much higher inflation rate. As shown in Table 3, the highest growth of expenses in municipalities was recorded in 2006 (13%), 2008 (12%), 2009 (8%) and 2010 (6%). Let me repeat that only current expenses and revenues related to the Financing of Municipalities Act (ZFO-1) are analysed at this point. In addition to the current balance sheet items, municipalities also record the item of investments³, increase or decrease in municipal assets and loan-related activities of local communities. Some of these items

³ Although investments are not the subject of the present analysis, it is nevertheless encouraging to find that municipalities significantly increased the funds intended for investments after 2006, namely from 39% in total revenues to over 45%. The latter can be attributed to accelerated drawing of EU funds and co-funding by the latter.

are also shown in Table 3; however, in continuation, focus is placed merely on the analysis of current expenses (costs) and revenues as well as eligible expenditure (PPI), which also form the core of the Financing of Municipalities Act (ZFO-1).

Figure 6: Main aggregates in the municipal finance system 2003 and 2011



1 Analysis of eligible expenditure (PPI) and Current expenses (CE, costs)

Following a brief review of the aggregate items used in the Slovenian municipal finance system, the primary purpose of the text below is to analyse municipal expenses (CE) and the level of correlation between eligible expenditure and actual expenses (CE) by municipalities with respect to their content or structure, i.e. programme focus. This will be the easiest way to establish to what extent the applicable municipal finance system in Slovenia meets the mentioned principle of proportionality of finance sources to the tasks assigned. Hence, the aim is to find an answer to the question whether and to what extent the volume of financial means acquired through the eligible expenditure formula matches the actual costs incurred by municipalities due to the performance of their tasks and powers. An important part of the analysis will be the analysis of the actual current expenses as recorded and reported by municipalities in their balance sheets between 2007 and 2010, which were presented on aggregate level in the previous chapter. Let us remind that municipalities finance the implementation of their legal tasks and powers, which are broken down to 21 different areas, 59 main programmes and 119 sub-programmes with respect to their content within the frame of the so-called programme classification. The programme classification of municipal budget expenditure replaced the then applicable "functional division" in 2006. In addition to being aligned with the international practice of monitoring public expenditure, the fundamental characteristic of the new programme classification is also its focus on results. The programme classification is regulated by the Rules on the programme classification for municipal

budget expenditure (Official Gazette of the RS, No 57/2005, 88/2005, 138/2006), which include areas through which local authorities provide public services to persons residing on the territory of the local community, i.e.:

Ref. No.	Municipal budget expenditure by programme (CE)
01	Political system
02	Economic and fiscal administration
03	Foreign policy and international aid
04	Joint administrative services and general public services
05	Science and technological development
06	Local self-government
07	Defence and emergency actions
08	Internal affairs and security
10	Labour market and working conditions
11	Agriculture, forestry and fishery
12	Fuel and energy
13	Traffic, transport infrastructure and communications
14	Economy
15	Environment and natural heritage protection
16	Spatial planning, housing development and municipal utility activities
17	Healthcare
18	Culture, sports and non-governmental organisations
19	Education
20	Social security
22	Public debt servicing
23	Intervention schemes and obligations

In continuation, the programme expenditures mentioned above are broken down to current expenses (expenditure monitoring account No 40), current transfers (account 41), investment expenditure (account 42), investment transfers (account 43), loans granted and increase in equity shares (account 44) and debt repayment (account 45).

The eligible expenditure, Ppi, should in the first place cover the part of municipal programme expenses (costs) referring to current expenditure (CE) (account 40+41), while investments and changes in municipal assets are financed in other ways. Considering this, the simplest way would no doubt be if the State were to directly finance all actually incurred and reported expenses (costs) of an individual municipality, hence providing a full correlation between the sources of finance and the tasks and powers of local communities assigned by the law. However, the reason why the applicable system of the Financing of Municipalities Act (ZFO-1) fails to regulate financing in such a way lies in at least to vital results that would derive from such method of financing, namely a) one result would be the violation of the principle of financial autonomy and self-sufficiency of local self-government, which is referred to as

one of the fundamental principles in the European Charter of Local Self-Government (MELLS), and b) the other result would derive from the risk that expenses or costs of individual municipalities would over time no longer reflect the actual state of financing the needs, but would increase pursuant to the power of an autonomous authority to provide the maximum possible volume of finance for its local community and accordingly "adjust" municipal expenditure. Such method would poorly reflect certain differences in costs that in fact arise between municipalities due to their diversity and positions held within their environment. Analyses have shown that 211 Slovenian municipalities are far from being "standardised" to the point that would allow them expect the same per capita costs with respect to otherwise the same tasks and powers held. This is clearly shown from a simple breakdown of municipalities into groups with respect to their demographic and geographic characteristics that also otherwise provide the basis for the eligible expenditure formula (Ppi) shown above and take into account the diversity of Slovenian municipalities with respect to their surface area, diversity and scope of local roads and public rights of way, the share of residents under the age of 15 in the total population and the share of residents over the age of 65 in the total population. All of the stated is included in the so-called sum total of corrected criteria or, rather, the diversity index (hereinafter DI), the values of which are shown in Table 4 below for certain borderline cases. In continuation, the mentioned characteristics or features of Slovenian municipalities are directly and with a high level of correlation related to the costs of implementing their legally assigned tasks and powers. Recently, discussions and questions have arisen as to whether this special "economic" criterion should also be ascribed to eleven Slovenian urban municipalities (hereinafter "MO") that, for the time being, differ from other municipalities in the existing legal framework as regards their legal status and role held, while their different "economic" status is not recognised by the existing finance system, since it might lead to a further cost load. It is undoubtedly true that various demographic, geographic and any other differences between individual municipalities affect their cost load, but the question is in what manner and to what extent the diversity should be taken into account in the finance system, both in terms of determining eligible per capita costs by municipalities taking into account their structure as well as in terms of identifying eligible costs by municipalities with respect to their characteristics and last, but not least, their powers. In light of the above, the analytical part of the study places special emphasis on the applicable formula used to calculate Ppi and the level of municipal diversity with respect to the diversity index related to actually incurred costs.

Furthermore, individual values deviating from the average are also analysed, along with limit or extreme values $\pm 10\%$ and the comparability of (budget) cost structure by municipalities and on average. Special attention was placed on identifying any additional load on individual groups of municipalities that (still) lack an appropriate corrective factor in the existing finance system or that the factor fails to reflect the actual situation well enough (e.g. in the case of urban municipalities or municipalities with special features and needs in light of their features). Based on the results obtained in the analysis, appropriate amendments and supplements to the municipal finance system can be proposed in continuation, principally in terms of a higher level of providing the proportionality of municipal sources to their tasks and responsibilities.

Table 4: Diversity index, DI of selected municipalities⁴

Municipality	DI	P	C	M	S
SOLČAVA	2,4028	18,57	3,70	0,94	1,18
LUČE	1,9547	6,67	5,54	1,12	1,10
KOSTEL	1,8807	8,17	4,58	0,72	1,74
JEZERSKO	1,6909	9,65	2,34	0,98	1,03
OSILNICA	1,6820	8,53	3,05	0,64	1,53
BOVEC	1,5979	11,17	1,07	0,79	1,28
HODOŠ	1,5865	5,05	3,79	0,79	1,37
BISTRICA OB SOTLI	1,5291	2,05	4,51	1,02	1,18
BLOKE	1,4881	4,57	3,03	0,97	1,38
LOŠKI POTOK	1,4650	6,44	1,96	1,00	1,35
GORENJA VAS-POLJANE	1,4387	2,14	3,38	1,40	0,91
PODVLEKA	1,4157	3,80	3,02	0,90	1,02
Average – all municipalities	1,1200	1,80	1,56	1,00	1,00
LOG-DRAGOMER	0,8900	0,37	0,45	1,02	0,90
MO PTUJ	0,8840	0,28	0,58	0,90	0,97
TRZIN	0,8791	0,23	0,34	1,14	0,72
TRBOVLJE	0,8754	0,32	0,58	0,80	1,05
PIRAN	0,8709	0,26	0,60	0,78	1,10
MO KRANJ	0,8703	0,28	0,37	0,97	1,00
MO MURSKA SOBOTA	0,8675	0,32	0,49	0,86	0,93
MIKLAVŽ NA DP	0,8667	0,20	0,51	0,87	0,98
ŠEMPETER-VRTOJBA	0,8632	0,23	0,42	0,88	1,10
IZOLA	0,8589	0,19	0,50	0,82	1,06
JESENICE	0,8582	0,34	0,30	0,95	0,94
MO VELENJE	0,8559	0,25	0,39	0,95	0,70
MO CELJE	0,8552	0,19	0,37	0,89	1,07
MO MARIBOR	0,8365	0,13	0,34	0,79	1,18
MO LJUBLJANA	0,8352	0,10	0,24	0,89	1,12

max	2,40	18,57	5,54	1,40	1,74
min	0,84	0,10	0,24	0,64	0,70
countif_above	91	61	89	98	95
countif_below	119	149	121	112	115

Notes: MO – urban municipality, DI – diversity index as mix of P,C,M,S (P– relative factor of municipalities area, C – relative factor for local roads, M – factor for residents younger than 15, S – residents above 65).

2 Analysis of eligible expenditure (PPI) and reported expenses (CE)

Between 2007 and 2010, Slovenian municipalities spent €1.11 billion on average for the performance of legally assigned tasks and responsibilities (Current expenses, CE), whereby the amount was slightly lower in 2007 (€0.99 billion) and slightly higher in 2009 and 2010 (€1.21 and €1.28 billion). This means an average of €527 per capita in a municipality. Naturally, the average per capita value is merely an orientation value of the actual expenditure, with the expenditure in fact ranging from minimally €232 per capita (in Straža municipality in 2007) to €1,442 per capita (in Solčava municipality in 2010). Detailed values by municipalities are shown in tables, where focus is placed merely on the display of average values in terms of an individual "group" of municipalities and in terms of extreme or limit values. The first such demonstration is

⁴ A quick overview of the diversity index values shows that more than half of the urban municipalities (MO) record index below 1.00 and below average, that means also a smaller Ppi amount for an MO.

shown in Tables 5 and 6 below, which reveal that 83 municipalities (40%) reported per capita expenditure above the average of €527 in the reference period, while the remaining 60% of municipalities fell under the average. The standard deviation from the average amounted to €88, whereby the lowest value of the period was recorded by Cerklje municipality (€319 per capita), followed by Gorišnica (€353 per capita) and Štore (€358 per capita). A fifth of municipalities was such in which per capita expenses deviated downward more than the standard deviation.

In this period, urban municipalities recorded €594 per capita costs on average, thus implying a larger average load of a Slovenian urban municipality by 12% or just under €67, ranging between €514 per capita in MO Kranj and €719 per capita in MO Ptuj. Nevertheless, it should be stressed that 6 urban municipalities recorded costs within the $\pm 5\%$ range of the average (MO Kranj, MO Velenje, MO Murska Sobota, MO Slovenj Gradec, MO Novo mesto and MO Celje), while the remaining 5 urban municipalities substantially surpassed the average (by 13 to 36%). The analysis of average values of other groups of municipalities reveals that the most homogeneous distribution around the average includes municipalities under or with around 5,000 residents, while the largest deviations were recorded in municipalities with large surface areas, P factor, where an average of €597 per capita costs were recorded or 13% above the average. Slightly above the average as regards per capita cost load is also the group of municipalities with an above-average share of the elderly, i.e. around 9% above the average, while no statistically significant deviation can be detected in groups with an above-average share of road network or the share of young people. Despite that, any early conclusions are questionable, primarily due the large dispersion of values across municipalities. Hence, for example, the data shown in Table 5 reveals that in fact only 30 municipalities lie within the $\pm 5\%$ range around the average CEi and only 38% are within the $\pm 10\%$ range, while the majority falls within the $\pm 25\%$ range of CE. To provide a comprehensive answer to the question of whether the existing finance system is adequate, an analysis and cross-reference of at least two finance system indicators will be provided below, i.e. the volume of eligible expenditure allocated, Ppi, and the ratio between the Ppi and Current expenses, CE, allocated by municipalities.

Table 5: Dispersion of municipalities around the average CE per capita

+5% around CE average	from 500 € to 550 €	14% / 30 municipalities
+10% around CE average	from 474 € to 580 €	38% / 80 municipalities
+25% around CE average	od 395 € do 659 €	83% / 175 municipalities
min – average - max	319 € / 527 € / 1.167 €	100% / 210 municipalities

Table 6: Limit and average values by municipalities classified according to CE

in €/per capita	population	CE 1-23	Ppi/CE	Ppi	Rev	Ppi-Rev	DI
SOLČAVA	551	1.167	1,03	1.196	946	-250	2,4028
KOSTEL	683	1.106	0,85	937	784	-153	1,8807
PUCONCI	6.454	1.086	0,55	601	557	-44	1,2063
HODOŠ	356	927	0,85	790	678	-113	1,5865
BOHINJ	5.320	913	0,71	648	619	-29	1,3016
PIRAN	17.366	866	0,50	434	502	68	0,8709

KRANJSKA GORA	5.504	809	0,73	588	615	27	1,1807
BOVEC	3.271	783	1,02	796	707	-88	1,5979
ČRNA NA KOROŠKEM	3.610	759	0,80	604	566	-37	1,2125
OSILNICA	422	748	1,12	837	719	-119	1,6820
Average – all municipalities	9.603	527	1,09	558	541	-17	1,12
JURŠINCI	2.385	388	1,48	575	530	-44	1,1544
HORJUL	2.719	385	1,41	542	522	-21	1,0890
ŠENČUR	7.989	373	1,31	489	493	4	0,9807
CIRKULANE	2.363	373	1,72	642	593	-49	1,2879
STRAŽA	3.837	366	1,34	490	520	30	0,9836
CERKVENJAK	2.108	362	1,67	604	547	-57	1,2136
KRIŽEVCI	3.589	358	1,46	521	499	-22	1,0472
ŠTORE	4.228	358	1,33	475	480	5	0,9535
GORIŠNICA	3.970	353	1,42	500	499	-1	1,0039
CERKLJE	6.720	319	1,75	559	556	-3	1,1216
	max	1.167	1,75	1.196	946	75	2,40
	min	319	0,50	416	444	-250	0,84
	stdev	88	0,2	72,0	43,6	32,0	0,14
av	countif_ab	83	108	91	80	106	91
av	countif_be	127	102	119	130	104	119
Urban municipalities, MO	average	594	0,75	442	490	48	0,89
	max	719	0,89	487	519	75	0,98
	min	514	0,61	416	472	18	0,84
Municipalities < 5000 popul.	average	527	1,01	517	521	4	1,04
Municipalities P > average	average	597	1,13	657	602	-55	1,32
Municipalities C > average	average	522	1,11	557	542	-15	1,12
Municipalities M > average	average	540	1,03	549	533	-15	1,10
Municipalities S > average	average	573	1,07	591	564	-27	1,19

The following two categories or indicators, which are vital to obtain a comprehensive picture of the adequacy of the existing municipal finance system, are the amount of eligible per capita expenditure by municipalities (Ppi) and the ratio between the eligible expenditure assigned to a municipality and the actual per capita expenses in the municipality, i.e. Ppi/CE. The smaller the correlation between Ppi and CE, the harder it is for the finance system to provide an equal and adequate treatment of municipalities, whereby eroding the underlying guidelines and principles of the system used for financing local self-government. By looking at Ppi per capita trend, as an indicator of the eligible volume of funds used for financing municipal tasks that has been set by calculation, one might find that municipalities were allocated on average €558 per capita between 2007 and 2010 via the Ppi calculation mechanism as per the Financing of Municipalities Act (ZFO-1), whereby municipalities received different amounts of the funds per capita due to the ponders taking into account demographic and geographic differences between municipalities. The difference between the smallest amount of allocated funds as per Ppi and the one with the highest Ppi volume amounted to as much as €780. Hence, Solčava municipality was allocated €1,196 per capita on average, Luče municipality received €973 per capita, Kostel municipality received €937, while some municipalities, primarily urban ones, such as MO Ljubljana, MO Celje, MO Velenje and MO Maribor, received less than €426 per capita. The standard deviation from the

average volume of funds allocated by Ppi amounted to €72, whereby 91 municipalities were allocated more-than-the-average amount of funds and 119 municipalities received less. The analysis of deviations from the average value (Table 7) shows that the homogeneity between municipalities in regard to the Ppi indicator is still higher than in CE, with more than a quarter of all municipalities ranked within the $\pm 5\%$ range, slightly under 50% municipalities are within the $\pm 10\%$ range (under the CE indicator, merely 38%) and almost all or 93% of all municipalities are within the $\pm 25\%$ range (only 83% under the CE indicator).

Table 7: Dispersion of municipalities around the Ppi average per capita

+5% around CE average	from 530 € to 586 €	26% / 55 municipalities
+10% around CE average	from 502 € to 614 €	48% / 101 municipalities
+25% around CE average	from 419 € to 698 €	93% / 195 municipalities
min – average – max	416 € / 558 € / 1.196 €	100% / 210 municipalities

Statistically typical deviations are detected within the frame of this indicator as well and are largely the result of the value of the diversity index within the frame of the formula used to calculate Ppi and partly the result of the ponderers used within the frame of the calculation⁵. Table 8 shows that 10 municipalities in the top section of the assessed Ppi "scale" have a diversity index well above the average, i.e. exceeding 1.46 (the average value of all municipalities being merely 1.12), which results in a larger volume of Ppi per capita. On the other hand, 10 municipalities that are ranked in the bottom of the scale as per the pertaining Ppi (most urban municipalities) have a diversity index below 0.87, i.e. around 29% below average. Accordingly, the volume of the specified Ppi, amounting to an average of €442 per capita in urban municipalities, falls behind the average recorded in all municipalities by 26%. By analysing the average values of municipality groups with respect to their geographic and demographic properties, a statistically typical deviation can only be detected in a group of municipalities with a surface area well exceeding the average surface area per capita (over 1.8), which are on average allocated around €657 per capita, i.e. around 18% more than the average in all municipalities. Such municipalities are, for example, Solčava (per capita surface area index of 18.6 and a Ppi of 1,196), Bovec (index 11.8, Ppi €796), Jezersko (index 9.6, Ppi €842), etc. Below, we will see whether the differences mentioned match costs.

Table 8: Limit and average values by municipalities classified according to Ppi

	in €/per capita	population	CE 1-23	Ppi/CE	Ppi	Rev	Ppi-Rev	DI
	SOLČAVA	551	1.167	1,03	1.196	946	-250	2,4028
	LUČE	1.632	692	1,41	973	796	-177	1,9547
	KOSTEL	683	1.106	0,85	937	784	-153	1,8807
	JEZERSKO	709	656	1,28	842	721	-120	1,6909
	OSILNICA	422	748	1,12	837	719	-119	1,6820

⁵ Note that in the event of hypothetically complete homogeneity of municipalities, the diversity index would be the same in all municipalities and there would be no differences between the Ppis determined. If the VKK index equalled 1.00 for all municipalities, the volume of Ppi would entirely correlate with the lump sum specified based on a 4-year Stri average and corrected by the increase in the cost of living and new tasks assigned to municipalities in the current year.

BOVEC	3.271	783	1,02	796	707	-88	1,5979
HODOŠ	356	927	0,85	790	678	-113	1,5865
BISTRICA OB SOTLI	1.509	588	1,29	761	663	-98	1,5291
BLOKE	1.635	577	1,28	741	661	-79	1,4881
LOŠKI POTOK	2.078	461	1,58	729	639	-90	1,4650
Average – all municipalities	9.603	527	1,09	558	541	-17	1,1200
MO KRANJ	53.353	514	0,84	433	482	49	0,8703
MO MURSKA SOBOTA	19.963	543	0,79	432	472	40	0,8675
MIKLAVŽ NA DP	6.313	396	1,09	432	464	32	0,8667
ŠEMPETER-VRTOJBA	6.334	576	0,75	430	490	60	0,8632
IZOLA	15.179	680	0,63	428	479	51	0,8589
JESENICE	22.044	496	0,86	427	463	36	0,8582
MO VELENJE	33.392	539	0,79	426	478	52	0,8559
MO CELJE	48.983	570	0,75	426	481	55	0,8552
MO MARIBOR	110.982	595	0,70	416	472	55	0,8365
MO LJUBLJANA	265.172	683	0,61	416	485	69	0,8352
	max	1.167	1,75	1.196	946	75	2,40
	min	319	0,50	416	444	-250	0,84
	stdev	88	0,2	72,0	43,6	32,0	0,14
av	countif_ab	83	108	91	80	106	91
av	countif_be	127	102	119	130	104	119
Urban municipalities, MO	average	594	0,75	442	490	48	0,89
	max	719	0,89	487	519	75	0,98
	min	514	0,61	416	472	18	0,84
Municipalities < 5000 popul.	average	527	1,01	517	521	4	1,04
Municipalities P > average	average	597	1,13	657	602	-55	1,32
Municipalities C > average	average	522	1,11	557	542	-15	1,12
Municipalities M > average	average	540	1,03	549	533	-15	1,10
Municipalities S > average	average	573	1,07	591	564	-27	1,19

As seen, the picture of borderline values and reasons for deviations from the average values becomes clearer in this section; however, we will nevertheless take a look at the ratio between both indicators, Ppi and CE, as the most expressive element in the analysis. This will show whether and how the Ppi allocated suffices (or not) the actual costs reported by municipalities during the analysed period.

The statistical analysis shows that the value of the Ppi/CE indicator, i.e. the coverage of actual costs with the volume of eligible expenditure by municipality, amounts to an average of 1.09 in the reference period, meaning that, cumulatively speaking, municipalities were adequately covered with the legally assigned volume of funds they are entitled to in order to perform their tasks and exercise their powers. On average, municipalities received around 9% more per capita funds and total funds in their budgets than the amount of their actual expenses (costs). Despite that, one cannot speak of the average value as the actual picture of the financial situation in municipalities, because the dispersion around the average value is fairly large, like the span between the municipality with the smallest cost coverage by eligible expenditure and the one with the highest. One might find that several small municipalities, such as Cirkulane, Cerklje, Makole, Loški potok, Žetale, Cerklje, Sveta Ana, Juršinci, Križevci, etc.,

received a much larger volume of eligible expenditure than were their actual per capita costs. In the above-mentioned municipalities, the index of cost coverage by eligible expenditure even exceeded 1.45, meaning that these municipalities received on average 45% more funds in the last three years than they reported average current expenses (costs). It may be concluded that municipalities redirected their surplus funds to their investments and, in any case, had no financial problems. On the other hand, the picture was exactly the opposite in 68 municipalities that are found below average or even below the value of the Ppi/CE coverage index, 1.00, meaning that the volume of the funds set by calculation did not cover the current costs actually incurred by municipalities. This section of the scale comprises all urban municipalities ranked within the coverage range between 0.61 (e.g. MO Ljubljana and MO Ptuj) and 0.89 (e.g. MO Slovenj Gradec). Table 9 reveals that around 41% of municipalities covered the actually reported costs with the Ppi allocated or even received surplus funds; however, such statistical distribution around the average value nevertheless shows certain deviations in the adequacy of the Slovenian municipal finance system as laid down by ZFO-1.

Table 9: Dispersion of municipalities around the Ppi/CE average per capita

+5% around CE average	from 1,04 to 1,14	26% / 54 municipalities
+10% around CE average	from 0,98 to 1,19	41% / 86 municipalities
+25% around CE average	from 0,82 to 1,36	78% / 165 municipalities
min – average – max	0,50 / 1,09 / 1,75	100% / 210 municipalities

Perhaps the analysis of certain selected groups of municipalities will reveal the most here. We can see that urban municipalities have the poorest coverage by the volume of eligible expenditure allocated, with their average Ppi/CE ratio amounting to 0.75 or, rather, around €442 of per capita eligible expenditure received by an individual MO on average, while its average per capita costs reported amount to €594 (34% higher reported costs than the eligible expenditure allocated).

At this point, special stress should be placed on a finding that urban municipalities recorded a "worse" situation in all indicators examined so far (CE, Ppi and their ratio). The average values of the costs incurred in urban municipalities were around 12.7% higher than the Slovenian average, while the volume of eligible expenditure allocated, Ppi, fell behind the Slovenian average by 26.2%, resulting in 0.75 or 75% coverage of actual costs reported by urban municipalities from the financial resources allocated based on the eligible expenditure mechanism. This finding may be highlighted as a more important one for planning any changes and interventions in the existing Financing of Municipalities Act (ZFO-1).

Table 10: Limit and average values by municipalities according to Ppi/CE

in €/per capita	population	CE 1-23	Ppi/CE	Ppi	Rev	Ppi-Rev	DI
CERKLJE	6.720	319	1,75	559	556	-3	1,1216
CIRKULANE	2.363	373	1,72	642	593	-49	1,2879
CERKVENJAK	2.108	362	1,67	604	547	-57	1,2136
MAKOLE	2.115	408	1,60	653	602	-51	1,3124

LOŠKI POTOK	2.078	461	1,58	729	639	-90	1,4650
ŽETALE	1.427	451	1,56	702	614	-88	1,4093
SVETA ANA	2.379	435	1,48	645	577	-68	1,2961
JURŠINCI	2.385	388	1,48	575	530	-44	1,1544
KRIŽEVCI	3.589	358	1,46	521	499	-22	1,0472
SVETI TOMAŽ	2.225	443	1,45	642	593	-48	1,2893
Average – all municipalities	9.603	527	1,09	558	541	-17	1,1200
KRANJSKA GORA	5.504	809	0,73	588	615	27	1,1807
RUŠE	7.652	648	0,71	462	498	36	0,9282
BOHINJ	5.320	913	0,71	648	619	-29	1,3016
MO KOPER	49.090	631	0,70	444	519	75	0,8919
MO MARIBOR	110.982	595	0,70	416	472	55	0,8365
IZOLA	15.179	680	0,63	428	479	51	0,8589
MO PTUJ	24.006	719	0,61	440	474	34	0,8840
MO LJUBLJANA	265.172	683	0,61	416	485	69	0,8352
PUCONCI	6.454	1.086	0,55	601	557	-44	1,2063
PIRAN	17.366	866	0,50	434	502	68	0,8709
stdev		88	0,2	72,0	43,6	32,0	0,14
av countif_ab		83	108	91	80	106	91
av countif_be		127	102	119	130	104	119
Urban municipalities, MO	average	594	0,75	442	490	48	0,89
	max	719	0,89	487	519	75	0,98
	min	514	0,61	416	472	18	0,84
Municipalities < 5000 popul.	average	527	1,01	517	521	4	1,04
Municipalities P > average	average	597	1,13	657	602	-55	1,32
Municipalities C > average	average	522	1,11	557	542	-15	1,12
Municipalities M > average	average	540	1,03	549	533	-15	1,10
Municipalities S > average	average	573	1,07	591	564	-27	1,19

Other groups of municipalities, examined by their main characteristics, do not stand out significantly as regards their cost coverage from the eligible expenditure allocated. Perhaps a slightly better position can be detected in municipalities with a high surface area and road per capita indices, whereby the group with a larger surface area loses this advantage (CE exceeding the average by 13%) when cross-examined and the group with a higher road index slightly strengthens it (CE falling behind the average by 1% (see the bottom part of Table 10). To present the otherwise extremely vast and complex municipal finance system and costs more easily, Table 11 again summarises all three indicators together, thus enabling a cross-reference of the distribution of municipalities within individual categories with respect to the indicators selected.

Table 11: Municipalities according to CE, Ppi and Ppi/CE indicators

CE	
CE ≤ 395 €	7% / 14 municipalities
from 395 € to 659 €	83% / 175 municipalities
CE ≥ 659 €	6% / 12 municipalities
min – average - max	319 € - 527 € - 1.167 €
Ppi	

Ppi ≤ 419 €	1% / 2 municipalities
from 419 € to 698 €	93% / 195 municipalities
Ppi ≥ 698 €	6% / 13 municipalities
min – average – max	416 € - 558 € - 1.196 €
Ppi/CE	
≤ 0,82	1% / 2 municipalities
from 0,82 to 1,36	93% / 195 municipalities
≥ 1,36	6% / 13 municipalities
min – average – max	0,50 – 1,09 – 1,75

A cross-analysis of three fundamental aggregate indicators of the Slovenian municipal finance system reveals that municipalities received adequate funds with respect to their needs, speaking aggregately for the reference period, with average per capita costs lower than the resources allocated from eligible expenditure by about 9%. The share of municipalities within the +25% range of average values was mostly high, i.e. 83% in costs and 93% in eligible expenditure. A weak point of the aggregate picture is shown in unusually high spans between the lowest and highest values of indicators. In average costs, the latter ranges between €319 and €1,167 per capita and, in the volume of eligible expenditure, between €416 and €1,196, whereas their ratio spans between 0.50 and 1.75. Despite the fact that there is less than 15% of such limit values, the sustainability of the entire financing system is significantly impaired due to an interaction effect, where certain municipalities with high average costs are at the same time entitled to a relatively low volume of eligible expenditure. The analysis by individual groups of municipalities hence reveals that urban municipalities, for example, incur higher costs by 13% on average, while receiving a smaller amount of eligible expenditure by 20% on average. As a result, the position of urban municipalities in financing their expenditure is significantly impaired. Similar cross-multiplied deviations can also be noticed in the group of municipalities with a large surface area, but in the opposite direction, since the latter receive around 18% more funds for 13% higher average costs. In other groups, cross-multiplied deviations tend to be minor, but not negligible, particularly if linked with the analysis of the reported cost structure shown in the following part of the text.

Table 12: Increase/decrease of CE in the reference period

in €/per capita	population	CE 1-23	Ppi/CE	Ppi	Rev	DI
STRAŽA	3.837	+102,0%	+86,6%	+15,4%	-2,4%	0,9836
LOG-DRAGOMER	3.479	+86,7%	+69,5%	+17,3%	+8,8%	0,8900
SVETA TROJICA V SG	2.244	+84,9%	+70,8%	+14,0%	+2,3%	1,1772
RENČE-VOGRSKO	4.197	+71,7%	+57,0%	+14,7%	-1,1%	0,9621
LUČE	1.632	+65,1%	+51,3%	+13,8%	+4,1%	1,9547
TURNIŠČE	3.509	+64,2%	+49,5%	+14,7%	+7,3%	0,9366
CIRKULANE	2.363	+60,0%	+42,8%	+17,2%	+3,5%	1,2879
SOLČAVA	551	+50,0%	+35,3%	+14,7%	+4,8%	2,4028
Average – all municipalities	9.603	+25,9%	+10,6%	+15,3%	+4,4%	1,1200
KOBILJE	638	-1,2%	-14,7%	+13,5%	+4,8%	1,2125
LOŠKA DOLINA	3.758	-4,1%	-19,8%	+15,7%	+3,5%	1,2255
VELIKA POLANA	1.548	-6,8%	-20,5%	+13,7%	+7,4%	1,0362

BRASLOVČE	5.178	-8,7%	-24,9%	+16,2%	+10,2%	1,0182
HODOŠ	356	-11,1%	-28,6%	+17,5%	+6,7%	1,5865
DOBROVNIK	1.408	-16,2%	-30,5%	+14,3%	+5,9%	1,1636
KUZMA	1.751	-16,2%	-27,2%	+10,9%	+0,7%	1,1713
PUCONCI	6.454	-30,1%	-44,0%	+13,9%	+3,8%	1,2063
stdev		+11,2%	+11,4%	+1,5%	+3,1%	0,1400
av countif_ab	99		104	84	115	91
av countif_be	111		106	126	95	119
Urban municipalities, MO	average	+25,7%	+9,8%	+15,9%	+4,8%	1,0500
Municipalities < 5000 popul.	average	+22,2%	+6,4%	+15,8%	+4,1%	1,0400
Municipalities P > average	average	+26,5%	+11,8%	+14,8%	+4,3%	1,3200
Municipalities C > average	average	+27,3%	+11,9%	+15,4%	+4,3%	1,1000
Municipalities M > average	average	+26,9%	+11,8%	+15,2%	+4,5%	1,1100
Municipalities S > average	average	+24,8%	+9,9%	+14,9%	+3,7%	1,1900

Presented below are changes in costs, CE and Ppi in the period between 2007 and 2010 as discovered in the final aggregate analysis of the municipal finance system. As evident from Tables 12 and 13, the costs reported in the last period increased by 25.9% on average, while the volume of eligible expenditure allocated per municipality increased by 15.3% on average, thus falling behind the increase in municipal expenditure by a good 10 percentage points. There are no major deviations from the values indicated in individual groups of municipalities; however, the interpretation of these results should take into account the effect of cross-multiplied deviations as described and highlighted in the comparison of aggregate average values of costs and the average eligible expenditure in municipalities. The homogeneity of deviations is smaller in the category of changes, which is why special caution is required interpreting results.

Table 13: Increase/decrease of Ppi in the reference period

in €/per capita	population	CE 1-23	Ppi/CE	Ppi	Rev	DI
GORNJA RADGONA	8.956	+23,0%	-2,0%	+25,0%	+9,7%	1,0785
VRANSKO	2.546	+13,6%	-9,8%	+23,4%	+12,1%	1,2113
DOLPRI LJ	4.949	+47,3%	+24,6%	+22,7%	+9,5%	0,9848
SLOVENSKE KONJICE	14.178	+24,0%	+1,9%	+22,1%	+10,2%	1,0093
GROSUPLJE	17.442	+20,4%	-0,1%	+20,5%	+10,8%	0,9853
ŠKOFLJICA	7.949	+35,1%	+15,5%	+19,6%	+12,7%	0,9507
VODICE	4.237	+32,7%	+13,2%	+19,5%	+1,6%	1,0262
Average – all municipalities	9.603	+25,9%	+10,6%	+15,3%	+4,4%	1,1200
SVETI JURIJ V SG	2.172	+28,3%	+15,9%	12,4%	+0,2%	1,2455
VERŽEJ	1.363	+27,1%	+14,8%	12,3%	+3,7%	1,0017
LOŠKI POTOK	2.078	+23,9%	+12,0%	11,9%	+3,4%	1,4650
SVETI ANDRAŽ V SG	1.272	+19,7%	+8,0%	11,7%	+4,8%	1,1378
ŠALOVCI	1.741	+45,8%	+34,2%	11,6%	-0,7%	1,3474
POLJČANE	4.359	+45,4%	+34,0%	11,4%	+0,2%	1,0567
KUZMA	1.751	-16,2%	-27,2%	10,9%	+0,7%	1,1713
av countif_ab	99		104	84	115	91
av countif_be	111		106	126	95	119
Urban municipalities, MO	average	+25,7%	+9,8%	+15,9%	+4,8%	1,0500
Municipalities < 5000 popul.	average	+22,2%	+6,4%	+15,8%	+4,1%	1,0400
Municipalities P > average	average	+26,5%	+11,8%	+14,8%	+4,3%	1,3200
Municipalities C > average	average	+27,3%	+11,9%	+15,4%	+4,3%	1,1000
Municipalities M > average	average	+26,9%	+11,8%	+15,2%	+4,5%	1,1100

Municipalities S > average	average	+24,8%	+9,9%	+14,9%	+3,7%	1,1900
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Table 14: The ranking of municipalities with respect to changes in CE and Ppi

CE	
Municipality with decrease of CE	5% / 10 municipalities
Increase of CE < +19%	24% / 50 municipalities
from +9% to +32%	45% / 94 municipalities
Increase of CE > +32%	27% / 56 municipalities
min – average - max	-30% / +26% / +102%

Ppi	
Municipality with decrease of Ppi	0% / 0 municipalities
Increase of Ppi < +19%	2% / 5 municipalities
from +9% to +32%	94% / 196 municipalities
Increase of Ppi > +32%	4% / 9 municipalities
min – average - max	11% / +15% / +25%

3 Analysis of the reported cost structure (CE) by municipalities with respect to the programme classification

This section focuses on the structure of costs or, rather, reported costs of Slovenian municipalities, which is, along with aggregate indicators of the local self-government finance system in Slovenia, vital for understanding the effects and situation in this area. As presented in the introductory chapter, Slovenian municipalities perform a series of different tasks from the field of local self-government and exercise powers as laid down by the legislation. Expenses (costs) deriving from that have been monitored since 2006, i.e. according to the so-called programme classification (PK), which breaks down the municipal budget programme into 21 main areas (see introduction to Chapter 2). In addition to being broken down to programme areas, budget expenses are also kept according to the type or purpose, thus separating current expenses and transfers (accounts 40 and 41) from investment expenses and transfers (accounts 42 and 43), expenses for changing in assets (account 44) and expenses for debt repayment with respect to external financing of individual programme activities in municipalities (account 45). Although ZFO-1 for the most part covers the part of expenses referring to current expenses and transfers (accounts 40 and 41) and although this governs our analysis as well, Table 15 summarizes the full financial image of Slovenian municipalities as average values in the last 3-year reference period. As seen, around €1.12 billion or €550 per capita was spent annually for the purposes of covering current expenses, CE, in this period. This item represented the largest share in the structure of municipal budgets, amounting to 54.8%. This was followed by investments with a 43.5% share or an average amount of €879 million per annum, meaning around €436 per capita. The remaining 1.7% of municipal budgets focused on changes in assets and debt repayment. In total, around €2.02 billion or €1,002 per capita was spent on average on the level of local communities in the reference period from 2007 on. The total increase in expenses amounted to 27.8%, while costs and transfers increased by 21%. In light of the programme classification, only six largest programme groups prevailed in the cost structure, accounting for over 82% of municipal financial resources, i.e.: PK6

(local self-government, 9.1%), PK13 (traffic, transport infrastructure and communications, 17%), PK15 (environment and natural heritage protection, 9.2%), PK16 (spatial planning, housing development and municipal utility service, 13.7%), PK18 (culture, sports and non-governmental organisations, 10.7%) and PK19 (education, 22.6%). At the level of current expenses and transfers, CE, the distribution is quite similar; differences arise only in the amount of shares with respect to total expenditure, except in programme items PK15 in PK20 (social security), where the share of the latter in current expenses is more important than programme item PK15 (environment and natural heritage protection).

As already mentioned, the analysis below will focus primarily on current expenses and transfers (accounts 40 and 41) and examine in detail the cost structure by the programme contents given, with similar indicators as used in the aggregate analysis. Special attention will be placed on average values of per capita expenditure by individual programmes and groups of municipalities, their limit values and the degree of homogeneity by municipalities.

Certain selected groups of municipalities that have already been analysed on previous levels (urban municipalities, number of residents, surface area, road network diversification, etc.) will be examined in detail. Due to a large number of programme contents, focus will be placed primarily on seven largest PKs, which encompass over 80% of the total expenses, which is why it is all the more vital to discover any anomalies and excess deviations they feature to provide the basis for adequate amendments and supplements to the financing system.

The analysis shown synthetically in Table 16 below reveals that Slovenian municipalities spent €527 per capita on average in the reference period, whereby 29.8% was spent within the scope of the largest programme group PK19 (education), i.e. €157 per capita on average. This is followed by PK6 (local self-government) with 16.6% or €87 per capita, PK13 (traffic) averaging at €60, PK18 (social activities) with 8.9% and €47 per capita, PK20 (social security) with 6.3% and €33, PK16 (spatial planning and municipal utility services) with 5% and €26, and PK01 (political system) with 3.9% or €21 of the average per capita expenditure in a municipality. The remaining 15 programme groups together account for less than 20% and individually for less than 3% of the total current expenses per municipality. Unlike aggregate values, a detailed analysis of costs by structure indicates a fairly large non-homogeneity of municipalities, meaning that most units examined cannot be found within the +25% range of average values; however, a higher degree of homogeneity can be found within the scope of certain programme groups, such as PK education (89% homogeneity), local self-government (63%), social security (59%), and partly in traffic (49% degree of homogeneity). The high inequality of eligible per capita expenditure across municipalities raises doubts as to whether individual programme groups, legal tasks and/or powers are adequately understood, because the per unit cost should not deviate significantly between individual local communities, regardless of their demographic and geographic characteristics (the latter are already taken into account in the allocation of the total volume of funds, as shown in previous chapters).

Table 15: An overview of costs (CE) and other expenses* from municipal budgets by programme classification (PK)

PK	in 000 €					in € per capita					Change in %		Structure in % of total				
	CE	INV	P&K	OD	Total	CE	INV	P&K	OD	Total	CE	Total	CE	INV	P&K	OD	Total
01	26.916	175	0	166	27.258	13	0	0	0	14	1,5%	2,8%	2,4%	0,0%	0,0%	0,6%	1,3%
02	3.451	27	463	12	3.953	2	0	0	0	2	11,5%	12,4%	0,3%	0,0%	6,6%	0,0%	0,2%
03	1.095	94	0	0	1.189	1	0	0	0	1	0,9%	-8,4%	0,1%	0,0%	0,0%	0,0%	0,1%
04	24.323	22.616	2.379	229	49.546	12	11	1	0	25	23,0%	26,5%	2,2%	2,6%	34,0%	0,9%	2,5%
05	858	30	0	0	888	0	0	0	0	0	0,4%	2,2%	0,1%	0,0%	0,0%	0,0%	0,0%
06	165.148	18.836	146	139	184.270	82	9	0	0	91	21,9%	20,8%	14,9%	2,1%	2,1%	0,5%	9,1%
07	26.970	15.857	0	15	42.843	13	8	0	0	21	29,4%	22,1%	2,4%	1,8%	0,0%	0,1%	2,1%
08	594	70	0	0	664	0	0	0	0	0	32,9%	38,4%	0,1%	0,0%	0,0%	0,0%	0,0%
10	7.742	86	0	0	7.829	4	0	0	0	4	25,2%	27,1%	0,7%	0,0%	0,0%	0,0%	0,4%
11	13.423	3.320	51	0	16.794	7	2	0	0	8	24,4%	35,7%	1,2%	0,4%	0,7%	0,0%	0,8%
12	1.569	2.433	592	21	4.615	1	1	0	0	2	88,9%	21,5%	0,1%	0,3%	8,5%	0,1%	0,2%
13	140.053	203.233	405	45	343.736	69	101	0	0	170	26,6%	38,6%	12,6%	23,1%	5,8%	0,2%	17,0%
14	25.964	20.282	708	2	46.955	13	10	0	0	23	20,4%	26,0%	2,3%	2,3%	10,1%	0,0%	2,3%
15	31.044	154.218	36	158	185.456	15	76	0	0	92	9,8%	48,7%	2,8%	17,5%	0,5%	0,6%	9,2%
16	70.949	204.486	1.360	140	276.935	35	101	1	0	137	22,1%	24,2%	6,4%	23,3%	19,4%	0,5%	13,7%
17	21.910	8.024	0	0	29.933	11	4	0	0	15	1,0%	-2,4%	2,0%	0,9%	0,0%	0,0%	1,5%
18	127.661	87.489	28	570	215.748	63	43	0	0	107	18,3%	27,5%	11,5%	10,0%	0,4%	2,2%	10,7%
19	328.618	127.126	3	255	456.003	163	63	0	0	226	20,7%	18,1%	29,6%	14,5%	0,0%	1,0%	22,6%
20	67.675	5.157	198	0	73.031	34	3	0	0	36	28,5%	30,6%	6,1%	0,6%	2,8%	0,0%	3,6%
22	8.169	202	634	24.569	33.574	4	0	0	12	17	62,6%	100,6%	0,7%	0,0%	9,0%	93,3%	1,7%
23	14.295	5.478	0	17	19.790	7	3	0	0	10	33,0%	23,5%	1,3%	0,6%	0,0%	0,1%	1,0%
SK	1.108.426	879.242	7.003	26.338	2.021.010	550	436	3	13	1.002	21,3%	27,8%	100,0%	100,0%	100,0%	100,0%	100,0%

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

** PC- from 01 to 23 – for explanation of each category (PC) or programme, see pg.55 for explanation

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

Since the analysis of causes for such non-homogeneity would surpass the purpose of this study, it is merely stressed here as a recommended element of verification, while some attention is placed on deviations of major cost groups in selected groups of municipalities. Within the frame of the aggregate cost analysis, CE, it has been said that certain groups of municipalities show substantial statistical deviations from the average. Hence, urban municipalities show higher total costs by an average of 13% than other municipalities, whereby costs falling under PK18 (social activities, 70% above average) and PK16 (spatial planning, housing development and municipal utility services, 50% above average) stand out the most. On the other hand, a minor upward deviation can be detected in PK06 and PK13 costs (local self-government, traffic, 9% increase), while the costs of PK1 (political system) interestingly show a deviation below the average amounting to 50%. Cumulatively higher average expenses are also shown by municipalities with a large surface area per capita (+13%), whereby it has already been found that these municipalities are not financially weak, since they obtain more funds from eligible expenditure than other municipalities, i.e. by 18%. Nevertheless, these

municipalities report higher expenses in PK1 (political system, by 27% above average), PK6 (local self-government, +21%) and PK20 (social security, +12%). A group of municipalities that shows statistically typical deviations from the average costs is the group with a high share of elderly residents. There municipalities report 9% higher expenses on average, whereby costs under PK18 (social activities, +14%), PK01 and PK06 (system operations) stand out the most and the costs of spatial planning, housing development and municipal utility services and social security also increasing slightly (+9%). Other groups of municipalities do not reveal statistically typical deviations on aggregate level, although certain cost groups can nevertheless be highlighted, such PK16 and PK20 upward, and PK01 and PK06 downward in municipalities with a smaller number of residents. Groups of municipalities that are "the most adequately" adjusted to the average bill of costs are no doubt municipalities with a high share of roads and young people. Some findings on this subject can be drawn from the tables below; the analysis of the cost structure generally concludes here and the stated can no doubt serve as a better starting point for planning any future changes to the municipal financing system.

Table 16: Cost analysis (CE) of municipal budgets by programme classification (PK)

PK	PROGRAMME CLASSIFICATION	ALL MUNICIPALITIES (Actual costs)					MO		Municip. Under 5,000 inhab.		Municip. with P ≥ pov		Municip. with C ≥ pov		Municipalities with M ≥ pov		Municip. with S ≥ pov	
		av	+/- 25%	min	max	% tot	av	dif	av	dif	av	dif	av	dif	av	dif	av	dif
01	POLITICAL SYSTEM	21	44%	5	126	3,9%	10	-50%	15	-29%	26	27%	20	-4%	19	-6%	23	12%
02	FISCAL ADMINISTRATION	2	79%	0	42	0,4%	3		2		1		2		3		2	
03	EXTERNAL COOPERATION	0	82%	0	24	0,1%	1		0		0		0		0		0	
04	PUBLIC ADMINISTRATION	12	34%	0	155	2,3%	14		12		17		13		15		15	
05	RESEARCH AND DEVELOPMENT	0	90%	0	8	0,0%	1		0		0		0		0		0	
06	LOCAL SELF-GOVERNMENT	87	63%	44	616	16,6%	96	9%	79	-10%	106	21%	82	-6%	93	6%	97	11%
07	CIVIL DEFENSE	11	41%	2	39	2,0%	19		10		13		10		11		13	
08	INTERNAL AFFAIRS, SECURITY	0	87%	0	3	0,0%	0		0		0		0		0		0	
10	LABOUR MARKET	5	17%	0	95	1,0%	3		4		6		6		7		6	
11	AGRICULTURE	10	34%	0	0	2,0%	5		8		18		9		11		13	
12	ENERGY	1	83%	0	78	0,3%	2		1		3		2		2		2	
13	TRANSPORT INFRASTRUCTURE	60	49%	0	169	11,4%	65	9%	61	2%	64	7%	60	1%	62	3%	61	1%
14	ECONOMY	14	19%	0	143	2,6%	12		14		22		16		15		20	
15	ENVIRONMENT	15	16%	0	507	2,8%	23		19		17		13		13		20	
16	SPATIAL DEVELOP., HOUSING	26	33%	0	163	5,0%	40	50%	31	16%	26	-1%	27	1%	27	2%	29	10%
17	MEDICAL SECURITY	10	62%	1	26	2,0%	12		10		10		10		10		11	
18	SOCIAL ACTIVITIES AND NGO	47	34%	12	190	8,9%	81	72%	56	20%	50	6%	46	-1%	49	5%	53	14%
19	EDUCATION	15	89%	62	254	29,8%	16	4	5%	16	0	2%	162	3%	155	-1%	15	8
20	SOCIAL WELFARE	33	59%	9	71	6,3%	34	3%	32	-4%	37	12%	32	-2%	33	0%	36	9%
22	PUBLIC DEBT REPAYMENT	4	25%	0	54	0,8%	3		3		7		4		5		5	
23	INTERVENTION AFFAIRS	9	13%	0	79	1,8%	6		8		11		10		9		9	
TOTAL ALL AREAS (01 to 23):		52	83%	319	1.16	100%	59	4	13%	52	7	0%	597	13%	52	-1%	541	3%
		7		7			4		7		597		2		541		57	9%

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

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

Table 17: Limit and average values by municipalities classified according to PK-1(POLITICAL SYSTEM)

in €/per capita	population	PK-1	Ppi/CE	Ppi	Rev	Ppi-Rev	DI
HODOŠ	356	126	0,85	790	678	-113	1,5865
OSILNICA	422	88	1,12	837	719	-119	1,6820
SOLČAVA	551	80	1,03	1.196	946	-250	2,4028
SVETI ANDRAŽ V SG	1.272	50	1,05	566	521	-45	1,1378
DOBJE	1.064	50	1,21	577	533	-44	1,1599
KOBILJE	638	49	0,91	604	548	-55	1,2125
JEZERSKO	709	46	1,28	842	721	-120	1,6909
ODRANCI	1.735	43	1,04	446	444	-1	0,8956
BISTRICA OB SOTLI	1.509	37	1,29	761	663	-98	1,5291
VELIKA POLANA	1.548	37	1,09	516	490	-26	1,0362
Average – all municipalities	9.603	21	1,09	558	541	-17	1,1200
CELJE	48.983	8	0,75	426	481	55	0,8552
LAŠKO	13.994	8	1,11	563	540	-23	1,1309
KOSTEL	683	8	0,85	937	784	-153	1,8807
ŠENTJUR	19.134	8	1,05	504	493	-11	1,0121
HRASTNIK	10.331	7	0,98	461	485	24	0,9252
NOVO MESTO	34.914	7	0,83	474	514	40	0,9519
MARIBOR	110.982	7	0,70	416	472	55	0,8365
TRŽIČ	15.497	6	0,99	471	480	9	0,9461
PODLEHNIK	1.964	5	1,24	692	613	-79	1,3908
LJUBLJANA	265.172	5	0,61	416	485	69	0,8352
stdev		13	0,2	72,0	43,6	32,0	0,14
av	countif_ab	79	108	91	80	106	91
av	countif_be	131	102	119	130	104	119
Urban municipalities, MO	average	10	0,75	442	490	48	0,89
Municipalities < 5000 popul.	average	15	1,01	517	521	4	1,04
Municipalities P > average	average	26	1,13	657	602	-55	1,32
Municipalities C > average	average	20	1,11	557	542	-15	1,12
Municipalities M > average	average	19	1,03	549	533	-15	1,10
Municipalities S > average	average	23	1,07	591	564	-27	1,19

CE – PK – 1	
≤ 15 €	31% / 65 municipalities
16 € to 26 €	44% / 92 municipalities
≥ 27 €	18% / 36 municipalities
min – average - max	5 € - 21 € - 126 €

Table 18: Limit and average values by municipalities classified according to PK-2 (FISCAL ADMINISTRATION)

in €/per capita	population	PK-2	Ppi/CE	Ppi	Rev	Ppi-Rev	DI
SVETI ANDRAŽ V SG	1.272	42	1,05	566	521	-45	1,1378
ŠEMPETER-VRTOJBA	6.334	36	0,75	430	490	60	0,8632
NOVA GORICA	31.260	21	0,74	465	507	42	0,9346
LENART	7.274	9	0,89	531	523	-8	1,0653
KOBILJE	638	7	0,91	604	548	-55	1,2125
ZREČE	6.434	6	0,84	536	530	-6	1,0764
DOBRNA	2.140	5	0,84	577	538	-39	1,1579
MEDVODE	14.773	5	1,04	483	516	33	0,9701
SVETA TROJICA V SG	2.244	5	1,20	586	556	-30	1,1772
SVETI ANDRAŽ V SG	1.272	42	1,05	566	521	-45	1,1378
Average – all municipalities	9.603	2	1,09	558	541	-17	1,1200
TURNIŠČE	3.509	0	1,19	466	461	-6	0,9366
SEVNICA	17.760	0	1,07	594	551	-43	1,1935
SLOVENSKE KONJICE	14.178	0	1,19	503	498	-5	1,0093
DOMŽALE	32.244	0	0,99	449	493	44	0,9006
ŽIRI	4.961	0	1,08	541	522	-19	1,0867
KOSTEL	683	0	0,85	937	784	-153	1,8807
LJUBNO	2.780	0	1,09	685	609	-77	1,3766
LUČE	1.632	0	1,41	973	796	-177	1,9547
MOZIRJE	4.108	0	1,00	535	514	-20	1,0727
NOVO MESTO	34.914	0	0,83	474	514	40	0,9519
stdev		4	0,2	72,0	43,6	32,0	0,14
av countif_ab		60	108	91	80	106	91
av countif_be		150	102	119	130	104	119
Mestne Municipality	average	3	0,75	442	490	48	0,89
Municipality pod 5000 preb	average	2	1,01	517	521	4	1,04
Municipality z P>povprečja	average	1	1,13	657	602	-55	1,32
Municipality s C>povprečja	average	2	1,11	557	542	-15	1,12
Municipality z M>povprečja	average	3	1,03	549	533	-15	1,10
Municipality s S>povprečja	average	2	1,07	591	564	-27	1,19

CE – PK2	
0 €	10% oz. 22 municipalities
od 1 € do 3 €	79% oz. 166 municipalities
≥ 4 €	11% oz. 21 municipalities
min – average – max	0 € - 2 € - 42 €

Table 19: Limit and average values by municipalities classified according to PK-3 (EXTERNAL COOPERATION)

in €/per capita	population	PK-3	Ppi/CE	Ppi	Rev	Ppi-Rev	DI
ODRANCI	1.735	24	1,04	446	444	-1	0,8956
BOVEC	3.271	6	1,02	796	707	-88	1,5979
KOMEN	3.568	4	0,92	575	560	-15	1,1553
IG	5.953	3	0,89	520	529	9	1,0440
SLOVENJ GRADEC	17.092	3	0,89	487	505	18	0,9779
KOPER	49.090	2	0,70	444	519	75	0,8919
ZREČE	6.434	2	0,84	536	530	-6	1,0764
PUCONCI	6.454	2	0,55	601	557	-44	1,2063
PODČETRTEK	3.443	1	1,09	676	616	-60	1,3578
SEŽANA	11.870	1	0,75	520	544	24	1,0431
Average – all municipalities	9.603	0	1,09	558	541	-17	1,12
VODICE	4.237	0	0,84	511	534	23	1,0262
VOJNIK	8.420	0	1,09	530	512	-18	1,0640
VRANSKO	2.546	0	0,98	604	557	-47	1,2113
VUZENICA	2.815	0	0,93	541	529	-12	1,0869
ZAGORJE OB SAVI	17.279	0	1,16	513	505	-8	1,0301
ZAVRČ	1.520	0	1,29	691	619	-72	1,3870
ŽELEZNIKI	6.905	0	1,24	615	572	-43	1,2342
ŽETALE	1.427	0	1,56	702	614	-88	1,4093
ŽIRI	4.961	0	1,08	541	522	-19	1,0867
ŽUŽEMBERK	4.660	0	1,36	667	601	-66	1,3403
	stdev	2	0,2	72,0	43,6	32,0	0,14
av	countif_ab	40	108	91	80	106	91
av	countif_be	170	102	119	130	104	119
Urban municipalities, MO	average	1	0,75	442	490	48	0,89
Municipalities < 5000 popul.	average	0	1,01	517	521	4	1,04
Municipalities P > average	average	0	1,13	657	602	-55	1,32
Municipalities C > average	average	0	1,11	557	542	-15	1,12
Municipalities M > average	average	0	1,03	549	533	-15	1,10
Municipalities S > average	average	0	1,07	591	564	-27	1,19

CE – PK3	
0 €	82% / 173 municipalities
1 € to 3 €	16% / 34 municipalities
≥ 4 €	2% / 3 Municipality
min – average - max	0 € - 0 € - 24 €

Table 20: Limit and average values by municipalities classified according to PK-4 (PUBLIC ADMINISTRATION)

in €/per capita	population	PK-4	Ppi/CE	Ppi	Rev	Ppi-Rev	DI
BOHINJ	5.320	155	0,71	648	619	-29	1,3016
HODOŠ	356	132	0,85	790	678	-113	1,5865
PIRAN	17.366	44	0,50	434	502	68	0,8709
DIVAČA	3.761	44	0,91	608	582	-26	1,2203
IZOLA	15.179	35	0,63	428	479	51	0,8589
MENGEŠ	6.852	33	0,94	447	485	39	0,8961
ŠENTRUPERT	2.414	32	1,12	654	602	-51	1,3123
KOBILJE	638	30	0,91	604	548	-55	1,2125
SLOVENJ GRADEC	17.092	30	0,89	487	505	18	0,9779
PODLEHNIK	1.964	30	1,24	692	613	-79	1,3908
Average – all municipalities	9.603	12	1,09	558	541	-17	1,1200
ODRANCI	1.735	1	1,04	446	444	-1	0,8956
OPLOTNICA	4.000	1	1,25	544	514	-30	1,0934
LJUBNO	2.780	1	1,09	685	609	-77	1,3766
ROGAŠKA SLATINA	11.236	1	1,17	500	509	8	1,0049
ČRENŠOVCI	4.411	1	1,13	479	467	-13	0,9629
MIKLAVŽ NA DP	6.313	0	1,09	432	464	32	0,8667
MOZIRJE	4.108	0	1,00	535	514	-20	1,0727
NOVO MESTO	34.914	0	0,83	474	514	40	0,9519
RADLJE OB DRAVI	6.292	0	1,10	543	531	-11	1,0902
VITANJE	2.377	0	1,12	622	566	-56	1,2492
stdev		15	0,2	72,0	43,6	32,0	0,14
av	countif_ab	67	108	91	80	106	91
av	countif_be	143	102	119	130	104	119
Urban municipalities, MO	average	14	0,75	442	490	48	0,89
Municipalities < 5000 popul.	average	12	1,01	517	521	4	1,04
Municipalities P > average	average	17	1,13	657	602	-55	1,32
Municipalities C > average	average	13	1,11	557	542	-15	1,12
Municipalities M > average	average	15	1,03	549	533	-15	1,10
Municipalities S > average	average	15	1,07	591	564	-27	1,19

CE – PK4	
≤ 8 €	42% / 90 municipalities
9 € to 15 €	34% / 71 municipalities
≥ 16 €	23% / 49 municipalities
min – average – max	0 € - 12 € - 155 €

Table 21: Limit and average values by municipalities classified according to PK-5 (RESEARCH AND DEVELOPMENT)

in €/per capita	population	PK-5	Ppi/CE	Ppi	Rev	Ppi-Rev	DI
DOLPRI LJUBLJANI	4.949	8	0,79	491	517	26	0,9848
PTUJ	24.006	8	0,61	440	474	34	0,8840
BOHINJ	5.320	4	0,71	648	619	-29	1,3016
ŠALOVCI	1.741	3	1,27	670	602	-68	1,3474
MURSKA SOBOTA	19.963	2	0,79	432	472	40	0,8675
ZAVRČ	1.520	2	1,29	691	619	-72	1,3870
VELENJE	33.392	2	0,79	426	478	52	0,8559
LJUBLJANA	265.172	1	0,61	416	485	69	0,8352
VRHNIKA	14.962	1	0,92	487	509	22	0,9784
HAJDINA	3.795	1	0,92	475	514	40	0,9526
Average – all municipalities	9.603	0	1,09	558	541	-17	1,1200
VODICE	4.237	0	0,84	511	534	23	1,0262
VOJNIK	8.420	0	1,09	530	512	-18	1,0640
VRANSKO	2.546	0	0,98	604	557	-47	1,2113
VUZENICA	2.815	0	0,93	541	529	-12	1,0869
ZAGORJE OB SAVI	17.279	0	1,16	513	505	-8	1,0301
ŽELEZNIKI	6.905	0	1,24	615	572	-43	1,2342
ŽETALE	1.427	0	1,56	702	614	-88	1,4093
ŽIRI	4.961	0	1,08	541	522	-19	1,0867
ŽIROVNICA	4.308	0	1,20	473	491	18	0,9499
ŽUŽEMBERK	4.660	0	1,36	667	601	-66	1,3403
stdev		1	0,2	72,0	43,6	32,0	0,14
av	countif_ab	28	108	91	80	106	91
av	countif_be	182	102	119	130	104	119
Urban municipalities, MO	average	1	0,75	442	490	48	0,89
Municipalities < 5000 popul.	average	0	1,01	517	521	4	1,04
Municipalities P > average	average	0	1,13	657	602	-55	1,32
Municipalities C > average	average	0	1,11	557	542	-15	1,12
Municipalities M > average	average	0	1,03	549	533	-15	1,10
Municipalities S > average	average	0	1,07	591	564	-27	1,19

CE – PK5	
0 €	90% / 189 municipalities
1 € to 2 €	7% / 17 municipalities
≥ 2 €	3% / 4 municipalities
min – average - max	0 € - 0 € - 8 €

Table 22: Limit and average values by municipalities classified according to PK-6 (LOCAL SELF-GOVERNMENT)

in €/per capita	population	PK-6	Ppi/CE	Ppi	Rev	Ppi-Rev	DI
KOSTEL	683	616	0,85	937	784	-153	1,8807
SOLČAVA	551	284	1,03	1.196	946	-250	2,4028
OSILNICA	422	269	1,12	837	719	-119	1,6820
HODOŠ	356	218	0,85	790	678	-113	1,5865
DOBROVNIK	1.408	195	0,78	579	538	-42	1,1636
KUZMA	1.751	181	0,96	583	537	-46	1,1713
BOVEC	3.271	162	1,02	796	707	-88	1,5979
RUŠE	7.652	152	0,71	462	498	36	0,9282
GRAD	2.427	151	1,08	613	558	-55	1,2307
GORNJI PETROVCI	2.302	140	1,40	691	613	-78	1,3872
Average – all municipalities	9.603	87	1,09	558	541	-17	1,1200
REČICA OB SAVINJI	2.324	51	1,13	501	492	-9	1,0073
MUTA	3.701	50	1,05	520	501	-20	1,0454
IVANČNA GORICA	14.412	50	1,33	557	536	-21	1,1186
ŠMARTNO PRI LITJI	5.248	49	1,20	611	571	-40	1,2264
POLZELA	5.571	46	1,22	486	496	10	0,9753
PESNICA	7.639	46	1,20	573	536	-37	1,1506
PREBOLD	4.619	46	0,99	486	491	5	0,9752
ŠENČUR	7.989	46	1,31	489	493	4	0,9807
POLJČANE	4.359	45	1,32	526	519	-7	1,0567
ROGAŠOVCI	3.557	44	1,43	564	519	-45	1,1333
stdev		49	0,2	72,0	43,6	32,0	0,14
av	countif_ab	65	108	91	80	106	91
av	countif_be	145	102	119	130	104	119
Urban municipalities, MO	average	96	0,75	442	490	48	0,89
Municipalities < 5000 popul.	average	79	1,01	517	521	4	1,04
Municipalities P > average	average	106	1,13	657	602	-55	1,32
Municipalities C > average	average	82	1,11	557	542	-15	1,12
Municipalities M > average	average	93	1,03	549	533	-15	1,10
Municipalities S > average	average	97	1,07	591	564	-27	1,19

CE – PK6	
≤ 64 €	23% / 49 municipalities
65 € to 109 €	63% / 132 municipalities
≥ 110 €	14% / 31 municipalities
min – average - max	44 € - 87 € - 616 €

Table 23: Limit and average values by municipalities classified according to PK-7 (CIVIL DEFENSE)

in €/per capita	population	PK-7	Ppi/CE	Ppi	Rev	Ppi-Rev	DI
DIVAČA	3.761	39	0,91	608	582	-26	1,2203
HRPELJE-KOZINA	4.084	35	0,94	656	625	-31	1,3175
DORNAVA	2.719	35	0,97	534	505	-29	1,0727
SEŽANA	11.870	34	0,75	520	544	24	1,0431
SOLČAVA	551	32	1,03	1.196	946	-250	2,4028
KOMEN	3.568	29	0,92	575	560	-15	1,1553
NOVO MESTO	34.914	29	0,83	474	514	40	0,9519
CELJE	48.983	29	0,75	426	481	55	0,8552
RIBNICA NA POHORJU	1.279	28	1,07	632	572	-60	1,2689
KRANJ	53.353	28	0,84	433	482	49	0,8703
Average – all municipalities	9.603	11	1,09	558	541	-17	1,1200
DOBROVNIK	1.408	4	0,78	579	538	-42	1,1636
STRAŽA	3.837	4	1,34	490	520	30	0,9836
ŠTORE	4.228	4	1,33	475	480	5	0,9535
RAZKRIŽJE	1.358	4	1,12	522	496	-26	1,0482
POLJČANE	4.359	4	1,32	526	519	-7	1,0567
PESNICA	7.639	3	1,20	573	536	-37	1,1506
IVANČNA GORICA	14.412	3	1,33	557	536	-21	1,1186
PREVALJE	6.651	3	1,03	484	490	6	0,9724
OPLOTNICA	4.000	2	1,25	544	514	-30	1,0934
LENART	7.274	2	0,89	531	523	-8	1,0653
stdev		7	0,2	72,0	43,6	32,0	0,14
av	countif_ab	78	108	91	80	106	91
av	countif_be	132	102	119	130	104	119
Urban municipalities, MO	average	19	0,75	442	490	48	0,89
Municipalities < 5000 popul.	average	10	1,01	517	521	4	1,04
Municipalities P > average	average	13	1,13	657	602	-55	1,32
Municipalities C > average	average	10	1,11	557	542	-15	1,12
Municipalities M > average	average	11	1,03	549	533	-15	1,10
Municipalities S > average	average	13	1,07	591	564	-27	1,19

CE – PK7	
≤ 7 €	41% / 86 municipalities
8 € to 14 €	41% / 86 municipalities
≥ 15 €	18% / 38 municipalities
min – average - max	2 € - 11 € - 39 €

Table 24: Limit and average values by municipalities classified according to PK-8 (INTERNAL AFFAIRS, SECURITY)

in €/per capita	population	PK-8	Ppi/CE	Ppi	Rev	Ppi-Rev	DI
RADENCI	5.447	3	1,06	478	489	11	0,9596
TRZIN	3.716	2	0,85	438	496	58	0,8791
BLED	8.348	2	0,74	495	530	35	0,9938
ZAVRČ	1.520	1	1,29	691	619	-72	1,3870
ŽALEC	20.971	1	0,86	461	476	15	0,9263
HAJDINA	3.795	1	0,92	475	514	40	0,9526
VRHNIKA	14.962	1	0,92	487	509	22	0,9784
ŽIROVNICA	4.308	1	1,20	473	491	18	0,9499
ŠEMPETER-VRTOJBA	6.334	1	0,75	430	490	60	0,8632
APAČE	3.779	1	1,30	555	531	-25	1,1157
Average – all municipalities	9.603	0	1,09	558	541	-17	1,1200
STARŠE	4.208	0	1,14	505	526	21	1,0139
SVETA ANA	2.379	0	1,48	645	577	-68	1,2961
SVETI ANDRAŽ V SG	1.272	0	1,05	566	521	-45	1,1378
ŠKOCJAN	3.248	0	1,22	630	577	-54	1,2653
ŠTORE	4.228	0	1,33	475	480	5	0,9535
TURNIŠČE	3.509	0	1,19	466	461	-6	0,9366
VELIKA POLANA	1.548	0	1,09	516	490	-26	1,0362
VITANJE	2.377	0	1,12	622	566	-56	1,2492
VOJNIK	8.420	0	1,09	530	512	-18	1,0640
VRANSKO	2.546	0	0,98	604	557	-47	1,2113
stdev		0	0,2	72,0	43,6	32,0	0,14
av	countif_ab	77	108	91	80	106	91
av	countif_be	133	102	119	130	104	119
Urban municipalities, MO	average	0	0,75	442	490	48	0,89
Municipalities < 5000 popul.	average	0	1,01	517	521	4	1,04
Municipalities P > average	average	0	1,13	657	602	-55	1,32
Municipalities C > average	average	0	1,11	557	542	-15	1,12
Municipalities M > average	average	0	1,03	549	533	-15	1,10
Municipalities S > average	average	0	1,07	591	564	-27	1,19

CE – PK8	
0 €	87% / 182 municipalities
1 € to 2 €	13% / 28 municipalities
≥ 3 €	0% / 1 municipalities ^a
min – average – max	0 € - 0 € - 3 €

Table 25: Limit and average values by municipalities for PK-10 (LABOUR MARKET)

in €/per capita	population	PK-10	Ppi/CE	Ppi	Rev	Ppi-Rev	DI
HODOŠ	356	95	0,85	790	678	-113	1,5865
KOBILJE	638	60	0,91	604	548	-55	1,2125
RUŠE	7.652	44	0,71	462	498	36	0,9282
ŠALOVCI	1.741	35	1,27	670	602	-68	1,3474
KUZMA	1.751	30	0,96	583	537	-46	1,1713
LOVRENC NA POHORJU	3.235	29	0,98	570	537	-34	1,1451
ČRENŠOVCI	4.411	27	1,13	479	467	-13	0,9629
GRAD	2.427	24	1,08	613	558	-55	1,2307
SELNICA OB DRAVI	4.709	23	0,95	487	490	4	0,9775
BISTRICA OB SOTLI	1.509	20	1,29	761	663	-98	1,5291
Average – all municipalities	9.603	5	1,09	558	541	-17	1,1200
ŠMARTNO OB PAKI	3.087	0	0,79	513	512	-1	1,0295
TRZIN	3.716	0	0,85	438	496	58	0,8791
VELIKE LAŠČE	4.081	0	1,28	657	603	-54	1,3191
VITANJE	2.377	0	1,12	622	566	-56	1,2492
VODICE	4.237	0	0,84	511	534	23	1,0262
VOJNIK	8.420	0	1,09	530	512	-18	1,0640
VUZENICA	2.815	0	0,93	541	529	-12	1,0869
ZAVRČ	1.520	0	1,29	691	619	-72	1,3870
ŽELEZNIKI	6.905	0	1,24	615	572	-43	1,2342
ŽUŽEMBERK	4.660	0	1,36	667	601	-66	1,3403
stdev		10	0,2	72,0	43,6	32,0	0,14
av	countif_ab	57	108	91	80	106	91
av	countif_be	153	102	119	130	104	119
Urban municipalities, MO	average	3	0,75	442	490	48	0,89
Municipalities < 5000 popul.	average	4	1,01	517	521	4	1,04
Municipalities P > average	average	6	1,13	657	602	-55	1,32
Municipalities C > average	average	6	1,11	557	542	-15	1,12
Municipalities M > average	average	7	1,03	549	533	-15	1,10
Municipalities S > average	average	6	1,07	591	564	-27	1,19

CE – PK10	
≤ 3 €	60% / 127 municipalities
4 € to 6 €	17% / 35 municipalities
≥ 7 €	23% / 48 municipalities
min – average - max	0 € - 5 € - 95 €

Table 26: Limit and average values by municipalities for PK-11 (AGRICULTURE)

in €/per capita	population	PK-11	Ppi/CE	Ppi	Rev	Ppi-Rev	DI
SOLČAVA	551	88	1,03	1.196	946	-250	2,4028
ČRNA NA KOROŠKEM	3.610	51	0,80	604	566	-37	1,2125
DORNAVA	2.719	48	0,97	534	505	-29	1,0727
LUČE	1.632	47	1,41	973	796	-177	1,9547
RIBNICA NA POHORJU	1.279	46	1,07	632	572	-60	1,2689
JEZERSKO	709	42	1,28	842	721	-120	1,6909
MISLINJA	4.767	37	1,26	562	530	-33	1,1290
GORNJI GRAD	2.648	37	1,24	669	601	-68	1,3435
BOHINJ	5.320	33	0,71	648	619	-29	1,3016
LJUBNO	2.780	31	1,09	685	609	-77	1,3766
Average – all municipalities	9.603	10	1,09	558	541	-17	1,1200
MURSKA SOBOTA	19.963	1	0,79	432	472	40	0,8675
SVETI TOMAŽ	2.225	1	1,45	642	593	-48	1,2893
HODOŠ	356	1	0,85	790	678	-113	1,5865
TRBOVLJE	17.903	1	0,94	436	471	35	0,8754
ŠTORE	4.228	1	1,33	475	480	5	0,9535
MARIBOR	110.982	1	0,70	416	472	55	0,8365
TRZIN	3.716	1	0,85	438	496	58	0,8791
SVETI ANDRAŽ V SG	1.272	1	1,05	566	521	-45	1,1378
LOG-DRAGOMER	3.479	0	1,14	443	483	39	0,8900
KOSTEL	683	0	0,85	937	784	-153	1,8807
stdev		11	0,2	72,0	43,6	32,0	0,14
av	countif_ab	69	108	91	80	106	91
av	countif_be	141	102	119	130	104	119
Urban municipalities, MO	average	5	0,75	442	490	48	0,89
Municipalities < 5000 popul.	average	8	1,01	517	521	4	1,04
Municipalities P > average	average	18	1,13	657	602	-55	1,32
Municipalities C > average	average	9	1,11	557	542	-15	1,12
Municipalities M > average	average	11	1,03	549	533	-15	1,10
Municipalities S > average	average	13	1,07	591	564	-27	1,19

CE – PK11	
≤ 6 €	44% / 92 municipalities
7 € to 13 €	34% / 72 municipalities
≥ 14 €	22% / 46 municipalities
min – average - max	0 € - 10 € - 88 €

Table 27: Limit and average values by municipalities for PK-12 (ENERGY)

in €/per capita	population	PK-12	Ppi/CE	Ppi	Rev	Ppi-Rev	DI
SOLČAVA	551	78	1,03	1.196	946	-250	2,4028
NAZARJE	2.683	44	0,85	546	540	-6	1,0959
KOBILJE	638	40	0,91	604	548	-55	1,2125
GORNJI GRAD	2.648	14	1,24	669	601	-68	1,3435
NOVO MESTO	34.914	14	0,83	474	514	40	0,9519
CERKNO	5.028	12	1,08	685	618	-67	1,3760
BOHINJ	5.320	10	0,71	648	619	-29	1,3016
DOBRNA	2.140	9	0,84	577	538	-39	1,1579
IG	5.953	9	0,89	520	529	9	1,0440
METLIKA	8.530	9	1,19	488	484	-4	0,9800
Average – all municipalities	9.603	1	1,09	558	541	-17	1,1200
VIDEM	5.653	0	1,35	593	556	-38	1,1917
VITANJE	2.377	0	1,12	622	566	-56	1,2492
VODICE	4.237	0	0,84	511	534	23	1,0262
VOJNIK	8.420	0	1,09	530	512	-18	1,0640
VRHNIKA	14.962	0	0,92	487	509	22	0,9784
VUZENICA	2.815	0	0,93	541	529	-12	1,0869
ZAVRČ	1.520	0	1,29	691	619	-72	1,3870
ŽELEZNIKI	6.905	0	1,24	615	572	-43	1,2342
ŽIROVNICA	4.308	0	1,20	473	491	18	0,9499
ŽUŽEMBERK	4.660	0	1,36	667	601	-66	1,3403
stdev		7	0,2	72,0	43,6	32,0	0,14
av	countif_ab	22	108	91	80	106	91
av	countif_be	188	102	119	130	104	119
Urban municipalities, MO	average	2	0,75	442	490	48	0,89
Municipalities < 5000 popul.	average	1	1,01	517	521	4	1,04
Municipalities P > average	average	3	1,13	657	602	-55	1,32
Municipalities C > average	average	2	1,11	557	542	-15	1,12
Municipalities M > average	average	2	1,03	549	533	-15	1,10
Municipalities S > average	average	2	1,07	591	564	-27	1,19

CE – PK12	
0 €	83% / 174 municipalities
1 € to 6 €	12% / 26 municipalities
≥ 7 €	5% / 10 Municipality
min – average - max	0 € - 1 € - 78 €

Table 28: Limit and average values by municipalities for PK-13 (TRANSPORT INFRASTRUCTURE)

in €/per capita	population	PK-13	Ppi/CE	Ppi	Rev	Ppi-Rev	DI
LUČE	1.632	169	1,41	973	796	-177	1,9547
KRANJSKA GORA	5.504	140	0,73	588	615	27	1,1807
NAZARJE	2.683	137	0,85	546	540	-6	1,0959
ŠOŠTANJ	8.391	133	0,87	543	562	19	1,0895
DOBRNA	2.140	130	0,84	577	538	-39	1,1579
VITANJE	2.377	130	1,12	622	566	-56	1,2492
SOLČAVA	551	128	1,03	1.196	946	-250	2,4028
LJUBLJANA	265.172	125	0,61	416	485	69	0,8352
PUCONCI	6.454	123	0,55	601	557	-44	1,2063
PODČETRTEK	3.443	122	1,09	676	616	-60	1,3578
Average – all municipalities	9.603	60	1,09	558	541	-17	1,1200
KRIŽEVCI	3.589	25	1,46	521	499	-22	1,0472
ROGAŠKA SLATINA	11.236	25	1,17	500	509	8	1,0049
TURNIŠČE	3.509	25	1,19	466	461	-6	0,9366
TIŠINA	4.350	23	1,13	473	464	-9	0,9509
BISTRICA OB SOTLI	1.509	20	1,29	761	663	-98	1,5291
VERŽEJ	1.363	19	1,18	499	489	-10	1,0017
GORIŠNICA	3.970	12	1,42	500	499	-1	1,0039
ODRANCI	1.735	12	1,04	446	444	-1	0,8956
GORNJI PETROVCI	2.302	1	1,40	691	613	-78	1,3872
HODOŠ	356	0	0,85	790	678	-113	1,5865
stdev		26	0,2	72,0	43,6	32,0	0,14
av	countif_ab	93	108	91	80	106	91
av	countif_be	117	102	119	130	104	119
Urban municipalities, MO	average	65	0,75	442	490	48	0,89
Municipalities < 5000 popul.	average	61	1,01	517	521	4	1,04
Municipalities P > average	average	64	1,13	657	602	-55	1,32
Municipalities C > average	average	60	1,11	557	542	-15	1,12
Municipalities M > average	average	62	1,03	549	533	-15	1,10
Municipalities S > average	average	61	1,07	591	564	-27	1,19

CE – PK13	
≤ 44 €	30% / 63 municipalities
45 € to 75 €	49% / 103 Municipality
≥ 76 €	21% / 44 municipalities
min – average - max	0 € - 60 € - 169 €

Table 29: Limit and average values by municipalities for PK-14 (ECONOMY)

in €/per capita	population	PK-14	Ppi/CE	Ppi	Rev	Ppi-Rev	DI
BOVEC	3.271	143	1,02	796	707	-88	1,5979
LJUBNO	2.780	114	1,09	685	609	-77	1,3766
BOHINJ	5.320	84	0,71	648	619	-29	1,3016
KRANJSKA GORA	5.504	83	0,73	588	615	27	1,1807
SOLČAVA	551	69	1,03	1.196	946	-250	2,4028
SVETI JURIJ V SG	2.172	52	1,29	620	577	-43	1,2455
KANAL	6.018	52	0,94	628	596	-32	1,2614
BLED	8.348	51	0,74	495	530	35	0,9938
SVETA TROJICA V SG	2.244	51	1,20	586	556	-30	1,1772
BRDA	5.769	46	0,94	543	529	-14	1,0913
Average – all municipalities	9.603	14	1,09	558	541	-17	1,1200
KIDRIČEVO	6.771	1	1,22	537	536	-1	1,0787
ROGAŠOVCI	3.557	1	1,43	564	519	-45	1,1333
TRNOVSKA VAS	1.315	1	1,13	606	561	-45	1,2159
GORNJI PETROVCI	2.302	1	1,40	691	613	-78	1,3872
DOBJE	1.064	0	1,21	577	533	-44	1,1599
HODOŠ	356	0	0,85	790	678	-113	1,5865
KRIŽEVCI	3.589	0	1,46	521	499	-22	1,0472
PODLEHNIK	1.964	0	1,24	692	613	-79	1,3908
SVETI ANDRAŽ V SG	1.272	0	1,05	566	521	-45	1,1378
ŠTORE	4.228	0	1,33	475	480	5	0,9535
stdev		18	0,2	72,0	43,6	32,0	0,14
av	countif_ab	67	108	91	80	106	91
av	countif_be	143	102	119	130	104	119
Urban municipalities, MO	average	12	0,75	442	490	48	0,89
Municipalities < 5000 popul.	average	14	1,01	517	521	4	1,04
Municipalities P > average	average	22	1,13	657	602	-55	1,32
Municipalities C > average	average	16	1,11	557	542	-15	1,12
Municipalities M > average	average	15	1,03	549	533	-15	1,10
Municipalities S > average	average	20	1,07	591	564	-27	1,19

CE – PK14	
≤ 10 €	60% / 126 municipalities
11 € to 18 €	19% / 40 municipalities
≥ 19 €	21% / 44 municipalities
min – average - max	0 € - 14 € - 143 €

Table 30: Limit and average values by municipalities for PK-15 (ENVIRONMENT)

in €/per capita	population	PK-15	Ppi/CE	Ppi	Rev	Ppi-Rev	DI
PUCONCI	6.454	507	0,55	601	557	-44	1,2063
PTUJ	24.006	100	0,61	440	474	34	0,8840
JEZERSKO	709	96	1,28	842	721	-120	1,6909
BOHINJ	5.320	84	0,71	648	619	-29	1,3016
BLED	8.348	71	0,74	495	530	35	0,9938
KANAL	6.018	63	0,94	628	596	-32	1,2614
LENART	7.274	60	0,89	531	523	-8	1,0653
ČRNA NA KOROŠKEM	3.610	56	0,80	604	566	-37	1,2125
ŽIRI	4.961	56	1,08	541	522	-19	1,0867
LOVRENC NA POHORJU	3.235	55	0,98	570	537	-34	1,1451
Average – all municipalities	9.603	15	1,09	558	541	-17	1,1200
SVETI JURIJ	3.016	0	1,31	595	544	-51	1,1941
OPlotnica	4.000	0	1,25	544	514	-30	1,0934
VIPAVA	5.372	0	1,28	556	540	-16	1,1165
SVETA ANA	2.379	0	1,48	645	577	-68	1,2961
DOBJE	1.064	0	1,21	577	533	-44	1,1599
ROGAŠKA SLATINA	11.236	0	1,17	500	509	8	1,0049
HRASTNIK	10.331	0	0,98	461	485	24	0,9252
GORNJA RADGONA	8.956	0	1,10	538	520	-18	1,0785
KOSTEL	683	0	0,85	937	784	-153	1,8807
VELIKE LAŠČE	4.081	0	1,28	657	603	-54	1,3191
stdev		38	0,2	72,0	43,6	32,0	0,14
av	countif_ab	54	108	91	80	106	91
av	countif_be	156	102	119	130	104	119
Urban municipalities, MO	average	23	0,75	442	490	48	0,89
Municipalities < 5000 popul.	average	19	1,01	517	521	4	1,04
Municipalities P > average	average	17	1,13	657	602	-55	1,32
Municipalities C > average	average	13	1,11	557	542	-15	1,12
Municipalities M > average	average	13	1,03	549	533	-15	1,10
Municipalities S > average	average	20	1,07	591	564	-27	1,19

CE – PK15	
≤ 10 €	66% / 138 municipalities
11 € to 19 €	16% / 33 municipalities
≥ 20 €	18% / 39 municipalities
min – average - max	0 € - 15 € - 507 €

Table 31: Limit and average values by municipalities for PK-16 (SPATIAL DEVELOPMENT, HOUSING)

in €/per capita	population	PK-16	Ppi/CE	Ppi	Rev	Ppi-Rev	D1
PIRAN	17.366	163	0,50	434	502	68	0,8709
ZREČE	6.434	89	0,84	536	530	-6	1,0764
ČRNA NA KOROŠKEM	3.610	74	0,80	604	566	-37	1,2125
RUŠE	7.652	69	0,71	462	498	36	0,9282
LJUBLJANA	265.172	67	0,61	416	485	69	0,8352
KOMENDA	4.805	63	0,77	473	510	37	0,9485
ŠENTJERNEJ	6.826	62	1,11	543	520	-23	1,0912
BOHINJ	5.320	62	0,71	648	619	-29	1,3016
CERKNO	5.028	60	1,08	685	618	-67	1,3760
IG	5.953	60	0,89	520	529	9	1,0440
Average – all municipalities	9.603	26	1,09	558	541	-17	1,1200
SODRAŽICA	2.217	5	1,23	562	529	-33	1,1283
MAKOLE	2.115	5	1,60	653	602	-51	1,3124
CIRKULANE	2.363	5	1,72	642	593	-49	1,2879
SVETI ANDRAŽ V SG	1.272	5	1,05	566	521	-45	1,1378
VERŽEJ	1.363	5	1,18	499	489	-10	1,0017
DESTRNIK	2.704	4	1,14	559	522	-37	1,1232
KRIŽEVCI	3.589	4	1,46	521	499	-22	1,0472
KOSTEL	683	3	0,85	937	784	-153	1,8807
GORIŠNICA	3.970	2	1,42	500	499	-1	1,0039
VELIKA POLANA	1.548	0	1,09	516	490	-26	1,0362
stdev		18	0,2	72,0	43,6	32,0	0,14
av	countif_ab	85	108	91	80	106	91
av	countif_be	125	102	119	130	104	119
Urban municipalities, MO	average	40	0,75	442	490	48	0,89
Municipalities < 5000 popul.	average	31	1,01	517	521	4	1,04
Municipalities P > average	average	26	1,13	657	602	-55	1,32
Municipalities C > average	average	27	1,11	557	542	-15	1,12
Municipalities M > average	average	27	1,03	549	533	-15	1,10
Municipalities S > average	average	29	1,07	591	564	-27	1,19

CE – PK16	
≤ 19 €	41% / 86 municipalities
20 € to 33 €	33% / 69 municipalities
≥ 34 €	26% / 55 municipalities
min – average - max	0 € - 26 € - 163 €

Table 32: Limit and average values by municipalities for PK-17 (MEDICAL SECURITY)

in €/per capita	population	PK-17	Ppi/CE	Ppi	Rev	Ppi-Rev	DI
BISTRICA OB SOTLI	1.509	26	1,29	761	663	-98	1,5291
KUNGOTA	4.819	24	1,13	539	516	-23	1,0828
ROGAŠOVCI	3.557	23	1,43	564	519	-45	1,1333
DOBROVNIK	1.408	21	0,78	579	538	-42	1,1636
HRPELJE-KOZINA	4.084	20	0,94	656	625	-31	1,3175
PODVLEKA	2.719	20	1,39	705	650	-55	1,4157
KOZJE	3.497	19	1,12	652	586	-66	1,3101
PODLEHNIK	1.964	19	1,24	692	613	-79	1,3908
CANKOVA	2.085	19	1,27	534	511	-23	1,0719
LENDAVA	11.563	18	0,96	511	498	-13	1,0255
Average – all municipalities	9.603	10	1,09	558	541	-17	1,1200
RIBNICA	9.341	5	1,15	524	514	-10	1,0527
ŠKOFJA LOKA	22.467	4	1,01	498	522	24	0,9999
ŠENTRUPERT	2.414	4	1,12	654	602	-51	1,3123
MARKOVCI	4.053	4	1,09	477	493	16	0,9574
CERKLJE	6.720	4	1,75	559	556	-3	1,1216
SODRAŽICA	2.217	4	1,23	562	529	-33	1,1283
KOBILJE	638	4	0,91	604	548	-55	1,2125
SVETA TROJICA V SG	2.244	4	1,20	586	556	-30	1,1772
KOSTEL	683	1	0,85	937	784	-153	1,8807
GORNJI PETROVCI	2.302	1	1,40	691	613	-78	1,3872
stdev		4	0,2	72,0	43,6	32,0	0,14
av	countif_ab	89	108	91	80	106	91
av	countif_be	121	102	119	130	104	119
Urban municipalities, MO	average	12	0,75	442	490	48	0,89
Municipalities < 5000 popul.	average	10	1,01	517	521	4	1,04
Municipalities P > average	average	10	1,13	657	602	-55	1,32
Municipalities C > average	average	10	1,11	557	542	-15	1,12
Municipalities M > average	average	10	1,03	549	533	-15	1,10
Municipalities S > average	average	11	1,07	591	564	-27	1,19

CE – PK17	
≤ 6 €	17% / 36 municipalities
7 € to 13 €	62% / 130 municipalities
≥ 14 €	17% / 36 municipalities
min – average - max	1 € - 10 € - 26 €

Table 33: Limit and average values by municipalities for PK-18 (SOCIAL ACTIVITIES AND NGO)

in €/per capita	population	PK-18	Ppi/CE	Ppi	Rev	Ppi-Rev	DI
HODOŠ	356	190	0,85	790	678	-113	1,5865
PIRAN	17.366	129	0,50	434	502	68	0,8709
IZOLA	15.179	118	0,63	428	479	51	0,8589
NOVA GORICA	31.260	108	0,74	465	507	42	0,9346
SEŽANA	11.870	107	0,75	520	544	24	1,0431
BENEDIKT	2.239	98	1,02	587	540	-47	1,1782
LENDAVA	11.563	98	0,96	511	498	-13	1,0255
ČRNA NA KOROŠKEM	3.610	95	0,80	604	566	-37	1,2125
BLED	8.348	94	0,74	495	530	35	0,9938
KRANJSKA GORA	5.504	93	0,73	588	615	27	1,1807
Average – all municipalities	9.603	47	1,09	558	541	-17	1,1200
ŽUŽEMBERK	4.660	19	1,36	667	601	-66	1,3403
SVETI ANDRAŽ V SG	1.272	18	1,05	566	521	-45	1,1378
PREDDVOR	3.242	18	1,31	585	553	-32	1,1740
GRAD	2.427	17	1,08	613	558	-55	1,2307
KUNGOTA	4.819	17	1,13	539	516	-23	1,0828
ROGAŠOVCI	3.557	17	1,43	564	519	-45	1,1333
TURNIŠČE	3.509	16	1,19	466	461	-6	0,9366
GORNJI PETROVCI	2.302	16	1,40	691	613	-78	1,3872
CANKOVA	2.085	14	1,27	534	511	-23	1,0719
LOŠKI POTOK	2.078	12	1,58	729	639	-90	1,4650
stdev		25	0,2	72,0	43,6	32,0	0,14
av	countif_ab	88	108	91	80	106	91
av	countif_be	122	102	119	130	104	119
Urban municipalities, MO	average	81	0,75	442	490	48	0,89
Municipalities < 5000 popul.	average	56	1,01	517	521	4	1,04
Municipalities P > average	average	50	1,13	657	602	-55	1,32
Municipalities C > average	average	46	1,11	557	542	-15	1,12
Municipalities M > average	average	49	1,03	549	533	-15	1,10
Municipalities S > average	average	53	1,07	591	564	-27	1,19

CE – PK18	
≤ 34 €	40% / 84 municipalities
35 € to 59 €	34% / 71 municipalities
≥ 60 €	26% / 55 municipalities
min – average - max	12 € - 47 € - 190 €

Table 34: Limit and average values by municipalities for PK-19 (EDUCATION)

in €/per capita	population	PK-19	Ppi/CE	Ppi	Rev	Ppi-Rev	DI
VODICE	4.237	254	0,84	511	534	23	1,0262
SOLČAVA	551	247	1,03	1.196	946	-250	2,4028
BISTRICA OB SOTLI	1.509	238	1,29	761	663	-98	1,5291
UZENICA	2.815	235	0,93	541	529	-12	1,0869
KOSTEL	683	215	0,85	937	784	-153	1,8807
KAMNIK	27.581	213	0,99	489	507	19	0,9806
TABOR	1.500	213	0,98	586	542	-44	1,1767
ŽUŽEMBERK	4.660	209	1,36	667	601	-66	1,3403
BRASLOVČE	5.178	204	1,11	507	497	-10	1,0182
LOGATEC	12.145	201	1,05	528	530	2	1,0595
Average – all municipalities	9.603	157	1,09	558	541	-17	1,1200
KUZMA	1.751	118	0,96	583	537	-46	1,1713
CIRKULANE	2.363	117	1,72	642	593	-49	1,2879
ROGAŠOVCI	3.557	115	1,43	564	519	-45	1,1333
JURŠINCI	2.385	113	1,48	575	530	-44	1,1544
CERKVENJAK	2.108	111	1,67	604	547	-57	1,2136
ŽETALE	1.427	105	1,56	702	614	-88	1,4093
ŠALOVCI	1.741	93	1,27	670	602	-68	1,3474
ŽIROVNICA	4.308	92	1,20	473	491	18	0,9499
OSILNICA	422	90	1,12	837	719	-119	1,6820
HODOŠ	356	62	0,85	790	678	-113	1,5865
stdev		27	0,2	72,0	43,6	32,0	0,14
av	countif_ab	96	108	91	80	106	91
av	countif_be	114	102	119	130	104	119
Urban municipalities, MO	average	164	0,75	442	490	48	0,89
Municipalities < 5000 popul.	average	160	1,01	517	521	4	1,04
Municipalities P > average	average	162	1,13	657	602	-55	1,32
Municipalities C > average	average	160	1,11	557	542	-15	1,12
Municipalities M > average	average	155	1,03	549	533	-15	1,10
Municipalities S > average	average	158	1,07	591	564	-27	1,19

CE – PK19	
≤ 117 €	4% / 9 municipalities
118 € to 196 €	89% / 187 municipalities
≥ 197 €	7% / 14 municipalities
min – average - max	62 € - 157 € - 254 €

Table 35: Limit and average values by municipalities for PK-20 (SOCIAL WELFARE)

in €/per capita	population	PK-20	Ppi/CE	Ppi	Rev	Ppi-Rev	DI
LJUBNO	2.780	71	1,09	685	609	-77	1,3766
KOSTEL	683	70	0,85	937	784	-153	1,8807
DOBRNA	2.140	65	0,84	577	538	-39	1,1579
PODLEHNIK	1.964	62	1,24	692	613	-79	1,3908
KOBARID	4.439	61	1,03	600	559	-41	1,2058
TRNOVSKA VAS	1.315	60	1,13	606	561	-45	1,2159
OSILNICA	422	54	1,12	837	719	-119	1,6820
GORNJI PETROVCI	2.302	53	1,40	691	613	-78	1,3872
ROGAŠOVCI	3.557	53	1,43	564	519	-45	1,1333
DESTRNIK	2.704	53	1,14	559	522	-37	1,1232
Average – all municipalities	9.603	33	1,09	558	541	-17	1,1200
STARŠE	4.208	17	1,14	505	526	21	1,0139
ŽELEZNIKI	6.905	17	1,24	615	572	-43	1,2342
REČICA OB SAVINJI	2.324	17	1,13	501	492	-9	1,0073
ODRANCI	1.735	15	1,04	446	444	-1	0,8956
HAJDINA	3.795	14	0,92	475	514	40	0,9526
ŽIROVNICA	4.308	13	1,20	473	491	18	0,9499
MIREN-KOSTANJEVICA	4.831	13	1,04	497	495	-2	0,9987
LOG-DRAGOMER	3.479	13	1,14	443	483	39	0,8900
HORJUL	2.719	10	1,41	542	522	-21	1,0890
POLZELA	5.571	9	1,22	486	496	10	0,9753
stdev		11	0,2	72,0	43,6	32,0	0,14
av	countif_ab	93	108	91	80	106	91
av	countif_be	117	102	119	130	104	119
Urban municipalities, MO	average	34	0,75	442	490	48	0,89
Municipalities < 5000 popul.	average	32	1,01	517	521	4	1,04
Municipalities P > average	average	37	1,13	657	602	-55	1,32
Municipalities C > average	average	32	1,11	557	542	-15	1,12
Municipalities M > average	average	33	1,03	549	533	-15	1,10
Municipalities S > average	average	36	1,07	591	564	-27	1,19

CE – PK20	
≤ 24 €	21% / 44 municipalities
25 € to 41 €	59% / 124 municipalities
≥ 42 €	20% / 41 municipalities
min – average - max	9 € - 33 € - 71 €

Table 36: Limit and average values by municipalities for PK-22 (PUBLIC DEBT REPAYMENT)

in €/per capita	population	PK-22	Ppi/CE	Ppi	Rev	Ppi-Rev	DI
DOBROVNIK	1.408	54	0,78	579	538	-42	1,1636
ŽETALE	1.427	38	1,56	702	614	-88	1,4093
KOSTEL	683	35	0,85	937	784	-153	1,8807
GORNJI PETROVCI	2.302	31	1,40	691	613	-78	1,3872
BENEDIKT	2.239	25	1,02	587	540	-47	1,1782
HODOŠ	356	25	0,85	790	678	-113	1,5865
GRAD	2.427	20	1,08	613	558	-55	1,2307
MAJŠPERK	4.179	18	1,40	629	567	-61	1,2624
PODLEHNIK	1.964	17	1,24	692	613	-79	1,3908
KOMENDA	4.805	16	0,77	473	510	37	0,9485
Average – all municipalities	9.603	4	1,09	558	541	-17	1,1200
STRAŽA	3.837	0	1,34	490	520	30	0,9836
SVETI JURIJ	3.016	0	1,31	595	544	-51	1,1941
ŠENČUR	7.989	0	1,31	489	493	4	0,9807
ŠKOFLJICA	7.949	0	1,06	474	499	25	0,9507
ŠMARJEŠKE TOPLICE	3.053	0	1,20	566	573	7	1,1349
TRŽIČ	15.497	0	0,99	471	480	9	0,9461
VITANJE	2.377	0	1,12	622	566	-56	1,2492
VODICE	4.237	0	0,84	511	534	23	1,0262
VRHNIKA	14.962	0	0,92	487	509	22	0,9784
ŽIROVNICA	4.308	0	1,20	473	491	18	0,9499
stdev		7	0,2	72,0	43,6	32,0	0,14
av	countif_ab	67	108	91	80	106	91
av	countif_be	143	102	119	130	104	119
Urban municipalities, MO	average	3	0,75	442	490	48	0,89
Municipalities < 5000 popul.	average	3	1,01	517	521	4	1,04
Municipalities P > average	average	7	1,13	657	602	-55	1,32
Municipalities C > average	average	4	1,11	557	542	-15	1,12
Municipalities M > average	average	5	1,03	549	533	-15	1,10
Municipalities S > average	average	5	1,07	591	564	-27	1,19

CE – PK22	
≤ 2 €	48% / 102 Municipality
3 € to 5 €	25% / 53 municipalities
≥ 6 €	26% / 55 municipalities
min – average - max	0 € - 4 € - 54 €

Table 37: Limit and average values by municipalities for PK-23 (INTERVENTION AFFAIRS)

in €/per capita	population	PK-23	Ppi/CE	Ppi	Rev	Ppi-Rev	DI
TRNOVSKA VAS	1.315	79	1,13	606	561	-45	1,2159
VRANSKO	2.546	79	0,98	604	557	-47	1,2113
ŠMARTNO OB PAKI	3.087	78	0,79	513	512	-1	1,0295
ŽELEZNIKI	6.905	71	1,24	615	572	-43	1,2342
BOVEC	3.271	65	1,02	796	707	-88	1,5979
BOHINJ	5.320	52	0,71	648	619	-29	1,3016
CERKNO	5.028	52	1,08	685	618	-67	1,3760
GORNJI GRAD	2.648	50	1,24	669	601	-68	1,3435
SEVNICA	17.760	49	1,07	594	551	-43	1,1935
KRŠKO	26.176	44	0,82	551	546	-5	1,1066
Average – all municipalities	9.603	9	1,09	558	541	-17	1,1200
GRAD	2.427	0	1,08	613	558	-55	1,2307
PIVKA	5.989	0	0,97	583	572	-11	1,1706
LUKOVICA	5.167	0	1,10	569	559	-10	1,1427
ŠENTJERNEJ	6.826	0	1,11	543	520	-23	1,0912
DIVAČA	3.761	0	0,91	608	582	-26	1,2203
GORIŠNICA	3.970	0	1,42	500	499	-1	1,0039
HODOŠ	356	0	0,85	790	678	-113	1,5865
KOBILJE	638	0	0,91	604	548	-55	1,2125
ŠENTRUPERT	2.414	0	1,12	654	602	-51	1,3123
VELIKA POLANA	1.548	0	1,09	516	490	-26	1,0362
stdev		14	0,2	72,0	43,6	32,0	0,14
av	countif_ab	59	108	91	80	106	91
av	countif_be	151	102	119	130	104	119
Urban municipalities, MO	average	6	0,75	442	490	48	0,89
Municipalities < 5000 popul.	average	8	1,01	517	521	4	1,04
Municipalities P > average	average	11	1,13	657	602	-55	1,32
Municipalities C > average	average	10	1,11	557	542	-15	1,12
Municipalities M > average	average	9	1,03	549	533	-15	1,10
Municipalities S > average	average	9	1,07	591	564	-27	1,19

CE – PK23	
≤ 6 €	64% / 134 municipalities
7 € to 11 €	13% / 27 municipalities
≥ 12 €	23% / 49 municipalities
min – average - max	0 € - 9 € - 79 €

Conclusion

The purpose of the analysis was to examine the compliance of the local self-government finance system in Slovenia with certain underlying principles of the decentralisation theory and guidelines of the European Charter of Local Self-government (MELLS), whereby focus is placed primarily on the coverage of costs incurred with the performance municipal tasks as provided by the law, their structure and degree of correlation between the funds allocated via the mechanism used to calculate eligible expenditure and the costs reported by municipalities. Based on the stated, we wish to find to what extent the applicable finance system satisfies the principle of the proportionality of resources to tasks, as one of the underlying principles of local self-government. Hence, the aim is to find an answer to the question whether and to what extent the amount of financial means acquired through the eligible expenditure formula matches the actual costs incurred by municipalities due to the performance of their tasks and powers. The financing of local self-government in Slovenia is regulated by the Financing of Municipalities Act (ZFO-1), which primarily governs the financing of the fundamental tasks within municipal competence and, at the same time, lays down the rules of borrowing and co-financing investments. In light of the theory, the coverage of local self-government financial needs should be based primarily on the principle of the proportionality of resources to tasks and on the principle of autonomy. The fundamental indicators of the (non-)achievement of the stated principles are the volume of financial resources specified by the law and allocated to individual municipalities based on the eligible expenditure calculation, and the expenses (costs) reported by municipalities and, most of all, their mutual relationship as an indicator of the (in)sufficiency of sources with respect to the load. Within this frame, there is also the so-called mechanism of financial equalisation, which is provided by the law and used by the State to provide missing funds to municipalities that are unable to cover the volume of eligible expenditure assigned from their own resources. An analysis of the data for the period between 2002 and 2011 reveals that only a few municipalities managed to cover the volume of eligible expenditure as specified by the law from own revenues prior to 2007 or before the adoption of the currently applicable legislation. There were only around 10% of such municipalities between 2002 and 2006. Since the enforcement of legislative changes in 2007, the situation has improved, as only around 50% of the 210 municipalities received funds from the financial equalisation mechanism, whereby the total scope of these funds never exceeded 1% of the total volume of eligible expenditure. Not to be neglected is the fact that the remaining 50% of municipalities recorded surpluses amounting to €83 million in the same period, which they were able to direct into development and investments. In 2008, the situation was similar, which is why this period can be considered as a sort of a sample case of taking into account the underlying principles of local self-government, where there should be a high correlation

between decentralised units' own revenues and the needs for financing legally assigned tasks. Despite that, such correlation existed on aggregate level only.

There was less correlation on the level of individual municipalities, with 30 municipalities (in 2007) and 47 municipalities (in 2008) reporting higher expenses by 10 to 50% than "permitted" by the eligible expenditure formula, while 87 municipalities (in 2007) and 44 municipalities (in 2008) reported lower expenses by 20 to 100% than those provided by eligible expenditure. Despite a promising start, we are again witnessing an impaired level of municipal self-sufficiency. In 2009, there was a sudden turnover, when only 19 municipalities reported revenues in surplus of eligible expenditure, amounting to €12 million, while 191 municipalities required financial equalisation payments totalling at €55 million. For this reason, the percentage of self-sufficient municipalities fell to the level recorded prior to 2007, whereby it is encouraging to know that the volume of equalisation payments did not achieve the old levels. On the other hand, the increase in the volume of eligible expenditure was implicitly, via the calculated lump sum, also affected by the actual costs reported by municipalities, which increased by 21% in the 2007-2011 period. The stated anomalies are one of the fundamental reasons to re-examine the system. In light of the above, it would no doubt be easier if the State covered all costs to an individual municipality directly, thus ensuring a complete correlation between resources and costs; however, the reason for its inappropriateness lies in the results of such actions. That is to say, it would lead to a violation of the principles of autonomy and self-sufficiency and a real risk that costs would over time cease to reflect the actual needs, but grow in line with the power of an individual municipality seeking to provide the maximum possible volume of funds for its operations and accordingly "adjust" its spending. Furthermore, such method would poorly reflect certain differences that in fact arise between municipalities due to their diversity and positions held. Analyses have shown that 210 Slovenian municipalities are far from being "standardised" to the point of having the same needs with respect to otherwise the same tasks and powers. This is in the first place shown by the breakdown of municipalities with respect to their demographic and geographic characteristics, which also otherwise provide the basis for the calculation of eligible expenditure and are directly related to their costs; however, it remains to be answered how and to what extent the system should take this into account.

An analysis of aggregate values of eligible expenditure and costs by municipalities.

To get some answers to all questions raised above, an analysis of aggregate indicators of the finance system was performed first, i.e. the analysis of average eligible expenditure and costs reported. The latter reveals that Slovenian municipalities spent €1.11 billion on average for the performance of statutory tasks between 2007 and 2011, whereby the amount was slightly lower in 2007 (€0.99 billion) and slightly higher in 2008 and 2010 (€1.12 and €1.21 billion). Measured per capita, this means an average of €527, with €496 in 2007, €531 in 2008 and €580 per capita in 2011. Naturally, the average per capita value is merely an orientation value of actual expenditure, with expenditure ranging between min. €232 per capita (in Straža municipality in 2007) and €1,442 per capita (in Solčava municipality in 2011). In the reference period, 83 municipalities (40% of all) had per capita expenditure above average, while the remaining 60% of municipalities were below average. The standard deviation amounted to €88, with the lowest value of the period recorded by municipality Cerklje (€319), while a fifth of

municipalities deviated downward in per capita expenditure more than the standard deviation and never exceeded €439 per capita.

In this period, urban municipalities recorded €594 per capita costs on average, which implies a higher average load on a Slovenian municipality by 13% or €67. The span between the highest and lowest expenditure in urban municipalities ranged between €514 per capita in MO Kranj and €719 in MO Ptuj. The analysis of average values of other selected groups of municipalities reveals that the most homogeneous distribution around the average includes municipalities with around 5,000 residents, while the largest deviations were recorded in municipalities with large surface areas, where an average of €597 per capita costs were recorded (13% above the average). Slightly above the average as regards per capita cost load is also the group of municipalities with an above-average share of the elderly (9% above the average), while a statistically significant deviation in groups with an above-average share of the road network or the share of young people cannot be detected. Nevertheless, any early conclusions as to any required interventions in the system are questionable. To provide a comprehensive answer to the question of the adequacy of the existing finance system, it is necessary to cross-reference at least two more indicators, i.e. the volume of the eligible expenditure allocated and the ratio between eligible expenditure and the costs reported by municipalities. By looking at the per capita eligible expenditure trend, one might find that municipalities were allocated €558 per capita on average between 2007 and 2011 via the Ppi calculation mechanism, whereby municipalities received different amounts of per capita funds due to the ponders taking into account demographic and geographic differences between municipalities. The span between the municipality with the smallest amount of allocated funds and the one with the highest allocated funds amounted to as much as €780. For example, Solčava municipality was allocated €1,196 per capita on average, municipality Luče received €973, while some municipalities, particularly urban ones, such as Ljubljana, Celje, Velenje and Maribor, were allocated less than €426 per capita or €132 below average. The standard deviation from the average amounted to €72, whereby 91 municipalities were allocated more-than-the-average amount of funds and 119 municipalities received less. An analysis of deviations shows that the homogeneity between municipalities as per the eligible expenditure indicator slightly exceeds that of the cost load indicator (amounting to 83% in the $\pm 25\%$ range from the average), since about half are ranked within the $\pm 10\%$ range and 93% of municipalities within the $\pm 25\%$ range. Despite that, statistically typical deviations are also detected within the scope of this indicator and are largely the result of the index and ponders used to correct the criteria within the frame of the formula used to calculate eligible expenditure. It has been found that 10 municipalities ranked in the top part of the assessed eligible expenditure list has an ponder index substantially above the average (over 1.46, the average being 1.12), which as a result brings them a larger volume of allocated eligible expenditure. On the other hand, the 10 municipalities found in the bottom part of the list (most urban municipalities) feature index values under 0.87. Accordingly, the volume of eligible expenditure, which amounts to merely €442 per capita on average, is 26% lower than the average. By analysing the average values of groups of municipalities with respect to their other features, a statistically typical deviation can only be perceived in municipalities with a surface area exceeding the average surface area per capita (over 1.8), which are on average allocated around €657 per capita, i.e. 18% more than the average. Such municipalities are Solčava

(surface area index of 18.6 and eligible expenditure of €1,196), Bovec, Jezersko and so on. As seen, the image of any anomalies within the existing system becomes clearer; however a third indicator should be added to the joint analysis, i.e. the ratio between eligible expenditure and costs in municipalities. The latter reveals the manner in which eligible expenditure met the actual costs reported by municipalities. It is found that the coverage of the actual costs from the volume of eligible expenditure in the period analysed amounted to 1.09 on average, meaning that, cumulatively speaking, municipalities received sufficient funds to cover their liabilities, i.e. on average around 9% more funds than were the actual expenses. The range between the municipality with the lowest cost coverage from eligible expenditure and the one with the highest level of cost coverage from eligible expenditure spanned between 0.50 (Piran) and 1.75 (Cerklje). As a result, it may be found that several minor municipalities, such as Cirkulane, Cerkvenjak, Makole, Loški potok, etc, received a much larger volume of eligible expenditure than were the actual expenses reported. In the above-mentioned municipalities, the coverage index exceeded 1.45, meaning that these municipalities received on average 45% more funds in the last three years than they reported current expenses. It may be concluded that municipalities redirected their surplus amounts into investments; in any case, they had no financial problems. On the other hand, the picture was just the opposite in 68 municipalities that can be found below average or even below the value of the coverage indicator of 1.00, meaning that the volume of allocated funds set by calculation failed to cover the costs reported. This part of the list includes all urban municipalities (coverage between 0.61 and 0.89), while merely around 41% of municipalities covered more or less accurately the costs reported from the eligible expenditure allocated, which shows certain deviations in the adequacy of the finance system.

Analysis of the reported cost structure. Before making any conclusions and assessing the compliance of the current Slovenian municipal finance system with the underlying guidelines and principles of local self-government funding, let us take a look at the analysis of the reported cost structure, which is vital for understanding the issue along with an analysis of aggregate indicators. Since 2006, municipal expenses have been monitored by the so-called programme classification, which breaks down the municipal budget programme into 21 principal areas. The analysis shows that municipalities spent over 80% of the €527 average reported current expenses per capita stated above within the scope of only seven largest programme groups in the reference period, whereby the most, almost a third, was spent within the frame of PK19 (education), i.e. €157 on average, followed by PK6 (local self-government) with 16.6% or €87 per capita, PK13 (traffic) with an average of €60, PK18 (social activities) with 8.9% and €47 per capita, PK20 (social security) with 6.3% and €33, PK16 (spatial planning and municipal utility services) with 5% and €26 and PK01 (political system) with 3.9% or €21 of average per capita expenditure in a municipality. The remaining 15 programme groups together accounted for less than 20% and individually for less than 3% of the total current expenses of municipalities. Unlike aggregate values, a detailed cost analysis by structure indicates a fairly large non-homogeneity of municipalities, meaning that most units examined cannot be found within the $\pm 25\%$ range of the average values; however, a higher degree of homogeneity can be found within the scope of certain largest programme groups, such as PK education (89% homogeneity), local self-government (63%), social security (59%), and partly in traffic (49% degree of

homogeneity). The large inequality of average expenses across municipalities raises doubts as to whether the understanding of an individual programme group is adequate, since per unit costs should not deviate significantly from the value set. Furthermore, it has been noticed that, like within the scope of the aggregate analysis, substantial deviations from the average could be detected in certain groups of municipalities. As already detected within the scope of the aggregate analysis, urban municipalities report total costs exceeding the average value by 13% on average, whereby the costs of social activities, PK18, stand out the most, reaching 70% above the average, and costs under PK16 (spatial planning, housing development and municipality utility affairs), which are 50% above the average. A minor deviation upward is shown in the costs of local self-government and traffic, +9%, while, interestingly, the costs of political system show a deviation below the average by up to 50%. As deriving from the aggregate analysis, cumulatively higher average costs are also reported by the group of municipalities with a large surface area (+13%), although these municipalities are not financially weak, since they receive 18% higher revenues from eligible expenditure than other municipalities. Within the frame of the cost structure analysis, these municipalities report higher costs for political system exceeding the average by 27%, for local self-government by 21% and for social security by 12%. A group of municipalities that can be said to show a statically typical deviation from the average is also the group with a high share of the elderly, which reports aggregately higher costs by 9% on average, whereby the costs of social activities stand out the most, with respect to the structural analysis, i.e. by 14%, the costs of system operations and slightly higher costs in spatial planning, housing development and municipal utility services and social security (+9% on average). Other groups of municipalities do not show statistically significant deviations on aggregate level; however, groups of municipalities that are "the most adequately" adapted to the average bill of costs are municipalities with a high share of roads and young people, both on aggregate level as well as according to the structural analysis.

Summary findings and conclusions. In light of the results obtained from the analysis of the system used for financing Slovenian municipalities and a cross-synthesis of the results, several key findings and conclusions concerning the compliance of the current system can be made. Firstly, aggregately speaking, Slovenian municipalities received adequate financial support in the reference period for the needs reported, with average per capita costs falling behind the respective sources arising from the legally specified eligible expenditure by around 9%. The share of municipalities within the $\pm 25\%$ range of the average according to aggregate indicators was mostly high, i.e. 83% in the reported cost indicator and 93% in the eligible expenditure indicator. Despite the seemingly compliant ratio between the reported needs and allocated sources, larger anomalies in the system are detected through a detailed analysis of individually selected groups of municipalities and, most of all, through the structural analysis of the finance system. The first signal indicating possible anomalies in the system that can already be detected on aggregate level is a relatively large span between the lowest and highest values of individual categories examined. Hence, the range between the lowest and highest value of the reported average costs by municipalities spans between €319 and €1,167 per capita (the average being €527) and between €416 and €1,196 (the average being €558) in the volume of the eligible expenditure allocated. In the index of cost coverage from sources, this span ranges between 0.50 and 1.75 (the average being 1.09).

Despite the fact that less than 15% of municipalities is ranked in such "borderline" categories, the sustainability of the entire financing system is significantly impaired due to the perceived interaction effect and, consequently, the multiplication of the problematic aspects of the system, where certain municipalities with high average costs are at the same time entitled to a relatively small volume of eligible expenditure. The latter is clearly shown in the case when an analysis of the above-mentioned indicators is performed for certain groups of municipalities selected according to their properties, e.g. urban municipalities, municipalities with a large surface area, etc. Such analysis showed substantial differences between individual groups of municipalities. For instance, urban municipalities reported 13% higher costs on average upon a 26% lower value of the eligible expenditure allocated. This consequently impairs the cumulative position of urban municipalities, which, however, cannot be noticed by observing the system as a whole. Similar cross-multiplied deviations were also noticed in the group of municipalities with a relatively large surface area, but in a somewhat different direction, since the latter received around 18% more funds arising from eligible expenditure for 13% higher reported costs. Other examined groups revealed minor cross-multiplied deviations, though not negligible (e.g. in the group of municipalities with a relatively high share of the elderly within the total population), particularly if linked with the analysis of the reported cost structure. The latter reveals that municipalities incurred over 80% of their costs within only seven programme groups, with education, system operations, traffic, social activities, social security, spatial planning and utility services standing out. Unlike previous indicators, the structural analysis shows increased non-homogeneity, which raises doubts as to whether the understanding of an individual programme group is adequate. Furthermore, the structural analysis confirms the substantial statistical deviations from the average, as were detected within the frame of the aggregate analysis. Within this scope, the urban municipalities reporting much higher costs in social activities and spatial planning, housing development and municipal utility affairs again deviate, while minor deviations upward are also noticed in local self-government and traffic. Furthermore, higher average costs are also reported by the group of municipalities with a large surface area in the field of system operations and social security. A group of municipalities that can also be said to show a statistically significant deviation from the average is the group with a high share of the elderly, where the costs of social activities, system operations and social security stand out the most, while other groups of municipalities revealed no statistically significant deviations on aggregate level. Finally, the findings of the analysis of changes in the categories examined in the reference period show that the costs reported increased by 25.9% on average in the last 3-year period, while the volume of the eligible expenditure allocated per municipality increased by 15.3%, hence falling behind the increase in municipal expenditure by good 10 percentage points. Everything stated shows that the existing system used for financing municipalities does not show excessive non-compliance with the underlying principles and the theory of fiscal decentralism on aggregate level; however, a detailed analysis reveals certain lesions within the system that cannot be sustained in the long term and are in need of certain corrections, primarily in certain selected groups of municipalities, the pondered used in the eligible expenditure formula and a more uniform cost structure.

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