

# Planning for Shrinkage? Battle Between the Slovenian State and the Municipalities<sup>1</sup>



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Slovenia is one of the most centralized countries in the European Union with a one-tier local government system. While the country ratified the European Charter on Local Government in 1996, the charter was never fully implemented – for example, the subsidiarity and connexity principles are still lacking full implementation and regions have not yet been established. This is the reason why the relations between the state on the one side and municipalities on the other have slowly deteriorated, especially over questions of local funding and the existence of small municipalities.

Every year we witness unpleasant (and certainly unfriendly) negotiations between the municipalities and state government over the funding, as the government unilaterally provides less money to municipalities as is guaranteed by the law. Furthermore, the government is quietly trying to force municipalities into consolidation. Both actions lead into even stronger centralization.

Time and again we read about the intentions of the Slovenian state to reduce the municipal financing, which in the system of local government ensures sufficient financing to the minimal legal framework of municipal mandatory tasks. At the same time, there are (sometimes hostile) calls for the total abolition or at least compulsory consolidation

<sup>1</sup> The article is based on the materials and texts published in the following publications: Kukovič, S., Haček, M. and A. Bukovnik (2016) "The Issue of Local Autonomy in the Slovenian Local Government System", [in:] *Lex Localis*, 14(3), pp. 303–320; Kukovič, S. and M. Haček (2018) "Cross-Border Cooperation as a Tool of Escaping Crisis Conditions in Slovenia", [in:] *Transylvanian Review of Administrative Sciences*, 53(E), pp. 54–66; Haček, M., Kukovič, S. and M. Brezovšek (2017) *Slovenian Politics and the State*. Lanham, Boulder, New York, London: Lexington Books; Haček, M. and S. Kukovič (2014) "Financiranje občin: bitka med državo in občinami", [in:] *Delo*, December, 26. Available [online]: <https://www.delo.si/mnenja/gostujoce-pero/financiranje-obcin-bitka-med-drzavo-in-obcinami.html>.

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of municipalities, with the main argument of saving substantial public funds, solve the financial problems of the state and contribute to the greater financial autonomy of the large municipalities, which would be formed with such an action.

There are so many inaccuracies, distorted truths, half-truths, and misrepresentations here that it is very hard, if not impossible, to believe how much the state's attitude towards local government has changed in the twenty years since the (re)establishment of the local government system in 1994. Since then, the issue of municipal financing has been one of the key factors in the functioning of local democracy.

In the Slovenian local government system, the municipality is defined as a basic local community, which independently regulates all local public affairs and independently disposes of its assets. The Slovenian state has – probably in the eagerness of the reintroduction of local government – ratified the European Charter of Local Self-Government (MELLS)<sup>2</sup> in 1996, which has the status of an above-constitu-

<sup>2</sup> European Charter on Local Self-Government (1985) Available [online]: <https://rm.coe.int/168007a088>.

tional document in the legal order, and which defines the basic principles of local government regulation in Europe.

Although the state has (deliberately) forgotten about the ratified charter, MELLs nevertheless clearly requires that:

- a) the local communities have adequate and autonomous financial resources, with which they should freely dispose;
- b) the financial resources of local communities must be in proportion to their tasks and competences;
- c) at least a part of the financial resources must originate from autonomous taxes and fees, which local communities should determine themselves;
- d) the financial resources of the local communities are sufficiently diverse and adaptable to follow – as closely as possible – the costs of carrying out the entrusted tasks;
- e) the state needs to consult local communities about the allocation of redistributed financial resources;
- f) the funds allocated by the state to local communities as subsidies and grants are not strictly dedicated, and;
- g) the provision of such funds should not interfere with the fundamental freedom of local communities to freely decide within their own competences.

A quick overview of the above-mentioned elements of MELLs tells us that the Slovenian government and its ministries do not take MELLs into serious consideration and sometimes seem not even to realize what is written in MELLs.

Half of Slovenian municipalities have fewer than 5,000 inhabitants, which was, however, not in line with the 1994 legislative criterion for the establishment of a new municipality<sup>3</sup>. But the National Assembly intentionally

<sup>3</sup> The requirement was in the subsequent years ignored by the legislator.

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THE AVERAGE SLOVENIAN MUNICIPALITY (9,700 INHABITANTS) IS STILL RELATIVELY LARGE IN TERMS OF INHABITANTS AS THE AVERAGE MUNICIPALITY IN THE EU HAS ONLY 5,500 INHABITANTS, WHILE MANY COUNTRIES HAVE EVEN SMALLER MUNICIPALITIES

did not follow this criterion. The fact is that new (small) municipalities could not self-establish or even propose their own establishment, as in this process active participation of members of parliament was always required. Accusing municipalities today for being small and weak is therefore not only unfair, but also hugely misleading.

Nevertheless, the average Slovenian municipality (9,700 inhabitants) is still relatively large in terms of inhabitants as the average municipality in the EU has only 5,500 inhabitants, while many countries have even smaller municipalities. German municipalities, which are often proclaimed as an ideal of modern European regulation, have on average only 8,000 inhabitants. The problem,



therefore, is not “smallness” itself, but rather an unimaginative and failed system of division of competences between the state on one side and the municipality on the other. Another issue is that of the absence of a regional government and a completely inadequate system of municipal financing, where municipalities do not have their own financial resources to make decisions autonomously.

The purpose of this article is to address some on-going issues in the Slovenian local government system and to highlight *problematic*, which obstruct the development of Slovenian municipalities and their performance.

#### LET'S START AT THE BEGINNING: THE BACKGROUND

On the territory of what is now Slovenia, local government was already introduced in the mid-1800s by the Austrian provisional act on municipalities signed by the then Kaiser in 1849. The first municipal representative bodies in Carniola were elected in 1850. Sixteen years later, a provincial act on municipalities was adopted and from then on, legislative regulation of local government was being performed continuously until 1955, when the introduction of a socialist communal system occurred, which *de facto* abolished local government. In the communal system, the municipality was a so-called socio-political community that primarily acted in the name of state, whereas local government proper was in part taking place only in local communities at the sub-municipal level.

After gaining independence in 1991, Slovenia had to re-define and establish a system of local government, which was significantly different to the earlier communal organization. The introduction of local government was one of the most important and difficult tasks in the new country, as it was a radical

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change within the then self-governing communal organization in a direction of “classical local government” of a European type.

The first steps were preparations for the technical groundwork for the project of local government, which had already been prepared in 1989 (before formally regaining independence by Slovenia) for the adoption of the new Slovenian Constitution with a significant emphasis on local government at the end of 1991, and the adoption of the framework law on local government on December 21, 1993. Constructing foundations for the implementation of the reform of local government were set with the adoption of the Act of Referendum for the Establishment of Municipalities in 1994. Referendums were carried out on May 29, 1994, except in the municipality of Koper, where the referendum was conducted on September 11, 1994. The results were very difficult, almost impossible

to fully take into account, as voters voted in favor of the establishment of new municipalities in only 111 referendum areas (out of 339). Since the nature of the referendums were merely advisory, the National Assembly of the Republic of Slovenia opted for “loose” compliance with the election results and adopted the Act on the Establishment of Municipalities on October 3, 1994, in which 147 municipalities were established, including 11 urban municipalities<sup>4</sup>.

From this point of view, local government in Slovenia has been in operation since January 1995, when territorially modified municipalities – having new substance and new bodies – became operational. In the years following the re-introduction of local government, many changes have occurred, especially in the legislative domain.

A 1994 decision was widely criticized, reaching its pinnacle when the local communities made considerable initiatives on the Constitutional Court of the Republic of Slovenia to assess the constitutionality of the Act on Establishment of Municipalities. The Constitutional Court ruled that the legal articles that determine which municipalities were established are not in accordance with the Constitution and that the National Assembly must abolish the non-compliance not later than six months before calling the next elections for municipal councils in 1998.

In 1996, a law of the procedure for the establishment of municipalities and determination of their areas was passed. The actual implementation of the law in 1998 – when it was first used for the restoration of the consti-

<sup>4</sup> Haček, M. (2005) “Zgodovinski kontekst nastajanja občin na slovenskem”, [in:] Brezovšek, M. and M. Haček (eds.), *Lokalna demokracija II: Uresničevanje lokalne samouprave v Sloveniji*. Ljubljana: Faculty of Social Sciences. See also Brezovšek, M. and S. Kukovič (2012) *Organizacija lokalne oblasti v Sloveniji*. Ljubljana: Faculty of Social Sciences, p. 113.

tutional decision declared unconstitutional of the entire first network of Slovenian municipalities – proved to be unsuccessful. The network should have been consistent with the Constitution and with the provisions of the Act on Local Government. Instead,

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there were 45 new municipalities additionally established, among them many that failed to meet the statutory requirements, either not having enough inhabitants or lacking some of the mandatory public services.

In February 2002, the National Assembly discussed another 31 proposals for the establishment of municipalities, but eventually came to the decision that only one municipality should be established this time<sup>5</sup>.

In January 2006, referendums were held where residents of respective areas voted on the creation of new municipalities. On March 1, 2006, the National Assembly approved the referendums and new municipalities, increasing the number of municipalities in Slovenia to 205. On May 4, 2006, the Government of the Republic of Slovenia sent a proposal on the establishment of five

<sup>5</sup> Haček, M. (2005) “Zgodovinski kontekst nastajanja občin na slovenskem”, [in:] Brezovšek, M. and M. Haček (eds.), *Lokalna demokracija II: Uresničevanje lokalne samouprave v Sloveniji*. Ljubljana: Faculty of Social Sciences.



new municipalities to the National Assembly, thus the number of municipalities further increased to 210<sup>6</sup>.

In February 2011, the number of municipalities changed for the last time to the current number of municipalities (212). However, local government reform is far from being concluded, which is made evident by numerous comparisons of Slovenian arrangement and those abroad and this becomes especially visible in encounters of Slovenian institutional setup and practices with European standards of local and regional democracy enshrined in MELLs, in the tendencies, directions, and recommendations made by the Council of Europe and the European Union. An opportunity to establish new municipalities emerges only once per term, i.e. in last 12 months prior to local elections<sup>7</sup>.

As the entire system of local government was introduced very quickly, often without serious consideration of expert opinions, and as the area was new and relatively unknown, certain issues have arisen and remain unsolved still today.

### THE BATTLE BETWEEN MUNICIPALITIES AND THE STATE

The general provisions of the Constitution of the Republic of Slovenia<sup>8</sup> (Article 9) guarantee local government to all citizens. Hence, the local government has become a constitutional category. The constitutional provisions for local government are general because detailed regulations are provided by the law.

<sup>6</sup> Brezovšek, M. and S. Kukovič (2012) *Organizacija lokalne oblasti v Sloveniji*. Ljubljana: Faculty of Social Sciences, p. 113-114.

<sup>7</sup> To find out more about structural aspects of local government reforms see Kukovic, S. and M. Brezovšek (2016) "From Parliamentarisation Towards Presidentialisation: Institutional Aspects of Local Political Leadership in Slovenia", [in:] *World Political Science*, 12(1), pp. 69–85.

<sup>8</sup> *Constitution of the Republic of Slovenia* (1991) Official Gazette of Republic of Slovenia, no. 33-1409 / 91-I.

Local governments mainly implement the policies made at a higher level instead of creating their own policies<sup>9</sup>. The result is an unequal division of competences between state and local governments. The regulations of local governments do not provide much room to formulate independent policy in certain areas. Therefore, we can only talk about relative autonomy<sup>10</sup>.

Local government is primarily based on a clear division of responsibilities between the state, its bodies, and local community bodies. The main objective of the regulation of the relationship between the state and the local communities is to allow the municipality to obtain under authentic competence the functions that are essential for the life and work of its inhabitants, which are more effectively and rationally exercised within the local community than through the state authorities.

One of the key objectives of the local government in Slovenia was to establish such a system of division of authority between local communities and the state that would enable the creation of a certain level of autonomy for local communities in relation to state authorities.

In a broad sense, today's Slovenian local government resulted in entrusting the management of local affairs to the representative bodies of municipalities, which directly administer the affairs and perform their function within their own responsibility. The principles of local governments are based on three fundamental ideals:

<sup>9</sup> Kukovič, S. (2015) *Lokalno politično vodenje: slovenski župani v primerjalni perspektivi*. Ljubljana: Faculty of Social Sciences.

<sup>10</sup> Schultz, A. (1979) *Local Politics and Nation-States*. Oxford: ClioPress Ltd., p. 79. See also Brezovšek, M. and S. Kukovič (2012) *Organizacija lokalne oblasti v Sloveniji*. Ljubljana: Faculty of Social Sciences, p. 60.



## TODAY'S SLOVENIAN LOCAL GOVERNMENT RESULTED IN ENTRUSTING THE MANAGEMENT OF LOCAL AFFAIRS TO THE REPRESENTATIVE BODIES OF MUNICIPALITIES, WHICH DIRECTLY ADMINISTER THE AFFAIRS AND PERFORM THEIR FUNCTION WITHIN THEIR OWN RESPONSIBILITY

1. Local authorities may have their own administrative structure.
2. Local authorities may hold their own powers.
3. Local authorities may freely manage their own affairs, which exclude subordination to other bodies and the use of methods associated with the principle of hierarchy.

However, the municipal competencies are narrowly defined in the Slovenian Constitution. The first paragraph of Article 140 provides that the jurisdiction of the municipality comprises local affairs that are governed autonomously by the municipality, and that affect only the inhabitants of the municipality. Slovenian municipalities are therefore not responsible for exercising all the public functions in their territory (unlike German municipalities, for example) but only in mat-

ters of local importance. The Constitution does not analyze in detail local issues that are not in the municipality's authentic jurisdiction. Thus, the legislation<sup>11</sup> deals with the issue of municipal competences and applies the terms "own and delegated competencies".

Municipalities' own competencies reflect the fact that they comprise local affairs that may be regulated autonomously and that affect only the residents of a municipality. Upon prior agreement with the municipality, the state may transfer specific duties to the municipality if it also provides the financial resources required. This transfer of certain state competences to the municipal level may, on the one hand, be understood as a regulation that prevents the state from intervening in the autonomy of the local community. On the other hand, it may represent an insurmountable obstacle to the transfer of state functions to municipalities. The latter is also a Slovenian characteristic because the state has not delegated competences to the municipalities for more than two decades.



## THE STATE HAS NOT DELEGATED COMPETENCES TO THE MUNICIPALITIES FOR MORE THAN TWO DECADES

<sup>11</sup> *The Local Self-Government Act (2007)*. Available [online]: <http://www.uradnilist.si/1/objava.jsp?urlid=200794&stevilka=4692>.



## THE LOCAL SELF-GOVERNMENT ACT (2007) LIMITS THE STATE RATHER THAN THE MUNICIPALITY

In matters of municipal competences, the Local Self-Government Act (2007) limits the state rather than the municipality. It prevents the state from interfering in the municipalities' governing sphere. The Act classifies the tasks that are independently governed by municipalities into six groups:

1. **In the field of normative regulation**, the municipality adopts the municipality ordinances and other municipal acts, the municipal budget, the municipality development plan and annual accounts, etc.
2. **In the field of governance**, the municipality manages the municipal property and local public services, public and other companies, the municipal public areas and other public goods, local public roads and other routes.
3. **With its own resources**, the municipality builds and maintains local public roads and other routes, promotes cultural and social activities, etc.
4. **With its own measures**, it encourages the economic development of the municipality, provides fire safety, orderly waste collection, etc.
5. **It provides assistance** in the supervision of local events and rescue measures in the event of natural disasters.
6. **It concludes contracts** on the acquisition and alienation of movable and immovable property, concessions, the use of the public goods, and other relationships into which the municipality enters.

It should be noted that the work performed by the municipality is governed primarily by sectorial legislation. Thus, the municipal competences are also governed by laws such as the Roads Act, Environmental Protection Act, Kindergarten Act, etc. Nevertheless, there are numerous conflicts in connection with the competences of the municipality and the state in which the Constitutional Court interferes.

We may conclude that due to the unwillingness of the state to give up its powers, the division of powers causes disagreements and tensions. The tasks imposed on the municipalities by the state in the previous two decades were mostly non-essential. At the same time, the state was not willing to increase the municipal competencies in certain other areas, such as spatial planning, agriculture, small industries, etc.

The municipalities thus performed a relatively narrow scope of local tasks, while no national competence has been delegated to them. A modest range of original tasks hinders the process of decentralization, which is typical of the development of local government in other European countries.

### MUNICIPAL FINANCING: ACHILLES' HEEL OF THE SLOVENIAN LOCAL GOVERNMENT

One of the findings of the Conference of the MELLs of 1985 is that the inadequacy of financial resources can undermine the very essence of each local government. Therefore, the MELLs indicates the basic principles for financing local authorities<sup>12</sup>.

- **The principle of adequacy** requires the local community to have its own relevant financial resources, with which it freely disposes within its powers.

<sup>12</sup> Vlač, S. (1998) *Lokalna samouprava – občine in pokrajine*. Ljubljana: Faculty of Social Sciences.



## THE INADEQUACY OF FINANCIAL RESOURCES CAN UNDERMINE THE VERY ESSENCE OF EACH LOCAL GOVERNMENT

- **The principle of proportionality** requires that the local communities' financial resources must be in proportion to their tasks and competences.
- **The principle of self-financing** requires that at least part of the financial resources must originate from levies that are under the law defined by local communities.
- **The principle of elasticity** requires the local communities' financial resources to be sufficiently diversified and flexible in order to follow – as closely as possible – the cost of the implementation of delegated tasks and needs.
- **The principle of equalization** protects financially weaker local communities and requires that the state ensures uniformity between local communities – not only with financial equalization, but also with other appropriate measures.
- **The principle of cooperation** means that the local communities are asked – in an appropriate way – to provide their opinion regarding the allocation of reallocated financial resources.
- **The principle of autonomy** requires that the resources granted by the state to local communities in the form of subsidies and grants are not strictly eligible, and that the provision of such resources should not interfere with the fundamental freedom of local authorities to decide within their own powers.

- **The principle of borrowing** specifies that local communities have access to the domestic capital markets in order to borrow funds for larger investments within the limits of the law.

Many experts who deal with the relationship between the state and local communities noted that the area of funding is crucial to the status of local communities and their autonomy. The municipal financial autonomy significantly contributes to the image of a democratic state and the autonomous local authority.

Page<sup>13</sup> argued that one of the methods used to assess the decisions made by local authorities is the degree to which they can independently increase the tax burden on the population. The legal authorization to perform certain tasks is meaningless if the local authorities lack financial resources. The basic obligation of elected local representatives is to make political decisions about the benefits of the provided services and the taxpayers' costs<sup>14</sup>.

The lack of financial resources changes local communities. Therefore, stakeholders have observed the recent desire of local communities to introduce a local public finance system that would be independent of the state authorities. The municipalities' taxes and contributions enhance their autonomy, but only if they can be regulated according to their own tax base at their own tax rate.

The autonomy of the local government is recognized in the possibility that a municipality can prescribe specific municipal

<sup>13</sup> Page, E. C. (1991) *Localism and Centralism in Europe. The Political and Legal Bases of Local Self-Government*. Oxford: Oxford University Press, p. 31.

<sup>14</sup> Vljaj, S. (1998) *Lokalna samouprava – občine in pokrajine*. Ljubljana: Faculty of Social Sciences, p. 313.



## THE MUNICIPALITIES' TAXES AND CONTRIBUTIONS ENHANCE THEIR AUTONOMY, BUT ONLY IF THEY CAN BE REGULATED ACCORDING TO THEIR OWN TAX BASE AT THEIR OWN TAX RATE

taxes in order to finance its basic functions. In this respect, local governments are not directly tied to conditions that are otherwise prescribed by tax legislation. However, in prescribing other taxes such as charges, utility charges, and so on, the municipality is bound by the legal conditions<sup>15</sup>.

Article 142 of the Constitution of the Republic of Slovenia specifies that the municipalities are financed from their own resources. However, if a municipality fails to fully ensure the performance of the tasks due to its poor economic development, the state must allocate the municipality additional resources. The Local Self-Government Act of 1993 has not been amended in the part stating that the municipality sources of financing are from its own resources, state

resources, and borrowings, and in the part that states that the municipalities finance local matters of public importance.

According to the Court of Audit of the Republic of Slovenia<sup>16</sup>, the structure of the municipal finances in the period from 1994 up to and including 2010 consisted of 79.4% own resources, 17.2% of government funding, and borrowing – 3.4%. Since 2006, the new Financing of Municipalities Act (ZFO-1)<sup>17</sup>, which is not fully harmonized with the Local Self-Government Act, governs the financing of the tasks that are within municipal competence.

The financing of municipalities is based on the principles of the MELLs – in particular the principles of financial resource proportionality to the tasks of the municipalities and the principle of the municipalities' autonomy in financing municipal tasks (ZFO-1 2006, article 3). The principle of proportionality is also taken into account in financing tasks under state jurisdiction that the state transfers to the municipality by law. In accordance with the ZFO-1, the state must determine the method of state financing by law, upon which it transfers to the municipality the performance of specific tasks within its jurisdiction – the funds must be commensurate with the nature and extent of the delegated tasks (ZFO-1 2006, article 5).

In accordance with the ZFO<sup>18</sup>, the municipalities are financed from their own fiscal resources, municipal taxes, and borrow-

<sup>16</sup> *Court of Audit of Republic of Slovenia* (2012) *Revizijsko poročilo – ureditev področja občin*. Ljubljana: Court of Audit of Republic of Slovenia, p. 29.

<sup>17</sup> *The Financing of Municipalities Act-1* (2006). Available [online]: <http://pisrs.si/Pis.web/pregledPredpisa?id=ZAKO4615>.

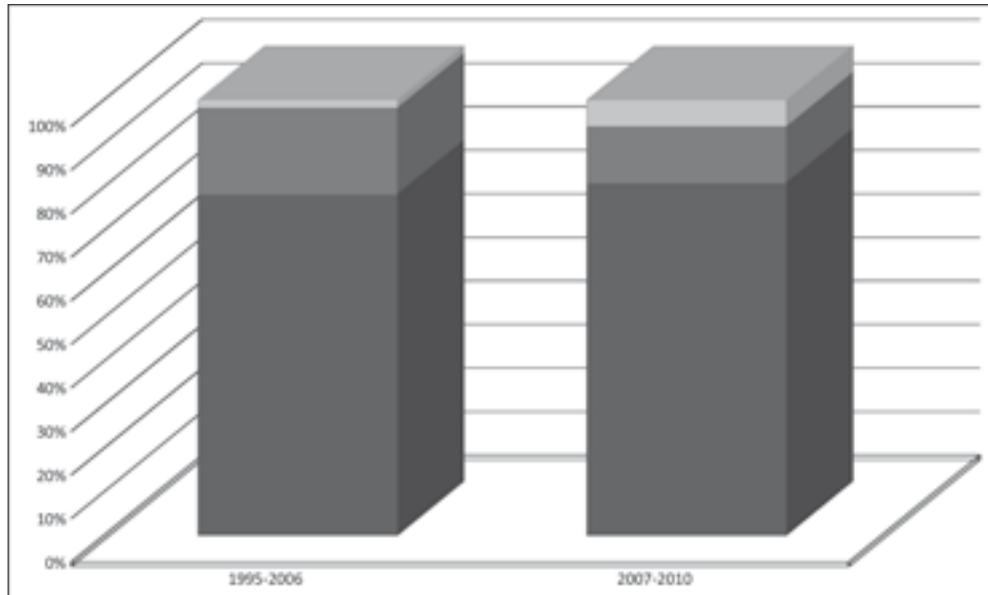
<sup>15</sup> *Ibid.*, p. 86. See also Brezovnik, B. and Oplotnik, Ž. (2012) "An Analysis of the Applicable System of Financing the Municipalities in Slovenia", [in:] *Lex Localis*, 10(3), pp. 277–295.

<sup>18</sup> *The Financing of Municipalities Act* (1994). Available [online]: <http://www.pisrs.si/Pis.web/pregledPredpisa?id=ZAKO385>.

ing. In connection with own tax resources, the ZFO indicates the revenues of the municipal budget – namely, property tax, tax

2007 to 2010 it amounted to 80.9% own municipality resources 13.1% state funds, and 6.0% borrowing<sup>19</sup>.

Figure 1: Comparison of the municipal financing structure



Source: Own elaboration based on Court of Audit of Republic of Slovenia (2012), p. 30

on watercraft, tax on real estate, tax on inheritance and gifts, tax on winnings from classic gaming, and other taxes, if so defined by the law that regulates an individual tax. Sources of municipality income are also revenues from the 54% personal income tax paid in the previous year plus inflation for the year before, and the year for which the calculation of municipal eligible expenditure is made in accordance with ZFO-1.

With the adoption of the new Financing of Municipalities Act (ZFO-1, 2006), the structure of municipality financing sources changed. Namely, in the period between 1994 and 2006, it amounted to 78.3% own municipality resources, 20% state funds, and 1.7% borrowing; in the period

It should be noted that the own municipality resources include personal income tax, of which the share allocated to the municipalities increased from 30% to 35% in 1998 and to 54% in 2008<sup>20</sup>. The increase in the share of personal income tax also resulted in the reduction of the necessary financial resources equalization that falls into the category of state funds. The proportion of borrowing financing sources also increased due to the reduction in limiting municipal borrowings.

<sup>19</sup> Court of Audit of Republic of Slovenia (2012) Revizijsko poročilo – ureditev področja občin. Ljubljana: Court of Audit of Republic of Slovenia, p. 30

<sup>20</sup> Ibid.

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SLOVENIA DOES NOT HAVE A SO-CALLED REGIONAL LEVEL OF GOVERNMENT. THE ONLY DECENTRALIZED LEVEL CONSISTS OF 212 MUNICIPALITIES, OF WHICH 11 ARE SO-CALLED “URBAN MUNICIPALITIES” OR MUNICIPALITIES WITH URBAN STATUS (I.E. LARGE CITIES)

Furthermore, Slovenia does not have a so-called regional level of government. The only decentralized level consists of 212 municipalities, of which 11 are so-called “urban municipalities” or municipalities with urban status (i.e. large cities). During the last decade, approximately 12% of total public finance (5.5% of the GDP) was earmarked for local finance<sup>21</sup>. Article 142 of the Slovenian Constitution specifies that the municipalities are financed by their own resources. However, if the municipality fails to ensure the performance of the tasks because of its poor economic situation, the state must allocate additional resources to the municipality.

<sup>21</sup> Oplotnik, Ž. J., Brezovnik, B. and B. Vojinovič (2012) “Local Self-Government Financing and Costs of Municipality in Slovenia”, [in:] *Transylvanian Review of Administrative Sciences*, 37(E), p. 129.

Since 2006, the new Financing of Municipalities Act (ZFO-1), which is not fully harmonized with the Local Self-Government Act, has governed the financing of tasks that are within municipal competence. In connection with own tax resources, the ZFO-1 indicates the revenues of the municipal budget – namely, personal income tax, property tax, tax for the use of local building lands, tax on inheritance and gifts, tax on winnings from classic gaming, and other taxes, as defined by the law that regulates individual tax. It should be noted that the share of personal income tax allocated to the municipalities hiked from 35% in 1998 to 55.2% in 2012<sup>22</sup>, in a series of governmental attempts to increase the sustainable development of both urban and rural municipalities.

The tax for the use of local building lands is the only substantial revenue source over which municipalities have independent control. All other tax revenues are con-

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THE TAX FOR THE USE OF LOCAL BUILDING LANDS IS THE ONLY SUBSTANTIAL REVENUE SOURCE OVER WHICH MUNICIPALITIES HAVE INDEPENDENT CONTROL

<sup>22</sup> Court of Audit of Republic of Slovenia (2017) Revizijsko poročilo – financiranje primerne porabe občin. Ljubljana: Court of Audit of Republic of Slovenia, p. 21-22.

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## THE FINANCIAL AUTONOMY OF SLOVENIAN MUNICIPALITIES IS VERY LIMITED, SINCE THEIR FINANCING LARGELY DEPENDS ON THE LAW AND THE ANNUAL BUDGETARY DECISIONS OF THE NATIONAL PARLIAMENT

trolled and set by the state, which in effect diminishes the autonomy of the municipalities and increases the power of the state over them. Because the economic crisis also affected municipal revenues in the last decade, in 2012, the state decided to ignore its own legislation and allocate lower state co-financing to local governments.

Both the Association of Municipalities and Towns of Slovenia and the Association of Municipalities of Slovenia opposed government proposals to lower state co-financing of local governments. The municipalities rightfully claimed that they are autonomous according to the Constitution and the MELLs, which was adopted in Slovenia in 1996. The government is therefore required to provide adequate financing<sup>23</sup>. In September 2015, both municipal associa-

<sup>23</sup> Haček, M. (2016) *Slovenia Country Report, Nations in Transit 2016*. New York: Freedom House. Available [online]: <https://freedomhouse.org/report/nations-transit/2016/slovenia>.

tions went before the Constitutional Court to file a lawsuit against the state, asking it to fulfill its contractual financing obligations for 2015. Three years later the decision has still not been reached.

The amount of state financing to the municipalities remained well under the legislative framework also for 2018 according to the national budgets, which is forcing municipalities in two directions. First, there are on-going legal processes between the state and the municipalities over the (lack of) state co-financing. Second, the municipalities continue the search for financial rationalization and additional external financial resources, mainly using the mechanisms available to acquire funds from the EU and – although mainly intended for border municipalities – cross-border cooperation projects.

Overall, the financing of local communities represents an important aspect of relations between the state and local communities, indicating the level of autonomy of local communities in relation to the state. The financial autonomy of Slovenian municipalities is very limited, since their financing largely depends on the law and the annual budgetary decisions of the national parliament.

In Slovenia, the financing of municipalities is quite centralized, as the state has significant power and supervision over the use of public income. What is more, its power is also reflected in a high proportion of grants and transfers allocated to the municipalities from the state budget. The problem also lies in the high fragmentation of the Slovenian territory and absence of regional government, as a lot of municipalities established during the process of introducing the new local government system are too small and too weak to be financially autonomous and self-sustaining.

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## IT WOULD BE LOGICAL TO FURTHER IMPROVE THE EFFORTS TO CONNECT MUNICIPALITIES ON A FUNCTIONAL RATHER THAN A TERRITORIAL BASIS

### WHAT NEXT?

What would be the recipe that could overcome the current situation? Firstly, the financial base for municipal operations must come from their own resources, where municipalities would also have the right to prescribe their own taxes, subsidies and fees.

Secondly, with the new municipal financing system, it is necessary to provide municipalities with higher own revenues thereby increasing their financial autonomy and responsibility in deciding the use of financial resources to carry out local tasks. This would further stimulate not only the financially rational behavior of municipalities, but also, in particular, efforts to create additional value in relation to the amount of funds invested for individual projects.

Thirdly, on the basis of the accepted criteria and criteria of solidarity towards less developed municipalities, the government would annually decide which municipalities are entitled to financial compensation and funds for investment co-financing.

Lastly, it would be logical to further improve the efforts to connect municipalities on a functional rather than a territorial basis,

that is, through the establishment of joint municipal bodies and common public services.

At the end of the day, state and local government are both established with the same purpose – to serve the people, which is certainly easier to perform in cooperation. Obviously, Slovenia is not there yet. However, with a little political willingness and effort Slovenia could reduce and maybe even eliminate the conflict between the state and municipalities. ●



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