

## The Rate of Relative Dependence of the Municipal Budgets in the Years 2010-2014 in Trnava Region

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### Abstract

By decentralization of public administration, the municipalities became executors of a broad set of original and transferred competencies. Although the implementation of competences delegated from the state remained in the hands of municipalities, funding for their performance is provided by the state. Introduced paper deals with the rate of relative financial dependence of municipality budgets from the central level in the Slovakia, based on partial results of the project "The rate of relative dependence of municipal budgets in the years 2010 - 2014 in Trnava region". The aim of this paper is to identify and analyze the rate of financial dependence of seven district towns in Trnava region: Trnava, Hlohovec, Piešťany, Senica, Skalica, Galanta and Dunajská Streda. Then it is observed the relationship of financial dependency of the town budget and population size of the town. From a methodological perspective, the method of financial analysis was used as well as following method of comparison of the obtained data from the final accounts of district towns. The results show that on average less than one fifth of the total town incomes of the period 2010 - 2014 came from the state budget. Within the example there wasn't confirmed relationship between the percentage of financial dependence of the towns and population size of the towns.

*Keywords: municipalities, financial dependence, Trnava region, public administration, budget*

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### 1. Introduction

Introduced paper is based on the partial results of the project entitled The rate of relative dependence of municipal budgets in the years 2010 - 2014 in Trnava region, number FPPV-18-2016, implemented in the University of Ss. Cyril and Methodius in Trnava during

year 2016<sup>1</sup>. The aim of the project is to determine the rate of relative dependence of municipalities on transfers and grants provided to municipalities from the budgets of higher levels of government in the years 2010 - 2014 in Trnava region. Subsequently, due to the division of municipalities into different size categories the task is to verify the existence of possible correlation between the rate of relative dependence and the size of the population of surveyed municipalities.

In a decentralized fiscal system and its four basic pillars (see more Ebel 2001) in the article we focus on the issues of providing transfers between different levels of government. „A precondition for the effectiveness of fiscal decentralization is to ensure budgetary autonomy and fiscal responsibility of decentralized structures”(Cívik 2016). Fiscal decentralization is reflected in the strengthening of their own incomes. However, they can't cover all standard expenditures of municipalities, therefore the state comes with help, which in the form of subsidies, grants and transfers provides the funds that are necessary. Thus, there is the degree of interdependence of budgets of lower levels of government, in this case the budgets of local self-government on the funds flowing from the state budget of the Slovak Republic.

The aim of the introduced article is to analyze the financial dependence of local self-government budget from higher levels of government on the example of the seven district towns within the Trnava region for the period of years 2010-2014.

## 2. Elaboration of the issue at home and abroad

Although the financial situation and financial relations in general are one of the most problematic areas of functioning of local self-government in Slovakia. The issue is inadequately processed by domestic authors, analyzed just generally and superficially. We can say that most attention to it was naturally previously paid in the period before and after the fiscal decentralization. In that period were published several publications. For example, in 2001 it was the publication of the document *Municipal Finance in Poland, The Slovak Republic, the Czech Republic and Hungary* by Chang Woon Nam and Rüdiger Parsch (2001). A similar topic was addressed in 2008 by Andrew Coulson and Adrian Campbell (2006) in the study *Local Government in Central and Eastern Europe*. Further work comes from Pawel Swianewicz (2008) *Territorial fragmentation as a problem of consolidation, is consolidation the solution?* It refers to the Slovak author Viktor Nižňanský (2009), in the study *Strengthening of financial autonomy of cities and municipalities*. Slovak writers have partially dealt with this topic, except Victor Nižňanský it was also Elena Žárska and Juraj Nemec. Elaboration of the financial affairs of municipalities can be found in the work of Stanislav Kološta, Filip Flaška and Paula Bolcárová (2014) called *Financial autonomy of municipalities in relation to economic performance in regions of the Slovak Republic in 2014*. Mentioned authors are dealing with financing the municipalities based on data for the whole autonomous segment of public administration (national level) or regional (provincial, NUTS 3) stand. In these cases the works do not reflect differences between districts or between different municipalities and towns within the study area. It should be added that for the last 10 years Slovakia lacks continuous research into the financial situation of local self-government.

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<sup>1</sup> Member of the project team is also PhDr. Lukáš Cívik, Ph.D., University of Ss. Cyril and Methodius, Faculty of Social Sciences in Trnava, Slovakia, who actively deals with this issue.

### 3. Methodology of researched issue

In the following, we consider it important to bring the use of methodologies in order to achieve the objective of the article. As mentioned previously in the context of preparation of the project is the methodology demanding and the object of research is extensive. Given the fact that we deal only with partial results and selected group of towns in region, object of research are in our case district towns within the Trnava region<sup>2</sup>. When choosing a region it played an important role a geographical proximity to academic campus, good knowledge of the environment by the authors and therefore assumption that in gathering information there will not be a significant problems. Trnava region is divided into 7 districts: Hlohovec (HC), Skalica (SI), Dunajska Streda (DS), Senica (SE), Piešťany (PN), Trnava (TT) and Galanta (GA), together comprising 251 municipalities. The name of the district matches to the name of the largest town within the district. In other words, we examine the seven largest towns in population in Trnava region.

The method used in the processing of the article was essentially a financial analysis (we will not end to the result by using classical statistical methods and statistical software). We consider it to be an adequate method to determine the financial dependence of selected towns on transfers from higher levels of government for selected years and also to determine the relationships between population size and the rate of dependence of towns at higher levels of government.

Workflow required to obtain information on the budget lines of selected towns. In research, we focused on budgetary and financial documents of examined municipalities. The aim of collecting the necessary data became final accounts and multi-annual budgets of examined towns. During the collection of data, we took into account only the actual values of fulfillment of budget lines for the financial year. The final accounts were located in all cases on the website of towns, which greatly facilitated the work. It is true that the lower number of residents, the more difficult is to trace the information on the sites of municipalities.

Subsequently, we focused on two values that are important to our work - Total income for the period of years 2010 - 2014 and the amount of subsidies (grants and transfers) for specific years. For the needs of the article it is also important to define what we mean by financial dependence of municipalities. It is a relationship of two variables: the total amount of the subsidies and transfers of the town (municipality) and the total income of the municipality for the year. The ratio of total income and the amount of subsidies is an indicator of financial dependence of the budget on funding from higher levels of government. So we get a percentage of the amount of funding provided to municipal budgets from higher government levels. The value of financial dependence (subsidies), we find with the following formula [1]:

$$\text{Financial dependence of the municipality budget} = \frac{\text{Subsidies}}{\text{Overall incomes of municipality}} \times 100 \quad [1]$$

The obtained results of rate of financial dependence of municipal budgets are then compared and we will track the specific aspects that appear in the analyzed group of towns. The rate of financial dependence of the budget will increase, the budget will be more reliant on standard funds that are provided by higher levels of government. Otherwise, if the financial dependence decline, the average proportion of grants from higher levels of

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<sup>2</sup> Trnava region is the second smallest self-governing region, but in economic terms it is among the most developed.

government in the budget of towns will be lower. At the same time we focus on the analysis of financial dependence in the form of time series.

#### **4. The explanation of terms**

In the first case, it is necessary to define the total revenue of the municipality and in the second subsidies (grants and transfers). These terms are used in particular in relation to the municipal budget. The basic definition is found in the Act. 583/2004 Coll. Financial regulations of local government and the amendments to certain laws. The municipal budget is in line with the law, the basic tool of financial management of the municipality governing, by which the financing of responsibilities of the municipality is managed in a given financial year (Act. 583/2004).

The concept of total municipal incomes includes all funds that the municipality received for the financial year in the municipality budget. It is a summary of current income, capital income and income from financial operations. Resulting from this law, each municipality is obliged to process all data relating to income and expenditure in the form of annual final account. In summary, the total income can be quantified only after the expiry of the financial year, when the municipality knows the real status of each budget line (Act. 583/2004).

The term a subsidy is understood in the paper based on the Act 583/2004 Coll. Financial regulations of local governments in the Slovak Republic as funds from the state budget to cover the costs of transferred performance of state administration in accordance with the Law on State Budget for the financial year. As subsidies are considered to be the funds from the state funds. There are also targeted subsidies from budget of the higher territorial unit or from the budget of another municipality to implement agreements under special regulations (Act. 583/2004). We can also meet with synonymous targeted subsidies. They are provided under strict conditions and there is intended purpose for which the municipality can use them. Subsidies are classified into regular revenue item. Targeted subsidies are provided to municipalities, they are: subsidies for social service facilities, subsidies for the transferred state administration, registers, register of citizens, building offices, traffic, education and environment. The amount of these subsidies depends on the number of inhabitants in the municipality. They provide funding of governing function of the municipality mainly transferred state administration, performance of social services, as well as the individual needs of communities and the restoration of cultural monuments, education, the physical education and sports, culture and so on. In summary, we understand the term subsidies as all standard budget incomes of the examined sample that came from higher levels of government (subsidies, grants and transfers) and they are in analyzed financial and budget documents presented as standard subsidies from other government entities.

#### **5. Financial dependence of district towns within Trnava region**

Financing of towns and municipalities in Slovakia underwent many changes until it got into its current form. The largest interventions were implemented within the framework of fiscal decentralization since 2005, when accepted laws were brought into effect in 2004<sup>3</sup>,

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<sup>3</sup> These are the laws: Law no. 523/2004 Coll. on budgetary rules, Act. 483/2004 Coll. Financial rules of local governments, Act. 564/2004 Coll. on budgetary determination of income tax of local government, Act. 582/2004

which municipalities are obliged to follow. *“Basically, decentralization represents a transfer of public power to lower than central areas, which means the transfer of independence in decision-making to local authority units. It means that this is an important factor in the process of construction of public administration in each country”* (Imrovič & Švikruha 2015). Municipalities have become more independent and responsibility for the performance of their duties and functions increased. Particularly in the period after 2001 under Law no. 416/2001 Coll. the transfer of some competencies from state administration to municipalities and higher territorial units, municipalities were given the power to exercise new transferred competencies. *„The only precondition for their successful implementation is, however, sufficient financial and material support of the municipalities, which in many cases hardly ensured even today“* (Horváth et al. 2013). These changes have brought naturally a need of a new system of financing of local and regional self-government (Bryson 2010). *„The comprehensive reform of public administration, took place in this period and there was a weakening of the central government as a consequence of strengthening of the local government”* (Brix & Švikruha 2012). *„The required changes and the effectiveness of the decentralization process toward the citizens and the local level might be successful only by simultaneous implementation of the competence, political and financial levels and dimensions. The decentralization of competences without the financial decentralization would cause the failure of such implementation“* (Mihálik & Klimovský 2014). The main objective of fiscal decentralization was to strengthen the financial capacity of municipalities and their less dependence on state subsidies. By these decisions autonomy should be strengthened and supported independence from subsidies from state budget<sup>4</sup> (Čavojec & Sloboda 2005). In a study of Financing of self-government of municipalities since 2005 presents a summary of the results from 2004, there it states that the period from 1991 through 2004 (a period when there was not fiscal decentralization yet implemented) the average dependence of municipalities on transfers ranged 45.5% (Nižňanský & Valentovič 2004).

Subsequent decentralization processes not only in competence, but for our case mainly in the fiscal area, changed the funding of municipalities. Currently, the highest income part of municipal budgets make own resources in the form of local taxes and fees. However, such tax revenues can't cover the total expenditure for the functioning of municipalities and implementation of original competences and the transferred competencies. Therefore, the state determine adequate financial resources financially covering the performance of transferred competences. From 2002 to 2004 the state responded to the situation and proportion of transfers significantly increased in the total amount of municipalities incomes. Although the process of financial decentralization should ensure the financial independence of local governments, in the Slovak Republic it was not successful. The system of financing municipalities and towns remained one of the limiting factors of autonomous behaviour of municipalities. In terms of objective of this paper in the first place we point out which

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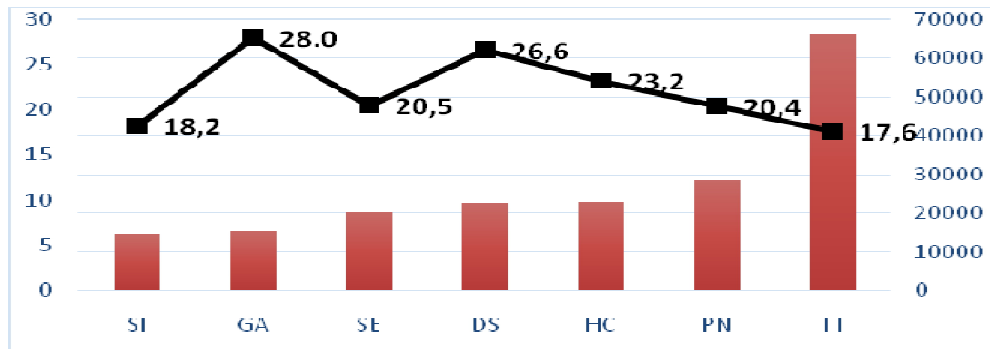
Coll. on local taxes and local fees for communal waste and minor construction waste, Government Ordinance no. 668/2004 Coll. which adjust the criteria and method of distribution of income of tax of income for individuals.

<sup>4</sup> An interesting fact is that the competence and fiscal decentralization has taken place at the same time, but with several years of delay. The process was stalled by need to not only define an amount of new competences and responsibilities to municipalities and higher territorial units, but also a question of allocation of adequate funds for each component of the self-government (local and regional level). The reason has also become a tax reform, which was during the year 2004 very extensive. To be enacted the new funding system, it was necessary to know the tax structure that meets the EU requirements. The question was how to ensure to self-governments a supporting funding source. Finally it was decided that the tax on personal income will belong to local municipalities. In addition, there was created in the local taxes the structure, under which the elected bodies of municipalities have power of decision [6].

financial amount consists of subsidies (grants and transfers) in the budgets of district towns within the Trnava Region for five years (2010-2014).

Financial dependence of observed seven district towns (Senica, Galanta, Senica, Dunajská Streda, Hlohovec, Piešťany, Trnava) over the period 2010-2014 range between the minimum values of 15.1% (SA 2010) to a maximum of 28.1% (DS 2013). Comparable average values of budgets dependence show towns Skalica (SA) and Trnava (TT), those are the cities that have the lowest and highest population size of the monitored towns. As the table shows, on average, the highest dependence on subsidies (grants and transfers) from higher levels of government in the period 2010 - 2014 has Galanta (28 %), followed by Dunajská Streda (26.6%) and Hlohovec (23.2%), Senica (20.5%), Piešťany (20.4%) and Skalica (18.2%). The lowest average percentage of budget dependence is in the town of Trnava (15.5%).

**Figure 1: The average rate of dependence of selected towns for period 2010 – 2014 and their population size**



Source: Own processing

According to the results in Figure 1, we can analyze the relationship of average financial dependence of the budgets of district towns for five budget years, and population size of towns. The financial dependence of the town budgets is not in correlation with the number of town population. But we can see that it confirms in the four towns Dunajská Streda, Hlohovec, Piešťany, Trnava that the higher the population of the town is, the % of dependence of town budgets on subsidies from the state is lower. For the largest towns in population Trnava (18.2%) and Piešťany (17.5 %), the average rate of dependence of the budget is at lowest levels from all towns.

**Table 1: The dependence of municipal budgets of the district towns within Trnava Region 2010-2014**

Town	Subsidies in thousands of €														The rate of financial dependence for researched period 2010-2014 (%)		
	2010	2011	2012	2013	2014	2010	2011	2012	2013	2014	2010	2011	2012	2013		2014	
Popul.	2010	2011	2012	2013	2014	2010	2011	2012	2013	2014	2010	2011	2012	2013	2014	2010-2014	
SI <sup>5</sup>	14 714	2 944	2 882	2 760	3 297	3 352	19 272	16 699	14 900	21 541	13 538	15.3	17.3	18.5	15.3	24.8	18.2
GA	15 036	3 276	3 019	2 976	3 128	3 235	11 574	12 720	10 035	10 584	11 173	28.3	23.7	29.7	29.6	29.0	28.0
SE	20 318	3 508	3 048	4 406	3 450	3 566	20 396	17 705	18 802	15 045	16 375	17.2	17.2	23.4	22.9	21.8	20.5
DS	22 481	4 360	4 110	4 446	4 610	4 935	16 247	16 562	17 575	16 412	17 696	26.8	24.8	25.3	28.1	27.9	26.6
HC	22 441	3 098	2 914	2 957	3 358	3 049	13 073	14 013	13 822	12 816	12 791	23.7	20.8	21.4	26.2	23.8	23.2
PN	28 047	3 238	4 359	3 941	4 318	3 372	18 676	20 083	17 966	18 421	19 220	17.3	21.7	21.9	23.4	17.5	20.4
TT	65 978	7 954	7 170	7 539	8 182	8 305	45 607	39 700	49 876	42 945	45 602	17.4	18.1	15.1	19.1	18.2	17.6
<b>The average rate of financial dependence of town budgets for year (%)</b>											<b>20.8</b>	<b>20.5</b>	<b>22.1</b>	<b>23.5</b>	<b>23.2</b>	<b>22.1</b>	

Source: Final accounts of district towns Skalica, Galanta, Senica, Dunajská Streda, Hlohovec, Piešťany and Trnava 2010 – 2014, own processing

<sup>5</sup> Cities are classified by population in ascending order. Population figures are acquired from the publication Balance sheet of Slovak population according to municipalities in 2014, published by the Statistical Office of the Slovak Republic.

## 6. Conclusion

In the case of surveyed district towns in Trnava region it was confirmed that the average dependence on state budget for the period of years 2010 – 2014 was in the amount of 15.5%. This means that less than one-fifth of income of towns came from the state budget (or budgets from higher levels of government). The rate of dependence of the municipal budget for these five years wasn't less than 15.1% and not higher than 21.8%. Within the example there wasn't confirmed relationship between % of financial dependence on the town budget and population size of the town. However, it is not certain that it will also apply to a wider set of surveyed towns or villages. The results of article confirmed that the financial dependence of municipalities on government funds exists, which is forcing us to think about how to modify or adjust the existing system of financing local government, so the municipalities became independent of the budgets of higher levels of government, like the very principles of a successful fiscal decentralization define and require. Similar research on the financial dependence of municipalities after financial decentralization in the Slovak Republic has not yet been implemented nationwide. The results of the project can serve not only as a basis for similar studies aimed at capturing the financial situation of the Slovak Republic, but also can be used on a comparison purposes, at least in the region of V4 countries (Czech Republic, Hungary, Poland, Slovak Republic).

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