

The Formation of Regional Self-government in the Slovak Republic and its Sources of Funding

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Abstract: *The process of the formation of regional self-government in the Slovak Republic is associated with a reform of public administration and it started in the year 1990. Within the period of the years 2002–2004 a number of both original and transferred competences passed from a state administration to the communities and higher territorial units. Its own incomes, an own budget, and the adequate degree of independence prove to be an assumption of a successful functioning of each cell of a territorial self-government. This article is assessing the results of fiscal decentralization in self-governing regions of the Slovak Republic, it identifies the weaknesses of this process particularly with the income formation of regional self-government, it points out to both advantages and disadvantages of particular tax revenues of regional self-government and it presents the results of the financial autonomy assessment of a regional self-government. The obtained results suggest that it is essential to support the tax revenue independence of regional self-government in the Slovak Republic especially from the viewpoint of the suitability of allocation and territorial links of tax revenues for regional self-governments and in the greater extent representing the specifics of the particular region aimed at the alleviation of the regional differences.*

Keywords: *public administration, fiscal decentralization, self-governing region, local government budget, financial autonomy of regional government.*

JEL: *H71, H83, H76, K34*

Introduction

In the beginning of the 21st century, an effective public administration is a feature of an advanced democratic society. As an institutionalized and structured system of both relations and organs of the state administration, self-government and public corporations it ensures the law enforcement, politics, economy, and existence interests of a state aimed particularly at the transparency, efficiency, and high performance in their interaction. For the beginning of the 21st century, a better efficiency of financial management and control at all the levels of public administration is a topical task. The support of an innovative development is becoming another important task at particular levels of public administration. The aim is to achieve a gradual lowering of long-term unemployment rate to be caused especially by the changed conditions on a regional market. Making of assumptions how to regulate too large and irrational number of regional self-governing units and irrational number of territorial self-governing units proves to be another task.

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From the above-mentioned facts it follows that the role of self-governments in the restructurized economy is becoming more important. This results also from the fact that an economic life is becoming ever more globalized. Thereby the interest in a local dimension of economic development is growing.

1. Material and methods

Self-governing regions have not a long history in the Slovak Republic. There is very often a debate about the validity of their existence, about the obtained results. It is the aim of this study to assess the results of fiscal decentralization in self-governing regions of the Slovak Republic, to identify the weaknesses of this process especially as concerns the income formation of regional self-government, to point out to the advantages and disadvantages of particular tax revenues of regional self-government as well as to present the results of an assessment of financial autonomy of regional self-government. Both the primary and secondary data sources from the Ministry of Finance of the Slovak Republic, final accounts of the self-governing regions, and the own detection were the information source of this assessment. We have used these information sources to calculate the indicators of financial autonomy assessment. There are different ways how to measure the financial autonomy taking into account the different attitudes to the definition of financial autonomy itself. The indicator of financial autonomy is a general benchmarking indicator of self-governing budgets, it reflects the degree of independence and stability of the self-governmental economy. It expresses the ratio of the amount of the own budget incomes of regional self-government to the sum of overall incomes of a self-governmental budget. We have expressed the financial autonomy by means of the indicator of a relative financial independence. When analyzing the indicator of relative financial independence, the share of both tax and current non-tax revenues on the overall incomes of a self-government has been studied. The assessment of the conditions of a sustainable development is an assumption of an effective working of a regional self-government. This is why we have focused on ratios expressing the ability of a regional self-government to pay its original competences from tax revenues. We have calculated the indicators of the tax self-sufficiency rate representing the share of tax revenues of a region on overall both common and capital incomes. The fiscal yield according to the area in km² assessing the tax revenues for 1 km² in a region is another indicator. This indicator expresses the need of sources. We have expressed the ability of self-governing regions to cover the common expenses by common non-tax and tax revenues by the indicator of the self-financing rate.

2. Theoretical background

2.1. The position of the territorial self-government in the system of public administration in the Slovak Republic.

The reform of the public administration has covered all the fields of social changes in the Slovak Republic after the year 1989. It was bringing both political and economic changes and the change in the state organization. It was the aim of public administration reform in Slovakia to establish a civic society with such a structure of public administration that would meet the demand of the citizens for public goods effectively and flexibly. Such a civic society should have become an assumption how to achieve a permanent improvement of the life quality of citizens and to make it possible for them to fully participate in its performance and decision-making. The first stage of the public administration reform took place within the years 1990-1991. As early as in the year 1990, an act of the Slovak National Council (SNC) No. 369/1990 of Codex about the general establishment has been accepted making the bases of working and performance of the self-government in Slovakia. It was the aim of the second stage of the public administration reform to establish the second level of the territorial self-government, i.e. regional self-government. It was the aim of the third stage of the public administration decentralization to decentralize the competences from a state administration to a self-government, to decentralize the funds and to deconcentrate the competences from the central organs of the state administration to local state administration. In the year 2000, the government of the Slovak Republic has approved the concept of both decentralization and modernization of the public administration as a starting point for additional preparatory and legislative work.

The fourth stage of the reform has started in the year 2004 and it was focused mainly on the reform of public funds. On the basis of the act No. 416/2001 of Codex about the transition of some scopes from the state administration organs and higher territorial units the state has transferred more than 400 competences from the state administration to communities and higher territorial units within the years 2002 – 2004. At the same time, this act has created a starting point for a transfer of both original and transferred competences to the territorial self-government. The financial support of the territorial self-government, i.e. fiscal decentralization was another step in the process of decentralization. In the conditions of the Slovak Republic, the public administration has been conceived as a system consisting of state administration, self-government, and public corporations. The state administration has the most important position from the viewpoint of the fulfillment of both main tasks and functions of the state. The nature and structure of the state administration have been derived from the nature, position and role of the state as well as from the ways how the state power is implemented (Jovovic, et. al., 2017).

The self-government is another important part of public administration. The self-government represents the right of a certain local community to administer

independently the matters to be specified by law especially relatively independently from a wider social organism whose part it is. The existence of the self-government itself is connected with a formation of a civic society, it is not governed by the state. We understand it as a specific form how to express the plurality of views at the local level in a particular society. This emphasizes that a self-government is an important part of a legal state.

Territorial self-government as a sub-system of public administration has undergone a long historical development and it is clearly one of the most important parts of the organization of a society. From a political viewpoint, regional self-government can be perceived as a democratized and decentralized state administration to be carried out by elected representatives of residents in a particular region. A legal view is another one according to which a territorial self-government is an independent public corporation that is different from the state. The residents of this territory are its members. Peková (2011) perceives the territorial self-government as an implementation of the right of citizens for their own self-government, the right for an independent governance on a territory smaller than state (Kaasa, 2016). At the same time, the administration is performed on the basis of a statutory scope and economic conditions.

The Constitution of the Slovak Republic in its 4th Head Art. 64 specifies a territorial self-government from the viewpoint of its basic elements, i.e. a community and higher territorial unit (HTU). At the same time, the above-mentioned head includes also the basic characteristics of a community and HTU while the details have been left for the act of SNC No. 369/1990 of Codex on municipalities as amended. According to the Constitution and the above legislation, the community and higher territorial unit have been characterized as follows: „independent self-governing and administrative units of the Slovak Republic bringing together „the individuals having permanent residence on their territory. “The both degrees have their own, directly elected supervisors and their own administration in the sense of both obligations and duties. Both the higher territorial units and communities can perform, in addition to their own activities, also the transferred performance of the state administration. The details of both local and regional self-government are prescribed by law. (Fričová & Čepelová, 2014). The both units have a position of a legal person, they have a right to independently manage the own property and the own funds, however, under the conditions to be prescribed by law.

2.2. Fiscal decentralization in Slovakia

A decentralization was the meaning of public administration reform, i.e. the transfer of the large part of responsibility for the provision of public services and making conditions for a development of Slovakia to a local and regional self-government. We understand the decentralization as a process leading to the higher rate of fiscal autonomy, as a transfer of both legislative and political competences in the planning, decision-making, and management of public affairs

from a central level to lower ones, closer to citizens. This helps to improve the quality of the governing in the state. The ability of the lower units to provide public goods better fulfilling the local needs and preferences is the main argument in favour of the decentralization (Ebel&Yilmaz, 2001). It is assumed that the transfer of sources and decision-making competences is bringing an overall improvement of the social situation. This is why the central level mostly makes decisions that either favor the minority with a strong position at the expense of majority or, on the contrary, they suppress minorities at the expense of influential majority.

The problem of decentralization is referred to also as a problem of the assignment of both tax and expense competences to different degrees of public administration (Musgrave, 1994). Fiscal decentralization proves to be a key component of decentralization. Any reorganization in the public sector should be accompanied by the considerations about an effective and transparent way of funding. The division of funds among the levels of the public government should exhibit the transparency of the fund allocation, predictability of their amount for decentralized governmental levels as well as a certain autonomy of decentralized governmental levels in obtaining and using the funds (Jilek, 2008). Broadway (2001) states that the benefits of the decentralization can be shown only with continuous potential sacrifice of a certain degree of effectivity and equality. The fact to what extent the above-mentioned sacrifices will be implemented strongly depends from the further steps accompanying the decentralization.

Fiscal decentralization as a process of a purposeful division of tasks among the state and other levels of territorial self-government has been linked to the conducted transition of competences from organs of state administration to communities and to higher territorial units according to the Act No. 416/2001 of Codex. Fiscal decentralization in Slovakia had five essential goals as follows:

- *independence* - i.e. provision of the territorial self-government funding by means of the own income to be as high as possible,
- *responsibility* – i.e. the organs of a territorial self-government are responsible for fulfilling the regional budgets and a sustainable debt.,
- *justice* – i.e. the self-government can use the collected taxes according to the own consideration, the share in the tax revenues of physical persons is given by a precise formula to be valid for all the self-governments,
- *transparency* – i.e. the residents will immediately feel the economy effectivity of their community,
- *stability* – i.e. making the own reserves for the further development.

By the amendments of Acts No. č. 523/2004 of Codex about the budget rules of public administration, No. 564/2004 of Codex about budget determination of tax revenues of a territorial self-government, No. 584/2004 of Codex about the budget rules of territorial self-government there was a change in territorial self-government funding from the 1st January 2005. The process of decentralization continued and it continues to date at a limited extent.

If the transfer of competences should be useful, an independence must be transferred to the lower levels both with the determination of local tax revenues and with expenses. The new system of funding should provide a better relative financial self-sufficiency of the self-government by supporting its own incomes, by higher independence in decision-making about the incomes and expenses as well as in the responsibility for the quality of economy. Thus it is important to assign the tax and expense competences. The degree and the form of a competence assignment depends from a particular task of self-governments. As the benefit from the particular public goods is spatially limited, the decision-making about both the provision and payment of these goods should be done within the region where the benefit is shown. (Musgrave, 1994)

The nature of the change was a transition from the subsidization from the Slovak Republic to the funding of self-governing activities by means of tax revenues. Fiscal decentralization should help to introduce both financial and fiscal responsibility of a territorial self-government. It should lead to the independent, well-balanced, effectively and clearly allocated budgets (Živčicová et. al., 2017).

A supporting of tax revenues of territorial self-governments and a higher degree of financial autonomy of territorial self-governments should be achieved by higher tax competence of territorial self-governments as well as by the modified tax determination of some taxes. Basically it is a higher tax competence with the tax from a real estate as well as the change of tax determination with the tax from physical persons incomes and the specification of clear criteria for the tax revenue division. The stability of budgets has been considerably strengthened by tax revenues representing by the amount the most essential part of budget incomes.

The self-governments have strengthened their tax autonomy by means of fiscal decentralization. They became more financially independent from the central government, but they must prove by their economic activities that they responsibly fulfill their competences. A formation of the self-governmental income basis is considered to be a long-lasting process to be linked with bonds and relationships among the state budget and the self-governmental budgets and among other cells of public budgets. An income basis of a self-government should be rich, relatively stable, legally guaranteed, and flexible so that it is able to fulfill the tasks to be changed in the course of a budget year.

Fiscal decentralization can be understood also as a means how to achieve the effectivity as well as an optimization of the public sector. Its nature is a financial responsibility for decision-making and provision of public goods and for provision of funds in order to provide public services. The basic condition is so that local governments are able to dispose of adequate incomes i.e. tax revenues or transfers from other governmental levels. The basic idea of both fiscal federalism and fiscal decentralization consists in an assumption that public goods should be provided at the lowest, i.e. local level because of better effectivity and economy. This concept should be a guarantee of more flexible response to the needs and preferences of residents, it should enable a direct participation and more effective control (Provazníková, 2007).

It was a financial goal of the public administration reform to strengthen the financial autonomy of both communal and regional self-government and to eliminate their dependence on a state budget. At the same time, this reform should strengthen the responsibility of the community organs and the organs of higher territorial units for making and spending funds, to improve the transparency of their funding and to achieve justice and stability of financial management. Thus the fiscal decentralization, as a result of fiscal federalism represented the solution of the problem about an optimum allocation of incomes in order to provide the funding of public needs. From the above-mentioned facts it follows that fiscal decentralization has influenced the income structure of communities and thereby also the structure of their budget.

3. Analysis and results

3.1. Funding of regional self-government

In a system of working of regional self-government, a determination, implementation, and funding of competences are the key problems. Based on the process of fiscal decentralization, the central government has handed over certain competences to regional self-governments and it has defined also the way of their funding. Fiscal decentralization included two inter-related areas. The first one was the division of both expenditure responsibilities and income sources among particular governmental levels. Within the second area, a certain degree of freedom for both regional and local governmental levels has been determined with the determination of both incomes and expenses. The territorial self-government in the Slovak Republic is divided into two levels of activities, i.e. local and regional ones. Regional self-government and/or the government of higher territorial units in Slovakia has initiated in the year 2001. Within the years 2001 - 2004 HTU have gained a lot of competences and the related property as well as both financial and personal sources. Due to political, economic, and social influences, the income sources as well as the competences of regional self-government have been changing.

In the conditions of the Slovak Republic, the regional self-government is provided by 8 self-governing regions that arose based on the act No. 302/2001 of Codex about the self-government of higher territorial units as amended. It is their task to manage the public affairs in the public interest. Such their activities are based on law as their duty. In the activities of HTU, two elements blend together. The first one is the democratic element - i.e. the public affair management in order to fill needs of their residents with their participation and under their control. The second one is material element - i.e. to make the conditions for a many-sided development of a region, particularly in the economic, social, and cultural fields. Thus it is the task of a regional self-government to represent the needs and interests of the citizens of all communities and towns in the region towards the state as well as the interests of the state on the territory of its region within the transferred

competences entrusted to it (Ionescu, 2017). In connection with this fact, the territorial self-government has social, economic, regional, and technical functions.

A self-government of a higher regional unit has the following competences:

- standard-setting competence (resolutions on the generally binding regulations),
- decision-making competence inside (about the own property, about the affairs of the territorial development, about common affairs concerning the entire territory), but also outwards (decision-making about economic activities in the territory, land-use planning decisions, tax and payment affairs),
- control competence (to the own organizations, a disposition of property, to the own funds),
- sanction competence (imposition of sanctions for faults).

Both the definition and implementation of competences and their funding are the key problems in the system of working of a territorial self-government. These are dynamic problems and over the past 10 years have evolved. The connections that conditioned the rise of a regional self-government were as follows: especially the effort to spend public funds more effectively according to local requirements and preferences of residents, to bring the governance to the citizens, to make conditions for a formation of regional governments and to transfer to them the responsibility for an economic and social development of the territories.

According to the Act 302/2001 of Codex “A self-governing region is a legal person independently economizing with its own property and with own incomes and with the performance of self-government, it takes care of the many-sided development of its region, and of the needs of its residents in the conditions to be given by law“. Based on this act, the regions should ensure both the creation and implementation of the programme of social, economic, and cultural development of their territory, to implement the planning activities, to carry out both the investment and business activities and to make conditions for the development of health service, secondary education, culture, travel, physical culture, and sport. Higher territorial units provide the funding of the self-governing competences in particular years as well as the activities of budgetary organizations within their jurisdiction mainly from the tax revenues and incomes from the own economy of HTU. By means of the subsidies from the state budget from the relevant chapters, the competences of the transferred performance of state administrations are paid in education, the tasks connected with regional development, environmental protection as well as the implementation of projects to be cofinanced from structural funds and Cohesion Fund of European Union. From the chapter General Treasury Administration subsidies are provided for funding of some specific tasks within the jurisdiction of HTU based on the government resolution of the Slovak Republic. Among the above-mentioned incomes, the highest part within the current budget is represented by tax revenues.

At present, all the economic conditions of the activities of self-governing regions have not been fulfilled yet. The regions economize according to their own budget, have the own property, obtain their own incomes into the budget. So far, however, they can influence in their competence only non-tax revenues and their own capital incomes, which, however, are relatively low. The regional self-government is paying the bulk of original competences by means of tax revenues. Tax revenues are the second most important source of funding their needs. From the year 2005 on, the regional self-government had a right to make decisions about the division and using of funds from the sources from proportionate tax and from the income tax from motor vehicles independently. The present-day model of self-governmental funding is based especially on a vertical financial balancing.

Its own incomes, own budget, and the adequate degree of independence prove to be an assumption for a successful functioning of each cell of a territorial self-government. The more is the structure of public administration complicated, the more is the decision on the optimal allocation of incomes important especially the tax ones and payment of expenses. The fact what and which taxes will belong among the incomes of budgets depends from a tax competence and tax determination.

The needs of self-governing regions are funded especially by the combination of tax revenues, non-tax revenues, capital incomes, subsidies from the state budget, subsidies from state funds, and loan sources. In the last decade, there is a tendency to strengthen the own incomes of a regional self-government. The growth of own non-returnable incomes makes it possible to increase the level of financial self-sufficiency of particular regions.

The structure of the incomes of the self-governing region budgets has been changing mainly by the effect of changes in tax share from the income of physical persons. The subsidies from the state budget are a decisive group of incomes, to a lesser extent from state funds. The amount of the subsidies from the state budget has influenced the transfer of competences from the state to self-governing regions.

Table 1. Incomes of budgets of self-governing regions, specific classification

Incomes of HTU in %	2011	2012	2013	2014	2015
- tax revenues	48,1	47,9	46,8	48,2	49,9
- non-tax revenues	6,6	8,1	11,4	10,7	10,3
- capital incomes	6,6	7,3	5,8	4,6	4,7
- grants and transfers	38,7	36,7	36,0	36,5	35,1

(Source: Analysis of the results of budget economy of HTU for the years 2011–2015)

In the long term, the tax revenues have the highest share in the funding of HTU needs. Their share ranges from 46,8 % to 49,9%. The grants and transfers are the second most important source of funding. Their share ranges from 33,1 % to 38,7%. Both the capital and non-tax revenues are an important part of incomes. Financial operations by which the transfers from the funds of a higher territorial

unit and returnable funds and their payments have been implemented are the part of a budget of a higher territorial unit too. The provided loans are considered to be the financial operations as well as returnable financial assistance from the budgets of a higher territorial unit and their payments, the issued acceptances, the selling and acquisition of ownership interests. Financial operations are not a part of incomes or expenses of the budget of a higher territorial unit. (Act No. 583/2004 of Codex.)

**Table 2. The development of tax revenues of a regional self-government
(in thous. EUR)**

Self-gover. region	2011	2012	2013	2014	2015
Bratislava	63 119	65 762	67 443	72 236	76 930
Trnava	54 730	56 190	57 490	60 126	67 320
Trenčín	56 164	57 122	58 453	60 449	67 539
Nitra	70 443	71 978	73 608	77 629	85 649
Žilina	65 889	66 989	68 255	71 121	79 564
Ban.Bystrica	71 538	72 452	75 099	76 128	87 384
Prešov	75 110	77 543	80 297	83 781	93 212
Košice	66 991	67 692	70 416	73 358	82 579

(Source: Final accounts of self-governing regions for the years 2011–2015)

In the past, the development of total tax revenues was considerably influenced by the consequences of economical crisis. Both financial and economic crisis had, despite the fact that the development of the revenue of local taxes is subject to the economic cycle to much lesser extent, the direct and adverse impact on the working of self-governments, their funding and economic stability. From the year 2011 on, the situation has been stabilized.

The development of tax revenues has been influenced also by the accepted changes in legislative changes and the changes in funding conditions. The endeavour to consolidate the public budgets as well as resulting insufficient funding of the performance of the transferred competences by the state played a negative role too. The criteria to be set for the reallocation of the tax revenue of physical persons among particular HTU according to the act about the dividing income tax revenue of physical persons and its legislative changes played its role too.

In most countries, the decentralized levels of government rely on a wide spectrum of taxes. Ter-Minassian (1997) states that such taxes are the most suitable for a decentralization that have the following:

1. relatively immobile tax base,
2. relatively evenly distributed tax base,
3. relatively stable revenues.

The European Council recommends so that the tax revenues of the decentralized governmental levels come from the taxation of individual residents or the property or companies on the territory of the particular self-government. The studies show (CDLR 1998) that if the income of decentralized governmental levels are the tax revenues and taxes from real estates at the same time there is a higher tax autonomy of territorial self-governments.

The searching for an optimal decentralization of tax revenues is the subject of many theoretical analyses as well as empiric verifications in practice because the tax revenues are the decisive sources of funding. The decentralization of both competences and responsibility to the particular levels of a territorial self-government requires also an adequate decentralization of a tax revenue. The state doesn't like giving up a considerable part of tax revenues in favour of a territorial self-government. This problem is more serious in the situation when the economy of the state budget is strained and there are great pressures to lower the deficit. The tax revenues should meet the following requirements:

- a stable base in time,
- easily detectable tax duty,
- the effectivity of the obtaining,
- minimization of the possibility of tax evasion,
- simple and cheap tax administration.

From the year 2016 on, the share in tax revenue of physical persons is the only tax revenue of a regional self-government. By the year 2016, the tax from motor vehicles was the tax revenue of HTU as well. The tax revenue of physical persons is a share tax. As an income, it has several advantages. An advantage of this tax is that it ensures the stability of tax revenues of a regional self-government. It is its advantage that it enables the inter-connection of the pension tax revenue to an economic cycle forcing a regional self-governments to proceed continuously with stabilization policy of the central government. Other advantages include an improvement of financial independence of the budgets of a regional self-government with decision-making about the using of tax revenues. The advantages include also an independence of tax collection on the place of base accounting as well as the fact that the centralization of tax management makes it possible to reduce administrative costs for the tax management. Thus it is its main advantage that it enables to reduce spatial differences in tax revenues, under the condition of an appropriate criteria setting of the division of national revenue among regions. The personal affairs are very sensitively perceived by taxpayers and this is why their implementation by territorial self-governments regional makes a pressure for the responsibility of regional politicians.

It is an undisputed disadvantage of this tax that a regional self-government cannot set their own rates, i.e. the inter-connection between the decision-making about both the incomes and expenses is not possible. This is because the higher expenses of the particular HTU have not a direct impact on the amount of taxes on its territory. Another disadvantage is that central governments tend to consider the

share taxes as their own incomes and they can tend to regulate their implementation like with subsidies. Its main disadvantage is that it does not enable a tax competence of regional self-government, however, the elected organs of a regional self-government decide how to use it. This tax is also a tool of stabilization policy, it can be reduced within the period of an economic recession in order to stimulate an aggregate demand (with the exception of the progressivity of its tax rate it acts as a built-in stabilizer). All the tax relevances, the subject of taxation, the way how to calculate a tax base, its changes, tax rates, freeing and reductions or the way how to calculate the tax duty are determined by a nationwide valid law.

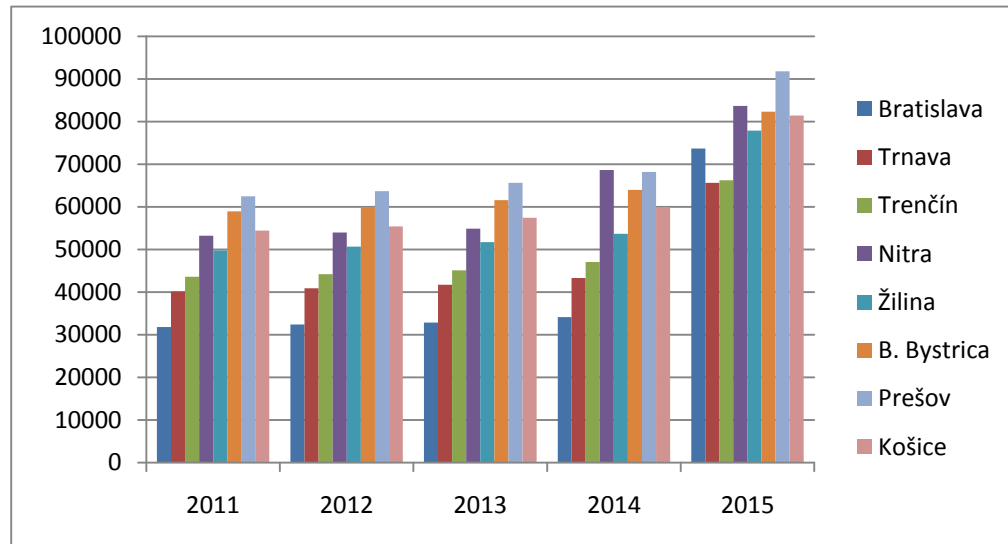


Figure 1. The development of the amount of income tax of physical persons (in thous. EUR)

(Source: Final accounts of self-governing regions 2001–2015)

Act No. 564/2004 of Codex about the budgetary allocation of tax revenues of physical persons (TRPP) and about the change and amendments of some acts belongs to essential rules of fiscal decentralization. For the year 2015, it has been changed by acts No. 333/2014 of Codex and No. 361/2014 of Codex. The subject was an adjustment of the communities share in the revenues of TRPP from 67% to 68,5% and share of HTU from 21,9% to 29,2% to be valid from January 1st, 2015. The act No. 361/2014 of has changed the budgetary allocation of the tax from motor vehicles and thereby the originally own income of HTU has become an income of the state.

The tax from motor vehicles was a local tax, its amount has been determined by regional self-governments by a generally binding regulation. The tax rates were reviewed annually. The local tax provides the highest degree of fiscal

autonomy to a territorial self-government. It is an advantage of the local tax that a territorial self-government can plan its incomes with the necessary degree of certainty and subsequently it can plan its expenses, too. Another advantage is that a territorial self-government is able both to increase and reduce its revenues and it is clearly responsible for the consequences of its decisions. The level of local public goods is strongly connected with the level of local taxation. An independent tax legislation is consistent with the meaning of the term "determination" as a competence to both determine and implement the policy (Breton 1977).

The amount of collected taxes influences the level of meeting needs. Their share on the total incomes in particular regions measures the tax self-sufficiency. The redistribution of tax revenue of physical persons can be regarded as a mechanism of financial compensation of both incomes and expenses of the communities as well as HTU. Too great solidarity, the facts that the high share of sources is divided unaddressed, the weight of redistribution criteria does not corresponds to the changed situation with higher expenses for social care, the ageing of the residents, the absence of economic criteria, these are the problems of the existing way of redistribution.

3.2. Financial autonomy of self-governing regions

It was an essential aim of the implemented fiscal decentralization to support financial independence of self-governments by means of the replacement of dependence by self-governments from the state budget subsidies with the implementation of original competences by tax revenues. From the viewpoint of a real financial autonomy the decisions should be made about public expenses at the level of public administration to be responsible for the providing of the task. It is also important to provide sufficient financial sources for the implementation of entrusted competences.

The financial autonomy concerns the ability to ensure the required level of incomes and to decide about the way how to use them. The obtaining of financial sources is influenced by both external and internal factors. Legislative background is the most important factor. It is the ability of a self-governmental unit to determine both the extent and way of obtaining their own incomes without external effects, the most frequently by the determination of the tax base and tax rate as well as the ability to provide such a level of public goods from the obtained sources that is required by the residents of this self-governmental unit. (Chapman 2003)

Table 3. Relative financial independence of HTU (in %)

Self-gover.region	2011	2012	2013	2014	2015
Bratislava	57,16	60,12	63,01	63,41	62,02
Trnava	38,96	52,97	58,49	61,35	52,49
Trenčín	36,16	47,76	55,56	57,61	60,06
Nitra	45,45	54,10	55,95	58,57	58,37

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Self-gover.region	2011	2012	2013	2014	2015
Žilina	49,63	49,30	48,55	53,82	55,80
Banská Bystrica	57,55	53,86	54,42	58,90	62,78
Prešov	41,08	48,21	54,20	53,84	52,73
Košice	44,14	46,24	51,04	48,19	51,43

(Source: The own processing based on final accounts of HTU)

The highest rate of financial independence has been achieved by BBSR to be caused by the growth of tax revenues by 10,43% compared to the previous year by the growth of non-tax revenues by 622 795 eur with the growth of total incomes by 4,001,000 EUR. The financial independence of the territorial self-dependence is influenced by a number of demographic, economic, social, and political factors that can considerably reduce or support both the level and dynamics of the financial independence.

It is an assumption of an effective working of a regional self-government to assess the conditions of a sustainable development. We will focus on ratios expressing the ability of a territorial self-government to pay their original competences from the tax revenues.

The tax self-sufficiency rate represents the share of regional tax revenues in total current and capital incomes. The amount of tax self-sufficiency is influenced by tax revenues – i.e. their amount depends from the criteria to be used with redistribution of proportional tax .e.g. the number of residents, kms of roads of the 2nd and 3rd class, the area of a region. The rate of tax self-sufficiency depends from the amount of tax rates of the tax from motor vehicles (TfMV) to be approved by particular HTU as well as from the amount of grants, transfers, and subsidies for a transferred administration namely in the field of education (number of secondary school students and difficulty of the field of study normatíva for a student). Both common and capital transfers are important too to be provided largely in order to fulfil the transferred competences of a region with roads, traffic, social help, and education.

Table 4. The development of a tax rate of self-sufficiency (in %)

Self-gover. region.	2011	2012	2013	2014	2015
Bratislava	57,37	58,60	58,29	59,73	57,87
Trnava	53,37	54,71	54,11	55,60	51,31
Trenčín	49,85	50,78	51,44	52,90	53,66
Nitra	52,14	53,28	52,93	54,22	50,25
Žilina	48,44	49,14	48,06	48,24	46,37
Banská Bystrica	51,57	50,32	51,44	55,10	55,35
Prešov	41,86	47,94	49,37	48,85	48,86
Košice	85,73	86,19	84,65	88,84	47,79

(Source: The own processing based on final accounts of HTU within the years 2001–2015)

The tax self-sufficiency of particular self-governing regions is very different. The highest rate of tax sufficiency was seen in Bratislava self-governing region followed by Banská Bystrica and Trenčín self-governing regions.

Due to an objective assessment of the amount of tax revenues per capita the kind of tax must be taken into account. This is why we have been separately studying the fiscal yield of the tax from motor vehicles per capita. The following table and graph give the obtained results.

The indicator fiscal yield according to the area in kms^2 is assessing the tax revenues for 1 km^2 in a region. This indicator expresses the need of sources.

Table 5. The development of fiscal yield according to the area in km^2

Self-gover. region	2011	2012	2013	2014	2015
Bratislava	30,74	32,03	26,94	35,18	37,47
Trnava	13,12	13,55	13,87	14,43	10,16
Trenčín	12,47	12,69	12,98	13,43	15,05
Nitra	11,10	11,35	11,60	12,24	13,50
Žilina	9,67	8,96	10,02	10,44	11,68
Banská Bystrica	7,56	7,66	7,94	8,02	9,24
Prešov	8,38	8,64	8,95	9,34	10,39
Košice	9,92	10,02	10,42	10,86	12,23

(Source: The own processing according to the final accounts of self-governing regions within the years 2010–2015)

The highest amount of tax revenues is seen in Bratislava self-governing region. In the other regions, the growth of the yield was seen.

If there is a harmony between the responsibility for the expenses between territorial self-government and central government and between fiscal sources to be available to them for funding of these responsibilities we can speak about a vertical fiscal equilibrium. It is very difficult to achieve such a state.

The provision of a certain tax autonomy to decentralized levels of government is a natural and logical way how to achieve a vertical fiscal equilibrium. The extent of income decentralization need not always (and due to the objective reasons it cannot) correspond precisely to the extent of expense decentralization. As a rule, the reason is the shortage of the own income sources. In all the systems of multilevel public funds, the part of the expenses of decentralized governmental levels is paid by transfer funds. There are two reasons for this. The first one is that the reasons for the decentralization of expense responsibilities are stronger than those for the decentralization of tax competences. The regions can be much more effective with the provision of public goods to the citizens with a targeted distribution of social transfers. The main fields of public goods such as health service, education, and social services are essential parts of public budgets and at the same time they are largely decentralized in many countries. If the

decentralization of the expenses leads to a more effective provision of local public goods, the advantages of the taxation decentralization are not quite clear. On the contrary, the taxation decentralization can lead to significant inequalities and to an inefficiency from the viewpoint of national economy. The centralized taxes can be also managed more cheaply, by one tax organ. This makes it possible to avoid distortions arising in fragmented tax systems. Another reason is that the transfer of funds from a central government to decentralized levels can be a tool of the central government to achieve goals to be important for the entire national economy. A properly conceived system of subsidies can correct the inefficiency and/or inequalities to be caused by fiscal decentralization while maintaining the advantages of decentralization.

The ability of self-governing regions to cover the common expenses by common non-tax and tax revenues is expressed by an indicator – the rate of self-funding. The higher is the value of this indicator the more favourable is the situation for a region. The values of the indicator are given in the table. Throughout the entire period of observation, the value of each region exceeds 50%. The higher value of the indicator in the year 2011 was caused by higher both tax and non-tax revenues. A positive development of the indicator can be attributed also to a fading of effects to be caused by economic crisis as well as by a lower unemployment rate both within particular regions and in the entire Slovak Republic. Despite this fact, self-governing regions did not achieve sufficient incomes that would be sufficient for funding of developmental projects. Within the period of observation, all the regions were dependent from other income sources, e.g. the subsidies from the state budget.

Table 6. The development of the rate of self-funding expressed in %

Self-gover.region	2011	2012	2013	2014	2015
Bratislava	67,17	67,17	67,47	52,64	75,85
Trnava	63,64	63,64	66,86	68,31	62,01
Trenčín	57,82	57,82	60,24	56,97	71,02
Nitra	67,06	67,06	68,62	65,95	72,21
Žilina	59,90	59,90	61,40	60,20	64,28
Ban. Bystrica	67,21	67,21	70,76	69,18	74,52
Prešov	57,65	57,65	63,07	61,76	64,93
Košice	55,45	55,45	57,55	55,82	58,93

(Source: Own processing according to the final accounts of self-governing regions)

The diversity of the self-funding rate is reflecting the different level of both tax and non-tax revenues as well as of required common expenses. The self-governing regions have not a great possibility to influence the amount of tax revenues as the proportionate tax represents their considerable part. By the year

2015, it could be influenced by the tax revenue from motor vehicles by means of the given rates. The regions can influence particularly non-tax revenues reflecting their ability to gain the incomes from a business and from providing different goods and services.

4. Conclusions

In the conditions of regional self-government, a high degree of re-distribution of tax revenues persists in Slovakia, thus without the influence of self-governmental regions on their amount. Such a mechanism does not stimulate the economy of self-governments. For twelve years of the working of the given system it should be stated that by now the principle of fiscal equivalence and responsibility has failed. This principle states that the decisions about public expenses should be made at the level of public administration to be responsible for providing a task. Thus the self-governmental unit must have sufficient income sources that will enable to make the decisions about funding the tasks and which will enable it to be responsible for funding including the possibility of indebtedness as well as the possibility to transfer the funds into other budgets. The persisting centralization both causes the shortage of sources and reduces the motivation for using the potential of the administered region. At the same time a lower responsibility for public expenses occurs because there is a separated responsibility for the amount and collection of taxes and for decision-making how to implement them (tax revenues of physical persons). The transfers from a state budget does not cover the objective costs. Their amount depends from the helpfulness of the central government. At the same time there is no interconnection between provision of services and payment of taxes. New problems of both communities and self-governing regions such as demographic changes, unemployment, low household incomes, this all leads to a limited possibility to pay taxes and at the same time it puts the increased demands for funding of public services.

After years of the existence of a valid system consideration should be given to the impact of changes, to adapt to the changed conditions i.e. in accordance with principles of both political and fiscal equivalence to support the financial independence of a territorial self-government. It is aimed at the fact so that the citizens have a better possibility to make decisions about the public expenses and also about their tax burden.

The possible continuation of the process of the competence transfer from the state administration to the territorial self-government and at the same time a fair consideration of the sufficiency of present-day sources for legally determined duties of a territorial self-government will require higher incomes of the budgets of a territorial self-government. It is the question of political decision whether this will be done by transfers or by higher tax revenues. An alternative of higher transfers, especially of own tax revenues and lower transfers is more purposeful. In a case that the financial self-sufficiency of a self-government improves it can be assumed that

the competence of a regional self-government with provision of public goods on the administered territory as well as its financial responsibility will be higher.

In order to ensure the further economic and social development of Slovakia a higher attention should be paid to an optimization of the process of decentralization of public funds. It should be connected with a stronger and deeper stability and effectiveness of a financial system of a territorial self-government. It is important so that the financial independence of regional self-government is deeper and stronger, the stability of its income basis, and the pressure on an effective implementation of the own incomes are higher.

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