Žilina Self-Governing Region – Future Development Risks of Higher Territorial Units in Slovak Republic

Alexander KELÍŠEK
alexander.kelisek@fsi.uniza.sk
Jozef KLUČKA
jozef.klucka@fsi.uniza.sk
Stanislava STRELCOVÁ
stanislava.strelcova@fsi.uniza.sk
Žilina University in Žilina, Slovak Republic

Abstract. Based on a budget analysis of Žilina Self-governing Region, the article points the future risk of development higher territorial units in the Slovak Republic. Authors also notes, that the financial possibilities of higher territorial units in solving the impacts of economic crisis. They're points out that the lack of financial resources for reduction of the economic crisis impacts is determined by various external and internal factors.

Key words: Higher territorial unit (HTU), Public administration model, Economic crisis, Budget revenues, Budget expenditures, Žilina Self-governing Region (ŽSK)

JEL: R - URBAN, RURAL, AND REGIONAL ECONOMICS

1. Introduction

Žilina Self-governing Region (ŽSK) was faced with the consequences of the economic crisis, as well as other regions of Slovakia in the period from 2008 to 2010. Negative impacts of the crisis were the subjects of measures on the national level that were taken by the Government and at local level by the municipal authorities. Taken measures were limited by the existing legal framework, from which are resulting financial requirements and resources.

2. Legal and Financial Framework Model of Higher Territorial Units in the Slovak Republic

Public administration sector includes central government, local authority, social funds and health insurance. Local government consists of municipalities, higher territorial units (HTU) and budgetary and contributory organizations, which are established by local governments.

The general government budget is compiled for the state budget and budgets of other government entities. Prerequisites for the processing of general government budget are:

- Macroeconomic forecasts,
- Medium-term revenue framework,
- Medium-term fiscal framework,
- Medium-term expenditure framework.

It follows that the HTU revenues are derived from the decision-making in the public budget. This is mainly determined by the macroeconomic situation, e.g.: by the height of the expected GDP growth's dynamics, by inflation and assumption of its progress and development of market expectations. Key markets of Slovak republic are EU countries (mainly Germany and France), while the ŽSK (in regard to major employers) is also significant development and economic power of China and Russia.

In the period 2002 - 2005 was carried out local government reform, which included the transfer of competencies, tax reform and fiscal decentralization. This was really important reform of the funding transferred performance of state administration and funding of the original competencies, in terms of financing method of local government responsibilities.

There are (under the law) determined financial resources from the state budget for issues of transferred state administration. Head chairmen of the higher territorial units perceiving the current situation, is that many competences were moved from state to county self-government without the sufficient financial backup. They see solution in the adoption of the so-called French model under which, as the Chairman of Trenčín Self-governing Region Pavol Sedláček said, "unless, the State shall transfer the competencies to the regions, they must also hand over the money" [1].

Original competencies of self-governing regions are financed from tax revenues of the higher territorial units and consisting of the following activities:
a) Ensuring the educational system,
b) Public transport services (by road transporting companies),
c) Directing the social affairs issues (social housing, shelters…),
d) Managing the culture services,
e) Maintenance and development of road infrastructure (roads of II. and III. class).

Revenues of HTU was essentially consisted of car tax and tax on personal income (this agenda is financially provided by the tax authorities within the region), subsidies from the state budget based on a selected number of statistical indicators (e.g. population, number of students, HTU size, altitude and other) and income from EU sources. HTU may also use the financial funds, profits from business activities, repayable sources of funding and associated resources for performing its tasks.

Act on budgetary rules of local self-government [2] provides exactly that budget revenues of higher territorial units are:
a) Revenue of local tax under a special regulation,
b) Non-tax revenues from the ownership, transfer of HTU assets ownership and activities of HTU,
c) Income from funds of HTU,
d) Penalisation for disruption of financial discipline imposed by self-governments,
e) Donations and revenues from voluntary collections,
f) Shares in other taxes in the state administration,
g) Donations from the state budget to cover the costs of transferred performance of state administration,
h) Grants from the state budget,
i) Interest donations from the budget of the municipality or the other self-governing regions,
j) EU funds
k) Other revenues.

Expenditure part of the budget of the HTU consists of financing the performance of original competencies and transferred performance of state administration. Thus the revenue money which HTU spends to cover:
a) Financial undertaking resulting from the obligation established by special regulations,
b) The performance of HTU self-governing competencies,
c) Expenses resulting from the transferred performance of state administration,
d) Expenses related to property maintenance of HTU,
e) Liabilities resulting from the cooperation with other self-governing regions,
f) Liabilities resulting from international cooperation,
g) Interests resulting from loans,
h) Expenses related to issues of securities,
i) Other expenses according to established rules.

Generally, expenditures of the HTU can be divided into optional and mandatory. In the ŽSK is funds distribution in the ratio 20%:80%, i.e. that ŽSK spends 80% of funds for activities resulting from long-term contracts and valid laws. These, determines the possibilities of self-governing region in response to the consequences of crisis.

HTU position (as well ŽSK) is determined by the adopted framework (legal and financial), which shows that:
a) Revenue should be able to affect in a very small extent (declared in the business of law is minimal and disposable assets held for sale is currently minimal)
b) Income established by size of road tax and shares on personal income tax aren't able directly affected by self-governing regions,
c) the expenses are determined from the liabilities that results from the special establishment (e.g. public transport donations by HTU) represent a significant amount, at the same time, however, the restriction limits the mobility of the labour and the quality of life in the region,
d) Labour costs for the performance of municipal functions are derived from existing labour laws and reducing the number of employees is limited,
e) Overhead costs associated with functioning and maintenance of HTU property representing a very limited source of savings,
f) The major source is cost savings on road maintenance II. and III. class - the fact is that after the introduction of toll lot of freight carriers are realising transport at these roads. This is increasing requirements for maintenance and also reduces the quality of life in many areas of HTU.

3. Budget´s Analysis of Žilina Self-Governing Region

To be able to realistically consider the possibilities and reserves of ŽSK financing, there is necessary to proper basic analysis of the HTU budget retrospectively from the first year of crisis to the present time and to consider the draft budget projected for period from 2011 to 2013. Not all items of a plan are quantifiable in several years forecast. Therefore, we will deal with those, which are already known. Since the region's budget recalls the traditional balance sheet of the company, authors applied, within the frame of ratio and inter-annual comparison, vertical and horizontal analysis balance sheet analysis. A specific of the HTU budget in Slovakia is that the government legally can not realizing deficit in the budget at the end of the year. This action prevents possible government's indebtedness, which would lead either to bankruptcy or forced consolidation of self-government finances from the side of state government.

4. Vertical and Horizontal Analysis of Budget´s Revenues of Žilina Self-Governing Region

From the vertical perspective can be revenue part of ŽSK budget divided into three basic categories. It consists of current revenues, capital revenues and revenues from financial operations, which are annually filling the budget of self-government. The current revenues consist about 93% of tax revenues and grants, respectively transfers. The lowest item is a 7% of non-tax revenues.

Capital income primarily consists of grants and transfers in an average portion of 89.5%. In years of crisis, when are the business activities determined by any economic conditions of the national economy, has been surprisingly positive development of non-tax revenue in 2009 (affected by the economic expansion of SR). This includes the business of government at 26%. Income from business activity fell to 1% of capital revenues, in 2010 due to the negative impact of the financial and economic crisis. The planned budget for 2011 is a noticeable return of non-tax revenues to about 7% of capital revenues. This trend can be regarded as a significant backlog of business activities on HTU side.

Tab. 1 Revenue budgetary items of Žilina Self-governing Region

	Budget (EUR)			Budget's draft (EUR)		
	2008	2009	2010	2011	2012	2013
CURRENT REVENUES	**124 597 623**	**135 503 517**	**127 773 426**	**130 141 294**	**133 525 939**	**137 365 229**
Tax revenues	63 169 090	66 402 885	56 236 904	62 100 000	66 650 000	68 700 000
Non-tax revenues	7 122 884	7 805 271	8 541 786	9 300 000	9 443 648	9 791 122
Grants and transfers	54 305 649	61 295 361	62 994 736	58 741 294	57 432 291	58 874 107
CAPITAL REVENUES	**6 631 084**	**7 925 502**	**20 416 119**	**3 119 546**	**0**	**0**
Grants and transfers	6 079 567	5 851 410	20 134 644	2 889 546	N/A	N/A
Non-tax revenues	551 517	2 074 092	281 475	230 000	N/A	N/A
FIN. OPERATIONS - re	**18 481 079**	**20 390 506**	**16 939 044**	**15 035 773**	**0**	**0**
A&L's transfer revenues	3 548 164	3 820 829	7 690 018	5 598 444	N/A	N/A
Incoming loans	14 932 915	16 569 677	9 249 026	9 437 329	N/A	N/A

Source: [3], [4], self processing

In the frame of revenues from financial operations is a positive development. While between 2008 and 2009 has been received loans about 81% of total revenue from financial operations, in the coming years it creates a space to consolidate this part of the gap between transfers of financial assets and liabilities of loans received are non-linear slowly offset.

In the horizontal perspective we compare only the change in government revenue between 2010 and 2011. This are a post-crisis years, who can tell a lot about the status and development of ŽSK budgetary revenues. Here it is necessary to count with annual delay in comparison of economy development because of tax revenue as a fundamental municipal budget. At inter-annual comparison increased revenues of ordinary income tax and non-tax revenues, while income from grants and transfers decreased by 7%, during the reporting period. It should be noted that we based the analysis on 3rd budgetary modification of the municipal budget draft for year 2011 (yearly there is about 5-6 modifications), in part of evaluating capital revenues. We can observe non-tax revenues inter-annual decline on the side of capital income of 18%.

Compared to 2010, revenues from financial operations expecting increasing of loans taken by 2% and a significant decrease of income from transfers of financial assets and liabilities, in 2011. Overall, it is possible to evaluate the current revenues well above the other two categories of ŽSK budgetary revenues.

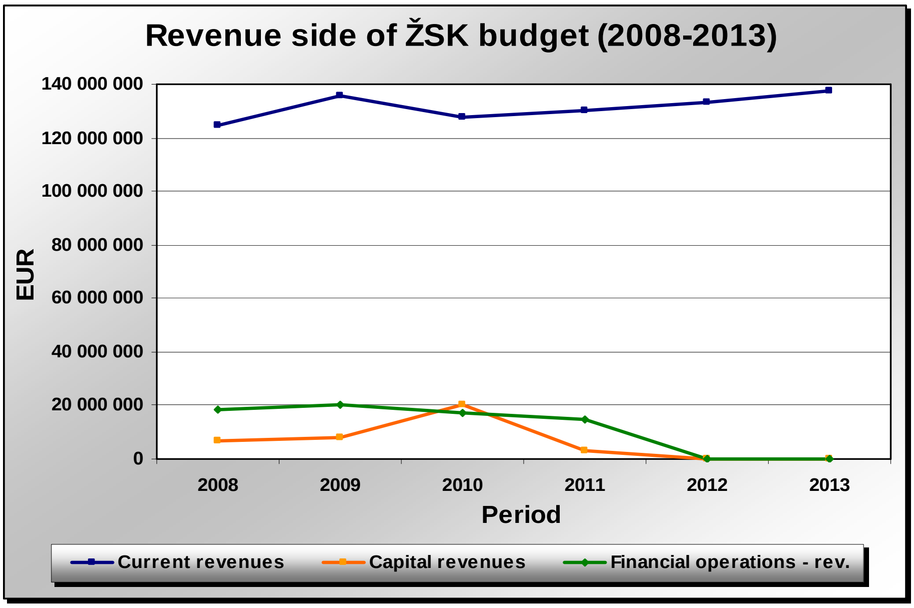

Figure 1 Revenue budgetary part of ŽSK in period 2008-2013 (plan for period 2011-2013)
Source: [3], [4], self processing

5. Vertical and Horizontal Analysis of the Budget´s Expenditures of Žilina Self-Governing Region

Vertical comparison of the region's budgetary expenditures has three main chapters and multiple under-sections. The main items are again current and capital expenditures and expenditures from financial operations.

Tab 2 Expenditure budgetary items of Žilina Self-governing Region

	Budget (EUR)			Budget's draft (EUR)		
	2008	2009	2010	2011	2012	2013
CURRENT EXPENDITURES	**118 795 058**	**131 808 824**	**131 127 107**	**127 234 922**	**128 475 880**	**132 752 707**
Higher territorial units	6 314 179	7 958 797	7 158 781	7 955 310	7 663 950	7 970 508
Regional elections	0	19 471	0	0	0	0
Medical equip. admin.	596 793	715 060	697 072	1 058 304	1 006 219	1 056 530
Transport	17 994 457	20 201 534	20 345 895	20 049 696	20 707 798	21 332 658
Health services	1 449 280	313 809	0	0	0	0
Cultural services	6 474 640	7 078 360	6 413 000	5 511 069	5 776 122	6 064 929
Education	60 115 481	66 538 743	66 606 357	64 570 220	63 973 791	65 742 682
Welfare	25 253 535	27 704 850	26 823 361	26 935 718	28 748 000	30 185 400
EU funds	596 693	1 278 200	3 082 641	1 154 605	600 000	400 000
CAPITAL EXPENDITURES	**27 097 987**	**26 807 993**	**31 214 725**	**18 126 993**	**2 159 012**	**1 716 824**
Higher territorial units	1 458 640	971 064	448 996	471 000	0	0
Medical equipment admin.	0	805 569	406 557	0	0	0
Transport	6 169 422	2 884 635	15 779	0	0	0
Health services	8 512 547	5 034 198	615 010	537 673	0	0
Cultural services	5 049 658	3 832 970	647 029	971 779	0	0
Education	3 490 108	4 223 671	1 933 483	1 187 175	0	0
Welfare	1 995 950	2 391 401	839 409	882 276	0	0
EU funds	421 662	5 387 052	25 953 929	13 955 090	2 159 012	1 716 824
Project documentation		1 277 433	354 533	122 000		
Reserve fund		0	0	0	0	0

	Budget (EUR)			Budget's draft (EUR)		
	2008	2009	2010	2011	2012	2013
FIN. OPERATIONS - exp	**2 655 514**	**2 718 582**	**2 786 757**	**2 934 698**	**2 891 047**	**2 895 698**
Loans – outcoming	0	58 089	23 235	55 000	0	0
Principal repayment	2 655 514	2 660 493	2 763 522	2 879 698	2 891 047	2 895 698

Source: [3], [4], self processing

Approximately half (50-51%) of current government spending goes to education, which is included in the law in chapter transferred performance of state administration conferred under the auspices of self-governing regions. Approximately 20% of current expenditures of government expenditures are spent for social security and 15% for public transport.

The capital expenditures in 2010 significantly decreased in items of education, health, cultural services and social security, compared to previous years. This is a result of the self-governing competences reform and major departmental project termination.

Towards the conclusion of the first phase drawing EU funds in 2013 is a noticeable positive trend in the development of the relevant item of ŽSK budgetary expenditure. Financial operations are largely represented by repayments of loans (99%), which had been borrowed in the past.

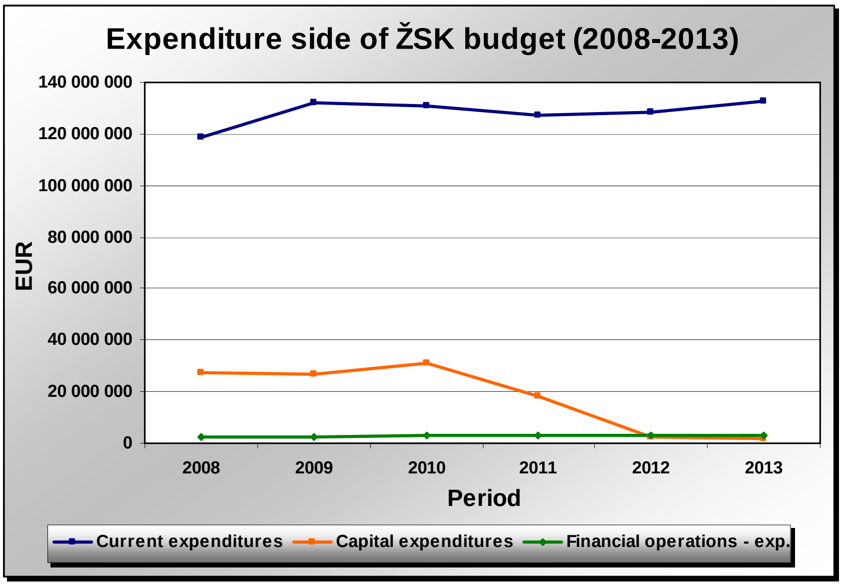

Figure 2 Expenditure budgetary part of ŽSK in period 2008-2013 (plan for period 2011-2013)
Source: [3], [4], self processing

In the horizontal view of the ŽSK expenses (after 3rd ŽSK budget modification) we can conclude that current expenditures are in the range from 120mil to 130mil EUR inter-annually. In the coming years it is expected slight increase in these expenses, which is in contrary to current government policy of narrowing in government expenditures, where belong the self-governing funding, also. The largest increase in capital expenditures was recorded in 2011 has been cultural services, however, only slowly returning to pre-crisis levels (comparison: in 2008 - 5.05mil EUR, in 2011 - 0.97mil EUR). Expenditures from financial operations compared to the absolute values recorded slight increase in loans repayments (estimated 3 million EUR). This constitutes the vast majority of this expenditure budgetary item. It is a sign of ŽSK slow growing indebtedness trend.

6. Final Interannual Budget of Žilina Self-Governing Region

In the pre and post-crisis period are the major revenue budgetary items financial operations and the current budget, which covers temporary underdeveloped part of the capital budget. Even in the coming years cannot expecting an improvement, since the trend evident in Figure 3 is distorted by the lack of information in compiling the municipal budgetary plan for the next years.

Tab 3 Inter-annual comparison of the Žilina Self-governing region's final budget account

(surplus/deficit)	Budget (EUR)			Budget's draft (EUR)		
	2008	2009	2010	2011	2012	2013
CURRENT BUDGET	5 802 565	3 694 693	-3 353 681	2 906 372	5 050 059	4 612 522
CAPITAL BUDGET	-20 466 903	-18 882 491	-10 798 606	-15 007 447	-2 159 012	-1 716 824
FIN. OPERATIONS	15 825 565	17 671 924	14 152 287	12 101 075	-2 891 047	-2 895 698
FINAL BUDGET	1 161 227	2 484 126	0	0	0	0

Source: [3], [4], self processing

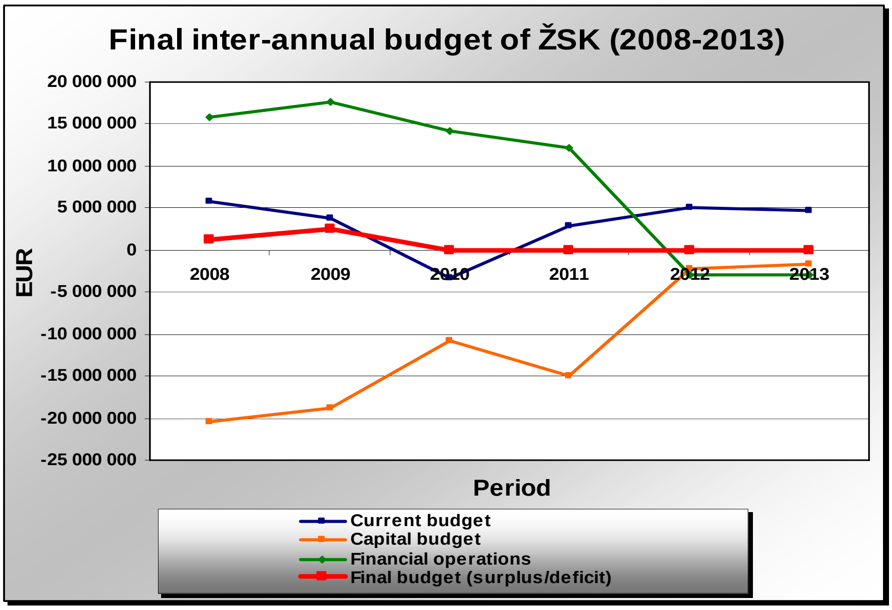

Figure 3 Inter-annual final comparison of ŽSK budget in period 2008-2013
(plan for period 2011-2013)
Source: [3], [4], self processing

In 2010 recorded a current part of the ŽSK budget significant decrease due to the reduction of collecting personal income tax revenues in 2009. Year 2010 was the worst crisis year, to the Slovak economy. The current part of the municipal budget in 2010 ended with a deficit of more than 3.3 million EUR. Self-government this loss covered by cuts of capital budgetary items by about 50%, while in 2011 counts the gradual straightening on the pre-crisis levels. Financial operations annually achieve a surplus of around 15 million EUR.

There is an obvious disparity between the various components of the ŽSK budget, from figure 3. Financial operations and current budget appropriations temporary cover long-term capital losses. There are several serious risks for the self-governing region from this type of budgetary managing. It is particularly noticeable decreasing trend in revenues from financial operations. Major expenses, the government will not able to keep in the positive numbers are current items, due to reform act called transferred performance of state administration. Expenditures on transfers of title transferred performance of state administration (45%) significantly increase spending on education items, soc. security, culture, maintenance of roads and public transport. As the government, due to law can manage at least a balanced budget (this was used in 2010 and plan for the next years), this state will be in the future horizon of several years of unsustainable.

7. Measures for Reducing the Negative Consequences of the Crisis

At the government level is reduction of crisis potential impact determined by the GDP decline, growth of unemployment rate and economic recession, which increases the state's costs of social spending. The government in times of crisis set up a special commission consists of a representative of employees, employers and major companies, for taking minimization of the crisis impact. Generally, it can be concluded that the taken measures hadn't a systemic character and the most important measures taken in this period were:

- Application of "scrapping compensation"
- Application of working time flexible organization called "flexikonto",
- Introduction of social enterprises.

These measures had just minimal impact on negative consequences of the crisis in self-governing regions. The reason is that the target markets of one of the largest employers in the region, the KIA Slovakia company, are markets in Western Europe, China and Russia. So that social enterprises can not ensure economic development because of the objective but also subjective reasons.

Tab 4 Tax of personal income – Žilina Self-governing Region (thousands EUR)

Year	Reality (EUR)	Government's estimation	Difference (EUR)	Difference (%)
2008	53 739	49 243	4 496	9,1
2009	50 736	59 629	-8 893	-14,9
2010	41 921	64 833	-22 912	-35,31
2011	47 500	71 689	-24 189	-33,7

Source: [5]

Personal income tax is one of the major sources of HTU budgetary revenues. This income is realized through the government and then redistributed to individual region governments. Limit is the success of selection and the overall economic situation of the country. As shown in table 4, in the years 2009 to 2011, there was a significant difference between the estimation and the actual state of this budgetary item by the government. Table 4 shows the history of personal tax on income and to compare the estimation of the government in preparing the budget for the years 2009 - 2011.

As is clear from the legislation, in which are intended competencies of HTU, it's activities aren't focused on business activities during the crisis, but to ensure that delegated competencies - which are mainly social and health care, culture and sport and II . and III. class road maintenance.

For 2010, ŽSK therefore took measures that are based on past experience and taking into account their own capabilities. Measures were taken [5]:

- Approved budget less than forecast provided by the Ministry of Finance SR,
- Application of crisis management in the HTU,
- Formulation of priorities in the budget as follows:
    - Operation to ensure the normal running of organizations covered by self-governments,
    - Minimum wage interventions, especially savings in item of goods and services,
    - Not increasing liabilities - maintain a stable CF,
    - Effective using of sources,
    - Using of EU funds.

8. Conclusion

It may be noted that on revenue side is self-governing region budget primarily focused on state budget and EU funds and the expenditure side, consists in a significant amount of obligatory expenditures. Possibilities of obtaining funds from the business activities established by the law No. 583/2004 are at the level of self-governing regions essentially unrealized. This fact, which was also confirmed in the previous budgetary financial analysis, the authors considered the greatest lack of management self-governing regions in Slovakia. In the horizon of several years when mandatory spending will rise and the period of drawing EU funds will be finished, this state is unsustainable.

The municipality can not be kept as an allowance or budgetary organization in long-term meaning, which form a substantial part of budget by income personal taxes collected from people living on its territory. The income part of self-governing regions budget must increasingly meet the business activity, otherwise on the horizon a few years threatens to collapse of self-government in Slovakia. Needed is a change of the legal framework that would ensure that the transferred performance competencies would always be associated with transferring funds to cover them.

Following the examples of municipality (or self-governing regions) successful business activities should not to go far away. It is possible to mention as an example government of the Austrian capital Vienna, which started construction of a new city district named Aspern. On an area of approximately 240 hectares exposed to developers under the control of the municipality 8,500 residential units and office centres for 25,000 employees. Of course, such massive construction in Slovakia is unrealistic, but if you look at the problem of competence and in terms of income, is a clear difference. "While in Vienna municipality is the owner of land with well-planned future using, architecture and layout, municipalities and self-government involvement in Slovakia, ending at the time of sale or lease of land for the development project." [6] Instead of participating in business projects, the HTU capital Žilina teetering on the edge of forced financial administration because it threatens the fulfilment of liabilities in the volume of several tens of million EUR.

Acknowledgement
The article was processed in the grant framework of the Ministry of Education, Science, Research and Sport of the Slovak Republic VEGA 1/0699/10 Crisis Scenarios for Socio-economic Impacts of the Economic Crisis in the Žilina Self-governing Region

References

[1]. SITA: SK8: Predsedovia krajov kritizujú systém financovania VÚC. [online], Cit.: [2011-07-21], Available at: http://udalosti.noviny.sk/politika/27-05-2011/sk8-predsedovia-krajov-kritizuje-system-financovania-vuc.html
[2]. Law No. 583/2004 o rozpočtových pravidlách územnej samosprávy a zmene a doplnení niektorých zákonov
[3]. ŽSK: Budget of the region for year 2010 and adjustments, 6. adjustment of ŽSK budget for year 2010. [online], Cit.: [2011-07-19], Available at: http://www.regionzilina.sk/showdoc.do?docid=8522
[4]. ŽSK: Budget of the region for year 2011 and adjustments, 3. adjustment of ŽSK budget for year 2011. [online], Cit.: [2011-07-19], Dostupné na: http://www.regionzilina.sk/showdoc.do?docid=8522
[5]. ULAHER, S.: Dopad finančnej krízy na rozpočet ŽSK. Presentation in seminar of project VEGA, Žilina University of Žilina, 2011
[6]. MISTRÍK, Ľ.: Nová mini Viedeň, TREND – extra reality (summer 2011), Annex of magazine Trend, p. 5, Bratislava, 2011
[7]. ŽSK: Web pages of ŽSK, [on line], Available at: http://www.regionzilina.sk/showdoc.do?docid=4
[8]. Kríza preverila naše schopnosti – interview with director of ŽSK office Pavol Holeštiak, [online], Cit.: [2010-10-12], Available at: http://www.zilinskyvecernik.sk/index.php?option=com_content&task=view&id=22312&Itemid=71
[9]. MUCHOVÁ, Z.: Napriek ktíze sa Žilinský kraj snaží pomáhať. Magazine Liptov. [online], Cit.: [2010-08-17], Available at: http://www.liptovmagazin.sk/index.php/samosprava/2452-ilina-napriek-krize-sa-ilinsky-kraj-snai-pomaha.html
[10]. 3x3 nápady ako vzdorovať kríze. Economic web magazine ZISK, section Economic crisis. [online], Cit.: [2011-07-21], Available at: http://www.ezisk.sk/821/3--3-NAPADY-AKO-VZDOROVAT-KRIZE_14905.aspx