INCOME BASIS OF REGIONAL SELF-GOVERNMENTS IN THE SLOVAK REPUBLIC

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Abstract

Income sources and competences of regional self-government change with political, economic and social effects. The article is aimed at evaluating the development of the regional self-government income basis, the extent of fulfillment of functions and results of regional self-government performance within a decade reflection. We can state that tax income plays an important role within the regional income basis. The tax income represents the basis of financial strength indicator expression that is essential when evaluating income sources of particular regions. We applied multi-dimensional statistical methods to determine the order of particular Slovak regions in the context of chosen indicator. In order to demonstrate the relevant results, as well as to formulate the corresponding conclusions of the analysis carried out, we have chosen a ten-year period.

Key words: *regional self-government, fiscal decentralization, tax revenues, non-tax revenues, financial strength*

INTRODUCTION

Regional self-government represents a significant part of public administration, one of whose tasks is to care of complex development of the territory and satisfaction of the needs of regional inhabitants. Fulfillment of tasks significantly influences the funding sources. Self-government has right to acquire funds from its own activities, and to receive the funds from various state levels. Public administration in Slovakia has passed a few reform actions and fiscal decentralization represented one of them. Fiscal decentralization can be understood as a mean of public sector effectiveness and optimizing assurance. Its essence refers to financial responsibility for decision making, allocation of public property and provision for funds for public services. A fundamental condition is to allow the local governments to have an adequate income available in the form of tax income or transfers from other governmental levels [Hamerníková, Maaytová 2007: 202–203]. Basic idea of fiscal decentralization represents the precondition of public property provision on the lowest, i.e. local level, since it ensures higher effectiveness and economical effect. This concept should guarantee a more flexible response to the citizens´ needs and preferences, and allow them directly participate and perform control more efficiently [Provazníková 2007: 44].

Fiscal decentralization in Slovakia acquired sharper outlines in January 2005, with the basis whose formulation started already in April 2004, when the Ministry of Treasury submitted the Act on Budgetary Determination of Tax Revenue to annotations by territorial self-government. Pursuant to the Act, share on physical entities´ income tax has become an income to the local and regional self-government´s budget. Efforts to strengthen local and regional self-government financial autonomy and eliminate their dependence on the state budget represented one of the public administration reform goals. Concurrently, the reform should strengthen the responsibility of higher territorial units and municipalities´ bodies for creation and spending of funds, increase their funding transparency and ensure financial economy justice and stability. Fiscal decentralization as a result of fiscal federalism represented solution of the problem with optimum income allocation to ensure funding of the public needs.

Fiscal decentralization included two correlating areas. The first area referred to distribution of expense responsibilities and income sources among particular governmental levels. Within the second area, certain level of freedom was determined for regional and local governmental levels deciding on income and expenses. Based on the fiscal decentralization process, the Slovak Government assigned certain package of competences to the territorial self-governments; defining the way of their funding.

Strengthened right of local and regional self-governments to freely decide on the sources of their income and their allocation represented an outcome of the fiscal decentralization process. It is also important to evaluate the efficiency of spent resources. Assessing local government performance is a topic that has been given considerable attention in many countries in recent years, both in terms of enhancing its effectiveness and in its efforts to strengthen its democratic control by the public. An important role in this context was played by New Public Management approaches. These methods are characterized by T. Kostelecký and V. Patočková (2006). The whole range of empirically oriented publications deal with public administration performance measurement issue, focused on mutual comparison of various governments´ performance. Theses of Savage, 1978, Barrileaux, Feiock, Crew, 1992, Hendrick 2004 are an exception. Their authors analyzed and explained the difference identified in the governmental performance, applying the whole range of independent variables that describe all possible potential explaining factors (economic and social-economic environment, political culture, etc.). In the stated literature, common conclusion can be found that the public sector performance can be evaluated from various points of view and it is a multi-dimensional concept.Self-government of higher territorial units (HTUs) started forming itself in 2001. During period of years 2001–2004, HTU acquired many competences and related assets, financial and personnel resources. Regional self-government is considered a key player in regional development at the regional level. [Buček, Plešivčák 2017: 603].

1. REGIONAL SELF-GOVERNMENT IN THE SLOVAK REPUBLIC

In the conditions of the Slovak Republic, the public administration structure refers to a 3-pillar system comprising the state administration, self-government and public-legal corporations. The state administration has the most important position in the terms of major state tasks and functions discharging. The state administration nature and structure resulted from the essence, position and mission of the state, as well as from the state power enforcement methods. Self-government refers to another significant component of the public administration. As indicated by its name, it is a free government of itself. Průcha [2011: 19] defined self-government as such a part of the public administration that is discharged by other public-legal subjects instead of the state. Self-government includes such area of public administration that has been assigned to subjects in compliance with law that it is directly associated with. It refers to empowerment of certain local community to independently control the area of issues specified by law, especially issues that are relatively independent on a broader societal organism that it represents a part of.

Territorial self-government as a sub-system of the public administration has passed through a long historical development and is indeed one of the most important parts of the society structure. From a political point of view, territorial self-government can be understood as a democratic and decentralized state administration discharged by elected representatives of the citizens in a particular controlled region. Citizen participation is usually seen as a vital aspect of democracy. Many theorists claim that citizen participation has positive effects on the quality of democracy. The article concludes that for a healthy democracy at the local level, aspects of democratic citizenship are more important than having a direct say in decision-making. [Ank, De Graaf 2010]. Another one is a legal point of view to which territorial self-government represents an independent public-legal corporation different from the state; with the territory inhabitants being its members [Grúň, Pauličková, Vydrová 2005: 46]. Peková, Pilný (2002, 2011), Belajová, Balážová (2004) and Žárska et al. (2007) understand territorial self-government as the exercised right of citizens for their own self-government, independent control of public matters in the territory smaller than the state territory, provided that the control or administration is performed pursuant to competences determined by law, and the economic conditions.

In the conditions of the Slovak Republic, territorial self-government has passed through intense development and it was reconstructed after 1990 when the Slovak National Council Act No. 369/1990 Coll. on Municipal Establishment was adopted. The development of the 2nd level territorial self-government represented a part of the public administration reform actions, pursuant to the Slovak National Council Act No. 302/2001 Coll. on Higher Territorial Unit Self-Government. In its 4th head, Article No. 64, the Slovak Constitution defines territorial self-government considering its fundamental components, namely municipality and higher territorial unit (hereinafter „HTU"). The stated head contains also general characteristics of a municipality and HTU; details thereof are specified in the Slovak National Council Act No. 369/1990 Coll. on Municipal Establishment as amended. Pursuant to the Slovak Constitution and the said regulation, municipality and HTU are defined as „independent self-governing and administration units of the Slovak Republic that group citizens with permanent residence in their territories." Both units have a status of legal entity and are authorized to control independently their assets and finances in compliance with the terms stipulated by law.

Regional self-government in Slovakia represents one of the latest forms of public administration. Its establishment was conditioned with a range of significant circumstances. Efforts for more effective spending of public funds through regional governments that would be responsible for economic and social development of a territory represented the most important circumstance. Regional self-government competences are closely interconnected with coordination and control of territorial units on hierarchic-higher level of the state government than on local level, but concurrently on lower than national level [Hamalová 2008].

In the conditions of the Slovak Republic, regional self-government has been discharged through eight self-governing regions established pursuant to Act No. 302/2001 Coll. on Higher Territorial Unit Self-Government as amended. According to the Act, self-governing region is a legal entity that independently controls its assets and income upon the terms stipulated in the Act, and within the self-government, it supports general development of the assigned territory and the needs of its citizens. Pursuant to the Act, the Slovak regions have to ensure development and fulfillment of the territorial social, economic and cultural development program, perform the planned activities, their own investment and business activities, and create the terms of the development of healthcare, high school systems, culture, tourism, sport and leisure activities.

„Competences discharged by regional self-government bodies are mostly of original nature and cannot be restricted or cancelled by any other public administration body except if stated by special regulation. It doesn´t mean that competences originally assigned to other sub-systems of the administrative system – so called transferred competences – cannot be delegated to these bodies [Klimovský 2008: 243]. Regional self-government´s mission is to represent the needs and interests of citizens of all towns and cities within the region towards the state. Within the transferred competences, they as well represent the state interests in the regional territory, assigned to them.

Specification and discharge of competences and their funding represent the key and also problematic areas in the system of regional self-government functioning. These problematic areas are of dynamical nature and have passed certain development during the previous period.

Higher territorial units provide for funding of self-government competences and the activities of budgetary organizations within their competence, especially from tax income and own HTU economic earnings. Competences of transferred state administration in the education sector, tasks associated with regional development and environmental protection, as well as implementation of projects co-funded from the EU Structural Funds and Cohesion Fund are funded through the subsidies from the State Budget and respective chapters. Based on the resolutions passed by the Slovak Government, subsidies for funding of certain specific tasks within HTU

competences are provided from the chapter „Public Treasury Administration“. Tax income shares on the common budget with the highest proportion amongst the mentioned income types.
Public administration organizations are subject to the same rules of economic rationality and their managers face the same amount of uncertainty and risks as managers in the business world [Daňková, Čepelová, Koreňová 2017].
Currently, all economic preconditions of self-governing regions have not been met yet. The regions cover the economic needs from their budgets, controlling their assets and creating their budget from own income. Within their competences, they are allowed to influence only non-tax income and own capital income that are rather low. Regional self-government funds major part of the original competences from tax income. Tax income represents the second most important source of their needs funding. Since 2005, regional self-government has been authorized to decide on its own on allocation and spending of funds from shared tax and revenues from motor vehicle tax. Current model of funding the self-governments is mainly based on vertical financial settlement.

2. REGIONAL SELF-GOVERNMENT INCOME SOURCES

The Slovak self-governing regions use their own budgets to control the economic performance. They control own assets and use own income to create a budget. However, they are currently competent only to influence non-tax income and own capital income generating, which is rather low. Tax income shares on the common budget with the highest proportion amongst the stated income types. Since 2005, regional self-government has been authorized to decide on its own on allocation and spending of funds from shared tax and revenues from motor vehicle tax. A current model of funding the self-governments is mainly based on vertical financial settlement.
Own income, budget and reasonable independency extent is a precondition of successful functioning of each territorial self-government section. The more complicated is the public administration structure, the more important is the decision on optimum income allocation, especially of tax income, and on funding of particular budget expenses within the budgetary system.
The needs of self-governing regions are funded especially through combination of tax income, non-tax income, capital income, subsidies from the state budget, subsidies from the state funds and credit sources. A tendency of own regional self-government income strengthening has been reported during the last decades. Increasing own irrecoverable income allows for increasing financial self-sufficiency of particular regions.
The structure of self-governing regions budgetary income changed mainly upon the change of the share on physical entity income tax. Subsidies from the state budget represent the major group of income, followed by subsidies from the state funds. Amount of subsidies from the state budget impacted upon transfer of competences from the state to self-governing regions. The following Table 1. presents the share of particular items of income on self-governing regions´ budgets.

Table 1. Self-governing regions budget income (HTU)

Revenues of HTUs	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Tax revenues	46,1%	42,5%	44,9%	40,2%	39,8%	45,2%	44,0%	42,6%	46,9%	49,2%
Non.tax revenues	5,4%	5,1%	5,1%	5,8%	5,5%	6,2%	10,7%	9,5%	9,7%	7,0%
Capital revenues	13,2%	20,6%	14,3%	14,4%	22,7%	14,0%	11,4%	15,7%	10,4%	10,6%
Grants and transfers	35,3%	31,8%	35,7%	39,6%	32,0%	34,6%	33,9%	32,3%	33,0%	30,7%

Source: own processing on the basis of Ministry of finance SR

Tax income has been sharing with highest proportion on HTU needs funding for a long time, varying within 39.8 % - 49.2%. The second major funding source corresponds to grants and transfers that share on funding with 30.7 % - 39.6%. Capital and non-tax income also refer to important part of income. HTU budget includes also financial transactions, namely transfers from HTU monetary funds and recoverable funding sources, and their repayment. Provided loans and recoverable financial accommodations from HTU budgets and their repayment, as well as issued and accepted bills of exchange, and sale or procurement of capital participations also represent financial transactions. Financial transactions are not included in HTU budget income and expenses. (Act No. 583/2004 Coll.)

Development of tax income has been affected also by adopted legislation amendments and changed terms of funding. Efforts for assurance of transferred competences discharging by the state also played an adverse role therein. A remarkable contribution could be attributed also to the criteria determined in the process of physical entity income tax revenue redistribution among particular HTUs, pursuant to the Act on Physical Entity Income Tax Revenue Redistribution as amended.

EU Council recommends to EU member countries to draw tax income of decentralized governmental levels from taxation of particular residents, assets or companies located in the territory of particular self-government. The studies indicate (CDLR 1998) that if income and real-estate taxes represent an income to decentralized governmental levels; these territorial self-governments have higher tax autonomy.

Search for optimum tax income decentralization has been subject to many theoretical analyses and practical empiric verifications since the tax income represents major funding source. The theory defines (Musgrave 2004) taxes that should be allocated to the budgets of particular territorial self-government levels in the terms of income stability. This problem has been apparent especially during the last decades when the process of material competences and responsibilities decentralization in Europe has been accelerating. Competences and responsibilities decentralization to particular territorial self-government levels requires adequate decentralization of tax revenues but the state hesitates with losing control over major part of tax income in favor of territorial self-government. The problem is more present in the situation of tense management of the State Budget with the existing huge pressure on reduction of the State Budget deficit.

Since 2016, share on physical entity income tax has represented the only tax income of regional self-administration. Before 2016, local motor vehicle tax had represented a tax income of HTU. Physical entity income tax is a shared tax resulting from the reform efforts for ensuring higher effectiveness of public administration.

Act No. 583/2004 Coll. on Territorial Self-Government Budgetary Principles as amended, and Governmental Regulation No. 668/2004 Coll. on Distribution of Tax Revenues from Regional Self-Administration Income represent the main material-legal regulations determining the shared taxes as a part of income to municipalities and HTU. In its § 2, clause 1, the stated Governmental Regulation specifies the criterions and considerations of fair allocation of funds.

A possibility for regional self-government to independently decide on the funds utilization represents the biggest advantage of this tax type. Transparency of funding system is another advantage of shared tax. Favorable shared tax aspect has been supported by the fact that the shared tax represents one of the most stable taxes whose collection during a year is regular. Concurrently, shared tax revenues growth dynamics is interconnected with increasing employment and real income in the future.

Physical entity income tax as a shared tax supports stability of regional self-government tax income. Its advantage is that it enables interconnection of revenue tax with the economic cycle that makes regional self-governments to proceed parallel to stabilization strategy of the state government. Further advantages include the increase of regional self-government budgetary financial independence. Tax collection independence on the tax basis clearing point means that tax administration and collection centralization allows for reduction of the tax administration and collection of administrative cost. Thus, its main advantage refers to the ability to reduce spatial tax income differences, provided that the criteria of state-wide tax revenues among the regions have been properly set up. Personal revenue tax has been especially sensitively perceived by tax payers, thus its utilization by territorial self-governments applies pressure on local politicians´ responsibility.

As for an adverse aspect of this tax type, we should state that regional self-government is not authorized to decide on the tax amount and thus also unable to influence the tax basis, tax rate, nor the tax administration. It means that interconnection between deciding on income and spending isn´t allowed since the increase of particular HTU expenses doesn´t directly affect the tax amount in its territory. Concurrently, the fact that regional self-government is aware of shared tax amount as late as at the end of a calendar year, when the state budget for the following fiscal year has been agreed on, is a big CON. Accordingly, HTUs expense planning for the following year is dramatically restricted. Before 2016, instability of physical entity income tax distribution system had represented a significant deficiency of regional self-government participation on central taxes. Constantly changing amounts of shared tax disabled the prediction of shared tax allocation to their budgets. Central governments tend to look at shared taxes as at their income, making efforts to regulate their allocation, similar to subsidies. [Nižňanský 2009: p. 18]. We should understand this tax as a stabilization policy tool that can be reduced during economic recession in order to stimulate the aggregate demand (along with serving as a built-in stabilization in case of progressive tax rate). Local governments often act contradictorily, trying to increase a tax in case of a regional budget deficit. All tax requirements, subject of taxation, tax payer identity, method of tax basis calculation, its adjustments, tax rates, tax relief and exemption of tax have been regulated by the state-wide applicable law. Despite of proclaimed shared tax deficiencies, share on physical entity income tax refers to most frequent tax income of local governments in the majority of Central and Eastern European countries.

Act No. 564/2004 Coll. on Budgetary Determination of Physical Entity Income Tax Revenue as amended represents one of fundamental fiscal decentralization regulations. In 2015, the Act was amended through the Act No. 333/2014 Coll. and Act No. 361/20014 Coll. dealing with adjustment of physical entity income tax share by municipalities from 67% to 68.5% and HTU tax share from 21.9% to 29.2%, effective from Jan 01, 2015. Act No. 361/2014 Coll. has amended budgetary determination of a motor vehicle tax and originally own HTU income has become the state income.

A motor vehicle tax was a local tax whose rate was determined by HTU through generally binding regulations. A tax rate was reviewed on annual basis. A motor vehicle tax has been collected by the state since 2016. Motor vehicle tax isn´t distributed according to company registered office but to a total length of roads controlled by the region, the area of region, population and density per 1 km2. The state controls the motor vehicle tax through locally competent Tax Revenue offices. Such change was substantiated with a different approach of higher territorial units to determination of tax rates and the terms of exemptions of a motor vehicle tax. Different rules have allegedly caused uneven tax burdening of companies/ entrepreneurs. Legislation amendment resulted in uniform tax rate, uniform terms of exemption of tax, increased and decreased rates of tax paid in the whole territory of Slovakia.

Bratislava Self-Governing Region (BSK) reported the highest share on motor vehicle tax. Regions that had to control an extensive network of 2nd category roads share on this tax type often below 20%. Such a situation definitely required a change. However, such a change, when enacted, significantly affected the rights of self-governing regions. It shall reduce financial self-sufficiency and autonomy of regional self-government. Self-governing regions dependence rate on the central government decisions has increased. Tax Revenue offices paid the share of the motor vehicle tax to particular HTUs last time in January 2015 as a settlement for the preceding year (revenue from December 2014) in € 13,785.67 thsd. The data for 2015 represent additional payment of the motor vehicle tax for 2014.

Tax income shortage in the form of the motor vehicle tax should be substituted with increased share on revenues from physical entity income tax. Implementation directive to the above stated Slovak Government Regulation No. 668/2004 on Redistribution of Revenues from Physical Entity Income Tax as amended was amended in 2014, namely its Enclosure, with effect from Jan 01, 2015. In the Enclosure No. 6, coefficients for calculation of HTU share on revenue from the tax were adjusted. Namely, original coefficients were replaced with newly determined coefficients of redistribution – see the Table 2., regulating the way of redistribution of the increased share of HTU on physical entity income tax revenue. Current income basis of a few HTUs would have been adversely affected without new coefficients. The existing formula applies to redistribution.

Table 2. Changes at physical entity income tax share in %

Period	HTU	Commuity	State budget
2005 - 2011	23,5	70,3	6,2
2012-2013	21,9	65,4	12,7
2014	21,9	67,0	11,1
2015	29,2	68,5	2,3
2016	30,0	70,0	0,0

Source: own processing on the basis of Act No. 564/

Act No. 564/2004 Coll. on Budgetary Determination of Territorial Self-Government Income Tax Revenue, and Act No. 227/2015 Coll. stipulate that the tax revenue in a particular year represents an income of a municipality corresponding to 70% and income of HTU budget corresponding to 30%. Compared to 2012, share of municipalities on physical entity income tax has increased by 4.6% and HTU share has increased by 8.1%.

Table 3. Development of physical entity income tax (in thous. Eur)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
BSK	26 703	34 384	32 438	26 819	31 827	32 416	32 851	34 141	73 676	81 602
TTSK	35 340	43 388	40 936	33 908	40 184	40 904	41 744	43 318	65 659	75 407
TSK	39 874	47 331	44 600	36 818	43 576	44 204	45 101	46 629	66 244	75 998
NSK	48 677	58 258	54 720	45 062	53 268	53 951	54 877	56 868	83 695	96 008
ZSK	42 850	53 739	50 736	41 921	49 796	50 696	51 730	53 672	77 869	89 279
BBSK	55 930	64 799	60 982	49 947	58 925	59 832	61 615	63 948	85 996	98 731
PSK	57 735	67 276	63 478	52 490	62 493	63 703	65 615	68 188	91 801	105 472
KSK	49 833	59 031	55 592	45 859	54 446	55 396	57 427	59 894	81 404	59 279

Source: The final account of self-governing regions 2007-2016

Amount of tax collected influences the level of satisfying the needs of self-governing region territory inhabitants. The tax share on a total income in particular regions is an indicator of tax self-sufficiency. Redistribution of physical entity income tax can be considered a mechanism of financial settlement of municipalities and HTUs income and expenses. The problem of the existing redistribution method refers to too high solidarity, high share of not addressed redistributed sources, redistribution criterions´ weight that doesn´t correspond to changed situation in the area of increasing social care expense, and last but not least also the absence of economic criteria.

3. FINANCIAL STRENGTH OF SELF-GOVERNMENT REGIONS

An indicator of self-governing region financial strength serves for comparison of particular regions´ income sources that further serve for an analysis of income amount and structure. It is an expression of own income increased by the amount of subsidies per capita in a particular region, interpreting the stability when considering a repeatable income of regions or their dependency on other budgets, especially the State Budget.

$$financial\ strength = \frac{local\ taxes + participating\ taxes + grants}{the\ population} \quad (1)$$

Comparing the indicator of self-governing region financial strength, its weight should be specified. In this case, we applied a variation coefficient used especially when comparing the variability of more statistical signs, and expressing relative variability rate. We applied the standardized variable method and method of distance from a fictitious object to determine the order of particular self-governing regions in the context of the indicator of self-governing region financial strength during the monitored period 2007-2016.
The basis of the method of distance from a fictitious object referred to comparison of particular objects to so called fictitious object reaching the highest values within the monitored set. The order of self-governing regions was determined when applying the best object with the smallest distance from the fictitious one, i.e. with the smallest value d_4. Object/ region that reached the best indicator value reached the lowest possible value $d_4=0$. The fictitious object was modeled with this indicator. In the other used method of standardized variable, we took in account a relative variability of examined indicators. We determined the order of self-governing regions according to the average value of standardized variables, taking in account the rule: the higher was the value reached, the better order was allocated to the region within the evaluation. In relation to particular methods used, we followed the relations stated in the Table 4., representing these statistical methods. [Stankovičová, Vojtková 2007].

Table 4. Expressed relations between the applied statistical methods

	Method of standardized variable	Method of the distance from fictitious object	
weight of indicator v_{ij}	$v_j = \frac{V_j}{\sum_{j=1}^{k} V_j}$	$v_j = \frac{V_j}{\sum_{j=1}^{k} V_j}$	weight of indicator v_{ij}
standardized form of any indicator z_{ij}	$z_{ij} = \frac{x_{ij} - \bar{x}_j}{s_{xi}}$	$z_{0j} = \frac{x_{0j} - \bar{x}_j}{s_{xj}}$	standardized form of the best indicator z_{0j}
integral indicator d_{3i}	$d_{3i} = \frac{1}{k} \sum_{j=1}^{k} z_{ij} * v_j$	$d_{4i} = \frac{1}{k} \sqrt{\sum_{j=1}^{k} (z_{ij} - z_{0j}) \times v_j}$	integral indicator d_{4i}

Source: own processing on the basis of Stankovičová, Vojtková (2007)

Particular methods of multi-criterion evaluation respond in various ways to the relations between the indicators. Accordingly, they differently indicate the order of particular objects. In this term, we applied the non-parametric Spearman test to determine the order conformance.

$$r_{rx,ry} = 1 - \frac{6 \times \sum_{i=1}^{n}(rx_i - ry_i)}{n \times (n^2 - 1)} \tag{2}$$

Spearman´s order correlation coefficient can vary within -1 and +1, where the values approximating 1 refer to equal order, i.e. positive dependence. On the contrary, values close to -1 refer to unequal order, i.e. negative dependence. If approximating to zero, we can talk about independent values. The following Table 5. illustrates the indicator values per capita of a respective self-governing region.

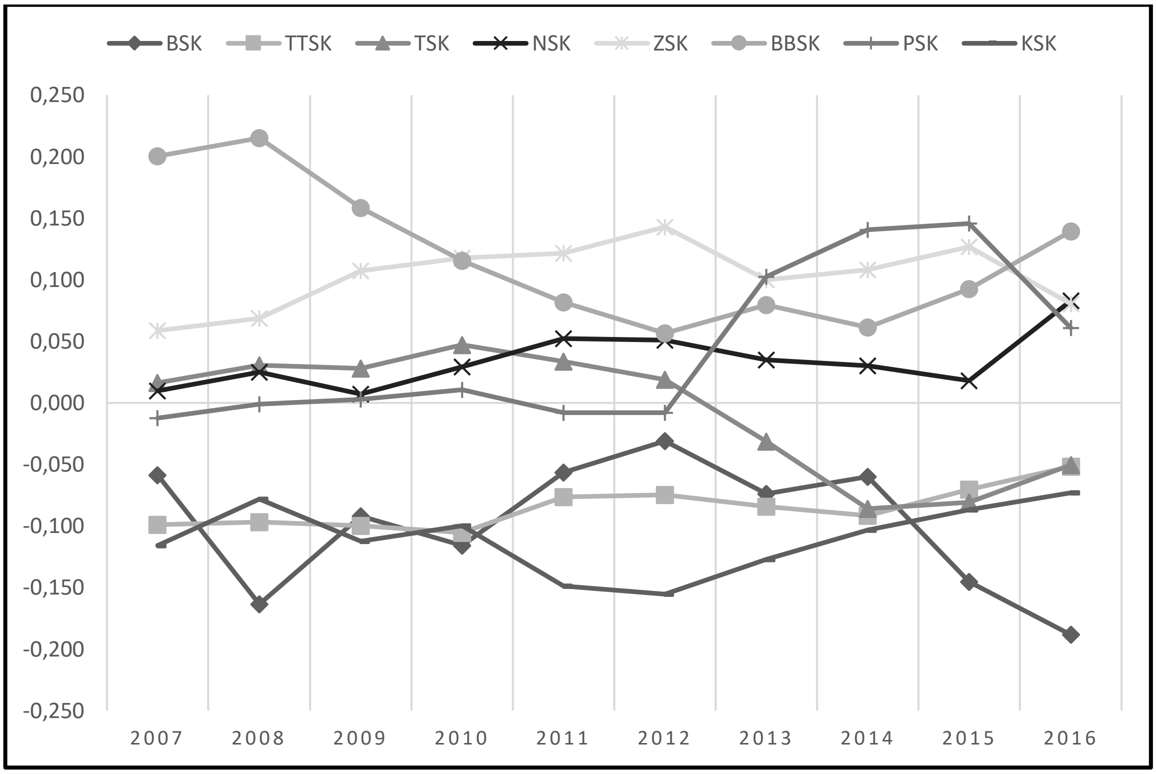
Table 5. Development of financial strength indicator for HTUs per capita

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
BSK	152,25	152,58	168,40	156,72	170,86	172,65	174,69	182,21	188,41	193,43
TTSK	149,53	157,31	167,79	157,45	169,35	169,35	173,89	179,65	194,91	205,86
TSK	157,30	166,32	177,48	168,32	177,67	176,41	178,00	180,10	193,99	205,96
NSK	156,86	165,94	175,90	167,06	179,07	178,83	183,17	189,48	202,56	218,10
ZSK	160,15	169,03	183,48	173,35	184,31	185,80	188,23	195,79	212,03	217,88
BBSK	169,71	179,42	187,35	173,20	181,29	179,27	186,65	192,02	209,05	223,22
PSK	155,36	164,10	175,59	165,71	174,50	174,38	188,43	198,41	213,66	216,08
KSK	148,37	158,61	166,86	157,85	163,88	163,25	170,53	178,71	193,47	203,92

Source: own processing

During the monitored period, the development of the indicator showed an increase and unfavorable development was reported during the period of crisis in 2010. Tax income shortfall in particular self-governing regions was compensated by higher subsidies mainly from the State Budget. Within the subsidies, the highest subsidy was transferred to the Prešov self-governing region (PSK) budget and to Košice self-governing region (KSK) budget. Nevertheless, these regions showed lower average values of the financial strength indicator than other regions. Such value differences can be attributed to already mentioned different regional tax income. The highest average values of the indicator were reached during the monitored period by Banská Bystrica self-governing region (BBSK), Žilina self-governing region (ZSK), and Nitra self-governing region (NSK).
Applying the above stated method of standardized variable, we are able to detect self-governing regions position in the terms of financial strength indicator. Based on the method principles, regions with the highest values of integral indicator d_{3i} shall reach the best position. The following Figure 1. shows the values reached.

Fig. 1. Order of regions according to method of standardizes variable



Source: own processing

Using the other chosen method of distance from a fictitious object, we expressed the values of an integral indicator d_4 as a financial strength indicator per capita. Within the monitored period 2007-2016, we allocated zero value to the regions reaching the best values, based on the method principles, i.e. the region has become a fictitious object. The following Table 6. shows the values reached.

Table 6. Comparison of fictitious object

d_{4i}	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
BSK	0,8164	1,1099	0,3458	0,7523	0,5935	0,5784	0,5849	0,6431	0,8728	0,9944
TTSK	0,9435	0,9143	0,3738	0,7192	0,6601	0,7236	0,6190	0,7447	0,6481	0,5793
TSK	0,5802	0,5417	0,0704	0,2275	0,2930	0,4130	0,4438	0,7267	0,6799	0,5760
NSK	0,6008	0,5574	0,0000	0,2845	0,2312	0,3066	0,2237	0,3544	0,3836	0,1707
ZSK	0,4470	0,4296	0,3454	0,0000	0,0000	0,0000	0,0085	0,1041	0,0563	0,1784
BBSK	0,0000	0,0000	0,5228	0,0068	0,1333	0,2872	0,0758	0,2537	0,1593	0,0000
PSK	0,6710	0,6335	0,0163	0,3456	0,4329	0,5023	0,0000	0,0000	0,0000	0,2382
KSK	0,9978	0,8605	0,4164	0,7011	0,9015	0,9919	0,7622	0,7823	0,6978	0,6442

Source: own processing

The lower value d_4 was reached by self-governing regions; the better was their position among other regions. Values reached for a decade indicate the existence of self-governing regions´ differences.
Using the above described methods, we identified the order and representation of particular self-governing regions. The results indicate strong representation of BBSK and ZSK. On the contrary KSK and Trnava self-governing region (TTSK) reached the lowest income per capita. To confirm the conformance of the orders reached with both methods used, we applied the Spearman´s order correlation coefficient. Accordingly, we can confirm that the values reached express a positive correlation, i.e. conformance of orders (values referring to zero).

4. FUNDING IMPROVEMENT OPTIONS

Tax flowing to regional self-government budgets shouldn´t affect tax payers´ economic performance save the situation when it is in the state interest to use tax up for drawing up certain change at tax payers´ economic habits (within the state stabilization strategy). It applies on the regional self-government level that tax is not distorting if an individual doesn´t have a choice of other decision. However, this applies only to lump sum tax. Other types of tax affect tax payers´ economic decision-making, thus they are distortable. Such distortion should be as small as possible at regional self-government level and affect the tax payers´ economic habits as low as possible, as well as eventual drop of tax revenues flowing to territorial budgets. [Kubátová 2010]
Budgetary allocation of taxes to regional self-government in Slovakia is typical with no tax income gained by the regions that could be called „motivation income“. Tax autonomy of self-governing regions is non-existent while self-governing regions are more suitable units than municipalities for the purpose of taxation decentralization or entrustment of a motivation tax, when considering their size. Speaking of self-governing regions size, we can expect smaller distortion in economic activities of tax subjects resulting from tax competition and migration, as it could be expected in case of municipalities.
Changes are required in the form of relocation of physical entity income tax from the category of business activities to local taxes category. Thus, only physical entity income tax from dependant activity would be redistributed. Territorial self-government share on taxes would result from the assessment of total cost required for law-defined extent of tasks (after the changed redistribution). Structure of the criteria should change and new criteria should be established. The criteria weight should also change in order to focus on demographic changes and related increasing need for social services, and the change at regional education system funding.
If harmony exists between responsibility for expenses between territorial self-government and the state government on one hand, and fiscal sources allocated to them for funding such responsibilities on the other hand, we can speak of a vertical fiscal balance. Such status is very hard to reach, though. Provision of certain tax autonomy to the decentralized governmental levels represents a natural and logical method of vertical fiscal balance assurance. Extent of income decentralization doesn´t always have to correspond to exact rate of expenses decentralization (and it even cannot – for objective reasons); usually because of lack of own income sources. Partial expenses of decentralized governmental levels have been funded through

transfer means in all systems of multi-level public funds for two reasons (Boadway, Roberts and Shah 2000). At first, motivation to expense responsibility decentralization is stronger than to tax competence decentralization. Regions can be much more effective when providing public services to citizens also in case of targeted social transfer distribution. Main areas of public services, e.g. healthcare, education and social services, represent substantial part of public budget and are significantly decentralized in many countries. If expenses decentralization results in more effective provision of local public services, taxation decentralization advantages are not completely unambiguous. On the contrary, taxation decentralization could cause significant inequalities and ineffectiveness, considering the national economy. Centralized taxes can be controlled cheaper by a single tax authority. This allows for elimination of distortions witnessed in fragmented tax systems. Another reason – transfer of funds from central / state government down to decentralized levels can serve as a tool of the state government to reach the goals that are of major importance for the entire national economy. A properly structured subsidy system could correct ineffectiveness or unevenness caused by fiscal decentralization upon concurrently maintained decentralization advantages.

CONCLUSION

High rate of tax income redistribution has been reported in the conditions of regional self-government in Slovakia, i.e. without influence of self-governing regions on tax income amounts. Such mechanism doesn´t have stimulation effect on financial economy of self-governing regions. Within twelve years of the system operation, we can state that the principle of fiscal equivalence and responsibility that stipulates that public expenses related decisions should be made on such public administration level that is responsible for task fulfillment, has not been consistently fulfilled to date. Centralization in effect has caused both lack of sources and reducing motivation to utilize the territory potential in a controlled way. Concurrently, responsibility for public expenses has decreased because of separated responsibility for tax amount and collection, and decision on its allocation/ use (physical entity income tax). Transfers from the State Budget don´t cover legitimate cost and their amounts depend on central government friendly approach. Nor is there any bond between service provision and taxpaying. Latest problems of municipalities and self-governing regions, e.g. demographic changes, unemployment, low income of households – all this has caused restricted possibilities to pay taxes, and places higher demand on funding public services.

In sake of further economic and social development assurance in Slovakia it is necessary to pay increased attention to further deepening and optimizing of public funds decentralization process that should be associated with strengthening and deepening of stability, effectiveness and efficiency of territorial self-government financial system. It is important to strengthen and deepen the regional self-governing financial independence, to increase stability of its income basis and encourage to more effective use of own income. Assurance of quality supporting infrastructure and further increase of multi-source income basis availability represents a principal condition of high quality and effective service assurance provided by regional self-government. These tasks resulted from shaping of new economic and social-demographic structure in Europe, supported by integration and globalization trends and principles of cognitive economy. Concurrently,

subsidiarity, solidarity, modernization and democratization principles should be supported.
Eventual continuation of competence transfer process from the state administration to territorial self-government and concurrent fair assessment of current sources sufficiency for territorial self-government duties prescribed by law shall require increased income to territorial self-government budgets. It is up to political decision whether it will be done through transfers or tax income increase. The latter solution, especially own tax income increase and reduction of transfers is more purposely. If self-government financial self-sufficiency increases, we can expect increased territorial self-government competences associated with assurance of public services provided on the territory controlled by a territorial self-government, as well as increased financial responsibility.

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