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# Costs and Revenues Balance: The Case of Municipal Delegated Competences in Slovakia

**ABSTRACT:** *Local authorities' financial resources should be commensurate with the competences provided for by the law. However, in most countries, representatives of local self-governments claim that their total revenues are insufficient to deliver allocated tasks at a standard scale and level of quality. Such statements are somewhat problematic, especially in less-developed countries, where cost-center accounting is not used and service standards are not defined. This paper analyzes the relationship between the costs of delegated competences and the resources provided to cover these costs in Slovakia. We found that Slovak municipalities (with some exceptions) do not know the exact costs of delegated competences, and that the state does not cover the total costs of delegated competences, which contradicts the Slovak constitution. Our short comparison in the discussion shows that the Czech situation is very similar, suggesting that the problem might be common for all post-Soviet countries.*

**KEYWORDS:** public administration, delegated competences, fiscal federalism, Slovakia.

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## INTRODUCTION

The arrangement of public administration levels, as well as the performance of individual public finance functions covered by these levels and the system of financial relationships between the levels and units of public administration (intergovernmental fiscal relationships), differs in many countries. However, in each country, vertical financial relationships between different levels of public administration and horizontal financial relationships between different units of public administration at the same level determine the efficiency of the performance of public finance functions.

The degree of decentralization of public finances and the optimization of financial resources in the budget system (concerning its vertical and horizontal structure with the aim of effective distribution and the use of public finances within various sources of public budgets) are crucial issues for discussion (Schapiro, 2020). Fiscal decentralization often brings problems in the form of vertical and horizontal imbalance when the revenues of public administration units at different levels (vertical) or at the same level do not correspond to the expenses associated with the exercise of the competences entrusted to them.

Delegated competences are a specific case. Municipalities realize these competencies on behalf of the state: the state delegates the execution of those decisions to lower (mainly local) levels, which ensures they are executed more effectively in this way than in the case of their execution from the central level. According to the Constitution of the Slovak Republic (Article 71), the following applies: “Performance of specified tasks of local state administration can be delegated to municipalities and higher territorial units by law. The state covers the costs of such a delegated performance of state administration.” Similar provisions are contained in the legislation of most developed countries.

However, in every country, local governments “complain” that the amount of resources provided by the state for performing the delegated competences does not cover the costs associated with the performance of the given tasks. Therefore, it is surprising that only

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a very small number of academic studies have analyzed the relationship between the costs of delegated competences and the rate of reimbursement of these costs. Indeed, a Google Scholar search using the words “financing delegated responsibilities” did not identify a single study dealing with this issue. Of course, this does not mean that more generally focused studies by Kim (2018), Hagemann (2018), or de Mello (2000) investigating municipal finances do not address this issue at all. However, it is evident that a fundamental research gap exists in the given area.

The paper aims to determine the extent to which delegated competences (carried out by local governments on behalf of the state) are financed in practice in Slovakia. The authors’ direct research is the fundamental source of primary data. The entire basic set of 2890 municipalities in the Slovak republic was obtained from a questionnaire. In the “Discussion” section, the findings from Slovakia are compared with the situation in the Czech Republic, which the authors analyzed using an informative sample of municipalities based on a report by EEIP Praha and Accendo Ostrava (2018).

The structure of the paper is as follows: the introductory part presents a theoretical introduction to the issue and interprets the current state of art. In the methodological part, we describe the samples and the research methods used. The analytical part maps in detail the level of financing of delegated competences in Slovakia. The discussion summarizes the results, verifies their informative value, and provides an interesting comparison with the situation in the Czech Republic.

## LITERATURE REVIEW

Controversies exist (Schapiro, 2020; Bird, 1999) regarding the degree of decentralization of various public finance functions to lower levels of public administration, especially in connection with the fulfillment of the requirement in the democratic society of functioning (Prud’homme, 1995; Fjeldstad, 2001 or Rafaj et al., 2022). Here, a consensus is found in delegating the allocation function of public finances through public services provision to lower levels of public administration. The decentralization of public administration in a democratic society, according to the theory of fiscal federalism (Oates, 1972), enables the coordination of supply and demand for public services provided at the level of public administration closer to the citizen (Engineer, 1990) and creates healthy competition between territorial units (Brennan and Buchanan, 1980), which increases the efficiency of the local public services provision.

When defining fiscal federalism, we start from the basic term “federalism,” which indicates the way of governance and points to the division of authority in the exercise of certain competences (Schapiro, 2020). The power to implement the given competence is distributed between the central and regional governments when both parties achieve a certain degree of autonomy in the given political area (Law, 2013). The process of dividing political powers among individual levels of public administration is accompanied by the subsequent distribution of fiscal management within the framework of the implementation of public finance functions. Fiscal interactions in intergovernmental fiscal relations arise among individual levels of public administration (Oates, 1972, 2008; Breton and Scott, 1978; Tanzi, 2000; Fossati and Panella, 1999; Židonis and Raišienė, 2020). An appropriately set mechanism of fiscal federalism should have a positive effect on the provision of public services, which is the core content of the key theories of fiscal federalism, including Tiebout’s (1956) model of local public goods, Buchanan’s (1965) economic theory of clubs, Oates’s (1972) decentralization theorem, and Brennan and Buchanan’s (1980) decentralization hypothesis.

Olson (1969) draws attention to the connection between decentralization and the spillover of the benefits of local public goods beyond the borders of the local government or, conversely, the failure to cover the whole territory of the local government with the offer of local public services when fiscal equivalence is violated. For this reason, it is necessary to find a balance between the centralization and decentralization of public finance functions and the extent of the delegation of powers to lower levels of government.

The Brennan–Buchanan decentralization hypothesis solves the range of powers in providing public goods at the local government level (Brennan and Buchanan, 1980). Here, the dominant idea is that the needs, preferences, and ability to pay for public goods differ, and they are transformed in relation to the geographic location of citizens. Better information for local governments about the preferences of the inhabitants in a territory enables them to respond by offering public goods more appropriately than from the central government (Halásková and Halásková, 2020; Tkachenko, 2020; Engineer, 1990), resulting in greater efficiencies in good public provision at the local level.

In the context of fiscal federalism, the key issue is the optimization of financial relations in the budget system concerning vertical and horizontal structure—namely, the effective creation, distribution, and use of public finances within different levels of public budgets (Schapiro, 2020; Bird, 1999).

## Funding of Delegated Competences

As indicated in the “Introduction” section, it is rather difficult to find studies in the world academic literature that directly address the procedures and levels of financing of delegated competences that municipalities provide on behalf of the state. This topic marginally appears in studies that analyze local finances from a regional or national point of view (e.g., Revelli and Tovmo, 2007; Borge et al., 2008; Bruns and Himmler, 2011; Sørensen, 2014; Balaguer-Coll et al., 2007; Giménez and Prior, 2007; Balaguer-Coll et al., 2010; Benito et al., 2010; Zafra-Gomez and Muñoz-Perez, 2010). Regarding the conditions in Slovakia, the paper by Balážová and Dienerová (2012) is probably the most significant academic output directly focused on the topic of financing delegated competences. Balážová et al. (2020) subsequently dealt with the exercise of the competences within the Slovak Republic, describing in more detail the legal environment regarding the exercise of municipalities’ competences, analyzing the exercise of municipalities’ competences as per the number of inhabitants, and pointing out the powers of self-governing regions in relation to municipalities’ powers. Their study presents the performance of delegated competences in areas such as road transport, civil protection, and social services.

Regarding relevant domestic analytical studies, Mederly and Černecký (2020) published their study in Slovakia in 2019. Their study characterized the system of local self-government in Slovakia and the system of original and delegated competences. They then provided a detailed analysis of the legislative anchoring, organizational security, method of financing, and performance parameters of the delegated performance in the areas of education, building regulations, local and purpose-built roads under the jurisdiction of the special planning and building office for local and purpose-built roads, housing, registry office, reports of residence and population register, elections and referendum, and environment and social services. The researchers drew extremely critical conclusions, stating (p. 110) *“the idea that the state covers the costs of delegated performance is a fiction. In practicality, the state does not even have the mechanisms to know how much [...] the competences cost. In addition, in several sections [of the] state [it] appears that the costs have not changed since decentralization (that [was] about 15 years ago). So, in this key element—funding—the whole system is afloat. This system forces municipalities to continuously violate the Act on Budgetary Rules of Local Self-Government. A municipality cannot spend [its] own resources on activities that are not the activities of a specific self-government.”* Mederly and Černecký (2020) further state that in the most financially significant delegated competence, which is education, the state does not finance a whole range of activities connected with the performance of this competence. They also remind readers that the universal transfer of competences to all municipalities, regardless of size, represents an “automatic source of disturbances” in the conditions of the excessive territorial fragmentation of Slovakia.

In the Czech Republic (whose situation we only marginally address in the discussion of the results), the question of delegated competences financing has been addressed by, for example, the study “Validation and variants of possible modifications of the system of financing the delegated performance of the state administration, including relevant underlying analyses” (EEIP & Accendo, 2018). This study attempted to determine the cost of delegated competences and then propose new methods of financing them. The study’s conclusions were the starting point in 2020 for creating a new methodology for financing delegated competences.

## MATERIALS AND METHODS

The aim of the research is to analyze the extent to which delegated competences carried out by local governments on behalf of the state are financed in Slovakia. In this regard, we developed two research questions:

RQ1: Do the municipalities know the total costs<sup>5</sup> of exercising delegated competences?

RQ2: What is the level (extent) of financing of delegated competences according to the municipalities?

The key methods of scientific research are the methods of classification analysis, comparison and abstraction in the creation of the theoretical–methodological framework of problem solving, methods of primary data analysis in the application part of the study, and the methods of synthesis and partial induction in drawing conclusions. The primary data collection was conducted through

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<sup>5</sup> Municipalities often calculate the costs of providing the service only in the amount of expenses from the budget due to the nonfunctionality of cost centers—the costs calculated in this way do not include indirect costs associated with providing the service—overhead costs

Tab. 1: Research sample

Sorting character		Number of municipalities in the base set	Number of municipalities in the sample set	% of the base set
Population	1–999	1919	27	1.4
	1000–4999	855	28	3.3
	5000–9999	65	4	6.2
	10,000–49,999	78	6	7.7
	50,000–99,999	9	1	11.1
	Total	2799	66	2.36

Source: Authors

the questionnaire and interview methods. Analysis focuses on financing of delegated competences in the areas of civil registry and planning and building offices at the local government level for the selected municipalities included in the research sample. It is possible to observe the differences between the departments of the registry office and the planning and building office within one municipality, as well as the differences between municipalities.

A survey was conducted between September and October 2022, focusing on the performance of delegated competences in selected sections of local government.

To obtain data, we used a questionnaire, with which we electronically addressed the entire basic set of 2890 municipalities and, based on their consent, we visited 66 municipalities (Table 1). We collected data in the visited municipalities to ensure the accuracy of the data. A sample of 66 municipalities has an almost representative character from the point of the number of municipalities.

When investigating, we decided to focus on two delegated competences: the registry and planning and building offices. These competences, especially in the planning and building office, are among the most important tasks of the state carried out through municipalities (the most complex and most expensive delegated competence is primary education, but original and delegated competences overlap in this area; therefore, we did not include it in this research). The choice to include the analyzed competences was mainly determined by the fact that the scope and content of the given competence's performance were clear and easily identifiable.

A registry office, in its delegated competence, keeps the state register of persons who were born, married, or died in the territory of the Bratislava-Nové Mesto municipal district. The registry office records data on the personal status of citizens and other facts necessary to establish and verify the personal status of citizens based on public documents. Extracts (birth, marriage, and death certificates), which are public documents, are issued by the registry office. The register of births, marriages, and deaths comprises a register of births, a register of marriages, and a register of deaths. The planning and building office, in its delegated competence in territorial proceedings and building regulations under the Building Act, issues planning decisions, building permits, and building approval decisions and decides on penalties for breaches of the Building Act.

We asked each municipality if they knew the exact costs of the delegated competence. In the case of a positive answer, we also asked about the method of ascertaining (calculating) these costs. We evaluated the municipalities' responses to the second question, which is a control question. Based on the description of the cost calculation procedure provided by the municipality, we placed them in one of the three selected categories: (a) the municipality does not calculate the costs, (b) the municipality calculates direct costs, or (c) the municipality calculates/knows the total costs. In several cases, a situation arose where the municipality stated that it knew the costs. However, the description of the calculation procedure clearly showed that the reality was different (e.g., municipalities confused the fact that they knew the revenues for the exercise of the competence with the fact that they knew the costs). A final question asked about the municipality's opinion on the level of coverage of costs for the delegated competence from the state budget.

For a simplified comparison of Slovakia with other countries, we conducted a framework survey of the situation in several municipalities in the Czech Republic. We use the results (due to their incomparability) in the "Discussion" section.

## RESEARCH RESULTS

### Practical context: self-governing system and methodology of financing delegated competences in Slovakia

The current form of the local self-government system in Slovakia is based on the changes that occurred in the former Czechoslovakia after 1989. In 1990, the Act on Municipal Administration (no. 518/1990 Coll.) was adopted, which created a modern local self-government responsible for the competences of the former national committees (Nemec et al., 2000). This law remained in effect even after the division of Czechoslovakia and the establishment of the independent Czech and Slovak republics on January 1, 1993. It has not been significantly amended during its validity.

The core competences allocated to municipalities in 1991 were as follows: management of movable property and real estate in the ownership of the municipality, public order in the municipality, and local public transport in large cities; construction, maintenance, and management of local roads and parking places, public spaces, public greenways, public lighting, marketplaces, cemeteries, local water resources and wells, water supply networks, sewerage and water cleaning establishments in small municipalities, local cultural establishments, children's homes, part of the ambulatory health services establishments, and part of the sport, leisure and tourist establishments; establishment of the basic social services; and supporting education, environmental and heritage protection, culture and artistic hobbies, physical culture and sports, humanity activities, and municipal police forces and fire services (Nemec et al., 2000).

The main problem at the time of establishing local self-government was the preservation of many municipalities. Indeed, Slovakia is one of the most fragmented countries in Europe, with almost 3000 municipalities in a population of 5.5 million. The average Slovak municipality has an area of approximately 17 km<sup>2</sup>. Only two cities, Bratislava and Košice, have a population greater than 100,000 inhabitants (approximately 430,000 in Bratislava and 250,000 in Košice). The decentralization reform of 2000–2005 resulted in more fundamental changes in the functioning of local self-government, when the current fiscal decentralization system was created. Municipalities acquired additional competences in the areas of road communications, water management, citizen registration, social care, environmental protection, education (elementary schools and similar establishments), physical culture, theaters, health care (primary and specialized ambulatory care), and regional development and tourism (Klimovský, 2010).

Slovakia signed the European Charter of Local Self-Government (Charter) in 1999, with reservations. On July 31, 2002, Slovakia declared it considered itself bound by Article 6, paragraph 2; on May 16, 2007, Slovakia declared it had extended its obligations and considered itself bound by the remaining charter provisions. The charter was incorporated as an acceptance of an international treaty, meaning that the charter would supersede domestic laws. The most recent Council of Europe monitoring report, entitled “Local and Regional Democracy in the Slovak Republic,” was approved on March 24, 2016, and the council expressed satisfaction with the overall positive situation of local and regional democracy in Slovakia.

Slovak municipalities spent approximately 7% of the country's gross domestic product (GDP), meaning Slovakia remains a centralized country from the perspective of local government spending. Its tax revenues still represent only a small share of municipal financial resources—indeed, among the lowest in the Organization for Economic Cooperation and Development (OECD)—while its share of central government transfers is among the highest of OECD countries (for more on this, see, e.g., Plaček et al., 2020). The main item of these transfers is financing primary schools' delegated competence.

The method of financing delegated competences in Slovak municipalities is described in detail in Mederly and Černecký's (2020) study. The area of primary education contains an extensive range of delegated competences, part of which (according to the mentioned study) is not in any way financed by transfers. Therefore, we can consider the fact that the state finances the operation of elementary schools and the activities of school authorities in the area of education as decisive. Since January 1, 2004, the financing of these schools has been based on the principle of normative financing based on the number of pupils.

Regarding the delegated competences in the area of building regulations, according to the current legislation, every municipality is a planning and building authority (even the smallest municipality with only tens of inhabitants). These delegated competences are financed by a simple methodology: the number of inhabitants of the municipality multiplied by the monetary coefficient determined by the Ministry of Transport, Construction, and Regional Development of the Slovak Republic. The financing of the delegated competences for local and purpose-built roads is similarly carried out, as the amount of the monetary coefficient is determined by the Ministry of Transport, Construction, and Regional Development.

Implementing and financing the delegated competences in the area of housing are ensured only by the municipalities in the district headquarters. This area covers a range of activities related to providing support from the State Housing Development Fund

as one of the essential economic instruments for housing. In this case, the monetary coefficient is also applicable. The Ministry of Transport, Construction, and Regional Development determines the amount.

In the area of performance and financing delegated competencies in registry offices, the agenda is regulated by a separate law determining the rights and obligations in connection with reporting life events from citizens and public authorities. The registry offices that perform these tasks are located in approximately one-third of the Slovak municipalities. The method of financing primarily takes into account the number of inhabitants and, to a lesser extent, the number of implemented operations. The grant covers the registrar's salary and insurance, goods and services, and an allowance for clothing expenses. The Ministry of the Interior, which is in charge of this agenda, keeps detailed statistics on the operations carried out by individual registry offices.

In the area of delegated competencies in reporting residences and the register of residents, a reporting office for residences is located in each municipality; in the cities of Bratislava and Košice, they are city districts. The competence is financed by the Ministry of the Interior, which determines the amount of the monetary coefficient per inhabitant.

In the area of delegated competences in elections and referendum, which is a regularly recurring activity, the one-time nature corresponds to the method of financing, which is significantly different from ensuring the performance of other delegated competences. Municipalities receive advances for this competence from the Ministry of the Interior, which they subsequently account for; the Ministry reimburses them in full for all costs associated with the tasks defined in the law.

The performance and financing of the delegated competences connected with the environment include a wide variety of activities financed by the Ministry of the Environment, which determines the amount of the monetary coefficient per citizen of the municipality.

The study also addresses the issue of financing social services, noting that many uncertainties persist in this area and that the boundaries between original and delegated competences are unclear. Therefore, the state preserves and maintains an extensive subsidy scheme that finances investment and noninvestment measures in various social services.

### Total costs of performing the delegated competences

Through direct research, we mapped the extent to which municipalities know the amount of costs for the two chosen delegated competences: the registry and planning and building offices. Tables 2 and 3 present the results.

In the case of small municipalities, the answers indicating that municipalities do not know the total cost for the performance of the delegated competences are not surprising. For example, municipalities of up to 1000 inhabitants cannot objectively have the capacity to collect these data. Larger municipalities mostly answered that they know these costs (only one municipality with more than 10,000 inhabitants indicated that it did not). However, our control question, which asked about the calculation method, demonstrated that these answers were only partially true.

Larger (and some smaller) municipalities monitor selected direct costs for competence performance (mainly wages). However, only a very small number of them also try to determine overhead costs. The fact that the municipalities need to understand the issue better is also evidenced by the fact that, in many cases, the examined competences are carried out through a joint municipal office. In such cases, the municipality knows exactly how much it contributes to the operation of this office; however, in most of these cases, the municipalities stated the costs they do not know (they may not know the cost structure of the joint performance of the competence, but they know their individual share).

The obtained data on the opinion of the municipalities on the level of cost coverage for the delegated competences are related to the quality of cost monitoring. Specifically, the municipality needs to know the costs to know the level of their financing by the state. Despite this, the excessive dispersion of data is surprising, which is significant even in the case of municipalities that know, at least to some extent, how much their competence performance costs. For example, with the registry office, one municipality stated that it calculates the salary and contributions of the employee in the registry office (so, it should know the direct costs); at the same time, it stated that the financing rate is only 3%.

These data demonstrate the generally interpreted fact that, in Slovakia, the state insufficiently finances the performance of delegated competences and thus directly violates the Constitution of the Slovak Republic (as we stated in the "Introduction" section, according to the Constitution of the Slovak Republic, the costs of the delegated performance of state administration must be covered by the state). Moreover, only two small municipalities reported a cost coverage rate of 100%, although they also stated that they did not know the actual cost amount.

**Tab. 2:** Costs for the delegated competences in the registry offices

Method of exercising competence		Municipality knows the exact costs			Method of calculation		Cost recovery rate
Separately	Joint office	Yes	No	None	Calculates direct costs	Calculates/knows the full costs	%
<b>Municipalities up to 999 inhabitants</b>							
12	13	5	20	22	3	0	1–100
<b>Municipalities from 1000 to 2499 inhabitants</b>							
18	0	10	8	13	4	1	10–100
<b>Municipalities from 2500 to 4999 inhabitants</b>							
10	0	9	1	7	2	1	11–95
<b>Municipalities from 5000 to 9999 inhabitants</b>							
6	0	5	1	3	2	1	45–90
<b>Municipalities from 10,000 to 49,999 inhabitants</b>							
6	0	4	2	5	1	0	50–80
<b>Municipalities over 50,000 inhabitants</b>							
1	0	1	0	0	0	1	95

Source: Authors

**Tab. 3:** Costs for delegated competences in the planning and building offices

Method of exercising competence		Municipality knows the exact costs		Method of calculation			Cost recovery rate
Separately	Joint office	Yes	No	Separately	Joint office	Yes	No
<b>Municipalities up to 999 inhabitants</b>							
14	11	10	15	15	1	2	1–80
<b>Municipalities from 1000 to 2499 inhabitants</b>							
12	6	5	13	17	0	1	2–80
<b>Municipalities from 2500 to 4999 inhabitants</b>							
5	5	4	6	10	0	0	18–80
<b>Municipalities from 5000 to 9999 inhabitants</b>							
5	1	3	3	5	0	1	3–80
<b>Municipalities from 10,000 to 49,999 inhabitants</b>							
4	2	5	1	2	2	2	25–85
<b>Municipalities over 50,000 inhabitants</b>							
1	0	1	0	0	0	1	75

Source: Authors

## DISCUSSION

The results from our analysis document two basic facts:

1. municipalities mostly do not know (and many of them probably do not even need to know) the total amount of the costs of delegated competences and
2. the state finances only part of the costs incurred by municipalities in the exercise of delegated competences.

We expected the first result because with the excessive territorial fragmentation of municipalities and nonexistent cost accounting, which would be needed to allocate overheads to specific activities, knowing the costs is impossible (see, e.g., Oplotnik et al., 2012). However, such a minimal capacity (and willingness) to calculate exact costs, even among larger municipalities, was surprising.

The second result also confirms an expected outcome. As discussed in the literature review, existing relevant studies came to the same conclusion (see, e.g., also Alibegovic et al., 2013). However, again, the excessive and unrealistic dispersion of municipalities' opinions on the level of coverage of the costs of delegated competences, which includes extremely high and extremely low values, was surprising.

For illustration purposes, we compared the results obtained in Slovakia with the situation in the neighboring Czech Republic, which has similar conditions from the point of view of the functioning of local governments (Matějová et al., 2017). In the Czech Republic, municipalities are divided into three categories: those with basic powers, those with an official municipal office (municipalities of category II), and those with extended powers (municipalities of category III). This categorization eliminates one of Slovakia's specific problems: the fact that every, even the smallest, municipality in Slovakia exercises the same range of delegated competences.

In the Czech Republic, similar to Slovakia, no data set takes Alibegović into account (a) the amount of the contribution to individual municipalities in the context of the costs delegated to competences or (b) the distribution of the contribution between individual agendas concerning their cost and the necessary scope.

In 2020, the Czech Republic's Ministry of the Interior prepared a methodology for determining the costs of the performance of state administration in the delegated competences (Ministry of Interior, 2020). However, it mainly deals with methods of financing the delegated competences. Subsequently, the financing model for the performance of delegated competences was updated, which has its own application interface (web application) and contains both methodologies and illustrative examples of contribution redistribution. The contribution changes yearly depending on the parameters (the number of inhabitants changes) and since another agenda for funding can be added.

Unlike Slovakia, where the Constitution of the Slovak Republic directly imposes the obligation to finance delegated competences, the Czech Act on Municipalities does not assume total financing or cover the costs (contribution). Thus, it is expected that the municipalities in the sections where they collect administrative fees will use these resources to cover the costs of the delegated competences.

The question of how much the financing system reflects the actual costs is the subject of great discussion at professional forums and conferences. From time to time, it is also the subject of criticism in the media, especially from local government representatives. Such criticism is primarily due to the bias in providing compensation for the state administration's performance concerning disadvantaged municipalities, such as having a bad social situation (Nogol, 2020). For the purposes of our paper, we conducted our own anecdotal investigation (October–November 2022), during which we asked municipal representatives about the calculation of the cost of delegated competitions, namely, whether the representatives of the municipalities do the calculations and in what way. Finally, we anonymized the answers we received. Selective evidence from individual authorities confirms the difficulty and complexity of determining costs and the skepticism of municipal representatives in this area.

As one representative of a municipality told us, *“For the municipalities, the exact quantification of the costs of performing the delegated competence is difficult. No one orders a separate record of costs for independent and delegated competence, which is probably why no one keeps it consistently. The costs of employees' delegated competences who only perform full-time can be easily identified. The problem is with employees who perform both functions or with the municipality's management, where it is necessary to estimate the ratio of both activities for each such employee.*

*It is nearly the same as the other costs of running the office. Only a fraction of them is demonstrably related to only one type of scope; for most costs it would again be necessary to estimate the ratio of both activities. It would make sense for municipalities to keep such demanding records only if they were the basis for reimbursement of costs by the state; otherwise, they have no reason to do so and it does not make sense from the point of view of the entire system”* (email communication, November 9, 2022).

Another representative of the municipality was quite skeptical about the determination of costs: *“I don't know if they do it in any office; we don't do it in our country and I haven't come across it anywhere in practice. I can tell you from my own experience that it is very complicated. I once did a bachelor's thesis on this topic. With a mixed model of delegated and independent competence, it is quite complicated. The same goes for personal expenses for workers who perform only one function, but many employees participate in the performance of separate and delegated functions. They carry out some activities irregularly and perhaps only a few times a year, so it is poorly defined”* (email communication, October 15, 2022).

Another respondent pointed out that the calculation can even be done based on separate records and by finding the employment ratio for the state administration and the local government: *“As for the calculation procedure, some expenses are tracked separately in accounting due to the subsidy. I multiplied the other expenses (officials' salaries, operation of the municipal office, employee benefits, depreciation of the municipal office property) by a coefficient based on the ratio of duties of the state administration and local government.*



*We are a member of a benchmarking initiative, which has a method of dividing duties between state administration and local government, and I drew input data from it. It is certainly not the most accurate result, but we believe that we have obtained a relevant result in a short time”* (email communication, November 9, 2022).

A respondent from another municipality confirmed that he performs the calculation for his own needs, and that they identify the appropriate ratio of employees who perform independent and delegated competences: *“We have around 130 employees; we identify how many of them with independent competences and how many with delegated competences, or proportionally, and thereby determine the total independent/delegated competences ratio. The remaining (service) employees are indistinguishable, and their total costs are then calculated according to this ratio and the operation or any investments. It is calculated annually”* (email communication, November 9, 2022).

The situation in the Czech Republic is relatively similar to that in Slovakia, even though only larger municipalities can exercise more complex delegated competences. Moreover, Czech municipalities cannot calculate the costs of delegated competences, and the state pays only a part of the actual costs of the performance of state administration, which is carried out by the municipalities themselves within the framework of delegated competences.

We believe that the situation is similar in other post-socialist countries, where, to date, it has not been possible to build high-quality management information systems in public sector organizations, that is, systems that would accurately map the total costs and allocate them to individual cost units. This problem was described long ago, but despite some experiments, no progress has been made (see Nemeč et al., 2008, Nemeč, 2018).

## CONCLUSION

This research aimed to analyze the extent to which delegated competences, which local governments carry out on behalf of the state, are financed in the conditions of Slovakia. In this direction, we developed two research questions. First, based on the data from 66 participating municipalities and the results of our analysis, we can draw several conclusions.

Concerning our first research question (i.e., Do the municipalities know the total costs of exercising the selected delegated competences?), we found that in the main, the municipalities do not know the total amount of the costs of delegated competences in the selected areas.

Specifically, the costs of the performance of delegated competences in registry offices were reported to be known by 34 municipalities, but 50 municipalities do not calculate them. As for the costs of delegated competences in the planning and building offices, only 28 municipalities stated they know the costs, but 49 do not calculate them. The control question, which asked about the method of calculation, demonstrated that the answers to the first question, verified by the mayors’ signatures, were partially true. Indeed, a municipality cannot know its exact amount if it does not calculate the costs.

Municipalities confuse the costs of delegated competences with the income (transfers) they receive for this performance in the sense that “I received such a volume of funds for the given delegated competence, I spent this amount on it, and that is my cost.” However, when answering our questions, they did not consider the actual costs or include overhead costs.

The calculation of real total costs for the performance of delegated competences is an exception, and we encountered it only in the case of one larger city. Smaller municipalities do not know these costs, and thus, the cost centers formally introduced by legislation in the conditions of local governments do not really work. The financial need to ensure the performance of delegated competences is determined on the basis of the previous year’s budget, which is not the correct approach. The overwhelming majority of municipalities do not know the costs of the performance of competences delegated to them, and thus we cannot determine the actual percentage of coverage of these costs by the contribution allocated by the state for the performance of delegated competences.

This situation is related to our second research question (i.e., RQ2: What is the level [extent] of financing of delegated competences according to the municipalities?). If the municipality does not know the costs, it cannot know whether their financing by the state is sufficient (i.e., what the level of funding of the delegated competences by the state is). However, according to the municipalities’ answers, the state finances only a part of the costs incurred by the municipalities in the performance of delegated competences. At the same time, the coverage rate varied significantly depending on the size of the municipality. For all size categories, the variance in the answers was significant. For example, in municipalities with a population of 2500 to 4999, the coverage rate in the registry office services ranged between 11% and 95% and the coverage rate in the planning and building office services ranged between 18% and 80%. These estimates suggest that the state is violating its own law, the Constitution of the Slovak Republic itself, which stipulates that the state shall pay the costs of delegated state administration.

It is possible to talk about the existence of a vertical fiscal imbalance (the contribution allocated to the state for the performance of transferred competences is insufficient, and municipalities describe the need for additional financing for the performance of transferred competences from their own resources), but we can neither determine its extent due to the nonfunctioning of cost centers nor the amount of the optimal state contribution. If we compare the financing situation of the transferred competences in the monitored sections of the register and the building office, the results of the survey identify significant problems with the calculation of costs and the degree of their coverage by the contribution allocated by the state in the section of the building office.

One limitation of this research is that it focused on one country (with only a partial comparison to the neighboring Czech Republic). Due to the numerous reforms of local administration and the high fragmentation of public administration, Slovakia represents an interesting example from Central and Eastern Europe (CEE). Other CEE countries are likely to be in a similar situation, especially those with a socialist past. Future research could thus focus on expanding this research to other countries, mapping the methodology of financing delegated competences, and identifying the situation regarding monitoring the costs of delegated competences. As it transpired, Slovakia's costs are unknown, but the municipalities seem fine without knowing them. If we rule out capacity obstacles, the question remains: Why do municipalities not want to (or why are they unable to) calculate the exact costs?

The conclusions of our research confirm the results of research by Mederly et al. (2019) characterizing the system of local self-government in Slovakia and the system of original and delegated competences, legislative anchoring, organizational security, method of financing, and performance parameters of the delegated performance of the state administration. The conclusions of the research are critical—the state has practically no mechanisms for calculating real costs in any of the sections. The study also reminds that the universal transfer of competences to all municipalities regardless of size represents an “automatic source of disturbances” in the conditions of excessive territorial fragmentation of Slovakia, which is also confirmed by the results of our research. The solution is operationalization of cost centers, calculation of real total costs for the performance of delegated competences, and identification of the extent of the vertical fiscal imbalance, which is the starting point for its solution by the functioning of inter-level financial relations, so that the incomes of public administration units at their various levels correspond to the expenses associated with the performance of the competences entrusted to them.

## DISCLOSURE STATEMENT

The authors do not have any financial or other substantive conflicts of interest that might be construed as influencing the results or interpretation of their manuscript, or state that they do not have any conflicts of interest.

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