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# MANAGEMENT OF LOCAL FINANCES IN POLITICAL PERSPECTIVES

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## Abstract<sup>2</sup>

Local finances are subject of only limited debate, connected usually with the unreasonable high expenditures and low efficiency. This situation is then abused for support to the amalgamation or simple reduction of the number of municipalities. In the article we are trying to understand if there is any connection between different perspective on local self-government and the distribution of the finances. The research shows only indirect connection that requires additional study in order to fully confirm that the non-party mayors have different budget management approach. So far the research only confirms this as a possibility which might be strongly dependent on other factors, such as demographic composition of individual municipalities.

**Keywords:** Slovenia, budgetary management, local self-government, independent politics

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## Introduction

In the perspective of financial effectiveness and efficiency, different models of budgeting appeared as solution to costly local self-government. From classical incrementalism as management of minimal changes the budgeting nowadays follows two main directions; participatory budgeting and project budgeting. Participatory budgeting wants to assure the participation of public in budgetary process and can vary from selecting the projects that should be financed to proposing and carrying out the projects which should be financed. On the other hand project budgeting is still absolutely controlled by the local administration and the only difference to classical incrementalism it switches from long-lasting programmes to projects with more clear and faster reachable goals. However, especially for the participatory budgeting, great

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2 "The text was financed from Prvok P17 - Vědy o společnosti, politice a médiích ve výzvách doby"

openness of the local government as well as open legislation is needed. Thus it cannot be considered proper option for Slovenian local budgeting<sup>1</sup>. Slovenian local budgetary changes are more connected to the development of Slovenian local self-government and different political interests. Vlaj (1998: 226), in his analysis of the financial problems of Slovenian municipalities, argues also that the main financial problem of municipalities is that great sums of money disappeared into the pockets of mayors and was also used for providing too much luxury in their offices as well as for the maintenance of too large political and bureaucratic apparatus in Slovenian municipalities. In this manner one can see increasing number of independent politicians at the local level who are considered different financial management of the municipalities than classic political approach. In the article we are trying to understand if there is any significant difference in budgetary management of the municipalities where local politicians argue that they have no political ties to the classical politics, or the budgeting has no significant differences.

Over the time Slovenian public sector subscribed (already in mid-1990s) to the New Public Management approach in the process of own reformation. After 20 years, it seems that the reform of the public sector resulted in down-fall of the services supported by the mismanagement of the public policies and lack of the vision, especially after the entrance to the European Union in 2004. However, there is long list of publications showing high interest for decentralization in the financial as well as in all the other aspects (e.g. Švikruha, Mihalik, 2014; Halaskova, Halaskova, 2014, etc.). Slovenia, similarly to other Post-Communist countries (e.g. Klimovský 2010, Kotarba, Kolomycew, 2014), has undergone many systemic reforms more or less successfully in recent 24 years since the independence. Under such circumstances, number of municipalities increased and requests for more money for local development were made systematically. Consequently, criticism connected to the increasing number of municipalities requested amalgamation, regionalisation, and rationalisation. On the other hand, municipalities did not receive proper level of autonomy (Klimovský 2011) to perform their competences nor did they gain additional competences (Klimovský et al.

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1 Different modern approaches to local budgeting from, participatory budgeting to project budgeting are, despite shy denial of the politics, too dangerous for different local interests, which would have to give up at least part of their decision-making power, by allowing people to propose their own projects that should be financed from the budget (small projects, covering up to 5% budgetary expenditures in total do not count) or giving the citizens right to vote for competing projects in order to provide them local financing. Despite this limitation shows limitation of democracy itself, it is also understandable since, semi-authoritarian decision-making, conducted by elected elite enables basic functions of the municipality to be performed.

2014). In other words, different political interests (supported by certain researchers) requested more centralisation in territorial, functional as well as financial perspective. On the other hand popular answer to the over-fragmentation of the territory and increasing over-politicisation was in decreasing turnout at the local election and systematically increasing number of elected representatives which proclaimed themselves non-related to the major (national) political parties. If at the turn of the century non-political representatives at the local level were considered as curious fact, 15 years later one can talk about the trend of de-politicisation of the local politics. In some cases (Koper, Ljubljana, etc.) changes in the politics and consequently in local policies are evident. However, the question, if there is significant difference in local management due to the shift in local politics, was remaining unanswered. In the time of emergence of the phenomenon, the debate on new local management (as derivative of new public management principles) was started, but never systematically tested (see Pinterič, 2008: 60-61).

## **Methodology**

The research is composed of two separated sub-parts, which are in the second stage combined together. In first part, we analyse the composition of the mayors in Slovenia between 2006 and 2014 (three regular elections) in order to understand the change of non-political mayors (mayors are used due to their function to propose and carry out local budget as one of their main tasks). Mayors are grouped in three categories based on their primary support. First category are mayors who were supported by major national political parties (SDS, SD, LDS, Nsi, DeSUS, SLS); these mayors we consider to be classical political mayors. Second category are mayors supported by local political group/party, which has no national influence. Third category are mayors who won the election with the support of individual citizens or group of them. First group of mayors is understood as "political", which follows the instructions from the central level of the political parties, while second and third group are considered "non-political" and follow the needs of the local environment.

Second part of the methodology is connected to different categories of budgetary expenditures and revenues between 2007 and 2014, such as investments, current expenses, deficit. The budget in the electoral year is prepared by the outgoing mayor so it cannot be used in the credit of the incoming mayor. In this manner the budgetary data are collected in two blocks (2007-2010 and 2011-2014) Data are normalized per capita, since absolute numbers are non comparable due to the variation of the size of municipalities.

In the third part of the research the data on type of the mayor and budgetary characteristics are combined in order to assess if the political independence of the mayor can provide more sound budgetary management in the municipality.

### **Development of the independent local politics**

As it was mentioned before, independent local politics became more and more present trend, often supported by the statement that "party related local politicians care more about their party than local population, hoping to get better (national)position". This created trend of "de-politicisation" of local politics, in the case of mayors as well as emergence of local political groups, which are more action oriented.

Table 1 shows the distribution of different types of mayors over the three elections. It is evident that the politics was, despite high share of independent mayors, still dominating local elections in 2006, slowly losing its position in 2010 and absolutely crushed in 2014. This trend is strongly connected to the changes of the political arena on the national level, where similar trend might be observed. Behind this reaction is inability of classical political parties to resolve the economic crisis and increasing arrogance of the party supported politicians. Among 77 municipalities where in 2010 independent mayor was elected only four switched to party supported mayor in 2014.

Table 1: The distribution of different types of mayors over the three elections

(sum varies due to the changes in the number of municipalities and restriction on elections in 2010 for few municipalities)

candidacy by the support of:	2006	2010	2014
political party	136	131	89
local group	7	10	10
local inhabitants	67	67	113

Source, own calculation based on electoral results, available at Internet 1.

However, in the further research we are not able to use the electoral result for 2014 since, we have no budgetary data for the whole term. However we are able to understand if there is any difference in budgetary management in municipalities run by politically supported mayors and those where mayors try to convince local population that they are politically independent<sup>1</sup>.

### **Financial behaviour of the different types of municipalities**

The general finding concerning the financial behaviour of the mayors can be understood that there is no significant correlation between type of the mayor and the financial use. Pearson correlation coefficient shows weak relation between any given financial item (total expenditure per capita, current expenditure per capita, current transfers per capita, investments per capita, deficit/surplus per capita). The same "no influence" conclusion can be applied in both analysed electoral terms. However, there is weak tendency towards higher expenses in the municipalities with the independent mayors. In order to understand if there is another factor influencing the height of different types of the expenses, we correlated the total expenditure per capita, current expenditure per capita, current transfers per capita, investments per capita, deficit/surplus per capita with the number of inhabitants. Also in this case there was on significant strong correlation in any aspect. This shows that municipalities with more inhabitants (which are usually considered to be urban municipalities) have no significantly different patterns than municipalities with lower number of inhabitants (which are often considered to be rural municipalities). However, last statement is due to characteristics of Slovenian municipalities inaccurate. In order to improve the understanding the economic structure of municipalities, we calculated the share of agricultural workers within the total number of workers of individual municipalities. Based on this data, four types of municipalities were formed (urban, semi-urban, semi-rural and rural). As first side observation, we can expose that there is weak correlation in the second observed period (2010-2014 with budgets 2007-2010) between type of the municipality and characteristic of mayor. Mayors, elected by support of political parties are bit more likely to appear in more rural municipalities.

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1 Hereby we systematically and intentionally ignore, that there are mayors who present themselves as politically independent, thus they have clear political support or connection to the national political parties.

The differentiation by the type of municipality gives certain positive results in different types of expenses. In the first analysed period there are weak correlations (Pearson correlation coefficient is between 0,14 and 0,22) between expenditures and type of municipality. The strongest among these correlations is the one between current expenses and type of municipality, which indicates that rural municipalities have tendency to use more money for the running costs. At the same time there is almost no correlation between surplus/deficit and type of municipality, which indicates that final result in the municipality budget is non-related to the type of municipality (we believe that this is partially connected to the legally binding request for balanced budgeting).

In the second analysed period (2010-2014, with budgets 2011-2014), the correlations between type of municipality and level of different expenses get stronger (with Pearson correlation coefficients between 0,2 to 0,23). Based on this, one can argue that rural municipalities have stronger tendency to spend more in total, as well as for current expenses, transfers or investments.

In the next step we aggregated the collected data as presented in table 2 and table 3. It is obvious that in the period 2007-2010, (semi)rural municipalities are able to manage their budgets much better than urban municipalities, while between 2011-2014, not only that urban municipalities managed to reduce their average deficits, but at the same time rural municipalities increased their deficit (see also graph 2).

Table 2: Overview of average municipal expenses per capita by type of municipality (2007-2010)

type of municipality	total expenses	current expenses	current transfers	investments	surplus /deficit
urban	4,715.14 €	1,078.35 €	1,513.00 €	2,123.79 €	-191.60 €
semi-urban	4,554.74 €	1,024.52 €	1,386.89 €	2,143.32 €	-267.20 €
semi-rural	4,705.67 €	1,200.33 €	1,356.71 €	2,148.63 €	-159.37 €
rural	11,679.31 €	2,732.33 €	3,502.38 €	5,444.60 €	-132.80 €

Source: own calculation based on budgetary data from Ministry of finances and SURS

The interesting part of the change of expenditures between different types of municipalities and is that not only in the time of crisis average total expenditures per capita were reduced only in the case of urban municipalities but also that the rural municipalities increased their expenditures the most.

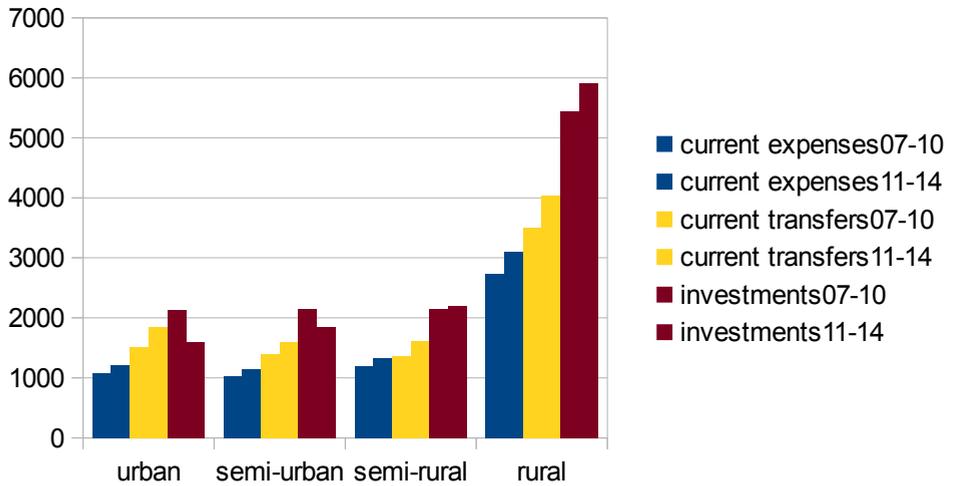
Table 3: Overview of average municipal expenses per capita by type of municipality (2011-2014)

type of municipality	total expenses	current expenses	current transfers	investments	surplus /deficit
urban	4,647.33 €	1,209.03 €	1,840.56 €	1,597.74 €	21.18 €
semi-urban	4,591.39 €	1,147.67 €	1,599.55 €	1,844.17 €	-68.89 €
semi-rural	5,139.35 €	1,330.26 €	1,610.96 €	2,198.12 €	-95.46 €
rural	13,061.01 €	3,107.00 €	4,041.05 €	5,912.96 €	-228.14 €

Source: own calculation based on budgetary data from Ministry of finances and SURS

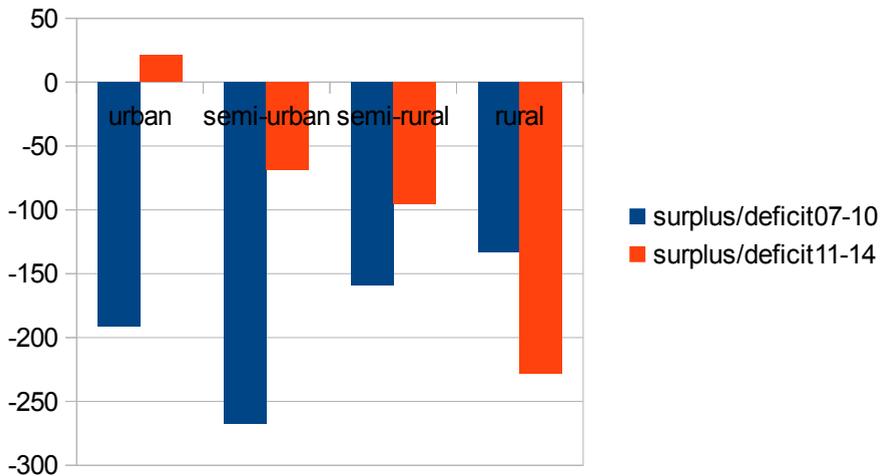
Graph 1 shows inter-period changes in different type of expenses among different types of municipalities. It is visible that (semi-)urban municipalities are much cheaper for inhabitants than (semi-)rural municipalities. However, it is obvious that despite worsening the economic situation in the municipalities in general did increase the current expenses, which indicates that there was no real effect of saving (similar findings were observed already before; see Pinterič, Klimovský, 2014: 47, see also Pevcin, 2012). Urban and semi-urban municipalities reached better balance of the budgets (see graph 2) mainly by reducing the investment expenses (changes on revenue side of the budgets and assets are not taken into the account). On the other hand, rural municipalities did not change their practices and were increasing their expenses for all major expenditures (graph 1) and consequently also the level of their deficits (graph 2).

Graph 1: change of different types of expenses per capita by the type of municipality (€)



Source: own calculation based on budgetary data from Ministry of finances and SURS

Graph 2: change in surplus/deficit per capita by type of municipality (in €)



Source: own calculation based on budgetary data from Ministry of finances and SURS

The different types of the behaviour indicate that there obviously are significant differences among different groups of municipalities based on their socio-economic character. In general, one can argue that there might be other important factors influencing the municipal budgeting than the local political leadership.

### **Management responsibility**

One of the main competences of mayors in Slovenia is to propose the budget (obviously the budget needs to pass the budgetary procedure at the local council and thus cannot be sole responsibility of the mayor). Already before we indicated possible connection between local expenditures and the political affiliation of the mayors, which gave us weak correlations. At this point we are trying to understand if budgetary management can be connected to the political leadership on more general level. In order to do so we calculated average value between 1 and 3 (where 1 represents mayors connected to the politics, 2 mayor supported by local population and 3 mayors supported by local organisations) for different type of municipalities (where 1 represents urban, 2 semi-urban, 3 semi-rural and 4 rural municipalities). The Pearson correlation coefficient shows now extremely strong correlation (-0,89 for the period 2006-2010 and -0,95 for 2010-2014) between type of the municipality and type of mayor. Values indicate that we can argue that rural municipalities will significantly more likely have mayors connected to the political parties, while urban municipalities will much more likely have "non-political mayors". Same relation is valid also for different types of expenses in both time periods with Pearson correlation coefficient between 0,70 and 0,85 establishing strong relation between type of municipality and level of expenses.

In the next step we tried to establish the relation between the type of mayor and level of certain expenses. In the time period between 2006-2010 the budgetary average connections show relatively high negative correlation between type of mayor and height of certain expenses (Pearson correlation coefficient for total expenses is -0,68, for current expenses -0,73, for transfers -0,64 for investments -0,67 and for deficit -0,88). From the perspective of the reality, it means that mayors have strong influence over different types of expenses in the manner that party related mayors have stronger tendency over spending financial sources more generously than mayors who count only on the support of the local population or local organised interests.

In the 2010-2014 period the deficit has strong correlation with the mayor (Pearson CC is -0,86, establishing that politically bounded mayors produce higher deficits per capita). Also other expenses have high correlation to the type of mayor, with exception of social transfers, where the correlation is the weakest (Pearson CC is -0,46; in the case of investments it is -0,63 and in the case of current as well as total expenses -0,57), establishing that social transfers are least depending on the politics but on other factors, which are not part of this survey.

From the inter-period comparison of the relation between mayors and level of different expenses we can see mainly two things. First, that type of mayor is strongly connected to level of different expenses. However, we are not able to confirm if there is direct relation between independent variables or the type of mayor is only secondary variable which is only derivative of type of the municipality. Second, we can see that with the change of the mandate (or simply changing time from relative economic prosperity towards strictly hostile situation) the correlation between mayors and level of expenses was changed in the manner that mayors had weaker influence over the expenditures. This indicates that municipalities had to resolve the social consequences of the economic crisis by allocating more finances for social transfers (strength of Pearson correlation coefficient dropped from -0,64 to -0,46).

The strong connection between expenditure and type of municipality as well as type of mayors indicate that there is possibly not direct connection between type of political leadership and local budgetary management. The later is more likely depending on socio-economic factors (including level of urbanisation), which creates predisposition for expenditures as well as for the possible revenues. Type of mayor is only variable which has tendency towards coinciding with the type of municipality, and the socio-demographic tendency for election of certain candidates. In this manner rural municipalities, as more traditional, more likely elect people with political party background, while urban municipalities have tendency towards electing more project oriented political leadership. At the same time rural municipalities can access more funding schemes (especially EU funding in different forms), which can explain increasing expenditures for the investments despite the general economic crisis. However this part should be additionally supported by the data, since this article is only concentrated on the expenditure side of budgetary management.

## **Conclusion**

Economic crisis in Slovenia opened many questions, from the development strategy of Slovenian government (or lack of it) to inability to control budgetary expenses. In the article we tried to connect Slovenian local self-government units budgetary management to different types of local political leadership. Despite it would be expected, that different types of political leadership will provide systematically different approaches to budgetary management, first attempt showed only limited and very weak connections. By introducing intervening variable and aggregation of data we received much better results in the perspective of correlation between expenditure pattern and type of political leadership. The further calculations showed that municipalities with mayors independent from political parties will more likely spend less money per capita than mayors who are supported by political parties. At the same time the mayors, which are not connected to political parties will more likely adjust their budgetary management to the economic situation by reducing the expenditures or at least by minimizing its increase. On the other hand the mayors, connected to the political parties, will continue and even increase the expenditures over the times of economic crisis. By noting this, one can argue that there are two managerial principles in the action; on one hand classical business approach, lead by reducing the costs in the times of economic crisis while on the other hand there is classical bureaucratic approach of continuous expenditure without considering the economic situation. In this perspective we can point some attention also to two different ideological approaches to solving the economic crisis by neo-liberal or socialist approach.

Despite all these findings make some sense, we need to be careful with the real interpretation which is probably more simple (or complex), but was not tested in this research. First, there is rather high chance that (as it was indicated), correlation between expenditure and type of municipality is strong. However, the role of type of mayors is only secondary, since it is argued that type of settlement is one of the basic factors influencing the voters electoral preferences. Second criticism of the conclusion can be delivered from the point that again type of mayor is not as much a factor of level of different expenditures as it is type of municipality, since we did not analyse the change in level and structure of revenues. In this manner we need to expose that the (semi)rural municipalities in Slovenia (due to their structural characteristics) have better access to different funding opportunities for promotion of development, which could probably explain these differences. In this manner, the argument that political affiliation of local political leadership

has significant influence on budgetary management cannot be proven conclusive, despite it showed high level of plausibility.

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