

Slovakia

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1. LOCAL COMMUNAL AND UTILITY SECTOR

Slovak Republic has an area of 49 035 km² and a population of 5.4 million. The average density of population is 109.9 inhabitants per km². Administratively, and for the purposes of state bodies, jurisdiction in Slovakia is divided into 8 regions and 79 districts.

The basic local government units are municipalities of which there are 2 883 in Slovakia. Within these there are 136 towns and cities where almost 60% of population is concentrated. The largest city is the capital Bratislava, with 452 000 inhabitants. The status of cities with a population exceeding 200 000 inhabitants is set by separate legislation. The local government of Bratislava is divided into 17 municipal wards with their own self-government bodies. The city of Košice is divided into 22 municipal wards with their own self-government bodies.

On the other hand, there are many hundreds of small municipalities—68% of municipalities have a population of below 1 000. Table 8.1. below shows the size and population of municipalities at the end of 2000:

Table 8.1
Breakdown of Municipalities by Size

Municipalities by Size (Population)	Number of Municipalities			Number of Inhabitants		
		%	of this cities		%	% accumu- lated
–499	1 194	41.4	—	325 923	6.0	
500–999	779	27.0	—	553 810	10.2	16.3
1 000–4 999	786	27.3	21	1 491 617	27.7	43.9
5 000–9 999	52	1.8	43	364 347	6.7	50.6
10 000–19 999	30	1.0	30	424 153	7.9	58.5
20 000–49 999	31	1.1	31	902 458	16.7	75.2
50 000–99 999	9	0.3	9	65 0 814	12.0	87.2
100 000 and more	2	0.1	2	689 425	12.8	100.0
SR total	2883	100.0	136	5 402 547	100.0	

SOURCE: Statistical Office of Slovak Republic

In July 2001, the Act on higher territorial units¹ established a second tier of local government in 8 regions.

The status of the territorial self-government is set in the Constitution of Slovak Republic, which defines a municipality as the basis of a territorial self-government. Municipality and region are independent territorial and administrative units that associate individuals with permanent residents in its area. The municipality and the region are legal entities, which independently manage their own property and financial funds.

1.1 Major Service Responsibilities

The fundamental law, which defines local government responsibilities in local communal services and utilities provision, is the Local Government Act 369/1990 as later amended and followed by a range of other laws. The Local Government Act states that the municipality administers its internal issue, mainly in the preparation and approval of the municipal budget and its closing account.

It provides public services, it performs its own investment activities and business activities in the interest of providing for the needs of the inhabitants of the municipality, and for the development of the municipality, and it establishes and inspects municipal enterprises and other legal entities

This act (besides other regulations) assigns municipalities to execute construction, maintenance and operation of:

- local roads;
- public areas;
- local cemeteries;
- market places;
- culture, sport and other municipal facilities.

The Local Government Act also sets down the obligation to provide ‘public-welfare services’, such as:

- the collection and disposal of municipal waste;
- public cleaning;
- operation and maintenance of public greenery;
- operation and maintenance of public lighting;
- water provision;
- sewage treatment;
- public transport.

The municipal responsibilities in the communal and utility sector also include own investment and business activities in order to provide for the needs of the citizens and for the development of the municipality. Municipalities are also responsible for completion of complex housing constructions and a supplementary infrastructure, for initiation and co-ordination of the new housing construction.

The responsibilities mentioned above are obligatory, and the municipalities are due to provide them either by their own or by other firms and bodies. The scope of provision usually depends on the size of the municipality and its financial base. To provide these services, cities and larger municipalities have established their own organizations and businesses, but they also use the option of contracting services out to the private sector.

1.2 Legislation on Communal and Utility Services

Legislation regulating the provision of local communal and utility services is fragmented into a great many acts, ordinances and decrees. Our aim is not to enumerate all of them here. Many of them have been amended several times, and new amendments are still occurring. As mentioned above, the most important Act is the Act no. 369/1990 on Local Government, and the corresponding act Act no.138/1991 on Municipal Property (both in later amendments).

1.2.1 The Act on Local Government

This Act was approved of in 1990, and in this year it also came into power. The process of establishing a local government in Slovakia became on the basis of this Act. The previous system of local public administration was based on three level systems of national committee's bodies while municipal functions had been significantly limited by the state power. After 1989, mainly by the ratification of the Act on Local Government, the role of municipalities (which are represented by towns and villages), has changed significantly. Also their powers and duties were strengthened which also means that new responsibilities for certain matters, including the responsibility for communal and utility services, had been transferred to them.

The Act defines the position of towns and villages as 'municipal territory units', and sets out the rights and duties of their citizens, functions and execution of municipal activities, municipal bodies and so on.

According to this Act, local government issues ordinances that are binding for all individuals and corporate bodies within their jurisdiction. Such 'generally binding ordinances' may be superseded or invalidated only by parliamentary acts. 'Generally binding ordinances' are legal

norms through which the municipality regulates social relations and directs behaviour of individuals and corporate bodies. Municipality issues two types of 'generally binding ordinances':

- 1) Generally binding ordinances carry out municipal tasks, or as required by law.
- 2) Generally binding ordinances in those matters where the municipality fulfils tasks of the state administration.

Generally binding ordinances must not be in contradiction with the Constitution or other Acts. In some cases, generally binding ordinances are required by the law—in this case they take a role of executive regulation that is lawful on the territory of the municipality. An example of this would be the generally binding ordinance on communal waste management.

Besides this basic legal norm, the provision of communal and utility services is also regulated by other generally valid legal norms of which we will mention the most important ones:

1. The Act on Budgetary Rules²
2. The Act on Consumer's Protection,
3. The Act on Protection of Economic Competition
4. The Act on Prices,
5. The Act on Regulation in Network Sectors
6. The Act on Public Procurement.

A brief description of legal norms is summarized in the Annex.

1.3 Forms of Service Delivery

To provide communal services and local public utilities, municipalities have established various forms of organizations including business companies. However, direct service provision through a municipality or organization owned by a municipality is just one of many options. There is a range of relations with private bodies (business or non-profit), which can be used for local public services delivery. The most frequent case is the contracting out via public tender. The contracts take various forms, which are described in more details in the section 1.4.

Various types of organizations, which are used for local service delivery, can be grouped into following forms:

- municipal organizations (such as local authority departments, budgetary organizations, contributory organization);
- commercial companies;
- non-profits.

The legal framework for these forms is continuously adjusted. In following text we will describe broader characteristics which are more likely not to be considerably changed.

1.3.1 Municipal Organizations

Local *authority departments* are not legal entities. This form is used mainly in small municipalities. They are managed directly by a mayor (or city manager). Their incomes and expenses are a part of municipal budget. The central legislation and local conditions for local government staff include qualification requirements for those who deliver services and regulate the staffing.

The budgetary and contributory organizations (budget funded and subsidy funded) have a rather long tradition dating back prior to year 1990. These organizations have their budgets tied to the budgets of their founders. The founders then guarantee and control their operations and take appropriate measures if shortcomings are traced. Budgetary and contributory organizations are established to perform key public functions or public works that are fully or partially funded by the municipal budget according to specific regulations or decisions taken by appropriate authorities.

The status of the budgetary organization is most frequently granted to institutions covering only a small proportion of their expenses by a direct income. Budgetary organization is a municipality founded legal entity tied to a municipal budget by its cost and expenses. This means that their incomes and costs are fully incorporated into the municipal budget revenue and expenditure. *Budgetary organizations* have their own bank accounts. They manage their funds independently, according to an approved budget allocated by the municipality within its budget. They do not depreciate fixed assets.

If the municipal department delivers the services, the municipality is clearly responsible for all aspects of ownership, investments, and financial operation. The same responsibility has a municipality if the service providing was transferred to a budgetary organization.

Contributory organization is a municipality founded legal entity tied to municipal budget via contributions or consignments. It is governed by financial principles specified by the municipality within its municipal budget. Municipality may:

- provide contribution for operational or capital costs
- request the consignment of a part of operating incomes to its budget or set the consignment of depreciation.

Contributory organizations are characterized by a higher level of autonomy, and they are evidently more motivated to effective service delivery as they:

- bear the operation costs costs;
- have higher discretion in remuneration;
- can keep half of the operating surplus which was planned in budget.

Contributory organizations can use the operating surplus for the renovation of facilities and equipment. Besides their main activities, they may have business activities and use the resources from these activities for the improvement of main services.

Contributory organizations are usually made responsible for those services where the large proportion of cost is covered by charges for provision of these services. Quite often these organizations are also responsible for other services, that are not generating a lot of income (e.g. public green maintenance) but the cost of which reduces their tax basis.

Contributory organizations are dependent on the municipality because they utilize its property.

As an alternative option to budget-funded and subsidy-funded companies, local governments may vest the function of asset management and public work and service delivery to business companies established in accordance with the Business Code³. Many local governments established such business companies and transferred to them activities previously provided by the existing budgetary or contributory organisations. This process is frequently referred to as privatisation, even if the municipality owns such a business company.

There is no specific regulation limiting the equity participation or interest of municipalities in business companies. A municipality may be:

- a 100% owner;
- a majority owner, while the minority owners are other municipalities or private companies;
- a minority owner while other municipalities or private companies may own the other equity shares.

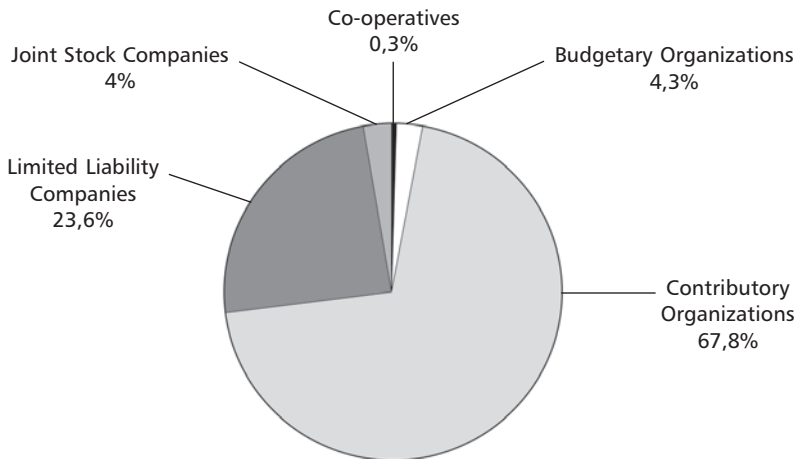
1.3.2 Local Public Enterprises

In 1998, the Institute for the Municipal and Regional Development (IROMAR) conducted a questionnaire survey in all the Slovak municipalities with more than 2 000 inhabitants (more than 70% of the population of Slovakia live in municipalities of more than 2 000 inhabitants). The survey was focused on the organization and legal forms of local public enterprises, the number of employees, services provided, as well as on the provision of local public services by private sector. Due to the high (63%) return rate of the questionnaires this survey can be considered sufficiently representative and its results reflect the structure of local public companies in Slovakia. The following section presents some of the results (see Figure 8.1).

The survey showed that 75% of municipalities have established at least one organization or company (municipal enterprise) to provide local public services of which they have exclusive (100%) ownership. Besides this, 44% of municipalities are equity holders in suchlike companies (i.e. where they have less than 100% ownership).

The enterprises that have 100% ownership by municipalities are mainly subsidy-funded organizations, and this apply to all size categories of the municipalities. Almost one quarter of the enterprises are limited liability companies, this being the second most frequent form of local public enterprises.

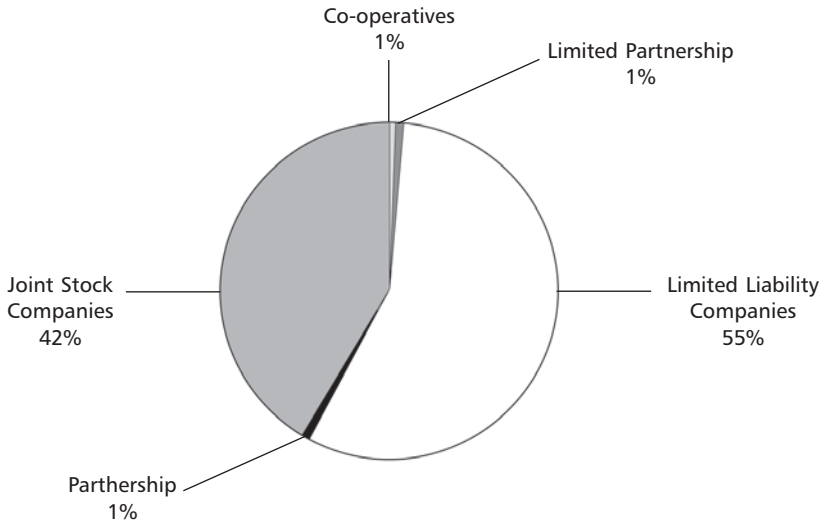
Figure 8.1
Enterprises in 100% Municipal Ownership



This means that out of the total number of enterprises in total municipal ownership, almost three-quarters (72%) are directly linked to municipal budgets. In the business company group, the most frequent legal form used is a 'limited liability company', while the form of a 'joint-stock company' is used with a substantially smaller frequency. Here, we must add, that in large municipalities (with a population of more than fifty thousand inhabitants) this proportion has changed. Although the budgetary and contributory organization still represents more than half of the total number (57%), the proportion of business companies has increased: 27% represent limited liability companies and 16% joint-stock companies.

As already mentioned, a municipality may provide services using the companies owned jointly with other municipalities or private firms (having the majority or minority share). The survey showed that in this case, limited liability companies and joint-stock companies prevail.

Figure 8.2
Enterprises in Less than 100% Municipal Ownership



Within this form of ownership, 17% of municipalities have their interest in a company jointly owned with other municipalities. The bigger the size of a municipality, the higher the proportion of municipalities who have an interest in companies owned by other municipalities.

1.3.3 Contracting Out

Although the majority of municipalities provide local services via their own organizations, most of them (75%) make use of contracting some local services out to private sector companies. Similar to the previous issue, the same principle applies, i.e. the bigger size of the municipality, the higher proportion of municipalities contracting some of the services out (See Table 8.2).

The most frequently stated reasons leading to the decision to contract service delivery out to the private sector were: lower costs, higher flexibility and the existence of a private sector provider for the given service. Private sector companies provide all types of communal services for which the local government is responsible. In large cities, it is a quite common feature that services of the same kind are delivered both via a contributory organization, and via a contracted private firm.

Table 8.2
Municipalities contracting out service delivery

Size of Municipality	Proportion of Municipalities Contracting Service Delivery Out to Private Sector
Population less than 5000	72.6%
Population of 5001–20 000	72.7%
Population of 20 001–50 000	79.2%
Population of 50 000 and more	100%
All municipalities	75%

1.4 Local Government Management Practices

To provide communal and utility services there are several types of arrangements. The type of arrangement determines the ownership, financing operation, maintenance and investment, scope of direct intervention, and so on.

To decide the type of arrangement for a particular service is in the competence of the local government. In the following section we list the basic types of arrangements used in Slovakia to provide communal and utility services. They might be modified or combined as well. Unfortunately, there is no national statistics or survey on the proportion of particular arrangements.

1.4.1 Direct Service Delivery

If the services are delivered by the municipal departments, municipality is clearly responsible for all aspects of ownership, investments, and the financial operation. The same responsibility has a municipality if the service providing was transferred to a budgetary organization.

If the contributory organization delivers services, the municipality remains the owner of the property. It is also responsible for investment costs, and the reproduction and expanding of services although the contributory organization makes amortization in its accounts. Municipality sets the charges, and then the municipality is responsible for financial liabilities if the contributory organization find itself in insolvency

1.4.2 Arrangements with Business Companies

As mentioned above, local public services can also be delivered by businesses owned by municipalities or by businesses where all shares are owned by private subjects. There are several kinds of arrangements which municipalities use to provide services via business companies. The most important are described below.

1.4.3 Contract for the Service Delivery

The municipality can entrust the service delivery to an external organization (also the business company which is owned by the municipality can be included in this). The contract can be concluded for the provision of the service as the whole (i.e. the administration of housing fund), or for a secondary activity, as for example the reading of meters or maintenance of vehicle fleet.

The municipality remains the owner of the property, which is used by this service, although an operator is responsible for repairs and maintenance and usually for the replacement of equipment with a short lifetime. Operational yields are regulated and obtained by the municipality. The supplier of the service is compensated for the provision of the service, usually according to the contractual price. There does exist some options of reimbursement for provided services, including the following:

1. Total annual amount;
2. Amount of actual costs plus fixed percent portion;
3. Amount of the fixed unit costs (for instance per hour or according to the conditions of the meters);
4. Percent portion from collected revenue.

Usually the municipality is directly accountable for the service to the users.

1.4.4 Contract for the Service Operation

There are two types of contract for the service operation—with or without a share on profit.

a) Without a Share on Profit

The municipality is an owner of the property and invests in the construction and expansion of the property. It will determine the level of fees for users. It is accountable for the service to users and bears financial risks.

Contractual supplier operates the service for a fixed amount (usually determined by the public tender). Operational and maintenance costs are reimbursed from the revenue and potential balance goes to the municipal budget, i.e. the municipality either gets operational surplus or pays operational deficit.

b) With a Share on Profit

The same conditions apply, although:

- A supplier has a right to charge fees for the service;
- In addition to a fixed contractual price, the supplier receives a fixed percent portion from operational surplus.

Operation of the service with a share on profit is usually applied to those services which are expected to function without an operational subsidy (water supply system or waste collection). But it may also be used for the provision of services such as public swimming pools, which have significant yields, but despite this they get a municipal subsidy, usually for the provision of services which are the subject of concession for certain groups of inhabitants (children, the elderly). In this case, a supplier shares an operational surplus with the municipality after being paid a fixed subsidy.

1.4.5 Lease

Municipal property can be leased to an external organization for a lease fee (municipality can, but also need not be the owner of the organization). Leaseholder is accountable for the provision of the service directly to its users, i.e., they are consumers of a leaseholder but not of the municipality. The leaseholder bears financial risk.

The municipality is the owner of the property and is responsible for investment and payment of financial obligations. The leaseholder is responsible for the operation, repairing, maintenance and replacement of equipment with a short life. The leaseholder must return all leased means in good condition to the municipality at the end of the lease.

The leaseholder receives operational yields—even if the municipality can regulate the level of a charge for the service—and pays operational costs. The leaseholder will pay to the municipality the following: lease fees; or a percent portion from the yields; or both (i.e. a smaller fixed fee as compensation to the municipality for the depreciation of the property and share on yields according to actual need).

These conditions usually come out of the public tender. Lease contracts are usually concluded for a middle term period, i.e. for 10 years with a possibility to renew them.

1.4.6 Concession⁴

The concessionaire is given an exclusive right to provide the service for the stated period, in return for capital investment into inevitable infrastructure. The concessionaire bears all the costs—investment, operational, for repairs and maintenance, and is directly accountable to users who become his clients. He also bears financial risks.

The municipality on the basis of public tender usually assigns concession. The concession document may determine a range of provided services, and the highest level of fees. It is usual that the level of fees is regularly reviewed and can also be based on inflation.

Level of fees, and the period for concession is calculated to cover operational costs, full amortisation of investment capital and adequate return of investment. The concessions are assigned for a longer period, typically from fifteen up to thirty years, when compared to the lease contracts, or contracts for the provision of services. The reason for this is a requirement of obligatory capital investment. At the end of the period of concession the premises must be transferred to the municipality.

Municipality can subsidize initial investments, either by existing property or by cash. In this case, it is usual that it has valid claims for a fixed percent portion on operational yields. Another solution might be that the municipality will pay an operational subsidy to the concessionaire, in order to decrease a level of fees. It can also be in the form of total subsidy for decreasing the level of fees in general, and for the support of use of the service (for example in the case of public transport). Another option is targeted subsidy to decrease the level of fees for certain groups of users (i.e. reduce the fare for children at a pre-school age).

1.4.7 Financial Agreement

Municipalities can conclude contracts with non-profit making organizations, in order to provide grants for the reimbursement of costs related to concrete social, sports and cultural activities. The organization is responsible for each investment and operational costs. It owns the means which are used (if they are not rented from the municipality) and bears financial risks.

Agreement on financing is usually related to a certain program of activities, not to an operation of the whole organization. The agreement is related to the whole program range and will determine quality level, which must be kept to by the organization. Financial reimbursement from the grant depends on complying with the quality level, and regular activity checks take place on activities provided by the organization.

1.4.8 Provision of Services without Legal Relations

The public service might be provided for by an organization without legal relations with the municipality. In this case, the municipal legal rules concerning the construction of a facility, sale of services, employment relationship, protection of the environment, health and safety at work rules and so on must be kept to. The organization can also be a subject of national or municipal inspections, but only under the same conditions as those applied to commercial activities.

1.5 Local Significance of the Communal and Public Utility Sector

Local budget revenue consists of five revenue groups as prescribed by budgetary classification which is compulsory to follow for municipalities:

- Tax revenue;
- Non-tax revenue;
- Grants and transfers;
- Revenue from repayment of credits and loans and from sales of shares;
- Credits.

Table 8.3
Structure of Local Government Revenue

Revenue Group	1997		1998		1999		2000	
	[million Sk]	[% of Total]	[million Sk]	[% of Total]	[million Sk]	[% of Total]	[million Sk]	[% of Total]
Tax revenue	10 596.4	36.7	11 402.2	39.5	11 608.4	42.5	12 799.2	38.0
Non-tax revenue	10 294.8	35.8	10 646.6	36.9	9 116.5	33.3	10 691.6	31.8
Grants and transfers	5 026.3	17.5	3 784.6	13.1	3 362.3	12.3	3 739.4	11.1
Revenue from repayment of credits and loans and from sales of shares	161.9	0.5	96.5	0.3	93.4	0.3	124.3	0.4
Credits	2 733.1	9.5	2 942.7	10.2	3 162.9	11.6	6 302.8	18.7
Total	28 785.5	100.0	28 872.6	100.0	27 343.5	100.0	33 657.4	100.0

SOURCE: Accounting reports Úč RO 2-04 for 1997-2000, Ministry of Finance

The tax revenue has obviously the most important position in the municipal revenue structure. Revenue from the communal and public utility sector is incorporated in the non-tax revenue group, which carries nearly the same importance as the tax revenue.

The basic expenditure classification divides operating and capital expenditure. Operating expenditure involve also debt payments.

Table 8.4
Basic Structure of Local Government Expenditure

	1997		1998		1999		2000	
	[million Sk]	[% of Total]	[million Sk]	[% of Total]	[million Sk]	[% of Total]	[million Sk]	[% of Total]
Operating*	16 607.8	62.4	17 700.2	64.5	19 064.1	73.1	24 243.3	76.7
Capital	10 017.4	37.6	9 735.4	35.5	7 019.8	26.9	7 366.4	23.3
Total	26 625.2	100	27 435.6	100	26 083.9	100	31 609.7	100

* Operating expenditure includes repayment of loan principles and equities
SOURCE: Accounting reports Úč RO 2-04 for 1997–2000, Ministry of Finance

As mentioned in the section ‘Local Government Management Practices’, separating the three functions: owner, client, and policy maker, the amount of revenue from communal and public utility sector depends on what kind of organization provides services and which kind of contract has been signed with contracting out services.

In the following part we briefly deal with the significance of different services in the municipal budget’s revenue and expenditure.

Communal services are included mainly in two sections of the budgetary sector classification of public budgets in Slovakia:

- local economy services;
- environmental services.

These two sections together comprise up to 16.5% of total municipal expenditures.

The section on ‘Local Economy Services’ consists of five paragraphs:

- public lighting;
- burial services;
- public welfare services;

- other local economy services (such as local markets, public toilets, etc);
- organizations of local production and services (financial relations to organizations which are not included in any other paragraph of this section).

Table 8.5

Local Government Revenue and Expenditure for Local Economy Services [millions Sk]

		Revenue	% of Total Revenue	Expenditure	% of Total Expenditure	Capital Expenditure	% of Capital Expenditure
Local economy services	1997	159.3	0.6	2 209.4	8.3	246.6	2.5
	1998	113.0	0.4	2 208.0	8.0	364.6	3.7
	1999	93.2	0.3	2 118.1	8.1	341.5	4.9
	2000	123.0	0.4	3 071.6	9.7	639.2	8.7

SOURCE: Accounting reports Úč RO 2-04 for 1997–2000, Ministry of Finance

As mentioned above, the section on 'Local Public Services' includes data on public lighting, burial services (construction, operation and maintenance of cemeteries, crematoria, funeral hall, etc) and public welfare services (facilities). The following table (Table 8.6) provides more detailed information on a share of these services in total local government revenues and expenditures as well as a share in local government capital expenditure.

Table 8.6

Local expenditures by communal service areas

		Revenue	% of Total Revenue	Expenditure	% of Total Expenditure	Capital Expenditure	% of Capital Expenditure
Public Lighting	1997	3.1	0.01	642.9	2.4	67.4	0.7
	1998	2.5	0.01	837.5	3.0	166.1	1.7
	1999	2.2	0.01	909.1	3.5	208.2	3.0
	2000	1.6	—	1 325.7	4.2	522.3	7.1
Burial Services	1997	17.2	0.06	148.5	0.6	60.2	0.6
	1998	18	0.06	167.2	0.6	74.7	0.8
	1999	20.1	0.07	165.6	0.6	73.0	1.0
	2000	24.5	0.07	180.9	0.6	56.0	0.8

Table 8.6 (continued)
Local expenditures by communal service areas

		Revenue	% of Total Revenue	Expenditure	% of Total Expenditure	Capital Expenditure	% of Capital Expenditure
Public Welfare Services	1997	57.9	0.2	925.7	3.5	58.7	0.6
	1998	33.3	0.1	735.8	2.7	52.9	0.5
	1999	15.4	0.06	626.9	2.4	16.5	0.2
	2000	32.7	0.1	920.4	2.9	18.2	0.2

Section Environmental services involves five paragraphs:

- nature protection (protected areas, botanical gardens, zoological gardens, etc);
- public green (construction and maintenance);
- cleaning and winter treatment of local roads;
- waste collection and disposal;
- other environmental activities.

Table 8.7
Local Government Revenue and Expenditure for Environmental Services [million Sk]

		Revenue	% of Total Revenue	Expenditure	% of Total Expenditure	Capital Expenditure	% of Capital Expenditure
Environmental Services	1997	241.6	0.8	1 628.7	6.1	191.5	1.9
	1998	208.7	0.7	1 583.1	5.8	162.3	1.7
	1999	232.3	0.8	1 713.5	6.6	84.4	1.2
	2000	276.7	0.8	2 161.3	6.8	116.9	1.6

SOURCE: Accounting reports Úč RO 2-04 for 1997–2000, Ministry of Finance

The revenue and expenditure of this section are dominated by communal waste collection and disposal. Table 8.8 provides more detailed information on a share of specific services (public green, cleaning and winter treatment of local roads as well as communal waste collection and disposal) in total local government revenues and expenditures as well as a share in local government capital expenditure.

Most of the water and wastewater services have, up until now, been provided by five regional water companies which were owned fully by the state government. Municipalities have been

given the legal responsibility to provide adequate drinking water and waste water treatment services. However, only a very small part of water and wastewater infrastructure has been transferred to the municipal authorities. Otherwise, municipal authorities have so far little control over investments in the water sector, if even the municipal authorities have financed a fairly large proportions of the investments in the water sector. This issue is described in more details in section 3 'Water Supply and Sewage Systems'.

Table 8.8
Local Expenditures by Environmental Service Areas

		Revenue	% of Total Revenue	Expenditure	% of Total Expenditure	Capital Expenditure	% of Capital Expenditure
Public	1997	5	—	438.4	1.6	60.6	0.6
	Green						
	1998	2.6	—	440.3	1.6	37.9	0.4
	1999	3.4	—	460.7	1.8	22.2	0.3
	2000	2.9	—	585.1	1.8	24.5	0.3
Cleaning & Winter Treatment of Local Roads	1997	0.8	—	500.2	1.9	6.9	0.07
	1998	0.3	—	426.1	1.6	4.7	0.05
	1999	1.4	—	545.2	2.1	1.2	0.02
	2000	1.2	—	773.3	2.4	4.8	0.06
Commu- nal Waste Collec- tion and Disposal	1997	227.9	0.8	619.7	2.3	90.4	0.9
	1998	200	0.7	685.5	2.5	109.6	1.1
	1999	225.6	0.8	664.6	2.5	56.7	0.8
	2000	256.3	0.8	748.0	2.4	79.4	1.1

There are a very small percentage of municipalities which operate their own water supply and sewage system as to the share of supplied inhabitants. In 1998, municipalities administered 533 (491 in 1997) municipal water supply systems and a water-piping network of 846 km (550 km in 1997) of the total length. These systems supplied 5% of inhabitants. Similarly, the proportion of municipalities administering sewer and wastewater treatment systems is rather low. The network of sewer pipelines administered by municipalities was 549 km in 1997. There lived just 2.3% of inhabitants in houses with connections to municipal sewage systems. Municipalities administered 108 wastewater treatment plants in 1997.

Incomes from the operation of these systems comprises less than 0.3% of the total municipal revenues cca 2.5% of total municipal expenditure. 80% of expenses are tied to construction of water and sewer systems and treatment plants. They comprise 6–8% of total local government capital expenditure.

Table 8.9
Local Government Revenue and Expenditure for Water Supply and Sewage Systems
[million Sk]

Year	Revenue	% of Total Revenue	Expenditure	% of Total Expenditure	Capital Expenditure	% of Capital Expenditure
1997	44.5	0.15	718.1	2.7	618.8	6.2
1998	52.5	0.18	673.6	2.5	542.2	5.6
1999	60.3	0.22	546.2	2.1	428.5	6.1
2000	89.8	0.27	772.4	2.4	620.2	8.4

SOURCE: Accounting reports Úč RO 2-04 for 1997–2000, Ministry of Finance

2. COMMUNAL SERVICES

The term ‘communal services’ in Slovakia has traditionally been related to the following activities:

- a) collection, transport and disposal of communal waste;
- b) cleaning, construction and maintenance of local communications;
- c) care for public green and cemeteries;
- d) operation of public lighting.

Local companies ‘technical services’ established by national committees usually provided these activities before 1990. The size of these companies, their technical equipment, efficiency and level of management differed from company to company, mainly dependent on the abilities and skills of those people who were in the top management and elected bodies. In smaller municipalities, the companies from adjacent towns and villages provided these services, and permanent or temporary divisions were set up and paid for by the executive apparatus of the national committees.

2.1 Current State of Communal Services⁵

The Act on Local Government and the Act on Municipal Property in 1990 passed a responsibility for these services on municipalities, which then became owners or founders of these ‘technical service’

companies. Small municipalities faced the decision of how to provide these services —either to provide them in full range from own funds and in that case to provide investment, or to carry them out only partially, or not to carry them out at all and have them contracted from the closest provider.

The previous technical service companies with their management system and organization came under the jurisdiction of mayors and councils. New municipal organs started to gradually change the system of management in these companies, or they were making decisions about their transformation into other organizational forms. Mistakes occurred in the process of their transition, restructuring and privatizing. Decisions were influenced by a political structure of municipality. They also depended on the abilities of management, on fierce competition of local and foreign entrepreneurs, on group, political or individual interests, on lobbying and so on.

The process of transformation took place mainly in the period of 1990–1995. In some cases, these companies remained in their original form with the same range of activities, i.e. in the form of budgetary organization. However, the majority took the form of a contributory organization set up by municipalities.

The original organizations, which provided a whole spectrum of services, were quite often split into more legal entities with a specific focus, which either remained under direct management of municipalities, or new commercial entities were set up with partial or full share of private capital.

In municipalities, which decided to entrust these services to the private sector, the whole or part of the companies was privatized, and new independent private entities were established. These started to provide the communal services for the municipality on the basis of a contract. Privatization was usually used one of the three models modified to certain conditions:

- Sale of the company as one unit to a commercial company with a take-over of rights and duties, financial liabilities and receivables. Usually the sale was related only to movables and annual installments were agreed (5–10 years).
- A lease of immovables (buildings, sites, land, so on). for a longer period, e.g. for 10 years with a condition of free of charge maintenance and a possibility for a mutually agreed investment, funded by a leaseholder, and a lessor reimburses the investment and the end of the lease. The price of the lease was usually agreed lower than the current prices in order to help the new entity stabilize its economy and maintain employment, upgrade technology and keep the leased property in good conditions and so on. For instance in Bratislava where the original technical services were split into independent companies for: collection and waste disposal; maintenance and cleaning of communications; and public lighting, was the price for a lease of immovables set only in the amount of depreciation
- The municipality has committed to order public services in certain amount from the privatized company. The amount of works could be equal, for example up to 30% out of the funds from the budget for these particular activities in present year. The buyer could compete with other suppliers for the rest of the works in a tender.

These models were applied with some modifications in several Slovak towns. Differences were mainly in the level of privatization. Newly established companies based on this model have been either with a 100% share of the municipality, or with a partial private share usually owned by members of the management or purely independent private entities. In some towns, foreign investors established themselves and became joint owners with a majority or minority share, mainly in the area of communal waste disposal /Brantner, Marius-Pedersen, Lobbe and so on. The most intensive process of the companies' transformation was in the period 1992–1995, but it has been still going on by the transforming and privatizing of contributory organizations to some of the forms of commercial companies.

On the other hand, in several municipalities, a discussion has started on the disadvantages and problems concerning the public services provided by private companies. Some of the municipalities have established small units, which should help to get them a bit out of such a dependent position in relation to the provision of public services. For example, some municipal parts of Bratislava have already set up their own organizations for communal services, even though the original technical services—now privatized—have the required capacities to cover these activities in the whole city. Some of the municipalities even consider a backward transformation of the commercial company (at which they have majority share) into a contributory organization. Technical services limited 'Ziar nad Hronom', who was transformed into a 100% private company, was rebought by the municipality, who gained 100% ownership.

As it has already been mentioned, the communal services are provided either through the companies that provide all the services, or through those ones that provide only individual services, and even through the municipal department. In the following part, we will describe the situation in more detail using as an example public lighting.

2.2 Public Lighting

The data and information from the Slovak Public Works Association⁶ were used to describe the current state of public lighting. With regard to the fact that member organizations provide public services in approximately 70% of Slovak territory, we can consider them as sufficiently representative.

In 1856 gas, and then in 1884 electricity, were used as energy for systems of the public lighting, i.e. lighting for communications, town squares, and public spaces. The public lighting maintenance had initially been provided by a gas works company, and then by an electricity company, and municipalities had their shares in both. According to the present legislation, responsibility for the public lighting is fully in the competence of municipalities. A basis for the current state was the establishment of national energetic companies in 1950–1960, and then the transfer of responsibility for the public lighting to national committees and their organizations. Basically, the public lighting is classified as a public goods indirectly paid by taxes.

Surveys of the current state of the public lighting in Slovakia conducted by the Slovak electricity company showed that there is a proportion between the number of lights and number of inhabitants, which approximately means a ratio of 10 inhabitants to 1 light of the public lighting. Another important survey results, shows the lamp structure of the public lighting (see the following diagram), with approximately half a share of natrium lamps, and an average electricity consumption for the public lighting including lighting costs:

Figure 8.3
Public Lighting Lamp Structure in Slovakia in 1999

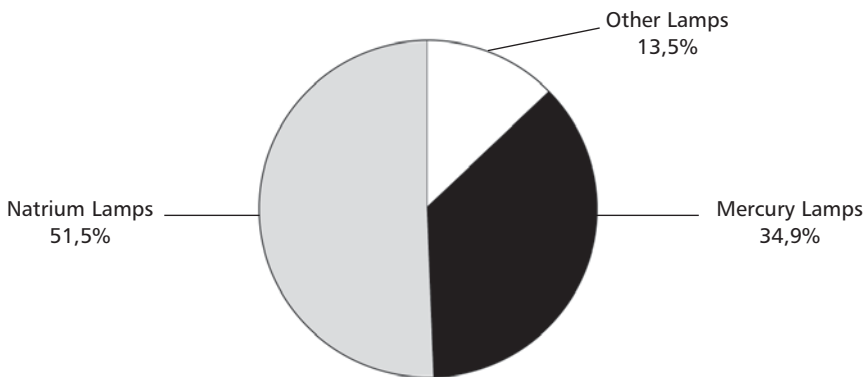


Table 8.10
Total Electricity Consumption and Electricity Costs for the Public Lighting in Slovakia, in 1999

Total electricity consumption per year	342 151 GWh/year
Total costs for electricity	864.3 million SK
Total maintenance costs	257.8 million SK
Total costs per year	1 123.7 million SK

SOURCE: Documents of Slovak Electricity Company

Municipalities follow their own generally binding ordinances issued for the development, construction and operation of the public lighting when they carry out activities related to the area of the public lighting. From the point of view of works, maintenance, and construction,

there are valid national norms: STN 360400, STN 360410, STN 360411 for low voltage facilities, and operational rules since the public lighting is an electric facility. In the process, preparation for the reconstruction, upgrading and rationalization of the public lighting municipalities often use documents approved and issued in the socialism period, for examples: Views on Operation and Maintenance of Public Lighting 1972; Methodology for the Creation of Conceptions and Reconstruction Planning 1975; Rules for Lighting on Streets, Roads and Highways 1971 and so on.

The norm STN 360400 on public lighting, states partial requirements for energy saving operation and maintenance of the public lighting facilities. Limits on the energy consumption in relation to the size of municipalities, the so called ‘figures of consumption’ and output from the past lost their effect by a transfer to the market economy. The only limit for quality and quantity of the public lighting operation are operational costs, which are limited by an amount allocated from the budget for these purposes.

The public lighting facility is in the ownership of the municipality, and the management of this municipal property could be transferred to:

- professional departments of municipalities;
- specialized budgetary or contributory organizations of the municipality;
- commercial organizations—businesses which provide public lighting for an agreed price on the basis of mandatory contract.

The maintenance, reconstruction, and renewal of the public lighting facilities is carried out on the basis of the selection in a tender: they might be provided for either by the municipal employees, or by municipal budgetary or contributory organizations or by commercial companies.

The transformation of budgetary and contributory organizations responsible for the public lighting was implemented also through public tenders in order to select an entity, which was interested in privatization of the company ‘Technické služby’. A successful applicant would usually get also a contract for the following activities:

- maintenance and service;
- maintenance, service and operation;
- maintenance, service, operation and rationalization;
- maintenance, service, operation, rationalization and reconstruction including supplies of material.

In long-term contracts, the period of validity is connected to the return period of rationalization project investment. Sometimes municipalities announce tenders for the supply of individual components of the facility (lamps, lampposts) and the installations are done by the municipal organizations.

A natural part of the public lighting services delivery is the rationalization of maintenance and consumption of electric energy. This requires a significant amount of investment. The following ways are used to obtain it :

- supplier credit—even from foreign sources (e.g. Bratislava-Siemens);
- specific grants focused on rationalization of energetics, e.g. from PHARE;
- direct bank loans for municipal programs—e.g. PKB Žilina;
- emission of municipal bonds for approved project of communal strategy.

In the public lighting services, the regulated price is the price for electricity consumption in public lighting. There has been a huge price increase of about 80% in recent years. Costs for electricity consumption for the public lighting represent of about 0.6-9% of municipal budget expenditure (in the price level of 1999) as it was found out from the data of 55 respondents. A supplier of electricity for the public lighting is a network of state energy companies, which have not, as yet, been transformed. They are in a monopoly position and they do not provide price advantages for the public lighting sufficiently. The remaining cost items in the public lighting are market based. As for the costs of maintenance and operation of the public lighting, there is a demand for a general assessment and approximate determination of technical-economic indicators. These could make the basis for determination of costs of the public lighting used in contracts.

2.3 Construction and Maintenance of Local Roads

The state owns and provides construction, maintenance, and administration of the following types of the ground communications (besides local ones): motorways, roads of standard grades I, II and III . The Act no. 135/1961 on Ground Communications (the Road Act /with later rules states the conditions of the traffic and administration for each type of road including local communications. The state owns approximately 3,070 km of roads of grade I; 3 920 km roads of grade II and 17 650 km roads of grade III. The construction and maintenance of all types of roads owned by the state are provided by the organization Slovak Administration of Roads. Its budget consists of 70% share on the road tax, contributions from the state budget and National Property Fund and loans.

The Act on Ground Communications (Road Act) states that the municipality performs local state administration for ground communications. The municipality is a road administrative organ for local and other communications in its territory. The municipality, as the owner of local communications, must maintain them in the conditions they were designed for. The cities Bratislava and Košice own roads of I and II grade located in their territory and perform their administration. the municipality as an authorized road administrative organ can fine either an individual or legal entity up to 1 million Sk if the rules of the act are violated on local communications.

The Act no. 315/1996 on Traffic on Ground Communications declares the municipality as a road administrative organ on local communications 'LC'. The municipality administer local communications, issues decision about closing 'LC', the bypass and digging up of 'LC'.

According to the Act on Local Government and later rules, municipalities become administrators (§4 article (3) letter e—municipality performs construction, maintenance and administration of local communications, public space, ...) and in accordance with the Act on Municipal Property municipalities became owners of local communications. Municipalities administer local communications either directly through its own budgetary or contributory organisation, or through another company on the basis of contract.

Table 8.11
**Local Communications (LC), Level Crossings, Crossroads
with Traffic Lights and Bridges**

Indicator	SR	Region							
		BA	TT	TN	NR	•A	BB	PR	KE
LC [km]	24 978.7	1 373.1	2 420.9	3 258.9	3 410.9	4 018.8	4 547.8	2 944.1	3 004.2
Bridges [num- ber]	9 080	228	440	1 202	754	1 658	1 732	1 928	1 138
Level crossings	1 094	81	71	127	193	165	236	118	103
Cross- roads traffic lights	258	77	17	19	27	36	13	27	42

SOURCE: Documents of Ministry of transport, post and telecommunication SR

A 30% share, out of the road tax yield was allotted to municipalities for the construction, administration and maintenance of local communications until 2000. Trends of municipal revenue from this shared tax is shown in Table 8.12.

Since 2001, the share of road tax yield for municipalities has increased from 30% to 40%, and for cities Bratislava and Košice even to 60%.

The distribution of the road tax yield is applied to municipalities from the tax yield of each tax district, according to the number of inhabitants. Therefore, the tax yield per inhabitant differs

from one tax district to the next, in relation to the development of business activities and tax collection. It is clear from the table that tax yield steadily grows and is stable. However, in general, the tax yield is not sufficient. It does not fully cover the costs of road administration and maintenance. Mainly winter maintenance has to be funded from a municipal's own sources.

Table 8.12
Municipal Revenue from the Shared Road Tax

Year	1994	1995	1996	1997	1998	1999	2000
Revenue [thousand Sk]	389.1	411.8	432.0	461.1	490.6	515.4	629.1
% of total revenue	1.9	1.8	1.7	1.6	1.7	1.9	1.9

SOURCE: Accounting reports Úč RO 2-04 for 1997–2000, Ministry of Finance

Cleaning and maintenance of local communication is classified as a public goods generally funded from municipal budgets. Complementary income source to cover cleaning and maintenance costs of local communications may be an income from parking fees. Parking fees have not been regulated until recently by central law. Municipalities set parking fees in their own generally obligatory ordinances. These were in some cases contested by the district public prosecutor's offices. The Association of Slovak Municipalities has prepared a proposal on a legal amendment of parking fees, and submitted it to Parliament. The Slovak Parliament approved a law which including a parking fee in the system of local fees.

To provide these services, municipalities use similar models as described in the public lighting section. In any case, to provide cleaning and maintenance of public communication they more often use budgetary or contributory organizations of municipalities. Financial resources from the housing support funds are often used by municipalities for the construction of local communications.

2.4 Public Parks and Cemeteries

The municipality is responsible for the administration of public spaces, municipal cemeteries according to the Act 369/1990 on Local Government.

The decree issued by Ministry of Health Care 46/1985 on the procedures surrounding death and funeral sets the municipal competency to establish and administer cemeteries, columbariums, crematoriums, and so on. It also gives the municipality power to entrust the administration of these facilities to other organizations. Conditions for the establishment of cemeteries are also set up in the Construction Act, and are related to ordinances of environment protection.

Basically, the care for public greenery and cemeteries has been classified as an ‘indirectly paid for’ service, through taxes. Complementary income to cover the costs are fees for the use of the public spaces or burial site. Municipalities use similar models as described in the section on public lighting to provide these services, but generally this is done by the budgetary or contributory organizations of municipalities.

2.5 Solid Waste Management

The main strategy of waste management in Slovakia is integrated protection, which is based upon the following principles:

- a reduction of the waste production;
- a decreasing of toxic material contents in waste;
the material utilization of waste;
- a thermal modification of waste if there is no possibility to use it, with the purpose to get energy, reducing a cubage and weight of waste along with a reduction of the contents of harmful material in waste;
- the dumping of waste at a minimum rate.

In next few years it will be needed to continue, not only in building of a whole infrastructure of waste management, but to focus especially on the decreasing of waste production at the source, and an increase in the exploitation of waste.

A database of the waste production in Slovakia is maintained by the Regional Waste Information, which covers data collection from waste generators. The data is elaborated on by the Slovak Environmental Agency. According to this database, 19.8 million tons of waste were produced in 1998, of which communal waste was 1.7 million tons. Per capita, waste production counts currently for 330 kg.

According to the Act on Local Government, municipalities are responsible for the removal and disposal of communal waste. This responsibility was also carried out in the provisions of Act 238/1991 on Waste, which was applicable until June 2001. It was a fundamental law on waste, from which are derived other legislative regulations.

The Act on Waste clarifies, in its provisions, the main concepts of waste management, licenses and responsibilities for respective institutions of public administration, legal and physical entities, responsibilities of transport operators for waste transfer, collection, repurchase and modification of waste, and the responsibilities of the operators for disposing facilities. The Act defines charges for the waste disposal for legal and physical entities, defines the penalty assessment of legal and

naturalized persons for breaking the law and its amount. Penalties for breaking the act are set by state administration and they are the revenue of the state environmental fund.

In addition to the Act on Waste mentioned above, the Ministry of Environment issued a public notice (number 19/95), which determinates the categorization of waste and waste catalogue. Waste, according to this regulations is defined in Slovakia into the following categories:

- A) hazardous waste;
- B) specific waste;
- C) other waste.

Waste is arranged according to its generator, hazardous waste is arranged according to its attributes or malignance contents.

The law, which is connected to the basic Act on Waste, is Act 309/1992, on charges for waste disposal. this sets the charges for the waste producer; defines sorts and altitude of charges; prepayment and conscription; detection of quantity; categories; and types of waste and validation.

Another legal norm is the government regulation 605/1992 on waste evidence. The purpose of these regulations is the administration of the evidence of waste according to its categorization. Regulations determine who is obliged to administer evidence; the responsibility to report production and disposal of special and hazardous waste; the responsibility for the transfer of hazardous waste, and to execute a transmittal letter, and produce the evidence. Regulations also assign to the operator of a landfill to administer a registration sheet of dump, a component of which is also a list of an individual type of waste, which is permitted to be disposed of in the dump.

The legislation, which modifies the conditions of waste management is government regulations 606/1992. The regulation determines the responsibilities of waste producers to accumulate, separate, adjust, treat and utilise the waste. It also determines the specific conditions required for dealing with hazardous waste, and the methods of waste disposal.

Municipalities are responsible for the provision of public services including the waste collection and disposal. For details of these regular responsibilities, refer also to the Act on Waste § 2 ('Dealing with Communal Waste Produced on the Territory of the Municipality), which regards the municipality as a waste producer. This means that citizens who in fact produce the waste, are not seen as waste producers.

Municipalities as waste producers are obliged to:

1. Prepare a program of waste management and submit it to a competent public administration body for approval;
2. Collect produced waste separated according to the sort of waste;

3. Exploit of accrued waste as a source of secondary raw material especially at their activity;
4. Provide for the disposal of waste;
5. Register sort and quantity waste and their disposal.

Municipalities as producer of communal waste were responsible for following waste:

- households waste
- waste similar to household waste (public services, micro-businesses, transport, recreation, agencies)
- separated household waste with harmful contents ('household' including the family house, communal economy, leisure facilities, and offices)

Most of the municipalities set these regular responsibilities in more details by the municipal generally binding ordinances approved by the council. Hazardous waste is not a part of communal waste and is therefore not in the responsibility of municipalities.

The fact that municipalities were considered to be communal waste producers, brought big problems to municipalities. Charges to be paid by citizens for waste collection, separation, removal and disposal have often not been paid. The ordinances on waste management were often advanced by a public prosecutor as unlawful because, in accordance with the law, the producer of communal waste was a municipality and not a citizen. Hereafter the principle of 'polluter pays' was broken.

The Slovak Republic is characterized by a large number of small municipalities. They are not always able to perform their responsibility because of economic reasons. It concerns mainly the responsibility to provide the collection, removal and liquidation of communal waste. The technical issues such as garbage bins, vehicle for waste collection, land fill construction also create problems for small municipalities. Therefore, the small municipalities solve waste management problems in collaboration with other (often bigger) municipalities by forming Waste Management Associations. These associations are established at the base of a Civil Code, or Business Code, as commercial companies.

The association of municipalities or commercial companies, (whose shareholders or stockholders are municipalities), are established in order to manage the waste, but also to build and operate landfill for solid communal waste.⁷

The shares of individual municipalities are in association, and are set up usually according to the amount of their financial inputs or property inputs. The association has its own name, statutes, bodies, and area of activities to perform, and their own account. The aim of the association is not to create a profit, but to provide services. The length of the association existence is not legally set. The association can be abolished by the decision of the assembly.

In this way, municipalities join their financial resources to finance waste management, to get a loan from a financial institution, or to get a financial subsidy from the Environmental State Fund or from the EU structural funds.

The landfill construction for solid communal waste is rather limited because of a large land protection policy of state. Therefore, landfills are located into various gorges and on soil with low contents of mould (a bad qualitative class of soil).

Waste collection and disposal at the landfill for small municipalities is often provided by the municipal enterprises of bigger municipalities on the basis of contractual relations. But the private sector is getting to be predominantly involved in the provision of such services.

Communal waste management services are largely provided for in the Slovak Republic by the private sector, or by a company in private-communal ownership. Private companies in the system of communal waste management, are focusing on the separation and removal, and also especially on the construction and operation of landfills.

If municipalities lack the sufficient funds, the private sector takes a role as a business partner. In this case, joint-stock or limited liability companies are established. Their aim is to provide complex waste management services, and to achieve the return of financial investments as well as profit. These companies are established by municipalities and private firms with the usual majority of private sector

The input of foreign private companies into this area is also very intensive. (A.S.A, LOBBE, PEDERSEN companies are most frequent). Foreign companies form common commercial companies with individual municipalities (as joint-stock companies, or limited liability companies). The stake of municipalities is usually land for landfill construction. The stake of private companies is financial capital and expertise. Private or communal companies mostly provide a comprehensive, complex program of communal waste management services through contract arrangements.

As municipalities are responsible for communal waste and its disposal, companies conclude contracts on waste collection and disposal. The price is not regulated, and it is set according to costs, plus profit. If the price gets over the 'acceptable burden level' to citizens (the 'acceptable burden level' is decided by the local council), the costs are subsidized from the municipal budget.

The method of waste management is set in a municipal's 'Binding Ordinances', in which the altitude of charges for the collection, removal and disposal of waste is also determined. As mentioned above, payment for charges is often a problem. Due to difficulties in setting the charges, municipalities often get payments from inhabitants through rental of the garbage can. In any case, these payments cover just a small amount of waste management costs, and the spare amount is covered from a municipal budget.

The waste management financial indicators used by municipalities (under the validity of Act on Waste applicable until June 2001) included:

- cost of municipalities incurred by collection and transfer, separation and exploitation of waste as a secondary source raw material;
- basic charges paid by municipalities for waste disposal at landfill;
- penalties imposed to municipalities by an executive agency gives to commune for breaking the rules set in law;
- municipal incomes from legal and physical entities for waste management;
- basic charges acquired by municipalities for disposal of communal waste on landfills, which are in its cadaster;
- sources acquired for separated collection (grants from state funds, other sources).

A previous law on waste was effective from the year 1991. There was a general agreement that relatively big change was needed from the view of development, and taking over principles and regulation established in EU states.

The first step has been an adoption of a new Act on Waste. The next legal step will be the adoption of law about packing, and waste from packing, which take over provisions from EU regulations

In the frames of new law preparation, municipalities tried to achieve three main changes in communal waste management, which could be stated as follows:

- the disposal with communal waste produced on the territory of municipalities is determined on base of law by general binding ordinance;
- the penalties for breaking the rules for communal waste management are in the revenue of the communal budget;
- the waste producer is the body whose activity produces a waste and the producers also pay for waste producing.

These proposals had been accepted and they are incorporated in the provisions of the new Act on Waste.

The new Act on Waste⁸ becomes effective as from July 2001. The new act has been made to mostly harmonize with directives and regulations of the EU. The law has adopted provisions from the general directive for waste; from directives on hazardous waste; from regulation directing delivery; exportation and transit of waste; from the regulation about batteries; and from the regulation about the disposal of oil waste.

The new act in its introductory provision counts as a waste producer, any person or body producing waste, which also includes citizens. Municipalities regulate in 'generally binding ordinances' a

method of waste collection, transport, disposal, way of separated collection, and way of handling construction waste.

Collection, transport and the disposal of waste are a municipal service, which is funded from the local fees for waste. The municipality imposes the fee on waste producers. The law sets a minimum and maximum limits of this fee, but the municipality determines the final amount. The revenue from these fees can be use only for waste management purposes.

To service of waste collection and disposal in the municipality can deliver only that company which has a contract with the local government (if the local government does not deliver this service itself).

The act is assigned to municipalities who have the power to act on the contravention of the law. The municipality can impose a penalty for contravention, which becomes an income of local budget.

The new Act on Waste has established a so-called recycling fund. It is a non-state fund which has its own bodies including a managing board and a supervisory board. Producers and importers of specific products, such as car, paper, tyres, plastics, pet bottles, luminescent tubes, etc, pay the contributions to a fund. Producers and importers are also members of managing and supervisory board. In this managing board, which consists of 15 members, are the municipalities who are represented by 3 members. The money from the fund can be used only to support waste collection, revaluation and processing. Municipalities can apply for the money if they provide a separate collection of defined commodities.

2.6 Heating Supply

The heat management in the communal sphere represents a significant part in the Slovak energy sector. Transformation of the original planned economy to a market one has had an impact on all spheres of the national economy, so it also has affected the heat management, i.e. the supply of heat to citizens. The supply of heat has its own specifics; thus we can not say there is a free competition on its market in the right sense. The heat management in the communal sphere is a sector which is outside the state property. It is owned either by municipalities or private or state companies also with a part of housing fund (this is specified in section 4).

In many cases, the producer of the heat and the purchaser is the same organization, which certainly does not create a good economic environment. This is caused by the monopoly position of the heat producer that at the same time is also a housing management company. But in each town the situation varies, and is being changed during the course of time. Regulation in this monopoly environment of the heating sector is not at a sufficient level to create a market environment. The consequence of this is that a final customer— citizens—can not exercise their choice

of heat supplier according to quality and price, as they are very often supplied by heat from the direct purchaser (the housing management company). Thus, the final customer who actually uses the heat is not a full participant of the market and has little chance to influence the heating supply as a product.

Heat producers are the decisive participants in the heating market—they are the license holders that manage municipal property. At present, there are 768 heat producers in the market. Suppliers of heat are in many cases also housing management organizations and as a direct purchaser of heat they calculate the cost of it on the final customers or sell it to other direct customers. On the heat market there are also customers that use the heat for industry purposes or in the sector of services (e.g. schools, hospitals, etc.).

Figure 8.4
Heat Market Scheme

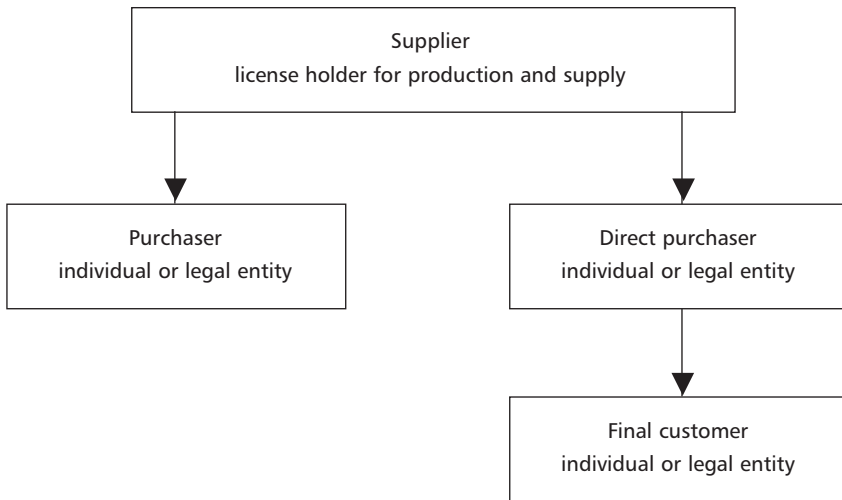


Table 8.13
Heat Supply from Centralized Heat Systems

Share of energy sources	[PJ/year]	[%]
Public energy sector	17	46
Industrial energy sector	6	16
Heating units	14	38
Energy sources total	37	100

SOURCE: Documents of Slovak Energetic Agency

The above table gives an overview about the composition of the energy sources of centralized heating supply systems, which participate in the heating supply for heating and hot water in the communal sphere. These were usually built up within the complex municipal housing construction. Towns and villages have a dominant share in the heat production and supply in communal housing sphere.

The Act no. 369/1990 on Local Governments (in § 21) states the following: “municipalities can create temporary or permanent national, regional associations in order to carry out corporate tasks or to represent their interests and needs or from other reasons.” The rules for associating of legal entities are dealt with in the Civil Code (§ 20). The Commercial Code enables municipalities to set up commercial companies and co-operatives, and the Act on Budgetary Rules enables them to establish budgetary and contributory organizations. In principle, municipalities can use all these forms to provide the management of the heating facilities, but in real practice only the following forms are being used:

1. Organizational unit without any legal power, i.e. directly managed by the municipality;
2. Budgetary or contributory organization connected to municipal budget;
3. Commercial company set up by municipality or with a share owned by municipality (limited, or joint-stock company);
4. Contracting out to commercial company totally independent from a municipality.

Each operating organization of the heating facilities must comply with rules stated in the Act no. 70/1998 on Energy, and on the amendment of the Act no. 455/1991 on Entrepreneurship. In practice, half of the municipalities use the form of contributory organizations and the other half use their own commercial companies or independent ones on a contractual basis—a lease.

Basic legislation rules for the energy sector, which take into account changed social–economic conditions are determined by the Act no. 70/1998 on Energy and on the change of the Act no. 455/1991 (further only the Act on Energy). The Acts were valid until 1998, and were based on the principles of a planned economy, and they did not allow for competition in the energy sector. Now the Act on Energy enables competition also in this sector, which due to the method of supplying of its ‘product’ has a monopoly character. According to this Act, the Ministry of Finance (MF) can regulate the prices and tariffs to a certain level, and the Ministry of Economy (ME) can regulate the conditions in the area of entrepreneurship. According to the Act on Energy, an individual or legal entity can start a business in this field, but only if it is able to obtain a license, which is assigned by ME. Furthermore, the Act orders a license holder to assign a responsible representative (or employee), stating the conditions which must be fulfilled in order to obtain an authorization for the position of the responsible representative, conditions for entrepreneurship in electric energy, heat energy and gas energy sectors and duties and rights of suppliers and customers buying electricity, gas and heat.

The license would be allocated by ME to every individual or legal entity, which fulfils the act conditions separately for each activity in the energy sector, i.e. for the production and transit and

the purchase of electricity and gas. The license has to also be allocated in the heat energy sector. Each applicant for the license in the heat energy sector must fulfil the administrative and personnel requirements, and has to prove sufficient economical and technical means. Economical means are proved by the document or title, or by a lease contract for the operation of the heating facility (in this case with the municipality), and technical means by the document about the functioning and safety of the equipment. That means that the license holder can only use the heating facilities, which are stated in the supplement to the license.

ME carries out regulation of entrepreneurship in the heat energy sector by defining the place and scope of business and at distribution by defining the territory in which a license holder must provide heat. In such defined territory the license holder has practically a dominant position, which enables a long-term development of the energy management with a focus on effective distribution of heat to customers.

Apart from stating conditions for entrepreneurship in the energy sector the Act on Energy also arranges relations between a license holder and the customers. It defines the conditions under which the license holder must supply heat (the heat supply contract), and the cases when the holder can restrict or stop the supply of heat. An important part of this Act, is a duty to measure consumed heat at a place, which must be agreed with a customer, and which usually is at the property boundary of contractual parties. When there is an absence of the Act concerning the effective utilization of energy, then §36 of the Act on Energy becomes an important tool as it determines the technical conditions for provision of an effective supply of heat:

- provision of automatic control of heat supply in dependence on climatic conditions of the heating system;
- to maintain hydraulically controlled systems of the heating facilities up to the place of consumer;
- to check the effectiveness of the heating facilities operation up to the place of consumer once a year at least.

The other regulation tool within the sense of the Act on Prices—the price regulation of heat, is within the powers of the Ministry of Finance. The Ministry of Finance performs the regulation of the price of heating by the regulation based on the principle of allowable costs included in the price at a producer and by determining the ceiling(i.e. maximum) price of heat for the final consumer. This principle has been applied since 1991.

After 1993, the price difference between the production price and the ceiling price has been compensated by subsidies from the state budget according to the Act on Budgetary Rules, the Act on Prices and directives of Ministry of Finance. The Ministry of Finance decrees has arranged the price market of heat. A change took place in 1993 when owners and organizations managing housing funds became the recipients of subsidies instead of producers. The table below shows an amount of subsidies spent by the state for these purposes.

Table 8.14
Heating Price Subsidies

Year	1993	1994	1995	1996	1997	1998	1999	2000
Subsidy [billion Sk]	2.6	3.2	3.6	4.3	4.3	3.6	1.6	0.2

SOURCE: Documents of Slovak Energetic Agency

In the second half of 1997, the Ministry of Finance reduced the subsidies for heat of about 30% of the previous year's subsidies, which was followed by a problem in the heating market.

On 1 January 1998, the price regulation of heat was given into the competence of district offices, which according to the Act on Prices can carry out the price regulation only by determining the ceiling price. In many cases, the prices which were determined by the district offices did not enable the subsidies to cover the price difference between the production and selling price, thus creating tense relations between producers and purchasers. Mainly housing co-operatives and condominiums did not pay the full amount according to the ceiling price determined by the district offices, but only a household price i.e. up to the amount with a provided subsidy. Thus, the producers were not paid the full price of covering the costs of production and distribution. Even so, from 1 January 2000, according to the Part I, Letter B, Item 1. measure of MF SR no. R-10/1999, the ceiling price of heat for the heating and hot water for households and other use will be determined by organs of the state administration (i.e. the district offices).

There is an overview of the average prices of heat for suppliers and citizens in the following table since 1993. It is clear from the table that the price growth for citizens significantly lags behind the price growth for suppliers. A claim for subsidy rose from 65 Sk/GJ in 1993 to 109 Sk/GJ in 1997.

Table 8.15
Heating Price Development

Price of Heat [Sk/GJ]	1993	1994	1995	1996	1997	1998	1999	2000
Price from supplier [Sk/GJ]	185	216	232	240	254	267	288	—
Price for citizens	120	130	140	140	145	165	245	350

SOURCE: Documents of Slovak Energetic Agency

Decree of MF no. 17172/1997/54 which states the conditions for subsidies to prices of the heat energy for households, along with the method their application, significantly changed the established

rules for the application of subsidies to the price of the heat energy for the whole of 1997. Just a few weeks before the end of 1997, it created the foundations for non systematic measures to take place in 1998 and 1999.

During 1997, 1998, 1999 and even now, the state still regulates the production price at producers and suppliers, and at the same time it determines the ceiling price for citizens through the district offices. The ceiling price determined by the state was usually lower than the production price, which is also determined by the state. In reality, this meant that the owner of the block of flats was selling heat for a cheaper price than he actually paid for it. Thus, the price difference occurred for the owners of flat units, i.e. condominiums, housing co-operatives, town's organizations managing communal flats. The owners were fully compensated for this price difference by subsidies from the state budget, up to 1997.

In 1997, 1998 and 1999 this price difference—a loss caused by the state organ decisions—was not compensated in full by the state, thus creating a financial loss for the owners of the housing fund. After meetings and discussions with MF, the Council of Economic and Social Agreement the government and the state decided to compensate part of the loss and to decrease the financial loss of the owners. Owing to the fact that this has become a long term problem and the poor financial position of the owners' debts brought about by not compensating the price difference, have also been passed on other participants in this commercial chain as distributors, producers of heat and further on the suppliers of fuels and energy. Some suppliers started to exercise an application of penalization, which made financial obligations more complicated and increased outstanding debts. There were some cases of temporary cut-offs in the supply of heat and hot water. Moreover, institutions tied to the state budget (schools, hospitals) were also unable to pay for the supply of heating and increasing number of individuals who ceased to pay for this service got the owner of the housing fund into an even worse position of loss. Very tense relations arose in the whole chain, beginning at production then distribution, but also including suppliers of fuel and energy creating a threat for the provision of a permanent supply of heat for almost 45% of citizens, schools, health facilities and others in the period 2000–2001.

MF maintained an opinion that there was no legal claim for subsidies, and considered issues connected to an application of subsidies for 1997 and 1998 as definitely settled. The owners of the block of flats did not agree with this and, after negotiations in the Council of Economic and Social Agreement, the state committed to pay the subsidies.

New problems in this area can bring wrong and mutually unbalanced decisions about a price change of gas and a price of heat caused by growing prices of natural gas at the world market, and by the devaluation of Slovak crown against the US dollar.

The gas is the basic raw material for the heat production supplied to the greater number of households, and poses the biggest item in its price. A possible increase in the price of natural gas will make the price of heat growth, and in many cases the production price will be higher than

420 Sk/GJ, which is the ceiling price determined by MF for citizens. The owners of the housing fund and producers of heat are the first to be hit by the impact of the price change. Other negative facts are the time gap between an increased price, and the increasing of installment payments for heat, and last but not least, citizens dissatisfaction presented by them stopping their payments for consumed heat. All these reasons may cause an uncontrolled decline of the owners; administrators of housing fund and companies producing heat and thus endangering the heating supply for citizens. In order to solve this problem, a systematic solution should be searched for a whole Slovak economy with a focus on the social conscience. The government, ME, and the Slovak Gasworks state company should all together try to solve this problem in systematic and complex way with regard to the whole chain of production, and distribution of heat, and not least for the living standards of the citizens.

The most transparent view on the reduction of consumption—rationalization of production and consumption is given a specific consumption of heat for heating purposes—consumption per 1m² of the area of a flat. Climatic conditions in individual years will have to be taken into account, in order to have an objective view on the specific consumption development. The course of the day—degrees (°D) which represents the climatic conditions in individual years is illustrated by following: a number of day-degrees since 1994, when there was an average 3313 °D, was increasing until 1996 when it reached 4082 °D. Since 1997, winters have become milder, and until 1999 the number of the day-degrees has downward tendency.

Local producers and foreign investors also influence the rationalization. The company Steirische Fernfarwärme GmbH is an important investor in 9 towns (Banská Bystrica, Krupina, Levoča, Prievidza, Revúca, Rimavská Sobota, Rožňava, Veľký Krtíš a Zvolen). Investment into the rationalization in these towns was seriously affected by the reduction of subsidies in 1997, 1998 and 1999, and endangered foreign investment.

Each business activity, which is to develop and provide at least a minimum standard service, needs an environment, which supports it, or at least which does not create obstacles. Due to its character, an entrepreneurship in the energy sector has a monopoly position, therefore it is submitted to a certain state regulation and control. The regulation is inevitable, but the rules must be clear and stable. A recent year's experience of the heat suppliers and other participants in the market is not very positive. The development of the heating energy sector has not occurred.

The problems in the market with heat can be split into three chief areas, all of which are interconnected:

a) The License Holder

The Act on Energy must clearly state the basic conditions of entrepreneurship in the heat energy sector, and determines the rules and duties for both the suppliers of heat and customers. The validity of the license and exclusiveness in a given territory should ensure the license holder's long-term sustainability of competitive technical conditions and the development of the heating

facilities systems and their modernization. A potential change of an operating company on the leased facilities can result in limiting investment into the modernization of the heating facilities, which reduces consumption.

The license holder has a duty to supply heat in the defined territory, in case of violating this duty the license can be taken from her or him by the Ministry. In the case of violations which are not of significant consequences, the Ministry or the State Energy Inspection may fine him. But the duties stated in the license are not well balanced by legal rights for the operation of the heating facilities. For instance, a license holder can not stop the supply of heat because of technical reasons when he/she has outstanding debts with a direct purchaser, if the final consumer pays installment payments. This can bring about his/her bankruptcy. Similarly, legislation should deal with the conditions of disconnecting customers, which is causing a problem for the heat suppliers, of costs being stuck in the central sources of heat, into which investment means were poured in order to provide supply of heat for these customers.

b) The Price of Fuel

To make the actual costs of an obtaining, transport and distribution objective, the system of cross subsidies at network suppliers of fuel and energy should be abandoned and thus make price equalization of the installation of individual heat sources. To create relations in the market with heat, similarly as they are arranged in the electricity or gas markets, i.e. a supply of heat and hot water should be based on a contract between the supplier and final consumer. A long-term valid structure of economically justified costs and adequate profit at the calculation of price for heat with maximal values for individual cost items should be introduced. In the process of the calculation of projected costs for fuel norms of heating, equipment for the testing of the heating facilities systems should be used. The prices should be valid from 1 January each year. This will help to hasten the process of contract conclusions with customers. Establishment of a double item price should be promoted, where one item would be the stable payment for the connection to the heating system (depreciation, salaries, maintenance, repairs) and the other item would be of variable payment for the supplied heat (fuel, water, electricity). The stable payment gives an opportunity for the purchaser to have a different share on the fixed costs according to the consumed heat. This provides a wider scope for the purchaser to rationalize his or her heating management.

c) Technical Measures

The Act on Energy and relevant decrees state rules concerning the technical measures to increase the effectiveness of production and distribution of heat. The problem is how to measure supplied heat. The act defines the place and entity responsible for the installation of measuring equipment. It does not specify the place of measuring, it leaves this issue up to the partners to agree. The act does not deal with a potential situation when the agreement is not reached. Location of the measuring element is a subject of contract. A cut in the supply of heat may be a result of not concluding a contract. This gives a supplier a possibility for abuse of his/her monopoly position. This, and in the case that the agreement is not concluded, may lead to a direct supply cut off.

The Act on Energy defines duties for the direct purchaser, and if the duties are not fulfilled, a fine can be imposed. On the other hand, other acts restrict access to the private property of individuals, therefore preventing them from carrying out technical measures. This is mainly related to the installation of automatic control elements on each thermal equipment, and elements for measuring the final consumption of hot water for moving consumers. This duty should be included into the duties of the owners of flats and flat management companies at the first installation of control equipment in blocks of flats.

As mentioned in section 1, the Parliament of the Slovak Republic approved the Act on Regulation in Network sectors in July 2001. The Act is changing, in principle, the current legal status, especially in the granting of licenses and price regulation. These will be transferred to an independent body, and price regulation will become gradually free from political influence.

2.7 Other Issues

Apart from the predominant issues mentioned above, there are some others that should be taken into account:

The provision of communal services by an external organization puts requirements on employees of municipality and its councilors, which only a few municipalities are able to fulfil :

1. The municipal council should decide about the level and standard of the services which are expected to be provided. It is a political decision, and elected representatives should consider all options.
2. Employees of the municipalities should have the required skills, in order to know what is expected from the service providers, and should be able to control their activity. At the moment, this is a bit complicated since the skills and abilities are just in organizations providing the services.

There is an absence of general indicators which could be the basis for determining the objective costs for the services and that creates a problem for the conclusion of contracts with external organizations or determining level of funds for contributory organizations. The result of this is that prices in different municipalities significantly differ and in comparable conditions they are much higher.

The member of the Slovak Public Works Association identified together with their partner associations in the V4 countries at the conference in Nitra in October 2000 the following issues and problems they are facing:

- frequent tensions, conflict and mutual distrust between public works company managers and local government staff, mayors, councils and councilors;

- small municipalities can often afford to spend less money for public services, but require the same quality and quantity of services;
- not honoring existing agreements and not paying for completed services;
- ineffective management of public works companies owned by towns and villages. There is a need to increase motivation and qualifications of top management and their staff;
- lack of political will or direction;
- lack of qualified and objective analysis of the need for privatization of public works activities;
- municipalities are frequently in a disadvantage situation while negotiating service contracts, mainly with private companies owned by foreign capital. These contracts often unduly burden municipal budgets and additional costs are transmitted to citizens.

Currently, many Slovak municipalities are reviewing the structure and forms of local service provision. In order to take best option of the form of organization, it is necessary to summarize not only the pros and cons of individual forms from the aspect of service to be provided, but also from the aspect of economic efficiency and budgetary implications, ownership structure, capital investment funding, a need of service fee regulation, et cetera.

As a principle, it is an effort to find the balance in the trade off of an economic efficiency and effective control and management of local communal services.

3. WATER SUPPLIES AND SEWAGE SYSTEMS

The water supply provided to municipalities is one of the most important activities of the water management, and a number of inhabitants connected to the public water supply systems and specific water consumption characterizes living standard and housing hygiene. 4, 447 800 million inhabitants, which represents 82.4 % out of the total number of inhabitants of the SR (Slovak Republic), were connected to the public water supply system in 1999.

Table 8.16
Share of Inhabitants Supplied from Public Water Systems

1995	1996	1997	1998	1999
79.4 %	79.8 %	80.8 %	81.8 %	82.4 %

SOURCE: Report on water economy in SR 2000

Improvement of hydrogeological conditions in 1985 stopped the decreasing of water resources. Since 1985, the specific water consumption was stabilized at the same level and in 1990 a sharper growth was recorded (195.5 liters per inhabitant per day). Since 1990, the specific water consumption has been decreasing, mainly due to an increase of its price, and in 1999 it represented the value of 126.9 liters per inhabitant per day .

Table 8.17
Household Water Consumption

1997	1998	1999	2000 (Expected Development)	2001 (Expected Development)
131.9	131.4	126.9	124.8	124.7

SOURCE: Report on Water Economy in SR 2000

The construction of the water supply systems, also meant an increase in the number of technical facilities. The total length of the water supply piping has been gradually increased. This length was 21 017 km in 1999, out of which 20 116 km is under the management of the state waterworks and sewerage companies, whilst the remaining 901 km is in the management of private and municipal companies.

Table 8.18
Length of Water Supply Networks [km]

1997	1998	1999
20 484	20 612	21 017

SOURCE: Report on Water Economy in SR 2000

There was a sharp increase in the percentage of losses in piping in 1990, which was also influenced by a more precise accounting of water. This increase stopped in 1992, and then there was a slight decline in 1993 and 1994, although in 1995 it rose again.

There is a need for a gradual reconstruction of existing water supply piping in order to reduce losses in it, and to comply with the European standards.

The expansion of production and increase of living standards proportionally increases the pollution of waste waters, so an issue of waste water collection and treatment reaches a new level of the national interests.

One of the characteristics of Slovakia is the large number of small villages. The total number of municipalities is 2 883, out of which 461 municipalities has a sewerage system. This represents 16% out of the total number of municipalities. The number of inhabitants living in houses that are connected to the sewerage has been increasing, and in 1999, it reached a number of 2 929.9 of inhabitants, which represents 54.3 % out of the total number of inhabitants of the SR⁹

3.1 Current Situation of Service Provision

Until recently, there was a notion that water resources can not be exhausted which led to wasting within it. Similar tendencies characterized the development of water supply and sewerage systems.

Development of waterworks and sewerage began with the towns, industrial and housing development in the period after the war. It became impossible to provide a sufficient amount of drinking water within the territory of the district, so it was necessary to accept a conception of creation of waterworks systems with a group water supply piping. Development of water supply and sewerage systems as well as water flows, have created preconditions for the organizational structure of this sector.

After 1960, the activities were moved onto districts, not only in production activity but also in the administrative one. Each district established a waterworks administration (OVHS) in the form of a budgetary organization. Such an organization provided waterworks and sewerage services, administration of flows and small investment construction. In 1966, the state companies of waterworks and sewerage were established, which still exist today.

Their main goal was to provide a sufficient amount of water of suitable quality for inhabitants, industry and agriculture, then provide sewerage to municipalities and solve the problem of water flow pollution.

A negative part was played here by supplier's capacities, both the construction and technological ones, which were also caused by their monopoly position. Construction and technological capacities were not sufficient for healthy-waterworks constructions. The construction industry and mechanical technology were not prepared for this kind of construction.

A similar situation was at the construction of sewerage and wastewater treatment plants (WWTP). Only a few WWTPs were built in accordance with a time schedule. The construction period was prolonged for 5 years and more, which brought about the fact that at the time of their introduction into operation, some of them were overburdened. At present they are overburdened whether from the point of hydraulics or substances.

In addition to the above problems, there was a lack of financial means, which used be to solved by the construction of small waste water treatment plants. At present this is shown in practice when some small WWTPs are built without sewerage systems, with an ‘unsolved’ final step of sludge treatment and so on. Lack of finances causes, in many cases, the construction to be divided into stages, which are incapable of operation.

Another problem is the obsolete equipment. For the repair of basic assets—when compared with their value—was allocated only a small amount of finances, up to recently not exceeding 1%. In 1990 it was the coefficient 1.28%.

On the other hand, a low price for drinking water and also small charges for the collection of waste water caused that waterworks and sewerage, which are mainly managed by the state companies, to generate losses and become dependant on the state subsidies for operation and development. A paradox is that waterworks and sewerage, which are not, the generators of wastewater, pay heavy fines for water flow pollution that contributes to the generation of their losses.

3.2 Water and Sewage Systems Operation

Five state waterworks and sewerage companies, two private companies and two communal companies provide the water supply and wastewater collection in Slovakia.

Smaller municipalities, which in recent years built up their own municipal water supply, and sewerage systems provide their operation themselves or have it under the administration of the state companies on the basis of contracts.

The following five companies provide water supply and the collection of waste water:

1. Vodárne a kanalizácie Bratislava (Waterworks and sewerage Bratislava)
2. Západoslovenské vodárne a kanalizácie Bratislava (Western Slovak waterworks and sewerage Bratislava)
3. Stredoslovenské vodárne a kanalizácie Banská Bystrica (Central Slovak waterworks and sewerage Banská Bystrica)
4. Severoslovenské vodárne a kanalizácie Žilina (Northern Slovak waterworks and sewerage Žilina)
5. Východoslovenské vodárne a kanalizácie Košice (Eastern Slovak waterworks and sewerage Košice).

The state companies of waterworks and sewerage have the biggest share on the number of inhabitants supplied by water in the SR. In 1999, they provided the supply to 4, 140 400 million inhabitants. However, their share has started to decline. This state should be completely changed by the ‘transformation’ of these companies from the state, to the municipal.

Table 8.19

A Decline in the Share of Inhabitants Supplied by the State Companies

1997	1998	1999
95.5%	95.0 %	90.2%

Individual state companies consist of branches of waterworks and sewerage, which provide a supply on the territories of the former districts according to the previous territory division . The property of these companies is owned by the state. The state companies are operators and administrators of the property.

The Slovak Government approved the concept of state waterworks and sewerage companies transformation in 1966. In this concept the assets of state waterworks and sewerage companies was divided into three parts:

- principal systems (intake facilities at the sources, preparation plants, long-distance pipes) which should have stayed in the state property
- operation property, (such as buildings, machinery, equipment, laboratories), which should have been privatized by private companies
- Infrastructural property (such as pipes, pumping stations, hydrants, treatment plants) which are located in built territory of municipalities and serve to supply water and to collect waste water. Municipalities could voluntary apply for this property. In such a property, mainly municipalities were interested, which were not joined to the principal systems. In most cases, they wanted to also receive operation property which was not open to them.
- group waterworks and sewerage systems which provided water supply and waste water collection for several municipalities including intake facilities. These should have remained in the state property, but a group of municipalities in the territory covered by systems could apply for them.

The regions of Trenčín, Komárno and Hlohovec succeeded in their privatization effort and were handed over the property and also registered in the Land Register. In total 736 municipalities entered the privatization process during 1997 and 1998.

In 1999 this form of privatization was abolished by the government resolution, thus the rest of the municipalities could not complete their privatization effort. The reason for abolition of the

former conception was a change of privatization to transformation, which considers a transfer of the whole state property of waterworks and sewerage to municipalities. The infrastructural property should be transformed (including operational property, even long-distance pipelines, collection and water conditioning facilities).

3.3 Current Legislation and Legal Norms

The very basic legal norm is the Act no. 138/1973 on Waters, the so-called Water Act and decree of the Ministry of Forest and Water Management no. 154/1978 on Public Water Supply and Sewerage Systems.

The Act no. 50/1976 on Land Planning and Construction Order deals with construction permissions for water constructions.

Slovak technical norms (STN) deals with inner sewerage, sewer network and sewer connections, inner water supply system, terms, monitoring of drinking water quality, fire water systems, monitoring of waste water, limits on effluents.

The new Act no. 264/1999 on Technical Requirements On Products takes into account European norms and gradually all EN norms should be worked in into Slovak STN.

The Act no. 369/1990 on Local Government, gives a responsibility for water supply and wastewater collection to municipalities. At present, municipalities de facto can not provide this legal duty since the owner of the water supply and sewerage systems is the state, which operates them through its companies.

3.4 Price Control

The main revenue of the waterworks companies (state, private and municipal) are receipts for the supply of drinking water and for the collection and treatment of wastewater. So their prosperity or loss is influenced by the level of prices (fees) for the provision of water supply, collection and treatment of wastewater. The prices for these services in the SR are determined (and regulated) by the Act no. 18/1996 on Prices and its decree no. 87/96.

On the basis of these legal norms, the state determines the price level (fee) for the supply of water for households and price level (fee) for the collection of wastewater from households.

The prices for other customers are not regulated so there are price contracts concluded 'contractual prices'.

Due to cross subsidizing, the difference between the prices for households and other customers, the operators can make only minimal profit or non profit (mainly state companies) which does not enable them to carry out investment development.

After a completion of the 'transformation process' and the establishment of regional waterworks companies (the following part gives a detailed description of this), this price regulation should be exchanged by a factual price regulation. That means that there will be different prices of water in individual regions. The prices for households and other customers will be equalized, and will be determined on the basis of economically justifiable costs and adequate profit.

The price level will be determined by the Regulation Office each year. The Regulation Office will determine the price for each waterworks company.

The Constitution of the SR says that surface and underground waters belong to state property. That means that in the SR waters are not defined as 'public waters'. On the basis of this the state, owner of surface and underground waters, has determined the prices for it.

Price for surface water is regulated and its maximum is 2 00 Sk (Slovak crown) for 1m³ including VAT. Receipts for the supply of surface water become receipts of the state Slovak water management company Banská Štiavnica, which administer Slovak water flows. Price for underground water is 1 00 Sk for 1m³. Receipts for underground water are revenues of the state water management fund.

In 1996, in accordance with the Act on Prices and decree of the Ministry of Finance, which determines a scope of the item with regulated price, there was a price of drinking water for household determined at the level of 8.00 Sk including 6% VAT. The price for collection of wastewater was determined at 4.00 SK including 6% VAT. In 1999, the rate of VAT for services was increased from 6% to 10%. Therefore, the prices were increased to 8.30 Sk including VAT for drinking water and to 4.30 Sk including VAT for wastewater.

At this point, it needs to be said that VAT increase did not influence the revenue of waterworks companies, it was shown in the revenues of the state budget.

On 1 February 2000, the Ministry of Finance increased the maximal prices to 9.40 Sk for drinking water and 6.40 Sk for wastewater for households.

As it can be seen from the tables, this development of regulated prices was significantly lower than the actual average economically justifiable costs.

Table 8.20
Trends of Drinking Water Prices

	1996	1997	1998	1999
Price for household Regulated (without VAT) [Sk/m ³]	4.71	4.99	5.66	7.26
Price for other customers not regulated, average (without VAT) [Sk/m ³]	11.42	14.70	15.98	16.26
Average price for all customers (without VAT) [Sk/m ³]	7.09	8.65	9.40	10.44
Average economically justifiable costs [Sk/m ³]	7.77	9.76	10.45	10.80

SOURCE: The report on the water management in SR 2000

Table 8.21
Trends of Sewage Water Prices

	1996	1997	1998	1999
Price for household Regulated (without VAT) [Sk/m ³]	2.83	3.14	3.77	3.77
Price for other customers not regulated (without VAT) [Sk/m ³]	9.13	10.53	11.36	13.19
Average price for all customers (without VAT) [Sk/m ³]	6.07	6.85	7.46	7.85
Average economically justifiable costs [Sk/m ³]	5.21	5.84	6.44	7.49

SOURCE: The report on the Water Management in SR 2000

Cross subsidizing of the prices for drinking and wastewater in the state companies can be seen from the above tables.

A similar system of price cross subsidizing is used at private and municipal companies. (We could not obtain their price overviews).

These price deformations should be removed by actualizing the prices for drinking and wastewater (making them 'real').

3.5 Private Companies

At present, the share on the operation of the waterworks and sewerage systems by private companies is very low. In reality only 2 systems, Trenčín regional waterworks and sewerage system and the municipal waterworks and sewerage system of the town Hlohovec are operated by private companies. The municipal company operates group water supply system in the town Komárno.

A bigger share of private companies in the operation of water supply and sewerage systems is anticipated after completion of the whole transformation process of the state companies and establishment of the regional waterworks companies. Shareholders of these companies will be municipalities, which then will be deciding about the way of their operation.

There is an assumption that the regional waterworks companies will be gradually split into 2 companies, while one will be property company, and the other will be an operational one. Operational company through an operational contract can be leased by operational companies for a longer period (15–20 years), or water supply and sewerage systems can be operated by the municipal's own management, or they may conclude the managerial contract with a management company. The establishment of the regional waterworks companies will be in accordance with the Commercial Code.

3.6 Social Aspect of Water Services

At present, there is, in accordance with the Act no 18/1996 on Prices and its decree no. 87/96, a factually regulated price of drinking and collection of wastewater for household. These prices are under the level of economically justifiable costs and contractual relations with other customers are used to equal the price difference.

Such state policy does not prepare the conditions for the transformation of the state waterworks and sewerage companies, and it will be needed to change such regulated price to a factually regulated price which will take into account economically justifiable costs and adequate profit in individual regional waterworks companies.

This change in the factual system of the regulation of drinking and wastewater will bring about different price moves in individual regions. There is an assumption of price growth in certain regions after transformation stage. This will be determined by the basic economical inputs as resources, conditioning and distribution of water, cleaning costs and so on. It will be needed to remove price deformations of drinking and wastewater arising from loss of equalization.

One of the limiting factors of the transformation within the proposal of the new regional waterworks companies is also the economical efficiency of each company. There is an effort to eliminate price difference as much as possible in individual proposed companies.

It is intended that property will be handed over to municipal companies, shareholders of which will be municipalities. That means that the decision making process will be in the hands of representatives of municipalities who were elected by inhabitants. They can make a decision about the implementation of tariff zones in accordance with the consumption or other criteria. They will conclude operational contracts with private operators, in which they will decide the level of fees for supply and treatment of water. As they are the closest to inhabitants, they will directly feel the pressure from them for fair price creation in the waterworks companies.

3.7 Need for Change

Issues of property transformation and the operation of water supply and sewerage systems were the subject of intensive, and many times conflicting, debates between the representatives of municipalities and government going on for some years. Only in 1997 some results were accepted, which created conditions for realization of transformation of the state waterworks a sewerage companies.

Today, there is a political will to give the whole property of waterworks and sewerage to municipalities. That also includes property of group water supply and sewerage systems, long distance water pipes, which provide water supply to several regions, facilities for water conditioning, and facilities which serve for the operation of whole systems.

Due to the reason that it is intended to also transfer water supply supra systems, the Ministry of Agriculture (the guarantor of the transformation) approved the decision that it is not possible to transfer concrete property located within the territory of a municipality to individual municipality, but the property of the whole system (in most cases it covers the territory of several regions) to be transferred to the municipal waterworks company established by municipalities.

Thus the municipalities will become new owners of waterworks and sewerage property in their region in the form of shares. Act no. 369/1990 on Local Government and its provisions (§4 part {f}) will then be fulfilled, since the municipalities will be enabled to take the responsibility for the water supply and wastewater collection.

At present, there is still a discussion going on about the best way to transform the state companies of waterworks and sewerage, while the basic point is economic criterions—quality, quantity at adequate fees.

Recently, discussion was mainly focused on whether the transport of a division of water from a spring (or reservoir) to a consumer should have a strategic role, or whether water should be considered as industrially important mineral. The assumptions are coming out of the fact that despite all of the forecasts, Central Europe has a lack of water. Although Slovakia has encountered

an improvement of its hydrogeological conditions after 1990, its position is still in need of attention.

The basic aim of the transformation of the state companies of waterworks and sewerage in Slovakia is to :

- establish conditions for multi-source financing, joining foreign capital;
- maintain technologic and operational functioning of waterworks and sewerage systems;
- transfer the professional staff of current companies to new ones;
- enable the participation of all municipalities in the process of transition if even there are no water supply or sewage systems in their area;
- transfer directly shares of waterworks and sewerage companies to municipalities.

The transfer of the state property to municipalities has been guided by the following principles set by Slovak Government in January 2001:

- respecting the inhabitants right for water as the basic requirement of human life;
- respecting the inhabitants right for a clean environment (i.e. the collection and treatment of waste water);
- the subject of transformation is concerned with the whole state property administered by state waterworks and sewerage companies;
- water flows and ground water remain as state property;
- the basic unit of territorial self-government is the municipality, which is obliged to provide water supply and waste water collection.

At present, there exists so-called superior water supply systems', which create united systems for the whole regions in water supply. Then there are groups of water supply systems and sewerage, which supply water and collect wastewater on smaller territorial units. Several municipalities, but not exceeding the territory of the district, often create such a territorial unit. The last structure is the local water supply and sewerage systems, which provide services to one, or only a few adjacent municipalities.

The superior water supply system, and also the group water supply and sewerage systems create one unit and from the operational and technological point of view that it would not be economical to split it into more outputs. That is why a rule has been accepted that these units will be a pillar of the new regional waterworks companies and the following limiting conditions have been stipulated;

Limiting conditions for establishment of the regional waterworks companies:

- a) Retention of technological—operational functioning of water supply systems.

At present, basic operational units are branches of waterworks and sewerage companies which provide operation, i.e. water supply, collection of waste water, its treatment on the territories of the former districts according to the previous territorial division.

Technological—operational functioning means not separating the property and retention of the system from the source and conditioning of water and its transport to consumers and collection of waste water, its treatment and its discharge to recipient, water course and so on.

- b) The inevitability to implement a factually regulated price for drinking and collected waste water. This is a basic and inevitable condition of economic efficiency of operation of the waterworks companies. Factually regulated price will bring about price differences in individual regional waterworks companies.
- c) Even those municipalities in a region which at present do not have a water supply and sewerage systems on their territories can take part in the establishing of the new waterworks companies and transformation of the state property.
- d) Whole state property, which is under the administration of the state companies of waterworks and sewerage, located in the territory of competence of the newly set up waterworks companies will be transferred to municipalities.

These limiting conditions for the transfer of the state property to municipalities were submitted by the Ministry of Agriculture of the SR, which is the guarantor of this process.

The form of the company will be the joint stock company, of which the only shareholders will be municipalities located on the territory of the waterworks company. Number of shares for each shareholder (municipality) will be proportional to the number of inhabitants.

Establishing of the companies will be in accordance with the Commercial Code.

Based on these conditions Slovak Government approved six communal waterworks companies in June 2001:

1. *Bratislava* waterworks company which includes districts Bratislava, Pezinok, Senec, Malacky, Senica, Myjava, Skalica, Trnava, Hlohovec, Piešťany
2. *Nitra* waterwork company which includes districts Dunajská Streda, Galanta, Šal'a, Nitra, Nové zámky, Topolčani, Levice, Zlaté Moravce, Partizánske, Bánovce nad. Bebr.
3. *Žilina* waterwork company which includes districts Púchov, Ilava, Považská Bystrica, Žilina, Bytča, Čadca, Kysucké N. Mesto, Martin, Turčianske Teplice, Ružomberok, Liptovský Mikuláš, Dolný Kubín, Námestovo, Tvrdošín.
4. *Banská Bystrica* waterwork company which includes districts Banská Bystrica, Prievidza, banská Štiavnica, Brezno, Detva, Krupina, Lučenec, Poltár, Zvolen, Zarnovica, Žiar nad Hronom, Veľký Krtíš, Rimavská Sobota

5. *Košice* waterwork company which includes districts Revúca, Rožňava, Košice, Košice okolie, Humenné, Snina, Medzilaborce, Bardejov, Stropkov, Svidník, Sabinov, Vranov nad Topľou, Michalovce, Prešov, Sobrance, Trebinov
6. *Poprad* waterwork company which includes districts Poprad, Stará Ľubovňa, Kežmarok, Levoča, Spišská Nová Ves, Gelnica

ANNEX

A summary of the further relevant legal regulation

1. The Act on Budgetary Rules

This Act regulates a position, function and composing of the state budget, final state account and position of municipal budgets and also the use of finances from the state and municipal budgets. It sets up the rules for the management of budgetary means, inspection of their keeping and financial relations of the state budget towards individuals and corporate bodies.

The Act on Budgetary Rules in relation to municipalities, lays down the structure of revenue and expenditure of municipal budgets, management of budgetary finance including provisional budgets, establishment and management of off-budget funds.

This Act also sets out the conditions and principles for the establishment and management of budgetary organizations and contributory organizations. According to this Act, municipalities can establish budgetary or contributory organizations, (which are fully or partially funded from their budgets) for the purpose of carrying out the basic municipal functions or public works. The municipality issues an establishment charter of such an organization in which the basic public activities or functions, for which the organization is established, are stated.

The Act on Budgetary Rules lays rights and obligations for budgetary and contributory organizations and sets the rules of their management.

2. The Act on Consumer Protection

The Act on Consumer Protection¹⁰ sets out some conditions for conducting businesses which are important for the consumer protection, a role of public administration in the area of consumer protection, competence of consumer and of the Consumer Association or other corporate bodies established for the purpose of consumer protection. This Act defines legal terms for the consumer, entrepreneur—as well as the seller, product and service. According to this Act, a legal entity (or corporate entity) can also be in the role of a consumer. This means that this Act is also applicable to Slovak municipalities as well as to consumers, since the Act on Local Government and the Slovak Constitution defines them as legal entities. On the other hand, municipalities, especially businesses established by the municipalities to provide local services are in the position of a seller so all regulations relate to them

All the public administration bodies (which include both the state administration and the local government) are due to take all measures (within their powers) to restrict launching and setting hazardous products on the market. Responsible bodies have a duty to inform without any delay about a presence of a hazardous product in the market. This should mainly be done through the mass media.

In case that a supply of essential products has been endangered, municipalities declare the time-regulated sale of products.

Municipalities supervise the keeping of duties which are required by the law on market places. Municipalities also issue regulatory order for market places.

3. The Act on Protection of Economic Competition

The purpose of The Act on Protection of Economic Competition No.136/2001¹¹ is a protection of economic competition on the markets of products, outputs, works and service against its limitation as well as creating conditions for further development of competition with a goal to support economic development in favor of consumers. This Act also concerns institutions of the state administration and local government, if they are involved in activities which are related to the economic competition.

The main forms of economic competition limitation are regarded as:

- agreements limiting the competition;
- exploitation of the dominant position at the market including dominant position resulting from the ownership or management of unique facilities (inclusive of infrastructure).

The central supervisory body is the Anti Monopoly Office.

The Act states that institutions of the state administration and local government must not privilege certain businesses by the apparent support or limit of economic competition by other means. In the case of violating the Act by the municipality, a remedy may be required by the Anti Monopoly Office.

4. The Act on Prices

The Act on Prices¹² sets out the rules of bargaining, regulating and controlling prices of products, work, services, leases and real estates. Further, the Act deals with competence of the state administration bodies in the area of prices and goods for domestic market including prices of

imported goods and of goods for export. The Act also sets forth rights and duties of individuals and corporate bodies and of the state administration bodies at the enforcement of this Act.

Price regulation means setting the price or directing the price bargains by the price organs that is the Ministry of Finance but also district offices or other organs of the state administration appointed by a special legal rule (e.g. the Act on Telecommunications). The Act allows for more ways of the price regulation:

- Authoritative price setting, which means that the organ of the state administration will set the maximal, minimal or fixed price, which must not be altered;
- Subject price directing by the state organ which means setting maximal range of price increase, minimal range of price decrease, stating the portion at which an increase of price inputs of the price can be taken into account and determining obligatory procedure for price creation or its calculation;
- Time price directing which presents stating a minimal advance period for announcing intended price increase, minimal period after which an announced increase can take place and also a time limited ban on repeated price increase;
- Time moratorium is a time limited ban on price increase against the price level before the moratorium has come into power. The Government of SR on the period of the maximal length of 6 months can declare this moratorium.

According to this Act, municipalities have no authority to influence the process of price setting. They are legal entities, which have to keep the rules of this, and other acts related to the goods, or products that are produced or provided by the municipality to its citizens.

Price organs regulate the prices when the market is endangered by insufficiently developed market environment or if it is of public interest, consumers and market protection in case of natural monopolies.

In case of public services and natural monopolies mainly in production, transfer of energy, heat, gas, telecommunication services, water management, and other regulated activities (e.g. public transport, cable television) according to individual rules are prices regulated in the following form:

- a) setting a price, tariffs and tariff conditions;
- b) determining obligatory production conditions, supplies and purchase;
- c) setting economically justified costs and adequate profit including investment, which can be included into the prices and tariffs.

Scope of the price regulation is decided by the Ministry of Finance or other body of the state administration through its decision about the price regulation. Apart from the Ministry, other organs of the state administration, Office of Financial Control, Slovak Trade Inspection also district offices play an important role in the area of prices. They implement a price regulation of

some services within a scope specified by the decision about the price regulation. They can also carry out a price control in accordance with the rules, and can take action if they find out the violation of the price discipline or decisions concerning the price regulation.

District offices determine maximal prices for goods of local importance within the range determined by the Ministry of Finance after consultation with the municipality. They also may reduce the maximal prices set by Ministry of Finance for goods of local importance after consultation with the municipality

From the point of view of the subject of this study district offices determine the maximal prices for the following services

- heating and supply of hot water for a household;
- local public transport.

5. The Act on Regulation in Network Sectors

The Act on Regulation in Network Sectors (which becomes effective as from August 2001) sets conditions of state regulation in network sectors and the conditions of realizing regulated activities. Network sectors regulated by this act are the:

- production, purchasing, transit and distribution of electricity;
- production, purchasing, transit and distribution of gas;
- production, purchasing and distribution of heat.

The state regulation in network sectors includes

- issuing licenses for realizing regulated activities;
- price regulation;
- deciding on business terms in realizing regulated activities;
- approving construction, reconstruction or abolition of facilities for realising regulated activities;
- deciding on access to networks;
- state supervision of business activities.

The state regulation in network sectors will be implemented by Office for Network Sector Regulation (Regulation Office).

According to this law regulated activities can be realized only on the basis and within the scope of the permission granted by the Office. The office will decide on business terms in realizing

regulated activities and to approve the construction, reconstruction or abolition of facilities for providing regulated services. Since 2003, the Office will also regulate prices in these sector, i.e. set maximum prices or tariffs, and price calculation formula.

6. The Act on Public Procurement

The Act on Public Procurement sets out procedures at the process of procuring goods, works and services paid from public funds. It states procedures and methods of public procurement, which are used in contracts. Municipalities must follow these procedures even in a case of a chosen contractual partner that will be providing services for which they are responsible. Basic method is a tender open for unlimited number of applicants.

Every municipal budgetary or contributory organization as well as corporate body in which municipality has a decisive influence must also follow rules of the public procurement. These are corporate bodies that carry out activities using the municipal property based on a lease or administration. These include also companies whose majority share is owned by the municipality or where more than a half of board members are appointed by the municipality.

Another legislation which regulates provision of local public services are incorporated in sectoral legislation. These are mainly:

- collection and disposal of communal waste, the Act on Waste¹³;
- town public transport, The Act on Road Transport¹⁴;
- local housing management, The Act on Ownership of Flats and other Rooms¹⁵;
- construction, maintenance and administration of local communications, The Act on Ground Communication¹⁶ (Road act);
- administration and maintenance of public greenery, The Act on Nature And Landscape Protection¹⁷; along with other legislation norms.

NOTES

- ¹ Act. 302/2001 on Higher territorial unit self-government (Act on Regional Government).
- ² The Act of SR (Slovak Republic) no. 303/1995 about Budgetary Rules.
- ³ The Business Code provides for the following types of legal entities: a limited liability company; a joint-stock company; a partnership; a limited partnership; and a co-operative company.
- ⁴ The Act on Concession procurement defines specific rules of the concession process.
- ⁵ The data and information from the Slovak Public Works Association were used in this part and in the part on public lighting. With regard to the fact that member organizations provide communal services in approximately 70% of Slovak territory, we can consider them as sufficiently representative.
- ⁶ The Slovak Public Works Association (SPWA) has been in place in the Slovak Republic since 1990. It is an association of bodies that provide public works services or take part in its delivery. The major activities of 90% of SPWA membership focus on communal waste management, road cleaning and maintenance, public lighting, landscaping and public green maintenance, funeral and cemetery services. Only in some cases do these subjects provide central heating services and maintenance. 10% of the members are manufacturers, supply and service organizations for equipment and know-how in public works.

At the present SPWA has got 67 members that operate in cca 1800 communities in the Slovak Republic. 50% of the members are contributory organizations set up by towns or communities, among other members there are business companies owned by communities (joint-stock companies and limited liability companies) companies with partial private shares but also purely private companies. SPWA gains its financial means through annual membership fees and through incomes from advertisement and presentation of supplier companies. SPWA does not include Sewer and Water supply facilities, companies for local transportation and subjects set up to build, maintain and heat houses and flats.
- ⁷ When constructing landfill, the municipality where the landfill is located takes an important role in the decision making process and in the process of environmental impact assessment.
- ⁸ Act 223/2001 on Waste.
- ⁹ The report on the water management in SR 2000.
- ¹⁰ The Act of SR no. 637/1992 on Customer's Protection.
- ¹¹ This act is an amendment of a previous Act on Protection of Economic Competition from 1994.
- ¹² The Act SR no. 18/1996 About Prices.
- ¹³ The Act SR no. 606/1992 on Waste.

- ¹⁴ The Act SR no. 168/1996 on Road Transport.
- ¹⁵ The Act SR no. 182/1993 on Flat And Rooms Ownership.
- ¹⁶ The Act SR no. 160/1966 on Ground Communications.
- ¹⁷ The Act SR no.287/1994 on Nature And Landscape Protection.