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TAX AUTONOMY OF CROATIAN CITIES IN THE 2002-2018 PERIOD

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- Data available to analyze the importance of cities
- About cities in Croatia
- Methodology for researching fiscal autonomy of large cities in Croatia
- Results of an empirical study of fiscal autonomy in large cities in Croatia
- Possibilities for further decentralization and territorial organization in Croatia

Current situation: Distribution of public functions

	Public functions	Central state	Municipalities	Cities	Counties
1.	General public services	x	x	x	x
2.	Defense	x			
3.	Public safety	x	x	x	
4.	Economic affairs	x	x	x	x
5.	Environmental protection	x		x	x
6.	Improving Housing and Community	x	x	x	x
6.1	Housing		x	x	x
6.2	Community Development			x	x
6.3	Water supply	x	x	x	x
6.4	Public lighting			x	x
7.	Health care	x			x
8.	Recreation, culture and religion		x	x	
9.	Education	x	x	x	x
9.1	Preschool		x	x	
9.2	Primary	x	x	x	x
9.3	Secondary	x		x	x
9.4	After high school	x			x
9.5	Highly	x			
10.	Social welfare	x	x	x	x

Fiscal autonomy of large cities

- **Goals:**

- Identify/measure and compare fiscal autonomy of large cities and other cities and municipalities in Croatia.

- **Key research questions:**

- To what extent do large cities in Croatia control their tax revenues, have the ability to impose taxes, and independently generate tax revenues?
- To what extent are large cities in Croatia responsible for spending public revenue?
- To what extent are large cities in Croatia able to provide the public services to their citizens?
- To what extent does the existing budget structure of large cities in Croatia limit smart local development?

Strategic and other documents indicating the importance of cities

Documents

- Europa 2020
 - Local authorities are partners in the development and implementation of national reform programs
- Urban Agenda for EU
 - It aims to promote cooperation between Member States, cities, the European Commission and other stakeholders, in order to stimulate growth, quality of life and innovation in European cities
 - Focused on three areas: better regulation, financing and knowledge of urban issues
- European Innovative Partnership for Smart Cities and Municipalities
 - EC support linking cities, industries, SMEs, banks, researchers and other stakeholders in the smart city development model
- HABITAT III – New Urban Agenda
 - New urban rules and regulations, urban planning and financing aligned with national urban policy

Studies and reports indicating the importance of cities

Studies and reports

- European Commission and UN-HABITAT: The State of European Cities Report 2016
 - Support for evidence-based EU urban policy that sees cities as jobs that generate growth and jobs
- Urban Europe – Statistics on cities, towns and suburbs 2016
- Quality of life in European cities 2015
- Europe 2020 Index: progress of EU countries, regions and cities to 2020 targets
- UN-HABITAT: The State of European Cities in Transition 2013
 - Support for urban policy and governance in transition countries

Data available to analyze the importance of cities

Data

- Urban Audit database Eurostat, <http://ec.europa.eu/eurostat/web/cities/data/database>
 - Cities
 - Functional urban areas
- Urban Data Platform, <http://urban.jrc.ec.europa.eu/>
 - Population movement
 - Urban and economic development
 - Traffic
 - Environmental protection and social issues
- Open Data Portal for European structural and investment funds, <https://cohesiondata.ec.europa.eu/>
- Copernicus Urban Atlas, <http://land.copernicus.eu/local/urban-atlas>
 - Data maps for EU cities

About cities in Croatia 1

Croatia		
Legal framework	Law on Local and Regional Self-Government (Official Gazette 33/01, 60/01, 129/05, 109/07, 125/08, 36/09, 150/11, 144/12, 19 / 13, 137/15, 123/17, 98/19)	
Number	17	8
List	Zagreb Split Rijeka Osijek Zadar Velika Gorica Slavonski Brod Pula Karlovac Sisak Varaždin Šibenik Dubrovnik Bjelovar Kaštela Samobor Vinkovci	Koprivnica Vukovar Čakovec Požega Virovitica Gospić Krapina Pazin <i>In Croatia we have a total number of 127 cities and 428 municipalities.</i>
Definition	Large cities are units of local government that are at the same time economic, financial, cultural, health, transport and scientific centers of development of the wider environment and have more than 35,000 inhabitants. County seat cities.	

About cities in Croatia 2

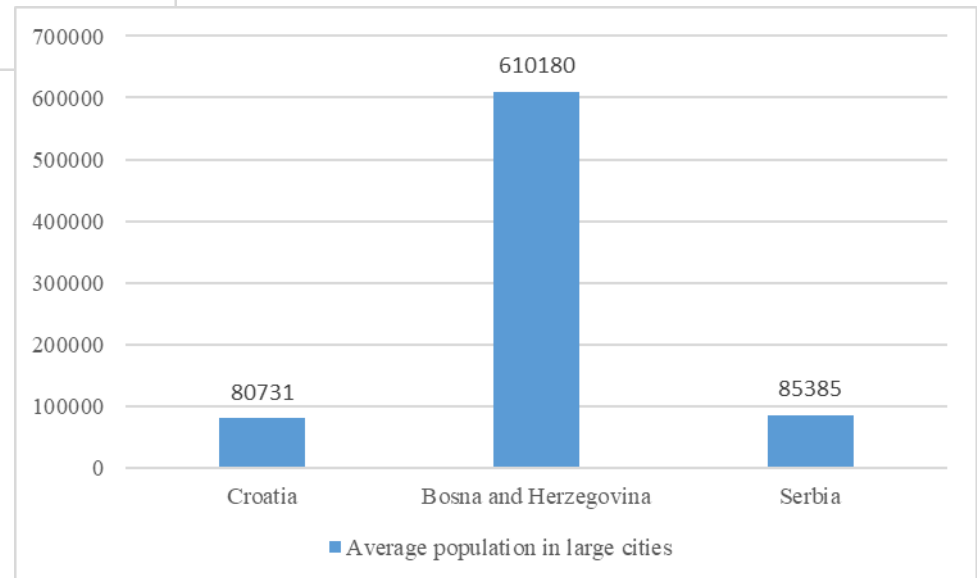
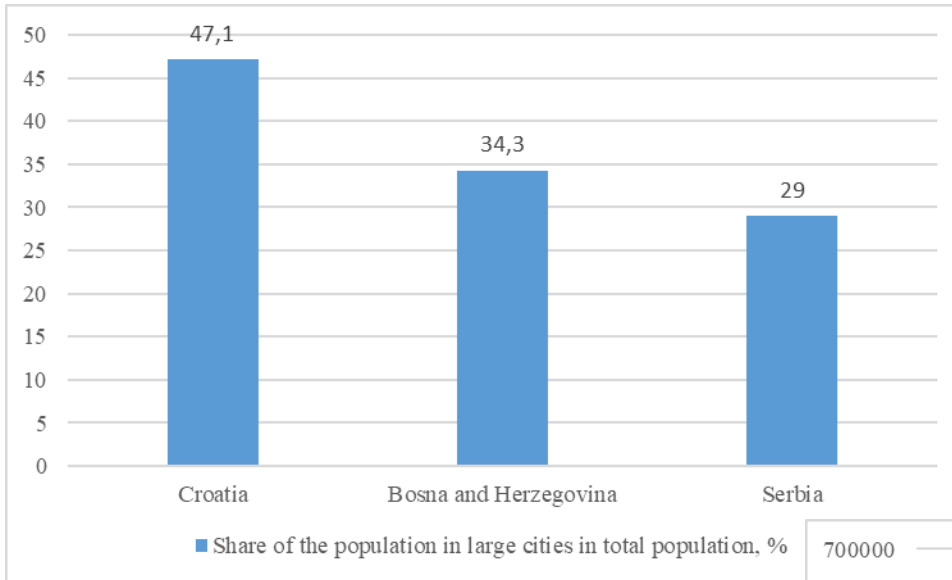
Croatia

Responsibilities

Activities of local importance directly meet the needs of citizens:

- settlement and housing,
- spatial and urban planning,
- utilities,
- childcare,
- social welfare,
- primary health care,
- education,
- culture, physical culture and sport,
- consumer protection,
- protection and improvement of the natural environment,
- fire and civil protection,
- traffic in its area,
- maintenance of public roads,
- issuing building and location permits, other acts related to construction, and implementation of physical planning documents,
- other business in accordance with special laws.

About cities in Croatia 3



A methodology for exploring fiscal autonomy in large cities 1

■ Definitions - fiscal autonomy of LGUs

- Fiscal autonomy is the ability of local authorities to allow independent influence on the well-being of residents in local jurisdictions (Wolman and Goldsmith, 1990).
- Fiscal autonomy is the power and ability of local self-government to develop public policies, innovate and experiment with political policies, and one can be divided into individual local jurisprudence (Boyn, 1996).
- Fiscal autonomy is the ability of local legal services to generate sufficient public revenue for the local economy and then determine how to spend it (Chapman, 1999).
- ...
- **The ability of local units to set tax rates and tax bases without external influence to determine independently how to spend on revenues, as well as the ability to provide services required by civic units.**

A methodology for exploring fiscal autonomy in large cities 2

The arguments FOR the fiscal autonomy of LGUs (Gramlich, 1990)

- Show **greater responsibility for local politicians**, as lobbying central government for grants can cause local politicians to make decisions about added citizens that have to do with an economic decision.
- **Aid dependency** would lead to **inefficient public spending** by local governments.

The arguments AGAINST the fiscal autonomy of the LGUs (Gramlich, 1990)

- **The potential consequences of potential migration of production factors** due to tax competition.
- Danger of **high administrative costs and complexity**.

A methodology for exploring fiscal autonomy in large cities 3

The OECD classification defines the following types of **LGUs tax revenue**:

- **type (a)** where LGUs can themselves **fully determine tax rates and local tax bases**
- **type (b)** where the LGUs themselves **determine the tax rates** (fully or limited)
- **type (c)** where LGUs themselves **determine the tax bases**
- **type (d)** is the division of tax revenue between the central government and the LGUs which is divided into 4 categories:
 - **category (d.1)** where LGUs **determine the distribution of income**
 - **category (d.2)** where the LGUs **participate in the decision to determine the distribution of income**
 - **category (d.3)** where the **distribution of revenue is determined by the central government, several times a year**
 - **category (d.4)** where the **distribution of revenue is determined by the central government, once a year**
- **type (e)** where **the central government determines the tax base and the tax rate**
- **type (f)** indicates **non-LGUs tax revenues**

A methodology for exploring fiscal autonomy in large cities 4

Indicators of tax autonomy	Level of tax autonomy	Ponders
The LGU has the freedom to determine the tax rate and base	The highest level of autonomy	1
The LGU has the freedom to set only the tax rate	Relatively high level of autonomy	0.75
The LGU is free to determine only the tax base	Relatively high level of autonomy	0.75
The LGU is able to determine the distribution of tax revenues with higher levels of government	Relatively high level of autonomy	0.75
The distribution of tax revenue with higher levels of government requires the consent of the LGUs	Medium level of autonomy	0.5
The distribution of tax revenues with higher levels of government is fixed but may be unilaterally altered by higher levels of government	Minimum level of autonomy	0.25
The distribution of tax revenues with higher levels of government is determined by the higher levels of government in its annual budget	Minimum level of autonomy	0.25
The distribution of tax revenues with higher levels of government is determined by the higher levels of government several times a year	Minimum level of autonomy	0.05
Higher levels of government determine tax rates and the tax base	No autonomy	0

Note: LGU = local government unit.

Source: Author systematization based on Kim et al. (2013).

A methodology for exploring fiscal autonomy in large cities 5

Tax revenues of LGUs		As a share of LGUs tax revenue									
As % of GDP	As% of total tax revenue of the consolidated general government	Freedom to decide on tax rates and benefits	Freedom to decide on tax rates		Freedom to decide on tax benefits	Tax revenue sharing				Rates and benefits determined by the central government	Other
			Completed	Limited		Designed by LGU	Determined with the consent of LGU	Designated by the central government several times a year	Designated by the central government once a year		
		(a)	(b.1)	(b.2)	(c)	(d.1)	(d.2)	(d.3)	(d.4)	(e)	(f)
Ponders		1	0.75	0.5	0.75	0.75	0.5	0.05	0.25	0	0
Fiscal autonomy index (FAI)		$FAI = 1x(a) + 0.75x(b.1) + 0.5x(b.2) + 0.75x(c) + 0.75x(d.1) + 0.5x(d.2) + 0.05x(d.3) + 0.25x(d.4) + 0x(e) + 0x(f)$									

Note: LGU = local government unit, GDP=gross domestic product.

Source: Author systematization based on Kim et al. (2013).

Fiscal autonomy of large cities in Croatia

The taxation power of large cities and all other LGUs in Croatia

The taxation power of large cities and all other LSGs in Croatia based on OECD classification.

Taxes (own and shared) - six major categories of autonomy using OECD fiscal autonomy of large cities in Croatia.

The taxation power of large cities and all other LGUs in Croatia using OECD's classification.

Fiscal autonomy index for large Cities in Croatia - Weighted Index (a proportion of individual tax revenue multiplied by an appropriate weighting) that measures the autonomy of tax revenue of large cities in Croatia.

Type of taxes	Tax autonomy category according to OECD classification	Ponders	Fiscal autonomy index, 2018.	Fiscal autonomy index other LGUs	Fiscal autonomy index large cities
City taxes			FISCAL AUTONOMY INDEKS = % in LGU tax revenues x 0.5 + % in LGU tax revenues x 0.5 + % in LGU tax revenues x 0.5 + % in LGU tax revenues x 0.5 + % in LGU tax revenues x 1 +	29,44	31,39
Surtax on income tax	(b.2)	0.5			
Consumption tax	(b.2)	0.5			
Tax on second homes	(b.2)	0.5			
Company tax	(b.2)	0.5			
Tax on the use of public spaces	(a)	1			
Shared taxes that are shared					
Income tax	(d.3)	0.05	% in LGU tax revenues x 0.05 +		
Real estate transfer tax	(b.2)	0.5	% in LGU tax revenues x 0.5		

Source: Author calculation based on data from the Ministry of Finance of the Republic of Croatia.

Fiscal autonomy of large cities in Croatia, Serbia and Bosnia and Herzegovina 1

	Croatia (2019)		Serbia (2017)		Bosnia and Herzegovina (2017)	
	Other LGUs	Large cities	Other LGUs	Large cities	Other LGUs	Large cities
Share of tax revenue of LGUs in GDP, %	3.55	2.21	0.71	1.74	1.73	0.87
Share of tax revenues of LGUs in the total tax revenues of the consolidated general government, %	52.51	8.91	1.95	4.80	14.64	7.31
Fiscal autonomy index	29.44	31.39	14.47	17.35	25.00	25.00

Source: Author's calculations based on data from the Ministry of Finance of the Republic of Croatia, the Ministry of Finance of the Republic of Serbia, and Center for Advocacy for Civic Interests - CPI Foundation, Bosnia and Herzegovina.

Fiscal autonomy of large cities in Croatia

Autonomy in spending of public revenue

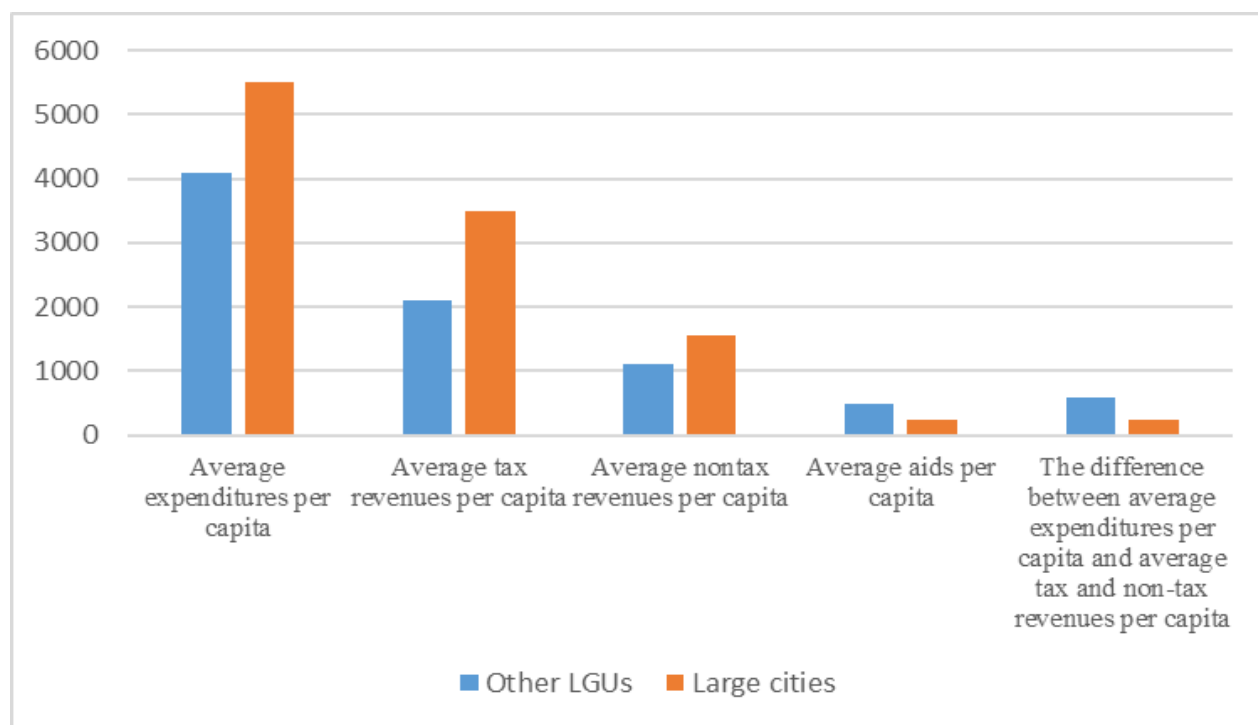
The definition of fiscal autonomy determines the ability of large cities to determine how public revenue is spent.

The distribution of responsibilities in spending public revenues between levels of public authorities depends on the degree of decentralization in the country.

Categories that relate to major areas of autonomy	Policy area	Autonomy in spending public revenue in large cities
Autonomy in defining public policies	General policy	Limited
	Private institutions	Limited
Autonomy in budgeting	Definition of public revenues	Limited
	Capital expenditures / expenditures for infrastructure	Less limited
	Financing of inputs for provision of public services	Less limited
	Financing of public service providers	Less limited
	User fees	Less limited
	Financial assets	Limited
Autonomy in determining inputs	General rules for public service providers	Less limited
	Employed staff	Less limited
	Input / infrastructure	Less limited
Autonomy in determining outputs	Coverage in the provision of public services	Less limited
	Public service quality / standards	Less limited
Monitoring and evaluation	Compliance with general objectives	Limited
	Monitoring of general rules and standards	Limited
	Results from service providers and / or employees	Less limited

The structure of local budgets is a constraint on local development

Fiscal imbalances of large cities in Croatia, 2018, in %



Source: Author's calculations based on data from the Ministry of Finance of the Republic of Croatia.

The importance of decentralized public service delivery

Decentralization - transfer of political power and influence from a higher level of government (central government) to lower levels of government (regional and local government)

Benefits of decentralization

- more efficient public sector
- meeting local interests and needs for public goods and services more effectively
- reducing the share of the public sector in the overall economy
- mobilizing public revenue while reducing the cost of providing public services
- responsibilities for local public expenditure aligned with available financial resources
- strengthening local governments' own revenues
- promoting joint cooperation between different levels of fiscal authority in the delivery of public services

1. Demographic indicators
2. Geographic Indicators
3. Degree of economic development
4. Financial indicators
5. Administrative capacity of local government units
6. Utility infrastructure
7. Social infrastructure

Preconditions for further decentralization in Croatia

The most important **prerequisites** for decentralization:

- **reaching political consensus on the need for reform**
- setting clear goals for administrative, fiscal and territorial decentralization
- activities and measures for implementation
- bearers of activities and measures
- determining expected results and effects (outcomes)

Conclusions

- The financing and responsibilities of local units is a complex issue
- Further decentralization aims at:
 - Establishing an effective system
 - Consistency of responsibility for performing public functions and resources
 - Satisfied end users
- In recent decades, many European countries have sought to strengthen the autonomy of the LGUs
- Between the 1990s and 2015s, LGU autonomy increased in Southeast Europe
- The survey results show that Croatia has a medium degree of fiscal autonomy cities
- Large cities in Croatia have a slightly higher level of fiscal autonomy than other LGUs
- The fiscal autonomy of large cities is limited, and large cities without the support of the central government can neither manage their development nor can they independently:
 - Determine tax rates and bases
 - Determine how to spend raised public funds
 - Provision of public services to citizens living in the local community

Thank you for your attention 😊



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