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Employment at the local government level in the Republic of Croatia during the economic crisis

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SUMMARY

Despite the economic crisis and the need to reduce public expenditure, the total number of budget employees in units of local and regional self-government in the Republic of Croatia increased by slightly more than 15% over the period 2008-11. Apart from a nominal increase in expenses for employees, the share of these expenses in total local and regional budget expenditure also went up. Consequently, a substantial number of the units have found themselves in a situation where the bulk of their expenditures are spent on employees, leaving them without sufficient funds to perform their functions. Given that no new unit was established in the reference period, nor were there any major decentralisation breakthroughs that would require the creation of new jobs, such circumstances may be a sign of an irresponsible policy on providing for the unemployed at the expense of local and regional budgets.

1 INTRODUCTION

The treatment of local and regional budget employees is a highly important and sensitive issue. A fall in budget revenue requires reductions in overall expenditure, where increasing the number of employees is the least desired option. On the other hand, reducing the number of employees leads to a further rise in unemployment, which aggravates the welfare situation within a community, already destabilised by the crisis. Moreover, due to a general shortage of qualified employees, especially in underdeveloped and rural areas, it is very difficult to compensate for the lost professional staff later on, which is why the dismissing of employees is not desirable either. Against such a background, the best way to cut down

expenses is to reduce working hours or, as a last resort, to cut salaries. While some EU member states, like Ireland and Denmark, have resorted to staff reductions at the local level, the largest savings were achieved exactly by reducing or freezing salaries and reducing the work-week hours¹.

Based on the budget reports submitted to the Ministry of Finance by units of local and regional self-government (hereinafter: *local units*), this paper analyses movements in the number of employees in the administrative bodies and users² of local and regional government budgets after the outbreak of the 2008 economic crisis. The inclusion in the analysis of employees in public utilities and other companies in majority ownership of the local units would have provided a much more realistic picture, but, due to the unavailability of detailed data, these categories have been omitted from the analysis.

¹ For example, salaries at the local government level have decreased by 5% in Spain, 15% in Estonia and 25% in Romania. In Latvia, work week has been reduced to 4 days, and in Great Britain, the salaries of all public sector employees have been frozen. For more details about the treatment of employees at the local government level, see *Council of Europe (2012)*.

² *Employees in the bodies* are civil servants and civil service employees performing administrative and professional tasks within the scope of activities of a particular local unit (e.g. in the City Council), and *employees in budget users* are those employed with institutions, councils and funds established by local units and financed 50% or more from the local units' budgets (kindergartens, museums, etc.). Unless particularly emphasized, the data presented in the paper relate to the total number of employees, i.e. the sum of employees in the bodies and in budget users.

2 CONTINUED GROWTH OF EMPLOYMENT AT THE LOCAL GOVERNMENT LEVEL

Despite the need to reduce total expenditure and expenses for employees, employment at the expense of the local and regional budgets in the Croatia has grown continuously during the economic crisis. During the period 2008-II, 5,350 new jobs were created (of which slightly more jobs were opened in budget users than in the bodies), an increase of 15.2% from 2007 (Table 1).

As many as 408 of a total of 576 local units increased the number of employees; 86 of them made no changes, whereas 82 reduced employment (Chart 1). An inevitable consequence of such increases is also the growth in expenses for employees, which went up by almost one billion kuna over the reference period (Table 2).

As no new units were established in the reference period, nor were there any major decentralisation breakthroughs

Table 1

Number of employees in the bodies and budget users at the local level (2007-II)

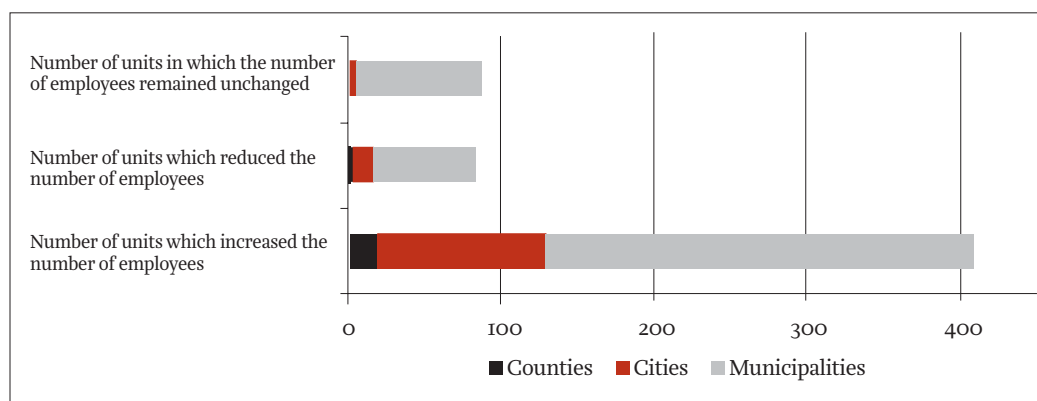
		2007	2008	2009	2010	2011	Increase/Decrease in the 2007-II period (in %)
in the bodies	Counties	1,625	2,070	2,175	2,142	2,076	27.8
	Zagreb*	2,799	2,758	2,778	2,760	2,741	-2.1
	Cities	5,273	5,754	6,167	6,101	6,385	21.1
	Municipalities	3,123	3,359	3,864	3,834	4,018	28.7
	Total	12,820	13,941	14,984	14,837	15,220	18.7
in budget users	Counties	1,614	1,897	2,281	2,019	2,158	33.7
	Zagreb	7,613	7,820	7,826	7,888	8,000	5.1
	Cities	12,378	12,834	13,049	13,612	13,924	12.5
	Municipalities	886	999	1,073	1,198	1,359	53.4
	Total	22,491	23,550	24,229	24,717	25,441	13.1
Total employees		35,311	37,491	39,213	39,554	40,661	15.2

* Due to its special status as both a city and a county, the City of Zagreb is presented separately.

Source: Ministry of Finance; author's calculation.

Chart 1

An overview of counties, cities and municipalities with respect to changes in total employment (2007-II)



Source: Ministry of Finance; author's calculation.

Only the City of Zagreb reduced the number of employees in the bodies (but, owing to employment in budget users, total employment at the expense of the City of Zagreb budget went up), while an increase in employment was recorded at all other levels of government (counties, cities and municipalities), both in the bodies and in budget users, especially in 2008 and 2009. After a slowdown in 2010, employment rose again in 2011, with 1,107 newly created jobs for the whole of the Croatia.

ghs that would require new job creation, the presented situation may be a sign of an irresponsible policy of providing for the unemployed at the expense of local and regional budgets³, regardless of the serious financial difficulties caused by the economic crisis. More specifically, the increase in the number of unemployed persons and in expenses for employees strongly affected the negative

3 For more details about decentralisation in the Croatia, see EIZG (2010).

Table 2*Expenses for employees at the local level, 2007-II (in million kuna)*

		2007	2008	2009	2010	2011	Increase/Decrease in the period 2007-II (in %)
in the bodies	Counties	244.2	335.8	369.2	365.1	354.2	45.0
	Zagreb	404.5	432.4	443.0	442.6	448.4	10.9
	Cities	683.9	787.7	850.6	839.1	845.8	23.7
	Municipalities	311.1	353.1	398.1	410.2	427.7	37.5
	Total	1,643.8	1,909.1	2,060.9	2,057.0	2,076.1	26.3
in budget users	Counties	103.7	135.4	150.3	178.8	204.6	97.3
	Zagreb	874.9	977.4	1,044.8	1,039.4	1,039.2	18.8
	Cities	1,080.5	1,201.9	1,299.5	1,299.0	1,315.9	21.8
	Municipalities	59.0	74.9	88.0	94.2	104.1	76.5
	Total	2,118.1	2,389.5	2,582.6	2,611.4	2,663.9	25.8
Total expenses for employees		3,761.8	4,298.5	4,643.6	4,668.4	4,740.0	26.0

Source: Ministry of Finance; author's calculation.

primary balance outturns for local governments in the Croatia (Chart 2). The primary balance is the difference between overall revenue (operating revenues and revenues from non-financial assets selling) and overall expense (operating expenses and expenses for the non-financial assets acquisition) excluding interest paid on previously assumed liabilities. In addition to own revenues, revenues from tax sharing and aid received from the state budget and from abroad, the Budget Act (Zakon o proračunu, NN 87/08⁴) allows municipalities, cities, counties and the City of Zagreb to derive receipts from borrowing in the form of credit and loans and from the issuance of securities. Therefore, the payment of interest is the consequence of previously incurred liabilities and, by excluding it, we get a more realistic insight into the current policy contribution to the total balance of local units.

Chart 2 shows that, after a period of relative stability from 2002-07, financial difficulties cropped up at the local government level as early as 2008, but the primary deficit reached its peak (HRK 1.77bn) in 2009. That year, over 70% of all the local units incurred deficits, and the previously mentioned increases in employee expenses definitely contributed to such a huge primary deficit.

Not even the serious fiscal difficulties (the revenue gap and the need to reduce expenditure) could prevent some local units from hiring new employees. Table 3 presents local units with the largest budget deficits after the emergence of the economic crisis. While the creation of some of the new jobs can probably be well justified, such huge increases in the number of and expenses for employees are certainly uncommon given the deepening crisis.

Chart 2*Primary balance of local governments, 2002-II (in million kuna)*

Source: Ministry of Finance; author's calculation.

4 Only available in Croatian, translator's note.

Table 3

Counties, cities and municipalities with the largest budget deficits after the outbreak of the economic crisis

		2007	2008	2009	2010	2011	Increase/ Decrease in the 2007-11 period (in %)	
Counties	C. of Lika-Senj	budget balance (in %)	0.0	-6.0	-5.3	-3.5	-6.8	-
		total number of employees	86	86	145*	83	85	-1.2
		expenses for employees (in million kuna)	11.52	14.25	14.61	14.33	14.88	29.2
	C. of Međimurje	budget balance (in %)	1.2	-1.4	-8.3	-15.9	-5.7	-
		total number of employees	61	76	78	75	81	32.8
		expenses for employees (in million kuna)	7.75	11.13	12.93	13.15	13.20	70.3
	C. of Bjelovar-Bilogora	budget balance (in %)	-2.3	-4.5	-23.9	-13.5	2.6	-
		total number of employees	65	108	106	107	107	64.6
		expenses for employees (in million kuna)	9.83	13.89	15.36	15.70	13.54	37.7
Cities	Županja	budget balance (in %)	0.9	-21.4	-3.6	-0.1	-35.2	-
		total number of employees	87	86	88	94	142	63.2
		expenses for employees (in million kuna)	7.15	8.07	8.66	8.91	10.11	41.4
	Rijeka	budget balance (in %)	-0.4	-12.6	-5.5	-15.4	-16.0	-
		total number of employees	1,516	1,592	1,616	1,625	1,624	7.1
		expenses for employees (in million kuna)	177.41	201.40	209.18	194.65	191.90	8.2
	Đakovo	budget balance (in %)	17.0	0.3	-22.8	-18.1	-14.2	-
		total number of employees	93	95	100	99	103	10.8
		expenses for employees (in million kuna)	6.57	7.38	8.19	8.49	8.17	24.3
Municipalities	Dugopolje	budget balance (in %)	61.9	59.5	-47.4	-67.5	-63.4	-
		total number of employees	6	6	8	7	10	66.7
		expenses for employees (in million kuna)	1.21	1.73	1.98	2.14	2.26	85.9
	Poličnik	budget balance (in %)	-7.5	0.7	87.8	-56.2	-52.1	-
		total number of employees	16	21	27	26	28	75.0
		expenses for employees (in million kuna)	1.20	1.74	2.27	2.24	2.30	92.2
	Pokupsko	budget balance (in %)	21.4	-20.0	-23.7	-8.7	-47.8	-
		total number of employees	6	6	6	5	5	-16.7
		expenses for employees (in million kuna)	0.65	0.74	0.80	0.74	0.71	9.6

*Due to an increase in the number of employees in budget users from 19 to 82; as early as 2010, the number of employees in budget users again stood at 19.
Source: Ministry of Finance; author's calculation.

Despite permanent deficits, 20 new jobs were opened in the County of Međimurje, with expenses for employees going up by 70% over the reference period. Despite having one employee less in 2011 than in 2007, the County of Lika-Senj markedly increased its expenses for employees. Expenses for employees rose by 41.4% in Županja, and almost doubled in the municipalities of Dugopolje and Poličnik, which certainly contributed to such huge budget deficits.

However, given the large number of local units and considerable differences among them, it is not advisable to generalise about the data when it comes to employment during the economic crisis. As already mentioned, there is a certain number of local units which have not chan-

ged, but have even reduced the number of employees. Table 4 therefore singles out the counties, cities and municipalities with the largest increases and those with the largest decreases in employment after 2007.

Most new jobs were created in the counties of Sisak-Moslavina, Šibenik-Knin and Karlovac. In the town of Otok, the number of employees increased from 10 to 60 in only three years (the bulk of the jobs were opened in the city administration bodies).

The number of employees in the municipalities of Satnica Đakovačka and Podcrkavlje rose from 1 to 16 and from 2 to 16 respectively (in both of these municipalities, all the employees work in the municipal administration bodies).

Table 4

Counties, cities and municipalities with the largest increases/decreases in the total number of employees after the outbreak of the economic crisis

	Largest increases in employees			Largest decreases in employees				
	2007	2011	Increase (in %)	2007	2011	Decrease (in %)		
Counties	C. of Sisak-Moslavina	68	221	225.0	C. of Varaždin	276	87	68.5
	C. of Šibenik-Knin	75	241	221.3	*	-	-	-
	C. of Karlovac	77	166	155.6	-	-	-	-
Cities	Otok	10	60	500.0	Hrvatska Kostajnica	57	38	33.3
	Čabar	10	29	190.0	Metković	122	111	9.0
	Mursko Središće	13	37	184.6	Opuzen	24	22	8.3
Municipalities	Satnica Đakovačka	1	16	1,500.0	Nuštar	23	6	73.9
	Podcrkavlje	2	16	700.0	Tordinci	19	5	73.7
	Đulovac	5	38	660.0	Lovinac	24	9	62.5

* Apart from the County of Varaždin, only the County of Lika-Senj reduced the number of employees during the reference period, but by only one person (from 86 to 85).

Source: Ministry of Finance; author's calculation.

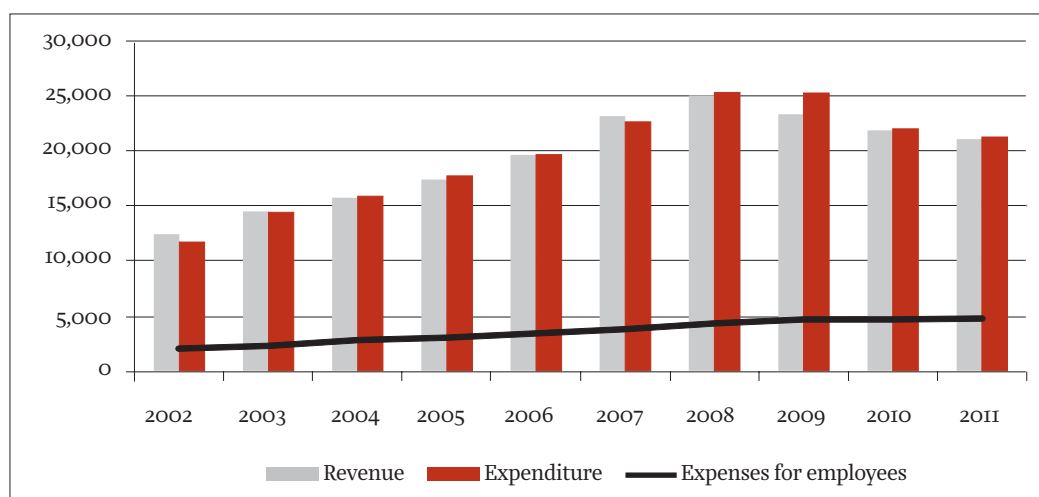
The most severe reductions in employment were recorded in the cities of Hrvatska Kostajnica, Metković and Opuzen, and in the municipalities of Nuštar, Tordinci and Lovinac, while, among the counties, only the County of Varaždin made a significant staff cut (the County of Lika-Senj also reduced the number of employees during the reference period, but only insignificantly (by one employee, see Table 3).

3. THE CONSEQUENCES OF RUNAWAY EMPLOYMENT

The growth of expenses for employees on the one hand, and a need to cut overall expenditure on the back of a fall in revenue on the other, led to an increase in the share of expenses for employees in the local units' budget expenditures. Chart 3 shows movements in overall revenue and expenditure, as well as in expenses for employees at the local and regional levels in the RC from 2002 to 2011.

Chart 3

Movements in overall budget revenue and expenditure and in expenses for employees at the local level, 2002-11 (in million kuna)



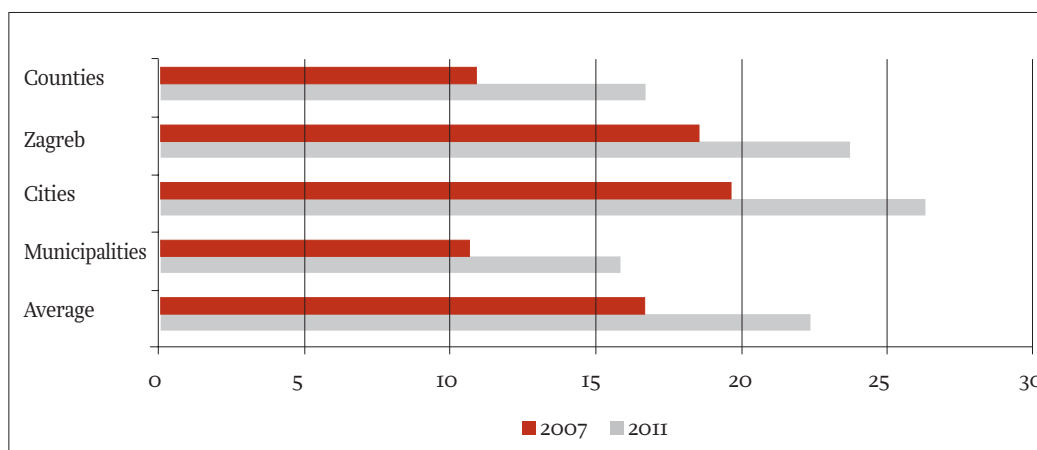
Source: Ministry of Finance; author's calculation.

Expenses for employees grew continuously throughout the reference period, while overall expenditure decreased after 2008, suggesting that savings were achieved in other expenditure items (primarily the environmental protection area, e.g. waste disposal and waste water management, and also in water supply, street illumination costs, etc.). As a result, the share of expenses for employees in the local units' total budget expenditure increased on average from 16.6% in 2007 to 22.3% in 2011 (Chart 4).

text of the local units' capacities to finance their own budget expenditures. Specifically, one of the greatest challenges facing the local governments in the Croatia is their heavy dependence on various types of aid (mostly provided from the central government budget, but also by general government entities, foreign governments and international organisations). The share of aid in budget revenue for every fourth municipality and almost every seventh city exceed 30%, where the share for 3 cities and 44

Chart 4.

Share of expenses for employees in total budget expenditure, 2007-11 (in %)



Source: Ministry of Finance; author's calculation.

As shown in Table 5, the shares of expenses for employees exceeded 30% in only 5 cities in 2007, but this number rose to 29 cities in 2011, four of which had the shares exceeding 40% of the total. A similar situation is found at the municipality level.

The increase in the number of employees and in expenses for employees in local units should be viewed in the con-

municipalities exceeds 50% (Chart 5). In 2011, as many as 7 counties derived more than half of their total budget revenues from aid received.

Table 6 gives an overview of local units with the largest shares of aid received in their total budget revenues in 2011. Despite the fact that the performance of these units' functions depended to a large extent on aid received, of

Table 5

Distribution of the counties, cities and municipalities according to the share of expenses for employees in total budget expenditure (a comparison between the 2007 and 2011 data)

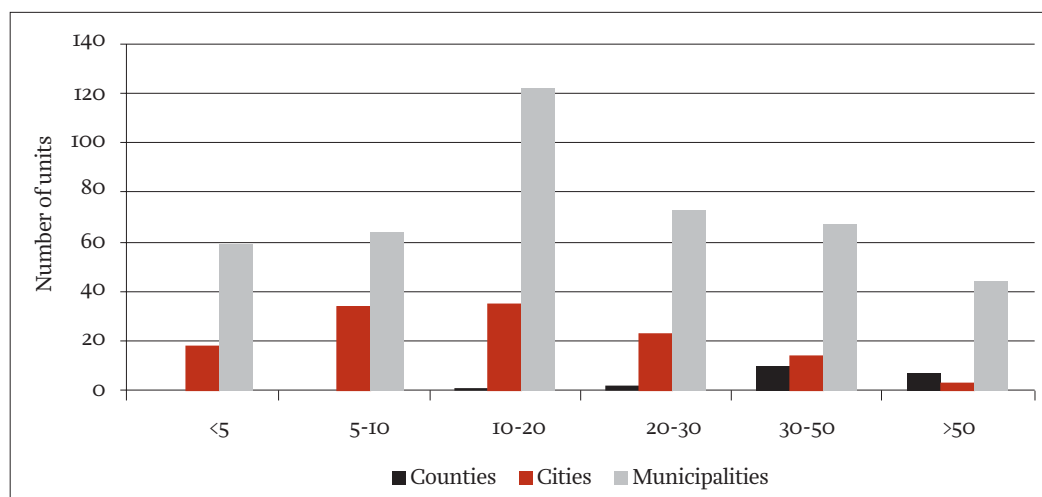
		<5%	5-10%	10-20%	20-30%	30-40%	>40%
Counties	2007	0	10	9	1	0	0
	2011	0	4	12	4	0	0
Cities	2007	0	15	49	58	5	0
	2011	0	1	16	81	25	4
Municipalities	2007	40	156	190	35	7	1
	2011	5	56	234	107	19	8

Note: For easier reference, in Table 5 and Chart 5 Zagreb is categorised as a city.

Source: Ministry of Finance; author's calculation.

Chart 5

Distribution of counties, cities and municipalities according to the share of aid received in total budget revenue (2011)



Source: Ministry of Finance; author's calculation.

Table 6

Counties, cities and municipalities with the largest shares of aid received in their budget revenues (2007-11)

		2007	2008	2009	2010	2011	Increase/Decrease in the period 2007-11 (in %)	
Counties	C. of Požega- Slavonia	share of aid in revenue (in %)	21.1	32.1	29.2	18.5	72.1	-
		number of employees	146	158	177	187	185	26.7
		expenses for employees (in million kuna)	7.89	8.40	12.39	17.94	16.84	113.4
	C. of Lika-Senj	share of aid in revenue (in %)	69.5	71.2	72.0	6.4	69.2	-
		number of employees	86	86	145	83	85	-1.2
		expenses for employees (in million kuna)	11.52	14.25	14.61	14.33	14.88	29.2
	C. of Virovitica-Podravina	share of aid in revenue (in %)	11.4	18.2	17.5	19.7	67.3	-
		number of employees	43	57	64	63	73	69.7
		expenses for employees (in million kuna)	5.43	8.14	10.13	10.31	8.26	52.1
Cities	Vrlika	share of aid in revenue (in %)	46.2	46.1	42.9	37.5	73.1	-
		number of employees	13	13	13	13	12	-7.7
		expenses for employees (in million kuna)	1.51	1.60	1.66	1.61	1.56	3.2
	Hrvatska Kostajnica	share of aid in revenue (in %)	20.7	29.8	35.9	28.2	71.1	-
		number of employees	57	57	56	37	38	-33.3
		expenses for employees (in million kuna)	3.69	3.87	3.63	2.97	3.18	-13.8
	Metković	share of aid in revenue (in %)	25.5	31.3	18.3	46.4	56.1	-
		number of employees	122	127	124	119	111	-9.0
		expenses for employees (in million kuna)	9.73	11.39	12.07	11.41	10.48	7.8
Municipalities	Ervenik	share of aid in revenue (in %)	94.8	92.0	86.9	89.0	89.9	-
		number of employees	3	3	12	4	4	33.3
		expenses for employees (in million kuna)	0.46	0.50	0.86	0.85	0.79	72.7
	Kistanje	share of aid in revenue (in %)	80.3	82.7	84.4	84.6	85.1	-
		number of employees	10	9	12	10	13	30.0
		expenses for employees (in million kuna)	0.86	1.14	1.32	1.08	1.07	23.4
	Civljane	share of aid in revenue (in %)	91.9	87.4	92.6	88.0	85.1	-
		number of employees	5	5	5	5	4	-20.0
		expenses for employees (in million kuna)	0.51	0.55	0.58	0.63	0.53	4.0

Source: Ministry of Finance; author's calculation.

all the selected units, only Hrvatska Kostajnica made economies in expenses for employees after the crisis breakout, while other units even increased these expenses. For example, the municipality of Ervenik, in which aid received accounted for almost 90% of the total budget revenue in 2011 (the share was even larger in some years), almost doubled its expenses for employees. Similarly, the County of Senj-Lika, the cities of Vrlika and Metković and the municipality of Civljane reduced their staff numbers, but increased the expenses for employees. These examples clearly show that such a situation is unsustainable and that more substantial changes at the local government level are needed in the Croatia.

4 CONCLUSION

Despite the need for expenditure cuts after the outbreak of the economic crisis, a large number of local units continued to employ staff at the expense of their budgets, which further exacerbated an already grave financial situation. Many units found themselves in a situation where they could only provide funds to finance the salaries, contributions and other costs of employees, but had not enough resources to finance their statutory functions (the development of settlements and housing estates, public utility management, social welfare, health care, education, culture, physical education and sports, fire prevention and civil defence, etc.), and where they heavily depended on aid from abroad and from general government entities (primarily the central budget aid). The very fact that 54 local units derived more than half of their revenues from various forms of aid shows that they were incapable of performing their functions independently. Should they even increase the number of employees and/or expenses for employees during the crisis, the purpose of their further existence would be called into question and it would be imperative that the number of local units be reduced. Reducing the number of local units would

not only enable the central government to cut its aid allocations, but would also improve the supervision of local governments in the Croatia and, consequently, the quality of public services.

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