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# Budget outturns of Croatian municipalities, cities and counties for 2018 and 2019<sup>1</sup>

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*This paper aims to provide a simple and systematic overview of basic data on budget outturns of all local government units in Croatia<sup>2</sup>, using the Ministry of Finance's database. The presented data pertains to their revenues and expenditures<sup>3</sup> as well as surpluses/deficits for 2018 and 2019. This analysis and the tables additionally provided in Excel format enable the interested public to get an insight into the financial condition of all Croatian municipalities, cities and counties in the two years concerned and to make comparisons with the condition in previous years<sup>4</sup>.*

The Ministry of Finance publishes budget outturn data for all local government units on an annual basis.<sup>5</sup> Their data contains numerous and extensive spreadsheets, which are not easy for citizens to navigate through. For this reason, every year the Institute of Public Finance publishes simple and systematic analyses of key data. In addition to the Ministry of Finance's data and the Institute's analyses, other useful data can also be retrieved from the local government units' websites. However, all this data should be used and interpreted with extreme caution.

First of all, since counties, cities and municipalities have different authorities with regard to collecting revenues and provide different kinds of public goods and services, data from units of different levels cannot be compared to one another. Rather, municipalities should only be compared with other municipalities, cities with other cities and counties with other counties. In addition, interested subjects can, for example, add up per capita revenues or expenditures of their respective municipalities or cities and their county, in order to find out the total per capita amount collected or spent in the municipality

<sup>1</sup> This newsletter has originated from the project "Does Transparency Pay-off? The political and socio-economic impacts of local budget transparency in Croatia" (IP-2019-04-8360) financed by the Croatian Science Foundation (HRZZ). Opinions, findings, conclusions and recommendations are the authors' own and do not necessarily reflect the views of HRZZ.

<sup>2</sup> The term "local government units" is used throughout this text to cover counties, cities and municipalities, while the term "local budgets" refers to the budgets of counties, cities and municipalities.

<sup>3</sup> The present analysis considers only revenues and expenditures, excluding receipts and outlays. The terms revenues and expenditures pertain to business operations and the sale and acquisition of fixed assets (e.g. land, buildings, licenses, vehicles, etc.), while the terms receipts and outlays refer to financial assets, borrowing, lending and repayment of loans. For more detail, see Ott et al. (2009).

<sup>4</sup> 2018 and 2019 data for all municipalities, cities and counties is available in the [Excel spreadsheet](#), while data for previous years can be found in Ott and Bronić (2015) and Ott, Bronić and Stanić (2016, 2018a, 2018b). An overview of their budget transparency is available [here](#).

<sup>5</sup> Data for the period 1995–2019 is available on the [Ministry of Finance's website](#).

or city concerned. The City of Zagreb, being both a city and a county, is an exception. Its citizens should therefore only consider the data for Zagreb.

Secondly, high revenues – either total amounts or per capita amounts – are not always a reflection of the local government unit's good business dealings as large parts of their revenues can sometimes derive from various types of grants, borrowings, etc. Such revenues should be subject to further scrutiny (purpose, source, conditions under which they were issued). For instance, 75% of total revenues of the Municipality of Ervenik in 2018 originated from various types of state aid. The same is true of expenditures, surpluses and deficits, all of which can reach extremely high levels in a single year.

Thirdly, a local government unit's budget is not always a reflection of that unit's actual financial condition, because a unit can borrow funds not only through its budget but also through legal persons in its majority-ownership or co-ownership, or through institutions it has founded. For instance, funds for the construction of the Zagreb cable car were collected through credits granted to both the City of Zagreb and **Zagrebački holding**. Hence, a more realistic financial condition of local government units could be established by also analysing data on revenues and expenditures, assets, capital and liabilities of the legal persons owned or co-owned by such local government units as well as institutions founded by them.

Fourthly, some local government units report major differences between their revenues and expenditures in a given year. One should be extremely careful when trying to explain such differences. The analysis should also include a visit to the local government unit's website (especially if the website contains narrative clarifications of key budget documents), local media and/or contacting the local government unit's executive or legislative authorities. For instance, local government units could have sold valuable capital assets (e.g. land or buildings), charged extremely and unusually high utility contributions, obtained large capital investments (e.g. for constructing local roads or sports facilities) funded from loans and/or EU grants, transferred revenue and receipt surpluses or deficits from previous years etc., all in a single year. To give an example, the Municipality of Konavle collected HRK 1.7m in revenues from utility contributions in 2017, while in 2018 these revenues rose to HRK 14.5m. The rise in 2018 revenues from utility contributions was mostly a result of the **reconstruction and extension of Dubrovnik Airport**, which consequently led to a rise in the municipality's total revenues.

#### **THE BASIC ANALYSIS POINTS TO THE FOLLOWING:**

##### **I AVERAGE TOTAL REVENUES, AVERAGE PER CAPITA REVENUES, AVERAGE TOTAL SURPLUS/DEFICIT**

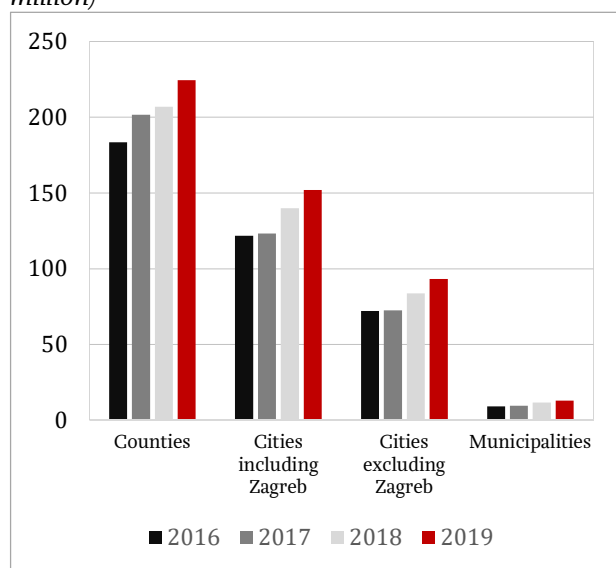
- Graph 1 shows a rise in average total revenues for all types of local government units in the period 2016–2019 as well as noticeable differences in average total revenues at county, city<sup>6</sup> and municipality level respectively. For instance, the counties' average total revenue outturns in 2019 amounted to around HRK 225m, cities including Zagreb collected on average around HRK 150m in revenues, cities excluding Zagreb around HRK 93m, while the municipalities' average total revenues amounted to HRK 13m.
- 2018 and 2019 also saw a substantial rise in average per capita revenues, with their levels similar in cities and municipalities, but somewhat lower in counties (Graph 2). For instance, average per capita revenues of counties and cities in 2019 amounted to between HRK 5,000 and 6,000, while in counties they were below HRK 1,500.
- The number of municipalities and cities with higher per capita revenues is rising, which was especially true for 2018 and 2019 (Graph 3). The majority of municipalities and cities reported their average per capita revenue outturns in 2018 and 2019 in the range somewhere between HRK 3,000 and HRK 6,000. The reason behind this rise in average per capita revenues deserves further research, but one of the probable explanations is the **new system of fiscal equalisation**, which has been in force since 2018. In 2019, less than 11% of municipalities, only three cities (Duga Resa, Oroslavje, Donja Stubica) as well as all counties collected less than HRK 3,000 in revenues per

<sup>6</sup> Even though the City of Zagreb holds the status of both city and county, i.e. conducts activities that are in the competence of both cities and counties, in this analysis Zagreb data were used for calculating average values for cities.

capita. On the other hand, the number of local government units whose per capita revenues are above HRK 9,000 is also small – around 11% of counties and 13% of cities; but even this is considered a jump from previous years.

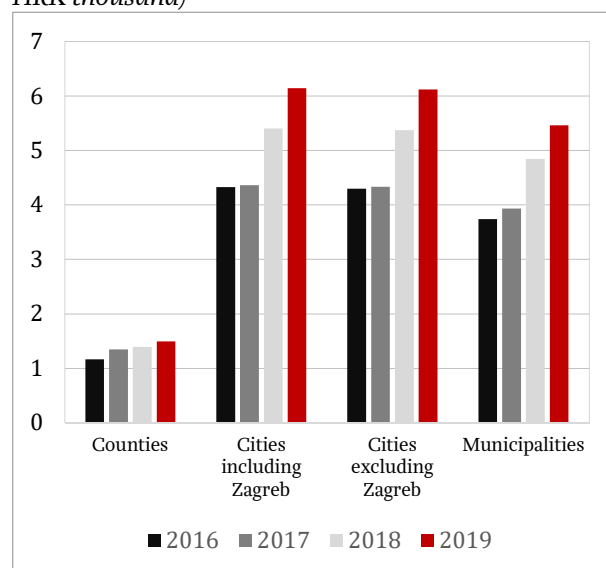
- The average total surplus/deficit fluctuates; in 2019 the situation has turned for the worse, i.e. surpluses are going down while deficits are going up (Graph 4). The City of Zagreb, due to the size of its budget, largely contributes to the total deficit; however, its 2019 per capita deficit of HRK 561 is nowhere near that of the Municipality of Medulin (HRK 7,245 per capita deficit) or the City of Nin (HRK 4,643 per capita deficit). High deficit in a given year is not necessarily a reflection of the local government's unit poor business dealings; the real reasons can be unveiled only after further analysis. It is possible that expenditures are extremely high in a given year because high-value fixed assets were acquired in that year (school, sports hall, land, road, public lighting) that would be repaid from loans.

**Graph 1** Average total revenues, 2016–2019 (in HRK million)



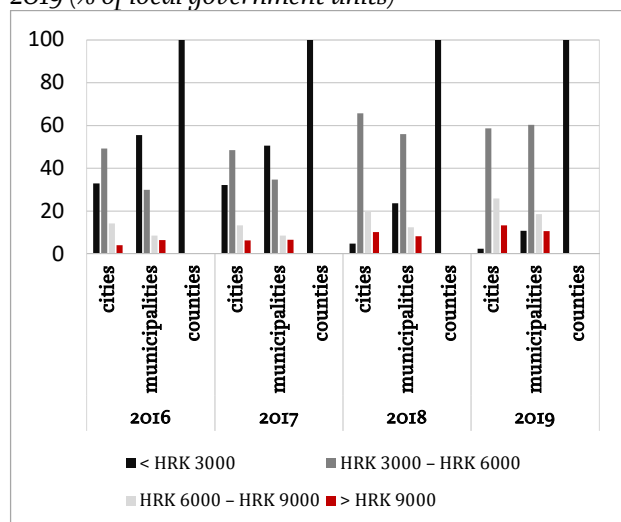
Source: Ministry of Finance (2020)

**Graph 2** Average per capita revenues\*, 2016–2019 (in HRK thousand)



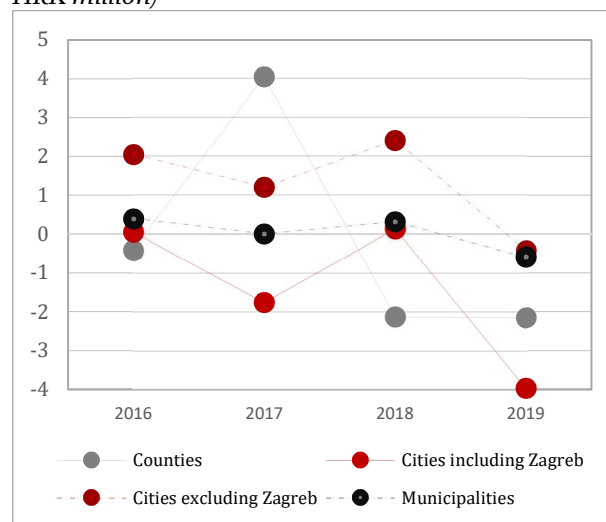
Source: Ministry of Finance (2020)

**Graph 3** Distribution of per capita revenues, 2016–2019 (% of local government units)



Source: Ministry of Finance (2020)

**Graph 4** Average total surplus/deficit, 2016–2017 (in HRK million)



Source: Ministry of Finance (2020)

## 2 THE EFFECT OF GEOGRAPHICAL POSITION ON THE FINANCIAL CONDITION OF CITIES AND MUNICIPALITIES

Just like previous analyses, the present analysis also shows that the positive financial condition of cities and municipalities is very much dependent on them being located along the coast:

- If we consider municipalities whose average per capita revenues in 2018 were above HRK 10,000, only seven of 27 municipalities in this category were not located near the sea (Civljane, Ervenik, Lećeveica, Saborsko, Promina, Grožnjan and Lokvičići), while in 2019 this was true for only nine of 33 municipalities (Civljane, Grožnjan, Saborsko, Lećeveica, Ervenik, Biskupija, Kijevo, Vrhovine and Fužine).
- On the other hand, among the 85 municipalities whose average per capita revenues in 2018 were below HRK 2,900, not a single one was located along the coast. Similarly, in 2019, 39 municipalities were classified into this category, none of which was located on the coast.
- Among the 20 cities with highest average per capita revenues, 18 (all except Zagreb and Obrovac) were located near the sea in 2018, while in 2019 this was true for 14 cities. On the other hand, among the 20 cities with lowest average per capita revenues, in 2018 only one of them was located near the sea (Kaštel). In 2019, not a single coastal city was in this category.

## 3 DIFFERENCES BETWEEN LOCAL GOVERNMENT UNITS

- The differences between the richest and poorest municipalities are vast. For instance, the total revenues of the Municipality of Medulin in both years covered by this analysis equalled the sum of revenues of the 25 poorest municipalities.
- In both years, the total revenues of the City of Zagreb exceeded the sum of total revenues of around 120 cities.
- Two cities (Opuzen and Komiža) reported total revenues in 2019 as below HRK 13m, whereas total revenues of five municipalities (Medulin, Matulji, Konavle, Viškovo and Kostrena) in the same year exceeded HRK 50m.
- 2019 per capita revenues of 54 cities or municipalities were higher than the value reported for the City of Zagreb (HRK 9,427).
- Municipalities' population numbers vary greatly: 52 municipalities have a population below 1,000 (the smallest municipalities being Civljane with 129, Lanišće with 251 and Kijevo with 256 residents), the population of 33 municipalities is in the range between 5,000 and 10,000, while six municipalities (Viškovo, Podstrana, Nedelišće, Matulji, Brdovec and Čepin) count over 10,000 residents.<sup>7</sup>
- Around 45% of local government units reported budget surpluses in 2019 (11 counties, 61 cities and 185 municipalities), while in 2018 this was true of almost 60% of units (12 counties, 81 cities and 249 municipalities). The largest surpluses in 2019 were reported by the Varaždin County (HRK 24.4m), the City of Rijeka (HRK 69.6m) and the Municipality of Baška Voda (HRK 9.3m). The largest deficits were recorded in the Virovitica-Podravina County (HRK 43.5m), the City of Zagreb (HRK 453.6m) and the Municipality of Medulin (HRK 51.9).

The synthesis of data provided in the Excel spreadsheets as well as this brief textual analysis will serve its purpose if it encourages the general public to study in more detail the abundant databases provided by the Ministry of Finance and their local government units. This would provide them more information about how the money in the local budgets is being collected and spent and would be an additional step toward further consolidation of local budget transparency. One can only hope that the public, in addition to various guides, visualizations and apps published by the local government units on their respective

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<sup>7</sup> Data for municipalities and cities derived from population estimates by the [Croatian Bureau of Statistics](#) for 2019. Data for counties derived from population estimates in mid-2019.

websites<sup>8</sup>, would make use of the present analysis to get acquainted with budget-related topics and to take part in the local budgeting processes.

One can also hope that this short analysis – just like the Institute’s previous analyses – would be brought to the attention of the Government, competent ministries, Parliament and parliamentary committees, all of whom are, at one point or another, bound to face the problem of “territorial fragmentation and functional distribution of local government units’ competencies”<sup>9</sup> and reform the country’s territorial and fiscal structure – if not wilfully, then due to constant pressure by the European Commission.

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<sup>8</sup> See Ott et al. (2020).

<sup>9</sup> See European Commission (2020).