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# IPF NOTES

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## Budget outturns of Croatian municipalities, cities and counties in 2020

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*2020 events had a negative effect on the budgets of Croatian local government units (LGUs), resulting in a drop in average total revenues and growth in average deficits.<sup>1</sup> The present note aims to provide a systematic overview of basic data on budget outturns of LGUs in Croatia, their revenues and expenditures as well as surpluses/deficits for 2020. The data has been collected through the Ministry of Finance's database. The present analysis and the data additionally provided in *Excel* format enable the interested public*

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<sup>1</sup> This note has originated from the project [Does Transparency pay-off? The political and socio-economic impacts of local government budget transparency in Croatia](#) (IP-2019-04-8360) financed by the Croatian Science Foundation (HRZZ).



*to get an insight into the financial situation of their home municipalities, cities and counties and to make comparisons with the situation in previous years as well as with other municipalities, cities and counties.*

In order to increase the level of budget transparency and citizen awareness, the Ministry of Finance publishes annual budget outturn data for all local government units (LGUs).<sup>2,3,4</sup> To make these numerous and extensive spreadsheets easier for citizens to navigate through, the present note serves as simple and systematic analysis of key financial data.<sup>5</sup> To make more detailed analyses and derive definitive conclusions, the Ministry of Finance's data should be extended with other data, primarily collected from the LGUs' websites (such as budget guides etc.). A few notes are in order to highlight that all this data should be interpreted with caution.

First, the pandemic and devastating earthquakes in Zagreb and the Banovina region in 2020 put enormous pressure on public finance, causing substantial deficit growths at all levels of government. According to [Ministry of Finance](#) data, the total general

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

<sup>3</sup> The [Excel](#) spreadsheet contains financial data for 2014-2020 and budget transparency data for 2015-2021.

<sup>4</sup> Data for 1995-2020 is available on the [Ministry of Finance](#)'s website.

<sup>5</sup> The present analysis considers 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. parcels, real estate, 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. \(2009\)](#).

government's budget deficit, calculated by using the national accountancy plan methodology, stood at HRK 25.4bn (6.8% of GDP), while the deficit of LGUs' budgets stood at HRK 3.2bn (0.9% of GDP). By means of comparison, the total general government's budget surplus in 2019 stood at HRK 641m (0.2% of GDP), while the deficit of LGUs' budgets stood at HRK 1.4bn (0.4% of GDP).

Second, since LGUs at different levels have different authorities with regard to collecting revenues and providing public goods and services, revenue, expenditure and deficit/surplus amounts cannot be compared for all LGUs. Rather, municipalities should only be compared with other municipalities, cities with other cities and counties with other counties.

Third, many LGUs do not collect revenues nor make expenditures only through their own budgets but also through their budget users (kindergartens, schools, museums, hospitals, etc.) and through legal entities in which they hold majority ownership or co-ownership or institutions which they founded. For this reason, a LGU's budget, when regarded on its own, does not always reflect that unit's complete and actual financial situation. In other words, to make a more detailed analysis of LGUs' financial situation, we also need to analyse the financial situation of their budget users, legal entities in which they hold majority ownership or co-ownership or institutions which they founded. However, since this is not publicly available data, the present analysis is based solely on LGUs' budgets, i.e. on the only publicly available database – that managed by the Ministry of Finance.

Fourth, high revenues are not always a sign of good business dealings or sustainable management of public finance, since a

substantial share of revenues might be derived from various forms of grants.<sup>6</sup> For this reason, the analysis of a LGU's revenues should, apart from their amount, also include an analysis of their structure. This is the only way to find answers to many key questions. One of those being, for instance, what is the amount of revenues from grants and what is their share in total revenues? Who provides these grants (the state and/or the European Union)? Are these grants one-off or are they provided in annual cycles? Are they used to finance current operations or capital projects? In addition, when referring to per capita revenues, the population numbers should be taken into account as municipalities with small populations often top the ranking lists of per capita revenues due to their large grant amounts.

Fifth, high budget deficit of a LGU (be it total or per capita) is not necessarily a reflection of poor financial standing. In order to make a quality assessment of a LGU's situation, we need to take a more detailed look at key budgetary documents and determine the source and manner of covering deficits. For instance, a deficit may arise due to the LGU unit taking out a loan to finance a quality capital project that would have a positive effect on local development and local revenue growth in the longer term.

A short analysis is provided below.

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<sup>6</sup> As is the case, for instance, in the municipalities Kijevo, Ervenik, Civljane, Biskupija.

## Average total revenues, per capita revenues, surplus/deficit

Several conclusions should be singled out:

- Average total revenues of all LGUs taken together in the period 2017-2019 show a growing trend. In 2020, this trend was retained only at county level, while in cities and municipalities the revenues dropped. Average total revenues recorded at different LGUs in 2020 were the following: counties – HRK 242m, cities (City of Zagreb included) – HRK 143m, cities (City of Zagreb excluded) – HRK 86m, municipalities – HRK 13m (Graph 1).
- Average per capita revenues show a similar pattern, with only counties reporting a growing trend in 2020, revenues in municipalities remained unchanged, while at city level they decreased. Per capita revenues in municipalities and cities stood at around HRK 5,500, while in counties they stood at HRK 1,600 (Graph 2).
- Graph 3 shows average total expenditures in 2020, which also show a growing pattern only in counties, while in cities and municipalities they roughly remained at 2019 levels. However, average per capita expenditures in 2020 in counties and cities increased, while municipalities recorded decreases of this indicator (Graph 4).
- The level of per capita revenues did not change substantially. Average per capita revenues in counties have been below HRK 3,000 for years now. In more than 60% of cities and municipalities, they are still between HRK 3,000 and 6,000, while the number of units with 2020 per capita revenues above HRK 9,000 has decreased, especially when it comes to cities (Graph 5).

- On average, municipalities have the most balanced budgets, the cities report the largest deficits, while counties generate surpluses. The average deficit of cities in 2020 was around HRK 7m higher than it had been in 2019. Counties, on average, recorded deficits in 2019, while in 2020 they generated an average surplus of HRK 2m (Graph 6).

### **The effect of geographical position on the financial situation of cities and municipalities**

The present analysis demonstrates yet again the strong effect of a LGU's location along the seashore on their financial situation.

- Of 29 municipalities whose per capita revenues were above HRK 10,000, 17 municipalities are located along the coast. However, the number of municipalities that are not located along the coast appearing on the list of municipalities with highest per capita revenues has been on the rise throughout the years (up by 14% from 2019).
- Of 42 municipalities whose per capita revenues were below HRK 3,000, only two are located along the coast (Bilice and Dugi Rat).
- If we look at the 20 cities with the highest per capita revenues, more than half of them (11) are located along the coast.

However, we should take caution when interpreting the financial situation of municipalities and cities since many municipalities and cities may have high shares of state and/or EU grants in their total operating revenues in a single year. In addition, municipalities and cities that generated the highest per capita revenues and are not located along the coast have substantially higher shares of grants

than those that are located along the coast. It should be noted that the higher share of state and/or EU grants is not necessarily a reflection of a LGU's poorer fiscal capacity. Individual municipalities and cities are much better at utilising EU funds than others, which is admirable, so a more detailed analysis should regard different types of grants separately.

### **Differences between local units**

We would like to highlight some key differences, and often contradictions between LGUs when their 2020 budget outturns are analysed.

- The gap between the richest and the poorest municipalities is very wide. Medulin was once again the municipality that generated the highest revenues in 2020 (HRK 77m). This amount equals the sum of revenues of 24 poorest municipalities. The total revenues of the ten highest revenue-generating municipalities (HRK 530m) equal the sum of total revenues of one-quarter of municipalities.
- Highest per capita revenues in 2020 were reported by the municipalities of Saborsko and Cviljane (above HRK 26,000), but both of these municipalities have substantially low populations (387 and 134 respectively) and high shares of state or EU grants in their operating revenues (46% and 64% respectively).
- Six municipalities recorded per capita revenues below HRK 2,400 in 2020 (Hrašćina, Sveti Juraj na Bregu, Bedekovčina, Zlatar Bistrica, Vidovec and Dugi Rat) as well as relatively low average shares of state or EU grants in their operating revenues (10%).



- As many as 61% of municipalities and 57% of cities reported per capita revenues whose values were below the average values for municipalities (HRK 5,449) and cities (HRK 5,718).
- The total revenues of the City of Zagreb (HRK 7.3bn) are equal to the sum of total revenues of as many as 118 cities, i.e. they make up 40% of total revenues of all 128 cities.
- Four cities (Komiža, Vrlika, Hrvatska Kostajnica and Klanjec) reported total revenues as below HRK 15m, whereas total revenues of five municipalities (Medulin, Matulji, Podstrana, Kostrena and Viškovo) exceeded HRK 50m.
- Per capita revenues of 38 municipalities and 7 cities exceed values reported for the City of Zagreb (HRK 9,064).
- Differences in population numbers of individual local units are particularly large. The population of as many as 52 municipalities is below 1,000 (Civljane being the smallest municipality with 134 inhabitants, followed by Kijevo with 230 and Lanišće with 249), while five municipalities (Viškovo, Podstrana, Nedelišće, Matulji and Brdovec) have more than 10,000 inhabitants (the population of Viškovo exceeds 17,000). On the other hand, more than half of the cities have less than 10,000 inhabitants (the population of Komiža, Vrlika, Legrad and Hrvatska Kostajnica is even below 2,000).<sup>7</sup>
- Around 44% of all LGUs reported budget surpluses (13 counties, 39 cities and 203 municipalities). The largest surpluses were reported by the Sisak-Moslavina County (HRK 24.8m), the City of Virovitica (HRK 23.6m) and the Municipality of Preko (HRK 12.7m). The largest deficits were recorded in

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<sup>7</sup> Based on 2020 population estimates by the [Croatian Bureau of Statistics \(CBS\)](#).

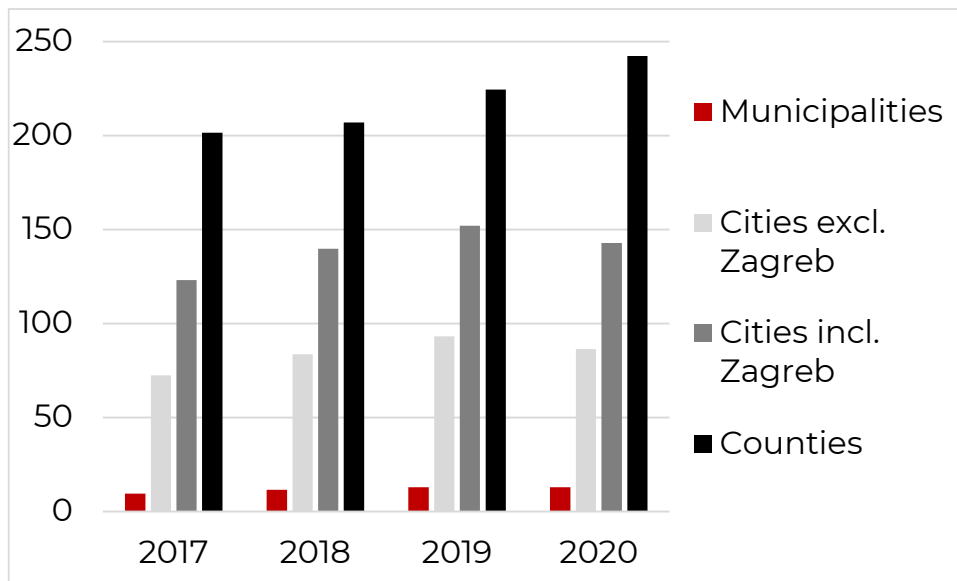
the Osijek-Baranja County (HRK 21.9m), the City of Zagreb (HRK 531.2m) and the Municipality of Matulji (HRK 21.9m).

## Conclusion

In short, 2020 events (primarily the pandemic and its consequences) had a negative effect on LGUs' budgets and led to a decrease of average total revenues and increase of average deficits. Our hope is that this short analysis would have the following effects:

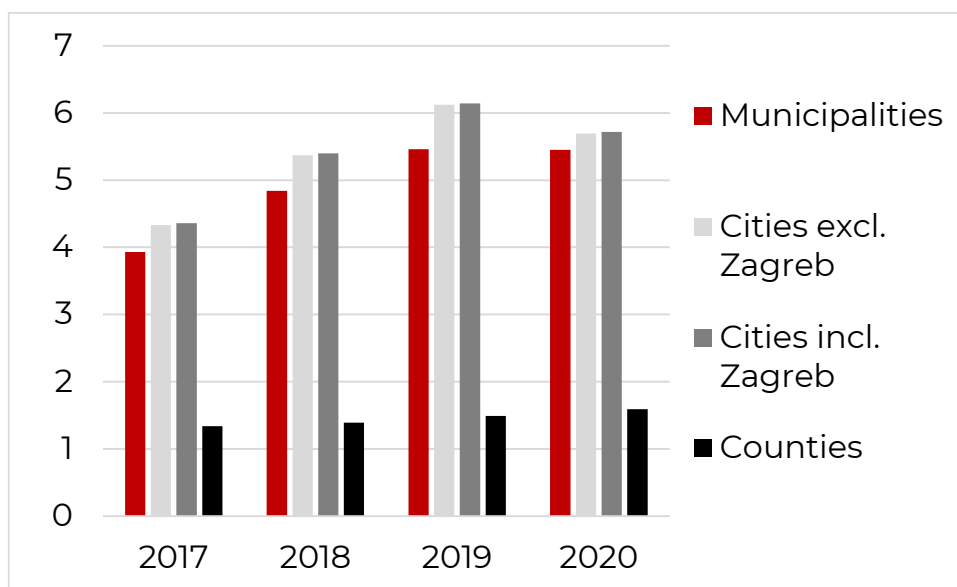
- it would stimulate the public to study in more detail the abundant databases managed by the Ministry of Finance and their LGUs and obtain more information on how the money in their local budgets is being collected and spent;
- it would stimulate the Ministry of Finance to start publishing, in addition to the data already published, machine readable databases of LGUs' budgets which include their budget users as well as annual financial reports of all legal entities owned or co-owned by LGUs and institutions established by them, with clarifications on the scope, methodology, gaps in data series and regular updates of the databases;
- it would be used in the necessary reforms aimed at achieving functional and sustainable local self-government, an objective also set out in the [National Recovery and Resilience Plan 2021-2025](#).

**Graph 1. Average total revenues 2017-2020 (in HRK million)**



Source: *Ministry of Finance*

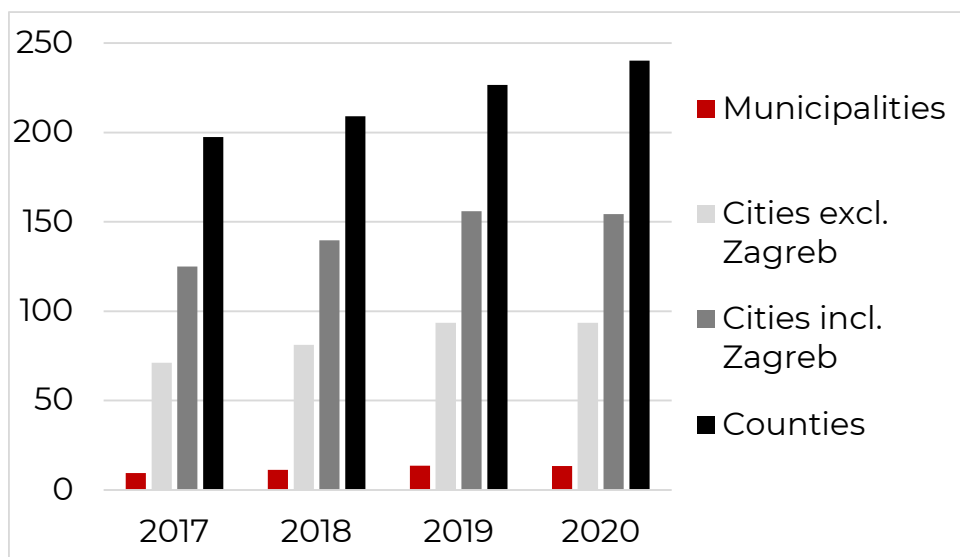
**Graph 2. Average per capita revenues\* 2017-2020 (in HRK thousand)**



Source: *Ministry of Finance*

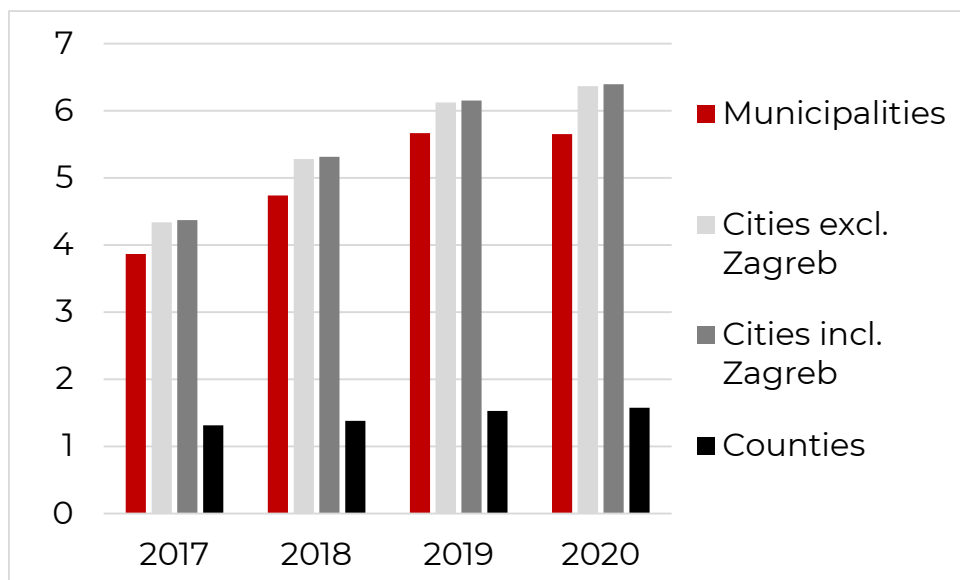
\*Population based on *CBS data*

**Graph 3. Average total expenditures 2017-2020 (in HRK million)**



Source: Ministry of Finance

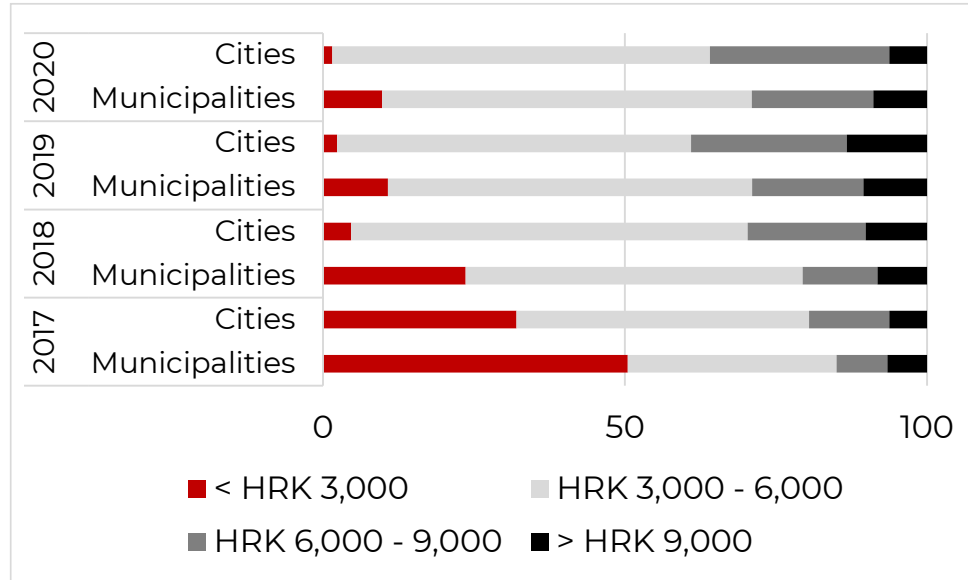
**Graph 4. Average per capita expenditures\* 2017-2020 (in HRK thousand)**



Source: Ministry of Finance

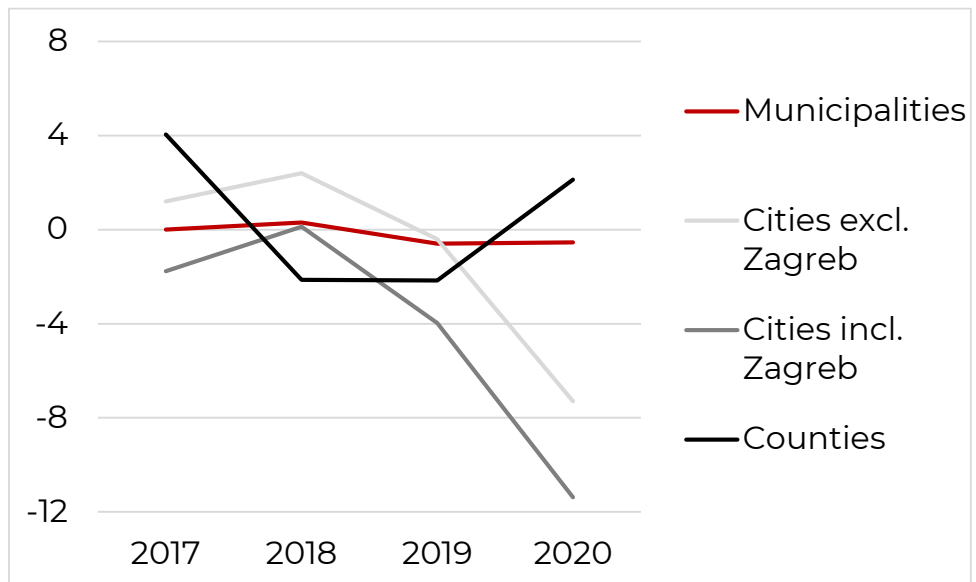
\*Population based on CBS data

**Graph 5. Per capita revenue distribution for cities and municipalities 2017-2020 (in %)**



Source: Ministry of Finance

**Graph 6. Average surplus/deficit 2017-2020 (in HRK million)**



Source: Ministry of Finance