**CROATIA**

**UNITARY COUNTRY**

**EUROPE**

**Territorial organisation and subnational government responsibilities**

Today’s territorial organisation is established on the basis of the 1990 Constitution and by a set of laws from 1992 and 1993, which brought back the territorial division of counties (abolished in 1922). The country has a two-tier subnational government system consisting of 21 counties (including Zagreb, the capital city, which is both a county and a city) and a local level made up of municipalities and towns. The town status is given to municipalities that are seats of counties with more than 10,000 inhabitants. The average town size is around 24,000 inhabitants, while those of municipalities is 3,000 inhabitants. There are also 6,762 settlements which can be established by the municipalities and the cities and which have their own councils. A reform of local and regional government, part of a wider public administration reform, and which would result in larger regions and municipalities, is currently being discussed.

**Main features of territorial organisation.**

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**Main subnational governments responsibilities.**

The SNG system was established through the 1992 and 1993 laws on local self-government and administration. A major new phase of decentralisation took place in 2002 with the transfer of new responsibilities and financial means to counties and 32 towns with the strongest fiscal capacity. Decentralisation of tasks has been gradually extended over the last decade to counties, towns and some other units on an individual basis. In 2010, the Government adopted the Guidelines and Principles for a Functional Decentralisation and Territorial Reorganisation. The breakdown of responsibilities is quite complex and unclear because of this asymmetric process. Counties are responsible for secondary education, health care (including hospitals), housing and community planning, economic development, traffic and transport infrastructure, waste management, waste water, social services, etc.

**Subnational government finance**

Despite a strong decentralisation process, the share of SNG spending in GDP and public spending is below the EU average (respectively 15.9% and 32.8% in 2013), but slightly higher if only the local level is considered. While SNG staff expenditure accounts for a significant share of SNG expenditure, it represents only 26% of public staff expenditure. SNG investment is low as a share of public investment, particularly compared to the EU average (26.9% vs 55.3%).
While spending on education accounts for almost 30% of SNG expenditure, it does not cover teacher and staff wages (which are funded by central authorities). Other major SNG expenditure includes general public services, healthcare and social protection.

The Law on Local and Regional Self-Government Financing describes SNG revenue types and distribution. In 2013, almost 60% of SNG revenue came from grants and subsidies. The major source of revenue is PIT which serves both as tax revenue (surtax) and grants (tax sharing arrangements).

**TAX REVENUE.** Three-quarters of tax revenue come from the PIT surtax of up to 18% on the amount PIT taxpayers owe to the national government. Other taxes are property taxes (communal charges), which are also shared between the central government and towns and municipalities, with 60% of property tax receipts being granted to local governments (representing 15% of SNG tax revenues in 2013). A reform of communal charges is underway aimed at introducing a proper recurrent property tax.

**GRANTS AND SUBSIDIES.** The major grant to SNGs consists of a share of the PIT. They receive between 56.5% and 90% of the PIT generated in their jurisdictions, depending on their development index and the functions they perform. Sixty percent of PIT revenues paid by local residents are retained by towns and municipalities and 16.5% by counties. SNGs are granted an additional share of the PIT (which reach up to 6%) if they perform additional decentralised functions.

The remaining share of PIT is pooled at the central level into a “fiscal equalisation fund”; it is redistributed to local units unable to fully support their decentralised functions. The central government has set “minimum financial standards” for the provision of public services devolved to SNGs, based on a set of indicators, defining minimum expenditure at local unit level in each individual decentralised activity.

**OTHER REVENUES.** The vast majority of other revenues include sales of goods and services and property income (sale and rental of municipal assets).

In 2010, the Fiscal Responsibility Act was adopted. It sets limits on national and SNG spending, strengthens the legal and functional accountability of budgetary resources, and introduces stronger controls for financial reporting. SNGs can borrow to finance capital investment (golden rule), with previous approval by the central government. SNG borrowing is decided annually by central authorities, according to two main restrictions: a general limit on the aggregate borrowing of all SNGs and an individual limit on each SNG borrowing. These limits do not include communal utilities and/or guarantees issued by local governments. SNG debt is relatively low, in particular financial debt. In fact, 47% of outstanding debt corresponds to loans and 3% comes from bonds while 50% are made up of commercial debts (“other accounts payable”).

**OUTSTANDING DEBT**

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<th>OUTSTANDING DEBT (2013)</th>
<th>% GDP</th>
<th>% GENERAL GOVERNMENT</th>
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<tr>
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<td>3.0%</td>
<td>3.3%</td>
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