

ANALYSIS OF FINANCING STATE ADMINISTRATION AND SELF-GOVERNMENT AS CONCERNS TERRITORIAL SELF-GOVERNING UNITS

Act No. 243/2000 Coll., which makes provision with respect to budgetary allocation of some tax income to territorial self-governing units and some state funds (the Budgetary Tax Allocation Act), became effective as of 1 January 2001 and has since then been amended four times. The individual amendments have usually been adopted in close relation to the decentralisation of powers within the public administration reform and have thus represented strengthening of the independence of territorial budgets.

The submission of the fifth amendment (Act No. 377/2007 Coll.) with effect from 1/1/2008 was necessitated by the need to strengthen budgets of small municipalities and in particular by the need to remove some for long criticised areas of the existing system (mainly step changes between size categories, whose existence made it possible for some municipalities to gamble with gaining new inhabitants). The aim of the latest amendment to the Budgetary Tax Allocation Act has not been to solve all the imperfections of the existing system, and it is thus more than clear that without a detailed analysis of the pursuit of state administration and self-government of territorial budgets that would not even be possible.

With view to the above continuous problems related to financing of the pursuit of state administration or self-government, the Ministry of Finance together with the Ministry of the Interior, members of institutions representing the interests of territorial self-governing units and other pertinent entities have decided to tackle the above issue in a comprehensive manner. The first step in this direction has been an agreement reached by the members of an established working group about the fact that such amendment to the Budgetary Tax Allocation Act has to be prepared, taking into account the needs of territorial self-governing units and representing the result of a political consensus, so as to be able to ensure system stability and hence also financial certainty for territorial budgets going forward.

It has also been agreed that **an independent entity will carry out a detailed analysis of financing of the pursuit of state administration and self-government of territorial self-governing units, which will provide the necessary amount of data for the preparation of the new Budgetary Tax Allocation Act** as well as for a potential modification of the system of financing the pursuit of state administration so as to ensure consistency of these two systems. In order to meet the precondition of independence,

university representatives have been determined to be the most beneficial in fulfilling the task. That is why the University of Economics Prague has been selected for carrying out this task and in conjunction with other higher education institutions in the CR it is preparing the above analysis. Researchers from Slovakia also participate in fulfilling the task.

First and foremost, the aim of the analysis is to answer the following questions:

- **Do the existing systems of financing the pursuit of state administration and self-government correspond to the entrusted powers of territorial self-governing units?**
- **The analysis will answer the question what alternatives to the system of budgetary tax allocation are there provided the existing structure of financing self-government does not meet the needs of territorial self-governing units:**
 - **What criteria including their weights have to be included in the system of tax redistribution? What are the potential risks and benefits of the selected criteria?**
 - **What increase in shared taxes for municipalities could there be according to the number of inhabitants and other factors so as to better reflect their needs?**
 - **Is it justified to maintain the selective approach to a certain extent within budgetary tax allocation or the system of contributions for the pursuit of state administration in the case of the capital city of Prague and statutory cities of Plzeň, Ostrava and Brno with view to their historically different position?**
- **How can you define qualitatively unprecedented systems of budgetary tax allocation?**

Alternatives containing e.g. strengthening of motivation elements or expanding or changing the range of shared taxes, expansion of tax powers, etc., will serve as vital benchmarking alternatives. Based on knowledge about European tax systems the authors of the analysis will propose the appropriate shape of the system (or some of its elements) that may be implemented in the CR.

Progress of Work Done on the Analysis:

The analysis should be prepared in the course of 2008. The progress of work is consulted with the commissioner (Ministry of Finance of the CR) and other entities (Association of Towns and Municipalities, Association of Local Self-governing Units, Association of Regions of the CR, Ministry of Interior of the CR, etc.) at regular inspection days. Each Progress Report, which contains individual pieces of knowledge from the research, is subject to a discussion between the authors of the analysis and the above entities. On 7/11/2008 the Ministry of Finance of the CR holds the fourth and penultimate inspection day. Completion of work on the analysis will result in a synthesis of all knowledge in December this year.

The analysis that has been prepared focuses on the following areas:

- a) Basic analysis of expenditures of municipalities;
- b) Catchment areas and their role in the system of financing;
- c) Questionnaire survey;
- d) Analysis of mandatory expenditures of municipalities;
- e) Financing of delegated powers of municipalities and regions;
- f) Position of Prague, Brno, Ostrava and Plzeň in the system of financing;
- g) Knowledge from the financing of municipalities of some European countries;
- h) Evaluation of budgetary expenditures of municipalities in relation to their property.