COUNCIL OF EUROPE

HUMAN RIGHTS, DEMOCRACY AND THE RULE OF LAW

DROITS DE L'HOMME, DÉMOCRATIE ET ÉTAT DE DROIT

CONSEIL DE L'EUROPE

STRENGTHENING THE FINANCIAL INDEPENDENCE OF LOCAL AND REGIONAL GOVERNMENTS

Gábor Péteri, Council of Europe expert

Martin Valentovič, MESA10

Good Governance

COUNCIL OF EUROPE

CONSEIL DE L'EUROPE

Objectives:

- Support structural, territorial-administrative reforms
- Putting recommendations into comprehensive framework
- Assessing the conditions and impact of draft proposals
- Contribution to future iterative policy design process

Focus, methods:

- Fiscal autonomy: revenues, less financial management
- Working from documents, minimal field experience
- Detailed municipal database was compiled

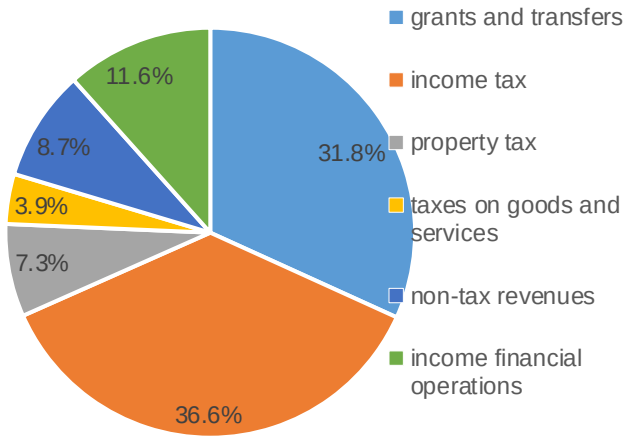
Principles:

- ✓ Fiscal autonomy for increased accountability
- ✓ Creating incentives in combination with equalisation
- ✓ Delegated and own functions are interconnected
- ✓ Diverse funding for different types of municipalities
- ✓ Revenue policies for environmental protection
- ✓ Balanced revenue structure, but limited economic burden
- ✓ One instrument supports only one objective

=> High risks of delayed fiscal decentralisation reform!

Reform areas:

1) Own-source revenue raising
2) Personal Income Tax sharing
3) Allocation of grants, transfers
4) Equalisation mechanism
5) Bratislava special status
6) Crosscutting issues

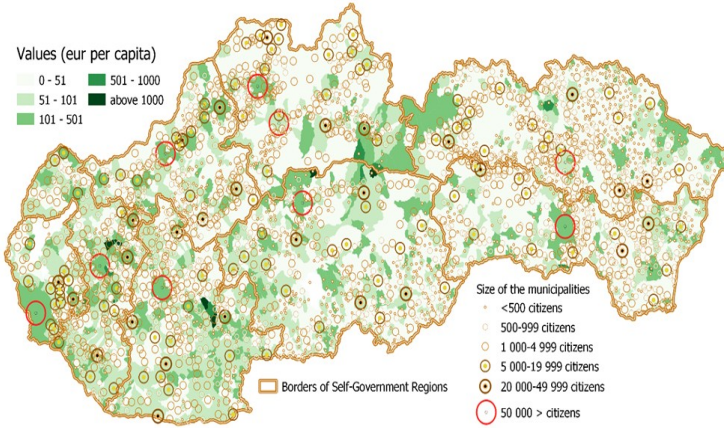


1) Own source revenue raising

a) Real estate taxation:

- ✓ move towards value based tax
  - increase default rate
  - incorporate quality in tax base assessment
- ✓ local autonomy in setting tax allowance
- ✓ compensation of low income taxpayers
- ✓ support to local tax administration

b) New options for property value capture



1) Own source revenue raising *(cont.)*:

b) Re-introduction of motor vehicle tax:

levy EUR 122/car => produces EUR 298 M

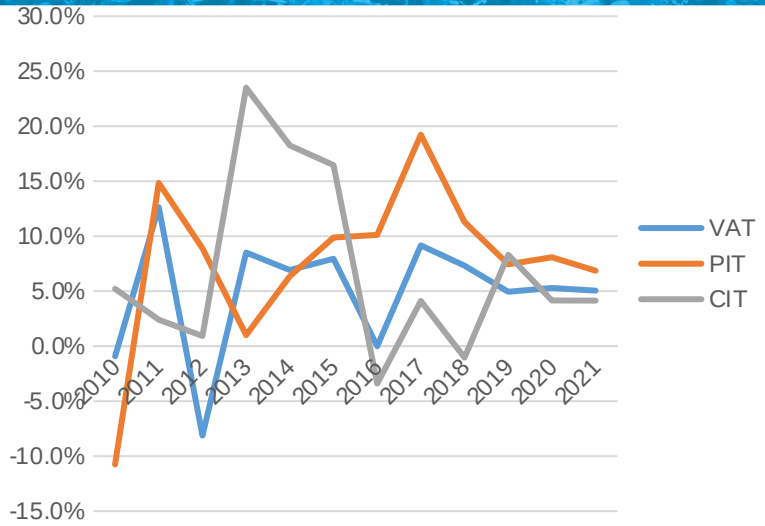
- ✓ financing road infrastructure
- ✓ environmental impact

d) Regional business value tax:

- ➢ connect local economy and budget
- ➢ reflects net (added) business value
- ➢ broaden local revenue base
- ➢ compensate by lower PIT

10% of HTU budget: EUR 272 M

Less concentration if Bratislava city-region created



2) Revenue sharing:

a) Broadening shared revenue pool:

- high fluctuation of CIT
- combined PIT and VAT for sharing

b) Sharing PIT by place of origin:

10% of PIT => EUR 228 M

- derivation base; local surcharge
- new option for revenue-based equalisation
- administration: information on taxpayers' residence

3) Grants, transfers:

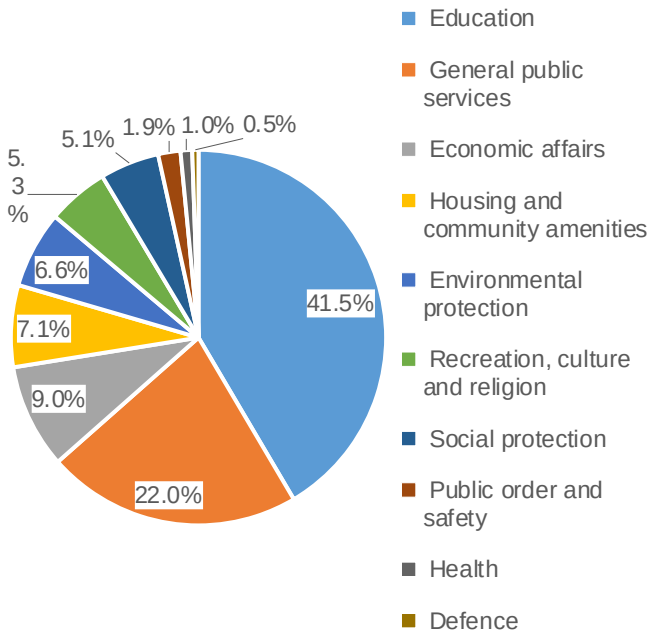
- financing delegated services
- ministerial control over specific grants
- ➢ no strict separation of functions
- ➢ impossible to follow all local specifics
- ✓ focus on past, historic costs
- ✓ grants follow standard expenditures
- ✓ allocation by needs based indicators
- ✓ new: performance based grants

4) Equalisation:

a) per capita PIT based revenue equalisation

b) two-step, formula driven equalisation by HTUs

Municipal expenditures



5) Bratislava City region:

- more balanced metropolitan region (higher : lower tier = 54 : 46)

6) Common issues:

a) Minimise tax burden increase
b) Compensate national budget tax losses (PIT=>VAT)
c) Need for internal decision making rules in larger municipalities
d) Accurate population registry (for PIT, vehicle tax)
e) Tax ID with information on residence

	Revenues per capita, EUR
Bratislava capital	*900*
Bratislava city parts	*634*
Bratislava city	1 535
Municipalities within Bratislava self-government region	1 128
Bratislava HTU	309
Total	**1 705**

Revenue options by territorial reform models

Financing options	Territorial-administrative models					
	a) present two tier local government system	b) inter-municipal cooperation	c) amalgamated, large size municipalities	d) regional self-governments	e) Bratislava City-region	
					lower tier	upper tier
1) improved municipal real estate taxation	X	X	X		X	
2) property related value capturing	X	X	X	X	X	X
3) motor vehicle tax	X	X	X	X		X
4) Business Value Tax				X		X
5) taxpayers' residence based PIT share		X	X	X	X	X
6) per capita PIT based revenue equalisation		X	X	X	X	X
7) two-step equalisation by the regions	X	X	X			