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POLITICAL ASPECTS OF FINANCING OF MUNICIPALITIES IN THE CZECH REPUBLIC¹

Ilona Kruntorádová*

ABSTRACT

In 2000 and 2003, respectively, the Czech Republic finished the first and the second stage of public administration reform, which is closely linked with the issue of public financing, especially the financing of municipalities. The position of municipalities in the decentralization cannot be assessed without dealing with the issue of funding. The main goals of this article are to introduce the basic principles of financing of municipalities in the Czech Republic, and the stages of their development. It also analyses the political context of the financing and the main pillars of the financing of municipalities and its problematic aspects (tax revenue, the grant and transfer system, respectively financial contribution to the delegated powers, local taxes, respectively local fees) so that it clarifies the attitudes of political actors, key players and stakeholders, way of negotiations and final political cleavage and their characteristics. Solution strategy of this work is based on the use of a unique case study that aims to provide a deep understanding and causal explanation of the case combined with the qualitative method of case study, specifically the so-called "dimensional sampling" used in own research conducted among the mayors of municipalities in the Czech Republic.

Key words: local politics, financing of municipalities, tax revenue, grants and transfers, municipal interests and associations, regional patron

Introduction

The position of municipalities in the political system is not only a question of competence of the local level, the real power of municipal institutions, but also the mediation of municipal interests in the system of multi-level governance and

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financing and thus it determines the autonomy of local units. Financial independence is considered by social scientists as entirely legitimate if not the most important factor of the autonomy (comp. Page, Goldsmith, 1987; Heinelt, Hlepas, 2006). This situation is a result of parliament's decisions regarding the funding allocation in the system of public budgets and it causes a dependence on a national level in many cases.

The Czech municipal policy has certain specifics. One of them is highly fragmented municipal structure². Nearly 80 per cent of Czech communities in which only 17 per cent of the country's population live, include fewer than a thousand inhabitants. (Balík, 2008, s. 22) In conditions of such a fragmented municipal structure it is necessary to think about the efficiency of public administration and the fact whether the low volume of funds in the municipal budgets does not affect the provision of self-government tasks and local public goods. The diversity in size and population of municipalities projects into tasks which self-governments can fulfill. On this basis it is possible to identify a high number of attitudes which are reflected in the emergence of initiatives and programs of political parties, or, consequently, in the government's policy statement. The discussion about aspects of financial autonomy is crucial and affects the stability of the government.

1 Objectives and methods

This article clarifies the research conclusions focused on the attitudes of mayors in the field of municipal financing in the Středočeský kraj which is one part of the Czech Republic situated around the capital city of Prague. The aim of the article is to answer research questions of whether a) political leaders make an effort to reform the financing of municipalities and that b) it is possible to trace a correlation between the size of the municipalities and mayors' attitudes to the funding system.

The solution strategy would probably be described according to **Drulák** as a unique case study. (Drulák, 2008, s. 33) A combination of qualitative analysis of primary sources and qualitative method of case study, in particular "*dimensional sampling*", has been used during processing. This method provides a procedure for the implementation of the so-called "*small-number studies*". (Arnold, 1970, s. 147, cited according to Steiner, 2002, s. 367-368) According to **Witzel**, focus on

² In 2012 10,512,208 inhabitants lived in 6250 municipalities in the Czech Republic (Czech Statistical Office 2012).

smaller research sample enables more intensive study and achieving more comprehensive results. (Steiner, 2002, s. 363) Therefore, 9 municipalities of various degrees were chosen according to the criterion of the level of delegated powers, the territorial representativeness (the character of the municipalities), the territorial distribution of municipalities in the Středočeský kraj, a municipality size, socio-economic factors and the representation of municipalities in size categories according to which shared taxes are distributed in the budgetary allocation of taxes as the largest item of local budgets.

Self-governments were divided into three basic categories³. In scope of the method of "*dimensional sampling*" an approach of the so-called "*most similar system design*" was applied in each group. Differences between municipalities and cities were not significant. Conversely between each category "*most different system design*" was applied, claiming a distinct difference. (Steiner, 2002, s. 364) Their own research served as the main source of data. Data were collected on the basis of expert interviews with mayors as the highest executive representatives. The semi-structured interview's script was developed as a framework for an investigation⁴ which was based on an analysis of the system of financing municipalities and its impact on the self-government, their leaders and citizens.

2 Features of municipal financing and its impact on the political system of the Czech Republic

Czech Republic belongs to states with lower competencies of the municipalities from the point of view of powers in vertical level and fall into the category heading toward merged system together with other Central European countries. (Benett, 1993) Self-government and central government acts on the state administration at the local level. (Ringlerová, 2009, p. 39) Autonomous and delegated tasks are carried out at the local level under the mixed model. (Code of law No. 218/2000 Coll., Act on Municipalities, § 7; Průcha, 2008, p. 206; Brusis, 2010, p. 34; Kostelecký, 2005, p. 110) We can differentiate among 3 types of municipalities according to the way of performance of delegated

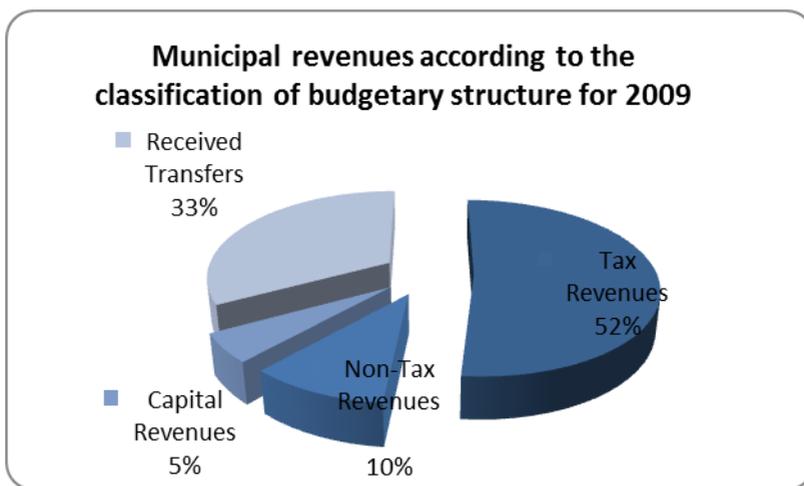
³ Author of this article used similar methodology of the municipal division in the doctoral thesis. For simplicity, in Section 3, these three categories are identified as the municipalities with the basic effects ("*Municipality type 1*"), municipalities with commissioned municipal office ("*Municipality type 2*"), municipalities with delegated powers ("*Municipality type 3*").

⁴ Whole text is introduced in the Annex to the author's doctoral thesis.

powers: the municipalities with the basic effects (*"Municipality type 1"*), municipalities with commissioned municipal office (*"Municipality type 2"*), and municipalities with delegated powers (*"Municipality type 3"*). Czech statistics also work with two sub-categories (municipalities with registry office power and municipalities with building office power). Each municipality has powers defined by law and duties which it has to exercise. (Koudelka, Onduř, Průcha, 2009, s. 25) Local governments perform autonomous operations on their territory. Delegated powers are carried out indirectly by local authorities. Municipalities always perform autonomous powers unless a special law provides otherwise. (Code of law No. 218/2000 Coll., Act on Municipalities, § 8) The Czech Republic approximates to the countries of Northern and Central Europe as a representative of the Central and Eastern European group designed by **Heinelt** and **Hlepase**, nevertheless the financial autonomy of Czech municipalities is low. The share of local governments increases on public budgets with the formation of a new autonomous regional level (in 2001). (Kameníčková, 23. května 2006; Kameníčková, 12. října 1999) It uses the model combined with decentralisation elements⁵ which characterise the Czech Republic as a *"rather centralized unitary state with a relatively low level of income and expenditure decentralisation, with relatively little local public sector and a large number of small municipalities"*. (Jílek, Rozpočtové určení daní územním samosprávám – normativní a pozitivní přístup)

⁵ Fiscal bonds and tax determination is defined by the law on Budgetary Allocation of Taxes, budgetary rules and the state budget, respectively its law.

Graph 1: Municipal revenues according to the classification of budgetary structure for 2009



Source: Netolický, 2010, p. 162

Act on Budgetary Rules and Act on Budgetary Allocation of Tax Revenues regulate the fund management of local authorities in the Czech Republic⁶. These acts define the main source of revenue: tax, subsidies and transfers, non-tax revenues (user charges and fees, income related to the intrinsic activity) and loans. According to Article 9 of the European Charter on Local Self-Government⁷, ratified by the Czech Republic in 1999, municipalities should have the right to be responsible for their own financial resources and their amount should correspond to the level of accountability. (European Charter on Local Self-Government, Article 9) In practice, the share of tax revenues vary only about 36.8 per cent in the European context and local budgets are dependent on subsidies and transfers from the state budget. (Mátl, Jabůrková,

⁶ Act on Budgetary Rules No. 250/2000 Coll., Act on Budgetary Allocation of Tax Revenues No. 243/2000 Coll.

⁷ The Czech Republic does not consider itself bound by the European Charter of Local Self-Government in the following points: Article 9, paragraph 3, in the issue of government power to determine the rate of its own sources of revenue, Article 9, paragraph 5, in the matter of financial compensation income, and Article 9, paragraph 6 of the consulting method of tax allocation to local authorities.

Nováková, Vlasák, 2006, p. 16) This fact leads to a reduction in self-government autonomy. The Czech Republic oscillates in the case of the share of tax revenues as well as a share of GDP (13.1%) slightly above the European average.⁸

Table 1: Range of municipal independence in the Czech Republic (1994-2006, in %)

Year	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
National average	71,9	75	78,6	78,1	78,6	80,6	76,6	66,4	64,8	58,3	60,6	72,3	69,3

Source: Peková, 2008, p. 209

Size of local budgets is stable over time and local budgets are relatively self-sufficient⁹. It is due to tax revenues, the partial profit from income tax and, since 2001, also due to the share of VAT¹⁰. Annual tax revenues¹¹ of municipalities have grown by about 8-9 per cent since 2001. (Eliáš, 23. April 2008) The development of self-sufficiency of Czech municipalities is closely linked to the importance of municipal budgets in public finances (graph 2) which is characterised by an increase of the local maximum in 1999 and 2003.

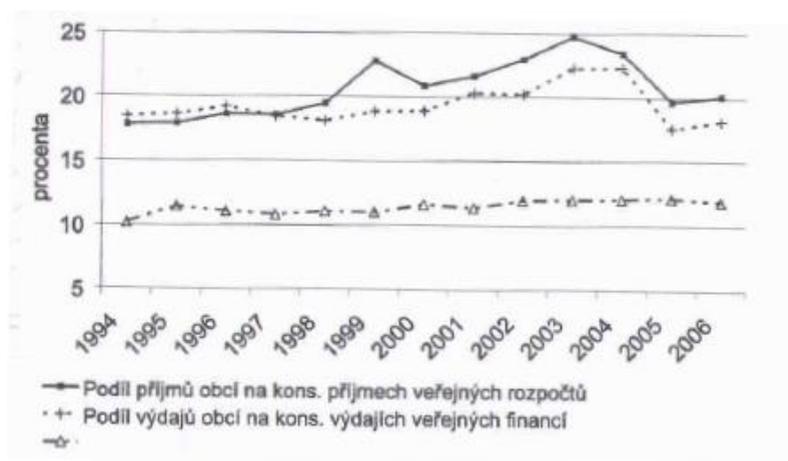
⁸ It is necessary to note that the extent of local spending differs in comparison with individual countries. This is caused by the state organisation of the country and ultimately by the kind of financing and structure of revenues of local budgets.

⁹ The coefficient of self-sufficiency is calculated as the share of own revenue to total revenue multiplied by 100.

¹⁰ The financing system (especially Act on Budgetary Allocation of Tax Revenues) has been revised in 2001.

¹¹ Revenues from shared taxes.

Graph 2: The importance of municipal budgets in public finances (1994-2006, in %)



Source: Jílek, 2008, p. 117¹²

2.1 The main sources of income of local budgets

Tax revenue and grants belong to the most important items of local budgets. Tax revenues have been more significant since 1993. The share of grants has been increasing together with the transfer of delegated powers to local governments¹³. The importance of both incomes is balancing out.

Table 2: The development of revenues and expenditure of municipal budgets in the Czech Republic (1997-2006, in %)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Tax revenues	52,9	52,3	44,7	51,4	48,2	47,8	44,1	46,7	56,4	53,2
Non-tax revenues	17,4	16,8	14,3	15,2	12,5	11,4	9,3	9,5	10	9,6
Capital revenues	16,1	16,5	28,3	17	5,8	5,6	4,9	4,5	5,9	6,5

¹² "Podíl příjmů obcí na konstantních příjmech veřejných rozpočtů" means share of municipal revenues at constant revenue of public budgets. "Podíl výdajů obcí na konstantních výdajích veřejných rozpočtů" means share of municipalities in the constant public expenditure.

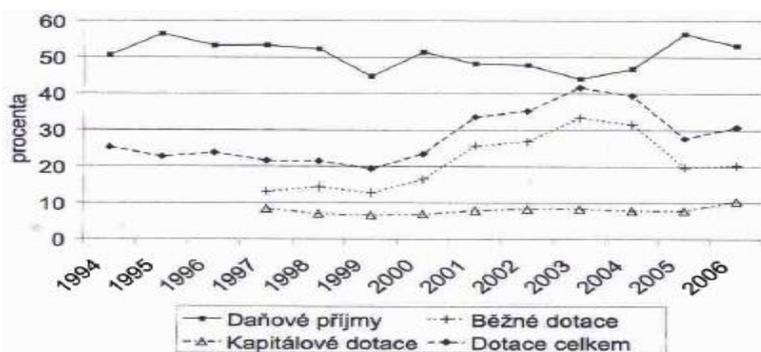
¹³ The public administration is performed by the mixed model.

Own income	86,4	85,6	87,3	83,4	66,5	64,8	58,3	60,7	72,3	69,3
Received transfers ¹⁴	13,6	14,4	12,7	16,4	33,5	35,2	41,7	39,3	27,7	30,7
Total revenues	100									
Current expenditure	62,8	64,6	65,9	66	66,5	67,8	71,3	69,8	67,5	65,8
Capital expenditure	37,2	35,4	34,1	34	33,5	32,2	28,7	30,2	32,5	34,2
Total expenditure	100									

Source: Peková, 2008, p. 207

Grants and tax revenues have undergone almost axially symmetrical development. (graph 3) The aforementioned increase in the share of grants was registered mostly in non-investment classes. The decline of grants was caused by a change in the Education Act in 2005, especially by change of methods of financing educational sector. Financial flows newly do not pass through the municipal budgets. Thirty per cent of grants border was again achieved in 2006 as a consequence of obtaining EU Structural Funds. The study by **Blöchliger** and **King** suggests that the central government affects local expenditure structure through specific grants. It is possible to speak about the political order from above. (Blöchliger, King 2006: 172; Jílek 2008: 114)

Graph 3: The structure of municipal revenues in the Czech Republic (1994-2006, in %)



Source: Jílek, 2008, p. 118

¹⁴ Received grants include both conventional (non-investment) and capital (investment).

Czech political representatives of self-governments are aware of this aspect; therefore, they promote the reduction of subsidies and their transfer directly to municipalities and the reduction of their dependence on funds allocated by the central government.

The coverage of delegated powers is one part of the grants and transfers category. State partly reimburses the performance of delegated powers (only through the contribution) according to § 62, Act on Municipalities. The legal claim exists but full coverage of these activities is not guaranteed. An allowance for individual municipalities depends on the extent of delegated powers which municipalities perform, on the size of the administration expressed by the number of inhabitants, on the proportion of the size of the administrative centre as well as on the size of the administrative district according to annex law. (MV ČR, February 18, 2010; Breň, June 10, 2010; Kypetová, January 14, 2010; Peková, 2004, p. 300-301) Ministry of the Interior which supervises this allocation recommends explicitly to local governments to pay the financial burden (in a special document called *Metodika stanovení plánovaných nákladů na výkon státní správy*) caused by the state administration through contributions, from tax revenues, grants, local budgets and from incomes arising in connection with the exercise of delegated powers. (Ministerstvo vnitra ČR, 2007, p. 2) According to the *Analysis of funding of the state administration and self-governing units* prepared for the Treasury Department as a comprehensive report on the state of financing and its impact on local government, the level of state administration's coverage reaches from 20 to 100 per cent in different types of communities (Konsorcium vysokých škol, February 13, 2009, pp. 22-24) On this basis there is a contradiction with the Constitution guaranteeing equal status of all subjects. The Constitutional Court pointed out in its judgment that delegated powers shall not be carried out at the expense of local government. (Ústavní soud ČR, February 5, 2003, Pl. ÚS 34/02) The problem, however, arises with the municipalities which co-finance delegated powers often from tax revenues which municipalities raise per logged capita, not per capita of administrative district. The Constitutional Court has not issued a final judgment yet in case of co-financing and inequalities among municipalities.

Local governments make decisions about the structure of provided public goods only to the limited extent because self-governments are mostly limited by the budgetary allocation of tax revenues. Municipalities receive about 89 per cent of tax revenues from the shared taxes. Czech model of shared taxes

belongs to "d 3"¹⁵ category (which is in accordance with OECD taxonomy) that means self-governments do not have powers to change and even to participate in the redesign of shared taxes which are similar to discretion grants. (Jílek, Rozpočtové určení daní územním samosprávám – normativní a pozitivní přístup). Fiscal decentralisation is very low. Councils may affect property taxes and local fees only by limited powers. Local fees are representative of the category "a" OECD taxonomy¹⁶. Their yields ranged up to three per cent by 2002. In 2005 it reached 5.5 per cent but their yield declined in the following years. The property tax is the only local tax the entire profit of which goes to the budget of municipalities. Local authorities may determine the tax rate which corresponds to the "b" category¹⁷. The revenues from property taxes have gradually declined since 1997. The tax brought only three per cent of revenues in the municipal budget in 2005.

Table 3: The fiscal autonomy of local budgets in the Czech Republic according the OECD methodology (1995-2005, in %)

Taxonomy/Year	1995	1997	1998	1999	2002	2005
category "a"	2	2,16	2,88	2,7	5,5	4,4
category "b"	5	6,02	5,7	5,61	4,1	3

Source: Jílek, Rozpočtové určení daní územním samosprávám – normativní a pozitivní přístup

The yield from local taxes and charges is too low to cover the costs of municipalities; therefore, tax revenues, subsidies and transfers are mainly used in the Czech Republic.

¹⁵ There is a tax-sharing arrangement in which the revenue split is determined in legislation, and where it may be changed unilaterally by a higher level government, but less frequently than once a year. (OECD taxonomy)

¹⁶ Sub-central governments have powers to determine the rate and tax base.

¹⁷ Sub-central governments have powers to determine the rate of tax.

2.2 The political discussion on the budgetary allocation of taxes as a fundamental pillar of financing local government

The development of financing system affecting one of the fundamental aspects of political autonomy of Czech cities corresponds to the plurality of interests. It can be structured into five stages¹⁸. The first one falls between the years 1993-1995, the second stage is set in the years 1996-2000; the third stage follows the period 2001-2007. The amendment to the Act on Budgetary Allocation of Tax Revenues (next only RUD) launched the penultimate stage of development in force from January 1, 2008. The latest amendment to the RUD was signed by the president in August of this year with effect from January 1, 2013. Table 4 gives an overview of the period, its characteristics and the most important political steps of stakeholders.

Table 4: The development of the system of financing of municipalities and the characteristics of each period

The development of shared tax redistribution		
Periods	Characteristics	Characteristics of legislative amendments
1993-1995	<ul style="list-style-type: none"> → the new form of the act → the difference in the profitability among district → use compensatory grants → the competition about entrepreneur's residence among municipalities 	<ul style="list-style-type: none"> → new design of the tax system after the independence of the Czech Republic
1996-2000	<ul style="list-style-type: none"> → a lack of essential pavement of self-government needs → the persistence of the tax competition among municipalities 	<ul style="list-style-type: none"> → new appearance based on a compromise between the parliamentary opinion and the Treasury department proposal

¹⁸ Since the establishment of the independence of the Czech Republic (1. 1. 1993).

	<ul style="list-style-type: none"> → use compensatory grants → the dichotomy between the four largest cities and the remaining municipalities 	
<p>2001-2007</p>	<ul style="list-style-type: none"> → the change of shared taxes allocation (size categories, the percentage share, the only one criterion of the division) → conserved in yields among size categories → step transitions (a significant difference among the coefficients for the largest and smallest municipalities) → the formation of 14 categories of municipalities (the absence of the justification, not based on functions of municipalities, a lack of objectification expenditure needs) → use the trend of “buying” inhabitants (an effort to gain new residents to cross the borders of a higher category and thus higher yield) → lower tax revenues for small municipalities → an unfulfilled effort of merging municipalities 	<ul style="list-style-type: none"> → new appearance based on a compromise between the governmental proposal and amendments deputies

	<p>→ fulfilled the requirement for influencing income communities</p>	
2008 – 2012	<p>→ a minimalist version of the Act (the government undertook to promote the reform of financing system of local government in the governmental declaration → the introduction of new allocation criteria and reducing of the number of categories from 14 to 4</p> <p>→ an increase in income in the smallest municipalities</p> <p>→ the specific position of Prague, Brno, Pilsner and Ostrava (the four largest cities in the Czech Republic) → "U-curve" (the continuous curve from shared taxes per 1 inhabitant in individual size categories has the shape of a letter "U", the lowest incomes received by municipalities with 2001 to 5000 inhabitants)</p>	<p>→ new appearance based on a compromise between SMOCR¹⁹, Treasury department attitude, the governmental proposal</p> <p>→ an active role of SMOCR, the emergence of new interest platform of municipalities (SMSCR²⁰) → the participation of the Senate in the discussion (28 senators proposal to repeal RUD by the Constitutional Court)</p> <p>→ an activation of interest groups and initiatives</p> <p>→ a proposal to amend the RUD by senators' initiatives</p>

¹⁹ Union of Towns and Municipalities of the Czech Republic (further on only SMOCR).

²⁰ Local Government Associations of the Czech Republic (next only SMSCR)

	<p>→ the difference among coefficients for the largest and smallest municipalities was maintained</p>	<p>→ a proposal to amend the RUD by ČSSD²¹</p> <p>→ a proposal to amend the RUD by SMOCR</p> <p>→ a proposal to amend the RUD by Treasury department</p>
<p>1st January 2013 (the latest amendment to the RUD was signed by the president on 29th August 2012)</p>	<p>→ an increase in the volume of redistributed funds</p> <p>→ a change in the redistribution system</p> <p>→ an effort of the “U-curve” reconciliation and a determination of the average yield for each municipality in a minimum amount of 9000 CZK per capita)</p> <p>→ maintaining of a specific position of Prague, Brno, Pilsen and Ostrava but a decline of the tax revenues volume, a decrease will not be compensated</p> <p>→ maintaining of the number but a change in the size categories</p>	<p>→ a split between the government parties on the issues of the specific form of the proposed amendment</p> <p>→ an activation of interest groups and initiatives</p> <p>→ common procedure in main questions of the changes between SMOCR and SMSCR (otherwise fragmented interests)</p> <p>→ an activation of mayors and a strike for the support of Treasury department proposal</p> <p>→ submission of a proposal of amendment to act not by the government which promised to reach societal discussion but parliamentary initiative, this</p>

²¹ Czech Social Democratic Party.

parliamentary parties²² in 2010 showed the need to change the system of financing municipalities. The political debate expressing a plurality of interests of different size and also formal categories of municipalities is led mainly at the level of interest associations and political parties. Union of Towns and Municipalities of the Czech Republic (SMOCR) and Local Government Associations of the Czech Republic (SMSCR) represent a platform of interest associations of municipalities. SMOCR declares support of all size categories of municipalities but it represents only 39% of municipalities. We can speak about the high proportion of representations of cities (70%) and, on the contrary, about the low level of representation of rural communities (35%). (Jüptner, 2011, pp. 112-113) This means that SMOCR rather tries to protect the interests of the largest municipal cities with specific calculation of shared taxes. SMSCR, in comparison, is mainly composed of small municipalities trying to promote radical changes of the system of financing of local governments and reductions in funding of the four largest cities. Interest associations are closely connected with political parties. SMSCR is personnel-wise linked with government political party called STAN (Mayors and independent mayors). On the other hand, another member of the government coalition (ODS: the Civic Democratic Party) has a strong position in big cities and is closely linked to SMOCR representatives of the Czech Republic. Both political parties also participate in the coalition government and must inevitably clash during articulation of executive proposals. (Kruntorádová, Jüptner, 2012) It is therefore possible to think about the absence of an integrated approach of all the mayors in the Czech Republic due to the different size and population. Interest municipalities are different in many cases. This creates various cleavages which are a reflection of a different way of promoting the interests of the different types of self-governments. This fact leads to the weakening of the cohesive municipal "voice" and helps to maintain the status quo and the existence of many initiatives representing the views of towns and villages which penetrate to the parliamentary or government level. Pluralism of such interests hinders the achievement of a general consensus. Heterogeneous attitudes of stakeholders only indicate approval of amendment based on the "older" adjustment of the key law despite the declaration of the Minister of Treasury on the need to develop a

²² Including those political parties which met in the Chamber of Deputies of the Czech Republic in the preceding period as well as the parties which did not get into it again after the election in 2010. It is about Green Party (SZ) and Christian-Democratic Party (KDU-CSL).

new "revolutionary" act to strengthen the financial autonomy of local authorities.

3 Mayors' Attitudes to the system of funding: survey results²³

The municipal specifics and the level of "constraints" of local government budgets affect the political leader's attitudes and preferences in the evaluation system of financing. The political affiliation of mayors was rather secondary. Mayors took a stand in the role of "manager-bursar" and they have seen the whole funding system through the lenses of functionality, not policy. Mayors acted consensually and did not connect local issues with national policy. All respondents declared restrictions of elected self-government by a low volume of budgets. Mayors identified a financial system as unsatisfactory and suggestions differed only in solutions of above mentioned shortcomings. The majority of respondents favoured a minimum of sub-system changes.

The smallest self-governments moving just above a hundred inhabitants (municipality type 1) and one "municipality type 3" are faced with ensuring the normal operation. "Municipalities type 1" experience problems with applications for development grants with their financial participation due to their limited budgets. Therefore, local authorities are located in the development trap, a vicious circle. "Municipalities type 2" ensure normal operation and limited development. "Municipalities type 3" put not only normal operation but also the municipal development with grants in practice. A lack of funds for investment is a serious deficiency for all types of self-government. This matter can be solved by only deeper change of management and local authorities funding. Councils extend providing services with the increase in population and territory (co-financing rate of delegated powers affects indirectly also self-government spending). This fact leads to an increase in expenditures. All types of municipalities are most burdened with mandatory spending such as an office's performance and staff salaries, maintenance of public spaces and roads, wastes etc. Therefore, mayors supported increase in the volume of redistributed resources from shared taxes. All interviewees would perform system modification of the budgetary allocation of tax revenues (RUD).

²³ This chapter was processed on the basis of results of survey among mayors in the Středočeský kraj in the Czech Republic which took place in the second half of 2011. The researched sample has a predictive value for the Czech municipalities to 35,000 inhabitants located near large agglomerations.

Table 5: The division of municipalities according to the types of changes in budgetary allocation of tax revenues

Changes in budgetary allocation of tax revenues (the main source of municipal incomes):	
a change in the volume of funds (mayors do not consider system settings as key)	Municipality type 1: 1 from the sample Municipality type 2: 2 from the sample Municipality type 3: 1 from the sample
a change in weights of criteria:	Municipality type 1: 0 from the sample Municipality type 2: 0 from the sample Municipality type 3: 2 from the sample
A change in weights of criteria and also in criteria:	Municipality type 1: 2 from the sample Municipality type 2: 1 from the sample Municipality type 3: 0 from the sample

Sources: Author

The specific sample of municipalities is probably reflected in the definition of the main criteria of redistribution. Data was collected in the Středočeských kraj²⁴. Specifics were caused by the proximity of a large agglomeration (the capital city –Prague), mass construction of houses in suburban areas near Prague and recreational functions of certain Středočeský municipalities performed for Prague residents. Population, number of seasonal residents, number of permanent inhabitants but officially unregistered in local authorities were chosen as the main criteria by mayors. A size of cadastral territory, communications length, the number of pupils in school would be additional criteria. Respondents would broaden the most

²⁴ It is a part of the Czech Republic, which surrounds the capital city of Prague.

Table 6: Criteria for the allocation of shared taxes in accordance with the mayor's attitudes

The criteria according to which interviewed mayors divide budgetary allocation of tax revenues and the review of law defined criteria:	
the main criteria according to mayors:	the population, the number of seasonal residents, the number of permanent inhabitants but unregistered population in the municipality
the supplementary criteria according to mayors:	a size of cadastral territory, communications length, the number of pupils in school
criteria defined by law:	the cadastral area (weight 3 %), the population (weight 3 %), the population adjusted by coefficients of size categories of municipalities (weight 94 %)

Sources: Author

often basket of shared taxes with income tax less frequently the consumption tax. The cleavage created between the smallest and biggest municipalities. This cleavage was determined by a specific tax calculation and tax revenues amounts of the four largest Czech cities. Mayors of the smallest authorities would increase *“their”* budgets to the detriment of the biggest cities because they are forced to sell off community property according to their expressions. The smallest self-governments do not have sufficient reserves and resources for the operation and the municipal development. Five respondents would strengthen the weight of shared taxes compared to local taxes, respectively charges.

Table 7: Municipal divisions according to preference shares or local taxes

Mayors prefer:	
shared taxes:	Municipality type 1: 2 from the sample Municipality type 2: 1 from the sample Municipality type 3: 2 from the sample
local taxes, respectively local fees:	Municipality type 1: 1 from the sample Municipality type 2: 2 from the sample Municipality type 3: 1 from the sample

Sources: Author

Respondents were divided into two groups according to their approach to the existing grants system. This system complies with the first group which uses it extensively. The largest cities of the sample with broad professional staff and surprisingly the smallest authorities (this municipality is funded through voluntary inter-municipal associations) belong to this group. Other self-governments fall into the second group and their mayors described the system as unsatisfactory because of its administrative, financial-administrative requirements and giving grants which pass through the county (kraj) judge panel based on the political affiliation of mayor. These mayors would cancel grant system and all its titles (except for emergency grants and grants for the consequences of disasters or for large investment projects) and they would allocate fund directly to municipalities on the basis of clearly defined criteria. Municipalities apply for a wide range of services. It depends on the community facilities, an infrastructure and political preferences. Smaller municipalities build rather basic infrastructure, larger municipalities invest in community development and quality of resident life.

Table 8: Municipal divisions according to mayor’s attitudes to grants

Grants system interviewed mayors:	
suit (they would retain this system):	Municipality type 1: 1 from the sample Municipality type 2: 0 from the sample Municipality type 3: 2 from the sample
do not suit (they would change it due to (1), (2)):	Municipality type 1: 2 from the sample Municipality type 2: 3 from the sample Municipality type 3: 1 from the sample
<p>(1) administrative, financial-administrative requirements</p> <p>(2) giving grants which pass through the county (kraj) judge panel based on the political affiliation of mayor</p>	

Sources: Author

A lack of funds and an effort for development of municipalities encouraged municipalities to inter-municipal cooperation. Municipalities cooperate in ensuring delegated powers and self-government operations. The frequency of a cooperation correlated with the size of municipalities. Smaller municipalities

collaborated more often. It follows from the fragmented form of the territorial-administrative structure of the Czech Republic. Smaller and small communities did not have sufficient professional staffs; therefore, mayors were looking for a solution to the exercises of public services and goods through inter-municipal cooperation in various forms (voluntary inter-municipal associations, close cooperation for fulfilling a specific task or mayor's platform for changing experiences and information. Collaboration brought them savings in terms of administrative costs associated with grants' application preparation. Mayors evaluated the mutual cooperation very positively. They also saw advantages in the non-financial field. A cooperation with the neighbouring municipalities contributed to regional development and effective functioning. Respondents appreciated their collaboration for its prestige.

Table 9: Types of inter-municipal cooperation under the delegated powers and self-government

Inter-municipal cooperation in the field of:		
Administration type:	a purpose of the cooperation:	a way of the cooperation:
self-government:	community development, deepening of relations among municipalities (it is possible to gain grants through close inter-municipal cooperation)	voluntary inter-municipal associations, a contract according to public law, a contract fulfilling a specific task, an establishment of the corporate
delegated powers:	transfer of the part or whole delegated powers	a contract according to public law

Sources: Author

The municipal autonomy in the financial sector has a strong impact on the way and efficiency of the interest mediation. This sample did not participate in interest associations such as Union of Towns and Municipalities of the Czech Republic and Local Government Associations of the Czech Republic due to the absence of a more significant contribution. Charging for membership in these associations was the reason why some local authorities have suspended or

terminated their membership. The municipal interests were promoted mostly through getting in touch with specific "befriended" politicians from higher level of multilevel government who advance their interests including assistance with funding. This phenomenon has been termed as a "regional patron". Reasons for an erosion of a membership in the interest associations can be seen in this phenomenon. Preferences of individual size categories blend and reflect in programs of political parties also because of an interconnection of local policy with "regional patrons".

Table 10: A membership in the interest associations

A membership in the interest associations according to the sample:		
SMOCR	current members:	Municipality type 1: 1 from the sample Municipality type 2: 1 from the sample Municipality type 3: 1 from the sample
	former members:	Municipality type 1: 2 from the sample Municipality type 2: 1 from the sample Municipality type 3: 0 from the sample
SMSCR	current members:	Municipality type 1: 0 from the sample Municipality type 2: 0 from the sample Municipality type 3: 0 from the sample
	former members:	Municipality type 1: 0 from the sample Municipality type 2: 1 from the sample Municipality type 3: 0 from the sample

Sources: Author

Conclusion

Finally, it is necessary to evaluate the outlined thesis:

a) All prospective parliamentary entities defined significantly (for the first time) in the issue of municipal financing before parliamentary elections in 2010. Real reasons were in increasing preferences of TOP09/STAN²⁵ and higher activities of interest initiatives and interest associations. The discussion focused on a revision of budgetary allocation of tax revenues and grant system,

²⁵ It is the cooperation of the political party TOP09 and mayor's movement Starostové a nezávislí. STAN represents a universally-local type of political parties.

including mechanisms of redistributions. The importance of this topic was also amplified by the ongoing financial and economic crisis. The municipal financing thus abandoned the territory of secondary questions²⁶.

The diversity in size and population of municipalities translates into tasks that self-governments can provide. Hence, mayors identically defined the problematic aspects of the financing of local government (RUD, a contribution to delegated powers, a role of local taxes etc.) and declared the need for reform. Different size and population influence the role and the level of the performance of public services. Each size category of municipalities advances its interests differently. Municipal interests vary in many cases. This fact leads to the conservation of the current form and the existence of many initiatives and associations.

b) It is impossible to track a cohesive approach of all Czech mayors. Cleavages arise between large and small municipalities, municipalities situated on a “*U-curve*” bottom and those which gain higher income from shared taxes and communities with regional specifics. On the basis of the “*regional compactness*” of the sample it is possible to talk about a certain correlation between the size of municipalities and mayors attitudes to the funding system. Mayor’s opinions do not determine any ideology or political issues in these conditions (it is also associated with low levels of ideology and an influence of the election results by so-called “*the neighbourly effect*”²⁷) but they are limited during their decisions by a low volume of budgets and an exercise of agenda.

In case of self-government cleavages were created between representatives of the smallest and the biggest municipalities. Mayors of “*municipalities type 1*” and also “*type 2*” or “*type 3*” combined with a position on the “*U-curve*” bottom²⁸ would change through increasing tax revenues, a cancellation of grant and transfer system and transfer of its sources directly to municipalities, increasing of fiscal decentralisation and thus a role of local fees. In case of delegated powers mayors of municipalities “*type 3*” or “*type 2*” (only in case that number of population belongs to category 1500-6500) would modify the system.

²⁶ Political parties have not presented a comprehensive approach to the funding system until parliamentary elections in 2010. Only partial themes appeared in the programs of political parties. After an election political parties pointed out an importance of the municipal funding during debates in the Parliament of the Czech Republic. A democratic framework is developing through this system according to political bodies.

²⁷ This tendency decreases with the increase of population.

²⁸ Municipalities with 1500-6500 residents according to this research.

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