

Chapter 6



Local Government in the Czech Republic

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Decentralization: Experiments and Reforms

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1. Overview of Local Government Reform

Local government and territorial public administration in the Czech Republic are based on long historical tradition. The first systems containing self-government elements were created as early as the Middle Ages in some Czech and Moravian royal towns.

More systematic attempts to form a modern concept of local government appeared in 1848, when the Kroměříž Congress of the antifeudal, democratic strata of the population lobbied for municipal self-determination, including proposals to elect representatives freely, to form municipal police and to inform inhabitants on municipal economic activities. However, the Constitution of the Austrian Habsburg Empire enacted only a limited number of these demands. The rules of municipal establishment enumerated by the constitution proclaimed a relatively significant number of rights for municipalities. The principle that the independent municipality represents the basic unit of the free state was implemented step by step, but in the 1850s, most democratic approaches were strictly suppressed until 1964, when these rules were specified in more detail for Bohemia and Moravia.

The 1867 Constitution of the Austro-Hungarian Empire determined other municipal competencies; local government and certain “transferred competencies” from some branches of the state administration to the municipalities were defined. Profit from business operations utilizing municipal real estate, a share of state taxes, communal housing rental and local taxes and fees were specified as revenues of municipalities.

The role of municipalities in the system of public administration was detailed further and strengthened from 1918 to 1938. This period played a very important role in the establishment of democratic principles of public administration in the independent Czechoslovak Republic. Three tiers of local government, each with its own elected bodies, were introduced: municipalities, districts and regions. Their independence from the state administration, competencies and duties were defined by the constitution and by different legislative acts.

The military occupation of Bohemia and Moravia by Nazi troops and the creation of the “Free Slovak State” from 1939 to 1945 interrupted this long-term democratic development.

The principal aspects of the public administration system from 1945 to 1990 were the existence of local, district and regional national committees formed in April 1945 that theoretically united the activities of the state administration and of local government. After 1948, however, the local government system in the Czechoslovak Republic was completely annihilated. The rights of municipalities were restricted in many spheres, particularly with respect to independent decision-making concerning financial resources. A new democratic system of local government emerged after the dissolution of Czechoslovakia in 1990.

2. Legal and Constitutional Basis

The European democratic traditions of local government have developed in the Czech Republic since 1990. At that time important legislation creating the legal framework of local government was adopted.

2.1 Legal Basis of Local Self-government

The reform of the whole system of local government was initiated by an amendment to the 1960 constitution—then still in force—and on 4 September 1990, the Municipalities Act (Nr. 367/1990) was approved, according to which municipalities were authorized as not only political but also economic entities. The Czech National Council Act Nr. 425/1990 specified the role of territorial state administration represented by district offices (seventy-two at the time, and since 1 January 1996, seventy-three; district offices will be discussed in sections 2.4 and 3.3). Another important act (Nr. 368/1990) called for free communal elections on 23 November 1990. It is stressed in the Municipalities Act (Nr. 367/1990) that the status of municipality was granted to those territorial administrative units that existed as municipalities at the time of the elections as well as those founded after this date. These acts created the basis for and introduced an effective system of democratic local government in the territory of the Czech Republic, which was further developed throughout the 1990s.

The Constitution of the Czech Republic (Act Nr. 1/1993) was adopted on 16 December 1992, stipulating that “the self-administration of territorial self-governing unit shall be guaranteed.” The municipality is defined as the principal local government unit comprised of territorial communities of citizens with the right to self-government. The constitution also guarantees the independent administration of the municipality by its elected assembly and council.

It emphasizes that the municipality, managed by its elected representatives, must fulfill to the best of its ability the duties, rights and wishes of its inhabitants. The citizens’ right to control self-government authority as executed by the mayor and councilors (including the ability to initiate processes leading to their dismissal) is considered to be a firm guarantee of democratic management. At the same time there is an overall understanding that public feedback influences the quality of decision making and executive processes of elected representatives.

From a legislative point of view the municipality is authorized to:

- organize elections for its representative bodies;
- engage in negotiations and agreements with other municipalities and with the state administration to change municipal borders;
- join associations of municipalities;
- approve generally binding public notices valid in the municipal territory.

One of the most important preconditions for the successful implementation of local government's role is legislation. Currently in the Czech Republic, the municipality is considered to be a corporation established in accordance with public law—that is, it is a community of citizens living in one territory and exercising the right of self-government. Additionally, a municipality is recognized as an independent economic subject. The Instrument of Basic Rights and Freedoms (Act Nr. 2/1993) guarantees the right of citizens, and municipalities, to ownership. It is emphasized that the rights of all owners have the same level of protection. The Instrument stresses that “the competence of local councils can be determined by law,” meaning that the local council must act exclusively *secundem legem* and not *contra legem*; the law defines its competence, which may not be restricted by ministry guidelines or government resolutions. Legislation also determines the financial sovereignty of the municipality. Act Nr. 172/1991 is concerned with the transfer of state property to municipality ownership; Act Nr. 576/1990 and its amendments define the rules of municipal financial management. Hence, local communities of citizens have the right to freely control local affairs. In executing their self-government responsibilities, municipalities are bound by law and by the interest of their inhabitants.

The municipalities are, of course, not only independent legal and economic subjects but also the principal elements of the administration system of the Czech Republic. The municipality is authorized to:

- ensure municipal development in accordance with the political, social and economic interests of its inhabitants;
- strive to increase the value of municipality property;
- coordinate activities of the various units supporting the activities of the municipality;
- cooperate with other municipalities, the state administration and the private sector.

The practical implementation of these principles in the economic sphere enables the municipality to:

- draft and approve municipal budgets and financial reports;
- freely allocate funding for services to meet public demands;
- use municipal real estate and other property to further the development of the municipality;
- approve the membership of municipal enterprises and foundations and oversee their financial activities;
- determine local fees.

In order to implement these tasks, the municipality may:

- own real estate;
- acquire financial resources;

- independently administer its budget;
- establish municipal budgetary organizations (so-called “budgetary” and “contributory” organizations—see section 5).

One of the problems remaining is territorial fragmentation, which was a reaction to the forced amalgamation of municipalities during the 1970s and 1980s. Its results are documented by concrete statistical data: there were 4,104 municipalities in the Czech Republic in 1989 (in 1947, there were 11,641); in 1990 approximately 1,500 new municipalities (previously amalgamated by force with other municipalities) were established. On the basis of local referendums, by 1992 another three hundred were created; by 1993, more than one hundred; and by 1994, another thirty-six. Thus, from 1990 to the beginning of 1994 the number of municipalities increased by 50.9 percent. There are nearly fifteen thousand settlements on the territory of the Czech Republic.

The development of public administration in the Czech Republic partly proves that the existence of a large number of very small municipalities does not favor the principles of effective local government. These municipalities (with fifty inhabitants and more) are unable to perform true self-government functions, as they do not have sufficient material resources and the necessary number of qualified elected representatives and civil servants. The solution to this situation is to unite small municipalities with less than three thousand inhabitants into associations that can provide services to citizens in a more effective manner. The experience gained by the municipalities in the 1990s proves that the decision-making process of such associations is more efficient than that of individual municipalities.

2.2 The Status of the Capital City

The capital, Prague, has a unique position within the Czech local government system. The rights and duties of Prague’s assembly, council and office as well as the smaller offices of individual parts of the city are defined by the Czech National Council Act Nr. 418/1990 (amended by Act Nr. 439/1991); Act Nr. 90/1993 and Act Nr. 152/1994 concerning municipal elections. Prague currently is divided into fifty-seven parts; many of them are formerly independent municipalities that have united with Prague’s territory. From a legislative point of view Prague as a whole is considered to be one municipality. However, a great number of district and former municipal offices execute public administration. Prague’s municipal office executes both local government and state administrative functions.

2.3 The Introduction of Regions

As emphasized above, positive steps taken since 1990 have been codified by the constitution of 1 January 1993. The constitution assumes a two-level system of local government represented

by the municipality and the district. The idea of an intermediate tier that aimed to further decentralize rights and duties of public administration was emphasized in several proposals prepared between 1992 and 1996, such as the Instrument of Basic Rights and Freedoms (Act Nr. 2/1993); more detail is specified on this issue by Constitutional Act Nr. 347/1997), which created fourteen higher territorial self-governing units (thirteen regions and Prague). The new issues and tasks that follow from this were discussed in 1998 and 1999; proposals for the new Municipalities Act, specifying the competencies and the role of district offices from 2000 and for legislation relating to relevant financial issues currently are being drafted for parliamentary approval. All are due to come into force on 1 January 2000.

When assessing the development of public administration reform in the period from 1990 to 1998, it should be emphasized that important steps have been taken to strengthen the democratic principles of public administration in everyday practice. Nevertheless, one of the most significant features of this reform has been its excessive centralization. From 1993, this tendency inspired reformers to assure vertical deconcentration of the state administration to territorial self-government both by establishing the regional tier and by strengthening the competence of municipalities. Another important feature is the horizontal concentration of territorial state administration through a reduction of the excessive number of specialized state administrative authorities on both the district and the regional tiers.

Local government based on the principles of decentralization, deconcentration, delineated competencies, subsidiarity and citizen participation exists in the 6,244 Czech and Moravian municipalities, accompanied by the introduction of regional-level government. The new regions will have their own financial resources, and their dependence on the state budget will be minimal. The regions will be responsible for the preparation of plans for and implementation of economic and social development.

Although some problems have emerged due to the rapid implementation of public administrative reform, the creation of the current democratic local government system in the Czech Republic is generally considered to be the necessary basis for democratization of political and social life. One of the results of such decentralization is increased municipal economic activity. The leading political forces of the country as well as private organizations have generally agreed on the clear specification of the rights, duties and sources of revenues of municipalities, future regional entities and state administrative bodies. It is also accepted that the budgets of these institutions must be independent from the state budget in order to achieve true decentralization.

2.4 Relationship between the State Administration and Local Government

Currently there are two types of structures in the Czech government system. The first is representative of the central government (ministries and other central organs) and the various territorial bodies subordinate to it. The second is local self-government. One of the specific

features of Czech state administration is the existence of “deconcentrated” and “detached” organs of the central authorities that act on the district and regional levels on behalf of central government bodies, including the ministries. Some examples of central authorities that are represented at the local government level are described in table 6.1.

Table 6.1
**State Administrative Organs Operating on the District and Regional Levels
in the Czech Republic**

Ministry	Authorities
Ministry of Finance	8 regional financial directorates 223 financial offices 21 regional customs offices 135 lower customs offices
Ministry of Industry and Trade	7 inspection authorities of the Czech Energy Inspectorate 13 inspection authorities of the Czech Trade Inspectorate Hall-mark Authority License Authority
Ministry of Transport	3 regional offices of the Railways Administration offices of State Railway Inspection offices of State Navigation Administration Board
Ministry of Agriculture	84 offices of the State Veterinary Administration 8 inspection authorities of the Czech Agriculture and Food Inspection Czech Inspectorate for Improvement and Breeding Authorities
Ministry of Environment	16 regional inspection authorities of the Czech Inspectorate of Environment 24 protected landscape regions national parks
Ministry of Health	8 regional Hygiene Office authorities
Ministry of Education, Youth and Physical Training	85 school offices Czech School Inspectorate district authorities
Ministry of Labor and Social Affairs	85 offices of the Czech Administration of Social Welfare 85 Labor Offices with 135 branches

The relationship between the state administration and local governments has some specific features. Field administration is represented by two levels: district and local. On the local level municipal administrations carry out some state functions on the basis of “transferred competence” under the supervision of the state district administration. Currently, 383 municipalities have been extended transferred competence by the state administration. Large towns with more than 100,000 inhabitants (Prague, Ostrava, Brno, Plzeň) also execute state administrative tasks that generally fall under the competence of district offices.

The execution of such transferred competence is implemented in accordance with specific legislation. When executing transferred competence, municipalities are bound both by law and by central government decisions and guidelines. The Municipalities Act and the Act on District Offices regulate the relationship between local governments and territorial public administration.

District offices also serve as appellate bodies for citizens who disagree with decisions made by municipal authorities. The municipality is required to forward all decisions made by its elected bodies to the district office, which is responsible for ensuring adherence to existing legislation of all legal decisions made in the territory of the district. The district office suspends inappropriate or illegal municipal legislation. Decisions of municipal authorities may be subjected to revision on the basis of an appeal by the court, which may be contested by complaint to the Constitutional Court of the Czech Republic.

The head of the district office is also responsible for initiating proposals to parliament to disband a municipal council that does not meet within a period of six months. Such proposals must always originate from the district office.

A special role in local government of the Czech Republic is played by “statutory towns,” of which there are thirteen, according to the Municipality Act (Brno, Ostrava, Plzeň, Olomouc, Opava, České Budějovice, Karlovy Vary, Ustí nad Labem, Liberec, Hradec Králové, Pardubice, Zlín and Havírov). Statutory towns are granted extended execution of transferred competence by the state administration due to their size and their economic, social and cultural importance to their regions. Statutory towns are further divided into two groups: the first (Brno, Plzeň and Ostrava) simultaneously fulfill the rights and duties of municipalities and district offices. As a result, citizens must lodge complaints against decisions of these authorities directly with the central organs of the state administration; citizens of the second group of statutory towns express their objections to district offices that serve as appellate authorities.

The status of statutory town does not convey any specific functions to the local authorities. Some statutory towns are further divided into subunits in accordance with the municipal statutes. For this reason relevant legislation currently being drafted will replace the term “statutory towns” with the term “towns of special status.”

The Supreme Audit Office, an independent supervisory organ invested authority by the constitution, plays a specific role in the Czech legal system. It monitors expenditures and revenues of the state budget and the use of financial and material resources and enforces laws dealing with economic and financial issues and public administration. The Supreme Audit Office reviews the annual report of the state budget and draft acts and regulations pertaining to financial issues and procedures. It is authorized to impose penalties on authorities and individuals that are subject to its supervision—central authorities, state enterprises and organizations and legal persons that receive funding from the state budget.

3. Local Politics, Decision Making

3.1 System of Local Elections

The members of municipal councils are selected by direct, equal elections by secret ballot using a proportional electoral system. Every citizen of the Czech Republic over eighteen years of age has the right to vote and to run for municipal office. The term of a municipal council is four years.

The number of councilors in each municipality is proportionate to its population, as determined by law:

- up to 500 inhabitants—five to nine councilors;
- from 501 to 3,000 inhabitants—seven to fifteen councilors;
- from 3,001 to 10,000 inhabitants—eleven to twenty-five councilors;
- from 10,001 to 50,000 inhabitants—fifteen to thirty-five councilors;
- from 50,001 to 150,000 inhabitants—twenty-five to forty-five councilors;
- over 150,000 inhabitants—thirty-five to fifty-five councilors.

Each municipal council determines the exact number of its councilors.

Electoral parties, which register candidate lists for local elections, are defined by law as:

- political parties and political movements;
- coalitions of political parties and political movements;
- independent candidates;
- unions of independent candidates;
- unions of political parties and political movements and independent candidates.

Voters may choose to vote for a list of candidates or for individual candidates from any list that has been submitted.

The first municipal elections were held in November 1990. The most recent were held in November 1998, during which 173 electoral parties submitted lists totaling 179,609 candidates. Voter participation was forty-five percent. In total, 62,412 councilors were elected.

Table 6.2
Results of the 1998 Municipal Elections in the Czech Republic

Electoral Party	Votes [%]	Mandates [%]
Unions of Independent Candidates	11.0	41.1
Independent Candidates	2.6	13.7
Christian Democrats	10.6	11.4
Communist Party	13.6	9.2
Civic Democratic Party	24.3	9.1
Social Democracy	17.5	6.8
Union of Freedom	5.5	1.1

Results of local elections vary according to the size and region of the municipality.

- In small municipalities, independent candidates are the most successful, even if they are on the candidate list of a political party, movement or coalition.
- In a few small municipalities only one candidate list was submitted, and all candidates were elected to the council.
- In small municipalities the political party that most frequently registered a candidate list for municipal elections was the Communist Party.
- The greater the size of the municipality, the larger the role of political parties in municipal elections. Despite this, political parties often place nonmembers on their candidate lists. The figures show how many mandates were received by the members of political parties or political movements: Communists, 7.1 percent; Christian Democrats, 4.9 percent; Civil Democratic Party, 4.7 percent; Social Democrats, 3.1 percent; and mandates for candidates without party membership, 76.9 percent.
- Christian Democrats continuously receive strong support in Southern Moravia, and Communists in Northern Bohemia.

Thus, local politics in the Czech Republic is best described as community-based; the influence of political parties is rather weak at the local level. The results of a recent survey show that the mayor's political affiliation is not important; strong morals, knowledge of local affairs and needs and the ability to resolve conflicts were indicated as the most important characteristics for mayoral candidates. Pragmatic and technocratic issues are more apparent than political ones in local politics.

3.2 Forms of Direct Democracy

Local referendum is the only device of direct democracy on the municipal level, as indicated by Act No. 298/1992, which may be enacted to decide issues in the sole competence of the

municipality. Affairs that cannot be decided by referendum also are stated by the act—municipal budget, fees, election to and dismissal of the mayor and the division of a municipality that results in a unit smaller than three hundred inhabitants. The right to vote in referendums is granted to Czech citizens over eighteen years of age. A referendum may be held in a municipality as a whole or in one of its divisions.

A citizen may propose a referendum with the support of a petition signed by a predetermined number of individuals. Such proposals are submitted to the municipal board, which decides upon the proclamation of referendum. The referendum decision is valid if at least one-fourth of the electorate participates.

3.3 Distribution of Power among Different Levels of Government

The Act on Municipalities distinguishes two types of municipal competence.

1. Independent competence is the sphere in which the municipality is bound to fulfill specified public duties by acts and by legal regulations; decisions taken in this sphere cannot be overturned by any organ of the state administration (district offices may only suspend such decisions) with the exception of the Constitutional Court and Parliament.
2. Transferred competence includes functions delegated by the state administration to the municipality, the performance of which is supervised by the district office.

State administration is performed by the district office, which is supervised and controlled by the central government. The responsibilities of various central government agencies are addressed through the district office, which is headed by a chief appointed and relieved by the central government.

Some affairs of the state administration on the territorial level are administered by special district agencies that are not subordinate to the district office, particularly those dealing with education, financial affairs and employment. Several territorial branches of some ministries exist to address problems concerning areas larger than districts, such as environmental protection.

The district assembly is the representative body of municipal councils in the district. Municipal councils elect their representatives—usually the mayor or a deputy mayor—to the district assembly. The duty and right of this body is to approve the district office budget. The chief of the district office consults the assembly concerning the distribution of state grants.

According to the results of a public survey of citizens and local political elites, the bodies with the greatest influence in local affairs are local representative authorities—the municipal council, municipal board and mayor—followed by the municipal office, district office and central government. Political parties, businesses and civic organizations are viewed to have the least influence.

3.4 Internal Structure of Local Government Decision Making

The municipal council is the highest authority of the first tier of local government. It is a representative body elected directly by citizens of the municipality. Each municipal council is comprised of five to fifty-five councilors proportionate to the number of inhabitants of the municipality. Its decision-making authority is limited to issues that are within its independent competence. The council exercises its authority through council meetings, which must be held at least once every three months; such sessions are open to the public. The municipal council establishes its own rules of procedure.

The municipal board is the executive body responsible to the council. Its membership—five to eleven persons—includes the mayor, deputy mayor(s) and other members who are elected by the council from among its members. The mayor calls municipal board meetings when necessary and is responsible for preparing documents for board discussion. Board meetings are closed to the public, but the minutes of its meetings are public documents. The council has the right to dismiss the board.

The mayor is elected by and responsible to the council, chairs the municipal board, heads the municipal office and is chief of the municipal police. In small municipalities where a board is not elected, the mayor performs the duties of the board; where the position of chief administrative officer is not established, the mayor performs these functions as well.

The municipal board established committees. Membership is approved by the board and is not limited to council members but may include any citizen of the municipality. Financial and control committees are obligatory for every municipality and are responsible to the board. Upon approval of the district office, the mayor may invest duties of transferred competence to committees, which are then subordinate to the district office.

The municipal office is the executive administrative body of the municipality, headed by the mayor and including the deputy mayor(s), chief administrative officer and other officers. It implements independent competencies assigned by the municipal board and council as well as delegated functions of the state administration, for which it is subordinate to the district office. The position of chief administrative officer (CAO) exists in municipalities in which the board establishes at least two departments within the municipal office. The municipal board appoints the CAO upon approval of the district office chief; he or she cannot be a councilor. The CAO is responsible to the municipal board and the mayor concerning the execution of duties of independent competence and to the mayor concerning duties of transferred competence. The CAO has the right to attend council and board meetings as an advisor. There are 381 municipal offices with special status—“commissioned municipal offices”—that have enlarged transferred competence. The district office determines the territory upon which the commissioned municipal office performs such delegated functions.

3.5 Public Participation in Decision Making

Municipal elections are the regular device of public participation; local referendums are an exceptional device. Continuous participation in decision making is enacted by three methods:

- active participation through committee membership, attendance at regular council meetings and consultations with the mayor or councilors;
- personal initiatives such as petitions, use of the local media, filing complaints or objections to the municipal office;
- involvement in nongovernmental organizations.

3.6 Ethnic Issues, Multicultural Government

Since the population of the Czech Republic is quite homogeneous, no special local government measures exist to address ethnic issues. All ethnic minorities are treated according to the principles of civic equality in maintaining their cultural and historical identity.

For a long time, ethnic conflict existed between the majority population and the Roma. The government and the civic sector have taken steps to address this problem through various projects targeting research, education and social issues both nationally and on the local level that aim to promote mutual understanding and improve interethnic relations.

3.7 Local Government Associations and International Contacts

Simultaneous to the proliferation of new municipalities that began in 1990, partnership of autonomous municipalities spontaneously developed. Associations and unions of municipalities are unique in aim, organization and financial resources.

The Union of Towns and Municipalities of the Czech Republic was founded in 1990 as a mediator between central authorities and municipal governments. In 1997 its membership included 1,168 towns and municipalities. Membership fees finance the union. Committees fulfill its functions according to the same model as municipal board committees. The congress of the union is held every two years. The union has an important role in negotiations with parliament and the central government.

Most regional associations address problems that exceed the abilities of one municipality; such issues often include recreation, energy resources, environment and transportation. Other associations join municipalities with special interests with the intention of standardizing operations on a nationwide level, such as the Association of Historical Settlements and the Association of Spa Towns. Approximately twenty-five such organizations currently exist in the Czech Republic. The Regional Development Council represents regional associations on prevalent economic

issues. Additionally, regional professional associations exist for mayors, district office chiefs and chief administrative officers.

Transnational associations also exist that cooperate with bordering countries of the Czech Republic, such as Egrensis, Nisa and Labe.

4. Local Administration, Service Provision

4.1 Structure and Operation of Local Administration

The effective everyday execution of local government in municipalities is based upon the widely accepted principles of political pluralism and democracy. In the Czech Republic, as in the vast majority of European countries, the municipality has not only the right but also the duty to administer and manage its affairs in order to address public needs and the competencies conferred upon it by law. The municipality creates its own elected bodies comprised of its citizens.

The tasks and duties of local government are executed by the municipal board, council, mayor and deputy mayor(s). The committees of the council and the municipal office also play an important role. Members of the board and the council are elected for four-year terms. The staff of the municipal office fulfills the tasks and duties of the local government.

Citizens are authorized to take an active part in the management of municipal affairs, especially through meetings called regularly by the council that are open to every inhabitant of the municipality. They may express their opinions concerning proposed changes to the territorial plan of the municipality and are allowed to raise questions and objections concerning the preparation of municipal budgets. Another important instrument of democratic local government is the referendum, which is used to help decide the most important questions of municipal development.

The mayor is both political and administrative head of the local authority who represents the municipality in all contacts with other institutions. The mayor and deputy mayor(s) are elected by and responsible to the council. The mayor signs all legal acts and decisions of the municipality and is the chair of the council and board.

The mayor manages the office, decides on all principal matters and makes recommendations on the internal organization of the office. In municipalities that do not appoint secretaries, the mayor appoints staff members and exercises employer's rights in relation to the staff.

The chief administrative officer (CAO) of the municipal office is responsible to the council and the mayor. In the execution of tasks of transferred competence he or she is responsible only to the mayor. The CAO exercises employer's rights in relation to the staff.

The municipal office is formed by the mayor, deputy mayor(s), CAO (in municipalities where the council forms at least two departments) and the staff. The council is authorized to form departments of the municipal office. The office is responsible for the execution of resolutions and decisions made by the municipal board and the council. Simultaneously it is responsible for performing state administrative functions delegated to the municipality.

The number of departments of the municipal office depends on the size of the municipality and on the decisions of the council. The most frequent departments in Czech and Moravian municipal offices address budgets, local territorial planning and municipal development, organization and management, entrepreneurial activities, human resources and public relations.

The municipal budget department is responsible for proposing the annual budget to the board for approval and controls the implementation of all decisions related to the budget. Another duty of this department is to prepare the final municipal account report providing information on the implementation of duties and tasks that were adopted with the budget.

The department of local territorial planning is responsible for the balanced development of the municipality as a whole and its individual territorial parts in accordance with priorities determined by the long-term municipal plan. The department plans the building and reconstruction of municipal infrastructure and the development of educational, social and cultural activities and services. It aims to achieve the most effective and efficient economic activities of the municipality.

The activities of the organization and management department are predominantly oriented to the improvement of the knowledge and skills of elected representatives and the municipal office staff. Other tasks include maximizing the efficiency and cost effectiveness of municipal office activities.

The department of business activities assists the economic and social development of the municipality through cooperation with the private sector. Both internally and through cooperation with private consultants, it prepares and assesses the effectiveness of services based on detailed analyses of their financial and other affairs. In larger towns, this department is also responsible for attracting foreign capital investment.

The main duty of the human resources department is the recruitment and assessment of staff, the organization of professional development courses and seminars and the organization of seminars in which specialists from the public and the private sectors participate. This department is also authorized to collaborate with citizen groups and associations and to investigate and evaluate public needs and opinion.

The public relations department publicizes council decisions and municipal office and department activities. It cooperates with the human resources department in surveying citizens' interests,

needs and opinions. As it enables regular contact with different groups of the municipality's inhabitants, this department plays an important role in improving citizen participation.

There are no special statutes on local government employees in the Czech Republic. The municipality hires officials and other laborers, and their everyday problems are addressed by the CAO of the municipal council, the mayor and other members of the municipal board.

Concerning the decision-making process of the municipality, staff members of the municipal office draft decisions and recommendations for proposal to the council. Such proposals are prepared with the assistance of committee members who negotiate draft versions of resolutions. The elected bodies—municipal board, council and mayor—are almost without exception the most influential with regard to municipal decision making. After discussing issues in committees, decisions are adopted during the sessions of the municipal board or the council.

Great attention is also paid to cooperation with other municipalities, especially through the activities of the Union of Towns and Municipalities. Such cooperation is governed by the Civil Code. According to the Municipality Act, local governments are authorized to form voluntary unions. Their creation, functions and activities are regulated by the act.

Cooperation among local governments is considered to be important both in resolving concrete legal and administrative problems and in providing public services. The significance of such cooperation is reflected by the necessity to solve problems of an unprecedented nature, such as privatization, and to identify funding for service provision. There is a lack of qualified specialists to address many tasks, especially in small municipalities; cooperation of local governments therefore is one way to find effective solutions to common problems.

4.2 Local Service Delivery

Czech and Moravian municipalities are responsible for the delivery of a number of services, some of which are mandatory and others of which are voluntary. As specified in the Municipalities Act local government in the Czech Republic generally is responsible for satisfying the needs of inhabitants through public services. The cost of such services has increased throughout the 1990s, which particularly affects small municipalities. Some are finding the necessary financial resources for service provision through the privatization of municipal property, bank credits and state grants. This is however only a temporary solution, and small municipalities must investigate more effective methods to allocate financial resources now and in the near future.

Services provided by municipalities can be “mandatory” or “optional.” Mandatory services are prescribed to the municipality by the Municipalities Act. They are distinguished as “public services,” financed mainly on the principle of public need, and “technical services,” financed through user fees. The most common mandatory services include the maintenance of local

streets and roads; administration of municipal institutions providing educational services; social services, including care for the elderly and the disabled; health services, through both municipal hospitals and private doctors; public safety through municipal police in large towns and cooperation with the state police in other municipalities; and fire brigades.

In addition to these public services, several technical services are prescribed to municipalities, including waste management, water supply, waste water disposal, public transport and maintenance of public parks.

All services are provided by communal enterprises (budgetary institutions), in cooperation with the private sector and through municipal associations. Cooperation with private entrepreneurs is implemented on the basis of contractual agreements.

Technical services that are required by the majority of citizens are supported by the municipal budget. An important precondition for such service delivery is the number of qualified specialists available. The most common optional services are cultural, including the maintenance of municipal libraries, local cultural institutions, and recreational facilities. Considering these facts, it is understandable that more optional services are delivered in large towns with greater financial resources.

There are several regulations for mandatory service delivery in the Czech Republic. All must be provided consistently; in emergencies, the municipality is obliged to mobilize reserves and/or to implement alternative solutions to address the problem. Additionally, the provision of services must respond to changing public needs; thus, for example, services must be provided to all inhabitants, including new housing estates areas.

As mentioned, public services must satisfy the basic needs of all citizens living in the particular community. Technical service delivery is based on a “client system,” which is applied for services that can be measured quantitatively. If the clientele fails to provide remuneration for the service, it may be discontinued. The basic criteria for determining the prices of technical services are the effectiveness of the service in relation to the extent and quality of delivery and the real need to satisfy the interests of the majority of the population (for example, local street and road maintenance, public transport).

The extent of service delivery is influenced predominantly by several key factors, including:

- demographic situation of the municipality—birth and death rate, number of permanent inhabitants and number of owners of vacation homes, number of school-age children, number of pensioners, et cetera;
- number of people requiring social welfare;
- economic situation (the cost of particular services; capacity of local public transport, number of telephones and other means of communication, et cetera; extent of public use; and quality of the service delivered),
- level of public satisfaction with the service.

These criteria are not utilized fully in all municipalities, but in general they play an ever-increasing role, especially in large towns. In small municipalities, they tend to indicate the need to create associations of municipalities aimed to address the more effective and efficient provision of services.

The state provides grants to municipalities for the execution of some state administrative tasks of transferred competence, such as birth and death registration, issuing licenses for the construction and reconstruction of houses, et cetera.

One of the most characteristic features of service delivery in and by municipalities in the Czech Republic in the 1990s is the ever-growing participation of the private sector in the sphere of municipal economic and social life. Many municipalities have accumulated experience from cooperation with the small and medium-sized enterprises that are their principal partners in service delivery. Such relationships are contractual and are based on the results of public competition organized in accordance with the Procurement Act approved in December 1994.

Municipal enterprises—or budgetary institutions—are financed from the municipal budget. As these enterprises were not considered to be very effective in providing service delivery in the past (this was often proven in the 1970s and the 1980s) great attention is focused on increasing the self-sufficiency of such enterprises, reducing the number of employees to a more efficient level and implementing other steps aimed to improve the effectiveness of their activities. These enterprises are active mainly in public transport and in the maintenance of streets and public parks.

Municipal enterprises continue to operate in many municipalities (in a more efficient manner in comparison to the previous period). They play a stabilizing role in the economy by creating jobs, which is appreciated especially in regions with high levels of unemployment; enterprises have been found to create jobs more rapidly and effectively than other entities in the public sector. Most are relatively flexible and are able to adapt to rapidly changing economic conditions. Municipalities provide incentives for them, such as guarantees on bank credits, low rent for municipal real estate and local fee reductions. The owners and managers of such enterprises are active in local political and cultural life. Among other contributions, they sponsor cultural and sporting activities. Several large towns cooperate with private entrepreneurs to foster business activities.

The main sphere of public-private partnership on the municipal level is the delivery of services such as waste management, water supply, waste disposal (municipalities usually hold shares in such companies), street cleaning, municipal lighting systems, utilization of natural resources, communal housing and maintenance of the municipal infrastructure.

5. Local Finance, Economic Development

The public budget of the Czech Republic is composed of:

- local budgets (municipalities and district offices);
- budgets of state funds approved by parliament.

The revenues and expenditures of public budgets in the Czech Republic from 1993 to 1997 are shown in tables 6.3 and 6.4.

Table 6.3

Revenue of District Offices and Municipalities in the Czech Republic [CZK millions]

Indicator	1996	1997	1998	1999
Tax Revenue, including:	72,670	76,421	83,320	90,200
Income Tax from Natural Persons	50,818	54,503	58,581	65,700
Income Tax from Legal Entities	14,138	13,361	16,232	15,600
Administrative Fees	2,134	2,190	1,625	4,200
Fees for Environmental Pollution and for Exploitation of Natural Resources	—	1,047	728	700
Other Taxes and Fees from Selected Criteria and Services	1,331	1,360	2,031	—
Real Estate Taxes	4,018	3,943	4,108	4,000
Other Tax Revenue	—	15	—	—
Nontax Revenue, including:	21,333	23,218	24,708	25,600
Revenue from Activities and Levies of Subsidized Organizations	14,624	8,428	9,620	—
Revenue from Leased Real Estate	—	7,285	7,477	—
Revenue from Interest	1,317	1,885	315	—
Capital Revenue	7,234	9,872	13,342	9,500
Subsidies Received, including:	60,290	37,559	40,430	35,484
Noncapital Grants from State Budget	53,348	23,274	24,999	—
Capital Subsidies from State Budget	4,877	9,948	10,806	—
Subsidies from National Funds	2,065	1,772	916	—
Other Revenue	154	0	—	—
Total Revenue	161,681	147,070	161,800	160,784

SOURCES: *Statistická ročenka České republiky '98* (Statistical yearbook of the Czech Republic '98), (Prague: 1998), 173; *Statistická ročenka České republiky '99*, 166. 1999 estimate from R. Prokop, "Prediction of Local Government Budget in 1999," *State Administration and Local Government* 13: i-iv.

Table 6.4
**Expenditures of District Offices and Municipalities
in the Czech Republic [CZK millions]**

Indicator	1996	1997	1998
Current Expenses, including:	117,702	100,231	106,937
Wages, Salaries of Employees and Other Payments	12,178	13,014	13,778
Obligatory Insurance Paid by Employer, Purchase of Material, Water, Fuel, Energy, etc.	41,000	39,784	47,173
Interest and Other Financial Expenditures	1,725	2,682	2,335
Noncapital Subsidies to Enterprises	7,163	8,860	9,046
Noncapital Transfers to Subsidized Organizations	17,171	17,695	17,487
Noncapital Transfers to Households	31,324	5,877	7,151
Capital Expenses, including:	53,423	51,606	53,409
Investment Expenses	45,035	43,463	42,723
Investment Transfers to Enterprises	3,595	3,265	4,643
Investment Transfers to Subsidized Organizations	4,091	3,872	4,175
Total Expenditure	171,125	151,837	160,346
Revenue/Expenditure Balance	-9,444	-4,767	1,455

SOURCE: *Statistická ročenka České republiky '98* (Statistical yearbook of the Czech Republic '98) (Prague: 1998), 174; *Statistická ročenka České republiky '99*, 167.

The estimated expenditure of local governments as a total for 1999 is CZK 165,709 million; thus, the revenue-expenditure balance is estimated to be CZK -2,425 million.

Table 6.5
**Share of Municipal Budgets in Local Government Budgets
 in the Czech Republic, 1991–97 [%]**

Year	1991	1992	1993	1994	1995	1996	1997
Revenues	41.8	56.4	83.6	84.7	84.3	84.5	82.4
Expenditures	39.7	53.7	84.1	85.3	79.2	85.1	83.3

SOURCE: *Moderní obec 5* (1996); and author's calculations.

As previously stressed, councilors are accountable for the maximum effective utilization of municipal mandatory service delivery and additionally must ensure revenues for the provision of optional services.

Today, 6,244 municipalities in the Czech Republic operate on the basis of independent budgets, each supporting between fifty and 1.2 million inhabitants. Due to such drastic differences in size, it is difficult to determine the best revenue base for each, as income from taxes and grants is so diverse; as a result, the quality and quantity of service provision also greatly varies. The Municipalities Act and its amendments grant municipalities great flexibility in the creation of their budgets and in the organization of economic activities within their territories.

As a rule, all municipalities must prepare current budgets annually. Additionally, approximately one-third of Czech municipalities (generally the largest), has the capability to draft capital budgets for an extended period of time. Such budgets foresee and plan for large investments, especially to support tasks such as the construction of local roads and streets, water pipelines, waste water purification systems, school buildings and communal housing.

Table 6.6
**Proportion of Municipal Revenues and Noninvestment Expenditures to Total Municipal
 Expenditures in the Czech Republic, 1993–95 [%]**

	1993	1994	1995
Average	67.66	71.31	70.70

SOURCE: Jitka Peková, *Místní rozpočty* (Prague: The School of Economics in Prague, 1997), 60.

The preparation of the annual budget (1 January to 31 December) in Czech and Moravian municipalities plays a decisive role in municipal life and results from broad discussion between elected representatives and active citizens. It fulfills especially the following principal tasks.

1. The budget is the principal financial plan that ensures the long-term development of the community. Revenues and expenditures are assessed based upon expected income, including existing financial reserves (if any) as well as bank credits.
2. The municipal budget is the instrument through which priorities for the quality and quantity of service provision are determined. Thus, an especially important role is the allocation of funding in order to address public needs. Budget revenues are predominantly used for providing mandatory services.
3. After determining and satisfying the basic needs of the populace, the municipal budget also ensures the allocation of financial resources necessary for infrastructural development, such as the construction of Prague's underground; construction and repair of cultural, athletic and educational facilities; maintenance of public parks; reconstruction of communication systems; et cetera.
4. The rate of real estate tax and local fees are determined.
5. Finally, the preparation of the municipal budget provides objective and complete analysis of the financial situation of the municipality, which is crucial for the mayor and other elected representatives who manage everyday municipal activities. Thus, it serves as an instrument for increasing the effectiveness and efficiency of municipal financial operations.

The preparation of the municipal budget is a long process that usually is divided into several stages. The first is the preparation of the basic framework of the budget, reflecting real economic growth or decline of the municipality. This stage is followed by an assessment of expected revenues and expenditures, including those of municipal companies financed from its budget (so-called "budgetary" and "contributory" organizations, which will be discussed below). The preparation of the first draft of the municipal budget is accomplished by the finance department in large towns and by the whole office in smaller villages. Discussion on this draft by the municipal office is the third stage of the process. The budget proposal is completed in cooperation with other departments of the municipal office and then is discussed by the council and by the public. Afterwards, the municipal council adopts the budget.

The municipal board is responsible not only for budget preparation and adoption but also for evaluation of the utilization of budgetary resources from the previous fiscal year. Audits are conducted either by private auditing companies at the expense of the municipality or by the district office, in which case the audit is free of charge.

The preparation of the municipal budget also involves the allocation of resources to support the activities of enterprises established by or working on behalf of the municipality. Small and medium-sized enterprises particularly provide technical services and are financed either fully ("budgetary organizations") or partly ("contributory organizations") from the municipal budget. The revenues and expenditures of such organizations are component parts of the municipal budget and thus must be specified in detail during the budgeting process. In part, resources to support such enterprises are created by their own business activities. The municipal board and

council during the budgetary process must approve decisions concerning the financing of budgetary and contributory organization activities.

The percentage of municipal revenues and noninvestment expenditures to total expenditures is reflected in table 6.6. Many financial resources are acquired through taxation. Taxes in the Czech Republic are imposed only by the central government; their revenues compose a major portion of the state and local budgets. The rights of municipalities to affect the rate of real estate tax are limited. Recently, however, they have been granted authority to determine several local taxes and other fees, such as central heating use and rent for communal housing, which were previously fixed by the state.

First, the collection of personal income tax paid from “dependent activities” (wages and salaries) represents the main source of revenue of municipal budgets. According to the new rules the municipal share of personal income tax is thirty percent, and the state share, forty percent. The remaining thirty percent is allocated to district offices to finance the activities specified by Act Nr. 425/1990 and its amendments. Specific rules determine the share of statutory towns that execute both local government and substantial transferred competence of the state administration. Their share is seventy percent, and that of the state budget, thirty percent. Other important revenues of municipal budgets are (1) tax paid by entrepreneurs, which is collected by the state and allocated in full (100 percent) to the municipality; (2) tax on real estate, which is determined and collected in special territories and then transferred to municipalities in full (100 percent); and (3) corporate income tax, twenty percent of which remains with the municipality and eighty percent with the state.

Communal bonds guaranteed by municipal assets represent another source of municipal budgets. Several large towns issue municipal bonds to raise funds for investment and to support service provision. The capital, for example, has issued bonds for the improvement of public transport.

Municipal levies have not played an important role. The value of total revenue in the whole Czech Republic per capita was CZK 150 (approximately USD 5) in 1993, CZK 138 in 1994, and CZK 116 in 1995. Income from administrative fees paid by citizens to municipalities per capita was CZK 145 in 1993, CZK 179 in 1994, and CZK 203 in 1995.

Block grants from the state budget transferred to local budgets represent a very important part of municipal budgets. They are provided particularly for financing and maintaining homes for the elderly, child care centers and specialized social and health service institutions. Other grants from the state budget support fire brigades, local public transport and kindergartens and elementary schools. The total amount of state subsidies to municipalities was CZK 28.005 million in 1993 (27.64 percent of total municipal revenue), CZK 28.424 million in 1994 (25.61 percent of total municipal revenue), and CZK 32.293 million in 1995 (25.01 percent of total municipal revenue). Subsidies for local public transport in the Czech Republic as a whole, for example, totaled CZK 460 million (USD 15.35 million) in 1996 and about CZK 800 million (USD 26.66 million) in 1997.

The structure of the local budget revenues is shown in table 6.7.

Table 6.7
Local Budget Revenues in the Czech Republic, 1993–97

Revenues	1993		1994		1995		1996		1997	
	CZK billion	%	CZK billion	%	CZK billion	%	CZK billion	%	CZK billion	%
Taxes	39.0	38.5	56.5	50.9	70.8	54.7	72.7	45.0	75.3	51.3
Nontax Revenues	17.3	17.0	18.2	16.4	18.5	14.3	28.5	17.6	34.2	23.2
Transfers	24.3	24.0	30.1	27.1	34.9	27.0	60.3	37.4	37.6	25.6
Other Revenues	20.7	20.5	6.2	5.6	5.1	4.0	0.2	—	—	—
Total	101.3	100.0	111.0	100.0	129.3	100.0	161.7	100.0	147.1	100.1

SOURCE: *Státní správa a samospráva* (State administration and local government) 51–52 (1997).

Expenditures are used predominantly for:

- maintenance and repairs of municipal kindergarten and school buildings;
- local public transport;
- repair of local roads and streets;
- construction of sewage systems and wastewater purification plants (very often in cooperation with several municipalities);
- construction of social care facilities;
- construction, repair and maintenance of some health services facilities;
- contributions to cultural establishments;
- fire brigades and local police;
- payment of interest on long-term credits and loans;
- salaries of officials and other municipal laborers including payment of social and health insurance.

The structure of expenditures of Czech and Moravian municipalities is shown in tables 6.8, 6.9 and 6.10.

Table 6.8
Local Budget Expenditures in the Czech Republic, 1993–97 [in CZK billions]

	1994	1995	1996	1997	Index 95/94	Index 96/95	Index 97/96
Current Expenditures	69.7	81.4	91.1	100.2	116.8	111.1	110.0
Capital Expenditures	42.4	50.9	54.0	51.6	120.0	106.1	96.6
Total	112.1	132.3	145.1	151.8	118.0	109.6	104.5

SOURCES: *Moderní obec* (Modern municipality) 5 (1996); *Obec a finance* (Municipality and finance) 2 (1998); and author's calculations.

Table 6.9
Structure of Municipal Expenditures in the Czech Republic, 1995 [%]

Expenditures	Municipalities by Size (number of inhabitants)								
	0–200	200–500	500–1000	1000–5000	5000–10,000	10,000–50,000	50,000–100,000	100,000–500,000	500,000+
Internal Administration	35.3	25.5	20.6	16.5	13.8	12.2	11.0	12.9	11.1
Water Economy	22.7	24.2	21.5	18.9	11.6	—	—	9.4	6.1
Local Economy	11.5	11.3	12.1	15.2	19.8	27.8	23.0	10.1	—
Local Public Transport	10.1	—	—	—	—	—	15.8	23.7	41.6
Construction	6.2	10.4	11.8	11.5	—	—	—	—	—
Education	—	8.9	17.3	16.6	13.4	14.4	14.3	9.1	7.4
Social Care	—	—	—	—	18.3	10.6	—	—	—

SOURCE: *Moderní obec* (Modern municipality) 5 (1996).

Table 6.10
Municipal Expenditures per Capita in the Czech Republic, 1993–95 [CZK thousands]

Municipalities by Size (number of inhabitants)	Total Expenditures per Capita			Index of Expenditures	
	1993	1994	1995	1994–93	1995–94
0–200	3.30	4.86	5.59	1.47	1.15
200–500	3.28	4.82	5.95	1.46	1.23
500–1,000	4.06	5.98	7.12	1.47	1.19
1,000–5,000	5.75	7.68	9.05	1.33	1.17
5,000–10,000	7.16	9.14	10.76	1.27	1.17
10,000–50,000	7.00	8.86	10.14	1.26	1.14
50,000–100,000	7.07	8.61	9.57	1.21	1.11
100,000–500,000	9.83	11.94	15.21	1.39	1.27
500+	13.94	17.64	19.53	1.26	1.10

SOURCE: *Moderní obec* (Modern municipality) 5 (1996).

One of the key principles of municipal budget preparation in the Czech and Moravian municipalities is balanced revenues and expenditures, but this presupposes the accumulation of relatively large financial reserves. In the current situation, however, a growing number of municipalities are becoming indebted, especially small and medium-sized villages. This is one of the most topical problems in local government not only in the Czech Republic but also in other European countries. Tables 6.11 and 6.12 reflect the current situation.

Table 6.11

Development of Municipal Debt in the Czech Republic, 1993–96 [in CZK millions]

Indicator	1993	1994	1995	1996
Credits	2,485.3	4,914.1	8,656.2	11,598.9
Communal Bond Issuance	26.2	7,643.2	8,540.1	11,906.9
Other Small Municipalities Debt	324.4	494.7	918.9	1,381.7
Financial Assistance from District Offices and State Budget	—	—	1,804.3	2,896.5
Loans from State Fund for the Environment	109.0	1,094.5	2,774.3	4,399.6
Total	2,944.9	14,146.5	22,693.8	32,183.6

SOURCE: *Moderní obec* (Modern municipality) 5 (1997).

Table 6.12

Indebted Municipalities According to Size Categories in the Czech Republic, 1996

Size Category (number of inhabitants)	Number of Municipalities in Size Category	Percentage of Total Number of Municipalities	Number of Indebted Municipalities in Size Category	Percentage of Total Indebted Municipalities	Percentage of Indebted Municipalities to Number of Municipalities in Size Category
0–100	571	9.2	125	4.9	21.9
101–200	1,160	18.6	251	9.9	21.6
201–500	2,025	32.5	648	25.5	32.0
501–1,000	1,217	19.5	572	22.3	47.0
1,001–2,000	645	10.3	390	15.3	60.5

Table 6.12 (continued)
**Indebted Municipalities According to Size Categories
 in the Czech Republic, 1996**

Size Category (number of inhabitants)	Number of Municipalities in Size Category	Percentage of Total Number of Municipalities	Number of Indebted Municipalities in Size Category	Percentage of Total Indebted Municipalities	Percentage of Indebted Municipalities to Number of Municipalities in Size Category
2,001–5,000	348	5.6	300	11.8	86.2
5,001–10,000	135	2.2	126	5.0	93.3
10,001–20,000	65	1.0	64	2.5	98.5
20,001–50,000	44	0.7	44	1.7	100.0
50,001–100,000	16	0.3	16	0.6	100.0
100,000+	7	0.1	7	0.3	100.0

SOURCE: *Ekonom* (Economist) 11 (1997).

Czech and Moravian municipal debt is caused predominantly by relatively high interest rates on credits, communal bonds and bank guarantees. The growing debt of small municipalities in the Czech Republic especially reflects the fact that they generally do not have sufficient resources for investment. Thus, these municipalities have resorted to selling municipal real estate. This approach of course has a long-term negative impact on the balanced development of these entities. The effective acquisition of necessary resources for development is a great challenge for this category of municipalities in the Czech Republic. Although some positive steps have been taken in large municipalities, the lack of investment funds will continue to be a problem in the future.

Taking these facts into account, the experiences of municipalities in other European countries are studied intensively by a growing number of municipal councils, senior officials of large towns and consultative and advisory companies. There is consensus in striving towards achievement of the most effective financial activities. The determination of “global expenditure ceilings,” separate assessments of income and expenditure and their balance and determination of the limits of municipal expenditures are important principles that have been acknowledged by councilors and officials who are responsible for the long-term development of municipal economic activities. The real implementation of this approach is complicated, however, especially in small municipalities that have limited financial resources and often lack knowledge and experience.

6. Next Steps in the Transition Process

The contemporary period may be characterized as the stage of accelerated implementation of public administration reform in the Czech Republic. The most important tasks currently are the creation of the regional system of local government, increasing efficiency of the state administration at the regional level and approval of the Civil Service Act and the Act on Service in Local Governments.

The implementation of reform is impossible without amending existing acts to reformulate the execution of local government and territorial state administration. For this reason a number of new proposals are being drafted for parliamentary approval, the most important of which follow:

- an act on the establishment of regions;
- an act creating and executing state administrative tasks on the regional level;
- a new municipalities act;
- amendment of the act determining rules of municipal council elections;
- a new act on district offices, the role of which will need to be more clearly defined after the creation of regions;
- an act specifying the forms of regional development support.

Of urgent necessity is the preparation and approval of legislation defining the property and financial resources of regions and municipalities. In particular, such need includes budgetary rules, defining municipal and regional shares of taxes collected by the state; the transfer of property to regional local governments; and a clarification of municipal taxes. Last but not least, an act on elections to regional local government bodies will need to be developed.

Annex 6.1

Major General Indicators

SOURCES: *Statistical Yearbook 1998; Statistical Yearbook 1997; Yearbook of Economic Newspapers 1997.*

Size of territory	78,866 square kilometers
Population density	131 inhabitants per square kilometer
Population	10,299 thousand
Age of population	
0–14	1,795 thousand
15–59	6,647 thousand
60+	1,857 thousand
Major ethnic divisions (3 March 1991)	
Czechs, Moravians and Silesians	94.7 percent
Slovaks	3.1 percent
Poles	0.6 percent
Germans	0.5 percent
Roma	0.3 percent
Per capita GDP	USD 5,045
Proportion of national budget to GDP	33.8 percent
Proportion of local budgets to GDP	6.8 percent
General government budget (public budget)	
National budget	83.4 percent
Municipal budgets	16.6 percent
National budget	
Transfers to inhabitants	32.3 percent
Public consumption of the state	38.7 percent
Subsidies to local budgets	5.3 percent

Table 6A.1

Czech Republic Public Budget Revenues and Expenditures, 1997 [in CZK billions]

	1993	1994	1995	1996	1997 budget	Index [%] 1996-93
Revenue-State Budgets	358.0	390.5	440.0	491.0	549.1	137.2
Revenue-Local Budgets	64.1	81.7	95.8	100.3	111.6	156.5
Revenue-Public Budgets	422.1	472.2	535.8	591.3	660.7	140.1
Expenditures-State Budgets	329.9	350.8	399.5	465.8	520.1	141.2
Expenditures-Local Budgets	90.2	112.1	132.3	125.5	138.3	139.1
Expenditures-Public Budgets	420.1	462.9	531.8	591.3	658.4	140.8
Grants to District Offices and Municipalities	27.0	29.3	33.3	25.2	29.0	93.3
Balance	+2.0	+9.3	+4.0	0.0	+2.3	—
State Budget Balance	+1.1	+10.4	+7.2	0.0	0.0	—
Local Budgets Balance	+0.9	-1.1	-3.2	0.0	+2.3	—

SOURCE: Jitka Peková, *Místní rozpočty* (Prague: The School of Economics in Prague, 1997), 64.

Table 6A.2

Czech Republic Budget Balance, 1997 [in CZK billions]

	1996 Estimate			1997 Budget			Index 97/96 [%]		
	CR Territory	State Budget	District Offices and Municipalities	CR Territory	State Budget	District Offices and Municipalities	CR Territory	State Budget	District Offices and Municipalities
TOTAL TAX REVENUES	360.2	286.4	73.8	403.1	318.6	84.5	111.9	111.2	114.5
– VAT	111.2	111.2	—	127.8	127.8	—	114.9	114.9	—
– consumption tax	61.5	61.5	—	65.4	65.4	—	106.3	106.3	—
– legal subjects income tax	63.0	47.9	15.1	71.7	55.0	16.7	113.8	114.8	110.6
– phys. subjects income tax	82.3	30.9	51.4	96.3	35.9	60.4	117.0	116.2	117.5
– customs	20.3	20.3	—	19.6	19.6	—	96.6	96.6	—
– road tax	4.3	4.3	—	4.2	4.2	—	97.7	97.7	—

Table 6A.2 (continued)
Czech Republic Budget Balance, 1997 [in CZK billions]

	1996 Estimate			1997 Budget			Index 97/96 [%]		
	CR Territory	State Budget	District Offices and Municipalities	CR Territory	State Budget	District Offices and Municipalities	CR Territory	State Budget	District Offices and Municipalities
– real estate tax	3.8	—	3.8	3.8	—	3.8	100.0	—	100.0
– property taxes	4.3	4.3	—	4.5	4.5	—	104.7	104.7	—
– highway and roads fees	0.9	0.9	—	0.9	0.9	—	100.0	100.0	—
– other taxes and fees	5.1	5.1	—	5.3	5.3	—	103.9	103.9	—
– local administrative fees	3.5	—	3.5	3.6	—	3.6	102.9	—	102.9
SOCIAL INSURANCE AND GOVERNMENTAL POLICY OF EMPLOYMENT CONTRIBUTION	179.9	179.9	—	205.5	205.5	—	114.3	114.3	—
– share of old-age pension insurance	137.5	137.5	—	157.2	157.2	—	114.3	114.3	—
TOTAL NONTAX REVENUES	48.2	24.7	23.5	48.7	25.0	23.7	100.9	101.0	100.9
– income of chapters	18.8	5.8	13.0	17.5	4.3	13.2	93.1	74.4	101.5
– interest received	3.4	3.4	—	3.0	3.0	—	88.3	88.3	—
– revenues from governmental credits	7.7	7.7	—	8.9	8.9	—	115.8	115.8	—
– supplementary revenues	5.3	—	5.3	5.3	—	5.3	100.0	—	100.0
– incomes from property sales	5.2	—	5.2	5.2	—	5.2	100.0	—	100.0
– other incomes	7.8	7.8	—	8.8	8.8	—	111.9	111.9	—
– subsidies from State Funds	3.0	—	3.0	3.4	—	3.4	113.3	—	113.3
Total Revenue	591.3	491.0	100.3	660.7	549.1	111.6	111.7	111.8	111.3

Table 6A.2 (continued)
Czech Republic Budget Balance, 1997 [in CZK billions]

	1996 Estimate			1997 Budget			Index 97/96 [%]		
	CR Territory	State Budget	District Offices and Municipalities	CR Territory	State Budget	District Offices and Municipalities	CR Territory	State Budget	District Offices and Municipalities
CURRENT EXPENDITURES	496.9	410.4	86.5	557.0	460.4	96.6	112.1	112.1	111.6
Subsidies to entrepreneurial subjects	34.1	28.0	6.1	35.2	29.0	6.2	103.3	103.7	101.6
Transfers to inhabitants	189.8	184.8	5.0	217.8	212.5	5.3	114.7	115.0	106.0
– employment	2.7	2.7	—	3.1	3.1	—	117.0	117.0	—
– state balance contribution	0.6	0.6	—	0.0	0.0	—	0.0	0.0	—
– sickness benefits	21.9	21.9	—	24.2	24.4	—	111.5	111.5	—
– other subsidies	7.7	2.7	5.0	7.8	2.5	5.3	106.0	90.8	106.0
– rents	130.6	130.6	—	150.5	150.5	—	115.2	115.2	—
– state social support subsidies	26.3	26.3	—	32.0	32.0	—	121.9	121.9	—
Public State Consumption	257.8	182.4	75.4	288.1	203.0	85.1	111.7	111.2	112.8
– education	61.7	51.2	10.5	67.1	56.2	10.9	108.8	109.9	103.8
– medical care	7.9	3.7	4.2	8.6	4.2	4.4	107.7	111.0	104.8
– culture	7.6	2.8	4.8	8.1	3.1	5.0	106.2	109.6	104.2
– defense	20.6	20.6	—	22.1	22.1	—	107.3	107.3	—
– police and security	20.2	20.2	—	22.9	22.9	—	113.1	113.1	—
– other chapters	139.8	83.9	55.9	159.3	94.5	64.8	113.9	112.7	115.9
Debt Service	14.2	14.2	—	14.4	14.4	—	101.9	101.9	—
Transfers Abroad	1.0	1.0	—	1.5	1.5	—	150.0	150.0	—

Table 6A.2 (continued)
Czech Republic Budget Balance, 1997 [in CZK billions]

	1996 Estimate			1997 Budget			Index 97/96 [%]		
	CR Territory	State Budget	District Offices and Municipalities	CR Territory	State Budget	District Offices and Municipalities	CR Territory	State Budget	District Offices and Municipalities
II. CAPITAL EXPENDITURES	90.3	51.3	39.0	97.7	56.0	41.7	108.3	109.3	106.9
Subsidies to entrepreneurial subjects	8.5	5.3	3.2	9.2	5.8	3.4	108.2	109.4	106.3
Public Sector Costs	81.8	46.0	35.8	88.5	50.2	38.3	108.3	109.3	106.9
III. GOVERNMENT CREDITS	4.1	4.1	—	3.7	3.7	—	90.9	90.9	—
Total Expenditure	591.3	465.8	125.5	658.4	520.1	138.3	111.3	111.7	110.2
Funds of budget chapter for district offices and municipalities	0.0	-8.4	8.4	0.0	-10.5	10.5	0.0	124.7	124.7
Revenues-Expenditures difference	0.0	16.8	-16.8	2.3	18.5	-16.2	—	—	—
State Budgets Grants for district offices and municipalities	0.0	-16.8	16.8	0.0	-18.5	18.5	0.0	109.9	109.9
Total Revenue-Expenditure Difference	0.0	0.0	0.0	2.3	0.0	2.3	—	—	—

SOURCE: Jitka Peková, *Místní rozpočty* (Prague: The School of Economics in Prague, 1997), 63.

Unemployment rate 5.23 percent

Inflation rate 8.5 percent

Annex 6.2

Population, Settlements and Administrative Units

Average population of municipal government 1,659 inhabitants

Average number of municipalities in a district 81 municipalities

Table 6A.3
Municipalities in the Czech Republic by Size Category, 1994

Size of Population	Number of Municipalities	%	Cumulative %	Total Number of Inhabitants	%	Cumulative %
0–199	1,699	27.2	27.2	209,043	2.0	2.0
200–499	2,061	33.1	60.3	667,366	6.5	8.5
500–999	1,215	19.5	79.8	850,216	8.2	16.7
1,000–1,999	646	10.4	90.2	892,741	8.6	25.3
2,000–4,999	345	5.5	95.7	1,049,579	10.2	35.5
5,000–9,999	135	2.2	97.9	934,377	9.0	44.5
10,000–19,999	66	1.1	99.0	931,461	9.0	53.5
20,000–49,999	42	0.7	99.7	1,216,863	11.8	65.3
50,000–99,999	17	0.3	100.0	1,168,930	11.3	76.6
100,000+	7	0.1	100.0	2,413,437	23.4	100.0
Total	6,230	100.0	100.0	10,334,013	100.0	100.0

SOURCE: *Malý lexikon* (Obce České republiky, 1994).

Employees in the public sector

Total	1,167,799
Government	748,495
Central	501,786
Local	239,378
Social security funds	7,331

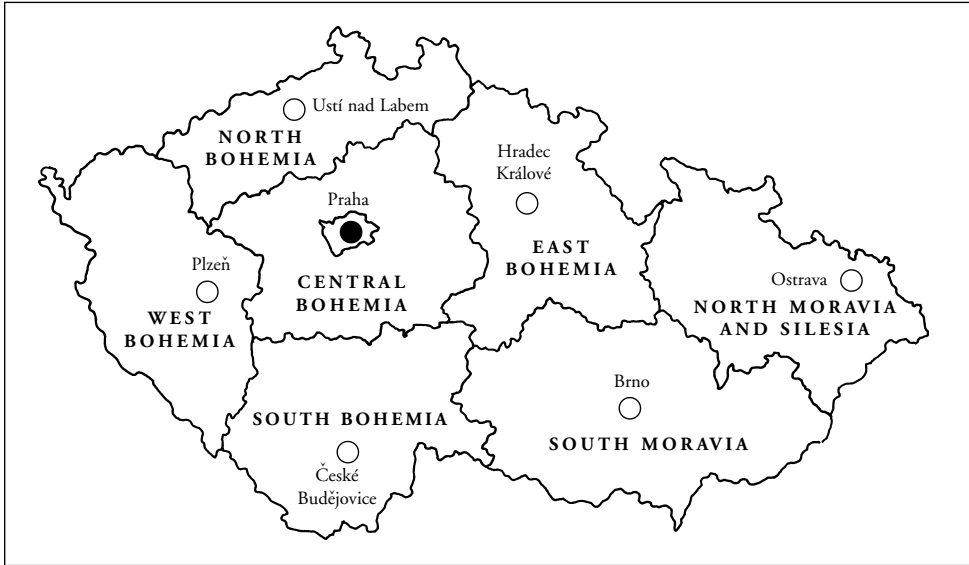
Subnational government expenditure

as percentage of GDP (1998) 11.4 percent

Subnational government expenditure as percentage of general government expenditure	
1997	23.6 percent
1998	23.2 percent

SOURCE: *Statistical Yearbook of the Czech Republic '99.*

Figure 6A.1
Administrative Map of the Czech Republic



Annex 6.3

Major Laws on Public Administration and Local Government

The following laws regulate public administration and local government in the Czech Republic:

- Constitutional Act Nr. 294/1990 Col.
- Governmental Decree Nr. 163/1990/VI 6/Col. on Terminating National Committees of All Degrees Existing to Date of Local Elections
- Act of the Czech National Council Nr. 367/1990 Col. on Municipalities, amended as 410/1992
- Act of the Czech National Council Nr. 425/1990 Col. on District Offices, the Regulation of the Sphere of Their Activities; amendments to Acts of the Czech National Council Nr. 266/1991, Nr. 542/1991, Act Nr. 21/1992, Act Nr. 403/1992 and Act Nr. 254/1994
- Act of the Czech National Council Nr. 418/1990 Col. on the Capital Prague
- Act of the Czech National Council Nr. 368/1990 Col. on Municipal Elections, in wording of Act Nr. 298/1990 on Municipal Elections and Local Referendums in Municipalities
- Act of the Czech National Council Nr. 565/1990 Col. on Local Fees, amended by Act Nr. 48/1994
- Act of the Czech National Council Nr. 576/1990 Col. and its amendments, defining rules of municipal finances management
- Act of the Czech National Council Nr. 55/1991 Col. on Municipal Police
- Act Nr. 152/1994 Col. on Municipal Elections and on the amendment of other acts
- Act of the Czech National Council Nr. 455/1991 Col. on Entrepreneurial Business Activities
- Act of the Czech National Council Nr. 368/1992 Col. on Administrative Fees Collected by the Administrative Offices of the Czech Republic
- Government Decree Nr. 397/1992 on the Relationship of Police of the Czech Republic to the Municipal Authorities
- Act of the Czech National Council Nr. 124/1993 Col. on Offenses
- Act of Parliament of the Czech Republic Nr. 72/1994 Col. regulating co-ownership of flats, supplementing other acts
- Act of the Czech National Council Nr. 172/1991 Col. on Property Transfer from the Czech Republic to Municipalities

Annex 6.4

Responsibilities of Administrative Tiers

Municipalities address self-government issues and represent the state administration; districts solely represent the state administration.

Table 6A.4
Specific Functions of Local Government Tiers in the Czech Republic

Functions	Municipalities	District Office	Regional Offices of Central Administration
I. EDUCATION			
1. Preschool			
2. Primary	X	X	X
3. Secondary		X	X
4. Technical		X	X
5. Other (special care)		X	X
II. SOCIAL WELFARE			
1. Nurseries	X	X	X
2. Kindergartens	X	X	X
3. Welfare Homes	X	X	
4. Personal Services for Elderly and Handicapped	X		
5. Special Services (for homeless, families in crisis, etc.)	X		
6. Social Housing	X		
III. HEALTH SERVICES			
1. Primary Health Care			
2. Health Protection			X
3. Hospitals	X	X	
4. Public Health		X	X

Table 6A.4 (continued)
Specific Functions of Local Government Tiers in the Czech Republic

Functions	Municipalities	District Office	Regional Offices of Central Administration
IV. CULTURE, LEISURE, SPORTS			
1. Theaters	X	X	
2. Museums	X	X	
3. Libraries	X	X	
4. Parks	X		
5. Sports, Leisure	X		
6. Maintaining Buildings for Cultural Events	X	X	
V. PUBLIC UTILITIES			
1. Water Supply	X		
2. Sewage	X		
3. Electricity	X		
4. Gas	X		
5. Central Heating			
VI. ENVIRONMENT, PUBLIC SANITATION			
1. Refuse Collection	X		
2. Refuse Disposal	X		
3. Street Cleaning	X		
4. Cemeteries	X		
5. Environmental Protection	X	X	X
VII. TRAFFIC, TRANSPORT			
1. Roads	X	X	
2. Public Lightning	X		
3. Public Transport	X	X	

Table 6A.4 (continued)
Specific Functions of Local Government Tiers in the Czech Republic

Functions	Municipalities	District Office	Regional Offices of Central Administration
VIII. URBAN DEVELOPMENT			
1. Town Planning	X	X	
2. Regional/Spatial Planning		X	
3. Local Economic Development	X		
4. Tourism	X		
IX. GENERAL ADMINISTRATION			
1. Authoritative Functions (licenses, etc.)	X	X	
2. Other State Administrative Matters (electoral register, customs inspection, environment, special facilities, etc.)	X		X
3. Local Police	X		X
4. Fire Brigades	X	X	
5. Civil Defense		X	
6. Consumer Protection			X

