

A Brief Guide to the City of Zagreb 2015 Budget Revision Proposal

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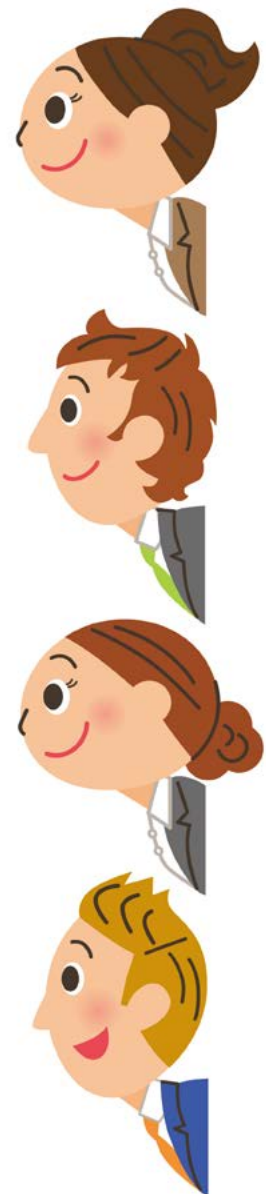
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**A Brief Guide
to a Proposal
for the
City of Zagreb
2015
Budget Revision**



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The purpose of this Brief Guide is to provide the public with basic information about the **amendments** to, i.e. revision of the City of Zagreb budget, proposed in July 2015, and to encourage them to participate in deliberations about the City's budget. The proposed budget revision in the [Decision on Amendments to the City of Zagreb 2015 Budget](#) is available on the City's website, as are the [Guide to the City of Zagreb Budget](#), and [A Brief Guide to the City of Zagreb 2015 Enacted Budget](#) that can help in understanding this document and the City's budget process.

Below is a brief presentation of the City's budget revenues, expenditures, financing account and debt for the period 2013–15, including a more detailed analysis of the budget revision proposal, i.e. changes from the City of Zagreb's 2015 Budget Plan.

PLANNED REVENUES AND EXPENDITURES

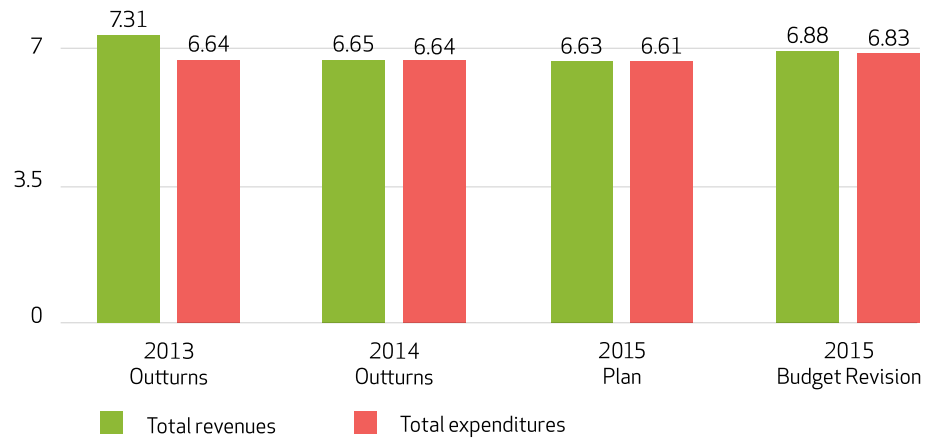
The City Assembly on 22 December 2014 adopted the [City of Zagreb 2015 Budget](#) with revenues and expenditures totalling HRK 6.63bn and HRK 6.61bn respectively. Under the budget revision, **revenues** are proposed **to go up** by HRK 249.5m (3.8%), i.e. **to HRK 6.88bn**, and **expenditures** by HRK 218m (3.3%), i.e. **to HRK 6.83bn** from the 2015 Budget Plan (graph 1). Revenues are increased due to the expected collection of an amount of about HRK 205m, related to a dispute over the personal income tax share for **decentralised functions**, which the City had previously paid into the state budget and which it now claims back. The increase in expenditures is explained in greater detail below.

amendment

a proposal for changes and additions to a budget proposal.

decentralised function

responsibility for part of certain public services (primary and secondary education, health care, social welfare and fire fighting services) which the state delegates to a certain number of counties, cities and municipalities, providing them, in return, with additional funding.



Graph 1: City of Zagreb budget revenues and expenditures, 2013–15 (in billion HRK)

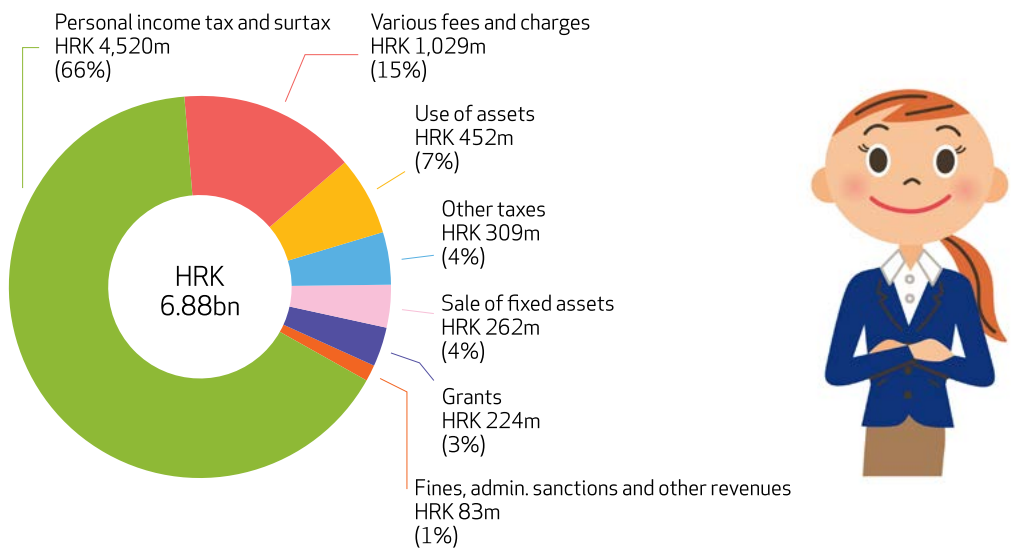


The **City budget includes revenues and expenditures of the City's administrative bodies, as well as of 326 City budget users**, namely institutions founded and majority-financed by the City (e.g. health centres, homes for the elderly and disabled, primary schools, museums, kindergartens, etc.). There are also **companies (such as Zagreb Holding), founded by the City** for the provision of public services and performance of public interest activities. However, as such companies are not majority-financed from the City budget and are not its budget users, their revenues and expenditures are not stated in the budget.

PLANNED REVENUES

Total revenues planned under the budget revision amount to HRK 6.88bn (graph 2), of which two thirds will be collected from **personal income tax and surtax (HRK 4.5bn)**.

The second largest source of revenues are various **fees and charges (HRK 1,029m)**, mostly utility contributions and charges, followed by **the use of assets (HRK 452m)**, mainly public road user charges payable when registering a vehicle, the rental of office space, terraces, parking places, etc., and **other taxes (HRK 309m)**, mainly real property transfer tax and tax on road motor vehicles.



Graph 2: City budget revenues planned under the 2015 budget revision

Major revenue differences between the budget plan and the proposed budget revision

The revised budget proposes an increase in revenues by HRK 249.5m (3.8%), most of all in personal income tax revenues (by HRK 205m or 4.8%).

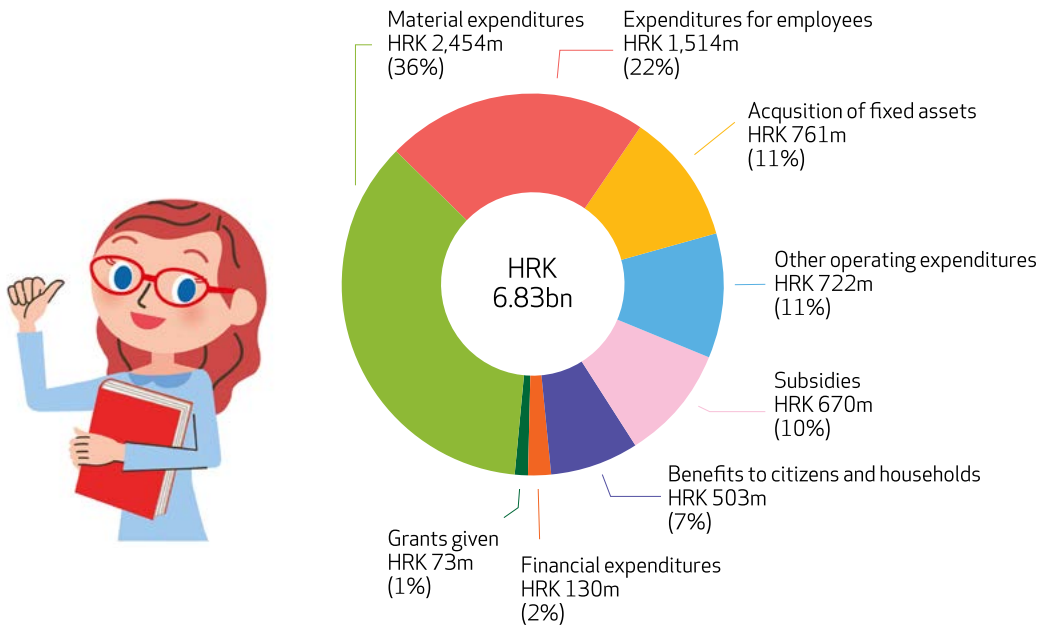
Other revenues go up by HRK 31m (86%), after the City had acquired stakes, i.e. shares in the capital of Industrogradnja grupa d.d., Industrogradnja nekretnine d.o.o. and Magma d.d. in exchange for its claims in the pre-bankruptcy settlements of these companies.

Grants from the state budget are proposed to **increase by HRK 26m (100%)**. Due to changes in personal income taxation that became effective on 1 January 2015, personal income tax revenues raised in the first six months of the year and used for the financing of decentralised functions, fell short of the minimum standards. Therefore, the City became entitled to equalisation grants from the state budget, so that an increase in these revenues is planned under the budget revision.

As a result of reduced real estate market activity, **real property transfer tax revenues** are expected to **fall by HRK 13m (7.6%)**.

PLANNED EXPENDITURES BY TYPE

Total expenditures proposed under the budget revision stand at **HRK 6.83bn** (graph 3).



Graph 3: City budget expenditures planned under the 2015 budget revision, by type (economic classification)

The bulk of **material expenditures (HRK 2.5bn)** relate to the current and investment maintenance of utility infrastructure facilities (e.g. water supply, drainage or utility power supply facilities and equipment), as well as materials, energy and services necessary for the smooth functioning of the City's administrative bodies and 326 City budget users.

Expenditures for employees (HRK 1.5bn) include the salaries, social security contributions and compensation of about 11,400 City administration and **City budget users' employees** (e.g. employees of pupils' homes, schools, kindergartens, museums, etc.).

An amount of about **HRK 761m** is planned **for the acquisition of fixed assets**, mainly roads, utility infrastructure and commercial and residential buildings.

Other operating expenditures in the amount of **HRK 722m** mainly include current and capital grants (HRK 419m and HRK 239m respectively). The most substantial current grants relate to sports, religious and private



kindergartens and schools, culture and non-profit making organisations. The largest capital grants will be given for the funding of the wastewater management project (HRK 108m) and for the repayment of loans taken out by the Zagreb Electric Tram – ZET company for its motor fleet renewal and reconstruction (HRK 110m).

Subsidies (HRK 670m) are planned for promoting the production and services of companies, craftsmen, farmers and SMEs. The bulk of this amount has been earmarked for the City's public transport, namely ZET (HRK 531m) and for the rental of the Arena sports hall (HRK 58.4m).

Major expenditure differences between the budget plan and the proposed budget revision

Consistent with the rise in revenues is the proposed **increase in total expenditures of HRK 218m (3.3%)**. Given some deviations from the planned amounts, revealed by an analysis of the City's expenditures during the first six months of 2015, the structure of certain expenditures has also been changed under this budget revision, i.e. those revenues that are forecast to exceed the planned amounts by the end of the year have been increased, while those expected to be lower than planned have been reduced.

The sharpest increase in expenditures of almost HRK 63m (14.2%) is proposed **for benefits to citizens and households**. The increase in benefits mainly relates to the covering of additional costs of free textbooks for all primary and secondary school pupils (HRK 10.5m and HRK 46m respectively), the co-financing of intercity transport of secondary school pupils (HRK 3m) and public transport of pensioners (HRK 4m), as well as cash assistance for newborn babies (HRK 1.5m).

Other expenditures are proposed to **rise by HRK 46m (6.8%)**. The largest increases relate to the co-financing of the programmes of religious and private pre-school institutions (HRK 16m) due to greater coverage of children, provision of support to sports clubs (HRK 5m), increasing of budget reserve (HRK 5m), preparation of project documentation for the reconstruction of the Maksimir Stadium (HRK 5m), donations to NGOs engaged in intra-city, inter-city and international cooperation in promoting human rights and gender equality (HRK 4.5m) and current grants for major sporting events hosted by the City of Zagreb – the European Basketball Championship, Judo Grand Prix, Zagreb Marathon, Hanžeković Memorial, European Sambo Championship and European Universities Games (HRK 3.7m).

Material expenditures are proposed to **go up by HRK 33.5m (1.4%)**. The increase is mainly related to materials and energy expenses of primary and secondary schools and pupils' homes (HRK 14.6m), higher standards in primary and secondary schools (HRK 7.7m) and the costs of increased demand for services for the legalisation of illegally constructed buildings (HRK 5.5m).

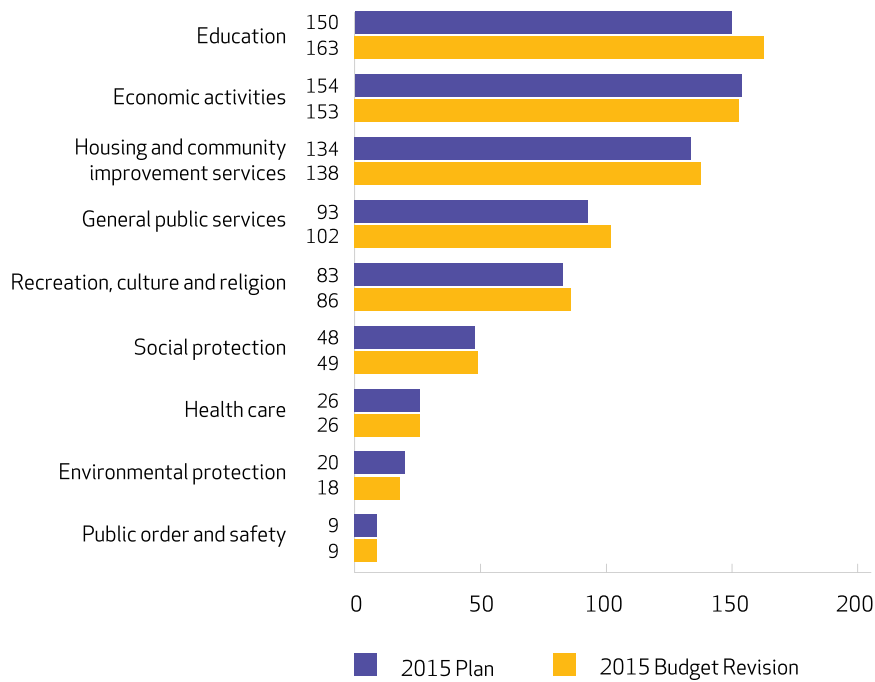


Expenditures for employees are proposed to **rise by HRK 30.9m (2.1%)**. Most of this increase will be spent on the salaries of preschool education institutions' employees (HRK 19.9m), due to the opening of new kindergartens in Kajzerica and Vugrovec Donji, which increased the number of educational groups and, consequently, the number of new hirings. Also proposed is an increase in the amounts of class teacher salaries, given the larger number of extended stay groups (HRK 6.9m), in the amount of staff costs in cultural institutions (HRK 2.9m), as well as in the amount for covering the costs of employees of the City Office for Physical Planning, Construction of the City, Utility Services and Transport due to increased demand for the legalisation services (HRK 2.4m).

Total expenditures for additional investments in buildings are proposed to **increase by HRK 8.6m (11.8%)**, mainly due to additional investments in sports facilities for the European Universities Games 2016 (HRK 5.9m).

PLANNED EXPENDITURES BY PURPOSE

The average monthly spending per citizen, planned under the budget revision, is about HRK 743, up HRK 25 from the initially budgeted amount (graph 4). Most of this amount will be spent for education (HRK 163), economic activities (HRK 153) and housing and community improvement services (HRK 138). The sharpest increases in monthly spending per citizen will be in education (HRK 13) and general public services (HRK 9).



Graph 4: Average monthly spending per purpose, per citizen (functional classification), 2015 (in HRK)

Expenditures for education relate to preschool education (staff costs in city kindergartens, kindergarten fee subsidies, etc.), as well as primary and secondary education (including material expenditures and the acquisition of fixed assets).

Economic activities generally include public city transport and road construction and maintenance, but also, e.g., agricultural, forestry and tourist activities.

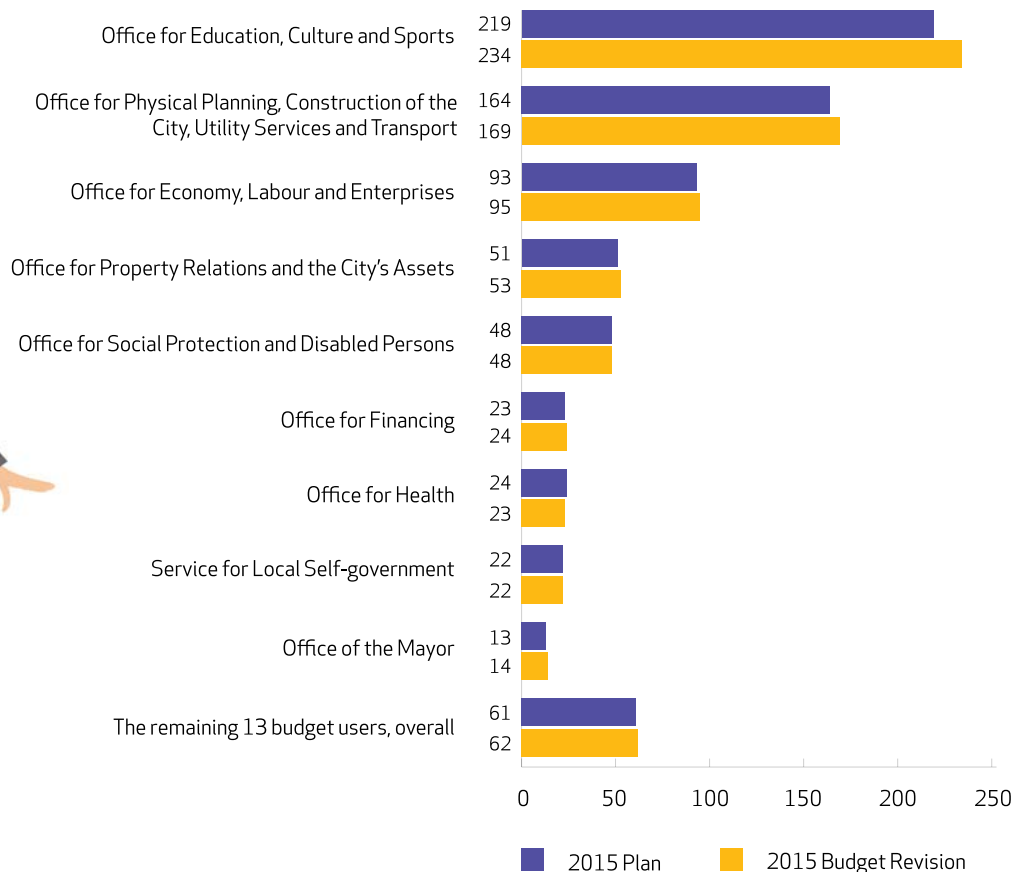
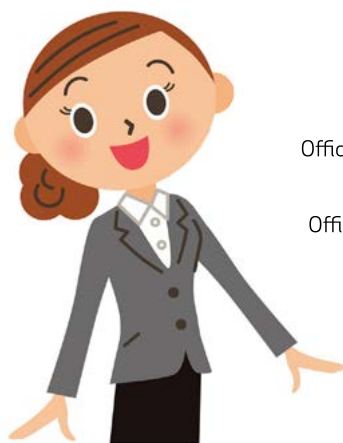
Housing and community improvement services mostly relate to the management and maintenance of the city property and public spaces (e.g. the maintenance of public spaces, covering of public lighting costs and construction of utility infrastructure facilities).

General public services mainly relate to expenditures for employees and material costs of the City's administrative bodies and 326 City budget users.



PLANNED EXPENDITURES BY BUDGET USER

The three largest offices, namely the Office for Education, Culture and Sports, Office for Physical Planning, Construction of the City, Utility Services and Transport and Office for Economy, Labour and Enterprises – are supposed to **jointly spend about two thirds of the City's budget resources. This is HRK 497** on average **per citizen, or HRK 22 more** than the initially budgeted amount.



Graph 5: Average monthly spending per budget user, per citizen (organisational classification), 2015 (in HRK)

FINANCING ACCOUNT

In contrast to the terms revenues and expenditures, used in the revenue and expenditure account when it comes to business operations and the purchase of fixed assets, the terms receipts and outlays are used in the financing account, when referring to financial assets and the granting, taking out and repayment of loans. Receipts are monetary inflows, e.g. repaid principals of granted loans, proceeds from the sale of shares and bonds, and funds from borrowing, whereas outlays are monetary outflows of the same kinds. The difference between receipts and outlays represents net financing, i.e. the amount equal to the surplus/deficit from the revenue and expenditure account.



Total receipts from financial assets and borrowing, planned under the budget revision, stand at HRK 221.9m, the bulk of which (HRK 220m) should come from new borrowing. Total outlays are **planned at HRK 271.9m, HRK 31.8m (11.8%) more than the initially budgeted amount.** Most of these funds will be spent on loan repayment.

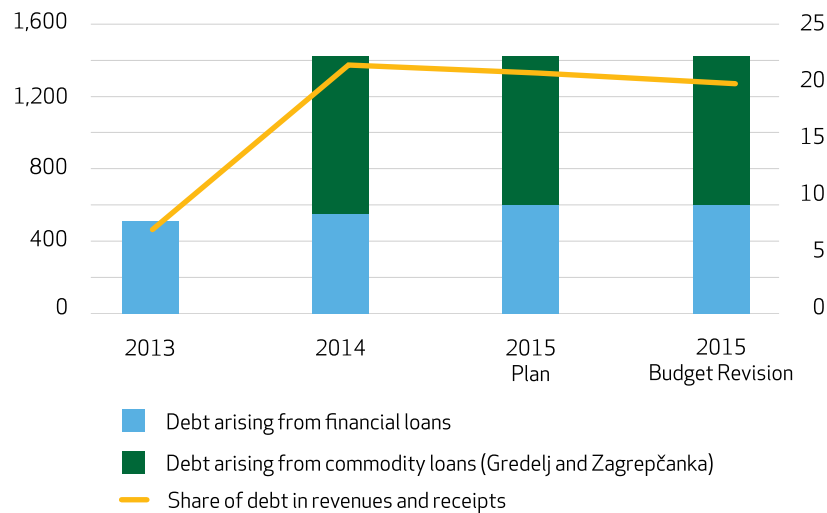
	2013 Outturns	2014 Outturns	2015 Plan	2015 Budget Revision
Revenue and expenditure account				
Total revenues	7,312.2	6,649.1	6,628.6	6,878.1
Total expenditures	6,638.4	6,636.1	6,610.0	6,828.1
Surplus	673.7	13.1	18.7	50.0
Financing account				
Receipts from financial assets and borrowing	152.8	197.6	221.4	221.9
Outlays on financial assets and loan repayment	157.3	222.1	240.1	271.9
Net financing	-4.5	-24.5	-18.7	-50.0

Table 1: The Zagreb Budget revenue and expenditure account and financing account, 2013–15 (in million HRK)

THE CITY BUDGET DEBT

The City of Zagreb's direct debt stood at HRK 1,456m at the end of 2014 (graph 6), accounting for about 21.3% of the total budget revenues and receipts. This suggests a relatively low level of indebtedness, enabling the City to easily service its direct debt from its regular revenues and receipts.

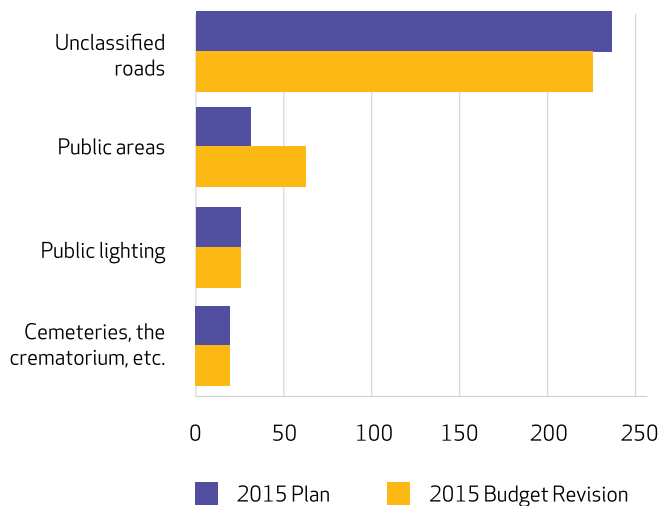
The City's direct debt will decrease by HRK 20m in 2015 relative to 2014, with the share of debt in budget revenues and receipts standing at 20.2%. The total amount of debt planned under this budget revision will not change relative to the initially budgeted amount. However, due to the planned revenue growth, **the share of debt in total revenues and receipts will be reduced from 21.3% to 20.2%.** Given that, according to the [Budget Act](#), the City's long-term borrowing is subject to the Government's approval, graph 6 shows the planned level of debt, while the actual level of debt will depend on the Government's approval.



Graph 6: City's direct debt (in million HRK, left-hand scale) and the share of debt in budget revenues and receipts (in %, right-hand scale), 2013-15

MAJOR INVESTMENTS IN THE CONSTRUCTION OF UTILITY INFRASTRUCTURE FACILITIES AND EQUIPMENT

Investments in the construction of utility infrastructure facilities and equipment are proposed to **go up from HRK 313m to HRK 335m, i.e. by 7%** (graph 7).



Graph 7: Capital investments in the construction of utility infrastructure facilities and equipment, 2015 (in million HRK)

Investments in public spaces are proposed to increase by HRK 32m (106%). Under the budget revision, a children's playground is planned to be built in Bartol Kašić Park, and an amount has been earmarked for landscaping the area along Hrvatske bratske zajednice Street, as part of the construction works contracted in 2014 (which was not planned in the 2015 budget). It is also planned to finance the preparation of technical documentation and renovation of the plateau between the tram line and the statue at King Tomislav Square, as well as the construction of Franjo Tuđman Square and preparation of technical documentation of the Sljeme cable car.

Investments in unclassified roads are planned to **drop by HRK 10m (4%)**, mainly due to cuts in the amounts planned for certain projects after the completion of public procurement procedures, incomplete technical documentation or unresolved property relations.

Funds planned for public lighting, cemeteries and the crematorium remain unchanged, but will be reallocated among various projects. New projects planned include, for example, the installation of street lighting in: Trpimirova, Haulikova and Kumičićeva streets and 148th Brigade Park,

on the sidewalk along Grada Vukovara Street (from the Palace of Justice to the Water Management Company building), in Nehajska and Kranjčevićeva streets, in the park in Jablanska Street, in Sveti Duh Street (from Ilica Street to Kuniščak Street) and in Jelenovac Street. Technical documentations for these projects have been completed in the meantime. It is also planned to install public lighting in Kata Šojić Park, at the parking lot and near the Vrapče Health Centre, at the crossing of Ilica Street, Bologna Alley and Mother Theresa Street, in Ivekovićeva Street and at 1 Nova Street, because it is required that the planning, construction and reconstruction of parks and traffic areas also include the reconstruction and completion of public lighting.

WHAT CAN CITIZENS DO?

The City Assembly, as the representative body of citizens, will discuss the 2015 budget revision on 16 July 2015. We are talking about total revenues and total expenditures of HRK 6.88bn and HRK 6.83bn respectively. Under the revised budget, revenues are proposed to go up by HRK 249.5m (3.8%) and expenditures by HRK 218m (3.3%). The average monthly amount per citizen spent by the City will be about HRK 743. With the help of this brief guide, [A Brief Guide to the City of Zagreb 2015 Enacted Budget](#) and the [Guide to the City of Zagreb Budget](#), citizens can compare the City of Zagreb Budget planned in December 2014 and amendments proposed in this revised budget. This will enable them to contribute to the Assembly's discussions and participate in the allocation of the City's funds in the way that best suits their needs and preferences.



USEFUL WEBSITES

[City of Zagreb](#) – The official website of the City of Zagreb

[City of Zagreb – Finances](#) – City budget and the budget execution report

[City Office for Finance](#) – Contacts, competence and activities

[City offices, institutes and professional services](#) – Detailed data,
contacts, competence
and activities

[City Assembly](#) – Organisation, competence,
working bodies and regulations

[City districts](#) – Basic information, territorial boundaries,
bodies and powers

[Local committees](#) – Territorial boundaries, seats and powers

[Zagreb Holding](#) – Organisation, services, topical issues and contacts

[Official Journal of the City of Zagreb](#) – All City regulations

[Ministry of Finance – Local budgets](#) – The budgets of all municipalities,
cities and counties

[Budget Act](#) – Budget-related acts and regulations

PREVIOUSLY PUBLISHED GUIDES

[A Guide to the City of Zagreb Budget](#)

[A Brief Guide to the City of Zagreb 2015 Enacted Budget](#)

[A Brief Guide to the City of Zagreb 2014 Budget Execution](#)