

# A Brief Guide to the City of Zagreb 2015 Budget Execution

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# **A Brief Guide to the City of Zagreb 2015 Budget Execution**



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The purpose of this brief guide is to provide citizens with basic information about the City of Zagreb's 2015 budget outturns and to encourage them to monitor the budget and communicate with the City authorities. The full [year-end report on the execution of the City of Zagreb's 2015 budget](#) can be found on the City's website, and the [previously published general guide and brief guides](#) can also be helpful in understanding the report and the City's overall budget process.

Below is a brief presentation of the revenues, expenditures and budget financing account for the period 2014–16 through all phases of budgeting (the 2014 budget execution, enacted 2015 budget, adopted 2015 budget revision, 2015 budget execution and 2016 budget plan), including a more detailed analysis of the City of Zagreb's revenue and expenditure outturns for 2015.

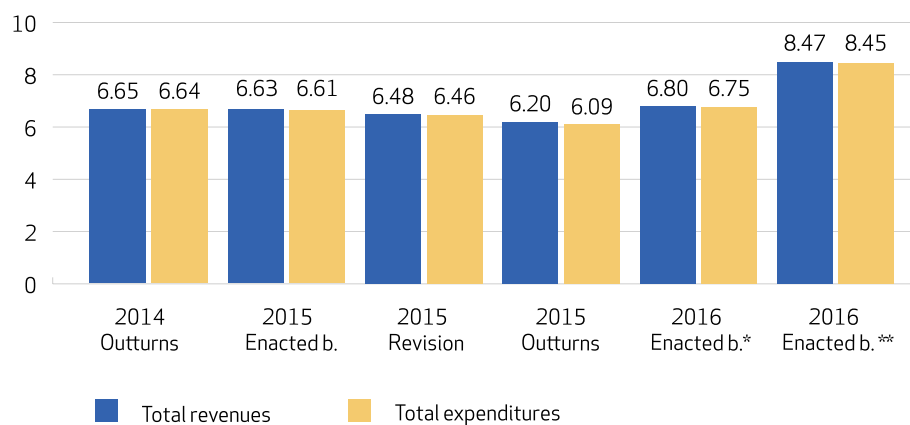
## REVENUE AND EXPENDITURE OUTTURNS

Under the [City of Zagreb's 2015 budget](#), enacted by the City Assembly on 22 December 2014, total revenues were planned at HRK 6.63bn and total expenditures at HRK 6.61bn. The City Assembly on 22 December 2015 adopted a [revision of that budget](#), reducing total 2015 revenues and expenditures to HRK 6.48bn and HRK 6.46bn respectively.

*In order to strike a balance between budget spending and the revenue collection dynamics, the Mayor passed [three Resolutions on the Reallocation of the City's Budget Funds](#) during 2015. Specifically, Article 46 of the [Budget Act](#) allows for the reallocation of funds within the totally enacted budget during the year, subject to Mayor's approval. Up to 5% of expenditures and outlays under a reduced line item can be reallocated. Exceptionally, up to 15% of the funds can be reallocated, provided that this increases the national share in EU co-financed projects. However, given that these are only minor reallocations which do not affect the total amount of the City budget, the reallocation of funds is not the subject matter of this guide.*

**The City of Zagreb's realised 2015 budget revenues stood at HRK 6.2bn and realised expenditures at HRK 6.1bn** (graph 1). The revenues raised in 2015 are HRK 444m (6.7%) lower than those realised in 2014. The revenue fall was mainly due to changes in personal income taxation (i.e. the increase in the monthly basic personal allowance and extension of tax brackets), as well as changes in the personal income tax sharing between the central government and the City of Zagreb, effective as of 1 January 2015. As a result of a revenue loss, the City was forced to cut its realised expenditures by HRK 550m (8.3%) relative to their level in 2014. Compared with the 2015 budget revision, realised 2015 revenues and expenditures decreased by HRK 273m (4.2%) and HRK 375m (5.8%) respectively.

The City's total 2016 budget revenues and expenditures are planned at HRK 8.47bn and HRK 8.45bn respectively. The noticeable increase in planned revenues and expenditures in 2016 relative to 2015 is due to a statutory obligation of the City to include in the budget its own revenues and earmarked revenues of all of the City's budget users, as well as expenditures financed from these revenues. This is only a matter of methodological change in the scope of the City's budget, resulting in an increase in revenues and expenditures. Consequently, as of 1 January 2016, the City budget includes all revenues and expenditures of all 324 City's budget users. Since that day, the budget has been increased by the own revenues and earmarked revenues of the City's budget users, as well as expenditures financed from these revenues that have previously not been included in the City's budget. If the scope of the budget was the same as in the previous years, the 2016 revenues and expenditures would amount to HRK 6.8bn and HRK 6.75bn respectively.



**Graph 1: The City of Zagreb's budget revenues and expenditures, 2014–16 (in billion HRK)**

\* Excluding own and earmarked revenues of budget users, as well as expenditures financed from these revenues.

\*\* Including own and earmarked revenues of budget users, as well as expenditures financed from these revenues.

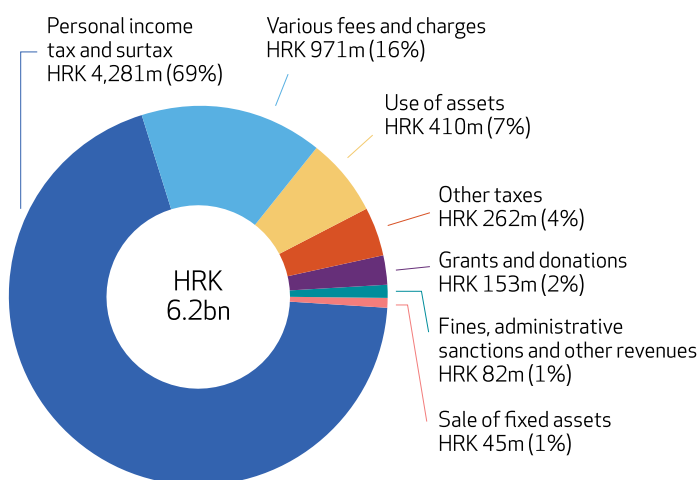
The City's budget users, i.e. institutions founded and majority-financed by the City, and listed in the [Register of Budget and Extra-budgetary Users](#), are e.g. public health care institutions (health centres, polyclinics, hospitals and institutes), preschool, primary school and secondary school education institutions, social welfare institutions, the City's fire fighting brigades, Office for Physical Planning, Public Institution Maksimir, Zoological Garden and Sports Facilities Management Institution.

There are also [companies \(such as Zagreb Holding\)](#), founded by the City to provide public services and perform public interest activities. However, as such companies are not majority-financed from the City's budget (they are not its users), their revenues and expenditures are not shown in the City's budget.



## REALISED REVENUES

**Total revenues realised in 2015 stand at HRK 6.2bn** (graph 2), over two thirds of which come from **personal income tax and surtax (HRK 4.28bn)**.



Graph 2: Realised City's budget revenues, 2015

The second largest sources of revenues are **various fees and charges** (HRK 971m), mostly utility contributions and charges, and preschool education co-financing funds, followed by the revenues from **the use of assets** (HRK 410m), mainly public road user charges payable at vehicle registration,

In 2015, every employed person paid an average monthly amount of about HRK 929 in personal income tax and surtax into the City's budget.

the rentals of office space, billboards, advertising boxes, terraces, parking places, mobile devices, kiosks, apartments, etc., and **other taxes** (HRK 262m), mainly real property transfer tax and road motor vehicle tax.

Revenues from **grants and donations** accounted for 2% of total collected revenues in 2015 (HRK 153m) and mainly related to grants from the state budget, EU budget and the Environmental Protection and Energy Efficiency Fund. In 2015, the City received transfers from the state budget in the form of: equalisation grants for decentralised functions (HRK 44.4m), rentals for the Arena sports hall (HRK 28.9m), co-financing funds for intercity school children transportation (HRK 23m), funds for election organisation (HRK 11.4m), preschool education programmes (HRK 5.1m), interest subsidies for enterprise development (HRK 4.7m), etc. Grants from the Environmental Protection and Energy Efficiency Fund for the co-financing of submitted projects stood at HRK 20.1m and grants for EU-funded projects amounted to HRK 12.8m.

#### Main differences between realised 2014 and 2015 revenues and revised and realised 2015 revenues



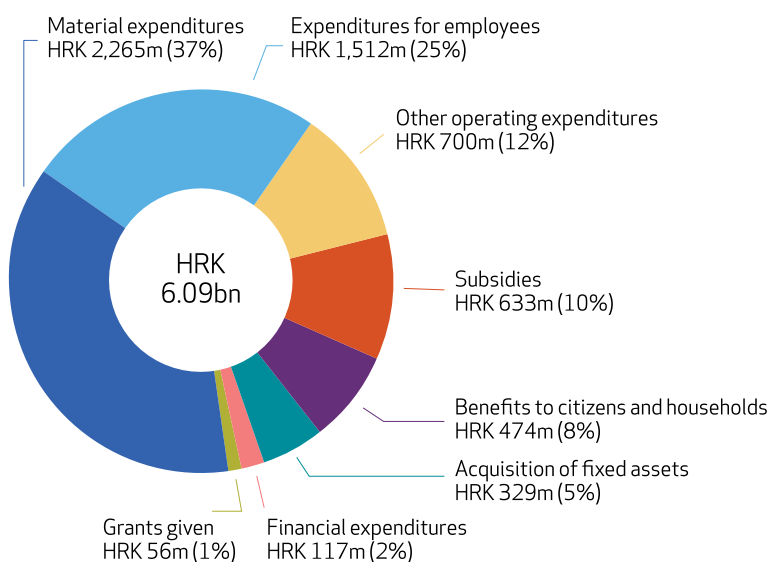
**Compared with 2014, total revenues declined by HRK 444m (6.7%). The sharpest fall was seen in revenues from personal income tax and surtax** (down HRK 470m or 9.9%), as a result of the stated personal income taxation changes and personal income tax sharing. A minor fall from 2014 was also recorded in the 2015 revenues from the use of assets (by HRK 29.3m, mainly due to a cut in fees for keeping illegally constructed buildings in place), grants from the state budget (by HRK 17.6m) and property taxes (by HRK 15.8m), mostly real estate transfer tax.

**The largest increase in revenues in 2015 relative to 2014** was seen in state budget equalisation grants for decentralised functions (up HRK 44.4m), and revenues from various fees and charges (up HRK 28.7m, mainly utility contributions and charges).

**Compared with the 2015 revised budget, total revenues realised in 2015 declined by HRK 273m (4.2%).** The sharpest fall was seen in planned revenues from the sale of non-financial assets, i.e. land and the City-owned apartments (by HRK 196m), and tax revenues (by a total of HRK 57.2m, of which HRK 33.6m related to personal income tax and surtax, HRK 15.7m to goods and services tax and HRK 7.9m to property taxes).

## REALISED EXPENDITURES BY TYPE

**Total expenditures stood at HRK 6.09bn in 2015** (graph 3). Relative to 2014, total City budget spending decreased markedly in 2015 (by HRK 550m); moreover, expenditure outturns were significantly lower than the expenditures planned under the budget revision (by HRK 375m). The fall in budget spending in 2015 compared with the previous year and with the revised budget was primarily due to striking a balance between spending and lower revenue outturns.



Graph 3: Realised City's budget expenditures in 2015, by type (economic classification)



The bulk of **material expenditures** (HRK 2.3bn) related to the current and investment maintenance of utility infrastructure facilities (e.g. public areas, public lighting, roads, cemeteries and the crematorium, etc.), lease and rental fees, as well as materials, energy use and services necessary for the smooth functioning of the City's administrative bodies and budget users.

**Expenditures for employees** (HRK 1.5bn) included total salaries and contributions of the City administration and City's budget users' employees, e.g. persons employed with preschool education, cultural, sports, health care and social protection institutions, as well as numerous other city institutions of general public interest (see the [Guide to the City of Zagreb Budget](#)).

**Other operating expenditures** in the amount of HRK 700m mainly included current and capital grants (HRK 401m and HRK 238m respectively). The most substantial current grants given in 2015 related to sports, religious and private kindergartens and schools, culture, social protec-



tion, health-care, fire fighting, agricultural subsidies and donations to various non-profit making organisations. The largest capital grants from the City's 2015 budget were given for the renewal and reconstruction of ZET's motor fleet (HRK 113m), settlement of debts of the Zagreb Wastewater treatment plant (HRK 105m) and for public sector companies' projects, submitted for co-financing to the Environmental Protection and Energy Efficiency Fund (HRK 19m).

**Subsidies** (HRK 633m) were allocated for the promotion of production and the services of companies, craftsmen, farmers and SMEs. The bulk of the subsidies were given for the City's public transport, namely to ZET (HRK 508m), for the rental of the Arena sports hall (HRK 58m), the promotion of crafts, farming and SMEs (HRK 32m) and employment of disabled persons at the URIHO and Lada d.o.o. companies (HRK 27m).

**Benefits to citizens and households** amounted to HRK 474m in 2015, and were paid for transportation co-financing (HRK 154m), cash assistance for newborns (HRK 81m), primary and secondary school textbooks (HRK 77m), the funding of the pension supplement (HRK 68m), raising the living standards of pupils and students, supporting the children of killed or missing homeland war veterans (HRK 39m), housing costs assistance (HRK 15m), etc.

**Expenditures for the acquisition of fixed assets** stood at about HRK 329m in 2015, and related mainly to business facilities (such as cultural, preschool, school, health-care and social welfare institutions), roads and other construction facilities (where the funds were used for the construction of buildings and utility infrastructure, rehabilitation of landslides, etc.), as well as plants and equipment.



#### **Main differences between realised 2014 and 2015 expenditures and revised and realised 2015 expenditures**

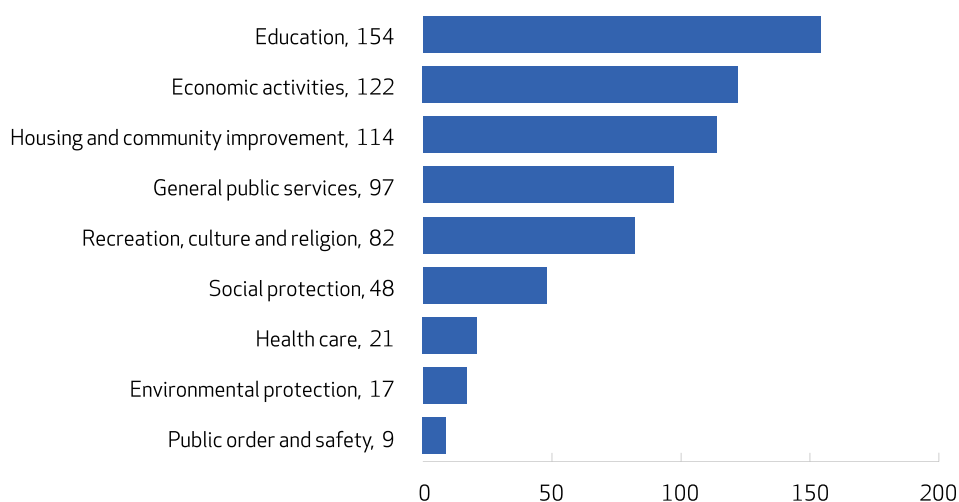
**Compared with expenditures realised in 2014, the 2015 expenditure outturn decreased by HRK 550m (8.3%).** The sharpest falls were seen in expenditures for the acquisition of fixed assets (by HRK 362m overall, most of it relating to the acquisition of construction facilities), current grants (by HRK 133m), subsidies (by HRK 91m) and material expenditures (by HRK 75m, mainly expenditures for services). The largest increase (by HRK 101m) was recorded in expenditures for capital grants to public sector companies.

**Compared with expenditures planned under the 2015 budget revision, the 2015 expenditure outturns deteriorated by HRK 375m (5.8%).** The sharpest

cuts were in the acquisition of fixed assets (down HRK 198m, mainly construction facilities), material expenditures (down HRK 124m, mainly expenditures for services), and expenditures for employees (by HRK 12m).

## REALISED EXPENDITURES BY PURPOSE

**Average monthly spending per citizen was about HRK 664 in 2015** (graph 4). The bulk of this amount was spent on education (HRK 154), economic activities (HRK 122), and housing and community improvement services (HRK 114).



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

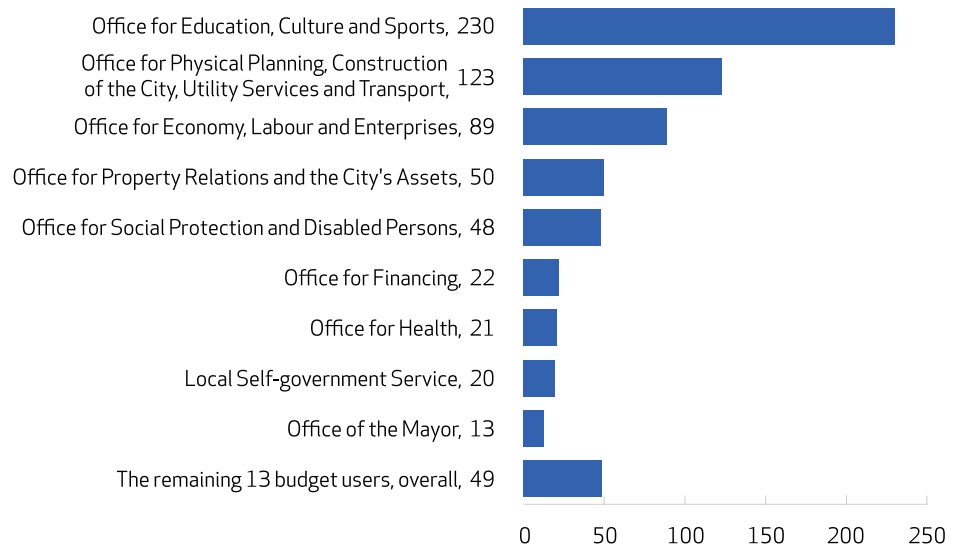
*Expenditures for education relate to preschool education (staff costs in the City's kindergartens, kindergarten fee subsidies, etc.) and primary and secondary education (including part of the salary compensation for employees, e.g. in the case of extended stay at school, material expenditures and the acquisition of fixed assets).*

*Economic activities generally include the City's public transport, road construction and maintenance, but also, e.g., agriculture, forestry and tourism.*

*Housing and community improvement services relate, for the most part, to the City's property and public space maintenance and public lighting.*

## REALISED EXPENDITURES BY BUDGET USERS

Most of the City's administrative bodies accounted for relatively small shares in total expenditures, while **the three most important city 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 – **jointly spent as much as about two thirds of the City budget resources, i.e. a monthly average of HRK 442 per citizen.**



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



## FINANCING ACCOUNT

In 2015, the City's total revenues and expenditures stood at HRK 6,205m and HRK 6,086m respectively. As the funds collected exceeded those spent, there was a budget surplus of HRK 119m (table 1) which was used for the repayment of current debts.

The City's receipts in 2015 totalled HRK 194.4m; most of this amount (HRK 190m) related to a long-term loan for the funding of investment projects. Outlays in the amount of HRK 272.8m were spent on financial assets and debt repayment, the bulk of which related to the repayment of the principals of received credit and loans (HRK 238.9m).

	2014 Outturns	2015 Enacted b.	2015 Revision	2015 Outturns	2016* Enacted b.	2016** Enacted b.
<b>Revenue and expenditure account</b>						
Total revenues	6,649.1	6,628.6	6,478.0	6,204.9	6,798.2	8,467.5
Total expenditures	6,636.1	6,610.0	6,460.7	6,085.6	6,750.9	8,453.1
<b>Surplus</b>	<b>13.1</b>	<b>18.7</b>	<b>17.3</b>	<b>119.2</b>	<b>47.3</b>	<b>14.4</b>
<b>Financing account</b>						
Receipts from financial assets and borrowing	197.6	221.4	222.0	194.4	201.8	234.7
Outlays for financial assets and loan repayment	222.1	240.1	239.3	272.8	249.1	249.1
<b>Net financing</b>	<b>-24.5</b>	<b>-18.7</b>	<b>-17.3</b>	<b>-78.4</b>	<b>-47.3</b>	<b>-14.4</b>



**Table 1: Zagreb's budget revenue and expenditure account and financing account, 2014-16 (in million HRK)**

\* Excluding own and earmarked revenues of budget users, as well as expenditures financed from these revenues.

\*\* Including own and earmarked revenues of budget users, as well as expenditures financed from these revenues.

1	Total revenues and receipts	6,399.30
2	Total expenditures and outlays	6,358.40
<b>3</b>	<b>Current period's surplus (1-2)</b>	<b>40.8</b>
4	Deficit carried over from the previous year	-172.5
5	Total deficit to be covered in the next period (3-4)	-131.7



**Table 2: Covering the deficit carried over from the previous year, 2015 (in million HRK)**

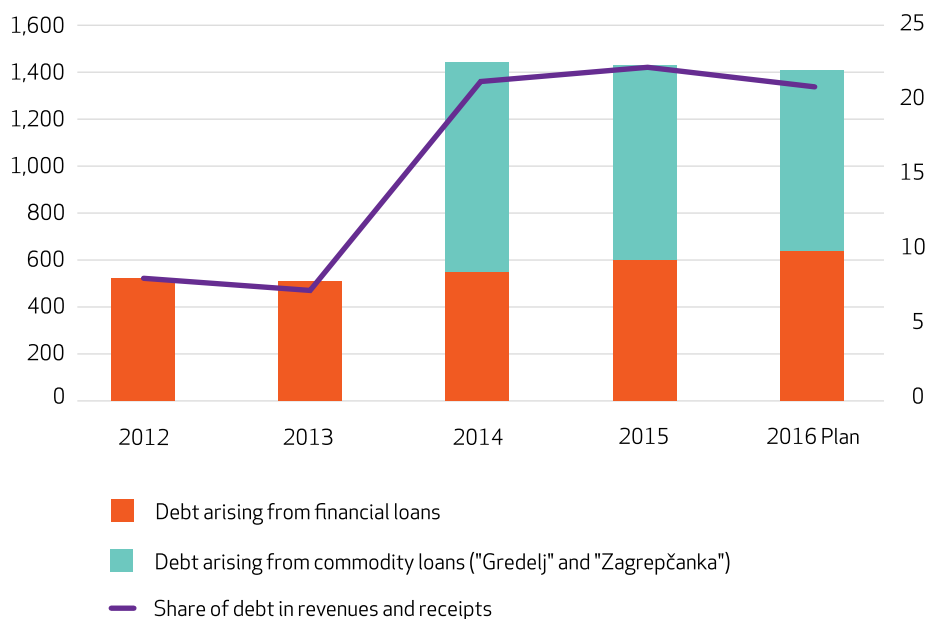
As shown in tables 1 and 2, the difference between the realised surplus of revenues over expenditures (HRK 119.2m) and net financing (HRK 78.4m), i.e. the so-called current period's revenue surplus, amounted to HRK 40.8m in 2015. This surplus is used for covering the revenue deficit carried over from the previous year (HRK 172.5m). Accordingly, the total deficit from previous years to be covered in the next period amounted to HRK 131.7m. Most of the revenue deficit carried over from the previous year dates back from 2009, and is due to the impact of the global crisis on the fall in GDP and employment and, consequently, the fall in the City's budget revenues. Over the years, the City has tried, to reduce this deficit, to the extent possible, by using its current period's surpluses.



*In contrast to the terms revenues and expenditures, used in the revenue and expenditure account when it comes to business operations and the acquisition 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 the receipts and outlays represents net financing.*

## THE CITY'S BUDGET DEBT

**The City of Zagreb's direct debt stood at HRK 1,444m at end-2015** (graph 6). The share of debt in budget revenues and receipts was about 22.6%, suggesting a relatively low level of indebtedness, so that the City could easily service its direct debt from regular revenues and receipts. The debt rose by about HRK 900m in 2014, after the City had bought the former Gredelj Rolling Stock Factory and "Zagrepčanka" from Zagreb Holding. The sale of non-functional real estates has been one of the measures under the Financial Restructuring Programme for Zagreb Holding. Since the aforementioned former factories are cultural assets, the City has exercised its right of pre-emption with respect to them, because of their strategic and development potential, their sizes, forms and positions in the City area. The loan for the purchase of these assets was booked as "debt arising from commodity loans" and is to be repaid over the next ten-year period.

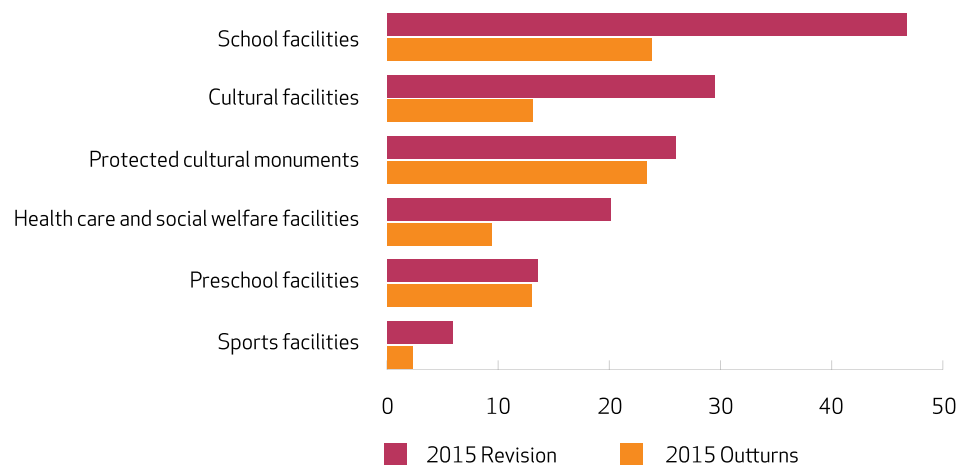


**Graph 6: The City's debt (in million HRK, left scale) and the share of debt in budget revenues and receipts (in %, right scale), 2012-16**

## DEVELOPMENT PROGRAMMES – MAJOR INVESTMENTS IN SOCIAL SERVICE FACILITIES

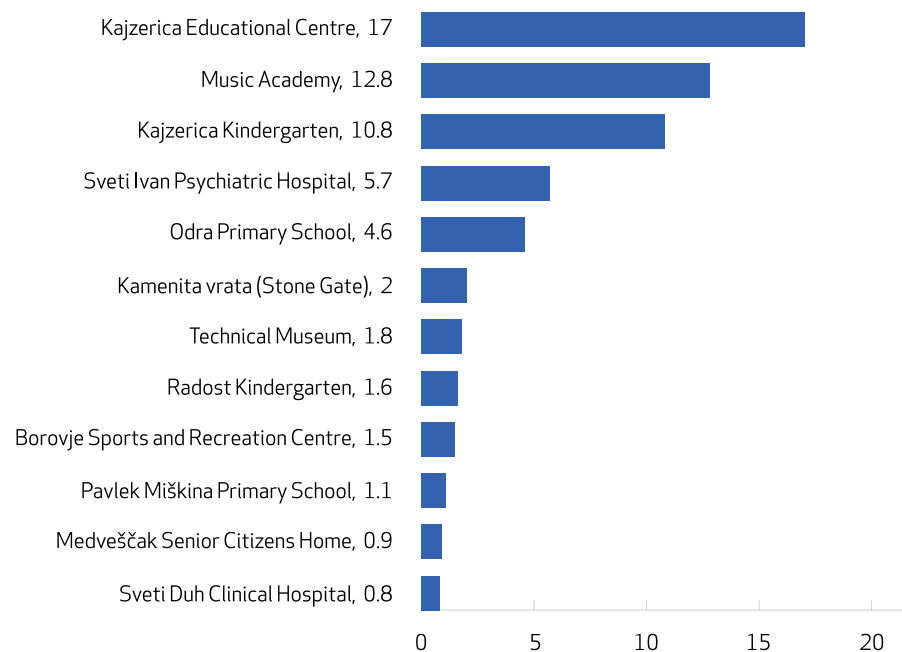
Under the enacted 2015 budget, capital investments in social service facilities were planned in the amount of HRK 187.4m. In the revised budget, these investments were reduced to HRK 141.5m. The works completed and outlays made during 2015 stood at HRK 84.3m, down 40% from the value of the works and outlays planned in the budget revision (graph 7). The fall in capital investments was mainly due to curbing spending in response to lower revenue outturns.





**Graph 7: Capital investments in social service facilities, 2015 (in million HRK)**

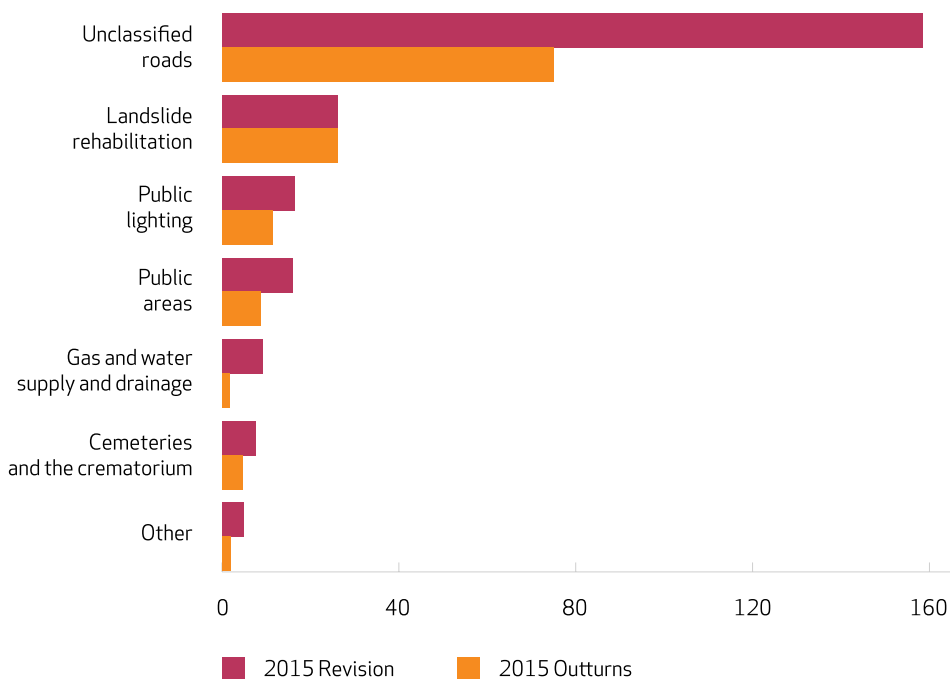
Graph 8 shows some of the key investments in social service facilities in 2015. Depending on the project, the investments cover the costs of project documentation development, conversion of premises, repairs, alterations and construction, and the costs of property relationships settlement.



**Graph 8: Some of the key investments in social service facilities, 2015 (in million HRK)**

## DEVELOPMENT PROGRAMMES – MAJOR INVESTMENTS IN THE CONSTRUCTION OF UTILITY INFRASTRUCTURE FACILITIES AND EQUIPMENT

The amount planned for the construction of utility infrastructure facilities and equipment in 2015 was HRK 345m. It was reduced to HRK 235m under the budget revision, so that the total investment was worth HRK 125.7m, down 46.5% from the budget revision plan (graph 9). The outturn fell short of the planned target, mainly due to lengthy procedures for obtaining documentation, public procurement and the settlement of property relationships with landowners.



**Graph 9: Capital investments in the construction of utility infrastructure facilities and equipment, 2015 (in million HRK)**

Depending on the project, funds for the construction of utility infrastructure facilities and equipment were used for technical documentation development, the funding of different phases of construction, as well as adaptation or reconstruction of unclassified roads, public areas, public lighting, etc.

Some of the major projects related to the construction and reconstruction of unclassified and former public roads included the following: con-



struction of the Branimirova Street, from Zavrtnica to Heinzelova Street, including utility infrastructure, i.e. traffic lights installation; reconstruction of the Mesnička and Streljačka Streets and part of the Tituša Brezovačkog Street; additional reconstruction works in the Bakačeva–Cesarčeva Streets zone; reconstruction of the Ivana Zahara Street; landscaping of the Strojarska Road; construction of an access road to the Svetice swimming pool; reconstruction of the Lovinčićeva Street, including utility infrastructure; reconstruction of the Karlovačka Road, phase III; traffic lights installation at the intersection of the Karela Zahradnika Street and Većeslava Holjevca Avenue; construction of the Jaruščica Street, including utility infrastructure; construction of roads within the Baštijanova, Selska and Vitezićeva Streets block; etc.

## WHAT CITIZENS CAN DO?

The City Assembly, as the representative body of citizens, will soon discuss the 2015 budget outturns (HRK 6.2bn in revenues and HRK 6.1bn in expenditures). Every employed person paid an average monthly amount of about HRK 929 in personal income tax and surtax into the budget, while the average monthly amount per citizen spent by the City was HRK 664. With the help of data from this brief guide and the [previously published general guide and other brief guides](#), citizens can examine the planned and realised budget amounts, contribute to the Assembly's discussions and help improve the efficiency of the City's budget funds utilisation and quality of public services.



## USEFUL WEBSITES

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

[City of Zagreb – Finances](#) – City budget

[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](#) – An archive of the budgets of all municipalities, cities and counties

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

[Institute of Public Finance](#) – Transparency of the budgets of counties, cities and municipalities

## PREVIOUSLY PUBLISHED GUIDES

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

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

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

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

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