

A Brief Guide to the City of Zagreb 2018 Budget Proposal

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A Brief Guide to the City of Zagreb 2018 Budget Proposal



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The City's 2018 budget proposal is a complex and comprehensive document, showing the City's planned sources of revenues and their spending, and it is a matter that concerns all Zagreb residents. Hence this brief guide aims to provide, in the simplest and most concise way, basic information on these issues, thus encouraging citizens to become involved in the budget process and contribute to the quality and efficiency of the City's services which must be in line with the needs and wishes of its citizens and within the means of the City. The City's website offers more detailed information on the [2018 Budget Proposal](#), while general information on the City budget and budget process can be found in [A Guide to the City of Zagreb Budget](#).

As indicated in the calendar laid down in the [Budget Act](#), the City's budget is prepared in line with the Government's annual [Economic and Fiscal Policy Guidelines](#) and the [Ministry of Finance's Instructions for Drafting the Budgets of Units of Local and Regional Self-government](#). Among other things, the guidelines set out the economic goals for the three-year period and the **general government** macroeconomic and fiscal framework. The 2018–2020 Economic and Fiscal Policy Guidelines have been drafted on the basis of strategic plans, the 2017 National Reform Programme and the 2017–2020 Convergence Programme, as well as EU Council recommendations. The recovery of economic activity is expected to continue over the medium term with real GDP growth rate dropping gradually from 3.2% in 2017 to 2.8% in 2018, 2.6% in 2019 and 2.5% in 2020.

general government
central government
(budgetary and extra-
budgetary users of the
national budget) plus
budgetary and extra-
budgetary users of county,
city and municipality
budgets.

The key features of the City of Zagreb 2018 Budget comply with the main strategic goals. The most important features of expenditure and outlay planning, as before, are the following:

- providing funds for high-priority capital projects and utility infrastructure improvement projects, as prerequisites for rapid economic growth;
- ensuring an equal level of acquired rights for lower-income citizens;
- promoting demographic renewal;
- timely settlement of all contractual and credit liabilities; and
- ensuring the regular operation of all administrative bodies with a view to providing the maximum level of services.

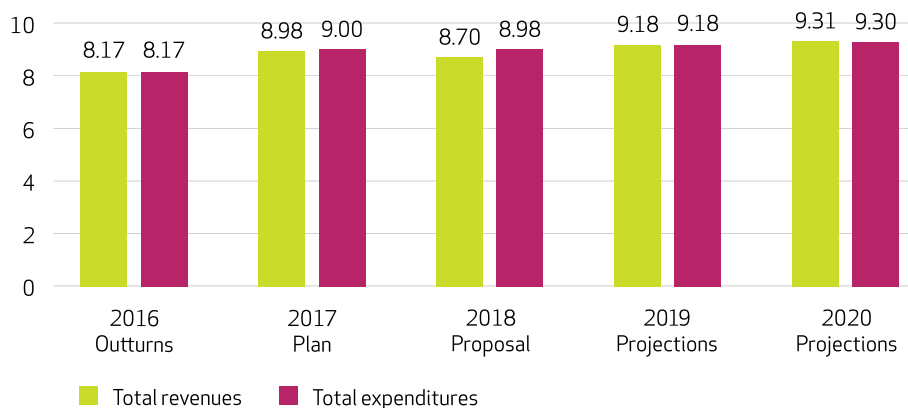
The City's strategic development goals, as set forth in [Zagrebplan 2020](#), are the following:

- competitive economy;
- human resources development;
- environmental protection, sustainable natural resources and energy management;
- improvement of the City's spatial quality and functions;
- improvement of the quality of life; and
- promotion of the development management system.

Below is a brief presentation of the revenues, expenditures, financing account and debt in the 2016–2020 period, including a detailed breakdown of 2018 revenues and expenditures.

PLANNED REVENUES AND REPENDITURES

The City's 2018 **total revenues** and **total expenditures** are planned in the amounts of **HRK 8.7bn** and **HRK 8.98bn** respectively (graph 1).



Graph 1: The City's budget revenues and expenditures, 2016–2020 (in billion HRK)*

* Including own and earmarked revenues of budget users and expenditures funded from these revenues.

In parallel with the preparation of the 2018 budget proposal, budget projections are made for 2019 and 2020. As shown in graph 1, budget revenues and expenditures will rise slightly in 2019 and 2020 in line with the expected GDP growth.

The City's **budget contains the revenues and expenditures of all 325 budget users**, i.e. institutions founded and majority-financed by the City listed in the [Register of Budget and Extra-Budgetary Users](#). These include, for example, public health care institutions (health centres, polyclinics, hospitals and institutes), pre-school, primary school and secondary school education institutions, social welfare institutions, the Zagreb Fire Department, the Office for Physical Planning, Public Institution Maksimir, the Zoological Garden, the Sports Facilities Management Institution, etc. Including own and earmarked revenues in the planning and reporting process allows for transparent and comprehensive reporting on all budget and budget users' revenues.

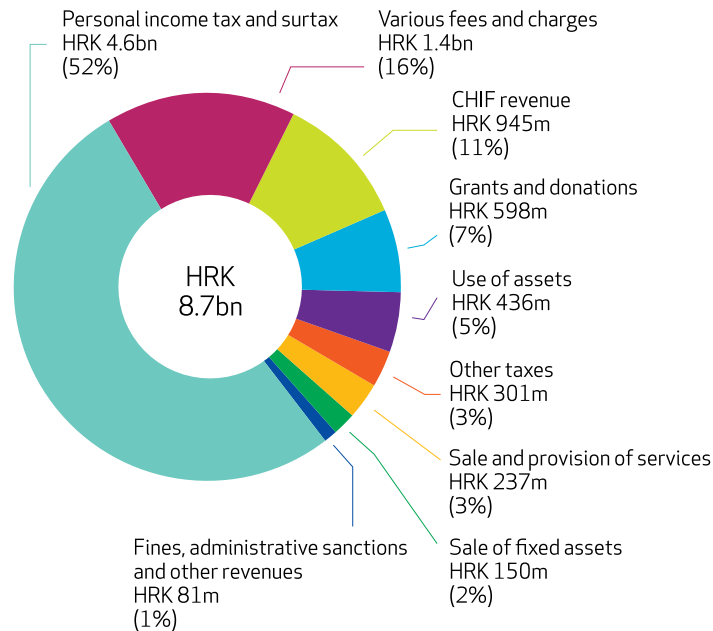
There are also [companies founded by the City](#) for the provision of public services and the performance of public activities (e.g. Zagreb Holding). However, as such companies are not majority-financed from the City budget (that is, they are not budget users), their revenues and expenditures are not stated in the budget.



PLANNED REVENUES

Total revenues planned for 2018 amount to **HRK 8.7bn** (graph 2), approximately half of which will come from **personal income tax and surtax (HRK 4.6bn)**. Revenues from various **fees and charges** amounting to HRK 1.4bn (mainly revenues from utility contributions and charges amounting to HRK 870m) and **budget users' revenues from the Croatian Health Insurance Fund (CHIF) for health services rendered**, amounting to HRK 945m, will constitute the second largest source of revenues. Significant amounts are expected to be sourced from **grants and donations** (HRK 598m, mostly from the national or EU budget) and the **use of assets** (HRK 436m, mostly from the rental and lease of City property and the annual public road user charges payable at vehicle and trailer registration).

Each employed person will pay an average monthly amount of approximately HRK 946 in personal income tax and surtax into the budget.



Graph 2: The City's budget revenues, 2018 proposal*

* Including own and earmarked revenues of budget users.

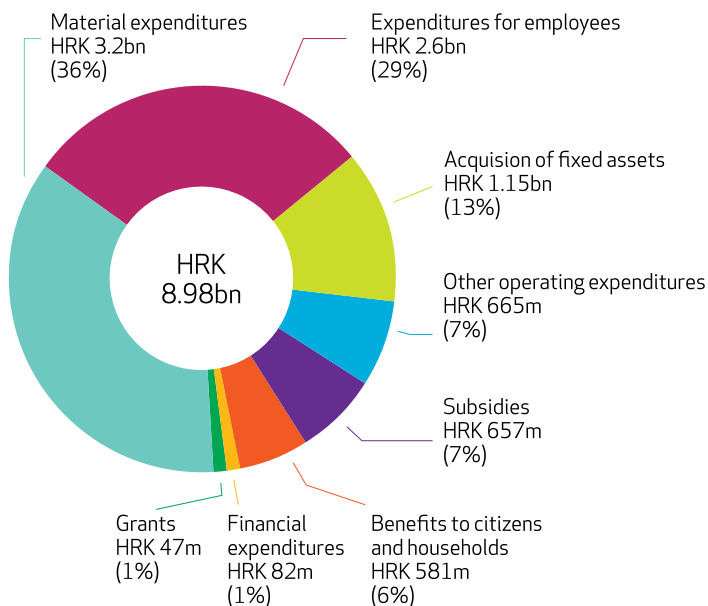
Total revenues in 2018 are planned to be lower by HRK 277m (3.1%) in comparison with 2017. **The sharpest fall is expected in revenues from personal income tax and surtax (HRK 364m, i.e. 7.4%)** due to the amended Personal Income Tax Act, effective from 1 January 2017, increasing basic personal allowance and introducing changes to tax rates and tax brackets. Compensatory measures have thus been introduced to offset a portion of the local and regional self-government units' (City of Zagreb included) losses from the national budget (the offset is capped at the amount equalling 2016 revenues).

On the other hand, when compared to 2017, a HRK 156m (37.5%) **increase in grants** is expected. Grants from the national budget are expected to amount to HRK 324m (HRK 200m from personal income tax compensations, HRK 50m from the equalisation fund for decentralised functions, HRK 31m from subsidies for Arena rental fees, HRK 20m from subsidies for high school transport, etc.). Approximately HRK 175m is planned to be received from EU funds and international organisations, notably for the ZagEE project, road construction, public lighting, the Waste Management Centre, teaching assistants, public bicycle system and a number of other projects.

An increase in revenue from the sale of fixed assets of HRK 73m (93.3%) is planned in 2018, for the most part comprising the sale of commercial property and apartments.

PLANNED EXPENDITURES BY TYPE

Total expenditures planned for 2018 amount to **HRK 8.98bn** (graph 3).



Graph 3: The City's budget expenditures by type (economic classification), 2018 proposal*

* Including expenditures funded from own and earmarked revenues of budget users.

The bulk of **material expenditures** (HRK 3.2bn) relates to current and investment maintenance of utility infrastructure facilities (e.g. public spaces, public lighting, roads, cemeteries and the crematorium), City administration and City budget users' facilities, as well as to office materials, energy use and services (e.g. telephone, postal, transportation and information services) necessary for the smooth running of the City's administrative bodies and City budget users.

Expenditures for employees (HRK 2.6bn) include salaries, social security contributions and other expenses for employees, HRK 1.7bn being spent on around 11,900 employees of administrative bodies and budget users whose employees are not paid out of own revenues (such as kindergartens and museums) and HRK 882m on the around 6,500 employees of budget users whose staff are paid from own and earmarked revenues (e.g. hospitals, polyclinics, health centres), as well as expenditures for persons involved in EU-funded projects.



An amount of about HRK 1.15bn is planned for the **acquisition of fixed assets**, i.e. roads, utility infrastructure, commercial and other buildings, as well as equipment in schools, health care and social welfare institutions, etc. The lion's share (HRK 691m) will be spent through the City Office for Physical Planning, Construction of the City, Utility Services and Transport, in compliance with the [Agenda for Capital Investment in Social Activity Facilities in 2018](#) and [Agenda for Transportation and Municipal Economy in 2018](#).

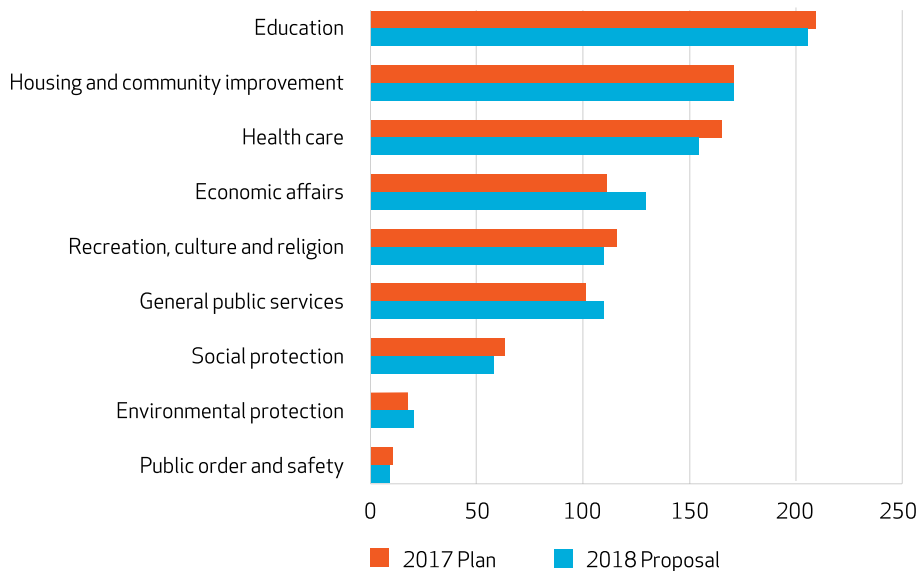
Other operating expenditures (HRK 665m) mainly include current donations and capital grants. Current donations (HRK 460m) are given for the co-financing of sports (HRK 207m), religious and private kindergartens and schools (HRK 96.5m), culture (e.g. libraries, museums, theatres and music, art and film industries) and non-profit organisations (such as NGOs, social and development programmes, etc.). The bulk of capital grants is given for the financing of a wastewater treatment project (HRK 116m), the City's public transport company's (ZET) motor fleet renewal and reconstruction (HRK 18m) and Zagreb Waste Management Centre (HRK 11m), as well as for recycling stations (HRK 2m).

Subsidies (HRK 657m) are earmarked for the promotion of the production and services of companies, sole proprietorships, farmers and SMEs. The bulk of the subsidies were allocated for ZET (HRK 498.5m), for the rental of the Arena sports hall (HRK 62m), for the promotion of trades and SMEs (HRK 30.5m) and the employment of disabled persons (HRK 29m).

Expenditures in 2018 are planned to diminish by **HRK 21m (0.2%)**. **The sharpest cuts will be made in other expenditures** (HRK 72m, i.e. 9.8%, mostly in current donations and capital grants) and **benefits to citizens and households** (HRK 64m, i.e. 9.9%), while the **largest increase is planned in expenditures for the acquisition of fixed assets** (HRK 94m, i.e. 8.9%) and **material expenditures** (HRK 52m, or 1.7%).

PLANNED EXPENDITURES BY PURPOSE

The City's planned average monthly spending per citizen is HRK 968 (graph 4). The bulk of this amount will be spent on education (HRK 207), followed by housing and community improvement services (HRK 171), health care (HRK 155) and economic affairs (HRK 130). Compared with 2017, the average monthly spending per citizen is planned to increase by HRK 18 when it comes to spending on economic affairs and HRK 9 on general public services, while spending per citizen on healthcare will drop by HRK 10.



Graph 4: Average monthly spending per purpose, per citizen (functional classification), 2018 proposal (in HRK)*

* Including expenditures funded from own and earmarked revenues of budget users.

Expenditures for education relate to preschool education (staff costs in city kindergartens and city kindergarten fee subsidies), as well as primary and secondary education (including part of employee salaries, e.g. for extended stay at school, material expenditures and the acquisition of fixed assets).

Housing and community improvement services relate, for the most part, to city property and public space maintenance (i.e. public lighting).

Expenditures for healthcare relate to health protection, the development and implementation of health protection programmes and strategies, health promotion, addiction prevention and control, support for health programmes and projects carried out by associations and other forms of organised health-oriented activities, as well as coordination and control of City-owned healthcare institutions.

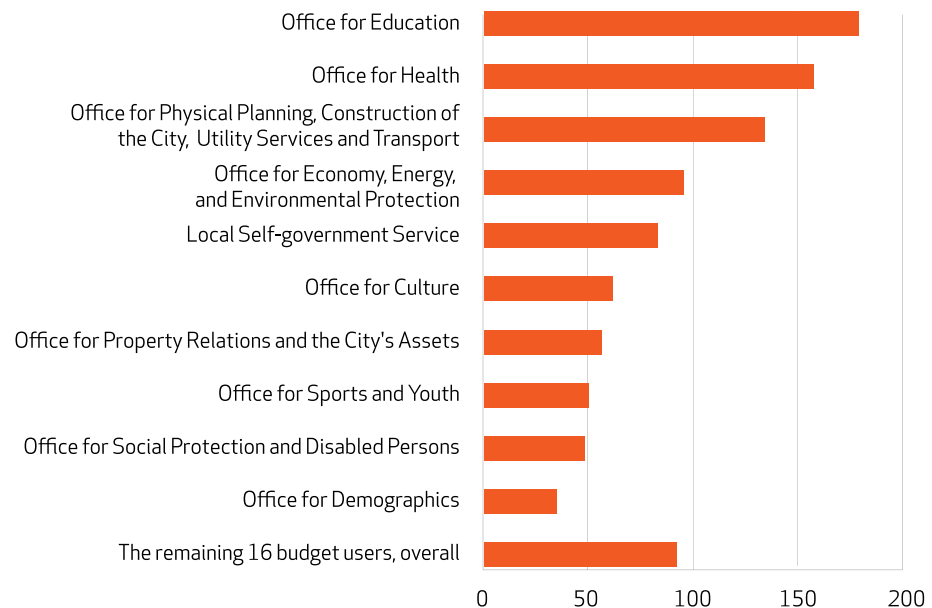
Economic affairs generally include public city transport, road construction and maintenance, agriculture and tourism.

Expenditures for recreation, culture and religion include the financing of cultural institutions, supporting various cultural programmes and activities, co-financing of sports activities, subsidies for the Arena sports hall rental fees, etc.



PLANNED EXPENDITURES BY BUDGET USER

Most of the City's administrative bodies accounted for relatively small shares in total expenditures, while the **three most important City offices** – the Office for Education, the Office for Physical Planning, Construction of the City, Utility Services and Transport, and the Office for Health – will **jointly spend approximately one half of the City budget**, i.e. a monthly average of **HRK 459 per citizen**.



Graph 5: Average monthly budget user spending per citizen (organisational classification), 2018 proposal (in HRK)*

* Including expenditures funded from own and earmarked revenues of budget users.

FINANCING ACCOUNT

In contrast to the terms *revenues* and *expenditures*, used in the revenue and expenditure account in relation to business operations and the sale and 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 kind. The difference between receipts and outlays represents *net financing*, which is the amount that should equal the surplus/deficit from the revenue and expenditure account.

	2016 Outturns	2017 Plan	2018 Proposal	2019 Projection	2020 Projection
Revenue and expenditure account					
Total revenues	8,169.7	8,980.5	8,703.5	9,179.6	9,307.7
Total expenditures	8,168.4	9,003.0	8,981.7	9,183.8	9,297.6
Deficit/Surplus	1.3	-22.5	-278.2	-4.2	10.0
Financing account					
Receipts from financial assets and borrowing	221.3	290.1	634.8	362.1	362.3
Outlays on financial assets and loan repayment	282.8	267.6	306.6	307.9	332.2
Net financing	-61.5	22.5	328.2	54.2	30.2

Table 1: Revenue and expenditure account and financing account, 2016–2020 (in million HRK)*

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

Including own and earmarked revenues and receipts of budget users, receipts planned for 2018 stand at HRK 634.8m, HRK 290m of which will comprise receipts from new borrowing, while HRK 323m will be receipts from the sale of shares and bonds in the principal of public sector companies. Outlays in the amount of HRK 306.6m are planned, the bulk of which (HRK 283m) is planned to be used for the repayment of existing debt.

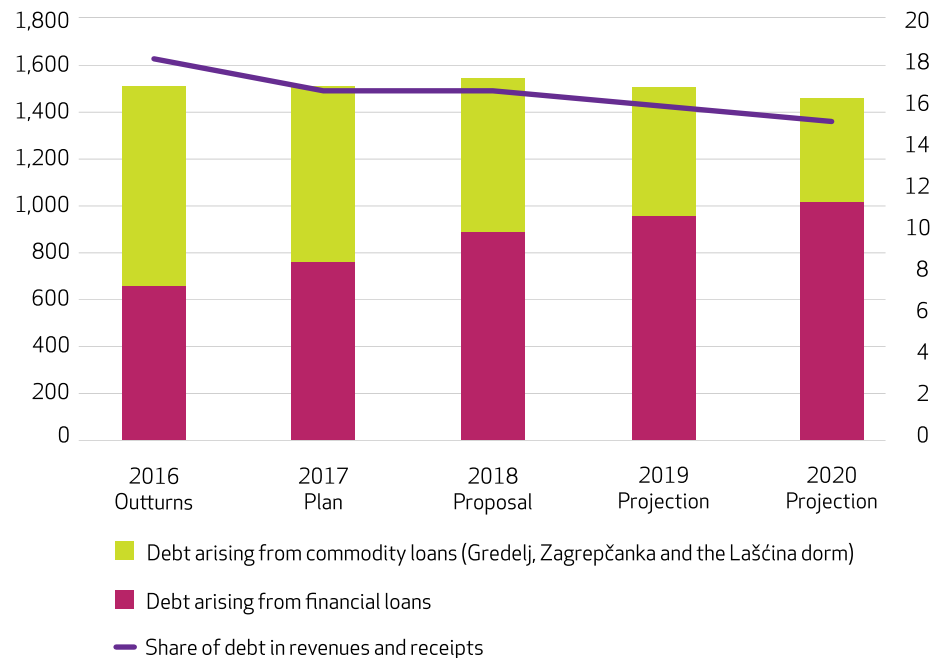
Since the Ministry of Finance, in its [Instructions for Drafting the Budgets of Units of Local and Regional Self-government](#), underlines the need to include the carry-overs into the 2018 budget, and the City's budget deficit in 2016 amounted to HRK 140m, it is suggested that this deficit be covered in a successive manner (HRK 50m in 2018 and 2019, and HRK 40m in 2020). Thus, surplus/deficit amounts in the revenue and expenditure account and net financing in the financing account for the 2018–2020 period differ.



Direct debt is a sum of all budget deficits incurred in the current and in earlier periods, financed by borrowing.

PLANNED CITY BUDGET DEBT

The City of Zagreb's **direct debt** is planned to stand at **approximately HRK 1.55bn at the end of 2018** (graph 6). The share of debt in budget revenues and receipts in 2018 is planned to be 16.6%, and is intended to drop to 15.1% in 2020. The City's debt is low, and the City can easily service its direct debt from its regular revenues and receipts. It should be noted, though, that the City, according to the [Budget Act](#), needs to obtain government approval for any long-term borrowing; graph 6 therefore shows planned debt, while real debt will depend on such approval.



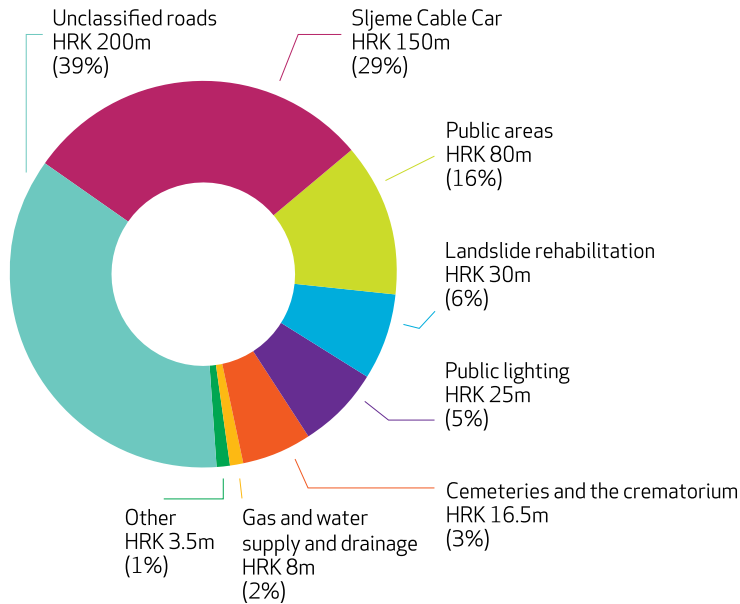
Graph 6: The City's debt (in million HRK, left scale) and the share of debt in budget revenues and receipts (in %, right scale), 2016–2020*

* Revenues and receipts include own and earmarked revenues and receipts of budget users.

Besides the direct debt shown in graph 6, the City is potentially (through granted guarantees) exposed to an **indirect debt of HRK 2.4bn** (25.8% of total planned revenues and receipts in 2017). The bulk of this amount (HRK 2.3bn) relates to a guarantee for a bond issue by Zagreb Holding to refinance a 2007 debt. These bonds have been issued in two tranches (HRK 1.8bn in mid-2016 and an additional HRK 500m in July 2017), and the guarantee has been approved by the Finance Minister.

DEVELOPMENT PROGRAMMES – MAJOR INVESTMENTS

The amount planned for the construction of utility infrastructure facilities and equipment in 2018 is **HRK 513m** (graph 7). A good supply of utility services improves the quality of life and makes the city more attractive for business and social activities. This investment is therefore an essential prerequisite for achieving the City's general spatial development goals.

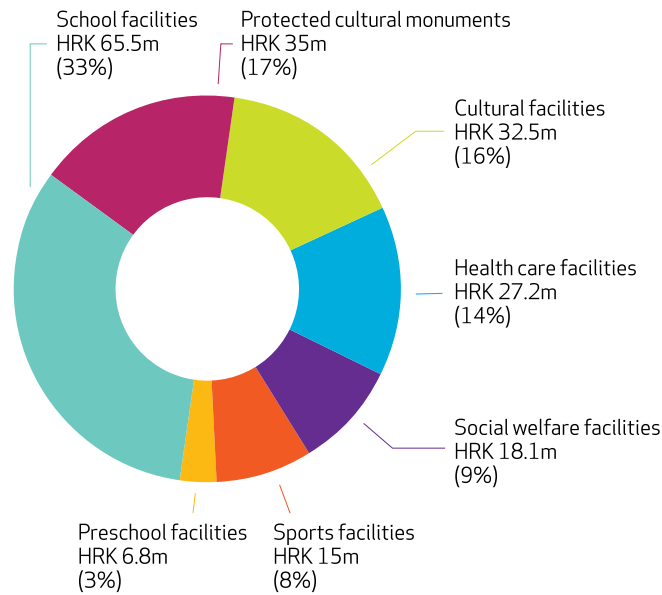


Graph 7: Capital investments in the construction of utility infrastructure facilities and equipment, 2018 proposal

Major investments concerning utility infrastructure facilities and equipment will cover unclassified roads (HRK 200m) in order to improve their quality and safety and to ensure the integrity of the traffic network. Depending on individual projects, funds will be used for the creation of technical documentation, different phases of construction and reconstruction. Moreover, the City plans to allocate HRK 150m for the construction of the Sljeme Cable Car.

HRK 200m in capital investments are planned for social service facilities (graph 8).

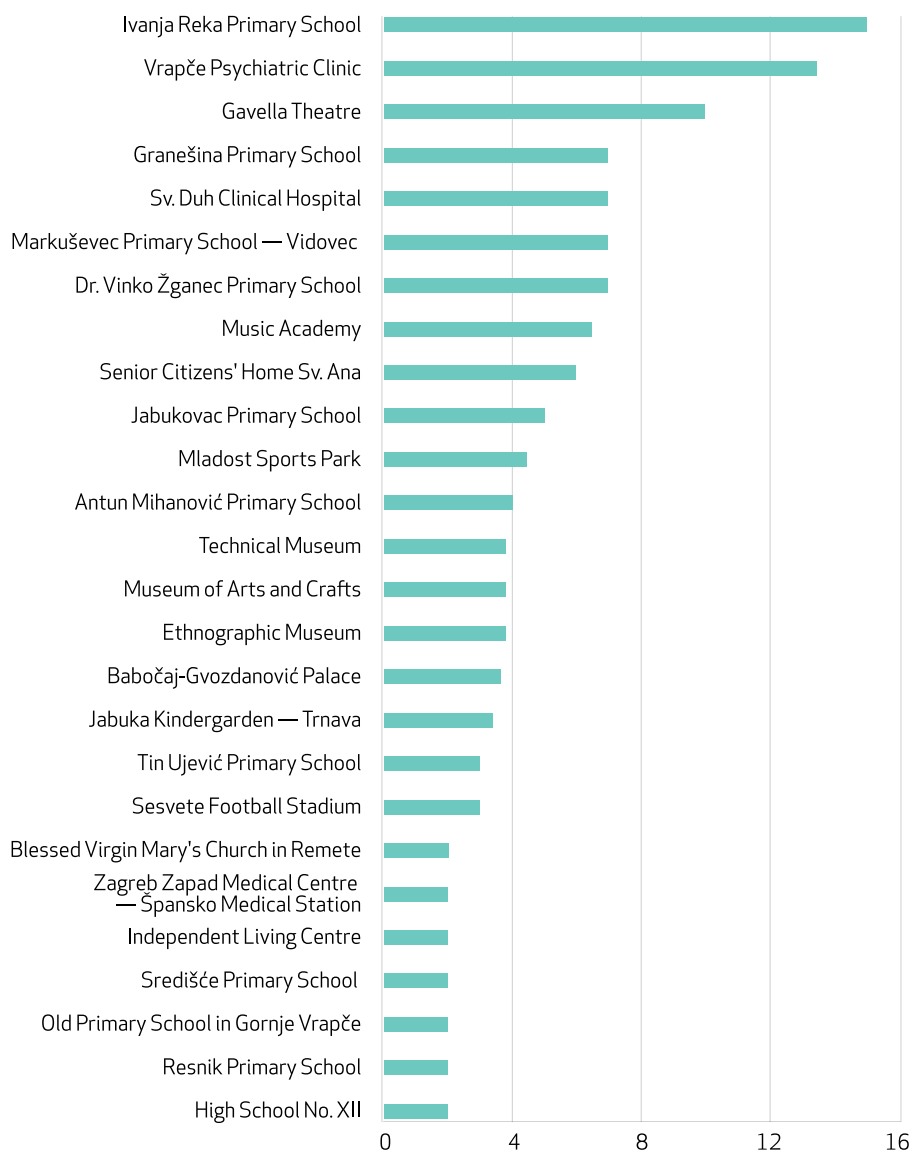




Graph 8: Capital investments in social service facilities, 2018 proposal

Graph 9 shows some of the key investments in social service facilities. Depending on the project, the investments cover the costs of project documentation development, obtaining construction documents, conversion of premises, repairs, alterations and construction, furnishing and the costs of property relationships settlement.





Graph 9: Some of the key capital investments in social service facilities, 2018 proposal (in million HRK)



WHAT CAN CITIZENS DO?

On 30 November 2017, the City Assembly will discuss the 2018 City Budget Proposal to be adopted no later than 31 December 2017. We are talking about a significant amount of more than HRK 8.7bn in revenues and almost HRK 9bn in expenditures. In 2018, every employed person is expected to pay an average monthly amount of HRK 946 in personal income tax and surtax into the budget, while average monthly spending per citizen will be HRK 968. All citizens should therefore be interested in how budget funds are collected and spent. With the help of this brief guide and the [Guide to the City of Zagreb Budget](#), you too can take part and try to shape the final 2018 City budget and the services you will benefit from. Participation is possible through [local committees](#) and [city districts](#) or by directly submitting suggestions and comments to [City Assembly representatives](#).



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 2014 Budget Execution](#)

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

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

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