

A Guide to the City of Zagreb Budget

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A Guide to the City of Zagreb Budget



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A Guide to the City of Zagreb Budget

CITY OFFICE FOR FINANCE
CITY OF ZAGREB



ZAGREB
2014



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FOREWORD

Dear citizens of Zagreb,

The intent of this Guide is to provide a simple and comprehensible description of the Zagreb budget. As a capital and a big city which also has a county status, the City of Zagreb runs a large budget which affects the lives of all its inhabitants, and, indirectly, those of the country as a whole.

Since you also contribute to the Zagreb budget, you are expected to be interested in the way of allocating and spending its resources. Should the City of Zagreb invest more or less, or should it invest in a different way in education or social welfare, public order and safety, environmental protection or public transport...? Who can provide better answers to these (and numerous other) questions than the citizens themselves?

In order to participate in budget deliberations, you need information and knowledge about the budget and budget processes. However, the budget process is long and complex, and budget documents are sizeable and encumbered with specific terms, classifications, numerations, etc. While it is, of course, impossible to explain all this in such a brief guide as this, it is hoped that it will provide you with at least basic information about how revenues are collected, how and on what these funds are spent, what the budget process looks like – from an initial budget proposal to the final report on its execution – and who is responsible for what in a particular process phase.

After this general Guide, brief guides will be regularly published to each key budget document: the budget proposal, enacted budget, end-year report on budget execution and budget revisions. Along with their printed editions, all the guides will be published on the City of Zagreb official website.

It is hoped that this general Guide and the brief guides to come will assist the citizens of Zagreb in finding answers to the numerous questions and preparing themselves for the participation in the City budget process. This would enable them to contribute to the rational management of the City's funds, their equitable distribution and the more efficient provision of the City's goods and services.

Zagreb, November 2014

City Office for Finance

INTRODUCTION

THE PURPOSE AND CONTENT OF THE GUIDE

The purpose of this Guide is to enable citizens and the media to get acquainted with the City of Zagreb budget in an acceptable way and to use it as a means of finding the information they need to participate in the City budget process.

The introductory part, providing an explanation of the City budget, is followed by part two which shows what the City does and who the users of the City budget are. Part three describes the structure of budget revenues and expenditures, and part four runs through the budget process itself. The Guide ends with a list of useful websites and a glossary.

WHAT IS THE CITY OF ZAGREB BUDGET?

To put it very briefly, every budget, including that of Zagreb, is a plan of revenues and expenditures for a given period of time.



Revenues and expenditures, receipts and outlays



For simplicity reasons, this Guide will basically deal with revenues and expenditures. However, besides these two notions, the budget terminology also includes the terms receipts and outlays. The terms revenues and expenditures are used in the revenue and expenditure account when it comes to business operations and the purchase and sale of **non-financial assets**. The terms receipts and outlays are used in the financing account and relate to **financial assets** and the granting, taking out and repayment of loans. Briefly, revenues and expenditures are related to non-financial, and receipts and outlays to financial transactions.

non-financial assets

produced assets (e.g. buildings, plants, equipment and inventories) and non-produced assets (e.g. land, patents and concessions).

financial assets

money, deposits, bonds, loans, etc.

For a better understanding of the City budget, let us compare it with a family budget. Each family has different needs and wishes. To satisfy them, the family needs money, but it rarely has enough of it, so the wishes and needs must be brought into line with the financial capacities. The functioning of a family is, of course, easier if the revenues and expenditures are regularly planned. In such a case, there should be no surprises, i.e. major unexpected expenditures, because “family finances are under control”. As with the family, the City can function more effectively if its revenues and expenditures are regularly planned.

If we try to draw up a family budget for the next month, it will depend on the family's estimated income, as well as its needs and wishes in the next month. It will be relatively easy to strike a balance between our revenues and expenditures, if what we earn is enough to finance food, clothing, utility fees, etc., and if we have no “big” needs or wishes for the next month. However, the situation gets worse, if we wish to buy a dishwasher or a car, which cannot be financed only by our monthly income. Despite our need for the dishwasher or the car, we can give them up and end up with balanced revenues and expenditures. Alternatively, we can still buy them with the money we saved or borrowed from our family members, friends or a bank. Nevertheless, all these options must be carefully planned. On the other hand, if we intend to earn slightly more and spend less in the next month, our revenues will exceed expenditures, so we will have sweet worries about what to do with the surplus money. We can keep it at home, place it in a savings account, invest it in various funds, lend it to someone or repay a debt or a loan. In doing so, we make provisions for less plentiful times.

All this is also true for the City of Zagreb which, like all other cities, has to plan its revenues and expenditures on an annual basis, subject to the [Budget Act](#). The City is a highly complex system; hence its budget is much more complex than that of a family. However, regardless of its complexity,

the bottom line of any budget is always the same – the planning and balancing of revenues and expenditures for a given period.

In short, the City budget is a document in which the City's revenues and expenditures are planned for a period of one (fiscal or budget) year, pursuant to law, and which is adopted by the City Assembly.

What is a fiscal or budget year?

A fiscal year is a twelve-month period for which revenues and expenditures are planned. In Croatia, the fiscal or budget year corresponds to a calendar year and lasts from 1 January to 31 December.

How to establish the amount of the City's revenues and expenditures?

The information on the City of Zagreb budget revenues and expenditures are available on the official websites of the [City](#), the [Ministry of Finance](#) and in the [Official Journal of the City of Zagreb](#).

There are **budgetary principles** to be adhered to by those preparing the budgets, including the City of Zagreb. They help the **representative body** (the Assembly) to control and limit the raising and spending of funds by the **executive body** (the Mayor).

The principle of equilibrium – revenues must equal expenditures, i.e. the City is allowed to spend only as much funds as it can collect. Should the expenditures increase during the year, due to some contingencies (e.g. flooding), or should the budget revenues decrease as a result of a lower-than-planned economic growth rate, the budget must be re-balanced. This involves cutting expenses and/or finding new sources of revenue. The balance is usually achieved through **borrowing** or the sale of property, which requires the adoption of amendments to the budget during the year, i.e. **budget revisions**.

The principle of annuality – revenues and expenditures are planned for one budget or calendar year.

The principle of unity and budget accuracy – all revenues and expenditures must be in the budget, and revenues must be spent in the manner and amounts as planned in the budget.

The principle of universality – all budget revenues can be used for financing all budget expenditures. However, there are some exceptions to



budgetary principles

the principles to be adhered to by all those dealing with the budget; they include the principles: of equilibrium, annuality, unity and budget accuracy, universality, specification, transparency and sound financial management.

representative body

the City Assembly, the members of which are elected to a four-year term of office directly, by secret ballot.

executive body

the Mayor who is elected to a four-year term of office directly, by secret ballot.

borrowing

taking out credit facilities or loans, or issuing securities.

budget revision

a change in budget amounts, i.e. their reduction and/or increase relative to the planned amounts.



this rule prescribed by law and government decisions. For example, revenues from utility charges may be used only for storm water drainage, the cleaning and maintenance of public areas, maintenance of unclassified roads, cemeteries and crematoria and public lighting.

The principle of specification – all revenues must be allocated according to the **economic classification** and stated by source, while expenditures must be allocated according to **budget classifications** and balanced with revenues.

The principle of transparency – the budget must be publicly available; consequently, the enacted budget is published in the City's **Official Journal**. The full mid-year and end-year reports on budget execution must be published on the City's **official website**, and parts of them also in the Official Journal.

economic classification

the presentation of budget revenues (e.g. taxes, grants or revenues from assets) and expenditures (e.g. compensation of employees, subsidies or social benefits) according to their economic purposes.

budget classification

a system of presentation of revenues and expenditures according to certain criteria (e.g. by user, goal, purpose, type, location and source of funding).

transparency

a possibility for the public to obtain complete, relevant, accurate, timely and understandable information.

Budget transparency (openness)

Access to information on revenues and expenditures may: help citizens understand the budget and participate in taking political and economic decisions which affect their everyday lives; enhance control and, consequently, influence government accountability to citizens; help in combating corruption and improving the efficiency of public services.

The Open Budget Index for Croatian counties, cities and municipalities in 2013 and 2014 ranged between 0 and 7. The City of Zagreb's score on the Index was 5, so that the City ranked among relatively transparent local government units. For more information on this issue, see the article: "Budget transparency of Croatian counties, cities and municipalities in 2013/2014".

The principle of sound financial management – that budget resources should be used in an economical, efficient and effective way.

The accountability for the planning, drawing up and executing a family budget lies with the family itself. By contrast, the City is accountable to the state and its citizens. The Mayor is bound to provide detailed data on the collection and spending of citizens' monies in an orderly and regular manner. This is why the City's budget and budgeting process are thoroughly regulated by the **Budget Act**, **Fiscal Responsibility Act** and a number of other legal acts (such as the **Statute of the City**, **Mayor's Rules of Procedure**, **Assembly's Rules of Procedure** and **Decision on the Establishment and Scope of Activities of the City Administrative Bodies**).



ABOUT THE CITY OF ZAGREB

WHICH PUBLIC ACTIVITIES DOES THE CITY PERFORM?

The City of Zagreb is a separate and single territorial and administrative unit, whose position, scope of activity and organisation are regulated by the [Act on the City of Zagreb](#) and [Act on Local and Regional Self-Government](#). It is the only city in Croatia with a dual status – as a city and a county. This implies that it performs all activities falling within the scope of activity of both cities and counties.

As a **big city**, Zagreb decides independently on a number of activities related to satisfying citizens' needs other than those delegated to **government bodies** by Constitution or law, such as:

- the adoption of physical plans (e.g. urban development plans);
- the organisation of: drinking water supply and wastewater management, the collection and disposal of municipal waste, public transport, markets, cemetery maintenance, chimney-sweeping, public lighting and other utilities;
- the establishment of kindergartens, primary schools, fire service organisations, etc.

As a **county**, Zagreb decides independently on the matters of county (regional) importance, such as:

- the establishment of secondary schools and pupils' dormitories, health care institutions (hospitals, community health centres, public health institutes, emergency medical services, etc.);
- the provision of funding for economic development programmes, cultural and sporting organisations, etc.

These activities are performed by 22 **city administrative bodies** (e.g. the professional services of the Mayor and of the Assembly, offices for financing and for health, the Institute for the Conservation of Cultural and Natural Heritage, etc.), with about 3,000 employees. A [list of and detailed](#)

big city

a unit of local self-government of more than 35,000 inhabitants which is the economic, financial, cultural, health care and scientific centre of a wider region.

government bodies

ministries, state offices, state administration organisations and state administration offices in counties.

county

a regional self-government which comprises several territorially connected municipalities and cities, and constitutes a single natural, historical, traffic, economic, social and self-government entity.

city administrative body

an office, institute or a professional service performing the activities within the competence of the City.

information on all the City offices, institutes and professional services is available on the official website of the City. The Decision on the Establishment and Scope of Activities of the City Administrative Bodies is passed by the Assembly. The administrative bodies are managed by the principals, and the City Assembly Professional Service is managed by the Secretary. The principals and the Secretary are appointed by the Mayor based on public competition for vacancies. They are accountable to the Mayor who also has the power to dismiss them.

THE CITY BUDGET USERS

The City budget users are institutions established by the City, which are largely financed from that budget (e.g. primary schools and kindergartens). A list of the budget users for the next year is published in the Official Gazette ([Narodne novine](#)) and on the [website of the Ministry of Finance](#) in May or June of a current year.

There are currently 321 users of the City budget with about 7,800 employees. They include, for example: the Public Fire Brigade, Zoological Garden, Children's Hospital Srebrnjak, Emergency Medical Centre, the City of Zagreb Libraries, Zagreb City Museum, Trešnja Theatre, Vatroslav Lisinski Concert Hall, Cultural and Information Centre, Bajka Kindergarten, August Šenoa Primary School, Classical Ballet School, Upper Town Gymnasium, Pupils Dormitory Maksimir and Home for the Elderly and Infirm Dubrava.



subsidy

a non-repayable sum of money granted to stimulate the production of goods or provision of services.

grants

non-repayable transfers of funds which include current grants (for current expenditures) and capital grants (for the procurement of fixed assets), as well as general and specific-purpose grants.

COMPANIES OWNED BY THE CITY

The City can establish companies for the provision of public services and performance of public interest activities. As such companies are not majority-financed by the City budget, they are not its users, neither are their revenues and expenditures stated therein. Hence this Guide will not further elaborate on the revenues and expenditures of these companies.

The City and the companies in its ownership are interconnected in many different ways, but all these connections are often hard to identify. It is worth noting, however, that the City Assembly annually discusses the companies' financial statements. The City also supports them through **subsidies** (e.g. for public transportation) and capital **grants** (e.g. for the repayment of loans taken out for motor fleet renewal and reconstruction), as well as through issuing guarantees and granting approvals for loans.



The City has hundred-percent ownership of the Zagreb Holding company, the Development Agency Zagreb and the Waste Management Centre. It also holds stakes in the following companies: Terme Zagreb (50%), APIS IT (49%), the water management company Vodoprivreda Zagreb (36%), Zagreb Airport (35%) and BICRO BIOCentar (13%).

Zagreb Holding

The City Municipal Services Company was established in 2005 and renamed Zagreb Holding in 2007. It is engaged in municipal, transport and market activities as one of the largest Croatian firms with more than 13,000 employees. It consists of 15 branches and several founded or co-founded entities (9 companies and one institution).

The branches are the following: Zagreb Coach Terminal, City Waste Disposal, City Cemeteries, Goods Terminals, Project Management, Markets, Sports Facilities Management, Vladimir Nazor (catering and tourism activities), Zagreb parking, Zagreb Roads, Zagreb Digital City, Zagreb Electric Tram (ZET), Zagreb Fair, ZGOS (operation management and rehabilitation of the Jakuševac landfill site) and Zrinjevac.

Zagreb Holding is the 100% owner of the following companies: AGM, Centar, City Gasworks, City Gasworks – Supplies, City Housing and Municipal Services Company, Water Supply and Drainage, Arena and Housing Construction. It further holds a 51% stake in Zagrebplakat and founder's rights in City Pharmacies.

For further information on the companies owned by the City and Zagreb Holding, including their revenues and expenditures, please visit the [official website of the City](#).

ZAGREB BUDGET

This section deals with the structure of the Zagreb budget, sources of its funding, spending of the collected revenues, budget deficit/surplus and debt.



WHAT DOES THE CITY BUDGET LOOK LIKE?

The City budget consists of three parts. The first, *general part* includes the revenue and expenditure account and the financing account. The second, *specific part* shows expenditures and outlays by type, organisational unit and user, further allocated according to programmes which consist of **activities** and projects. The third part, *the development programme plan*, comprises the goals and development priorities of the City, associated with the programme and organisational budget classifications.

activity
part of a programme of no pre-defined duration, but with planned expenditures and outlays for the achievement of goals set in the programme.

The general part of the budget

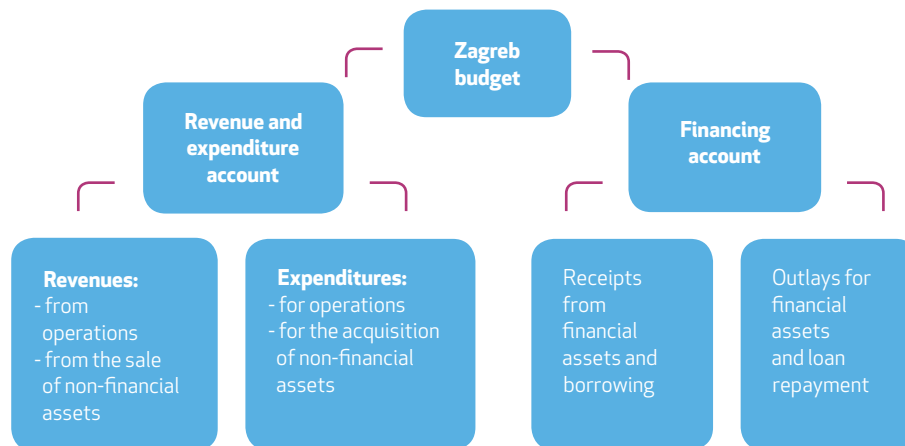


Figure 1: The general part of the budget

The structure shown in figure 1 is in fact very simple. The *revenue and expenditure account* shows the funds collected and spent in one year. As revenues are rarely equal to expenditures, there is also a *financing account* for keeping records of how a potential surplus is spent (when the revenues exceed the expenditures), or how a deficit is funded (when the expenditures exceed the revenues).

Household budgets are usually less complicated and do not require such a clear and precise structure. Moreover, in contrast to the City which is bound to keep its finances in a transparent manner, households do not have to show their revenues, or justify their spending to anyone. Nevertheless, we would show, for example, salaries, fees, income from self-em-

ployment or interest income on savings as *revenues* in the revenues and expenditures account. On the other hand, a new stove, paid telephone bills or interest on a housing loan would be shown as *expenditures* in the same account. By contrast, loans received or given to our relatives or friends would be recorded in the financing account.

Although they may seem confusing at first, these classifications offer an insight into the numerous municipal activities and ensure transparency in the collection and spending of funds.

How to find your way around the City budget?

When you see the budget for the first time, do not be discouraged by its size, because going through it is relatively easy. The general part provides information on revenues and expenditures and the financing account according to economic classification. They are all divided into three levels: (1) the class level; (2) the group level, and (3) the subgroup level. To illustrate how this operates, we indicate some basic revenue and expenditure items:



material expenditure
the value of goods and services purchased by the City in the open market for the performance of its activities (e.g. rental and lease charges, and telephone and postal services costs).

Class	Group	Subgroup	Item
6			Operating revenues
	61		Tax revenues
		611	Personal income tax and surtax
		613	Property taxes, etc.
	63		Grants from abroad (donations) and from entities within the general budget
		632	Grants received from international organisations and EU institutions and bodies
		633	Grants provided from the budget, etc.
3			Operating expenditures
	31		Expenditures for employees
		311	Salaries (gross)
		312	Other expenditures for employees
		313	Contributions on salaries
	32		Material expenditures
		321	Compensation of employees
		322	Expenditures for materials and energy use, etc.

According to economic classification, revenues are shown by type and expenditures by economic purpose. The budget is adopted at the third (subgroup) level (e.g. 611 – personal income tax and surtax, or 632 – grants received from international organisations), but it is executed at the more detailed, fourth level which is not disclosed.

The specific part of the budget

In order to provide the public with detailed information on how budget funds are spent, the expenditures and outlays are presented in the budget's special part. Although it seems extremely complicated at first sight, as it consists of three parts – the organisational, programme and economic classifications – do not be discouraged. The structure of this part of the budget is shown in figure 2.



Figure 2: The specific part of the budget, with examples

Sections represent the highest level of the organisational classification and they include one or several chapters. A *chapter* is the organisational level for budget planning and execution, and it consists of one or several budget users. The expenditures and outlays for each section and chapter are further broken down by *programmes* aimed at achieving the budget users' goals. The programmes usually comprise *activities and projects*, with codes starting with letters A (activity), K (capital project) or T (current project). The expenditures and outlays are also shown by *subgroups of economic classification*.

Activities and projects

Activities and projects are both parts of the programmes with planned expenditures and outlays for the achievement of goals set in the programmes; the duration of activities is not pre-defined, but the duration of projects is.



Projects are planned on a one-time basis; they are divided into current (e.g. providing personal assistants to students with disabilities) and capital projects (e.g. sanitation of landslides). The implementation of current projects does not increase assets of the City, while capital projects involve investments in asset increases.

This presentation is far more complicated than that of typical household budgets, but, with a little imagination, things can be shown relatively clearly. Let us assume a house inhabited by three families, e.g. a couple with two young children living on the first floor, the parents of one of the spouses on the second floor and the eldest son's family in the attic. The entire house's budget is divided into three separate family budgets (one for each floor), and each of them represents one section in our imaginary organisational classification. Let us further assume that each spouse, living on the first floor, has his/her own budget, i.e. a monthly disposable amount of money. Each spouse's budget represents a chapter, and the wife's chapter additionally includes budgets for two kids as the users of her budget. Let us now imagine that all costs covered by the wife on a monthly basis are simply classified by programmes, so that, for example, dwelling or household costs are potentially the wife's programmes. A typical activity within the dwelling costs programme could be the payment of overhead expenses, while projects could, for example, include the payment of housing loan instalments.

The Development Programme Plan

The Development Programme Plan is an integral part of the budget prepared for a three-year period. It comprises strategic goals and development priorities associated with the programme and organisational budget classifications. Also available on the City's website is the [ZagrebPlan](#), setting out the City's goals and development priorities until 2020.



Figure 3: The Development Programme Plan

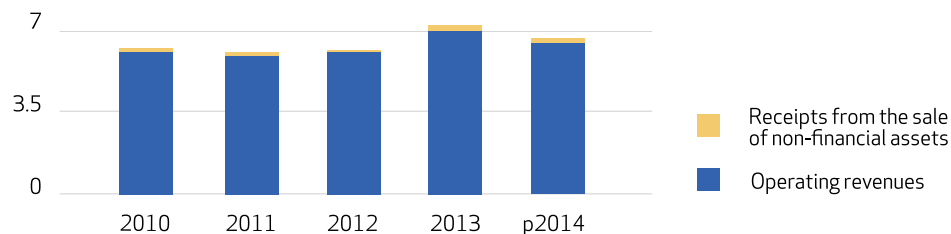
Thanks to its structure, the Development Programme Plan provides a deep insight into the planned budget expenditures for the current year, but also the planned expenditures for individual programmes for a three-year period. For spending transparency reasons, performance indicators have been defined, in order to measure the degree of completion of individual activities or projects (figure 4).

Organisational classification: 00901 — City Office for Education, Culture and Sports		Baseline value (2013)	Target values		
			2014	2015	2016
Funds (million HRK)		142.6	140.4	140	140
Performance indicators	a) number of City sports federations and clubs	74 federations and 1,180 clubs			
	b) number of citizens participating in recreational activities	40,000			
	c) number of children and youth participating in intra-school and inter-school competitions	13,500			
	d) number of medals won in team and individual sports in world and European competitions	300			

Figure 4: An example of an activity related to public needs in sports, set out in the Development Programme Plan

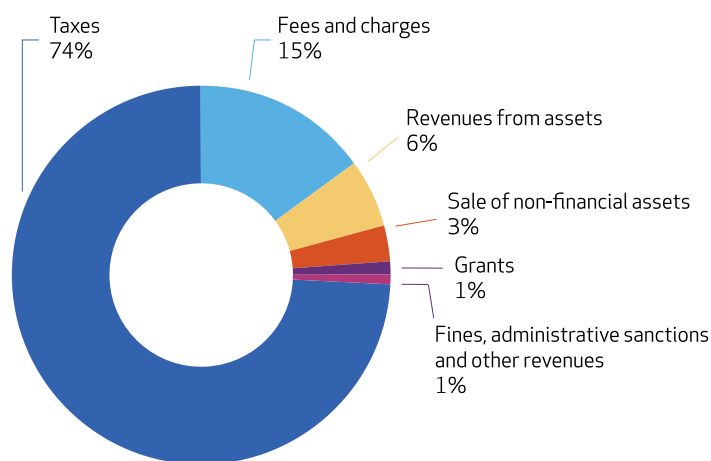
BUDGET REVENUES

There are operating and capital budget revenues. The former include tax revenues (e.g. from personal income tax and surtax on personal income tax), non-tax revenues (e.g. from fees, fines and property) and grants or donations whereas the capital revenues include receipts from the sale of non-financial assets (buildings, land, facilities and equipment, means of transport, etc.). Trends in overall revenues are shown in graph 1.



Graph 1: City budget revenues, 2010–14 (plan), in billion HRK

The City's total budget revenues in the period 2010–13 stood at an average of HRK 6.5bn. An amount of HRK 6.8bn is planned to be collected in 2014. Graph 2 shows the sources of individual revenues.



Graph 2: City of Zagreb budget revenues, the 2014 plan (%)



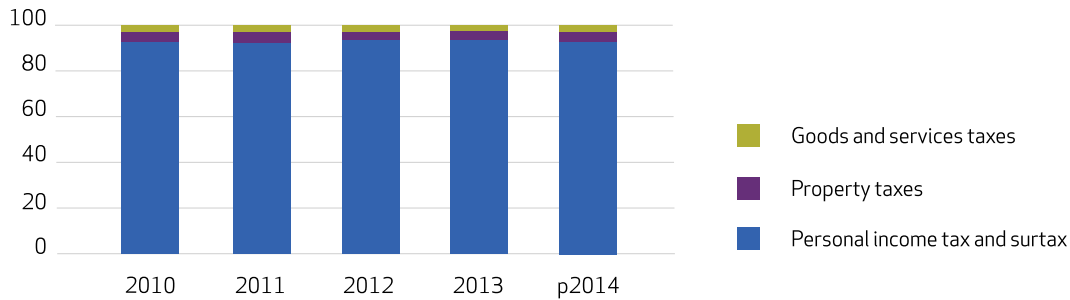
operating revenues

revenues from regular activities, e.g. from taxes (personal income tax and surtax, property taxes and tax on goods and services) and other revenues (from property, administrative fees and fines).

Taxes account for as much as three fourths of total revenues, followed by fees and charges and revenues from assets. Given the large share of **operating revenues** (between 97% and 98%) of total budget revenues, the focus of this analysis will be on them.

Tax revenues

Revenues from personal income tax and surtax, property taxes and goods and services taxes account for as much as three fourths of total budget revenues, whereas personal income tax and surtax on that tax account for over 90% of total tax revenues (graph 3).



Graph 3: Tax revenues (%)

The importance of individual taxes is best illustrated by the fact that the average monthly amount of personal income tax and surtax planned to be collected per capita in 2014 is HRK 489, and the amount to be collected from other taxes is estimated at HRK 39.

Personal income tax

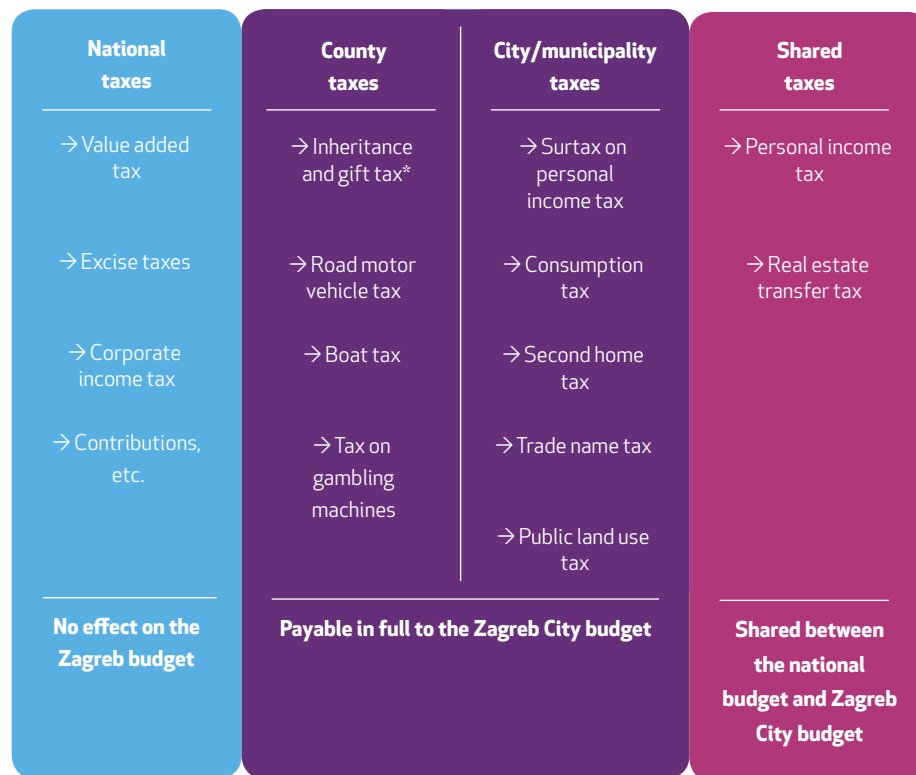
Personal income tax is charged directly on a person's taxable income. The tax rates are progressive, i.e. persons with higher income pay tax at higher rates, which leads to a more even distribution of income than in the absence of such a taxation method.

This is a shared tax, which means that the amount collected is divided, according to a defined percentage, between the central government budget and the budget of a county, city or municipality. Due to its dual status – as a city and county – Zagreb is entitled to as much as 84.5% of the total amount collected in its territory.

Surtax on personal income tax

It is an extra tax that may be levied by municipalities and cities, and is payable on top of the personal income tax. The surtax base is the amount of the personal income tax and the tax rates are determined by municipalities and cities independently, up to a legally prescribed maximum rate. The City of Zagreb is allowed to prescribe a surtax rate of up to 30%. However, the current rate of 18% is still the highest in the country.

Some taxes are exclusively paid into the national (state) budget, some are exclusively locally-owned (by counties, municipalities/cities), and some of them are shared between the national and local government budgets. Figure 5 shows the manner of tax sharing and its effect on the Zagreb budget.



*In the case of real estate inherited or received as a gift, the taxable person is the acquirer. The tax charged is shared between the national budget and Zagreb City budget.

Figure 5: Tax sharing between the national and local government budgets



area of special state concern

an area in which economic and demographic recovery is furthered.

hill and mountain area

an area defined by a special law where living and working conditions are difficult.

National taxes are not recorded in the City budget, but only in the national budget. However, county and city taxes fully belong to the Zagreb City budget and, as already shown in graph 3; the share of these taxes, excluding surtax on personal income tax, in total tax revenues is relatively negligible. The shared taxes (personal income tax and real estate transfer tax) are divided between the state and the City of Zagreb.

The distribution of the *real estate transfer tax* is very simple: of each kuna collected, 40 lipas belong to the state and 60 lipas to a municipality or a city. The distribution of the personal income tax is much more complex and it depends on the area in which the taxable person's municipality or city is located (normal or standard areas, City of Zagreb, **areas of special state concern** and **hill and mountain areas**, and islands with special financial status). Given the dual status of Zagreb – as a city and a county, and given that it has assumed the financing of all decentralised public services, 84.5 lipas per 1 kuna collected from personal income tax in its territory belong to the City's budget and 15.5 lipas per 1 kuna go to the equalization fund for decentralised public services.

Decentralised public services

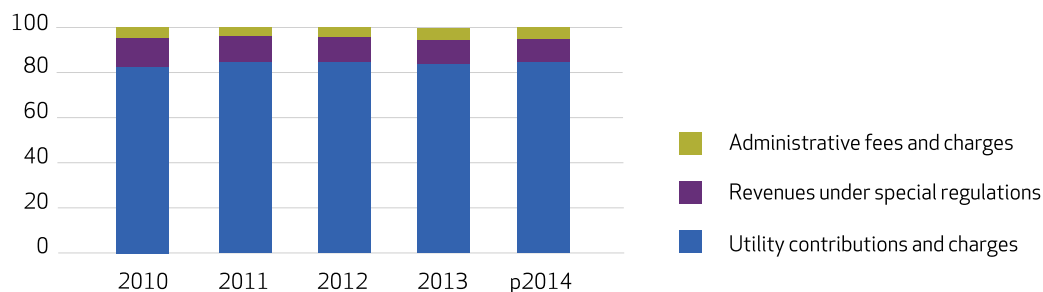
As of 2001, the central government allows local governments to assume the funding of education, health care, social welfare and fire fighting services. This involves the transfer of liabilities for part of the costs (material costs and outlays for the acquisition of non-financial assets) to local governments having assumed responsibility for the funding of health care and education, and for the full costs, including salaries, to those local governments which have assumed liability for the funding of social welfare (the payment of cash benefits and the costs of elderly home care and child protection) and public fire fighting services. As the City of Zagreb has assumed all these public services, it receives 12 lipas of every kuna of personal income tax collected in its territory.

Equalisation fund

Local governments which have assumed some or all of the decentralised public services, but which cannot raise enough funds from the additional share in the personal income tax revenues to meet the minimum financial standard prescribed by the competent ministry, are allocated grants from the equalisation fund by the central government.

Revenues from fees and charges

Revenues from fees and charges account for about 15% of the total City budget revenues and are used exclusively for legally prescribed purposes.



Graph 4: Revenues from fees and charges (%)

Utility contributions and charges account for over 80% of these revenues (which are planned to reach a high of HRK 860m in 2014). Revenues under

special regulations include, for example, revenues from the co-financing of preschool programmes and utility service charges (water supply and drainage), while administrative fees and charges constitute revenues from the sale of stamps, waste disposal fees, etc. Every citizen pays a monthly average amount of HRK 107 into the City budget on account of such fees and charges. Out of this, utility contributions and charges account for HRK 90.



Utility contributions and charges

Utility charges are paid by the owners and users of housing, business and garage space, undeveloped building land and building land used for business activities. The funds collected are used for the funding of storm water drainage, public lighting and the cleaning and maintenance of public areas, unclassified roads, cemeteries and crematoria. The City determines the amounts of charges, depending on the location, the type and size of real estate.

Utility contributions are paid for the construction and use of utility infrastructure facilities and equipment for public areas, unclassified roads, cemeteries and crematoria and public lighting. They are paid by the owners of building plots, and their amounts are determined by the City, depending on the location and size of the real estate.

Revenues from assets

Revenues from assets (about 6% of total budget revenues) almost fully originate from the use of non-financial assets, i.e. from:

- road fees, payable annually when registering a vehicle;
- the lease or rental of property (e.g. business premises, billboards and advertising boxes, terraces, parking lots and kiosks);
- fees for the use of property (e.g. monument annuities, the retaining of illegally constructed buildings);
- concession fees (e.g. for the provision of public health care and funeral services, water use, and gas and heat distribution).

Besides the revenues from the use of non-financial assets, there are also revenues from the sales of non-financial assets. These are recorded separately and will therefore be explained separately.

Other operating revenues

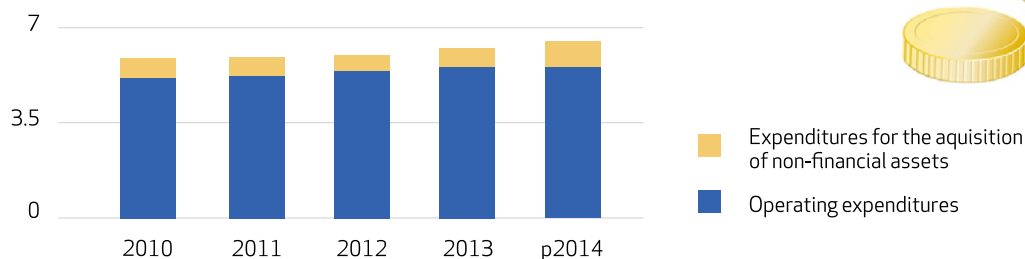
These include various types of grants, revenues from fines and administrative measures, etc. (they account for only slightly more than 2% of total budget revenues).

Revenues from the sale of non-financial assets

Revenues from non-produced non-financial assets (e.g. the sale of land) and produced non-financial assets (e.g. the sale of residential buildings) account for 2% to 3% of total budget revenues.

BUDGET EXPENDITURES

Now that we are acquainted with how the revenues are collected, we will explain how they are spent. Trends in total budget expenditures are shown in graph 5.



Graph 5: City budget expenditures, 2010–14 (plan), in billion HRK

Total expenditures averaged HRK 6.4bn in the period 2010–13, and are projected to reach about HRK 6.8bn in 2014. This means that the City spends an average amount of HRK 8,827 per year or HRK 736 per month per citizen.

In order to show who spends the City budget funds, where these funds are spent and on what, expenditures are presented according to the economic classification (e.g. the compensation of employees, benefits to citizens and households, and subsidies), programme classification, i.e. by programme, activity and project (e.g. environmental protection or computerisation) and organisational classification (e.g. the Mayor's Office, **Sub-municipal Self-government Service** and City Office for Education, Culture and Sports).

Economic classification of budget expenditures

The City's expenditures are allocated according to economic classification, which shows how much is spent, e.g. on the compensation of employees, subsidies and grants.



sub-municipal self-government

local committees, city districts and boroughs which may be founded under the statute of a local self-government.

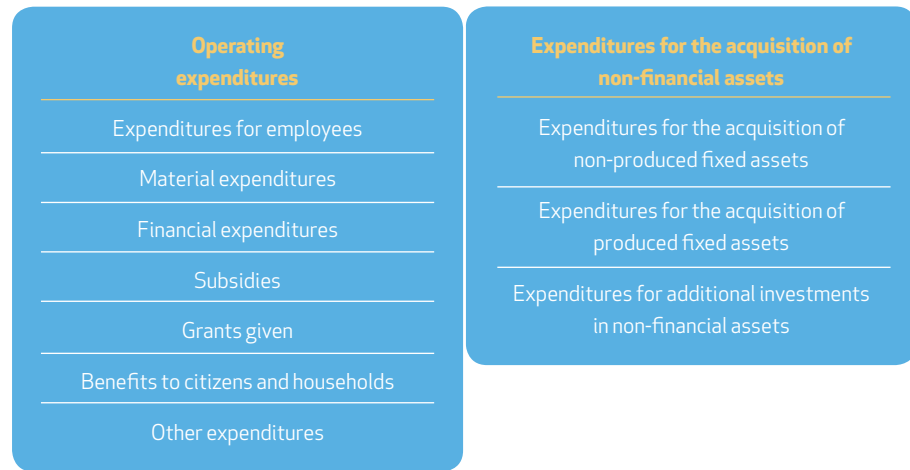
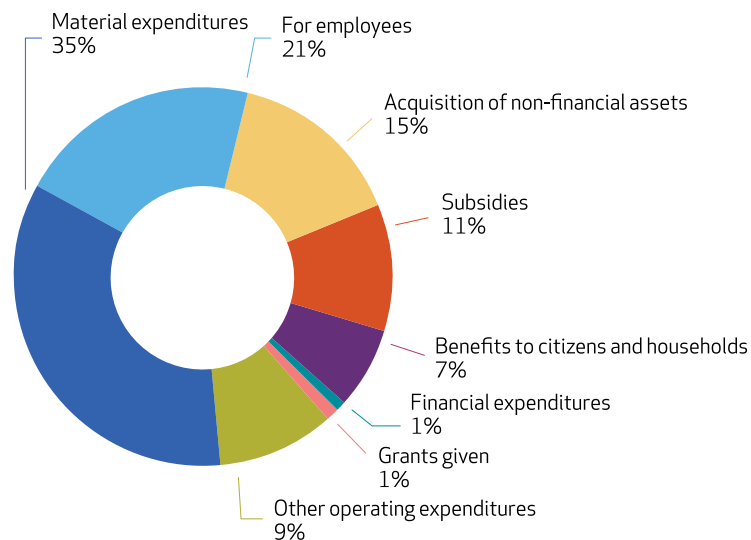
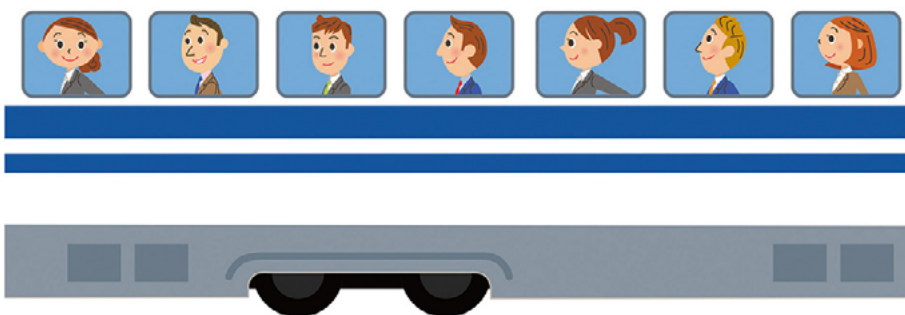


Figure 6: Economic classification of budget expenditures

The smooth functioning and operation of the City requires the payment of salaries to the City administration employees and covering of various material expenditures (such as the maintenance of the City buildings, the payment of rentals or overhead expenses). Sometimes, the City has to take out loans not only for capital projects, but also for regular operations, and must therefore bear adequate financial costs (e.g. interest expenses). A portion of budget expenditures is also used for stimulating companies and programmes of public interest, as well as for the protection of the most vulnerable citizens in the form of subsidies, grants and benefits to citizens and households.



Graph 6: Economic classification of budget expenditures, the 2014 plan



Over half of total expenditures go on regular operations (material expenditures and expenditures for employees), followed by the acquisition of non-financial assets, subsidies, etc. A detailed elaboration of the aforementioned operating expenditures is given below.

Expenditures for employees

As shown by graph 6, expenditures for employees account for about one fifth of total expenditures (the 2014 projection is about HRK 1.5bn). These include salaries and health and pension insurance contributions of the City administration and City budget users' employees. These salaries are, of course, subject to the personal income tax and surtax. However, for employees resident in Zagreb, 84.5% of the personal income tax and the entire amount of the surtax are paid back into the City's budget. Although most of the personal income tax and the entire amount of surtax do not constitute actual costs to the City budget, they still must be recorded.

Material expenditures

Material expenditures account for as much as one third of total expenditures (they are projected to be HRK 2.4bn in 2014). They relate to all goods and services purchased by the City in the open market for the performance of its activities, but mostly services (e.g. current and investment maintenance, rentals and leases, utility and postal services). Only a smaller portion relates to office supplies, energy, etc.

Financial expenditures

The City's financial operations also entail financial expenditures (e.g. interest expenses, banking and payment transaction fees) which account for about 1% of total operating expenditures annually (the 2014 projection is about HRK 61m).

Subsidies

Subsidies are current non-repayable funds used for stimulating production, the compensation of losses, maintaining lower prices of goods and services, etc. They account for about one tenth of total expenditures (their projected amount for 2014 is HRK 729m). The bulk of these funds relate to the co-financing of public transport (ZET) and rental of the Arena sports hall.



Grants

Grants account for less than 1% of total expenditures, and almost the entire amount planned for 2014 (HRK 46m) goes to the Croatian National Theatre.

Benefits to citizens and households

These benefits are social policy instruments, usually accounting for 6% to 7% of total expenditures (they are projected to be HRK 451m in 2014). They include, for example, the co-financing of the public transport of pensioners and permanent social assistance users, intercity public transport of pupils, transport of disabled persons, cash assistance for babies, financial support for children of deceased and missing war veterans, support for the housing costs of households, and pension supplements.

Other operating expenditures

These expenditures generally include current grants, as well as capital grants and donations, and account for about one tenth of total expenditures (the projection for 2014 is HRK 656m). The most significant current grants relate to sports (the co-financing of public needs, sports events and the use of sports facilities, and supporting elite athletes), religious and private kindergartens and culture (e.g. libraries, museums and theatres, as well as activities related to music, visual arts and film making). Capital grants are mainly given to ZET for the repayment of loans taken out for motor fleet renewal and reconstruction, whereas capital donations are largely given for the protection of cultural heritage.

Expenditures for the acquisition of non-financial assets

In contrast to the above described operating expenditures which relate to the current or regular operations, expenditures for the acquisition of non-financial assets relate to fixed assets, i.e. the acquisition of non-produced assets (mainly land), produced assets (mainly buildings), and additional investments in buildings. Usually, most of the funds are spent on the procurement of commercial buildings and on traffic network (roads, railways, etc.), but some of them are spent on the procurement of public lighting facilities, water supply and drainage network, public areas and sports and other facilities. They normally account for over 10%, but their projected share in total expenditures in 2014 is as high as over 15% (approximately HRK 1bn).

Organisational classification of expenditures

This classification shows expenditures broken down by organisational units, e.g. city offices and services. As shown by table 1, the majority of the City administrative bodies account for relatively small shares in total expenditures, while the three most important offices – for 'education, culture and sports' for 'physical planning, construction of the City, utility

services and transport’ and for ‘economy, labour and enterprises’ – jointly spend about two thirds of the City budget resources.

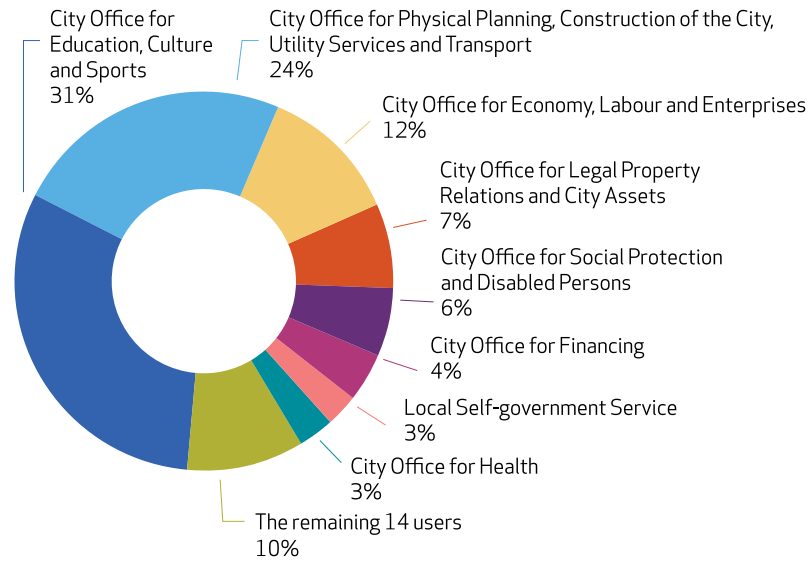
Section code	Organisational Classification — Section	Share in total expenditures (%)
009	Office for Education, Culture and Sports	30.6
012	Office for Physical Planning, Construction, Utility Services and Transport	24.2
008	Office for Economy, Labour and Enterprises	12.0
013	Office for Property Rights Affairs and City Assets	7.3
021	Office for Social Protection and Disabled Persons	6.5
007	Office for Finance	3.8
005	Sub-municipal Self-government Service	3.4
010	Office for Health	2.7
001	Mayor’s Office	1.6
019	Office for Emergency Management	1.4
022	Office for Energy Supply, Environmental Protection and Sustainable Development	1.1
011	Office for Agriculture and Forestry	1.1
020	Professional Service of the Mayor	1.0
006	Office for General Administration	0.8
018	Assembly Professional Service	0.6
014	Office for Cadastre and Geodetic Affairs	0.6
004	Office for Strategic Planning and Development	0.4
016	Office for War Veterans	0.3
002	Public Procurement Office	0.1
015	Office for EU Programmes and Projects	0.1
017	Institute for the Conservation of Cultural and Natural Heritage	0.1
003	City Control Office	0.1
TOTAL		100



Table 1: Organisational classification of budget users, the 2014 plan

Numeration in the organisational classification

Table 1 shows budget users sorted by share in total expenditures; each user is assigned a section code. Individually, for example, Section 009 Office for Education, Culture and Sports is further divided into chapters, so that Chapter 00901 relates to education, culture and sports and Chapter 00902 to preschool education and care, and so on.



Graph 7: Budget users according to organisational classification, the 2014 plan (%)

Expenditures by programme

The programme classification is used in the specific part of the budget where all expenditures are classified by users and by programmes aimed at achieving the budget users' goals, and further by economic purposes. The aim is to identify the purpose of spending as accurately as possible and step up the efficiency of its control.

Classification	Level	Code	Title
Organisational	Section	009	Office for Education, Culture and Sports
Organisational	Chapter	00902	Preschool education and care
Programme	Programme	1001	Regular activities of preschool education and care institutions
Programme	Activity	A100001	Regular activities of preschool education and care institutions
Economic	Subgroup	311	Salaries (gross)
Economic	Subgroup	313	Contributions on salaries
Economic	Subgroup	322	Expenditures for materials and energy use
Programme	Activity	A100003	Religious and private kindergartens and other grants
Economic	Subgroup	381	Current donations
Programme	Capital project	K100002	Furnishing of preschool education and care institutions
Economic	Subgroup	422	Facilities and equipment

Table 2: An example of expenditures by programme

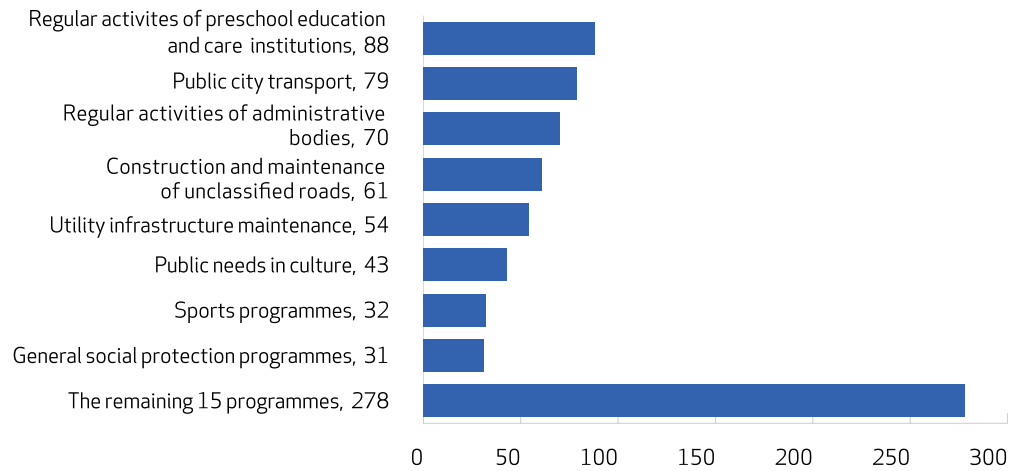
The programme classification is demonstrated on the example of the Office for Education, Culture and Sports. The code 00g denotes a section and code 00g02 a chapter in the budget. The programme of the regular activities of preschool education and care institutions is denoted by four digits: 1001. It includes two activities (Regular activities of preschool education and care institutions and Religious and private kindergartens and other grants) and one capital project (Furnishing of preschool education and care institutions), which are further divided by type of expenditure, according to the economic classification at the level of subgroup (third level denoted by three digits, e.g. 313 Contributions on salaries).

Programme	Share in total expenditures (%)	Average monthly spending per citizen (HRK)
Regular activities of preschool education and care institutions	12.0	88
Public city transport	10.7	79
Regular activities of administrative bodies	9.5	70
Construction and maintenance of unclassified roads	8.3	61
Utility infrastructure maintenance	7.4	54
Public needs in culture	5.8	43
Sports	4.4	32
General social protection	4.2	31
Flats	3.1	23
Capital investments in social service facilities	3.1	23
City districts	2.9	21
Public debt	2.7	20
Business premises	2.6	19
General education	2.1	16
Higher standards in primary schools	1.9	14
Decentralised funds for primary school education	1.6	12
Construction of utility infrastructure facilities and equipment from utility contributions	1.6	12
Social protection — social protection institutions	1.5	11
Public health care — health care institutions	1.3	10
General public health care	1.3	9
Decentralised funding of secondary schools and pupils' dormitories	1.2	9
City of Zagreb Public Fire Brigade	1.1	8
Other programmes with shares lower than 1%	9.9	73
TOTAL	100	736



Table 3: The structure of expenditures and average monthly spending per citizen per programme, the 2014 plan

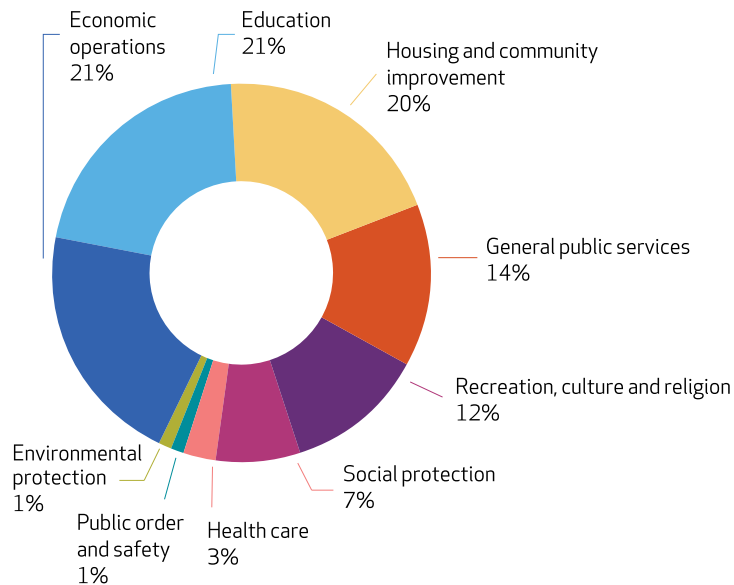
Among over seventy programmes contained in the City budget, the first three account for as much as one third of total budget expenditures. Thus, an average monthly amount of HRK 88 is spent per citizen on the regular activities of preschool education and care institutions, HRK 79 on public city transport and HRK 70 on regular activities of administrative bodies (graph 8).



Graph 8: Average monthly spending per citizen per programme, the 2014 plan (in HRK)

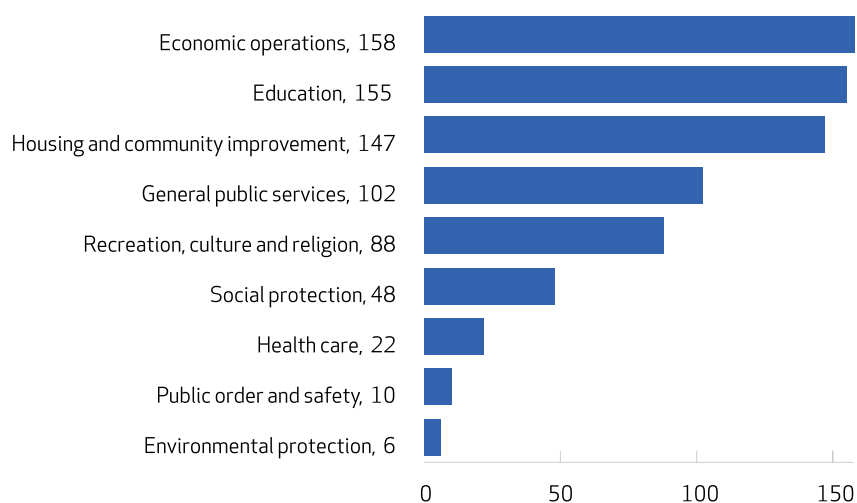
Functional classification of expenditures

The functional classification reveals the purposes for which funds are spent. It is not currently disclosed, but the information it provides is available on the [Ministry of Finance's website](#).



Graph 9: Functional classification of expenditures, the 2014 plan (%)

The bulk of the funds, about 60%, go to economic operations, education, and housing and community improvement. Together with the general public services (14%), these functions account for about three fourths of total budget expenditures. Economic operations generally relate to transportation (public city transport and construction and maintenance of roads). Education expenditures include all costs related to preschool education (e.g. staff costs in kindergartens and kindergarten fee subsidies for parents), whereas primary and secondary education expenditures include material costs and outlays for the acquisition of non-financial assets, for which the City became liable after assuming responsibility for education within the decentralisation process. Housing and community improvement involves, e.g. the costs of City property and public area maintenance, whereas general public services relate to staff costs and material costs of the City offices and services.



Graph 10: Average monthly spending per purpose, per citizen, the 2014 plan (in HRK)

The planned average monthly spending per citizen in 2014 is HRK 736; most of this amount will be spent on economic operations, education and housing and community improvement.

Expenditures by source of funding

Expenditures by source of funding are currently not published. However, they involve the presentation of all revenues used for covering individual expenditures. Each source of funding is assigned a one-digit code denoting a class (general revenues and receipts, special-purpose revenues, grants, etc.), and a two-digit code denoting a group.

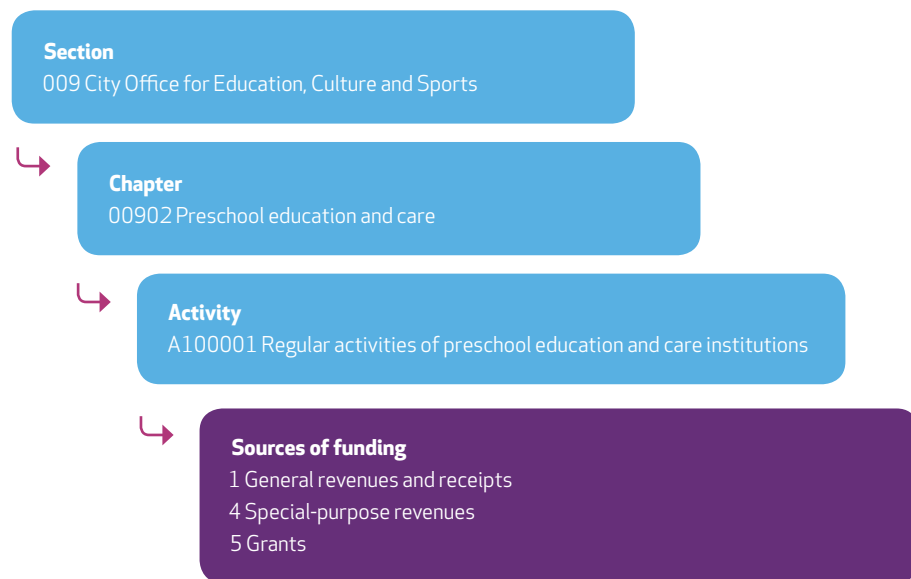


Figure 7: An example of the sources of funding for regular activities of preschool education and care institutions

Finally, let us note that all the classifications must be interconnected, and that each expenditure item should be monitored according to multiple criteria. The purpose of combining classifications is to provide a better insight into the purposes, types and effects of budget expenditures.

MEASURES OF SURPLUS/DEFICIT

The previous sections provided information on the quantity of collected funds, and on the manner of their collection and spending. When the amount of funds collected in a year exceeds the amount spent, there is a budget surplus, and when more funds are spent than collected, there is a budget deficit.

The situation is similar to that with household budgets. If our salary is paid into our current account with a bank, then what we get is our revenue, and disbursements from that account constitute our expenditures. If we manage to spend less than the amount of our salary, our account balance will be positive, i.e. we will have a surplus. In that case, we actually save money and we will be able to spend more in the future. On the other hand, if the amount we spend exceeds the salary, our account is in the red, i.e. we are in debt and, to repay it, we will have to cut our spending in the future.

Surplus and deficit can be measured in several ways. We have just explained the most basic one: the total surplus/deficit as a *difference between total revenues and total expenditures*. When revenues are higher than expenditures, we talk about *net lending* and when expenditures

exceed revenues, we have *net borrowing*. In everyday practice, we usually talk about *surplus* and *deficit*.

Another measure is the so-called *operating (current) balance*, i.e. the difference between *operating revenues* and *operating expenditures*. This measure does not take into account the surplus/deficit caused by changes in non-financial fixed assets, but the surplus/deficit arising from the City's current operations. In the case of a positive operating balance, the surplus funds can be used for the repayment of current liabilities or procurement of assets (which increases the value of the public sector). Where the operating balance is negative, the deficit is covered by either borrowing or selling the assets. In this case the net value of the public sector is reduced. The operating balance is a good sustainability indicator of the City's current operations.

The third measure is the *primary operating balance*, i.e. the *difference between operating revenues and operating expenditures net of interest expenses*. It shows the status of the City's financial policy, without the burden of debt repayment from previous periods.

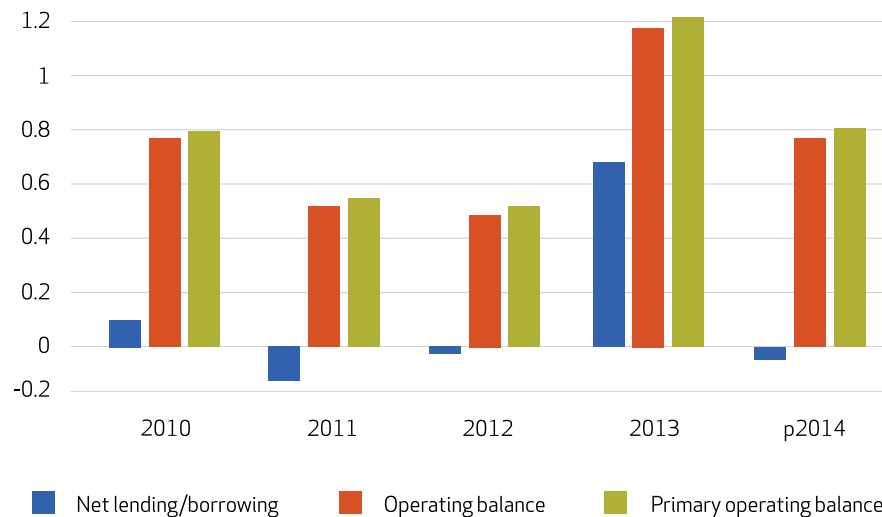
The difference between these three (apparently similar) measures can be explained on the example of our household budget, where net lending/borrowing is the difference between the total amounts of what we earn and what we spend in a given period. However, our total expenditures include not only current expenses, such as food, household necessities, etc., but also the purchase of a computer, or interest on a current account overdraft. The operating balance is the difference between our current earnings and spending, but excluding the purchase of a computer which, in fact, constitutes fixed non-financial assets. Our primary operating balance would include neither the cost of buying a computer nor the amount of interest paid to the bank.

Is a deficit always a bad thing?

Contrary to popular belief, deficits are not necessarily bad. It is through a comparison between different measures of surplus/deficit that we can better distinguish when deficit is bad and when it is not bad. The information that the City's revenues are lower than expenditures, i.e. that the City runs a deficit, seems like bad news at first glance. But, what if the City incurs the deficit due to the purchase of a building for the performance of its regular activities, which will save the City huge amounts paid for rental? It is the operating balance that can give an answer to the question whether the City's performance is good or bad. A positive operating balance indicates that the deficit is due to the purchase of assets, which in fact means an increase in the value of the public sector. However, the actual benefits will be seen only in the future when the high rental costs decrease.



Let us now imagine a situation in which the budget runs a high operating deficit, while at the same time the primary operating balance is positive. In this case, the City performs well but, due to high interest paid on previously accumulated debt, its operating balance cannot be positive. However, the problem can be easily solved by debt restructuring, namely the adjustment of repayment schedules to the City's fiscal capacities (e.g. by extending the loan repayment period), which could result in operating surpluses in the future.



Graph 11: Surplus/deficit of the Zagreb City budget, 2010–2014 plan (in billion HRK)

As shown in graph 11, the City recorded a slightly positive budget balance (a surplus) on average in the period 2010–13, while a deficit of HRK 37m is planned for 2014. In all the years, the operating balance was positive and exceeded the net lending/borrowing by over half a billion kuna. This means that the City spends an average annual amount of at least half a billion kuna for the acquisition of non-financial assets, or even significantly more in some years. This shows that the City has no major business problems, as its operating revenues exceed the current expenditures by a comfortable margin. Deficits, if any, arise from capital investments, which results in a long-term increase in the value of the City's public sector.



FINANCING ACCOUNT

According to the principle of budget equilibrium, revenues and receipts must equal total expenditures and outlays. So far, we explained the concept of total surplus/deficit which occurs when total revenues are not equal to total expenditures. If there is a surplus, the excess funds can be invested in order to derive extra income (e.g. from interest), and if a deficit is incurred, borrowing becomes necessary. These transactions are recorded in a special budget account, the so-called *financing account* (figure 8) which shows how increased consumption is funded, or where an increased income is invested.



Figure 8: Financing account

The receipts include: monetary inflows, e.g. the principal repayments of loans given, receipts from the sale of securities (shares or bonds) and borrowed funds, whereas the records of outlays comprise the outflows of funds under the same categories. The difference between the receipts and outlays constitutes *the net financing*, i.e. the amount that should equal the surplus/deficit from the revenue and expenditure account, or the budget net lending/borrowing.

Obviously, the Zagreb City budget has generally been balanced. However, if any of the budget plans falls short, or if the targets are exceeded, a budget revision should be made. This involves changes in the planned amounts, which must be either reduced or increased with respect to the budget plan. A budget revision occurs if it is established during the year that budget revenues have been estimated inaccurately or if unexpected expenditures occur. This may, or may not, lead to a change in the financing account, due to, for example, a need to borrow more than planned, or due to early credit and loan repayment, if the revenues exceed the planned amount. Table 4 shows the [Amendments to \(the revision of\) the Zagreb City budget](#) from July 2014.



	2014 plan	2014 revision	Change
Revenue and expenditure account			
Operating revenues	6,597.0	6,897.0	300.0
Revenues from the sale of non-financial assets	202.3	202.3	0
Operating expenditures	5,821.4	6,085.0	263.6
Expenditures for the acquisition of non-financial assets	1,014.7	982.8	-31.9
Surplus/deficit	-36.8	31.5	68.3
Financing account			
Receipts from financial assets and borrowing	200.7	200.7	0
Outlays for financial assets and loan repayment	163.9	232.2	68.3
Net financing	36.8	-31.5	-68.3

Table 4: Revenue and expenditure account and financing account from the 2014 budget plan and budget revision (in million HRK)

As a result of the budget revision, the 2014 operating revenues went up by HRK 300m, due to expectations of higher-than planned revenues from the personal income tax, capital grants and assets. However, the growth in expected revenues led to an increase in expenditures, though at a slightly lower rate than in the case of revenues. Hence, under the revised budget, instead of a deficit of HRK 37m, a surplus in the amount of HRK 32m is planned. In accordance with adjustments made in the revenue and expenditure account, totalling HRK 68m, the financing account will also be changed, by increasing outlays for the principal repayment of loans and credit facilities received. In other words, due to higher-than planned revenues, additional HRK 68m in loans and credit facilities will be repaid early.

Interim budget balancing measures

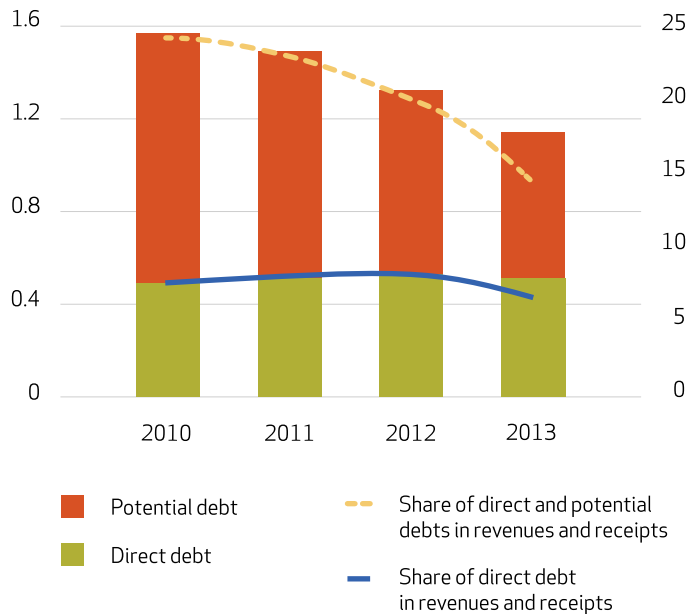
Regardless of a budget revision, should expenditures increase or revenues decrease during the year, as a result of some new budget liabilities or changes in economic trends, the Mayor may, at the proposal of the City Office for Finance, suspend the execution of certain expenditures, but for no longer than a period of 45 days.

DEBT

If there is a budget deficit, the City must raise a bank loan or issue bonds. In both cases, we talk about the accumulation of debt. Debt is, in fact, a sum of all budget deficits incurred in a current period and in earlier periods, which the City has financed by borrowing. These funds have been borrowed, but not yet repaid, so that they are claimed by creditors.

The afore mentioned definition relates to the so-called *direct debt*, but there is also a *potential debt*, arising from guarantees issued by the City for loans taken out by companies in its ownership and institutions which it has founded. These guarantees represent the City's commitments to repay these loans if the companies or institutions are incapable of doing so.

In our comparison with a household budget, a housing loan would be a typical example of a direct debt. This is a loan we took out because our savings were insufficient to buy a flat. But, if we provided a guarantee for a housing loan raised by our friend, we assumed the potential liability to repay that loan, if the friend is incapable of repaying it. Hence this is our potential debt.



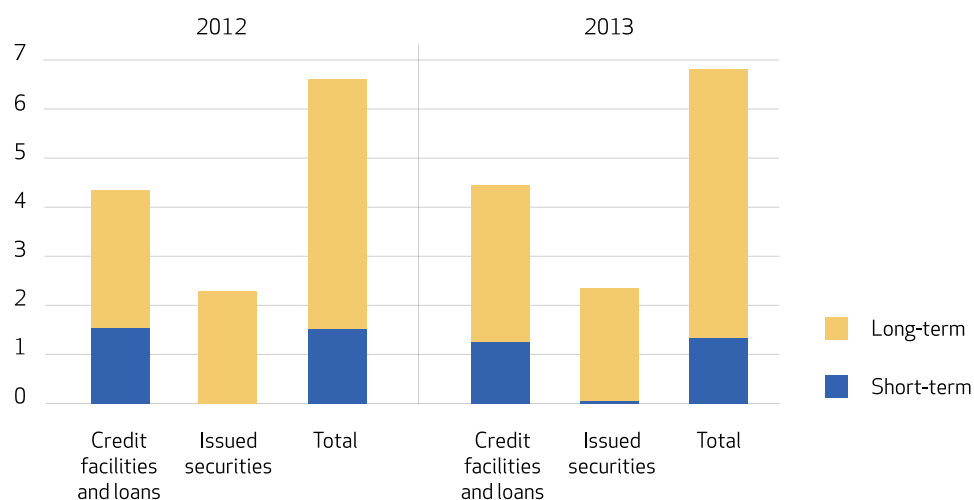
Graph 12: The City of Zagreb debt (in billion HRK, left scale) and the share of debt in budget revenues and receipts (in %, right scale), 2010–13

The City's direct debt showed a slight upward trend in the period 2010–13, barely exceeding HRK 500m at the end of it (approximately 7% of revenues and receipts). Total debt (direct debt plus contingent liabilities arising from

issued guarantees) amounted to over HRK 1.1bn (approximately 15% of revenues and receipts). Total debt fell markedly in the said period, mainly due to a decrease in contingent liabilities arising from issued guarantees.

The City of Zagreb and Zagreb Holding debts

The media often write about excessive indebtedness of the City of Zagreb. Nevertheless, the City's debt is markedly lower than that of the government, and the City can easily service its direct debt from its regular revenues and receipts. It should be noted, however, that there is no common definition of debt (a local government's debt, public debt or government debt) that would include the debts of legal entities founded by the Republic of Croatia or a local government (in our case the City of Zagreb), or the debts of companies and other legal entities in majority ownership by the Republic of Croatia or a local government (the City of Zagreb). Graph 13 shows total debt of the Zagreb Holding Company which is wholly owned by the City.



Graph 13: Total debt of Zagreb Holding, 2012-13 (in billion HRK)



consolidation

the presentation of financial data from several interconnected budgets and budget users, as well as extra-budgetary users, as if they were a single entity.

The **consolidated** financial statements of the Holding for 2013 reveal a total short-term and long-term debt arising from credit facilities, loans and from issued securities in an amount of HRK 6.8bn. This amount is approximately equal to the City's total 2014 budget revenues. Given the strategic importance of the Holding (the utility infrastructure and transportation), its over-indebtedness represents a serious burden on the City's budget in the future.



THE ZAGREB BUDGET PROCESS

The City budget process, regulated and affected by a number of formal and informal rules includes the preparation, proposing, adoption, execution and control of the budget. The City budget process is very important because, during its phases, decisions are taken on the manner of collecting and spending public money. But before getting acquainted with the budget process and its phases, we should learn something about the main participants in this process and their roles.

MAIN PARTICIPANTS IN THE CITY BUDGET PROCESS

Among numerous participants in the different phases of the City budget process the most important are: the Assembly, Mayor, City Office for Finance, budget users and citizens.

City Assembly

As a representative body, the Assembly represents citizens. The mode of operation of the Assembly is regulated by the [Assembly's Rules of Procedure](#) and a number of other regulations, such as the [Budget Act](#).

The Assembly has many important powers: to adopt the budget and the mid-year and end-year reports on budget execution; to take decisions on the City's long-term borrowing, i.e. on taking out credit and loans and issuing securities; to decide on giving its approvals for long-term borrowing and guarantees to legal entities in majority ownership or co-ownership of the City or institutions founded by it.

The Assembly currently operates through its 22 [standing working bodies](#) (councils), of which the Finance Committee and Committee on the Stat-

budget process

the planning, preparation, adoption, execution, supervision and audit of the budget.

ute, Rules of Procedure and Regulations are the most important for the **budget process**.

In its budget debates, the Assembly (consisting of **51 representatives**) analyses the programmes and fiscal policies proposed by the Mayor, promotes the interests of citizens and ensures that the budget is used for meeting social and economic priorities. The budget is formally considered as adopted only after the Assembly has approved the revenues and expenditures proposed by the Mayor. Hence it can be said that it is in the Assembly that some of the most important budget process activities take place. Assembly meetings are open to the public; the public can be excluded only exceptionally, in the cases prescribed by special laws or a by-law.

Mayor

The Mayor, as the executive body, represents the City and acts on its behalf. The Mayor is responsible for the proposing and enforcement of the policy approved by the Assembly, as well as for the lawful, purposeful and efficient use of the budget resources. The Mayor proposes budgetary policy to the Assembly and he/she is the only authorised proposer of the budget, and can withdraw the budget even after voting on amendments, but before voting on the budget. The Mayor has two deputies and is elected, together with the deputies, by a direct vote of citizens.

Among his tasks, the Mayor manages the City's revenues and expenditures, formulates proposals for the City budget and for a decision on its execution and submits them to the Assembly, adopts decisions on the acquisition and disposal of movable and immovable property, as planned in the budget, etc.

City Office for Finance

Among the City administrative bodies, the most important for the budget process is the City Office for Finance, which, for the purposes and according to the instructions of the Mayor, and in accordance with law, prepares, plans, executes and monitors the execution of the budget, ensures its liquidity, prepares financial reports (e.g. mid-year and end-year reports on budget execution, or reports on the use of **budget reserves**), monitors the collection of budget revenues and receipts, carries out the activities related to borrowing and the issuance of guarantees, credit ratings, etc.

Budget users

Budget users are institutions (museums, kindergartens, schools, etc.) whose expenditures for employees and/or material expenditures are



budget reserves

funds determined in the budget that may be used for purposes not anticipated at the time of the budget planning.

financed from the budget. Pursuant to the instructions from the City Office for Finance, they propose their own programmes and activities and submit expenditure plans within their budget limits and in line with the determined programmes and set priorities. The City budget funds must be spent in accordance with the budget plan and for the purposes and objectives for which these institutions have been founded. The external control, supervision and audit of the use of all budget funds are carried out by the Ministry of Finance and **State Audit Office**. The internal control is exercised by the **City Control Office**.

State Audit Office
an independent and autonomous institution accountable to the Parliament, which is responsible for the audit of, among other entities, the City of Zagreb and companies founded or majority-owned by the City.

Citizens

Billions of kuna flow into the City budget, but they are also spent. The budget is far too important to be left only to the City authorities, politicians or various interest groups and lobbies eager to influence it. Citizens elect their representatives who decide on their behalf on all important urban matters, including the City budget. Therefore, the manner in which budget funds are collected and spent is not just the concern of citizens' representatives in the Assembly, but it is the citizens themselves who can actively participate in the budget process. In the preparation phase, they can join the discussion and put forward proposals for the allocation of the budget resources. Once the budget is adopted, they can keep track of its execution. However, as the influence of individual participants' on the budget process depends on how well they are informed and organised, it is essential that they understand it, because this is the only way to contribute to the efficiency and quality of budget resources management. After all, these funds belong to citizens.

PHASES OF THE CITY BUDGET PROCESS

The budget process involves a network of relationships among the main participants, where the budget is first discussed and then adopted, executed and controlled. Hence whoever wants to have some influence on the collection and allocation of budget resources must understand the procedures for the preparation, adoption, execution and control of the budget.

Although budgets are adopted for a period of one year, the three main phases of the budget process, i.e. the preparation, the adoption and the execution of and reporting on the budget, take about two and a half years. Each of the three phases includes several steps.

In accordance with the **Budget Act** and **Assembly's Rules of Procedure**, the budget process is carried out according to an established pattern and strictly defined rules. Here, it is illustrated by an example of a budget year *n*.



projection
unlike the budget which is planned for the next year (e.g. in 2014 for 2015), projections are made for the next two years (e.g. in 2014 for 2016-17).

PHASES AND DURATION OF A CITY BUDGET

PHASE 1 ● PREPARATION OF A BUDGET PROPOSAL

STEP 1 ● Instructions for drafting local budgets

by end-June of a year $n-1$

Based on the Government's Economic and Fiscal Policy Guidelines, the Ministry of Finance submits to the City Office for Finance Instructions for Drafting Local Government Budgets for the year n and the **Projections** for two subsequent years. The Office adjusts the Instruction and sends it to its budget users and City administrative bodies.

STEP 2 ● Drafting proposals for the financial plans of budget users and City administrative bodies

by 15 Sep. of a year $n-1$

In accordance with the adjusted Instructions, the budget users and City administrative bodies prepare proposals for their own financial plans and submit them to the Office.

STEP 3 ● The City Office for Finance prepares a draft budget with projections and submits it to the Mayor

by 15 Oct. of a year $n-1$

The Office reviews and adjusts the budget users' financial plans, and prepares a draft budget and projections which it submits to the Mayor.

by 15 Nov. of a year $n-1$

The Mayor approves the final budget proposal and projections, and submits them to the Assembly for adoption.

PHASE 2 ● BUDGET ADOPTION

STEP 4 ● The Assembly discusses and adopts the budget proposal and projections

by the end of a year $n-1$

The Assembly discusses and adopts the budget and projections within the time limits enabling the implementation of these documents as of 1 January of a year n .

PHASE 3 ● BUDGET EXECUTION

STEP 5 ● Budget execution

by 15 Jan. of a
year *n*

● The Mayor submits the adopted budget and projections, together with a decision on budget execution, to the Ministry of Finance within 15 days from its effective date.

1 Jan.-31 Dec. of a
year *n*

● The budget is executed on the basis of the budget users' requests for the payment of budget funds for certain purposes, up to the amount determined in the specific part of the budget.

STEP 6 ● Mid-year report on budget execution

by 5 Sept. of the
year *n*

● The Office submits a mid-year report on budget execution to the Mayor.

by 15 Sept. of the
year *n*

● The Mayor submits the mid-year report on budget execution to the Assembly for adoption.

STEP 7 ● End-year report on budget execution

by 1 May of the
year *n+1*

● The Office submits an end-year report on budget execution to the Mayor.

by 1 June of the
year *n+1*

● The Mayor submits the end-year report on budget execution to the Assembly.

● The Mayor submits the end-year report on budget execution to the Ministry of Finance and State Audit Office within 15 days from its adoption by the Assembly.

STEP 8 ● Budget supervision and internal and external audit

PHASE 1: PREPARATION OF A CITY BUDGET PROPOSAL

STEP 1: Instructions for drafting local governments budgets

After the Government has prepared and adopted its **Strategic Programme** and **Economic and Fiscal Policy Guidelines** for a three-year period (from March to mid-June), the Ministry of Finance draws up **Instructions for drafting local governments budgets** and submits them to the City Office for Finance. The Office adjusts the Instructions and submits them to all the City administrative bodies which prepare instructions with limits and submit them to budget users within their field of competence (e.g. kindergartens, schools, museums, etc.).

After being adjusted by the City Office for Finance, the Instructions for drafting the budgets include the following: assumptions for the preparation of budget proposals, a description of the planned policies, three-year estimates of revenues and expenditures, the proposed financial plan levels for all the City administrative bodies for the next three-year period, as well as the method of and time limits for drafting the budgets and financial plan proposals of all the City administrative bodies.

The adjusted Instructions provide the City administrative bodies and budget users with information on the basic economic and fiscal indicators, as well as on the methods of and time limits for the preparation of their respective budgets. They are also invited to independently draft and explain their financial plans and requests for necessary budget resources, taking into account the disposable revenues and time constraints.

STEP 2: Drafting proposals for the financial plans of budget users and the City administrative bodies

Based on the adjusted Instructions, all the budget users and City administrative bodies prepare their own financial plan proposals for a three-year period and submit them to the competent City administrative body or Office.

A financial plan proposal for a three-year period includes the following: revenues by type, expenditures broken down according to the budget classifications and an explanation of the financial plan proposal (a summary of a scope of activity, explained programmes, the legal and other bases for the programmes, etc.).

STEP 3: The City Office for Finance prepares a draft budget and submits it to the Mayor

After the budget users and City administrative bodies have prepared their financial plan proposals and submitted them to the Office, the Office reviews them and adjusts them to the revenue estimates in the period between mid-September and mid-October; then it prepares a draft budget and projections which it submits to the Mayor by 15 October. Where necessary, the Mayor adjusts the draft and submits the final budget proposal to the Assembly by 15 November.

PHASE 2: BUDGET ADOPTION

STEP 4: The Assembly discusses and adopts the budget proposal and projections

In the second half of November, the President of the City Assembly delivers the following documents to all the City representatives and committees: a budget proposal, a development programme plan with projections for the next two years, which includes the City development objectives and priorities related to the programme and organisational budget classifications, and a proposal for a decision on budget execution.

Any representative, the political group or the Mayor can submit to the President of the Assembly their proposals for changes or additions to the budget proposal, the so-called **amendments**. The budget proposal is also reviewed by the Finance Committee (as the central working body), as well as other competent working bodies of the Assembly. In their reports to the Finance Committee and the Mayor, the working bodies express their comments, suggestions and opinions; they can also request additional information and documentation and propose amendments. The Mayor is obliged to respond to the working bodies' questions, comments and suggestions and provide the required information and documentation before the final (second) Committee meeting. After the second meeting, the Committee submits a report to the President of the Assembly and the Mayor, containing the Committee's positions on the opinions, comments, suggestions and amendments also provided by the other working bodies.

The budget adoption procedure occurs in two readings. The first reading includes the so-called preliminary discussion of the budget proposal, amendments proposed by the working bodies and the report of the Finance Committee. After the preliminary discussion, the Assembly adopts stances, states its opinions and provides guidelines to the Mayor for the preparation of the second reading of the budget proposal.

Before the second reading of the budget proposal, the Mayor submits a report on the preliminary discussion results to the President of the As-



amendment

a proposal for changes and additions to a budget proposal.

sembly. In this report, the Mayor explains what was accepted from the preliminary discussion, provides arguments for not accepting some opinions, positions and suggestions and states his opinion on the amendments proposed by the working bodies. The President of the Assembly forwards this report to the representatives. The second reading includes a discussion on the issues brought up during the preliminary discussion and on the Mayor's report, and it ends with a vote on the budget.

principle of equilibrium

revenues must equal expenditures, i.e. the City is allowed to spend only as much funds as it can collect.

All amendments to the proposed budget, adopted by the Assembly must be in line with the determined amount of the maximum permitted budget deficit. Due to the **principle of equilibrium**, amendments aimed at increasing expenditures above the level specified in the initial budget proposal can only be accepted, if accompanied by proposals to reduce other expenditures. In other words, the proposed expenditure increases must not be at the expense of budget reserves or earlier financial commitments, or result in new borrowing.

interim financing

is introduced for a maximum period of three months, where the City Assembly fails to adopt the budget before the beginning of a budget year.

In order to ensure that the budget becomes applicable on 1 January next year, the Assembly must enact it, together with the decision on its execution, no later than 31 December. After the budget has been voted, its execution becomes mandatory for all its users. In accordance with the principle of transparency, the voted budget must be published in the City's **Official Journal**. If the budget and the decision are not enacted on time, **interim financing** may be introduced, but for no longer than the period from January to March.

What happens if the budget or decision on interim financing is not enacted within the legally prescribed time limits?

In such a case, the Government of the Republic of Croatia will, at the proposal of the Ministry of Public Administration, dissolve the City Assembly, relieve the Mayor and his deputies of their duties, appoint a commissioner to perform the duties of the Assembly and the Mayor, and call early elections.

PHASE 3: BUDGET EXECUTION

STEP 5: Budget execution

After the vote on and adoption of the budget and decision on budget execution by the Assembly, the Mayor submits these documents to the Ministry of Finance within 15 days from their entry into force, i.e. on 1 January,



which is the official beginning of the fiscal year. The budget is executed on the basis of the budget users' requests for the payment of budget funds for certain purposes, up to the amount determined in the specific part of the budget and in accordance with the principle of sound financial management and the principle of universality and budget accuracy.

Reallocation of budget expenditures

Subject to the approval of the Mayor, during the budget year, budget funds may be reallocated among individual expenditure items, but to a maximum of 5% of the total budget expenditures.

STEP 6: Mid-year report on budget execution

By 5 September, the Office for Finance prepares a mid-year report on budget execution and submits it to the Mayor, who is required to submit that report to the Assembly no later than 15 September. In accordance with the principle of transparency, the full report must be published on the City's official website, and part of it must also be published in the Official Journal.

STEP 7: End-year report on budget execution

During a fiscal year ending 31 December, a huge number of payments are made into and from the budget. In a following year (in our case: a year $n+1$), the City Office for Finance has to perform a series of tasks in order to prepare a report on the execution of the past year's budget. Therefore, all the budget users submit their financial plan accounts for the past year to the Office, which are then reviewed, adjusted and consolidated and finally forwarded to the Mayor by 1 May.

No later than 1 June, the Mayor submits an end-year report on the execution of the budget for the past year to the Assembly. The budget process formally ends after the adoption of the end-year report on budget execution by the Assembly (usually in July).



The mid-year and end-year reports on budget execution comprise the following:

- *the general part of the budget, including the Revenue and Expenditure Account and the Financing Account at the fourth level of the economic classification;*
- *the specific part of the budget according to the organisational and programme classifications, and the fourth level of the economic classification;*
- *a report on borrowing in the domestic and foreign money and capital markets;*
- *a report on the utilisation of budget reserves;*
- *a report on guarantees given and outlays arising from these guarantees;*
- *an explanation of outturns for revenues/receipts and expenditures/outlays.*

In accordance with the principle of transparency, the full end-year report on budget execution must be published on the City's official website. Part of the report must also be published in the Official Journal.

STEP 8: Budget supervision and internal and external audit

The spending of the budget resources is supervised and audited in through all the phases and steps of the budget process. Based on the Public Sector Internal Financial Control Act, an Office has been established as an independent internal audit unit accountable to the Mayor, to whom it provides assistance in the achievement of the planned goals. The [City Control Office](#) exercises audit and control within the City administrative bodies, budget users and City-owned companies. The goal is to supervise the legality, purposefulness and timeliness of the use of budget resources, to eliminate illegalities and irregularities and to take measures to improve the situation.

The Ministry of Finance is responsible for external supervision of the legality of spending of the City budget funds for designated purposes, and the State Audit Office (SAO) conducts external audits of the City's financial statements and operations on an annual basis. The SAO examines whether the budget resources are spent in accordance with law and whether the financial statements show the true financial position of the City and its financial performance in accordance with the accepted principles and standards. All the reports are available on the [official website of the SAO](#).

The State Audit Office is an autonomous and independent institution, solely accountable to the Parliament. It is responsible for the audit of: revenues and expenditures, financial statements and transactions of the government sector, local governments (including the City of Zagreb), legal entities financed from the budget, legal entities founded by the Republic of Croatia or a local government, companies and other legal entities in which the Republic of Croatia or a local government owns majority shares or holds majority stakes, as well as the utilisation of funds provided by the EU and other international organisations and institutions for the funding of public needs.

Besides the Ministry of Finance and the SAO, the City's operations are also supervised by a number of other government institutions. The Ministry of Public Administration, for example, supervises the legality of the work of the Assembly and, where it establishes irregularities in its work, it adopts a decision declaring an Assembly meeting or part of it to be illegal, and the enactments adopted at the meeting to be null and void.

CITIZENS' INVOLVEMENT IN THE CITY BUDGET PROCESS

Now, what do we do with all this knowledge about the revenues, expenditures, debt and deficit, as well as the phases of the budget process? For starters, citizens will probably better understand some newspaper articles and TV news. Or, they may also be willing to participate in the budget process and express their own wishes and suggestions. Although the budget is very complicated and many people may find it uninteresting, it can be influenced.

Citizens can actively participate in one or all of the phases of the budget process:

- in the budget preparation and adoption phases they can control whether all the phases and steps are carried out within the specified time limits; they can insist on the timely publication of information, take part in public debates and pose questions about the programmes to be funded from the budget. This will help them better understand the goals set by the City authorities and, perhaps enable them to influence the quality of the City's public services;
- in the budget execution and reporting phases they can supervise and inquire about the results. They should express their comments, pose questions, require the publication of accurate, reliable, timely and understandable information and compare the City's business results with those of other cities and municipalities. This will give them a better insight into the overall situation in the country and, perhaps, provide them with an opportunity to suggest new ideas and improvements.



What can citizens actually do?

Citizens can:

- propose that the Assembly should adopt a particular regulation or address a particular issue. If such a proposal is endorsed by the signatures of at least ten percent of registered voters, the Assembly must discuss the proposal and respond to it within three months;
- submit petitions and complaints about the work of the City administrative bodies to which the Mayor or heads of the administrative bodies must respond within 30 days;
- directly participate in decision making – through a referendum, the calling of which may be proposed by at least one third the Assembly members, the Mayor, 20% of the total number of voters or the majority of the local committee or city district councils.

Citizens can also participate in the work of city districts and local committees, so as to decide, throughout the year, on the activities which directly affect their everyday lives and work. Zagreb has [17 city districts](#) (Trnje, Maksimir, Sesvete, Brezovica, etc.). In elections, citizens choose city district councils, whose members elect a council chairperson from among themselves.

Moreover, [218 local committees](#) have been established within the city districts; they also have their councils (whose members are elected by citizens with residence in the territory of a particular committee) and the chairpersons, elected by the council members from among themselves.

In short, there are many opportunities to both get information on the budget and participate in the process. This “Guide to the City of Zagreb Budget”, together with brief guides accompanying the key budget documents which will be published regularly, should enable citizens to get involved and help in taking decisions aimed at more efficient and equitable collection and distribution of budget resources.

USEFUL WEBSITES

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

[City of Zagreb – Finances](#) – City budget and reports on its execution

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

[City offices, institutes and professional services](#) – Detailed information, 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



GLOSSARY

activity – part of a programme of no pre-defined duration, but with planned expenditures and outlays for the achievement of goals set in the programme.

amendment – a proposal for changes and additions to a budget proposal.

areas of special state concern – areas in which economic and demographic recovery is furthered.

big city – a unit of local self-government of more than 35,000 inhabitants which is the economic, financial, cultural, health care and scientific centre of a wider region.

borrowing – taking out credit facilities or loans, or issuing securities.

budget – a plan of revenues and expenditures for a given period of time.

budget classification – a system of presentation of revenues and expenditures according to certain criteria (e.g. by user, goal, purpose, type, location and source of funding). → economic c. → functional c. → location c. → organisational c. → programme c.

budget principles → budgetary principles.

budget process – the planning, preparation, adoption, execution, supervision and audit of the budget.

budget reserves – funds determined in the budget that may be used for purposes not anticipated at the time of the budget planning.

budget revision – a change in budget amounts, i.e. their reduction and/or increase relative to the planned amounts.

budget year → fiscal year.

budgetary principles – the principles to be adhered to by all those dealing with the budget; they include the principles: of equilibrium, annuality, unity and budget accuracy, universality, specification, transparency and sound financial management.

city – a local self-government in which the seat of a county is located, or any place with more than ten thousand inhabitants which constitutes an

urban, historical, natural, economic and social entity, or which exists for special historical, economic and geo-communication reasons.

city administrative body – an office, institute or a professional service performing the activities within the competence of the City.

city budget user – an institution founded by the City, which is majority-financed from the City budget (e.g. primary schools and kindergartens).

consolidation – the presentation of financial data from several interconnected budgets and budget users, as well as extra-budgetary users, as if they were a single entity.

contribution – earmarked public revenue paid, for example, for health or pension insurance.

cost-effectiveness – the ratio between costs and quality.

county – a regional self-government which comprises several territorially connected municipalities and cities, and constitutes a single natural, historical, traffic, economic, social and self-government entity.

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.

deficit – an excess of expenditures over revenues in a given period.

earmarked revenue – revenue to be used for a predetermined purpose; for example, revenues from health insurance contributions must be spent for health care.

Economic and Fiscal Policy Guidelines – a document by which the Government annually adopts its fiscal policy course for the next three-year period. It contains macroeconomic and fiscal assumptions necessary for the preparation of the budget, as well as budget revenue and expenditure estimates.

economic classification – the presentation of budget revenues (e.g. taxes, grants or revenues from assets) and expenditures (e.g. compensation of employees, subsidies or social benefits) according to their economic purposes.

effectiveness – the ratio between the planned and actual effects of an activity.

efficiency – the ratio of results to resources used.

equalisation fund – a portion of collected personal income tax revenues from which transfers are made to local governments, unable to adequately finance the decentralised public services from their additional shares in personal income tax.

executive body – the Mayor who is elected to a four-year term of office directly, by secret ballot.

financial assets – money, deposits, bonds, loans, etc.

financial expenditure – an expenditure arising from financial operations (e.g. interest or banking fees).

financial plan – a document of a budget user which determines its revenues and expenditures for the next budget period.

financing account – a part of the budget showing how the budget deficit is financed and how the budget surplus is spent.

fiscal year – a period of twelve months which in Croatia corresponds to a calendar year (1 January to 31 December).

functional classification – a presentation of budget expenditures by purpose (e.g. health care, education).

government bodies – ministries, state offices, state administration organisations and state administration offices in counties.

Government Programme Strategy – a document by which the Government annually defines its goals for the next three-year period and allocates the state budget funds in accordance with these goals.

grants – non-repayable transfers of funds which include current grants (for current expenditures) and capital grants (for the procurement of fixed assets), as well as general and specific-purpose grants.

hill and mountain area – an area defined by a special law where living and working conditions are difficult.

interim financing – is introduced for a maximum period of three months, where the City Assembly fails to adopt the budget before the beginning of a budget year.

local and regional self-government – a municipality, a city or a county.

local budget – the budget of a local government enacted by its representative body.

local government – a municipality or a city, and sometimes also a county. → local self-government. → regional self-government.

local self-government – the jurisdiction of cities and municipalities over certain activities (e.g. primary education and social welfare), including their entitlement to own revenues and representative and executive bodies; the Government may not interfere in their powers, but is obliged to support them, where necessary.

location classification – budget expenditures shown by location (e.g. county, city or municipality).

material expenditure – the value of goods and services purchased by the City in the open market for the performance of its activities (e.g. rental and lease charges, and telephone and postal services costs).

municipality – a local self-government established for the territory of several populated places which constitute a single natural, economic and social entity connected by common interests of the inhabitants.

net borrowing – an indicator of the surplus of expenditures over revenues in the → financing account.

net financing – the amount that should equal the deficit/surplus from the → revenue and expenditure account, or → government net lending/borrowing.

net lending – an indicator of the surplus of revenues over expenditures in the → financing account.

non-financial assets – produced assets (e.g. buildings, plants, equipment and inventories) and non-produced assets (e.g. land, patents and concessions).

operating balance – the difference between operating revenues and operating expenditures excluding changes in non-financial fixed assets.

operating revenues – revenues from regular activities, e.g. from taxes (personal income tax and surtax, property taxes and tax on goods and services) and other revenues (from property, administrative fees and fines).

organisational classification – the presentation of budget revenues by organisational units, i.e. city offices and professional services.

potential debt – debt incurred by issuing guarantees.

primary operating balance – the difference between operating revenues and operating expenditures, net of interest expenses.

programme – a set of independent and closely interconnected → activities and → projects, aimed at achieving a common goal.

programme classification – the statement of budget expenditures by → programme → activity and → project (e.g. environmental protection, computerisation or entrepreneurial support programmes).

project – part of a → programme of a predefined duration, with planned expenditures and outlays for the achievement of goals set in the programme.

projection – unlike the budget which is planned for the next year (e.g. in 2014 for 2015), projections are made for the next two years (e.g. in 2014 for 2016–17).

public institution – an institution established to permanently perform the activities related to education, science, culture, information, sports, physical training, technical education, child care, health care, social welfare, care for the disabled, etc., provided that these activities are not performed for profit.

regional self-government – a legal framework within which counties and the City of Zagreb are responsible for certain activities (e.g. primary and secondary education, health care, social security and welfare) and are entitled to their own revenues and own representative and executive bodies; the Government may not interfere in their powers, but is obliged to provide financial support to inferior counties.

representative body – the City Assembly, the members of which are elected to a four-year term of office directly, by secret ballot.

revenue and expenditure account – shows budget revenues and expenditures in a single year.

revenues from non-financial assets – revenues derived from the sale of residential and business buildings, land, transportation facilities or strategic reserves.

shared taxation – tax sharing.

State Audit Office – an independent and autonomous institution accountable to the Parliament, which is responsible for the audit of, among other entities, the City of Zagreb and companies founded or majority-owned by the City.

subsidy – a non-repayable sum of money granted to stimulate the production of goods or provision of services.

sub-municipal self-government – local committees, city districts and boroughs which may be founded under the statute of a local self-government.

surplus – an excess of revenues over expenditures in a given period.

surtax – an extra tax levied on top of the personal income tax by municipalities and cities; the surtax base is the personal income tax, and the rate is set by municipalities and cities entitled to the collected surtax as their revenue.

tax – a compulsory payment to the government with no direct counter-benefit or pre-determined purpose, levied on an income, profit, property, value added, etc.

tax base – the amount of money to which a tax rate is applied, e.g. a company's profits, a natural person's income or the value of a real estate.

tax rate – a percentage or a fixed amount of an income, profits or the value of goods and services, paid to the tax authority; it is applied to the tax base and it can be progressive, proportional or regressive.

tax sharing – the division of tax revenues between the national and local governments (counties, cities and municipalities).

taxpayer – any natural or legal person who is legally obligated to pay tax.

transparency – a possibility for the public to obtain complete, relevant, accurate, timely and understandable information.

