

A Brief Guide to a Proposal for the City of Zagreb 2016 Budget Revision

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A Brief Guide to a Proposal for the City of Zagreb 2016 Budget Revision



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This brief guide is intended to provide the public with basic information about the amendments to, i.e. **revision** of the City of Zagreb budget, proposed in October 2016, and encourage them to participate in deliberations about the City's budget. The crucial reasons for proposing this budget revision have been to strike a balance between planned revenues and the dynamics and level of revenue realisation so far, as well as its forecast by end-2016. Another reason has been to align budget spending with revenue and receipt estimates.

The proposed budget revision, i.e. [Decision on Amendments to the City of Zagreb 2016 Budget](#) is available on the City's website, as are the [Guide to the City of Zagreb Budget](#) and [A Brief Guide to the City of Zagreb 2016 Enacted Budget](#) that can help in understanding this document and encouraging the public to participate in the City's budget process.

Below is a brief presentation of the City budget revenues, expenditures, financing account and debt for the period 2014–16, including a more detailed analysis of the proposed budget revision as compared to the currently effective 2016 Budget Plan, adopted on 29 April 2016 pursuant to the [Conclusion on the Reallocation of Funds Planned in the City of Zagreb 2016 Budget](#).

PLANNED REVENUES AND EXPENDITURES

The City Assembly on 22 December 2015 adopted the [City of Zagreb 2016 Budget](#) with revenues and expenditures totalling HRK 8.47bn and HRK 8.45bn respectively. In order to align budget spending with the revenue collection dynamics, the Mayor on 29 April 2016 adopted a [Conclusion on the Reallocation of Funds](#) planned on 22 December 2015. Pursuant to Conclusion, the total amount of planned budget was not changed, but only reallocated among the existing items. Under the revised budget, however, **revenues** are proposed **to go up** by HRK 130m (1.5%), i.e. **to HRK 8.6bn**, and **expenditures** by HRK 139.3m (1.6%), **to HRK 8.59bn**, relative to the amounts planned on 29 April 2016 (graph 1). The increase in revenues from the planned amount are primarily due to expectedly higher personal income tax and surtax revenues, and the surplus funds will be spent on services, donations, benefits to citizens, salaries, etc.

budget revision

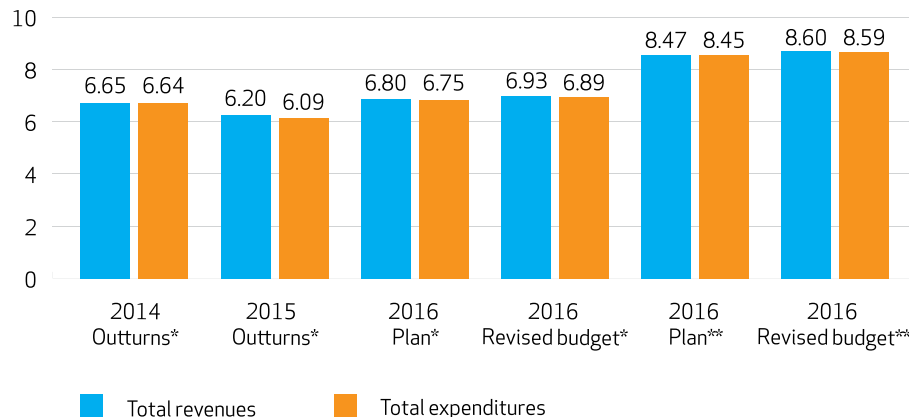
the modification of budget amounts, i.e. their reduction and/or increase relative to the planned amounts.

budget reallocation

Article 46 of the Budget Act allows for the reallocation of total enacted budget funds during the year, subject to approval of the Mayor. Up to 5% of expenditures and outlays under a single line item can be reallocated. Exceptionally, up to 15% of the funds can be reallocated, provided that this increases the national share in EU co-financed projects.



The noticeable increase in revenues and expenditures relative to 2015 is due to the City's [statutory obligation](#) to include in the budget own and earmarked revenues of all its budget users, as well as expenditures financed from these revenues. Hence, it is only a methodological change in the scope of the City budget that led to the increase in revenues and expenditures.



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

* Excluding own and earmarked revenues of budget users and expenditures financed from these revenues.

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

The City budget includes the revenues and expenditures of all 327 City budget users, namely institutions founded and majority-financed by the City, listed in the [Register of Budget and Extra-budgetary Users](#), e.g. public health institutions (health centres, polyclinics, hospitals and institutes), preschools, primary and secondary schools, social welfare institutions, the Public Fire Brigade Zagreb, City Office for Physical Planning, Public Institution “Maksimir”, Zoological Garden, Sports Facilities Management Institution, etc.

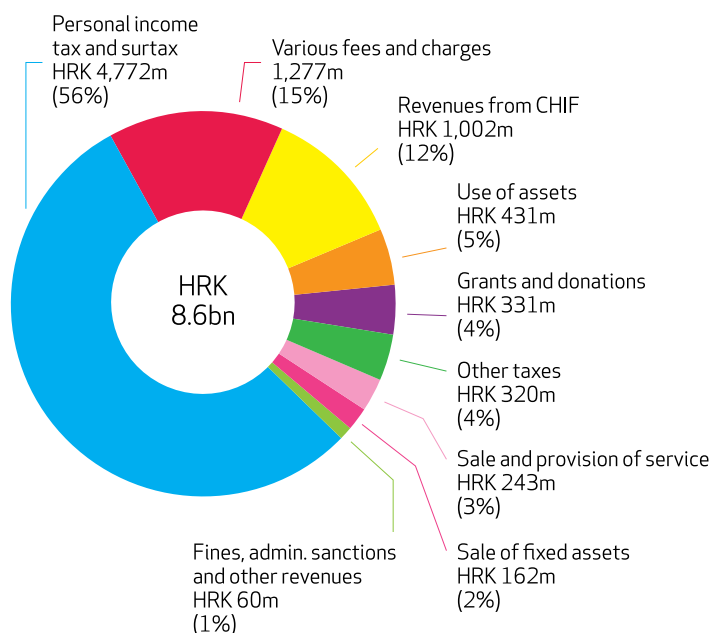
There are also [companies founded by the City](#) for the provision of public services and performance of public interest activities (such as Zagreb Holding). However, as such companies are neither majority-financed from nor users of the City budget, their revenues and expenditures are not shown in the City budget.

PLANNED REVENUES

Total revenues planned under the budget revision **amount to HRK 8.6bn** (graph 2), more than half of which will come from **personal income tax and surtax** (HRK 4.77bn). The second largest sources of revenues are various **fees and charges** (HRK 1.3m), mainly utility contributions and charges (HRK 843m), followed by **budget users' revenues from the Croatian Health Insurance Fund (CHIF)** for health services rendered (HRK 1bn), **the use of city assets** (HRK 431m), mainly public road user charges payable at vehicle registration, as well as revenues from the rental of office space, terraces, parking places, etc., and all kinds of **received grants and donations** (HRK 331m).



Every employed person is expected to pay an average monthly amount of about HRK 1,020 in personal income tax and surtax into the City budget.



Graph 2: The City of Zagreb budget revenues, 2016*

* Including own and earmarked revenues of budget users.

Major revenue differences between the 2016 budget plan and the proposed budget revision

The revised budget proposes a **HRK 130m (1.5%) increase in revenues**, mostly coming from **personal income tax and surtax (by HRK 127m or 2.7%)**. The planned tax revenue growth builds on the current revenue collection rate and its estimate for the rest of the year.

Revenues from various fees and charges go up by HRK 18.5m (1.5%), the bulk of which relates to revenues pursuant to special regulations (HRK 12.2m, resulting from an increase of HRK 15m on account of issued loan guarantees paid by Zagreb Holding, reduced by HRK 2.8m on account of

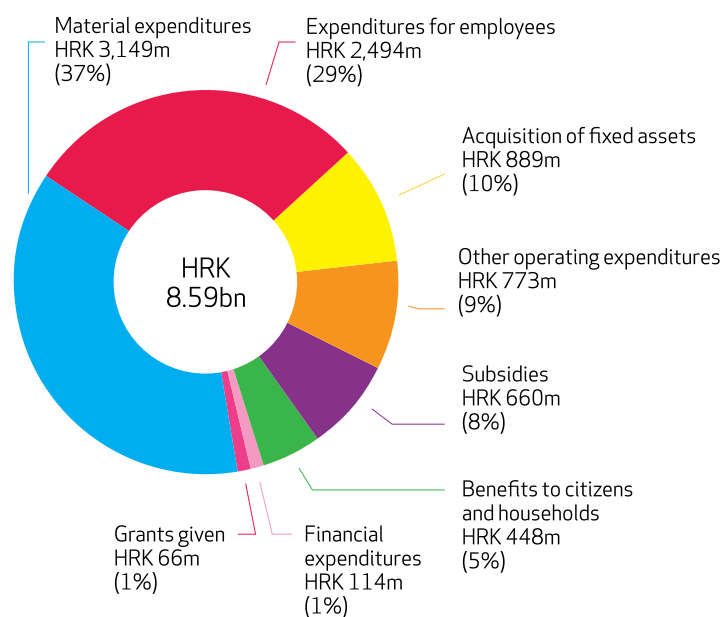
volunteer recruitment costs, as, due to changes in the Chart of Accounts, these funds are currently planned under grants). The second largest increase (HRK 3.3m) comes from municipal and county fees and charges, as well as the tourist tax, followed by revenues from utility contributions (up HRK 3m).

A serious **decline in** revenues, relative to the plan, is expected in central budget equalisation **grants** given to the City for the funding of decentralised functions (down HRK 13m or 31%), as well as grants from the Environmental Protection and Energy Efficiency Fund (down HRK 8.3m or 25%); the latter mainly relates to the ZagEE project, as the Fund is unable to finance the first and second phases of the public lighting modernisation plan.

Revenues from the use of assets are planned to **drop** by HRK 9m (2%), given the expected drop in revenues from the annual public road user fees, payable at vehicle registration and fees for retaining illegally constructed buildings.

PLANNED EXPENDITURES BY TYPE

Total expenditures proposed in the revised budget **stand at HRK 8.59bn** (graph 3).



Graph 3: The City of Zagreb budget expenditures by type (economic classification), 2016*

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

The bulk of **material expenditures** (HRK 3.1bn) relate to the current and investment maintenance of utility infrastructure facilities (e.g. public spaces, public lighting, roads, cemeteries and the crematorium), the maintenance of City administration and City budget users' facilities, as well as the costs of office materials, energy and services necessary for the smooth functioning of the City's administrative bodies and City budget users.

Expenditures for employees (HRK 2.5bn) include the salaries, social security contributions and compensation for about 18 thousand City administration and **City budget users'** employees (e.g. employees in pupils' homes, schools, kindergartens, museums, etc.). Also included are planned expenditures for employed on EU-funded projects.

The planned amount for **the acquisition of fixed assets** (about HRK 889m) will be spent on roads, utility infrastructure, business and other construction facilities, as well as equipment in education, health care, social welfare, etc.

Other operating expenditures in the amount of HRK 773m mainly include current and capital grants. Current grants (HRK 485m) are intended for the co-financing of sports, kindergartens and the firefighting association, as well as for supporting farmers, civil society organisations, social and cultural projects and initiatives. Capital grants (HRK 215m) will mainly be spent for the ZET's motor fleet renewal, wastewater treatment, waste management and the co-financing of public sector companies' projects.

Subsidies (HRK 660m) are earmarked for promoting the production and services of companies, craftsmen, farmers and SMEs. The bulk of this amount will be spent for the City's public transport, namely ZET (HRK 497m), the Arena sports hall rental (HRK 67m) and for disabled persons employment (HRK 29m).

Major expenditure differences between the 2016 budget plan and the proposed budget revision

In line with the rise in revenues, **total expenditures are proposed to go up by HRK 139.3m (1.6%)**. The sharpest increase of almost HRK 73m (2.4%) is proposed for material expenditures, mainly additional costs of newly constructed education facilities (HRK 14m, arising from the obligation to lease the swimming pool facility within the Svetice Sports and Recreation Centre, and business facilities for the purposes of the Iver Primary School), the maintenance costs of unclassified roads (HRK 11.9m) and public areas (HRK 6.4m), the regular operations costs of preschool education institutions, primarily due to increased current and investment maintenance needs (HRK



6m), early parliamentary election expenses (HRK 5.8m), the costs of traffic light installation and traffic management system (HRK 4m), etc.

Other expenditures go up by HRK 30.3m (4.1%), mainly on account of capital grants for cultural monuments protection (HRK 9m) and renovation of the City outside the regular programmes (HRK 6.5m), current grants for major sports events, e.g. Snow Queen and Snow King Trophy Races 2017 and Davis Cup finals 2016 (HRK 8.1m), international, inter-county and inter-city cooperation (HRK 3.6m), the co-financing of religious and private kindergartens' programmes (HRK 3m), de minimis aid to primary agricultural production and aid for plant closing or relocation (HRK 2.5m), etc.

Expenditures for employees are also proposed **to go up, by HRK 28.1m (1.1%)**, mostly on account of an increased number of employees in kindergartens, due to facility expansion and a larger number of educational groups (HRK 20.3m), 68 new employees in cultural institutions (HRK 6.4m), elderly care home employees (HRK 2.2m) and persons employed on a new inclusive education assistance project (HRK 2.6m).

Benefits to citizens and households are proposed **to increase by HRK 26.7m (6.3%)**, of which HRK 23.6m will be spent on cash benefits for mothers with a third child under the preschool age. Expenditures for the purchase of school textbooks are proposed to rise by HRK 7m, those for improving pupils' and students' living standards, including benefits to the children of killed or missing war veterans by HRK 2.9m; expenditures for pension supplements and other allowances by HRK 2m; etc. By contrast, significant cuts are proposed in the compensation of expenses for the Zagreb public transportation company ZET and the newborn child assistance (HRK 6.3m and HRK 1.8m respectively).

The proposed **increase in subsidies (HRK 17.3m or 2.7%)** will mainly be spent on the Arena sports hall rental (HRK 9.8m) and public city transport, i.e. ZET (HRK 8.4m).

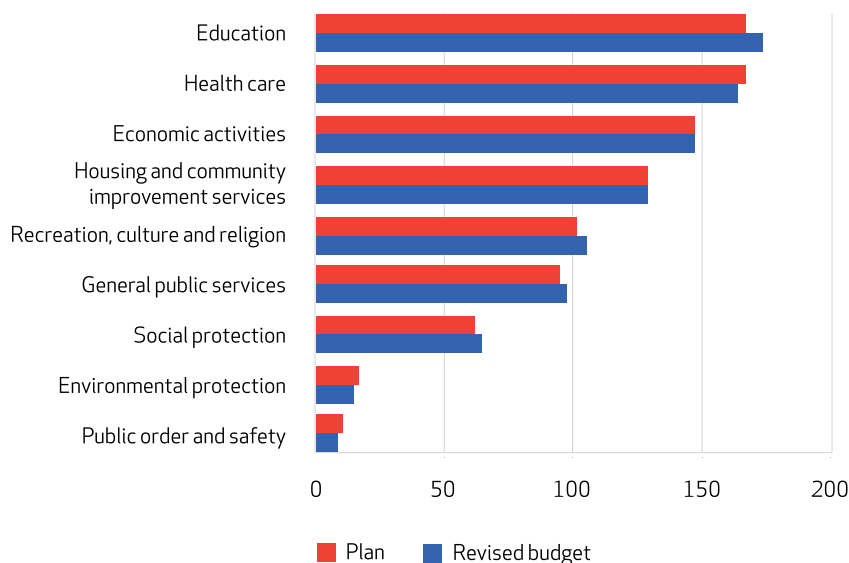
Expenditures for the acquisition of fixed assets are proposed **to go down by HRK 31.6m (3.4%)**, mainly as concerns the purchase of and additional investments in various construction facilities.



PLANNED EXPENDITURES BY PURPOSE

The average monthly spending per person, planned under the budget revision, **is about HRK 923, up HRK 15** from the original budget plan (graph 4). Most of this monthly average will be spent on education (HRK

177), health care (HRK 167), economic activities (HRK 150) and housing and community improvement services (HRK 131). The sharpest increases in average monthly spending per person will be in education (by HRK 7) and in recreation, culture and religion (by HRK 4).



Graph 4: Average monthly spending per purpose, per person (functional classification), 2016. (in HRK)*

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

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

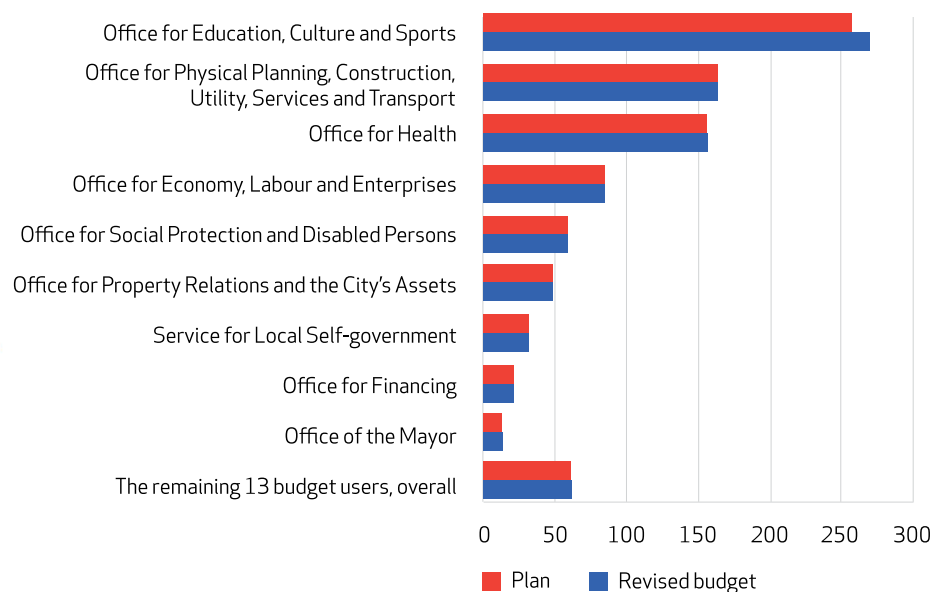
Expenditures for health involve health protection, the development and implementation of health protection programmes and strategies, health promotion, addiction prevention and control, support for health programmes and projects carried out by associations and other forms of organised health-oriented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

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

Housing and community improvement services mainly relate to city property and public spaces maintenance (public lighting, etc.).

PLANNED EXPENDITURES BY BUDGET USER

The three largest City offices, namely the Office for Education, Culture and Sports, Office for Physical Planning, Construction of the City, Utility Services and Transport and Office for Health – are planned to spend a total of about **two thirds of the City's budget**. This makes **HRK 595 on average per person**, or **HRK 14 more** than the originally budgeted amount, mainly as a result of a surge in expenditures of the Office for Education, Culture and Sports.



Graph 5: Average monthly spending per budget user, per person (organisational classification), 2016 (in HRK)*

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

FINANCING ACCOUNT

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

	2014* Outturns	2015* Outturns	2016* Plan	2016* Budget revision	2016** Plan	2016** Budget revision
Revenue and expenditure account						
Total revenues	6,649.1	6,204.9	6,798.2	6,928.2	8,467.5	8,597.5
Total expenditures	6,636.1	6,085.6	6,750.9	6,890.2	8,453.1	8,592.4
Surplus	13.1	119.2	47.3	38.0	14.4	5.1
Financing account						
Receipts from financial assets and borrowing	197.6	194.4	201.8	216.8	234.7	249.7
Outlays on financial assets and loan repayment	222.1	272.8	249.1	254.8	249.1	254.8
Net financing	-24.5	-78.4	-47.3	-38.0	-14.4	-5.1

Table 1: The City of Zagreb Budget revenue and expenditure account and financing account, 2014–16 (in million HRK)

* Excluding own and earmarked revenues and receipts of budget users and expenditures financed from them.

** Including own and earmarked revenues and receipts of budget users and expenditures financed from them.

Including own and earmarked revenues and receipts of budget users, total **receipts** planned under the budget revision stand at **HRK 249.7m**, the bulk of which (HRK 232.9m) relates to receipts from borrowing. This is an **increase of HRK 15m (6.4%)** from the originally planned borrowing. The amount of HRK 15m represents withdrawals from a Croatian Bank for Reconstruction and Development loan for the financing of the energy efficiency projects (ZagEE). In parallel with this, **expenditures of HRK 254.8m** are planned for the repayment of existing debt, **up HRK 5.7m (2.3%)** from the originally planned amount.

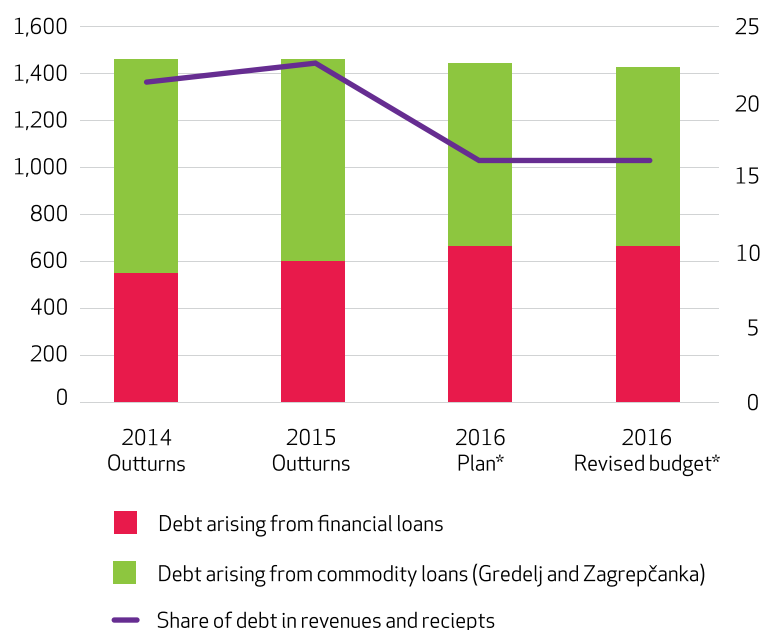
CITY BUDGET DEBT

The City of Zagreb's direct debt stood at **HRK 1,441m at the end of 2015** (graph 6). The share of debt in budget revenues and receipts stood at about 22.5% at end-2015, but dropped to 16% in 2016, as a result of the inclusion of own and earmarked revenues and receipts of budget users. This suggests a low level of indebtedness, enabling the City to easily service its direct debt from regular revenues and receipts.



Direct debt is the sum of all budget deficits from the current and previous periods, financed by borrowing.

Under the revised budget, total debt is planned to rise slightly (by HRK 9m) by the end of 2016. However, due to the planned revenue growth, **the share of debt in total revenues and receipts will decline from 16.2% to 16%.** It is worth noting that, according to the [Budget Act](#), the City's long-term borrowing is subject to the Government's approval. Therefore, graph 6 shows the planned level of debt for 2016, while the actual level will depend on the Government's approval.



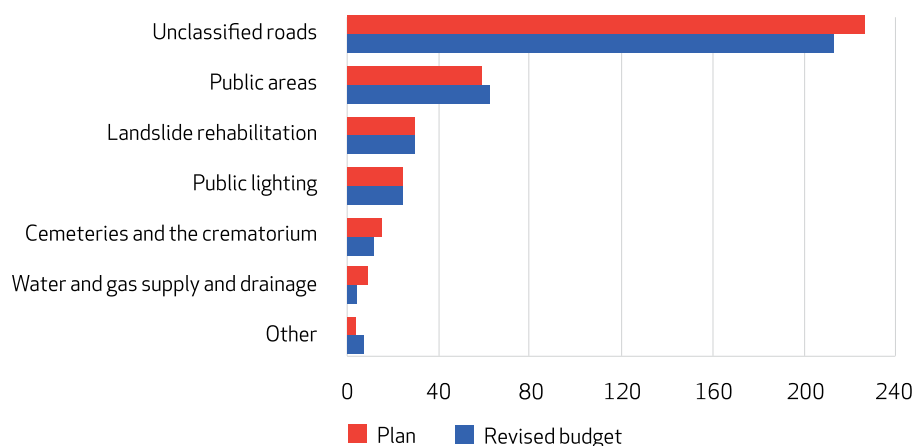
Graph 6: The City of Zagreb debt (in million HRK, left-hand scale) and its share in budget revenues and receipts (in %, right-hand scale), 2014–16*

* As of 2016, revenues and receipts also include own and earmarked revenues of budget users.

In addition to the direct debt shown in graph 6, **the City is potentially exposed to an indirect debt** (in the form of given guarantees) **amounting to HRK 2.1bn (23.8% of total planned revenues and receipts in 2016).** The bulk of this amount (HRK 1.8bn) relates to a guarantee for Zagreb Holding bonds, issued in mid-2016 for the 2007 debt refinancing. This guarantee was approved by the minister of finance, given that the upper limit for bond-based borrowing by the Zagreb Holding is HRK 2.3bn and the bonds issued so far amount to HRK 1.8bn.

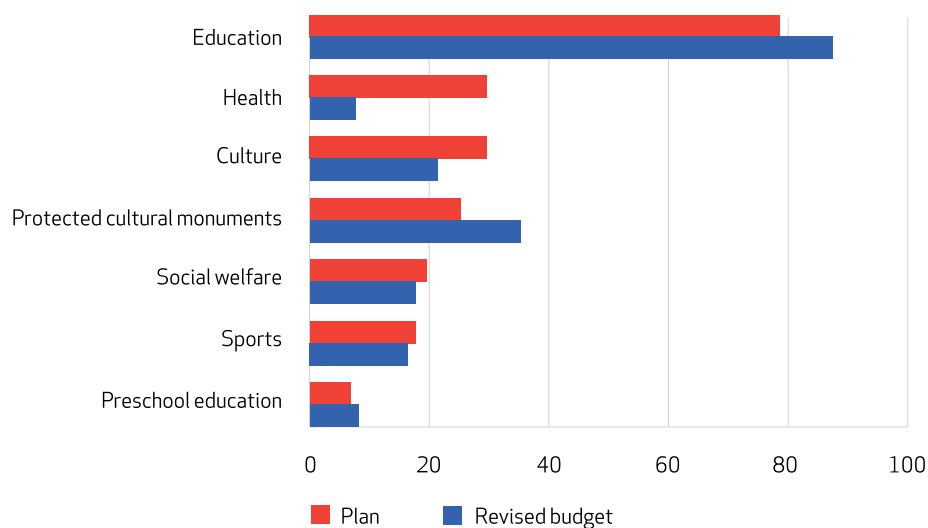
MAJOR CITY INVESTMENTS

Investments in the construction of **utility infrastructure** facilities and equipment are proposed to be reduced from HRK 373m to HRK 358m, i.e. by 4% (graph 7). Cuts in allocations for certain municipal projects planned under the budget revision are mainly due to lengthy procedures for obtaining documentation and public procurement and resolving property relationships with land owners.



Graph 7: Capital investments in the construction of utility infrastructure facilities and equipment, 2016 (in million HRK)

The revised budget further proposes a cut in capital investments in **social activity facilities**, from HRK 209m to HRK 196m (down 6.5%), as shown in graph 8.



Graph 8: Capital investments in social activity facilities, 2016 (in million HRK)

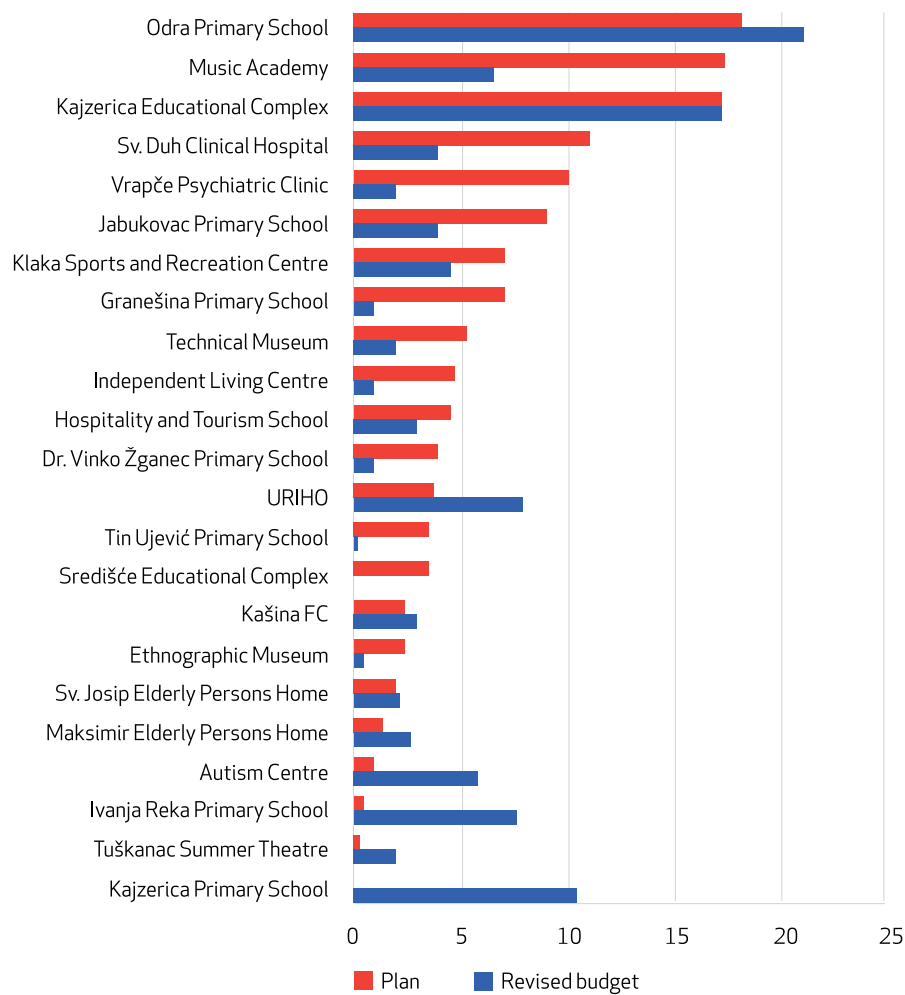


The following adjustments and changes to the amounts of capital investment in social activity facilities are due to the project documentation development dynamics, and the realisation rate of contracted works in accordance with the public procurement procedures carried out.

- Investments in health care facilities are planned to decrease by HRK 22.3m, mainly as concerns the reconstruction and extension of the palliative care division within the Department of Psychogeriatrics at the Vrapče Psychiatric Hospital, and renovation of flat roofs in the Sveti Duh Hospital.
- Investments in cultural facilities are planned to be cut by HRK 8.1m, primarily as concerns the Music Academy remodelling and Technical Museum renovation.
- Investments in protected cultural monuments are proposed to go up by HRK 10m. This amount would largely be spent on the facade renovation of facilities covered by the monument annuity regulations and on the completion of the Tuškanac summer theatre.
- Investments in school facilities should go up by HRK 8.7m (to be spent for a payment pursuant to a court ruling concerning Kajzerica Primary School, the reconstruction and remodelling of existing schools, completion of project documentation, obtaining of construction documents and resolution of property relationships concerning Ivanja Reka Primary School, resolution of property relationships and launching of a public tender for an urban planning and architectural design of the Autism Centre, etc.).

Some major investments in social activity facilities, planned for 2016, are shown in graph 9. Depending on the project, the investments relate to the costs of project documentation development, obtaining of construction documents, the conversion, remodelling, renovation, construction and furnishing of spaces, as well as the resolution of property relationships.





Graph 9: Some major planned capital investments in social activity facilities, 2016 (in million HRK)



WHAT CAN CITIZENS DO?

The City Assembly, as the representative body of citizens, will discuss the 2016 budget revision on 20 October 2016. It involves total revenues and expenditures of around HRK 8.6bn. Under the revised budget, revenues are proposed to go up by HRK 130m (1.5%) and expenditures by HRK 139.3m (1.6%) from the 2016 budget currently in force. The average monthly amount per person, spent by the City will be about HRK 923.

With the help of this brief guide, the [Brief Guide to the City of Zagreb 2016 Enacted Budget](#) and the [Guide to the City of Zagreb Budget](#), citizens can examine the City's budget, i.e. the budget plan from December 2015, re-allocated budget from April 2016 and amendments proposed under this new budget revision. This will enable them to contribute to the Assembly's discussions and participate in the allocation of the City's funds in the way that best suits their needs and preferences.



USEFUL WEBSITES

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

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

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

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

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

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

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

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

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

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

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

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

PREVIOUSLY PUBLISHED GUIDES

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

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

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

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