

A Brief Guide to the City of Zagreb 2016 Budget Execution

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A Brief Guide to the City of Zagreb 2016 Budget Execution



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The purpose of this brief guide is to provide citizens with basic information about the City of Zagreb's 2016 budget outturns and to encourage them to monitor the budget and communicate with the City authorities. The full [Year-End Report on the Execution of the City of Zagreb's 2016 Budget](#) can be found on the City's website, and the [Guide to the City of Zagreb Budget](#) (containing general information regarding the City budget and the budget process) can also be helpful in understanding the 2016 Year-End Report and the City's budget process in general.

REVENUE AND EXPENDITURE OUTTURNS

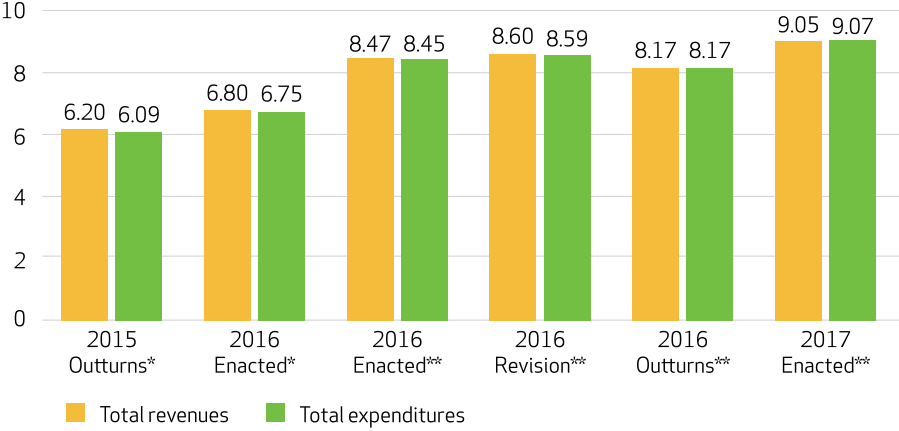
On 15 November 2015, before the City Assembly, the City proposed the [City of Zagreb's 2016 budget](#), which was enacted following the second reading and debate on 22 December 2015, and under which total planned revenues and expenditures amount to HRK 8.47bn and HRK 8.45bn, respectively. The noticeable increase in revenues and expenditures in 2016 relative to 2015 – when revenues and expenditures amounted to just over HRK 6bn – results from a change in the methodology used in defining the City's budget due to the [statutory obligation](#) to include own and earmarked revenues of all City's budget users, as well as expenditures financed from these revenues.

On 20 October 2016, the City Assembly adopted a [budget revision](#), by way of which budget revenues increased by HRK 130m (1.5%) to HRK 8.6bn, while expenditures increased by HRK 139.3m (1.6%) to HRK 8.59bn.



In order to strike a balance between budget spending and revenue collection dynamics, the Mayor passed two *Resolutions on the Re-allocation of the City's Budget Funds* in the course of 2016. Specifically, *Article 46 of the Budget Act* and the *Decision on the City of Zagreb's 2016 Budget Execution* allow for the reallocation of up to 5% of expenditures and outlays under a reduced line item, subject to Mayor's approval. Exceptionally, up to 15% can be reallocated, provided that this increases the national share in EU co-financed projects. However, given that these are only minor reallocations which do not affect the total amount of the City budget, the reallocation of funds is not the subject matter of this Guide.

The realised City of Zagreb's 2016 budget revenues and expenditures stood at HRK 8.17bn (graph 1). In comparison to the revised budget, realised 2016 revenues and expenditures decreased by HRK 428m (5%) and HRK 424m (4.9%), respectively.



Graph 1: City of Zagreb's budget revenues and expenditures, 2015–2017 (in billion HRK)
 * Excluding own and earmarked revenues of budget users, as well as expenditures financed from these revenues.
 ** Including own and earmarked revenues of budget users, as well as expenditures financed from these revenues.

The City budget includes the revenues and expenditures of all 326 City budget users, i.e. institutions founded and majority-financed by the City, listed in the [Register of Budget and Extra-budgetary Users](#). Among these users are, e.g. public healthcare institutions (health centres, polyclinics, hospitals and institutes), preschool, primary and secondary school education institutions, social welfare institutions, the City's fire fighting brigades, Office for Physical Planning, Public Institution Maksimir, Zoological Garden, Sports Facilities Management Institution, etc.

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

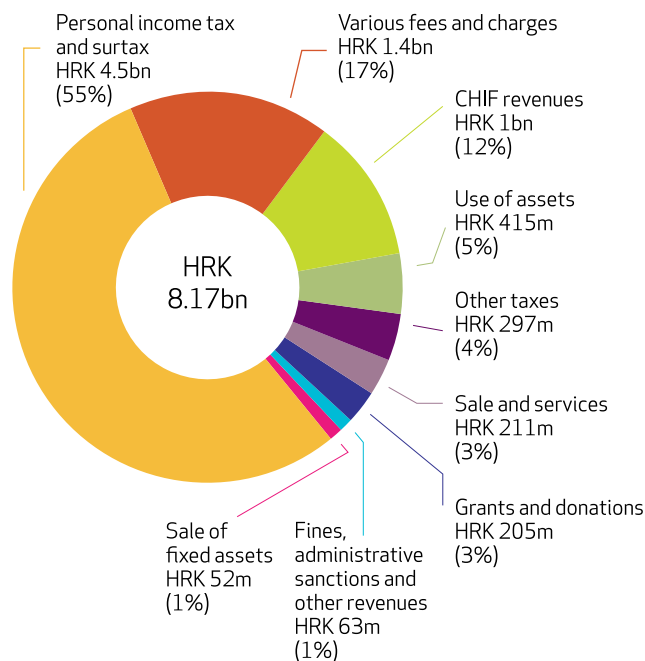
REALISED REVENUES

Total revenues realised in 2016 stand at HRK 8.17bn (graph 2), over half of which (**HRK 4.53bn**) comes from **personal income tax and surtax**. The second largest source of revenues were various **fees and charges** (HRK 1.38bn or 17%), mostly utility contributions and charges (HRK 832m), preschool education co-financing funds and administrative fees. The third largest source of revenues were **budget users' revenues from the Croatian Health Insurance Fund (CHIF) for health services rendered** (approximately HRK 1bn, i.e. 12%).

Revenue from the **use of city assets** (approximately HRK 415m, i.e. 5%) was mainly revenue from annual public road user charges payable at vehicle registration, the rental of office space, billboards, advertising boxes, terraces, parking places, mobile objects, kiosks, apartments, etc. Revenue from **other taxes** – mainly real property transfer tax (HRK 167m) and road motor vehicle tax (HRK 103m) – amounted to HRK 297m (4%).



Each employed person paid an average monthly amount of approximately HRK 997 in personal income tax and surtax into the budget.



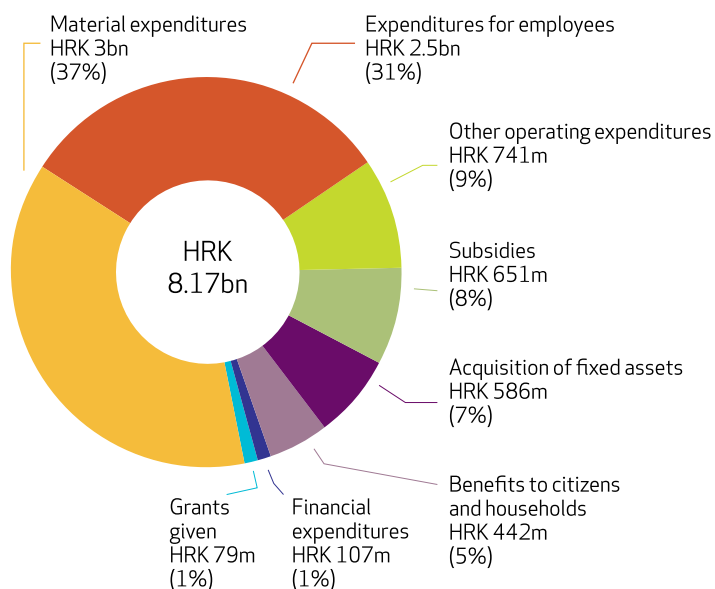
Graph 2: Realised City's budget revenues, 2016*

* Including own and earmarked revenues of budget users.

In comparison to the revised budget, total 2016 revenues declined by HRK 428m (5%). The sharpest fall was seen in planned revenues from personal income tax and surtax (HRK 244m), the sale of fixed assets (HRK 111m, mostly land and buildings) and revenue from grants (HRK 96m – mostly budget users' grants), while revenue from various fees and charges paid to budget users exceeded the planned amount by HRK 131m.

PLANNED EXPENDITURES BY TYPE

Total expenditures stood at HRK 8.17bn in 2016 (graph 3). **The expenditure outturns were HRK 424m (4.9%) lower than the expenditure planned under revised budget.** The sharpest decline was seen in expenditures for the acquisition of fixed assets (HRK 303m, mainly for buildings), material expenditures (HRK 128m, mainly expenditures for services) and other expenditures (HRK 32m, mainly current and capital donations).



Graph 3: Realised City's budget expenditures in 2016, by type (economic classification)*

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

The bulk of **material expenditures** (HRK 3bn) related to the current and investment maintenance of utility infrastructure facilities (e.g. public areas, public lighting, roads, cemeteries and the crematorium, etc.), city administration facilities and City's budget users facilities, as well as to office supplies, supplies for current and investment maintenance, energy use and services (such as telephones, postal services, transport, computer services) necessary for the smooth functioning of the City's administrative bodies and budget users.

Expenditures for employees (HRK 2.5bn) include total salaries, contributions and other expenditure for approximately 17 thousand employees of the City administration and **City's budget users** (e.g. staff at pupils' homes, schools, kindergartens, or museums), as well as expenditure for persons working on EU-funded projects.

Other operating expenditures, amounting to HRK 741m, mainly included current donations and capital grants. Current donations (HRK 474m) are those allocated for the co-financing of sports (HRK 205m), religious and private kindergartens and schools (HRK 96m), culture (e.g. libraries, museums, theatres, music, arts, and film), and non-profit organizations (associations, social and development programmes, etc.). The largest capital grants were allocated for the renewal and reconstruction of ZET's motor fleet (HRK 109m) and the settlement of liabilities of the Zagreb Wastewater Treatment Plant (HRK 95m).

Subsidies (HRK 651m) were allocated for the promotion of production and services provided by companies, sole proprietorships, farmers and SMEs. The bulk of the subsidies were allocated for the City's public transport, namely to ZET (HRK 499m), for the rental of the Arena sports hall (HRK 62m), and the employment of disabled persons (HRK 28m).

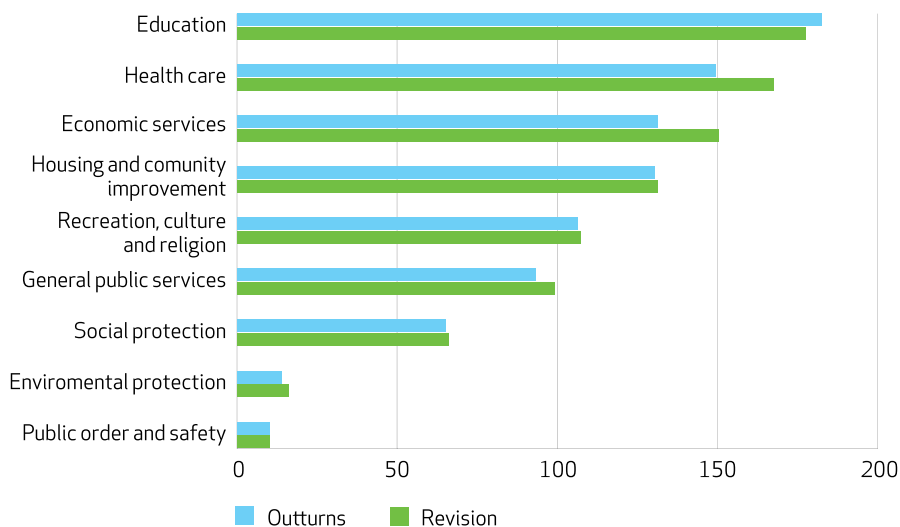
Expenditures for the **acquisition of fixed assets** stood at about HRK 586m, and covered mainly roads, utility infrastructure, office buildings and other types of construction projects, energy renovation programme for buildings within the framework of the ZagEE project, as well as the acquisition of furniture, office equipment, computers, communication equipment, maintenance and protection equipment, medical and laboratory equipment, investment into computer programmes, etc.

Benefits to citizens and households amounted to HRK 442m (5%), and were granted for transportation co-financing (HRK 125m), cash assistance for new-borns (HRK 78m), pension supplements (HRK 69m), textbooks (HRK 50m), grants for primary school, secondary school and university students, and supporting the children of veterans killed or missing in the Homeland War enrolled in general education programmes (HRK 41m), cash benefits for parents with at least three children of which the youngest is under the school age (HRK 21m), meals for socially vulnerable groups in the City's "Dobri dom" institution (HRK 20m), housing costs assistance (HRK 16m), and various other programmes aimed at disabled persons, Homeland War veterans and casualties, blood donors, primary school, secondary school and university students, etc.

REALISED EXPENDITURES BY PURPOSE

Average monthly spending per citizen in 2016 amounted to about HRK 881 (graph 4). The bulk of this amount was spent on education (HRK 182), healthcare (HRK 149), economic activities (HRK 131), and housing and community improvement services (HRK 130). Compared with the revised budget, the sharpest decline was seen in expenditure for healthcare and economic activities, while expenditure for education saw the sharpest rise.





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

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

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

Economic activities generally include public city transport, road construction and maintenance, agriculture, forestry, tourism, fuel, energy, etc.

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

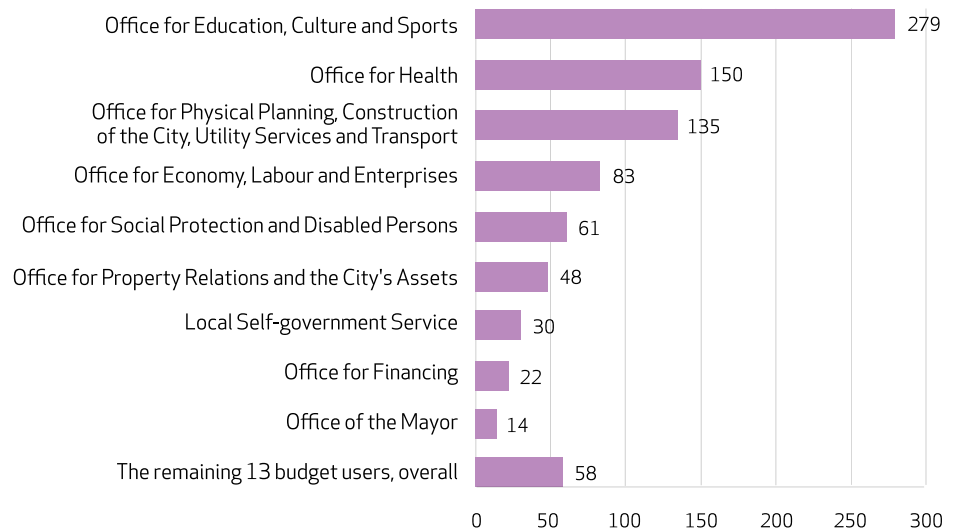




The 2016 average amount spent on each citizen from the City budget was HRK 881.

REALISED EXPENDITURES BY BUDGET USERS

Most of the City's administrative bodies accounted for relatively small shares in total expenditures, while the **three most important city offices** – the Office for Education, Culture and Sports, the Office for Health, and the Office for Physical Planning, Construction of the City, Utility Services and Transport – **in 2016 jointly spent as much as about two thirds of the City budget, i.e. a monthly average of HRK 565 per citizen.**



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

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

FINANCING ACCOUNT

In 2016 the City's total revenues and expenditures stood at HRK 8,169.7m and HRK 8,168.4m, respectively. As the funds collected exceeded those spent, there was a budget surplus of HRK 1.3m (table 1) which was used for the repayment of current debts.

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

In 2016 the City's receipts totalled HRK 221m; most of this amount (HRK 200m) related to a long-term loan for the funding of capital investment projects for road construction within the framework of the 2016 Traffic and Utility Services Works Programme, for the construction of facilities within the framework of the 2016 Programme of Capital Investments into Social Service Facilities, and for the financing of the ZagEE Energy Efficiency Programme based on the Energy Renovation Programme for Buildings and Public Lighting. Outlays in the amount of HRK 283m were spent on financial assets and debt repayment, the bulk of which related to the repayment of the principals of received credit and loans (HRK 259m).

	2015 Outturns*	2016 Enacted*	2016 Enacted**	2016 Revision**	2016 Outturns **	2017 Enacted**
Revenue and expenditure account						
Total revenues	6,204.9	6,798.2	8,467.5	8,597.5	8,169.7	9,050.3
Total expenditures	6,085.6	6,750.9	8,453.1	8,592.4	8,168.4	9,068.2
Surplus/deficit	119.2	47.3	14.4	5.1	1.3	-17.9
Financing account						
Receipts from financial assets and borrowing	194.4	201.8	234.7	249.7	221.3	290.1
Outlays for financial assets and loan repayment	272.8	249.1	249.1	254.8	282.8	272.2
Net financing	-78.4	-47.3	-14.4	-5.1	-61.5	17.9

Table 1: Revenue and expenditure account and financing account, 2015–2017 (in million HRK)

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

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



As shown in tables 1 and 2, the difference between the realised surplus of revenues over expenditures (HRK 1.3m) and net financing (HRK 61.5m), i.e. the so-called current period's revenue deficit, amounted to HRK 60.2m in 2016. The current period's revenue deficit and the deficit carried over from the previous year (HRK 80m) – totalling HRK 140.2m – will have to be covered in the upcoming period.

		2015*	2016**
1.	Total revenues and receipts	6,399.27	8,391.05
2.	Total expenditures and outlays	6,358.43	8,451.23
3.	Current period's surplus/deficit (1-2)	40.84	-60.17
4.	Deficit carried over from the previous year	-172.54	-79.99
5.	Total deficit to be covered in the next period (3+4)	-131.70	-140.17

Table 2: Covering the deficit carried over from the previous years, 2015 and 2016 (in million HRK)

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

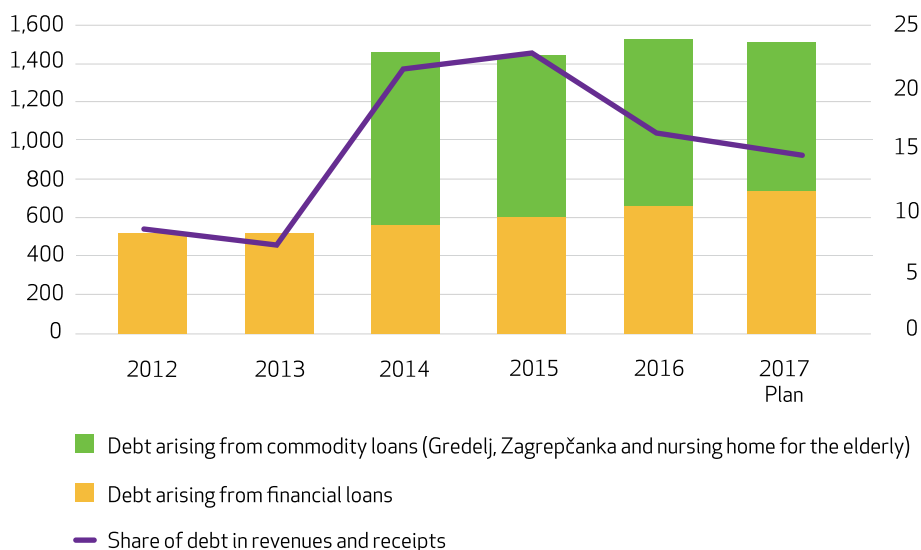
** Including own and earmarked revenues and receipts of budget users, as well as expenditures and outlays financed from these revenues and receipts.



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

THE CITY'S BUDGET DEBT

The City of Zagreb's direct debt stood at HRK 1,521m at end-2016 (graph 6). The share of debt in budget revenues and receipts was about 18.1%, suggesting a relatively low level of indebtedness, so that the City could easily service its direct debt from regular revenues and receipts. The share of debt in budget revenues and receipts was significantly reduced (from 22.6% in 2015 to 18.1% in 2016) due to the inclusion in the budget of own and earmarked revenues and receipts of the City's budget users. The debt rose by about HRK 900m in 2014, after the City had bought the former Gredeļj Rolling Stock Factory and Zagrepčanka from Zagreb Holding. The sale of non-functional properties has been one of the measures under the Financial Restructuring Programme for Zagreb Holding. Since the aforementioned former factories are cultural assets, the City has exercised its right of pre-emption with respect to them, taking into account their strategic and development potential, their sizes, forms and prime locations. The loan for the purchase of these assets was booked as "debt arising from commodity loans" as of 2014 and is to be repaid over the upcoming ten-year period.



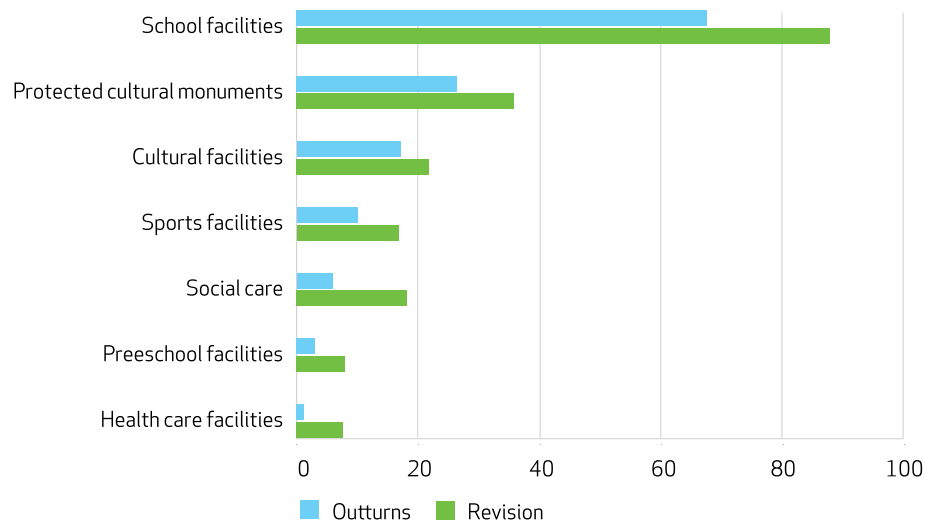
Graph 6: The City's debt (in million HRK, left scale) and the share of debt in budget revenues and receipts (in %, right scale), 2012–2017*

* From 2016 on, the revenues and receipts include own and earmarked revenues and receipts of budget users. Debt arising from commodity loans and financial loans shows only the City's debt, not including budget users' debt.

Besides the direct debt shown in graph 6, the City is potentially (through issued warranties and guarantees) **exposed to an indirect debt of HRK 1.96bn** (23.4% of total revenues and receipts in 2016). The bulk of that amount (HRK 1.8bn) derives from a guarantee for the Zagreb Holding bonds issued in mid-2016 to refinance a 2007 debt. This guarantee has been approved by the finance minister. The borrowing limit for the Zagreb Holding's bond-based borrowing is HRK 2.3bn, and the value of bonds issued by end-2016 was HRK 1.8bn.

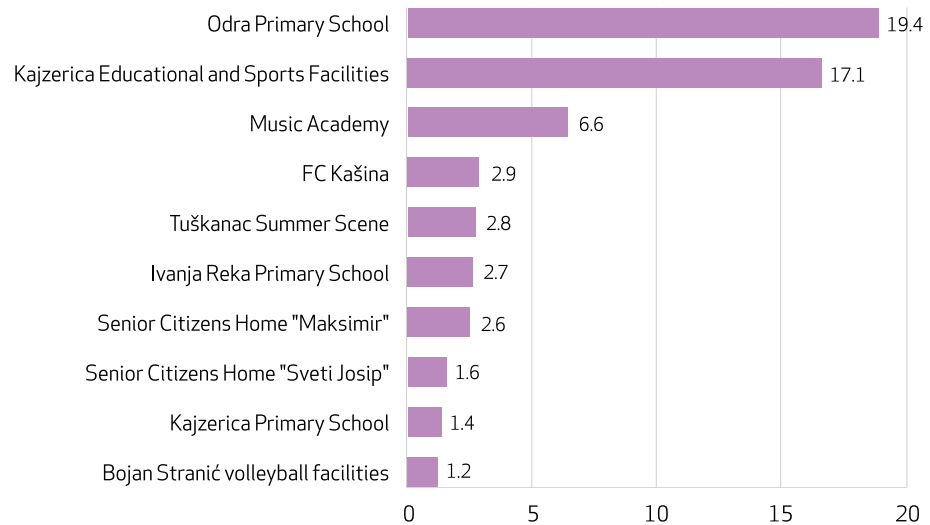
DEVELOPMENT PROGRAMMES – MAJOR INVESTMENTS

Under the revised budget, capital investments in social service facilities were planned in the amount of HRK 196m. The works completed and outlays made during 2016 stood at HRK 125m, down 36% from the value of the works and outlays planned in the budget revision (graph 7). With regard to the budget revision, investment into schools and social care saw the sharpest fall. The fall in investment was due to the balancing of spending due to lower revenues and lengthy documentation procurement and public procurement procedures.



Graph 7: Capital investments in social service facilities, 2016 (in million HRK)

Graph 8 shows some of the key investments in social service facilities in 2016. Depending on the project, the investments cover the costs of project documentation development, conversion of premises, repairs, alterations and construction, and the costs of property relationships settlement.

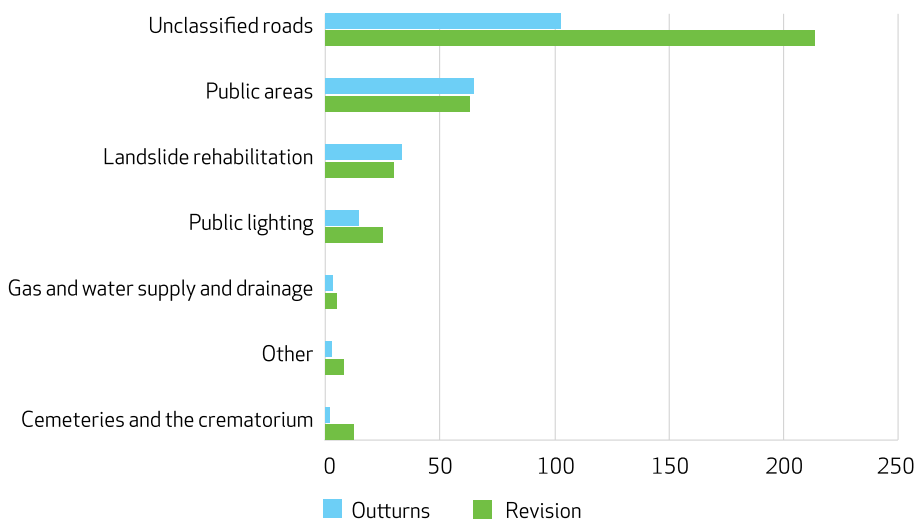


Graph 8: Some of the key investments in social service facilities, 2016 (in million HRK)



The amount planned under the revised budget for the construction of utility infrastructure facilities and equipment in 2016 was HRK 358m, while the actual total amount invested was HRK 224m, down 37% from the amount projected in the revised budget (graph 9). Investment into

unclassified roads saw the sharpest fall with regard to the budget revision, while an amount slightly higher was spent on public areas and landslide repair and stabilization. The decline in investment was the result of the balancing of spending due to lower revenues and lengthy documentation procurement and public procurement procedures and property relationships settlement.



Graph 9: Capital investments in the construction of utility infrastructure facilities and equipment, 2016 (in million HRK)

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



Among the major 2016 projects were the following: adaptation of green areas along Zavrtnica, Branimirova and Heinzelova streets, construction of the stretch of Branimirova Street from Zavrtnica to Heinzelova Street, including utility infrastructure, construction of the 2nd leg of Branimirova Street from Zavrtnica to Heinzelova Street (including public lighting, traffic lights installation, and road), construction of the 3rd leg of Radnička Street – overpass over railroad tracks, adaptation of public areas in Jagićeva Street, adaptation of the King Tomislav Square, landscaping in the Grič Park, improvement in the Ribnjak Park, adaptation of the area along the Hrvatske bratske zajednice Street, reconstruction in the 148th brigade park, construction of a park on the Selska and Baštijanova junction, improvement of the road and sewer system at the Mirogoj cemetery, development plan for the Moravče cemetery, etc.

HOW CAN YOU TOO TAKE PART IN THE BUDGET PROCESS?

The City Assembly, as the representative body of citizens, will soon discuss 2016 budget outturns (HRK 8.17bn in revenues and expenditures). Every employed person paid an average monthly amount of about HRK 997 in personal income tax and surtax into the budget, while the average monthly amount per citizen spent by the City was HRK 881. With the help of data presented in this brief guide and the [Guide to the City of Zagreb Budget](#), citizens can examine the planned and realised budget amounts, contribute to the Assembly's discussions and help improve the efficiency of the City's budget funds utilisation and the quality of public services.



USEFUL WEBSITES

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

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

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

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

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

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

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

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

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

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

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

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

PREVIOUSLY PUBLISHED GUIDES

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

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

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

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

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