

# A Brief Guide to a Proposal for the City of Zagreb 2017 Budget Revision

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# **A Brief Guide to a Proposal for the City of Zagreb 2017 Budget Revision**



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The purpose of this brief guide is to provide basic information on the proposed amendments to, i.e. **revision** of the City of Zagreb budget to be presented at the City Assembly meeting on 26 October 2017, thus encouraging the public to actively engage in making decisions about the City's budget. The need for a budget revision arose from circumstances in which the 2017 budget was proposed and enacted, and which hampered attempts to make realistic revenue and expenditure estimates. Specifically, due to the dissolution of Parliament and early parliamentary elections, there was a delay in issuing the **Economic and Fiscal Policy Guidelines** and parameters for the three-year projection planning. It was not known how the legislative changes within the tax reform announced for early 2017 would look, nor were criteria set for the financing of **decentralized functions** in the primary and secondary education, health care, social welfare and fire fighting. The main goals of the budget amendments are the following:

- to balance budget spending based on new estimates of revenue and receipt outturn by end-2017;
- to provide funds for the programmes and projects adopted by the City Assembly, for which insufficient amounts have been planned so far;
- to adjust planned expenditures with Government decisions on the minimum financial standards, criteria and benchmarks for decentralized functions; and
- to reduce budget line items where it is estimated that the planned amounts will not be used up by the end of the year, and to reallocate them to the costs which were hard to estimate when planning the budget.

The proposed budget revision, i.e. [Decision on Amendments to the City of Zagreb 2017 Budget](#) is available on the City's website. For a better understanding of the document and the city budget process in general, interested parties are also referred to the [Guide to the City of Zagreb Budget](#) (with general information on the City's budget and budget process), as well as the [Brief Guide to the City of Zagreb 2017 Enacted Budget](#).

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#### **Budget revision**

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

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#### **Economic and Fiscal Policy Guidelines**

The Ministry of Finance prepares Economic and Fiscal Policy Guidelines, setting out the basic determinants of a three-year state budget (including Republic of Croatia's macroeconomic and fiscal frameworks).

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#### **Decentralized functions**

In 2001, central government allowed counties, cities and municipalities to assume partial or full responsibility for the financing of education, health care, social welfare and fire fighting.

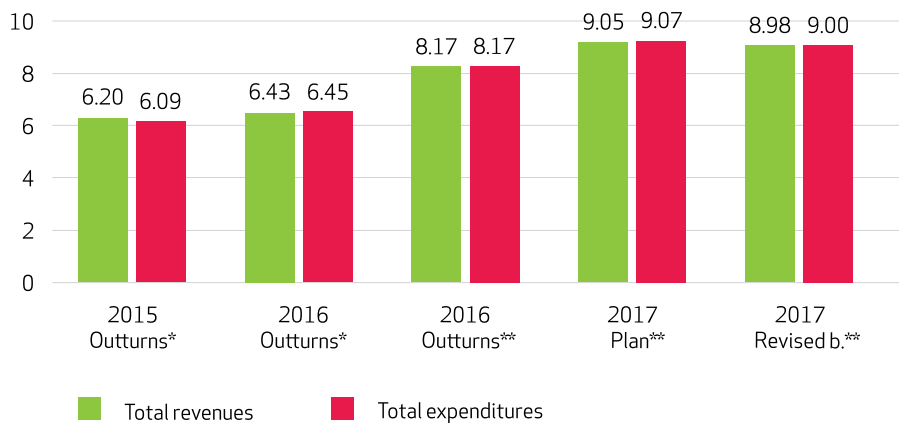
Below is a brief presentation of the City's budget revenues, expenditures, financing account and debt for the period 2015–17, including a detailed elaboration of proposed amendments to the current 2017 budget of 19 June 2016, planned pursuant to the [Conclusion on the Reallocation of Funds Planned in the City of Zagreb 2017 Budget](#).

### **Budget reallocation**

*Where, during the year, unforeseen or insufficiently planned expenditures or outlays cannot be settled from the planned funds, the Mayor can decide, at the proposal of the City Office for Finance and the City's administrative body, to settle them by reallocating the budget funds. 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.*

## **PLANNED REVENUES AND EXPENDITURES**

The City Assembly on 20 December 2016 adopted the [City of Zagreb 2017 Budget](#) with revenues and expenditures totalling HRK 9.05bn and HRK 9.07bn, respectively. Given the need for minor adjustments of the planned expenditures to the needs of the City's administrative bodies, the Mayor adopted the first [Conclusion on the Reallocation of Funds Planned in the City of Zagreb 2017 Budget](#) on 27 February 2017, and the second [Conclusion on the Reallocation of Funds Planned in the City of Zagreb 2017 Budget](#) on 19 June 2017. Pursuant to these Conclusions, the total amount of the budget planned on 20 December 2016 was not changed, but only expenditures were reallocated among the already existing line items. Under the revised budget, however, **revenues** are proposed **to go down** by HRK 70m (0.8%), i.e. to **HRK 8.98bn**, and **expenditures** by HRK 65m (0.7%), to **HRK 9bn** (graph 1).



**Graph 1: The City of Zagreb budget revenues and expenditures, 2015–17 (in billion HRK)**

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

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

The City's budget includes **the revenues and expenditures of all 325 City's budget users**, namely institutions founded, majority-financed by the City, and 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, Public Fire Brigade Zagreb, Physical Planning Institute, 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's budget, their revenues and expenditures are not shown in the City's budget.



The noticeable increase in revenues and expenditures from 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 those revenues. Hence, it is only the methodological change in the scope of the City's budget that has led to the increase in revenues and expenditures.

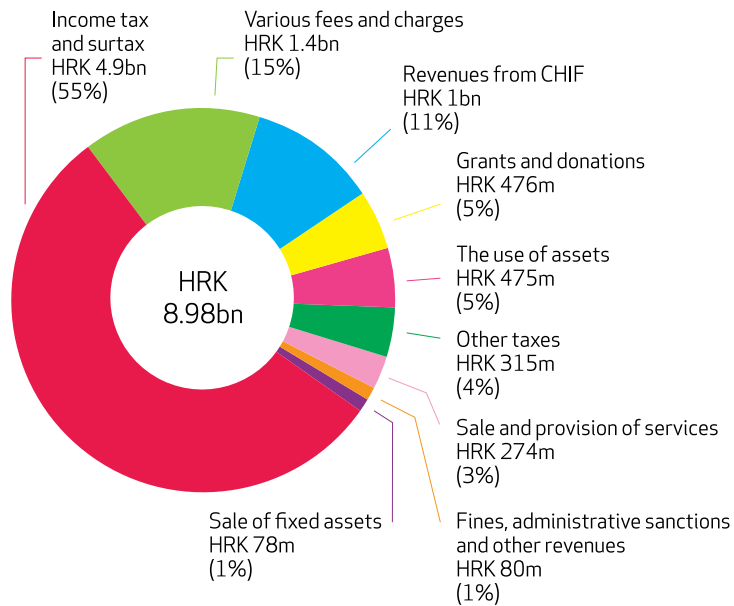




Every employed person is expected to pay an average monthly amount of about HRK 1,021 in personal income tax and surtax into the City's budget.

## THE REVISED BUDGET REVENUES

Total revenues planned in the revised budget amount to **HRK 8.98bn** (graph 2), more than half of which will come from **personal income tax and surtax (HRK 4.92bn)**. The second largest revenue sources are various **fees and charges (HRK 1.36bn)**, mainly utility contributions and charges (HRK 850m), followed by the **budget users' revenues received from the Croatian Health Insurance Fund (CHIF)** for health services rendered (roughly HRK 1bn), various **received grants and donations (HRK 476m)** and revenues from **the use of city assets (HRK 475m)**, mainly public road user charges payable at vehicle registration, as well as revenues from the rental of office space, terraces, parking places, etc.).



Graph 2: The City of Zagreb budget revenues, 2017 revised budget\*

\* Including own and earmarked revenues of budget users.



## Major revenue differences between the 2017 budget plan and the proposed budget revision

The revised budget proposes a **decrease in revenues by HRK 70m (0.8%)**, mostly coming from a **drop in revenues from the sale of fixed assets of HRK 198m (72%)**, given the assumption that the planned sale of land and residential and business facilities will not be realised.

**Revenues from grants are going up by HRK 135m (48%)**, the bulk of which (about HRK 140m) relates to state budget grants to compensate for losses in personal income tax revenues. Specifically, due to amendments to the [Personal Income Tax Act](#) which became effective on 1 January 2017, counties, cities and municipalities lost part of their personal income tax revenues. In order to compensate for the revenue loss, the [Act on the Execution of the 2017 National Budget of the Republic of Croatia](#) provides that, during 2017, counties, cities and municipalities will receive grants from the state budget equal to a difference between their personal income tax revenues in 2016 and in 2017. On the other hand, the revised budget proposes a reduction in, e.g. state budget grants based on EU funds transfers of HRK 7m (26%) for projects where funds are allocated on the basis of completed works (project implementation dynamics).

**Revenues from property taxes** are expected to decline by **HRK 26.4m (13%)**, given the assumption, based on the realization dynamics so far, that the amount of revenues from real property transfer tax to be collected by year-end will be lower than planned.

**Fines, administrative sanctions and other revenues are going up by HRK 12.3m (18%)**, on account of a loan guarantee fee paid by Zagreb Holding.

**Revenues from assets rise by HRK 8m (1.7%)**, due to a HRK 6m increase in revenues from the rental of residential buildings and a HRK 5m increase in revenues from fees for the use of power plant space. However, profits made by companies decline by HRK 3m.

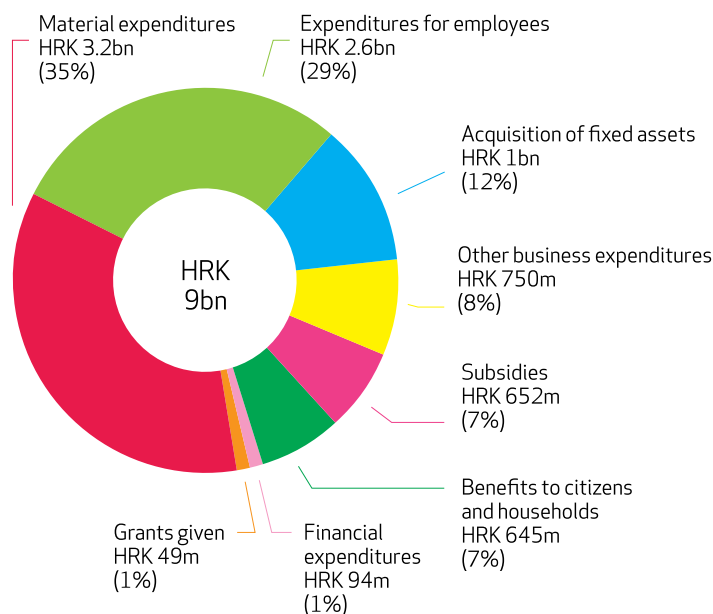
**Revenues from various fees and charges decline by HRK 1m (0.1%)**, which relates to parental participation in preschool education programme financing.





## THE REVISED BUDGET EXPENDITURES BY TYPE

**Total expenditures** proposed in the revised budget **stand at HRK 9bn** (graph 3).



**Graph 3: The City of Zagreb budget expenditures by type (economic classification), 2017 revised budget\***

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

The bulk of **material expenditures** (HRK 3.16bn) relate to the current and investment maintenance of utility infrastructure facilities (e.g. roads, public spaces, public lighting, cemeteries and the crematorium) and the City administration and City budget users' facilities, as well as the costs of office materials, energy and services (e.g. telephone and mail services, as well as transportation and information services), necessary for the smooth functioning of the City's administrative bodies and its budget users.

**Expenditures for employees** (HRK 2.61bn) include salaries, social security contributions and compensation. Out of that amount, HRK 1.67bn is going to be spent on 11.5 thousand employees in administrative bodies and budget users not financed from their own funds (e.g. the staff of pupils' homes, schools, kindergartens, museums, etc.) and HRK 945m on 6.5 thousand employees in budget users financed from their own funds (e.g. hospitals, polyclinics, health centres, etc.). Also included are expenditures for persons employed on EU-funded projects.

The amount planned for **the acquisition of fixed assets** (about HRK 1.05bn) will be spent on roads, utility infrastructure, business and other construction facilities, as well as equipment in education, health care, social welfare, etc. The bulk of that amount (HRK 518m) will be invested through the City Office for Physical Planning, Construction of the City, Utility Services and Transport, in accordance with [Changes in the Plan of Works Related to Capital Investments in Social Service Facilities in 2017](#) and [Changes in the Plan of Works in the Field of Transport and Utility Management in 2017](#).

**Other business expenditures** (HRK 750m) mainly include current donations and capital grants. Current donations (HRK 490m) are intended for the co-financing of sports (HRK 214m), religious and private kindergartens and schools (HRK 96m), culture (e.g. libraries, museums and theatres, as well as music, visual arts and film making activities) and non-profit organizations (associations, social and development programmes, etc.). The most substantial capital grants are planned for the financing of wastewater treatment projects (HRK 112m), the ZET's motor fleet renewal (HRK 62m), Zagreb Waste Management Centre (HRK 5m), as well as the co-financing of public sector companies' projects (HRK 3m) and disabled persons transportation services (HRK 2m).

**Subsidies** (HRK 652m) are earmarked for promoting the manufacturing and services of companies, craftsmen, farmers and SMEs. The bulk of this amount will be spent for the City's public transport, namely the ZET company (HRK 494m), the Arena sports hall rental (HRK 62m), promotion of crafts and SMEs (HRK 36m) and disabled persons employment (HRK 29m).





## Major expenditure differences between the 2017 budget plan and the proposed budget revision

In line with the decline in revenues, **total expenditures proposed in the revised budget go down by HRK 65.2m (0.7%)**. The sharpest cuts (**HRK 280m or 21%**) are proposed in expenditures for the acquisition of fixed assets, particularly expenditures for the unclassified road construction (HRK 76.7m), expenditures for the Sljeme Cable Car (HRK 45m), school and health care facilities (HRK 43.8m and HRK 26.5m, respectively), the legalization of the City facilities (HRK 16m), as well as expenditures for cultural facilities (HRK 11.3m).

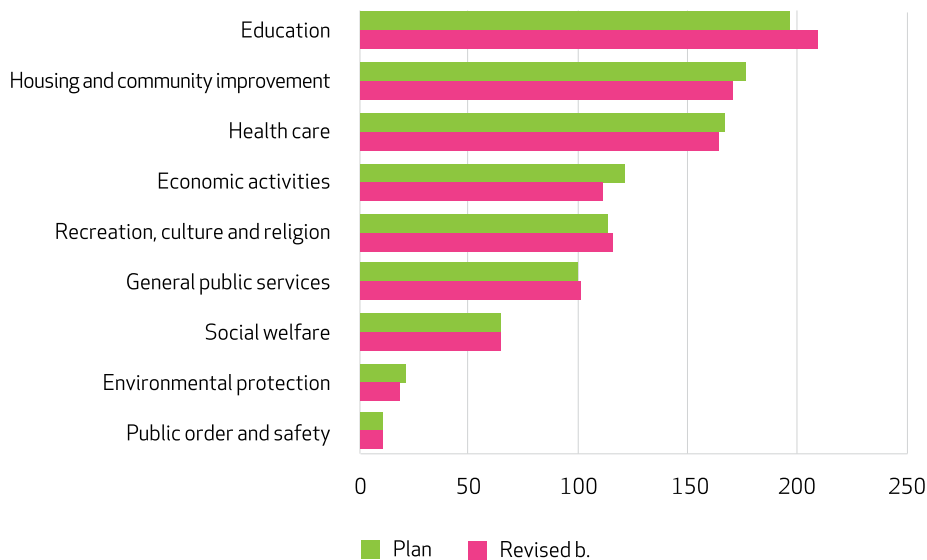
**Expenditures for employees** are proposed to go up by **HRK 86.8m (3.4%)**, particularly expenditures for employees in preschool education institutions (HRK 43.6m), to ensure compliance with the Collective Agreement and as a result of employment increase in kindergartens, due to facility expansion and a larger number of educational groups, as well as a rise in the number of preschool educators and educators for children with disabilities. Another increase of HRK 24.4m is planned for the staff salaries of the newly founded Centre for Promotion of Tolerance and Holocaust Remembrance and the Dražen Petrović Museum-Memorial Centre.

**Benefits to citizens and households** are proposed to go up by **HRK 75.1m (13.2%)**, of which HRK 74m will be spent for cash assistance provided to the continuously growing number of parent educators, HRK 4.6m for the newborn child assistance, and HRK 2.7m will be paid to the public transport company (ZET) as compensation for transportation costs. In accordance with actual needs, funds earmarked for the purchase of textbooks are increased in primary education (by HRK 5m) but reduced in secondary education (by HRK 500 thousand).

The proposed **HRK 54.1m (1.7%) increase in material expenditures** mainly relates to various services, e.g. the maintenance of public spaces, newly-constructed educational facilities, etc.

## PLANNED EXPENDITURES BY PURPOSE

**The average monthly spending per person, planned in the revised budget, is about HRK 966 (down HRK 7 from the original budget plan).** As shown in graph 4, the bulk of this monthly average will be spent on education (HRK 210), followed by housing and community improvement services (HRK 171), health care (HRK 165), recreation, culture and religion (HRK 116) and economic activities (HRK 111). The largest increase in average monthly spending per person will be in education (up HRK 12) and the sharpest decrease in economic activities (down HRK 11).



**Graph 4: Average monthly spending per purpose, per person (functional classification), 2017 (in HRK)\***

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

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

**Housing and community improvement services** mainly relate to the City's property and public spaces maintenance (public lighting, etc.).

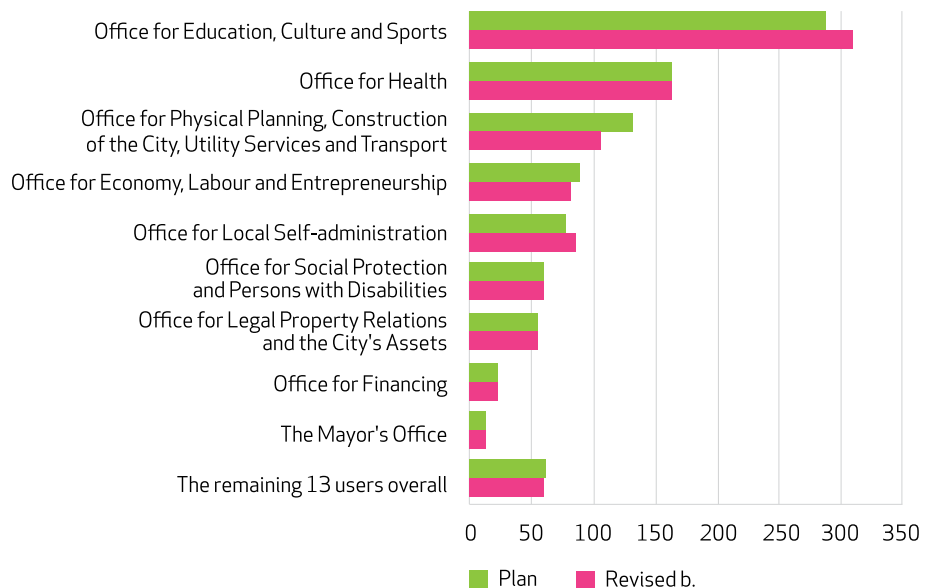
**Expenditures for health** cover health protection, the development and implementation of health protection programmes and strategies, health promotion, addiction prevention and control, provision of support for health programmes and projects carried out by associations and other forms of organised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

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

**Expenditures for recreation, culture and religion** relate to the financing of cultural institutions, providing support for various cultural programmes and activities, the co-financing of sports, providing subsidies for the Arena Sports Hall rental, etc.

## PLANNED EXPENDITURES BY BUDGET USERS

The three largest City offices, namely the Office for Education, Culture and Sports, Office for Health and Office for Physical Planning, Construction of the City, Utility Services and Transport – are planned to jointly **spend a total of about 60%** of the City’s budget. This makes **a monthly average of HRK 580 per person**, or **HRK 7 less** than the originally budgeted amount, mainly due to a decline in capital expenditures of the Office for Physical Planning, Construction of the City, Utility Services and Transport.



Graph 5: Average monthly spending per budget user, per person (organisational classification), 2017 (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 the receipts and outlays represents *net financing*, i.e. the amount equal to the surplus/deficit from the revenue and expenditure account.

	2015* Outturns	2016* Outturns	2016** Outturns	2017** Plan	2017** Revised b.
<b>Revenue and expenditure account</b>					
Total revenues	6,204.9	6,425.5	8,169.7	9,050.3	8,980.5
Total expenditures	6,085.6	6,449.9	8,168.4	9,068.2	9,003.0
<b>Surplus/deficit</b>	<b>119.2</b>	<b>-24.4</b>	<b>1.3</b>	<b>-17.9</b>	<b>-22.5</b>
<b>Financing account</b>					
Receipts from financial assets and borrowing	194.4	216.9	221.3	290.1	290.1
Outlays on financial assets and loan repayment	272.8	253.9	282.8	272.2	267.6
<b>Net financing</b>	<b>-78.4</b>	<b>-36.9</b>	<b>-61.5</b>	<b>17.9</b>	<b>22.5</b>

**Table 1: The City of Zagreb budget revenue and expenditure account and financing account, 2015–17 (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 in the revised budget stand at **HRK 290.1m**, the bulk of which (HRK 288.6m) relates to receipts from borrowing. In parallel with this, **outlays in the amount of HRK 267.6m** are planned for financial assets and current debt repayment, **down HRK 4.6m (1.7%)** from the originally planned amount. The said decrease is mainly due to lower planned outlays on loans to public sector companies.

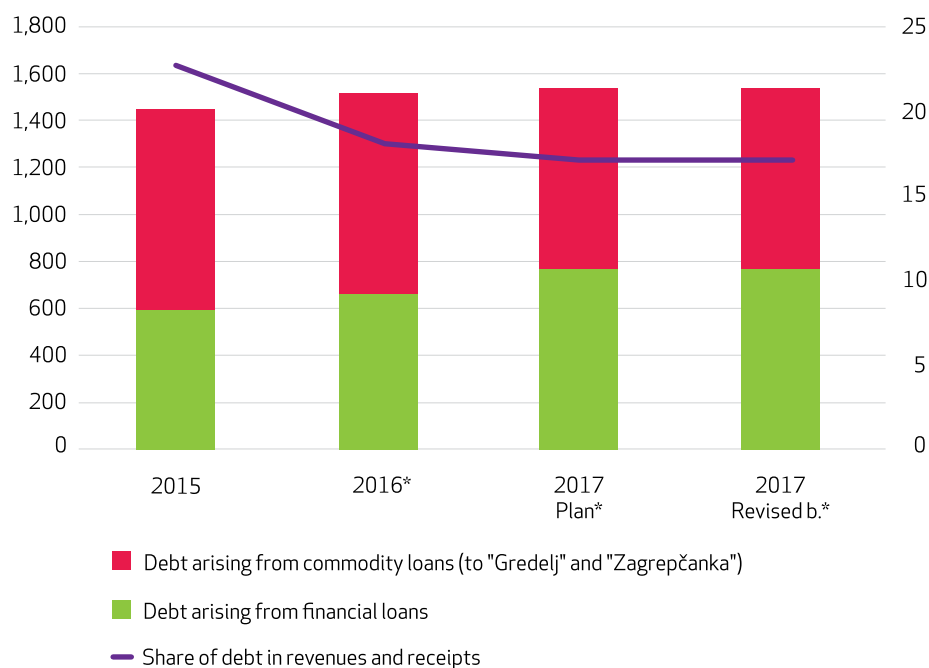


Direct debt is the sum of all budget deficits from the current and previous periods, financed by borrowing.

## THE CITY'S BUDGET DEBT

The City of Zagreb's direct debt stood at HRK 1.5bn at the end of 2016 (graph 6). The share of debt in budget revenues and receipts stood at 18.1% at end-2016, which suggests a low level of the City's indebtedness, enabling it to easily service its direct debt from regular revenues and receipts. The share of debt in budget revenues and receipts decreased markedly (from 22.6% in 2015 to 18.1% in 2016), due to the inclusion of own and earmarked revenues and receipts of budget users.

According to the revised budget, total debt is planned to rise only slightly (by HRK 0.5m) by end-2017. Due to this and the planned decline in revenues, **the share of debt in total revenues and receipts increases from 16.5% to 16.7%**. It is worth noting that, according to the [Budget Act](#), the City's long-term borrowing is subject to Government approval. Consequently, graph 6 shows the planned level of debt for 2017, whereas the actual level depends on Government approval.



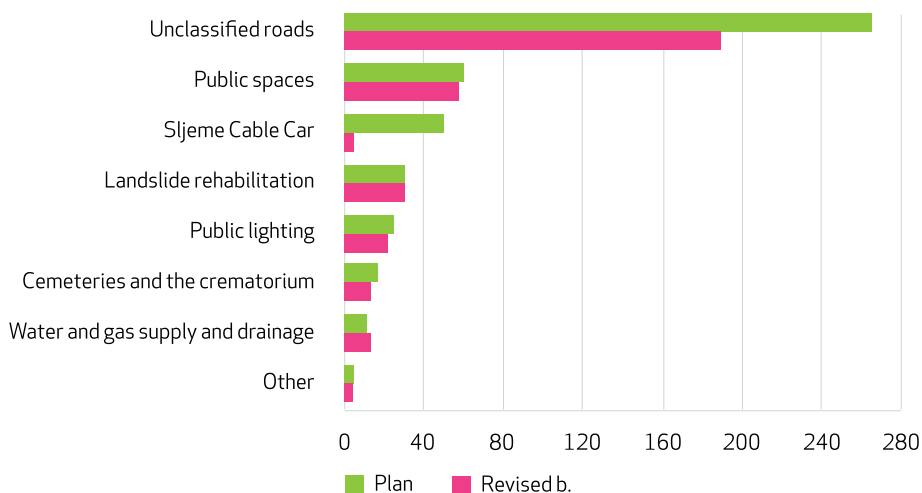
Graph 6: The City of Zagreb debt (in million HRK, left-hand scale) and its share in budget revenues and receipts (in %, right-hand scale), 2015-17\*

\* As of 2016, revenues and receipts also include own and earmarked revenues and receipts 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 2.38bn** (25.7% of total planned revenues and receipts in 2016). The bulk of this amount (HRK 2.3bn) relates to the City's guarantee for the Zagreb Holding bonds, issued for the 2007 debt refinancing. The bonds were issued in two tranches: one (worth HRK 1.8bn) in mid-2016 and the other (worth HRK 500m) in July 2017. The City obtained approval of the minister of finance for that guarantee.

## MAJOR CITY INVESTMENTS

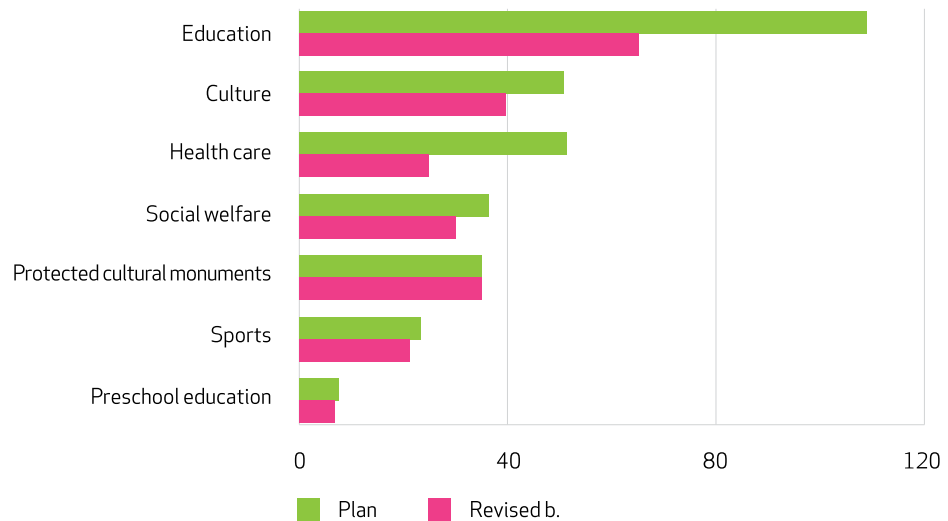
**Investments in the construction of utility infrastructure** facilities and equipment are proposed to go down from HRK 464m to HRK 334m, i.e. by HRK 130m or 28% (graph 7), mainly due to the necessary reconciliation between the revenue and expenditure sides of the budget, lengthy procedures for obtaining documentation and public procurement and the resolution of property relations with land owners.



**Graph 7: Capital investments in the construction of utility infrastructure facilities and equipment, 2017 (in million HRK)**

As shown in graph 8, the revised budget also proposes a reduction in capital **investments in social service facilities**, from HRK 313m to HRK 223m (down HRK 90m or 29%).





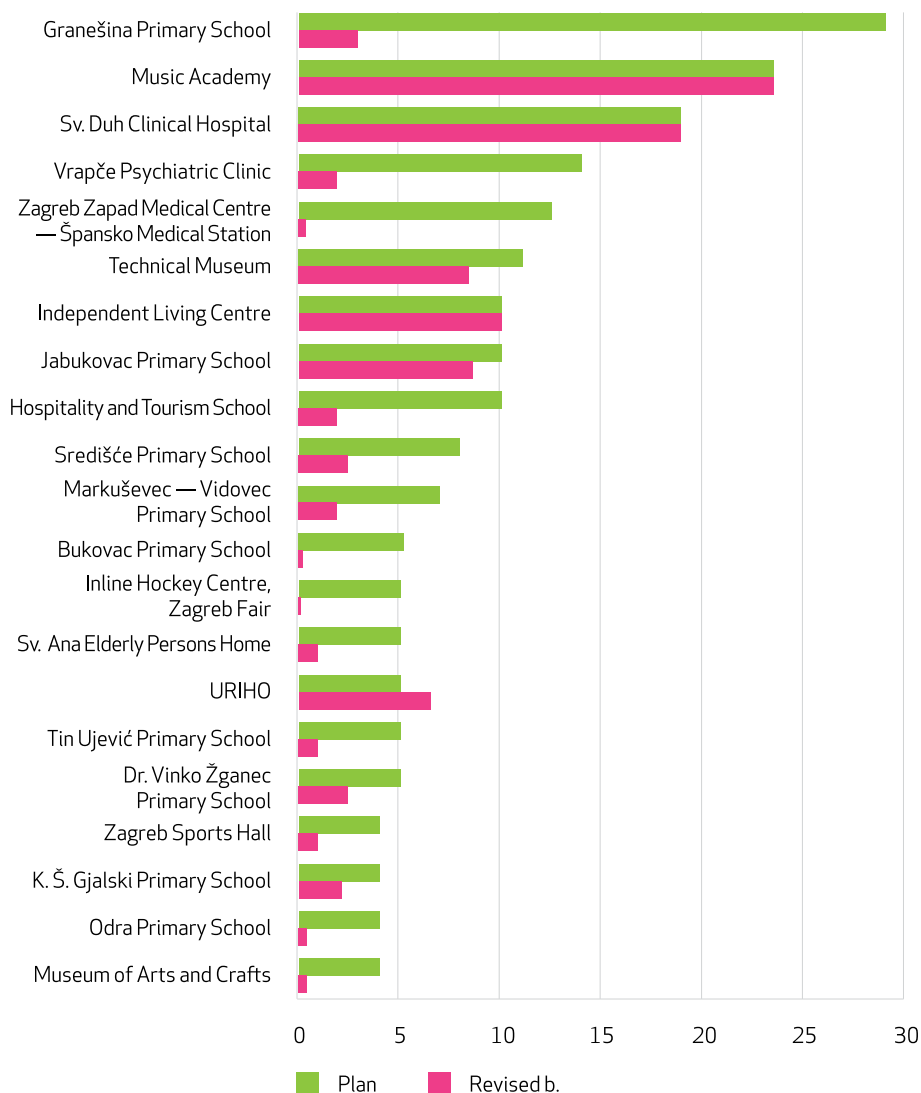
**Graph 8: Capital investments in social service facilities, 2017 (in million HRK)**

In view of the need for reconciliation between the revenue and expenditure sides of the City's budget, and given the project documentation development dynamics and the realisation rate of contracted works in accordance with the public procurement procedures carried out, the following adjustments and changes to the amounts of capital investments in social service facilities are made:

- Investments in school facilities go down by HRK 43.8m, which mainly concerns the construction of the Granešina Primary School Sports Hall (down HRK 26m), reconstruction of the Hospitality and Tourism School (down HRK 8m), the development of project documentation, obtaining the relevant permits and the beginning of construction works on the Središće Primary School (down HRK 5.5m), as well as construction of a replacement facility for the Markuševac Primary School, including a school sports hall (down HRK 5m).
- Investments in health care facilities are planned to decrease by HRK 26.5m, mainly as concerns the obtaining of a building permit, public tender procedure and the beginning of reconstruction works on the Department of Psychogeriatrics, Vrapče Psychiatric Clinic (down HRK 12m), as well as development of project documentation and resolution of property relations with respect to the expansion of an existing facility of the Špansko Medical Station within the Zagreb-Zapad Medical Centre (down HRK 12m).
- Investments in cultural objects are reduced by HRK 11.3m, mainly as concerns the public tender procedures and development of project documentation for facade renovation of the Museum of Arts and Crafts (down HRK 3.5m), renovation of the Novi Zagreb Culture Centre (down HRK 1.4m), as well as renovation and/or development of project documentation for the Technical Museum (down HRK 2.65m), Ethnographic Museum (down HRK 2m) and Comedy Theatre (down HRK 1.15m).

- Investments in social welfare facilities are proposed to decrease by HRK 6.2m, mainly as concerns the implementation of the public procurement procedure and renovation of the Sv. Ana Home for the Elderly and Infirm (down HRK 4m) and the adaptation and furnishing of the Ksaver Elderly Persons Home (down HRK 2.7m).

Some major investments in social service facilities, planned for 2017, are shown in graph 9. Depending on the project, investments relate to the costs of project documentation development, obtaining construction documents, the conversion, remodelling, renovation, construction and furnishing of spaces, as well as resolution of property relations.



Graph 9: Some major planned capital investments in social service facilities, 2017 (in million HRK)

## WHAT CAN CITIZENS DO?

The City Assembly, as the representative body of citizens, will discuss the 2017 budget revision on 26 October 2017. The topic discussed will be the total revenues and expenditures of about HRK 9bn. The revised budget proposes cuts in revenues and expenditures by HRK 70m (0.8%) and HRK 65m (0.7%), respectively. Every employed person is expected to pay an average monthly amount of HRK 1,021 in personal income tax and surtax into the budget, and the average monthly amount per person, to be spent by the City will be HRK 966.

With the help of this brief guide, the [Brief Guide to the City of Zagreb 2017 Enacted Budget](#) and the [Guide to the City of Zagreb Budget](#), citizens can examine the City's budget, i.e. the original budget plan from December 2016, the reallocated budget from June 2017 and the amendments proposed in the current budget revision. This will enable citizens to contribute to the Assembly's discussions and the distribution of the City's funds in the way that best suits the City's needs and financial capacity.



## USEFUL WEBSITES

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

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

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

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

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

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

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

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

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

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

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

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

## PREVIOUSLY PUBLISHED GUIDES

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

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

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

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

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