

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

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A Brief Guide to the Proposal for the City of Zagreb Second 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 21 December 2017.

On 20 December 2016 the City Assembly adopted the [City of Zagreb 2017 Budget](#) with revenues and expenditures totalling HRK 9.05bn and HRK 9.07bn, respectively. In order to make minor adjustments to planned revenues, in line with City administrative bodies' requirements, the Mayor issued the first [Conclusion on the Reallocation of Funds Planned in the City of Zagreb 2017 Budget](#) on 27 February 2017, followed by a second [Conclusion on the Reallocation of Funds Planned in the City of Zagreb 2017 Budget](#) issued on 19 June 2017. Pursuant to these Conclusions, the total amount of the budget planned on 20 December 2016 was not changed; however, expenditure was reallocated among the existing line items, in accordance with the requests of City bodies. Subsequently, on 26 October 2017, the City Assembly adopted the first 2017 budget revision – the [Decision on Amendments to the City of Zagreb 2017 Budget](#). Under the first budget revision, revenues decreased by HRK 70m (0.8%), i.e. to HRK 8.98bn, while expenditures went down by HRK 65m (0.7%), to HRK 9bn. A proposed second 2017 budget revision will be presented before the City Assembly on 21 December 2017.

The need to adopt a second budget revision less than two months after adopting the first budget revision arose from the following:

- At the sixth City Assembly, held on 30 November 2017, the Conclusion on the sale of real estate to Zagreb Holding for the purpose of the second phase of Podbrežje residential zone construction for HRK 183.6m was adopted;
- It is estimated that revenues from personal income tax and surtax in 2017 would be lower than planned, resulting in an increase in grants due to compensatory measures and an increase in equalization grants for decentralized functions.

Budget revision

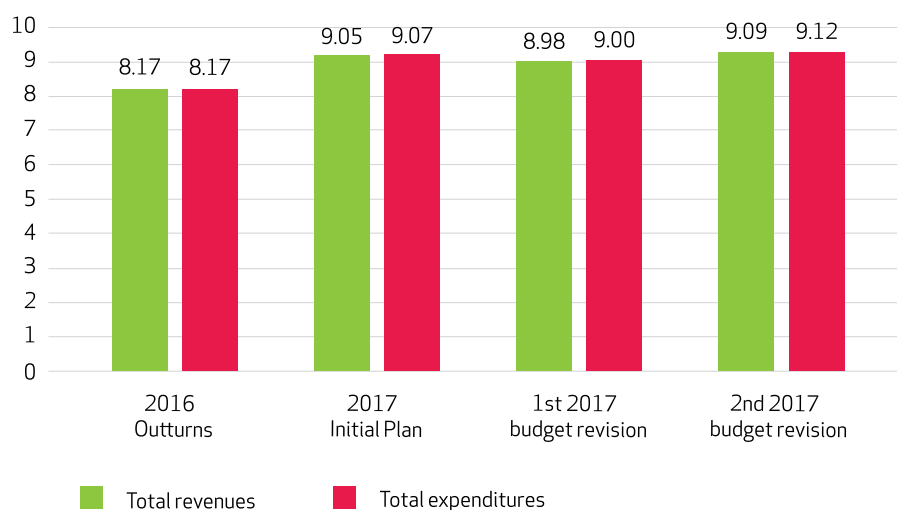
The modification of budget amounts, i.e. their reduction and/or increase relative to the planned amounts.

The proposed second 2017 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 this document and the city budget process in general, interested parties are also referred to the [Guide to the City of Zagreb Budget](#) (containing general information on the City's budget and budget process), the [Brief Guide to the City of Zagreb 2017 Enacted Budget](#) and the [October 2017 Brief Guide to a Proposal for the City of Zagreb 2017 First Budget Revision](#).

Below is a brief presentation of the key changes in revenues and expenditures proposed by the second budget revision.

PLANNED REVENUES AND EXPENDITURES

Under the second 2017 budget revision, **revenues** are proposed to go up by HRK 114m (1.6%), i.e. to **HRK 9.09bn**, while **expenditures** are proposed to go up by HRK 114m (1.6%), to **HRK 9.12bn** (graph 1).



Graph 1: City of Zagreb budget revenues and expenditures, 2016–2017 (in HRK bn)*

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

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

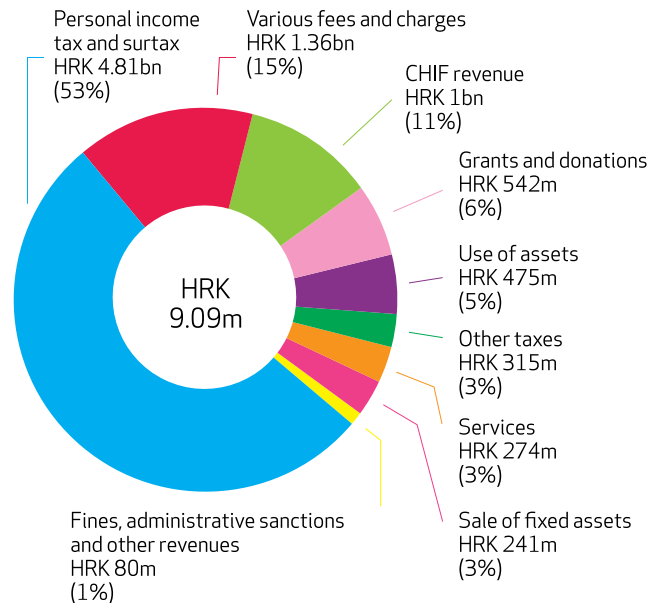
There are also [companies founded by the City](#) for the provision of public services and the performance of public activities (e.g. Zagreb Holding). However, as such companies are not majority-financed from the City budget (that is, they are not budget users), their revenues and expenditures are not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

REVISED BUDGET REVENUES

Total revenues planned in the revised budget amount to **HRK 9.09bn** (graph 2), more than half of which will come from **personal income tax and surtax (HRK 4.81bn)**. The second largest revenue source will constitute various **fees and charges** amounting to HRK 1.36bn, mainly utility contributions and charges (HRK 850m), followed by **budget users' revenues from the Croatian Health Insurance Fund (CHIF)** for health services (approximately HRK 1bn), various **grants and donations** (HRK 542m) and revenues from **the use of city assets** (HRK 475m, for the most part from public road user charges payable at vehicle registration, as well as revenues from the rental of office space, terraces, parking places, etc.).



Each employed person in 2017 will pay an average monthly amount of HRK 997 in personal income tax and surtax into the budget.



Graph 2: City of Zagreb budget revenues, second 2017 budget revision*

* Including own and earmarked revenues of budget users.

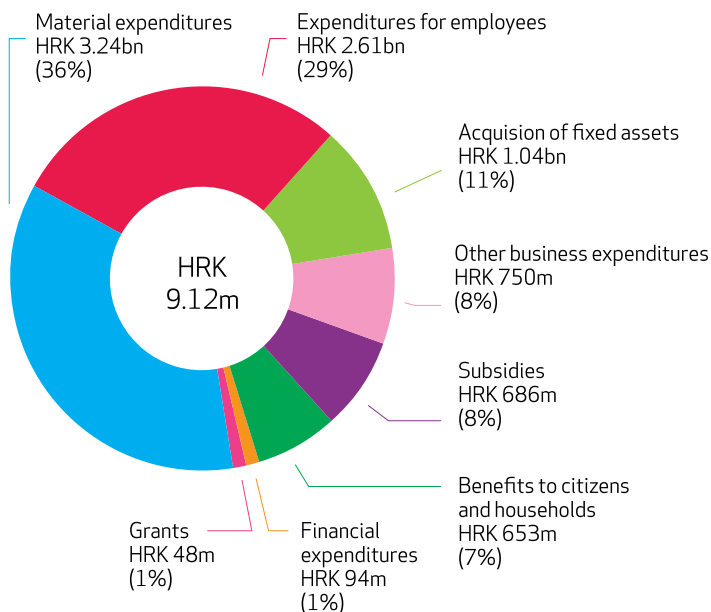
Major revenue differences between the first and second proposed budget revision

The second budget revision proposes that **revenues be increased by HRK 114m (1.6%)**, with the **most notable** increase to be achieved **by the sale of fixed assets for HRK 163m (210%)**. On 30 November 2017 the City Assembly adopted the Conclusion on the sale of real estate to Zagreb Holding for the purpose of the second phase of Podbrežje residential zone construction for HRK 183.6m, while revenues from the sale of land are expected to drop by HRK 20.6m.

Revenues from **personal income tax and surtax** are expected to **drop by HRK 115m (2.3%)** due to amendments to the Personal Income Tax Act effective as of 1 January 2017, while **revenues from state budget grants** are expected to **go up by 66m (22%)**, the bulk of which (HRK 59m) comprises grants received by the City to equal the difference between personal income tax revenues in 2016 and in 2017 – due to the aforementioned amendments to the Personal Income Tax Act – and HRK 7m in equalization grants for decentralized functions (again due to the drop in personal income tax revenues in 2017).

REVISED BUDGET EXPENDITURES BY TYPE

Total expenditures proposed in the revised budget stand at **HRK 9.12bn** or HRK 114m more than what is planned in the first budget revision (graph 3).



Graph 3: City of Zagreb budget expenditures by type (economic classification), second 2017 budget revision*

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

The bulk of **material expenditures** (HRK 3.24bn) relates to current and investment maintenance of utility infrastructure facilities (e.g. public spaces, public lighting, roads, cemeteries and the crematorium), City administration and City budget users' facilities, as well as to office materials, energy use and services (e.g. telephone, postal, transportation and information services) necessary for the smooth running of the City's administrative bodies and City budget users.

Expenditures for employees (HRK 2.61bn) include salaries, social security contributions and other expenditure related to employees, with HRK 1.67bn being earmarked for 11,900 employees of administrative bodies and those budget users whose employees are not paid out of own revenues (such as kindergartens and museums) and HRK 945m for the 6,500 employees of budget users whose staff are paid from own revenues (e.g. hospitals, polyclinics and health centres). These also include expenditures for persons involved in EU-funded projects.

About HRK 1.04bn is planned for the **acquisition of fixed assets**, i.e. roads, utility infrastructure, commercial and other buildings, as well as equipment in schools, health care and social welfare institutions, etc. The lion's share (HRK 518m) will be spent through the City Office for Physical Planning, Construction of the City, Utility Services and Transport, in compliance with the [Agenda for Capital Investment in Social Activity Facilities in 2017](#) and [Agenda for Transportation and Municipal Economy in 2017](#) which remain unchanged with respect to the first revision.



Other business expenditures (HRK 750m) mainly include current donations and capital grants. Current donations (HRK 497m) are intended for the co-financing of sports (HRK 219m), religious and private kindergartens and schools (HRK 96m), culture (e.g. libraries, museums and theatres, as well as music, visual arts and film) and non-profit organizations (associations, social and development programmes, etc.). The bulk of capital grants is given for the financing of the wastewater treatment project (HRK 112m), the City's public transport company's (ZET) motor fleet renewal and reconstruction (HRK 62m), the Zagreb Waste Management Centre (HRK 4m), the co-financing of public sector companies' projects (HRK 3m) and transportation services for persons with disabilities (HRK 2m).

Subsidies (HRK 686m) are earmarked for the promotion of the production and services of companies, sole proprietorships, farmers and SMEs. The bulk of the subsidies are allocated for public transport, i.e. ZET (HRK 534m), for the rental of the Arena sports hall (HRK 56.5m), for the promotion of sole proprietorships and SMEs (HRK 36m) and the employment of persons with disabilities (HRK 29m).

Major expenditure differences between the first and second 2017 budget revision

*In line with the increase in revenues, **total expenditures** proposed in the second budget revision **increase by HRK 114m (1.6%)**. The **sharpest increase (HRK 75.7m or 3%)** is proposed in **material expenditures**, particularly expenditures for current maintenance services by Zagreb Holding subsidiaries (Zagreb Roads, Zrinjevac and Čistoća).*

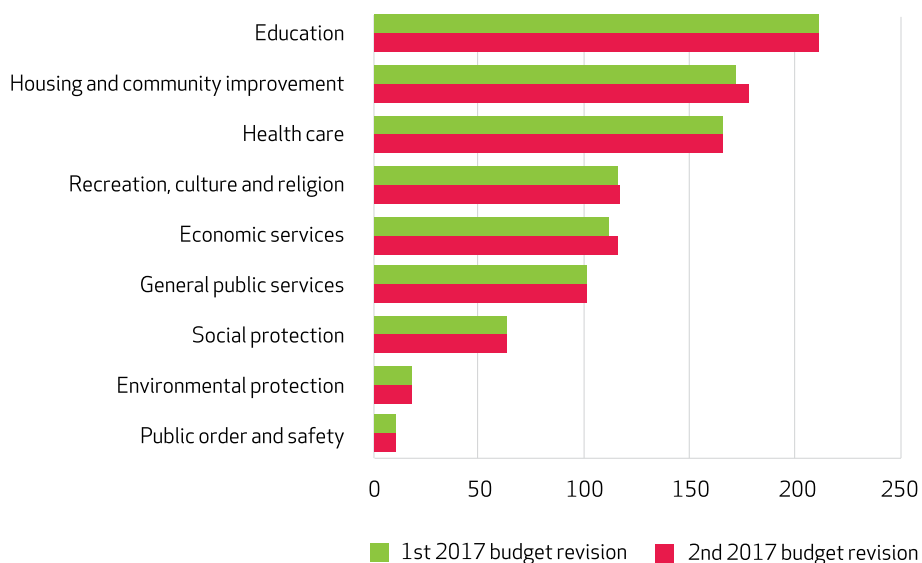
***Subsidies will increase by HRK 34.5m (5.3%)** due to the proposed HRK 40m increase in subsidies for the co-financing of ZET's business expenditures, while subsidies earmarked for Arena sports hall rental fees will drop by HRK 5.5m.*

The proposal includes an **increase in other business expenditures by HRK 13m (1.8%)**, the bulk of which relates to the co-financing of sports (HRK 11m), the Croatian War Veteran Comprehensive Care Institution (HRK 1m) and international, inter-county and inter-city cooperation (HRK 0.9m).

Expenditures for the **acquisition of fixed assets** – mainly buildings – are going **down by HRK 20.3m (2.5%)**.

PLANNED EXPENDITURES BY PURPOSE

Average monthly spending per citizen, as planned by the second budget revision, is **HRK 978**, or **HRK 12more** than as planned by the first budget revision (graph 4). The bulk of this amount will be spent on education (HRK 211), followed by housing and community improvement services (HRK 178), health care (HRK 165), recreation, culture and religion (HRK 116) and economic operations (HRK 115). The sharpest increase in average monthly spending per citizen will be seen in spending on housing and community improvement (HRK 6) and economic operations (HRK 4).



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

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

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

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

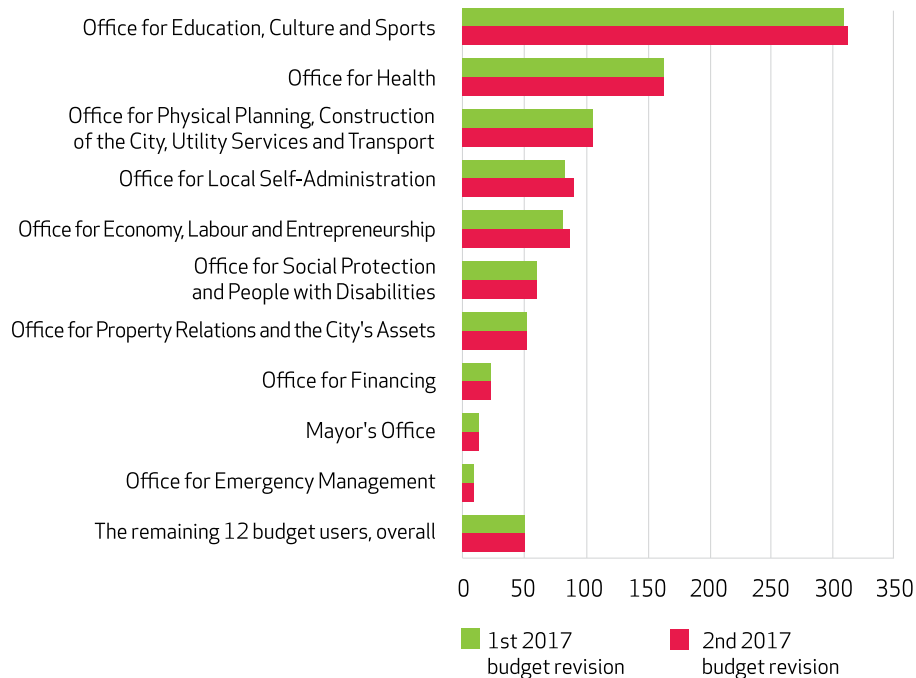
Expenditures for healthcare relate to health protection, the development and implementation of health protection programmes and strategies, health promotion, addiction prevention and control, support for health programmes and projects carried out by associations and other forms of organised health-oriented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

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

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

PLANNED EXPENDITURES BY BUDGET USER

The **three most important City offices** – for Education, Culture and Sports, for Health and for Physical Planning, Construction of the City, Utility Services and Transport – will jointly spend approximately **60%** of the City budget, i.e. **a monthly average of HRK 581 per citizen**.



Graph 5: Average monthly budget user spending per citizen (organisational classification) in 2017 (in HRK)*

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

FINANCING ACCOUNT AND DEBT

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



	2016 Outturns	2017 Initial Plan	1st 2017 revision	2nd 2017 revision
Revenue and expenditure account				
Total revenues	8,169.7	9,050.3	8,980.5	9,094.5
Total expenditures	8,168.4	9,068.2	9,003.0	9,117.0
Deficit/surplus	1.3	-17.9	-22.5	-22.5
Financing account				
Receipts from financial assets and borrowing	221.3	290.1	290.1	290.1
Outlays for financial assets and loan repayment	282.8	272.2	267.6	267.6
Net financing	-61.5	17.9	22.5	22.5



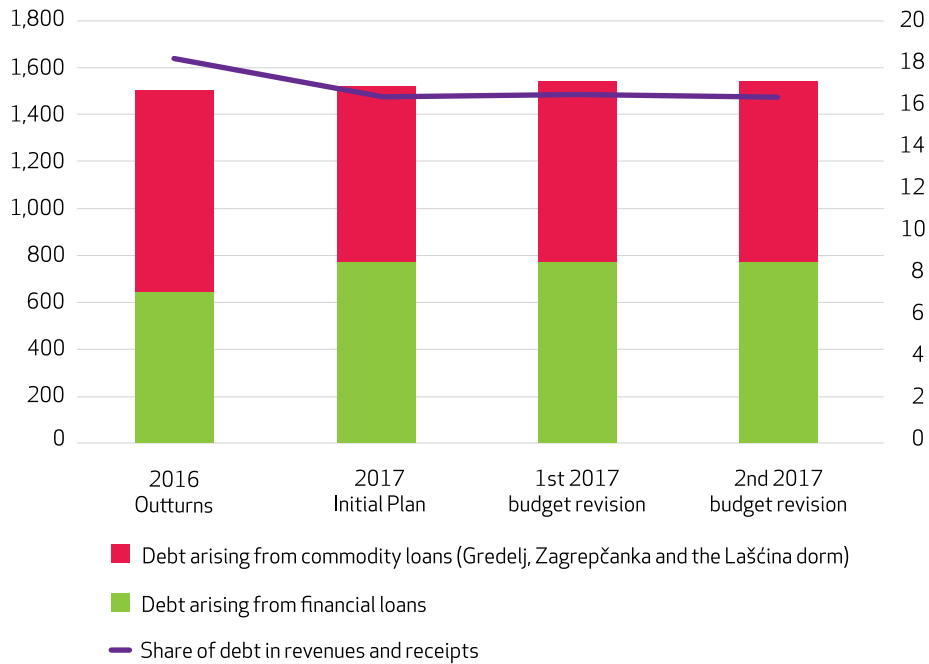
Table 1: Zagreb City budget revenue and expenditure account and financing account, 2016–2017 (in HRK m)*

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

The financing account remains unchanged in relation to the first budget revision: planned receipts amount to HRK 290.1m, the bulk of which (HRK 288.6m) are receipts from borrowing, while outlays amounting to HRK 267.6m are planned for financial assets and debt repayment.

As the financing account is to remain unchanged in relation to the first budget revision, the City's debt projections in absolute terms remain unchanged as well – the planned **direct debt in 2017** stands at approximately **HRK 1.55bn**. However, due to the planned increase in revenue, **the share of debt in total revenues and receipts will drop from 16.7 to 16.5%** in 2017.

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



Graph 6: The City's debt (in HRK m, left scale) and the share of debt in budget revenues and receipts (in %, right scale), 2016–2017*

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

In addition to the direct debt shown in graph 6, the City is potentially (through issued guarantees) exposed to an **indirect debt amounting to HRK 2.4bn** (25.4% of total planned revenues and receipts in 2017). The bulk of this amount (HRK 2.3bn) relates to a guarantee for a bond issue by Zagreb Holding to refinance a 2007 debt. These bonds have been issued in two tranches (HRK 1.8bn in mid-2016 and an additional HRK 500m in July 2017), and the guarantee has been approved by the Finance Minister.



WHAT CAN CITIZENS DO?

The City Assembly, as the representative body of citizens, will deliberate on the second 2017 budget revision on 21 December 2017. This revision comprises total revenues and expenditures amounting to approximately HRK 9.1bn. Under the second budget revision revenues and expenditures are proposed to go up by HRK 114m (1.6%) compared to the amounts proposed in the first budget revision. The average monthly personal income tax and surtax amount paid by every employed person into the City budget is HRK 997, while the average monthly amount spent by the City for each citizen is HRK 978.

With the help of this brief guide and the [Brief Guide to the City of Zagreb 2017 Enacted Budget](#), the [October 2017 Brief Guide to a Proposal for the City of Zagreb 2017 First Budget Revision](#) and the [Guide to the City of Zagreb Budget](#), all interested parties can examine the City budget – the initial December 2016 plan, the reallocation of funds from June 2017, the first budget revision from October 2017 and budget amendments proposed in the second revision. The purpose of these guides is to help you understand the budget and City Assembly discussions on 21 December.



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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