

A Brief Guide to a Proposal for the City of Zagreb 2019 Budget Revision

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A Brief Guide to a Proposal for the City of Zagreb 2019 Budget Revision



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The aim of this brief guide is to present 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 9 December 2019, and thus to encourage the public to actively participate in making decisions about the City's budget. The main reasons for proposing this budget revision are to align the planned revenues with the dynamics and level of budget execution so far, and to strike a balance between government spending and estimated revenues and receipts.

The proposed budget revision, i.e. [Decision on Amendments to the City of Zagreb 2019 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 referred to the [Guide to the City of Zagreb Budget](#) (providing general information on the City's budget and budget process), as well as the [Brief Guide to the City of Zagreb 2019 Enacted Budget](#).

Below is a brief presentation of the City's budget revenues, expenditures, financing account and debt for the period 2016–2019, including a detailed elaboration of the proposed amendments and a comparison with the current 2019 budget of 19 September 2019, adopted pursuant to the [Conclusion on the Reallocation of Funds Planned in the City of Zagreb 2019 Budget](#).

PLANNED REVENUES AND EXPENDITURES

The City Assembly on 13 December 2018 adopted the [City of Zagreb 2019 Budget](#), with revenue and expenditure standing at HRK 9.82bn and HRK 9.88bn respectively. For the purpose of minor adjustments of the planned expenditures for operations and programmes to the needs of the City's administrative bodies, the Mayor on 28 June 2019 adopted [the first Conclusion on the Reallocation of Funds Planned in the City of Zagreb 2019 Budget](#), and on 19 September 2019 [the Second Conclusion on the Reallocation of Funds Planned in the City of Zagreb 2019 Budget](#). Pursuant to the two

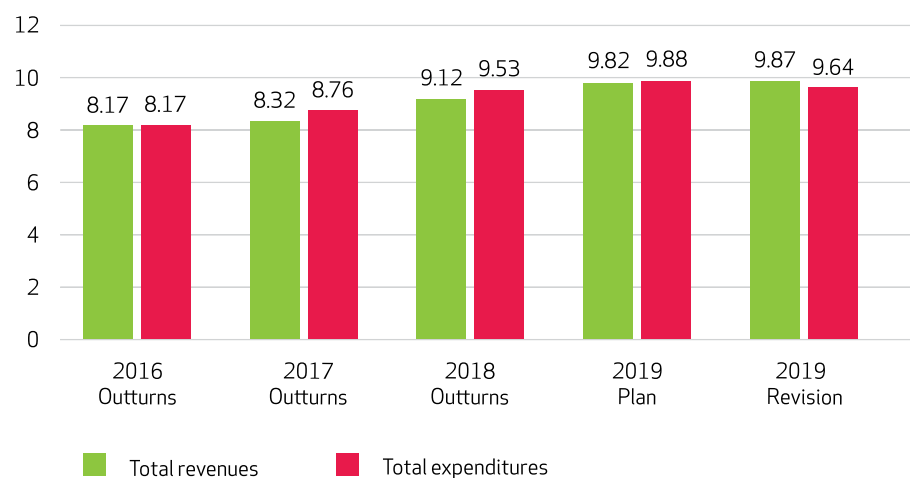
budget revision

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

budget reallocation

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

conclusions, the total budget amount planned on 13 December 2018 remained unchanged, but expenditures were reallocated among the already existing line items. Under the revised budget, however, budget **revenues** are proposed **to go up** by HRK 56m (0.6%), i.e. **to HRK 9.87bn**, while **expenditures would go down** by HRK 237m (2.4%), **to HRK 9.64bn** (graph 1).



Graph 1: The City of Zagreb budget revenues and expenditures, 2016–2019 (in billion HRK)*

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

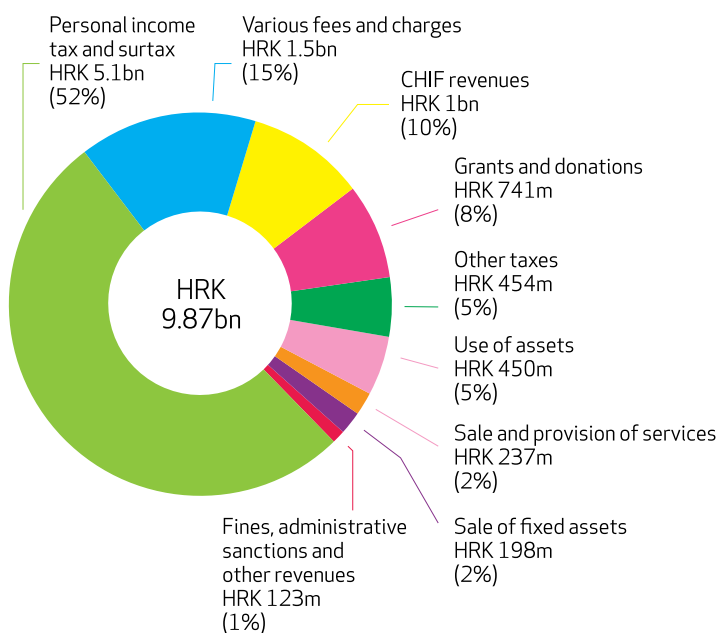
The City's budget includes **the revenues and expenditures of all 328 City budget users**, namely institutions founded and majority-financed by the City, and listed in the [Register of Budget and Extra-budgetary Users](#), such as public health care institutions (health centres, polyclinics, hospitals and institutes), preschools, primary and secondary schools, social welfare institutions, the Zagreb Public Fire Department, Physical Planning Institute, Public Institution "Maksimir", Zoological Garden, Sports Facilities Management Institution, and Zagreb Development Agency for Coordination and Promotion of Regional Development.

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 these are not users of the City's budget, their revenues and expenditures are not shown in the City's budget.

REVISED BUDGET REVENUES

Total revised **revenues** amount to **HRK 9.87bn** (graph 2). More than half of this amount will come from **personal income tax and surtax** (HRK 5.11bn). The second largest revenue sources are various **fees and charges** (HRK 1.52bn), mainly utility contributions and charges (HRK 930m), followed by the **budget users' revenues received from the CHIF (Croatian Health Insurance Fund)** for health services rendered (HRK 1.03bn), various **grants and donations** (HRK 741m), **other taxes** (HRK 454m) and revenues from **the use of City assets** (HRK 450m, mainly public road user charges payable at vehicle registration, as well as revenues from the rental of office space, terraces, parking places, etc.).

Employed persons are expected to pay an average monthly amount of about HRK 1,022 in personal income tax and surtax into the City's budget.



Graph 2: The City of Zagreb budget revenues, 2019 revised budget*

* Including own and earmarked revenues of budget users.



Major revenue differences

Under the revised budget, **total revenues** are proposed to grow by **HRK 56m (0.6%)**, with the largest increase expected in **tax revenues (up HRK 210m or 3.9%)**. Personal income tax and surtax revenues go up by HRK 180m, due to favourable economic conditions and disposable income growth. Property tax revenues rise by HRK 30m, as a result of larger property transfer tax revenues at the end of the year, due to subsidized home loans for young people.

Revenues **from the sale of fixed assets** go up by **HRK 51.5m (35%)**. This amount is based on the bookkeeping records of proceeds from the sale of land to the Zagreb Housing Construction company, for the construction of the residential complex Podbrežje. In exchange for the said funds, the City acquired 86 residential units in that complex. Consequently, in accordance with the Budget Accounting Rules, the set-off is shown in the same amount on both the revenue and expenditures sides of the budget (i.e. as land sale revenues and expenditures for the acquisition of residential facilities).

Revenues **from various fees and charges** go up by **HRK 47m (3.2%)**, due to a rise in revenues from utility charges (by HRK 40m), revenues for the co-financing of façade renovation of multiple-apartment buildings (by HRK 5m) and revenues from City and municipality administrative and sojourn fees (HRK 2m).

The sharpest revenue decline is expected in **grants from abroad and grants from the general government budget (down HRK 206m or 22.5%)**, mainly **due to cutbacks in EU grants (by HRK 203m)**. The bulk of that amount (HRK 160.6m) relates to a reduction in grants for programmes and projects implemented through the City Office for Economy, Energetics and Environmental Protection, namely:

- The planned waste management funds go down by HRK 110m, since the official invitation to tender, to be issued by the Ministry of Environmental Protection and Energy, is still pending. So, the project will obviously not be completed in 2019.
- Grant allocated by the Ministry of Construction and Physical Planning for the energy saving renovation of public buildings is cut by HRK 33.3m, mainly due to a lengthy public procurement procedure. Part of contracted works on 23 buildings in a total value of HRK 98.9m are planned to be completed next year.



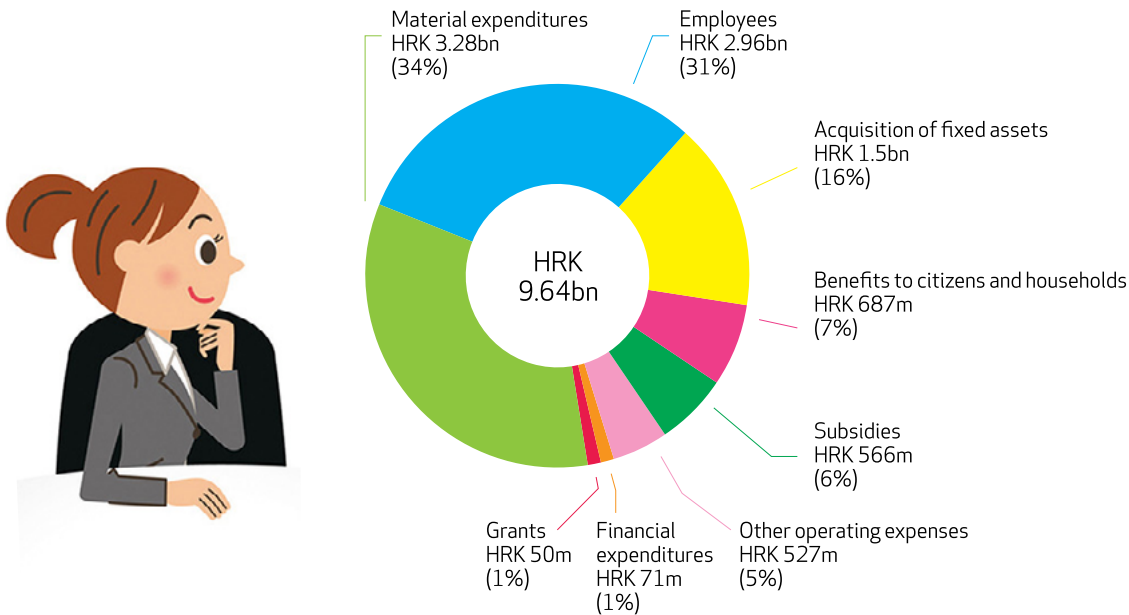
- Allocations for the project “Zagreb – an Innovative City” are reduced by HRK 8.9m. The project documentation development is in progress, and an official call for project proposals for co-financing, to be issued by the Ministry of Regional Development and EU Funds, is still pending.
- Funds earmarked for the Waste Management Centre are slashed by HRK 5.1m, after the Ministry of Environmental Protection and Energy has changed the public call for tenders for the EU co-financing of the waste sorting facility project, so that the co-financing will not be possible before the location permit is obtained.
- Funds for the project “Put the Right Thing in the Right Place” are reduced by HRK 1.6m (the total amount planned was HRK 3.1m) and the fund release is shifted to the next budget year which is the ending year of the project implementation.
- Funding for the Cycling Highway Zagreb – East is cut by HRK 1.7m, because the project is not ready for co-financing, i.e. the documentation has been prepared only for a part of the cycling corridor, namely from the City centre (Student Centre in Savska street) to Dugo Selo.

Revenues **from the use of assets drop by HRK 52m** (10.4%). Within this total amount, revenues from default interest arising from a lawsuit against the Government over decentralized functions go down by HRK 63m, after a settlement was reached with the Ministry of Finance late in 2018, and the amount of interest due was transferred to the City’s budget at end-December 2018. By contrast, an increase of HRK 7m is expected in revenues from the rental of business facilities, while another HRK 3.8m comes from the “right-of-way” compensation paid by the Croatian Telecommunications company (HT) for setting up the electronic communication infrastructure.



REVISED BUDGET EXPENDITURES BY TYPE

Total revised expenditures stand at **HRK 9.64bn** (graph 3).



Graph 3: The City of Zagreb budget expenditures by type (economic classification), 2019 revised budget*

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

Material expenditures (HRK 3.28bn) relate, for the most part, to current and investment maintenance of utility infrastructure facilities (e.g. public spaces, public lighting, roads, cemeteries and the crematorium) and the City administration and City budget users' facilities, but also 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 budget users.

Expenditures for employees (HRK 2.96bn) comprise salaries, social security contributions and other employee expenses, including expenditures for EU-funded project employees. Out of the total, HRK 1.88bn is going to be spent for roughly 12 thousand employees in administrative bodies and budget users not financed from own and earmarked funds (e.g. kindergartens and museums), and HRK 1.08bn on employees in budget users financed from own and earmarked funds (e.g. hospitals, polyclinics and health centres).

The amount planned for **the acquisition of fixed assets** (about HRK 1.5bn) will be spent for roads, utility infrastructure, business and other construction facilities, as well as equipment in education, health care, social welfare, etc. The bulk of the capital investment amount (HRK 828.4m) will be spent through the City Office for Physical Planning, Construction of the City, Utility Services and Transport, in accordance with [Changes to the Plan of Works Related to Capital Investments in Social Service Facilities in 2019](#) and [Changes to the Plan of Works in the Field of Transport and Utility Management in 2019](#).

Benefits to citizens and households (HRK 687m) comprise newborn child assistance and monetary support for parent-educators (HRK 410.4m), compensation of ZET transportation costs, including transportation of disabled persons (HRK 77m), pension supplement (HRK 68.5m), assistance for improving the living standards of pupils and students, cash support for the orphans of fallen and missing homeland war veterans (HRK 34.9m), the co-financing of long-distance pupils transportation, and the purchase of textbooks and other educational materials (HRK 27.6m). Also included is the nutrition of underprivileged persons (HRK 16.2m), housing assistance to households (HRK 11.9m) and many other assistance programmes for disabled and unemployed persons, volunteer blood donors and homeland war veterans and victims, scholarships for pupils and students, etc.

Subsidies (HRK 566m) are aimed at promoting the production and services of companies, sole traders, farmers and SMEs. The lion's share of the funds will be spent for public City transport, namely the ZET company (HRK 420.6m), the Arena sports hall rental (HRK 60m), promotion of crafts and SMEs (HRK 25.6m) and disabled persons employment (HRK 29m).

Other business expenditures (HRK 527m) mainly cover current grants (HRK 453m), to be used for the co-financing of sports (HRK 206m), religious and private kindergartens and schools (HRK 96.4m), 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.).



Major expenditure differences

Under the revised budget, **total expenditures** are proposed to **decrease by HRK 237m** (2.4%). The sharpest cuts are planned in **capital grants (down HRK 347.6m** or 96.2%), mainly on account of funds earmarked for the settlement of the Zagreb Wastewater company's liabilities. The amount of HRK 208.7m, earmarked for that purpose and booked as "capital grants" will be switched to the line item "principal repayment of received credits and loans", in order to comply with the Budget Accounting and Chart of Accounts Rules. Also reduced (by HRK 110m) are capital grants related to intervention measures for municipal waste disposal reduction, as the Ministry for Environmental Protection and Energy has still not issued a public call for tenders.

Expenditures **for the acquisition of fixed assets** are planned to **fall by HRK 101.7m** (6.3%). Planned allocations for the "ZagEE – Zagreb Energy Efficient City" and "Energy Saving Renovation of Public Buildings" projects (HRK 47.3m) are planned to decrease, given that the public procurement procedures for most of the buildings having grant contracts have not been completed. Other modifications comply with the proposed Changes to the Plan of Works Related to Capital Investments in Social Service Facilities and works in the field of transport and utility management in 2019, and are presented in greater detail in the chapter "Major City investments".

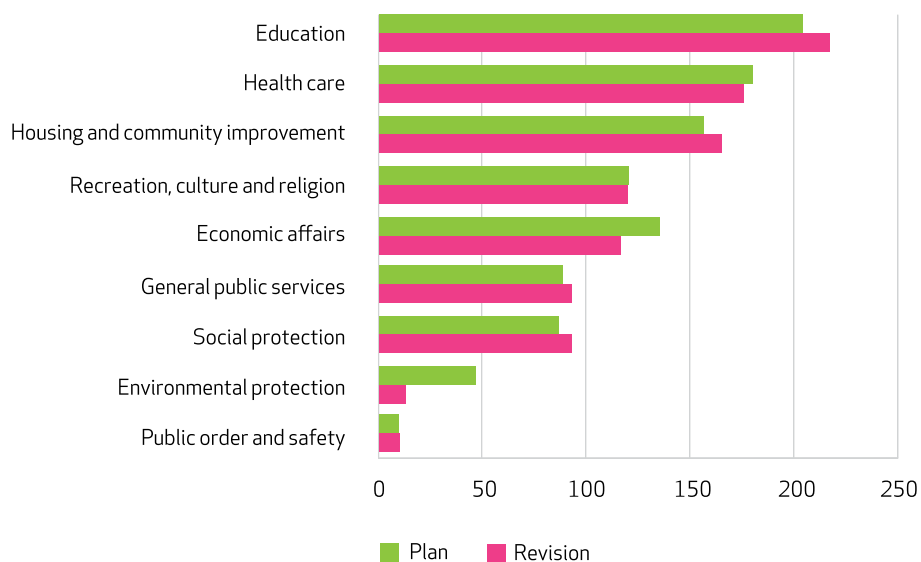
The largest uptick is expected in expenditures **for employees (up HRK 122.2m**, or 4.3%), as a result of bringing the planned funds for salaries and other employee expenditures into line with the collective agreements concluded with the employees of the City's administrative bodies and budget users during 2019.

Expenditures **for services** (as a part of material expenditures) go **up by HRK 48.9m** (2.2%), mainly expenditures for the City's renovation outside the regular programmes (HRK 62.4m). Funds from utility charges, earmarked for the construction and maintenance of utility infrastructure and planned within the Office for Physical Planning, Construction of the City, Utility Services and Transport in the amount of HRK 21.6m will not be used by the end of the year, and are allocated to the Office for Local Self-Administration. Earmarked funds from road user charges (HRK 40.9m) are reallocated from the Physical Planning Office to the Local Self-Administration Office.

Benefits to citizens and households go up by HRK 44.8m (7%).

REVISED EXPENDITURES BY PURPOSE

Under the revised budget, **average monthly per capita spending** is planned at about **HRK 1,000** (down **HRK 24** from the original budget plan, graph 4). The bulk of this monthly average will be spent for education (HRK 216), followed by health care (HRK 175), housing and community improvement services (HRK 165), recreation, culture and religion (HRK 120) and economic affairs (HRK 116). The largest increase in average monthly per capita spending will be in education (up HRK 13), and the sharpest decline in environmental protection (down HRK 34) and economic affairs (down HRK 18).



Graph 4: Average monthly spending per purpose, per capita (functional classification), 2019 (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 school education (including a portion of employee salaries, e.g. for an extended stay at school, material expenditures and the acquisition of fixed assets).

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

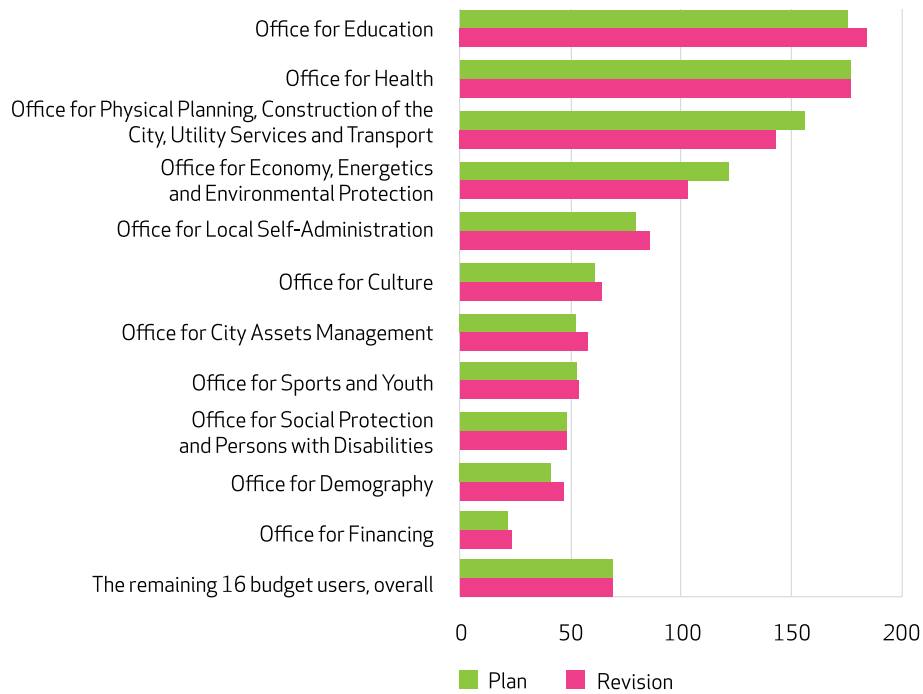
Housing and community improvement services mainly relate to the City's property and public spaces maintenance (e.g. public lighting, etc.).

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

Economic affairs generally include public City transport, road construction and maintenance, agriculture and tourism.

REVISED EXPENDITURES BY BUDGET USER

The three most important City offices, namely the Office for Education, Office for Health and Office for Physical Planning, Construction of the City, Utility Services and Transport, are planned to jointly spend almost half of the City's budget, i.e. a **monthly average of HRK 505 per capita** (down HRK 5 from the originally budgeted amount).



Graph 5: Average monthly spending per budget user, per capita (organisational classification), 2019 (in HRK)*

* Including expenditures and outlays financed from own and earmarked revenues and receipts 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.

	2016 Outturns	2017 Outturns	2018 Outturns	2019 Plan	2019 Revision
Revenue and expenditure account					
Total revenues	8,169.7	8,322.3	9,122.6	9,815.5	9,871.4
Total expenditures	8,168.4	8,762.2	9,530.4	9,877.3	9,640.3
Deficit/surplus	1.3	-439.9	-407.8	-61.7	231.1
Financing account					
Receipts from financial assets and borrowing	221.3	394.8	633.3	397.7	353.3
Outlays on financial assets and loan repayment	282.8	404.0	364.1	321.0	569.5
Net financing	-61.5	-9.2	269.2	76.6	-216.2

Table 1: The City of Zagreb's budget revenue and expenditure account and financing account, 2016–2019 (in million HRK)*

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

Including own and earmarked revenues and receipts of budget users, **total receipts** planned in the revised budget stand at **HRK 353.3m**, of which HRK 331.5m is expected to come from new borrowing and HRK 21.8m from received principal repayments on loans given and deposits. In parallel with this, **outlays** in the amount of **HRK 569.5m** are planned for financial assets and current debt repayment, which **exceeds** the originally budgeted amount **by HRK 248.5m** (77.4%). Outlays for credit and loan repayment to credit and other financial institutions are planned to go up (by HRK 309m). By contrast, outlays on shares and equity interests go down by HRK 60m (i.e. funds earmarked for the Institute of Immunology).

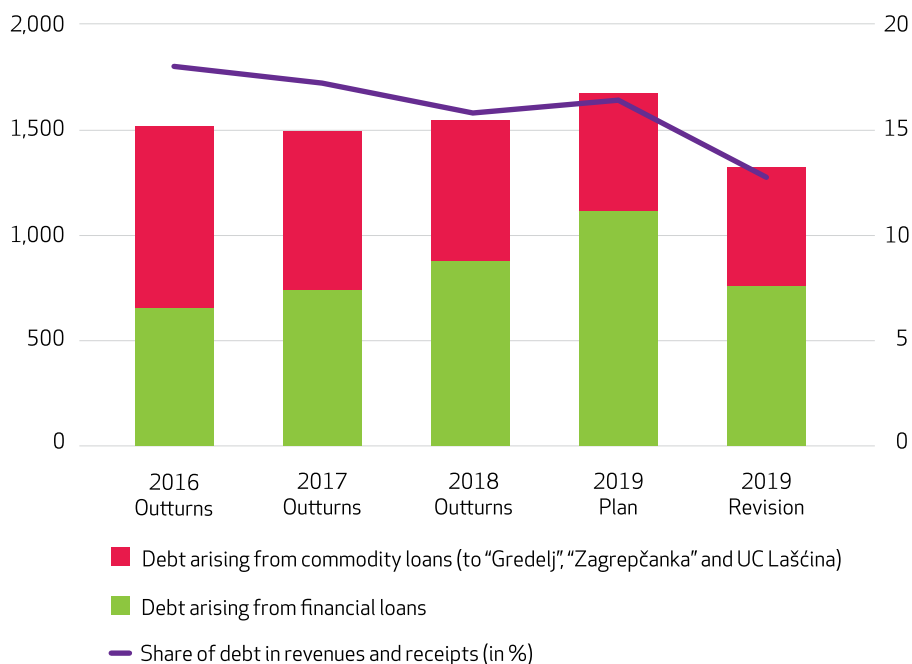


Direct debt is the sum of all budget deficits from the current and previous periods, financed by borrowing.

THE CITY BUDGET DEBT

At the end of 2018, the City's direct debt stood at HRK 1.55bn (graph 6). The share of debt in budget revenues and receipts stood at about 15.9% in 2018, which suggests a relatively low level of indebtedness, enabling the City to easily service its direct debt from regular revenues and receipts.

Owing to higher planned credit and loan repayment rates, the total debt planned under the budget revision will decrease by HRK 353.3m at end-2019, and the **share of debt in total revenues and receipts will decline from 16.5% to 13%.**



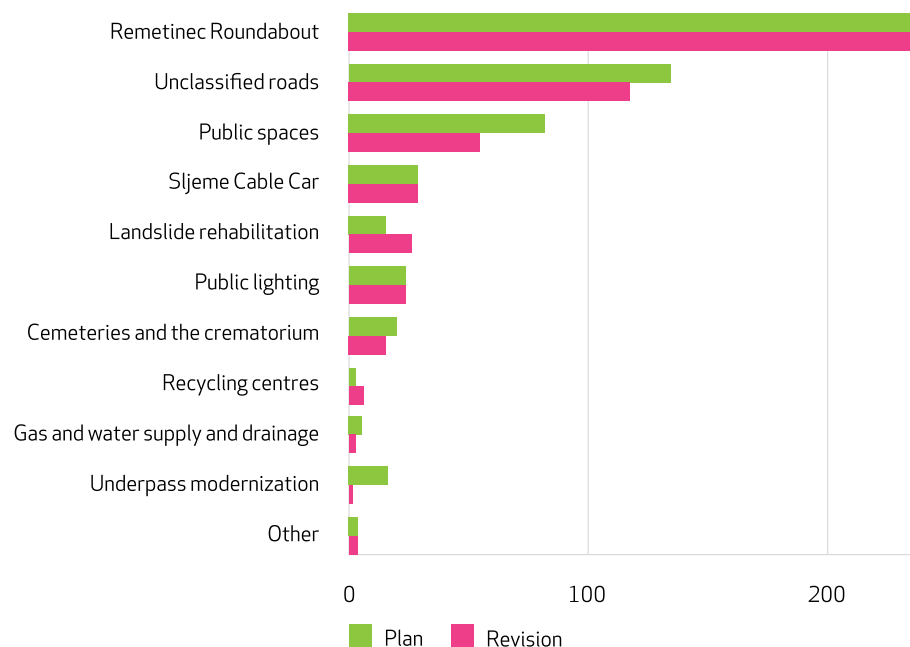
Graph 6: The City of Zagreb's debt (in million HRK, left-hand scale) and the share of debt in budget revenues and receipts (in %, right-hand scale), 2016–19*

*The 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 exposed to **an indirect debt** (in the form of given guarantees), in the amount of **HRK 2.34bn** (22,9% of the total revenues and receipts planned for 2019). The bulk of that amount (HRK 2.3bn) relates to a guarantee for the Zagreb Holding bonds, issued for a 2007 debt refinancing. The bonds were issued in two tranches: the first (worth HRK 1.8bn) in mid-2016 and the second (worth an additional HRK 500m) in July 2017. The City obtained approval of the minister of finance for that guarantee.

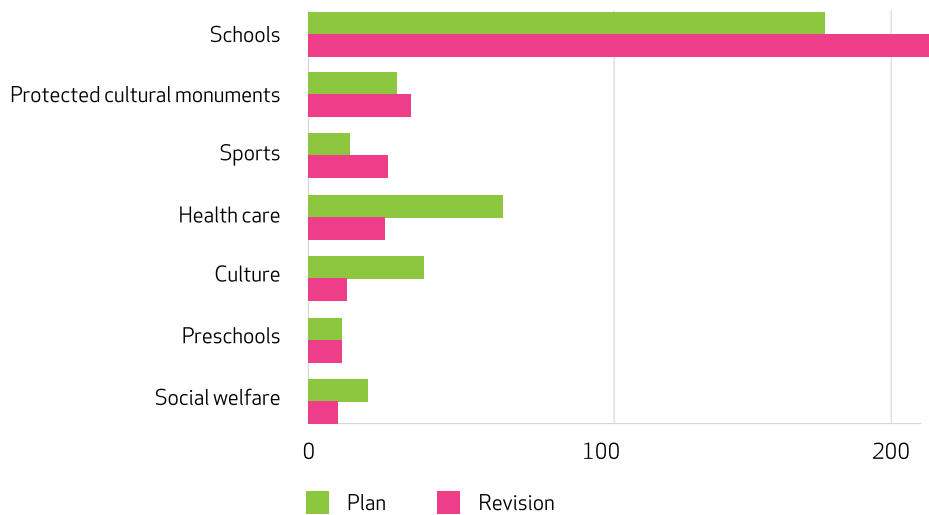
MAJOR CITY INVESTMENTS

Investments in the construction of **utility infrastructure** facilities and equipment are proposed to go down from HRK 571m to HRK 517m, i.e. by HRK 54m or 9.4% (graph 7). This is due to cutbacks in the planned investments in: public spaces (by HRK 27m), unclassified roads (by HRK 17.3m) and underpass modernization (HRK 14.8m). By contrast, expenditures for landslide rehabilitation go up by HRK 10m from the planned amount.



Graph 7: Capital investments in the construction of utility infrastructure facilities and equipment, 2019 (in million HRK)

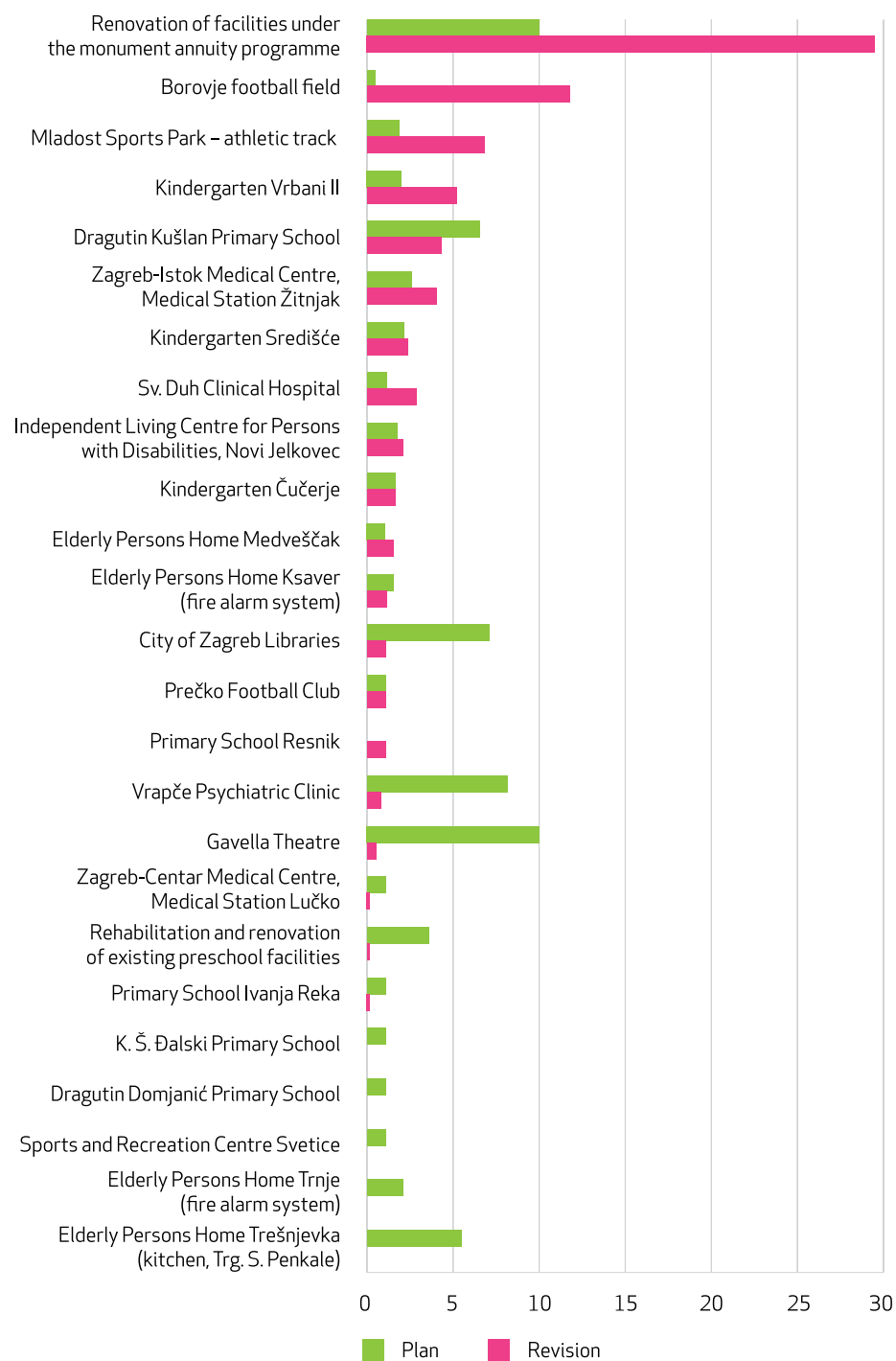
Under the revised budget, capital investments in **social service facilities** are proposed to decline from HRK 362m to HRK 341.7m (down HRK 20.3m or 5.6%), as shown in graph 8. Changes in the amounts of capital investments in social service facilities are due to a reconciliation between the revenue and expenditure sides of the City's budget, the project documentation development dynamics and the realization rate of contracted works based on the public procurement procedures carried out. The sharpest investment cuts are proposed in health care facilities (down HRK 40.5m) and culture (HRK 26.3m), and the strongest uptick in school facilities investments (HRK 38.4m).



Graph 8: Capital investments in social service facilities, 2019 (in million HRK)

Some of the most important investments in social service facilities planned for 2019 are shown in graph 9. Depending on individual projects, the investments relate to the costs of creating project documentation, obtaining construction permits, the conversion, remodelling, renovation, construction and furnishing of spaces, as well as resolution of property relations. The key capital investments in social service facilities are planned for the renovation of facilities covered by monument annuity regulations. These are investments in the renovation of protected cultural assets owned by the City that are obligatory for the City pursuant to the [Act on the Protection and Preservation of Cultural Assets](#) and [Rules on the Use of Monument Annuity Funds](#), in accordance with annual programmes.





Graph 9: Some of the key capital investments in social service facilities planned for 2019 (in million HRK)

WHAT CAN CITIZENS DO?

The City Assembly, as a citizen representative body, will discuss the 2019 budget revision on 9 December 2019. The revised budget consists of revenues in the amount of about HRK 9.87bn and expenditures of about HRK 9.64bn. The revenues are proposed to go up by HRK 56m (0.6%) while expenditures are proposed to go down by HRK 237m (2.4%). Over 2019, employed persons are expected to pay an average monthly amount of HRK 1,022 in personal income tax and surtax into the budget. The average monthly amount per capita to be spent by the City will be about HRK 1,000.

With the help of this brief guide, the [Brief Guide to the City of Zagreb 2019 Enacted Budget](#) and [Guide to the City of Zagreb Budget](#), citizens can examine the City's budget, i.e. the original budget plan from December 2018, reallocations made in June and September 2019, and amendments proposed by this revision. This will enable citizens to contribute to the Assembly's discussions and better allocation of the City's funds in accordance with its needs and financial capacity.



USEFUL WEBSITES

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

[City of Zagreb – Finances](#) – City budget, City credit rating, forms

[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 contact

[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 all counties,
cities and municipalities in Croatia

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