

A Brief Guide to a Proposal for the City of Zagreb 2022 Budget Revision

Other document types / Ostale vrste dokumenata

Publication year / Godina izdavanja: **2022**

Permanent link / Trajna poveznica: <https://urn.nsk.hr/urn:nbn:hr:242:236226>

Rights / Prava: [Attribution-NonCommercial-NoDerivatives 4.0 International/Imenovanje-Nekomercijalno-Bez prerada 4.0 međunarodna](#)

Download date / Datum preuzimanja: **2024-09-01**



Repository / Repozitorij:

[Institute of Public Finance Repository](#)



A Brief Guide to a Proposal for the City of Zagreb 2022 Budget Revision



October, 2022

PUBLISHER

City of Zagreb, Trg S. Radića 1, Zagreb

FOR THE PUBLISHER

City Office for Finance and Public Procurement, City of Zagreb

PREPARED BY

Institute of Public Finance, Zagreb

LAYOUT AND TYPESETTING

Bachrach & Krištofić

NJI₃

ISBN 978-953-8319-27-3



The aim of this Guide is to present basic information on the proposed amendments to the City of Zagreb's budget (i.e. **budget revision**), which is to be discussed at the City Assembly meeting on 13 October 2022, thereby encouraging the public to actively participate in making decisions about the City's budget.

The primary reason why the current revision is being proposed is to align the City's planned revenues and expenditures with the changes that have arisen due to additional commitments that had not been covered in the 2022 Budget Plan. The Budget is proposed to **increase by HRK 721m**, primarily to provide financing for three main expenditures. First of all, since the High Administrative Court revoked the Decision on redefining the **parent-educator measure**, the City was obliged to **provide HRK 308m** for covering the parents-educators' benefits. Second of all, due to inflation and increased capital investments in infrastructure and public use buildings damaged in the earthquake, **funds for capital investments are proposed to increase by HRK 242m**. Third of all, the revision secures additional funds in the amount of **HRK 217m** to **cover financial commitments** that have not been paid in 2021 but were rather transferred to financial institutions. These commitments will be paid in 2022. The newly proposed expenditures and outlays will be financed by increasing revenues from income tax and surtax (by HRK 305m) and borrowing (by HRK 507.6m).

The proposed budget revision, i.e. [Decision on the Amendments to the City of Zagreb 2022 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 budget and budget process), as well as the [Brief Guide to the City of Zagreb 2022 Budget Proposal](#).

Below we provide a brief overview of the City's budget revenues, expenditures, financing account and debt for the period 2019–2022, including a detailed elaboration of the proposed revision and its comparison with the current 2022 Budget as of 25 April 2022, adopted pursuant to the [Conclusion on the Reallocation of Funds Planned in the City of Zagreb 2022 Budget](#).

budget revision

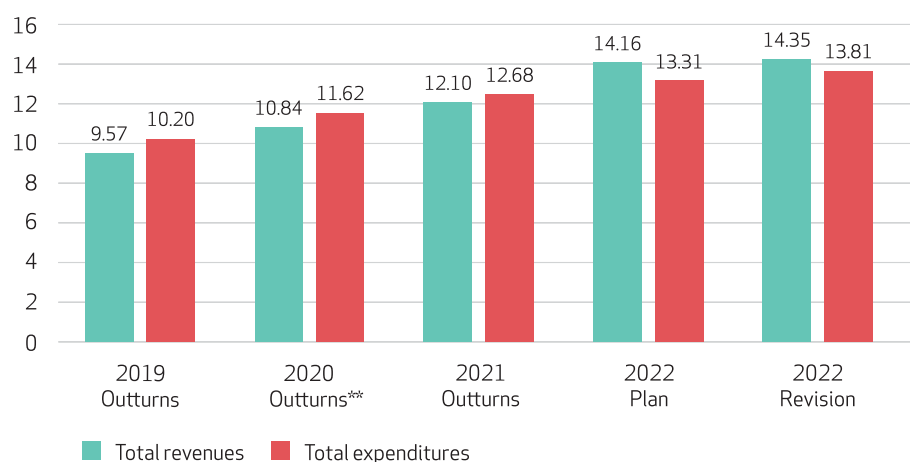
modification to the budget amounts, i.e. their reduction and/or increase relative to the planned amounts.

budget reallocation

when unforeseen or insufficiently planned expenditures or outlays cannot be settled from the planned funds during the year, the Mayor can decide, upon proposal of the City Office for Finance and Public Procurement and the City's administrative body, that they should be settled through budget reallocation. Article 60 of the Budget Act allows for the reallocation of the enacted budget funds during the year, subject to the Mayor's approval and under specific circumstances.

REVENUES AND EXPENDITURES

On 9 December 2021, the City Assembly adopted the [City of Zagreb 2022 Budget](#), comprising HRK 14.16bn in revenues and HRK 13.31bn in expenditures. In order to make minor alignments of the planned expenditures with the requirements of the City's administrative bodies, on 25 April 2022 the Mayor issued the [Conclusion on the Reallocation of Funds Planned in the City of Zagreb 2022 Budget](#), whereby the total planned budget amount of 9 December 2021 remained the same while certain expenditures have been reallocated between existing budget items. Under the current revised budget, on the other hand, **budget revenues are proposed to increase** by HRK 190m (1.3%), i.e. **to HRK 14.35bn**, while **expenditures would increase** by HRK 499m (3.8%), **to HRK 13.81bn** (graph 1).



Graph 1: The City of Zagreb budget revenues and expenditures 2019–22 (in HRK billion)*

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

** As of 2020, the City budget includes funds for gross salaries, contributions and other expenditures for primary and secondary school employees, which are provided in the central State budget. Consequently, the above-mentioned funds are to be included in the City's budget on the expenditure side, whereas the same amount is to be recorded on the revenue side as State budget grants to budget users.

earmarked revenues revenues which have a predefined utilization purpose. For instance, revenues from utility charges are spent on the maintenance of the City's utility infrastructure.

The City's budget comprises **the revenues and expenditures of all 330 City budget users**, i.e. institutions that have been established by the City, whose majority of funding comes from the City and which are listed in the [Registry of Budgetary and Extra-Budgetary Users](#). These include, for example, public healthcare institutions (health centres, polyclinics, hospitals and institutes), pre-primary, primary and secondary education institutions, cultural institutions, social welfare institutions, the Zagreb Fire Department, the City of Zagreb Urban Planning Institute, Public Institution Maksimir, Zagreb Zoo, the Sports Facilities Management Institution, the Institution for Comprehensive Care "Tigrovi" and the Development Agency for Coordination and Promotion of Regional Development.

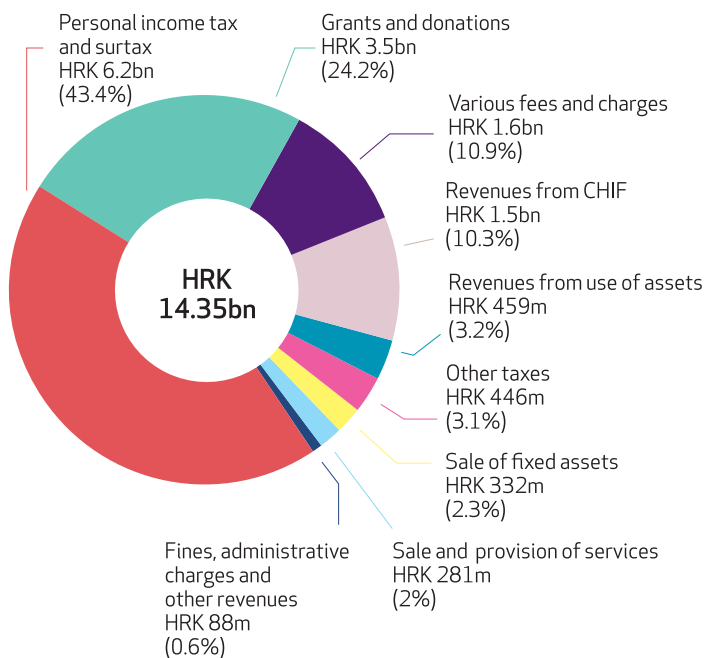
There are also *companies founded by the City* for the provision of public services and performance of public interest activities (such as Zagrebački Holding). However, as these are not City budget users, their revenues and expenditures are not shown in the City's budget.



Every employed person will contribute an average monthly amount of HRK 1,142 in personal income tax and surtax to the City's budget.

REVISED BUDGET REVENUES

Total revised revenues amount to HRK 14.35bn (graph 2). Slightly less than half of this amount will be collected from **personal income tax and surtax (HRK 6.2bn, or 43.4%)**. Considerable amounts are also expected to be collected from **grants and donations (HRK 3.5bn, or 24.2%)**, mostly from the State Budget and transfer of EU funds. This is followed by revenues from various **fees and charges** in the amount of **HRK 1.6bn, or 10.9%** (HRK 990m from utility contributions and charges) and budget users' revenues from the **Croatian Health Insurance Fund (CHIF)** for rendered health services in the amount of **HRK 1.5bn (10.3%)**.



Graph 2: The City of Zagreb's budget revenues, 2022 revised budget*

* Including own and earmarked revenues of budget users.

Major revenue differences between the planned budget reallocations from April 2022 and the current Budget Revision Proposal

Under the revised budget, **total revenues shall increase by HRK 190m (1.3%)**. The budget item most affected by the **increase (by HRK 325m, or 5.1%) will be tax revenues**. Based on the execution during the first eight months of 2022 and the estimates for the rest of the year, personal income tax and surtax revenues shall increase by HRK 305m, while real property transfer tax revenues shall increase by HRK 20m.

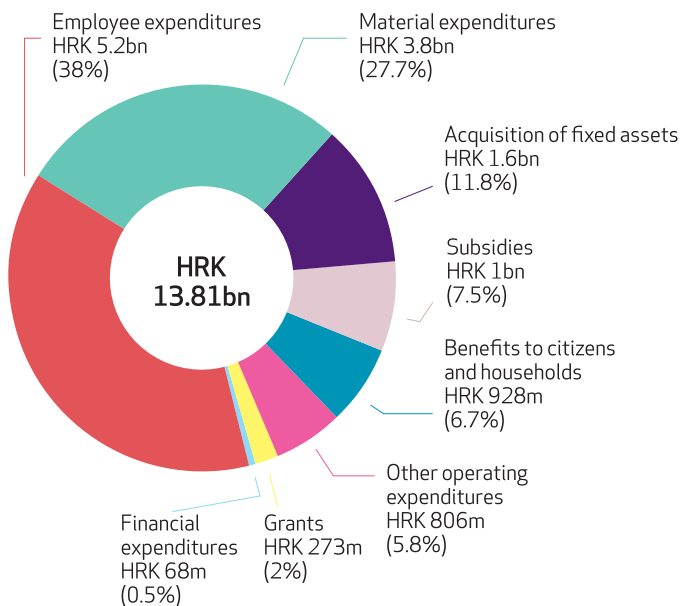
Total revenues from grants are decreased by HRK 213m, the majority of which pertain to the EU grants for the Srebrnjak Centre of Competence for Translational Medicine, which shall decrease by HRK 317m. However, planned revenues from grants shall increase, the majority pertaining to revenues from the National Recovery and Resilience Mechanism in the amount of HRK 102m.

Revenues from **various fees and charges are increased by HRK 45m (3%)**, of which HRK 30m pertain to higher revenues from utility contributions. **Revenues from sale and services rendered shall increase by HRK 18.1m (6.4%)**, while **property revenues shall increase by HRK 10.7m (2.4%)**, primarily due to the increase of revenues for the annual fee for the use of public roads in the amount of HRK 10.1m.



REVISED BUDGET EXPENDITURES BY TYPE

Total revised expenditures proposed stand at **HRK 13.81bn** (graph 3).



Graph 3: The City of Zagreb's budget expenditures by type (economic classification), 2022 revised budget*

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

Expenditures for employees (HRK 5.2bn, or 38%) include salaries, contributions and other employee expenses, including expenditures for employees on EU-funded projects. Of the total expenditures for employees, HRK 3.2bn pertain to salaries for employees of budgetary users not provided from the City of Zagreb budget. The majority of this amount (HRK 1.68bn) pertains to primary and secondary school employees, whose salaries are secured in the State Budget, while HRK 1.13bn pertains to employees in hospitals and other healthcare institutions, whose funds are secured by CHIF. With this budget revision expenditures for employees shall increase by HRK 48m in order to align the salary calculation baseline and other entitlements with the signed amendments to the Collective Agreement, primarily pertaining to primary and secondary school employees and public healthcare workers.

The bulk of **material expenditures** (HRK 3.8bn, or 27.7%) pertains to current and investment maintenance of utility infrastructure facilities (e.g. public spaces, public lighting, roads, cemeteries and the Crematorium),

the City administration's and budget users' facilities, as well as stationery, energy and service costs (e.g. telephone, postal, transportation and information services), which are essential for the day-to-day operation of the City's administrative bodies and budget users. Under the revised budget, material expenditures shall increase by HRK 27m, primarily due to the surge in energy source prices.



The amount planned for the **acquisition of fixed assets** (about HRK 1.6bn, or 11.8%) will be spent on facilities and infrastructure that suffered earthquake damage, utility infrastructure, business and other real estate facilities, as well as equipment used in education, healthcare, social welfare institutions, etc.

Subsidies in the amount of HRK 1bn (7.5%) are earmarked for stimulating manufacturing and services of companies, sole traders, farmers and SMEs. The bulk of the amount pertains to municipal public transport, i.e. ZET (HRK 903m), the Arena sports hall rental fee (HRK 57.5m), employment of disabled persons (HRK 28m) and promotion of trades and SMEs (HRK 10.6m).

Benefits to citizens and households (HRK 928m, or 6.7%) comprise cash benefits for new-borns and parents-educators (HRK 607m), co-financing of long-distance public transport of schoolchildren, scholarships for pupils and students, purchase of textbooks and other education materials and extracurricular activities (HRK 73m), pension supplement (HRK 70.7m), ZET transportation costs, including transportation of disabled persons (HRK 70m), assistance for improving the living standard of pupils and students and cash support for the orphans of fallen and missing Homeland War veterans (HRK 39m), food for underprivileged persons (HRK 15m) and various other assistance programmes for disabled and unemployed persons, volunteer blood donors, Homeland War veterans and victims, etc.

Other operating expenditures (HRK 806m, or 5.8%) mainly include current donations and capital grants. Current donations (HRK 367.8m) pertain to the co-financing of sports (HRK 157.6m), religious and private kindergartens and schools (HRK 91.7m), culture (e.g. libraries, museums, theatres, as well as music, visual arts and film-making activities), the Zagreb Fire Fighting Association, and non-profit organisations (such as associations, social and development programmes, etc.). The bulk of capital grants (HRK 361m in total) pertains to wastewater purification (HRK 225m), ZET costs (HRK 88.2m), Zagreb Waste Management Centre (HRK 26m) and the intervention measure for municipal waste reduction (HRK 21.4m).

Major expenditure differences between the planned budget reallocations from April 2022 and the current Budget Revision Proposal

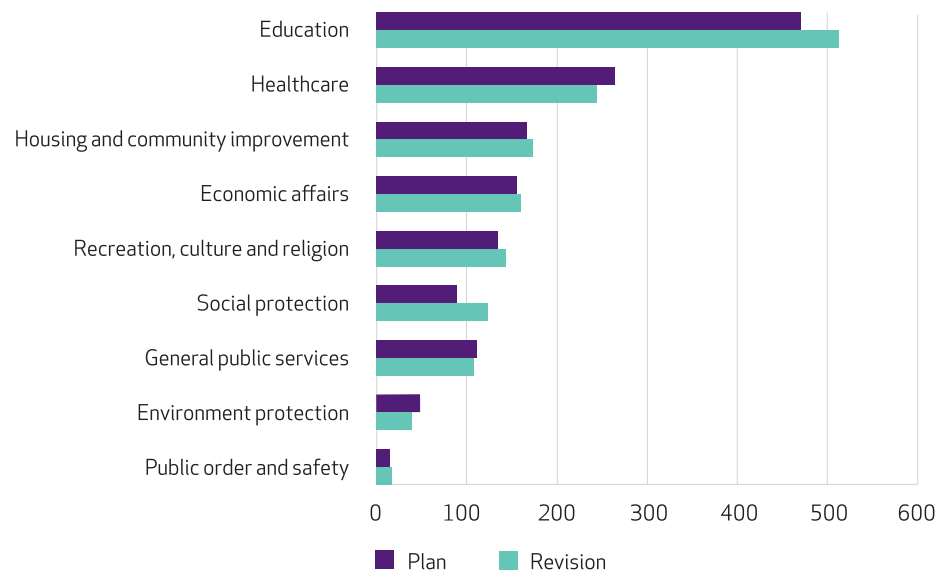
Under the revised budget, **total expenditures are proposed to increase by HRK 499.3m (3.8%)**. The most significant change pertains to the **increase of funds for benefits of parents-educators** (by HRK 308m) pursuant to the decision by the High Administrative Court revoking the City's decision on redefining this measure. **Expenditures for the purchase of produced fixed assets are proposed to increase** by HRK 252m, primarily due to greater capital investments in earthquake-damaged facilities and infrastructure. Expenditures for real estate facilities would increase substantially, primarily in the City's Donji grad, Gornji grad – Medveščak, Trnje and Maksimir districts. Inflation, primarily the surge in energy source prices, is the reason behind the proposed **increase in expenditures for materials and energy** – by HRK 96m (10%) and **subsidies** – by HRK 75m (8%), primarily for public transport.

Expenditures for additional investments in intangible assets shall be **reduced** by HRK 298m (45%), primarily due to lower additional investments in various real estate facilities. These reductions are proposed due to lengthy and often unfinished public procurement procedures, outstanding property relations and non-issued building permits. An additional reason is the situation at the materials and works market which, more often than not, leads to scenarios where bidders withdraw their offers or even withdraw from a contract that had been concluded for much lower prices. **A reduction in expenditures for services** by HRK 135m (5%) is also proposed, primarily related to the projects Improvement of the user system of the City's healthcare centres, Installation of the interactive platform Zagrebačka špica and E-discussions, whose implementation has not started yet as these projects are expected to be funded through the EU's Recovery and Resilience Mechanism.



REVISED BUDGET EXPENDITURES BY PURPOSE

Under the revised budget, **HRK 1,501 of budget funds will be spent per capita every month on average, which is HRK 55 more** than planned (graph 4). Most of the average monthly expenditures will be used on education (HRK 511), followed by health care (HRK 241), housing and community improvement services (HRK 170), economic affairs (HRK 157) and recreation, culture and religion (HRK 142). The largest increase in average monthly per capita spending will be in education (up by HRK 42) and social protection (by HRK 34), while healthcare will undergo the sharpest decline (down by HRK 22).



Graph 4: Average monthly per capita spending per purpose (functional classification), 2022 (in HRK)*

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

Expenditures for education pertain to preschool education (staff costs in city kindergartens and privileged kindergarten fee subsidies), as well as primary and secondary education (including employee salaries, material expenditures and the acquisition of fixed assets).

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

Housing and community improvement services pertain, for the most part, to the maintenance of city property and public spaces (e.g. public lighting, etc.).

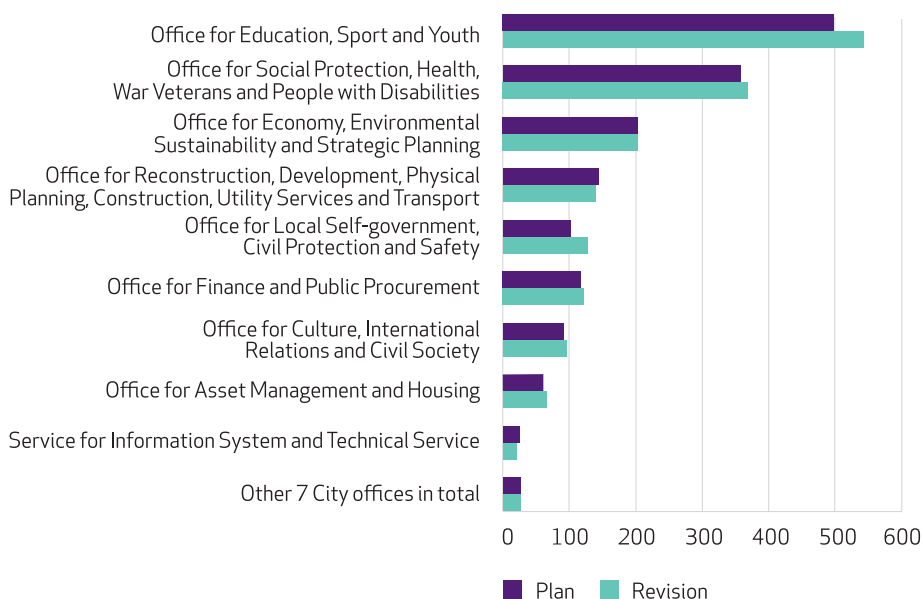
Economic affairs generally include municipal public transport, road construction and maintenance, agriculture and tourism.

Expenditures for recreation, culture and religion pertain to the funding of cultural institutions, support for various cultural programmes and activities, co-financing sports activities, subsidising the Arena sports hall rental fee, etc.



REVISED BUDGET EXPENDITURES BY CITY ADMINISTRATIVE BODIES

Three most important City offices – the Office for Education, Sport and Youth, the Office for Social Protection, Healthcare, War Veterans and People with Disabilities and the Office for Economy, Environmental Sustainability and Strategic Planning, are expected to jointly spend around 66% of budgetary funds. **Monthly per capita average expenditures of these three offices amount to HRK 1,110 (HRK 56 more than planned).**



Graph 5: Average monthly per capita spending per administrative body (organisational classification), 2022 (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*, which are used in the revenue and expenditure account with respect to business operations and the sale and acquisition of fixed assets, the financing account uses the terms *receipts* and *outlays* when referring to **financial assets** and borrowing, lending 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 receipts and outlays represents *net financing*, which should be the amount equal to the surplus/deficit from the revenue and expenditure account.

financial assets

money, deposits, bonds, loans, etc.

	2019 Outturns	2020 Outturns	2021 Outturns	2022 Plan	2022 Revision
Revenue and expenditure account					
Total revenues	9,572.4	10,843.0	12,102.7	14,158.9	14,349.0
Total expenditures	10,203.3	11,615.5	12,679.6	13,313.2	13,812.5
Deficit/surplus	-630.9	-772.6	-576.9	845.7	536.5
Financing account					
Receipts from financial assets and borrowing	634.6	1,394.7	1,401.7	916.6	1,424.2
Outlays on financial assets and loan repayment	578.0	704.9	855.5	1,491.8	1,708.9
Net financing	56.7	689.9	546.2	-575.2	-284.6
(a) Deficit/surplus of current period	-574.2	-82.7	-30.7	270.5	251.8
Surplus from previous years to be redistributed	0.2	-	-	-51.4	-75.0
Deficit from previous years to be covered	0.0	-	-	321.9	326.8
b) Deficit/surplus carried over from previous period	-728.7	-1,302.9	-1,396.9	-1,427.6	-1,427.6
Total deficit/surplus a)+b)	-1,302.9	-1,385.6	-1,427.6	-1,157.1	-1,175.7

Table 1: The City of Zagreb's budget revenue and expenditure account and financing account, 2019–2022 (in HRK million)*

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

Receipts planned in the current revision stand at **HRK 1.42bn**, which includes own and earmarked revenues and receipts of budget users. When compared to the April 2022 Plan, the revision estimates **HRK 507.6m (55%) more of receipts from financial assets and borrowing**, primarily pertaining to Zagrebački holding and ZET, loan taken out from the European Bank for Reconstruction and Development (HRK 376m) and for repurchasing claims for Zagrebački holding (HRK 100m).

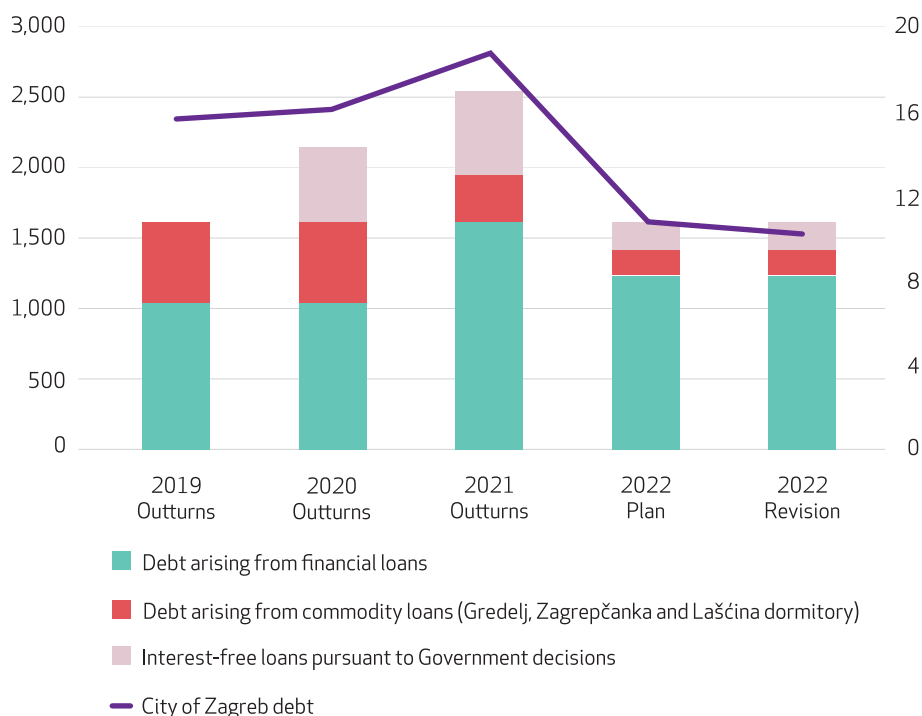
Concurrently, **outlays are estimated in the amount of HRK 1.7bn** for financial assets and repayment of current debt, with the latter taking up almost the entire amount. In comparison to the April 2022 Plan, the present revision estimates **HRK 217m (14.5%) more in outlays** for the repayment of received loans.



CITY BUDGET DEBT

By **end-2022**, The City of Zagreb's **direct debt** will stand at **HRK 1.6bn** (graph 6). The present revision increases the total amount of the planned direct debt at end-2022 by HRK 292m when compared to the April 2022 Plan, while **the share of debt in the overall budget revenues and receipts drops from 10.72 to 10.23%**. The City's indebtedness level remains relatively low compared to total revenues and receipts, which means that the direct debt can be easily serviced from regular revenues and receipts. It should be noted that, according to the [Budget Act](#), any long-term borrowing by the City requires the Government's approval. The section of graph 6 pertaining to 2022 therefore shows the planned level of debt, while the real debt will depend on such approval.

direct debt
the sum of all budget deficits incurred in the current and in earlier periods that were financed by borrowing.



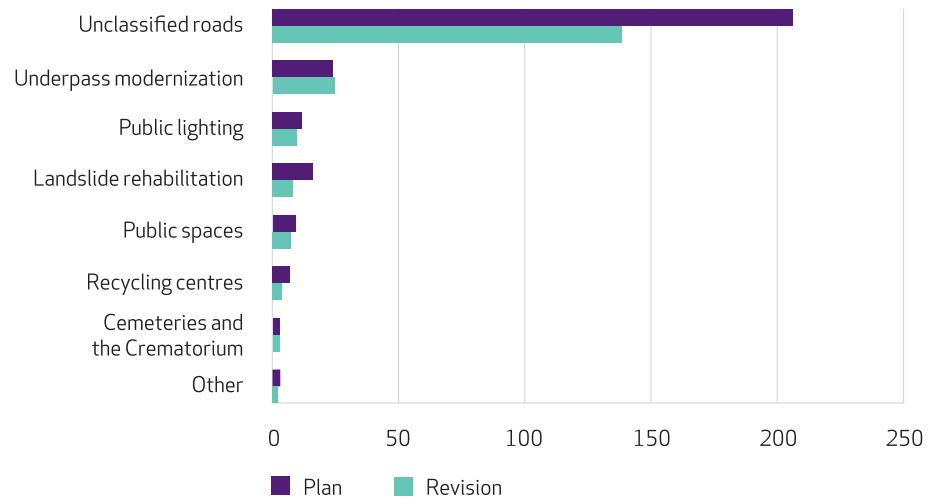
Graph 6: The City of Zagreb's debt (in HRK million, left-hand scale) and the share of debt in budget revenues and receipts (in %, right-hand scale), 2019-22*

* 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 – through given guarantees – exposed to an **indirect debt of HRK 3bn** (19.8% of total revenues and receipts planned for 2022). The bulk of that amount (HRK 2.3bn) relates to a guarantee for bonds issued by Zagrebački holding for the purpose of refinancing a 2007 debt. The bonds were issued in two tranches (HRK 1.8bn in mid-2016 and another HRK 500m in July 2017), and the City has obtained the Finance Minister’s approval for that guarantee.

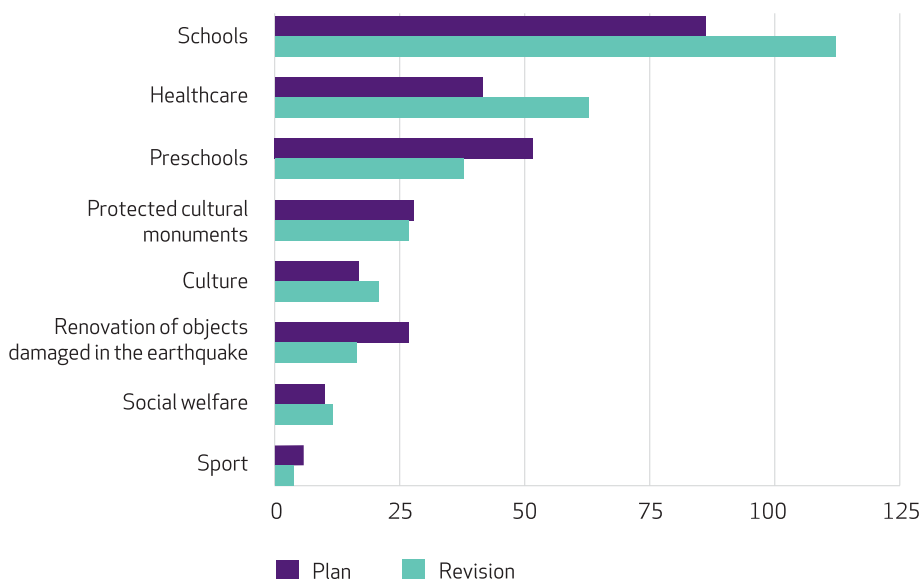
MAJOR CITY INVESTMENTS

Investments in the construction of **utility infrastructure** facilities and objects are reduced from HRK 281.5m to 197.2m, i.e. by HRK 84.3m, or 30% (graph 7). Compared with the Budget Plan, the largest reductions occurred in the investments in unclassified roads (by HRK 67m) and landslide rehabilitation (HRK 8.5m). The reasons behind these reductions are lengthy and often unfinished public procurement procedures, outstanding property relations and non-issued building permits as well as the situation at the materials and works market which, more often than not, leads to scenarios where bidders withdraw their offers or even withdraw from an already concluded contract.



Graph 7: Capital investments in the construction of utility infrastructure facilities and equipment, 2022 (in HRK million)

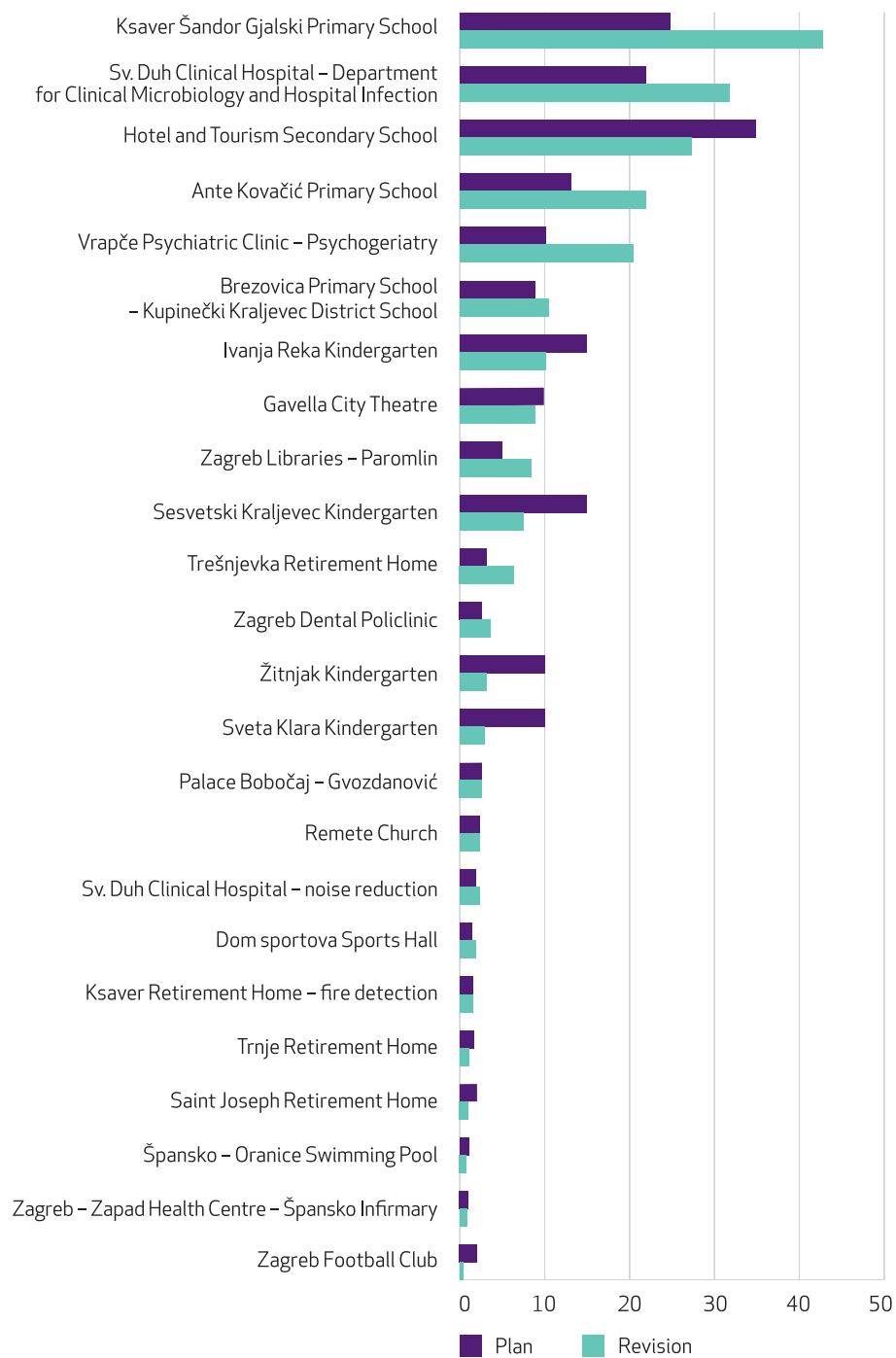
In the 2022 Budget Plan, the overall **capital investments in social service facilities** were set at HRK 267m; the revised value of works in 2022 equals HRK 293m, which is 9.7% higher than the planned amount (graph 8). This number includes substantial **increases in the education** (by HRK 26m, or 30%) and **healthcare** (by HRK 21m, or 52%) sectors, and substantial **decrease in pre-primary education** (by HRK 14m, or 27%).



Graph 8: Capital investments in social service facilities, 2022 (in HRK million)

Graph 9 shows some of the most important investments in social service facilities planned by this revision for 2022. Depending on individual projects, the investments pertain 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.





Graph 9: Some of the most important planned capital investments in social service facilities, 2022 (in HRK million)

WHAT CAN CITIZENS DO?

The City Assembly, as the citizens' representative body, will discuss the 2022 budget revision on 13 October 2022. The revision includes generated revenues in the amount of HRK 14.35bn and expenditures in the amount of HRK 13.81bn. Budget revenues are proposed to go up by HRK 190m (1.3%), whereas expenditures are proposed to go up by HRK 499m (3.8%). In 2022, every employed person is expected to contribute an average monthly amount of around HRK 1,142 in personal income tax and surtax to the budget, while the City budget's average monthly per capita spending would amount to HRK 1,501.

With the help of this brief guide, as well as [The Brief Guide to the City of Zagreb 2022 Budget Proposal](#) and [Guide to the City of Zagreb Budget](#), citizens can examine the City's budget, i.e. the original Budget Proposal from December 2021, reallocations made in April 2022 and the amendments proposed by the current 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 and Public Procurement](#) – 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

[Zagrebački holding](#) – Organisation, services, topical issues, contact information

[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 2022 Budget Proposal](#)

[A Brief Guide to the City of Zagreb 2021 Budget Execution](#)

[A Brief Guide to the City of Zagreb 2021 Budget Proposal](#)

[A Brief Guide to the City of Zagreb 2020 Budget Execution](#)

[A Brief Guide to a Proposal for the City of Zagreb 2020 Budget Revision](#)

[A Brief Guide to the City of Zagreb 2020 Enacted Budget](#)

[A Brief Guide to the City of Zagreb 2020 Budget Proposal](#)

[A Brief Guide to a Proposal for the City of Zagreb 2019 Budget Revision](#)

[A Brief Guide to the City of Zagreb 2019 Enacted Budget](#)

[A Brief Guide to the City of Zagreb 2019 Budget Proposal](#)

[A Brief Guide to the City of Zagreb 2018 Budget Execution](#)

[A Brief Guide to a Proposal for the City of Zagreb 2018 Budget Revision](#)

[A Brief Guide to the City of Zagreb 2018 Enacted Budget](#)

[A Brief Guide to the City of Zagreb 2018 Budget Proposal](#)

[A Brief Guide to the City of Zagreb 2017 Budget Execution](#)

[A Brief Guide to a Proposal for the City of Zagreb Second 2017 Budget Revision](#)

[A Brief Guide to a Proposal for the City of Zagreb First 2017 Budget Revision](#)

[A Brief Guide to the City of Zagreb 2017 Enacted Budget](#)

[A Brief Guide to the City of Zagreb 2017 Budget Proposal](#)

[A Brief Guide to the City of Zagreb 2016 Budget Execution](#)

[A Brief Guide to a Proposal for the City of Zagreb 2016 Budget Revision](#)

[A Brief Guide to the City of Zagreb 2016 Enacted Budget](#)

[A Brief Guide to the City of Zagreb 2016 Budget Proposal](#)

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

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

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

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

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