

# A Brief Guide to the City of Zagreb 2014 Budget Execution

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# A Brief Guide to the City of Zagreb 2014 Budget Execution



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The purpose of this brief guide is to provide citizens with basic information about the City of Zagreb's 2014 budget execution and to encourage them to monitor the budget and communicate with the City authorities. The full [2014 End-year Report](#) can be found on the City's website, as well as the [Guide to the City of Zagreb Budget](#), which can be useful for understanding the Report and the City's budget process in general.

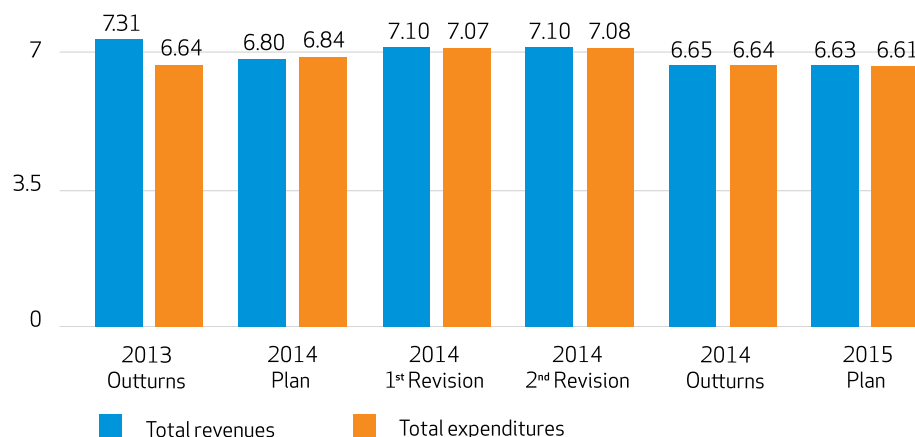
Below is a brief presentation of the revenues, expenditures and budget financing account for the period 2013–15 through all phases (the 2013 budget execution, 2014 budget plan, both budget revisions adopted during 2014, the 2014 budget execution and 2015 budget plan), including a more detailed analysis of the City of Zagreb's revenue and expenditure outturns for 2014.

## REVENUE AND EXPENDITURE OUTTURNS

The City of Zagreb's 2014 Budget was adopted by the City Assembly on 19 December 2013 in a total amount of HRK 7bn. During 2014, two revisions were adopted: the first one on 24 July and the second one on 22 December 2014. Under the first revision, the budget was increased to HRK 7.3bn, mainly due to a rise in personal income tax revenues, capital grants from the Environmental Protection and Energy Efficiency Fund and fees for keeping illegally constructed buildings in place because of accelerated processing of legalisation applications. As a result of the second budget revision, the total planned amount of revenues and receipts as well as expenditures and outlays remained at the same level as in the first revision, with certain funds reallocated to line items that had to be increased (e.g. capital investments in school and preschool facilities and cash assistance for newborns).

**The City of Zagreb's realised 2014 budget revenues stood at HRK 6.65bn and realised expenditures at HRK 6.64bn.** Given extra revenues from personal income tax in the amount of HRK 523m, received in 2013 on the basis of a ruling of the Administrative Court of the Republic of Croatia on

entitlement to an additional share in the personal income tax for decentralised functions, and a fall in real GDP of 0.4% in 2014, the 2014 revenues and expenditures were expectedly lower than in 2013. In 2015, however, they are expected to be roughly at the same level as in 2014 (graph 1).



Graph 1: City of Zagreb budget revenues and expenditures, 2013–15 (in billion HRK)

The City budget contains the revenues and expenditures of the **City budget users**, i.e. institutions founded and majority-financed by the City (e.g. primary schools, museums, kindergartens, etc.). There are also **companies** (such as Zagreb Holding), founded by the City to provide public services and perform public interest activities. However, as such companies are not majority-financed from the City budget (i.e. they are not its budget users), their revenues and expenditures are not stated in the budget.



In 2014, every employed person paid an average monthly amount of about HRK 1,031 in personal income tax and surtax into the City budget.

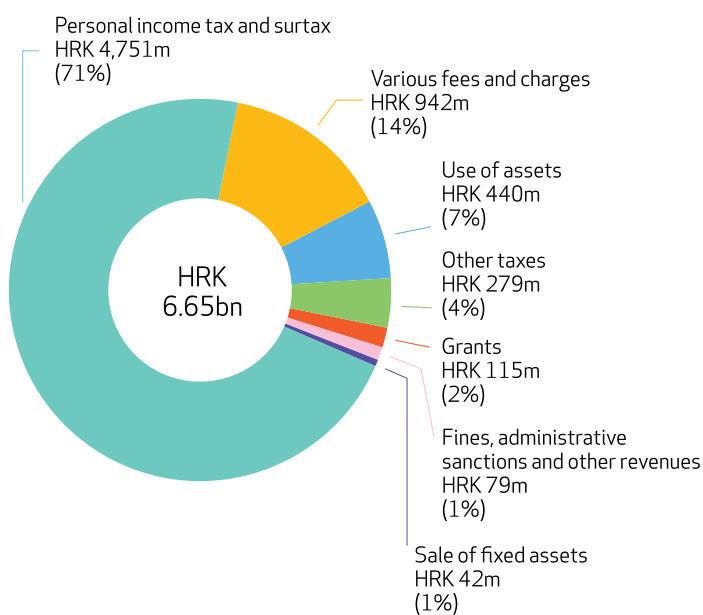
## REALISED REVENUES

**Total revenues realised in 2014 amount to HRK 6.65bn** (graph 2), of which almost two thirds come from **personal income tax and surtax (HRK 4.75bn)**.

The second largest source of revenues are various **fees and charges** (HRK 942m, mostly utility contributions and charges), followed by **the revenues from the use of assets** (HRK 440m), mainly public road user charges payable when registering a vehicle, the rental of office space, billboards, advertising boxes, terraces, parking places, mobile devices, kiosks, unde-

veloped building land, etc., and **other taxes** (HRK 279m, mainly real property transfer tax and tax on road motor vehicles).

Revenues from grants accounted for 2% (HRK 115m) of total revenues in 2014; they include grants from the state budget and the Environmental Protection and Energy Efficiency Fund. In 2014, the City obtained grants from the state budget for: the rental of the Arena sports hall (HRK 37.6m), co-financing of the intercity transportation of school children (HRK 24.2m), renovation and revitalisation of the Zoological Garden (HRK 10m), interest subsidies for entrepreneurship development (HRK 5.1m), pre-school education programmes (4.7m), etc. Grants from the Environmental Protection and Energy Efficiency Fund were given for projects of public companies and the solar system implementation project (HRK 19.6m).



Graph 2: Realised City budget revenues, 2014

**Compared with 2013, total revenues decreased by HRK 663m or 9%. The sharpest decrease was seen in personal income tax revenues** (by HRK 441m or 8.5%), because extra-revenues from personal income tax in the amount of HRK 523m were received in 2013 on the basis of the aforementioned Administrative Court ruling. A marked fall relative to 2013 was also recorded in revenues from the sale of land (down HRK 165m), from fines, administrative sanctions and other revenues (down HRK 91m) and from real property transfer tax (by HRK 68m).

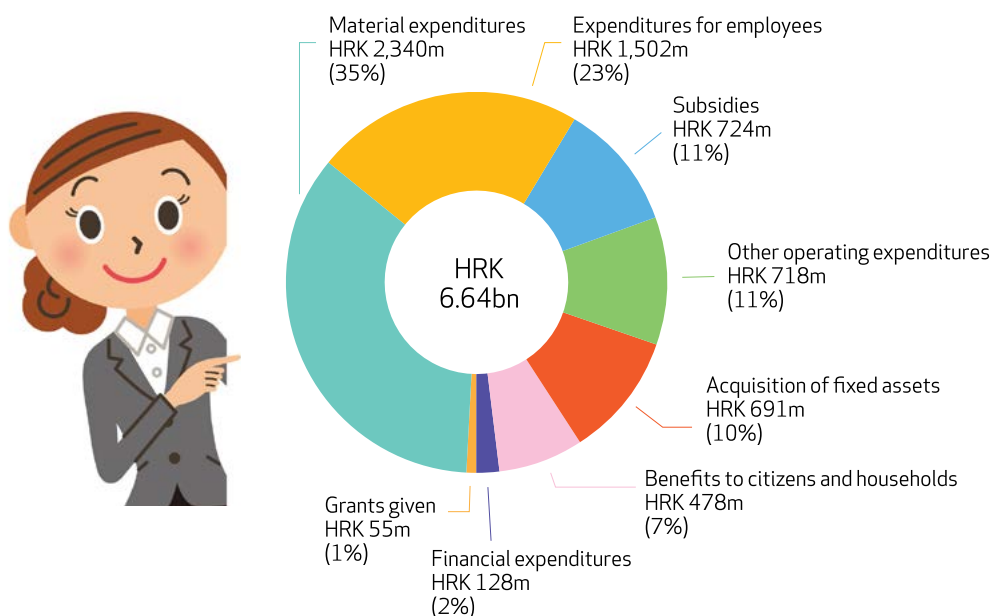
**The sharpest increase in 2014 from 2013 was seen in revenues from grants** paid from the state budget and the Environmental Protection and Energy Efficiency Fund (up HRK 58m), while revenues from fees

for keeping illegally constructed buildings in place also rose relatively sharply (by HRK 54m).

**Compared to the second budget revision, total revenues realised in 2014 decreased by HRK 450m or 6.3%.** The steepest decline (by HRK 160m) was observed in revenues from the sale of non-financial assets (land, city-owned apartments and business facilities) which were not realised in the planned amount, and tax revenues (by HRK 136m in total) – income tax and surtax (by HRK 79m), property taxes (by HRK 34m) and goods and services taxes (by HRK 24m).

## REALISED EXPENDITURES BY TYPE

**Total expenditures stood at HRK 6.64bn in 2014** (graph 3). Relative to 2013, total City budget expenditures decreased only slightly (by HRK 2m), but the decrease was considerable compared with expenditures planned in the second budget revision (HRK 439m).



**Graph 3: Realised City budget expenditures in 2014, by type (economic classification)**

**Material expenditures** (HRK 2.3bn) mainly related to the current and investment maintenance of utility infrastructure facilities (e.g. public areas, public lighting, roads, cemeteries and the crematorium, etc.), as well as materials, energy use and services necessary for the smooth functioning of the City's administrative bodies and City budget users.



**Expenditures for employees** (HRK 1.5bn) included total salaries, social security contributions and compensation of about 11,400 City administration and City budget users' employees, e.g. persons employed with pre-school education, cultural, sports, health care and social protection institutions, as well as numerous other institutions of general public interest (see the [Guide to the City of Zagreb Budget](#)).

**Subsidies** (HRK 724m) were allocated for the promotion of production and the services of companies, craftsmen, farmers and SMEs. Most of the subsidies were provided for the City's public transport, namely to Zagreb Electric Tram – ZET (HRK 607.5m), for the rental of the Arena sports hall (HRK 57.6m), the promotion of crafts, farming and SMEs (HRK 29m) and employment of disabled persons (HRK 27m).

**Other operating expenditures** in the amount of HRK 718m mainly included current donations (HRK 534m) and capital grants (HRK 137m). The most substantial current grants related to sports, religious and private kindergartens and schools, culture, health-care, prevention and social protection, and donations to various non-profit making organisations. The largest capital grants from the City budget were given for the renewal and reconstruction of ZET's motor fleet (HRK 117m), co-financing of projects registered with the Environmental Protection and Energy Efficiency Fund by public sector companies (City Waste Disposal, ZGOS, City Cemeteries and ZET – in the total amount of HRK 19m), and for the Zagreb ZOO modernisation (HRK 10m). For the Zagreb ZOO modernisation the EU provided 95% of funds.

**Expenditures for the acquisition of fixed assets** stood at about HRK 691m in 2014 and related mainly to business facilities, such as cultural, preschool, school, health-care and social welfare institutions, roads and other construction facilities (where the funds were used for the construction of buildings and utility infrastructure, rehabilitation of landslides, etc.), as well as plants and equipment.



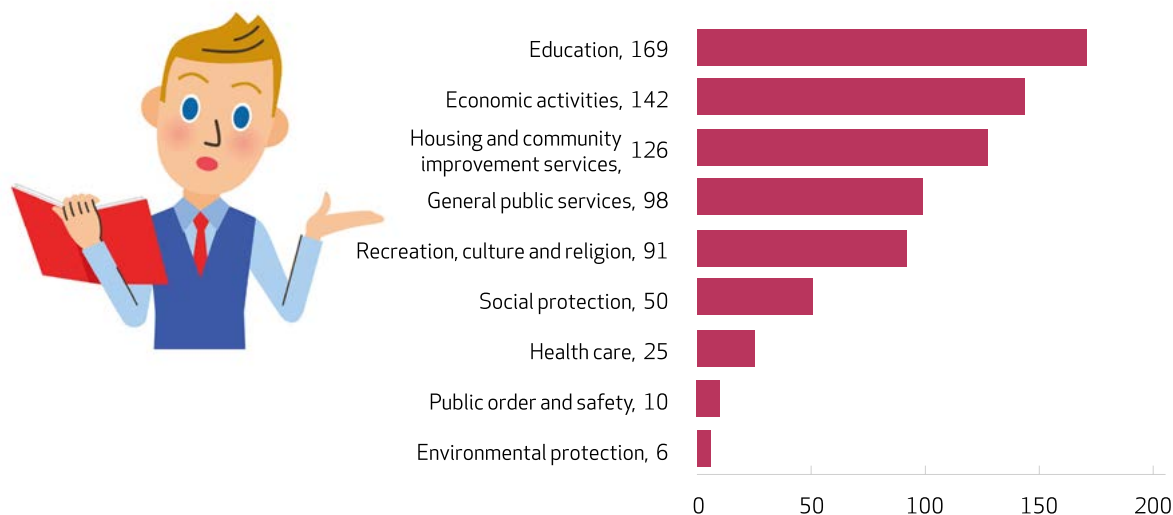
## Main differences between planned and realised expenditures

**Compared with expenditures realised in 2013, the 2014 expenditure outturn decreased by HRK 2m.** The structure of expenditures underwent considerable changes, so that, among major expenditure items, material expenditures rose by about HRK 200m and other unspecified operating expenditures by about HRK 105m. The most substantial decreases were observed in subsidies to non-public sector companies, farmers and craftsmen (by HRK 155m) and capital grants (by HRK 240m).

**Compared with expenditures planned under the second budget revision, the 2014 expenditure outturn decreased by HRK 439m (6.2%).** The sharpest cuts were made in material expenditures, mainly for services which went down by HRK 181m from the planned amount, followed by expenditures for the acquisition of fixed assets (down by HRK 166m). The largest savings (compared with the planned amount under the second budget revision) were made in the construction and maintenance of unclassified roads.

## REALISED EXPENDITURES BY PURPOSE

**Average monthly spending per citizen was about HRK 718 in 2014** (graph 4). The bulk of this amount was spent on education (HRK 169), economic activities (HRK 142), and housing and community improvement services (HRK 126).



Graph 4: Average monthly spending per purpose, per citizen (functional classification), 2014 (in HRK)

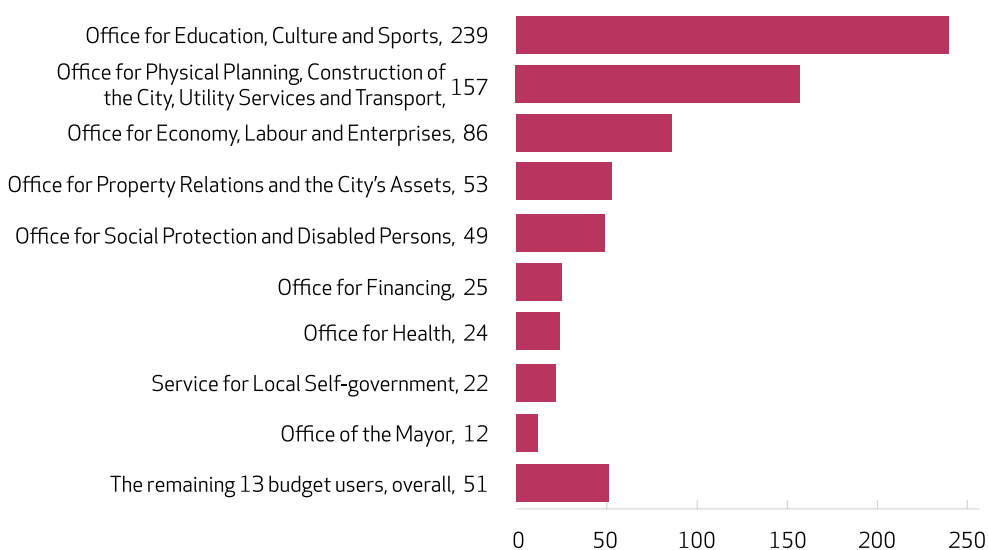
Expenditures for education relate to preschool education (staff costs in city kindergartens, kindergarten fee subsidies, etc.) and primary and secondary education (including material expenditures and the acquisition of fixed assets).

Economic activities generally include public transport and road construction and maintenance, but also, e.g., agriculture, forestry and tourism.

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

## REALISED EXPENDITURES BY USER

Most of the City administrative bodies accounted for relatively small shares in total expenditures, while **the three most important offices**, namely the Office for Education, Culture and Sports, Office for Physical Planning, Construction of the City, Utility Services and Transport and Office for Economy, Labour and Enterprises – **jointly spent about two thirds of the City budget resources, i.e. a monthly average of HRK 472 per citizen.**



Graph 5: Average monthly spending per user, per citizen (organisational classification), 2014 (in HRK)

## FINANCING ACCOUNT

In 2014, the City's total revenues and expenditures stood at HRK 6,649m and HRK 6,636m respectively. As the funds collected exceeded those spent, there was a budget surplus of HRK 13.1m (table 1), which was used for the repayment of current debts.

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

The City's 2014 receipts totalled HRK 197.6m, the bulk of which (HRK 190m) came from a new long-term loan for capital investments in the construction of roads and social service facilities. The outlays in the amount of HRK 222.1m were spent mostly on current debt repayment.

	2013 Outturns	2014 Plan	2014 1 <sup>st</sup> Revision	2014 2 <sup>nd</sup> Revision	2014 Outturns	2015 Plan
<b>Revenue and expenditure account</b>						
Total revenues	7,312.2	6,799.3	7,099.3	7,098.8	6,649.1	6,628.6
Total expenditures	6,638.4	6,836.0	7,067.8	7,075.3	6,636.1	6,610.0
<b>Surplus</b>	<b>673.7</b>	<b>-36.7</b>	<b>31.5</b>	<b>23.5</b>	<b>13.1</b>	<b>18.7</b>
<b>Financing account</b>						
Receipts from financial assets and borrowing	152.8	200.7	200.7	201.2	197.6	221.4
Outlays for financial assets and loan repayment	157.3	164.0	232.2	224.7	222.1	240.1
<b>Net financing</b>	<b>-4.5</b>	<b>36.7</b>	<b>-31.5</b>	<b>-23.5</b>	<b>-24.5</b>	<b>-18.7</b>

**Table 1: The Zagreb Budget revenue and expenditure account and financing account, 2013-15 (in million HRK)**

## THE CITY BUDGET DEBT

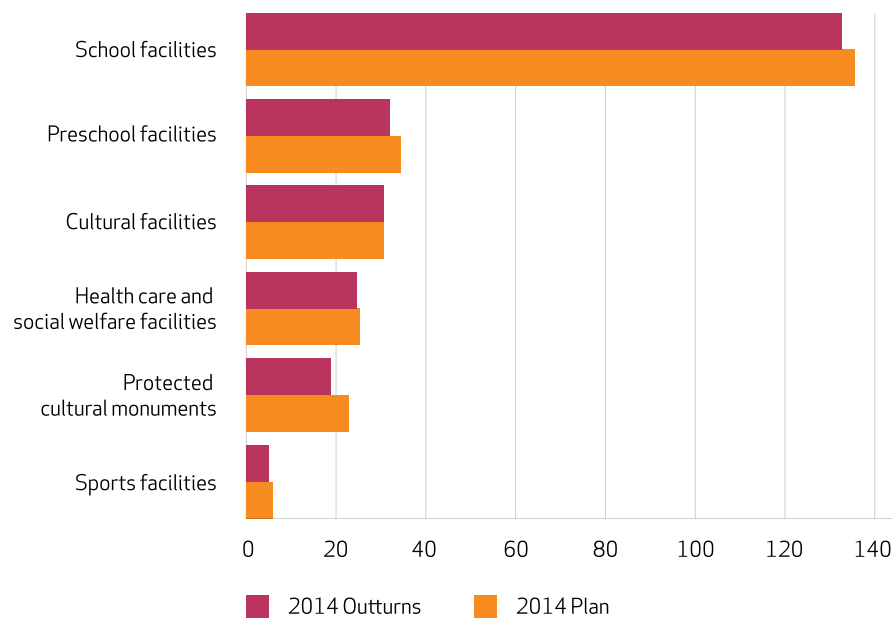
The City of Zagreb's direct debt stood at HRK 1,456m at the end of 2014 (graph 6). The share of debt in budget revenues and receipts was about 21.3%, suggesting a relatively low level of indebtedness, so that the City could easily service its direct debt from its regular revenues and receipts. The debt rose by about HRK 900m in 2014, after the City had bought the former Rolling Stock Factory Gredelj and Zagrepčanka from Zagreb Holding. The sale of non-functional real estate is one of the measures under the Financial Restructuring Programme for Zagreb Holding. Since the aforementioned former factories are cultural assets, the City has exercised its right of pre-emption with respect to them, because of their strategic and development potential, their size, form and position in the City area. The loan for the purchase of these assets was presented as "debt arising from commodity loans" to be repaid over the next ten-year period.



Graph 6: City's debt (in million HRK, left scale) and the share of debt in budget revenues and receipts (in %, right scale), 2010-14

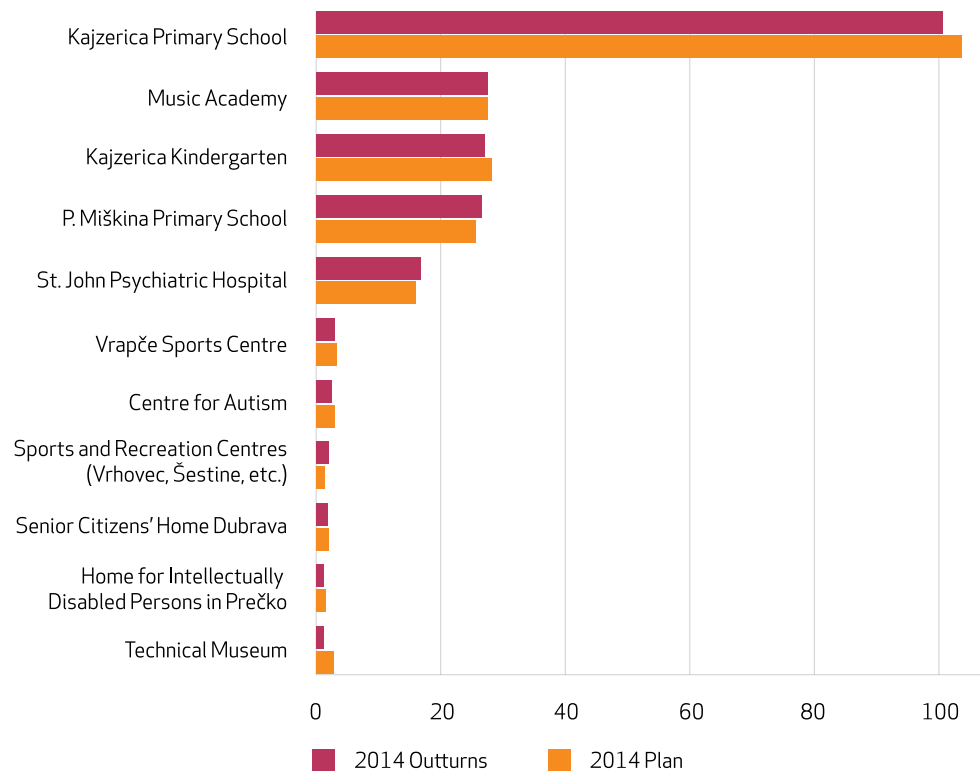
## MAJOR INVESTMENTS IN SOCIAL SERVICE FACILITIES

Under the enacted 2014 budget, capital investments in social service facilities were planned in the amount of HRK 215.5m. Under the revised budget, these investments were increased to HRK 254.3m. The works completed and outlays made during 2014 stood at HRK 244.2m, down 4% from the value of the works and outlays planned in the second budget revision (graph 7).



**Graph 7: Capital investments in social service facilities, 2014 (in million HRK)**

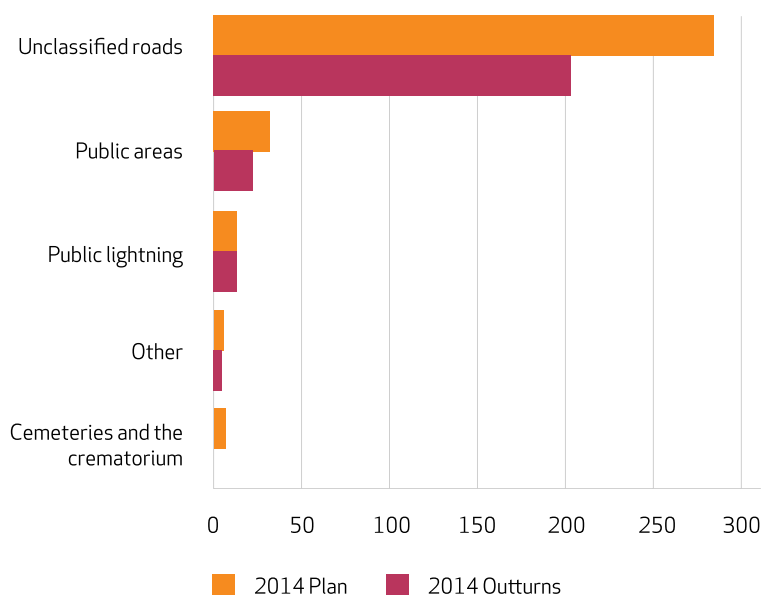
Some of the most important investments in social service facilities in 2014 are shown in graph 8. Depending on the project, the investments cover the costs of project documentation development, the conversion of premises, adaptation and construction and the resolution of property relationships.



**Graph 8: Some of the most important investments in social service facilities, 2014 (in million HRK)**

## MAJOR INVESTMENTS IN THE CONSTRUCTION OF UTILITY INFRASTRUCTURE FACILITIES AND EQUIPMENT

The amount planned for the construction of utility infrastructure facilities and equipment in 2014 was HRK 396m. The amount was increased to HRK 433m under the first budget revision, but then reduced again to HRK 342m under the second revision. The actual investment was worth HRK 244.3m, down 29% from the amount planned under the second budget revision (graph 9). The outturn was below expectations, due to lengthy procedures for obtaining documentation and public procurement, as well as resolving property relationships with land owners.



**Graph 9: Capital investments in the construction of utility infrastructure facilities and equipment, 2014 (in million HRK)**

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



## WHAT CAN CITIZENS DO?

The City Assembly, as the representative body of citizens, will discuss the 2014 budget execution (we are talking about HRK 6.65bn in revenues and HRK 6.64bn in expenditures). Every employed person paid an average monthly amount of about HRK 1,031 in personal income tax and sur-tax into the budget. The average monthly amount per citizen spent by the City was HRK 718. With the help of the data from this brief guide and the [Guide to the City of Zagreb Budget](#), citizens can examine the planned and realised budget amounts and contribute to the Assembly's discussions. Together with the lessons learned from previous periods, this will help in making the best possible decisions for the future. Given the upcoming revision of the 2015 budget and the planning of a 2016 budget, the discussion on the 2014 budget execution is the right moment to recap the situation and make plans for a more prosperous future.



## USEFUL WEBSITES

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

[City of Zagreb – Finances](#) – City budget and the report on its execution

[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](#) – The budgets of all municipalities,  
cities and counties

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

## PREVIOUSLY PUBLISHED GUIDES

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

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