

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

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



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The City's 2017 Budget Proposal is a matter that concerns all citizens: those employed are tax and surtax payers, some of them use city-subsidized public transport, others send their children to city's kindergartens and schools, and all of them use public lighting, roads and numerous other city life amenities.

The city's budget proposal is a complex and comprehensive document, showing the city's planned sources of revenues and the ways of their spending. Hence this brief guide aims to provide, in the simplest and most concise way, basic information on these issues, thus encouraging citizens to engage in the budget process and contribute to the quality and efficiency of city's services. The city's website offers more detailed information on the [2017 Budget Proposal](#), while general information on the city budget and budget process can be found in [A Guide to the City of Zagreb Budget](#).

As indicated in the calendar laid down in the [Budget Act](#), the city's budget is prepared in line with the Government's annual [Economic and Fiscal Policy Guidelines](#) and [The Ministry of Finance's Instructions for Drafting the Budgets of Units of Local and Regional Self-government](#). However, due to the dissolution of parliament and calling for early parliamentary elections there have been changes in the national budget preparation process for the next three-year period. Under such circumstances, the Economic and Fiscal Policy Guidelines and Instructions for Drafting the National Budget for 2017–19 could not be issued, which hampered the prediction of both macroeconomic indicators and the general government fiscal framework and the three-year projection planning parameters.

As the above mentioned documents were not published by the time of drafting the budget proposal, the city authorities prepared a 2017 budget proposal in a very cautious and restrictive manner, based on own estimates and taking into account the specific economic and social characteristics of the city, as well as the obligation to comply with the Budget Act and Fiscal Responsibility Act. The city's 2017–19 revenue estimates are based on

effective regulations governing revenues for the financing of public needs within the city's competence, as well as on currently known amendments to regulations within the announced tax reform to become effective on 1 January 2017. The expenditures comply with the main strategic goals of the [ZagrebPlan 2020](#).

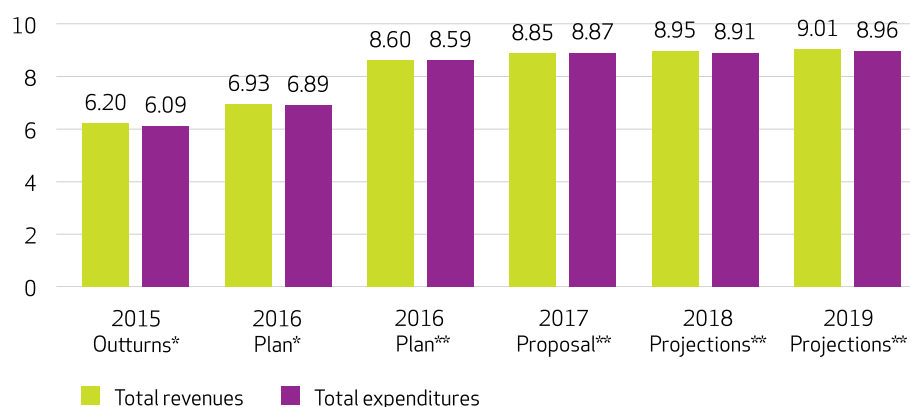
Below is a brief presentation of the revenues, expenditures, financing account and debt in the period 2015–19, including a more detailed breakdown of revenues and expenditures in 2017.



The marked increase in revenues and expenditures from the 2015 is due to the statutory obligation that the budget includes own and earmarked revenues of all of the city budget users, as well as expenditures funded from these revenues. So, what we have here is a methodological change in the scope of the city budget, resulting in an increase in revenues and expenditures.

## PLANNED REVENUES AND EXPENDITURES

The city's **total 2017 budget revenues** and **total expenditures** are planned in the amounts of **HRK 8.85bn** and **HRK 8.87bn** respectively (graph 1).



**Graph 1: The city's budget revenues and expenditures, 2015–19 (in billion HRK)**

\* Excluding own and earmarked revenues of budget users and expenditures funded from these revenues.

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

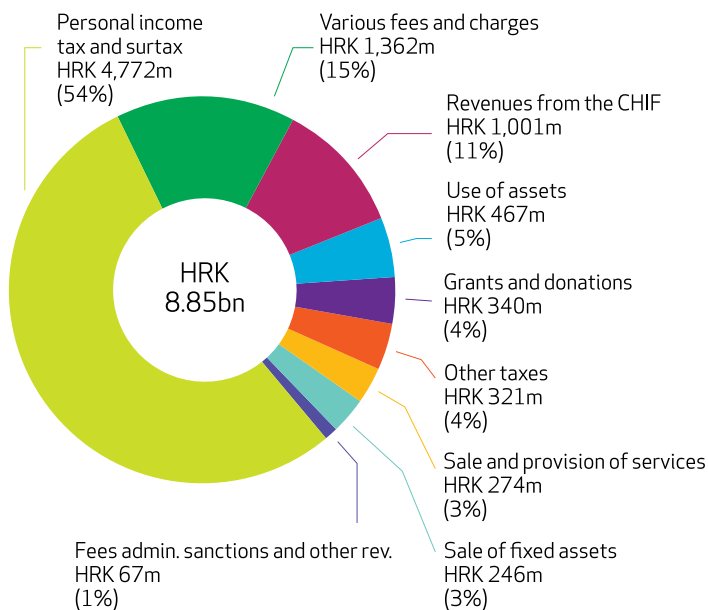
In parallel with the preparation of the 2017 budget proposal, budget projections are made for the next two-year period. As shown in graph 1, budget revenues and expenditures will rise slightly in 2018 and 2019 in line with the expected GDP growth.

The city's **budget contains the revenues and expenditures of all 326 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 school and secondary school education institutions, social welfare institutions, the Zagreb Fire Department, Office for Physical Planning, Public Institution Maksimir, Zoological Garden, Sports Facilities Management Institution, etc.

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

## PLANNED REVENUES

**Total revenues planned for 2017 amount to HRK 8.85bn** (graph 2), more than half of which will come from **personal income tax and surtax (HRK 4.8bn)**. The second largest revenues come from various fees and charges (HRK 1.4bn), mainly utility contributions and charges, followed by budget users' revenues from the Croatian Health Insurance Fund (CHIF – approximately HRK 1bn).



**Graph 2: The city's budget revenues, 2017 proposal\***

\* Including own and earmarked revenues of budget users.



Each employed person will pay a monthly average amount of HRK 1,020 in personal income tax and surtax into the city budget.

The city's budget revenues in 2017 are planned at HRK 253m, up 2.9% from 2016. **The largest increase** will be seen in budget users' revenues from various fees and charges (HRK 85m or 6.7%), revenues from the sale of fixed assets, mainly commercial facilities and flats (HRK 83.5m or 51.5%) and from the use of assets, mainly non-financial assets (HRK 36m or 8.4%). **The sharpest cuts** are planned in grants to budget users from other budgets (excluding the city budget), e.g. funds received by public healthcare or cultural institutions from the relevant ministries or government agencies (down HRK 28.8m or 26%).

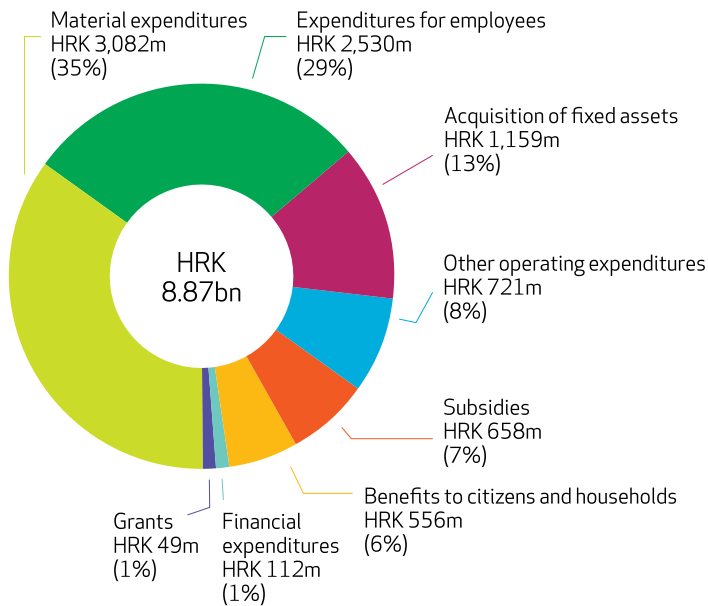
The most substantial city budget revenues (those coming from personal income tax and surtax) are planned to remain at the level of 2016, since the details of the announced tax reform are still unknown. The proposed amendments to the Personal Income Tax Act that should take effect in 2017 are expected to cause considerable changes in personal income taxation that should erode personal income tax and surtax revenues. However, there have been announcements about compensatory measures for units of local and regional self-government to offset the losses.

## PLANNED EXPENDITURES BY TYPE

**Total expenditures planned for 2017 amount to HRK 8.87bn** (graph 3), with the following main priorities:

- ensuring the regular operation of all municipal services and administrative bodies, with a view to providing the maximum level of services to citizens;
- providing funds for high-priority capital projects and utility infrastructure improvement projects, as prerequisites for rapid economic growth;
- ensuring an equal level of acquired rights for lower-income citizens;
- promoting demographic renewal;
- the regular settlement of all contractual and credit liabilities.





**Graph 3: The city's budget expenditures by type (economic classification), 2017 proposal\***

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

The bulk of **material expenditures** (HRK 3.1bn) relates 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, as well as to office materials, energy use and services (e.g., telephone, postal, transportation and information services) necessary for the smooth functioning of the city administrative bodies and city budget users.

**Expenditures for employees** (HRK 2.5bn) include total salaries, social security contributions and other expenses for around 18 thousand city administration and **city budget users' employees** (e.g., in pupils' dormitories, schools, kindergartens and museums), as well as expenditures for persons engaged in EU-funded projects.

An amount of about HRK 1.2bn 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 465m) 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.



**Other operating expenditures** (HRK 721m) mainly include current donations and capital grants. *Current donations* (HRK 474m) are given for the co-financing of sports (HRK 206m), religious and private kindergartens and schools (HRK 96m), culture (e.g., libraries, museums, theatres and music, art and film industries) and non-profit organisations, such as NGOs, social and development programmes, etc. The bulk of *capital grants* is given for the financing of a wastewater treatment project (HRK 114m), the City's public transport (ZET) company's motor fleet renewal and reconstruction (HRK 65m) and Zagreb Waste Management Centre (HRK 14m), as well as for the co-financing of public sector company projects (HRK 5m).

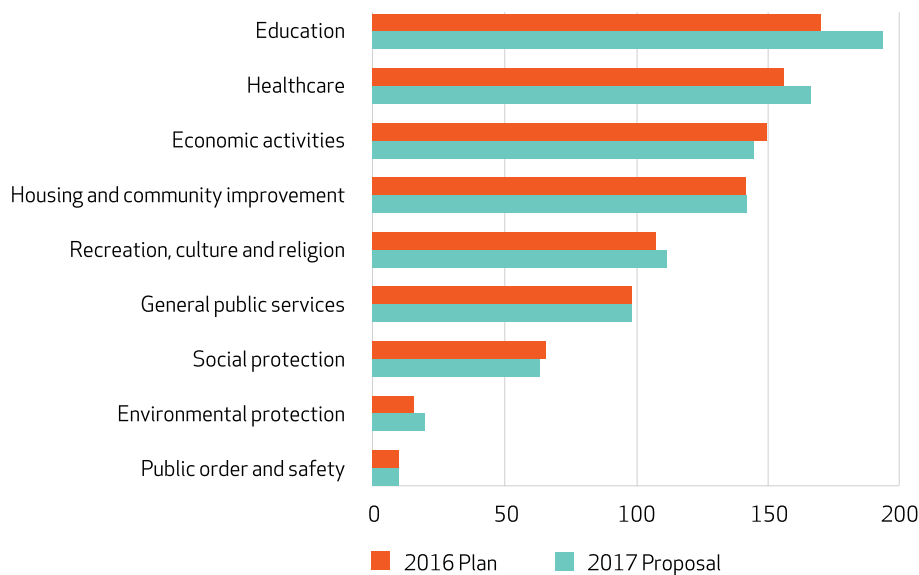
**Subsidies** (HRK 658m) are earmarked for the production and services promotion of companies, craftsmen, farmers and SMEs, mostly to ZET (HRK 486m), for the Arena sports hall rental (HRK 74m), promotion of trades and SMEs (HRK 41m) and disabled persons' employment (HRK 29m).

Total city budget expenditures are planned to go up by HRK 276m (3.2%) from 2016, partly as a result of a surge in budget users' expenditures (by HRK 138m or 8%) financed from own and earmarked revenues. **The largest increase** is planned in expenditures for the **acquisition of fixed assets** (HRK 270m or 30%), notably the construction of unclassified roads, but also numerous capital investments in social activity facilities (e.g., healthcare, social welfare, culture, etc.). Moreover, an additional amount of HRK 59m is earmarked for the construction of utility infrastructure facilities for the purposes of the Local Self-government Service, i.e. city districts. **Benefits to citizens and households** will also go up (by HRK 108m or 24%), primarily due to the introduction of a cash benefit for parents with at least three children of which the youngest is under the school age. This will cost the city HRK 126m in 2017. On the other hand, **cuts are planned in material expenditures**, especially for services (down HRK 66m or 2%), and other expenditures (down HRK 51m or 6.7%), mostly current and capital donations and grants.



## PLANNED EXPENDITURES BY PURPOSE

**The city's planned average monthly spending per citizen in 2017 is HRK 954** (graph 4). Most of this amount will be spent on education (HRK 194), health care (HRK 166), economic operations (HRK 146) and housing and community improvement services (HRK 142). Compared with 2016, the average monthly spending per citizen is planned to increase by HRK 24 (education), HRK 10 (healthcare) and HRK 4 (recreation, culture and religion, as well as environmental protection).



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

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

**Expenditures for education** are mainly related to 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).

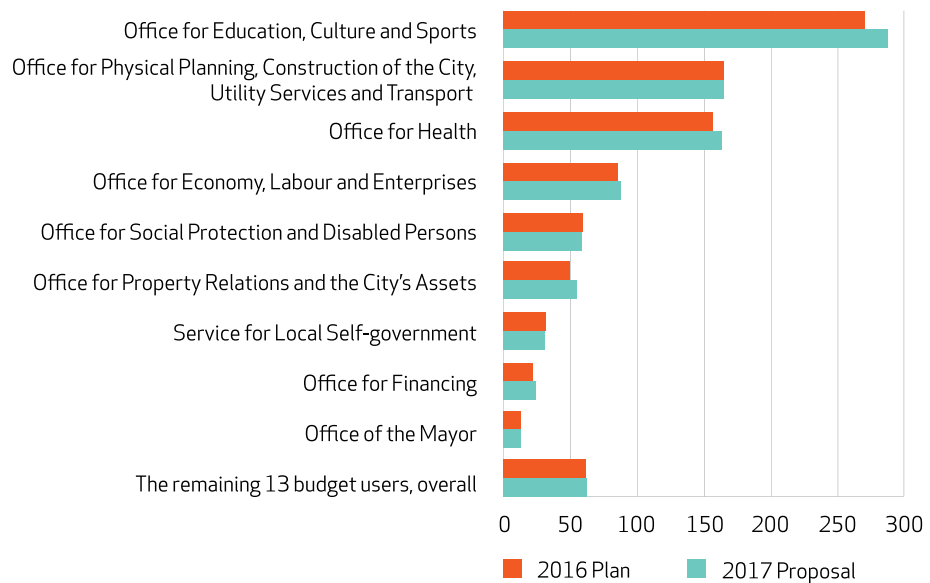
**Expenditures for healthcare** relate to health, medical services and health protection, the development and implementation of municipal and other health protection programmes and strategies, health promotion, the prevention and control of addiction, provision of support to health programmes and projects of NGOs and other forms of organised health promotion activity, as well as the coordination and supervision of the city-owned health care institutions.

**Economic activities** basically involve public city transport, road construction and maintenance, agriculture, tourism, fuels and energy supply, etc.

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

## PLANNED EXPENDITURES BY BUDGET USER

Most of the city's administrative bodies will account for relatively small shares in total expenditures, while the three most important city offices, namely the Office for Education, Culture and Sports; Office for Physical Planning, Construction of the City, Utility Services and Transport; and Office for Health – will jointly spend as much as about two thirds of the city's total budget resources, i.e. a monthly average of HRK 618 per citizen.



Graph 5: Average monthly spending of budget users, per citizen (organisational classification), 2017 proposal (in HRK)\*

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

## FINANCING ACCOUNT

In contrast to the terms *revenues* and *expenditures*, used in the revenue and expenditure account when it comes to business operations, as well as the sale and purchase of fixed assets, the terms *receipts* and *outlays* are used in the financing account, when referring to financial assets and the taking out, granting 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 the receipts and outlays represents *net financing*, i.e. an amount equal to the surplus/deficit from the revenue and expenditure account.

	2015 Outturns*	2016 Plan*	2016 Plan**	2017 Proposal**	2018 Projection**	2019 Projection**
<b>Revenue and expenditure account</b>						
Total revenues	6,204.9	6,928.2	8,597.5	8,850.3	8,951.1	9,007.4
Total expenditures	6,085.6	6,890.2	8,592.4	8,868.2	8,909.9	8,955.4
<b>Surplus</b>	<b>119.2</b>	<b>38.0</b>	<b>5.1</b>	<b>-17.9</b>	<b>41.2</b>	<b>52.0</b>
<b>Financing account</b>						
Receipts from financial assets	194.4	216.8	249.7	290.1	239.8	240.0
Outlays for financial assets and loan repayments	272.8	254.8	254.8	272.2	281.0	292.0
<b>Net financing</b>	<b>-78.4</b>	<b>-38.0</b>	<b>-5.1</b>	<b>17.9</b>	<b>-41.2</b>	<b>-52.0</b>

**Table 1: Revenue and expenditure account and financing account, 2015–19 (in million HRK)**

\* Excluding own and earmarked revenues and receipts of budget users and expenditures funded from these revenues and receipts.

\*\* Including own and earmarked revenues and receipts of budget users and expenditures and outlays funded from these revenues and receipts.

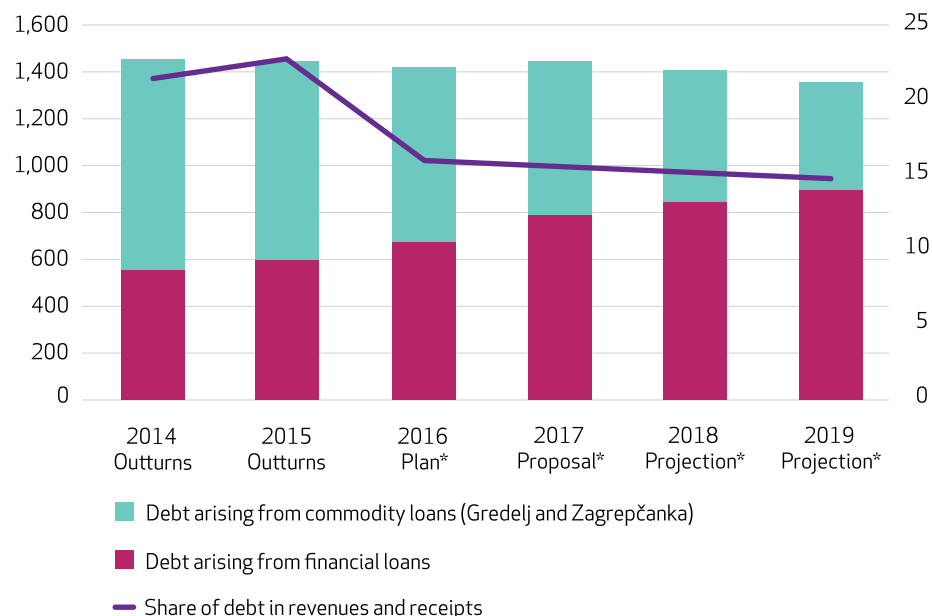
Including own and earmarked revenues and receipts of budget users, receipts planned for 2017 stand at HRK 290,1m, the bulk of which (HRK 288,6m) relates to new borrowing. Outlays in the amounts of HRK 265,1m and HRK 7m are planned for existing debt repayment and loans to public sector companies, respectively.

## PLANNED CITY BUDGET DEBT

The city's direct debt is planned to stand at about HRK 1.44bn at end-2017 (graph 6), with a slight downward trend over the next years. The share of debt in budget revenues and receipts decreases markedly in 2016 (from 22.5% in 2015 to the planned 16% at end-2016), due to the inclusion of own and earmarked revenues and receipts of budget users. A further decline in the share of debt in total revenues and receipts is planned by 2019 (to 14.7% in that year). This suggests a low level of indebtedness, so that the city can easily service its direct debt from regular revenues and receipts. It is worth noting, however, that, according to the Budget Act, any long-term borrowing by the city requires the Government's approval. Hence, graph 6 shows the planned level of debt, while its actual amount depends on that approval.



Direct debt is a sum of all budget deficits, incurred in the current and in earlier periods, financed by borrowing.



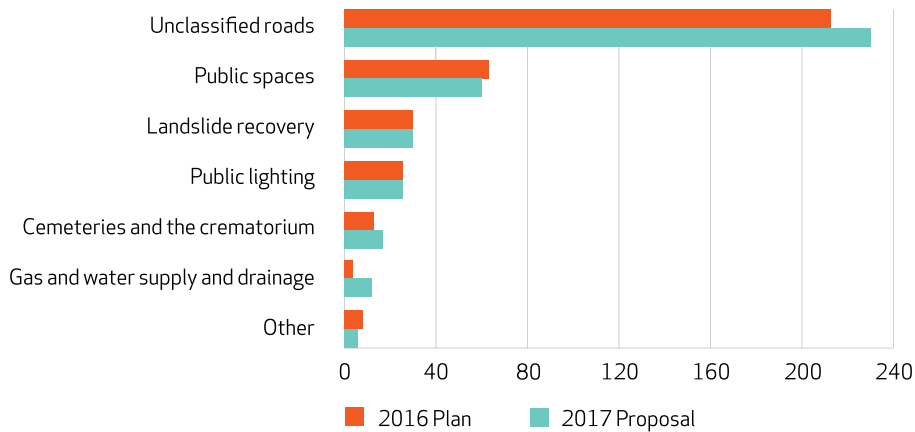
**Graph 6: The city's debt (in million HRK, left-hand scale) and the share of debt in budget revenues and receipts (in %, right-hand scale), 2014-19**

\*As of 2016, revenues and receipts include own and earmarked revenues and receipts of budget users.

Besides the direct debt shown in graph 6, **the city is potentially** (through granted warranties and guarantees) **exposed to an indirect debt** of HRK 2.1bn (23% of total planned revenues and receipts in 2017). The bulk of this amount (HRK 1.8bn) relates to a guarantee for a bond issue by the Zagreb Holding in mid-2016 to refinance a 2007 debt. This guarantee has been approved by the Finance Minister. The borrowing limit for the Zagreb Holding's bond-based borrowing is HRK 2.3bn, and the value of bonds issued so far is HRK 1.8bn.

## DEVELOPMENT PROGRAMMES – MAJOR INVESTMENTS

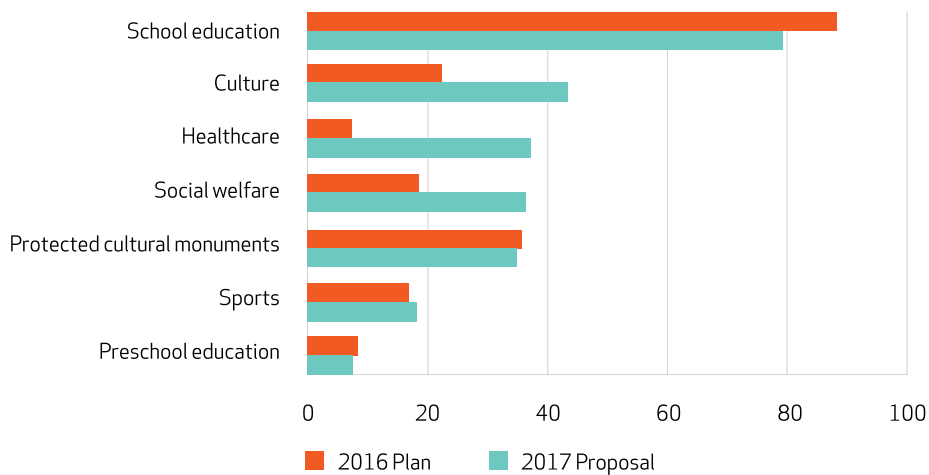
The amount planned for **the construction of utility infrastructure facilities and equipment** in 2017 is HRK 380m (graph 7). A good supply of utility services improves the quality of life and makes the city space more attractive for business and social activities. This investment is therefore an essential prerequisite for achieving the city's general spatial development goals.



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

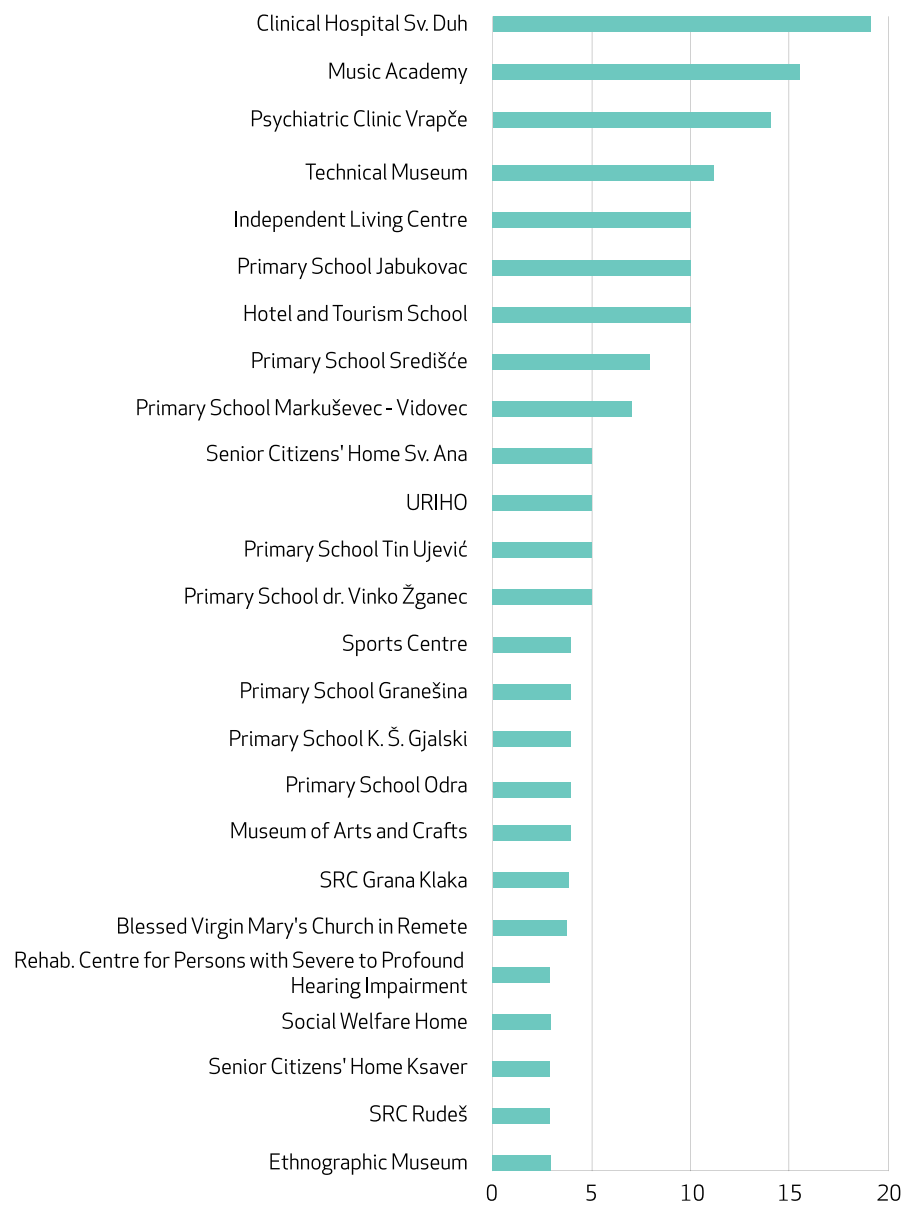
The most important investments in utility infrastructure facilities and equipment relate to unclassified roads and are aimed at increasing the quality and safety of services and ensuring the transport network integrity. Depending on the project, funds will be used for technical documentation development, construction and reconstruction.

**Capital investments in social service facilities** are planned in the amount of HRK 256m (graph 8).



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

Graph 9 shows some of the most important investments planned to be made in social service facilities, relating to the costs of project documentation development, obtaining construction documents, the conversion of premises, renovation, improvement, construction and furnishing, and the resolution of property relationships.



**Graph 9: Some of the most important capital investments in social service facilities, 2017 proposal (in million HRK)**



## MAJOR CITY OF ZAGREB'S PROJECTS IN 2017

Besides the aforementioned major investments in the construction of utility infrastructure facilities and equipment and social service facilities, substantial budget funds are invested each year in other major projects implemented independently by the city and co-financed by government or the EU.

*The city's strategic development goals are set forth in [ZagrebPlan – City of Zagreb Development Strategy for the Period Ending 2020](#) and include the following:*

- *competitive economy;*
- *human resources development;*
- *environmental protection and sustainable natural resources and energy management;*
- *improvement of the city's spatial quality and functions;*
- *improvement of the quality of life; and*
- *promotion of the development management system.*

Among the top priorities are definitely the following: the initial phases of the Sljeme cable car construction, building of a tram route between the city and its airport, reconstruction of Radnička Road and Remetinec Roundabout, provision of drinking water from the supervised water supply system to all households, free wireless Internet access across the city (including buses and trams within the city's public transportation network), continued construction and maintenance of schools, sports halls and children's playgrounds, procurement of environment-friendly and efficient waste management infrastructure, co-financing of facade renovation, subsidizing children's nutrition in kindergartens and building monuments to Dr Franjo Tuđman and the Homeland, as well as a memorial to the Holocaust.

Standing out among the major projects is the [Zagreb – Energy Efficient City \(ZagEE\)](#), a comprehensive programme of the energy-efficient renovation of selected city-owned energy-inefficient public-use buildings, modernisation of part of the public lighting system, and the use of renewable energy sources. The total estimated value of planned investments over the period 2013–17 is HRK 238.8m. In 2017, HRK 70.3m is planned for the implementation of energy efficiency and renewable energy use measures on 87 city-owned buildings, and the energy-efficient modernisation of public lighting.



## WHAT CAN CITIZENS DO?

The City Assembly will discuss the 2017 City Budget Proposal to be adopted no later than 31 December 2016 (we are talking about a significant amount of over HRK 8.8bn revenues and expenditures). During 2017, every employed person is expected to pay an average monthly amount of HRK 1,020 in personal income tax and surtax into the budget. The average monthly spending per citizen will be HRK 954. Consequently, all citizens should be interested in how budget funds are collected and spent. With the help of this brief guide and the [Guide to the City of Zagreb Budget](#), they can try to influence the final city budget. Participation is possible either through the [local committees](#) and [city districts](#), or directly, through suggestions and comments submitted to the [City Assembly representatives](#).



## 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](#)

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

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

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