

A Brief Guide to the City of Zagreb 2017 Enacted Budget

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A Brief Guide to the City of Zagreb 2017 Enacted Budget



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The City's 2017 Budget is a sophisticated and extensive document showing the sources of the city's revenues and the ways of their spending. This brief guide aims to provide, in the simplest and most concise way, basic information on the budget, encouraging citizens to engage in the budget process and thus contribute to the quality and efficiency of city's services.

After the second reading debate, the City Assembly on 20 December 2016 enacted the 2017 budget with projections for 2018–19. The city's official website offers complete versions of the [2017 Enacted Budget](#) and [Projections for 2018–19](#), as well as the [Guide to the City of Zagreb Budget](#) (providing general information on the city's budget and budget process).

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](#). As the above mentioned documents were not published by the time of finishing the first budget proposal, the city authorities prepared a first [2017 Budget Proposal](#) in an cautious and restrictive manner, based on own estimates and taking account of the city's specific economic and social characteristics and needs, as well as the provisions of the Budget Act and [Fiscal Responsibility Act](#). Following the issuance of the Government's guidelines at end-November 2016, envisaging GDP growth of 3.2% and employment growth of 1.6% in 2017, and acceptance of the proposed amendments to the extent possible, the city proposed a corrected 2017 budget which was accepted after a City Assembly debate. Below is a brief presentation of the accepted revenues, expenditures, financing account and debt in the period 2015–19, including a more detailed breakdown of the city's revenues and expenditures in 2017.

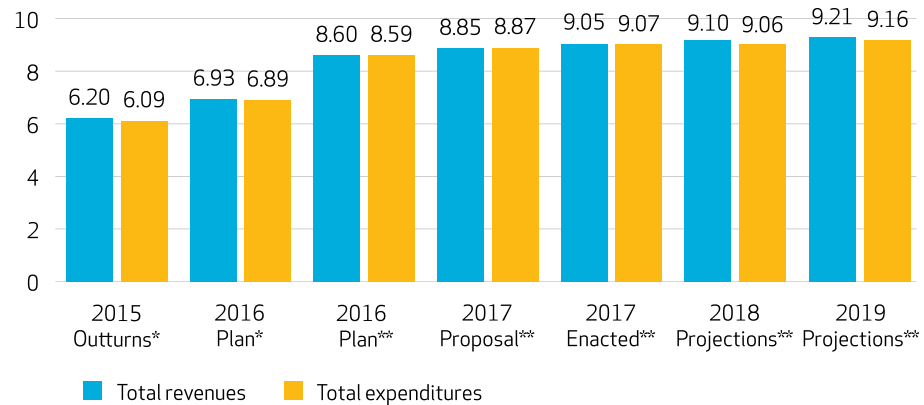


PLANNED REVENUES AND EXPENDITURES



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

The city's **2017 budget revenues and expenditures** are planned at **HRK 9.05bn and HRK 9.07bn** respectively (graph 1). As suggested by budget projections for 2018–19, adopted along with the 2017 budget proposal, graph 1 shows a slight increase in budget revenues and expenditures in 2018–19, in line with projected GDP growth.



Graph 1: The City of Zagreb budget revenues and expenditures, 2015–19 (in billion HRK)

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

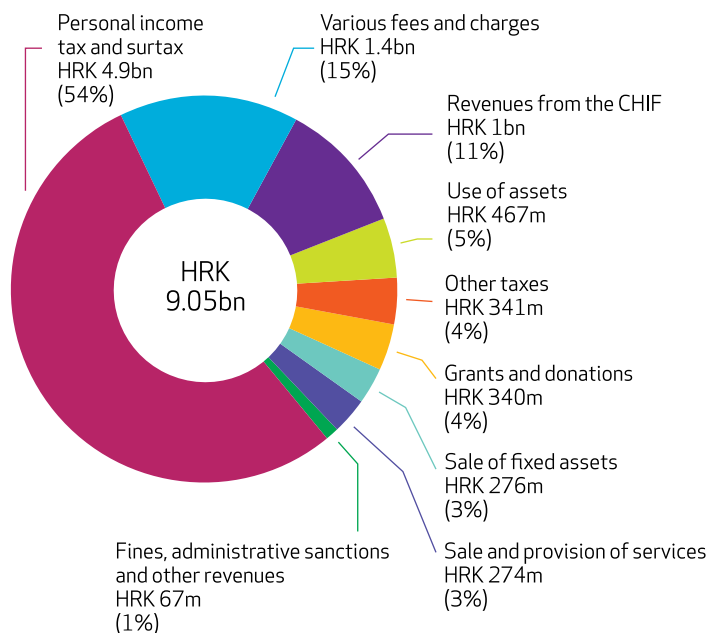
** Including own and earmarked revenues of budget users and expenditures funded from those revenues.

The city's budget comprises 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 and Sports Facilities Management Institution.

There are also [companies founded by the city](#) to provide public services and perform public interest activities (e.g. Zagreb Holding). However, as they are not majority-financed from the city's 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 9.05bn (graph 2), more than half of which coming from **personal income tax and surtax** (HRK 4.9bn). The second largest revenues come from various **fees and charges** (HRK 1.4bn or 15%), mainly utility contributions and charges (HRK 850m), followed by revenues pursuant to special regulations (HRK 458m). Significant source of budget are also **budget users' revenues from the Croatian Health Insurance Fund (CHIF) for rendered health care services** (roughly HRK 1bn or 11%).



Graph 2: The City of Zagreb budget revenues, 2017*

* Including own and earmarked revenues of budget users.

In 2017, the city's **total budget revenues are planned to go up by HRK 453m (5.3%) from their 2016 level**. The largest increase is expected in personal income tax and surtax revenues (up HRK 150m or 3.1%), followed by budget users' revenues from various fees and charges (up HRK 85m or 6.7%) and revenues from the sale of fixed assets, mostly commercial facilities and flats (HRK 83.5m or 51.5%). Compared with 2016, the sharpest cuts will be made in grants to budget users from other budgets, e.g. funds received by public health care or cultural institutions from relevant ministries or government agencies (down HRK 28.8m or 25.9%).



Each employed person will pay an average monthly amount of HRK 1,084 in personal income tax and surtax into the city budget.

Differences in revenues between the proposed and enacted 2017 budgets

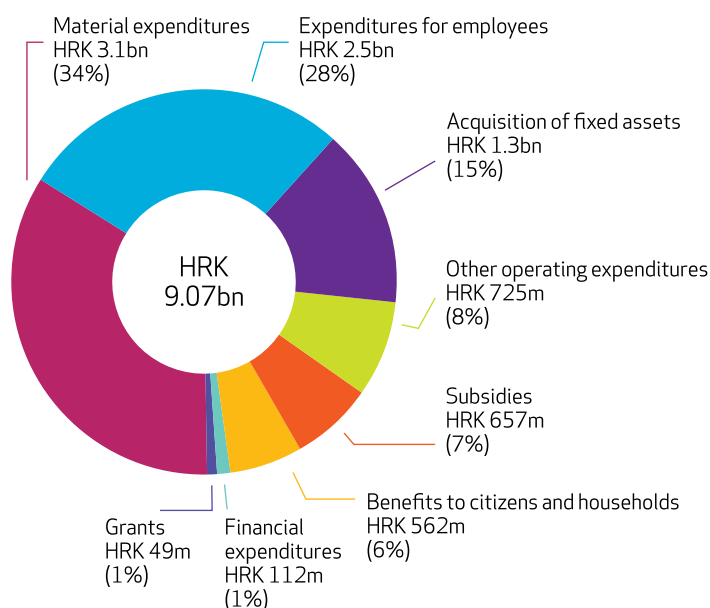
Compared with the 2017 Budget Proposal, the Enacted 2017 Budget shows a rise in total revenues by HRK 200m. Increases are expected in revenues from personal income tax and surtax (by HRK 150m), from the sale of tangible assets (by HRK 30m) and from the real property transaction tax (by HRK 20m).

According to the first 2017 budget proposal, the most substantial city budget revenues (those coming from personal income tax and surtax) remain at the level of 2016, since, at the time of drafting that budget proposal, the Government's Economic and Fiscal Policy Guidelines were not yet published, nor were all the details of the announced tax reform revealed. After the release of the guidelines at end-November, envisaging GDP growth of 3.2% and employment growth of 1.6% in 2017, the planned amount of personal income tax and surtax revenues in 2017 was increased by HRK 150m. Furthermore, in line with the city's authorities' commitment to improve the city's property management in 2017, the Mayor proposed an amendment to increase total revenues by HRK 200m.

PLANNED EXPENDITURES BY TYPE

Total expenditures in 2017 are planned at HRK 9.07bn (graph 3) with the following main priorities:

- ensuring the balanced development of the City of Zagreb;
- ensuring an equal level of acquired rights for lower-income citizens;
- promoting a pro-natalist policy and demographic renewal;
- promoting crafts and trades and SMEs;
- stimulating youth employment and housing;
- providing funds for high-priority capital projects and projects aimed at improving the city's utility infrastructure as a prerequisite for faster economic development;
- ensuring the smooth operation of all municipal services and administrative bodies, with a view to providing the maximum level of services to citizens; and
- the regular settlement of all contractual and credit liabilities.



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

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



Material expenditures (HRK 3.1bn) are largely connected with 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 wage bill, contributions and other expenses for 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 1.3bn 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 746m) will be spent through the City Office for Physical Planning, Construction of the City, Utility Services and Transport, in compliance with the the [Agenda for Capital Investment in Social Service Facilities in 2017](#) and [Agenda for Transportation and Municipal Economy in 2017](#).

Other operating expenditures (HRK 725m) mainly include current donations and capital grants. Current donations (HRK 476m) 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 earmarked for the funding of a wastewater treatment project (HRK 114m), the ZET company's motor fleet renewal and reconstruction (HRK 65m) and Zagreb Waste Management Centre (HRK 13m), as well as for the co-funding of public sector company projects (HRK 5m).

Subsidies (HRK 657m) are earmarked for the promotion of production and services of companies, craftsmen, farmers and SMEs. The bulk of them are for the city's public transport, i.e. ZET (HRK 486m), the Arena sports hall rental (HRK 74m), promotion of crafts and trades and SMEs (HRK 35m) and disabled persons employment (HRK 29m).

The city's **total budget expenditures planned for 2017 go up by HRK 476m (5.5%) from 2016**, partly as a result of a hike in budget users' expenditures (HRK 138m or 8.1%) financed from own and earmarked revenues. The largest increase is planned in expenditures for the **acquisition of fixed assets** (HRK 441m or 49.7%), especially the construction of unclassified roads, but also numerous capital investments in social service facilities (e.g. in health care, social welfare, culture, etc.). A noticeable increase is also planned in **benefits to citizens and households** (up HRK 113m or 25.2%), primarily due to the introduction of a cash benefit scheme for parents with at least three children of which the youngest is under the school age, which will cost the city HRK 126m. By contrast, cuts are planned in material expenditures, especially for services (down HRK 99m or 4.6%), and other operating expenditures (down HRK 47m or 6.1%), mostly current and capital donations and capital grants.



Differences between the proposed and enacted budgets for 2017

The city's political fractions and city representatives proposed **a total of 14 amendments** to the 2017 budget proposal, submitted to the City Assembly on 15 November 2016, **five of which were partly accepted**. In line with revenue growth, total expenditures in the budget enacted on 20 December 2016 were raised by HRK 200m, i.e. from HRK 8.87bn to HRK 9.07bn.

Besides the increase in allocations for city district councils, pursuant to amendments to the Statute of the City and to the Decision on City District Councils Financing which provide that the funds for utility infrastructure and unclassified road maintenance in the total amount of HRK 482.5m are transferred to the city district councils, increases are also planned in allocations for the following capital projects crucial to the city:

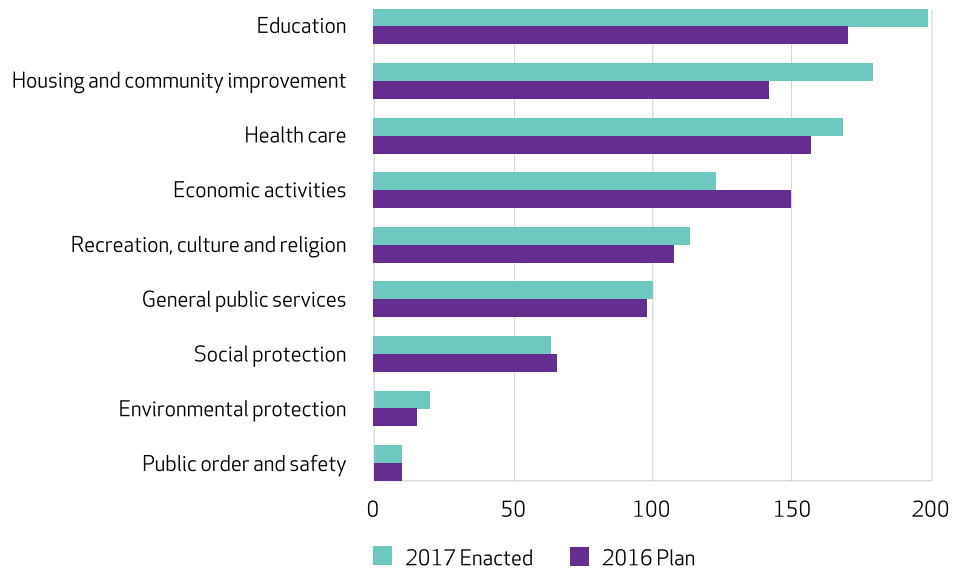
- **Sljeme cable car (HRK 49m);**
- **Remetinec roundabout (HRK 20m);**
- land acquisition and project documentation development for **the extensions of Branimirova street and Rudolfa Kolaka street (HRK 15m);**
- **the city's wireless network expansion (HRK 7m);**
- **capital investments in social service facilities (HRK 57m)**, such as: the construction of a sports hall within the Granešina PS (HRK 25m), project documentation development and expansion of the Špansko Health Centre (HRK 12m), Music Academy (HRK 8m), the expansion of the Bukovac PS (HRK 5m), project documentation development and construction of a hockey centre at the Zagreb Fair (HRK 5m) and development of a project to reconstruct the respiratory hospital Brestovac on Sljeme (HRK 2m);
- **project documentation development for Zagreb marketplaces (HRK 5m);**
- **residential buildings' facade renovation (HRK 30m);** and
- **the acquisition of disabled persons' vehicles (HRK 2m).**

In addition to capital projects, allocation increases have also been proposed for youth and pre-school education programmes, interest subsidies on junior researchers' home loans (in Podbrežje), employment, national minority councils' programmes and medical treatment of homeland war veterans.



PLANNED EXPENDITURES BY PURPOSE

The city's planned average monthly spending per citizen in 2017 is HRK 975 (graph 4). Most of this amount will be spent on education (HRK 198), housing and community improvement services (HRK 178) and health care (HRK 168). In sharp contrast to 2016, an additional average monthly amount of HRK 36 per citizen is planned to be spent on housing and community improvement services, HRK 28 on education, HRK 11 on health care and HRK 6 on recreation, culture and religion, whereas the amount spent on economic activities will be cut by HRK 27.



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

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

Expenditures for education 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).

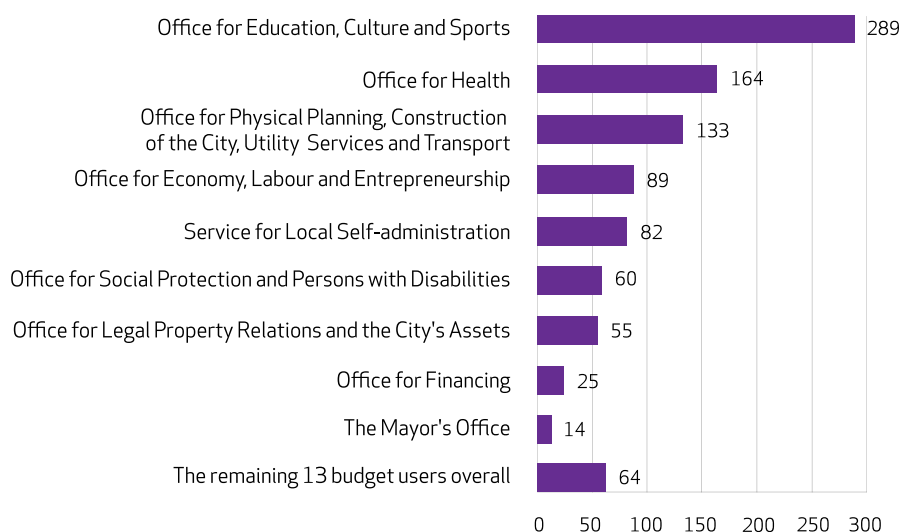
Housing and community improvement services mainly relate to the city's property and public space maintenance (e.g. public lighting).

Expenditures for health care relate to health, medical services and health protection, the development and implementation of city's and other health protection programmes and strategies, health promotion, the prevention and control of addiction, provision of support to the 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 include public city transport, road construction and maintenance, agriculture, tourism, fuels and energy supply, etc.

PLANNED EXPENDITURES BY BUDGET USER

The majority of the city's administrative bodies account for relatively small shares in total budget expenditures, **while the three most important city offices**, namely the Office for Education, Culture and Sports, Office for Health and Office for Physical Planning, Construction of the City, Utility Services and Transport – are planned to **jointly spend roughly 60% of the budget, i.e. an average monthly amount of HRK 587 per citizen.**



Graph 5: Average monthly spending of budget users, per citizen (organisational classification), 2017 (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. the amount equal to the surplus/deficit from the revenue and expenditure account.



	2015 Outturns*	2016 Plan*	2016 Plan**	2017 Proposal**	2017 Enacted**	2018 Projections**	2019 Projections**
Revenue and expenditure account							
Total revenues	6,204.9	6,928.2	8,597.5	8,850.3	9,050.3	9,101.1	9,207.4
Total expenditures	6,085.6	6,890.2	8,592.4	8,868.2	9,068.2	9,059.9	9,155.4
Surplus	119.2	38.0	5.1	-17.9	-17.9	41.2	52.0
Financing account							
Receipts from financial assets and borrowing	194.4	216.8	249.7	290.1	290.1	239.8	240.0
Outlays for financial assets and loan repayment	272.8	254.8	254.8	272.2	272.2	281.0	292.0
Net financing	-78.4	-38.0	-5.1	17.9	17.9	-41.2	-52.0

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 and outlays 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) should come from new borrowing. As concerns outlays, of the total amount of HRK 272.2m, HRK 265.1m is planned for existing debt repayment and HRK 7m for loans to public sector companies.

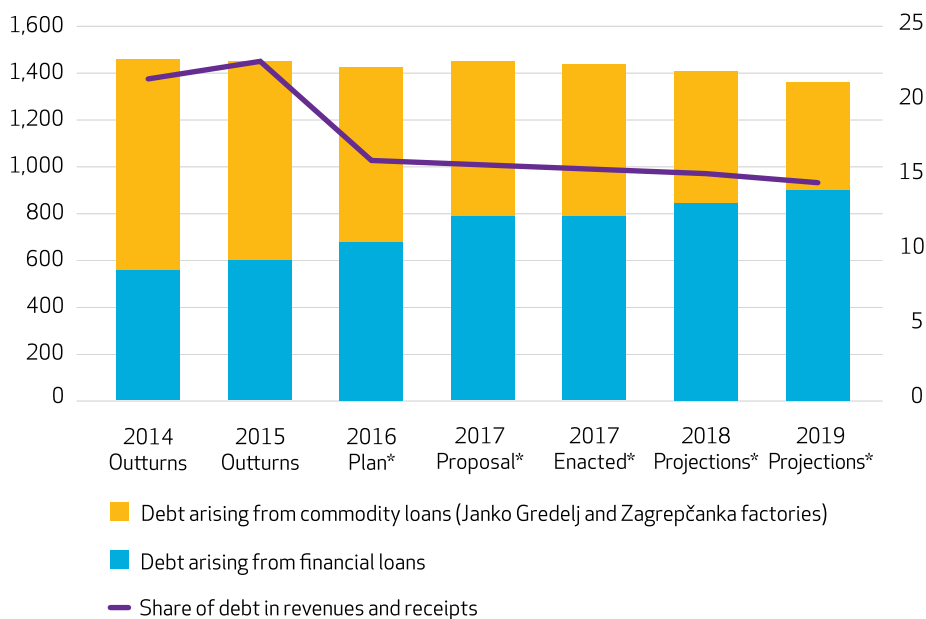
Compared with the 2017 budget proposal, total revenues and expenditures presented in the enacted budget picked up by HRK 200m, with the financing account remaining unchanged.

PLANNED CITY BUDGET DEBT

The city's direct debt is planned to hover around the HRK 1.44bn level at end-2017 (graph 6), with a slight downward trend in the following years. The share of debt in budget revenues and receipts dropped markedly (from 22.5% in 2015 to 16%, planned for end-2016), as a result of the inclusion of own and earmarked revenues and receipts of budget users. A further fall in the share of debt in total revenues and receipts (to 14.4%) is planned by 2019. This suggests a relatively low level of the city's indebtedness, so that it 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 is subject to Government approval. Hence, graph 6 shows the planned level of debt, while the actual debt depends on such approval.



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



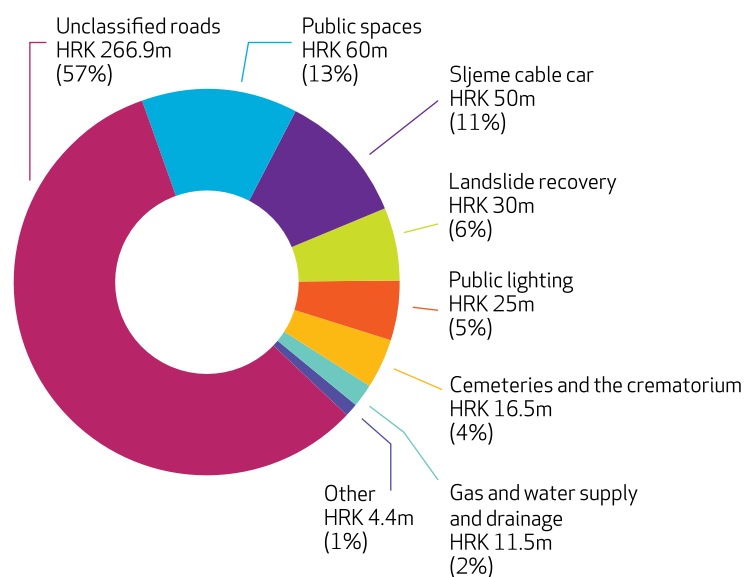
Graph 6: The City of Zagreb debt (in million HRK, left-hand scale) and the share of debt in budget revenues and receipts (in %, right-hand scale), 2014-19

* As of 2016, revenues and receipts also 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** (22.5% of total planned revenues and receipts in 2017). Most of that amount (HRK 1.8bn) relates to a guarantee for the Zagreb Holding bonds issued 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.

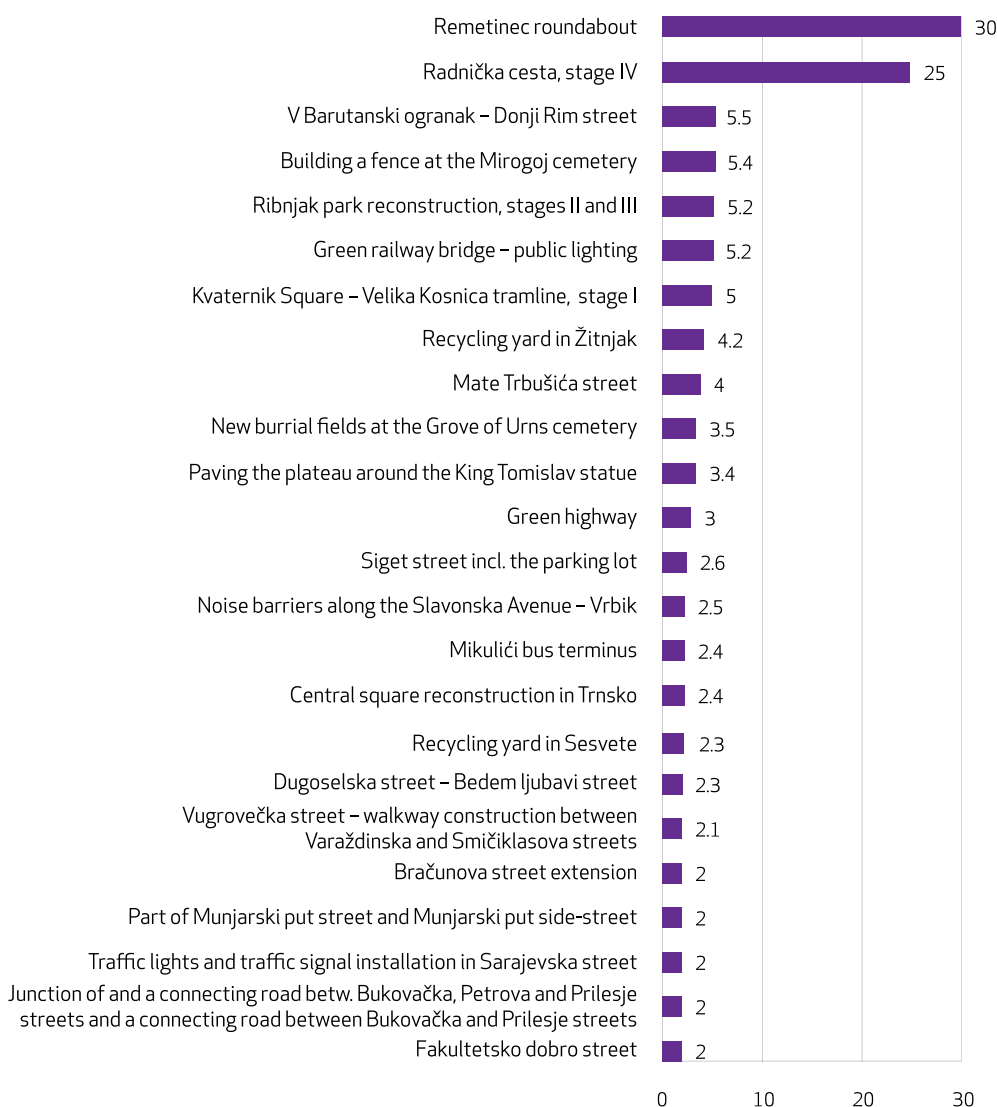
DEVELOPMENT PROGRAMMES – MAJOR INVESTMENTS

The amount planned for **the construction of utility infrastructure facilities and equipment in 2017 is HRK 464m** (graph 7). A good supply of utility services improves the quality of life and makes the city a better space 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

The crucial investments in utility infrastructure facilities and equipment relate to unclassified roads and are aimed at increasing the quality, safety and level of services, as well as ensuring the transport network integrity. Graph 8 shows some of the key investments planned. Depending on the project, funds will be used for technical documentation development, supervision and various stages of construction and reconstruction.

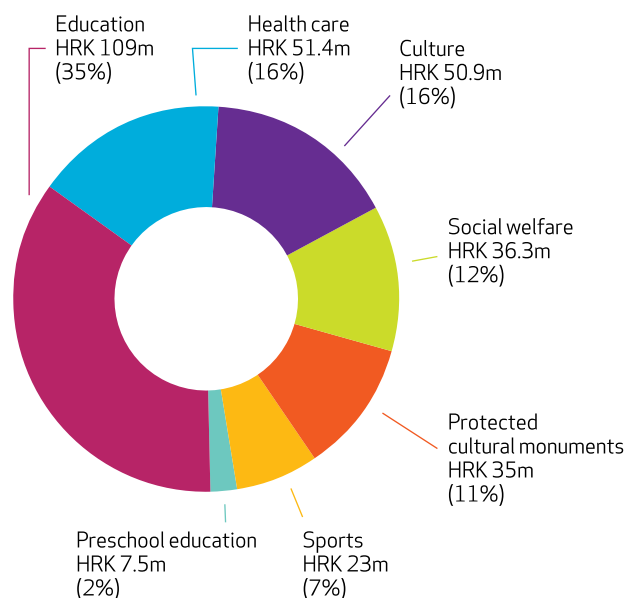


Graph 8: Some of the key planned capital investments in the construction of utility infrastructure facilities and equipment, 2017 (in million HRK)

*Compared with the 2017 budget proposal, the enacted budget envisages a **HRK 84m increase in capital investments in utility infrastructure and equipment** which include:*

- *Sljeme cable car (up HRK 49m);*
- *Remetinec roundabout (up HRK 20m); and*
- *land acquisition and project documentation development for the Branimirova street and Rudolfa Kolaka street extensions (HRK 15m).*

It is also planned to invest **HRK 313m in social service facilities** (graph 9).

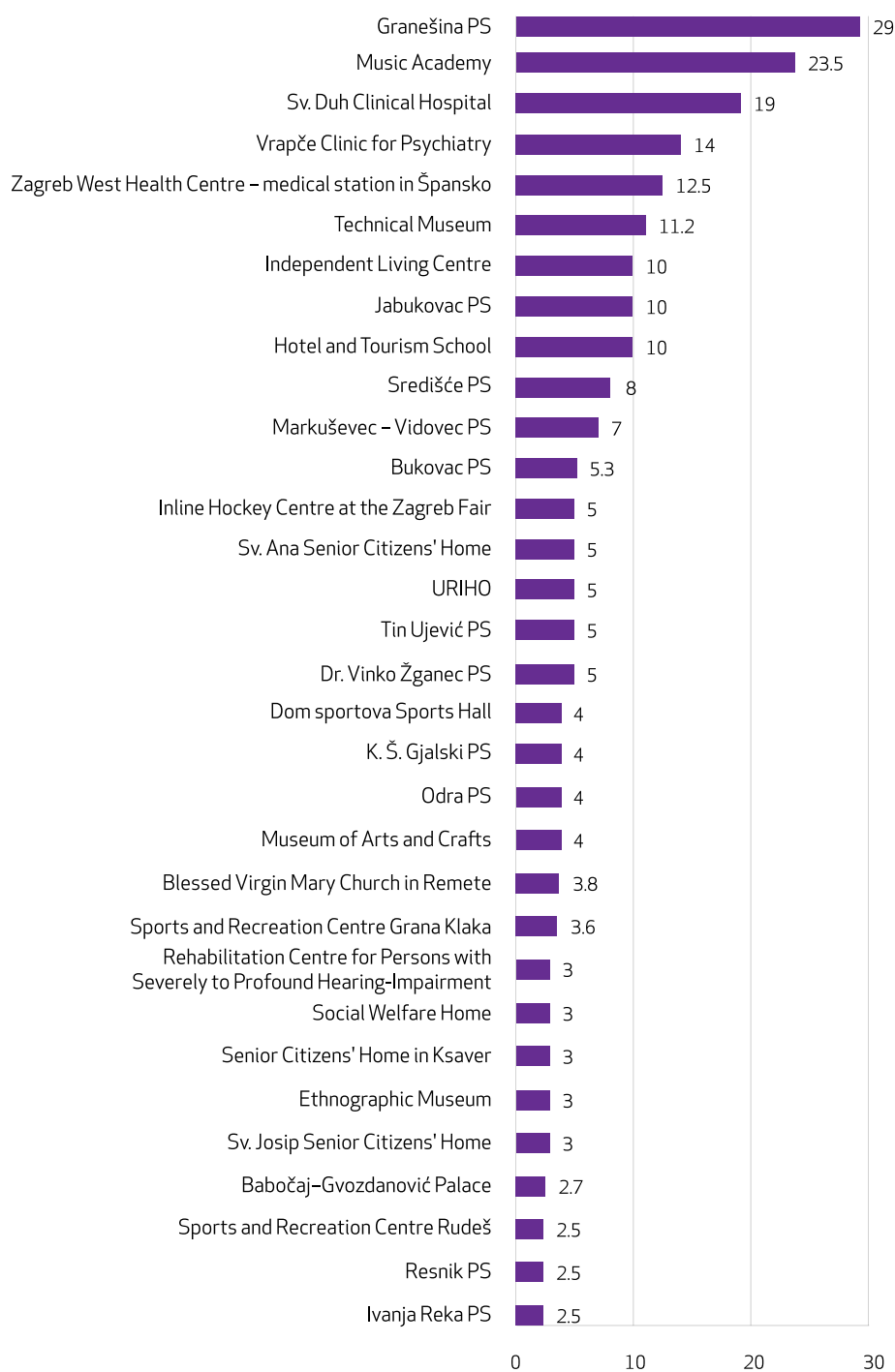


Graph 9: Capital investments in social service facilities, 2017

Compared with the 2017 budget proposal, the enacted budget envisages a **HRK 57m increase in investments in social service facilities**:

- school facilities (up HRK 30m, of which additional HRK 25m will be spent on the construction of a sports hall at the Granešina PS and additional HRK 5m for the first stage of the Bukovac PS expansion);
- health care facilities (up HRK 14m, of which an additional HRK 12m will be given for project documentation and the Špansko Health Centre expansion, and HRK 2m for a project to construct the respiratory hospital Brestovac on Sljeme);
- cultural facilities (up HRK 8m to be spent on Music Academy);
- and
- sports facilities (up HRK 5m to finance the Inline hockey centre at the Zagreb Fair).

Graph 10 shows some of the key investments planned to be made in social service facilities in 2017. Depending on the project, the investments relate to the costs of project documentation development, obtaining construction documents, conversion of premises, renovation, rehabilitation, construction and furnishing, as well as the resolution of property relations.



Graph 10: Some of the key planned capital investments in social service facilities, 2017 (in million HRK)



MAJOR CITY OF ZAGREB'S PROJECTS IN 2017

In addition to 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 significant projects carried out independently by the city and co-financed by either government or the EU.

The strategic development goals are set forth in the [Zagrebplan – the City of Zagreb Development Strategy for the Period Ending 2020](#), and include:

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

Standing out among the major projects is the [Zagreb – Energy Efficient City \(ZagEE\)](#), a programme of a complete 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 value of the planned investments over the period 2013–17 is estimated at 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.



HOW CAN YOU PARTICIPATE IN THE BUDGET PROCESS?

At its session of 20 December 2016, the City Assembly, as the citizens' representative body, adopted the City of Zagreb 2017 Budget in a substantial amount of over HRK 9.3bn. During 2017, every employed person is expected to pay an average monthly amount of HRK 1,084 in personal income tax and surtax into that budget. The average monthly amount spent per citizen will be HRK 975. It is highly important how these funds will be collected and spent, and this concerns each and every one of us. With the help of this brief guide and the [Guide to the City of Zagreb Budget](#), you can analyse budget execution (e.g. during the discussion and adoption of mid year and year end reports on budget execution, or at the time of adoption of budget revisions, if any). You can also compare the City of Zagreb's budget performance with the performances of other cities and municipalities. This would give you a better insight into the overall situation in the city and country as a whole, and perhaps encourage you to help us find some better solutions.



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

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