

A Brief Guide to the City of Zagreb 2018 Enacted Budget

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A Brief Guide to the City of Zagreb 2018 Enacted Budget



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The City's 2018 Budget is a complex and comprehensive document, showing the City's planned sources of revenues and the way they are spent. Hence this brief guide aims to provide, in the simplest and most concise way possible, basic information on these issues, thus encouraging citizens to become involved in the budget process and contribute to the quality and efficiency of the City's services.

After the second reading debate, on 21 December 2017, the City Assembly enacted [The City of Zagreb 2018 Budget](#) and the [Projections for 2019–2020](#). The key features of these documents comply with the City's main strategic goals set forth in [Zagrebplan 2020](#):

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

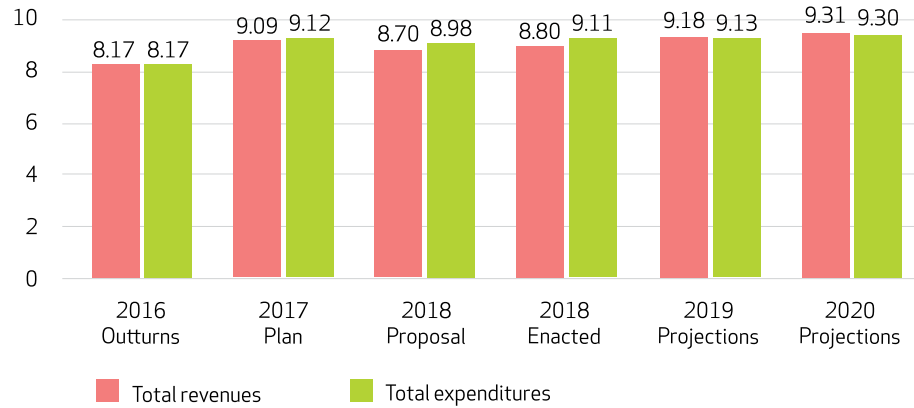
As indicated in the calendar laid down in the [Budget Act](#), the City's budget is prepared in line with the Government's annual [Economic and Fiscal Policy Guidelines](#) and the [Ministry of Finance's Instructions for Drafting the Budgets of Units of Local and Regional Self-government](#). Among other things, the guidelines set out the economic goals for the three-year period and the **general government** macroeconomic and fiscal framework. The [2018–2020 Economic and Fiscal Policy Guidelines](#) have been drafted on the basis of strategic plans, the 2017 National Reform Programme and the 2017–2020 Convergence Programme, as well as the July 2017 EU Council recommendations. The recovery of economic activity is expected to continue over the medium term with real GDP growth rate dropping gradually from 3.2% in 2017 to 2.8% in 2018, 2.6% in 2019 and 2.5% in 2020.

The City's website provides the full [City of Zagreb 2018 Enacted Budget](#), [Projections for 2019–2020](#) and [Guide to the City of Zagreb Budget](#) (containing general information regarding the City budget and the budget process). Below is a brief presentation of the revenues, expenditures, financing account and debt in the 2016–2020 period, including a detailed breakdown of the City's revenues and expenditures in 2018.

general government
central government
(budgetary and
extra-budgetary users
of the national budget)
plus budgetary and
extra-budgetary users
of county, city and
municipality budgets.

ENACTED REVENUES AND EXPENDITURES

According to the 2018 enacted budget, the City's **total revenues and expenditures** will amount to **HRK 8.8bn and HRK 9.1bn**, respectively (graph 1).



Graph 1: City of Zagreb budget revenues and expenditures, 2016–2020 (in HRK bn)*

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

In parallel with the enacted 2018 budget proposal, budget projections are made for 2019 and 2020. As shown in graph 1, budget revenues and expenditures will rise slightly in 2019 and 2020 in line with the expected GDP growth.

The City's budget contains **the revenues and expenditures of all 325 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 and secondary school education institutions, social welfare institutions, the Zagreb Fire Department, the Office for Physical Planning, Public Institution Maksimir, the Zoological Garden, the Sports Facilities Management Institution, etc. Including own and earmarked revenues and receipts of all budget users since 2016 in the planning and reporting process allows for transparent and comprehensive reporting on all budget and budget users' revenues and receipts.

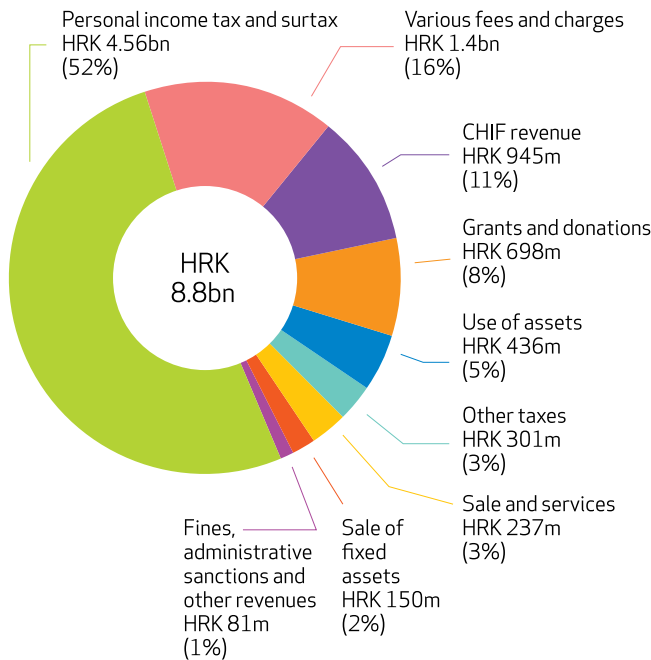
There are also [companies founded by the City](#) for the provision of public services and the performance of public activities (e.g. Zagreb Holding). However, as such companies are not majority-financed from the City budget (that is, they are not budget users), their revenues and expenditures are not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

ENACTED REVENUES

The total enacted amount of **revenues for 2018 is HRK 8.8bn** (graph 2), approximately half of which will come from **personal income tax and surtax (HRK 4.56bn)**. The second largest revenue source will constitute various **fees and charges** amounting to HRK 1.4bn, mainly utility contributions and charges (HRK 870m), followed by **budget users' revenues from the Croatian Health Insurance Fund (CHIF) for health services rendered** (HRK 945m). Significant amounts are expected to be sourced from **grants and donations** (HRK 698m, mostly from the national or EU budget) and the **use of assets** (HRK 436m, for the most part from the rental and lease of City property and the annual public road user charges payable at vehicle and trailer registration).



In 2018, each employed person will pay an average monthly amount of HRK 946 in personal income tax and surtax into the budget.



Graph 2: City of Zagreb budget revenues, 2018 enacted budget*

* Including own and earmarked revenues of budget users.

2018 total revenues are planned to **decrease by HRK 291m (3.2%)** in comparison with 2017. The **sharpest fall** is expected in **revenues from personal income tax and surtax** (HRK 249m, i.e. 5.2%), due to the amended Personal Income Tax Act, effective from 1 January 2017, increasing basic personal allowance and introducing changes to tax rates and tax brackets. An increase in grants is thus planned to offset a portion of the local and regional self-government units' (City of Zagreb included) losses in personal income tax revenues (the offset is capped at the amount equalling 2016 revenues).

A **decrease in revenue from the sale of fixed assets** of HRK 90m (37.6%) is planned in 2018, for the most part due to reduced revenue from the sale of land (HRK 178m). The 2017 planned revenue from the sale of land was higher than usual due to the sale of real estate to Zagreb Holding for the purpose of the second phase of Podbrežje residential zone construction. However, revenue from the sale of buildings (for the most part residential and business facilities) is planned to be HRK 88m higher than in 2017.

On the other hand, when compared to 2017, a HRK 190m (39.4%) **increase in grants** is expected. Grants from the national budget are expected to amount to HRK 324m (HRK 200m in personal income tax compensations, HRK 50m from the equalisation fund for decentralised functions, HRK 31m in subsidies for the Arena sports hall rental fees, HRK 20m in subsidies for high school transport, etc.). Approximately HRK 276m is planned to be received from EU funds and international organisations, notably for waste management, the ZagEE project, road construction, public lighting, teaching assistants, public bicycle-sharing system and a number of other projects.



Differences in revenues between the proposed and enacted 2018 budgets

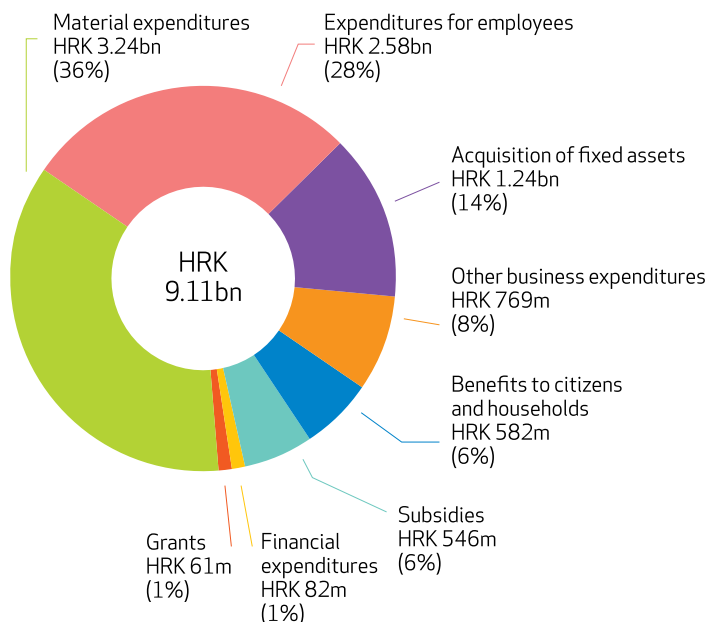
Compared with the initial 2018 budget proposal, the enacted 2018 budget shows a rise in total revenues by HRK 100m due to grants based on EU funds transfer, i.e. grants for waste management received from the Ministry of Environment and Energy.

ENACTED BUDGET EXPENDITURES BY TYPE

Total expenditures in 2018 will stand at **HRK 9.11bn** (graph 3). The most important features of expenditure and outlay planning, as before, are the following:

- 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;
- timely settlement of all contractual and credit liabilities;
- ensuring the regular operation of all administrative bodies with a view to providing the maximum level of services.

Total expenditures in 2018 are planned **to decrease by HRK 7m (0.1%)** in comparison with 2017. The **sharpest cuts** will be made **in subsidies** (HRK 141m, i.e. 20.5%) **and benefits to citizens and households** (HRK 71m, i.e. 10.9%), while the **largest increase** is planned **in expenditures for the acquisition of fixed assets, mainly buildings** (HRK 208m, i.e. 20.1%).



Graph 3: City of Zagreb budget expenditures by type (economic classification), 2018 enacted budget*

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

The bulk of **material expenditures** (HRK 3.24bn) relates to current and investment maintenance of utility infrastructure facilities (e.g. public spaces, public lighting, roads, cemeteries and the Crematorium), 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 running of the City's administrative bodies and City budget users.

Expenditures for employees (HRK 2.58bn) include salaries, social security contributions and other expenditure related to employees, with HRK 1.7bn being earmarked for 11,900 employees of administrative bodies and those budget users whose employees are not paid out of own and earmarked revenues (such as kindergartens and museums) and HRK 882m for the 6,500 employees of budget users whose staff are paid from own and earmarked revenues (e.g. hospitals, polyclinics and health centres). These also include expenditures for persons involved in EU-funded projects.

About HRK 1.24bn 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 of capital investments (HRK 774m) 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 Service Facilities in 2018](#) and [Agenda for Transportation and Municipal Economy in 2018](#).

Other business expenditures (HRK 769m) mainly include current donations and capital grants. Current donations (HRK 467m) are intended for the co-financing of sports (HRK 209m), religious and private kindergartens and schools (HRK 96.5m), culture (e.g. libraries, museums and theatres, as well as music, visual arts and film) and non-profit organizations (associations, social and development programmes, etc.). The bulk of capital grants is given for the financing of the wastewater treatment project (HRK 116m), intervention measures for the waste management plan (HRK 90m), the City's public transport company's (ZET) motor fleet renewal and reconstruction (HRK 18m), the Zagreb Waste Management Centre (HRK 15m), the Venture Capital Fund (HRK 5m) and recycling stations (HRK 2m).

Subsidies (HRK 546m) are earmarked for the promotion of the production and services of companies, sole proprietorships, farmers and SMEs. The bulk of the subsidies are allocated for public transport, i.e. ZET (HRK 386m), for the rental of the Arena sports hall (HRK 62m), for the promotion of sole proprietorships and SMEs (HRK 30.5m) and the employment of persons with disabilities (HRK 29m).



Differences in expenditures between the proposed and enacted 2018 budgets

The city's political fractions and city representatives proposed a total of 44 amendments to the 2018 budget proposal submitted to the City Assembly on 30 November 2017, 15 of which were accepted in their entirety. Total expenditures in the budget enacted on 21 December 2017 were raised by HRK 128.5m, i.e. from HRK 8.98bn to HRK 9.11bn.

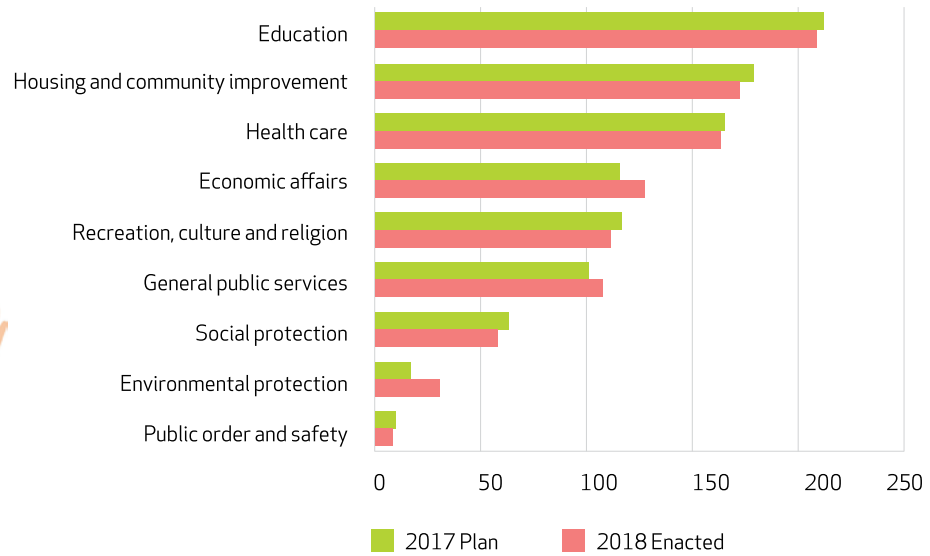
The most substantial amendments

A HRK 111.8m decrease earmarked for subsidies, mainly for ZET transport (HRK 112.5m);

- A HRK 104m increase earmarked for other expenditures, mainly for capital grants (HRK 90.2m for intervention measures for the waste management plan, HRK 5m for the Venture Capital Fund whose purpose is to provide support for start-ups, HRK 3.9m for the Waste Management Centre) and current donations (HRK 4.5m for public sports needs);
- A HRK 93.3m increase earmarked for the acquisition of fixed assets in accordance with programmes for utility infrastructure facility and equipment construction and capital investment into social service facilities (HRK 73.8m for the construction of unclassified roads, HRK 9.2m for water supply and sewerage, HRK 7m for health care facilities, HRK 5m for preschool facilities, etc.);
- A HRK 26.8m increase earmarked for material expenditures, mostly services connected with the maintenance of unclassified roads (HRK 20m) and the registration of city assets (HRK 2m);
- A HRK 14m increase earmarked for capital grants for the acquisition of a low-dose CT scanner and technical equipment for the Thoracic Radiology Unit at the Department for Lung Diseases of the University Hospital Center Zagreb.

ENACTED EXPENDITURES BY PURPOSE

Average monthly spending per citizen will be **HRK 983** (graph 4). The bulk of this amount will be spent on education (HRK 208), followed by housing and community improvement services (HRK 172), health care (HRK 162), and economic affairs (HRK 127). Compared with 2017, the average monthly spending per citizen in 2018 is planned to increase by HRK 13 when it comes to environment protection, HRK 11 when it comes to spending on economic affairs and HRK 6 on general public services, while spending per citizen on social protection and housing and community improvement services will drop by HRK 6.



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

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

Expenditures for education comprise 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 relate, for the most part, to city property and public space maintenance (e.g. public lighting, etc.).

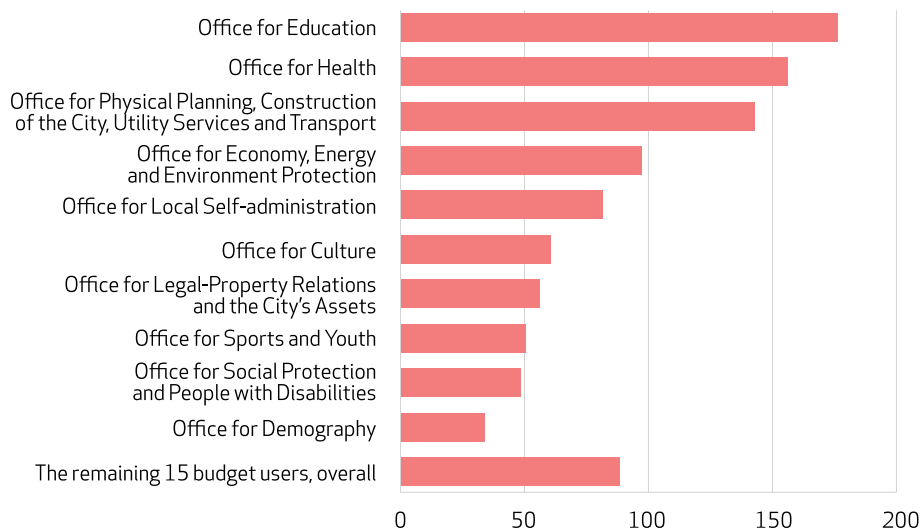
Expenditures for healthcare relate to health protection, the development and implementation of health protection programmes and strategies, health promotion, addiction prevention and control, support for health programmes and projects carried out by associations and other forms of organised health-oriented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

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

Expenditures for recreation, culture and religion include the financing of cultural institutions, supporting various cultural programmes and activities, co-financing of sports activities, subsidies for the Arena sports hall rental fees, etc.

ENACTED EXPENDITURES BY BUDGET USER

The majority of the City administrative bodies account for relatively small shares in total expenditures, while the **three most important City offices** – for Education, for Health, and for Physical Planning, Construction of the City, Utility Services and Transport – will jointly **spend approximately 50% of the City budget**, i.e. **a monthly average of HRK 472 per citizen**.



Graph 5: Average monthly budget user spending per citizen (organisational classification), 2018 enacted budget (in HRK)*

* Including expenditures financed 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 in relation to business operations and the sale and acquisition 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 kind. The difference between receipts and outlays represents *net financing*, which is the amount that should equal the surplus/deficit from the revenue and expenditure account.



	2016 Outturns	2017 Plan	2018 Proposal	2018 Enacted	2019 Projections	2020 Projections
Revenue and expenditure account						
Total revenues	8,169.7	9,094.5	8,703.5	8,803.5	9,179.6	9,307.7
Total expenditures	8,168.4	9,117.0	8,981.7	9,110.2	9,133.8	9,297.6
Deficit/surplus	1.3	-22.5	-278.2	-306.7	45.8	10.1
Financing account						
Receipts from financial assets and borrowing	221.3	290.1	634.8	634.8	362.1	362.3
Outlays for financial assets and loan repayment	282.8	267.6	306.6	328.1	307.9	332.2
Net financing	-61.5	22.5	328.2	306.7	54.2	30.1

Table 1: Revenue and expenditure account and financing account, 2016–2020 (in HRK m)*

* Including own and earmarked revenues and receipts of budget users, as well as expenditures and outlays financed from these revenues and receipts.

Including own and earmarked revenues and receipts of budget users, receipts in 2018 are planned in the amount of HRK 634.8m, HRK 290m relating to new borrowing and HRK 323m to the sale of shares and equity of firms in the public sector. Outlays are planned in the amount of HRK 328.1m, the bulk of which (HRK 255m) is earmarked for the repayment of existing debt.

Since the Ministry of Finance, according to its [Instructions for Drawing up Local and Regional Self-government Units' Budgets](#), insists on loss carry-over to future budgets, and the City's budget deficit in 2016 amounted to HRK 140m, it has been proposed that the loss be carried over successively (HRK 100m in 2019 and HRK 40.2m in 2020). The deficit/surplus in the revenue and expenditure account differ from the net financing amount in the financing account for the 2019–2020 period due to this loss coverage.

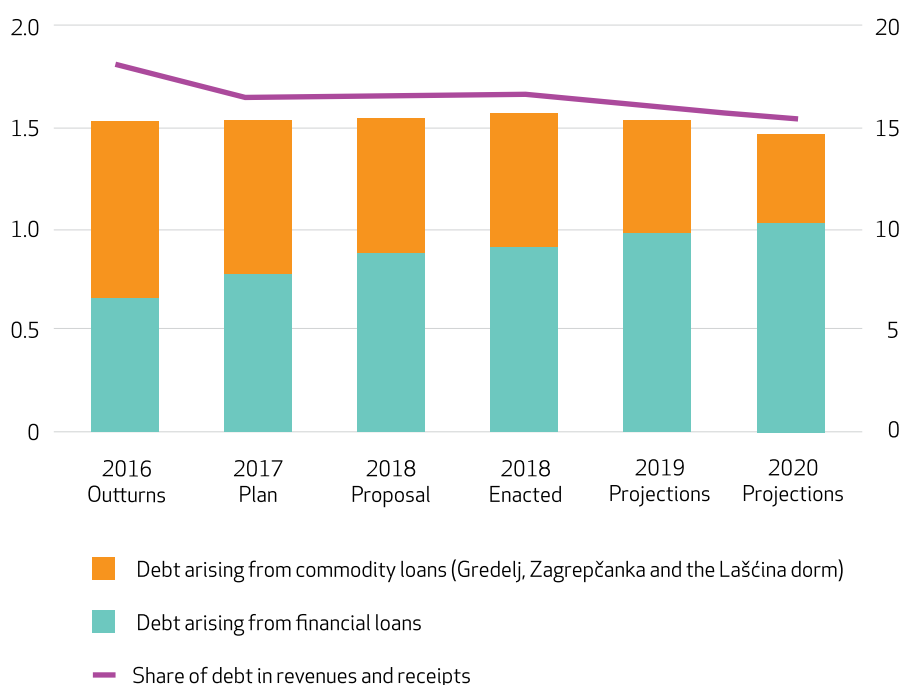
Compared with the budget proposal, total revenues and expenditures presented in the enacted budget picked up by HRK 100m and HRK 128.5m, respectively. Changes in the financing account, when compared with the initial 2018 budget proposal, are found only in the outlays, which increased by a total of HRK 21.5m (7.5%), after an increase of HRK 50m due to the recapitalization of the Institute of Immunology (acquisition of shares and equity) and a reduction of HRK 28m due to current debt repayment.

PLANNED CITY BUDGET DEBT

The City's **direct debt at the end of 2018** is planned to amount to approximately **HRK 1.58bn** (graph 6). The share of debt in budget revenues and receipts in 2018 is expected to stand at about 16.7%, but trending toward 15.4% in 2020. The City's indebtedness level is low, and 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. Therefore, graph 6 shows the planned level of debt, while the actual debt depends on that approval.



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



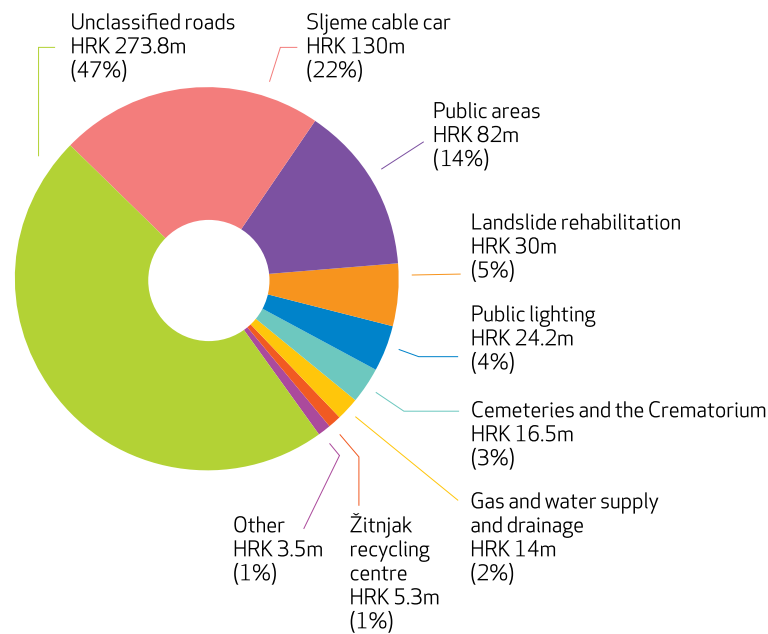
Graph 6: The City's debt (in HRK bn, left-hand scale) and the share of debt in budget revenues and receipts (in %, right-hand scale), 2016–2020*

* 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 guarantees) exposed to an **indirect debt of HRK 2.4bn** (25.4% of total planned revenues and receipts in 2017). The bulk of this amount (HRK 2.3bn) relates to a guarantee for a bond issue by Zagreb Holding to refinance a 2007 debt. These bonds have been issued in two tranches (HRK 1.8bn in mid-2016 and an additional HRK 500m in July 2017), and the guarantee has been approved by the Finance Minister.

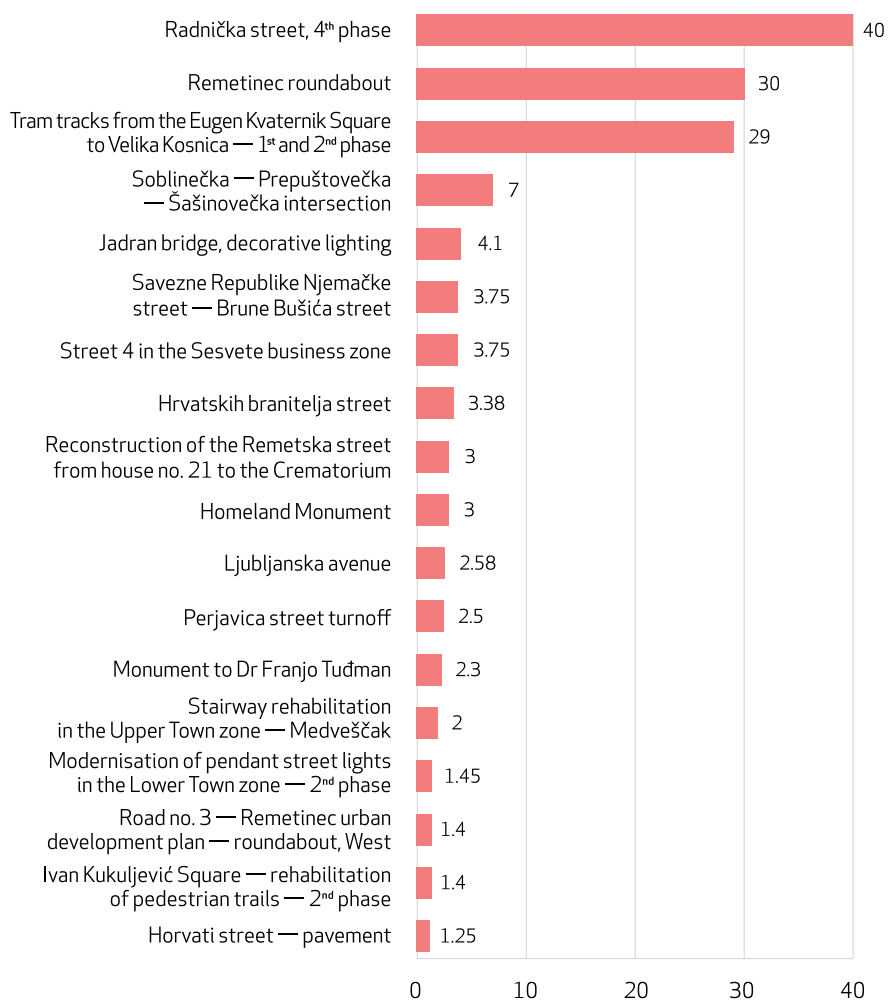
DEVELOPMENT PROGRAMMES – MAJOR INVESTMENTS

The amount planned for the construction of utility infrastructure facilities and equipment in 2018 is HRK 579m (graph 7). A good supply of utility services improves the quality of life and makes the city 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 investment in the construction of utility infrastructure facilities and equipment, 2018 enacted budget

Major investments concerning utility infrastructure facilities and equipment will cover unclassified roads in order to improve their quality, safety and level of service, and to ensure the integrity of the traffic network. Some of the key planned investments are shown in graph 8. Depending on the project, funds will be used for the development of technical documentation, supervision, different stages of construction and reconstruction.



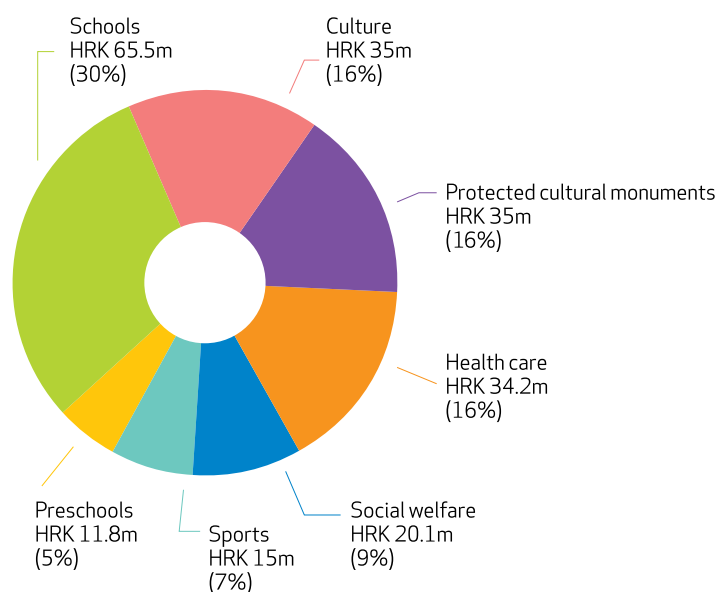
Graph 8: Some of the key planned capital investments in the construction of utility infrastructure facilities and equipment, 2018 enacted budget (in HRK m)



Compared with the 2018 budget proposal, the enacted budget envisages a **HRK 66m increase in capital investments in utility infrastructure facilities and equipment**. The most substantial changes when compared with the 2018 budget proposal are as follows:

- A HRK 70m increase for the settlement of legal property relations issues surrounding the Branimirova street and the Rudolf Kolak street;
- A HRK 20m increase for the construction of the first and second phases of tram tracks from the Eugen Kvaternik Square to Velika Kosnica;
- A HRK 5.3m increase for the Žitnjak recycling centre;
- A HRK 3.3m increase for transport development, specifically for the feasibility study and the urban development plan and architecture tender for the construction of the Jarun bridge, the construction documents necessary for the first phase of the tram tracks to the Borongaj Campus, and the construction documents necessary for the Novi Jelkovec – Sesvete centre link road;
- A HRK 2m increase for the development of technical documentation and the rehabilitation of stairways in the Upper Town zone – Medveščak;
- A 20m decrease for the Sljeme cable car.

HRK 216.5m in capital investments are planned for social service facilities (graph 9).



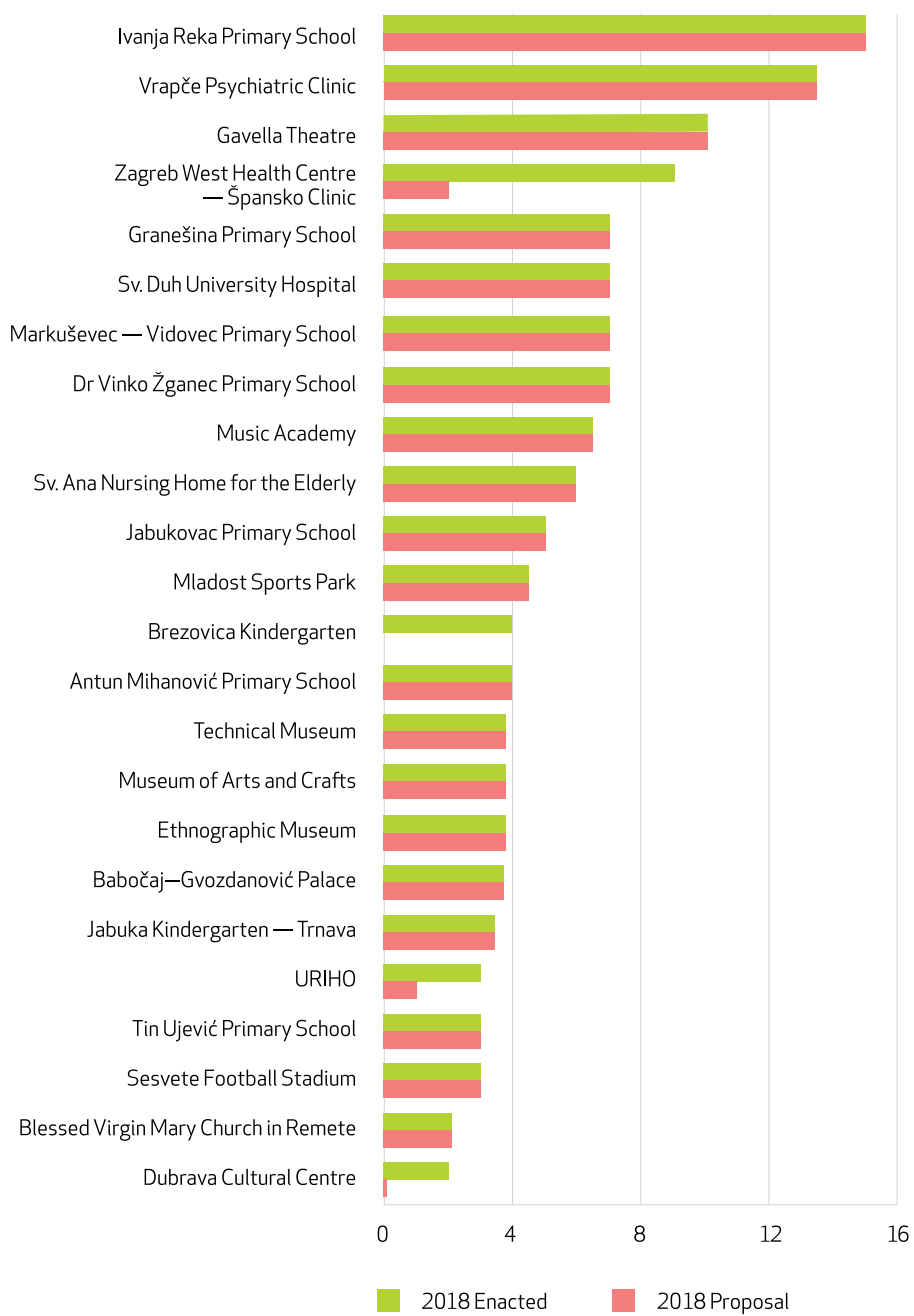
Graph 9: Capital investment in social service facilities, 2018 enacted budget

Compared with the 2018 budget proposal, the enacted budget envisages a **HRK 16.5m (8.3%) increase in investment into social service facilities**, specifically:

- Health care, by HRK 7m (reconstruction and upgrade of the Špansko Health Centre);
- Pre-school, by HRK 5m (HRK 4m for the development of technical documentation and the settlement of legal property relations for the Brezovica Kindergarten, and HRK 500 thousand each for the development of technical documentation and the settlement of legal property relations for Sveta Klara and Sešvetski Kraljevec kindergartens);
- Culture, by HRK 2.5m (HRK 2m for the resolution of the status of the Dubrava Cultural Centre and HRK 500 thousand for the construction documents to either build new facilities for the Joint Museum Exhibit Storage Facility or reconstruct the existing facilities);
- Social care, by HRK 2m (construction of a joint centre for persons with disabilities, in cooperation with URIHO).

Graph 10 shows some of the key planned investments in social service facilities in 2018. Depending on the project, the investments cover the costs of project documentation development, obtaining construction documents, conversion of premises, repairs, alterations and construction, furnishing and the costs of property relationships settlement.





Graph 10: Some of the key planned capital investments in social service facilities, 2018 (in HRK m)

HOW CAN YOU PARTICIPATE IN THE BUDGET PROCESS?

At its session held on 21 December 2017, the City Assembly, as the citizens' representative body, adopted the City of Zagreb 2018 Budget in a substantial amount of over HRK 9.11bn. During 2018, every employed person is expected to pay an average monthly amount of HRK 946 in personal income tax and surtax into that budget. The average monthly amount spent per citizen will be HRK 983. 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 or budget proposal for 2019). 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 the 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

PREVIOUSLY PUBLISHED GUIDES

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

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