

A Brief Guide to the City of Zagreb 2019 Budget Proposal

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A Brief Guide to the City of Zagreb 2019 Budget Proposal



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The City's 2019 budget proposal is a complex and comprehensive document, showing the City's planned sources of revenues and their spending, and it is therefore of great importance to all Zagreb residents. This brief guide aims to provide, in the simplest and most concise way, basic information on the proposed budget. It is thus encouraging citizens to become involved in the budget process and contribute to the quality and efficiency of the City's services, which must meet the needs, and expectations of the citizens, while staying within the means of the City. Besides this brief guide, the City's website offers detailed information on the [2019 Budget Proposal](#), while general information on the City's 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](#). Among other things, the guidelines set out economic policy goals for the three-year period, and the **general government's** macroeconomic and fiscal framework. The 2019–2021 Economic and Fiscal Policy Guidelines have been drafted on the basis of strategic plans, the 2018 National Reform Programme and the 2018–2021 Convergence Programme of the RC, as well as specific EU Council recommendations. Favourable economic activity trends are expected to continue over the medium term, with a real GDP growth rate of 2.8% in 2018, slowing down gradually to 2.7% in 2019 and 2.5% in 2020 and 2021.

The key features of the City of Zagreb 2019 Budget are in line with the main strategic goals set forth in [Zagrebplan 2020](#), which include the following:

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

regional self-government
a legal framework within which counties and the City of Zagreb carry out responsibility for certain activities (e.g. primary and secondary education, health care, social security and welfare) and are entitled to their own revenues and own representative and executive authorities.

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

city administrative bodies offices, institutes and professional services performing activities within the competence of the City.

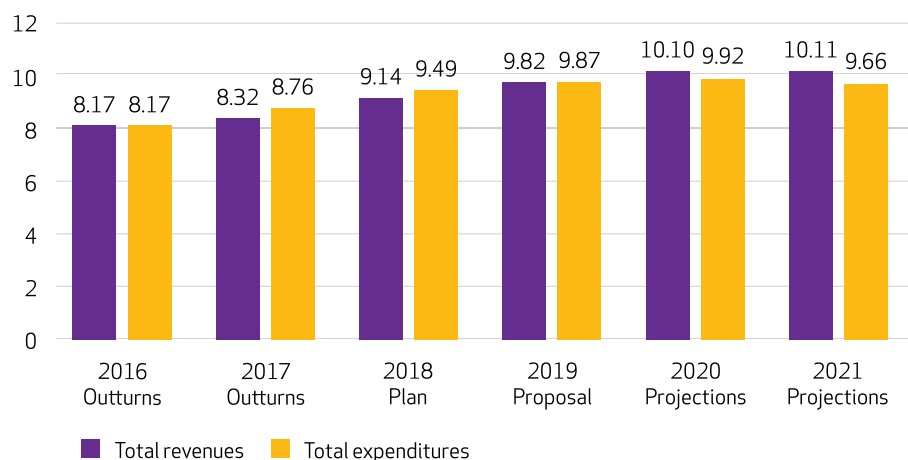
As before, in planning expenditures and outlays it is crucial to:

- provide funding for high-priority capital projects and utility infrastructure improvement projects as prerequisites for faster economic growth;
- ensure an equal level of acquired rights for lower-income citizens;
- promote demographic renewal;
- settle all contractual and credit liabilities in a timely manner; and
- ensure the smooth operation of all city administrative bodies and the maximum level of services they provide.

Below is a brief presentation of the revenues, expenditures, financing account and debt in the period 2016–2021, including a detailed breakdown of revenues and expenditures for 2019.

PLANNED REVENUES AND EXPENDITURES

Total revenues and expenditures planned for 2019 stand at **HRK 9.82bn** and **HRK 9.87bn** respectively (graph 1).



Graph 1: The City of Zagreb revenues and expenditures, 2016–2021 (in billion HRK)*

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

earmarked revenues revenues used for a predetermined purpose. For example, revenues from utility charges are used for the maintenance of the City's utility infrastructure.

In parallel with the preparation of the 2019 budget proposal, budget projections are made for 2020 and 2021. As shown in graph 1, budget revenues will rise slightly in 2020, but fall again in 2021 below the level of expenditures planned for 2019. As concerns public health care institutions, a grant from the European Regional Development Fund in the amount of HRK 77m is planned in 2019 for the construction and equipment of the

Children's Centre for Translational Medicine (Children's Hospital Srebrnjak). The amount planned for that purpose in 2020 is HRK 355m, and, as the project finishes in 2021, the revenues and expenditures planned for budget users in that year are significantly lower.

The City's budget contains **the revenues and expenditures of all 329 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), preschool, primary school and secondary school education institutions, welfare institutions, the Zagreb Fire Department, Office for Physical Planning, Public Institution Maksimir, Zoological Garden, Sports Facilities Management Institution, etc. The inclusion of own and earmarked revenues in the planning and reporting process allows for transparent and comprehensive reporting on all budget and budget users' revenues and receipts.

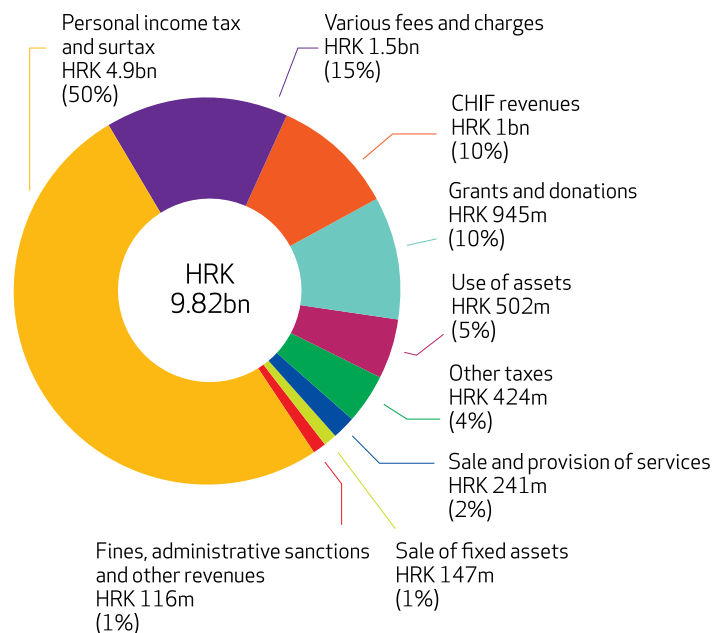
In addition to this, there are [companies founded by the City](#) for the provision of public services and the performance of public activities (e.g. Zagreb Holding). However, as such companies are not majority-financed from the City budget (i.e. they are not budget users) their revenues and expenditures are not shown in the budget.



PLANNED REVENUES

Total revenues planned for 2019 amount to HRK **9.82bn** (graph 2), half of which will come **from personal income tax and surtax (HRK 4.9bn)**. The second largest source of revenues will be various **fees and charges** amounting to HRK 1.5bn (mostly from utility contributions and charges) and **budget users' revenues from the Croatian Health Insurance Fund (CHIF)** for health services rendered (HRK 1bn). Significant amounts are expected from **grants and donations** HRK 945m (mostly from the EU budget), and from the **use of assets** HRK 502m (mostly from the rental and lease of city property and from the annual public road user charges).

Each employed person will pay an average monthly amount of HRK 1,088 in personal income tax and surtax into the budget.



Graph 2: The City's budget revenues, 2019 budget proposal*

* Including own and earmarked revenues of budget users.

decentralised functions

responsibility for part of specific public services (primary and secondary education, health care, welfare and fire fighting services), delegated by government to particular counties, cities and municipalities, for which they receive additional funding.

subsidy

a non-repayable sum of money granted for the purpose of stimulating the production of goods or provision of services.

Total revenues in 2019 are planned to go up by **HRK 680m (7.4%)** from 2018. **The largest increase is expected in revenues from grants (up HRK 491m or 116%)**. Grants from the national budget are expected to amount to HRK 157m (HRK 60m for **decentralized functions**, HRK 37m for the Remetinec Roundabout, HRK 30m for the Arena rental fee subsidies, HRK 20m for high school transport **subsidies**, etc.). Approximately HRK 656m is planned to be received from EU funds and international organisations. They will be used mostly for the Remetinec Roundabout (HRK 199.4m), the waste management programme (HRK 110m), Children's Hospital Srebrnjak (HRK 77m), the ZagEE project (HRK 32.2m), the music school in Vlaška street (HRK 26.1m), the energy saving renovation of public buildings (HRK 24.1m), the redesigning of the Gradec Gallery into a Visitor Centre Zagreb (HRK 15.2m), modernisation of pedestrian underpasses (HRK 13.7m) and a number of other minor projects.

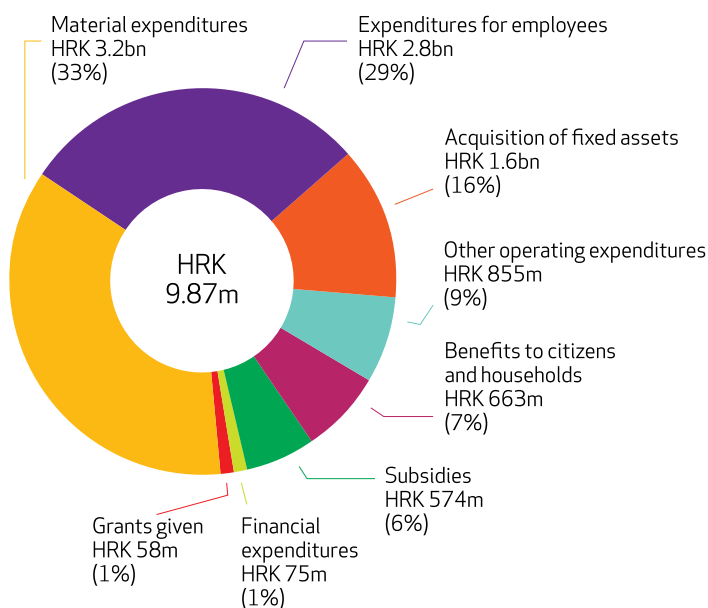
Budget users' revenues received from the CHIF for health services rendered are planned to **increase by HRK 85m (9%)** from 2018. **Revenues from assets are planned to go up by HRK 61.4m (13.9%)**, on account of HRK 63m in revenues from default interest according to a settlement reached between the City of Zagreb and the Ministry of Finance in a dispute over funds for decentralized functions. **Revenues from various fees and charges will increase by HRK 48.6m (3.4%)**, mostly due to a rise in revenues under special regulations received by budget users.

In contrast to this, **revenues from other taxes** are planned to **decrease by HRK 42m (9%)** from 2018. This relates to revenues from real estate transaction tax (down HRK 48m), due to expected amendments to the Real

Property Transaction Tax Act, according to which the real property transaction tax rate falls from 4% to 3% as of 1 January 2019.

PLANNED EXPENDITURES BY TYPE

Total expenditures planned for 2019 amount to **HRK 9.87bn** (graph 3).



Graph 3: The City's budget expenditures by type (economic classification), 2019 budget proposal*

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

The bulk of **material expenditures** (totalling HRK 3.2bn) relates to current and investment maintenance of utility infrastructure facilities (e.g. public spaces, public lighting, roads, cemeteries and the crematorium), the City administration and the City budget users' facilities, as well as office materials, energy use and services (e.g. telephone, postal, transportation and information services), necessary for the smooth functioning of the City's administrative bodies and budget users.

Expenditures for employees (HRK 2.8bn) include salaries, social security contributions and other expenses for employees, including expenditures for persons engaged in EU-funded projects. Of the total amount, HRK 1.75bn will be spent on about 12,500 employees with administrative bodies, and with budget users whose employees are not paid from own revenues (such as kindergartens and museums), and HRK 1,082m on about 6,500 employees of budget users whose staff are paid from own and earmarked revenues (e.g. hospitals, polyclinics and health centres).



An amount of about HRK 1.6bn 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 welfare institutions, etc. The lion's share (HRK 930m) of capital investments 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 2019](#) and [Agenda for Transportation and Municipal Economy in 2019](#).

The bulk of **other operating expenditures** (HRK 855m) relates to current donations and capital grants. Current donations (HRK 446m) are given for the co-financing of sports (HRK 195m), religious and private kindergartens and schools (HRK 96.4m), culture (e.g. libraries, museums, theatres and music, art and film industries), the Zagreb Fire Fighting Association, and non-profit organisations (such as NGOs, social and development programmes, etc.). The largest share of capital grants will be spent on the financing of a wastewater treatment project (HRK 208.7m), intervention measures within the waste management programme (HRK 110m), the ZET company's motor fleet renewal and reconstruction (HRK 32m) and the Zagreb Waste Management Centre (HRK 10.1m).

Benefits to citizens and households (HRK 663m) include cash assistance to parent educators (HRK 290m), compensation of transportation costs, including those for persons with disabilities, paid to ZET (HRK 73m), newborns' assistance (HRK 70m), pension supplement (HRK 69.8m), assistance for improving the living standards of pupils and students, and aid to the orphans of fallen and missing homeland war veterans (HRK 35m), assistance for the purchase of textbooks and school uniforms (HRK 30m), the co-financing of long-distance pupils transportation (HRK 20m), nutrition of socially vulnerable persons (HRK 17.1m), housing assistance (HRK 14m). There are also numerous other types of assistance to disabled and unemployed persons, blood donors, homeland war veterans and victims, scholarships for pupils and students, etc.

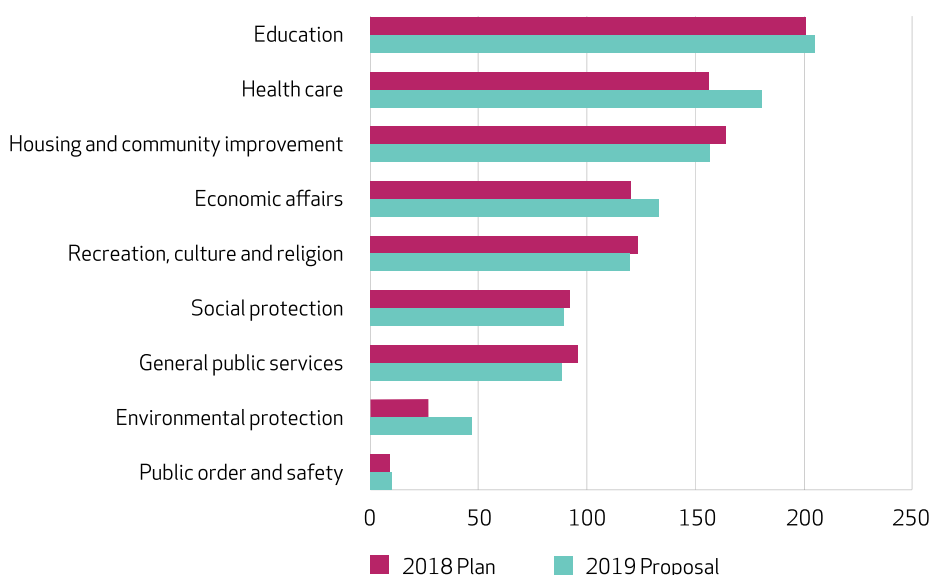
Subsidies (HRK 574m) are earmarked for the promotion of production and services of companies, sole proprietorships, farmers and SMEs. The bulk of the amount was allocated for the municipal public transport, i.e. ZET (HRK 422m), the Arena sports hall rental (HRK 60m), promotion of sole proprietorships and SMEs (HRK 30.7m) and employment of disabled persons (HRK 29m).

Total expenditures are planned to go up by HRK 378m (4%) in 2019 relative to the current plan for 2018. **The largest increase is planned in expenditures for the acquisition of fixed assets** (HRK 310m or 24.1%), followed by **expenditures for employees** (HRK 214m or 8.2%) and **other expenditures**

(HRK 126m or 17.3%). On the other hand, **the sharpest cuts will be made in benefits to citizens and households** (HRK 78m or 10.5%), **subsidies** (HRK 76m or 11.7%) and **material expenditures** (HRK 68m or 2.1%).

PLANNED EXPENDITURES BY PURPOSE

The **City's planned average monthly spending per citizen will be HRK 1,025** (graph 4). The bulk of this amount will be spent on education (HRK 204), followed by health care (HRK 180), housing and community improvement services (HRK 156), and economic affairs (HRK 133). Compared with 2018, the average monthly spending per citizen is planned to increase by HRK 24 (health care) and HRK 20 (environmental protection), while spending per citizen on general public services and on housing and community improvement services will be cut by HRK 7 each.



Graph 4: Average monthly spending per purpose, per citizen (functional classification), 2019 budget proposal (in HRK)*

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





Expenditures for education relate to preschool education (staff costs in city kindergartens and city kindergarten fee subsidies), primary and secondary education (including portions of employee salaries, e.g. for extended stay at school), material expenditures and the acquisition of fixed assets.

Expenditures for health care 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 health care institutions.

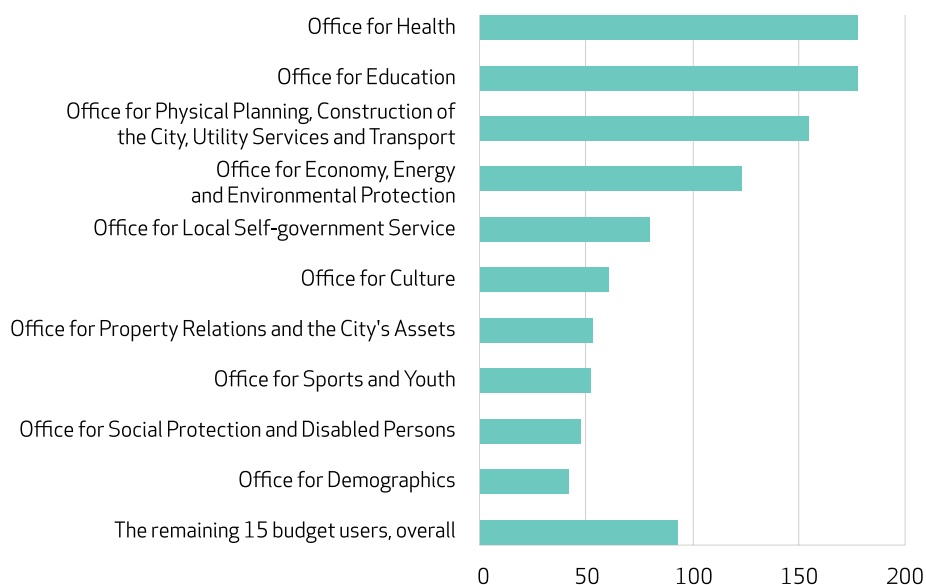
Housing and community improvement services relate, for the most part, to city property and public space maintenance (e.g. public lighting, etc.).

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

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

PLANNED EXPENDITURES BY BUDGET USER

Most of the City's administrative bodies accounted for relatively small shares in total expenditures, while **the three most important City offices** – for Health; Education; Physical Planning, Construction of the City, Utility Services and Transport – will jointly **spend approximately one half of the City budget**, i.e. **a monthly average of HRK 508 per citizen**.



Graph 5: Average monthly budget user spending per citizen (organisational classification), 2019 budget proposal (in HRK)*

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

FINANCING ACCOUNT

In contrast to the terms *revenues* and *expenditures*, 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 kinds. The difference between receipts and outlays represents *net financing*, i.e. the amount equal to the surplus/deficit from the revenue and expenditure account.

financial assets
money, deposits, bonds,
loans, etc.



	2016 Outturns	2017 Outturns	2018 Plan	2019 Proposal	2020 Projections	2020 Projections
Revenue and expenditure account						
Total revenues	8,169.7	8,322.3	9,135.1	9,815.5	10,100.8	10,110.2
Total expenditures	8,168.4	8,762.2	9,493.0	9,871.3	9,922.1	9,658.4
Deficit/surplus	1.3	-439.9	-357.9	-55.7	178.8	451.8
Financing account						
Receipts from financial assets and borrowing	221.3	394.8	638.2	397.7	412.8	332.7
Outlays on financial assets and loan repayment	282.8	404.0	280.3	327.0	363.5	434.5
Net financing	-61.5	-9.2	357.9	70.6	49.3	-101.8

Table 1: Revenue and expenditure account and financing account, 2016–2021 (in million HRK)*

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

Including own and earmarked revenues and receipts of budget users, receipts planned for 2019 stand at HRK 397.7m, of which HRK 375.9m will come from new borrowing. Outlays are planned in the amount of HRK 327m. The bulk of that amount (HRK 244m) will be used for the repayment of existing debt.

Given the Ministry of Finance's [Instructions for Drafting the Budgets of Units of Local and Regional Self-government](#), requiring that the carry-overs be included in the 2019 budget, and given the City's 2017 budget deficit of HRK 593m, it is suggested that the deficit be covered over a successive period of three years. It means that HRK 14.9m should be paid in 2019, HRK 228m in 2020 and HRK 350m in 2021. Due to the planned debt settlement, there are differences in the amounts of deficit/surplus in the Revenue and Expenditure Account and the amounts of net financing in the Financing Account for the period 2019–2021.

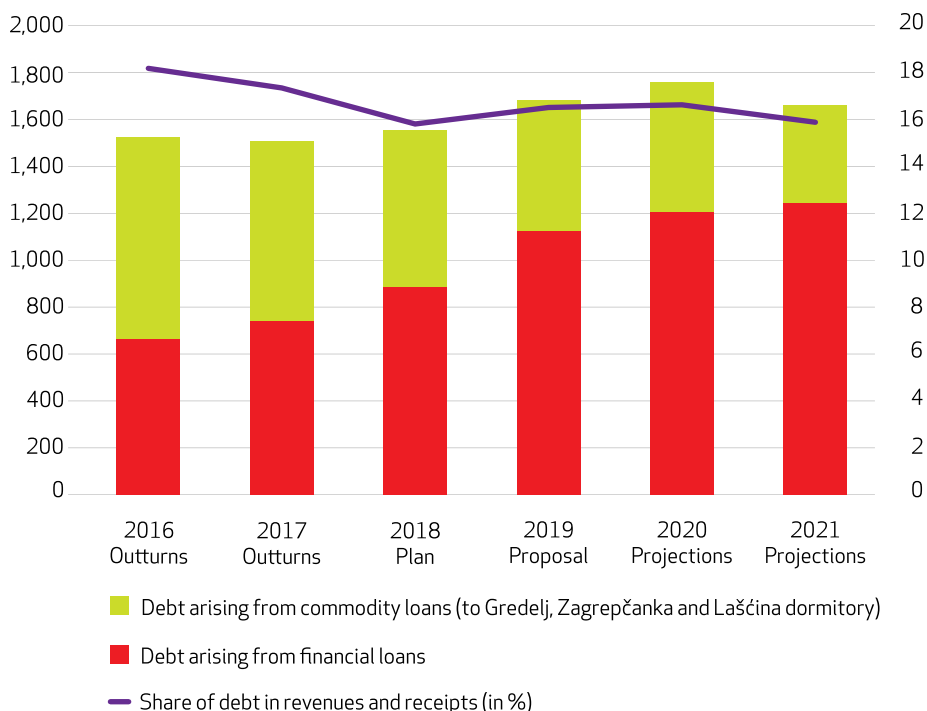


Direct debt is the sum of all budget deficits incurred in the current and in earlier periods, financed by borrowing.

PLANNED CITY BUDGET DEBT

The City of Zagreb's **direct debt is planned to stand at approximately HRK 1.68bn at the end of 2019** (graph 6). The share of debt in total budget revenues and receipts is planned to stand at 16.4% in 2019, but then decline slightly (to 15.9%) in 2021. The City's debt is low, compared to its total revenues and receipts, so that the City can easily service its direct debt from regular revenues and receipts. It should be noted, however, that, according

to the [Budget Act](#), any long-term borrowing by the City requires the Government's approval. Graph 6 therefore shows the planned level of debt for the 2018–2021 period, while the actual debt will depend on such approval.



Graph 6: The City of Zagreb's debt (in million HRK, left-hand scale) and the share of debt in budget revenues and receipts (in %, right-hand scale), 2016–2021*

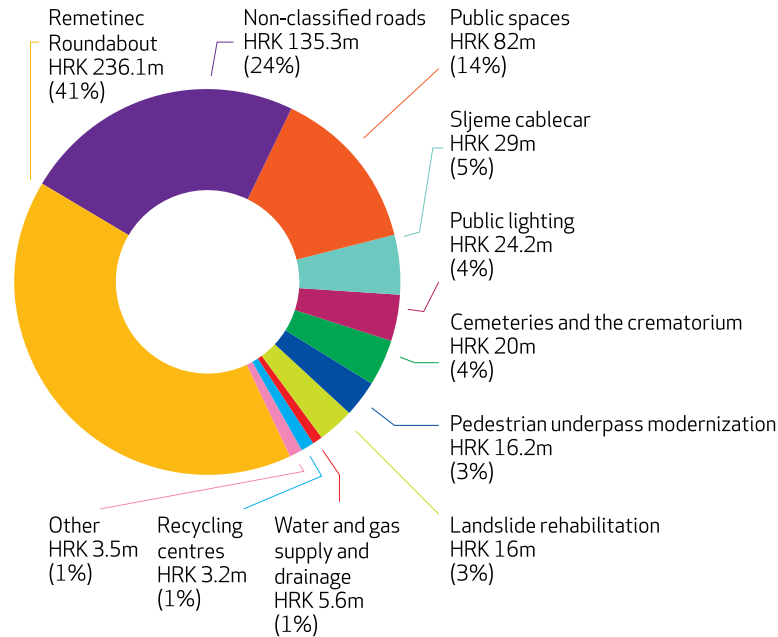
*The revenues and receipts include own and earmarked revenues and receipts of budget users.

In addition to the direct debt shown in graph 6, the City is potentially, through granted guarantees, exposed to **an indirect debt of HRK 2.4bn** (24.1% of total planned revenues and receipts in 2018). The bulk of that amount (HRK 2.3bn) relates to a guarantee for a bond issue by Zagreb Holding to refinance a 2007 debt. The bonds were 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

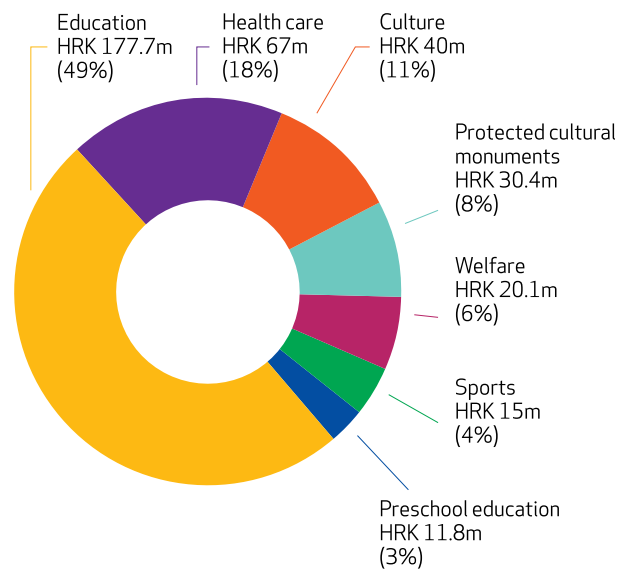
The amount planned for **the construction of utility infrastructure facilities and equipment in 2019 is HRK 571m** (graph 7). A good supply of utility services improves the quality of life and makes the City more attractive for business and social activities. This investment is therefore crucial for achieving the City's general spatial development goals.



Graph 7: Capital investments in the construction of utility infrastructure facilities and equipment, 2019 budget proposal

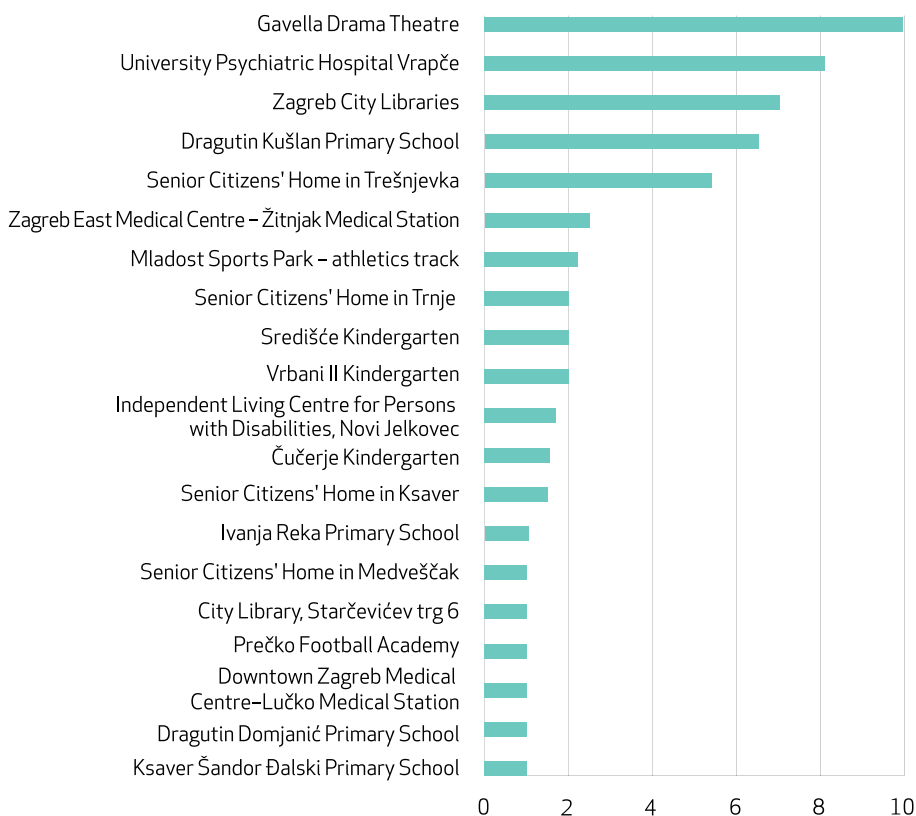
The bulk of planned investments in utility infrastructure and equipment relates to the Remetinec Roundabout (HRK 236m) and non-classified roads (HRK 135m), with a view to improving the quality and safety of services and preserving the transportation network integrity. Depending on individual projects, funds will be used for the creation of technical documentation and various phases of construction and reconstruction works.

Capital investments in social service facilities are planned at **HRK 362m** (graph 8).



Graph 8: Capital investments in social service facilities, 2019 budget proposal

Graph 9 shows some of the most important investments planned to be made in social service facilities. Depending on the project, they cover the costs of developing project documentation, obtaining construction documents, the conversion of premises, renovation, improvement, construction and furnishing, and the costs of property relations settlement.



Graph 9: Some of the key capital investments in social service facilities, 2019 budget proposal (in million HRK)



WHAT CAN CITIZENS DO?

On 13 December 2018, the City Assembly will discuss the 2019 City Budget Proposal to be adopted until 31 December 2018. We are talking about a considerable amount of HRK 9.82bn in revenues and almost HRK 9.87bn in expenditures. In 2019, every employed person is expected to pay an average monthly amount of HRK 1,088 in personal income tax and surtax into the budget, while average monthly spending per citizen will be HRK 1,025. All citizens should therefore be interested in how budget funds are collected and spent. With the help of this brief guide and the (more extensive) [Guide to the City of Zagreb Budget](#), you too can take part and try to shape the final 2019 City budget and the services you will benefit from. Participation is possible through [local committees and city districts](#) or by directly submitting suggestions and comments 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 credit rating, forms

[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, bodies and powers

[Zagreb Holding](#) – Organisation, services, topical issues and contact

[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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