



A Brief Guide to the City of Zagreb 2017 Budget Execution



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The purpose of this brief guide is to provide citizens with basic information on the execution of the City of Zagreb's 2017 budget and to encourage them to monitor the budget and communicate with the City authorities. The full [Year-End Report on the Execution of the City of Zagreb's 2017 Budget](#) can be found on the City's website, and the [Guide to the City of Zagreb Budget](#) (containing general information regarding the City budget and the budget process) can also be helpful in understanding the 2017 Year-End Report and the City's budget process in general.

On 20 December 2016 the City Assembly adopted the [City of Zagreb 2017 budget](#), with revenues and expenditures totalling HRK 9.05bn and HRK 9.07bn, respectively.

In October 2017, the City Assembly adopted the first 2017 budget revision ([Decision on Amendments to the City of Zagreb 2017 Budget](#)), by virtue of which revenues decreased by HRK 70m (0.8%), i.e. to HRK 8.98bn, while expenditures went down by HRK 65m (0.7%), to HRK 9bn. Soon after, in December 2017, the Assembly adopted a second budget revision ([Decision on Amendments to the City of Zagreb 2017 Budget](#)), by virtue of which revenues increased by HRK 114m (1.6%), i.e. to HRK 9.09bn, while expenditures went up by HRK 114m (1.6%), to HRK 9.12bn. The reasons for adopting a second budget revision less than two months after adopting the first budget revision were the following:

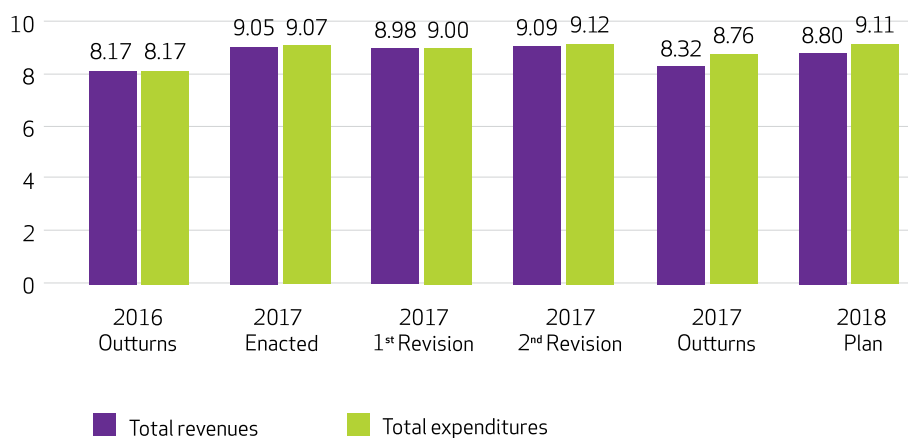
- On 30 November 2017 the City Assembly adopted the Conclusion on the sale of real estate to Zagreb Holding for the purpose of the second phase of Podbrežje residential zone construction for HRK 183.6m.
- It was estimated that revenues from personal income tax and surtax would be lower than planned, resulting in an increase in Ministry of Finance's grants to the City due to compensatory measures and an increase in equalization grants for decentralized functions.

Pursuant to amendments to the [Budget Act](#), the City's budget comprises, since 2016, both own and earmarked revenues of all budget users, as well as expenditures financed from these revenues.

In order to make adjustments to planned expenditures, in line with City administrative bodies' requirements, on three occasions in the course of 2017 [conclusions on the reallocation of funds planned in the City of Zagreb budget](#) were issued by the Mayor. Specifically, [Article 46 of the Budget Act](#) and the [Decision on the City of Zagreb's 2017 Budget Execution](#) allow for the reallocation of up to 5% of expenditures and outlays under a reduced line item, subject to Mayor's approval. Exceptionally, up to 15% of the funds can be reallocated, provided that this allows for an increase of the national share in EU co-financed projects. However, given that these are only minor re-allocations which do not affect the total amount of the City budget, the reallocation of funds is not a subject matter of this Guide.

REVENUE AND EXPENDITURE OUTTURNS

The realised City of Zagreb's 2017 budget revenues and expenditures stood at HRK 8.32bn and HRK 8.76bn, respectively (graph 1). In comparison to the second budget revision, realised 2017 revenues decreased by HRK 772m (8.5%), while expenditures decreased by HRK 355m (3.9%).



Graph 1: The City's budget revenues and expenditures, 2016–2018 (in billion HRK)

The City's budget comprises **the revenues and expenditures of all 327 budget users**, i.e. institutions founded and majority-financed by the City and 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, the Office for Physical Planning, Public Institution Maksimir, the Zoological Garden, the Sports Facilities Management Institution, etc.

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 budget.

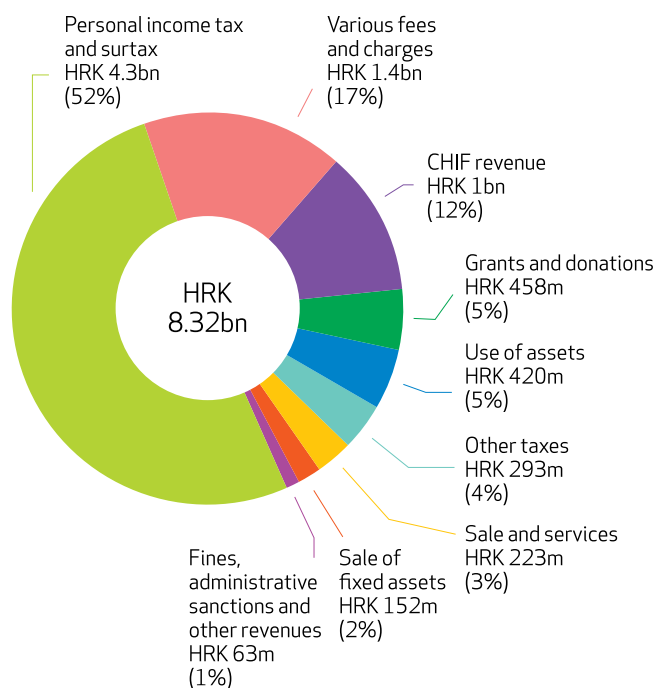


REALISED REVENUES

Total revenues realised in 2017 stand at HRK 8.32bn (graph 2), over half of which (**HRK 4.3bn or 52%**) comes from **personal income tax and surtax**. The second largest source of revenues were various **fees and charges** (HRK 1.4bn or 17%), mostly utility contributions and charges (HRK 835m), parents' participation in preschool education co-financing (HRK 86m) and administrative fees (HRK 47m). The third largest source of revenues were **budget users' revenues from the Croatian Health Insurance Fund (CHIF) for health services rendered** (approximately HRK 1bn, i.e. 12%).

The bulk of **revenues from grants and donations** (HRK 458m, i.e. 5%) are grants from the state budget to compensate for the losses resulting from the implementation of the amended Act on the Financing of Local and Regional Self-government Units (HRK 198m) and equalization grants for decentralized functions (HRK 60m). **Revenue from the use of city assets** (HRK 420m, i.e. 5%) was mainly revenue from public road user charges payable at vehicle registration (HRK 201m), the rental of office space, billboards, advertising boxes, terraces, parking places, mobile devices, kiosks, apartments, etc. Revenue from **other taxes** – mainly real property transfer tax (HRK 191m) and road motor vehicle tax (HRK 75m) – amounted to HRK 293m (4%).

In the course of 2017, every employed person paid an average monthly amount of about HRK 951 in personal income tax and surtax into the budget.

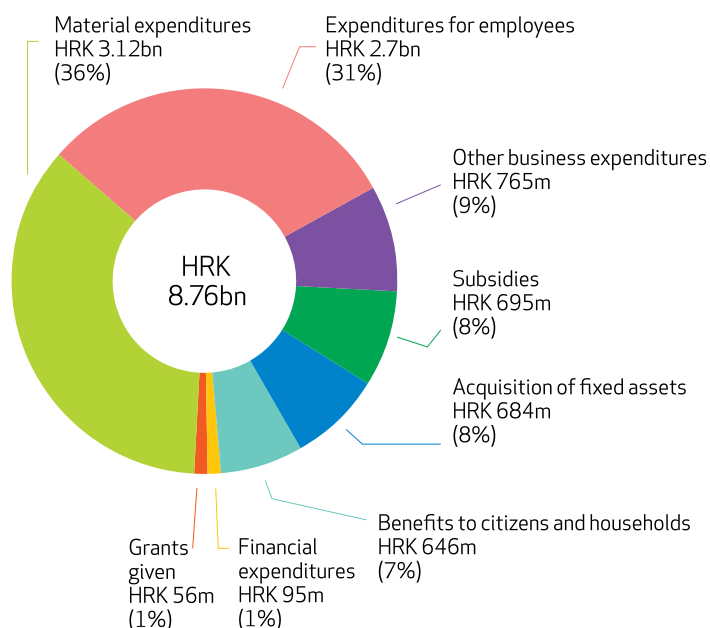


Graph 2: Realised City's budget revenues, 2017

In comparison to the second revised budget, total 2017 revenues declined by HRK 772m (8.5%). The sharpest fall was seen in planned revenues from personal income tax and surtax (HRK 507m), the sale of fixed assets (HRK 88m, mostly land and buildings) and revenue from grants and donations (HRK 84m, mostly budget users' grants), while revenue from various budget users' fees and charges exceeded the planned amount by HRK 59m.

REALISED EXPENDITURES BY TYPE

Total expenditures stood at HRK 8.76bn (graph 3), HRK 355m (3.9%) lower than planned under the second budget revision. The sharpest decline was seen in expenditures for the acquisition of fixed assets (HRK 353m, mainly for buildings) and material expenditures (HRK 118m, mainly expenditures for services, material and energy), while expenditures for employees increased by HRK 90m.



Graph 3: Realised City's budget expenditures in 2017, by type (economic classification)

The bulk of **material expenditures** (HRK 3.12bn) related 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 leases and rentals, 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 2.7bn) included salaries, social security contributions and other expenses for employees, HRK 1.66bn being spent on around 11,900 employees of administrative bodies and budget users whose employees are not paid out of own and earmarked revenues (such as kindergartens and museums) and HRK 1.04bn on around 6,500 employees of budget users whose staff are paid from own and earmarked revenues (e.g. hospitals, polyclinics, health centres). These also included expenditures for persons involved in EU-funded projects.

Other business expenditures (HRK 765m) mainly included current donations and capital grants. Current donations (HRK 491m) were intended for the co-financing of sports (HRK 223m), religious and private kindergartens and schools (HRK 95.6m), culture (e.g. libraries, museums and theatres, as well as music, visual arts and film) and non-profit organizations (associations, social, humanitarian and development programmes, etc.). The bulk of capital grants (HRK 184m) was spent on the settlement of liabilities of the Zagreb Wastewater Treatment Plant (HRK 116m), the City's

public transport company's (ZET) motor fleet renewal and reconstruction (HRK 61.5m), the Zagreb Waste Management Centre (HRK 3.7m), and Zagreb Holding's Waste Management branch (HRK 1.5m).

Subsidies (HRK 695m) were earmarked for the promotion of the production and services of companies, sole proprietorships, farmers and SMEs. The bulk of the subsidies were allocated for public transport, i.e. ZET (HRK 534.5m), for the rental of the Arena sports hall (HRK 67.7m), for the promotion of sole proprietorships and SMEs (HRK 33.9m), employment of persons with disabilities (HRK 28.6m), radio and TV content (HRK 9.8m) and the Development Agency Zagreb (HRK 7.3m).

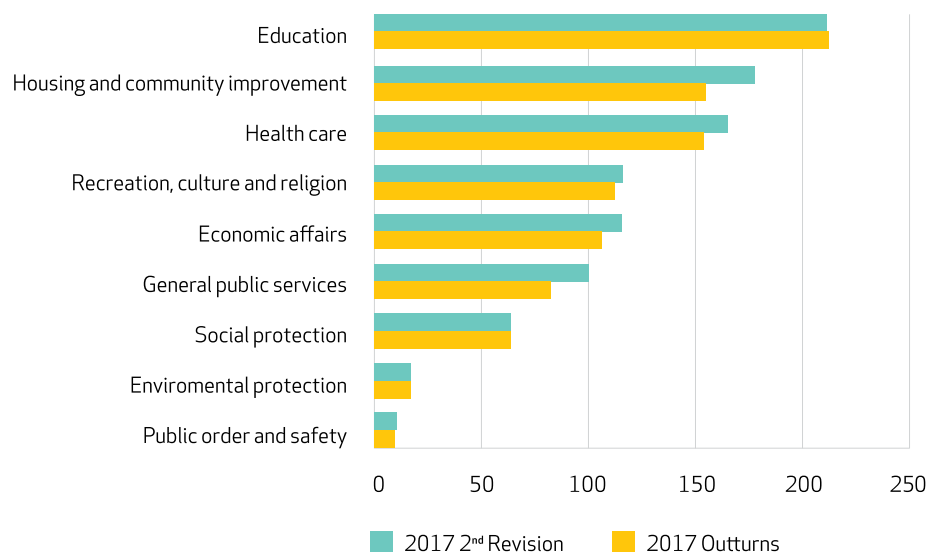
Expenditures for the **acquisition of fixed assets** stood at HRK 684m, and covered mainly the construction and maintenance of unclassified roads, utility infrastructure, office buildings and other types of construction projects, energy renovation programme for buildings within the framework of the ZagEE project, as well as landslide repair and stabilization, equipment in schools, health care and social welfare institutions, etc.

Benefits to citizens and households amounted to HRK 646m, and comprised cash benefits for parents with at least three children of which the youngest is under the school age (HRK 201m), public transport (ZET) and the transport of persons with disabilities (HRK 89.1m), cash assistance for new-borns (HRK 78.6m), pension supplements (HRK 71.2m), textbooks (HRK 52m), grants for primary school, secondary school and university students, supporting the children of veterans killed or missing in the Homeland War (HRK 51.5m), meals for socially vulnerable groups (HRK 20.2m), co-financing local public transport for primary and secondary school students (HRK 18.7m), housing costs assistance (HRK 15.1m), and various other programmes aimed at persons with disabilities, Homeland War veterans and casualties, scholarships for primary school, secondary school and university students, etc.



REALISED EXPENDITURES BY PURPOSE

Average monthly spending per citizen in 2017 amounted to HRK 910 (graph 4). The bulk of this amount was spent on education (HRK 211), followed by housing and community improvement services (HRK 154), health care (HRK 153), and recreation, culture and religion (HRK 112). Compared with the second revised budget, the sharpest decline was seen in expenditure for housing and community improvement services (HRK 23), general public services (HRK 17), and health care (HRK 11).



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

Expenditures for education comprised mainly preschool education (e.g. staff costs in city kindergartens and city kindergarten fee subsidies), as well as primary and secondary education expenses (including a portion of employee salaries, e.g. for extended stay at school, material expenditures and the acquisition of fixed assets).

Housing and community improvement services were related, for the most part, to city property and public space maintenance and public lighting.

Expenditures for healthcare were related to health, health care and health protection, the development and implementation of City's and other 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.

Expenditures for recreation, culture and religion included 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.

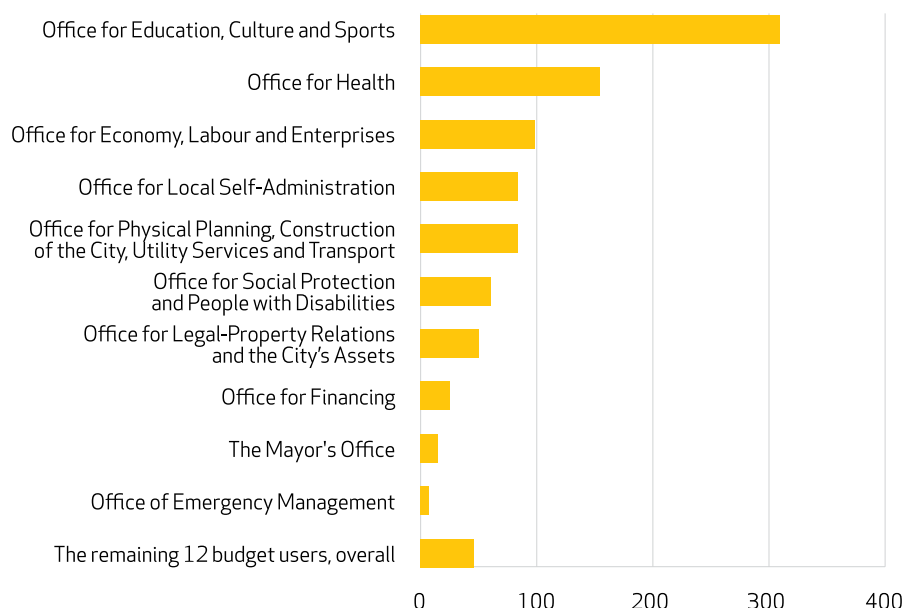
Economic activities generally included public city transport, road construction and maintenance, agriculture, forestry, tourism, fuel, energy, etc.



Average monthly spending per citizen in 2017 amounted to HRK 910.

REALISED 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** – the Office for Education, Culture and Sports, the Office for Health, and the Office for Economy, Labour and Enterprises – in 2017 **jointly spent approximately 60% of the City budget, i.e. a monthly average of HRK 570 per citizen.**



Graph 5: Average monthly spending per budget user (organisational classification) per citizen, 2017 (in HRK)

FINANCING ACCOUNT

In 2017 the City's total revenues and expenditures stood at HRK 8.32bn and HRK 8.76bn, respectively. As the funds spent exceeded those collected, there was a budget deficit of HRK 440m (table 1).

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.

In 2017 the City's receipts totalled HRK 394.8m, of which HRK 250m related to a long-term loan for the funding of capital investments in roads, for the construction of social service facilities, and for the financing of the ZagEE Energy Efficiency Programme, while HRK 116m related to the settlement of liabilities of the Zagreb Wastewater Treatment Plant. Outlays in the amount of HRK 404m were spent on financial assets and debt repayment, the bulk of which related to the repayment of the principals of received credit and loans (HRK 378.4m).

	2016 Outturns	2017 Enacted	2017 1 st Revision	2017 2 nd Revision	2017 Outturns	2018 Plan
Revenue and expenditure account						
Total revenues	8,169.7	9,050.3	8,980.5	9,094.5	8,322.3	8,803.5
Total expenditures	8,168.4	9,068.2	9,003.0	9,117.0	8,762.2	9,110.2
Deficit/surplus	1.3	-17.9	-22.5	-22.5	-439.9	-306.7
Financing account						
Receipts from financial assets and borrowing	221.3	290.1	290.1	290.1	394.8	634.8
Outlays for financial assets and loan repayment	282.8	272.2	267.6	267.6	404.0	328.1
Net financing	-61.5	17.9	22.5	22.5	-9.2	306.7

Table 1: Revenue and expenditure account and financing account, 2016–2018 (in million HRK)

As shown in tables 1 and 2, the difference between the realised deficit of revenues over expenditures (HRK 439.9m) and net financing (HRK -9.2m), i.e. the so-called current period's revenue deficit, amounted to HRK 449.1m in 2017. The current period's revenue deficit and the deficit carried over

from the previous year (HRK 143.8m) – totalling HRK 592.9m – will have to be covered in the upcoming period.

		2016	2017
1.	Total revenues and receipts	8,391.05	8,717.11
2.	Total expenditures and outlays	8,451.23	9,166.21
3.	Current period's revenue deficit (1-2)	-60.17	-449.11
4.	Deficit carried over from the previous year	-79.99	-143.81
5.	Total deficit to be covered in the next period (3+4)	-140.17	-592.92

Table 2: Covering the deficit carried over from the previous years, 2016 and 2017 (in million HRK)

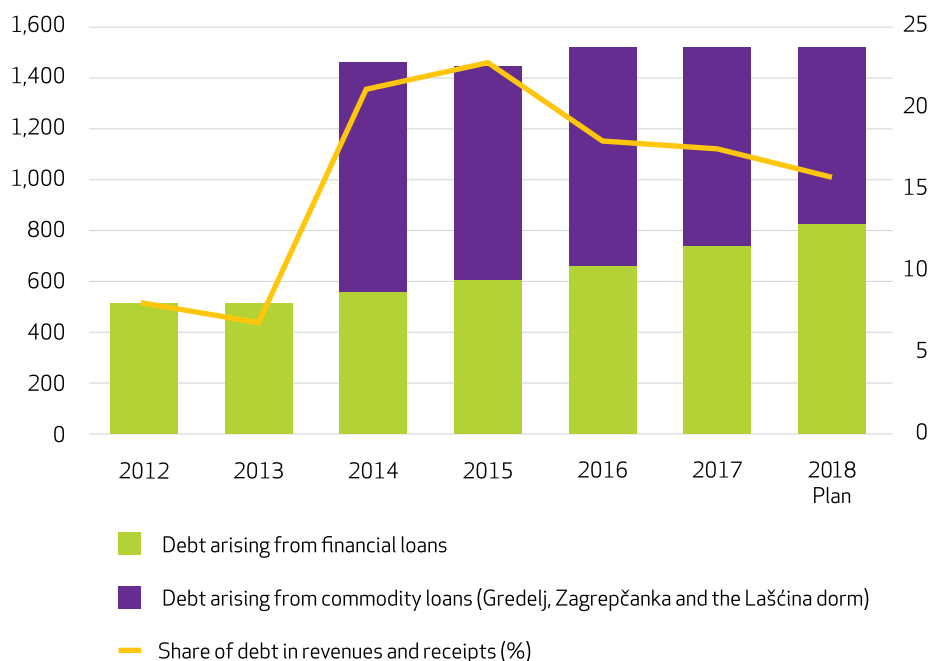


Direct debt is a sum of all budget deficits incurred in the current and in earlier periods, financed by borrowing.

THE CITY'S BUDGET DEBT

The City of Zagreb's direct debt stood at HRK 1.51bn at end-2017 (graph 6). The share of debt in budget revenues and receipts was about 17.3%, suggesting a relatively low level of indebtedness, meaning that the City could easily service its direct debt from regular revenues and receipts. The share of debt in budget revenues and receipts was significantly reduced (from 22.6% in 2015 to 18.1% in 2016) due to the inclusion in the budget of own and earmarked revenues and receipts of the City's budget users in 2016. The debt rose by about HRK 900m in 2014, after the City had taken a loan for the Lašćina senior citizens home, and had bought the former Gredelj Rolling Stock Factory and Zagrepčanka from Zagreb Holding. The sale of these properties has been one of the measures under the Financial Restructuring Programme for Zagreb Holding. Since the aforementioned former factories are cultural assets, the City has exercised its right of pre-emption with respect to them, taking into account their strategic and development potential. The loan for the purchase of these assets was booked as "debt arising from commodity loans" as of 2014.

It should be noted that the City, according to the [Budget Act](#), needs to obtain government approval for any long-term borrowing; graph 6 therefore shows planned debt for 2018, while real debt will depend on such approval.



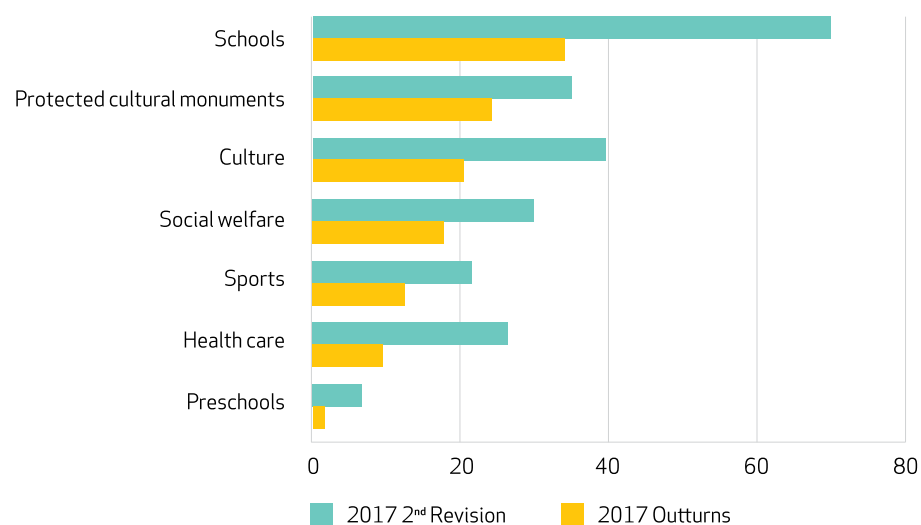
Graph 6: The City's debt (in million HRK, left scale) and the share of debt in budget revenues and receipts (in %, right scale), 2012–2018*

* From 2016 onwards, revenues and receipts include own and earmarked revenues and receipts of budget users. Debt arising from commodity and financial loans comprises only City debt, excluding budget users' debt.

Besides the direct debt shown in graph 6, the City is potentially (through issued guarantees) exposed to an **indirect debt of HRK 2.38bn** (27.3% of total revenues and receipts in 2017). The bulk of that amount (HRK 2.3bn) derives from 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.

DEVELOPMENT PROGRAMMES – MAJOR INVESTMENTS

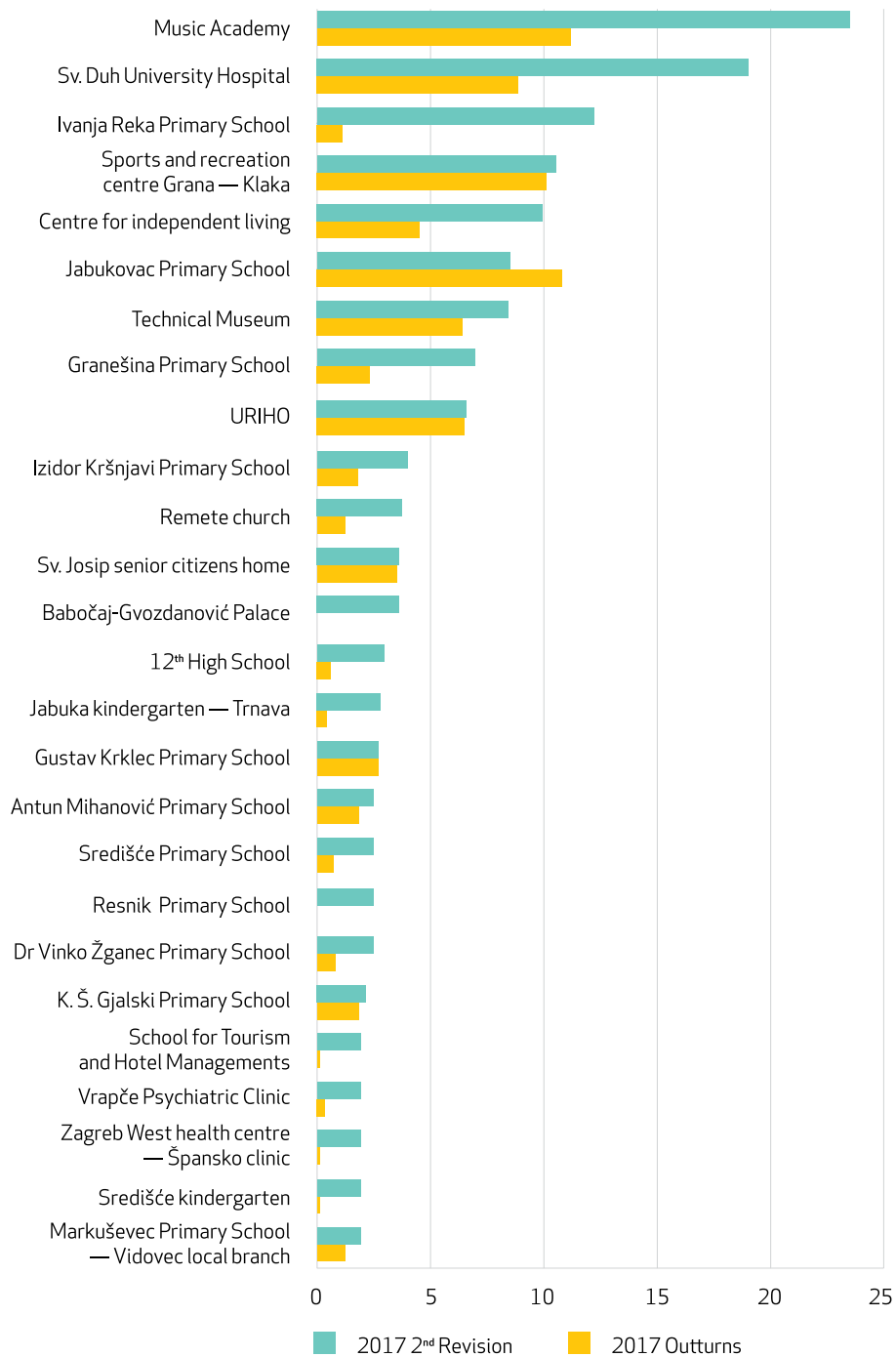
Under the revised budget, capital investments in social service facilities were planned in the amount of HRK 229.2m. The works completed and outlays made during 2017 stood at HRK 120m, down 48% from the value of the works and outlays planned in the budget revision (graph 7). With regard to the budget revision, investment into school facilities saw the sharpest fall. The fall in investment was due to the balancing of spending due to lower revenues and lengthy documentation procurement and public procurement procedures.



Graph 7: Capital investments in social service facilities, 2017 (in million HRK)

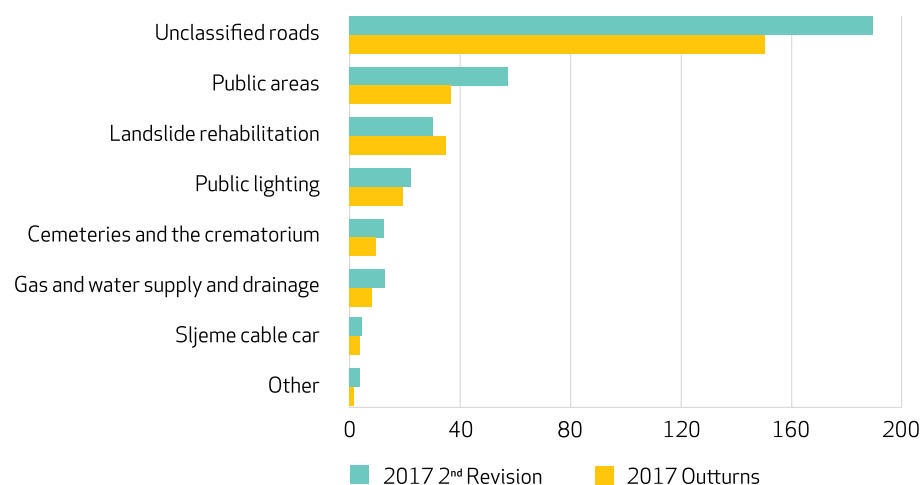
Graph 8 shows some of the key investments in social service facilities in 2017. Depending on the project, the investments cover the costs of project documentation development, conversion of premises, repairs, alterations and construction, and the costs of property relationships settlement.





Graph 8: Some of the key investments in social service facilities, 2017 (in million HRK)

The amount planned under the revised budget for the construction of utility infrastructure facilities and equipment in 2017 was HRK 334.3m, while the actual total amount invested was HRK 264.5m, down 21% from the amount projected in the revised budget (graph 9). Investment into unclassified roads and public areas saw the sharpest fall with regard to the budget revision. The decline in investment was the result of the balancing of spending due to lower revenues and lengthy documentation procurement and public procurement procedures and property relationships settlement.



Graph 9: Capital investments in the construction of utility infrastructure facilities and equipment, 2017 (in million HRK)

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

Some of the major 2017 projects included the following: adaptation of the Grič park, reconstruction in the 148th brigade park, construction of storm drains at the Ivan Kukuljević square, construction of the sewer at Strossmayerovo šetalište, reconstruction of the Aleja grada Bologne underpass and its adaptation to enable access to persons with disabilities, sidewalk construction and the erection of the “Šestinska pralja” statue in the Potočani street, repair of the Nevenka Topalušić square, construction of the 3rd and 4th leg of Radnička street, reconstruction of the Fakultetsko dobro street, reconstruction of the cycle and skate lane at Aleja Matije Ljubeka, collector and access road for the new extended Branimirova street, construction of bus stops on the Sljeme road, construction of noise barriers along Slavonska avenija next to the Vrbik district, construction of Mirogoj cemetery fence along Remetska street, improvement of the road and sewer at the Mirogoj and Miroševac cemeteries, etc.

HOW CAN YOU PARTICIPATE IN THE BUDGET PROCESS?

The City Assembly, as the citizens' representative body, will on 21 June 2018 discuss 2017 budget execution (HRK 8.32bn in revenues and HRK 8.76 in expenditures). Every employed person paid an average monthly amount of about HRK 951 in personal income tax and surtax into the budget, while the average monthly amount per citizen spent by the City was HRK 910. With the help of data presented in this brief guide and the [Guide to the City of Zagreb Budget](#), you can examine the planned and realised budget amounts, contribute to the Assembly's discussions and help improve the efficiency of the City's budget funds collection and utilisation, making sure that they meet citizens' wishes and budget possibilities.



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

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