



Course: Financing and economic management

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## Contents

### **Management of public expenditure and budgetary policy**

#### **1 Budget - basic characteristics<sup>1</sup>**

Budget law provides a set of standards that deal with adjusting the state budget, other elements of the budget system, budget management, behavioral budgetary law and financial legal relationship to the state budget and public budgets and budgetary relations.

It is divided into two parts:<sup>2</sup>

- general, which includes the concept, the concept of a system of budgetary law, its position in the system of law, sources of budgetary law, subject, subjects, content of budgetary law and relations, budgetary policies and institutions,
- special, which includes a budget system, the content of public budgets, fund management and budgetary process.

#### **Budgetary principles**

Budgetary principles set out the basis of budgetary law that govern the compilation, approval, management of public funds, budgetary control, but also other connections budget law.

In the Czech Republic's budget law is based on the following principles:

- **annual compilation and approval of public budgets,**
- **timeliness,** according to which it is necessary to approve the draft budget and publish before the start of the new financial year,
- **time use of funds,** which indicates that the funds may be taken and used only in the year for which they were approved,
- **realism and truth,** which means that the proposed income and expenditure based on the real appreciation of the economic situation,

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<sup>1</sup> OLEJNÍČEK, Aleš., HOLCNER, Vladan a kol. *Základy ekonomiky obrany státu*. Brno: Univerzita obrany, 2011. 135 s. ISBN 978-80-7231-817-9.

<sup>2</sup> MARKOVA, Hana a BOHAČ, Radim. *Rozpočtové právo*. Praha: C.H. Beck, 2007. 248 s. Beckovy mezioborové učebnice. ISBN 978-80-7179-598-8.

- **completeness public budgets,**
- **unity of the budget,** which manifests itself through a unified budget classification of expenditure and income, that is the budget composition,
- **clarity budgets,**
- **not expediency of income and expenditure of purpose.** This principle means that the budget income should not be predetermined purpose. Conversely, budgetary expenditure should in principle be used purposefully,
- **long-term balanced budget,**
- **public,** which means that budgets should be discussed, approved and modified publicly,
- **compilation of gross budgets,**
- **efficiency and economy,**
- **preferences expenditures before incomes.**

There are three kinds of budgetary measures:

1. Transfer finance within the mandatory indicators between mandatory indicators set by the state budget.
2. Permitted exceeded budget expenditures which does not change the mandatory indicator.
3. Binding of state budget funds within the budget which does not change the mandatory indicators.

Budgetary principles are elaborated in terms of the Czech Republic through budgetary rules.<sup>3</sup>

### **Object, subjects and content of the budget law**

Among the subjects of budgetary law includes physical, legal entities, the state and its legal entities, administrative agencies and who do not have legal personality. They are State organizational units. State organizational units manage the state budget

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<sup>3</sup> Česká republika. Zákon č. 218/2000 Sb., o rozpočtových pravidlech a o změně některých souvisejících zákonů, ve znění pozdějších předpisů. In: Praha: PS PČR, 2000.

funds that it sets chapter administrator within the chapter's budget breakdown in the range of mandatory indicators of the State Budget Act.

State organizational unit also manages extra budgetary resources, which are:

- resources of funds state organizational units,
- profit earned by economic activity,
- monetary donations,
- funds provided from abroad and
- funds dedicated accounts to finance variations and substitutions of State Material Reserves.

Extra budgetary resources are used through the budget.

Organizational unit of the state draws up its budget income and expenditure broken down by budget composition. Organizational unit of the state classifies financial operations in terms of:<sup>4</sup>

- **chapters,**
- **species,**
- **functional.**

State organizational units set up accounts for funds, such as: the account of foreign funds, summary funds account, accounts for internal organizational units, accounts that are not part of the income or expenditure of the state budget.

Among these subjects also include:

- municipalities and associations of municipalities,
- regions,
- Regional Council,
- state funds,

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<sup>4</sup> Česká republika. Vyhláška Ministerstva financí ČR č. 323/2002 Sb., o rozpočtové skladbě, ve znění pozdějších předpisů. In: Praha: PS PČR, 2002.

- other public organizations (contributory organizations), Czech Consolidation Agency, General Health Insurance Company, State enterprises and others.

## 2 The state budget in the budgetary system of the Czech Republic<sup>5</sup>

Budgetary system means a system of public budgets; it means the state budget, local budgets of state funds and the budget of the European Union.

The state budget is an essential part of the budget system. Includes expected incomes and expenditures, expenditures of the state budget, it means the medium-term budget outlook and financing items. Income and expenditure are divided into **chapters of the state budget**. Each chapter of the state budget has its administrator.

Among the state budget chapter include:

- Central administrative authorities, for example Ministries,
- State organizational unit which have a separate chapter in the state budget,
- State organizational unit which have special status central administrative authority, which may be established,
- State organizational unit that have a special position of the central administrative office for budgetary purposes (Czech Academy of Sciences),
- Among other budgetary chapters also include the Grant Agency of the Czech Republic, the Chamber of Deputies, the Senate, the Constitutional Court, the General Treasury Administration, State Financial assets and debt.

Budgets of state funds are included in the public budgets are established as a legal entity for financial support to defined tasks and their management.

Among them:

- The State Environmental Fund,
- State Fund of Culture,
- State Fund for the Support and Development of Czech Cinematography,

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<sup>5</sup> OLEJNÍČEK, Aleš., HOLCNER, Vladan a kol. *Základy ekonomiky obrany státu*. Brno: Univerzita obrany, 2011. 135 s. ISBN 978-80-7231-817-9.

- State Transport Infrastructure Fund,
- State Housing Development Fund,
- State Agricultural Intervention Fund.

### Incomes and expenditures of the state budget

Incomes and expenditures of the state budget are defined budgetary rules. Among the incomes of the state budget will include the following incomes:<sup>6</sup>

- income taxes,
- social security premiums and contributions to the state employment policy and accident insurance,
- including penalties,
- proceeds from the share of customs duties,
- income from operations of state organizational units and contributions funded organizations,
- conscription of the remaining profit Czech National Bank,
- sanctions for breach of budgetary discipline,
- administrative and court fees, payments associated with the implementation of state guarantees, etc.

Expenditures that are fixed by law are called **mandatory expenditures**. Expenditure which is not implemented on the basis of special laws, are influenced, are **facultative expenditures**.

Expenditure included under the law on budgetary rules:<sup>7</sup>

- expenditures for the operation of state organizational units and expenditures for the operation subsidiary organizations,
- expenditures for pension insurance, sickness insurance, accident insurance benefits, etc.,

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<sup>6</sup> Česká republika. Zákon č. 218/2000 Sb., o rozpočtových pravidlech a o změně některých souvisejících zákonů, ve znění pozdějších předpisů. In: Praha: PS PČR, 2000.

<sup>7</sup> Česká republika. Zákon č. 218/2000 Sb., o rozpočtových pravidlech a o změně některých souvisejících zákonů, ve znění pozdějších předpisů. In: Praha: PS PČR, 2000.

- subsidies for municipal authorities on social welfare and assistance in material need,
- subsidies and repayable financial assistance to local government units other than business activities,
- subsidies or refundable financial assistance legal entities and individuals on business,
- subsidies to civic associations and contributions to political parties,
- etc.

The Chapter contains budget incomes and expenditures of the chapter administrator, incomes and expenditures of state organizational units in its scope, expenditures for the operation contributory organizations.

### **3 Budget process<sup>8</sup>**

Budgetary process is systematic set of activities, workflows and rules. With this process, governing the establishment, negotiation, approval, implementation of the budget, budgetary control, reporting, analysis and presentation of the budget management.

The total expenditures of the state budget, the Ministry of Finance determined based on the amount of medium-term expenditure framework contained in the resolution of the Parliament of the Czech Republic to the government draft law on the state budget for the current year. Medium term expenditure framework consists of the total expenditure of the state budget and state funds for each of the years covered by the medium-term outlook, and lays down it on the proposal of the Government in the House resolution to the government draft law on the state budget, once the amount, excluding expenditure on State guarantees.

The amount of the MTEF first year medium-term outlook is based on the medium-term expenditure framework for the same year specified in the medium-term expenditure framework in House Resolution to the government draft law on the state budget for the current year.

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<sup>8</sup> OLEJNÍČEK, Aleš., HOLCNER, Vladan a kol. *Základy ekonomiky obrany státu*. Brno: Univerzita obrany, 2011. 135 s. ISBN 978-80-7231-817-9.

## Budgeting - course:

- Ministry of Finance shall submit the draft state budget for the government to discuss, proposal is submitted to the Parliamentary Committee on Budget,
- Draft state budget is submitted to the President of the Chamber, - then the first, second and third reading,
- The House has agreed with the draft state budget, after the signing of the Prime Minister, the House and the President of the Republic is registered as a law on the state budget for the relevant financial year.

During the year there is a budget management, which consists in determining budget indicators for each budget chapter managers. During the year there may be different situations that require budgetary measures. Budgetary measures according to the budgetary rules mean:

- transfer of funds from the state budget within the binding between the binding indicators and indicators set by the state budget or within the binding between the binding indicators and indicators set by the chapter administrator,
- permitted overdrafts budget expenditures which does not change the binding indicators,
- binding the state budget within the budget which does not change the binding indicators,
- correlative increase in income and expenditure budget,
- any reduction in income from operations, provided that does not change the balance of income and expenditure chapters.

To ensure budgetary management is necessary to cover unforeseen expenditure and creates the state budget **the government budget reserve**. The government's budgetary reserve is formed of at least 0,3 % of state budget for the relevant financial year. The use of government budget reserve shall be decided by the government.

For the fulfillment of the state budget is the government House. The Ministry of Finance continually evaluates performance of the state budget and submits after the first and third calendar quarter of the government for information.

After the end of the budget year, the Finance Ministry is preparing a draft **state final account** and submits it to the government. The draft state final account submitted by the government House no later than 30 April of the year following the financial year



evaluated. If the balance of the state budget differs from the balance provided in the State Budget Act, the House decided to use surplus or deficit on the payment proposed by the government.

Budgetary control, that **there is no break of the budgetary discipline** by the Ministry of Finance<sup>9</sup>, which is authorized to audit all budget entities by regional financial institutions.

The chapter administrator continuously monitors and evaluates the economy, efficiency and effectiveness of expenditures in their chapter under the Act on Financial Control.<sup>10</sup>

#### **4 The state budget, its function and budgeting as a planning process<sup>11</sup>**

The budget is an economic category, which is part of the financial company management or the state or other institutions. Can be defined as a plan of income and expenditure, statement of financial relations, financial management tool that has:

- factual character
- Financial feature.

The state budget is an economic category of the public sector, public finance, centralized monetary fund, and the financial management of the state, usually for one year. It is a balance of income and expenditure. The state budget is the main instrument of fiscal policy. The following functions:

- allocation,
- redistribution,
- stabilization,
- legislative,
- regulatory,
- control.

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<sup>9</sup> Česká republika. Zákon č. 444/2005 Sb., kterým se mění zákon č. 531/1990 Sb., o územních finančních orgánech, ve znění pozdějších předpisů, a některé další zákony. In: Praha: PS PČR, 2005.

<sup>10</sup> Česká republika. Zákon č. 320/2001 Sb., o finanční kontrole ve veřejné správě a o změně některých zákonů (zákon o finanční kontrole), ve znění pozdějších předpisů. In: Praha: PS PČR, 2001.

<sup>11</sup> OLEJNÍČEK, Aleš., HOLCNER, Vladan a kol. *Základy ekonomiky obrany státu*. Brno: Univerzita obrany, 2011. 135 s. ISBN 978-80-7231-817-9.

Budgeting can be understood as a purposeful and organized process of compiling a draft public budget, which aims to make the most accurate estimate and draw up a plan of income and expenditure, financial relations for a period of usually one year with a view to the medium-term period of two to five years.

Budgeting is therefore **financial planning**. Budgeting is part of **the public expenditure management**. Within it are determined, reviewed and approved the financial needs of realization of the set objectives.

## 5 Budget methods<sup>12</sup>

To prepare the draft budget is used a number of methods. They can be broken down by access to the objectives and financial resources and group methods of production of the draft budget a supply and demand approach. They are listed in Table 1. Supply approach is characterized by the processing of tenders valued by the chapter administrator activities:

- Budget managers prepare their own budget.
- Aggregation of partial budgets and weighed against the potential incomes.
- Balancing incomes and expenditures and a reduction of expenditures (options versus needs) and usually with subsequent reduction.
- Consideration and approval of the budget.

Table 1 **Characteristics of a supply and demand approach**

Characteristic	Supply approach	Demand approach
<b>Budget methods</b>	Take into account the historical base	Focus on goals, outcome, performance
<b>Page income</b>	Gross budgeting	Net budgeting
<b>Page expenditure</b>	Process controls	Audit results and performance
<b>Time horizon</b>	Usually one year	Exactly budget for one year, then the multi-annual outlook (for medium-term 2-4 years)

<sup>12</sup> OLEJNÍČEK, Aleš., HOLCNER, Vladan a kol. *Základy ekonomiky obrany státu*. Brno: Univerzita obrany, 2011. 135 s. ISBN 978-80-7231-817-9.

Source: *Upraveno podle OCHRANA, František. Veřejná volba a řízení veřejných výdajů. 1. vyd. Praha: Ekopress, 2003. 184 s. ISBN 80-86119-71-8.*

The most frequently used method of budgeting based on bidding approach is incremental (incremental, indexed) budgeting. Furthermore, among the methods used method ZBB, it means budgeting zero base budgeting rolling, or budgeting for a predetermined period.

When applying the demand approach is first determined a range of public needs, which is demanded by the public, and whose priorities chosen in elections based on political party programs (public demanded by services and goods). The prevailing party on the basis of its program prepares expenditure policies, which then expresses in its draft budget.

Budgetary methods can be classified according to various criteria budgeting. Their broken down is shown in Table 2. The list is not final.

**Table 2 The budgetary methods, budgeting criterion**

The method name	Budget criterion
Incremental	Basis modified for increments (index).
Budgeting zero base	Start from zeros forget the past and begin to always "0".
Based MBO	Share objectives.
Software	Share goals within the program structure.
Performance	The share of the objectives pursued by the performance indicators.
Functional	Calculating the cost of activities.

Source: *Upraveno podle OCHRANA, František. Veřejná volba a řízení veřejných výdajů. 1. vyd. Praha: Ekopress, 2003. 184 s. ISBN 80-86119-71-8.*

Their involvement in effective use of resources, and is critical to meeting the planned objectives. The disadvantage is a considerable amount of work involved and the necessary training of personnel entering into this process and creates rules and planner's interest in the success of the budget, creating a control system for setting objectives, redefined objectives in the lower level, the goals must not overlap and

must be defined and measurable criteria. Objectives are set by priority objectives for objectives 0, 1, 2, ... n-th order. This creates so. Tree objectives, each objective is expenditure appreciated. It must be clear responsibility and authority for setting and meeting objectives. Objectives are established managers who have responsibilities and authorities.

**List of tasks for students:**

- 1) Explain the budget, budgetary policies and budgetary rules.**
- 2) Explain the provisional budget and budgetary measures.**
- 3) Budget structure in the budgeting process - explain.**
- 4) State budget and the budget structure - describe.**
- 5) Describe the budgetary process.**
- 6) Methods of budgeting - name and description.**