

Financing and economics management

Implementation and course of budget process



INVESTICE DO ROZVOJE VZDĚLÁVÁNÍ



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1. The budgetary process in the defence sector
2. Target-oriented budgeting - general definition
3. Target-oriented budgeting in the MoD
4. The method of setting objectives and rules for their processing
5. Place and role of cost center in the budgeting process
6. Processing of the draft budget by cost center



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# 1. The budgetary process in the defence sector

## Stages of the budgetary process:

- ☐ Preparatory phase,
- ☐ Balancing the budget,
- ☐ Approval of the draft budget,
- ☐ Law on the state budget,
- ☐ Provisional budget,
- ☐ Binding budget indicators,
- ☐ Implemented of the budget,
- ☐ State final account.

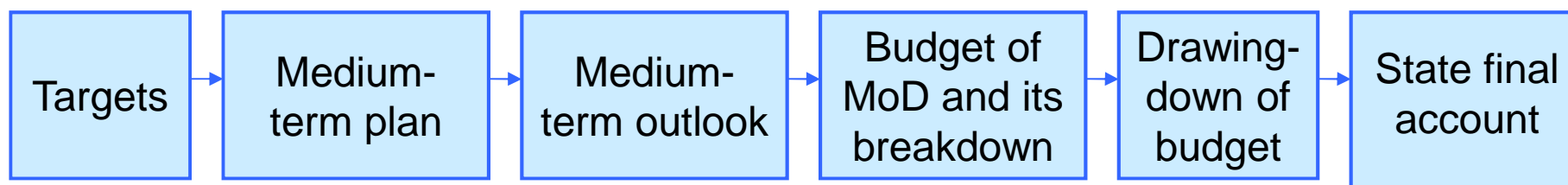


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# 1. The budgetary process in the defence sector

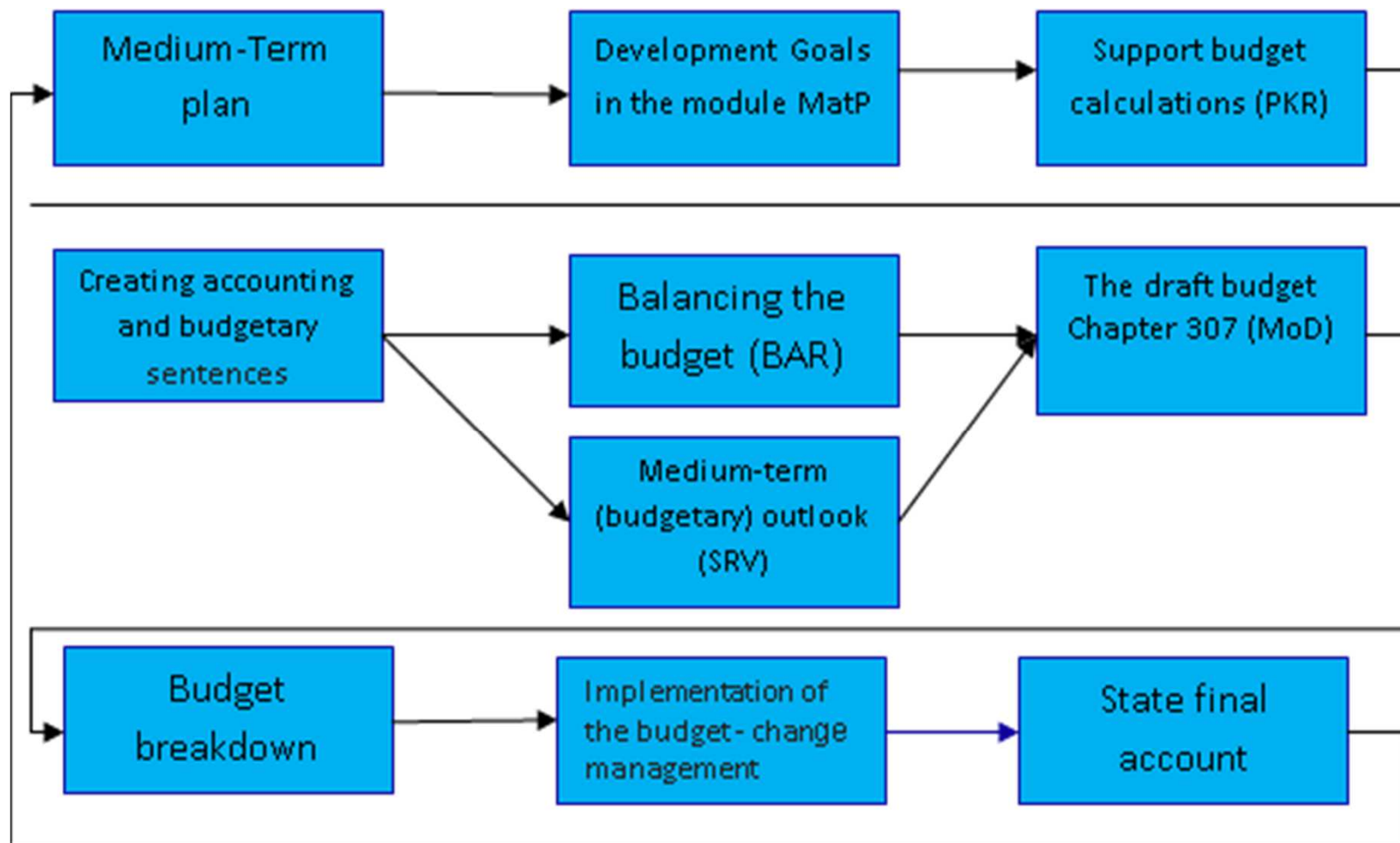
## Establishment of the budget



*Zdroj: vlastní zpracování*

# 1. The budgetary process in the defence sector

Interdependence of the budget MoD with medium-term plan of action and development MoD



Source: own elaboration



evropský  
sociální  
fond v ČR



EVROPSKÁ UNIE



MINISTERSTVO ŠKOLSTVÍ,  
MLÁDEŽE A TĚLOVÝCHOVY



OP Vzdělávání  
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## 2. Target-oriented budgeting - general definition

Goal-oriented budgeting (GOB)  
is a kind of new way of budgeting:

1. What is to be achieved,
2. how and especially,
3. with what amount of money?

## 2. Target-oriented budgeting - general definition

Algorithm obtains an answer - three points:

- Determination of the general objectives, including a timetable,
- Define the structure of expenditure blocks and classifications,
- Allocation of expenditure to expenditure blocks and classifications.

## 2. Target-oriented budgeting - general definition

### Goal-oriented structure of the budget:

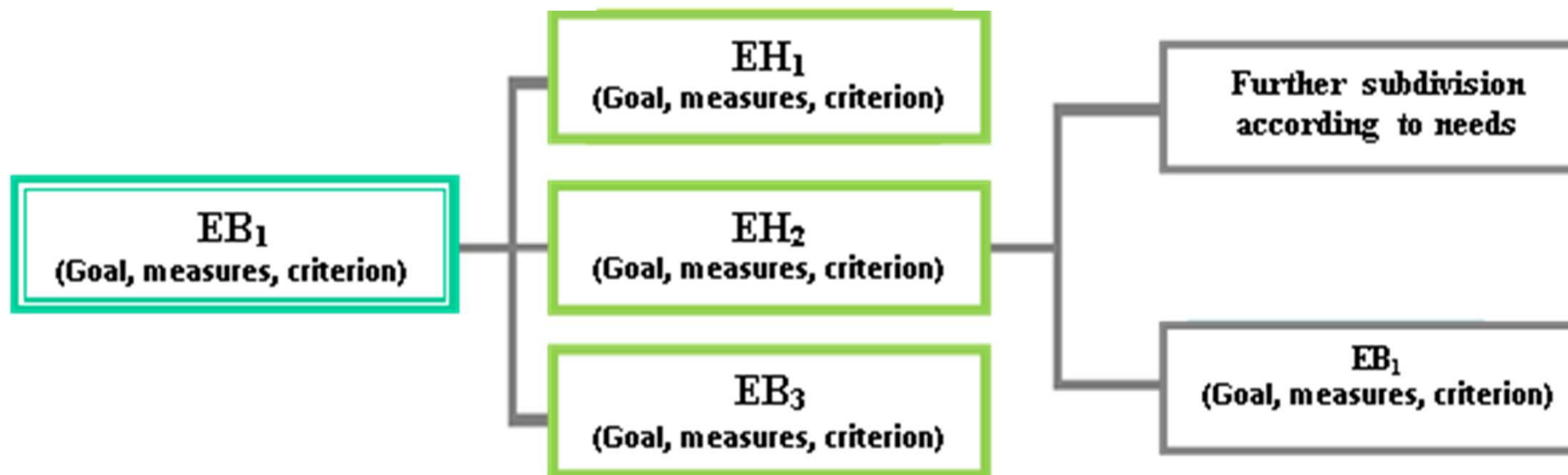
- *expenditure blocks* (EB),
- *expenditure headings* (EH),
- to lower levels of subdivision (a similar method of specification applies to the target).

Determination of EB and EH is mandatory; other lower-level breakdowns are voluntary.



## 2. Target-oriented budgeting - general definition

### *Scheme goal-oriented budget structure*



Source: Methodological tool GOB

## 2. Target-oriented budgeting - general definition

### Requisites expenditure block:

- ❖ clearly defined goal (objective) or objectives, which is (are) to be achieved,
- ❖ total execution time goals (targets) (*Multi-annual targets, Annual targets*)
- ❖ Criteria for evaluation of the performance targets,
- ❖ Volume of financial resources to achieve the objective.



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## 2. Target-oriented budgeting - general definition

### Approaches to setting objectives

are based on three basic aspects:

1. *Security needs of the target group,*
2. *Socio-economic efficiency,*
3. *Effectiveness of government from the perspective of the taxpayer.*



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## 2. Target-oriented budgeting - general definition

### Objectives should be:

- achievable,
- simple,
- concise and understandable,
- concrete.



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## 2. Target-oriented budgeting - general definition

### Main principles for the evaluation of the performance targets :

- Responsibility for meeting the targets,
- This assessment will be included both in the literature that chapter administrator submitted to the Ministry for the development of the state final account, on the one hand in the final account chapter by chapter administrators submitted for consideration to the committee House of Commons of the Czech parliament,
- If the goal for any reason will not be filled, the evaluation must include an evaluation of the feasibility set objectives and circumstances that influenced his non-compliance, including any remedial measures or proposals to change the targets for the next period. The assessment should be a clear distinction between subjective and objective reasons.



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### 3. Target-oriented budgeting in the MoD

#### Target- (Goal-) oriented budgeting:

is such a system resource management, which allows the public to transform the identified needs into objectives of the department and budgetary funding these objectives with regard to their priorities and limited resources.

### 3. Target-oriented budgeting in the MoD

**GOSB – new structure of expenditure blocks in resort of Defence – valid until 2012**

Expenditure block - labeling	Name of the expenditure block
<b>A</b>	Expenditures for the activities of the Army of the Czech Republic
<b>B</b>	Expenditure on the enforcement of state and local governments under the Ministry of Defence
<b>C</b>	Expenditures for activities of other organizational units of the Ministry of Defence
<b>D</b>	Pension insurance benefits
<b>E</b>	Other social benefits
<b>F</b>	Expenditure on sports representation

*Source: Own elaboration according to goals, economic sections MO issued for the years 2010, 2011.*



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### 3. Target-oriented budgeting in the MoD

GOSB is composed of the following levels:

#### 1. Mandatory

- Expenditure block,
- Expenditure heading,

#### 2. Voluntary

- Set spending elements / activities,
- Expenditure subset of elements / activities,
- Expenditure component / activity.



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### 3. Target-oriented budgeting in the MoD

**GOSB – new structure of expenditure blocks in resort of Defence – valid since 2012**

Expenditure block - labeling	Name of the expenditure block
<b>G</b>	Ensuring the Czech Republic defense Armed Forces
<b>H</b>	Creation and development of the national defense system
<b>I</b>	Provision of public administration in the scope MoD
<b>J</b>	Providing strategic intelligence
<b>K</b>	Providing support for President in Chief of the Armed Forces
<b>L</b>	Ensuring of pension insurance benefits
<b>M</b>	Securing other social benefits
<b>N</b>	Ensuring of the national sports teams

*Source: Own elaboration according dials goals, economic sections MO issued for the years 2012, 2013.*



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## 4. The method of setting objectives and rules for their processing

Criteria for meeting the objectives:

- must be clear,
- it must be related to the set target,
- talk about how the objective.



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## 4. The method of setting objectives and rules for their processing

If the target is described and defined evaluation criteria, it is necessary to seek answers to questions:

- Whether it is possible to better defend the need activities,
- Whether the known benefits of implementing additional actions, if required to increase funding to ensure the implementation activities,
- Whether the known effect of unrealized losses on spending, if required reducing the means to secure the activity performed.

## 4. The method of setting objectives and rules for their processing

**Temporal aspect** of division targets:

- A. Long – period provided for achieving the goal is more than 3 years.
- B. Medium – specified for achieving the objective is in the range 1-3 years.
- C. Short-term (operational) – period provided for achieving the goal within one year.



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## 4. The method of setting objectives and rules for their processing

By defining objectives are beneficial method **SMART**:

- ☐ **S**pecification goals,
- ☐ **M**eurability goals,
- ☐ **A**ceptability goals,
- ☐ **R**ealism objectives,
- ☐ **T**erminology of objectives.



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## 4. The method of setting objectives and rules for their processing

### Evaluation of the performance of objectives:

1. In general terms, verbal expression,
2. Evaluation criteria have been met.

## 4. The method of setting objectives and rules for their processing

Documentation targets used for several purposes:

1. for planning purposes,
2. for the purposes of the budget process,
3. for the purposes of data processing for the preparation and defence chapter's workbook and final state account.

## 4. The method of setting objectives and rules for their processing

**Phase of the process medium term planning and budgeting, which affect the processing of documentation objectives:**

1. preparation of documents for a Council Decision on the implementation of goals;
2. Inclusion targets in the plan;
3. preparation of data for medium-term fiscal outlook;
4. Preparation of data for a budget breakdown.



## 4. The method of setting objectives and rules for their processing

The extent of documentation will vary according to the position of targets in the tree targets, the target state, which we want to achieve and elements of organizational structure

Objective levels 3 are broken down into **measures** and subsequently to **the task**. The level of detail development goals into action and tasks is not necessary budgetary process strictly ordered.

## 5. Place and role of cost center in the budgeting process

**Attribute CC** in the financial and budgetary sentence is the lowest element of the organizational structure, whose benefit is realized and recognized financial security.

The module MatP is using the *"Task entity"* through a number CC defines the element of the organizational structure responsible for the implementation of the objectives, action or task.

## 5. Place and role of cost center in the budgeting process

When implementing the objectives it is necessary to establish cooperation with the various elements of the organizational structure of expertise that are not in direct subordination manager objectives.

The level of detail of the tree development targets in the budget process **is not strictly determined**.

## 5. Place and role of cost center in the budgeting process

For determination of the amount of funds needed to meet the goals - methods:

- evaluating the performance of such task or similar contracts in the previous period;
- qualified estimate of value based on performance figures in the previous period;
- perform calculations using the standards;
- marketing research for planning;
- long-term contracts and the like.



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## 5. Place and role of cost center in the budgeting process

### Activities implemented CC:

- The link between the limit of funds to meet the objectives, actions or tasks and elements of organizational structure.
- Change management targets dial.
- Changes objectives.
- Change of ownership objectives.
- Change Manager objectives, actions, or task.
- Disposals objectives, actions or tasks from library objectives.



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## 5. Place and role of cost center in the budgeting process

Data for the draft budget (medium term) are processed based on defined objectives.

Budgeting procedures competent manager with goals in the calculation of goals:

- ☐ determine the module MP budgetary targets and transfer them to the module SBC,
- ☐ synchronize the module MP with the module SBC, consequently
  - the objective of the module MP moved to the SBC module,
  - in module MP module becomes available functionality for printing documentation activities and the Protocol,
  - in module SBC module to allocate limits for calculations of the budgetary competent in their subordination according to the code GOB.

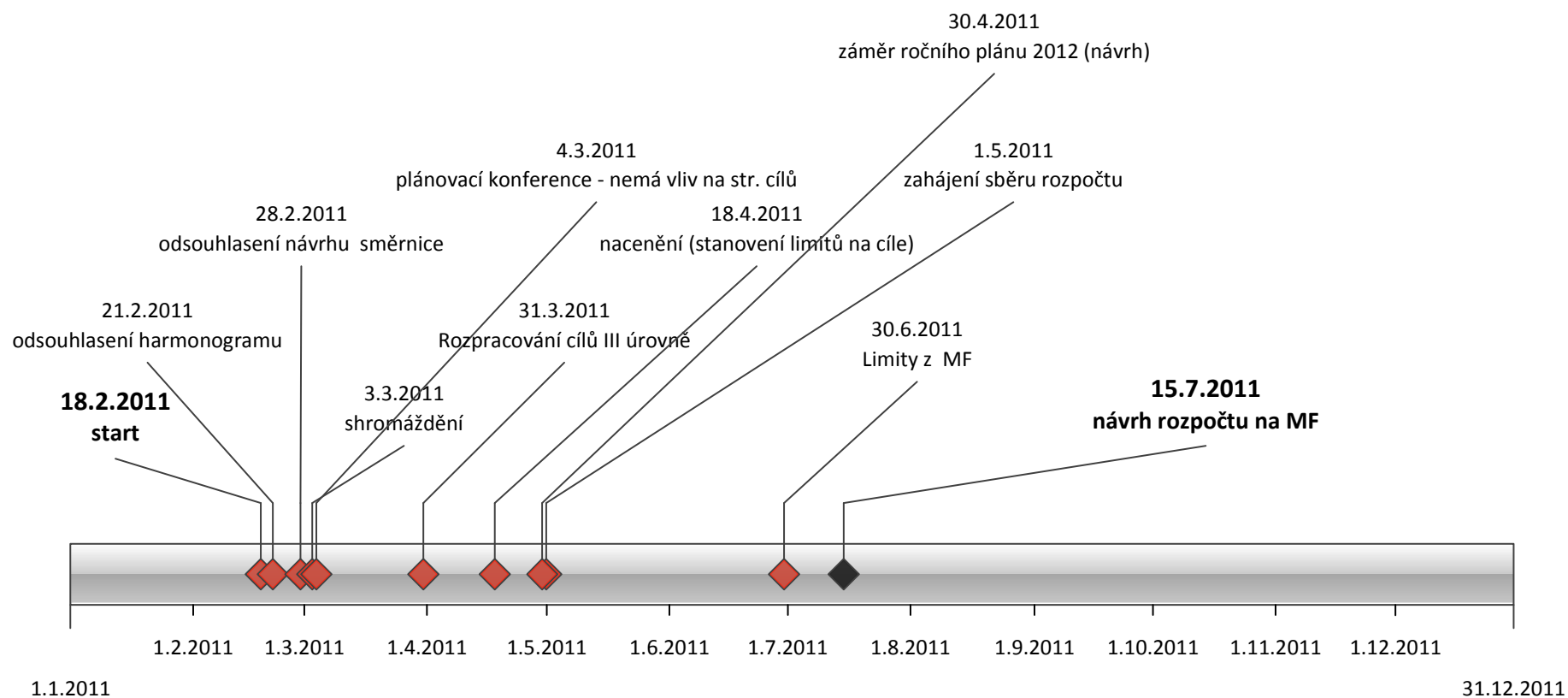


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# 6. Processing of the draft budget by cost center

## Timeline - Budget 2012 -2014



Source: *Preparing the draft budget for 2012 and the medium-term outlook for the years 2013-2014. OR SE MO. [04/05/2011]. Vyškov.*



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## 6. Processing of the draft budget by cost center

Participants in the drafting of the budget (medium-term outlook) calculate the first order economic costs linked contracts and the remaining appropriations available to calculate the use of other central and decentralized expenditure. In the ongoing expenses of participants calculate the drafting of the budget (medium-term outlook) expenditure as follows:

- *For selected area of current expenditure (expenditure area),*
- *For area of other current expenditure.*



## 6. Processing of the draft budget by cost center

*Selected area of current expenditure:*

- Personal mandatory expenditures,
- social benefits,
- immovable infrastructure expenditures,
- expenditure on ecology.

## 6. Processing of the draft budget by cost center

*The area other current expenditure:*

In the other current expenditure ensures the processing of the draft budget (medium-term outlook) commander (chief director) cost center or a person responsible for the financial security of the tasks set out for security goals.

## 6. Processing of the draft budget by cost center

The procedure for calculating targets:

- A. Development targets,
- B. Synchronization,
- C. Development limits.

## 6. Processing of the draft budget by cost center

### Input data for calculation:

- ✓ professional guidelines asset manager grouping needs, central and non-central expenditure planning managers goals,
- ✓ updated budget numbers, personal mandatory expenditures, pension benefits,
- ✓ updated overview of the main types of VTM, an updated long-term contracts to purchase goods and services in favour of the defence sector,
- ✓ an updated list of events in the information system SMVS / EDS.



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## 6. Processing of the draft budget by cost center

### Calculation - areas:

- ☐ *selected areas of current expenditure (expenditure area),*
- ☐ *an area other current expenditure,*
- ☐ *specifics,*
- ☐ *foreign missions,*
- ☐ *expenditure on foreign trips and visits,*
- ☐ *expenditure on communication and information systems,*
- ☐ *entertainment, refreshments and gifts.*



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## Keywords

*Budgeting, budgeting phase, balancing, budget execution, provisional budget, government accounts, income and expenditure, revenue and expenditure side, goal-oriented budgeting, goal-oriented side of the budget, spending block, spending a circuit-level goals, goal, objective documentation, SMART, production targets, cost center, MatP, SBC, change management goals, cash, current expenses, other current expenses.*



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## List of tasks for students:

- 1) Characterize basic elements of budgeting. What does the budgeting system in the Ministry of Defence (sketch - explain).
- 2) Clarify the revenue and expenditure side of the budget of the MoD.
- 3) Characterize the target-oriented budgeting - general definition
- 4) Explain the implementation of goal-oriented budgeting in the MoD.
- 5) Clarify the principles of goal-oriented budgeting.
- 6) Explain the method of setting objectives and rules processing - the MoD.
- 7) Explain the place and role of a cost center in the COR system.
- 8) Draw and explain the timeline budgeting.
- 9) Draw and explain the budget process in current expenditures realized by cost center.