



Course: Financing and economic management

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## Contents

### **Extra-budgetary funds - principles, implementation**

#### **1 Non-budgetary funds / resources - making principles, theoretical definition**

**The primary legal document in which they are defined extra-budgetary resources is Act no. 218/2000 Coll., *on budgetary rules and amending certain related acts (budgetary rules)* § 45.**

In accordance with § 45, paragraph 3 of the Act on budgetary rules managed by organizational unit of state (OUS) *"off-budget resources, which are provided with funds organizational units of state, profit earned by economic activity undertaken on the basis of a special law, money and resources provided from abroad by their definition of an act which were given and means special accounts to finance modifications and substitutions State Material Reserves under special legislation.* <sup>1</sup> *Extra-budgetary resources are used through the budget. Resources fund cultural and social needs with the exception of the funds earmarked to finance replacement of tangible assets and resources dedicated accounts to finance modifications and substitutions of State Material Reserves used directly."*

Extra budgetary resources may OUS, the MoD used to pay unsecured budgetary needs. If there is the need for budgetary unsecured payment requirements may MoD pursuant to § 22, para. 1 of the Act on budgetary rules used to finance these needs and extra budgetary resources. Before to making such payments, a budgetary change (measure).

Funding extra-budgetary resources leads to the MoD on bank accounts with the Czech National Bank

MoD (OUS) comprises these cash funds: <sup>2</sup>

**A) Reserve fund,**

**B) Fund cultural and social needs.**

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<sup>1</sup> § 6 odst. 1 zákona č. 97/1993 Sb., o působnosti Správy státních hmotných rezerv.

<sup>2</sup> § 48 zákona č. 218/2000 Sb., o rozpočtových pravidlech

## **A) Reserve fund**

The resource of reserve fund is:

- a) Provided from abroad and cash donations,
- b) Deductions unauthorized use or withhold funds pursuant to § 44 paragraph 2 point a), b), g) and h) and penalties for late payments to them the law on budgetary rules,
- c) Income from the sale of assets which organizational unit of state acquired as a gift or inheritance,
- d) The Ministry of Defence revenues from the sale of state property which is competent to manage the ministry.

State organizational unit (MoD) divided funds in the reserve fund by origin, on:

- a) Provided from abroad and cash donations and it further:
  - 1. The resources available to it to a certain purpose, according to these purposes,
  - 2. The resources, which they were provided with no purpose.
- b) Deductions unauthorized use or withhold funds pursuant to § 44 paragraph 2 point a), b), g) and h) of the Act on budgetary rules and penalties for late payments to them; Such charges and penalties subdivided according to the original purposes; original purpose means the purpose for which organizational unit of state has identified a subsidy or repayable financial assistance, while the use of the recipients have violated budgetary discipline and to do its reserve fund these payments made and the penalties paid
- c) Income from the sale of property in the Czech Republic became organizational unit of state gift or inheritance,
- d) Income from the sale of property to which it was the Ministry of Defence.

## **B) Fund cultural and social needs**

**Fond cultural and social needs** is made an essential contribution to the budget of organizational state of the annual expenses recognized for salaries and compensation for salaries or wages and wage compensation and remuneration for work readiness, the remuneration and other benefits for work performed as part of vocational training productive activities to students at vocational and fellowships to internal postgraduate researchers and employees' study trips. Fond cultural and social needs are fulfilled in advance of the annual planned amount in accordance

with its approved budget. Reconciliation of the actual essential contribution shall be made in the financial statements. It is formed to provide for cultural, social and other needs and is intended for employees in employment the employer, servants, students at secondary vocational schools and vocational facilities, internal postgraduate researchers, retirees who at first retirement or disability pension of third grade worked for the employer, or family members of employees and other legal or natural persons. Other revenues, amount of the creation and management of the cultural and social needs set the MoD by a decree.

## **2 Reserve - the use of resources**

Using of the financial resources of reserve fund for OUS / Department of Defence:

- a) It has the means were provided for a particular purpose, used for this purpose and the resources made available to it with no purpose, used to spending budget for unsecured working capital needs and expenditures, which in extreme cases allow the government,
- b) Means (deductions withheld or misappropriated funds) used for grants and repayable financial assistance to its original purpose,
- c) From the sale of property, which the Czech Republic became organizational unit of state as a gift or inheritance is used for expenditure on replacement of assets
- d) Proceeds from the sale of property used by the Ministry of Defence expenditure on replacement of assets

**Further use** of the reserve fund of funds in accordance with the law on budgetary rules:

- 1) Organizational unit of state / Department of Defence has taken directly to reserve funds, which have an obligation after using them for a specified purpose charge and the rest of the unused return, return the unused remainder of their providers directly from the reserve fund.
- 2) The resources of the reserve fund, which to him were transferred pursuant to § 44a paragraph. 1 point e) and paragraph 3 point e) of *the Act on budgetary rules* and which cannot be used for the programs and projects because they are over, government department reimbursed no later than the deadlines financial settlement with the state budget for the year in which the program or project is terminated. "
- 3) The appropriations transferred to the reserve funds pursuant to § 47 of the Act on Budgetary Rules as amended effective from 7 September 2004 to 29 February 2008, the Government may decide that will be transferred to the state budget revenues

chapter General Cash Administration and used either to reduce the state budget deficit, or according to § 24 paragraph 1 point d) of the *Act on Budgetary Rules*.

#### State funds in the reserve fund at the OSS according to the Ministry of Finance for 2010:

According to the Ministry of Finance reached a balance of funds reserves OSU reported in bank accounts at the end of 2010, 1.7 billion. CZK and compared to the end of the previous year increased by 200 mil. CZK. Changing the state represented excess income reserve funds in the reporting period by converting part of the Funds revenue OSS to use them to finance expenditure. The bank balance OSS reserves of 1.7 billion. CZK accounted for the overwhelming majority of the funds received from the sale of assets which had been empowered the Ministry of Defence and funds from abroad, including cash donations, primarily provided without stating their purpose, to a lesser extent provided for the intended purpose.

**Most of the funds in the accounts of reserves was at the end of 2010, Ministry of Defence** (1.5 bn. CZK), Ministry of Interior (75 mil. CZK), Ministry of Transport (61 mil. CZK), Ministry of Environment (44 mil. CZK ), Ministry of Labour and Social Affairs (33 mil. CZK), Czech Statistical Office (25 mil. CZK) and Chapter Ministry of Finance (17 mil. CZK). Other ministries and central agencies have accounts significantly smaller amount or do not have any means

### **3 The Fund cultural and social needs - history and general definition**

In this chapter, we will focus in more detail on:

**A) FCSN history,**

**B) FCSN - general definition.**

#### **A) FCSN history**

History fund reaches deep into the socialist period. Today, the development and use of the fund adjusted Reg. no. 114/2002 Coll., on the fund for cultural and social needs, and this ordinance is more or less "copied the" Reg. no. 310/1995 Coll., which bore the same name. Not by chance, however, the decree called for the fund for cultural and social needs have changed in the Official Gazette in the rhythm of five-year plans and achievements failures and planned national economy: 210/1989, 21/1986, 165/1980, 155/1975, 162/1971, 145/1968, 48/1967, 121/1965, 90/1965.

**The definition** of what the fund is used, **in 1965 was very simple:**

*The Fund's resources are used primarily whole collective enterprise. Their use decided by the appropriate trade union body in cooperation with management.*

**The purpose of the Fund today** speaks budget **law of year 2000** (see Chapter 1, paragraph B):

Formula for determining the allocation to fund even then, however, was greatly simplified compared to the past. Most financial volume of the fund in question was intended essential contribution in the amount mentioned two per cent. However, he was in the years 1965-1980 yen 0.8 % with the possibility of another, complementary allocation, bound to comply with the listed economic indicators. In 1975 it could be up to 1.2%. Only in 1986, the basic allocation to fund increased to 1.6 % in 1989 to 2.0 %.

The year 2011 was a historic year. Allocation to fund cultural and social needs (FCSN) for the first time since 1989 was lower than the traditional two percent of yearly costs for salaries. The allocation was halved.

## **B) FCSN - general definition**

It consists of contributory organizations and organizational unit of state. Territorial authorities can create a social fund under the rules, which for its creation and use is approved by the municipality or region.

Rules for the creation and use FCSN regulate budgetary rules, Act no. 218/2000 Coll., § 48, para. 1 and 8 and budgetary rules of regional budgets, Act no. 250/2000 Coll., § 33. Implementing Regulations the creation and use FCSN is Decree No. Ministry of Finance 114/2002 Coll., on the fund for cultural and social needs, which states:

## **The level of creating of the Fund cultural and social needs**

Basic rations, which consists of a fund amounts to 1% of annual costs for salaries compensation and salary or wages and wage compensation and remuneration for work readiness and on bonuses and other benefits for work performed as part of vocational training in productive activities to students at vocational.

Further income of the Fund shall consist of:

- a) Repayment of loans for housing purposes granted before the end of 1992,
- b) The compensation and insurance claims from insurers relating to assets acquired by the Fund,
- c) Cash and other gifts for the fund.

### **Managing of the Fund cultural and social needs**

Organizational state-funded organization compiles fund budget and the manner of its use. When using the Fund will be treated in accordance with the approved budget and can draw from it only specified expenses. For the co-decision procedure union is specific legislation.

The Fund's resources are stored in **a separate account by banks** and branches of foreign banks. Remittances to advances on basic allocation to the fund will be held by the end of the month following the month in which the formation of the fund occurred.

State organizational units and-funded organization *can contribute to the activities organized or co-organized or purchases from other state organizational unit or legal or natural persons*. Employees employed, members servants, students at secondary vocational facilities and retirees who at first retirement or full disability retirement worked for the state organizational unit or the organization (hereinafter referred to as "employees") and their spouses (species), partners and dependent children (hereinafter referred to as "family member") to provide compensation under the first sentence at the cost of reduced contribution from the Fund

Contribution can only be granted from the Fund the state organizational unit or contributory organization activity completely paid.

**To a grant or other benefit from the fund is not a legal right.**

The rest of outstanding loans of staff **may be waived** under the conditions stipulated by special legislation, but no more than **can be forgiven amount of 15 000 CZK**.

All transactions of the Fund, with the exception of social assistance, social loans and donations, the employees receive **non-monetary form**.

### **Contributions to the operation of the facility, which serves cultural and social development of employees**

The FCSN may contribute to the operating costs of ***cultural facilities, recreational facilities, sports and sport facilities, rehabilitation facilities, including massages and equipment for leisure activities of government departments and***

**governmental organizations** (hereinafter referred to as "cultural facilities serving and social development of employees ") and the operation of the bus when it is used for the needs of facilities serving cultural and social development of employees.

The Fund may purchase **vitamin pay** for staff and employees contribute to influenza vaccination, tick-borne encephalitis and hepatitis A, if not covered by health insurance.

The Fund may contribute to the equipment **to improve working conditions**, work clothing and footwear, over and above the mandatory equipment, uniforms and equipment for sports and leisure activities, which is lent to employees.

### **Acquisition of fixed assets**

The fund will cover the procurement of tangible assets, which is used for cultural and social needs of employees.

### **Loans for housing purposes**

Employees may be based on a written agreement to provide funding from the loan to:

- a) **Buy a house or flat or ownership** for their own housing, the composition of the membership share for cooperative apartment for their own housing and to implement changes to building a house or apartment that employee uses for their own housing,
- b) **Purchase home furnishings,**
- c) **Unpaid balance of the loan** of the loan from the fund for housing purposes granted a previous employer on the unpaid balance of the loan from the fund for housing purposes husband (wife).

Loans from the Fund are interest-free and are provided under the following conditions:

- a) Staff can also provide more loans; the sum of balances outstanding loans employees and new loan may not exceed CZK 100 000, of which amount of 50 000 CZK for the purchase of home furnishings,
- b) Each loan is payable within 10 years of the loan agreement; means of loans can be used only for the purpose of direct payment, which was agreed in the contract about the loan.



In the event of **termination of employment or service relationship, the loan is payable no later than six months** from the date of its termination, unless the loan agreement provides otherwise.

**Loans cannot be granted** to cover costs already covered by a loan or a loan from banks or branches of foreign banks or other persons. The loan can no longer provide for the settlement of marital property settlement heirs and other property settlement.

## **Boarding**

The Fund may contribute to the canteen employees under special legislation.

## **Holiday and recreation**

The Fund may contribute to employees and their family members on vacation, including rehabilitation and spa treatments, weekend stays in their own facilities or taken from other organizational units of the state or from natural or legal persons and on trips, at home and abroad.

## **Culture, education and sport**

The Fund may contribute to employees and their family members to:

- a) Tickets for cultural, sports and sporting events, and transportation to these events,
- b) The cost of cultural, sports and sporting events organized by a government department or the organization,
- c) The cost of training courses.

## **Exchangeable event**

In mutual exchange resorts, tours, cultural events and sports competitions can while ensuring reciprocity from the fund to pay for living costs for employees of other domestic and foreign legal entities and individuals.

## **Social assistance and loans**

The fund can provide a one-time social assistance to employees, or their closest surviving in extremely severe cases and in dealing with difficult or unexpected social situations. Social Assistance may in each case be up to 15 000 CZK, in cases of

disability natural disaster, environmental or industrial accident in the territories in which it was declared a state of emergency, more than 30 000 CZK.

On the basis of a written contract employees can be provided to bridge the difficult financial situation of an interest-free loan to a maximum of CZK 20 000 or 50 000 CZK in disability cases, natural disaster, environmental or industrial accident in the territories in which it was declared a state of emergency, with a maturity of 5 years from the conclusion of the contract the loan. Upon termination of employment or service relationship is a loan payable within six months of its completion, unless the loan agreement provides otherwise.

Social loans and assistance will be provided in cash in accordance with the Fund's budget.

### **Supplementary pension insurance**

State organizational units and state-funded organizations can pay from the fund for its employee's part of the contribution of supplementary pension insurance but not more than 90% of the amount that the employee has committed to pay. Organization founded by local authorities from the Fund may pay for their employees' pension plan or part thereof.

### **Premiums for private life insurance**

The Fund may pay insurance premiums for employees of the private life insurance from an insurance contract concluded between the employee as the policyholder and the insurance company that is authorized to carry on insurance business in the Czech Republic under a special law, **but no more than 50% of the premium**, which employee undertook to pay, provided that the contract was negotiated payment of indemnity to **60 calendar months, while the earliest in the age of 60**.

### **Post to the trade union**

The Fund shall be eligible to the trade union, which operate in the state organizational unit or contributory organization to pay for demonstrable expenses that it incurs in connection with the fulfilment of rights arising from labour legislation.

## Gifts

The Fund can provide employees with benefits in kind or cash donations:

- a) For extraordinary activity,
- b) At work anniversaries and 20 each additional 5 years of employment or service relationship with the employer,
- c) At the jubilee 50 years and each additional 5 years of age;
- d) During the first retirement or full disability pension.

For extraordinary activity of the Fund can make a donation and other natural persons than employees.

The total amount of donations **may not exceed 15% of the basic allocation**. Any part of the limit may be carried over to the next year for the same purpose, over and above the limit.

## 4 The Fund cultural and social needs of the defence

Fund of cultural and social needs of the Ministry of Defence modified following legislative standards:

- Decree Ministry of Finance no.114 / 2002 of 27 March 2002 on the Welfare Fund,
- RMO no. 39/2003 dated October 23, 2003 - Principles for the creation and use FKSP - valid from 18. 11. 2004 - Cancelled 31. 12. 2011,
- Order of MoD no. 66/2011 - dated December 20, 2011 - Principles for the creation and use of the fund cultural and social needs,
- Collective agreement 2012 - as amended by the Fifth Amendment.

### **The Fund cultural and social needs of MoD are designed for:**

- a) Soldiers in service,
- b) Pensioners,
- c) Spouses, partners, species and their dependent children, employees and retirees,
- d) Other natural or legal persons.

## **Create, budget and fund allocation**

**The basic allocation**, which is 1% of the annual expenses recognized for salaries and compensation for salaries, bonuses for work readiness, additional compensation and other benefits under the provisions of § 2 paragraph 1, other income of the Fund under the provisions of § 2 paragraph 2 of Decree no. 114/2002 Coll. and unspent funds from previous years.

### **Fund budget includes, in particular:**

- a) Annual prepayments in the sub-fund military units, military equipment, military rescue units, organizational units of the Ministry of Defence (hereinafter Department)
- b) Annual prepayments in the sub-fund administrative offices,
- c) A permanent reserve of the regional finance department (the Finance Department)
- d) Central reserve
- e) Funds for loans to employees,
- f) Annual allocation for trade union bodies

**Personal account** for one employee forms, prepayments, which is the quotient of the annual upfront allocation of funds to sub-units and the planned number of employees for the calendar year.

The budget of the Fund for the relevant calendar year shall be set aside funds to cover the costs of collective bargaining, trade union bodies in the amount of 125 000 CZK.

### **Creating a sub-fund unit**

Sub-fund unit consists of personal accounts of all employees department and account department. It is intended to cover expenditure for employees and their families. For managing the Fund are responsible the Heads of organizational units.

Personnel Section MoD allocates resources fund in the form of advance quarterly allocations to fund the Authority, in terms of:

=> **15th January**,

=> **25 March, June, September.**

Prepayments to the personal accounts of the Authority will conduct monthly as 1/12 of the estimated annual upfront allocation **per 1 employee to 25 January** and then always **the 10th working day of the month**. Funds into personal accounts assign authority **to authorized personnel**.

In sub-fund budget department at the respective calendar year set aside funds for the following types of transactions (posts):

- a) *Catering,*
- b) *Recreation,*
- c) *Cultural and social development of employees,*
- d) *Life insurance.*

The rules for drawing funds from the account department according to the conditions determine the types of transactions that will be used by the department and maximum or minimum amount of contributions per 1 employee on individual types of transactions. The rules approved by the head of organizational unit **by 15 February** and immediately surrendered to the competent department of financial.

Means sub-fund (personal accounts and accounts department) can be drawn only **to the amount of funds available**, which means:

- a) Unspent funds from last year carried over to the following year,
- b) Fund allocations for the respective calendar year, which can continuously draw only up to the amount of advance allocations.

**Unspent funds** sub-fund as **at 31 December** shall be transferred to the following year. **Rest of personal account employee**, the employee transferred to the following calendar year, as well as unspent funds account department is transferred to the account of the same department in the following calendar year. **If a body expires**, the rest of the personal account is transferred to the employee to a new department and account balance body converts successor department.

**List of tasks for students:**

- 1) Characterize the extra-budgetary resources / funds.
- 2) Explain the formation and use of reserve fund.
- 3) Explain the history of FCSN and its essence. Explain the relationship between FKSP and volume of funds for salaries.
- 4) Characterize the basic elements of creation of the fund (income fund) and methods of use in general.
- 5) Try to define and characterize the use FCSN in the Ministry of Defence (personal account, insurance, loans, gifts, etc.).
- 6) What are the main principles of management of the fund in MoD.