



Course Name: Financing and economics management

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Topic: T14**Realisation and the budget year – use of the funds****Course Objectives:**

The aim of this topic is to acquaint you with the system of budgeting MoD country as a whole, focusing on individual elements of this process, their connectivity and functionality. Subsequently, we consider the system of budgeting for the cost centre.

Content:

Introduction

0. Selected terms according to the Order of the Minister of Defence (OMD) No. 72/2012
1. The budget of the Ministry of Defence
2. Budgeting process in the MoD
3. The budget process MoD
4. Description of the different stages of budgeting MoD CR
5. Goal- (Target-) oriented budgeting (GOB)
6. The goal- (target-) oriented structure of the budget (GOBS)
7. Draft budget cost center (CC)
8. Implementation of the budget cost center
9. Rationalizing the process of budgeting

Conclusion

Introduction

This topic will be devoted to describe the basics of budgeting Ministry of Defence of the Czech Republic (MoD CR). We will explain the newly established method of budgeting, goal-oriented budgeting. Furthermore, we describe a cost centre budgeting and analyse the process of drafting the budget. We clarify the possible ways to streamline the process of budgeting.

0. Selected terms according to the Order of the Minister of Defence (OMD) No. 72/2012

According to the OMD 72/2012 the first part of Article 2 are basic terms are **basic concepts** related to budget issues explained in the following manner, i.e., for the purposes of this order means:

a) **Chapter administrator** – senior employee, which is designed to perform the scope of the chapter administrator Organizational Regulations of the Ministry of Defence (pursuant to Art. 256 Annex no. 1 Organisational Rules of the Ministry of Defence);

b) **Budget competent** – goals manager (according to OMD no. 66/2012 Bulletin Planning activities and development in the Ministry of Defence), or another senior employee, appointed by the chapter administrator, authorized to establish and modify the limits of funds chapters in various areas of budget revenues and expenditures

c) **Funds chapters** - all funds, which are covered by the chapter administrator and which are:

- 1) State budget revenues,
- 2) Funds for state budget expenditures,
- 3) Extra budgetary resources used through the budget,
- 4) Extra budgetary resources used directly,
- 5) Claims arising from unused expenses,
- 6) Beneficiaries of the insured event,
- 7) Additional funds,

d) **Budgetary funds chapter** – funds under point. c) 1) and 2);

e) **Normal year** - calendar financial year,

f) **Headquarters** – brigade headquarters, headquarters bases Main Command of the Military Police and the various agencies, excluding the Agency financial,

g) **Economic services** – type of service providing financial management and financial security among organizational units Ministry of Defence (hereinafter referred to as "organizational unit") at various levels of command and control. The head of economic services is the Deputy Assistant

Secretary of Defence for economy-Director of the Economics Ministry of Defence, which defines and manages the development process of financial management and financial security,

h) **authorities Economic Services** – civilian employees and professional soldiers (military specialization number 83) at various levels of command and control, who are in the information system of the service and the staff (ISSP) kept under a symptom of economic services, and employees of the Military Intelligence which to perform this activity designated director of the Military coverage.

According to Art 7 OMD 72/2012 is explained by the following:

1. **Cost centre (CC)** is the lowest organizational element, in whose favour the process of implementing financial security and for which compiles economic statement, which is the image comparison earmarked and used cash and personal property and resources. Decisions on the allocation of the Statute of the cost centre give charter manager.

2. **Head of the organizational unit (HOU)**, which is assigned to the statute cost centre, is a leading cost centre. Statute cost centre can also assign folder (article) organizational unit. At component (article) organizational unit that is assigned statute cost centre, performs as Head of cost centre management staff upon written authorization of the Minister of Defence.

According to Art 8 OMD 72/2012 is explained by the goal-oriented structure of the budget

Goal-oriented budget structure (COBS) provides the administrator the chapter on the principles of goal-oriented budgeting in accordance with the applicable dial objectives of the Ministry of Defence. It is presented in the income and expenditure budget structure, which defines specific indicators Chapter Objectives 1. Expenditure levels correspond to the blocks, which are approved by the Ministry of Finance. Goal-oriented structure of the budget chapter administrator submits for approval to the Ministry of Finance in the structure prescribed by the law.

According to the OMD 72/2012 second part of the budget process under Art. 9 following:

1. **Budget process** is a set of measures and procedures of each budget competent, which leads to the allocation of funds chapter, changes in the allocation and its evaluation in relation to the achievement of stated objectives.

2. **The aim of the budgetary process:**

a) Allocation of funds chapters referred to in Article. 2 point c) 1) to 5) for the current year for their economic, effective and efficient use;

b) Allocation of funds chapters referred to in Article 2 point c) 1) and 2) years following the current year (according to § 4 para. 3 of Act no. 218/2000.)

Furthermore, pursuant to Art 10 OMD 72/2012:

1. **Cash chapter** are expressed through budgetary sentence.
2. **Budget sentence** specifies detailed income and expenditure from different perspectives (attributes).
3. Through individual attributes of budgetary sentences or combining multiple attributes budget sentences are defined binding indicators specified by the state budget (hereinafter "major indicator of the state budget") and binding indicators, which establishes chapter administrator (according to § 23, point 1) of the Act no. 218/2000 Coll., as amended by Act no. 26/2008 Coll.) (hereinafter referred to as "binding limit").
4. **Mandatory limits** the total cash limits set by the budget competent materially from the level of the chapter administrator.

Furthermore, pursuant to Art 11 OMD 72/2012 clarifies planning funds chapter:

1. Budget process uses the outputs of the planning process, which provides administrators' chapters' organizational unit of the Ministry of Defence, which is responsible for the planning process within the Ministry of Defence. These outputs are:
 - a) Documentation goals (according to OMD no. 66/2012 Bulletin),
 - b) Budgetary numbers of people divided into soldiers and civilian employees,
 - c) Planned organizational, mobilization and dislocation changes, including deadlines for their implementation and impact of these changes on the assets and personnel (employees)
 - d) Data output from the medium-term plan of activities and development of the Ministry of Defence (hereinafter referred to as "medium-term plan").

1. The budget of the Ministry of Defence

MoD budget can be generally defined as a centralized fund of funds. This budget is part of the state budget, the creation; distribution and use have in their powers of government authorities. MoD CR performs its basic tasks and goals precisely with the help of funding from the budget of Chapter 307 (MoD).

Another possible definition of the budget is that it can be understood as a planning tool. MoD budget represents a certain type of plan prepared in the form of a breakdown of expected income and expenditure for one year, which should be used to check the conformity between the amounts received and issued funds. MoD budget is the starting point for short-term financial planning, and up to the level CC.

Budget process in the Ministry of Defence of the Czech Republic went through a long evolution, its present appearance mainly from the "System Planning, Programming and Budgeting" (PPBS). This

system has never been comprehensively introduced to the MoD, but the essential elements of the system were introduced a modified form for this. Primarily, it was important to introduce consistency of factual programming and funding as budgeting based on the medium-term plan.

2. Budgeting process in the MoD

Important for this subchapter is a clear **definition of budgeting process**, definition comes from Order of Ministry of Defence no.72 / 2012, where budgeting is described as follows: *"The procedure is a summary of the measures and procedures of each budget competent, which leads to the allocation of funds chapters, change this allocation and its assessment in relation to achieving their goals."*¹ Basic legislation, which is used for budgeting process in the Ministry of Defence, is divided into external and internal.

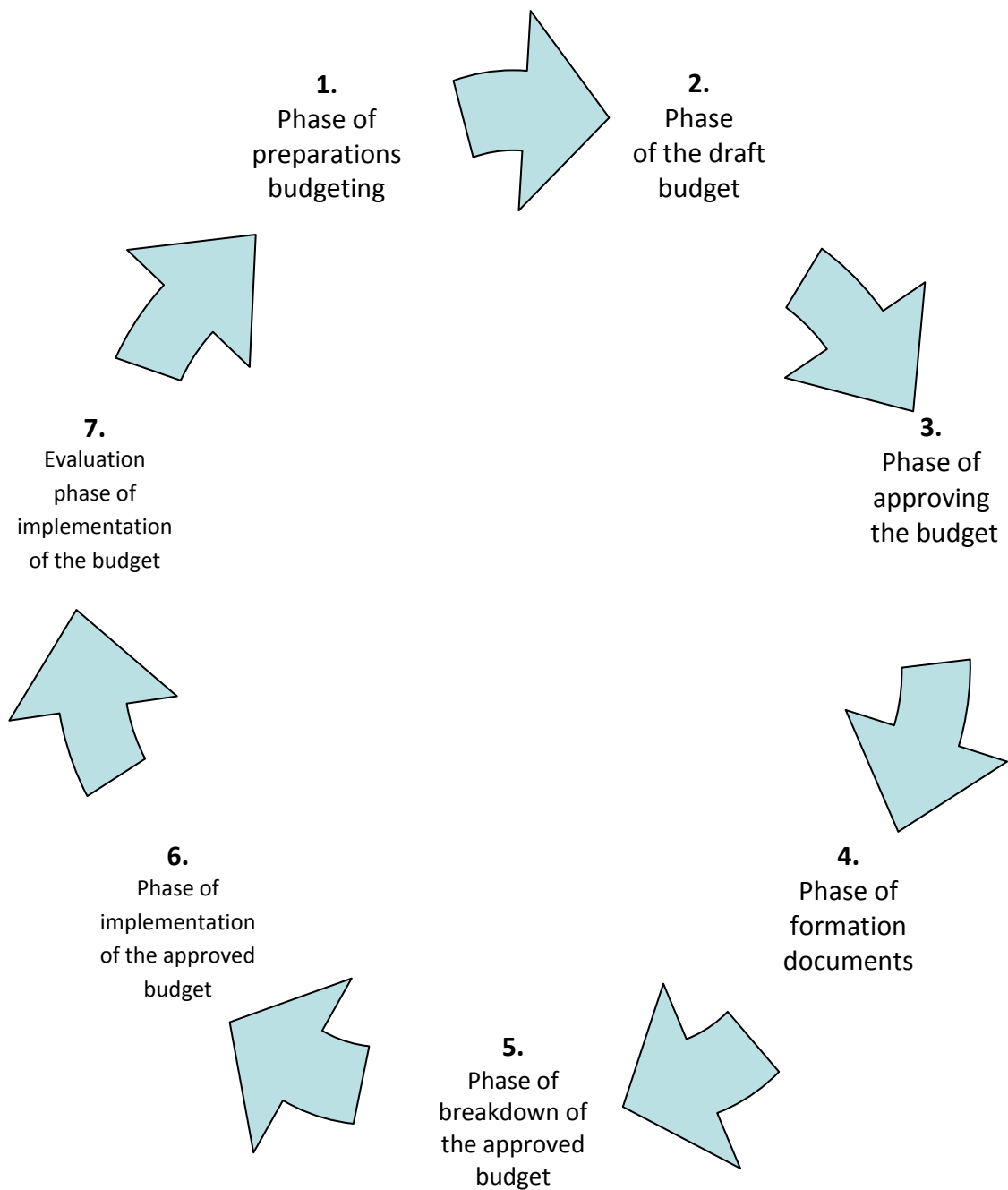
The budgeting process and build their own state budget in chapter 307 (MoD), balanced legislation. It has a stereotyped form the progressive stages, which prevents budget. Single phase and pattern of the phase described hereinafter.

3. The budget process MoD

In the diagrams below, shows the different phases of budgeting, which are important in the formation of the MoD budget and the state budget.

¹ Čl. č. 9 RMO č. 72/2012, *Finanční řízení a finanční zabezpečení*. Ministerstva obrany, 2012. Praha: Ministerstvo obrany, 2012, s. 37. Čj. 306-17/2012-SE MO.

Figure 1 **Phase budgeting within the MoD**



Source: NECAS, Kamil. Budgeting for Cost Center Czech Army using information technology. Bachelor thesis. Brno: University of Defence, 2011. Supervisor pplk. Ing. Petr Musil.

4. Description of the different stages of budgeting MoD CR

In this section we characterize description and importance of individual budgeting phases mentioned above, however, we will consider only a brief list of information.

1.

Phase of preparations budgeting

This phase of training budgeting process is initiated in April of the financial year. It focuses on:

- Providing entry documents and analyses that are used to provide a data input medium-term plan to short-term planning,
- Dial the planned targets, which is updated for the relevant financial year,
- Budget numbers of people and financial limits for nominal and major events
- There upgrade (update) software,
- An update financial standards for the calculation of costs and processing dials,
- Holding the participants budgeting, and both from the user,
- Does the update and subsequent release attachments to professional regulation for the financial year.²

2.

Phase of the draft budget

During the months of May-June of the financial year, when drafting the state budget calculations carried out by participants budgeting expenditures and revenues of the state budget, Chapter 307 (MoD). It follows clarification of the amount of funds to meet planned objectives and tasks, determining contributions and grants, assessment documentation of asset replacement programs, documentation, programs, activities and investment plans at the end of the approval of this documentation.³

Processed data for individual spending areas and also processed proposals budgets NS, the check the correctness and completeness of calculations carried out, so it is a data analysis and control to compliance with the mandatory financial limits.

3.

Phase of approving the budget

The process of approving the draft budget of the Ministry of Defence of the Czech Republic takes place during the months of June to September of the financial year. Calculations are finished drafting aggregated reports for each program activity according to the structure of programs, assemblies at

² Čl. č. 59, *Odborné nařízení pro zpracování návrhu státního rozpočtu a střednědobého rozpočtového výhledu v resortu Ministerstva obrany*. Praha: Ministerstvo obrany, 2009, 76 s. Čj. 35-13/2009-8201.

³ Ibid, see ref. 2.

section 307 (MoD) for preparing the draft budget for the Ministry of Finance by expenditure blocks and expenditure headings according to the goals and set their evaluation metrics and establish a plan of income and gratuitous Plan transfers for the relevant financial year. Captured reports and data are the starting point for the next iteration process.⁴

Further checks the data in the module CBS (calculating budget support) from which the data is then imported into the module BAB (balancing the budget), which is used for subsequent balancing the state budget proposal MoD CR. At government and interagency level are discussed and also set binding indicators MoD budget of the Czech Republic, the conclusion is the preparation of documents for the government bill on the state budget. Ongoing balancing and other iterative process primarily the responsibility of the principal managers of partial budgets (PMPB) and administrators partial budgets (APB). The result is then treating Chapters' workbook of the Chapter 307 MoD.

Between the months of September and November of the financial year are processed Draft MoD budget, which is approved by the Minister of Defence, Government and Parliament. At the same time consult members of the Committee for Defence and Security of the Chamber of Deputies are underway with designated personnel MoD in this period.

4.

Phase of formation documents

In November, the budget year begins the process of creating documents, which ends in January. Once the sub-processors budgets familiar with the draft budget, there is a fundamental issue their own documents budgeting process. Without these documents cannot be started the next phase, which is actually a budget breakdown Chapter 307 (MoD). Verification and control of data and processes is made after completion of the final balance, the final version of the state budget in chapter 307 (MoD) in the structure of budgetary and accounting data sentences.⁵

5.

Phase of breakdown of the approved budget

In late January and early February there is a breakdown of the execution of the state budget in chapter 307 (MoD) to set CC. Furthermore, individual CC and Agency Financial (AF) disclosed above mandatory funds. In late February, a complete is breakdown of the budget into the organizational structure of the Ministry of Defence of the Czech Republic.

⁴ Čl. č. 59, *Odborné nařízení pro zpracování návrhu státního rozpočtu a střednědobého rozpočtového výhledu v resortu Ministerstva obrany*. Praha: Ministerstvo obrany, 2009, 76 s. Čj. 35-13/2009-8201.

⁵ Čl. č. 59, *Odborné nařízení pro zpracování návrhu státního rozpočtu a střednědobého rozpočtového výhledu v resortu Ministerstva obrany*. Praha: Ministerstvo obrany, 2009, 76 s. Čj. 35-13/2009-8201.

6.

Phase of implementation of the approved budget

In the period the process of budget management is driven from January to December in progress. During the entire period of ongoing change management continually evaluates the of implementation and the performance occurs many tasks that are the responsibility as the Chief of Economic Services (ChES) and individual workers' economic groups.

7.

Evaluation phase of implementation of the budget

At the beginning of the year is to evaluate the performance of the state budget in chapter 307 (MoD) for the previous calendar year. The evaluation is done according to the instructions MoF for clearing financial relations with the state budget and also the instructions for drawing up the final account for the previous calendar year.

5. Target-oriented budgeting

On 1 January 2009 came into effect Decree no. 415/2008 Coll., Laying down the scope and structure of materials for the development of medium-term budget outlook. On the basis of this decree began budgeted according target (goal) - oriented budgeting methodology (GOB) and not only the Ministry of Defence of the Czech Republic, but also in other parts of the public administration. According to the new rules a budget for 2010 was putting together for the first time.⁶

The **concept GOB** is used in two basic ways. The first is a **broader concept**, we can imagine underneath resource management. The second concept is **narrower** when it comes to budget this method and I will deal with. The essence of GOB is thus optimized resource allocation.

Each resort is with regard to the scope of the Competence Act provider of relevant public services, which are provided with respect to the identified public needs. GOB is such a system resource management, which allows the public to transform the identified needs into objectives of the resort and these targets budgetary funding with regard to their priorities and limited resources.⁷

GOB is a new approach to budgeting, which is intended to make it possible to answer the question: "*What is to be achieved, how and with what amount of money?*" Find the answer to this question is:

- Recognize the mission of the institution and the benefits of its activities to the public and the state (setting of general objectives, including a timetable).

⁶ Ministerstvo financí ČR [online]. c2005 [cit. 2011-03-29]. Manuály. Dostupné z WWW: <http://www.mfcr.cz/cps/rde/xchg/mfcr/xsl/vyhlasaky_44707.html?year=2009>.

⁷ OCHRANA, František. *Cílově orientované rozpočtování – stav a perspektivy jeho uplatnění v rezortu Ministerstva obrany. Vojenské rozhledy* [online]. 2010, č. 3, [cit. 2010-03-15]. Dostupný z: <<http://www.army.cz/assets/multimedia-a-knihovna/casopisy/vojenske-rozhledy/vr-3.pdf>>.

- To analyse operations, identify their purpose and contribute to the objectives pursued, and thus create their homogenous units (definition of expenditure structure blocks a detailed breakdown).
- Assign these activities expenditure (expenditure allocation of spending blocks and classifications).⁸

6. The target-oriented structure of the budget

This is the structure of the budget, which sets the budget administrator based on an internal analysis of the activities of the chapter administrator performs within its competence under the competence of the law or laws related to the activities of the chapter. A GOBS determines the number of spending units and their detailed breakdown. In GOBS is an also defined responsibility of the functionaries of the implementation of the objectives (goals) / tasks and management of the state budget. A GOBS approves the Ministry of Finance.⁹

A GOBS is composed of the following levels:

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

7. Draft budget cost center

This phase of the budgeting process at the Ministry of Defence of the Czech Republic was described in the previous sections, CC this phase usually attended by the beginning of May and on the basis of Regulation senior grades. According to the methodology for processing the draft budget, CC is an essential element of budgeting and further: "The body of the budgetary process for the drafting of the MoD budget, which performs calculations of income and expenditure in the module for capturing, collecting and processing data required for the preparation of a draft budget and for which accounts are maintained."¹⁰ Commander of CC (chief, director) and his representative is

⁸ KRTIL J., *Cílově orientované rozpočtování*, Prezentace, Praha 2010.

⁹ Čl. č. 5.7, *ZÁSADY implementace cílově orientovaného rozpočtování (COR) u Ministerstva obrany*. Praha: Ministerstvo obrany, 2010. 49 s. Příloha č. 1 k Čj. 80-34/2010-8201.

¹⁰ Čl. č. 8, *Odborné nařízení pro zpracování návrhu státního rozpočtu a střednědobého rozpočtového výhledu v resortu Ministerstva obrany*. Praha: Ministerstvo obrany, 2009. 76 s. Čj. 35-13/2009-8201.

responsible for their own budgeting necessary expenditure for the financial security of the entrusted tasks (goals).

The draft budget of CC compiled participants budgeting i.e. for the area of financial security of persons and their requirements is a ChES and material security and the security services, the chief of logistics. When drawing up the draft budget above-mentioned participants budgeting based primarily on documents such as medium-term plan and purpose of the annual plan CC. Other sources of information for the budgeting process used data from previous periods. A basic teaching material, which must be adhered to by all participants budgeting, is the Professional Regulation to draft the state budget and medium-term budget outlook in the Ministry of Defence. This regulation sets out the rules, procedures, roles and responsibilities of participants budgeting drawing up the draft budget and the medium term.

Own the draft budget is implemented calculations of budgetary resources. This is a compilation of calculation sheets. The amount of funds determined by the participants budgeting, but must take into account the priorities of regional spending. First of all mandatory costs are calculated, then spending to ensure the most important goals and ultimately to spending to improve life for CC.

8. Implementation of the budget cost center

During January-March (at the beginning of the financial year) receives CC regulation to implement the budget. This regulation imposes an obligation to develop a plan CC utilization of decentralized funds for predetermined limit funding and in other current decentralized expenditure. CC prepares a plan for both the quarter and the full financial year, with an emphasis on linear disbursement of funds during the year, spending in compliance with the priorities and principles of economy, efficiency and effectiveness (3E).

9. Rationalizing the process of budgeting

In this part of the lecture describes the problems of the budgetary process for each area. To detect these deficiencies was used deductive method of causal analysis. There is always described problem, and its possible solutions.

Information Systems

Even though the IS within the MoD CR underwent long-term development, still have some drawbacks. The primary issue is **making entering IS**. As correctly chosen award is one of the key activities that predates own creation IS. Each system within the Ministry of Defence of the Czech Republic is formed, it has a fully interconnected hierarchy, as each module is connected and integrated within the IS. However, if the systems complement and govern without the correct assignment, as happens in the Ministry of Defence of the Czech Republic, is slowly disappearing certain connectedness and systems change the hierarchy of a fully connected to the star. In doing so, the solution to this problem is only well prepared to enter with regard to compliance with existing connectivity and integrity of IS.

Individual **IS within the Ministry of Defence** of the Czech Republic, were created **separately and independently** of each other, so there is missing some integration and interconnectedness. They have a homeland IS structure, working with information secrecy different and have their own management. However, trends in the development of IS are of opposite nature. It seeks to integrate some of the ministry IS into a single transversal IS.

The budgeting process in the Ministry of Defence of the Czech Republic

In 2010, at the instigation of MF was introduced to the Ministry of Defence of the Czech Republic in the process of budgeting new **method GOB**. Although the GOB should address what is to be achieved, how and with what amount of money, unfortunately this is only spending, but you need to track costs, some solution could be for the future introduction of management accounting.

A certain problem is also that executives do not know the source intensity (Cost) of its decision and impose even those tasks which cannot be due to limited resources to realize the tasks are then filled up to a maximum financial limit, regardless of the degree of achievement of goals. As in the previous paragraph solution could be the introduction of management accounting.

Budgeting cost center

When drawing up the draft budget CC can mention the following problems:

There **are not virtually measurable indicators of 3E**, it affects their own activity participants budgeting for CC, lacking a personal interest in fulfilling the tasks set and also a motivation that would lead to good results.

There is some **disharmony between practical and financial planning** of budget funds.

When is drafting the budget, CC leads to overestimation when **calculating budgetary resources**, which are mostly caused by certain weaknesses in the earlier stages of planning or incorrectly set source framework. These shortcomings partly eliminate financial standards, where the pre-determined amount calculable. The solution would be involvement of people to meet the set goals and also a motivation.

Another of the many problems is that there are a large number of errors when **creating a calculation sheets for CC** (battalions). Among the primary causes may include that very often change a person participating in the budgeting process.

A certain problem is also unsatisfactory **cooperation between the various parties budgeting**. There are problems in communication between the CC and the economic and logistics group, but also the cost center (battalion) and the parent folder, which is involved in budgeting.

Regarding the **processing annual plan of CC**, this plan is based on the mid-term plan, annual plan of the resort and plan annual plan CC. Therefore, if the previous steps in any gaps or inaccuracies also transferred to this plan.

If NS observe **basic principles in the processing plan drawing of funds** that can be found in a regulation to implement the budget, do not occur in the process of creating a plan no deficiencies. The basic principles of security can include **linear disbursement of funds** during the year, **spending in priority**, and the **principles of economy, efficiency and effectiveness (3E)** for pumping costs.

Conclusion

In this topic, we described the current state budgeting process, and at the departmental level and CC. To understand the various links in the area of budgeting, it is important to be aware of the whole and its individual parts. We have looked at thus creating budgets the Ministry of Defence of the Czech Republic and subsequently cost center budgeting.

Furthermore, we have focused our attention on the rationalization of the budgetary process. In order to rationalize some behaviour, it is necessary to reveal the most serious drawbacks. The main shortcomings of the budgetary process include failure to introduce basic economic indicators, the mismatch between practical and financial planning, and wasteful use of funds. Among the shortcomings of the IT area may include, incompatibility of individual IS the Ministry of Defence of the Czech Republic, with a shortage also related to failure to introduce transversal IS (PRIS MO), and the slow development of a lengthy update IS and their modules.¹¹

¹¹ NEČAS, Kamil. *Rozpočtování u nákladového střediska AČR s využitím informačních technologií*. Bakalářská práce. Brno: Univerzita obrany, 2011. s. 36. Vedoucí práce pplk. Ing. Petr Musil.

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