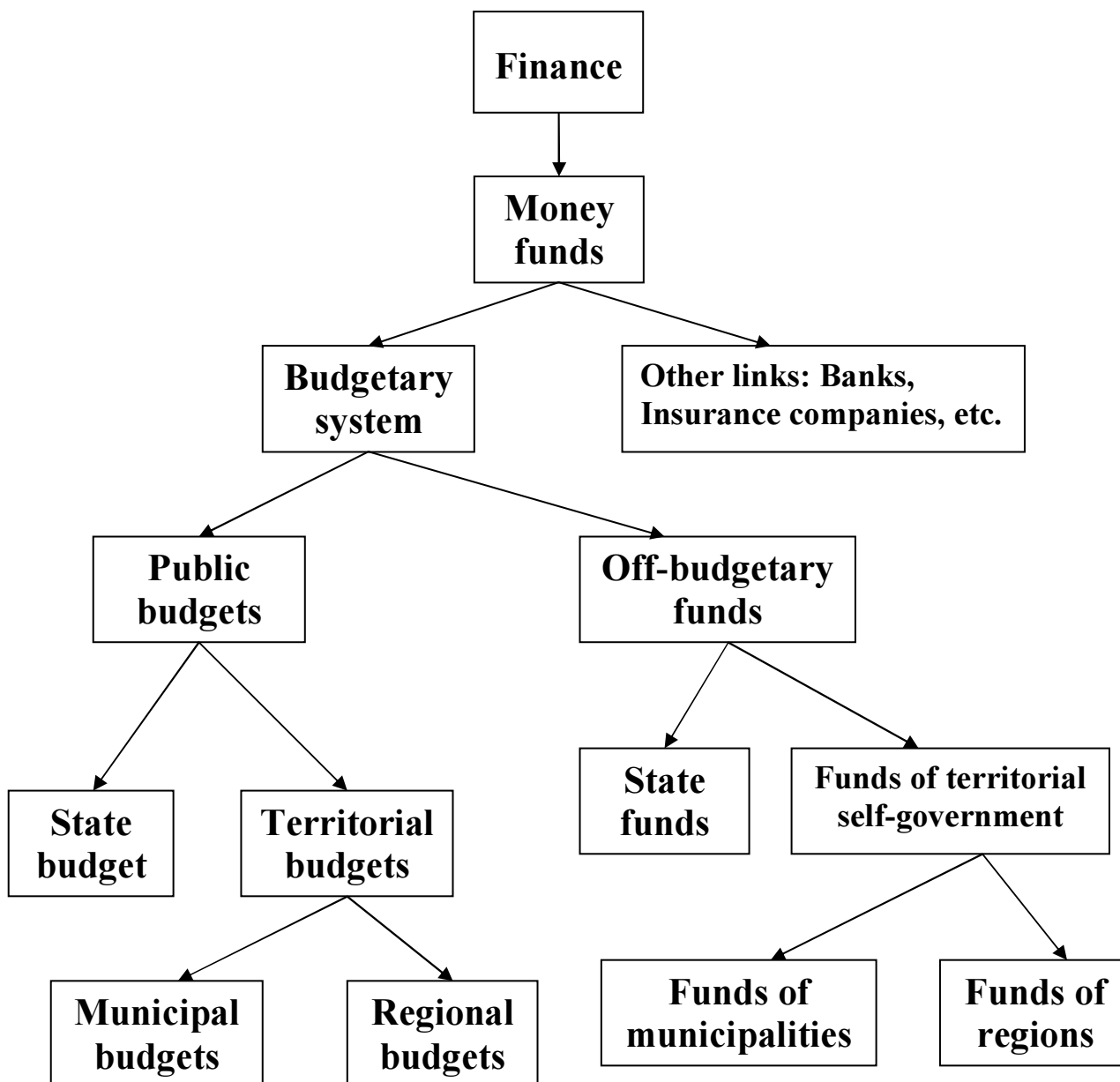


## TERRITORIAL PUBLIC BUDGETS AND FINANCE

### **Introduction**

With the renewal of territorial self-government in 1990 by the Establishment of municipalities, the municipal budgets became another important part of the budgetary system. And since 2001 with the renewal of regional level of territorial self-government, regional budgets also belong to the budgetary system.

The fulfillment of particular tasks that result from independent authority and devolved authority, requires financial resources. Territorial budget is an important instrument for fulfillment of these tasks at territorial level, prospectively complemented by off-budgetary funds. Those are generally special-purpose funds, about their usage decides elected local or regional board of representatives.



- round about 6258 municipal budgets
- 14 regional budgets including Prague, what is at the same time a capital of the Czech Republic.

## Budgetary outlook

Act No. 250/2000 Coll., on budgetary rules of territorial budgets presents, that the financial management of territorial self-government and of associations of municipalities is directed by its annual budget and by the budgetary outlook.

Budgetary outlook is helping instrument of territorial self-government, that serves for a medium-term financial planning of development of its economy. It is drawn up on ground of concluded contractual relations and adopted commitments, generally for 2 or 5 years following the year, for which is the annual budget drawing up.

The budgetary outlook contains overall basic data about revenues and expenditures, generally about long-term commitments and claims, about financial resources and needs of goals realized in the long-term.

The budgetary outlook should ensure in a long-term balanced financial management. The Act does not define the structure of the budgetary outlook. It only says, that it is drawing up in lesser rate of detail than annual budget.

The budgetary outlook is usually processed in variants. This makes possible to eliminate the influence of uncertainty and to identify eventual risks in the management of the subject, which is drawing up the outlook. The variants can be also put to use when deciding about potential debt financing of the development, when the territorial self-government decides, how much of debt and what kind of indebtedness it uses, and it compares the costs, benefits and risks of each variant.

The budgetary outlook should be drawn up as for capital part of budget (there should reflect the proposed investments in relation to contemporary property), and also for the current part of the budget, because exactly the surplus of current budget can be used for the financing of investment needs. And on the contrary in the current budget should reflect the operating expenses, that will the finished investments cause.

The reason why to draw up the capital and current part separately flows from the character of the financial operations. The current part of budgetary outlook contains especially financial operations, which have a repetitive character, as for the revenues and for expenditures too.

On the contrary in the capital part there are reflected capital revenues, which are only non-recurring revenue of the budget and basically it means, that the territorial authority prefers the possibility of acquirement of this non-recurring revenue from its property to the long-term usage of the property and to the benefits flowing from this usage.

The capital part of the budgetary outlook also includes the capital expenditures, which are financial resources put in the development of the territory.

At least one in the year the performance of budgetary outlook should be evaluated, preferably in parallel with the evaluation of the performance of the annual budget. This corresponds with the scrollable method of the drawing up of the budgetary outlook, when the contemporary budgetary outlook is used as the ground for the drawing up of the annual budget for the next year and on the contrary the budgetary outlook is specified and drawn up for other period.

## Territorial budgets

Territorial budget is the depiction of financial management of municipalities and regions for the period of one calendar year. So it is a short-term management instrument. Territorial budget can be **characterized as:**

- decentralized money fund
- balance of revenues and expenditures,
- financial plan, according to this plan the municipalities and regions manage during the budget period,
- an instrument for realization of conception of municipal or regional policy on the level of territorial self-government, an instrument for financing of needs of local and regional public sector.

Basic types of financial **operations** included in budget, are:

- R – revenues,
- E – expenditures,
- F – financing.

The equation, which stands for budget management, is:

$$\mathbf{R - E = F}$$

When  $R > E$ , we talk about budget surplus,

When  $R < E$ , we talk about budget deficit.

The financing operations inform us about the way of usage of resources for the case of budget surplus, and for the case of budget deficit if inform about the way how the deficit the financing operations predicate about the way how the deficit is covered.

Every territorial budget fulfills these important **functions**:

- allocation – this is a decisive function on territorial level. Through financial resources concentrated in territorial budgets are financed various needs in local or in regional public sector, or to ensure public goods.
- redistribution – usage of this function on territorial level is limited, especially related to socially-weak citizens, when on the level of territorial self-government is generally used only social aid (if we do not take into account the performance of state administration by devolved authority). Relatively more is this function used on higher level of territorial self-government. Through the reallocation of part of financial resources from the regional budget to the budgets of municipalities it is possible to influence the equal economic and social development in municipalities belonging to the district of the region.
- stabilization – its usage on the level of territorial self-government is also limited, however in developed countries the territorial authority through its activities influences the growth of economic potential of the territory, for example by the construction of technical infrastructure, and so on.

### **The budgetary process**

The budgetary process presents the activity of the territorial authority bodies joins with

- the compilation of draft budget,
- its discussion and adoption,
- its realization during the budget period and with
- current and subsequent control of the fulfilling of the budget.

The budgetary process has a continuous character and it overlaps the length of budget period (so it lasts longer than one year). The course and the fulfillment of each phase of budgetary process of territorial authorities is regulated by Act on budgetary rules of territorial budgets (Act No. 250/2000 Coll., in actual wording).

### **The budgetary principles**

The drawing up and realization of the budget shall abide by some principles:

- annual drawing up and approving of the budget,
- long-term balance of the budget as the ground of successful management,
- principle of realist and truthful, that is real estimate of revenues and expenditures so as not to appear considerable departures within the carrying out of the budget,
- completeness and unity of the budget attained through sorting by the budgetary composition,
- principle of publicity, the goal is to exhaustively inform all the citizens about the management of the municipality.

### **The budgetary composition**

It is arrange by Decree (of Ministry of Finance) No. 323/2002 Coll., on composition of the Budget; in actual wording. The composition ensures the uniform classification of operations of all of the public budgets and so it ensures the possibility of comparison of the items included in public budgets.

The composition of the budget is fixed on movements on bank accounts and applies only to budgetary management and money funds. It is not used for entrepreneurial activities (these activities are monitored apart from the budget and only the annual result of this activity displays in the budget. The budgetary composition does not apply also to foreign resources and to accounts of associated resources.

The budgetary composition uses four basic classifications of budgetary operations and so it gives us different views on financial management. It classifies the revenues and expenditures in these aspects:

- classification by kind – it demonstrates the economical character of the operation. This classification is for municipalities and regions obligatory. There are used 4 levels of detail, the highest level are classes, then grouping of items, under-grouping of items and items.

Classes:

1. tax revenues
2. non-tax revenues
3. capital revenues
4. received grants
5. current expenditures
6. capital expenditures
8. financing

- classification by line – this classification gives us an information about the purpose of the expenditures, about the field of realization of the revenues. It is also obligatory. This classification applies to all expenditures, to capital revenues and to non-tax revenues with the exception of the instalment of the loan. So the classification by line does not applies to tax revenues, to revenues from grants and to financing operations. This classification uses 4 levels of detail, the highest level are groups, then department, under-department and paragraphs.

Groups:

1. agriculture and forestry
2. industry and other branches of economy
3. services for population
4. social matters and employment policy
5. national security and legal protection
6. general public administration and services

- classification by accountability – this classification makes allowances for the accountability and activity of the subject handling the finances. For municipalities and regions is this classification optional, it is obligatory only for the state budget.

- consolidated classification – this is also for municipalities and for regions obligatory. It is a three-level code, record unit. This classification provides information about the transfers within the public budgets. Thereafter it is possible to eliminate the transfers within the organizational unit for which is drawn up the statement of the performance of the budget. For example when the statement is drawn up for the regional level of public budgets, this way the transfers between individual municipalities within the region can be eliminated, because it is not factual expenditure and factual revenue, but it is only the transfer of the public resources within the region.