

Multi-Annual Planning of Public Budgets as a Way of Rationalising Public Expenditure

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Abstract

Multi-annual planning is an essential tool in public finance law for the efficient management of public funds. The management by one-year budget should be accompanied by future planning exceeding one calendar year. Such planning is being made at the present time to a certain extent; however, the fulfilment of long-term plans, which cannot be enforced, can be perceived as the basic defect, which means that long-term plans are not obligatory for the next calendar year. The aim of this article is to determine whether, and if so, how it affects the rationalisation of public expenditure, a process that should lead to the efficient and economical use of public funds.

Keywords

public finance; public budget; financial law; expenditure; multi-annual planning

1 Introduction

Maintaining the public finances has been, is and always will be on the agenda. Those finances are not private means of natural or legal persons though, they are means or property being publicly maintained by the citizens through the assigned authorities, which use specific tools (budgets, funds, etc.) As public budgets have gone through their

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historical development, such conclusion has come that the period, for which the budgets are being approved, would be one calendar year (although this is not always the rule). Nevertheless, as practice has shown, when budgets are being set, they never start from zero; different relations are to be taken into consideration either current ones or those occurring in the future.

Therefore, it is logical that the planning usually extends the period of one year; as it will be mentioned below, it often takes into account two or three years. Of course, the planning itself which is mainly planning in the field of public financing, is often as a look into the crystal ball. Thus, the longer the planned period is the bigger the chance is that this plan is going to be changed or at least adjusted in accordance with up-to-dated demands. In the Czech Republic, a multi-annual planning is the solid part of a budgeting process at both state and local (regional) levels. In connection with the adoption of the package of budgetary responsibility rules in 2017, a duty to set a medium-term projection has been extended to all subjects of public institution sector. The rules set for multi-annual planning are also the part of fiscal rules, which are recently being implemented in profusion in individual EU member states in terms of unfavourable development and economic crisis in 2008.²

2 Rationalisation of Public Expenditure in General

The subjects of the public sector maintain a huge amount of finances in the frame of its activities. To maintain such finances, each country has its rules, which has to be followed in order to manage those finances in an economical, purposeful and transparent way and, at the same time, in accordance with the legal regulations. However, practice shows that those rules are not perfect in any way and although they are gradually changing, the achievement of an ideal state is still rather far away. The irresponsible management of public finances can cause negative phenomena in society (high public indebtedness, high rate of inflation, increase of unemployment, fundamental public needs of citizens being not guaranteed, etc.). Regional self-governing units and other subjects of public law can maintain their own finances and also get into debts in the same way as the state does. By an irresponsible management of public finances, those units very often even come to the edge of bankruptcy.³

The central government and local self-governments are aware of the consequences of such negative phenomenon. Therefore, they try more or less to eliminate it by paying attention to a decrease of public indebtedness, deficit of public budgets and effective economy as it comes to public finances. Basically, two methods exist how to achieve it. The first method involves the increase of incomes to public budgets by taxes increase, deliveries to the budget and yields of properties being owned by the state and local self-governments. The second method consists of an effort to lower expenditures of public

² For more see Koziel, 2015.

³ For this issue see e.g. Mrkývka, 2012; Mrkývka et al., 2004.

budgets. One way to achieve the decrease of public expenditures is their rationalisation at all levels. The rationalisation of public expenditures is not a specific activity, it is a set of different methods of effective use of public finances being used by public administration authorities.

Rationalisation itself can be defined as the use of regulations to improve the concrete activities. Public expenditures can be defined as the public means being spent by the public sector to fulfil its mission. Based on abovementioned, the rationalisation of public expenditures can be defined as being the adoption of such regulations, which would lead to the improvement of public means use being spent by the subjects of public sector. The rationalisation of public expenditures can be understood as not only the amount of expenditures but mainly as the change of the size and structure of public expenditures and the process of their division and paying out. The size and structure of public expenditures are always decided by public subjects or they are directly given by the legal norm.

Public expenditures rationalisation is thus a gradual process, as a result of which the effective usage of public means should be aiming a satisfaction of public needs and not only that. As prof. Ruśkowski says, the basis of the economic system is the social market economy. The effective economy including public expenditures rationalisation is an inseparable part of this economic system (Głuchowski et al., 2005).

Definition the term of public expenditures rationalisation, the fruitful experience and achieved results of the Polish legal theory can be used. It has dealt with the topic of public expenditures rationalisation for a long time and in details and has got to the conclusion that this process is to be perceived from different points of view – legal, economic and sociological. Further, it defines the several phases of the rationalisation process:

1. The selection of financing such tasks, the realisation of which would satisfy the most beneficial social needs.
2. Determining the costs of such a realisation.
3. The use of public means taking economic effectiveness into account (Gazda, 2016).

The rationalisation of public expenditures is a developing process similarly to other activities leading to such a situation when public finances will be maintained effectively under a minimum level of public property. There is no ideal solution or instruction of how to manage public possession in the most rational way. Countries are gradually implementing different regulations, which lead to the achievement of such a status. As it comes to this field, some countries are at a higher level, some at a lower one. Right here, an option to search for inspiration is opening for the Czech Republic, which is very far from the ideal state.

Since the rationalisation of public expenditure develops gradually, the list of measures introduced is far from final. It is possible to list, for example, the implementation of fiscal rules to lower public indebtedness, internal and external controlling processes,

the increase of effectiveness and purposefulness of public means, the implementation of stricter rules in breach of budgetary rules (Kozieł, 2016) and, last but not least, the introduction of the rules for multi-annual planning that are the subject of this paper.

3 Determining Multi-annual Planning

Multi-annual planning has obviously its inseparable place in the field of public finances. Budgetary law is thus managed by the rule of every-year setting and approval of the state budget (Bakeš et al., 2012: 129 et seq.), nevertheless one-year budgets are very often added by other tools rather related to the future, to the horizon of two to five years. To make public finances stable, such long-term planning is necessary; it enables to arrange expenditures over one year and to spend them purposely. As Marková and Boháč say though, by moving the entire budgeting towards a medium-term horizon, the programming of governmental politics gets stronger (Marková and Boháč, 2007).

In the Czech Republic, the tools of multi-annual planning are used, concretely with a medium-term projection at both levels of state and self-governing units. Considering the medium-term projection of the state budget, it is provided for in Act No. 218/2000 Sb., on Budgetary Rules, as amended. Medium-term projection is being provided for together with the state budget draft at least for two years following the year in which the state budget draft is put forward. Incomes and expenditures of the estate budget and state funds are part of the medium-term projection considering the particular years and presumptions and purposes, based on which those incomes and expenditures are expected. In case the medium-term projection would expect a budgetary deficit, it also has to include an assumed way of its financing. As far as the legislative background of medium-term projection is concerned, the Ministry of Finances is responsible for it together with all interested subjects (chapters' administrators, self-governing units, state funds) and submits it together with the state budget draft to the government. The government then discusses this submitted draft of medium-term projection together with the state budget and after approving it, it submits only the medium-term projection to the Chamber of Deputies together with the bill draft on the state budget (Art. 4 Act on Budgetary Rules). The process of medium-term projection approval thus does not take place because it is only to be informed about and for the Chamber of Deputies is not obligatory.

The medium-term projection of the budget of the self-governing unit is then a tool to plan its economic development and is set for the period of 2–5 years. As for the content of this projection, the basic data about incomes and expenditures, long-term liabilities and receivables, financial sources and needs of ideas being realised within a long-term period are included (Art. 3 Act on Budgetary Rules of Territorial Budgets). Rigel sees one of the fundamental problems here, namely the fact that the law orders to set the medium-term projection for the budget of the self-governing units but the setting itself does not order the duty of the said projection to be approved by a particular

authority. There is also not clearly said which authority should approve the medium-term projection, although usually it would be the municipal board, which would approve it together with the submitted budget (Rigel, 2017). The authority which approved the medium-term projection, can also change it continuously based on the need and development of budgetary economic activities of the given self-governing unit. The law also considers the sanctions in case of not publishing the draft of the medium-term projection of the budget, as well as the medium-term projection itself. Such a behaviour would be considered an offence being sanctioned up to the amount of 1,000,000 CZK (Art. 22a Act on Budgetary Rules of Territorial Budgets).

Discussing multi-annual planning, Act No. 23/2017 Sb., on Budgetary Responsibility cannot be omitted. By this act, each public institution as defined in § 3 of this act (units from the general government sector), is obligated to set the medium-term projection of the budget (incomes and expenditures plan or yields and costs plan) for the period at least of two following budgetary years. This projection has to be published by the public institution on its website or in any other way being usual at the given location (Art. 5 Act on Budgetary Responsibility). By the law, the following entities are considered public institutions (compare Koziel, 2017):

- state, organisational part of state and state facility having similar status to organisational part of state;
- state-funded institution;
- state fund;
- public research institution;
- public university;
- legal person, the founder of which is another public institution and which is mainly financed by revenues from public institutions and managed by public institutions;
- health insurance company;
- self-governing unit;
- association of voluntary municipalities;
- regional council of cohesion region;
- public-funded institution founded by a regional self-governing unit, association of voluntary municipalities or by the Prague city district;
- another economic subject matching the marks of public institution by the Regulation of EP and Council No. 549/2013 of 21 May 2013 on the European system of national and regional accounts in the EU (Art. 3 Act on Budgetary Responsibility).

This is the act of the European Union's effort to stabilise public finances and to decrease public indebtedness in member states mainly by the implementation of budgetary responsibility rules and the related adoption of the European Council's regulation (Council Directive 2011/85/EU).

4 **The Impact of Multi-annual Planning on the Rationalisation of Public Expenditures**

As said above, the rationalisation of public expenditures is a complex topic, it is a process not including only one method but many activities, measures and regulations, which complement each other. Multi-annual planning is an inseparable part of this process. Public institutions are obligated to set the medium-term projections now, which enable them to plan their economy beyond one year and partially legitimate those steps, but, on the other hand, they enable the application of controlling mechanisms being applied by the public and other parts of the public authority.

As far as the rationalisation of public expenditures is concerned, it has to be said that the implementation of any measures leading to longer planning is the step towards rationalisation and thus positively influences the maintenance of public finances. Such status has been implemented in the Czech Republic even before the CR entered the European Union and is continuously strengthened by the impact of the EU on the Czech law-making. Rationalisation is not only about one tool. There is the need to implement many different tools in order to be able to say that finances are being maintained rationally thus that they were used purposefully and due to this fact, the maximum has been achieved.

According to Postuła, the current financial theory considers multi-annual planning the essential tool of the maintenance of modern public finances (Postuła, 2012). Ruśkowski says that the implementation of multi-annual planning tools is on the agenda since the 1990s. Continuously, those tools have been implemented into law orders of particular member states aiming at the strengthening of economy based on annual budgets (Ruśkowski, 2014).

There is still a question remaining though, to what range long-term tools should be obligatory. Considering the Czech medium-term projection at the level of the state, it has to be said that this document is rather well elaborated determining individual incomes and expenditures in detail for each year, which is being set for. Being of obligatory character can be the problem. The ministry, respectively the government, which is responsible for the set of medium-term projection, is not sanctioned for departure from its previous long-term plan in any way. Contrary to that, if any change comes, it has the option to change also the medium-term frame together with the budget for the following budgetary year. Because the government is usually represented by the majority of the Chamber of Deputies, it is likely that the changes of the medium-term projection would be approved without any problems. As it comes to the level of self-governing units, the problem can be seen in the diversity of those subjects as for the citizens' number, as well as the objective options to set detailed financial plans. While big municipalities and regions probably would not have problems with that, small municipalities having minimum clerical apparatus would not be able to follow this demand in an adequate way. Above that, a particular municipality's body is not clearly determined, which should prepare and approve the medium-term frame. With time it will be clear how other public institutions would handle this demand.

5 Conclusions

The aim of this paper was to assess whether and how multi-annual planning influences the rationalisation of public finances. Based on the previous chapters, it can be stated that multi-annual planning, not only in the Czech Republic, has a fundamental impact on the rationalisation of public expenditures. The option of medium-term planning positively reflects the projects and tasks extending the period of one calendar year. Of course, the modern budgetary law knows the tools which can be used to handle this issue (e.g. purpose-built funds); nevertheless, multi-annual planning is another segment of the mosaic of the rational use of public finances.

As it comes to the Czech Republic, as said above, it is the country long-time experienced in multi-annual planning and compared to other countries, its elaborated plans can be evaluated as very detailed, although, there are particular problems in the Czech Republic, too. Based on the EU measures package, the obligation to set a multi-annual economic plan has been extended to all public institutions in the Czech Republic as being defined in the Act on Budgetary Responsibility. This step should contribute to the higher rate of public expenditures rationalisation as well.

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