

7 Institutional Features of Public Finances

The consolidation of public finances should be aided by a) adjustment to the fiscal framework, to which the government obliged itself in its Policy Statement and in which it explicitly emphasised the importance of the act on budgetary discipline and responsibility; b) creation of the National Budgetary Council; and c) carrying out of other measures. The Government of the Czech Republic is aware of its duty to implement the Directive of the Council on Requirements for Budgetary Frameworks of the Member States. The Czech Republic already has experience with the operation of a fiscal framework introduced in 2004, which has all the standard features, i.e. setting fiscal objectives for the 3 following years, medium-term expenditure ceilings specifically for the central government, a medium-term fiscal outlook, and a medium-term budgetary outlook. With the objective of its implementation, the government has begun analysing the current fiscal framework and after identifying its weaknesses it will make adjustments so that the Czech Republic conforms to the obligation of the regular directive before the end of 2013.

By an amendment of the competence act, the competence of the Ministry of Finance is to be extended, specifically to include the sector of fiscal policy and preparation and evaluation of medium-term budgetary frameworks for the general government sector.

7.1 Act on Budgetary Discipline and Responsibility

Before the end of this year, the government will prepare draft legislation which will define the principles of budgetary discipline and responsibility and will cover the fiscal framework by explicitly establishing a fiscal objective including an ensuing fiscal rule for the entire general government and its individual sub-sectors. Thus, it will oblige the government to maintain a transparent and responsible policy which will not imperil the stability and long-term sustainability of public finances in the future. It will impose an obligation on the government to compose a report on its budgetary strategy. Some new obligations of the government both in the phase of preparing budget strategy and its development into state budget legislation, and also subsequently for continuous budget monitoring and ex post evaluation of the results of the past budgetary year will be introduced. The government intends to take measures toward implementing this act already during 2012 so that the act on budgetary discipline and responsibility is effective from the beginning of 2013.

Moreover, an expert discussion on establishing a National Budgetary Council has commenced. The extent of its competence will be determined on the basis of the evaluation of the current framework. This identi-

fies the areas and specific institutional arrangement of the fiscal framework for which the intentions of the government and requirements of the Directive are not yet satisfied.

Legislative changes will also be aimed at strengthening regulation and monitoring the financing of public budgets, and, as appropriate, also of other units of general government. Apart from the changes being prepared in relation to the pension reform, also a modification of the budgetary allocation of taxes is being considered. Also the parameters not heretofore taken into account for proportions on shared taxes such as numbers of students and area criteria are to be discussed. The objective of the new legal regulation is to reduce the difference in tax revenues per inhabitant among the municipalities with the lowest and highest revenues, i.e. to optimise the curve of tax revenues per inhabitant to the benefit of medium-sized municipalities. The revenue base of the municipalities should be reinforced especially at the cost of state-wide subsidy programmes, from which development projects in municipalities are heretofore centrally (and therefore not effectively) financed. The effectiveness of the new regulation is expected in early 2013.

7.2 Tax Administration

In the Czech Republic, reform of the institutional arrangement of the tax administration system is currently underway. On 1 January 2011 a General Financial Directorate was established, which heads eight financial directorates. Thus, centralisation, specialisation of tax administration performance, the efficiency of the financing system with state property, and the use of information technology were strength-

ened. The tax administration should act as an independent organisation with the necessary decision and implementation autonomy and flexibility.

With effect from 1 January 2012, a Specialised Financial Office will be created, which will be dedicated to the conduct of tax administration for large and specific tax subjects with an essential benefit for the amount of taxes collected. The concept for tax administration

reform is based on recommendations of the World Bank (2009).

In the next phase, the existing 199 financial offices are to be transformed into 14 financial offices in the individual regional cities, and the network of their local offices will be optimised.

The reform being prepared is in accordance with the ongoing project to create a single collection point for public budget revenues (taxes, customs and public-law insurance), which is assumed to be completed before 2014. Submissions will be presented within the system in one common form, and payments will be made to a single account.

7.3 The State Treasury

The State Treasury's integrated information system programme continues, and it should be entirely operational at the end of 2013. Through it, the Ministry of Finance's information systems will be interconnected, and integral, timely and consistent information will be acquired, which will allow effective and transparent management of general government finances.

Since the beginning of 2011, the partial module Central System of State Accounting Information (see below) has been put into operation, and so, to a limited extent, has the Management Information System (based on the SAP software platform), which works with information taken from the other subsystems and outputs consistent information from the key areas of the State Treasury system. From 2013, the Budgetary Information System for budget preparation and implementation will be made operational. It will be implemented as a centralised information system in all organisational components of the state. It is to support all operations for drawing up the budget and to allow establishing a proposal for the expenditures and revenues of the budgetary chapters also at the lower level of budgetary proceedings. Moreover, it will support dividing the expenditure blocks and medium-term budgeting. At the time of drawing up the budget, a detailed budget schedule will be available, which will in the following phases allow the application of modern budgetary procedures leading to increased efficiency and functionality of the government expenditure policies. The systems' implementation should lead to a decrease in autonomy of the individual chapters' administrators and to a limitation of decentralisation in the budgetary process. The possibilities will be improved for ex ante control over the

The tax and fees administration sector went through extensive amendments in recent years. This achieved greater comprehension of legislation, modernisation and strengthening of administrative efficiency together with decreased administrative burdens (through computerisation of tax administration and simplification of tax management). Also some rigidities and ambiguities were eliminated, and a new model of tax arrears enforcement was introduced. It includes a rule according to which it is necessary to ensure that the expenditures related to enforcement are not out of proportion to the unpaid amount when selecting the mode of recovery.

availability of budgetary funds and consolidation of drawing from the budget on a state-wide level and also at the levels of the individual budgetary chapters. Transparency will be reinforced by the fact that the system will provide overall reviews of all changes in the budget and document all the adjustments to the budget according to the individual budgetary units across the entire organisational hierarchy. The system will offer continuous information on payments of the state's budgetary units for all their accounts and their attribution to budget classification. Management of all extra-budgetary resources will also be part of the system.

At the same time, the subsystems Budgetary Information System and Central State Accounting will be interconnected with the Payment System block that includes the areas of banking operations, support to managing liquidity of the State Treasury's aggregate account, and accounts for the budgetary units. The subsystem is operated and further developed by the CNB. The Payment System is already connected to the State Debt Management block and provides the Ministry of Finance with comprehensive information regarding movements on the State Treasury's aggregate account in real time. With interconnection of the State Treasury subsystems, precision and the time horizon for liquidity management information should be increased. This will help significantly in limiting the need for debt financing. The connection of other units of the general government is also being considered (e.g. state funds). This probably will occur on a contractual basis and allow better use of the potential for savings to be generated by optimising liquidity management within the aggregate account.

7.4 State Accounting

A new state accounting system is progressively being implemented which should provide a comprehensive and consistent database for effectively managing and drawing up expenditure policies. The state will not only obtain an overview of the real cash flows, receivables and liabilities, but also information about probable risks, possible expenditures and anticipated revenues, disaggregated by time and other selected criteria. Among other things, continuous information on available resources will be available, including their valuation in real prices.

Within the State Treasury's Integrated Information System, as of 1 January 2011, the Central State Accounting Information System was put into operation. It covers approximately 18,000 so-called selected accounting units (state organisational components, state funds, the Land Fund of the Czech Republic, regions, municipalities, associations of municipalities, regional councils of the cohesion regions, semi-budgetary organisations, and health insurance companies). These units submit their financial statements and reports in electronic form (data for evaluating fulfilment of the state budget, state funds budgets, and regional budgets). The adjusted basic legal

framework is gradually being aligned with Czech accounting standards. For the selected accounting units (except for the health insurance companies), a unified directory of accounts has been created, and the methods of their accounting are governed by a single decree. The accounting of the selected accounting units has substantially approached that seen in the business sphere and the International Public Sector Accounting Standards (IPSAS). Specifically, assets depreciation has been introduced for all selected accounting units, as has been accounting for adjustments and for establishing organisational and other conditions for stocktaking.

For the needs of operations management, the state organisational components and state funds are obliged to account for contingent receivables and liabilities, to value assets held for trading at real values, and to submit operational accounting records. In the ensuing phases of the state accounting reform it can be assumed that in the area of operational accounting records periodicity will be shortened, the extent of the submitted data increased, and probably also the group of affected units widened.

7.5 Supreme Control Office

By an amendment to a constitutional act, the extent of the Supreme Control Office's competence under the constitution will be increased. At present, it is limited solely to controlling the management of state property and fulfilment of the state budget. From 1 January 2012, monitoring of the lawfulness in managing the property, budgetary revenues and expenditures in the regional self-governing bodies will be brought under its control competence for the first time. The pro-

posed regulation will allow the office to conduct control activity also in relation to the property of other legal entities of public nature, especially when operating with public funds.

The broadening of the control competence should bring more transparency in public contracts and narrow the space for corruption in the state sector.

7.6 Act on Public Procurements

Increasing transparency, efficiency and cost-effectiveness of the implemented public expenditures will be aided also by an extensive legislative amendment to regulate the public procurements which will be worked out during 2011 and 2012. This will bring unified archiving, recordkeeping and publication of all crucial parameters of public contracts and decisions taken on them with the aid of tools such as the internet. This will prevent entities breaking the law from participating. Members of the selection committees for high-value contracts will be appointed by random draws. Companies applying for public contracts will be required to provide all crucial information. In monitoring procurement and evaluation, such means as elec-

tronic markets and electronic auctions will be preferred. The government has also declared in its Policy Statement to implement the so-called central purchasing (aggregation of demand from multiple buyers). Moreover, the monetary limits for mandatory conduct of public tenders will be decreased and limiting qualification measures eliminated. Last but not least, in accordance with the public contracts act, contractual agreements will not be subject to trade secrets. Similar principles are to be applied also for subsidies and grants from the state budget. All data on subsidy and grant management, including the contractual documentation, will be published at the Central Address. The government will propose similar regula-

tion for the areas of subsidies, grants and gifts from the budgets of the regional self-governments in order to minimise the administrative burdens of the affected entities.

In early 2011, the government approved the Strategy of Electronisation of Public Procurement from 2011 to 2015 (MMR, 2011), which encompasses all categories

of public contracts, including concession contracts. The strategy's main objective is to create an electronic instrument allowing all procurers to gain comprehensive support for the entire life cycle of public contracts before the end of 2015, so that there will be no legislative, financial or technological barriers in using the electronic instrument for either procurers or suppliers.