



## Budgeting in Lithuania

6<sup>th</sup> annual meeting of OECD-CESEE  
Senior Budget officials  
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# Agenda

1. Fiscal snapshot
2. Budget preparation
3. Legislature approval
4. Budget Execution
5. Fiscal relations across levels of government and PPPs
6. Accounting and Audit

# Fiscal snapshot

- Goal: Eurozone membership
- Law on Fiscal Discipline 2007 aims at this
- GFC undermined target of annual surplus of 0.5% of GDP
- Rising GG debt, but goal to achieve sustainable level and euro adoption by 2014
- Serious action taken to reduce deficit in 2009 and 2010

# BUDGET PREPARATION

# Structure of the budget

Well functioning budget system overall

Separate budgets for State (central government), municipal and social insurance funds. The municipal subsidies are approved in state budget.

No general government consolidated budget in budget documentation.

EU funds fully integrated into budget in gross terms

# Budget documentation

- Well-organized document
- Approving budget allocations by ministry and appropriation manager, and substantial information on program, financing and investments in appendices to the budget.
- 212 line items by appropriation managers, each specifying current expenditures, salaries, acquisition of assets and investment for the budget year

**Table 2.2. - EU Funds in the Lithuanian budget**

Year	Millions of Litas	
	EU Funds in the Lithuanian Budget	Lithuanian Contributions to EU
2004	1.390	0.412
2005	2.003	0.739
2006	2.162	0.835
2007	3.481	0.929
2008	3.481	1.151
2009	5.910	1.083
2010 (est.)	7.892	1.030

Table 2.3. - 2009 and 2010 schedule for budget preparation

2009 Schedule		2010 Schedule	
February	Guidance for preparation of budget.	February	Guidance for preparation of budget.
May	Government approves ceilings	March – April	Unrestricted “what they need” ministerial requests.
August	Ministry Submissions.	April – May	Negotiations among ministers, PM and Minister of Finance on Ministerial ceilings.
September	Negotiations on approved ministry budgets. Budget submitted.	May or June	Approved ministry allocations and priorities.
		September	Budget submitted.

# Budget for 2011

- On basis of macroeconomic assumptions earlier involvement of PM and line ministries
- Unrestricted discussion of funding and results for line ministries. Better policy discussions expected
- Public Service Agreements the outcome
- Process should be finishing in May/June  
Success in fiscal stress situation? Top down element still strong enough?  
Capacity in MoF, PM's office?

# MTEF and strategic planning

- Budget approved on one year basis with aggregate estimates for two out years.
- Out years not binding, but parliamentary resolution.
- Estimates not at line item level (212)
- Out year estimates have little real impact
- Convergence plan works as basic anchor
- New strategic planning initiative to achieve stronger focus on results and streamline the 300 strategic plans<sup>10</sup>

# Recommendations

- Present consolidated general government budget totals in the budget documentation (general government consolidated deficit) including the off budget social insurance funds.
- Develop strategic planning in the context of the Medium Term Fiscal Framework by involving the ministers and the Prime Minister at the beginning of the budget process and integrating a medium-term perspective.
- Counter danger of weak top down in new preparation process by setting expenditure ceilings for each line ministry for the term of government within which the strategic discussion can take place.
- Strengthen budget powers of line ministers: The strategic planning initiative should enhance the budgetary control of ministers over their ministries, increasing flexibility and budget discretion of the ministers accompanied by increased accountability for results.

# LEGISLATURE APPROVAL

# The Seimas

- Unicameral with 141 members elected for a four-year term
- 71 MPs elected in individual constituencies; 70 allocated proportionally
- A party must receive at least 5% of the national vote
- 10 parties currently in parliament
- 15 committees, including the BFC
- Reversionary budget: 1/12 of last year per month

**Table 3.1. - Timeline of the parliamentary process**

<b>17 October</b>	<b>Presentation of the budget</b>
<b>10 November</b>	<b>Sectoral committees submit proposals to the BFC</b>
<b>Mid-November</b>	<b>BFC reviews proposals and prepares a report with its decisions</b>
<b>25 November</b>	<b>First reading in the plenary</b>
<b>Mid-December</b>	<b>Second reading and approval of the budget</b>
<b>1 January</b>	<b>Beginning of the budget year</b>

- Parliamentary review of the budget does not have a substantial impact on the priorities in the budget
- BFC supports increased focus on performance, but demand budget documents should be *simple, clear and relevant* for politicians
- Would like to have an additional month for deliberation and public debate
- No dedicated analytical capacity

**Table 3.2. - In all OECD countries, how far in advance of the beginning of the budget year is the budget presented to the Legislature?**

7 months before	1
4 months before	4
3 months before	16
2 months before	6
1 month before	2
0 month	0
1 month after	1

Source: Responses of 30 OECD member countries from the Budgeting Practices and Procedures Database ([www.oecd.org/gov/budget/database](http://www.oecd.org/gov/budget/database))

**Table 3.3. - Legislative budget offices in OECD countries**

<i>Is there a specialised budget research organisation?</i>	<b>Year</b>		
	2000	2003	2008 and number of staff
<b>Yes</b>	Japan, Mexico, Netherlands, Poland, Sweden, United States	Japan, Korea, Mexico, Netherlands, Poland, Sweden, United States	Canada [16], Hungary [16], Italy [50], Japan [21], Korea [96], Mexico [50], Netherlands [140], Poland [15], Portugal [3], Sweden [7], United States [230]
<b>No</b>	Australia, Austria, Belgium, Canada, Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Korea, New Zealand, Norway, Portugal, Spain, Switzerland, Turkey, United Kingdom	Australia, Austria, Belgium, Canada, Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, New Zealand, Norway, Portugal, Spain, Switzerland, Turkey, United Kingdom	Australia, Austria, Belgium, Czech Republic, Denmark, Finland, France, Germany, Greece, Iceland, Ireland, Luxembourg, New Zealand, Norway, Slovak Republic, Spain, Switzerland, Turkey, United Kingdom

Overall a well-designed and orderly review process, but could consider ...

- Lengthen review time of the draft budget by one month to 3 months
- Consider creating analytical capacity in parliament regarding the budget, possibly in the form of a PBO
- Extend consultation with the parliament on the budget format (clear and relevant)

# BUDGET EXECUTION

- A well functioning execution process.
- Government decree breaks spending down to the program level and economic category, max number of employees by appropriation manager
- decree allocates capital spending by project

# Ex ante execution control

- Head of the accounting unit of a public legal tasked with ensuring that financial commitments remain within the approved budget.
- But system of controlling commitments does not produce centralized information tracking these to be used for in-year apportionments and overall cash management.
- Out-year liabilities are not tracked and recorded centrally.
- The shift towards accrual accounting should mitigate some of these problems depending on implementation.

# Flexibility

- Lithuania uses a traditional TSA system, which appears to be working well
- Excess revenue goes in reserve fund, if revenue falls short, non-EU programs can be reduced as per MoF instruction
- Reallocation: appropriation managers can reallocate money between economic categories within a program, except wages. Savings within a program may be used to acquire assets.
- MoF has to give approval for reallocation within programs
- Carry-overs are in general not possible.

# Recommendations

- Consider enhanced flexibility for appropriation managers – reallocation of funds between programs up to a specified numerical limit (eg. 5%).
- Carry-overs should be permitted within limits so as to avoid end-of-year spending fever.
- Focus accounting reform efforts on getting good execution data and commitment data regarding central government.

# FISCAL RELATIONS ACROSS LEVELS OF GOVERNMENT AND PPP

- Single-tier system of local government (60)
- Municipalities differ greatly in size etc. (half a million vs. 2700 inhabitants)
- Have “autonomous functions” financed via own revenue/ tax sharing and “delegated functions” financed via grants (about 50% of total revenue)
- May not budget a deficit
- Can borrow for investment within a ceiling set in the central government budget
- Revenue shortfalls have resulted in a build up of municipal arrears

# Case

- In early 2010, budget officials in Vilnius estimated that municipal arrears (payments due that were delayed by more than 45 days) amounted to 240 million litas,
- I.e. close to a quarter of planned revenues in that financial year.
- In January 2010, the problem received widespread public attention when electricity supplier threatened to switch off the city's streetlights.
- To stabilise its level of debt to the provider, Vilnius municipality switched off two thirds of its streetlights network.

# PPPs

- Local authorities have used PPPs for a number of years.
- SAI estimated that in 2007 47 PPPs were initiated at the local level. Since then there has likely been a substantial increase
- Central government has no mandate to collect data on this
- While the budget law contains a debt limit for municipalities, it does not set a limit on PPPs
- Potential liabilities (recognised and contingent) could be substantial.
- There is no reason to expect that local governments in Lithuania have the capacity to understand and negotiate PPP agreements in such a way as to ensure value for money for the public.
- The central government does not have the legal authority to oversee and veto sub-national PPPs.

# Recommendations

- Central Government should closely monitor the build-up of municipal arrears and deficit restriction for municipalities should apply ex post as well as ex ante
- The PPP law should urgently be revised to require municipal PPPs to be reviewed and approved by the Minister of Finance and subject to a volume ceiling

# ACCOUNTING AND AUDIT

# Recommendations

- Overall the system works well.
- Better cooperation and collaboration between internal and external auditors could add value to the audit and control of state activities.
- However, the role of the internal audit service must be clearly understood and strengthened. As the Lithuanian system of internal audit focuses on the function of providing internal management advice, the external relations should not be overstressed.
- A clear understanding of the benefits of the introduction of accrual accounting for each stakeholder should be proactively mainstreamed by the Ministry of Finance.
- The establishment of central asset management authority could ease the introduction of accrual accounting and also improve the management of state property.

Thank you!



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