

ANALYSIS OF THE BUDGET CHAPTER WITHIN THE MINISTRY OF DEFENCE OF THE CZECH REPUBLIC IN RELATION TO THE GOVERNMENT ASSETS

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Abstract: *The article analyses budget chapter 307 - Ministry of Defence for 2009 with the outlook until 2011. It compares selected macroeconomic indicators with those in the previous year - 2008. It describes the fundamental - primary classification of government assets (assets of the Czech Republic) which are the main and the largest group of assets used by the organizational component of the state - the Ministry of Defence of the Czech Republic.*

Keywords: *Financial management, particular chapters, tangible assets, intangible assets, government asset management system, stock, minor long-term tangible assets, long-term tangible assets, minor long-term intangible assets, long-term intangible assets.*

1. INTRODUCTION

The State Budget is a plan of the financial management of the state usually for one year. It takes a form of an act and is proposed by the government and authorized by the Parliament. The State Budget contains the estimate of incomes from various sources and the distribution of expenditures among various chapters. As soon as the budget is authorized, the employment of finances of particular chapters is in the competence of the government, ministries and other institutions.

The budget chapter of the Ministry of Defence of the Czech Republic (MoD CR) is designated by number 307. The financial resources from chapter 307 are used by the MoD CR to acquire assets and to procure services.

Assets together with services belong inherently to logistic support provided by military logistics. The importance and role of assets in the process of satisfying ACR troops' needs are unsubstitutable in accordance with norms, allowances, requirements, directives, etc. Assets exist in two forms – tangible and intangible assets. The tangible assets include

materiel and general use material. More tangible assets exist than intangible assets.

In addition to assets owned by the government (i.e. government assets), assets not owned by the government (non-owned assets, i.e. assets borrowed or assets owned by the Alliance or any other Alliance country) are also used within the MoD CR.

2. BRIEF ANALYSIS OF THE CHAPTER WITHIN THE MINISTRY OF DEFENCE IN 2009

The State Budget of the MoD chapter for 2009 results from the present budget structure of the MoD and the legislation of the Czech Republic¹. It takes into account the organizational structure of the MoD CR and the structure of action programs approved by the Directive of the Minister of Defence; it considers the present program structure, set goals and tasks.

¹ Act No.218/2000 Coll., on Budgetary Rules; Government Decree No. 736/2008, on Preparation of the State Budget and Medium-Term Prospect; Instruction of the Ministry of Finance No. 293/2008, formulation of the CR State Budget Proposal for 2009.

In spite of the complicated financial situation in the world, no active expenditure measures (limitations) have been applied by the government of the Czech Republic (CR) in the process of preparing the State Budget estimate for 2009. The limitations have affected other budget chapters of the CR departments², but not the budget chapter of the MoD.

The financial resources from the MoD budget chapter are used for various types of expenditures, including asset acquisition and services procurement within the competence of military logistics in the Army of the Czech Republic. The financial volume of the MoD budget chapter is different for each year; it is based on the long-term and medium-term plans specified for a training year. The total planned expenditures of the MoD budget chapter for the period from 2009 to 2011 amount to 179.2 thousand million (bil) Czech crowns (CZK). The financial volume and the percentage share are illustrated in Fig. 1.

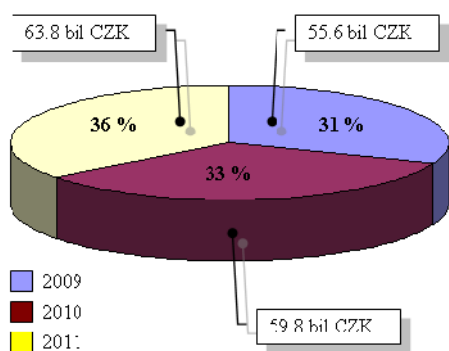


Fig. 1 Planned expenditures of the MoD budget chapter for the period from 2009 to 2011

Inflation is presumed to revert to lower values (1.36 - 1.35 %)³ in the next years after the nonrecurring increase in 2008 (6.1%). However, the further development of inflation is unknown with regard to the impacts of the financial crisis, the reduction of gross

² For example the reductions of the budget in the chapter: General Cash Administration Office by 8.8 bil CZK; the Ministry of Transportation by 7.3 bil CZK; the Ministry of Agriculture by 3.9 bil CZK; the Ministry of Health by 1.6 bil CZK and Ministry of Education and Physical Training by 1.5 bil CZK.

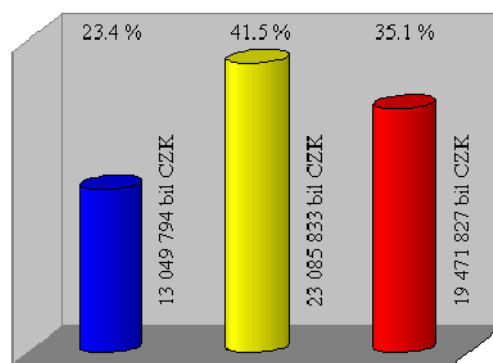
³ Inflation in 2008 was caused governmental interventions, e.g. increase in the value added tax, rent and the increase in the price of oil.

domestic product (GDP) rate and possible operative budget adjustment. The reality (2008 and 2009) and vision (2010 and 2011) of the MoD budget chapter with regard to the macroeconomic indicators are shown in Table 1.

Table 1 Expenditures and income of the MoD budget and other macroeconomic indicators

Macroeconomic indicator / Economic value	Year			
	2008	2009	2010	2011
Gross domestic product (in bil CZK)	3 827	4 087	4 395	4 736
Expenditures – MoD budget (in bil CZK)	54.1	55.6	59.8	63.8
MoD expenditure as a percentage of GDP	1.42	1.36	1.36	1.35
Average inflation (in %)	6.1	2.9	2.5	2.5
Income – MoD budget (in bil CZK)	2.9	2.7	2.8	3.0
The CR state budget expenditures (in bil CZK)	1 107	1 152	1 088	1 133
MoD expenditure as a percentage of the State Budget	4.89	4.83	5.49	5.63

Assets and services related to assets, and other services in the competence of the ACR logistics are acquired in compliance with financial possibilities within the MoD on the basis of planning outputs. Regular requirements for assets and services are included in all basic groups of the MoD budget classification. The review of basic groups of the MoD budget and their financial volume for 2009 are illustrated in Fig. 2.



- Expenditure on asset renovation and defence research and development programs
- Wage resources, protective aids and equipment, insurance premium, the fund for social and cultural requirements and welfare benefits
- Other expenditures excluding the asset renovation programs

Fig. 2 Basic groups of the MoD budget and their levels in 2009

The expenditures on asset renovation programs in 2009 are lowered by 1.7 bil CZK (decline by 12%) in comparison with 2008. In the sphere of wage resources, protective aids and equipment, insurance premium, the fund for social and cultural requirements and welfare benefits, the finances for 2009 are higher by 692 thousand million CZK (increase by 3.1%) in comparison with 2008. Other expenditures excluding asset renovation programs are increased by 1.9 bil CZK (increase by 11 %) in comparison with 2008.

3. IMPORTANCE OF ASSETS FOR EXECUTING MATERIAL PROVISION

The nomenclature norm describes assets as a set of things having tangible as well as intangible character, finances, rights to intangible assets and claims.

The government asset management system within the MoD CR includes the following processes: asset acquisition (purchase) process; asset handling process; accounts and records process; asset use process; maintenance process; asset protection process and surplus asset disposal process (see Fig. 3). However, assets or services relating to property are always an objective concern of all processes.

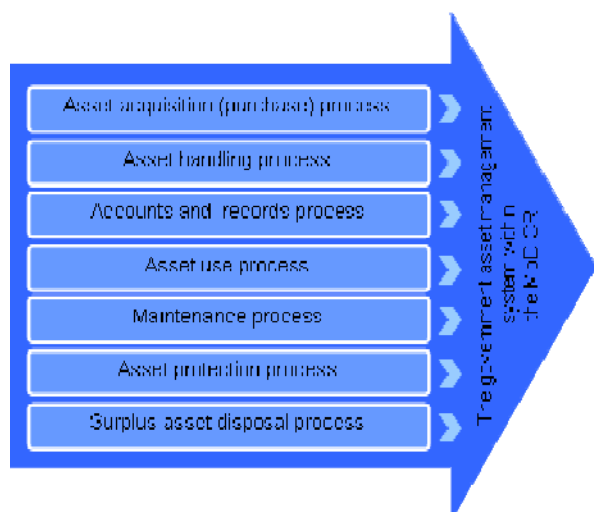


Fig. 3 Processes of the asset management system within the MoD CR

Executing material provision is characteristic of many of the following:

- Control measures;

- Organizational measures;
- Human labour and effort;
- Financial resources.

Assets (tangible and intangible) are of high importance within the by the Ministry of Defence of the Czech Republic to support any task, service and work activities, directives and orders. Many assets for fulfilling tasks are directly dependent on the need and extent of tasks to be fulfilled, on timeliness and required level.

The flow of assets, e.g. from a depot to a unit is accompanied with an information flow. Assets can be understood as an economic source, the role of which is unsubstitutable to support performance of tasks set by the Ministry of Defence of the Czech Republic, the government of the CR and Parliament.

The CR legislation defines main principles incidental to the activities of MoD CR officials in tangible and intangible asset management. The defined principles are mandatory for all by the Ministry of Defence of the Czech Republic organizational units and the military units and installations subordinated to them.

The provisions of CR legislation and MoD CR internal regulations are obligatory for subsidized organizations as well as state-owned companies established by the MoD CR if they manage government assets which the MoD CR entrusted them with, to fulfil tasks according to the scope of activities specified in the memorandum of association.

The Basic Code⁴ is a primary and the only internal regulation approved by the CR President. All the internal regulations issued within the MoD CR result from the provisions of the Basic Code. Among other things, the Basic Code specifies general requirements for care of government assets which are used within the MoD CR.

4. BASIC CLASSIFICATION OF GOVERNMENT ASSETS

Government assets within the MoD CR are divided into intangible and tangible assets (see Fig. 4).

⁴ Zákl-1 Základní řád ozbrojených sil České republiky, MO ČR, Praha, 2001.

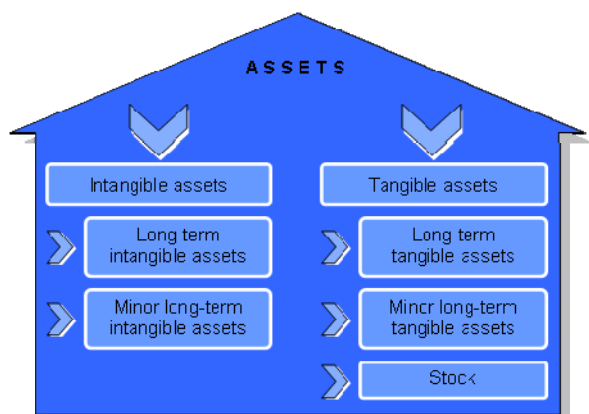


Fig. 4 Basic (primary) classification of assets

4.1. Intangible Assets

Intangible assets are divided into long-term intangible assets and minor long-term intangible assets.

4.1.1. Long-Term Intangible Assets

Long-term intangible assets contain intangible research and development results, software and valuable rights having a usable life longer than one year, within which the market price exceeds the amount of 60 000 Czech crowns.

From the viewpoint of supply, bookkeeping and cataloguing processes long-term intangible assets are classified as follows:

1. Intangible research and development results;
2. Software; and
3. Valuable rights.

1. Intangible research and development results are understood as results of successful papers that are not an object of intangible assets rights and other valuable rights, they have been obtained independently, i.e. they are not a part of acquired long-term tangible assets and their appraisal.

2. Software (SW) is understood as a programme product for one user or for a defined number of participants in a defined network.

3. Valuable rights are understood as rights in assets and other valuable asset values. Valuable rights are as follows:

- Know-how, i.e. a summary of all knowledge, experience and information required for production and technical realization of production, i.e. all that is not

or cannot be an object of intangible assets rights or literary assets.

- Licence, i.e. an approval to use intangible assets or to handle them. Licences are as follows:
 - Passive - designation of a licence from the viewpoint of a buyer (it is used by the MoD CR);
 - Active - designation of a licence from the viewpoint of a seller (it is provided by the MoD CR);
 - Non-exclusive - a proprietor of a right provides the right for the use of his/her own solution through the licence when he/she holds the right to provide the licence to other persons concerned on the same territory and simultaneously he/she has the capacity to use the object of the licence himself/herself;
 - Exclusive - an assignee is exclusively and entirely authorized to use the provided solution on a particular territory, i.e. the object of the licence cannot be used even by the owner of the solution who, simultaneously, is not authorized to provide this right to another person.

4.1.2. Minor Long-Term Intangible Assets

Minor long-term intangible assets include intangible research and development results, software and valuable rights having a usable life longer than one year, within which the market price exceeds the amount of 7 000 Czech crowns and does not exceed the amount of 60 000 Czech crowns.

4.2. Tangible Assets

Tangible assets are divided into long-term tangible assets, minor long-term tangible assets and stock (including spare parts).

4.2.1. Long-Term Tangible Assets

Further, long-term tangible assets are divided into the following:

- Lands regardless of their market price (if they are not wares);
- Structures (buildings, construction works, technical restorations, flats, non-residential premises) regardless of their market price and a usable life;

- Independent things possessed or perhaps sets of things possessed having independent technical economic determination, the market price of which is higher than 40 000 Czech crowns including precious metals;
- Cultivator's units of permanent vegetation having the fruiting rotation longer than three years regardless of their price (fruit trees, bushes and vineyards);
- Herds of cattle and draft animals regardless of their price; and
- Works and objects of art regardless of their price (acquired for the purpose of decoration and interior complement – not gallery and museum exhibits).

4.2.2. Minor Long-Term Tangible Assets

Minor long-term tangible assets include things possessed or sets of things possessed having an independent technical economic determination, with which the usable life is longer than one year and the market price of one item is 3 000 Czech crowns and higher and does not exceed 40 000 Czech crowns.

4.2.3. Stock

Stock (including spare parts) means a set quantity of a given class of assets stored in facilities (storage depots) to support the needs of ACR units and installations.

The status and changes of inventories acquired by in-house manufacture are kept in accountancy books (some stock which is not included in accountancy books is kept by cost centres in complementary records).

The stock is as follows:

- Material up to the instant of consumption – raw materials, consumables and spare parts, packaging, if they are not long-term assets, and other things possessed having a usable life of one year and shorter regardless of the value;
- Work in process, semi-finished products of own making, products and animals (young breeding animals, animals to be fattened);
- Supplies (articles on stock).

5. CONCLUSION

The State Budget is a fundamental part of public finance because it centralizes the bulk of the budget system income and has a share in irrevocable redistribution of a considerable part of GDP using the budget system. The redistribution of national income related to the accomplishment of political, economic, social and defence tasks of the state is the basic function of the State Budget.

The government refunds the expenditures incidental to the preparation for state defence (peacetime strength of the army) and to state defence in a state of emergency (in the event war breaks out) and during a state of war. The MoD CR acquires assets and procures services for this purpose.

Not only the Ministry of Defence of the Czech Republic, but also all organizational components of the state (ministries, the Government Office, courts of justice, etc.) deal with government assets. In addition to the assets owned by the government, the assets not owned by the government are used within the Ministry of Defence of the Czech Republic as well.

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