

## **MULTIANNUAL BUDGETARY FRAMEWORK IN THE REPUBLIC OF LITHUANIA**

### **1. Introduction**

It is recognised that the successful functioning of a state as a political organisation requires appropriate funds that are first of all collected in the state budget. In his book *Public Finance* published back in 1892, Charles F. Bastable stated that ‘the collection of funds for state purposes and the use of the resources so obtained is [...] a vital part of the political organisation’<sup>1</sup>. A state, in order to achieve the objectives set to it as a political organisation, must collect the funds required to implement these objectives, distribute and use them in a rational manner, i.e. conduct appropriate activities in the sphere of public finance. This is not possible without developing an appropriate regulatory framework for the accumulation and use of state funds manifested as a whole of relevant legal rules and their enforcement. At the same time, the development of an independent system of public finance and its regulatory framework should be viewed as an essential precondition of independence of a state. This is especially relevant for the Republic of Lithuania (hereinafter – ‘Lithuania’) which after the restoration of independence had to take immediate steps to build a system of its public finance as an independent state since previously Lithuania had had neither an autonomous budget nor an independent tax or monetary system, i.e. it had had no financial independence<sup>2</sup>. It is no accident that the Provisional Basic Law of Lithuania approved by the Law of 11 January 1990<sup>3</sup> already included provisions on the budgetary framework of Lithuania as an independent state. According to Article 47(1) of the Provisional Basic Law ‘the budgetary framework of the Republic of Lithuania shall consist of autonomous budgets of the State of Lithuania and

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1 Ch. F. Bastable, *Public Finance*, London; New York, 1892, p. 2.

2 A. Medelienė, B. Sudavičius, *Finansų ir mokesčių teisė kaip mokslinio tyrimo objektas. Būklė ir perspektyvos. Teisė*, 2011, t. 78, p. 104-105.

3 *Official Gazette*, 1990, No. 9-224.

municipalities'. It should be noted that already the first years of independence saw the adoption of the main laws that not only laid the foundation for an independent public finance framework but also determined the formation of autonomous public finance law and budgetary law as the main institute of the former. Thus it can be maintained with confidence that before joining the European Union (hereinafter the 'EU') Lithuania already had both an autonomous budget and an independent regulatory framework for it.

## **2. The concept of annual and multiannual budget planning in Lithuanian law**

In general budget planning is defined as 'the establishment and adjustment of a budgetary plan with a structure reflecting the structure of revenues and expenditure of a state, [...] taking into account the changed conditions'<sup>4</sup>. 'Expenditure provided for in the budget law is only valid for one year. After the expiry of this period, there can be no talk in principle of any new expenditure until a new law is passed'. This is how the principle of annual planning is understood in the financial law doctrine<sup>5</sup>. Certainly, one must note that in scientific literature budget planning for a certain period sometimes is referred to not as a principle but as one of the features of a budget. Such different approaches to the term 'budget planning' for a respective period are based on legal provisions. Article 2(14) of the Law on the Budget Structure<sup>6</sup> stipulates that 'State budget shall mean the plan of state budget revenue and appropriations for a budget year as approved by the Seimas' (the Parliament), and Article 13(2) reads that 'The draft State budget shall be prepared for three budget years [...]'. In the first case budget revenue and expenditure planning for a certain period is to be considered as one of the budget features, while in the second case it should be seen as one of the principles of the budgetary process.

Comparing the principles of long-term (multiannual) and short-term (annual) budget planning, one could note that long-term planning in essence only means public budget planning for a period longer than one year. However, the practical implementation of this principle results in the same legal consequences as annual planning: relevant institutions must comply with both long-term and annual planning targets approved under the established procedure as requirements of an appropriate law (i.e. as appropriate rules of law). Practically, long-term planning may be either provided for in the annual plan itself (in the form of carry-forward of unused appropriations) or acquire the form of long-term (multiannual) budgeting. Thus it

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4 А. Горохов, Планирование бюджетных расходов в системе управления: диссертация кандидата экономических наук (<http://www.dissercat.com/content/planirovanie-byudzhetykh-raskhodov-v-sisteme-upravleniya-regionalnymi-finansami-na-primere-#ixzz2lJoTTLcK>).

5 B. Sudavičius, Trumpalaikis ir ilgalaikis biudžeto planavimas Lietuvos Respublikoje. Teisė, 2013, t. 87, p. 9.

6 Official Gazette, 1990, No. 24-596; 2000, No. 61-1826; 2004, No. 4-47.

becomes obvious that long-term planning can be combined with or can even replace annual planning.

Apart from the understanding of long-term budget planning as the forecast of revenue and appropriations for a period longer than one year, one is frequently dealing with long-term planning as the preparation of appropriate financial projections (programmes, financial perspectives or financial plans) for a period longer than one year. The main purpose of such projections is to facilitate annual budget revenue and appropriation planning. In recent years, Europe has especially shown a tendency towards long-term financial projections (financial plans) with respect to a programme (projected, target or action) budget rather than a conventional (traditional) budget.

### **3. Reasons for the establishment of the principle of multiannual planning in budget planning in Lithuania**

The problem of introduction of long-term planning in the sphere of budget planning is not new. One has to admit, however, that in practice priority, for a long time, was granted exclusively to annual planning of public finance, which only resulted in the establishment and approval of annual budgets at different levels. Generally it can be stated that almost throughout the 20th century the annual planning of public finance, especially budget planning, was a universally accepted rule enshrined in national law, even at Constitutional level<sup>7</sup>, although the legal doctrine quite often featured criticism of this principle and proposals to replace (supplement) it with the principle of long-term planning of revenues and appropriations.

Essential changes only came around in the late 20th century when both the EU and separate states began to apply the principle of long-term planning in their public finance planning practice and enshrined this principle in national legislation, even in the Constitutions. These changes were not accidental, but were rather conditioned by a number of objective factors (reasons).

As for the establishment of the principle of long-term budget planning in Europe (in Lithuania, too), the main reason that deserves mention is the positive experience of the EU in public finance planning and the toughening requirements for EU Member States in this sphere. EU practice shows that partial medium-term and even long-term budget planning is possible along with traditional annual budgeting<sup>8</sup>. Such long-term financial plans (called multiannual budget in some contexts and financial perspectives in other cases) have been drawn up in the EU since 1988. One should also be mindful of the fact that, under the Treaty of Lisbon<sup>9</sup>, the multiannual financial framework has become a legally binding act. Moreover, Article 312 of the Treaty

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7 See: Article 129 of the Constitution of Lithuania (Official Gazette, 1992, No. 33-1014).

8 E. Ruśkowski, U. Zawadzka, *Prawne problemy konstrukcji i funkcjonowania budżetu zadaniowego we Francji*, Białystok 2010, p. 161.

9 Official Journal, C 306/01, 17 12 2007, p. 1.

on the Functioning of the European Union stipulates that ‘The multiannual financial framework shall ensure that Union expenditure develops in an orderly manner and within the limits of its own resources’ and ‘The annual budget of the Union shall comply with the multiannual financial framework, thus establishing a basis for financial discipline’.

Drawing up long-term financial plans in the whole EU also allows the Member States to plan their finances in a more efficient manner, with account of the expected financial support from the Structural Funds on the basis of the multiannual EU budget.

#### **4. Multiannual and annual budget planning in Lithuania:**

– *before 2011:*

The practice of different states allows provisionally distinguishing the following organisational forms of the implementation of the principle of public finance planning for a certain period: (1) short-term planning: the planning of budget revenue and appropriations exclusively for a period of one year (annual budget establishment and approval); (2) long-term planning: the planning of revenue and appropriations for a period longer than one year (budget establishment and approval for several years); (3) short-term planning based on long-term fiscal projections; (4) short-term planning based on the general long-term plan of the whole public finance sector, and (5) annual planning based on the determination of medium-term objectives. In accordance with the legal framework in force before 2000, Lithuania was in the first group of states: the initial version of the Law on the Budget Structure of 30 July 1990 clearly stipulated that ‘Budgets shall be established for one year – from 1 January through 31 December’.

To achieve more effective governance of financial resources on 22 October 1998 the Seimas passed a resolution ‘On the concept of the budget structure’<sup>10</sup>, that initiated reform of the budget structure and specified the key principles of its implementation, such as: (1) ‘To plan the state budget for three years and to approve the same for one year’; (2) ‘To establish the state budget by programmes drawn up by respective appropriation managers’; (3) ‘Beginning with 2000 to establish municipal budgets by programmes as well’.

The legal basis for the implementation of multiannual and programme planning elements in budgeting was a Law of 11 July 2000 that approved the new version of the Law on the Budget Structure. The wording of Article 17(2) of this Version stipulated that ‘A draft state budget for a period of three budget years shall be prepared on the basis of this Law, other laws, macroeconomic projections for the country’s economic development, the Government Programme, principles of strategic planning,

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10 Official Gazette, 1998, No. 95-2637.

preliminary basic indicators of the national budget, also the programmes submitted by managers of state budget appropriations and draft estimates of the programmes'. It is obvious that from this particular moment Lithuanian legislation has enshrined a transition from annual budgeting to medium-term planning based on long-term objectives.

Important changes in further improvement of budget planning took place after Lithuania's accession to the EU and the preparation of the first Convergence Programme approved by Government Resolution No. 568 of 11 May 2004<sup>11</sup>. Point 3.1.1 of the Programme stated that 'The key medium-term objective of the fiscal policy is to achieve a cyclically-balanced government budget by ensuring the implementation of the economic policy objectives. Steps will be taken to keep the government deficit of 2004–2007 below 3 per cent of GDP and approximate it to a balanced one as soon as possible'. By Resolution No. 446 of 25 April 2011 the Government Approved the Convergence Programme of Lithuania of 2012<sup>12</sup> which states that 'The primary task of the Government of the Republic of Lithuania in the short term (nearest term) is to strengthen the confidence of the financial markets in the long-term sustainability of general government finances' (Point 1), while 'the most important medium-term policy objective is to further consolidate public finances and essentially improve the situation in the areas that might ensure an economic breakthrough' (Point 2). The 2012 objective is to keep the government deficit below 3 per cent of GDP, and create conditions for this deficit to consistently decline by a percentage point of GDP during later years. The following measures are planned for the achievement of the general government budgetary target during 2012-2015: (1) to freeze funds, except for inevitable cases, such as debt service costs and contributions to the EU budget, and to allocate the funds that become available as a result of programmes to be discontinued or other objective reasons for deficit reduction; (2) to allocate for speedier consolidation the windfall revenues resulting from more favourable economic development conditions than those foreseen in the central economic development scenario; (3) to improve tax administration and reduce the scale of shadow economy; (4) to continue the pension system reform ensuring long-term sustainability of the general government finances with the aim to reduce general government liabilities towards future pensioners; (5) to increase the excise tariffs on diesel fuel and on cigarettes (aiming to meet the minimum tariffs stipulated in EU *acquis*); (6) as of 2013, to switch to land tax calculation based on the market value, thus ensuring adequate taxation of private land, and (7) should the aforementioned measures prove insufficient to meet the deficit targets for a specific year, to continue the reduction of public expenditure and/or change the applicable taxes.

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11 Official Gazette, 2004, No.79-2793.

12 Official Gazette, 2011, No. 50-2453.

– *after 2011:*

Thus it can be maintained that the model of medium-term budgeting based on the application of the programme method is gaining dominance in Lithuania at the moment of adoption of the Council Directive 2011/85/EU of 8 November 2011 on requirements for budgetary frameworks of the Member States<sup>13</sup> (hereinafter ‘Directive 2011/85/EU’), Article 9 of which obligates Member States to, establish a credible, effective medium-term budgetary framework providing for the adoption of a fiscal planning horizon of at least 3 years, to ensure that national fiscal planning follows a multiannual fiscal planning perspective’.

The Ministry of Finance proceeding with the reform of budgetary framework and having aim to implement the requirements of Directive 2011/85/EU prepared the draft of Law amending the Law on Budget Structure that was adopted on 16 October 2012.

Version of Article 17(2) of the Law on Budget Structure in force states: ‘A draft of forecasted indicators of the totality of the state budget and municipal budgets for a period of three budget years shall be prepared on the basis of the Government Programme, the Convergence Programme of Lithuania, the State Progress Strategy (until the entry into force of this strategy – the Long-Term Development Strategy of the State approved by the Seimas), the National Programme for the Advancement of Lithuania, other planning documents approved by the Seimas and the Government, this Law, the Law on Fiscal Discipline, other laws and other legal acts, the country’s medium-term economic development scenario, EU financial support strategic documents, strategic plans of activities of appropriation managers and preliminary basic indicators of the state budget and municipal budgets as approved by the Government approved by the Government, also the programmes submitted by managers of state budget appropriations and draft estimates of the programmes’.

The Law establishes that a draft state budget is prepared for 3 budget years (medium-term budget) but is approved for one budget year (annual budget). The budget planning procedure is as follows: after the Government approves the three-year preliminary key budgetary targets and the draft general principles for determining maximum appropriations, the Ministry of Finance informs the appropriation managers of the estimated limits of the maximum appropriations that could be allocated to them for three years. On receiving this information, the state budget appropriation managers draw up (adjust) their strategic action plans and programmes, prepare preliminary draft programme estimates without exceeding the maximum limits for financing expenditure as indicated by the Ministry of Finance, and submit them to the Ministry of Finance. In addition, the appropriation managers also have the possibility to present alternative programmes and programme estimates which may not exceed the total amount of maximum appropriations either. The

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13 Official Journal, L 306, 23.11.2011, p. 41.

limits of appropriations for expenditure of budgetary institutions for respective years are determined on the basis of the previous year plan and the use of appropriations for the following two years and their differentiation by separate state functions, with account of an upward-bias in macroeconomic indicators and national budget revenue, as well as the criteria set out in the Convergence Programme of Lithuania, and the priority programmes and measures approved by the Government.

It is evident that multiannual budgeting at present has a sufficient legal basis in Lithuania, and its shortcomings (officially identified by the National Audit Office in its state audit report 'Programme Budget Framework'<sup>14</sup>) are in principle related to the activities of entities involved in budget planning. Certainly, the audit has found that the three-year preliminary key budgetary targets are not complied with (they are changed by more than 26 per cent); the annually adjusted limits of maximum projected appropriations have an impact also on the distribution of appropriations by programmes as defined in the strategic plans of state institutions and agencies; the maximum amount of funds to be allocated to appropriation managers depends on the approved current year appropriations, with account of the used previous year appropriations and projections of macroeconomic indicators; the determination of the appropriation limits fails to take account of the actual need for funds to implement the programmes; unused appropriations should be returned to the budget, etc. As a result of the audit, the National Audit Office has concluded that 'one of the purposes of reform of the budget structure, in particular to plan the state budget for three years and to approve it for one year, has only been achieved in part: the three-year projections of the state budgetary targets are unsustainable, while the planning system not always promotes effective planning and use of budget appropriations. The budgetary process needs to be improved further, with a particular focus on revenue projections. The introduction of strategic planning has brought more clarity to the financing of activities of state institutions and agencies; however, the three-year projections of the state budgetary targets are unsustainable'. Thus the main problem of budget planning is linked with the stabilisation of the three-year budgetary targets which, in our opinion, should be solved in relation to the improvement of the practical activities of entities involved in budget planning rather than to a review of legislation. On the other hand, a question may arise concerning the improvement of the estimation of preliminary national budgetary targets; at present, only the total amounts of revenue and appropriations are determined, while a more effective use of state resources, as we believe, would require specifying medium-term appropriation targets, etc., to allow their approval by separate activities.

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14 [http://www.vkontrole.lt/failas\\_senas.aspx?id=1661](http://www.vkontrole.lt/failas_senas.aspx?id=1661)

## 5. Conclusions

It is widely recognised that one of the key principles of the budgeting process is the provision of budget revenue and appropriations for a certain period. As regards budget planning in terms of time, different models are possible, ranging from annual budget planning to medium-term or even long-term planning. A specific model is chosen by each subject independently, with account of its needs (certainly, in case of EU Member States, they must take also the requirements of EU legislation into consideration when solving budget planning issues).

In accordance with the legal framework in force before 2000, Lithuania was the state where budget planning was based exclusively on a one-year period: the initial version of the Law on the Budget Structure clearly stipulated that ‘Budgets shall be established for one year – from 1 January through 31 December’. Essential changes in the transition to long-term budget planning occurred following the adoption of the Seimas Resolution on the Concept of the Budget Structure on 22 October 1998 and, to implement this concept, the adoption of a Law amending the Law on the Budgetary Structure of 11 July 2000 which enshrined programme-based draft state budget preparation for 3 budget years.

Beginning with the establishment of the state and municipal budgets for the budget year 2014, Lithuania has introduced a new budget planning model based on the provisions of Directive 2011/85/EU, transferred into national law. The essential feature of this new model is that, beginning from 2014, forecasted indicators of a totality of the state budget and municipal budgets for a period of three budget years are approved, and also the requirement of Article 9 of the above Directive to adopt ‘a fiscal planning horizon of at least 3 years’ is implemented. Actually, Lithuania has applied three-year budget planning already since 2000; however, now this planning should cover municipal budgets as well. Also stricter requirements for compliance with three-year budgetary targets are introduced: ‘A draft of the state budget for a specific year and draft financial indicators of municipal budgets may derogate from the forecasted indicators of the totality of the state budget and municipal budgets for a period of three budget years as approved by the Seimas only in the case when the Government submits to the Seimas a written clarification of how new economic policy priorities are reflected in the changes’. One more novelty is the formalisation of the preparation of an Economic Development Scenario (a description of economic development which is determined by the assumptions selected and listed by the Ministry of Finance, is based on available statistical data and does not contravene national account data and economic regularities and on the basis whereof a draft Law approving the financial indicators of the state budget and municipal budgets for a specific year is prepared).

It seems to follow that these and other measures provided for in the Law on the Budget Structure will not only allow extending the limits of medium-term budget



planning (also to cover municipal budgets) but will also ensure transparency in budget planning, improve the quality of macroeconomic and budget projections required for fiscal planning and enhance compliance of budget planning with the requirements of EU legislation.

## WIELOLETNIE RAMY BUDŻETOWE W REPBLICE LITEWSKIEJ

Budżet państwa to plan finansowy zawierający wszystkie dochody i przychody zatwierdzone przez odpowiednią instytucję. Jest to plan oszczędzania, pożyczania i wydawania przez państwo, który jest sporządzany zgodnie z zasadami prawa. Niniejszy artykuł ma na celu wyjaśnienie istoty zasad krótko- i długo- terminowego planowania przychodów i środków budżetowych oraz powodów powstania długoterminowego planowania budżetu i jego zastosowanie w Republice Litewskiej. W artykule przedstawione zostały: wpływ prawa UE na te zjawiska (ich ramy prawne), prawna definicja i istota długoterminowego planowania oraz analiza powodów zmiany planowania krótkoterminowego na planowanie długoterminowe. Szczególna uwaga poświęcona jest kwestii reform planowania budżetu na Litwie, które rozpoczęły się w 1998 r. i przejściu z krótkoterminowego na długoterminowy model planowania budżetu. Planowanie budżetu państwa na określony przedział czasu zapisane jest w Ustawie budżetowej jako jedna z głównych zasad całego procesu budżetowego. Zgodnie z Ustawą budżetową oraz innymi aktami prawnymi, projekt budżetu Republiki Litewskiej jest przygotowywany na okres trzech lat, na podstawie litewskich aktów prawnych, informacji z urzędów statystycznych, programów społeczno-ekonomicznych, przewidywań naukowo-technicznych, itp.

Słowa kluczowe: budżet, planowanie budżetu, prawo budżetowe

Keywords: budget, budget planning, budget law