

**ROZWÓJ ANNUALITY I MULTI-ANNUALITY W STREFIE  
FINANSÓW REPUBLIKI CZESKIEJ I POLSKI W KONTEKŚCIE  
MODELU TEORETYCZNEGO PAŃSTWA, STWORZONEJ  
PRAWA FINANSOWEGO NAUKI I UNIA EUROPEJSKA  
DYREKTYWA RADY W SPRAWIE WYMOGÓW Z BUDŻETU  
BAZY PAŃSTW CZŁONKOWSKICH**

**Wprowadzenie**

Teza tego artykułu zakłada, że w przypadku jak annuality zasadzie i multi-annuality zasadzie, prawne środki i instytucje finansów publicznych w Polsce tytuł na wyższą pozycję, niż te widziałem w Czechach. To musi być udowodnione poprzez przypisanie poszczególnych instytucji prawa finansowego krajów pod ramki badania modelu teoretycznego państwa, opartej na doktrynie prawa finansowego. Każdy model jest opisany poniżej przedstawiona jest różny stosunek tych dwóch zasad. Ponadto, modele te zostaną przedstawione w porządku, zgodne z rozwojem badanych zjawisk. Ponadto, poziom rozwoju stosunków obu zasad wpływa na przestrzeganie lub nieprzestrzeganie), Dyrektywa rady w sprawie wymogów budżetowych ramach państw. W kontekście niniejszej Dyrektywy, należy skupić uwagę na jego wpływ na multi-annuality zasadzie.

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**DEVELOPMENT OF ANNUALITY AND MULTI-ANNUALITY IN PUBLIC FINANCES OF  
THE CZECH REPUBLIC AND POLAND IN THE CONTEXT OF THEORETICAL STATE  
MODELS CREATED BY THE FINANCE LAW DOCTRINE AND THE EUROPEAN UNION  
COUNCIL DIRECTIVE ON REQUIREMENTS FROM BUDGETARY FRAMEWORKS OF THE  
MEMBER STATES**

**Introduction**

The thesis of this article assumes that in the case of both the annuality principle and multi-annuality principle, the legal means and institutions of the public finances in Poland rank a higher position than these seen in the Czech Republic. It shall be proven by means of assigning selected institutions of the financial law of the countries under the scope of the study to the theoretical models of states constructed by the doctrine of the financial law. Each model described below presents a different relation of the two principles. What is more, these models will be presented in the order consistent with the progress of the investigated phenomena. Also, the level of development of the mutual relation of both principles influences the compliance (or non-compliance) with the Council Directive on the requirements for the budgetary frameworks of the member states [1]. In the context of the Directive it is essential to focus on its influence on the multi-annuality principle.

**Annuality principle and multi-annuality principle**

The studies on the subject should be preceded by a concise explanation of the notions of annuality and multi-annuality. The annuality principle enjoys a long and rich history. It was invented in England in 1688 and saw the light together with the notion of the first state budget as a legal institution [2]. The annuality principle entails the following: "the authorization of the

expenditures vested in the budget act is valid one year only. Once the period lapses no further expenditures are possible unless the new budget act permits it by way of new authorization”<sup>3</sup> .

On the other hand the multi-annuality principle cannot be understood in the same way. It is a complex institution resembling a legal hybrid. It can be seen as a postulate towards a state budget and can 22 Annual Center Review ‘13 mean a budget designed for longer than yearly periods.<sup>4</sup> It seems that these, for the purpose of linguistic precision, should at least be 2 years. This model at the same time voids the annuality principle. To emphasise the ambiguity of the meaning, it should bear the name of budgetary multi-annuality. Also, the multi-annuality principle might entail the preparation and application of multiannual programs, plans and forecasts simultaneously preserving the single-year-based budget as the basis for revenues and expenditures. The second understanding does not exclude the simultaneous existence of annuality in the public finances as it does not remain in contrast to the annuality principle but it merely supports it<sup>5</sup> . This type should therefore be called out-of-budget multi-annuality.

Budgetary multi-annuality in practice is a rarely applied instrument. A 4-year budget was instituted in the Uruguay Constitution of 1952 and it was supposed to agree in time with the government term of office. UN and UN-related organizations (e.g. UNESCO)<sup>6</sup> run on 2-year budgets. In none of the given examples did the applied multi-annuality prove to be effective. Reasons are numerous, the most important being lack of precision of this type of planning due to the changing economic conditions. It seems at the same time that it is the out-of-budget multi-annuality that is the future of the contemporary state finance economies.

### **Models of states based on annuality and multi-annuality relations**

Before presenting the earlier mentioned state models constructed on the annuality and multi-annuality criteria, it is vital to mention that they are ordered according to the progress of the analyzed phenomena.

1) The first state model sets out the sole existence of the annual budget and exceptions which only prove the principle of annuality. At the same time this model excludes the principle of multi-annuality.

2) The second model is the multi-annual budget instead of an annual one. In this case the principle of annuality is completely voided to the benefit of multi-annuality.

3) The next model, includes, beside the annual budget, the multi-annual forecasts or fragmentary projections. These reflect the basic fiscal categories and indirectly shape the budget. These instruments are mid-term fiscal frames.

4) The fourth model provides for the creation of multi-annual plans for the whole sector of public finances. They include budget estimates spread and assigned among the administrators or tasks for particular years. They may only concern the central level but often these are independent plans on central and local levels. This type of finance plans are called mid-term budgetary frameworks.

5) The fifth model, similarly to the fourth determines the existence of multi-annual plans for the whole sector of public finances. However, additionally these plans should include mechanisms augmenting the effectiveness by the measuring of the performance achieved throughout the planning period. It is defined as mid-term expenditure frames. These plans may be present both beside the annual budget in a traditional configuration and in a task-based one.<sup>7</sup>

### **Main assumption of the Council Directive on the requirements for the budgetary frameworks of the member states in the scope of out-of-budget multi-annuality**

EU Council Directive on the requirements for the budgetary frameworks of the member states <sup>23</sup> is one of the six acts adopted on 28 September 2011 in consultation with the European Parliament. It is an element of the so-called six-pack aiming at the protection of the member

states' economies against the financial crisis as well as the improvement of the condition of public finance. The aforementioned Council Directive sets out budget frames. Art. 2e defines it as a particular set of national budget procedures lengthening the perspective of shaping the budgetary policy so as to extend the annual budget cycle, including also the definition of the political priorities and mid-term budgetary objectives.

The Council Directive on the requirements for the member states' budget frameworks provides that the preparation and implementation of medium-term budgetary frameworks constitutes an indispensable instrument of the harmonization of the EU member states' budgetary policies. Art. 9.1 of the Directive compels the member states to create trustworthy, solid, effective medium-term budgetary frameworks enabling the adoption of at least three-year budget planning perspective. What is more, the member states are obliged to guarantee the multi-annual perspective as a basis for national budget planning.

According to Art. 9.2 the analyzed medium-term budgetary frameworks: "comprise the procedures for defining the complex and transparent multi-annual budget objectives in terms of the deficit and debt of governmental and self-governmental institution sector together with all other budget collective indices; the forecasts concerning each significant sum of expenditures and revenues of the governmental and self-governmental institution sector with the detailed list of exact data of subsector of the governmental level and the subsector of social security funds; the description of the mid-term forecasts of political strategies influencing the condition of governmental and self-governmental institution sector finances presenting the method for the achievement of mid-term budget objectives; evaluation of the way the political strategies can influence the long-term stability of public finances".<sup>8</sup>

Art. 10 of the Directive draws up the rule of agreement of the annual budget act with the provisions of the medium-term budgetary frameworks. It also emphasizes that the basis for the preparation of the annual budget are, in particular, the forecasts on revenues and expenditures together with priorities arising from the analyzed multi-annual instrument. Each annual budget deviation from the medium-term budgetary frameworks must be duly rationalized and justified.

Also Art.11 of the EU Council Directive authorizes the newly-emerged government of a given member state to revise the medium-term budgetary frameworks in order to mirror its new political objectives. Nevertheless, in case of such revision the newly formed government must indicate the difference between the previous and the newly proposed medium-term budgetary frameworks.

### **Annuality and multi-annuality in Poland**

The analysis of the basic institutions of annuality and multi-annuality in Poland should begin with the state budget characterized by its annuality. Currently, in Poland the budget functions, as a rule, in the traditional configuration. It is, however, worth noting that already in 2006 works started on gradual implementation of the state budget in the task-based configuration<sup>9</sup>. The project, experimental in its nature, is still underway. This, in turn, means that the consolidated plan, designed in the task-based configuration, of expenditures for a budget year and two consecutive years for particular units of public finance sector contributes merely an attachment to the state budget bill. Because of that, the plan does not have any legally binding force and its legal entering into force depends on particular political decisions.<sup>10</sup>

In the context of the multi-annuality principle in the Polish public finances one should particularly note the institution of the Multi-annual State Financial Plan (Wieloletni Plan Finansowy Państwa (WPF)), introduced in the Act on Public Finances of 27 August 2009<sup>11</sup>. WPF implements the idea of out-of-budget multi-annuality. Concerning its relation to the annual state budget – it is a plan including revenues and expenditures together with revenues and disbursements of the state budget prepared for the four consecutive years. WPF is created in the task-based configuration. It includes the individual functions of the state as well as objectives

and measuring instruments for the effectiveness of application of the individual function. WPPF is the starting point for the preparation of the annual budget act being a legal resolution of the Cabinet published in Monitor Polski (the official State Journal of the Republic of Poland) and Biuletyn Informacji Publicznej (Public Information Bulletin).<sup>12</sup> Data comprised in WPPF are of much wider scope than that imposed by the earlier analyzed Council Directive, which introduces the medium-term budgetary frameworks. Beside the EU imposed requirements of the forecasts for the state revenues and expenditures, WPPF includes also "the directions of the fiscal policy, the total of the deficit and loan budgetary needs together with the sources of its financing, forecasts of the budget revenues and expenditures of the EU financial means, the balance of the EU financial means, consolidated forecast of the public finance sector balance and the total of the national debt"<sup>13</sup>. The first WPPF was passed for the years 2010-2013, with the currently binding version for the years 2012-2015.

Such situation indicates that the legal provisions of the financial law in Poland in the context of the out-of-budget multi-annuality principle are concurrent with the requirements imposed in the Council Directive on the requirements for budget frameworks of the member states. Moreover, the current state of financial law in Poland allows to typify it as the fifth model. It determines the existence of multi-annual plans for the whole sector of public finance additionally including performance indicators over the planning period. Plans for the self-governmental sector are the so-called multi-annual financial forecasts of the territorial self-government units.

### **Annuality and multi-annuality in the Czech Republic**

In the Czech Republic the annuality principle is implemented through the state budget in the traditional configuration. This means that particular state expenditures for a given objective may be placed in various expenditure areas<sup>14</sup>. Currently, the Czech Republic does not plan any reforms of the traditional configuration of the budgetary qualification towards, for example, a task-based budget, as present in Poland.

In the context of the multi-annuality the situation in financial law of the Czech Republic is quite in contrast to that of Poland. Pertaining to the provisions of the Act on the budget principles of 27 June 2009<sup>15</sup>, there are two legally permitted instruments of multi-annuality: Mid-term Perspective and Mid-term Expenditures Frameworks. According to § 4 of the Act on budget principles, the Mid-term Perspective includes the foreseen revenues and expenditures of the state budget and the state designated funds for the particular years within the structure in accordance with the budget structure. Also it contains conditions and intentions for actions on the basis of which such revenues and expenditures are expected. If the Mid-term Perspective foresees a budgetary deficit, it should also contain the foreseen method of its financing. Mid-term Perspective is prepared for the period of 2 years in each budget year by the Ministry of Finance in co-operation with administrators of the individual divisions, units of territorial self-government and state funds. Once ready, together with the state budget bill it is submitted before the Government. The Mid-term Perspective constitutes only an attachment to the state budget bill, and, unlike the Polish WPPF, it is not a self-standing act of law.

§ 8a of the Act on Budget Principles states that the Mid-term Frames are a sort of specification of the Mid-term Perspective. These frames include total expenditures of the state and the state funds for each of the years in the scope of Mid-term budgetary Perspective excluding the subsidies for the state funds. In contrast to the Mid-term Perspective, the Mid-term Expenditures Frames are authorized by the lower chamber of the Parliament once petitioned for by the Government.

Therefore, it can be concluded that the financial law provisions in the Czech Republic in the context of the out-of-budget multi-annuality principle are not fully concurrent with the EU provisions as in the aforementioned Council Directive on the requirements for the budget frameworks of the member states. To put it concisely, in order to satisfy the EU requirements the

Mid-term Perspective period should be prolonged from two to at least three years. What is more, the Mid-term Perspective should also determine preditions for the national public debt and the plans for its service.

The current state of financial law in the Czech Republic can be categorized as the fourth of the aforementioned models. As it lacks the Mid-term Perspective measure indicators for the results achieved in the planning period, as it occurs in the Polish WPPF, the Czech Republic cannot be classified in the fifth model.

### Conclusions

Comparative studies of financial law of Poland and the Czech Republic are underway. However, even at the present stage it is possible to draw certain conclusion as to the thesis of this article. Both in the context of theoretic models of states created by the doctrine of financial law, and in the context of the EU Directive on mid-term budgetary framework, Poland seems to have different, more advanced finance annuality and multi-annuality instruments from those in the Czech Republic. It should be born in mind that different institutions of financial law are merely various means serving to raise the effectiveness of the financial economy of the given state. In reality, it is not the sole fact of the existence of modern methods and means that determines the state of public finances, but foremost the ability of their application.

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