NATIONAL AUDIT
OFFICE OF LITHUANIA
• BRINGING BENEFITS •

ASSESSMENT OF THE COMPLIANCE WITH THE FISCAL DISCIPLINE RULES OF THE LOCAL GOVERNMENTS IN 2019

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SUMMARY

Key messages from the Assessment of the Compliance with the Fiscal Discipline Rules of the Local Governments in 2019:

- The contribution of local government to the sustainability of public finances is obvious: the finances of local government have been in surplus over the last five years, the debt was steadily declining. Compliance with fiscal discipline in a country can significantly reduce the cost of debt management. This makes it possible for the state and municipalities to reallocate the resources it has saved to a number of priority areas.
- In order to assist municipalities in ensuring compliance with the fiscal discipline rules, the National Audit Office, implementing the function of the fiscal institution (hereinafter – fiscal institution), for the first time has provided an *ex-ante* assessment of compliance with the fiscal discipline rules of the local governments in 2019.
- The importance of compliance with the fiscal discipline rules for local government is significant in order to ensure the maintenance of grants for the co-financing the projects from the European Union Structural Funds. Eligibility of investment projects financed using loans is possible only with the compliance with fiscal rules. The assessment that was carried out by the fiscal institution will help the municipalities to understand the indicators according to which the opinion on compliance with the above-mentioned rules is issued and to reduce the risks of non-compliance.
- When approving the 2019 budgets, Kaunas, Klaipėda, Šiauliai and Vilnius City municipalities complied with the fiscal discipline rule for the budgets attributable to the general government sector. In accordance with Article 4(2) of the Constitutional Law on the Implementation of the Fiscal Treaty, each municipal budget the planned appropriations of which exceed 0.3% of GDP in the preceding year at current prices, must be approved to be in surplus or balanced when judged by its structural balance indicator calculated on accrual basis.
- When approving the 2019 budgets, 53 municipalities (out of 56 excluding municipalities of Kaunas, Klaipėda, Šiauliai and Vilnius cities) complied with the fiscal discipline rule for the budgets attributable to the general government.

- Based on the revised data, the assessment revealed that three out of 60 municipalities had failed to comply with fiscal discipline rules when approving the primary budgets for 2019, i.e. Elektrėnai, Pagėgiai and Zarasai District. In accordance with Article 4(4) of the Constitutional Law on the Implementation of the Fiscal treaty, the municipal budgets, the planned appropriations of which do not exceed 0.3% of GDP in the preceding year at current prices, in 2019 had to be approved in such a way that their appropriations would not exceed their revenues.
- According to Article 21(3) of the Law on the Budget Structure, the municipal budget's revenue for the current year may be adjusted by adding the unused part of revenue of the previous year.
- The analysis carried out revealed that, due to insufficient coordination, the lack of internal control and clear guidelines, data for the previous year on the unused parts of revenue provided in the revenue and expenditure execution reports No 1-SAV are not comparable among the municipalities. The obligation to provide data on this part dates back to 2016, however it was not ensured that the data collected is comparable and is equally understandable and appropriate for the assessment of compliance with the fiscal discipline rules.
- In assessing whether the municipalities comply with the rules of fiscal discipline, the fiscal institution asked them to clarify information on the unused revenue of the previous year: not to include borrowed funds and the balance of the targeted grants which should be returned to the state budget at the end of the year, if the funds were not used.
- The result of using the revised data had a significant impact on the *ex-ante* opinion on compliance with those rules: if the analysis of the updated data had not been carried out by the fiscal institution and the data on the primary budgets approved by the councils of municipalities, which was submitted to the Ministry of Finance had been used, 26 municipalities would have been identified as not complying with the rules of fiscal discipline.
- The assessment was carried out using the data on the primary budgets for 2019 approved by the councils of municipalities, which was submitted to the Ministry of Finance, and revised data of unused part of revenue from last year provided to the fiscal institution. The National Audit Office, implementing functions of fiscal institution, in the first half of 2020, will provide an *ex-post* assessment of the compliance with the fiscal discipline rules of municipal budgets for 2019. The results of the *ex-post* assessment will depend on the actual implementation of revenue and expenditure of municipalities.
- The future assessments of both the *ex-ante* and *ex-post* compliance with fiscal discipline rules, the data of unused revenue of the previous year will be used based on the information provided in row 105 of the report No 1-SAV. The Ministry of Finance and municipal administrations will have to ensure that the data provided are comparable with each other.