ANALYSIS OF THE EXPENDITURES WITHIN THE MINISTRY OF DEFENCE CHAPTER FOR 2009 IN RELATION TO THE ASSETS OF THE MINISTRY OF DEFENCE

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Abstract: The article analysis expenditures from budget chapter 307 - the Ministry of Defence for 2009. It presents and compares selected groups of expenditures related to the acquisition of assets for the MoD CR. It describes the secondary classification of assets (material).

Keywords: Government asset management system, financial resources, classification of assets based on composition, classification of assets based on specific conditions, classification of assets based on the method of use, classification of assets based on the method of allocation, classification of assets based on determination and sorting, classification of assets based on types.

1. INTRODUCTION

The State Budget of the Czech Republic (CR) is formed by two parts - income and expenditures. Before the State Budget approval, the expenditures are drawn up by the CR Ministry of Finance in cooperation with chapter managers, regional self-governing units and state funds.

When drawing up expenditures, the results regarding the income from government operations in the previous budget period, the goals and objectives of the government economic policy, the expected economic development of the national economy, etc. are taken into account. The Ministry of Finance submits the State Budget bill to the government for approval. The Ministry of Defence of the Czech Republic (MoD CR) is considered to be an organizational component of the state which manages government assets (the assets of the CR) acquired from the MoD budget chapter. Property of the organizational component of the state, i.e. MoD CR property, is a name for all state assets which the MoD CR was given the right to manage based on the CR legislation and internal regulations. The MoD tangible part of property is formed by its specific part - military material.

2. ANALYSIS OF EXPENDITURES RELATING TO BUDGET CHAPTER 307 - MINISTRY OF DEFENCE IN 2009

The State Budget is a system of public budgets which represent central monetary funds created and used by the government including public authorities on local levels for a particular period (fiscal year). It is formed by budget chapters which are established by the law on the State Budget for a given calendar period.
year\textsuperscript{5}. The total expenditures of chapter 307 - Ministry of Defence for 2009 amount to 55.6 thousand million (bil) Czech crowns (CZK). The total amount of chapter 307 for 2009 can be divided into current expenditures (see Fig. 1) and program financing expenditures (see Fig. 2) using the so-called accounting decomposition.

As apparent from Figure 1, other current expenditures which are characteristic of all organizations form the highest financial volume of current expenditures. In chapter 307, other current expenditures in 2009 are represented by the following groups of expenditures - see Table 1. As apparent from Fig. 2, the absolute magnitude of expenditures for program financing is aimed at asset renovation programs. Out of 18 asset renovation programs 16 asset renovation programs continue. The following 6 renovation programs belong to decisive modernization programs for armaments and immovable infrastructure - see Table 2.

\textsuperscript{5} Act No. 475/2008 Coll., on the State Budget of the Czech Republic for 2009.

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### Table 1 Accounting decomposition of the other current expenditures in 2009

<table>
<thead>
<tr>
<th>Type of the other current expenditure</th>
<th>Total (in thousands of CZK)</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchase of material</td>
<td>4 234 715</td>
<td>25</td>
</tr>
<tr>
<td>Purchase of POL</td>
<td>1 035 741</td>
<td>6</td>
</tr>
<tr>
<td>Purchase of services and other purchases (especially repairs)</td>
<td>5 651 780</td>
<td>33</td>
</tr>
<tr>
<td>Noninvestment contributions, compensations, transfers and other expenses</td>
<td>6 123 101</td>
<td>36</td>
</tr>
</tbody>
</table>

### Table 2 Review of major asset renovation programs in 2009

<table>
<thead>
<tr>
<th>Name of the other current expenditure</th>
<th>Total (in thousands of CZK)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enhancement of the Air Force capabilities</td>
<td>896 000</td>
</tr>
<tr>
<td>Rearmament of the ACR with armoured personnel carriers</td>
<td>3 631 418</td>
</tr>
<tr>
<td>Purchase of supersonic aircraft and support of their operations</td>
<td>3 109 759</td>
</tr>
<tr>
<td>Support of the ACR forces and equipment in international operations</td>
<td>551 672</td>
</tr>
<tr>
<td>Build-up, restoration and operation of the MoD communication and information system and modernization of the MoD communication infrastructure</td>
<td>1 643 720</td>
</tr>
<tr>
<td>Purchase and repair of medium military cross country vehicles</td>
<td>801 247</td>
</tr>
</tbody>
</table>

All assets acquired using financial resources of chapter 307 are catalogued in
compliance with the North Atlantic Treaty Organization (NATO) standards. The assets within the MoD CR are classified based on six aspects - see point 3.

3. CLASSIFICATION OF ASSETS WITHIN THE MINISTRY OF DEFENCE OF THE CZECH REPUBLIC

With regard to the considerable scope and diversity of assets which are delivered to and used by ACR military units and installations, all assets are classified based on the following aspects:

1. Types;
2. Determination and sorting;
3. Method of allocation;
4. Method of use;
5. Specific conditions;
6. Composition (see Fig. 3).

3.1. Classification of Assets Based on Types

Assets are divided into supply classes based on types. Supply class is a designation for a summary of items of given assets arranged within the framework of uniform assets classification which are managed in the MoD CR.

Supply classes are set or cancelled by the Minister of Defence CR or an official appointed by the Minister of Defence CR.

Based on types, assets are divided into supply classes as follows (supply class number and name of supply class):

1.0 – Foodstuffs;
2.1 – Individual use material including spare parts (incl. s. p.);
2.2 – Weapons and weapon systems (incl. s. p.);
2.3 – Military transportation and support equipment (incl. s. p.);
2.4 – Electronics and optics (incl. s. p.);
2.5 – Medical and veterinary supplies (incl. s. p.);
3.0 – Petroleum, Oils and Lubricants, consumables and gases;
4.1 – General use assets (incl. s. p.);
4.2 – Construction and fortification material (incl. s. p.);
5.0 – All types of ammunition (incl. s. p.);
6.0 – Intangible assets; and
7.0 – Immovable assets.

Supply classes ranging from 1.0 to 6.0 are related to movable assets, supply class 7.0 is related to immovable assets.

Supply class manager for novel assets is appointed in a document dealing with the introduction of new assets (equipment) to be used within the MoD CR. He/she is then charged with responsibility for assets.

Supply class manager is a senior employee of an organizational unit within the MoD CR who is charged with responsibility for one or more types of assets within the complex support of the MoD CR. He/she is responsible for assets in the field of supply of specific type of assets including its cooperative cataloguing.

Responsibility for assets is a summary of rights and duties which belong to commanders (supply class managers) in the field of management of a given type of assets within a supply class. Their rights and duties result from CR legislation and internal regulations.

6 Supply class manager is a senior employee of an organizational unit within the MoD CR who is charged with responsibility for one or more types of assets within the complex support of the MoD CR. He/she is responsible for assets in the field of supply of specific type of assets including its cooperative cataloguing.

7 Responsibility for assets is a summary of rights and duties which belong to commanders (supply class managers) in the field of management of a given type of assets within a supply class. Their rights and duties result from CR legislation and internal regulations.
Supply classes support compatibility with the NATO supply system.

3.2. Classification of Assets Based on Determination and Sorting

Based on these criteria, assets are classified as follows: 1. Current need assets; and 2. Emergency stocks assets.
1. Current need assets are intended for supporting training, classes, combat readiness and survivability of troops in peacetime. They include the following:
   • Assets prescribed by the Table of Organization and Equipment (TOE);
   • Assets defined by allowances and norms;
   • Assets for the build-up carried out within the framework of troops training, for the operation and repairs of permanent structures;
   • Drill assets intended for military schools and units selected for training specialists.
2. Emergency stocks assets are intended for supporting combat and mobilization readiness of units. They include the following:
   • Assets in the quantity given by the difference between peacetime and wartime TOE;
   • Assets defined in norms of supplies for combat use.

The principles for making emergency stocks and their management are defined by internal regulations approved by the Chief of General Staff of the ACR.

3.3. Classification of Assets Based on the Method of Allocation

Based on the method of allocation assets are classified as follows:
1. Assets prescribed in the TOE;
2. Assets defined in norms;
3. Other assets.
   1. These are assets specified in the TOE in peacetime and the TOE in wartime. The types of assets prescribed in the TOE in peacetime and in wartime are as follows:
      • Assets required for tasks performed by individuals, small units and large units;
      • Assets related to a particular military occupational speciality which must be monitored centrally for the benefit of supporting defence ability of troops.
   2. Assets not requiring inclusion in the TOE from the viewpoint of organization and support of troops are allocated based on norms. Generally, a norm specifies inventory status of assets intended for a soldier, unit, equipment, etc. Norms are designated by particular supply class managers using internal regulations.
   3. In exceptional cases particular types of assets can be allocated to users based on special directives and regulations.

3.4. Classification of Assets Based on the Method of Use

Based on the method of use assets are classified as follows:
1. Long-term use assets;
2. Expendables supplies (consumables).
   1. These are individual items or sets of items having independent individual technical economic determination which are long-term or minor long-term assets. These are items of supply classes such as weapons and weapon systems, military transportation and support equipment and others.
   2. Assets which are a stock. When used (after issue from a depot) they are fully used up, depreciated or become a part of another item. They consist of supply classes such as foodstuffs, Petroleum, Oils and Lubricants (POL) consumables and gases, ammunition and others. With the exception of ammunition and some spare parts, consumable supplies are not viewed according to quality in complementary records and they are not usually subject to cancellation.

3.5. Classification of Assets Based on Specific Conditions

Based on specific conditions long-term use assets and some consumable supplies are listed in categories. The inclusion of assets in a particular category is influenced by the length of life, wear or deterioration. It is an orientation indicator of quality and expresses its usability at the same time. Assets are classified based on specific conditions as follows:
• First category, i.e. fully serviceable assets;
• Second category, i.e. temporarily out-of-service assets which require repair beyond the army level (e.g. in a military repair base); and
• Third category, i.e. out-of-service, unrepairable assets (for liquidation in military logistics bases or beyond the MoD CR in reasoned cases).

With regard to the second and third categories it is always considered whether repair would be practicable and whether it would fulfil its purpose. Second category assets are not collected in units, but they are sent to repair workshops or depots or superior level facilities according to the superior’s possibilities. Supply class managers determine the inclusion of individual types of assets in categories in their special implementing regulations, directives, instructions, guidelines, etc.

3.6. Classification of Assets Based on Composition

Based on composition assets are classified as follows:
• Individual objects, substances, raw materials, semi-finished products, etc. with which their character, composition and purpose, characteristics and the method of application result uniquely from the name (e.g. service cap) and unit of measure;
• Sets that form groups of items and complexes intended for one purpose from the viewpoint of use (it is usually indicated directly in the name or expressed by a unit of measure that it is a set).

We differentiate between simple sets and combined sets based on the types of assets which a set is composed of.

Simple sets as well as their functional accessories contain assets of one supply class. Their handling usually does not require special organizational measures.

Combined sets mean a group formed by items of various supply classes. A supply class manager of such a set is the manager of supply class in which the whole set is included. A set composed of items which are not prescribed by the TOE or norms is also considered to be a combined set.

A simple as well as combined set is equipped with a log (of a simple or combined set) and an accompanying copybook. The log includes a list of items in a set – a statement of completeness.

The log lists records about the flow of assets when they are used. The accompanying copybook contains a list of functions for which a set is used.

4. CONCLUSION

In the first part, the article analyses the expenditures of the Ministry of Defence chapter for 2009. Attention is paid to those expenditures which are related directly to the assets (material) purchased for the MoD CR.

The budget is in the competence of the government and its bodies. Its nature is based on early and correct transfer of all budget receipts and on continuous and economical draw-down of budget expenditures. In the Czech Republic, the government is responsible for the State Budget to the Chamber of Deputies CR which it submits a report to where it evaluates the development of economy and the fulfilment of the State Budget after the end of each half a year.

The second part of the article deals with the secondary classification of the assets acquired and the existing assets within the MoD CR.

The primary classification of assets results from CR legislation and is valid for all organizational components of the state. The secondary classification of assets results from internal regulations of the Ministry of Defence of the Czech Republic and is a specific classification valid only for the Ministry of Defence of the Czech Republic.

The Ministry of Defence of the Czech Republic is an entity which is mainly budgetary; in a limited extent it is profit-making (gainful). CR legislation dealing with government assets is represented by laws and orders. Internal regulations issued within the Ministry of Defence of the Czech Republic dealing with government assets are represented by the Basic Code and service regulations.
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