

LEGAL REGULATION ON MUNICIPAL BUDGETS’ EXPENDITURE

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Abstract in original language

The article analyzes municipal budgets’ expenditure (appropriations), their management system and legal regulation in Lithuania. Moreover, the authors analyze a structure of municipal budgets’ expenditure. The legal regulation of municipal budgets’ expenditure is of huge significance for optimizing the management of municipal finances. When implementing rights and obligations assigned by legislation self-government institutions have to develop and improve an economic, social and cultural structure of the governed territory by adjusting this to the state interests.

Key words in original language

Municipal expenditure (appropriations); municipal budgets, municipal budgets’ appropriations, municipal finances, fiscal decentralization.

In the state the adopted legislation has to establish a development of democracy, an objective to create legal preconditions for citizens to participate in the conduct of public affairs, to make decisions and express their opinion. The preamble of European Charter of Local Self-Government¹ establishes that self-government institutions are the foundations of any democratic regime and that the right of citizens to participate in the conduct of public affairs is one of the democratic principles. Local self-government denotes the right of local authorities to manage public affairs and address any arising problems according to the procedure established by the laws under their own full responsibility and in the interests of the citizens.

A financial independence of the municipalities is defined by a degree of fiscal decentralization. Strengthening the municipalities’ independence and development of their functions at the same time addressing any arising financial issues would be one of the tendencies of improving the state management. Authority elected by the local population is independent to the extent it is able to manage its own finances and to make the related decisions independently. Financial independence is perceived as the right of

¹ European Charter of Local Self-Government // Valstybes zinios (State Gazette). 1999, No. 82-2418.

the municipality to form its own budget and plan revenue sources and expenditure (appropriations).

The legal regulation of the municipalities' expenditure includes determination of a legal status or a legal position of legal subjects and establishment of a legislative base that determines by legislation rights and obligations of participants of financial relations.

The legal regulation of budget expenditure of the municipalities of the Republic of Lithuania is extremely important for optimizing the management of municipalities' finances. Only economical and rational planning, approval and execution of expenditure (appropriations) ensure transparent and useful activity of the self-government institutions and the quality of services provided for the local citizens. When implementing rights and obligations assigned by legislation self-government institutions have to develop and improve an economic, social and cultural structure of the governed territory by adjusting this to the state interests.

Municipal budgets' expenditure (appropriations) and their management is a relevant topic for analysis. It is important to plan, approve and execute municipal budgets, to seek for a balance, to control expenditure as efficient as possible and to carry out a policy of reducing the expenditure. As Lithuania is a member of European Union, it is important to develop and improve the state governance by implementing provisions of European Charter of Local Self-Government as well as European Union directives and regulations that establishes a development of fiscal decentralization.

Audits carried out by National Audit Office as well as their results show that the financial management and accounting performed by the municipal institutions are improving and developing, however, accountability for the activity results is still insufficient.

In this article the authors analyze municipal budgets' expenditure, their structure and management as well as the legal regulation of municipal budgets' expenditure. Moreover, the article reveals other peculiarities of formation of municipal budgets' expenditure and of implementation of municipal budgets' expenditure.

Local authorities carry out functions within the limits established by the Constitution and laws under their responsibility and, most importantly, in the interest of local population. Certain financial resources that every municipality could dispose of are necessary for implementing the planned tasks and objectives. Financing is necessary for developing and performing every activity. Financial independence has to be expanded and ensured for municipalities on the basis of fiscal decentralization.

State budget expenditure and municipal budgets expenditure ratio is one of assessment criteria of fiscal decentralization. The bigger proportion of

municipalities' expenditure in state budget expenditure is, the larger decentralization of public finances is. However, it is necessary to emphasize that when decentralization of public finances increases, financial independence of municipalities does not always increase, but when financial autonomy of municipalities increases, decentralization of public finances always increases. For instance: when the state delegates a certain function to a municipality, which is financed out of a state budget, decentralization increases, however, financial independence of municipalities does not increase. Hence, the main aim of local financial independent self-government is to ensure that the will of the majority of the society would be fulfilled and that equality of rights of citizens and their freedom of self-determination would be recognized when making decisions and conducting community affairs.

Article 127(1) of the Constitution of the Republic of Lithuania² provides that the budgetary system of the Republic of Lithuania shall consist of an independent state budget of the Republic of Lithuania and independent municipal budgets. A state budget of the Republic of Lithuania – a plan of the state budgetary revenue and appropriations approved by Seimas for a budgetary year. A municipal budget – a plan of municipal budgetary revenue and appropriations approved by municipal councils for a budgetary year.³ State budget funds are used for financing common state needs. Funds for financing social, economic and any other programmes of local significance as well as for maintaining local municipal authorities and institutions are accumulated in municipal budgets. Collection of municipal budgetary funds is based on the need of financing the implementation of programmes of local significance.

Every municipality out of 60 draws up and approves their budgets every year. This right (as well as duty) of local municipalities is established in Article 121(1) of the Constitution. Budgets approved by local municipalities together with a state budget of the Republic of Lithuania then become a constituent part of Lithuanian budgetary system.

Article 2 of the Law on Methodology of Determination of Municipal Budgetary Revenues regulates municipal budgetary revenues that consist of tax revenue, non-tax revenue and state budget allocations.⁴

² The Constitution of the Republic of Lithuania // *Valstybes zinios* (State gazette). 1992, No. 33-1014.

³ Law on Budget Structure of the Republic of Lithuania // *Valstybes zinios* (State gazette). 2004, No. 4-47; 2005, No. 144-5237.

⁴ Law on Methodology of Determination of Municipal Budgetary Revenues of the Republic of Lithuania // *Valstybes zinios* (State gazette).-2001, No.: 94-3307.

Article 22 of the Law on Budget Structure of the Republic of Lithuania regulates municipal budgetary revenue. It consists of: 1) revenue received from taxes; 2) revenue received from municipalities' property (except revenue received in accordance with the Law on Privatization of State and Municipal Property); 3) revenue of municipal budgetary institutions; 4) revenue received from rented or given to use state land or water bodies of the state fund of inland water and after the state allocates funds for sold state pieces of land for non-agricultural purpose; 5) state budget allocations and other transferrable funds; 6) non-returnable financial support (funds); 7) other revenue provided for by law.⁵

Payments for realization of fixed tangible and intangible assets are also ascribed to municipal budgetary revenue.

The Law on Budget Structure of the Republic of Lithuania establishes appropriations of the state and municipal budgets (expenditure). Article 2 of this Law presents a concept of appropriations⁶ - an amount of funds determined in a budget for expenditure of budgetary institutions and other subjects, whose access to budgetary funds is provided for in laws which regulate their activity field or in decisions of the Government adopted following directly applicable European Union legislation and international treaties that establish the procedures for administration of financial support provided by European Union or separate states to Lithuania, as well as for acquisition of fixed tangible and intangible assets or strategic stocks. An appropriation manager has the right to receive such amount from funds accumulated in a budget for financing approved programmes in a budgetary year by submitting an application to an institution which administrates the state treasury or to administration of municipalities.

Appropriations are used only for carrying out the functions of municipalities and for implementing programmes approved by municipal councils. Financing of any other not approved programmes is not possible.

Articles 5, 6 and 7 of the existing Law on Local Self-Government of the Republic of Lithuania are dedicated to the functions of municipalities.⁷ Comparing with the Law on Local Self-Government of the Republic of Lithuania which was in effect prior 29 November 2008 a group of assigned (limitedly independent) functions was excluded from the current edition of

⁵ Law on Budget Structure of the Republic of Lithuania // *Valstybes zinios* (State gazette). 2004, No. 4-47; 2005, No. 144-5237.

⁶ Law on Budget Structure of the Republic of Lithuania // *Valstybes zinios* (State gazette). 2004, No. 4-47; 2005, No. 144-5237.

⁷ Law on Local Self-Government of the Republic of Lithuania // *Valstybes zinios* (State gazette). 2000, No. 10-12.

the law. Separation of contractual functions into a separate group was also rejected however municipalities' right to delegate the state functions to municipalities to carry out on the basis of agreements remained. Usually these functions are of short-term nature or seasonal. The Law regulates only two groups of municipalities' functions – the independent and the state (delegated to municipalities) functions. These functions assigned to municipalities are directly related to budget expenditure (appropriations). It is impossible to carry out any functions, if certain finances are not allocated to carry out these functions. This is the basis of budget expenditure. When analyzing financial independence of municipalities, its increase and development, we have to pay attention to the fact that the more state functions are assigned to a municipality, the more allocations are granted from a state budget and this all by itself reduces financial independence of municipalities and more and more funds are reallocated through a state budget.

Article 9 of the Law on Budget Structure stipulates that municipal budget appropriations are divided according to economic and functional classifications.

Budget classification – allocation of all budgetary revenue and expenditure according to predetermined criteria. The criteria of classification of budgetary revenue and expenditure are determined by legal norms. When classifying budgetary revenue and expenditure it is tried to determine planned revenue and expenditure as precise as possible. In this way it is tried to plan and implement a budget and to perform its implementation control correctly and precisely.

Economic classification – allocation of expenditure according to economic criteria. Expenditure can be divided into current expenditure and expenditure for financing long-term investments. Appropriations for financing long-term investments are intended for purchasing and creating fixed tangible or intangible assets. Fixed assets are such assets which will be used in activity longer than for one year. Moreover, such assets will be created or acquired longer than within one budgetary year. Current expenditure is intended for ensuring a proper daily activity of municipal institutions (municipal council, municipality administration), for maintaining municipal authorities and for operating available facilities, etc. Wages, social insurance contributions, expenses related to provided services and goods, social benefits and other can be ascribed to such expenditures.

Functional classification – allocation of appropriations according to the functions carried out by municipalities. Budgetary appropriations are intended for implementation of existing cultural, educational, health service, social and other programmes.

When drawing up, approving and implementing their budgets municipalities must follow a certain established procedure. The procedure has to be

perceived not only as actions the aim of which is to draw up and approve a budget (as a document having legal force) but also as requirements for contents and form of this document. Uniform classification of revenue and expenditure as well as uniform principles of preparing accounting and accountability are used in implementation of principles of public finances, including municipalities, and principles of publicity and transparency when drawing up and approving municipal budgets.⁸

In Lithuania financial departments of municipalities' administrations follow the following main guidelines of drawing up and approving municipal budgets when drawing up draft budgets of municipalities:

Preparation of draft budgets of municipalities is organized by executive institutions of municipalities. Prior to 2003 draft budgets of municipalities used to be prepared in accordance with the procedures established by a municipal board. At the moment when the institutional management level of a board is absent, municipal administration is responsible for drawing up draft budgets. Draft budgets of municipalities drawn up by directors of municipal administration, where the principles set and established in the methodology of strategic planning are implemented, are accordingly adjusted and supplemented in accordance with the needs of a particular municipality.

Article 26 of the Law on Budget Structure of the Republic of Lithuania establishes that draft budgets of municipalities are prepared in accordance with the Law on Budget Structure, other laws, financial indicators of municipal budgets approved by Seimas of the Republic of Lithuania, state statistical data, rules of drawing up and implementing budgets approved by the Government, social and economic programmes, as well as with programmes of municipal budgetary appropriation managers and their draft estimates.⁹ Every year the Parliament adopts financial indicators of a state budget and of municipal budgets on the basis of which municipalities have to plan their own budgets. It should be noted that allocations of a specific purpose, the use of which is strictly regulated, granted by the State constitute the largest part of the structure of the municipal budgetary revenue. Then, a municipality really does not have any true financial independence and any planning becomes harder.

⁸ D. Mingélaitė, D. Vasarienė Public property: income of municipalities' budgets // Days of Law (Collection of abstracts accompanying CD contains the international conference proceedings and all contributions in electronic (PDF) form). Masarykova univerzita, Brno, Czech Republic. ISBN 978-80-210-4733-4. 2008.

⁹ Law on Budget Structure of the Republic of Lithuania // Valstybes zinios (State gazette). 2004, No. 4-47; 2005, No. 144-5237.

Municipal budget appropriation managers prepare their draft estimates of expenditure and organize preparation of draft estimates of expenditure of their subordinate institutions following the procedure for drawing up draft budgets of municipalities established by a director of municipal administration.

Municipal administrations check whether calculations provided in draft estimates of expenditure are accurate, whether an economy regime is kept, whether appropriations to cover current debts are provided for and, if necessary, specify the appropriations and include them into draft budgets of municipalities. In this phase of drawing up a budget legal regulation of expenditure is evident through the activity of administrative subjects and the functions they carry out.

Municipal administrations submit the prepared draft budgets of municipalities to municipal councils. Municipal councils consider the draft budgets taking into consideration reports of municipal administrations as well as proposals and conclusions of committees of municipal councils.

In order to achieve more efficient management of public financial resources in Lithuania Seimas adopted a resolution on Conception of Budget Structure and initiated a reform of budget structure in 1998¹⁰. In Lithuania in the field of public finances and public administration two significant novelties were introduced – strategic plans and a programme-based budget. This decision was important for increasing efficiency and transparency of management of public sector finances. Experts from World Bank distinguished Lithuania as one of the most successful examples among the Member States of European Union in introducing the principles of the programme-based budget, strategic organization of activity and financial planning. The main principle of the programme-based budgets is to focus on the activity, results and objectives.

The essence of strategic planning, which determines a system of strategic planning, principles, a procedure for drawing up strategic planning documents (strategies, programmes, strategic activity plans) and annual activity plan, supervision and assessment of implementation as well as accountability for results, is established in the resolution of the Government of the Republic of Lithuania of 6 June 2002.¹¹ The Resolution of the

¹⁰ Resolution of Seimas 1998-10-22 “On the Conception of Budget Structure of the Republic of Lithuania” of 22.10.1998. Valstybes zinios (State gazette), 30.10.1998, No. 95-2637.

¹¹ Resolutions of the Government of the Republic of Lithuania of 16 July 2004 No. 902 “On Amendment of the Resolution of the Government of the Republic of Lithuania of 6 June 2002 No. 827 ‘On Approval of Methodology of Strategic Planning’”// Valstybes zinios (State gazette). 2004, No. 112-4187.

Government of 15 June 2004¹², which establishes preparation of draft budgets of municipalities, recommends application of the principles, which are stipulated in the Methodology of Strategic Planning, of strategic planning and of drawing up a budget according to programmes.

Strategic activity plans of municipal institutions are documents of short-term strategic planning that are drawn up by appropriation managers. A plan is prepared for three years and is renewed each year. It is planned how to use available and planned financial, human and other resources as efficiently as possible. This process is an integral part of drawing up a draft budget.

It can be stated that with the help of strategic planning municipalities can determine their objectives and needs more precisely and more optimally. They can plan their financial resources, programmes and their financing for a longer period. Strategic planning helps to group priorities and allows to address essential problems immediately, to finance important programmes at once, to accumulate funds for them, to ensure their implementation and postpone other programmes and their implementation. Moreover, when planning their finances strategically and for a longer period municipal subjects can constantly revise and correct them taking into consideration an existing political, economic and social context at a particular period. However, at the same time the continuity of the actions already commenced is ensured.

While the progress of a budget planning process is evaluated positively, it should be noted that it is necessary to continue with the improvement of this field and with addressing of the problems arising in this field. It is necessary to relate the planned and the achieved results of the programmes with the used municipal budget appropriations more clearly. According to the data of the results of national audits¹³, the fact that appropriation managers themselves do not pay sufficient attention to supervision of the implementation of programmes and not always duly settle for the use of the funds is a problematic aspect.

Directors of municipality administrations submit the prepared draft budgets (in accordance with the programmes prepared by municipal budget assignment managers and their draft estimates or by applying principles, which are provided in the Methodology of Strategic Planning, of strategic

¹² Resolution of the Government of the Republic of Lithuania of 15 June 2004 No. 751 “On Approval of Rules of Drawing up and Implementation of the State Budget and Municipal Budgets of the Republic of Lithuania” // *Valstybes zinios* (State gazette). 2004, No. 96-3531.

¹³ An audit report of National Audit Office of the Republic of Lithuania “A System of a Programme-Based Budget”. // Vilnius, 30 March 2007. No. VA-60-1P-1.

planning and of drawing up budgets) to municipal councils in accordance with the procedures established by regulation of the activity of municipal councils.

Municipal councils consider the draft budgets taking into consideration reports of municipal administrations as well as proposals and conclusions of committees of municipal councils. The council adopts a budget by municipal council resolution as stipulated in the Law on Budget Structure of the Republic of Lithuania. If necessary, it also specifies a budget. When adopting a budget by its resolution the council indicates: 1) the total amount of planned revenue according to the types of revenue; 2) the total amount of appropriations and the allocation thereof for financing the approved programmes. An amount of appropriations for expenditure, i.e. for acquisition of assets and for wages, is indicated as well.

Municipalities draw up draft budgets following financial indicators of a state budget and of municipal budgets adopted by Seimas for a particular year. The Law on Budget Structure of the Republic of Lithuania provides that the Government must submit draft financial indicators for the relevant year at least 75 calendar days prior to the end of a budgetary year. Seimas must adopt them only two weeks prior to the end of a budgetary year. Clause 5 of Article 26 of the Law on Budget regulates that municipal councils must approve their budgets not later than within two months after the approval of the financial indicators of a state budget and municipal budgets. If municipal budgets are not approved by the due date, monthly appropriations for each appropriation manager cannot exceed 1/12 of the relevant last year's budgetary funds allocated to that particular appropriation manager. Such appropriations can only be intended for the continuous activity and for financing obligations stipulated in laws (except European Union financial support and general financing programmes appropriations for which are transferred pursuant to the concluded agreements) as well as for covering existing debts. Thus, the approval of municipal budgets is directly related to the approval of financial indicators of a state budget and municipal budgets in Seimas.

Municipal budgets are approved without deficit. A budget has to be balanced. If it is impossible to do that, a municipality is allowed to take short-term and long-term loans from domestic and foreign creditors. The borrowing procedures are regulated by the resolution of the Government "On Approval of the Procedures for Municipalities to Borrow".¹⁴ Borrowing is allowed only upon a decision of a municipal council after receiving a municipal controller's conclusion, and only in such cases when there are not

¹⁴ Resolution of the Government of the Republic of Lithuania of 31 January 2001. "On the Approval of the Procedures for Municipalities to Borrow", *Valstybes zinios* (State gazette), 2001, No. 12-335.

enough available funds for financing investment projects (long-term loans) or for covering a temporal lack of funds, if there is a lack of current assets (short-term loans). Borrowing limits are determined by Seimas when adopting the law on the approval of financial indicators of a state budget and municipal budgets of the Republic of Lithuania. When taking a long-term or a short-term loan a municipality must follow the Law on Public Procurement of the Republic of Lithuania.¹⁵ The most important aspect is that a municipality assumes property obligations under loan agreements and has to secure performance guarantees with their own budgetary funds.

After a municipal council approves a budget, municipal administration prepares a plan of revenue and financing of appropriations according to appropriation managers and economic classification of expenditure for each quarter of a year. Municipal administration organizes accounting of budgetary revenue and expenditure, organizes implementation of a municipality's decisions, administers provision of public services, however, all actions are approved by a director of the administration.

The management of municipal budget appropriations is a difficult process which requires huge responsibility. Article 4 of the Law on Budget Structure of the Republic of Lithuania defines municipal budget appropriation managers as heads of municipal budgetary institutions or subdivisions of municipal administrations specified in the municipal budget approved by a municipal council. Specific appropriation managers are named in the expenditure part of draft municipal budgets.

When analyzing a role of appropriation managers in the management of municipal budgetary expenditure, it is important to distinguish their main duties and rights laid down in the Law on Budget Structure of the Republic of Lithuania.¹⁶ I.e. the duty to organize preparation of programmes financed out of a budget, to submit correct programmes, accurate calculations and checked estimates to a director of administration. Having received appropriations from the budget managers have to use them in accordance with the determined purpose, for implementing and financing the approved programmes. Appropriation managers must allocate funds intended for budgetary institutions for implementation of the programmes. They also have to submit financial accountability reports in accordance with the established procedures and terms. They have to ensure accuracy of financial and statistical accounts and their submission on time, to ensure economical, effective and efficient implementation of programmes. Economical and

¹⁵ Law on Public Procurement of the Republic of Lithuania // *Valstybes zinios* (State gazette), 2006-01-12, No. 4-102.

¹⁶ Law on Budget Structure of the Republic of Lithuania // *Valstybes zinios* (State gazette). 2004, No. 4-47; 2005, No. 144-5237.

transparent implementation of the programmes is a basis for appropriation management.

A budget appropriation manager has the right to during a budget year at least 10 days before the end of a relevant quarter change the procedures for budget appropriations intended for programmes and approved by the institutions headed by them and institutions subordinate to them according to the economic classification. However they can do this only in accordance with the procedures established and approved by municipal administration without exceeding the amounts of total appropriations for current expenditure, including wages, approved for a certain programme. Moreover a manager has the right to change the quarterly apportionment of the total amount of appropriations for the implementation of a programme upon co-ordination thereof with the municipal administration. Appropriation managers have the right at their own discretion to make certain corrections of implementation of a budget, but first of all this has to be approved by an administration. When drawing up programmes and their estimates an appropriation manager has the right (but not a duty) to submit alternative programmes to a municipal administration. A subject is provided with a possibility to draw up several alternative programmes and their estimates and then to choose the best and the most reasoned programme. Such drawing up of programmes and formation of a budget is very positive, thus, as many alternatives as possible should be drawn up. It is precisely this aspect that financial experts miss in the formation of municipal budgets. Submission of a programme and its alternative options is a positive thing when forming a budget. It makes easier to consider several options, to compare and choose the most suitable programme.

Moreover, it should be emphasized that following the provisions of the Law on Internal Control and Internal Audit of the Republic of Lithuania and the Law on Self-Government of the Republic of Lithuania a municipal council establishes Centralized Internal Audit Service which is directly subordinate and accountable to a director of municipal administration. The main purpose of this service is to carry out independent and impartial activity of analysis, assessment and consultation in order to ensure improvement of activity. It is independent from internal control procedures and it is not responsible for them.

Article 37 of the Law on Budget Structure of the Republic of Lithuania establishes budget implementation control.¹⁷ Municipal controllers (Municipal Control Services) are authorized to carry out an audit of municipal budgets. They have to carry out audits of implementation of municipal budgets, estimates of programmes prepared by appropriation

¹⁷ Law on Local Self-Government of the Republic of Lithuania// Valstybes zinios (State gazette).- 1994, No. 55-1049.

managers, accounting of funds and financial accountability. Authority of this municipal subject is defined more broadly in the Law on Self-Government of the Republic of Lithuania. It should be noted that functions of a municipal controller (Municipal Control Service) are not clearly divided into control and audit functions. Therefore it is not by accident that a municipal controller (Municipal Control Service) is named as a municipal control and audit institution. According to the Law on Local Self-Government a municipal controller (Municipal Control Service) is considered as a subject of external control whose activity is based on principles of independence, legitimacy, publicity, objectivity and expertise. A question arises – why external audit is necessary, if internal control is being carried out already. “Practice shows that even if the internal control system is managed efficiently, mistakes cannot be avoided”¹⁸, therefore the external audit helps to assess whether the internal control system functions efficiently. This helps to avoid mistakes, especially in an accounting system, and helps to protect against any possible illegal operations of an internal auditor. The activity and functions of this institution are very important for ensuring implementation of municipal budgetary revenue and appropriations (expenditure) and the transparent use of funds.

It is worth to note that the National Audit Office only carries out an external review of audits carried out by municipal controllers (Municipal Control Services) in accordance with the competence laid down in the Law on National Audit Office of the Republic of Lithuania and the Law on Local Self-Government of the Republic of Lithuania. The aim of the external review – to assess audit institution’s policy and procedures, which are related to the general audit activity, of ensuring audit quality, and their efficiency in order to spread instances of good audit practice, to determine training fields for auditors, to provide information about the quality of the carried out audit¹⁹. The National Audit Office carries out methodical and audit quality supervision in local municipalities.

Legal and methodical grounds are the basis of efficiency of legal regulation of budgetary expenditure. Improvement of legislation, creation and implementation of necessary procedures, perception and solution of appropriation management issues have to be constantly performed. It is necessary to develop a specific system for assessing efficiency of the use of the funds. The society discusses what efficiency is, how to ensure it, how to determine when it can be achieved, what criteria are necessary. There are many opinions on this question at issue. However, the fact that a mechanism

¹⁸ Mackevičius J. Audit: theory, practice, prospects. Vilnius, Lithuanian Science, 2001. p. 653.

¹⁹ Report for the Activity of National Audit Office of the Republic of Lithuania for 2006. P.41. Internet access: www.vkontrole.lt.

for assessing efficiency of expenditure is also necessary for strategic planning is the most important. At the moment it is impossible to measure efficiency of municipal budgetary expenditure and to determine whether the same results could be achieved at a considerably lower cost. It is hard to believe that any institution would admit that it would be able to implement its functions with lower financing and with a smaller number of working places (posts), if it reorganized its activity effectively. However, it is necessary to make the management of institutions more effective, to save funds and to ensure that institutions do not duplicate each other's functions. First of all specific strategic aims of a municipality have to be set and only then specific financial estimates necessary for their implementation have to be prepared. A municipal council has to ensure that expediency of the funds allocated for programmes would be constantly assessed. Various alternative options should be considered during the process of the budget consideration in order to achieve a desired aim.

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