



REPUBLIC OF POLAND

TECHNICAL ASSISTANCE REPORT—NEXT STEPS IN DEVELOPING A STANDARD CHART OF ACCOUNTS AND MULTI-YEAR BUDGET

September 2019

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Republic of Poland

Next Steps in Developing a Standard Chart of Accounts and Multi-year Budget

Sagé De Clerck, Nino Tchelishvili, Sonia Sanabria, and Vijay Ramachandran

Technical Report | May 2019



I N T E R N A T I O N A L M O N E T A R Y F U N D

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ACRONYMS

BSR	Budget System Reform
CD	Capacity Development
CoA	Chart of Accounts
CoM	Council of Ministers
EC	European Commission
EFB	European Funds Budget
EPSAS	European Public Sector Accounting Standards
ESA	European System of National and Regional Accounts
EU	European Union
FAD	Fiscal Affairs Department of the International Monetary Fund
GFS	Government Finance Statistics
GFSM	Government Finance Statistics Manual
IMF	International Monetary Fund
IPSAS	International Public Sector Accounting Standards
IT	Information Technology
LG	Local Government
MoF	Ministry of Finance
MTB	Medium-Term Budget
MTBF	Medium-Term Budget Framework
MTO	Medium-Term Objective
MYFF	Multi-Year Financial Forecast
MYSFP	Multi-Year State Financial Plan
PFM	Public Financial Management
PFS	Public Finance Sector
RAC	Regional Accounting Chambers
SCoA	Standard Chart of Accounts
SER	Stabilizing Expenditure Rule
SRSS	Structural Reform Support Service
WB	World Bank
WG	Working Group

PREFACE

In response to a request from the Ministry of Finance (MoF), a Fiscal Affairs Department (FAD) capacity development (CD) mission took place in Warsaw from April 3–16, 2019.

The mission met with senior officials of the MoF, including: Ms. Barbara Brodowska-Mączka, Director General; the Director of the State Budget Department, Ms. Anna Napiórkowska and her staff; the Director of the Accounting and Auditing Department, Ms. Joanna Dadacz, and her staff; and representatives of Budget Zone Financing Department, Economy Financing Department, Paying Authority Department, Macroeconomic Policy Department, Public Debt Department, Local Governments' Finances Department, Finances and Accounting Department.

In addition, the mission had meetings with representatives of: Ministry of Internal Affairs and Administration, Public Administration Department, Statistics Poland and Local Governments, engaged in the Public Service Monitoring System Project; and Ministry of Infrastructure: Budget Department and Public Roads Department.

Mr. Riccardo Ercoli, Policy Analyst of the European Commission's Structural Reform Support Services, observed select meetings of the mission.

The mission would like to express its appreciation for the hospitality and courtesy extended by the authorities. The mission is grateful to Ms. Katarzyna Szarkowska and Mr. Bartosz Staszewski for their excellent support in coordinating the mission meetings with the authorities and the IMF resident representative in Warsaw, and his staff for their support.

EXECUTIVE SUMMARY

This capacity development mission follows on two earlier missions conducted by the Fiscal Affairs Department (FAD) of the International Monetary Fund. These missions covered the development of a Standard Chart of Accounts (SCoA) and the Medium-Term Budget Framework (MTBF) that are part of the wider Public Financial Management reforms the Polish government is implementing. These reforms will improve consistency in reporting and provide a stronger basis for understanding the financial position of the general government. It will also help attain the medium-term objective of reducing the structural deficit to 1 percent of GDP by 2021.

The mission commends the Polish Ministry of Finance (MoF), for the high level of commitment to the reforms. This commitment was evidenced in various actions and activities of government, including public pronouncements by the Minister of Finance. Also, the progress made with the implementation of the recommendations of the earlier missions was noted. Most notable was the establishment of the Budget System Reform (BSR)¹ Project Governance Structures, the progress that various working groups have made with research on their respective topics, and the changes to the Budget Regulation of January 2019 to accommodate medium-term planning. This is supported by the high level of knowledge and expertise displayed by staff working on these reforms.

The MoF has started many preparatory activities for developing the SCoA. Following the advice of previous FAD missions, initial steps to assess user needs and design the SCoA structure were taken. The budgetary classification and SCoA working groups draw on staff members from main stakeholders within the MoF. Preparatory activities included (i) the gap analysis between the Polish and GFSM/ ESA based classification; and (ii) identification of sources of detailed information on the coverage of public entities. In consultation with this mission, the work plan for the development phase of SCoA was firmed up on. It is envisaged that the development will be finalized by June 2020.

Extensive discussions and presentations during this mission afforded the mission the opportunity to convey information on the conceptual framework for the SCoA in more detail. Counterparts raised issues for clarification during initial meetings with the mission. Through a mini workshop, the mission tried to ensure that all counterparts fully understand the parameters of a multi-dimensional SCoA and the implication of decisions related to it. An example of the detailed structure of a model multi-dimensional SCoA was discussed. The mission also presented the methods to harmonize budgetary, accounting, and statistical classifications. A practical demonstration of how these classifications could be approached seemed to be particularly useful to the State Budget Department.

¹ The ambitious BSR program was first approved by the Council of Ministers in 2016.

The main recommendations of this mission on the SCoA present various options available to address issues discussed. The mission recommended increasing the effectiveness of the accounting users survey by ensuring that the SCoA survey respondents are made fully aware of the purpose of the survey and the implications of their responses. It provided recommendations on improving and standardizing the coverage of the Administrative (organization) segment of the SCoA across various reports consistent with regional and international standards by providing for a three-level hierarchical administrative structure mapped to the respective organizational categories. Recommendations also include the standardization of the Economic and Functional segments of the SCoA by using uniform coding patterns across budget, accounting and statistical reports. Using the classification methodology presented in the Government Finance Statistics (GFS) and the European System of Accounts (ESA), expanded for country specific needs, was illustrated by the mission. The mission also proposed to use the reforms to set up a multi-dimensional structure of the SCoA in such a manner that it could facilitate and automate consolidation in line with assigned accountability and responsibilities of reporting entities.

The second aspect of the reform that the mission covered is the Polish authorities' commitment to extend the horizon of policy making into the medium term. This reform is seen as a key instrument to achieving the medium-term objectives set out in the Convergence program. Some progress has been made towards incorporating a medium-term perspective into the budget process by changing the budgetary calendar and introducing a concept of starting amounts of expenditure for two years following the planned budget year. The broader conceptual framework of the MTBF is being discussed by the designated working group and the mission noted that their thinking is broadly in line with the recommendations of the past FAD TA missions. In addition, the mission offered some suggestions for improvement of both the substantive and process related elements of the MTBF.

The mission reviewed the existing methodology and practices of medium-term forecasting. The main medium-term planning vehicles currently are Multi-Year State Financial Plan (MYSFP), comprising the Convergence Program (at general government level), and the Multi-Year Financial Forecasts (MYFF) of Local Governments. A multi-year and annual Budget Act, until this year, were prepared on different levels of aggregation with high fragmentation, and therefore, were largely two independent exercises. The mission acknowledged reorientation of the vision towards full integration of the medium-term forecasting in the annual budget process.

The main challenge in preparing spending forecasts for outer years as well as preparing annual budget bids is to adjust to the top-down hard ceilings. Top-down budget constraints stem from the country's fiscal consolidation efforts and its medium-term objective, namely to reduce general government structural deficit to 1 percent of GDP. The mission analyzed the process and elements for identifying overall expenditure limit and fiscal space based on national stabilizing expenditure rule. It is the opinion of the mission that the two issues contributing to this constraint are (i) budget processes that are fragmented across various entities; and

(ii) excessive earmarking of funds and standing expenditure commitments that reduces discretionary spending. The mission recommended to address the fragmentation by defining the scope of MTBF so that it consistently covers all entities within the General Government that have fiscal impact. Earmarking and standing expenditure commitment is a broader issue and should be further explored within the fiscal rules' context.

To support the work of the MoF, in the first phase of the BSR Project, a FAD project agreement² will place a resident advisor in Warsaw in the middle of May 2019. This FAD project is supported by the European Commission's Structural Reform Support Services (EC SRSS). The mission worked with the BSR project team to develop a *Terms of Reference* and a sequenced workplan for the resident advisor. The plan envisages the completion of the FAD project by June 30, 2020.

Lastly, it should be noted that the mission recommends early involvement of all stakeholders across government in the reforms and the development of a change management strategy. The strategy should promote timely buy-in from the stakeholders at the various stages, implement collaborative arrangements, and develop capacity building tools.

² The "Developing a Standard Chart of Accounts" project agreement, supported by the EC SRSS, is subsumed in two components of the Polish government's BSR Project, Stage 1 (BSR 1), namely, (i) Budget classification, chart of accounts, and performance budgeting, and (2) Multi-annual perspective in budget management.

KEY RECOMMENDATIONS*

Developing the SCoA	
1.1	<ul style="list-style-type: none"> • Increase the effectiveness of the accounting User Survey Questionnaire by: <ul style="list-style-type: none"> • considering incorporating the proposed amendments of the mission in a final version of the questionnaire; • ensuring that the SCoA survey respondents are made fully aware of the purpose of the survey and the implications of their responses on the reforms; and
1.2	<ul style="list-style-type: none"> • Standardize the coverage of the Administrative (organization) segment across various reports and ensure consistency with regional and international standards for identifying the various sectors of the general government and public sectors. In standardization consider carefully: <ul style="list-style-type: none"> • the boundaries of individual reporting entities in accordance with accountability and responsibility; • the need to consolidate in line with regional and international fiscal reporting requirements.
1.3	<ul style="list-style-type: none"> • Standardize the Economic and Functional segment of the SCoA and codify using the classification methodology presented in the GFS/ESA expanded for country specific needs. Such standardization should: <ul style="list-style-type: none"> • bring together the fragmented budget and accounting classifications of the economic category of expenditures; • initially focus on the main segments of the SCoA in order to be able to finalize the SCoA expeditiously.
1.4	<ul style="list-style-type: none"> • Issue the final version of the SCoA in the form of an accounting manual/guidelines for reference and capacity building.
1.5	<ul style="list-style-type: none"> • Include in the accounting rules and guidelines for implementing the new SCoA provisions for consolidation of reporting entities using appropriate counterpart identifiers.
Developing the Medium-Term Budget	
2.1	<ul style="list-style-type: none"> • Strengthen engagement with line ministries and entities at the stage of conceptual thinking on MTBF. This will involve: <ul style="list-style-type: none"> • More guidance from the MoF to line ministries and other entities in calculating their bottom-up estimates; • Engage experts from the line ministries earlier and build shared understanding of the overall design of the MTBF.
2.2	<ul style="list-style-type: none"> • Define the scope of the MTBF to cover all the entities, funds and accounts that have budgetary impact. This will involve: <ul style="list-style-type: none"> • Develop consistent entity classifications for MTB, budget, accounting and fiscal reports; • the entities and extra-budgetary funds that will be covered only for information purposes at the initial stage, should become forecasts for decision making once the reform matures.
BSR Project Management	
3.1	<ul style="list-style-type: none"> • Develop a change management strategy for the SCoA and MTBF reforms to inform and promote buy-in from all the stakeholders at each phase of the BSR project. This objective can be attained by: <ul style="list-style-type: none"> • conducting road shows and video conferencing on the proposed reforms; • setting up a collaborative IT working environment for facilitating project management; and • develop and issue the final version of the SCoA with an accounting manual and other training/promotional material for reference and capacity building.

* The anticipated dates for these deliverables are being finalized in consultation with the working groups. The dates are being synchronized with the work plan of the resident advisor.

I. INTRODUCTION

1. The Polish government is implementing its ambitious Budget System Reform (BSR) program, first approved by the Council of Ministers in 2016. Building on considerable conceptual thinking within the government, it has sought out the support of international organizations to help deliver on these reforms. The reform of the Chart of Accounts (CoA) and budget classifications will improve consistency and provide a much stronger basis for understanding of the financial position of the general government. At the same time, some work was initiated on the introduction of a medium-term budget, that will help adhere to the medium-term objective—a structural deficit of one percent of GDP.

2. Various versions of the CoAs are in use and the budget classification system is complex, somewhat inconsistent, and creates difficulties in meeting international reporting obligations. The November 2017 Fiscal Affairs Department (FAD)³ mission, which drew on previous World Bank reports,⁴ reiterated weaknesses in the CoA. The mission made recommendations on moving to a Standard Chart of Accounts (SCoA) and suggested the need for a fine balance to be struck between standardizing the CoA at higher levels and allowing flexibility for individual users at lower levels.

3. While the Ministry of Finance (MoF) has taken the first steps in moving toward a SCoA and medium-term budget (MTB), much remains to be done. This mission followed up on progress made and developed the work program of the resident advisor that will support the authorities in their reform efforts. The remainder of this report first describes the findings and recommendation on developing the SCoA, before elaborating on advice provided on developing the MTBF. Lastly, the report also describes features of the project management and workplan of the resident advisor.

II. DEVELOPING THE STANDARD CHART OF ACCOUNTS

A. Background

4. The restructuring of the government's CoA is one of the cornerstones of Polish public financial reforms. The Polish government has embarked on a broad and ambitious program of reforming the budgetary system. These reforms were approved by the Council of Ministers (CoM) in July 2016. Their six-point reform plan ("Assumptions to Budget System

³ IMF, FAD Technical Report, Building Forward Estimates and Standardizing the Chart of Accounts, Harris, December 2017.

⁴ World Bank, "Integration of the Charts of Accounts and Budget Classification," May 2017 – for ease of reference referred to as the World Bank Report.

Reform”) includes the unification of the traditional budget classification and the performance-based classifications components. Standardizing and unifying the different types of CoAs that are currently in use, and integrating those with budgetary classifications, is essential to support and sustain reforms related to improving accounting and financial reporting, and the implementation of a MTBF. The CoA restructuring will require improvements in organizational arrangements, accounting, and financial reporting standards, principles and policies, as well as information technology (IT) used in accounting and reporting systems.

5. The capacity development work during this mission builds on former support provided by the FAD and the World Bank. A headquarters mission in October 2017 (Harris) advised on public financial management reforms and this mission continued to determine the baseline for these reforms that will be addressed in a specific IMF project with Poland.⁵ The World Bank has supported the CoA reform, as part of their broader Enhancement of Public Sector Accounting and Financial Reporting Program,⁶ which has ended in 2016. The World Bank provided guidance on the broad conceptual design architecture of the reform and on the integration of a SCoA and budget classifications which was further elaborated on during the October 2017 FAD mission. This mission has further fleshed out the practical issues and implications to be addressed during the development of a SCoA.

6. Earlier CD missions have identified a number of major issues with the existing budget classification and CoAs. These issues can broadly be summarized as organizational issues, lack of integration between the budget classifications and the various CoAs, classification issues, and lack of standardization. This mission has developed a tentative SCoA structure which could address the major weaknesses identified by previous CD missions. The tentative proposal included in this report was briefly discussed with the authorities at a workshop conducted during the mission. The proposal will be reviewed and discussed in detail with the users of the SCoA over the next five months.

7. Based on earlier recommendations of the IMF the authorities have initiated some activities related to reforming the CoA. Among other things, they have established governance structures for reforms, adopted a staged approach and prepared more detailed project plans, covering the first stages of the CoA reform. Reform activities have been divided between the BSR I project, (covering such issues as budgetary classification and MTBF) and Public Accounting Reform Phase I project (PAR I project, covering such issues as financial reporting and revision of the economic segment of SCoA). The remainder of this section describes the progress towards developing a SCoA, and next steps and issues to be considered in developing the SCoA, before discussing issues related to developing the consolidated financial statements. Section IV of the report elaborates on the governance structures created for the BSR.

⁵ The 18-month FAD project put resident advisor on the development of the SCoA and MTBF in Poland—the project is supported by the European Commission’s Structural Reform Support Services (SRSS).

⁶ Financed under the Swiss Contribution Program.

B. Progress Towards Developing a Standard Chart of Accounts

Survey of Accounting Practices of CoA users

8. Relevant Working Groups (WGs) have started the process of reviewing the current classifications, CoAs, and their coding structures, as well as how these are carried in underlying accounting systems of various entities.⁷ These accounting functions are decentralized with entities being held responsible for developing their own accounting and IT systems. From an accounting perspective, a *User Survey Questionnaire* has been designed as the first step in determining current accounting systems and practices in various government entities.⁸ The questionnaire seeks to elicit detailed information from the entities on their: (i) IT environment; (ii) functionality and coverage of their accounting systems; (iii) structure, portability and potential to expand/change their current CoA coding systems; and (iv) nature and characteristics of their statutory and managerial reports. At the request of the authorities, the mission reviewed the draft questionnaire. The mission has proposed revisions to the questionnaire to facilitate the evaluation of the responses received from the survey respondents. The content of the questionnaire has also been enhanced to improve comprehensiveness and clarity of questions and eliminate the risk of ambiguous responses (see Annex I).

9. It should be ensured that the survey respondents are aware of the purpose of the survey and the implications of their responses. Adequate background information on the objective of the survey should be included in the covering letter addressed to the entities being surveyed. The information should include (i) a brief description of the challenges being faced with the current non standardized classifications; (ii) classification requirements related to on-going PFM reforms; (iii) the need to capture financial data of all the different types of public entities; and (iv) the need to link the detailed entity level classifications by integrating or interfacing them with the envisaged SCoA through the individual IT accounting systems and centralized reporting systems. The survey format will be made available to the respondents through a centralized web-based application. The mission strongly endorsed this method of conducting the survey.

⁷ These comprise four different CoAs applicable to various types of government entities as well as detailed budget classification systems that are currently in use for respectively the state budget and local government budgets. In addition, some legal entities are required to use private sector accounting without regard to a specific CoA.

⁸ The questionnaire has been sent to the first level budget holders (Ministries) with instructions to disseminate to the 2nd and 3rd level budget holders (entities under the control of the Ministries). It is posted on the MoF website so that respondents can fill the questionnaire on-line. The deadline for completion by respondents is June 30. All public entities are expected respondents.

Identification of Institutional Units

10. In the current classification system (either budgetary classification or CoAs) there is no clearly defined administrative segment corresponding to accountability for implementation of fiscal policy. For instance, in accordance with the *Public Finance Act, 2009*, the budget is divided into separate budgetary parts,⁹ corresponding to high-level organization units, sections of government administered by different ministers, types of spending or groups of public tasks, as well as territories. Most accountability responsibilities are assigned to the holders of these budget parts. However, several budget parts could be organized administratively under one ministry, while at the same time substantial spending may be channeled through budgetary parts administered by holders other than relevant ministries. Therefore, responsibilities for government administration (such as policy formulation) and budgetary accountability responsibilities are not fully aligned.

11. The MoF has initiated an internal exercise to identify and classify institutional units that should be covered by the BSR. The coverage of the Public Finance Sector (PFS) is defined in the Article 9 of the *Public Finance Act, 2009*. Currently, the scope of the PFS does not include all the entities covered by the Stabilizing Expenditure Rule (SER); and does not include the scope of entities required to be included in the general government by the EU deficit and debt pact. While there are some overlaps between entities covered by the PFS and the SER, there are some entities which are not covered by either. Therefore, the authorities could usefully be considering a reform of the coverage of all documents during the fiscal cycle to be consistent.

12. The authorities are in the process of developing consistent principles for the scope of the PFS. A relevant WG has already developed a document that describes the scope of the PFS and the various legal concepts for the classification of the entities. The relationship between various entities to facilitate a decision on the boundaries of individual institutional units/reporting entities and consolidated entities is also being investigated. The plan is to develop consistent guidelines on consolidation principles to follow in the budgetary and accounting systems—that should also be aligned with and serve the statistical reporting needs for Government Finance Statistics (GFS) and European System of National and Regional Accounts (ESA) better.

C. Next Steps in Developing a SCoA

13. At the invitation of the Leader of the BSR Project, the mission conducted a workshop to discuss main elements of SCoA reforms to ensure that MoF stakeholders have a common understanding of the reforms. During the workshop the mission presented:

⁹ The number of parts is determined by the regulation of the MoF and may vary, for example, according to the current number of sections of governmental administration.

- the main conceptual principles of a SCoA;
- a preliminary proposal for the SCoA structure;
- the relationship between the proposed SCoA and the existing classification structures.

The proposals draw upon recommendations made by previous World Bank and IMF missions.¹⁰ A broad outline of the proposed structure is shown in the Table 1.

14. The mission proposed a multi-dimensional structure for the SCoA comprising seven independent segments. Every transaction is recorded using all seven segments of the SCoA. Each segment captures a single characteristic of the transaction. While formally there is no hierarchical relationship between the seven segments, there could potentially be a hierarchical relationship between the sub-segments within a segment. Also, as is the case in some countries, the administrative segment could potentially be linked with the program and project segments. Similarly, the functional segment could be linked to the program segment. The multi-dimensional nature of the coding structure facilitates the recording, aggregation, consolidation and reporting of government budgetary operations by a single segment or by a combination of segments. It also facilitates the ability to drill down and report by sub-segments and by items within a sub-segment. By creating these detailed building blocks in the SCoA, the level of decision for budgetary purposes could be taken at a chosen level of detail/aggregation, financial statement presentations could be decided at another level of detail/aggregation, and fiscal/statistical reporting could be presented at another level of detail/aggregation while at the same time maintaining consistency in the basic data.

15. The tentative proposal for the SCoA will be reviewed and discussed in detail over the next few months during which the user needs for the SCoA will be developed in detail. The remainder of this section clarifies selected issues raised by the authorities during mission meetings and in the workshop.

¹⁰ World Bank, Poland: Selected Budget Reform Issues, 23 December 2016; IMF, Poland: Developing a Medium-Term Budget Framework, March 2017; and, Poland: Building Forward Estimates and Standardizing the Chart of Accounts, December 2017.

Table 1. Poland: Proposed Structure of the SCoA

	SEGMENT	SUB-SEGMENTS	DIGITS	TOTAL DIGITS
1	Administrative (also referred to as Subject in Poland)	Level 1 -Ministry	3	10
		Level 2 – Department	2	
		Level 3 –Entity	5	
		Type of entity	2	4
		Sub-type	2	
2	Fund Source	Type (Loan/Grant/ Co-financing)	1	3
		Funding body	2	
3	Functional	Function	2	4
		Sub-function	2	
4	Program	Program	3	5
		Sub-program	2	
5	Project/Activity	Activity (Recurrent)	4	8
		Project (Capital)		
		Sub-activity (Recurrent)	2	
		Component (Capital)	2	
		Sub-sub-activity (Recurrent)		
Sub-component (Capital)				
6	Economic Classification (Also referred to as Object in Poland)	Category	1	6
		Object	1	
		Sub-object	2	
		Sub-sub-object	2	
7	Geographical ^{1/}	Voivodeships	2	9
		Powiats	3	
		Gminas	4	
	Total			49

Source: Mission staff

1/ Geographical classifications presented here use the local geographical areas as an example, but these geographical regions may also differ from local government territories, depending on the needs of the authorities.

Restructuring the Administrative Segment

16. The future SCoA should include a well-defined Administrative segment, with broad coverage facilitating reporting on the financial operations of the entire general government and eventually, the public sector. In the GFS/ESA, the public sector is defined so as to capture the impact on fiscal policy of the activities of all units of the general government plus all public corporations. In the proposed SCoA (see Table 1) the Administrative segment is broken down into three levels to identify the administrative hierarchy. In addition, the coding structure provides for identifying the type of the entity. The classification of entity, types, and sub-types facilitates the grouping of the public finance sector entities in accordance with the Polish Public Finance Act. Embedding the administrative hierarchy in the Administrative segment and identifying entity types linked to a specific administrative hierarchy will facilitate the

alignment of government administration responsibilities and budgetary accountability responsibilities.

Aligning and Integrating the Economic Classification

17. The Economic Classification is currently fragmented. The classification systems used in the budgetary sector (central and local) include four CoAs (dedicated to particular budgets or types of entities) and a budget classification. These classification systems are integrated at the entity level only, they are not integrated at the level of the budget (central or local).¹¹ Also, in the central government sector, various government extrabudgetary entities use their own CoAs based on various accounting standards and policies. In the CoAs prescribed in the MoF Regulation of September 2017, accounts are grouped by main economic categories. The coverage of these prescribed groups by different levels of government for accounting and financial reporting is shown in Table 2 below:

Table 2. Poland: Coverage of the Current CoAs

Groups of accounts	Description	State Budget	Local Government Budgets	SB and LG Units and Establishments	SB units based outside of the Republic of Poland
0	Assets			X	X
1	Cash and bank accounts	X	X	X	X
2	Settlements	X	X	X	X
3	Materials and goods			X	
4	Costs by types and settlement			X	X
5	Costs by types of operations and settlement			X	
6	Products			X	X
7	Revenue, income and cost			X	X
8	Funds, provisions and financial results			X	X
9	Budget execution	X	X		
10	Off-balances sheet		X	X	

Source: MoF and mission staff (SB=State Budget, LG=Local Government).

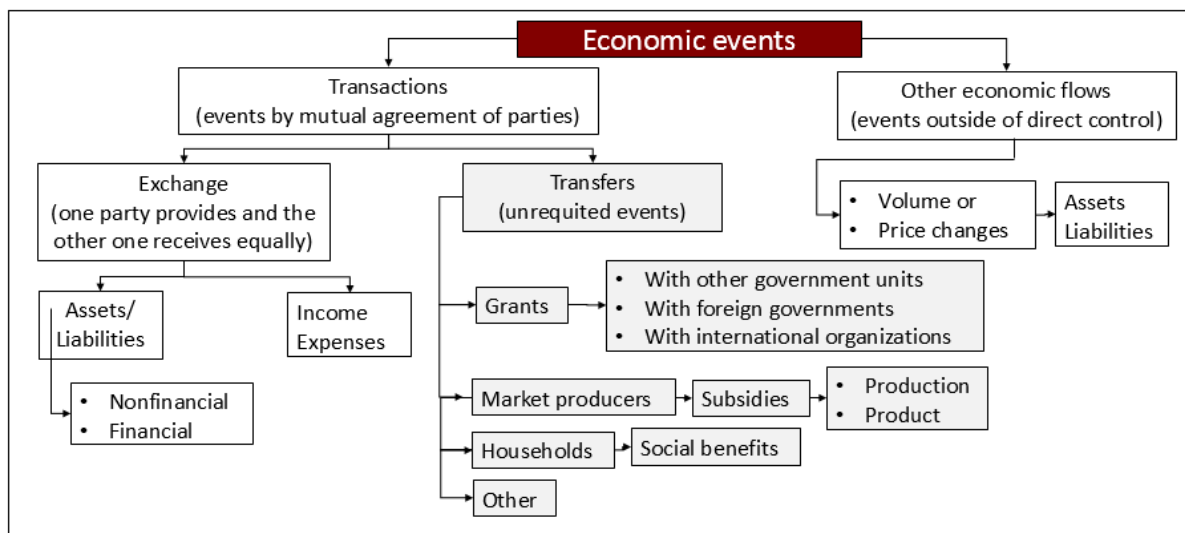
18. Due to EU reporting requirements, it is strongly advisable to standardize the structure and codification of the economic and functional segments of the SCoA using the classification methodology presented in the GFSM 2014/ESA 2010. This is because these statistical classifications are comprehensive and have a well-defined hierarchical structure. It provides internationally recognized and accepted definitions of the economic classification and

¹¹ Currently the economic classification of transaction used for budgetary purposes is in accordance with the MoF Regulation of March 2010 while the economic classification used for accounting purposes is prescribed in the MoF Regulation of September 2017.

functions of government transactions thereby facilitating standardization across all levels of government and across all public entities. It also allows comparability of reported data across units in region and internationally. It provides the flexibility of interfacing further detailed classifiers, as required for management purposes in public entities, with the main classifications used in the SCoA. The mission conducted a dedicated session to explain how the GFS methodology for the classification of the economic segments can be used to develop a SCoA that harmonize budget, accounting and fiscal reporting classifications and presentation (see Figure 1 for an explanation of the logic of those classifications and examples on how it can be used).

19. The rationalization and integration of budget/accounting classifications with the economic classification will facilitate statistical reporting. If the newly structured economic segment is coded in accordance with the GFSM/ ESA coding pattern, it will enable a detailed analysis of economic events as shown in Figure 1.

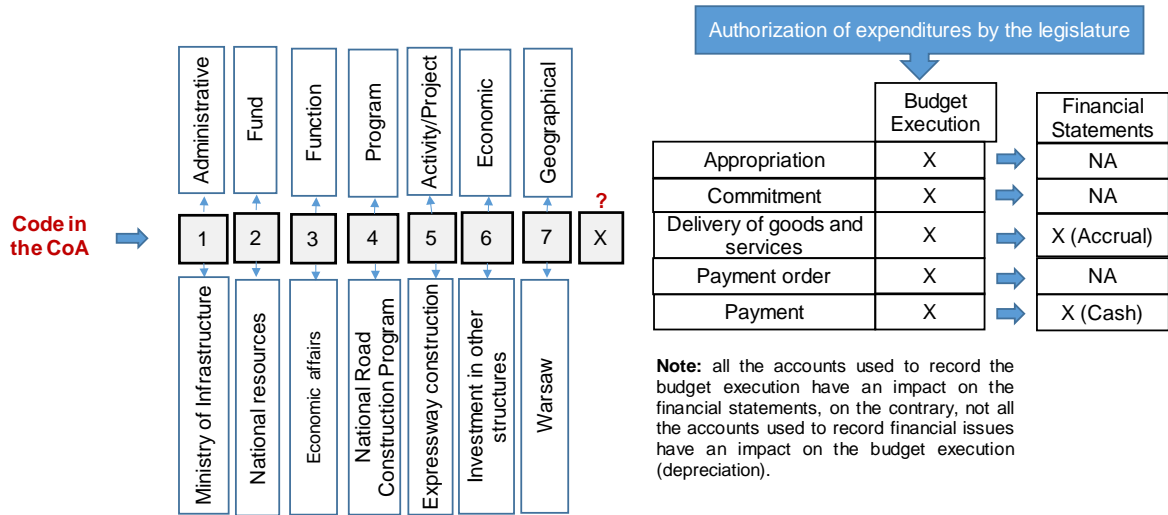
Figure 1. Logic of GFS/ESA Classifications



Source: Mission staff.

20. The proposed restructuring of the economic segment of the SCoA will bring together the fragmented budget and accounting classifications. The classification used for accounting purposes is a sub-set of the budgetary classification which is quite detailed. The restructuring of the economic classification should integrate the two sets of classifications and harmonize the integrated classification with the economic classification available in the GFS/ESA. This will facilitate the use of the integrated economic segment for budgetary, financial and managerial reporting. As indicated in Figure 2, the new SCoA could harmonize the budget classification with the accounting classification and differences should be limited and documented. The chart shows an example of the classification of a transaction into the seven segments proposed in Table 1 and the possible aggregations of the transaction data to arrive at different elements of budgetary and financial reports.

Figure 2. SCoA Integration with Budget and Financial Reporting



Source: MoF and mission staff
 Note: NA means Not Applicable

Sequencing the SCoA Reform

21. In order to be able to finalize the SCoA expeditiously, it is advisable to first focus on the essential segments of the SCoA. These are the administrative, economic, functional, and fund classifications. Placeholders could be set in the SCoA structure for the Program, Project/Activity and Geographic segments of the SCoA. The coding of the Program and Project/Activity segments will have to be discussed individually with each of the line ministries to ensure that it is harmonized with their performance budgeting requirements.

22. The development of the Geographic segment of the SCoA may pose some challenges that should be approached cautiously. The Geographic segment need to ensure that the quality of the geographic data is robust enough to be able to accurately identify the subsidies/transfers from government budgets to beneficiaries in different regions and constituencies. Given that the budget is not detailed geographically, including the Geographical classification in the SCoA at transaction level may pose many challenges. However similarly, ex ante allocation of the budget expenditure by regions could give a distorted picture of the execution of government regional initiatives. Careful consideration should therefore be exercised in the decision whether to incorporate the Geographic segment in the early phase of the project.

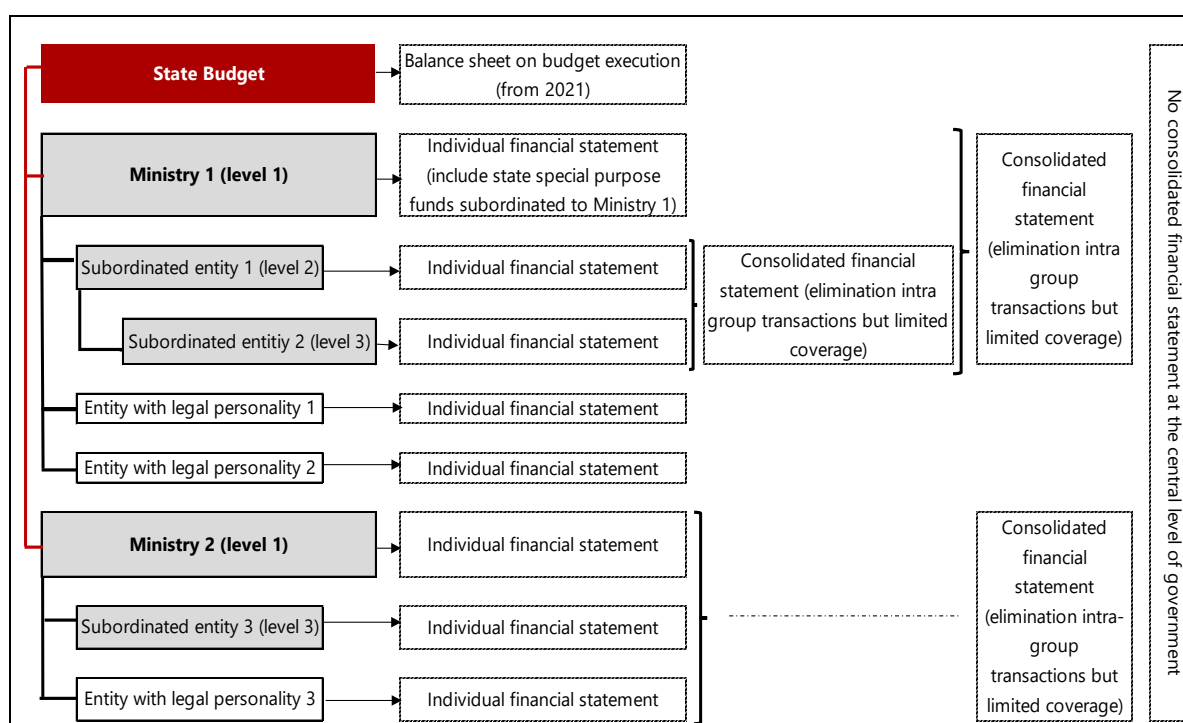
D. Developing Consolidated Financial Statements

Background

23. The general government sector in Poland comprise the central government subsector, local governments, and social security funds. These subsectors include entities covered by the state and local government budgets, and numerous extrabudgetary units that were created as independent “legal entities.” The state budget and local governments’ budgets also have internal vertical structures that include several layers of subordinated budgetary units. In these structures, the high-level entities oversee collecting, aggregating, consolidating and reporting their financial positions, in line with the granularity of the CoAs and budget classifications that are currently prescribed.

24. Entities of the general government in Poland use their own accounting systems supported by various IT systems. The IT system used by the MoF is called the Trezor system. This system is used as a tool for collecting and reporting budget planning, budget execution, and financial statements of the budgetary units, besides recording the state budget execution as a separate entity. For collecting aggregate data concerning local governments, MoF established a system called [BeSTi@](#).

Figure 3a. Reporting by State Entities

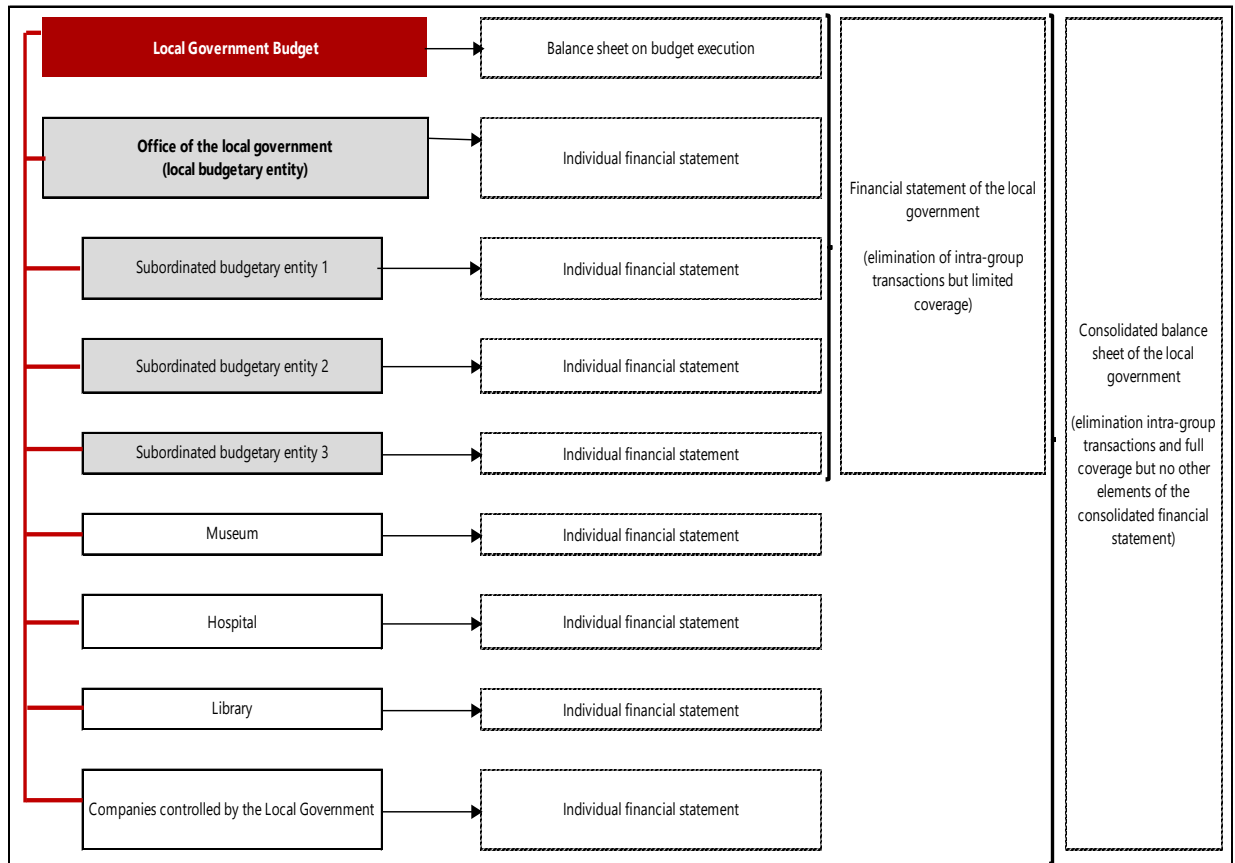


Notes:

- Budgetary entities supporting budgetary part holders that in addition, apply the Act on Accounting and MoF Regulation on accounting and charts of accounts for budgets and budgetary entities.
- The legal personalities apply only the act on accounting

Source: MoF

Figure 3b. Reporting by Local Governments



Source: MoF.

Notes

- Entities applying the Act on Accounting and MoF Regulation on accounting and charts of accounts for budgets and budgetary entities.
- Entities applying the Act on Accounting
- The system used is called "The beast"

25. At the State level there is no consolidation requirement. Nevertheless, the entities that support budgetary parts holders (at first and second level) are required to issue consolidated financial statement covering their own financial statements and the financial statements of their subordinated entities (with the full elimination of all transactions between those entities). This consolidation has a limited coverage, as it covers just the subordinated budgetary entities and not the subordinated entities with legal personality. There is also no consolidation at the level of the State budget, although it is envisaged that the requirement to issue the balance sheet on budget execution will be introduced as from 2021.

26. At the level of the local governments the consolidation requirements are more advanced. It is required that all local governments issue a financial statement including a balance sheet of the local budget execution and financial statements of all local budgetary entities. They are also required to issue consolidated balance sheet that additionally includes

other entities subordinated to the local government (including legal persons e.g., companies, museums, hospitals or libraries).

27. The development of a SCoA provides opportunities for automating some of the consolidation processes, or at least ensuring that the data are available to allow consolidation. The consolidation process broadly involves two stages—elimination of intra-entity transactions of the controlled entities and aggregation of the financial statements of controlled entities by the reporting entity after elimination of the intra-entity transactions. The elimination process also involves two steps: (i) identification of the counterparties of the intra-entity transactions; and (ii) the application of predefined accounting rules for elimination of different categories of transactions.

28. Identifying counterparties for purposes of elimination of intra-government transactions can pose some challenges in the highly decentralized government system in Poland. Since counterparties for purposes of elimination are organizational entities of the general government sector they already have a unique code. This code could be used as the counterparty identifier. Another option would be to investigate whether the standard codes allotted to public entities in the National Official Business Register, maintained by the Statistics Poland, could potentially be used as the counterparty code. The third option could be to investigate to what extent the tax identification code of the public entity could be used as the counterparty code. Using either the business register code or the tax identification code depends on whether the construction of these codes allows differentiation between various types of public entities and other private sector entities.

29. Applying accounting rules for the elimination of transactions. The accounting entries for transaction elimination will depend on the economic nature of the transaction. Elimination of intra-government transactions related to cash flows may involve processes different from those required to eliminate assets acquired by one government entity from another. These rules can be standardized using the economic category of the transaction and included in the process flows of the application software used by the controlled entity and the individual reporting entities. The consolidation rules should be prescribed by the MoF and the concurrence of reporting entities should be obtained whenever the process flows are modified in the controlled entities.

E. Recommendations

- Increase the effectiveness of the accounting User Survey Questionnaire by:
 - considering incorporating the proposed amendments of the mission in a final version of the questionnaire;
 - ensuring that the SCoA survey respondents are made fully aware of the purpose of the survey and the implications of their responses on the reforms; and

- Standardize the coverage of the Administrative (organization) segment across various reports and ensure consistency with regional and international standards for identifying the various sectors of the general government and public sectors. In standardization consider carefully:
 - the boundaries of individual reporting entities in accordance with accountability and responsibility; and
 - the need to consolidate in line with regional and international fiscal reporting requirements.
- Standardize the Economic and Functional segment of the SCoA and codify using the classification methodology presented in the GFS/ESA expanded for country specific needs. Such standardization should:
 - bring together the fragmented budget and accounting classifications of the economic category of expenditures; and
 - initially focus on the codification of main segments of the SCoA in order to be able to finalize the SCoA expeditiously.
- Issue the final version of the SCoA in the form of an accounting manual/guidelines for reference and capacity building.
- Include in the accounting rules and guidelines for implementing the new SCoA provisions for consolidation of reporting entities using appropriate counterpart identifiers.

III. DEVELOPING THE MEDIUM-TERM BUDGET

A. Background

30. The Polish authorities have committed to extend the horizon of policy making into the medium term as a key instrument for achieving its medium-term objectives set out in the Convergence program. The MoF first pronounced plans on moving towards a MTBF in 2016.¹² The strong commitment towards this reform was reinforced by the Minister of Finance in early 2019. The Minister spoke about the multi-annual budget framework—from the concept to implementation and importance of it for more efficient PFM (see Box 1). Developing the MTBF, as one of the key priority areas of the Government’s PFM reforms is also covered by the BSR project. A working group established within the project structure is dedicated to developing the multi-year perspective on budgeting.

31. Two FAD capacity development missions conducted in 2017 contributed towards developing the MTBF in Poland. The initial report assessed the credibility of the macroeconomic forecasts and the budget, as well as the robustness of the underlying fiscal rules

¹² See paragraph 4 and footnote 3 of this report.

as prerequisites for introducing the MTBF. The report also presented the set of choices to be made to design a well-disciplined, legitimate and credible MTBF and provided recommendations. The first step in this process, namely preparing the first round of forward estimates, was undertaken for selected ministries in the form of a technical exercise, following the FAD TA mission in March 2017. The follow-up mission in November 2017 reviewed the efforts and progress made in preparing forward estimates and offered guidance for further improvements.

Box 1. Government Objectives and Expected Benefits from the MTBF—Quotes from the Minister of Finance

The Minister of Finance reiterated the commitment and benefits of implementing a MTBF in the opening speech at a conference in March 2019. She said:

- MTBF gives the government the opportunity to assess the impact of implemented and planned public policies on the budget situation in the following years;
- MTBF also allows better control over public spending;
- MTBF offers prospects for achieving the three main objectives of managing public spending;
- MTBF provides better control over changes in fiscal policy, i.e., over the level of indebtedness and the deficit of the sector, in the context of achieving long-term sustainability and sustainability of public finances;
- MTBF contributes to a more effective distribution of funds, enables the allocation of expenditure to particular sectors of the economy and programs in these sectors that are consistent with current economic policy projects;
- MTBF also encourages rational use of resources by budget funds' holders.

Source: Conference "Multi-Annual Planning, Efficiency of Public Spending, Benchmarking," University of Warsaw, March 2019.

32. MoF has sought the support of this mission to help further developing the conceptual thinking on the MTBF. The mission has reviewed the progress, including the changes in budget circular for accommodating the medium-term horizon, designing a conceptual framework for presenting spending estimates by spending areas, defining the objectives, risks and challenges in preparing forward estimates, and determining baselines. The authorities specifically requested advice on concerns regarding the accommodation of baselines within the constraints stemming from the stabilizing expenditure rule (SER) currently in use. These constraints present several challenges with medium-term budgeting.

B. Progress Towards a MTBF

33. Since the November 2017 mission, the MoF has made some progress towards developing the conceptual framework of the MTBF in Poland. Building on initial changes introduced in June 2017, MoF Regulation of January 28, 2019 incorporated the medium-term (three years) perspective in the budget submission forms. The key elements of the no-policy change scenario were defined, including applying the respective indexation rules to spending

forecasts and deductions of one-off expenditures. Also, from 2020, additional changes to budgetary calendar were envisaged, which will allow to further integrate processes concerning preparation of MYSFP and budget act. The changes made in the January 2019 regulation, aimed at linking multi-annual and annual planning processes and improving the quality of budget forecasts, ultimately leading to implementation of the multi-year budget framework. These changes are broadly in line with the recommendations of the FAD technical mission in November 2017. The key changes in the multi-year planning methodology, as announced in the Budget Regulation are summarized in Box 2.

Box 2. Main Changes to MTBF in Budget Regulation

Building on the concept of *initial amounts of expenditures*, issued by MoF for individual budget parts to limit budget submissions for the forthcoming budget year, the Budget regulation of January 2019 introduced a concept of *starting amounts of expenditures*. These amounts will be issued by MoF for two outer budget years together with initial amounts of expenditures as presented in the budget submissions.

The regulation also defined the elements of *no policy change scenario*:

- The starting amounts of expenditure are determined by estimating spending needs stemming from regulatory base, including the regulatory impact assessment of the foreseen regulations, that are expected to be enforced in the budget year;
- Indexation (linking costs drivers to macroeconomic variables) of specific expenditures categories in accordance with applicable regulations.
- Removing expenditures for which no continuation is anticipated, including one-off expenditures.

Source: MoF.

34. The MoF has made some efforts to design a broad conceptual framework for the medium-term Budget (MTB). While this is still work-in-progress, the MTBF working group has shared some of the criteria that they have developed. Preliminary decisions that have been made, include the following:

- The MTB will cover three-year period, i.e., the forthcoming budget year and the two outer years;
- Spending ceilings for the outer years will be informative for the first years of implementation of the MTB, but may shift to hard ceilings at later stages;
- The coverage of MTB will be, to the extent possible, aligned with the coverage of the Budget Act and SER, with certain entities/funds covered for information only;
- MTB will be presented as an annex to the Budget Act;

- MTB will be prepared within the annual budget process and subject to consultations with the Social Dialogue Council¹³ together with draft Budget Act; and
- Introduction of MTB should be accompanied by provisions supporting prioritization of expenditures according to strategic objectives and public policy directions.

35. The MoF intends to issue initial amounts (for first year) as well as starting amounts (for outer years) for individual budget parts in the early stage of the MTBF implementation. These amounts will be subject to a final decision of CoM while adopting the draft budget act. Starting amounts are to be the basis for initial amounts in the next planning cycle.

36. The MoF is considering imposing single ceilings to line ministries for state budget expenditures and other source of funding. This single ceiling will include budgetary part, respective special purpose funds, voivodship budget funds, contingency reserves, etc. Vesting the responsibility for forecasting, planning and execution of all budget funds will enable ministries to better prioritize its activities and improve accountability. However, ongoing work on SCoA and streamlining the administrative segment of the budget classifications may bring some other changes to organizing budgetary spending around the responsible reporting entity for budget planning as well as budget execution and reporting purposes.

37. The changes made to the budget regulation and ongoing work on MTB conceptual framework, which is still work in progress, is broadly in line with the recommendations and policy choices spelled out in the previous FAD technical reports. The mission acknowledged that preparations of expenditure forecasts as parts of the budget bids is a technical exercise and welcomes this opportunity for ministries to learn more about medium-term planning. However, before finalizing its vision the MoF could reconsider some of the elements of the proposed conceptual thinking of the MTBF, such as whether budget bids provide clear separation of existing and future policies.

38. As it is a learning exercise, it is advisable that at this stage of development the MoF strengthen their engagement with line ministries and entities. In particular, the line ministries and entities will need more guidance by the MoF in calculating their bottom-up estimates. A detailed guidance to line ministries on how to prepare non-policy change estimates, which indexation rules to apply and what are considered as one-off expenditures is key to ensure they prepare baselines on comparable bases. This close collaboration will also provide the MoF the opportunity to leverage the sector specific visions and technical capacity of these entities and organize a feedback loop which will allow for timely course corrections in their conceptual thinking about the reform. Building a shared understanding and stronger relationships will help improve the overall design of the MTBF.

¹³ The Social Dialogue Council is an institution for a tripartite dialogue which provides the setting for discussions and agreements between the government, trade unions, and employers.

C. Planning and Forecasting with Multi-Annual Perspective

39. There are already several medium-term fiscal or budgetary forecasts being prepared, to meet certain internal and/or European requirements. The mission reviewed current budget planning rules and practices that incorporate multi-annual perspective. The main medium-term planning vehicles currently are the Multi-Year State Financial Plan (MYSFP) and Multi-Year Financial Forecasts (MYFF) of Local Governments. Certain information on outer budget years is also presented in selected annexes to the Budget Act, (for example, concerning the European Funds Budget).

Multi-Year State Financial Plan and Multi-Year Financial Forecasts for the Local Governments

40. The MYSFP is included in the Convergence Program. MYSFP defines amongst others, key objectives of social and economic policy, planned measures and their impact on the levels of revenues and expenditures of general government, including long-term stability of public finances, and preliminary amount of expenditures derived from SER. MYSFP constitutes the basis for preparing the draft Budget Act. However, until recently MYSFP was largely disconnected from the budget preparation process (see Renteria 2017). Line ministries, and other state budgetary holders prepared their spending forecasts for the MYSFP on a more aggregated level than the budget classifications or CoAs in use. While a broad array of macroeconomic assumptions is provided from the MoF to these budgetary holders, there were no underlying policies or central guidance issued on how to prepare these forecasts.

41. The MYFF of Local Governments are presented together with the draft budgets and incorporate the budget year and forecasts of at least three outer years. In general, the Local Governments also use macroeconomic forecasts prepared by the Macroeconomic Policy Department of the MoF. The MoF specifies the required formats for reporting the MYFF, Annual Budget Plan, execution and other reporting. Financial management of Local Governments is overseen by the Regional Accounting Chambers (RACs). RACs are functionally independent public entities supervised (on the basis of legality) by the Ministry of Internal Affairs and Administration. This arrangement may help achieve certain uniformity of LGs budget planning and forecasting procedures and practices, even though LGs are responsible for developing their own methodological guidelines.

42. Ministry of Internal Affairs and Administration, Statistics Poland and Local Governments also plan to introduce a Public Service Monitoring System (PSMS) to help plan and allocate resources more efficiently in the medium term. This tool will allow to calculate costs of municipal services, based on quantity, quality, geographic accessibility, economic accessibility and financial cost/benefit analysis. The system distinguishes between infrastructure costs and service costs, including maintenance costs related to various activities.

Multi-Year Perspective of the European Funds Budget

43. Specific arrangements and rules apply to the medium-term expenditure planning and forecasting of the European Funds Budget (EFB). This budget comprises revenue and refundable expenditure for implementation of programs financed with European funds (excluding technical assistance programs and certain specific types of funds). The EFB is presented separately from the State budget to accommodate the need for a more flexible management arrangements within a multi-year horizon of operational programs. It also allows for the specific monitoring requirements to ensure a neutral impact on the deficit of the General Government sector. While the EFB does not contribute to the deficit, co-financing from the Polish sources is considered in State budget deficit calculation.

44. There are four managing authorities assigned to respective parts of the EFB. They are: the Ministry of Investment and Development, the Ministry of Maritime Authority and Inland Navigation, the Ministry of Agriculture and the Ministry of Family, Labor and Social Policy. At the time of the mission, the underlying strategic directions document is a “Programming of the 2014–20 financial perspective—Partnership Agreement” that was approved for seven years. The managing authorities are preparing operational program documents for each program to be financed through EFB with seven-years span. The programs include objective, targets and indicators as well as financing schedule and serve as the basis for estimating medium-term forecasts. The forecasts are prepared on a program level with a breakdown between capital and current spending. A specific annex to Budget Act provides a breakdown of state budget revenues and state budget expenditures concerning each operational program financed with European funds.

Linkages between the Multi-Year Forecasts and Annual Budget

45. Medium-term forecasting processes were largely independent from the annual budget planning until the recent changes in Budget regulation. The multi-year forecasts and annual budget plans were prepared on different levels of aggregation, and the underlying source data for individual entities have high levels of fragmentation. Therefore, it is difficult to bridge these forecasts to the respective line items in the annual budget and to assess the quality of these forecasts against the budgeted and actual amounts.

46. Countries with the most developed MTBFs, where the MTB is fully integrated with the budget process, have shown larger impact on policy prioritization.¹⁴ Countries that chose less ambitious approaches, such as having these two processes separate or organized on different level, have shown very limited impact. MTBF can help transform the nature of the

¹⁴ Public Financial Management and Its Emerging Architecture By Mr. M. Cangiano, Ms. Teresa R Curristine, Mr. M. Lazare
https://books.google.com/books/about/Public_Financial_Management_and_Its_Emer.html?id=AFX77oLT7X8C&printsec=frontcover&source=kp_read_button#v=onepage&q&f=false

budget decision making process. Key in this regard are the introduction of several strategic decision points in the budget process (ensuring fiscal space and robust prioritization) and the setting of expenditure ceilings early in the process. The mission supports the initial efforts that are orientated towards full integration of the MTBF and Budget planning process. The initial goal is to have a well-developed set of expenditure forward estimates to guide internal budget decision making ultimately leading to binding forecasts.

D. Adjustment to the Baseline to Comply with the top-down Hard-Budget Ceilings

47. The authorities have indicated that the main challenge is accommodating baseline spending forecast for outer years as well as annual budget bids within the top-down hard ceilings. Top-down budget constraints stem from the country's fiscal consolidation efforts and its medium-term objective—to contain general government structural deficit to 1 percent of GDP. Poland's commitment toward the medium-term objectives as stated in the Convergence Program¹⁵ is presented in Box 3.

Box 3. Commitment Toward the MTO in Convergence Program

Poland is subject to requirements of the preventive arm of the Stability and Growth Pact, which states that the EU Member States should formulate and achieve the so-called medium-term budgetary objective (MTO) within a specified period of time. Compliance with the MTO is intended to achieve sustainable debt levels while ensuring governments have enough room to maneuver with a safety margin against breaching the EU's fiscal rules. Poland has defined its MTO as a general government structural balance of minus 1 percent of GDP.

The assessment of compliance with the preventive arm of the Stability and Growth Pact is based on two pillars: the structural effort, i.e., the change in the structural balance and the expenditure benchmark.

Source: MoF

48. To achieve its MTO Poland has developed national Stabilizing Expenditure Rule (SER) in line with the Expenditure Benchmark Rules¹⁶ of the preventive arm of the Stability and Growth Pact of the EU.¹⁷ The expenditure benchmark is a rule which contains the net

¹⁵ Republic of Poland, Convergence Program 2018 Update, Warsaw, April 2018; <https://ec.europa.eu/info/sites/info/files/2018-european-semester-convergence-programme-poland-en.pdf>

¹⁶ Regulation (EU) No 1175/2011 of the European Parliament and of the Council of 16 November 2011 amending Council Regulation (EC) No 1466/97 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies.

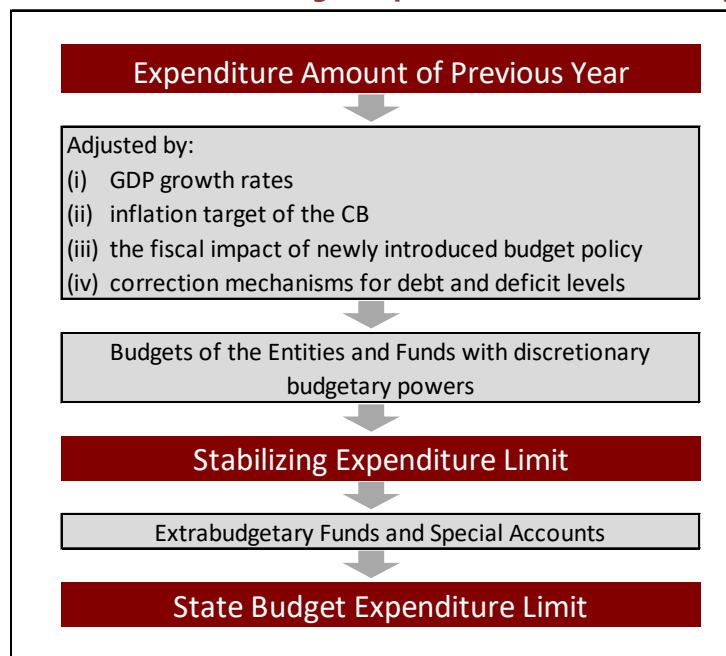
¹⁷ The Stability and Growth Pact (SGP) is a set of rules designed to ensure that countries in the European Union pursue sound public finances and coordinate their fiscal policies. Council Regulation No 1466/97/EC of 7 July

growth rate of government spending at or below a country's medium-term potential economic growth rate, depending on the country's position in relation to its medium-term budgetary objectives. The SER was introduced in 2013 and became effective in 2015.

49. The SER constrains the rate at which general government expenditure can grow.

In Poland the rule covers the expenditure for the general government sector net of expenditure financed with EU funds or incurred by entities whose budgets are not able to generate significant deficits and is estimated to cover around 90 percent of general government expenditures. As indicated in Figure 4, in the SER the overall fiscal space is calculated as follows: the total SER spending from the previous year is adjusted for recent GDP growth rates, inflation target of the central bank, and an adjustment for the fiscal impact of policy measures adopted that can increase revenue by more than 0.03 percent of GDP; the amount is further corrected if: (i) debt and deficit levels are exceeding thresholds as specified in the Public Finance Act; or (ii) the fiscal balance deviates from the MTO. These correction mechanisms also incorporate countercyclical policy elements, that is, different rules apply for good and for bad economic conditions.

Figure 4. Calculation of State Budget Expenditure Limit According to the SER



Source: MoF and mission staff.

50. The general government expenditure ceiling capped by the SER is further decomposed between state budget and non-state budget.

The non-state budget expenditures are largely exogenous as they cover the entities that have discretionary right to prepare their budget and spending forecasts in line with the Public Finance Act. Therefore, the construction of SER considers discretionary rights of specific bodies or entities to prepare their

1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies.

own budgets (budgetary autonomy from the Council of Ministers), as well as major extrabudgetary funds or entities. The expenditure amounts of these entities are subtracted from the overall expenditure estimate based on no-policy change scenario. Since the spending forecasts of entities listed in the Box 4 are largely exogenous, the residual amount must absorb the full burden of top-down constraints.

Box 4. Groups of Entities/Funds Covered by SER

The construction of SER takes into account the following specific groups of entities and funds, which budgets are deducted from the amount of expenditures (first group) or limit of expenditures (second group) to calculate the state budget expenditure limit:

- First group comprises bodies, entities and funds which have discretionary budgetary powers (e.g., are independent from central government) or which budgets shall be balanced in medium to long-term. This group includes: (i) Local governments; (ii) the National Health Fund; (iii) the entities with the ultimate discretion to plan their budget spending (PFA Article 139, such as Chancellery of the President, ultimately financed from the State Budget); (iv) Bank Guarantee Fund; and (v) financing of one-off measures;
- Second group comprises extrabudgetary type of funds and include: (i) The Social Security Fund and Bridging Retirement Pension Fund; (ii) the Social Security Fund for Farmers; (iii) the funds administrated by the National Economy Bank, (including Road Fund, Railway Fund, etc.); (iv) the Labor Fund; and (v) the specific accounts set up in accordance with the Public Finance Act provisions.

Source: MoF.

51. The residual amount after all adjustments and deductions, is the fiscal space available for the rest of the State Budget. The state budget limit is absorber of the full burden of top-down constraints. It is subject to further constraints resulting from standing expenditure commitments such as defense (2 percent of GDP), Health Services (6 percent of GDP). In the end, the discretionary portion that is to be distributed to the rest of the State Budget entities as a ceiling, is very limited against the spending needs of these entities.

52. For the MTBF to become a powerful tool in achieving government objectives, the conflicting pressures from different budget actors should be addressed. This will reduce the challenges with fiscal constraints and expenditure rigidities. In the Polish context, two of the most pressing issues contributing to top-down budget constraints stemming from the SER are:

- The budget process is fragmented into separate budgets for social security and other special purpose funds, and other entities; and
- Extensive earmarking and standing expenditure commitments (e.g., certain percentages of GDP) which will make it difficult for the government to enforce multi-year expenditure limits.

These expenditure rigidities reduce the scope for government to absorb new policies through reallocation of resources, which increases the pressure to expand the total expenditure envelope to accommodate them.

53. There is a need for MoF guidelines to steer toward the principle of unity in the medium-term forecasting and budget processes. Thereby the decisions that have direct or indirect impact on expenditure are taken within medium-term estimate and budget processes. A MTBF is not only multi-year projections, but it is an institutional framework that instill discipline and transparency in fiscal policy and budget planning. According to the preliminary decision made by the MoF, the MTB will be, to the extent possible, aligned with the coverage of the Budget Act and SER, with certain extrabudgetary entities or funds covered for information only. For information only, forecasts should become forecasts for decision making once the reform matures. In addition, coverage should be extended to entities that do not fall within the SER, but to all spending that has budgetary implications.

54. The solution for top-down constraints can be sought in the ways to increase the discretionary portion (left for the rest of the state budget) of the spending limits. The present legal framework allows for government entities to establish a new entity special purpose fund, or special account with earmarked revenues, which diminish the state budget limit managed by the MoF. The Act on Public Finance defines several types of entities, with different financial management arrangements, and specifies what could be the sources of financing for different type of entities depending on their market orientation. Some of the main types of entities and financing sources are listed in the Box 5. This issue can be picked up as a cross cutting issue among different directions and different working groups of the BSR and addressed more broadly.

Box 5. Entities with the Source of Funding as Defined in the PFA

- i) Budgetary units without legal personality that transfer collected revenues to the revenue account of the state or respective local government budget and cover their expenditures directly from the budget (identified as one of the incentives to try to move out of the core budget).
- ii) Executive agencies and legal persons (budget institutions with legal personality attained upon entry to the court register) are entitled to spend the revenues generated by conducting specific activities.
- iii) State Special Purpose funds in general are bank accounts with public funds being the main source of financing.

Some of the major institutions in terms of the volume of the funds they manage, like the National Health Fund, the National Road Fund and the Railway Fund, receive earmarked revenues in a form of fee or contribution. Most of the Government targeted funds and programs set up their accounts in the National Economy Bank (Bank Gospodarstwa Krajowego) which is a state development bank.

55. The FAD mission in February 2017 has provided advice and made recommendations on how to develop a realistic and credible MTBF. Besides technical aspects of preparing forward estimates, the report includes discussions on multi-year prioritization, control and

accountability mechanisms as a key to achieving compliance to top-down hard ceilings. This mission reiterated the recommendations to design multi-year commitment prioritization, and control and accountability mechanisms that are set out in the report and this mission concurs with its findings.¹⁸

E. Recommendations

- Strengthen engagement with line ministries and entities at the stage of conceptual thinking on MTBF. This will involve:
 - More guidance from the MoF to line ministries and other entities in calculating their bottom-up estimates;
 - Engage experts from the line ministries and build shared understanding of the overall design of the MTBF.
- Define the scope of the MTBF to cover all the entities, funds and accounts that have budgetary impact. This will involve:
 - Developing consistent entity classifications for MTBF, budget, accounting and fiscal reports;
 - The entities and extra-budgetary funds that will be covered only for information purposes at the initial stage, should become forecasts for decision making once the reform matures.

IV. PROJECT MANAGEMENT

A. Background

56. The development of the structure and content of a SCoA is one of the main objectives of the BSR of the Polish government. In this phase of the reforms, a FAD project agreement supports the placement of a resident advisor in Warsaw to support the work of the MoF. This FAD project will extend over a period of 18-months and advise on the development of detailed classifications for a new SCoA for implementation in later stages. This IMF project is financially supported by the European Union Structural Reform Support Services (SRSS). The IMF project allows also for providing limited follow-up advice, as needed, on producing a credible medium-term budget. The FAD project agreement includes the following activities: (i) determine and agree the segments of the SCoA structure and the coding system; and (ii) develop and agree the detailed list of classifications for use in the SCoA.

57. The MoF has established the governance arrangement and administrative structures for the BSR. Internally, the tasks have been divided between two projects: (i) BSR Phase I (BSR I) project, covering the majority of issues envisaged in the “Assumptions for Budget

¹⁸ See IMF FAD Technical Assistance Report, Developing a Medium-Term Budget Framework, 2017, paragraph 60.

System Reform,” including budgetary classification and MTBF; and (ii) public accounting reform Phase I (PAR I) project, covering specific public accounting issues, such as financial reporting or economic segment of SCoA. Following the advice of earlier FAD missions, a Steering Committee has been set up to sponsor and oversee the BSR I project. Similar arrangements were adopted within the PAR I project. The project leaders and project teams have been appointed and have commenced their activities. Each project provides for Working Groups (WGs) dedicated to different topics with a joint WG covering the issues concerning the SCoA and budgetary classifications. The high-level plan for the BSR has a multi-year perspective with detailed deliverables and timelines envisaged for the BSR I and PAR I projects. Both project structures are inclusive of stakeholders inside the MoF. However, other stakeholders such as the local governments, other budgetary entities, the statistics agency and the central bank will also be impacted due to their respective user needs and reporting obligations. The mission therefore emphasized that it is imperative that consideration is given to expanding the participation in the working groups.

58. The mission worked with the BSR team to develop a Terms of Reference and a sequenced workplan for the resident advisor. The main milestones and completion dates of each activity are shown in Table 3.

Table 3. Poland: Main Milestones of Resident Advisor

Activity	Completion date
Onboarding of Resident Advisor	May 2019
Determination of segments and coding structure	September 30, 2019
Seek agreement on concept design of SCoA	October 31, 2019
Development of the detailed classification of the SCoA	
Detailed classification of the SCoA	April 1, 2020
Contingency period	June 30, 2020
Finalize	June 30, 2020

The plan envisages the completion of the IMF project by June 30, 2020 in line with the agreement with the SRSS and provides for a contingency period of 60 days in the planning. One of the reasons for this provision is that there could be some delays in progress with project developments due to the elections which are scheduled for October.

B. Measures to Support Project Implementation

59. As indicated in the November 2017 report, change management is a critical aspect of the SCoA reform. The implementation of the new SCoA will have far reaching implications at all stages of the PFM cycle from transaction reporting to budgetary and financial reporting. It will also impinge on the standard operating procedures across the public sector comprising more than 50,000 institutions. Given the extensive scale of the reform, it would be prudent to ensure

the buy in of the main stakeholders at the conceptual stage of the project. The mission appreciates the reluctance of the BSR project team to engage the wider group of stakeholders before there is a consensus among the players within the MoF. However, the mission strongly encouraged the authorities that there are some outreach activities that can be initiated at the early stages of the reform following a properly structured change management strategy.

60. Agreement in the MoF on all issues will not be reached for some time, but there are many areas where line ministry input will be very useful. Even where line ministry views cannot be taken on board in design, it is still useful for them to be part of the thought processes, so they better understand the reasons for this. Meaningful and early engagement is a good investment in wider ownership of the reforms and increases its chance of success.

61. The information compiled from the accounting user survey will provide the project team an indication of the capacity of various public entities to undertake the reform. The BSR team should develop a risk matrix of stakeholders and conduct road shows and video conferencing on the proposed reforms. Particularly, for those entities perceived to be the riskiest for the project. The road shows should be supplemented with periodic bulletins on the status of the reforms. This will keep the stakeholders in touch with the timelines and progress for reform deliverables and assist them to sequence their own PFM reform initiatives in tandem with the SCoA reform. It is quite likely that many stakeholders will need to upgrade their IT environment to leverage the benefits derived from the new SCoA. Timely information about the progress of the BSR will help the stakeholders to plan their IT upgrades accordingly.

62. The change management strategy should include the implementation of a formal collaboration arrangement to ensure timely exchange of ideas between members of the working groups. The members of the WGs will be required to perform their own duties in addition to participating in the WGs. It may be challenging to ensure that all the members of a WG are present at meetings. A formal collaboration environment will provide opportunities for teleconferencing and for online exchange of documents such as meeting agenda and recorded minutes. It will provide WG members a forum for exchanging ideas and seeking clarifications. The authorities could set up a collaborative environment for facilitating project management, using IT products such as Microsoft SharePoint.

63. Manuals and other user reference materials are very useful change management and capacity building tools. The final version of the SCoA should be issued in the form of an accounting manual for reference and capacity building. By the end of Phase 1, the WG should develop a SCoA manual describing: (i) the purpose and scope of the SCoA; (ii) the enabling legal provisions for implementing the SCoA; (iii) the definition and purpose of each segment of the SCoA; (iv) the principles for coding the SCoA segments; (v) the layouts of all the financial statement and other fiscal reporting documents; (vi) a summary table of the various accounting entries resulting from the use of the SCoA; and (vii) the purpose, format and disposition of all the reports produced using the data elements of the SCoA.

C. Recommendations

- Develop a change management strategy to inform and promote buy-in from all the stakeholders at each phase of the BSR. This objective can be attained by:
 - Conducting road shows and video conferencing on the proposed reforms;
 - Set up a collaborative IT working environment for facilitating project management; and
 - Develop and issue the final version of the SCoA with an accounting manual and other training/promotional material for reference and capacity building.

Annex I. User Survey Questionnaire

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Note: The entity should answer separately for each accounting system in use.

IDENTIFICATION INFORMATION

1. Full name of the entity
2. Full address and contact numbers
3. Type of the entity (Legal)
4. Business register number
5. Tax identification code
6. Full address and contact number of the parent ministry/ department
7. Number of bank accounts with name of the branch bank of each account.

ACCOUNTING SYSTEMS:

PARTICULARS OF THE ACCOUNTING SYSTEM

8. Who is the vendor of the accounting system?
9. What is the name of the accounting system and the version in use?
10. Which company provides maintenance for the accounting system?
11. What is the accounting system annual maintenance cost?
12. Which company updates/develops the accounting system?
13. What was the purchase and installation cost for the accounting system currently in use?

TECHNOLOGY OF THE ACCOUNTING SYSTEM

14. What is the technology of the accounting system application?
15. What is the technology of the presentation layer of the accounting system?
16. Is the architecture of the system web-based or client-server?
17. What is the application server in use for the accounting system?
18. What is the name and type of the data base supporting the accounting system?
19. What is the scope of the copyrights to the accounting system that the entity controls?
20. What kind of license does the entity use?
21. Does the license include free upgrade of the accounting system if the law changes?
(if yes, what are the limitations of such upgrades)

COVERAGE AND FUNCTIONALITY OF THE ACCOUNTING SYSTEM

22. Does the parent ministry/ department use the same accounting system?
23. How many subordinate entities use the same accounting system?
24. How many users does the accounting system have?
25. Please list the functionalities supported by the accounting system in use? (like general ledger, reporting, sales, purchase, VAT, fixed assets, settlements, payments, wages, etc.)

26. Please provide a flow chart depicting the interrelationships between the sub-ledgers and the G/L of the accounting system.
27. Can the system support both accruals and cash accounting standards?
28. Does the accounting system allow to export data in the electronic format?
(if yes, then in which formats – e.g. txt, xls, html, php)
29. Did the entity change the accounting system in 2016-2018?
(if yes what was the cost, was it co-financed from the EU funds)
30. Does the entity plan to change the accounting system during 2019-2021?
(if yes, then why, and what is the implementation plan for the changed system)
31. What should be the priority of the accounting reform?

THE CHART OF ACCOUNTS

STRUCTURE

32. Please provide the detailed structure of the currently in use CoA with the segments and number of digits/ characters in each segment.
33. Does the accounting system allow to define a hierarchical structure of the account?
34. Please provide an electronic file containing the codes and description of each item of all the segments of the accounts coding structure.

PORTABILITY AND EXPANDABILITY

35. Is it possible to change the number of segments?
(if yes, can it be done without additional cost)
36. Is it possible to change the number of characters within the segments?
(if yes, can it be done without additional cost)
37. What is the maximum number of segments supported by the system?
38. What is the maximum number of characters that can be included in each segment?
39. Does the CoA support an event-driven recording of budgetary and financial transactions through each stage of the budget execution cycle?
40. Is it possible to attach performance (non-financial) information to a segment?
41. Can the CoA interface with the accounting system allow additional classifiers, not included in the structure of the account? (dictionaries, bridge tables etc.)
(if yes, how does the entity use them)
42. How many analytical accounts does the entity use in each group of accounts (groups 0-9 as defined in the MoF regulation – appendix 3)
43. Does the entity use the accounts of group 5 of the current CoA
(if yes, then for what purposes)

REPORTING REQUIREMENTS

ACCOUNTING/ REPORTING STANDARDS:

44. Please indicate the accounting/ reporting standards being used by the entity.
45. If the standards in use are accrual-based, then please describe the procedure followed to extract the cash-based data for budgetary reporting.
46. Please indicate whether the CoA can differentiate between indirect costs and direct costs to support performance budgeting.

CHARACTERISTICS OF REPORTS

47. What is the entity opinion on the current layouts of the budgetary, financial and managerial reports?
48. Is the aim of each report known to the entity?
49. What is the estimated level of data redundancy in the reports currently issued by the entity?

STATUTORY REPORTING

50. Please list all the data elements (granularity) included in the statutory fiscal reports prepared by the entity on a monthly, quarterly, semi-annual and annual basis?
51. Please list the statutory reports which are not configured as standard reports generated by the system.
52. Are the statutory reports submitted to the parent ministries and MoF as paper documents or electronically?
53. Please indicate whether the IT system can support direct access by the parent ministry/ MoF to the entity database to view and download reports.
54. Does your system support both consolidated and individual reporting?

MANAGERIAL REPORTS

55. Please list the data elements of all the fiscal reports the entity is obliged to issue other than the statutory reports?
56. What is the periodicity of each of these reports?
57. Please provide a data flow diagram showing the sources of data, the processing of the data, and the submission of reports to users.
58. Are you using business intelligence tools such as data warehousing and data mining for performance reporting?

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