1 Key Information

1.1 CRIS Number: 2006/018-180.01-04 Twinning No: PL/06/IB/FI/02

1.2. Title: Local Government Budget Management System
1.3. Sector: Public Finance
1.4. Location: Poland, Warsaw, Ministry of Finance

2 Objectives

2.1 Overall objective

Further improvement of the public finance management in the local government sector through extension and development of the IT Local Government Budget Management (LGBM) System

2.2 Project purpose

1) Increase of efficiency and credibility of the budget planning and reporting data supplied by local governments (LGs) to the Ministry of Finance (MoF)
2) Increase the stability of public finance by monitoring financial situation in LGs in different categories.
3) Increase the transparency of public finance in the local government sector in terms of their efficiency by analysing operating and capital activities of LGs.

2.3 Justification

Activities presented in this project are in line with the Comprehensive Monitoring Report on Poland’s Preparation to the EU Membership of 5th November 2003.

Firstly, by automating the process of creating aggregate reports and submitting to the Ministry of Finance reporting data by LGs and their organisational units there will be improvement of their quality and shorter transfer of reports by LGs to MoF, and then to Central Statistical Office. This project will cause the improvement of the quality and timeless of reporting data in the field of LGs’ finances submitted to MoF and Central Statistical Office. Thus, this project is an example of a realisation the following recommendation described in Chapter 12: Statistics – “Poland needs to improve the quality and the timeless of data in certain domains such as national accounts, government finance statistics, data on income and living conditions”.

Secondly, by monitoring financial situation in LGs in different categories, in particular by the possibility of detecting LGs in difficult financial situation, what mainly could be due to commitments and irrational expenditure – what as further consequence would enable to audit finances in such LG’s unit in details – this project is an example of real activities of Polish authorities aiming the stabilisation of public finances by evaluation public debt and expenditures in the local government sector. Thus, this project is an example of a realisation the following recommendation described in Part B. ECONOMIC ISSUES, Chapter 2. Implementation of recommendation for improvements, where the authors underline: "The Polish authorities have shown so far some reluctance to tackle the needed fiscal adjustment. A deep restructuring and reduction of public expenditure are, however, crucial in order to further improve the policy mix, reverse the rapid rise in public debt, and prepare Poland’s public finances for accession.”
Thirdly, the extension and development of the LGBM System will include expansion of the analytic module with regard to conducting analysis of realization by LGs’ projects financed from structural funds and from Cohesion Fund. The Regional Audit Offices (RAO’s) and MoF will be users of that new functionality. Thus, this project is an example of a realisation the following recommendation described in Chapter 28: Financial control – "the aquis requires the existence of adequate ex ante financial control and functionally independent internal audit systems; an independent external audit of the public internal financial control systems in the public sector; an appropriate financial control mechanism for EU pre-accession funding and future structural action expenditures”.

As well, one of main results of this project there will be increase of the transparency of public finance in the local government sector in terms of their efficiency by analysing operating and capital activities of LGs. It means that this project is a part of the whole of activities in the area of the fight against fraud and corruption in perspective. The Comprehensive Monitoring Report concerns with the activities in that area in Part C. COMMITMENTS AND REQUIREMENTS ARISING FROM THE ACCESSION NEGOTIATIONS, Point 1. Administrative and judicial capacity, field Anti-corruption measures, Point 2. The chapters of the aquis – Chapter 24: Justice and home affairs. These activities are underlined in Part D. CONCLUSION: "... in certain areas Poland partially meets the commitments and requirements and needs to make enhanced efforts in order to complete its preparation for accession. ... This also includes the fields of: ... the fight against fraud and corruption ... in the area of justice and home affairs”. However, in the European Commission’s Comprehensive Monitoring Report there is no direct reference to the fight against fraud by analysing operating and capital activities of LGs, but the project is a real action in that very important area as fight against fraud and corruption.

3 Description

3.1 Background and justification

The project LGBM System Transition Facility 06 is continuation of the project Phare 2002/000-580.01.09 “Public Finance Management”, component B. Planned in TF06 activities are undertaken in order to optimise broadly defined public finance management and stability in the local government sector, initiated under Phare project under which an IT local government budget management system (LGBM System) was developed and implemented. The System, according to the Project Fiche developed in 2002, is a three-tier one, including local governments (LGs), Regional Audit Offices (RAOs) and the Local Government Finances Department of the Ministry of Finance (LGFD). Local Government Units in Poland, according to the regulations on budget reporting, are obliged to report to the Ministry of Finances, via Regional Audit Offices, on budget finances, in an electronic way. Number and type of finances reports, their frequency, punctuality, date format and other rules of reporting, are established there. Regional Audit Offices, according to the law on 7th of October, 1992, on Regional Audit Offices, are obliged to audit finances of Local Governments Units. The new LGBM System is based on the previous local government budget reporting system, the “Budget ST II”, which processed reporting data for 2001-2005, and also on the basis of the users’ needs analysis. The analysis was made in an abridged form during the implementation of the Twinning Covenant 580.01.09.01 (PL/IB/2002/FI/03), and more broadly, during the implementation of the technical assistance contract 580.01.09.05 (EuropeAid/119557/D/SV/PL) under the above-mentioned Phare Project. The LGBM System is also based on systemic solutions developed during the implementation of the Twinning Covenant. During the Phare Project 2002/000-580.01.09 the LGBM System had been implemented in 24 LGs, 2 RAO and MoF during the Pilot Implementation Phase of the Contract 580.01.09.05 on November, 2005. The full implementation of LGBM System all over Poland (2808 LGs, 16 RAOs
and MoF) will be executed on July – August, 2006 to collect LGs’ reporting date of the second quarter of 2006 and send them to MoF.

However, during the realisation of the above Phare Project it turned out that:

1) there are solutions introduced by some LGs, the application of which in all Polish LGs would be rational, as it would contribute to improve the stability and transparency of the public finance in the local government sector, and yet, because of certain provisions in Terms of Reference, they could not be incorporated in the system developed. This relates in particular to the distinction between the operating budget and capital budget.

2) limiting the IT system serving LGs to create and to send their budgetary reports to the Ministry of Finance to the above three tiers only (LGs, RAOs and MoF) would be a strong constrain, and that it was impossible that LGs could shorten the time to develop their reports any more. LGs’ organisational units would have to be covered by the LGBM System as well. So, there is the important, rational reason to extend the LGBM system up to four tiers:
   - organisational units of LGs (about 60 000 in Poland) - i.e. budgetary units, budgetary entities, auxiliary units/holdings of the budgetary units (the new, lowest level),
   - LGs (2808 in Poland)
   - RAOs (16 RAOs and 35 their field teams)
   - MoF.

The new solution will enable:
   - preparing in the identical form the unit reports by about sixty thousand of organisational units of LGs in Poland and let them send automatically it to their LGs in electronic way,
   - automatically preparing collective reports by LGs on a.m. unit reports sent by organisational units of LGs.

Adding to the System that fourth, lowest tier (organisational units of LGs), which is the biggest and most diffused of all system’s tiers, would make the reporting IT system – completed. The above mentioned extension of the System is very important because, thanks to covering by the System organizational units of LGs, which are obliged to prepare unit reports in monthly, quarterly and half-year way and send them to LGs, next reports are collected by LGs and via RAOs sent to the Ministry of Finances, should increase of efficiency and credibility of budget planning and reporting data supplied by LGs to the MoF. This extension of the System is very important for Central Statistical Office of Poland (GUS) and it was postulated many times by GUS. The extension of the System (joining organizational units of LGs to the System), presented in the project fiche LGBM System TF06, is in line with realization by GUS priority tasks in the field of governments statistics and is fully rational. These new functionalities are very important for Central Statistical Office of Poland (GUS), because since 2008 GUS will be obliged to send collective date of LGs to EuroStat three months earlier than at present.

These new functionalities are very important for LGs having more than several organisational units: checking hundreds of unit reports (very often in written documents, or, in a data form of unique software bought for that LGs individual needs, or, in excel sheets), merging them in correct collective reports is very big afford for such LGs, specially if there would be taken into account the rigorous schedule of preparing collect reports by JST and sending them to RAOs. These new functionalities will also provide for further, significant improvement of the quality of LGs’ reporting data transferred to the Ministry of Finance.

Beneficiary informs that during the realization of Contract 580.01.09.05 each of LGs participating in the program Phare 2002/000-580.01.09 postulated to cover organizational units of LGs by LGBM System, because from LGs’ point of view, preparing units reports in organizational units in
electronic way and sending them to LGs to collect and verify them and automatic preparing collective reports, is also critical necessary functionality. It is consistent with the results of questionnaires of LGs made by RAOs in 2004-2005 – the minimum number of LGs, which postulated implementation of joining their organizational units to LGBM System, is 2146. It is 76.56% of all 2808 LGs in Poland. Among them 55 of 65 towns on poviat rights (84.68%), which have plenty of organizational units and they are the biggest LGs in Poland. So, extending the System up to four tiers is very rational and necessary for LGs in Poland and it would be very helpful for local administration in Poland.

These new above described functionalities will be fully integrated with the LGBM System.

In the light of the above and based on experiences of the implementation of the Phare 2002/000-580.01.09 Project, component B, the Local Government Finances Department of the Ministry of Finance, together with Regional Audit Offices and the Government and Local Government Joint Commission, Central Statistical Office of Poland, propose the implementation of a subsequent Project to develop further, detailed solutions, standards and procedures for the management of public funds in the local government sector, to extend the possibilities of analysing financial condition of LGs and then, to develop and implement additional functionalities to the LGBM System. The proposed Project would involve:

- Improvement in monitoring of financial condition in LGs in different categories by developing sets of indicators used for comparisons;
- Improvement of transparency in public finance with regard to their efficiency due to the possibility to analyse ongoing and capital activities of LGs;
- Including LGs organisational units in the LGBM System (i.e. budgetary units, budgetary entities, auxiliary units/holdings of the budgetary units), which will allow for the electronic exchange of data between LGs and their organisational units (decision to be taken by LGs);
- Automating the process of creating unit and collective reports and submitting reporting data by LGs and their organisational units.

Ministry of Finance, after confirmation the project fiche, should start as quick as possible permanent cooperation with Government and Local Government Joint Commission, the National Council of RAOs and Central Statistical Office of Poland, to establish the task team for the project and should begin realisation of planned tasks.

Above mentioned extension and development of the IT LGBM system, worked out and implemented in the Phare Project 2002/000-580.01.09, component B, will get further improvement of the public finance management in the local government sector.

3.2 Linked activities

Phare Project 2002/000-580.01.09, the “Public Finance Management”, and in particular its component B, related to the local government sector, implemented (in the local government sector) in LGs, RAOs and MoF is directly linked to activities included in the Project. The goal of the Phare Project was to improve the management of public finance by developing and implementing a uniform public finance management system (including EU funds). In the local government sector, the following objectives, among others, were identified:

- Increasing the efficiency and credibility of data related to planning and budget reporting supplied by LGs to the Ministry of Finance (MoF) and shortening the time of transfer,
• Adjustment of the consolidated public finance reporting rules to the European Union (EU) standards and appropriate adjustment of the Polish law in this scope,

• Increase of effectiveness of procedures concerning the calculation, allocation and monitoring of LGs subsidies,

• Improvement of quality and effectiveness of LGs’ budget analyses performed for the Government, Parliament and LGs.

Polish authorities decided that the full implementation (all over Poland) of the LGBM System worked out in Phare 2002/000-580.01.09 should be done during the second reporting quarter of 2006. After using the System for two reporting periods (in six months) there would be possible to evaluate the level of achieving a.m. objectives. So, until the end of 2006 it would be possible to evaluate the level of achieving these objectives. Now, taking into account the high quality of LGBM System (according to the results of User Acceptance Tests), it can be expected that Phare Project 2002/000-580.01.09, component B, provided a stable and reliable foundation for LGs’ budgets management, which, according to the results obtained during collaboration between Ministry of Finance, RAOs and LGs taking part in the Project, and experiences drawn from that cooperation, should be further developed and fine-tuned in order to satisfy rational needs demonstrated during the Project implementation, and the common objective should be further improvement in the management of public finance in the local government sector.

3.3 Results

The Project’s key result should be:

1) The tools for monitoring financial situation in LGs in different categories for comparative analysis as well as for analysing operating and capital activities of LGs worked out;

2) The rules and criteria for financial analysis of operating and capital activities of LGs and adopting the law regulations in the field of budget reporting in LGs to needs resulting from the implementation of the system development established;

3) The IT LGBM System extended and developed with regard to:

4) allowing preparing unit reports by LGs’ organisational unit and verifying and collecting these reports by LGs. The time of the budget planning and reporting data supplied by local governments (LGs) to the Ministry of Finance (MoF) shortened and the quality of reporting date from LGs improved;

5) The increase of competence of the MoF and other organisations involved in the Project in the following areas: accounting in LGs and organisational units, concepts of task-related budgets, concepts of operating and capital budgets, analysis of operating and capital activities if LGs, other technical subjects identified in the implementation of the Project;

6) The qualifications necessary for using the extended LGBM System by the system users, in particular from the LGs and their organisational units, acquired.
3.4 Activities

Contract 1 Twinning, 0.75 M€

Task 1. Studies (in seminar, workshop, lecture, meeting, course and other form) on:

- accounting in LGs and organisational units,
- concepts of project budgets in LGs,
- concepts of operating and capital budgets in LGs,
- analysis of operating and capital activities in LGs,
- other technical subjects identified in the implementation of the Project (in Poland the law on public finances will be modified in 2006 and there is difficult to foresee the full set of topics to cover all changes in regulations),

enabling, as the strategic conclusions, establishing:

1) the scope and direction of necessary changes in the field of local government finances;
2) the scope of analyses of financial situation of LGs to conduct on LGs level, RAOs level and MoF level.

The strategic conclusions should be accepted by the Steering Committee.

The Beneficiary plans to perform trainings on:

a) accounting in LGs and organisational units,
b) concepts of project budgets in LGs,
c) concepts of operating and capital budgets in LGs,
d) analysis of operating and capital activities in LGs

for MoF, RAOs, LGs and Central Statistical Office (GUS) representatives. The number of seminars, lectures, workshops on each subject is about 2. For every training, the planned number of MoF representatives is about 40, RAOs – about 16, LGs – about 10, GUS – about 2. The Beneficiary assumes that could be more trainings than shown in letters from a) to d) if other technical subjects would be identified in the implementation of the Project. The total number of seminars, lectures or workshops on those possible subjects is about 2 or 5.

Task 2. Organising, in the cooperation with the Beneficiary, the technical trainings (seminar, workshops, conferences, meetings, lectures) for the MoF and other organisations involved in the Project. The areas of transferred know-how according to the list specified in Task 1.

There are planned two study visits to present to the Polish experts involving in the project, the best solutions and practice in Member State in areas specified in Task 1 (no more than two study visits for no more than 10 Polish keys experts each time). Study visits there will be a supplementary to Tasks 1 and 2.

Task 2 is in the responsibility of the RTA. Lectures can be supported by other MS experts experienced in delivering seminars, courses and workshops in the field of public finance. Task 2 is Member State’s share in reaching the objectives described in Task 1.

Task 1 and 2 duration: Training will be provided during 16 months, although the strategic conclusions should be worked out and accepted by the Steering Committee in about 6 months.

Task 3. Developing sets of indicators to monitoring financial situation in LGs in different categories for the purpose for comparison.

Task 4. Presentation rules of estimating LGs’ real estate value and solutions in that field in EU.

Task 5. Developing tools to analyse operating and capital activities of LGs.
**Task 6.** Defining principles and criteria for financial analysis of operating and capital activities of LGs.

**Task 7.** Adapting regulations concerning budget reporting in LGs to the needs stemming from the proposed changes necessary to implement in the System and assistance in developing these regulations.

Tasks from 3 to 7 duration – about 16 months. The MS experts will take part in Tasks 3-7 and support Beneficiary. RTA will be responsible for cooperation. RTA (or MTE) will be responsible for preparing good quality benchmarks (Tasks from 3 to 7).

**Task 8.** Working out the optimal strategy and the way of training for the System users in LGs and their organisational units.

Taking into account the huge amount of system users at LGs and a level below (minimum two users from each of 2808 LGs and from about 60 000 organisational units of LGs) establishing the optimal strategy of training, is rational and important. There are minimum three possible solutions:

- training on CD-ROM,
- distance learning training,
- training in chain-trainers multi step way (training for trainers from each RAO and their field teams – minimum 51 students, next - trainers from RAOs train trainers from LGs having organisational units, and which declared to join to the project, next - trainers from LGs train staff from LGs and their organisational units).

One of them should be recommended. The chosen optimal strategy should be accepted by the Steering Committee and used in the Task 9 as the guiding principle.

Polish experts will prepare the draft version of expert’s report on training for LGs organizational units in the field of preparing, verifying, sending units reports and for LGs in the field of verifying, collecting into collective reports and sending to RAOs. The draft version of that reports should be ready till 1st January, 2007. MS experts will consult that report and discuss it.

**Task 9.** Working out of a full tender specification (detailed functional and technical requirements) for Contract 2 (Technical Assistance), accepted by the Steering Committee, and submitted to CFCU, to start tender procedure.

Functional specification for extension of the LGBM System in the field of unit reports from LGs organisational units will be a part of the results of Task 9.

One of tasks in Contract 2 there will be training on new System functionalities for two employees of each LGs and all their organisational units. The strategy and way of trainings – according to the results of Task 8.

Polish experts should prepare till 1st January, 2007, a draft version of a full tender specification (functional and technical requirements) for Contract 2 on planned extension of LGBM System (including organizational units of LGs). MS experts will support Beneficiary in preparing the final version of ToR. MS experts will support Beneficiary in preparing the final version of ToR by consulting and expertise on draft solutions prepared by Beneficiary’s task team. The Beneficiary will submitting ToR to CFCU. For Beneficiary, participation MS experts in preparing ToR, will be opportunity to discuss and compare new functionalities and solutions to be implemented in LGBM System with solutions implemented in other MS countries in the field of public finances. Participation in preparing ToR will also enable the MS experts to get knowledge on LGBM System and its development.
Tasks 8 and 9 duration – about 4 months from the beginning of the project.

**Project Leader from MS profile:**
- High level civil servant from Member States with minimum ten years experience in public finance in the local government sector,
- Fluent in English
- Good communication and computer skills.

**RTA will work in MF during the period of 16 months.**

**RTA (Resident Twinning Adviser) profile:**
In order to accomplish the tasks mentioned below, assistance by the Resident Twinning Adviser representing the following skills will be necessary:
- Civil servant from MS with minimum five years experience in public finance in the local government sector;
- Good knowledge of the currently binding EU legislation (*acquis communautaire*) in the field of public finance in the local government sector, and in particular in relation to legal and systemic solutions concerning the accounting, budgetary reporting and program budgets in the EU;
- Good command of English;
- Very good communication skills;
- Experience in managing similar projects.

RTA will be responsible for supervising the implementation of the entire Project, participate in deciding about the selection of appropriate solutions, selecting experts, supervising of the timely accomplishment of tasks and communication with the Polish side. He or she will co-participate in the performance of all the tasks, being directly responsible for the accomplishment of some of 10 tasks under Contract 1 Twinning.

**Middle Term and Short Term Expert’s profile:**
The implementation of the above tasks requires the assistance by middle and short-term experts working with RTA. The experts should have the following competences:
- Good knowledge of the binding EU legislation (*acquis communautaire*) with regard to public finance in the local government sector, and in particular legal and systemic solutions in accounting, budgetary reporting and program budgets in EU Member States;
- Knowledge of financial analysis of LGs condition methodology;
- Experience in drafting of public finance laws.
- Experience in the developing tender specifications for IT contracts for technical assistance.
- Good command of English.
- Presentation and preparing written documents skills.

The Beneficiary will enable RTA and other experts to possess (in first part of twinning) basic knowledge on Polish legislation concerning public finance in the local government sector within the scope of the Law on Public Finance, the Law of LGs’ Revenue, systemic laws on LGs and RAOs, and ordinances on budgetary reporting, accounting and consolidated balance sheet.
MTE/STE, approx. 400 working days  

Seminars: approx. 16 seminars x 2 days,  

TF costs include:  

RTA costs: approx. 200 000 €,  

Project organization costs (assistant, Steering Committees, office etc.) costs: approx. 40 000 €,  

Project Leader and MTE/STE costs: approx. 440 000 €,  

Translation costs and interpreter fees: approx. 38 000 €,  

Seminar organization costs (conference room, voice system, projector and etc.): approx. 16 000 €,  

Study visits cost in MS (up to 2 study visits x 10 participants x 5 working days): approx. 16 000 €

**Contract 2: Technical Assistance– Development of the LGBM System, 0.3 M€**

Total duration of Contract 2: 12 months.

**Task 1.**  

Working out by the Consultant and acceptance by the Beneficiary the following products (in document form) – Project Quality Plan, Specification of the User’s Requirements, System Design and Methodology and Plan of Trainings.

The Consultant (the company selected in a public tender) will submit to acceptance products, the Beneficiary will be evaluating them and the Consultant will correct the products according to Beneficiary’s opinion. The Steering Committee will accept products.

All products of the Contract 2, Task 1, are “milestones”.

Task duration: about 4 months since beginning.

**Task 2.**  

Working out software of the development and extension of the LGBM System, testing and pilot implementation (in proper number of LGs and their organisational units of all possible types, minimum one RAO and MoF) by the Consultant, including teaching for users during pilot implementation and cooperation in User Acceptance Tests.

The pilot implementation will be performed by the Consultant in the seat of local government units and their organisational units (as well as Regional Audit Offices and the Ministry of Finance in the field of sending collective reports). The Beneficiary will appoint no less than 6 local government units of various size and at various levels of local government – municipalities (big/small, urban/rural), poviats, cities with poviats rights, voivodships with local governments), in which the Consultant will perform the pilot implementation. The pilot implementation will include teaching for users (no less than for 60 users). The Consultant will be obliged to get the unit report, from each location of the pilot implementation, on training, installing and testing the software. The Consultant will be obliged to prepare the Consolidated Report on pilot implementation to the Beneficiary.

The Consultant will prepare the final version of the software according to the results of pilot implementation. Next, the Beneficiary will perform User Acceptance Tests (UAT). The UAT will be conducted by representatives of LGs and their organisational units (as well as RAOs and MoF in the field of sending collective reports). The Beneficiary will be obliged to make the Detailed Report
on UAT with number of found faults of the software and select them into faults categories. In the case of finding any critical faults (of the system or application) the Consultant will be obliged to improve the software at once.

The Consultant is obliged to realise the Task, the Beneficiary is obliged to monitor realisation and to accept high quality products.

Tasks 2 duration: about 6 months. The Task 2 will begin after the Beneficiary would accept System Design. The Consultant will be obliged to adjust the software of the System to the changes of law in the meantime and after the acceptance of the System by Beneficiary, if necessary. The details will be described in the Contract with Contractor according to the general contract condition, which will be a part of Terms of Reference for Contract 2.

Task 3.

Training for system users in LGs and their organisational units all over Poland (according to the optimal strategy recommended in Task 8, Twinning. The requirements for training will be specified in ToR worked out in Task 9, Twinning.

At the end of the training, each LGs, which will be trained, will fulfil the questionnaire and send it to the Consultant. The Consultant will be obliged to analyse the questionnaires and prepare the Consolidated Report on the whole training including the number of trained users and training evaluation.

Task 3 duration: about 2 months. The realisation of the Task 3 will be able to begin when the result of User Acceptance Tests would be positive. Training will be provided by the Consultant according to the strategy recommended in Task 8 (twinning). The Beneficiary assumes that training will be provided up to 2808 LGs and up to 60 000 their organisational units.

Beneficiary, to reduce the risk of failure of Contract 2, is planning to make a public tender on monitoring and auditing the realisation of Contract 2 from the beginning to the end, financed by Beneficiary outside the Project. A professional auditing company, selected in a public tender, will support the Beneficiary in managing, monitoring and auditing the Contract 2 and Consultant.

3.5 Lessons learned

Experiences resulting from the implementation of Phare Project 2002/000-580.01.09, component B, and in particular from the implementation of the Twinning Contract 580.01.09.05 allow to determine:

- 12 months as the minimum period of the TA contract realisation,
- the structure and the timeframe of this Project,
- a contracts’ execution schedule,
- proper sequence of key activities,
- realistic Project budget.

Experience from the evaluation report confirms that 12 months is the minimum period for Technical Assistance contract realisation.
4. Institutional Framework

Institutions Taking Part in the Project:

- Ministry of Finance, Local Government Finances Department, IT Department,
- Regional Audit Offices,
- Government and Local Government Joint Commission,
- National Local Government Associations,
- Central Statistical Office of Poland

Key responsibilities of the Ministry of Finance with regard to the Project include: initiating new systemic solutions concerning the local government financial system, drafting legislation regulating the rules of the functioning of the local government financial system, co-operation within the scope of the development of reporting rules for local governments, providing opinions and interpretation of legal provisions concerning the local government finance, local government financial planning and reporting, monitoring of LGs’ financial condition and efficient budget management, collecting reporting data from LGs, analytical work to prepare information and statistical data for the Government, Parliament, Government and Local Government Joint Commission, co-operation with national local government associations, co-operation with foreign institutions, agencies and organisations in the area of local government finance.

Ministry of Finance is also co-operating with GUS (Central Statistical Office) in relation to the transfer of information on LGs’ financial condition.

Within the scope of LGs’ reporting, the Ministry of Finance co-operates with Regional Audit Offices that supervise the operation of LGs in financial matters, as defined by the Law on Regional Audit Offices. RAOs’ detailed responsibilities are defined in the following Laws: on Regional Audit Offices, on Public Finance, on Accounting and Public Assistance.

The results of this Project will be achieved by institutions in the following categories:

- local governments (2808) that manage resources granted and their own ones, according to their allocation resulting from adopted resolutions and rules stemming from the Law on Public Finance,
- LGs’ organisational units (about 60 000)
- in Regional Audit Offices (16 – one in each voivodship), which supervise, verify and control the execution of LGs’ budget resolutions and their public finance reporting,
- in MoF (LGFD).

Institution responsible for the Project implementation: Ministry of Finance (LGFD).

Direct/Final Beneficiary: Ministry of Finance.

Senior Project Officer: undersecretary of Ministry of Finances or director of Local Government Finances Department, Ministry of Finances.

The Project implementation does not require any institutional changes.
5. Detailed budget

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<thead>
<tr>
<th></th>
<th>Transition Facility support</th>
<th>Co-financing</th>
<th>Total cost (TF + co-financing)</th>
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</thead>
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<td>Investment support (I)</td>
<td>Institution Building (IB)</td>
<td>Total Transition Facility (I+IB)</td>
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<td>Contract 1 Twinning</td>
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<td>Contract 2 Technical Assistance</td>
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<td><strong>Total</strong></td>
<td><strong>1 050 000</strong></td>
<td><strong>1 050 000</strong></td>
<td><strong>450 000</strong></td>
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(*) contributions from National, Regional, Local, Municipal authorities, FIs loans to public entities, funds from public enterprises

(**) private funds, FIs loans to private entities

The amounts for national co-financing indicated in the table correspond to cash co-financing, unless otherwise stated. Contributions from the Polish administration for effective implementation of the twinning/TA may be further detailed in the twinning contract/Terms of references. Unless otherwise indicated joint co-financing is provided.

VAT does not constitute eligible expenditure except where it is genuinely and definitely borne by the final beneficiary. VAT which is considered recoverable, by whatever means, cannot be considered eligible, even if it is not actually recovered by the final beneficiary or individual recipient.

In case of parallel co-financing amounting to 150 000 € (Contract 1), the following activities will be financed from the parallel co-financing provision in the budget table: - RTA office space rent, organization and travel/accommodation costs of seminars, lectures, workshops, conferences, meetings and so on; authors fees for lectures and experts’ reports, if necessary; translation costs; study visit travel costs;

According to the joint financing procedure, the total cost of contract 2 (600 000 €) will be financed with both Transition Facility funds and Polish funds, in proportions corresponding with contributions declared in the budget table.
In the case of Joint Co-financing, where the final overall cost is lower than foreseen in the project fiche, the National Public and Transition Facility Co-financing are reduced proportionally so as to maintain the agreed rate of co-financing. In the case of Parallel Co-financing, where the final cost is lower than foreseen in the project fiche, it must be shown that the overall objectives of the project have been fully achieved.

The co-financing for the project implementation will be available.

6. Implementation arrangements

There will be a Project Steering Committee (PSC) established in order to speed up the implementation process of the given project components in the first months after Financial Decision for Transition Facility 2006 is taken. The structure of the Committee will be working as an advisory and monitoring body until particular components are contracted and thus were appropriate may be replaced by the Twinning Steering Committee as well as Steering Committees for TA component independently.

The participants of the Project Steering Committee will be representatives of the following institutions: PAO, NAC, CFCU and beneficiary (SPO and contact person as indicated in the fiche). It is also recommended to invite representatives of NAO services while the issues of financial management flow are to be comprehensibly discussed. The Project Steering Committee will meet every quarter starting from the date of signing the Financial Decision and will concentrate on discussing the problems occurred at the beginning phase of project implementation as well as on defining possible solutions and corrective measures. The PAO representative will organize and chair the PSC meetings.

6.1 Implementing Agency

PAO: Mr Tadeusz Kozek, Under-secretary of State at the Office of the Committee for European Integration, Aleje Ujazdowskie 9, 00-918 Warszawa; phone 48 22 455 52 41.

CFCU: Foundation Co-operation Fund, CFCU Director, ul. Górnośląska 4a, 00-400 Warsaw: phone: +4822 622-88-20, fax: +4822 622-75-65

The CFCU is responsible for handling tendering, contracting and payments of contracts on behalf of the Ministry of Finance.

6.2 Twinning

Signature of a twinning covenant with one of the EU Member States is envisaged. Resident Twinning Advisor, responsible for project co-ordination, supervision and completion, will work in the MoF.. Short time experts will work in the MoF.

Project Leader from Beneficiary will be Director or high level civil servant from Ministry of Finances.

Contact Persons:

1) Ms. Marianna Borowska, Deputy Director, Local Government Finances Department, Ministry of Finance, ul. Świętokrzyska 12, 00-916 Warszawa; tel. +48 22 694 41 11, fax. +48 22 694 33 73; e-mail: marianna.borowska@mofnet.gov.pl

2) Mr. Tomasz Zakrzewski, Counsellor to the Minister, Local Government Finances Department, Ministry of Finance, ul. Świętokrzyska 12, 00-916 Warszawa; tel. +48 22 694 52 16, fax. +48 22 694 33 73; e-mail: tomasz.zakrzewski@mofnet.gov.pl
The Local Government Finances Department from Ministry of Finances will indicate a day-to-day RTA counterpart for co-operation with RTA. That person will have experience in project managing and good command of English.

Administrative Office:
Department for Institution Building Programmes,
Office of the Committee for European Integration,
Aleje Ujazdowskie 9, Warsaw, Phone: 48 22 455 52 15, Fax: 48 22 455 52 14

6.3 Non-standard aspects
N/A

6.4 Contracts
It is planned to conclude 2 contracts:

Contract 1: Twinning – Total budget 900 000 Euro (750 000 Euro TF + 150 000 Euro national co-financing) parallel co-financing,

Contract 2: Technical Assistance – Total budget 600 000 Euro gross value (300 000 Euro TF + 300 000 Euro national co-financing) joint co-financing,

7. Implementation Schedule

Contract 1 Twinning:
7.1 Commencement of contracting process: IVth quarter of 2006
7.2. Start of project implementation (signature of contract): Ith quarter of 2007

Contract 2 (TA)
7.1 Commencement of contracting process: IInd quarter of 2007,
7.2. Start of project implementation (signature of contract): IVth quarter of 2007,

Bearing in mind the complexity and significance of the IT System being implemented under this Project, any shortening of the time needed for its implementation may jeopardise the achievement of the planned results.

8. Sustainability
It is foreseen that necessary financial resources will be provided under the Transition Facility Program co-financing scheme.
It is foreseen that the Beneficiary will provide necessary human resources.

Contract 1 Twinning:
Training manuals, experts’ reports and benchmarks prepared by MS experts in the fields according to Tasks 1 and 2.

MS experts’ reports (benchmarks) in the fields according to Tasks 3 – 7.

Contract 2 (TA)
Extension the software of LGBM System in the field of creating unit reports in LGs’ organisational units and verifying and collecting these reports in LGs ( subsystem LG and new subsystem Organisational Units of LGs).

Training manual for LGs and their organisational units.

200 trained user of LGMS System from LGs and their organisational units (during pilot implementation).

Trained all users from LGs and their organisational units all over Poland in the field of preparing, verifying, and collecting unit reports and in LGBM System communication.

9. Conditionalities and sequencing

9.1 Conditionalities

The realisation of the project is conditional on full implementation of the LGBM System in project Phare 2002/000-580.01.09, component B and on all results of this project. Full implementation should be finished till July-August, 2006.

Polish experts should prepare till 1st January, 2007, a draft version of a full tender specification (functional and technical requirements) for Contract 2 on planned extension of LGBM System (including organizational units of LGs). MS experts will support Beneficiary in preparing the final version of ToR.

If costs go beyond the budget, additional costs shall be purely financed nationally.

According to the results of LGs questionnaires made by RAOs in 2004-2005 during the Phare program, 2146 LGs of all 2808 LGs in Poland postulate, that the System should be extended up to four tiers and organizational units of LGs should be included to the System. So, there is no conditionalities in the field of usefulness of the TF06 project to LGs – the project is useful and LGs need it.

Also, concerning to the Tasks 1 and 2 in Contract 1 Twinning, the other technical subjects identified in the implementation of the Project, on which lectures should be made, are impossible to evaluate at the moment. These needs depend on the scope of changes in the law on public finances, which will be modified in 2006 and now there is difficult to foreseen the full set of topics to cover all changes in regulations. So, the number of other topics of lectures is approximated as about 2 or 5.

9.2 Sequencing

The Project planned objective will be achieved, if the following, individual Project stages are accomplished on time:

1) Drafting of the Twinning Covenant with its terms and conditions.

2) Notification of the Twinning Covenant.

3) Analysis of the needs related to the implementation of the objectives of the project and delivery of necessary technical trainings for MoF and the organisations involved in the Project (first part, and then further trainings following the needs).

4) Main results of the Task 1 – the strategic conclusions would be formulated:

   • the scope and direction of necessary changes in the field of local government finances;
   • the scope of analyses of financial situation of LGs to conduct on LGs level, RAOs level and MoF level.
5) Parallel and consistent:
   a) Developing the sets of indicators to monitoring financial situation in LGs in different categories for the purpose of comparison;
   b) Developing the tools to analyse operating and capital activities in LGs;
   c) Drafting the regulations concerning financial analysis of operating and capital activities of LGs;

6) Parallel and consistent:
   a) Establishing the proper strategy/way for trainings for LGs and their organisational units;
   b) Complete tender specification for Contract 2 (Technical Assistance).

7) Proceedings carried out by CFCU and conclusion of the Technical Assistance Contract - Contract 2.

8) Implementation of Contract 2 according to the schedule. Managing, auditing and monitoring of the realisation of Contract 2.

Appendices to the Project Fiche
Annex 1. LogFrame,
## Annex 1: LogFrame

### PROJECT LOGICAL FRAMEWORK

<table>
<thead>
<tr>
<th>LOCAL GOVERNMENT BUDGET MANAGEMENT SYSTEM</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Overall Objective/Goal</th>
<th>Objective Verifiable Indicators</th>
<th>Sources of Verification</th>
<th>Assumptions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Further improvement of the public finance management in the local government sector through extension and development of the IT Local Government Budget Management (LGBM) System.</td>
<td>• Full implementation of the comprehensive and efficient Local Government Budget Management System improved to providing for rational allocation, transfer and monitoring of financial situation in LGs by the end of the project</td>
<td>Official publications and reports by MoF and organisations involved in the Project. Official information on MoF website. Information published by the media, authorised by MoF.</td>
<td>• Implementation of the designed rules and System developed in MoF, RAOs, LGs and their organisational units. • Amendments to legislation, resulting from System’s implementation should be in force.</td>
</tr>
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</table>

<table>
<thead>
<tr>
<th>Project Objective (Outcomes)</th>
<th>Objective Verifiable Indicators</th>
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**Project Number**

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<th>Disbursement period expires:</th>
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<td>IV quarter of 2009</td>
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**Total Budget**

<table>
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<tr>
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<tbody>
<tr>
<td>1.05 MEuro</td>
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</table>
- Increase of efficiency and credibility of the budget planning and reporting data supplied by local governments (LGs) to the Ministry of Finance (MoF).
- Increase of the stability of public finance by monitoring financial situation in LGs in different categories.
- Increase of the transparency of public finance in the local government sector in terms of their efficiency by analysing operating and capital activities of LGs.

| | Shorter time for creation of aggregate budget reports by LGs and their transfer to MoF by the end of the project. The improvement (in days) according to the comparison of regulations on budget reporting – at present and after implementation the new System. The length of official reporting period will be shortened (reports from LGs to MoF).
| | Decreased number of errors in LGs’ aggregate reports by the end of the project.
| | Reduced number of LGs in difficult financial situation thanks to earlier identification of LGs in difficult financial situation by MoF and/or RAO, enabling earlier undertaking control and improvement activities by proper authorities by the end of one year of finishing Contract 1.

- Official publications by MoF, RAOs and Central Statistical Office.
- Shorter transfer of reports by LGs, according to the MoF regulation on budget reporting.
- Analyses made by various MoF Departments. Post inspection reports by Institutions auditing public finance.
- Selection of an appropriate Twinning Partner.
- Securing sufficient human resources by the Polish side.
- Selection of appropriate solutions in order to apply them in the extended System.
- Full implementation of solutions developed under the Project.
<table>
<thead>
<tr>
<th>Results</th>
<th>Objective Verifiable Indicators</th>
<th>Sources of Verification</th>
<th>Assumptions</th>
</tr>
</thead>
</table>

Local Government Budget Management System
• The tools for monitoring financial situation in LGs in different categories for comparative analysis and for analysing operating and capital activities of LGs worked out;
• The rules and criteria for financial analysis of operating and capital activities of LGs and adopting the law regulations in the field of budget reporting in LGs to needs resulting from the implementation of the system development established;
• The IT LGBM System extended and developed with regard to:
  - including organisational units of LGs in the System (decision to be taken by LGs),
  - allowing for monitoring financial situation in LGs in different categories using the sets of indicators for comparisons,
  - allowing for the analysis of operating and capital activities of LGs;
• The time of the budget planning and reporting data supplied by local governments (LGs) to the Ministry of Finance (MoF) shortened;
• The increase of competence of the MoF and other organisations involved in the Project in the following areas: accounting in LGs and organisational units, concepts of task-related budgets, concepts of operating and capital budgets, analysis of operating and capital activities if LGs, other technical subjects identified in the implementation of the Project;
• The qualifications necessary for using the extended LGBM System by the system users, in particular from the LGs and their organisational units acquired.
• The examples of reports (as the “outputs” of the tools) on the financial situation in LGs in different categories, and on operating and capital activities of LGs. – worked out by the end of the Contract 1.
• The proposals of relevant rules and criteria for financial analysis, which can be implemented in MoF and RAOs – established by the end of the Contract 1.
• Shorter time for creation of aggregate budget reports by LGs and their transfer to MoF by the end of the project.
• Pilot implementation of the extended LGBM System according to the Task 2, Contract 2 – successfully carried out by the III quarter of 2008.
• The number of locations (LGs) the pilot implementation was performed in, no less than 6.
• No less than 60 the number of taught users of LGs and their organisational units during pilot implementation of the System on preparing unit reports, sending, verifying and collecting them by the end of Task 2.
• No critical faults (system, application) during performing UAT.
• Reports on Project implementation (e.g. RTA’s reports), based on a developed set of measures.
• Official Report on Methodology and Plan of Training initialled by LGFD, approved by SPO supervising LGFD, initialled by entities taking part in the Project.
• Official acceptance protocols for products or phases under Contract 2 by the Beneficiary’s Steering Committee.
• Protocol of the System’s final acceptance by the Beneficiary, CFCU - Protocol of the pilot training acceptance indicating the number of participants, with the attendance lists and questionnaires fulfilled by participants.
• Protocol of the final training acceptance indicating the number of participants and LGs.
• Timely completion of subsequent Project stages.
• Provision of adequate funds.
• Provision of experts cooperating under the Twinning Covenant, with appropriate substantive background and very good co-ordination of activities by RTA.
• Implementation of technical Contracts 2 by professional contractors, according to the schedule.
• Very good contract management (2) by the Beneficiary and consultant (contractor).
<table>
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<th>Activities</th>
<th>Means</th>
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Local Government Budget Management System
### Contract 1 - Twinning

1. Studies (seminar, workshops, …) on: accounting in LGs and organisational units, concepts of project budgets in LGs, concepts of operating and capital budgets in LGs, analysis of operating and capital activities in LGs, other (if necessary). Establishing key conclusions.
2. Organising trainings for MoF and others in the fields specified in Task 1.
3. Developing sets of indicators to monitoring financial situation in LGs in different categories for the purpose for comparison.
4. Presentation rules of estimating LGs’ real estate value and solutions in that field in EU.
5. Developing tools to analyse operating and capital activities of LGs.
6. Defining principles and criteria for financial analysis of operating and capital activities of LGs.
7. Adopting regulations concerning budget reporting in LGs to the needs stemming from the proposed changes necessary to implement in the System and assistance in developing these regulations.
8. Working out the optimal strategy and the way of training for LGs and their organisational units.
9. Working out of a full tender specification for Contract 2 Technical Assistance.

### Contract 2 Technical Assistance

2. Working out software of the development and extension of the LGBM System, testing and pilot implementation (including training for 200 users), conducting User Acceptance Tests.
3. Training for system users in LGs and their organisational units all over Poland.

• Twinning contract signed with one RTA and middle-term and short-term experts.
• Assistance by Resident Twinning Adviser and Middle and Short Term Experts who have knowledge on public finance systems in EU Member States, on IT systems’ designing and implementation.

• Technical Assistance Contract: Extension and Development of the IT LGBM System signed.

• Cofinancing available.
• Involvement of necessary organisations/units into the implementation of the Project.
• Secondment by the parties involved in the Project of the necessary number of Polish experts – employees of the organisations mentioned above and ensuring the completion of project related tasks despite their regular responsibilities.
• Provision of appropriate tele-IT infrastructure for LGs and their organisational units (within the competence of LGs).
<table>
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<th>Preconditions</th>
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<tbody>
<tr>
<td>- Full implementation of the LGBM System worked out in project Phare 2002/000-580.01.09, component B and all results of this project.</td>
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<td>- Preparation a draft version of a full tender specification (functional and technical requirements) for Contract 2.</td>
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# Annex 2-3: Implementation, Contracting and Disbursement Schedule

## LOCAL GOVERNMENT BUDGET MANAGEMENT SYSTEM

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### CONTRACT 1

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### Legend:

- D = design of contract and tendering;
- C = signature of contract;
- I = contract implementation and payment