On the results of public spending review for the years 2017, 2018 and 2019 and suggestions regarding use of these results in the process of the Draft Medium Term Budget Framework Law for the years 2017, 2018 and 2019 and the Draft Annual State Budget Law for 2017

# Scope

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|  | ***On 1 March 2016 the Cabinet of Ministers approved the following:****1. The Scope of spending review (effects of budget elasticity tools; correlation to market prices; irrational spending changes compared to 2015; analysis of past new policy initiatives etc.).**2. Reviewing priorities – health and education sectors (also two working groups were set up for overall process, one of the specifically dedicated to health spending).**3. Fundamentally review and update performance information linking it to policies and budget programme expenditures.*4. To develop tools for efficiency and effectiveness analysis of expenditure (linking expenditure with policy outcomes and outputs). |

## Financial Results of the Spending Review

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|  | *Results was adopted by the Cabinet of Ministers on 31 May 2016.* *In fiscal terms efficiency gains of* ***EUR 61,3 million*** *for 2017 were achieved, which provided additional funds for reprioritizing expenditures both within line ministries and for general government priorities:** *EUR 32,6 million were allocated for government priorities;*
* *EUR 28,7 million were identified as ministerial internal resources.*
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| Method of the Spending Review | 2017 | 2018 |
| Update of conditions*Analysis of legislation regarding fixed-term measures, update of expenditure in line with updated GDP forecasts.* | 21 684 364 | 20 182 112 |
| Revenue non-performance*Disregard of certain toll revenue.* | 8 046 552 | 8 046 552 |
| Expenditure non-performance*Analysis of regular surplus in budget programmes from 2013 to 2015.* | 2 964 628 | 2 964 628 |
| Expenditure redistribution*Analysis of systematic and resource-intensive redistributions from one budget programme to other (from 2013 to 2015).* | 20 065 043 | 19 804 170 |
| Redistributions from new policy initiatives *Analysis of made redistributions from new policy initiatives over the last three years (from 2013 to 2015).* | 819 647 | 819 647 |
| Policy changes *Possibilities to make determined policy changes in legislation that affect revenue and expenditure.* | 2 253 473 | 4 248 709 |
| Linkage to the results *Aligning costs with direct performance results.* | 1 539 442 | 1 445 855 |
| Heating and fuel *Medium-term expenditure trend compared to market prices* | 3 970 124 | 3 825 381 |
| **TOTAL:** | **61 343 273** | **61 337 054** |

**Detailed information on benefits and results of the Spending review**

Methods of Spending Review:

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|  | **Linking Public Expenditure with Results** |

* The implementation of the *Instrument Panel* enabled the budget to be linked with policy performance indicators. As a result, budget explanations since 2017 were changed, implementing policy and resource management scorecards through which view is provided on invested resources (financial and human resources) to achieve sectoral policy outcomes and on the benefits for society in the result of sectoral activity. The policy and resource management scorecards for each sector defines the sectoral objectives, investment indicators, policy and performance indicators and quality indicators.
* To implement best international practice, an interactive budget infographic is available on the Ministry of Finance website, which allows the user to get acquainted with nine budget investment areas (for example, health, education, social protection, etc.) and the allocated funding, as well as to find out detailed information on the investment directions in each area and funding sources. Additionally, information is provided on the results that can be expected from the investment of State budget funding into the relevant area.

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|  | **Analysis of state budget flexibility instruments** |

* Analyzing increase of the **number of sick-leave sheets and the cost of sickness benefits**, the Ministry of Welfare, in cooperation with the Ministry of Health and the Ministry of Economics, was asked to develop a solution to stabilize the situation. As a result, since 2018 amendments were made to the regulatory act, including period for the qualification of sickness benefits (by determining the insurance period of 3 months in the last 6 months or 6 months in the last 24 months), limiting the right to sickness benefits if the work failure occurred within a month after the person ceases to be a worker, and adjustments in the calculation of the average contribution salary. The savings in 2017 were estimated at EUR 2,7 million euro, 5,2 million euro in 2018, 5,3 million euro in 2019.
* To improve the procedures for the delivery and issuance for **paper documents provided in procedural law**, the Ministry of Justice was tasked with drafting amendments to the regulatory acts. The amendments resulted in the withdrawal of recorded mail messages through legal proceedings, including electronic mail or online notification. This resulted in savings of 396 418 euro.

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|  | **Horizontal analysis of individual types of expenditure** |

* An analysis has been carried out regarding the costs of **fuel and heating** in line with market prices. As a result, from 2017 the Ministry of Economics has been tasked with publishing assumptions on fuel (petroleum), gas and electricity price forecasts or a reference to forecasts from international institutions that ministries and other central state institutions can use to prepare budget requests for the medium term.
* It has been found that analyzing the **representation expenses** of ministries, a common level of these expenses cannot be determined for ministries, thereby planning representation expenses the Ministry of Finance call on to apply the Guidelines for the provision of administrative and image-building measures by a public administration institution.

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|  | **Options for implementing the zero-budget principle** |

* An analysis of the budget units budget programmes was carried out in order to find out which state budget components are planned in accordance with the zero-budget principle. The following classic features of the zero budget in Latvian case were determined:

• Expenditure arises from payment schedules;

• Expenditure depends on the number of beneficiaries / amount of costs;

• Expenditure is intended for the projects financing;

• Other cases where the amount of expenditure is formed annually from the zero cycle or there is no inheritance of expenditure.

The implementation of the principle of “zero-based budgeting” for individual pilot projects – state reimbursed medicines and materials and the management of public libraries – was launched in 2017.

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|  | **Detailed assessment of priority sectors (Health and Education)** |

* **Health sector**

The health sector analyses the link between spent funding and its main indicators in the following areas:

• Stational healthcare (tariff and quota opacity, hospital funding, medical equipment load);

• Ambulatory healthcare (financing of family doctors, medical equipment load, differences in tariff policy, addition to list of reimbursed medicine with cheaper analogue).

The result of tasks that have been assigned to the Ministry of Health to arrange health sector:

1. The Ministry of Health developed proposals for structural reforms to the health system using additional funding. They resulted in a reduction of lines for secondary ambulatory health services by 25% in 2017, by 50% in 2018 and 2019;

2. The Ministry of Health developed a range of medical institutions, dividing hospitals into four levels;

3. The Ministry of Health developed a strategy for the reorganization of subordinated institutions;

4. Revised radiology tariffs, reviewing the values of equipment included in the manipulation tariff calculations, which resulted in a reduction of depreciation cost of equipment and a reduction in radiology rates;

5. To ensure the transparency of the healthcare budget, the Ministry of Health budget subprogramme 33.01.00 “Medicine” was eliminated and its funding divided into the six subprogrammes.

* **Education sector**

The education sector analyses the linkage between spent funding and its main indicators in the following areas:

• State budget earmarked grants to local governments (number of educators, workloads, number of students);

• State budget expenditure for general education;

• State budget expenditure for vocational education training institutions (number of students and pedagogical staff);

• State budget expenditure for higher education (number of students and academic staff, number of budget places, duplication of study programmes).

To organize the financing model of boarding schools, special pre-school education institutions, special boarding schools, development and rehabilitation centers registered in the Register of Educational Institutions, the Ministry of Education and Science in 2017 intended to cover the maintenance costs for local government special pre-school education institutions at 30% of the State budget financial resources.