On the results of public spending review for the years 2019, 2020 and 2021 and suggestions regarding use of these results in the process of the Draft Medium Term Budget Framework Law for the years 2019, 2020 and 2021 and the Draft Annual State Budget Law for 2019

# Scope

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|  | ***On 12 March 2018 the Cabinet of Ministers approved the following:****1. Changes in the state budget policy – legislative amendments for work efficiency, wider use of automatic data processing systems, analytical work strengthening.*2. Changes in line ministry policy funding – focus on effective real estate use and management and ICT optimization. |

## Financial Results of the Spending Review

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|  | *Results was adopted by the Cabinet of Ministers on 5 February 2019.* *In fiscal terms efficiency gains of* ***EUR 51,3 million*** *for 2019 were achieved, which provided additional funds for reprioritizing expenditures both within line ministries and for general government priorities:** *EUR 7,7 million were allocated for government priorities;*
* *EUR 43,6 million were identified as ministerial internal resources.*
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| Method of the Spending Review | 2019 | 2020 |
| ***Changes in the State budget policy*** | ***226 699*** | ***226 699*** |
| *A single framework for transfers or changes to appropriations of all kinds is introduced; improved analysis of the implementation of the State budget; In order to ensure an annual and medium-term budgetary planning framework based on the achievement of the objectives set out in the development planning documents, the explanations of the State budget have been improved by integrating higher-level performance indicators into the budgetary framework; actions have been taken to ensure greater use of automated data processing systems in the planning of the State budget.* | **226 699** | **226 699** |
| ***Changes in line ministry policy funding*** | ***51 082 811*** | ***33 494 521*** |
| **Review of allocated funding for priority measures and other measures***Review of the funding allocated for priorities and other measures from 2015 to 2017, assessing the relevance, results achieved and effectiveness of the priority measures.* | **23 514 573** | **27 552 199** |
| **Review of the sector policy funding***Proposals from ministries and other proposals to make functions more effective.* | **12 850 594** | **1 422 716** |
| **Horizontal solutions to make public budget resources more efficient***Revised press (newspapers, magazines, etc.) subscription costs in both electronic and printed formats; analysis of the share of December's monthly expenditure against total annual expenditure* | **12 300 550** | **3 246 792** |
| **Evaluation of real estate used for the needs of ministries, their subordinate state budget institutions and other central state budget institutions and their management expenses***A detailed questionnaire was drawn up on the real estate used by public authorities and their management costs. The expanded analysis is carried out only for office spaces. Analysis of rent, management fee and total costs without value added tax.* | **2 320 000** |  |
| **Analysis of the field of information and communication technologies***Evaluating resource sharing capabilities for information systems functionality in the field of information and communication technologies (ICT) to promote improvements in the effectiveness of public administration ICT support. Optimization proposals and their implementation pathways have been developed to improve ICT management in public administrations.* | **97 094** | **1 272 814** |
| ***TOTAL:*** | **51 309 510** | **33 721 219** |

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

Methods of Spending Review:

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|  | **Changes in the state budget policy** |

* **The Introduction of a single framework for transfers or changes to appropriations of all kinds**

Based on an analysis carried out in 2017 spending review report and including consultation with line ministries, it was established that a common framework for all types of appropriations should be developed, avoiding the fragmentation of regulatory frameworks and duplication of rules.

Common requirements for requests for changes in appropriations were developed and the ministry's numerical information can be entered in the State Budget Planning and Execution Information System (SAP) itself.

The administrative burden for ministries was reduced and there was an opportunity to redirect resources to analytical work. More emphasis is placed on the analysis of the impact of the changes in appropriations as well as on the objectives and performance indicators of the budget programs.

* **Improved analysis of implementation of the State budget**

The Ministry of Finance carried out an in-depth study and review of the current implementation analysis process and, considering the ministries' proposals, developed a new regulatory framework.

Benefits of the new regulatory framework:

• Information held by the Ministry of Finance will not be duplicated;

• Improved implementation analysis form;

• Controls on possible negative impact on the State budget have been performed;

• Linked to the innovations introduced during the budgetary planning phase – policy and resource management maps and performance indicators of priority measures;

• Optimized number of forms;

• Reduced frequency of information.

* **Linking budget explanations to development planning documents**

The following measures have been taken as part of the spending review:

• Improvement of budget explanations;

• A model for analysis of the effectiveness of investments in different sectors has been established;

• The accounting model for the distribution of state budget expenditures has been prepared;

• The objectives, results and performance indicators of budget programs and sub-programs have been improved;

• Development part of the State budget has been improved by establishing a common concept: priority measures;

• Improved financial accounting of the National Development Plan for 2014-2020.

* **Greater use of automated data processing systems in the planning of the State budget**

The most important processes for the planning of the State budget are provided in the State Budget Planning and Execution Information System (SAP). The State Budget Planning and Execution Information System (SAP) was introduced in 2006, when knowledge and practical experience in the implementation of projects of this scale were limited. Therefore, the functionality of some processes no longer meets today's requirements, i.e., some features of the original solution are complex and difficult to use because of their technical performance. To facilitate the wider use of automated data processing systems in State budget planning and to make it simpler, more traceable and user-friendly, the evaluation of the State budget processes, and IT solutions continues.

The solutions include:

• improved access to input of initial budget requests to ministries;

• the introduction of a web-based centralized information system for the preparation, harmonization and storage of estimates;

• reduction of the users of the State Budget Planning and Execution Information System (SAP).

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|  | **Review of the sector policy funding** |

* **The Ministry of Environmental Protection and Regional Development** has taken several measures to improve the effectiveness of subordinate institutions, including by reducing the personnel needed to perform support functions.
* **The Ministry of Health** reviewed all groups of medical diagnoses and raised the effectiveness of the reimbursement system for the purchase of medicinal products. An analysis was carried out on diagnoses that compensate the cost of purchasing medicines for ambulatory treatment. It has been found that for several medical diagnoses can find spending savings by increasing the number of patients receiving medication therapy, reducing the price of medication, or reducing the patient's co-pay. Results: the effectiveness of the reimbursement system for purchasing medicines increased and higher performance indicators were achieved.
* **The Ministry of Culture** continued its work on zero budgeting for the library policy sector, covering all the specific functions and services provided by the related institutions.
* **The Ministry of the Interior** (“Fire, Rescue and Civil Protection” budget program) was granted additional funding for remuneration (for overtime work) of 2,0 million euros. Models for the organization of service duties were developed and the optimal solution was found to avoid unduly high overtime payments. The savings from the funding allocated to pay overtime work directed to other priority remuneration measures.
* **The Ministry of Education and Science** identified internal financial resources that were directed to raise the minimum wage rate for teachers (from €680 to €710) as from 1 September 2018. Result: completion of the schedule for raising teachers' wages.
* **The Ministry of Justice** carried out the reform of judicial areas. One district (city) court in Kurzeme, Vidzeme and Zemgale courts district was set up in 2018. Results: optimized number of court employees, reducing by 26 employees.

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|  | **Horizontal solutions to make public budget resources more efficient** |

* **Revised press (newspapers, magazines, etc.) subscription costs in both electronic and printed formats**

The Ministry of Finance sent a questionnaire to ministries and other central government authorities for an evaluation of the press subscription costs. In the analysis of the information submitted, the following conclusions and recommendations were drawn up:

* many institutions subscribe several newspapers with similar content. A recommendation to subscribe to only one of these newspapers;
* many newspapers from one district have been subscribed. A recommendation to assess whether it is necessary to subscribe to all newspapers from one district;
* in some cases, subscribed newspapers have an entertaining character and could be considered as low-priority newspapers. A recommendation to prioritize all the subscribed newspapers and to evaluate the possibility of abandoning the lowest priority newspapers;
* specific cases were identified for some institutions where a newspaper subscription could be waived (e. g. List of Countervailable Medicinal Products).
* **Improved financial planning**

The tendency of ministries to use most of the funds for basic functions in the last month of the year was identified and analyzed. This tendency is mainly explained by the fact that purchases and investments made in December. It is important to point out that ministries are interested in the use of the entire government budget grant and that the closed budget appropriations should not remain.

To reduce the share of December expenditure and to ensure more flexible action on budgetary resources at the end of the financial year, the possibility of partly transferring unused expenditure to the next financial year was envisaged. This solution balances the availability of financial resources with the institution's operational processes, facilitates institutional leaders to make savings in the current year and reduces spending to a higher extent at the end of the financial year.

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|  | **Evaluation of real estate used for the needs of ministries, their subordinate state budget institutions and other central state budget institutions and their management expenses** |

A detailed questionnaire was drawn up on the real estate used by the public authorities and their management costs. The questionnaire was completed for 236 buildings or parts of 88 public authorities. An analysis of questionnaires on real estate in Riga concludes that the total area of buildings used by public authorities is increasing every year.

The following proposals have been developed in the analysis of the questionnaires:

* all public authorities should switch to the rental relationship and ensure a review of the amount of rental. Thus, avoiding an increase in the number of buildings in critical condition, as well as risks to public safety and human health;
* to carry out centralized management and maintenance of office buildings;
* directing the State Real Estate as one of the main managers of state-owned office buildings.

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|  | **Analysis of the field of information and communication technologies** |

Evaluating resource sharing capabilities for information systems functionality in the field of information and communication technologies (ICT) to promote improvements in the effectiveness of public administration ICT support. National ICT management currently uses a partly centralized management model, which establishes national and institutional competences and responsibilities in national ICT management processes.

The ICT management model contains the following key elements:

* national ICT management organization;
* institutional ICT management organization;
* a sharing ICT organization;
* national ICT Leaders Forum.

Optimization proposals and their implementation pathways have been developed to improve ICT governance in public administrations. The preferred ICT management and support model of the Latvian State Administration is composed of professional experience in ICT management work, as well as information on best practices for efficient ICT management. Informal consultation of ICT leaders of the State Administration (CIO Network) is organized for the exchange of information. The proposals for the most appropriate organization model for public administration ICT support are based mainly on the experience of Luxembourg, Finland, and Denmark.

Optimization proposals:

* reduce software rental costs;
* consolidate procurement of hardware at national level;
* single workstation policy;
* do not overpay for software contained in the licenses already in use;
* personal device use policy;
* standardized desktop configurations and computer user profiles;
* consolidated purchases of software licenses;
* development of specialized centers of competence;
* consolidating the management of computerized workplaces and standard software;
* standard software cost optimization;
* centralized management of data transmission networks and optimization of related services;
* optimizing the selection of data centers and licensing software;
* possibility of using cloud computing service (MDP) in public administration;
* using Open-source software (OSS).

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|  | **Reduction of administrative burdens in municipalities** |

* To reduce the administrative burden for municipalities:

• the transfer arrangements for grants to local governments for children in childhood homes and residents in old-age nursing homes and centers (placed in them before 1 January 1998) have been changed;

• changed procedures for the submission of estate tax forecasts by local governments;

• work has been undertaken to integrate funds earmarked for specific purposes of the local government special budget into the general budget;

* facilitate the process of preparing municipal borrowing and claims for guarantees.