On The results of public spending review for the years 2022, 2023 and 2024 and suggestions regarding use of these results in the process of the Draft Medium Term Budget Framework Law for the years 2022, 2023 and 2024 and the Draft Annual State Budget Law for 2022

# Scope

|  |  |
| --- | --- |
|  | ***On 25 March 2021 the Cabinet of Ministers approved the following:****1. to further improve the regulation of the management of State budget planning and execution processes, including the introduction of preconditions for the wider use of automated data processing systems in the budget management process (for example, reports, automation and exchange of information);*2. to carry out an analysis of sectoral budget financing, including an analysis of the financing of policies and areas under the supervision of line ministries and a horizontal review of the State budget programmes, to ensure a more economic and rational implementation of the functions financed by the State budget, reduce administrative burdens and, if necessary, to make proposals for policy changes. |

## Financial Results of the Spending Review

|  |  |
| --- | --- |
|  | *Results was adopted by the Cabinet of Ministers on 19 August 2021.* *In fiscal terms efficiency gains of* ***EUR 172,8 million*** *for 2022 were achieved, which provided additional funds for reprioritizing expenditures both within line ministries and for general government priorities:** *EUR 70,6 million were allocated for government priorities;*
* *EUR 102,2 million were identified as ministerial internal resources.*
 |

|  |  |  |
| --- | --- | --- |
| Method of the Spending Review | 2022 | 2023 |
| ***Horizontal measures for the resource allocation in favor of the current priorities*** | ***157 633 232*** | ***44 348 879*** |
| **Analysis of budget underspending***Average annual non-compliance of total expenditure of the programmes (2018 – 2020)* | **14 183 931** | **14 183 931** |
| **Review of the funding allocated for priorities and other activities (Review of development expenditure)***Review of the funding allocated for priorities and other activities from 2020 to 2022, assessing the relevance, results achieved and effectiveness of the priority measures* | **35 307 370** | **2 335 421** |
| **Review of base expenditure by line ministries***Revised resources for internal redeployment in ministries with implications for the coming years. An analysis of expenditure underperformance was carried out in parallel* | **103 904 501** | **23 592 097** |
| **Update of price list of paid services** *Analysis of potential additional revenues from the updating the price lists of paid services (total 79 price lists of paid services)* | **4 237 430** | **4 237 430** |
| ***Analysis of the financing policies under the supervision of line ministries*** | ***2 659 100*** | ***2 470 616*** |
| **Review of medicinal products to be reimbursed from the State budget** *Analysis of the costs of reimbursable medicinal products* | **749 042** | **1 259 392** |
| **Review of the State budget paid residents** *Analysis of expenditure for the training of residents* | **1 344 011** | **645 177** |
| **Analysis of the use of funding to support the diaspora** *Analysis of funding for diaspora support measures for the period 2015-2023* | **566 047** | **566 047** |
| ***TOTAL:*** | **172 803 365** | **47 519 012** |

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

Methods of Spending Review:

|  |  |
| --- | --- |
|  | **Horizontal measures for the resource allocation in favor of the current priorities** |

* **Impact of Covid-19 on the Ministry and total government budget expenditure.**

Expenditures such as study, work and business trips, other utilities, public activities of the institution, transport services, repair of machinery and equipment, office supplies, fuel, technological equipment, and machinery were analyzed.

* **Review of base expenditure by line ministries in an overview with an analysis of the non-compliance of expenditure.**

The results of internally reviewed resources in the ministries with information on internal redistributions with an impact on the coming years. An analysis of expenditure shortfalls was carried out for those budget programmes/sub-programmes of the main functions of the basic budget in which expenditure shortfalls of at least EUR 10 000 or 15% were identified each year for the three-year period 2018-2020 and continue beyond 2021. The analysis did not consider the budget programmes/sub-programmes of the ministries that generate revenue from state fees.

* **Review of the funding allocated for priorities and other activities (Review of development expenditure)**

The following components of the priority measures were evaluated: flexibility (reallocation of allocated funding); efficiency (implementation of expenditure and performance indicators); actuality of priority measures; public interest (whether the priority measure can be continued with less funding); the role of government (whether the priority measure is included in the Government Action Plan).

* **Analysis of the implementation of the policy performance indicators included in the explanations of the state budget and their linkage with financing.**

Considering that the programming period for 2014-2020 ended in 2020, it was examined whether the planned values of the policy performance indicators set for 2020 were achieved, as well as the linkage between the policy performance indicators and the funding allocated to the specific policy area. As part of the spending review, 235 policy performance indicators included in the 2020 budget explanations were analyzed.

* **Update of price list of paid services**.

The price lists of paid services were analyzed, and the actuality of their costs were assessed. During the analysis, the time of their updating (2 years and more) was viewed, the planned revenue for 2021, as well as whether the price list of the paid service is being updated is considered.

|  |  |
| --- | --- |
|  | **Analysis of the financing policies under the supervision of line ministries** |

* **Assessment of the health sector: Residency, international settlements, reimbursable medicinal products.**

Analysis of State budget expenditure for the training of residents, duration of studies. National budgeted elective healthcare services in another EU, EEA Member State or Switzerland have been analyzed. It has been assessed whether the provision of services can also be ensured in Latvia. It has been found that savings have been made from reducing the price of medicines or the patient's co-payment, thereby increasing the effectiveness of the reimbursement system for purchasing medicines, increasing the number of patients receiving medicines and achieving higher performance rates.

* **Cultural sector assessment: digitizalisation, cultural heritage, overlapping of functions.**

The expenditure of the cultural sector in international comparison, the functions of the National Cultural Centre of Latvia compared to the functions of the State Education Content Centre, as well an insight into the activities of the National Archive of Latvia, highlighting the issue of the digitalisation of historical archive units.

* **Analysis of the use of funding to support the diaspora.**

An analysis of the funding allocated for the implementation of diaspora measures has been carried out, and the potential available internal resources have been identified.

* **Sustainability analysis of the service pension system.**

Annual public budget expenditure for service pensions exceeds EUR 75 million per year, while future liabilities undertaken by the State to provide service pensions amount to EUR 4,5 billion. It has been established that in order to ensure a sustainable, fair and fiscally responsible service pension system, it is necessary to fully review the existing system and to ensure a centralised approach in the development of the service pension policy and the regulatory framework, taking into account the need to define the objectives of the granting of service pensions, to review the existing circle of service pension beneficiaries, for all service pensions there must be fixed-term criteria for the acquisition and calculation of a service pension for each group of professions (positions).

|  |  |
| --- | --- |
|  | **Process and system improvement** |

* **Development of financial management systems and processes.**

The Ministry of Finance, in cooperation with the European Commission and the OECD, has started to implement the “Improving the functioning of public financial management in Latvia – budget preparation and implementation” technical assistance project, thereby improving the budgetary processes to make them more consistent with international effective financial management practices. The benefits and implementation of centralised accounting solutions are addressed.

* **Possibilities for centralisation of support functions.**

To ensure the economic and rational use of State budget resources, the State Chancellery regularly assess the proportion of the performers of aid functions in the State administrative authorities. The share of basic and other functions, as well as support functions (“Accounting”, “Purchases”, “Personal management”) in departments and, on average, in public administration. In general, it is concluded that, despite what has already been done, the departments should continue their efforts to centralise support functions, to optimise other resources, to ensure that the objective of “small and professional public administration” is achieved in good quality.