On the results of public spending review for the years 2021, 2022 and 2023 and suggestions regarding use of these results in the process of the Draft Medium Term Budget Framework Law for the years 2021, 2022 and 2023 and the Draft Annual State Budget Law for 2021

# Scope

|  |  |
| --- | --- |
|  | ***On 26 February 2020 the Cabinet of Ministers approved the following:****1. Fundamental analysis of the functions financed by the State budget – Strategic Review Form of the State budget programs and sub-programs, applicable to the level of detail of functions and activities.**2. Analysis of the financing policies under the supervision of line ministries – to ensure more cost-efficient and rational implementation of the State functions and, if necessary, to provide proposals for policy changes.**3. Medium-term expenditure revision results, incl. – possibilities for centralization of support functions, enhancing the field of information and communication technologies, ensuring that the expenditure is linked to the source of resources.* |

## Financial Results of the Spending Review

|  |  |
| --- | --- |
|  | *Results was adopted by the Cabinet of Ministers on 18 August 2020.* *In fiscal terms efficiency gains of* ***EUR 53,6 million*** *for 2021 were achieved, which provided additional funds for reprioritizing expenditures both within line ministries and for general government priorities:** *EUR 13,1 million were allocated for government priorities;*
* *EUR 40,5 million were identified as ministerial internal resources.*
 |

|  |  |  |
| --- | --- | --- |
| Method of the Spending Review | 2021 | 2022 |
| ***Analysis of the functions financed by the State budget*** | ***37 000*** | ***37 000*** |
| **Review of functions and activities** *A form for reviewing the functions and activities of the state budget programs has been developed. In cooperation with sectoral ministries, sectoral budgets were analysed by dividing the State budget programmes/sub-programmes into functions/activities, assessing their relevance and effectiveness, as well as the funding allocated to functions/activities.* | 37 000 | 37 000 |
| ***Analysis of funding policies under the supervision of industry ministries*** | ***53 610 727*** | ***38 362 541*** |
| **Review of funding allocated for priorities and other activities***Review of the funding allocated for priority measures and other measures from 2017 to 2019, assessing the relevance, results achieved and effectiveness of the priority measures.* | 38 946 338 | 23 698 152 |
| **Analysis of state-funded health care services***The provision of secondary outpatient health services and scheduled hospital health services, as well as the implementation of funding for health reform measures in 2019 have been evaluated.* | 10 745 617 | 10 745 617 |
| **Analysis of the budget of the Ministry of Interior** *An evaluation of the expenditures and performance indicators of the Ministry of the Interior has been carried out.* | 2 380 000 | 2 380 000 |
| **Vocational education analysis***An evaluation of vocational education has been carried out, including an analysis of the number of pupils, expenditure per pupil and vocational education programs.* | 1 538 772 | 1 538 772 |
| ***TOTAL:*** | **53 647 727** | **38 399 541** |

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

Methods of Spending Review:

|  |  |
| --- | --- |
|  | **Analysis of the functions financed by the State budget** |

An analysis of the functions financed by the State budget under the section in cooperation with sectoral ministries, sectoral budgets were analysed by dividing the State budget programmes/sub-programmes into functions/activities, assessing their relevance and effectiveness, as well as the funding allocated to functions/activities.

Based on the “Strategic Review Form for the State Budget Programs and Sub-programs” developed in 2019, a form for the review of the functions and activities of the State budget programs was developed. The form was created for the following reasons:

* to be able to carry out an analysis of the expenditure of the State budget on the same evaluation form and criteria.
* to assess and obtain information on the relevance and effectiveness of the functions and activities of the basic functions of the State budget.
* to detect possible overlaps of functions.

Completed forms were received by 19 institutions, reviewing 236 programs, identifying 489 functions and 1,283 performance indicators.

An in-depth analysis of functions concludes that:

* have overlapping functions within the same institution.
* have overlapping functions between different institutions,
* have functions which overlap with the functions of municipalities.
* additional proposals have been made to the institutions for the further implementation of their functions.

|  |  |
| --- | --- |
|  | **Analysis of funding policies under the supervision of industry ministries** |
|  | **Analysis of state-funded health care services** |

As part of the analysis of state-funded health care services, the following have been evaluated:

* provision of secondary outpatient health care services, including a detailed analysis of three of the most-provided secondary ambulatory healthcare services: computed tomography (CT), radiology (X-ray), ophthalmology.
* provision of scheduled inpatient health care services, including revision of tariffs for specific inpatient health care services.
* implementation of funding for health reform measures in 2019.

Based on the findings, the Ministry of Finance calls on the Ministry of Health to draw attention to the financing plan, which has been increased as a result of reforms or is planned to the same extent. Situation may arise that the funding will not be used in the following years as well. Therefore, in view of the shortage of specialists and unused funding, the allocated funding for reforms, such as the reform of the quality payment system for family practice doctors, the reform of mental health care, should be evaluated.

|  |  |
| --- | --- |
|  | **Analysis of the budget of the ministry of interior** |

* An analysis of the expenditure and performance indicators of the Ministry of Interior was carried out. It is concluded that with the increase of expenditures, the number of criminal offenses registered in the country and the number of performed examinations decreases. This correlation indicates an improvement in the efficiency of the State Police.
* Expenditure of the Ministry of Interior for convoying functions could potentially decrease by 70% or EUR 2.4 million per year if the Ministry of Justice reduce the face-to-face trial proceedings to 30% and organize trial proceedings remotely. The Ministry of Justice has assessed the provision of the convoying function and concludes that the situation of Covid-19 has demonstrated that a large part of the activities that led to the convoys of prisoners can be carried out remotely.

|  |  |
| --- | --- |
|  | **Analysis of the education sector** |

* **Vocational education**

The evaluation of vocational education was carried out because significant reforms in vocational education have been implemented in recent years. Information on 45 vocational education institutions was requested and analyzed. Number of students, expenditure per student and vocational education programs were analyzed.

Conclusions and recommendations:

* there are significant data discrepancies between the data sent by the responsible ministries and the data available in the State Education Information System. To prevent this, the Ministry of Education and Science has commenced activities for the development and improvement of the State Education Information System.
* the most popular vocational education programs are: Transport, Catering Services and Hotel Services. For example, the vocational education program Catering Services is available in 18 out of 45 schools. Considering the recommendations, the Ministry of Education and Science has prepared an informative report “On the Establishment of a Graduate Monitoring System in Vocational Education”, as well as a conceptual report “On the Financing of Vocational Education Programs”, which provides proposals for improving the financing of vocational education programs.
* vocational education institutions under the Ministry of Culture have a very different amount of costs per pupil, which is explained by the very small number of pupils in a large part of these schools. Considering the recommendation, the Ministry of Culture has carried out an assessment and achieved a reduction in average costs per pupil.
* **Higher education**

Continuing to review the higher education sector, in 2020 the use of funding allocated to higher education institutions and colleges was analyzed in more detail. Some revenue items of higher education institutions, as well as expenditures of higher education institutions and colleges have been evaluated. Within the framework of the analysis, great emphasis was placed on staff remuneration.

Conclusions and recommendations:

* the revenues of some higher education institutions are derived almost only from the State budget grant. This means that at some higher education institutions there are no places of study for a fee at all.
* the expenditure of most higher education institutions has increased. The responsible ministries need to evaluate the expenditure of higher education institutions on the formation of fixed capital.
* University of Latvia needs to assess the possibility of reviewing the overlap of study programs in colleges.
* the analysis shows significant differences in the amount of remuneration paid to administrative staff. It is concluded that the remuneration for administrative staff varies even nine times between universities. At the same time, the analysis of these data over a six-year period leads to the conclusion that the quality of the data is poor. The Ministry of Education and Science has been informed to improve the quality of the data.
* **Sport sector financing**

The financing organization of the sport sector shows fragmentation in the allocation and use of State budget funds. Funding is allocated to many organizations, which then directs funding to other organizations and structures. A total of 17 different providers or beneficiaries were identified. The Ministry of Education and Science was asked to assess the possibilities of reducing the number of organizations involved in the administration and absorption of state budget funds. Thereby improving budget planning and making the use of State budget financing more traceable and understandable.

Based on the recommendations, the Ministry of Education and Science made changes to the high-achievement sports financing model. The recommendation also provides reorganization of the Latvian Olympic Unit.

|  |  |
| --- | --- |
|  | **Potential role of public–private partnership (ppp) in promoting development and productivity** |

Summarizing the available materials on PPP, it can be concluded that the issue of PPP is currently being raised in many countries. Especially in Europe, where EU Member States are actively seeking alternative opportunities for investment and infrastructure development.

Proposals:

* further education of the public and private sector (development of information materials, updating the knowledge base);
* development of methodology and processes;
* strengthening the role of the Central Finance and Contracting Agency as a PPP competence center by promoting its capacity to provide more extensive support to the promoters of PPP projects, including providing standardized solutions for evaluating PPP project ideas and preparing procurement documentation;
* preparing a report on the implementation of projects (needed to meet the needs of State and local governments) who cannot be financed by the European Union Structural Funds and the Cohesion Fund, as well as other foreign financial assistance, within the framework of a public-private partnership, ensuring their accounting outside the budget balance;
* establishing a PPP strategy: a 5-10-year plan for the development of PPPs;
* a clear political position for the future of the PPP.

|  |  |
| --- | --- |
|  | **Mid-term spending review** |

* **Possibilities for centralization of support functions**

Centralization of support functions is a way in which institutions can improve the efficiency of their expenditure. It is possible to provide more qualified and specialized staff. However, by concentrating the performance of support functions in one place, administrative costs can be reduced (maintenance of premises, IT systems, etc.).

At present, in the public administration, support functions are provided at several levels of centralization. State institutions still carry out basic functions (functions defined by law or by delegation), as well as support functions (such as accounting, personnel records, recruitment, procurement, maintenance of information systems, recording of documents, etc.).

In the coming years, institutions should continue to evaluate and review the effectiveness of the processes, as well as make improvements to centralize support functions. The savings in financial resources resulting from these activities should be redirected to other basic functions, as well as to encourage officials and employees. Despite what has already been done, the institutions must continue their efforts to centralize support functions and to optimize other resources to ensure that the objective of “small and professional public administration” is achieved.

* **Development of the management system for budget planning and implementation processes**

The aim is to improve the management of public budget resources, to strengthen the responsibility for the results to be achieved, and to promote the use of a holistic approach in budget management processes.

To achieve the aim, it is necessary to move towards the following long-term processes:

* greater power for sectoral ministers to allocate (reallocate) funding within the institution, increasing the responsibility of the minister and the leaders of the institutions for achieving their priorities and results within the framework of allocated funding.
* strengthening the performance-based budget by ensuring the level of detail of the budget law and decision-making at the level of detail in policy areas and by introducing the lowest budget planning element – activity estimates.
* continue the maximum automation of all types of accounting by providing an integrated approach to the broadest possible types of reports. Keeping all budget information in the single information system, ensuring the planning and accounting of budget expenditure in the long term, both on a cash-flow basis and on an accrual basis.
* **Analysis of information and communication technology (ICT) financing, information systems and data centers**

As the latest technologies and digital opportunities for information exchange and storage are developing, the role of ICT in public administration is increasing. Digital and electronic services increase the efficiency of customer service - saving time, using resources, and reducing bureaucratic burdens. Mutual data exchange is also important in the institution's internal processes and processes between other public institutions, promoting the availability, collection, and multiple use of information.

As part of the analysis, a questionnaire was sent to ministries and other central public institutions requesting for information about information systems and their development, as well as the infrastructure of servers or data centers.

Conclusions:

* State budget expenditure on goods and services and capital purchases in the field of ICT has increased significantly. The number of state information systems has also increased.
* the state information system integrator, which serves as a tool for more convenient data exchange between the institutions' information systems, is still rarely used.
* an absolute majority of institutions maintain their own server rooms and only in a few institutions the data storage is centralized.
* two-thirds of the institutions who have their own server rooms point out that copies of the data reserve are also stored there, which poses a risk, as both original and reserve data may be lost at the same time.
* **Linking of expenditure to the origin of resources**

In 2019, the execution dynamics of tolls (tolls for the use of roads, State tolls for construction services and State tolls for the preparation and issuance of a legal statement of the Latvian National Archives) were re-evaluated. At the same time, the operation of stationary photo radars and the revenue of fines for infringements recorded by photo radars are analyzed.

Assessing the dynamics of toll execution, it is concluded that:

* in most cases, revenue execution is below the expected level.
* revenue planning for future years does not consider the level of execution of previous years, and there are cases where the level of execution remains unchanged or decreases, but the revenue plan is increased.

Proposal: in making proposals for the draft annual budget and in forecasting expenditure and revenues from the collection of state tolls, the responsible ministries have been asked to consider the execution of previous years and its dynamics.