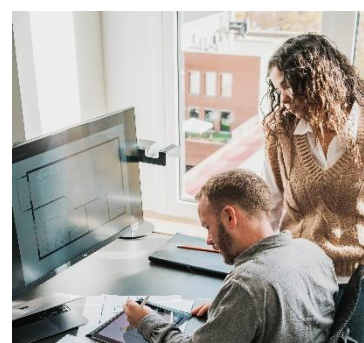
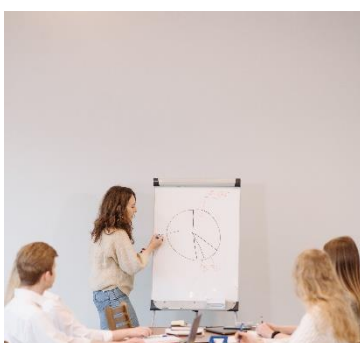


TERMS OF REFERENCE (TOR) FOR THE SPENDING REVIEW



LEGISLATION

On 30 November 2015, amendments to the Law on Budget and Financial Management were approved by the Parliament and these amendments entered into force as of 1 January 2016. According to these amendments the law was supplemented by a new Article 16.3.

Section 16.³ State Budget Spending Review

(1) In order to implement the State policy in a more efficient and economic manner, and also to regularly optimise the budget expenditures and assess their conformity with the priorities and objectives laid down in development planning documents, the Cabinet shall ensure continuous and systematic State budget spending review.

(2) The Cabinet shall concurrently take a decision on the scope of the State budget spending review and approve the schedule for the preparation of budget. The Minister for Finance shall, within the deadline specified in the schedule for the preparation of budget, submit to the Cabinet the results of the State budget spending review and suggestions for the use of these results in the process of developing the draft State budget law.



DEFINITION, PURPOSE AND OBJECTIVES OF SPENDING REVIEW

DEFINITION:

Spending review is the process of developing and adopting savings measures, based on the systematic review of baseline expenditure, processes and policy areas.

PURPOSE:

Get clear answers to questions:

- What is the benefit for society from invested resources?
- How can we achieve the desired results more economically?

OBJECTIVES:

1. Accountability for policy outcomes and outputs
2. Better policy outcome with less inputs
3. Regularly (annually) and systematically reprioritize public spending



INTER-INSTITUTIONAL WORKING GROUP OF SPENDING REVIEW

The inter-institutional working group has been established to prepare proposals for the spending review of the state budget expenditures, to discuss the results of evaluations, the best solution options, recommendations and the use of results in the budget development process.

The working group is established and approved by order of the Minister of Finance. The working group includes representatives from Ministry of Finance, Bank of Latvia, State Chancellery and State Audit Office.



MAIN STAGES, TIMETABLE AND RESPONSIBILITIES OF SPENDING REVIEW

SELECTION OF TOPICS FOR THE SCOPE OF THE SPENDING REVIEW (OCTOBER - FEBRUARY)

Ministry of Finance – Budget Policy Development Department (Budget Development Division) in cooperation with the Budget Department is involved in defining the scope of the spending review – public news, topics from the reporting decisions of previous spending reviews, information analysis, international practice.

Line ministries submit proposals to the Ministry of Finance for policy change and process improvement.

Inter-institutional working group submits proposals for the scope, including analysis of macroeconomic data.

The Ministry of Finance collects all submitted proposals and prepares the scope of the spending review. The Cabinet of Ministers examines and approves the scope of the spending review at the same time as the schedule for the preparation of the budget for the following year.

ANALYSIS, PREPARATION OF PROPOSALS, WORKING GROUP MEETINGS WITH LINE MINISTRIES (APRIL - JULY)

Based on the defined scope, the Ministry of Finance requests and analyzes the available/requested data, carries out international practice studies, prepares calculations/proposals.

Line ministries carry out an analysis of possible policy changes/development of processes, analyses the implementation of the development part (whether the measures are implemented according to the original objective and the planned amount), prepare proposals.

Inter-institutional working group listen to proposals from the Ministry of Finance and line ministries, express opinion, participate in the preparation of a better solution.

PREPARATION OF THE REPORT ON THE SPENDING REVIEW AND ITS PROTOCOL DECISION, SUBMISSION TO THE CABINET OF MINISTERS (AUGUST - SEPTEMBER)

The Ministry of Finance performs an in-depth analysis, coordinates, and manages the evaluation process. Prepares an informative report and its protocol decision, coordinates with line ministries and involved institutions, submits to the Cabinet of Ministers.

Line ministries shall make proposals, participate in the analysis of measures, comment, and co-ordinate the information report, fiscally neutral proposals for ensuring budget priorities can be submitted.

Inter-institutional working group receives, expresses comments and co-ordinates the information report.

The Cabinet of Ministers reviews the informative report and assigns the tasks to line ministries.

IMPLEMENTATION OF CABINET OF MINISTERS' DECISIONS AND ACQUISITION OF IDENTIFIED RESOURCES

Line ministries implement the decisions made by the Cabinet of Ministers within the specified deadlines and inform the Ministry of Finance about their implementation progress during the next year's spending review.

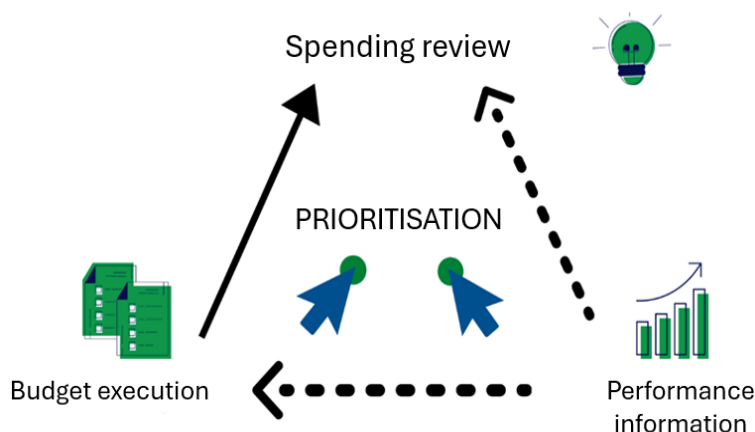
The Ministry of Finance includes information on the status of the adopted decisions in the next spending review report, thereby informing the Cabinet of Ministers.

Table 1 Overview of Spending Review Process [1]

Stage	Objective	Key Steps	Responsibility
Stage 1: Establish the objectives and framework	To ensure success, this stage establishes the scope and objectives of spending reviews, the success criteria, and the political mandate to promote ownership and participation.	<ol style="list-style-type: none"> 1. Establish overall objectives for the review 2. Select review areas 3. Identify key roles and responsibilities 4. Establish review targets 5. Set review timeline 6. The Scope of spending review approved in the Cabinet of Ministers 	Ministry of Finance Line ministries Cabinet of Ministers Experts of working group
Stage 2: Identify policy options	To undertake the rigorous analytical work, which then informs the identification of saving options and the impact assessment.	<ol style="list-style-type: none"> 1. Collect data 2. Undertake benchmarking and analysis 3. Assess the effectiveness and efficiency of existing spending 4. Prepare spending review report 5. Discuss the analyzed issues in the Inter-institutional working group 	Ministry of Finance Line ministries Experts of working group
Stage 3: Decision-making	To determine which saving options or efficiency measures should be implemented. Make a decision in the Cabinet of Ministers	<ol style="list-style-type: none"> 1. Present findings and recommendations 2. Make decisions at minister level 	Ministry of Finance Cabinet of Ministers
Stage 4: Implementation	To ensure that decisions are implemented as anticipated.	<ol style="list-style-type: none"> 1. Integrate into budget and medium-term frameworks 2. Enact legislation 3. Monitor implementation of decisions 	Line ministries Ministry of Finance

[1] International Monetary Fund, How to Design and Institutionalize Spending Reviews, 2022

Figure 1 Spending review in the process of managing a state's priorities [2]



[2] Marta Postuła, Spending Reviews – a Tool to Support the Efficient Management of Public Funds, 2017

Historically, prioritization and review of priorities have been an integral tool in spending review. The evaluation of the efficiency of public expenditure is conducted by analyzing the budget execution and the achieved results. Decisions about priorities and spending can be made in the context of performance evaluation.



SPENDING REVIEW APPROACHES

Every year, the spending review is improved, respecting essential basic elements, while changing and including new methods, incl. based on international practice.

Table 2 Comparison of spending review approaches [3]

Approaches and features	Strategic review	Technical review	Medium-term review
Spending review function	Centralized, comparable departmental/programme review	Decentralized, single internal/external review of function/programme	Centralized review of a specific function within ministries, e.g, real estate, ICT solutions
Coverage	Efficiency and effectiveness	Efficiency	Efficiency and performance evaluation
Evaluation issues	Several issues – Operational/impact/ relevance to the current policy	One issue: operational issue	One issue: operational issue
The flow of the process	Bottom-up	Bottom-down	Top-down
Interventions	Efficiency gains and centralized priority settings	Efficiency gains and linear cuts	Medium-term gains and initial investments

[3] Source: based on Mark Robinson, 2014



SCOPE OF THE SPENDING REVIEW 2024

Developing the draft law on the state budget, in accordance with the second part of Article 16.3 of the Law on Budget and Financial Management, the Cabinet of Ministers has determined the following scope of the spending review:

2.1. in order to improve the linking of State budget expenditures with the objectives and results of sectoral policies, as well as to use the advantages of the performance indicator system in taking decisions related to the State budget in conformity with the possibilities, the Ministry of Finance, in cooperation with the line ministries, should start the implementation of performance based State budget programmes, including performing an analysis according to performance, costs and international comparisons (*benchmarking*);

2.2. line ministries to carry out a horizontal review of the State budget programmes, including review of the funding allocated to the priority measures, as well as analysis of the implementation of performance indicators in 2023;

2.3. line ministries to analyze the expenditures planned in the sector budget, provide proposals for the impact on the 2025 budget and the medium-term general government budget, and to prepare proposals for possible policy changes.