On the results of public spending review for the years 2018, 2019 and 2020 and suggestions regarding use of these results in the process of the Draft Medium Term Budget Framework Law for the years 2018, 2019 and 2020 and the Draft Annual State Budget Law for 2018

# Scope

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|  | ***On 28 March 2017 the Cabinet of Ministers approved the following:***   1. Changes in state budget policy:    1. New procedure for funding allocation to priority sector measures    2. Base expenditure - update of procedure in line with budget management    3. General budget process optimization - reports, information exchange    4. Review of long-term vacant posts, analysis of support functions 2. Changes in sector policy funding    1. Update of developed proposals, progress of implementation, assessment    2. Implementation of 'zero-based' budgeting - pilot projects for Ministry of Health and Ministry of Culture, together with expertise of Bank of Latvia    3. Horizontal measures for priorities, identification of potential internal resources    4. Sector proposals for function optimization, other additional proposals. |

## Financial Results of the Spending Review

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|  | *Results was adopted by the Cabinet of Ministers on 28 August 2017.*  *In fiscal terms efficiency gains of* ***EUR 81,1 million*** *for 2018 were achieved, which provided additional funds for reprioritizing expenditures both within line ministries and for general government priorities:*   * *EUR 28,6 million were allocated for government priorities;* * *EUR 52,5 million were identified as ministerial internal resources.* |

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| Method of the Spending Review | 2018 | 2019 |
| ***Changes in state budget policy*** | ***35 034 414*** | ***32 989 505*** |
| **Savings on contribution on EU and from interest payments** | **26 100 000** | **20 000 000** |
| **Internal resources from long-term vacancies**  *The financial capacity of long-term vacancies has been calculated.* | **3 459 309** | **3 459 309** |
| **Improvement of the state budget planning**  *The responsibilities set by ministries for planning the state budget, submitting the request for the state budget, submitting changes in appropriations, and submitting reports on the implementation of the state budget have been reviewed. As a result, the number of forms to be submitted was reduced and the procedure for submitting forms simplified, thus reducing the administrative burden on ministries.* | **5 475 105** | **9 530 196** |
| ***Changes in sector policy funding*** | ***46 112 987*** | ***40 082 353*** |
| **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 2018 to 2020, assessing the relevance, results achieved and effectiveness of the priority measures* | **30 223 251** | **29 517 325** |
| **The analysis of price lists of paid services**  *The price lists of paid services issued on the basis of the Law on Budget and Financial Management was analyzed and the relevance of the costs included in them was evaluated.* | **3 500 749** | **3 500 749** |
| **The use of the balances of own revenues**  *The balances of revenues from fee services and other own revenues of ministries and institutions not financed by the budget have been evaluated.* | **10 969 105** | **5 645 589** |
| **The analysis of lower priority administrative expenditure**  *Revised lower priority administrative expenditure for the period 2015-2019. For example, business trip and work travel expenses; Communication services; Office goods; Expenditure on goods for the administrative operation of the institution; Bank commission and services.* | **1 419 882** | **1 418 690** |
| ***TOTAL:*** | **81 385 023** | **73 309 480** |

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

Methods of Spending Review:

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|  | **Internal resources from long-term vacancies** |

After a sharp decline in the number of employees in general government in 2010, the number of employees in state budget institutions continued to decline slightly in the next few years. However, the number of employees has increased slightly in the last few years, which is at odds with the move towards a small, professional, and public-oriented public administration set out in the development documents.

At the same time, it should be emphasized that many of the posts are vacant (included in the department's remuneration policy) but are not filled with human resources. As part of the expenditure review, an algorithm was developed to calculate the potential savings from eliminating vacancies. As a result, a potential financial saving of EUR 3 459 309 was identified.

In 2017, a working group for the improvement of the remuneration system for officials and employees of state and local government institutions was established by the order of the Prime Minister, as well as the ministries are instructed to review the current practice and not to request new positions in the future, finding the necessary human resources to streamline internal processes or within the ministry.

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|  | **The analysis of price lists of paid services** |

The price lists of paid services were analyzed and concluded that the last time when some ministries have updated their price lists of paid services was very long time ago (up to 11.7 years (58.5% or 55 price lists for paid services were updated more than two years ago)), as well as several ministries have price lists, which are valid but have lost their relevance and revenue from paid services is no longer planned.

Ministries are instructed to make the necessary changes (updates) to the price lists that were last updated more than two years ago, as well as to review them regularly in the future.

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|  | **The use of the balances of own revenues** |

The balance of own revenues at the beginning of 2018 is forecasted at EUR 26.9 million, which is EUR 10.3 million less than in 2017. Although the balances of own revenues have been determined for all ministries, only 5 ministries have included them in the basic expenditures.

Potentially available resources to cover expenses were determined in the amount of 50% (Ministry of Transport - 28%, Ministry of Finance - 38%) of the balance of own revenues not included in the 2018 budget, identifying potential resources of EUR 4.8 million. An additional potential resource was found by reviewing the state budget sub-programs of certain line ministries, which are fully or partially financed from own revenues.

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|  | **The use of the balances of own revenues** |

* One of the zero-based budget pilot projects was related to the improvement of the reimbursement system for the purchase of medicines. As part of the review of expenditure, the current situation and foreign experience were examined, resulting in four alternative solutions, the first two of which were submitted to the Ministry of Health for further evaluation:
* By reducing the amount of compensation for the group of cardiovascular diseases from 75% to 50%, funding could be redirected to other groups of diagnoses. An equivalent proportion of users of the reimbursement system for the purchase of inpatient medicines would be achieved as in the standard scenario of the current solution, as a result of which the potentially lost life years would be reduced by 0.45 years;
* By increasing the mandatory “out of pocket” payment made by patients for a 100% reimbursable prescription from € 0.71 to € 2, the funding obtained could be used to reimburse new cardiological medicines. In the event of implementation, the performance indicators would remain at the level of the standard scenario of the current solution, but there is a risk that the financial availability of medicines will deteriorate as the patient's share of “out of pocket” payments increases;
* The implementation of the minimum scenario of the existing solution would not achieve the set performance indicators (there would be increase of potentially lost life years and the number of hospitalized persons), therefore this scenario cannot be possible;
* The implementation of the premium scenario of the existing solution would reduce the number of potentially lost life years by 50%, however, the funding required for its implementation is almost three times higher than in the standard scenario, therefore such a scenario is not possible at present.
* The second of the pilot projects involved the implementation of a zero-based budget pilot project in the public library sector. The process of spending review provided an opportunity for a more in-depth analysis of the functions to be performed by each institution, their relevance and the identification of actions that could be abandoned in favor of development. Three potential development scenarios were identified, and the Ministry of Culture was instructed to further evaluate them.

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|  | **Expansion of centralized procurement of goods and services** |

Line ministries were surveyed to find out their views on the diversity and quality of goods and services purchased in the Electronic Procurement System, as well as to hear suggestions on possible additions to the catalogs of goods and services. The Ministry of Environmental Protection and Regional Development was instructed to evaluate the proposals submitted by the ministries, paying special attention to the improvement of the health insurance service catalog.

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|  | **Possibilities for streamlining ministerial institutions** |

* **Ministry of Environmental Protection and Regional Development**

Potential overlaps between the functions of the State Environmental Service and the Nature Conservation Agency have been identified, which would free up funding in the amount of almost 500 thousand *euros* in 2019 and subsequent years. The Ministry of Environmental Protection and Regional Development points out that it does not see the possibility of merging institutions, but the amount of support functions in the State Environmental Service has been reduced by 15%, while the Nature Conservation Agency will soon implement measures to optimize the structure of the institution.

It has been concluded that the functions of the Environment State Bureau are too specific to be attached to another institution, while at the same time it is planned to add the administration of the Latvian Environmental Protection Fund to the State Regional Development Agency.

* **Ministry of Transport**

When analyzing the capital companies of the Ministry of Transport, attention was paid to road management. It was established that in the budget sub-program of the Ministry of Transport “Management, Maintenance and Restoration of State Roads” in 2016 only 9% of the total funding was used for road management, therefore it was recommended to create a separate budget sub-program for this function.

* **State Museums (Ministry of Culture, Ministry of Health, Ministry of Defense, Ministry of Education and Science, Ministry of Agriculture and Ministry of Environmental Protection and Regional Development)**

It has been established that the ratio of state budget expenditures to the number of visitors is very different in state museums, as well as significant differences in the amount of own revenues to total revenues (for example, Rundāle Castle Museum's own revenues are 58%, while in the Latvian Sports Museum only 1%). It is proposed that to ensure more economical and rational provision of the functions financed from the state budget, the concentration of state museums within one ministry (Ministry of Culture) or transfer to the subordination of local governments should be considered.

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|  | **Analysis of Information and communication technologies** |

* To perform an in-depth analysis of the field of information and communication technologies in 2018, the basic information of the sector was evaluated – the number of information systems and their maintenance, expenditure on goods and services in this sector, as well as the number of employees and their remuneration in public administration.

It was found that ministries maintain more than 590 information systems, the maintenance costs of which vary significantly. While some ministries provide centralized management of information and communication, in some ministries each institution is largely responsible for its own IT infrastructure.

Based on the information obtained during the negotiations with the ministries, four priority tasks have been identified to be completed by August 2018:

• Collection of data on maintenance of information systems, analysis of processes and preparation of evaluation;

• Evaluation of possibilities to provide centralized planning, evaluation and supervision of information and communication technology development project portfolio;

• Evaluation of the potential for centralization of business travel processes and their support solutions;

• Evaluating the potential for consolidation of the procurement function and centralization of the procurement support function and proposing solutions.