

**Unclassified**

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**23LV15 Strengthening of medium-term expenditure framework and budget outcomes in Latvia: proposed outline for budget planning and budget execution procedures**

This outline makes recommendations for budget planning and budget execution procedures, aiming to reduce technical work and ensure compliance with policy goals and fiscal constraints, increasing the role of line ministries, and ensuring appropriate monitoring of cash-based and commitment-based appropriations.

This project is funded by the European Union via the Technical Support Instrument and implemented by the Organisation for Economic Co-operation and Development with the support and the partnership of the European Commission.

The views expressed herein can in no way be taken to reflect the official opinion of the European Union.

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## Introduction

1. The OECD has drafted this proposal as part of the support that Latvia requested from the European Commission, under the TSI Regulation, to reform the country's public financial management process, with the purpose of strengthening the medium-term expenditure framework and budget outcomes under the conditions set in the Contribution Agreement REFORM/IM2023/004.
2. Latvia requested further support from the European Commission under the TSI Regulation to build on the 2022 Budget Review by the OECD and develop a multi-annual approach to budgeting that would address these challenges and develop a framework for strengthening fiscal discipline and sustainability, as well as enhancing accountability. This would help Latvia with the implementation of the Recovery and Resilience Programme and comply with recommendations in the EU Economic Governance Review, the EU 2022 Country Specific Recommendations for Latvia and the Commission's Fiscal Policy Guidelines 2023.
3. The Commission engaged the OECD to provide the necessary support to the Latvian authorities. The agreed Project envisages several outputs that will guide and assist the authorities to adopt an approach to budgeting that looks beyond the annual incremental changes towards a multi-annual process that links budget and strategic planning. One of the key outputs is a proposed outline for budget planning and budget execution procedures, reducing technical work and ensuring compliance with policy goals and fiscal constraints, increasing the role of line ministries and ensuring appropriate monitoring of cash-based and commitment-based appropriations. Part of this output is an outline that will provide practical proposals for changing work practices to create scope for greater emphasis on compliance with policy goals and fiscal constraints with reference to OECD good practice, as well as any identified deficiencies and gaps in the existing framework of the Latvian budget process.
4. Regarding ensuring appropriate monitoring of cash-based and commitment-based appropriations, it should be noted that overspending is not a problem. The commitment control system was significantly strengthened over a decade ago. The Treasury verifies the availability of appropriations approved by the Parliament of Latvia, the Saeima. It is also authorized to review the documentation supporting transactions and has the power to block payments. Since payments are processed according to payment orders that are checked against approved appropriations, overspending is effectively impossible, and there are no recorded payment delays. Furthermore, Article 46.1 of the LBFM prescribes that the heads of institutions are responsible for ensuring compliance with the requirements of the Law, which includes ensuring that spending is in accordance with the amount appropriated.
5. While the MoF may have no means of tracking individual commitments that have been made by line ministries, this is not a major issue and to introduce a system where each commitment had to be tracked would impose a greater workload on the MoF with little gain in efficient and effective spending. This would also go against the aim of identifying practices that could be reduced in order to free time for ensuring compliance with policy goals. It would also lead to more centralised control at a time when the MoF is trying to develop procedures that would make line institutions more accountable for spending and achieving policy objectives.
6. The OECD already has made recommendations for the development of procedures that accord greater flexibility to line ministries in managing their budgets. If line ministries, however, are to have a greater role in ensuring the achievement of policy goals within the fiscal constraints that apply, the management in these institutions need to focus on the delivery of results within the allocated budget. This was highlighted as a challenge in the OECD 2022 Review of Latvia's budget system, wherein it was stated that the main focus tends to be on compliance rather than performance. Although line ministries and agencies report annually with reference to key performance indicators, and at end-June and end-September prepare budget execution reports on what has been achieved and how they will affect key

performance indicators, a substantive discussion of these matters is neither required under the Law nor occurs in practice.

7. The introduction of a process that provides line institutions with greater autonomy and accountability for delivering policy objectives within a framework that still respects fiscal discipline and budgetary aggregates is a priority. The focus of this note, therefore, is to make recommendations that will develop such a process.

8. The note draws on the information obtained from the fact-finding mission to Riga on 5 and 6 March 2024, several follow-up virtual meetings with the MoF, and information provided by the MoF. The note also builds upon the analysis and recommendations of the 2022 Budget Review and expands on that analysis.

9. In making the recommendations, the analysis recognises the important responsibility of both the MoF and the line ministries in using performance budgeting so that the impact will be one of improved accountability and funds being allocated in a more efficient manner. It makes extensive reference, therefore, to the roles and responsibilities of both the MoF and the line ministries.

10. The report describes the key factors that facilitate the use of performance budgeting so that budget decision making is better informed. It identifies steps that facilitate a shift from focusing on inputs (“how much funding will I receive?”) towards measurable results (“what can be achieved with the funding I received?”). The report makes use of examples from OECD countries. These factors and steps are set out as follows:

- **Budget Planning and Execution in Latvia**, which highlights the key features of the budget process, including the roles of the key institutions, budget planning and budget execution.
- **Use of Performance information in Latvia**, which describes the existing situation regarding performance budgeting with emphasis on some of the weaknesses and an explanation of the planned reforms to the Centralised Financial Management Information System (CFMIS).
- **Performance budgeting**, which defines what performance budgeting is about and how the various elements (inputs, activities, outputs and outcomes) relate to each other.
- **Improving the quality of performance information**, which explains the importance of quality information so that it is meaningful and can be useful in decision-making. It explains the importance of ensuring performance objectives are output and outcome oriented.
- **Presenting performance information in budget documentation**, which explains how to integrate performance information within the budget to enhance decision-making. It also explains how effective use of the information requires a structured, standardized presentation tailored to various stakeholders that ensures clarity, consistency, and effective assessment of budgetary performance.
- **Strengthening reporting practices to increase accountability**, which describes examples from several OECD countries and explains that while OECD countries vary in their performance reporting methods, most publish year-end reports that may include either standalone performance data or a combination with financial information.
- **Improving IT systems to support the implementation of performance budgeting**, which considers how a well-designed IT system is crucial for public financial management (PFM) reforms, as it reduces paperwork and errors, facilitates the systematic collection of performance information, and enhances communication through user-friendly dashboards and visual tools that engage stakeholders and improve transparency.
- **Recommendations for implementing enhanced performance budgeting in Latvia**, which sets out the recommendations that can improve the performance budgeting framework in Latvia.

## Budget Planning and Execution in Latvia

### *Institutional organisation*

11. Important organic laws are the Fiscal Discipline Law (FDL) and the Law on Budget and Financial Management (LBFM). The FDL underpins overall fiscal discipline while the LBFM governs the budget process, both for central and local government.

12. The main players in the budget process are the Cabinet of Ministers (CoM), the Saeima, the Ministry of Finance (MoF), as well as the line ministries and other central State institutions. Lower-level spending units are engaged in the budget system through the higher-level central State institution to which they report.

13. The MoF is the central budget authority. The core budgetary functions are allocated as follows:

- The Budget Policy Development Department (under the Deputy State Secretary on Budget Issues) prepares budgetary legislation, engages with budget institutions regarding the interpretation of this legislation, provides solutions to non-routine issues that may arise, organises the procedures for implementing priority measures, conducts spending reviews, and focuses on improving the results and performance of public spending.
- The Budget Department (under the Deputy State Secretary on Budget Issues) is responsible for the preparation of the draft annual budget law, monitoring budget expenditures during the year, organising re-allocations of budgetary appropriations during the year, assessing the financial impact of new policies and/or new legal acts on the budget and monitoring performance with regard to key performance indicators.
- The Municipal Financial Supervision and Financing Department (under the Deputy State Secretary on Budget Issues) is responsible for the oversight of the sub-national finances by reviewing the finances of municipalities and other issues between State and local budgets.
- The Economic Analysis Department (under the Deputy State Secretary on Financial Policy Issues) is responsible for preparing macroeconomic and fiscal forecasts.
- The Fiscal Policy Department (under the Deputy State Secretary on Financial Policy Issues) is responsible for drafting the Medium-term Budget Framework Law, updated annually, that establishes the fiscal framework within which the annual budget is formulated.
- Treasury functions are carried out at arms'-length to the MoF. The Treasury is responsible for the financial transactions underlying the budget execution and accounting functions of the government, as well as managing the national debt.

14. The LBFM provides that both the State budget and local government budgets consist of a basic budget, donations and gifts. While only the State budget is approved by the Saeima, there are safeguards to ensure that the budgets of local governments and other entities are monitored. The LBFM Art. 25.5 allows the Minister for Finance to examine institutions' budgets, including local governments, with regard to planning, accounting and reporting. In addition, local governments are required to send regular reports to both the MoF and the Treasury on budget execution as well as loans and guarantees.

15. The initial discussions for the State Budget are primarily between the MoF and the line ministries. This is the case even for bodies subordinated to the ministries. However, the negotiation process is heavily politicised. Either the Prime Minister or the Minister for Finance conducts negotiations, involving other ministers and other members of the political community as required. The roles of the MoF and line ministries are to provide any detailed information that may be requested.

16. For the local government budgets, the Latvian Association of Local and Regional Governments negotiates with the Municipal Financial Supervision and Financing Department of the MoF. These

negotiations are to agree on local government's share of the consolidated general budget and the allocations to individual municipalities.

17. The LBFM provides that the heads of institutions “financed from the budget, institutions non-financed from the budget and local governments, as well as of capital companies, in which a State or local government capital share has been invested, shall be responsible for the observance, implementation and control of the procedures and requirements laid down in this Law, as well as for the efficient and economic utilisation of budgetary funds in conformity with purposes intended”<sup>1</sup>. The focus of this process is on compliance rather than performance. Although line ministries and agencies report annually with reference to key performance indicators, and at end-June and end-September prepare budget execution reports on what has been achieved and how it will affect key performance indicators, a substantive discussion of these matters is neither required under the Law nor occurs in practice.

### ***Annual budget preparation process***

18. The budget process is guided by a schedule that is established annually by a Cabinet Order. The key steps in the calendar are as follows:

- The CoM approves by 1 March each year a budget process time schedule, covering reporting requirements and allocation of responsibilities, as well as the timelines
- In mid-April the MoF submits the Latvian Stability Programme, setting out macroeconomic projections, medium-term budget forecasts on a general government basis and the overall fiscal policy objectives, to the European Commission
- In mid-May the line ministries submit their baseline budget (cost of existing policies) estimates to the MoF
- By the end of June, line ministries submit their proposals for priority measures to the MoF and the Cross Sectoral Coordination Centre (CSCC)
- In early September, the Cabinet, having been informed of the results of annual spending reviews conducted by the MoF with the line ministries, makes its decision on basic medium-term expenditure and priority measures within the top-down constraints of pre-determined fiscal targets
- Within a week of the Cabinet decision, the MoF calculates the overall expenditure limits for the medium-term and informs the line ministries that their expenditure requests must be framed within these limits
- Within 10 days, the line ministries submit their medium-term budget requests to the MoF
- In mid-October, the draft Medium-Term Budget Framework Law, the draft Annual Budget Law and the Protocol between the Cabinet and the Association of Local and Regional Governments of Latvia are submitted to the Saeima and to the European Commission
- The Saeima then debates the draft laws and approves the Medium-Term Budget Framework Law and draft Annual Budget Law by the end of the year, which takes account of the opinion of the European Commission.

19. Budget planning is characterised by a top-down approach to determining the total envelope that is available each year for financing budgetary spending (fiscal space), anchored by a medium-term fiscal policy framework that respects the fiscal rules and Latvia's medium-term budgetary objectives under the preventative arm of the Stability and Growth Pact. A draft Medium-Term Budget Framework Law is prepared in parallel to the Annual Budget Law and submitted first to the CoM and then to the Saeima for approval. The projections are for three years beyond the current fiscal year, and the framework is rolled forward by one year every year. The projections for ministries and spending entities are formally described

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<sup>1</sup> Article 46.1.



as ceilings, though in practice they change substantially from year to year. The calculation of ceilings is largely a mechanical exercise with no real impact on the allocation of resources over the medium term.

20. There is no standard methodology for calculating multi-year no policy change baseline estimates. The ceilings for the second and third years are taken as the baseline expenditures for the following year's MTEF. In Latvia, most ministries do not currently have the skills and capacity to prepare reliable multi-year estimates. They could develop this capacity, which would help to establish a genuine multi-annual approach, but they have little incentive to do so because the emphasis is on the annual budget for which resources are planned on a top-down basis.

21. Spending reviews are an important element in the planning process. The main objectives of spending reviews in Latvia are to improve policy effectiveness and to align expenditure to government priorities. The process has generated significant efficiency gains that have freed resources for other expenditure priorities. There is political support for the spending review process, which ensures its viability and sustainability. Every year, the CoM approves the scope of the year's spending reviews. The process is led by an inter-institutional working group, chaired by the MoF. From March to July, working group meetings take place to carry out analyses and proposals. This includes discussing the achievement of performance targets. In August, the MoF prepares an information report that presents the findings and recommendations of the spending review. The MoF then submits the report to the CoM for review and approval. The working group benefits from strong technical input from the Budget Policy Development Department of the MoF. Line ministries participate in the analysis of measures and may make proposals and comment on the final report. Every year, the spending review process incorporates the implementation of the recommendations formulated in the previous year for each ministry. The MoF requires line ministries to report on implemented changes identified in the latest Spending Review, thus highlighting a link between budget planning and the Spending Review.

22. The time available for finalising expenditure requests is compressed. The budget negotiations are a largely political process in which the line ministries fight for their share of the available fiscal space defined in the medium-term fiscal framework. The line ministries are required to formulate their budget requests within the constraints of an overall expenditure ceiling. However, line ministries tend not to respect the ceiling in their budget requests. Each line ministry puts forward its own demands for new priorities and competes with the other entities regarding next budget year's additional allocations. Except on technical issues (e.g., related to the verification of line ministries' calculations and that ministries' demands have the requisite legal authority), the MoF's role in this dialogue is limited. This political process is fuelled by demands from lobbyists representing trade unions, sector interest groups, NGOs and other groups. The result is a hurried process in which last minute spending reallocations are common. In addition to the discussions in the CoM, the Government Coalition Working Group, representing the political interests of the coalition partners, may input their own proposals that have not been discussed or agreed by the respective line ministries. This practice is arguably inconsistent with budgetary law which requires a due process to be carried out. The final allocations are based on political decisions at the Cabinet table.

### ***The annual budget execution process***

23. The organisation responsible for budget execution is the State Treasury which is an independent agency financed by the MoF. According to Article 23 of the LBFM and subsequent regulations, the Treasury is responsible for making payments from the state budget, managing the state accounts, managing the national debt; and acting as the paying and certifying authority for EU funds. The Treasury produces standard monthly, quarterly and annual financial reports on the execution of the budget. Monthly reports are on a cash basis and cover both central and local government. The Treasury also publishes monthly reports on debt and guarantees.

24. The Treasury acts like a bank for the spending units. There is a treasury single account (TSA) at the central bank but it applies only to Euro transactions. For transactions in foreign currency, the Treasury



holds several accounts with commercial banks which are thoroughly monitored under a strict internal risk frame. Budget holders at central government level may only use the TSA. Municipalities must use the TSA for the approximately 60% of total revenues that they receive from the state budget but may use the TSA or commercial banks accounts for the use of their own resources.

25. The annual Debt and Cash Management Strategy prescribes the goals, principles, tasks, and functions of the Treasury to ensure that liquidity is available for the management of the state's financial assets and liabilities, to limit financial risks in cash management, and to ensure the safe and efficient investment of cash resources. A Liquidity Management Committee in the Treasury meets daily and, based on the cash flow forecast and other information, takes liquidity management decisions to ensure timely and full availability of resources in the Treasury's accounts for performing budget execution and meeting the financial liabilities of the state. As payments are made based on payment orders checked against approved appropriations, overspending is technically impossible, and there are currently no recorded payment arrears, the system of commitment control having been substantially tightened in the early 2010s.

26. The line ministries decide which programme will be executed by which spending unit, and what amount will be transferred to that spending unit. The spending units in turn draw up annual financial plans – that is, cash-flow projections, which are consolidated at line ministry level and sent to the Treasury for approval. Spending units prepare plans for each of their programmes. The Treasury conducts cash planning in the light of the cash plans as well as historical spending patterns. In addition, at the beginning of the year, line ministries provide an estimate to the MoF of their planned expenditures on a quarterly basis and at the end of the second quarter they must explain variations between planned and actual expenditures. In this way potential deviations are monitored not just by the Treasury but by the MoF.

27. Responsibility for the execution of the budget, including management of accounts and reporting, rests ultimately with the head of each spending unit. The state secretary of each line ministry is formally responsible for the ministry's budget and accounts, including the accounts of the budget holders belonging to the ministry. The state secretaries effectively depend on information provided by the Treasury since the Treasury prepares the financial accounts for all ministries.

28. The budget execution process in Latvia is well structured, and the Treasury is a committed and efficient implementing agency. Despite the large number of in-year adjustments to the budget, deviations between total planned spending and the outturns have been relatively small (less than 5% each year) since 2015, except for 2021 (because of the unforeseen impact of COVID-19 related expenditure on the budget). The Treasury has been working to digitalise the middle office functions of its debt management unit with the aim of reducing the volume of manual transactions and improving data analysis and decision-making processes. However, there are no incentives for budget holders to gradually improve their financing plans.

29. Ceilings set by appropriation cannot be exceeded. If a ministry runs short of money, it can re-evaluate expenditure intensity among its other budget programmes and request a reallocation. In the case of unforeseen events such as the COVID-19 pandemic or a natural disaster, a ministry can request the CoM for resources from the reserve for unforeseen events, which is a separate budgetary programme. Approvals for in-year reallocations may be granted by the Minister for Finance or by the Saeima. End-year carryovers of unspent resources are permitted but limited. The Minister for Finance may allow a carry-over of payments for investment projects, goods and services and salaries subject to certain conditions. There are certain restrictions defined in law and regulations on the use of reallocations:

- reallocations cannot increase the total amount of expenditure approved by the Saeima, or more than 5% of the annual appropriations to a sub-programme
- reallocations cannot be made from capital to current spending, or be used to increase salaries
- changes of appropriations that increase the long-term commitments authority of ministries are not allowed; and

- reallocations from EU funds to other expenditure programmes, from basic to special budgets, and from social security expenditure to current expenditures, and the establishment of new (sub)programmes, are prohibited.

30. A challenge for effective budget execution is the large number of spending reallocations that occur during the budget year; there are around 500 per year typically. The root of the problem lies in the fact that the Saeima approves the budget at the most detailed line-item level. There are approximately 1 100 line-items. As a result, too many line-item changes need parliamentary approval. This means that line ministries and the Budget Department of the MoF are permanently engaged in a slow and cumbersome procedure for changing allocations from one line item to another.

31. It is desirable that a greater level of flexibility be introduced within a framework that ensures fiscal discipline and budgetary aggregates are respected. A more structured in-year reallocation regime, based on a supplementary budget towards the end of the year rather than the cumbersome practice of bi-weekly reallocations, would allow for greater efficiency and effectiveness in managing budget execution. While amending legislation to the LBFM will see the budget being approved at programme level from 2027 onwards, a very detailed programme and sub-programme classification could restrict the extent to which funds could be re-allocated between programmes. The expenditure of about 30 entities is divided into about 500 budget programmes and sub-programmes. Each programme/sub-programme consists of budget line-items (classification codes), which show expenditure at a detailed level. The line-items themselves are sub-divided into four different levels and there are about 1 100 items at the lowest and most detailed level.

32. The MoF estimates that with requests for approximately 500 reallocations every year, with staff in both the line ministry and the MoF being involved, and each request usually taking between 5 and 10 number of working days to process depending on the complexity of each individual case and the length of the negotiation process with the line ministry., a significant amount of time is being devoted to this process. It considers that reducing the time taken up by the process should be a priority.

## Use of performance information in Latvia

### ***Performance information***

33. The Budget Department is responsible for the preparation of the draft annual budget law. Its responsibilities include monitoring budget expenditures during the year, organising re-allocations of budgetary appropriations during the year, assessing the financial impact of new policies and/or new legal acts on the budget, as well as monitoring performance regarding key performance indicators.

34. The LBFM provides that the heads of institutions funded or non-funded by the budget, as well as local governments and capital companies with State or local government investments, “shall be responsible for the observance, implementation and control of the procedures and requirements laid down in this Law, as well as for the efficient and economic utilisation of budgetary funds in conformity with purposes intended”. The focus of this process is on compliance rather than performance. Although line ministries and agencies report annually with reference to key performance indicators, and provide budget execution reports in June and September on what has been achieved in terms of objectives, a substantive discussion of these matters is neither required under the Law nor does it occur in practice. Neither does the Law contain provisions to ensure that performance, evaluation and value for money are central to the Budget process although Cabinet guidelines exist for the use of performance indicators.

35. Key performance indicators (KPIs) are designed to measure policy outcomes and outputs. They help institutions to achieve important goals for society through their policies, programmes, and projects. Ministries and agencies set performance targets in accordance with a methodology set out in a Cabinet Instruction. The budget submitted to the Saeima includes a set of programmes, with information about programme objectives and performance indicators. As performance information is used in formulating the budget, Latvia’s budgeting system is considered to be performance-informed although the Saeima does not formally approve performance indicators and targets. Furthermore, KPIs are included in the national development plan, sector-specific strategic policy plans (education, health, transport, etc.) and in budget explanations (policy and resource management “scorecards”). While all budgetary expenditures are linked to policy and resource management scorecards, there are about 2 000 performance indicators, which is excessive. There is a lack of higher level “strategic” performance indicators that can be used by top management in the line ministries and agencies and by the MoF to monitor and evaluate performance.

36. While performance information cannot be regarded as central to the budget process, it is used in spending reviews and budget reallocations. The MoF consolidates performance information into a database which makes it possible to track all changes. This enables the Ministry to conduct regular monitoring (via so-called “execution analysis” exercises) although lags in the data may occur. Furthermore, beginning in 2025, ministries and other central state institutions must submit to the relevant Parliamentary Commissions reports on the objectives and results of their activities, the implementation of the previous year’s budget, the resources used relative to the results achieved, and the benefits to society and the impact on the future financing of sectoral policies in the medium term. Finally, the Parliamentary Commission on Public Expenditures and Audit, which works in liaison with the SAO, uses performance information when examining budget programmes. The transparency created by publishing performance information and reporting on it to the Saeima is designed to encourage accountability in line ministries and agencies for achieving their performance targets. It certainly creates a basis for accountability but it will only be achieved if performance is at the heart of evaluation and monitoring.

37. Although the performance information framework enters budget negotiations via spending reviews, this framework is complex and detailed. Furthermore, while the programme objectives are transparent, the key performance indicators are often not robust. They are often vague, with multiple indicators in some programmes. For example, in the Ministry of Education programme “General Education”, the policy objective “to increase the quality of the general education environment by improving the content” has the

performance indicator “number of teachers involved in professional development activities”. There is a relationship between the two but it is not clear what the development activities are and it is not clear if the teachers were able to apply the newly acquired knowledge in their day-to-day roles. Under the Ministry of Transport’s Roads programme, the key performance indicator is “the country’s main roads are in very good or good condition compared to 2012” but it is not clear how this better condition is to be defined or by which independent body. For the Ministry of Health “Healthcare” programme, there are 11 KPIs for one policy objective. Other programmes also have multiple KPIs. Such multiplicity complicates effective performance monitoring and evaluation.

38. There are steps to be taken that can establish it as a useful tool of budgetary management both for the MoF and line ministries. The following points are relevant for the Latvian authorities in implementing a new approach:

- Avoid information overload in performance budgeting. OECD countries with most experience in performance budgeting have steadily reduced the number of programmes and indicators over time. This has been a response to both the administrative burden of reporting and the limited time senior managers have available to monitor performance. Indicators should be linked to the objectives of each ministry and illuminate the quality of service delivery. While detailed indicators may be useful for internal management purposes, those published as budget information should focus on the broader objectives of the policy.
- The OECD Recommendation on Budgetary Governance highlights the importance of high-quality (i.e. relevant, consistent, comprehensive and comparable) performance and evaluation information to facilitate an evidence-based review. Good indicators should:
  - Be limited to a small number for each policy programme or area
  - Be clear and easily understood
  - Allow for tracking of results against targets and for comparison with international and other benchmarks
  - Be clearly link to government-wide strategic objectives.

### ***Centralised Management Information System***

39. The financial management information system that supports core PFM functions in Latvia is only partially decentralised. There is a mixed use of central and decentralised FMIS systems, where line ministries and agencies make use of the central FMIS system for core PFM functions while having developed their own financial management IT systems for other core PFM functions. The authorities plan to replace Latvia’s existing system with a new CFMIS, based on a business intelligence approach. The objective is to operate the new system through a centre established in the Treasury. The project is currently focused on Latvia’s 164 budgetary institutions in the central government but could eventually be rolled out to the municipalities.

40. The new system should cover financial accounting and reporting, management accounting and HR management. Improved information sharing and transparency are key objectives. It is intended that the system will include performance information. Currently, this is recorded using an excel spreadsheet and the plan is to migrate it into the CFMIS. It will be inputted by the budget users themselves as the system will be interactive. It is intended that the new system will provide management information to line managers within the budget users so that individual managers will have up to date information on the evolution of their own budgets and performance relative to expenditure.

41. The provision of information at the level of the line manager is an important factor to get right. To achieve ‘sound financial management’, operational objectives and performance standards need to be defined and linked to the policy and budgetary objectives a manager is expected to achieve. The line

manager needs to be able to allocate costs over different cost centres (such as each regional office, prison, police unit or operating theatre etc.). The manager will also need to know the performance of each cost centre and be able to identify which cost centres are operating more efficiently than others. Only then will the manager be able to take any necessary corrective action. To make such a detailed allocation of costs possible, more elaborate coding of costs and more detailed information about performance will be required.

42. The selected system must go beyond financial information and to able to provide users with performance management information. It should be able to differentiate between the different levels of indicators. For instance, the indicators selected for publication as budget information would be at one level while detailed indicators that are of use mainly to line managers would be at another level. It is important that the CFMIS recognise this hierarchy of indicators so that line managers could easily access what they need.

## Performance budgeting

### *Performance budgeting defined*

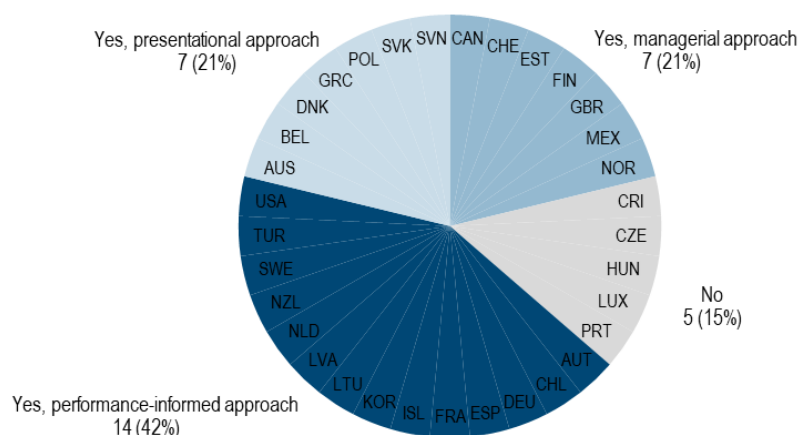
43. Performance budgeting is defined as the systematic use of performance information to inform budget decisions, either as a direct input to budget allocation decisions or as contextual information to inform budget planning. Its purpose is to instil greater transparency and accountability throughout the budget process by providing information to government officials, legislators, and the public on the purposes of spending and the results achieved.

44. Performance budgeting is part of a wider set of reforms that aim to change the behaviour of key players in the budget process, shifting the focus away from inputs (“how much funding will I receive?”) towards measurable results (“what can be achieved with the funding I received?”). Countries have reported a number of benefits of using performance budgeting, including more efficient allocation of funds and a better understanding of government priorities, as well as greater transparency and accountability throughout the budget process.

45. Performance budgeting is a widely adopted practice by the OECD countries with 85% of countries adopting some form of performance budgeting, as shown in Figure 1. The objectives of performance budgeting vary between OECD countries but are usually linked to improving accountability and allocating funds in a more efficient manner. There is no one-size-fits-all design to performance budgeting, but based on OECD research and country experiences, some factors can facilitate the process of introducing performance budgeting, such as clear, transparent objectives and incentives for major stakeholders, and a practical design of the process, as shown in Box 1.

46. Latvia’s approach is classified as performance informed. This is where performance information plays a role in spending decisions but where resources are related either to proposed future performance or to performance results in an indirect manner. There is no automatic linkage between performance and funding levels. In Latvia, performance information is used in spending reviews and budget reallocations but is not central to the system. Adopting the managerial approach would mean using performance information primarily as a tool of performance management and accountability at an organisational and management level.

**Figure 1. Use of performance budgeting approaches in OECD countries, 2023**



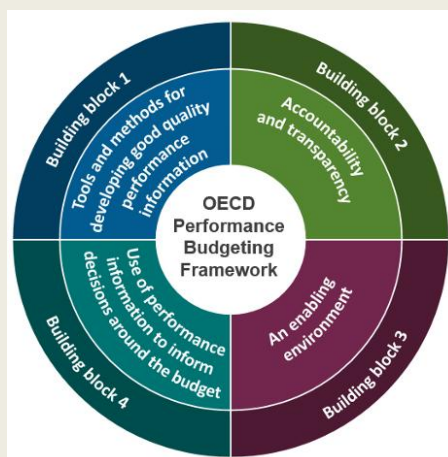
Note: Data for Colombia, Ireland, Israel, Italy and Japan are not available.

Source: OECD (2023), Performance Budgeting Survey.

### Box 1. OECD Performance Budgeting Framework

The OECD Performance Budgeting Framework consists of four building blocks (Figure 1). These are (i) tools and methods for developing meaningful performance information, (ii) accountability and transparency, (iii) a strong enabling environment, and (iv) the use of performance information to inform decisions around the budget.

Figure 2. OECD Performance Budgeting Framework



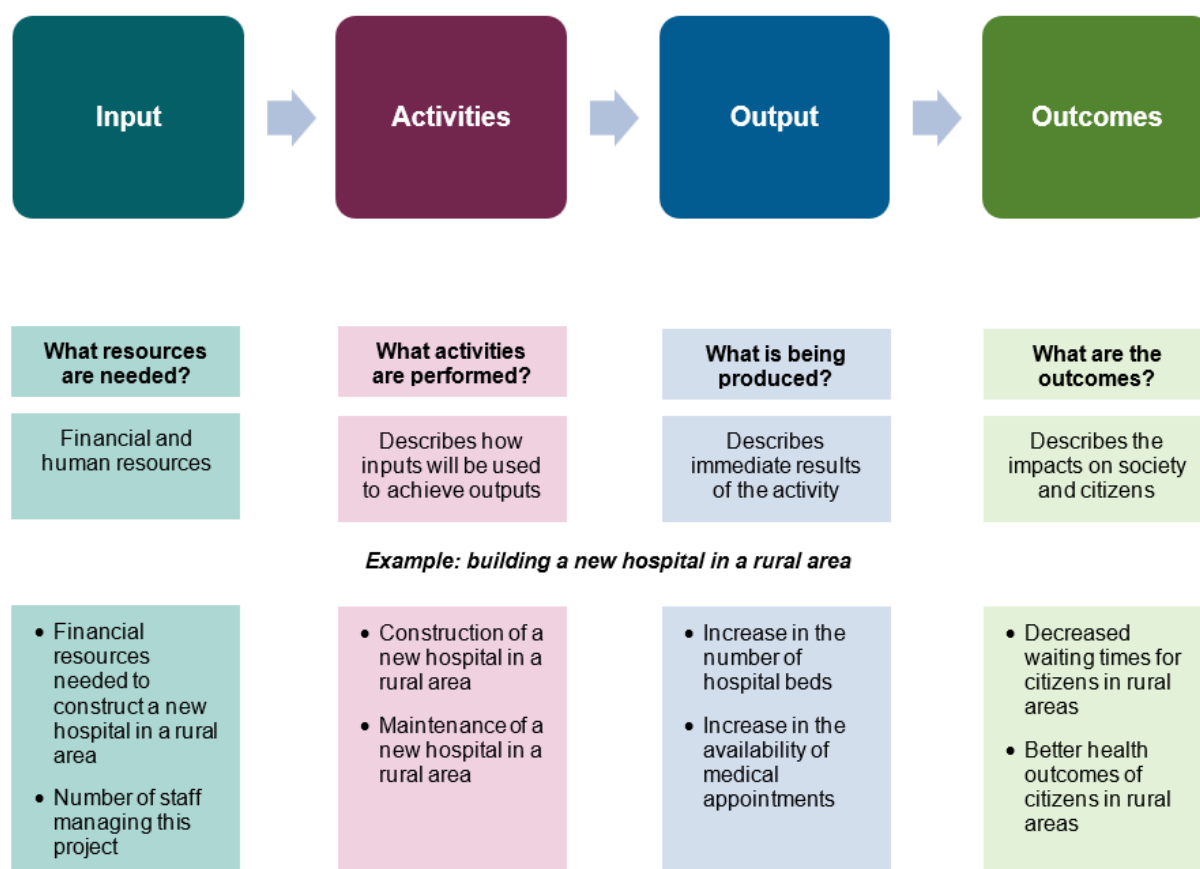
Source: Tryggvadottir and Bambalaite (2024<sup>[1]</sup>), OECD Performance Budgeting Framework.

### Logic of performance budgeting

47. When implementing performance budgeting, it is important to understand how different elements relate to each other, what is measured and how budgetary decisions are taken within this framework. Figure 3 explains how line ministries use resources (inputs) to carry out tasks (activities or projects), which produce immediate results (outputs) and ultimately bring about specific benefits (outcomes) for society and citizens. It also provides an example of inputs, activities, outputs, and outcomes for building a new hospital in a rural area. For example, the output of building a new hospital would be an increase in the number of hospital beds and the outcome would be decreased waiting times or better health outcomes for citizens in rural areas.



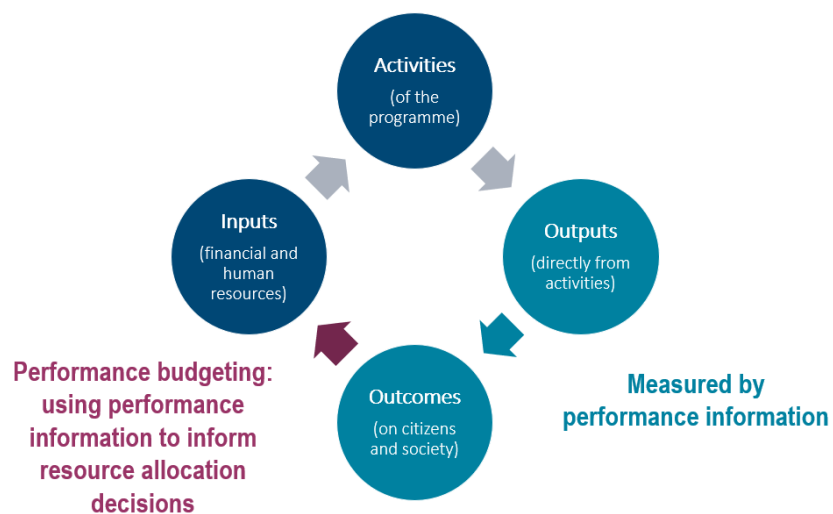
Figure 3. Using inputs to achieve outcomes



48. As shown in Figure 4, performance budgeting refers to measuring the outputs and outcomes by performance information and using this information to inform resource allocation decisions. Importantly, performance budgeting does not imply a direct link between performance and resources but instead serves as contextual information to guide decision-makers.

49. It should be noted that the presentation of performance information in Latvia complies with such a format. At the headline level, each programme (and also each policy and resource management scorecard) contains an overarching policy objective, lists the activities that are performed and shows the number of staff and amount of money that is spent on each activity. The main issue is that there is a lack of actionable sub-objectives and indicators do not measure progress towards achieving performance objectives. Currently, they appear stand-alone making it difficult to assess progress for decision-makers. In addition, the indicators may not be robust enough to facilitate analysis or monitoring. The following chapters provide information on how to develop performance information so that it will enable better monitoring and analysis.

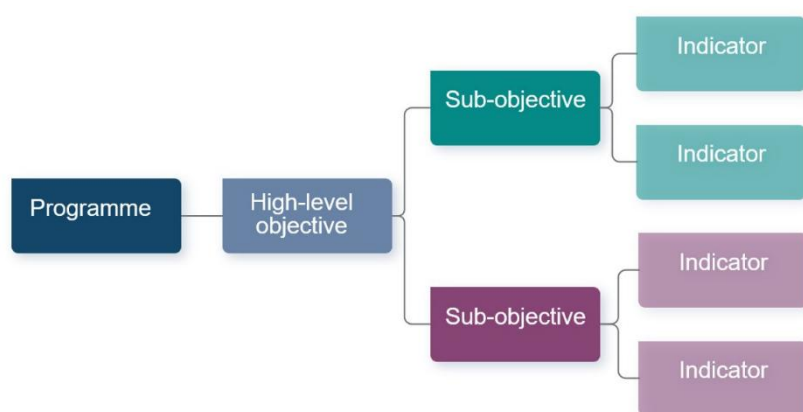
Figure 4. Using performance information to inform decisions



## Improving the quality of performance information

50. Performance information is an umbrella term that refers to performance objectives, targets and indicators which provide information on the intended and actual achievements of the government and is used to inform decisions. For performance information to be meaningful and usable in decision-making, it is important to structure the information in a good way, where performance objectives are linked to the overall programme structure, and performance indicators measure progress towards achieving performance objectives, as shown in Figure 5.

Figure 5. Linkages between performance objectives and performance indicators



## Sequencing performance information

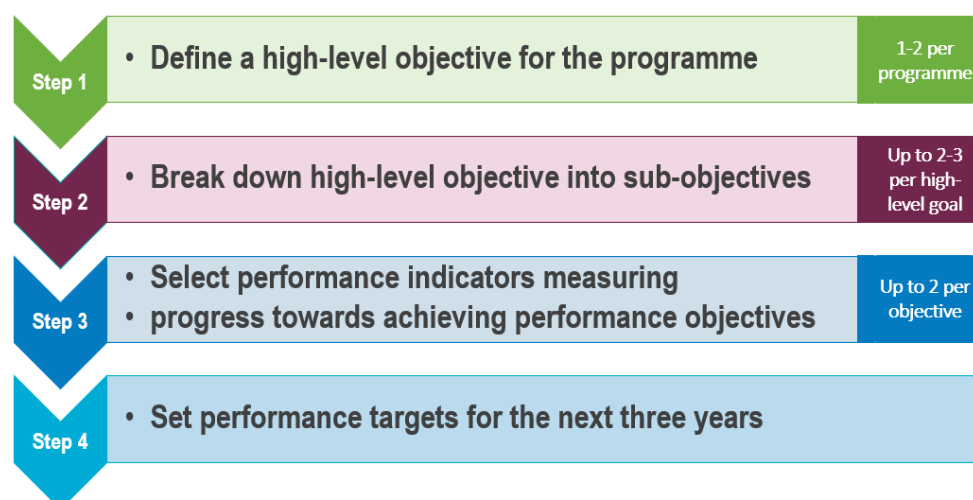
51. When implementing performance budgeting, one of the first steps is developing performance information that is relevant, of high quality and can inform decisions around resource allocation. As performance information is developed, it is important to ensure that the development of performance information follows a specific sequencing.

52. It is important to respect the limit on the number of performance objectives and indicators as it prevents overflow of data which is an inherent feature of many performance budgeting frameworks. Providing decision-makers with excessive data can hinder clarity and focus. By prioritising key metrics, performance information becomes more actionable and relevant, enabling more effective decision-making.

53. Based on Figure 6, the key steps to follow when developing performance information:

- *Step 1:* Develop one high-level objective for the main programme.
- *Step 2:* Break down the high-level objective into 2-3 sub-objectives;
- *Step 3:* Choose appropriate performance indicators for each sub-objective that measure the progress towards achieving the sub-objective;
- *Step 4:* Set targets for the medium term (annual budget and three following years).

Figure 6. Sequence for developing performance information



### ***Ensuring output performance objectives are output and outcome-oriented and outcome orientation of performance objectives***

54. It is important that and do not simply describe the activities of a given programme. Objectives and goals that have outcome orientation are fundamental to performance budgeting as they allow to focus on the benefits for citizens and taxpayers that a programme brings.

55. Understanding the difference between outputs and outcomes is key. As explained in Box 2, outputs are the immediate results of activities, like the number of training sessions held, while outcomes refer to the impacts of these outputs on society, like improved health outcomes of elderly population. Typically, it is easier to understand outputs of the programme, as data are usually readily available. However, understanding the outcomes of the programme takes time as it is more difficult to assess public policies in terms of the increased societal value, visible positive changes, and improved quality of service for society.

#### **Box 2. Definitions of outputs and outcomes**

**Outputs:** Outputs refer to the direct products or services delivered by a program, activity, project, or initiative. They are the tangible and quantifiable results of government activities. Examples of outputs: number of hospital beds, number of middle school pupils that graduated this year, number of crimes investigated.

**Outcomes:** Outcomes describe the impacts of a given policy/programme/sub-programme on society and citizens and refer to visible changes in circumstances or behaviours over time. Examples of outcomes: improved food security, reduced crime rate, improved literacy rates of middle-school pupils or improved social diversity.

56. Output and outcome-oriented objectives and goals usually start with the words “improve, enhance, strengthen, increase/limit” and focus on what the programme is trying to achieve and why rather than what is being performed.

57. For example, if an objective states that a programme aims to simplify administrative procedures, the outcome of this simplification would be increased accessibility of certain services for citizens. Likewise,

the outcome of training staff is likely to lead to an increased quality of the services provided to citizens, as shown in Table 1.

**Table 1. Examples of activity-oriented and outcome-oriented performance objectives**

Examples of activity-oriented performance objectives	Examples of outcome-oriented performance objectives
Increase the number of inspections to improve the detection of criminal offenders	Increase the safety of individuals and the state by reducing rate of criminal offenses and other unlawful threats
Simplify administrative burden for applying for passport renewal	Make application for passport renewal more accessible to seniors in rural areas
Implement the information system "Unified Fire Safety and Civil Protection Platform"	Improve timeliness and quality of firefighting and rescue operations
Invest in electric trains and a train stock maintenance service	Increase the safety, sustainability and competitiveness of public rail networks and services

58. As a first step in developing meaningful performance information, it is essential to define the key objective of the main programme. Each programme should have a high-level objective that explains in one sentence what impact the programme has or aims to have on society and citizens. Box 3 provides examples of well-articulated high-level objectives in several sectors.

### Box 3. Examples of high-level objectives in key sectors

#### Education Sector

- Provide high-quality education that meets the modern educational needs of students regardless of gender and origin
- Support the provision of high-quality education and improve the learning experience to meet the needs of all students and increase their integration in the labour market

#### Health Sector

- To provide safe and accessible healthcare where patients are guaranteed an easy way to the right service in the right place
- Improve the state of health of the population and reduce territorial and social inequalities in health

#### Social Protection Sector

- Improving the lives of vulnerable people and improving social protection of those in need

#### Tourism Sector

- Improve the attractiveness of Latvia as the tourism destination and stimulate economic growth through tourism activities

59. It is natural that a significant proportion of programme objectives are revised during the implementation phase of performance budgeting, as it takes time to develop objectives that are specific, outcome-based, and measurable. It may take several years to ensure outcome-orientation of the objectives. However, it is crucial to inform the Ministry of Finance whenever performance objectives are changed and justify the reasons for changing the objectives in relevant templates. This should be done only when the specific objective has been achieved or there are justified reasons for changing an objective.

### Defining sub-objectives

60. The sub-objectives should go into more detail around what is to be achieved by breaking down the key objective into more actionable and measurable sub-objectives. Importantly, the key objectives and sub-objectives should be clear and concise. To avoid overflow of information, two to three sub-objectives should be developed for each high-level objective. Box 4 shows examples of sub-objectives for several programmes. In Latvia, each programme contains programme objectives, which correspond to sub-objectives in that they contribute to achieving the policy objective although they are not always clear and concise.

#### Box 4. Examples of sub-objectives

##### Secondary education

- Improve educational outcomes of pupils enrolled in secondary education

##### Higher education

- Increase the percentage of students who complete their higher education and have equal gender distribution

##### Emergency care

- Improve the accessibility of emergency healthcare services to all citizens

##### Primary health care

- Improve the accessibility of primary healthcare services in rural areas

##### Social protection

- Improve the quality of life of people with disabilities

Table 2 shows examples of the high-level objectives and sub-objectives for various programmes.

**Table 2. Example: high-level objectives and sub-objectives**

Ministry	Ministry of Local Affairs	Ministry of Justice	Ministry of Infrastructure and Transport	Ministry of Culture and Sports
Programme	Regional affairs	Immigration	Transport	Cultural institutions
High-level objective	Sustainable communities across the country where infrastructure and services meets the needs of the public and businesses	Citizen rights are made clear and accessible by clear communication from authorities where citizen satisfaction is at the forefront	Infrastructure and services meet the requirements of citizens and businesses and the sustainability of communities across the country	To increase the quality and access to sports, cultural events and arts
Sub-objective	Increasing the access to high-speed internet in rural areas	Reducing the processing time of legal claims	Reducing the number of deaths on the road	Increase the access of national museums to children under 18 years old

### Ensuring relevance of performance indicators and linkages to performance objectives

61. Every programme in Latvia has a list of indicators; however they are not necessarily linked to actionable sub-objectives. Selecting appropriate performance indicators can be challenging and may take

time. Using certain criteria can be useful for choosing meaningful and relevant indicators and assessing the relevance of existing indicators. While it may be difficult to find performance indicators that satisfy all criteria, weighting against them helps understand the reasons why one indicator may or may not be suitable.

62. Performance indicators should be:

- **Relevant:** Performance indicators should be relevant for its users so they can inform budgetary and policy-making decisions.
- **Representative:** Performance indicators should not vary extensively for reasons not related to improvements in performance (e.g., external factors).
- **Reliable and verifiable:** Performance measures should be supported by clearly identified data sources and methodologies which are applied consistently (the data collected should be the same if collected repeatedly under the same conditions at the same point in time).
- **Cost-effective:** Using specific performance indicators should have clear benefits that exceed the costs of data collection and management.
- **Comparable:** Performance indicators should stay relatively stable over a certain period to allow for comparisons over time.

**Table 3. Using criteria for selecting performance indicators**

	Do's	Don'ts
<b>Relevant</b>	Choose indicators <b>directly related to the objectives of the programmes</b> .  <i>For example, if the goal is to improve educational outcomes, relevant indicators might include student graduation rates or test scores.</i>	Do not choose indicators that are <b>only indirectly related to the objectives</b> .  <i>For example, if the goal is to improve literacy rates, choosing the number of textbooks purchased instead of literacy rates in the target population</i>
<b>Representative</b>	Ensure indicators <b>reflect the broader impact or outcomes</b> of the programme across the target population.  <i>For example, focusing of cancer rates in elderly population.</i>	Do not use indicators that <b>only capture a narrow aspect</b> of the programme, ignoring wider impacts.  <i>For example, focusing only on the number of health workshops conducted</i>
<b>Cost-effective</b>	Select indicators that can be measured with <b>existing data sources or through methods that do not require excessive resources</b> .  <i>For example, by utilizing existing data from national surveys</i>	Do not choose indicators requiring <b>expensive or time-consuming data collection efforts</b> disproportionate to their use in assessing the program's success.  <i>For example, conducting a new nationwide, in-person survey of citizen satisfaction with all local government services annually instead of using online platforms for only target population.</i>
<b>Comparable</b>	Use indicators that allow for <b>comparison over time</b> or across similar programmes or populations.  <i>For example, by using standardized test scores to compare educational outcomes across regions.</i>	Do not use unique or non-standardized indicators that prevent comparison with other data sets or benchmarks, such as a tailor-made survey scale not validated against external or international standards.  <i>For example, assessing educational outcomes by a special survey in only one region</i>
<b>Based on evidence</b>	Select indicators <b>supported by research or evidence</b> showing they accurately measure the outcomes or impacts.  <i>For example, using peer-reviewed metrics for environmental conservation efforts or internationally comparable indicators.</i>	Do not rely on <b>anecdotal or unverified indicators</b> that lack a solid empirical foundation.  <i>For example, using informal feedback as the sole measure of programme effectiveness without supporting data.</i>

63. Naturally, some adjustments to the selection of performance indicators will be made in the early stages of the implementation of performance budgeting, but annual changes should be avoided, as it makes it impossible to track progress over time. Importantly, all changes to the initial selection of indicators should be clearly documented and explained.



### ***Setting ambitious and realistic targets over medium-term***

64. In Latvia, targets are provided for the upcoming budget and subsequent two years relative to a baseline value. Performance targets should be both ambitious and realistic and reflect political will and commitment. It is important that target setting aligns with the policy objectives of a given programme and allows assessing the progress towards achieving performance objectives. For example, fully eliminating child poverty is unrealistic over the medium-term, while adding a number on by how much child poverty can be reduced over a certain period is a more realistic approach.

65. Setting targets over the medium-term for a period of three years help guide progress toward strategic objectives. By clearly defining these targets, decision-makers can track progress, make adjustments as needed, and ensure that actions are aligned with medium-term objectives. Importantly, any reasons for not achieving this target should be clearly explained in reporting documents. The outer year targets should be adjusted based on actual results every year.

66. Once the target has been consistently reached, a new indicator should be selected to measure the progress towards achieving the performance objective. In case the objective is fully achieved, ministries should set new objectives as part of their performance information to reflect the key goals of the ministry.

### ***Ensuring the quality of performance information***

67. Line ministries are responsible for the performance information they produce and are required to submit accurate data under a formal responsibility of a high-level official. During the budget preparation stage, line ministries are required to fill out relevant templates and submit them for quality assurance to the Ministry of Finance. The Ministry of Finance then reviews the submitted information and engages in discussions with line ministries on the quality and relevance of the information, as shown by the Austrian example in Box 5. The Ministry of Finance can provide recommendations on how performance information aligns with financial allocation, whether they reflect the priorities of the ministry and if they are following the template that the Ministry of Finance provides to line ministries. In Latvia, discussions about quality are conducted regularly as part of the annual spending review process.

#### **Box 5. Quality assurance process in Austria**

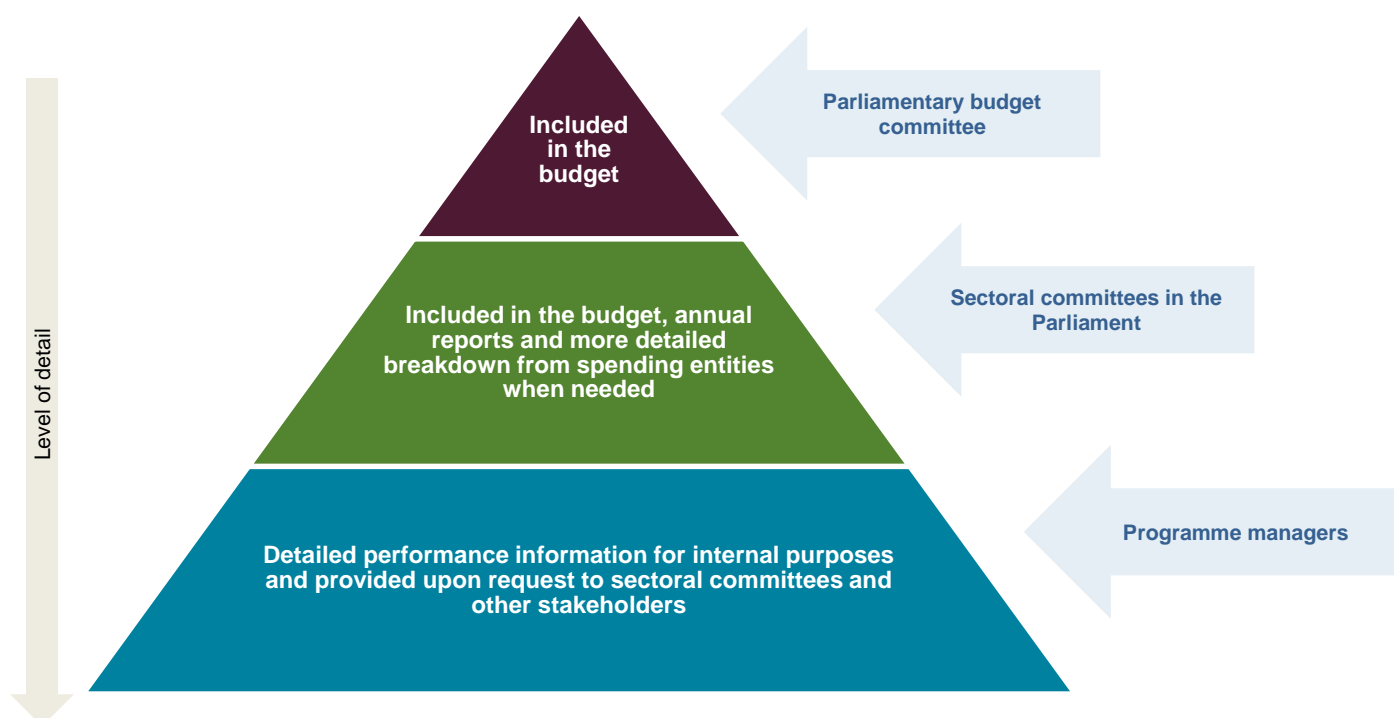
During budget preparation, the Federal Performance Management Office (FPMO) in the Federal Ministry for Civil Service and Sport provides quality assurance of the proposed objectives and indicators, including checking the alignment of objectives with national and sectoral strategies. If the objectives and indicators do not fulfil the quality criteria, FPMO will make recommendations to the line ministries to amend the draft during the drafting phase. In addition, evaluation results are published by the FPMO after the ex-post evaluation phase of the performance information.

## Presenting performance information in budget documentation

68. The objective of performance budgeting is to use performance information in decision-making. Therefore, it is useful to integrate performance information with the budget so that performance information can be considered when making decisions on the budget. When performance information is presented in context of the budget, it should be presented in a clear and comprehensible manner alongside financial data.

69. It is important to be selective in how and what performance information is presented in budget documentation. To ensure an effective engagement with performance information, different levels of detail should be presented to different stakeholders, as shown in Figure 7. For example, programme managers require in-depth information to guide their day-to-day operational decisions. On the other hand, parliamentarians should receive performance data that directly pertains to budgetary decisions.

**Figure 7. Performance information provided to different stakeholders**



70. Performance information should be presented in a structured way in budget. Performance information to be included in the budget should be put forth in relevant templates developed by the Ministry of Finance. All line ministries should use the same standardised template. The templates should be filled in by the relevant ministry, where information from different departments in each ministry is gathered. Information for all programmes should be compiled at the ministry level for submission to the Ministry of Finance which then compiles all relevant documentation from different ministries and submits it to the Parliament for discussion.

71. For example, in Iceland, line ministries are required to fill out a standard template for 34 expenditure areas during the budget preparation stage, as shown in Box 6. The outline of the document is standard across all expenditure areas. Systematically using standardised templates ensures consistency and readability of the documents and helps to compare information across time.

### Box 6. Budget documentation in Iceland

Performance information in Iceland is presented in the main body of the budget. The budget document is structured around 34 expenditure areas. Each chapter focused on one expenditure area follows the same outline. These chapters are concise and usually around eight pages long.

The outline of the chapter focused on one expenditure area:

1. Scope of the expenditure area in a couple of lines
2. Budget
3. Future vision and high-level objective
4. Financing
5. Key focus for 2021-2025
6. Programme
  - a. The main projects of the programme
  - b. Key challenges
  - c. Opportunities for improvement (e.g. upcoming spending review)
  - d. Risk factors
  - e. Objectives and indicators

Objective	Indicator	Status 2022	Target 2024	Target 2028

72. Performance information, including objectives and indicators should be presented in summary tables in budget documentation, as illustrated in Table 4. It is useful to color code the outputs in these tables, for example, by using a traffic-light system, to facilitate the assessment of the status of targets. Line ministries should be asked to indicate whether the initial target has been achieved and if it has not been achieved, to specify the reasons and actions to be taken to get back on track.

**Table 4. Presenting performance information in summary tables**

#### *Main Programme: Primary healthcare*

Programme	High-level objective	Sub-objective	Indicator (unit of measurement)	Responsible authority	Target	Output	Target	Target	Target
					2023	2023	2024	2025	2026
Primary healthcare	To provide safe and accessible healthcare where patients are guaranteed an easy way to the right service in the right place	Improve the accessibility of primary healthcare services to all citizens	Average waiting time to see a primary care physician (days)	Ministry of Health	30	33	30	25	24
			Patient satisfaction rate with their primary health physician (%)	Ministry of Health	45	45	55	60	60
		Ensure early detection of diseases to improve healthcare outcomes of citizens	Share of preventive colon cancer screenings in target population (50-75) as of total target population	Ministry of Health	25	35	45	55	56
			Share of preventive breast cancer screenings in target population (50-75) as of total target population	Ministry of Health	45	45	55	60	62

*Main programme: Social protection and poverty alleviation*

Programme	High-level objective	Sub-objective	Indicator (unit of measurement)	Responsible authority	Target	Output	Target	Target	Target
					2023	2023	2024	2025	2026
Social protection and poverty alleviation	Improving lives of vulnerable people and improve social protection of those in need	Reducing poverty of all citizens regardless of their age and employment status	Share of citizens living below 50 % of median income (%)	Ministry of Social Protection	Total: 10	10	9	8.6	8.4
					24-64: 2	1.9	1.85	1.70	1.65
					65+: 14	14	13	12.8	12.7
		Improve the quality of life of people with disabilities	Employment rate of people with disabilities (%)	Ministry of Social Protection	21	17	16	16.3	17
			Satisfaction rate of people with disabilities with the quality of public services they receive (%)	Ministry of Social Protection	45	30	40	45	52

*Main programme: Digitalisation of public services*

Programme	High-level objective	Sub-objective	Indicator (unit of measurement)	Responsible authority	Target	Output	Target	Target	Target
					2023	2023	2024	2025	2026
Digitalisation of public services	The simplification and digital integration of procedures for the benefit of these users, in order to support and facilitate the interaction of citizens with the Public Administration	Improving citizen access to governmental services online	Percentage of government services available online (%)	Ministry of Digitalisation	21	21	22	24	25
		Reducing administrative burdens to citizens and businesses	Time taken to process government services (days)	Ministry of Digitalisation	21	18	17	16	15.5

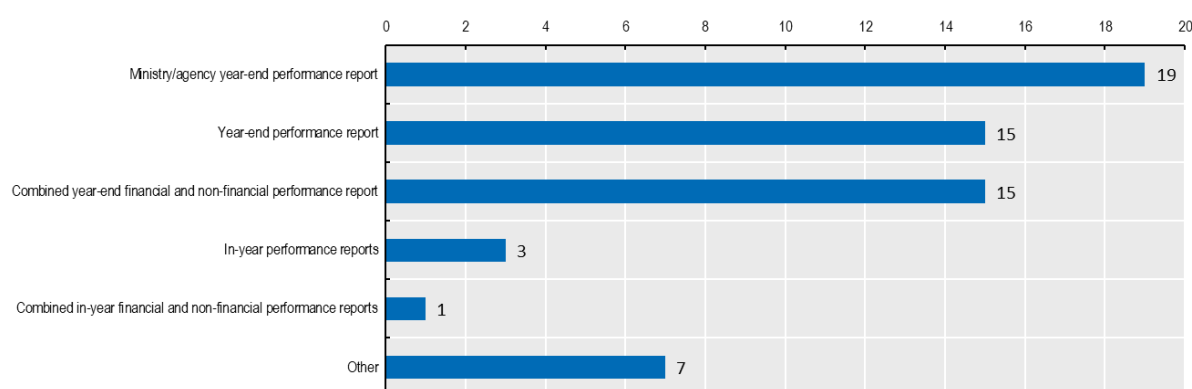
## Strengthening reporting practices to increase accountability

73. OECD countries take different approaches to performance reporting, as shown in Figure 8. The majority publish performance information in ministry year-end reports, with some countries providing reports that include only performance data, while others combine it with financial information. In contrast, in-year performance reports are less commonly used across OECD countries.

74. Latvia is in the category which combines financial and non-financial information in a year-end report. All budget institutions must produce statements with information on expenditure, objectives and results within six months of the financial year ending. The MoF checks the information received and publishes it in the Latvian Open Data Portal. In addition, each budget institution publishes its statement on its website within seven months of year end.

**Figure 8. Reporting on performance in OECD countries, 2023**

*Produced and published reports*



*Note:* Data for Colombia, Ireland, Israel, Italy and Japan are not available.

*Source:* OECD (2023), Performance Budgeting Survey.

75. Some OECD countries choose to produce performance reports where only performance information is presented, where the comparison between expected results and observed results is presented. Ireland, for example, produces performance report which includes key performance and financial information, however, it is separate from budget execution reporting, as shown in Box 7. The report is very visual and engaging providing succinct information for key stakeholders.

### Box 7. Performance reporting in Ireland

The Irish Department for Public Expenditure and Reform (DPER), with substantial inputs from line ministries, issues an annual Performance Report each April. The report is visual, allowing users to quickly grasp the key performance information and understand whether the key targets were achieved.

The outline of the performance report:

- Introduction
  - What is performance-based budgeting?
  - Overview of the performance of the public service

- Performance by vote
  - Overall objective
  - Financial overview
  - Key outputs
  - Key impacts
- Equality budgeting
- Green budgeting

The DPER developed the current outline and graphics in consultation with the Oireachtas Parliamentary Budget Office to maximise its use for budgetary decisions. The report includes key financial and performance information, but it is separate from budget execution report. However, not all performance information included in the annual budget is included in the annual performance report making it difficult to ensure effective scrutiny.

76. As shown Box 8, in Canada, performance reporting is integrated within departmental reporting. Importantly, the Canadian Departmental Results Reports are tabled at the same time as the public accounts. This showcases the importance of the timeliness of performance reports. Presenting the reports at the same time as the budget execution reports allows parliament and other stakeholders to properly scrutinise financial and performance information against the intended targets.

**Box 8. Performance reporting in Canada**

In Canada, the budget cycle encompasses the Estimates document family, which has three parts:

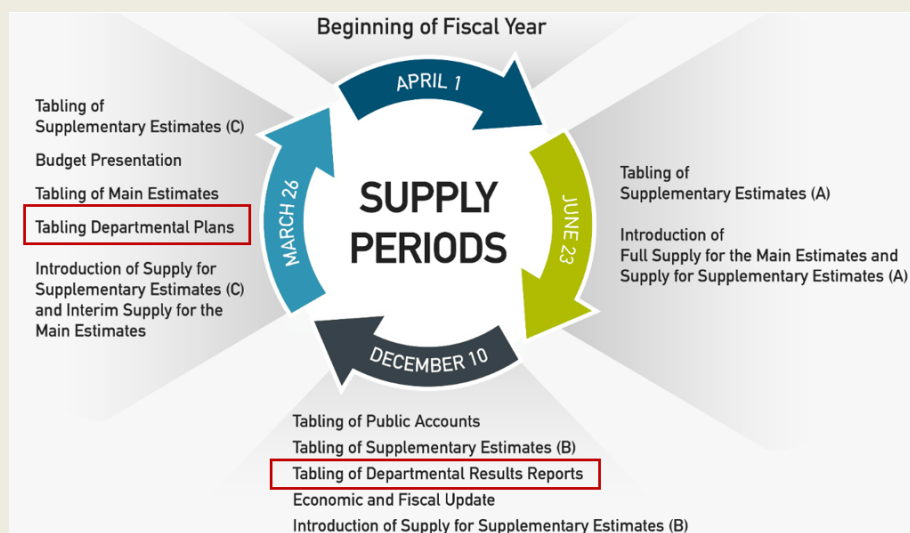
- Part I: Government Expenditure Plan, which provides an overview of federal spending.
- Part II: Main Estimates, which lists the financial resources required by individual departments, agencies and Crown corporations for the upcoming fiscal year.
- Part III: Departmental Expenditure Plans, which consist of two documents: Departmental Plans (DP) and Departmental Results Reports (DRR), as shown in Table 5.

**Table 5. Departmental plans and result reports in Canada**

Departmental Plans (DP)	Departmental Results Reports (DRR)
<ul style="list-style-type: none"><li>• Departmental Plans are forward-looking documents that provide plans for each department and agency</li><li>• They describe departmental priorities, results and associated resource requirements covering three fiscal years. The first year of this document supplements information contained in the Main Estimates</li><li>• Organisations set or adjust what they want to achieve (results), the level they want to reach (targets) and how they will measure performance (indicators).</li></ul>	<ul style="list-style-type: none"><li>• Departmental Results Reports are individual department and agency reports of actual accomplishments against plans, priorities and results set out in their respective Departmental Plans.</li><li>• Through Departmental Results Reports, individual departments and agencies provide information on how they are progressing toward their strategic goals.</li><li>• Departmental Results Reports cover the most recently completed fiscal year</li></ul>

The Departmental Plans (DP) are tabled at the same time as the budget estimates and the Departmental Results Reports (DRR) are tabled at the same time as the public accounts, as shown in Figure 9.

**Figure 9. Budget timeline in Canada**



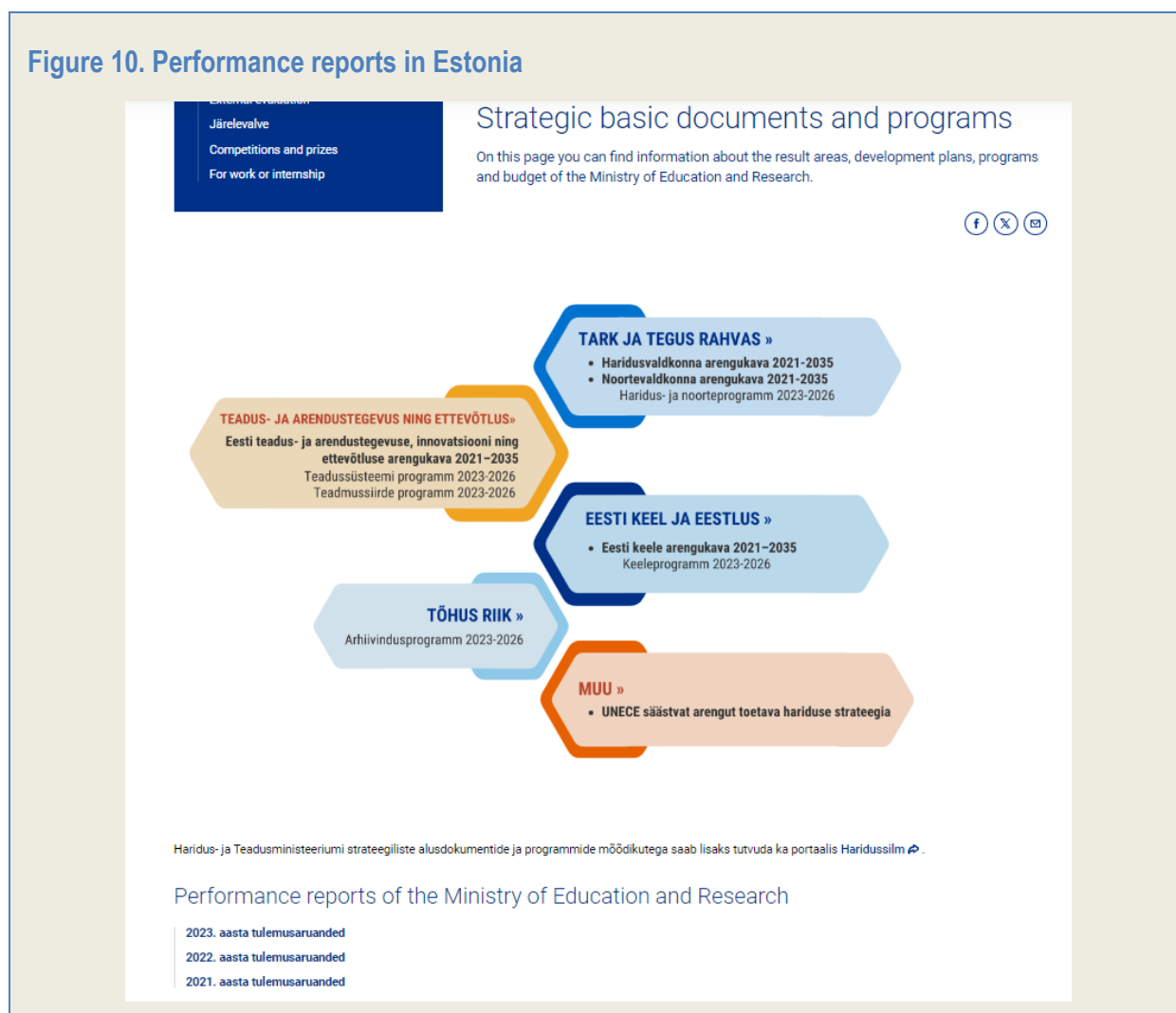
77. Some countries make performance reports available directly on the websites of line ministries, rather than limiting all performance data only to the Ministry of Finance's website, as shown in Box 9. This practical approach allows stakeholders, such as citizens and policymakers, to easily access relevant performance information specific to each sector. As mentioned above, budget institutions in Latvia are required to publish such reports on their websites.

#### **Box 9. Publishing reports on the websites of line ministries in Estonia**

Each year, a sector-specific performance report is prepared and published on the websites of line ministries. The report offers a snapshot of progress in key areas, evaluates the achievement of performance targets, highlights significant developments from the past year, and identifies key challenges. It also clearly highlights issues requiring attention moving forward, helping to shape the programs and work plan for the ministry in the following year.



Figure 10. Performance reports in Estonia



## Improving IT systems to support the implementation of performance budgeting

### *Integrating performance information into an IT system*

78. A well-designed IT system can be a central supportive tool to PFM reforms. In many OECD countries, stakeholders want to reduce the amount of paperwork and chances of human error when formulating the budget by switching from paper and excel to more automated processes. As such, countries are looking into ways to upgrade their IT systems and incorporating performance information in relation to budget measures. Increasingly, countries are also looking into developing tagging modules within IT system, so that information around crosscutting themes can be drawn from different ministries in a systematic way. By doing this, information on these themes can be presented to the Government, Parliament, and other important stakeholders in an organised manner, and track can be kept of the progress of implementing these overarching themes.

79. There are different approaches to how to collect and manage performance information. The IT solutions range from simple excel spreadsheets or databases to more sophisticated integrated tools that allow monitoring and evaluating information in real-time. While the former provides a cost-effective and simpler solution, it may be time-consuming to consolidate data from different entities, and it tends to be prone to errors. Likewise, when information is gathered in excel spreadsheets it can be more complicated to keep track of the information over time, whereas an IT solution provides features such as good tracking measures, and dashboards that can be easily developed.

80. Specific modules for collecting and managing performance information within the existing Integrated Financial Management Information Systems (IFMSs) would be a preferred option, given the possibility to link it with the existing financial data and extract relevant information easily. Nevertheless, given the difficulty to adapt the existing system, a new tailor-made IT system could be created. The Icelandic example, explained in Box 10, shows how to create a user-friendly system with specific functionalities for analytical and tagging purposes.

#### **Box 10. IT system for performance budgeting in Iceland**

In 2016, a new Organic Budget Law (OBL) was introduced in Iceland involving a five-year medium-term expenditure framework, performance budgeting, accrual accounting and a programme based budget structure. In the years before the crisis, fiscal policy in Iceland was characterised by weak budget discipline, lack of coordination between levels of government, a fragmented budget formulation process and little flexibility for ministries and agencies to reallocate resources within their budgets. With the OBL, legally binding appropriations were substantially reduced and the ministerial accountability for expenditure was reinforced by increasing predictability and flexibility. In the years after the OBL entered into force, there was little structure around the presentation of performance information within budget documents. This resulted in overflow of information where there was no clear process in place of monitoring the information.

To facilitate monitoring the performance information, and clearly linking them to expenditure, the Ministry of Finance in Iceland developed a tailor-made IT system. The new IT system was based on the existing budget system, which allowed retaining a familiar interface and help to facilitate accessibility of users to the new system. The users were consulted during the milestone stages of the development of the system to ensure its user-friendliness and common ownership. This included selected parliamentarians and all line ministries.

The system allows extracting selected data easily and analysing it through various dashboards and monitoring mechanisms. Moreover, the new system systematically links government targets to

expenditures. As part of the budget process, ministers are required to identify how each area of expenditure is linked to a government priority target (e.g. SDGs, gender equality goals, or green objectives) with the IT system prohibiting completion of the process until all areas of expenditures are appropriately tagged. This IT system also allows the provision of aggregate information in relation to expenditures targeted to these goals – facilitating accountability and oversight by other institutional bodies and stakeholders.

### Interactive dashboards

81. Dashboards and visual tools are valuable resources for effectively and accessibly communicating public expenditure and key accomplishments to citizens and the media. These tools provide a user-friendly and visually engaging way to present complex financial and performance data. By leveraging charts, graphs, maps, and other visual elements, governments can make information more comprehensible and engaging for a broader audience.

82. Many dashboards allow users to interact with the data, enabling citizens to explore specific areas of interest and gain deeper insights. In addition, dashboards can provide timely updates, ensuring that citizens and the media have access to the latest information on public expenditure and achievements. Importantly, visual tools can serve as educational resources, helping citizens better understand the complexities of public finance and government performance.

#### Box 11. Use of dashboards and visual tools

##### Ireland

Ireland has developed a webpage: "Where your money goes" (accessible [here](#)), which highlights key spending areas in easily understandable manner. At the moment, it does not include performance information. However, the Irish are considering to eventually embed performance information within this website.

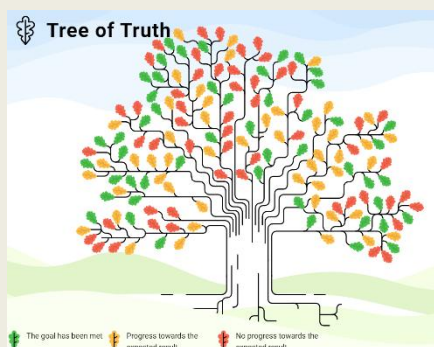
Figure 11. Irish spending data portal "Where the money goes"



##### Estonia

Estonia has developed "Tree of truth" (accessible [here](#)), where they highlight whether performance targets have been achieved. It uses colour coding to highlight which targets were or were not achieved. Green indicates that the goal has been met, orange – progress towards the expected result and red – no progress towards expected result.

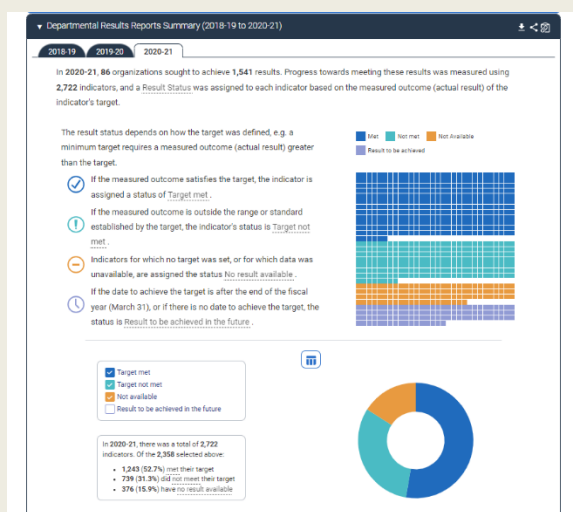
Figure 12. Estonian “Tree of truth”



### Canada

Government of Canada InfoBase (accessible [here](#)) allows visualising performance and budgeting information. The results are presented visually allowing to identify the share of targets met or not met. The interactive dashboard allows building tables with relevant information and download it in csv format.

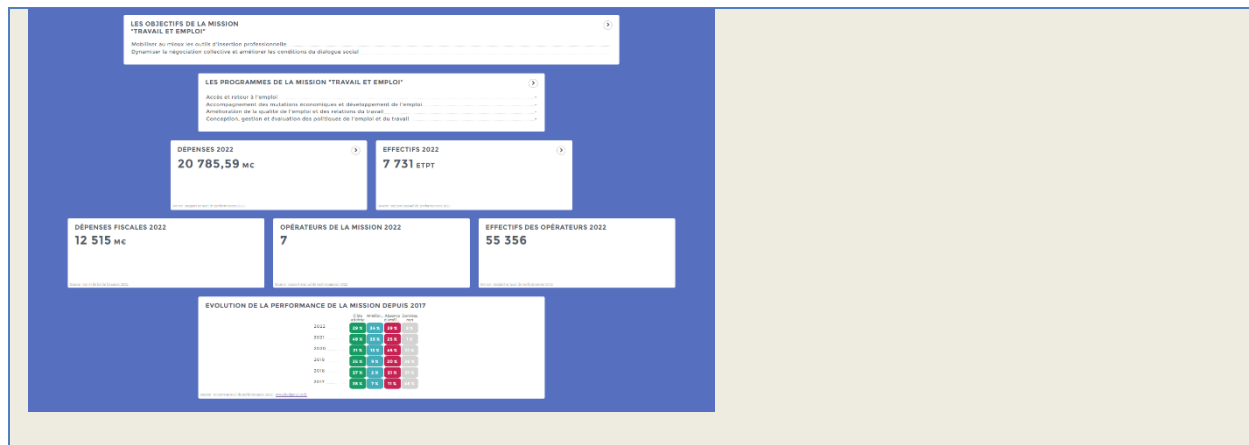
Figure 13. Government of Canada InfoBase



### France

France displays performance information on a dedicated website (accessible [here](#)). Users can filter information by mission and see the snapshot of the financial information and share of targets that have or have not been met.

Figure 14. Performance information dashboard in France



## Recommendations for Latvia

83. The 2022 Report recommended that improve Latvia's performance-based budgeting (PBB) system should be a priority reform to enhance accountability. It recommended that the existing system should be reviewed and that an implementation plan be prepared for implementing the changes necessary to achieve greater accountability. It made the following proposals:

- Undertake a review of the existing PBB system to make it more effective in allocating budgets to priority areas of government policy and monitoring the impact of government programmes and projects on public services.
- The review could include the following elements:
  - An assessment of the design of the Latvian PBB system, its scope, and objectives.
  - The extent to which PBB has been used in practice in Latvia and has resulted in improved performance in delivering public services.
  - A comparison of the Latvian PBB system against OECD standards of good practice.
  - A redesign of the current system of 2,000 key performance indicators (KPIs) to a manageable number, distinguishing between indicators that are used for strategic purposes (e.g. in setting overall spending priorities and monitoring performance) or for the detailed management of spending by line ministries.
  - An examination of the budget structure for PBB purposes, possibly by amending the basis on which the Saeima approves the budget and to ensure that policy objectives are aligned with the administrative responsibilities of the entities responsible for executing budget programmes.
  - How the system can be used by officials for different purposes in different organisations (e.g., by line ministries in managing large expenditure programmes and projects, by the MoF in deciding on the allocation of budget resources, by parliamentarians in holding the government to account for its budget or investment decisions).
- Prepare and implement an action plan on a redesigned PBB system, which would involve:
  - Initiating a dialogue between the MoF, budget entities and other stakeholders with a view to redesigning the PBB system.
  - Implementing the action plan with analytical tools and skills, extensive training and capacity building, and reengineered IT systems on a phased basis.

84. Table 6 provides further recommendations for Latvia on how to improve the performance budgeting framework. The recommendations are based on OECD good practices and international experiences elaborated in this note. Taken together, along with the information contained in the preceding chapters, they provide a basis for changing the existing scenario whereby information is available but not central to the budgeting system to one where it is placed at the heart of the public finance management process.

85. In addition to these recommendations, the 2024 OECD report "Building Capacity for Evidence-Informed Policymaking in Latvia" noted "analytical skills are not sufficient in the public administration to ensure a systematic supply and take up of evidence for policymaking". This has implications for the use of

performance information by ministries to analyse the cost effectiveness of results. That report recommended that analytical skills inside the public administration should be strengthened “by mapping analytical skills, performing upskilling and attracting new analytical skills”. If analytical capacity can be strengthened, this will increase the likelihood of information being used more effectively within line ministries.

**Table 6. Summary recommendations for improving performance budgeting framework in Latvia**

Recommendation	Action
Improve the outcome orientation of performance information developed by line ministries	<ul style="list-style-type: none"> <li>• Improve the structure of performance information by developing actionable sub-objectives</li> <li>• Ensure that the high-level objective and associated sub-objectives are short and focus on the outcomes for the citizen and society</li> <li>• Limit the number of performance objectives per programme (1 high-level objective and up to 2-3 sub-objectives)</li> </ul>
Improve linkages between performance objectives and performance indicators	<ul style="list-style-type: none"> <li>• Limit the number of performance indicators per sub-objective to avoid the overflow of data (1-2 performance indicators per sub-objective)</li> <li>• Ensure that performance indicators directly measure progress towards achieving performance objectives</li> <li>• Present performance indicators alongside performance objectives in a summary table</li> </ul>
Progressively incorporate performance information within medium-term planning	<ul style="list-style-type: none"> <li>• Include performance targets for three years to ensure medium-term perspective</li> </ul>
Improve the transparency over the achievement of targets	<ul style="list-style-type: none"> <li>• Include a color coding system where line ministries are asked to indicate whether the initial target has been achieved and if it has not been achieved, to specify the reasons and actions to be taken to get back on track</li> </ul>
Gradually integrate performance information within the IT systems	<ul style="list-style-type: none"> <li>• Develop a module for collecting performance information from line ministries while ensuring interoperability with the existing systems used by line ministries</li> <li>• Develop the structure of relevant performance reports and integrate them within the IT system</li> <li>• Once relevant IT systems are developed, develop interactive dashboards where relevant stakeholders can build relevant tables and download performance information in accessible formats (e.g., csv)</li> </ul>