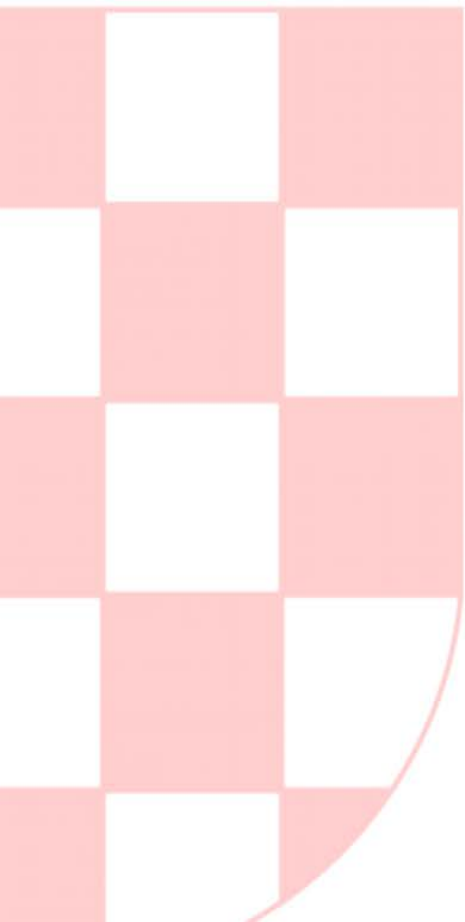




# Ministry of Finance



## ***SPENDING REVIEW*** ***case of Croatia***

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Paris, July 2017

# ***Spending Review - objectives***

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- ◆ Spending Reviews and performance informed budgeting
  - big trend, looking at ways to better link annual, multi year budgets and performance
  
- ◆ Spending Review should establish clear objectives:
  - 1. Fiscal Consolidation**
    - Reduce the level or growth of public expenditure
  - 2. Allocative Efficiency**
    - Shift expenditure from lower priority to higher priority sectors
  - 3. Value for Money**
    - Increase output per input unit within a given sector



# Croatia Spending Review - objectives

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- ◆ The EU Council for Economic and Financial Affairs on January 28, 2014 adopted **the Decision on the existence of the condition of the excessive budget deficit for the Republic of Croatia**
- ◆ Council Recommendations suggested the dynamic of fiscal adjustment with an aim to reduce the state budget deficit at the level below 3% by 2016 (2014 - 5,7% GDP)
- ◆ One of the measures within Croatia's Plan of Implementation of Country-Specific Recommendations for 2014 is **to carry out the Spending Review**
- ◆ Therefore the focus of the Spending Review is mostly on **one objective - fiscal consolidation!**



# Preparation for implementation

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- ◆ In cooperation with the World Bank and IMF, Ministry of Finance organized 2 Workshops
  - ◆ best practice and experience of other countries
  - ◆ methodology, data needs and analytical tools
  - ◆ recommendations based on their experience



# Key documents of Spending Review Process

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## 1. Decision on the Performance of the Spending Review

- showed political willingness and support to the process

## 2. Decision on the appointment of the presidents and members of the Spending Review Committees

- profesional experties involved (depolitization)

## 3. Guidelines for the Spending Review Implementation

- clear methodology

## 4. Final Reports on the in-depth analysis of the state budget expenditure

- transparency



# **1. Content of Decision on the Performance of the Spending Review**

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1.1. Objective and Target Savings

1.2. Categories (Targets) which are subject of the Spending Review

1.3. Committees for conducting the Spending Review

1.4. Deadlines for the finalization



# ***1.1. Objective and Target Savings***

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- ◆ The Spending review shall be carried out with an aim to produce **a version of a package of measures**
  - ◆ that will lead to the reduction in total public spending
    - ◆ while increasing the efficiency of budget funds spending
    - ◆ **with the smallest possible negative effect on the existing level of public services**
- ◆ Reduction of expenditures for **at least 10 percent** annually
  - ◆ in relation to the current plan for 2014 by categories which are subject of the review



# 1.1. Objective and Target Savings

- ◆ The amount of expenditure included in the Spending Review equals 21.7% of GDP → almost half of all the general government expenditure for the year 2014.

## Expenditures for In-depth Analysis, 2014

Expenditure amount (HRK 000)

Expenditure category		% GDP
Wage bill, without health care and agencies	20,541,909	6.3
Subsidies, except for agriculture	2,810,193	0.9
Expenditures for health care	23,591,684	7.2
Tax expenses (2013/2014)	13,520,930	4.1
Agency expenditure	10,343,573	3.2
<b>Total</b>	<b>70,808,289</b>	<b>21.7</b>

- ◆ It is important to establish a clear baseline for identifying and evaluating spending measures
- ◆ Fix the overall spending targets and timeline from the start





## ***1.2. Categories (Targets) which are subject of the Spending Review***

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- ◆ Spending review covers the following categories:
  - 1. expenditures for employees paid from state budget**
  - 2. subsidies** (not taking into account subsidies in agriculture)
  - 3. healthcare system**
  - 4. business operations of agencies, institutes, funds and other legal persons with public authorities**
  - 5. tax expenditures**
- ◆ Focus on **large items**
- ◆ Take into account both **economic and functional perspective**



## 1.3. Committees for conducting the Spending Review

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- ◆ Each of 5 committees consists of a president and, depending on a committee, 9 to 13 members
- ◆ The presidents of the committees are prominent professionals and scientists and have expert knowledge and experience in the field of public finance (experts from Institute of Economics or Institute of Public Finance)
- ◆ Members of the committees
  - ◆ from among civil and public servants
  - ◆ **at least one member of each committee is a representative of the Ministry of Finance**



## 1.3. Central Committee

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- ◆ Coordination and supervision of the performance of the committees are carried out by the **Central Committee** for Spending Review
- ◆ Central Committee consists of **a president and six members**, appointed by the Government of the Republic of Croatia, from among civil servants at leading positions in:
  - ✓ Ministry of Public Administration,
  - ✓ Ministry of Health,
  - ✓ Ministry of Economy,
  - ✓ Ministry of Science, Education and Sports
  - ✓ Ministry of Maritime Affairs, Transport and Infrastructure, and
  - ✓ **two members from the Ministry of Finance - one member being at the same time the president of the Central Committee.**



## 1.3. Central Committee Tasks

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- ◆ Verifies whether the statements have been prepared in accordance with the Guidelines
- ◆ Approves the reports
- ◆ Submits the reports to the Croatian Government for its consideration



# Key documents of Spending Review Process

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1. Decision on the Performance of the Spending Review
2. Decision on the appointment of the presidents and members of the Spending Review Committees
- 3. Guidelines for the Spending Review Implementation**
4. Final Reports on the in-depth analysis of the state budget expenditure



# Guidelines for the Spending Review Implementation

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- ◆ The Guidelines consist of:

1. General part

- 1.1. Spending Review Objective and Subject

- 1.2. Responsibilities and tasks of the presidents and members of the Committees

- 1.3. Performance and decision-making method to be used by the Committees

2. The content of the reports on the spending review findings

3. Method and deadlines for the submission of the reports on the spending review findings

4. Methodology of the production of reports on spending review findings for each Committee



# Key documents of Spending Review Process

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1. Decision on the Performance of the Spending Review
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# Final Reports

## ◆ Examples:

### Package of measures 2: ACTIVITIES WITHIN THE FRAMEWORK OF THE CROATIAN HEALTH INSURANCE FUND (CHIF) AND THE MINISTRY OF HEALTH

- 1) Continuous control over temporary inability to work (sick leave) – savings of HRK 50 million
- 2) Introducing alternative sources of financing specialist training – savings of HRK 35 million
- 3) Continuous monitoring of prescribing medicines and a reduction in the price of medicines in the medicine price calculation procedure – savings of HRK 100 million
- 4) Reducing the plan for material expenses and costs of the Croatian Health Insurance Fund for 2015 – savings of HRK 11 million
- 5) Reducing the plan for material expenses and costs of state-owned health institutions in 2015 – savings of HRK 40 million

**TOTAL: HRK 236 million**

## ◆ Tight deadlines for fiscal consolidation

- ◆ structural and short-term measures





# Final Reports

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## ◆ Examples:

### **Package of measures 3: IMPLEMENTATION OF HOSPITALS' STRATEGIC PLAN AND REDUCTION OF CAPITAL SPENDING OF THE MINISTRY OF HEALTH**

- 1) Implementation of the National Plan for the Development of University Hospital Centres, University Hospitals, Clinics and General Hospitals in the Republic of Croatia
- 2) Rationalisation of capital expenditures related to implementation of the National Plan for the Development of University Hospital Centres, University Hospitals, Clinics and General Hospitals in the Republic of Croatia from 2014 to 2016.
- 3) Rationalisation of capital expenditures for medical equipment by implementing consolidated public procurement

Rationalisation of capital expenditures related to implementation of the Framework Programme for Construction, Upgrading and Reconstruction of Public Buildings Under a Contractual Form of Public Private Partnership (PPP), adopted by the Croatian government.

## ◆ The decision on the package was left to the government



# Adopted measures

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- ◆ **Reviewing expenditure and identifying savings is the easy part**
- ◆ **Government of the Republic of Croatia has adopted the Decision on reducing the number of agencies, institutes, funds and other legal persons with public authorities**
- ◆ **Ex post analyses** (in depth analyses of the certain activities from the budget)
- ◆ **Guidelines for the establishment of standards of material costs**
  - All budgetary and extra-budgetary users exceeding the determined standard expense ceiling for a certain group of expenditures were obliged to cut these expenditures or provide explanations for their increase.
  - Full implementation of these Guidelines took place in the drafting of the state budget for 2016.



# Adopted measures - *Guidelines for the establishment of standards of material costs*

INDICATORS FOR MANAGEMENT OF MATERIAL EXPENDITURES	STANDARD
The share of employees in general (extra) services in total employees	20%
Average m2 per employee	15m2
Costs of business trips per employee per month	168,00 kn
Costs of training per employee per month	35,00 kn
Share of expenses for training for employees in total expenditure of employees	1%
Costs of office supplies per employee per month	188,00 kn
Costs of paper per employee per month	23,00 kn
Costs of toner per employee per month	60,00 kn
Costs of energy per employee excluding fuel (electricity, district heating, gas)	307,00 kn
Costs of energy excluding fuel per m2 (electricity, district heating, gas)	9,00 kn
Small inventory per employee per month	10,00 kn
Costs of telephone, post and transport per employee per month	307,00 kn
Costs of fixed telephony per employee per month	128,00 kn
Costs of mobile telephony per subscriber number per month	94,00 kn
Costs of promotion and information services per employee per month	65,00 kn
Costs of utilities per m2 per month	6,00 kn
Costs of utilities per employee per month	195,00 kn
Costs of rental per month per m2	9,00 EUR
Costs of <b>compulsory</b> health check-ups per employee	173,00 kn
The share of <b>piece work agreement</b> in total expenditures for employees	2%
Entertainment per employee per month	26,00 kn

- Two reports were issued and are publicly available ([www.mfin.hr](http://www.mfin.hr))
  - 1-6 2016
  - 1-12 2016



# Some lessons learned and challenges faced

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- ◆ Even a spending review carried out impeccably will remain a dead letter on the paper without political support in the application
- ◆ Start with a spending review at the beginning of a Government's mandate - leaves enough time to implement the reform
- ◆ Spending review committee must consist of the best civil servants – **problem: these civil servants are usually busiest**



# Some lessons learned and challenges faced

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- ◆ Combine external experts with internal knowledge
- ◆ Final reports should be published
- ◆ Establish a clear baseline
- ◆ Take a medium term perspective
- ◆ Make spending review obligatory by law ???
  - Administrative capacities
  - Political willingness

