Executive summary of the public audit report

MANAGEMENT OF THE PROGRAMME FOR INVESTMENT IN 2015

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DEFINITIONS AND ABBREVIATIONS

Investment: money and tangible, intangible and financial assets assessed in accordance with the procedure established by the applicable laws and other legal acts, which are invested in order to profit (receive income) from the investment object, to achieve a social result (in the fields such as education, culture, science, health, social security, etc.) or to ensure that implementation of the functions of the State[1].

Investment project: a document justifying the investment goals financially (economically), technically and socially, evaluating the return on investment (commercial project) and other performance indicators, indicating the funds required for the project implementation as well as funding sources and terms[2].

The Public Investment Programme: a document defining the public investment strategy, which provides the funds necessary for the implementation of investment projects of the state-supported programmes, funding sources and time frames for the implementation of these investment projects[3].

Types of investment according to the investor's status[4]:

1) **public investment**: investment used to meet the needs of the State and funded by the national budget and the state (municipal) funds, loans received on behalf of the State (municipalities) of Lithuania, funds of public (municipal) enterprises and other public (municipal) property, and loan guarantees provided by the State (municipalities);

2) **private investment**: investment by the Lithuanian and foreign subjects of private ownership;

3) **investment by foreign countries and international organizations**.

Types of investment according to the investment object[5]:

1) **capital investment**: investment used to create or purchase fixed tangible and intangible assets, or increase their value;

2) **financial investment**: all investments, with the exception of those referred to in Paragraph 1.

The state capital investment: the State's funds used to create or purchase fixed tangible and intangible assets, or increase their value for the state and municipal institutions, establishments, companies, and other economic agents[6].

The field: individual fields of management assigned to ministers or separate institutions.

OECD (EBPO): Organisation for Economic Co-operation and Development.

[1] Law No. VIII-1312 of the Republic of Lithuania on Investment, 07/07/1999, Art. 2, p. 1.

[2] Ibid, Art. 2, p. 10.

[3] Ibid, Art. 2, p. 9.

[4] Ibid, Art. 3, p. 3.

[5] Ibid, Art. 3, p. 4.

[6] The Ministry of Finance of the Republic of Lithuania, State Capital Investment (http://finmin.lrv.lt/lt/veiklos-sritys/biudzetas/valstybes-kapitalo-investicijos).

Rules and regulations: rules and regulations used to plan, adjust, implement, report, and control the state capital investment, approved by the Resolution No. 478 of the Government of the Republic of Lithuania, 26/04/2001 (version No. 205 of 23/02/2011 with further amendments)

The state budget programme: the strategic action plan programme, i.e. an essential part of the strategic action plan designed to implement a strategic objective, which sets the programme's goals, objectives, measures (projects), and assessment criteria as well as their values and appropriations[7].

Technical support, support of the EU, Norway, EEA, Switzerland, etc. : support of the EU and other financial support.

[7] The Strategic Planning Methodology approved by the Resolution No. 827 of the Government of the Republic of Lithuania, 06/06/2002.

SUMMARY

The Public Investment Programme is one of the tools used to implement the Government's programme and its priorities. In 2015, 1.44 billion euros were allocated to it, i.e. 16% of the national budget funds. The funds of the Public Investment Programme are invested in the following areas: environment, national, social and health security, culture, transport, education, agriculture, etc. Most of the funds are allocated for the development and repair of infrastructure, purchase of information technology, and so on. Investment projects are prepared by the state and municipal institutions, establishments and other economic agents to acquire fixed tangible or intangible assets or increase their value. The Ministry of Finance was tasked with preparation of the Public Investment Programme project. The programme's appropriations are approved by the Seimas according to their fields.

The aim of this audit is to assess whether the management of the programme for investment in 2015, covering the programme's planning, implementation and monitoring, was appropriate and productive. When assessing the management of the programme for investment in 2015, were addressed the following issues:

- whether the programme's consistent planning and its connection with other public investments is ensured;
- whether the programme is implemented correctly;
- whether reporting the programme's implementation shows the impact on implementation of the Government's priorities;
- whether it is ensured that the planned results of investment projects have been achieved.

The audit was conducted in fourteen ministries, but information was also collected from other 25 establishments, whose investment projects are included in the Public Investment Programme. The audit covered the year 2015 as well as fund planning for the year 2016. In order to assess the benefits of public investment projects, data from the previous periods were also used for the analysis.

During the audit, we discovered that the Public Investment Programme is not a rational and sufficient tool to be used to implement the Government's priorities with a view of creating economic and social benefits for the investment, because:

- upon the emergence of the programme budget, preparation of the Public Investment Programme as a separate document lost its relevance. All of the processes, i.e. planning, monitoring and reporting, are reduplicated, because part of the planned funds of the state budget programmes is included in the Public Investment Programme, thus increasing the administrative burden of the institutions involved in preparation and implementation of investment projects;
- when reporting the implementation of the Public Investment Programme, the amount of money spent, the number of asset units purchased, etc. are indicated, but there is no indication of any benefits or lasting effects of the investment projects, and how this investment contributed to the implementation of the Government's priorities;
- there are no connections between this programme and other public investments. No systematic analysis is carried out nationwide, showing how much funds is allocated for all public investments (including investments specified in the Public Investment Programme),

what impact do they have on each field, and how do they contribute to the implementation of the Government's priorities.

Having assessed the evidence collected during the audit, we hereby present conclusions and recommendations which, if properly implemented, should help clarifying orientations and connections between all public investments, show their impact on the Government's priorities and strategic objectives in each field, and reduce the administrative burden for the public sector.

CONCLUSIONS

Planning the Public Investment Programme

1. The funds allocated for the creation and purchase of the State's fixed tangible and intangible assets are also planned in the state budget programmes, and part of these funds is included in the Public Investment Programme. In accordance with the existing procedures, the planning of these funds is reduplicated, and the time spent filling out the same information are to be regarded as the public sector's administrative burden (Subsection 1.1).
2. It is not considered nationwide, which would be the most useful redirections for the funds of the Public Investment Programme, and ministries have no knowledge, for which objects of their fields the programme's funds were allocated by other ministries. As ministries fail to share this information relevant to the shaping of the policy, the funds of the Public Investment Programme are not always properly redirected to achieve the Government's priorities. Thus, irrational decisions (Subsections 1.4 and 1.5), such as:
    - 2.1. Lithuania will soon have 108 multifunctional sports centres (arenas, sports complexes and swimming pools) with unreasonably small distance (6 to 15 km) between some of those. Before 2016, 111 million euros of the Public Investment Programme's funds were spent on the centres, and 169 million euros are needed to complete these projects. Moreover, each year municipalities additionally allocate more than half of the funds necessary for their maintenance;
    - 2.2. In 2005–2013, three ministries (the Ministry of Transport and Communication, the Ministry of Social Security and Labour, and the Ministry of Finance) spent 0.8 million euros of the Public Investment Programme's funds on the preparation of construction documents, but further actions are not being carried out, i.e. construction or reconstruction of buildings has not been started;
    - 2.3. In 2015, 393 new investment projects were started with 149.8 million euros (12% of the total expenditure of 2015) spent on them; in 2016, 235 projects with three times as much funding, i.e. 567.4 million euros (47% of the total expenditure of 2016) to be spent on them. However, no funds were allocated in 2015 for 80 previously started investment projects. This not only increases their implementation time, but also the funding required for their completion (2-4 times).
3. There are 57 economic and important public projects in Lithuania, through which the country's strategic interests are implemented, and the goals of the country's sectoral and regional policy are achieved. Part of the funds allocated for these projects also falls in the Public Investment Programme. Thus, part of the same information is being reduplicated in several different documents (Subsection 1.1).

4. Planning the funds of the Public Investment Programme is flawed: appropriation managers are tasked with planing the investment project funds without exceeding the amount approved the previous year. Where planning is carried out without considering the need for funds to achieve the objectives established, the funds of this programme may not be redirected to the places where they are most needed (Subsection 1.4).
5. Usually, analyses of investment projects' (with the exception of the projects funded by the EU and other financial support funds) costs, benefits (results) and alternatives do not comply with the requirements to their preparation: no calculations of costs and benefits are presented; the net current value criteria demonstrating the effectiveness of the project's implementation are not applied, etc. Such analyses do not help to determine the best investment project of all possible alternatives. Nor do they allow to assess the social and economic benefits of investments several years after the said investments (Subsection 1.2).
6. In six ministries, the selection of investment projects is questionable (Subsection 1.3):
   6.1. The Investment Project Selection Committees appointed by the Ministry of Health, the Ministry of Justice and the Ministry of Agriculture fail to comply with these project selection rules and regulations approved by resolutions of the Ministers. As a result, investment projects with less points are included in the Public Investment Programme;
   6.2. The Selection Committee appointed by the Ministry of Social Security and Labour awarded points without complying with the established criteria. As a result, projects that comply with the criteria approved by the resolution of the Minister were not included in the programme;
   6.3. The Ministry of Environment and the Ministry of Culture have not approved the recommended point system, thereby creating conditions for unfair selection of investment projects.
   Changes made during the audit period: On 22 June 2016, the Minister of Culture approved the investment project selection criteria and their values.
7. Although the Public Investment Programme should be a document that defines the state investment strategy, it does not match the structure typical of such document (Subsections 1.6 and 2.1, Section 3):
   7.1. it only includes the funds allocated for the creation and purchase of the State's fixed tangible and intangible assets (excluding exceptions), but there is no information on financial and other public investments;
   7.2. it only contains the names of projects or programmes and the funds allocated for their implementation, but no strategic orientations, goals, objectives, measures, and so on typical of the programmes;
   7.3. almost half of investment projects under this programme are small, i.e. up to 0.5 million euros, and the funds are allocated for small operations (e.g., repairs of buildings and roads) and measures required to perform the public sector's functions, purchases, and so on. Preparation of investment projects is a work-intensive process. As a result, increases the administrative burden for the institutions involved in preparation and implementation of small projects.
8. Nationwide, there is no grouped information on investment projects included in individual programmes, their numbers, planned and used funds, project implementation intensity, and so on, so all this information was collected during the audit. In the absence of accurate and

adequate information on all investment projects, management of the Public Investment Programme becomes more complicated (Subsection 1.4).

Reporting the Implementation of the Public Investment Programme

9. Reporting the results of the Public Investment Programme does not show whether the public investment strategy is being usefully implemented, and to what extent (Subsection 2.1):
   9.1. when reporting the program implementation, there is no indication of any benefits or lasting effects of the investment projects, and how this investment contributed to the implementation of the Government's priorities;
   9.2. when providing information about the implemented state budget programmes in ministries' annual performance reports, it is repeatedly specified, where the funds of the Public Investment Programme were used;
   9.3. there is no summarized information about the funds allocated for all public investments and their impact on the implementation of the Government's priorities.
10. There is no monitoring of the implemented investment projects or requirements to report performance (with the exception of the projects funded by the EU and other financial support funds) and its impact on the achievement of the Government's priorities.In the absence of such requirements, there is a risk of created or acquired assets being sold and further activities discontinued (Subsection 2.1).
11. The Public Investment Programme implementation report of 2015 does not show the real and correct size of public investment, because the amount indicated is 19 million euros smaller than the one actually used (Subsection 2.2):
    11.1. The Ministry of Social Security and Labour, the Lithuanian Environmental Investment Fund and the Directorate of Border Inspection Posts spent 22.8 million euros on the state capital investments, which were not scheduled in the Public Investment Programme and, therefore, did not prepare any investment projects;
    11.2. The Ministry of the Interior, the Ministry of Economy and the National Payment Agency spent 3.8 million euros of the Public Investment Programme's funds on non-state capital investment.
    11.3. The Public Investment Programme implementation report of 2015 contains inaccurate data, but this does not affect the adoption of decisions on further investment. This serves as further proof of redundancy of the Public Investment Programme as a separate document.

RECOMMENDATIONS

In order to systematically plan and use all public investments as well as trace their impact on implementation of the Government's priorities and reduce the administrative burden of the public sector, we recommend:

To the Government Office

1. Changing the planning and reporting procedures of all government investments (including investments specified in the Public Investment Programme), integrating the strategic and investment planning and reporting processes (Conclusions 1-11).

To the Ministry of Finance (before the recommendation is implemented, to the Government)

1. Committing the appropriation managers to notify the ministries that shape the policy in the corresponding field of public investment planned in the management fields outside their jurisdiction (Conclusion 2).
2. Having assessed the value of investment projects and the nature of the assets acquired or created, setting measures that would help reducing the administrative burden of the institutions involved in preparation and implementation of small projects (Conclusions 1 and 7).
3. Establishing that investment projects should be assessed using a point-based selection system or any other equivalent measures (Conclusion 6).
4. Establishing the monitoring procedures for investment projects funded by the state budget, and determining (according to circumstances or demand) possible restrictions on the disposal of acquired or created assets in these these procedures, among other things (Conclusion 10).

To the Ministry of Environment, the Ministry of Health, the Ministry of Social Security and Labour, the Ministry of Justice, and the Ministry of Agriculture

1. Reviewing the investment project selection criteria and the points system, so that investment projects could be selected fairly and objectively (Conclusion 6).

Measures and time frames for the implementation of the recommendations are presented in Annex 1, 'Plan for Implementing Recommendations'.