VALSTYBĖS KONTROLĖ
PUBLIC AUDIT

CHANGES IN STRATEGIC MANAGEMENT AND BUDGETING

14 June 2024

No VAE-6

SUMMARY

Relevance of the audit

The country is undergoing a transformation of its strategic management and budgeting from 2021 onwards, with the aim of improving the sustainability of long-term public budget planning, the transparency of budgeting principles and the financing of public services. An integrated strategic management model has been introduced, linking the formulation and implementation of strategic objectives with the planning, reporting and control of budgetary allocations and expenditure. The first draft medium-term budget for the period 2025-2027 is expected to be prepared and submitted for approval in 2024. The National Audit Office 2016-2019 identified areas for improvement in the strategic management system: developments in the strategic management and budgeting system as part of the transformation should be coherent and targeted to achieve the intended objectives. Budgeting should link allocations to results, strategic objectives, targets and indicators at all levels should be interlinked, and performance should be properly monitored and disclosed to the public and decision-makers. This would allow financially resourced objectives to be set and the measures to achieve them to be selected.

Audit objective and scope

The objective of the audit is to assess whether the strategic management and budgeting system enables the effective implementation of the national progress.

Main audit questions:

- ✓ Whether the strategic management system enables the planning and implementation of the national progress
- ✓ Whether the strategic management monitoring system enables the assessment of the progress achieved.

Audited entities:

- ✓ The Office of the Government of the Republic of Lithuania, which coordinates the monitoring of national progress and the implementation of national development programmes, organises the implementation of these programmes together with the ministries[1];
- ✓ Ministry of Finance, which is the manager of the National Development Programme portfolio and coordinates its implementation[2];
- ✓ Selected Ministries of Culture and Transport and Communications which are participants in the strategic management system and managers of development programmes.

During the audit, we collected information from the Central Project Management Agency, which is the methodological support centre for the development programmes portfolio. We interviewed all 14 ministries.

The audit period is 2021-2023. To assess trends and developments, we have used data from 2024 in some cases.

The audit was conducted in accordance with international standards of supreme audit institutions. The scope of the audit and the methods applied are described in more detail in Annex 2 "Audit scope and methods" (page 36).

Key audit results

The new strategic management and budgeting system provides the formal preconditions for effective implementation of the national progress. However, significant changes are still underway (the formulation of the triennial budget for 2025-2027, the evaluation of the follow-up and organisation of progress measures, and the development of a monitoring system). There is a lack of action to assess the planned objectives of the national progress and to align them with financial possibilities.

1. National progress targets are planned without the necessary financial capacity

- ✓ There is no approved Civil Protection Strengthening Development Programme (1 of 28). 44 out of 180 (24%) progress measures for development programmes are not designed, some of them are partial, e.g. in the Ministry of Transport and Communications 6 (out of 7). The Central Project Management Agency estimates that development programme managers would need EUR 62.1 billion to achieve the objectives of the National Progress Plan 2021-2030. The Plan has financial projections of EUR 18 billion. The failure to approve all the actions, and to align the approved actions with the State's financial capacities, has not created the conditions for addressing the challenges in the State's areas of activity in a timely manner with progress funds (Sub-section 1.1, page 11).

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[1] Law on Strategic Management, Articles 14 and 18.

[2] Law on Strategic Management, Article 3(3), Article 18(3) and (6)

- ✓ To avoid unreasonable expectations, the progress planned and implemented must be in line with the country's financial capacity. For example, the Ministry of Culture has planned for the implementation of one (out of 7) of the progress targets a need for appropriations of EUR 6.52 million higher than the financial projections. Two measures of the Ministry of Culture have no planned funding (EUR 128.6 thousand in 2023, EUR 700.95 thousand in 2024) and one measure of the Ministry of Culture and two measures of the Ministry of Transport and Communications have less funding than planned (EUR 36,730 thousand for the Ministry of Transport and Communications in 2023, EUR 808.41 thousand for the Ministry of Culture in 2024, EUR 47,504.6 thousand for the Ministry of Transport and Communications in 2023, EUR 47,504.6 thousand for the Ministry of Culture). If the development programme managers - the ministries - design progress measures for which the need for funding is not aligned with the State's financial capacity and do not receive it, all the progress targets and their indicators foreseen in the National Progress Plan and the respective development programmes will not be achieved (Sub-section 1.1, page 11).
- ✓ The goals and objectives of the National Progress Plan 2021-2030 have not been linked to the National Progress Strategy LT2030. Alignment of the Plan and its implementing documents (development programmes, strategic action plans) with the new National Progress Strategy LT2050 is not envisaged. The Plan must be consistent with the Master Plan for the territory of the Republic of Lithuania, but no mandatory transposition of elements is foreseen, and no information is available on the linkages. Failure to harmonise the objectives of planning documents at all levels - state, strategic, programming and operational/budgetary - will not create the preconditions for more efficient planning and use of public finances, nor will it provide the public with accurate information on the objectives of progress and the possibilities for achieving them (Sub-section 1.2, page 23).
- ✓ Continuous monitoring of progress and results of the follow-up activities is not in place: the evaluation plan for the 2024-2027 progress measures is still not approved, and the systematic review of the follow-up funds is not completed. Failure to continuously assess the relevance, effectiveness, results and benefits of the progress and follow-up actions will result in untimely decisions to ensure the effectiveness of these actions (Sub-section 1.2, page 23).
- ✓ To ensure the continuity of financing over the medium term and to make the country's fiscal policy more sustainable, the Law on Budgetary Structure includes provisions for a 3-year state budget. A one-year state budget was approved in 2024 and a three-year state budget (2025-2027) will be approved in 2025. The three-year budget is currently being formulated by the appropriation managers and the implementing legislation has not yet been adopted (Sub-section 1.2, page 23).
- ✓ The main indicators for the assessment of the National Progress Plan objectives, as approved in the laws on the approval of financial indicators for the State budget and municipal budgets, show the impact of the use of the progress appropriations by 66% (EUR 1,085.2 million out of EUR 1,645.6 million) in 2023 and by 52% (EUR 1,232.2 million out of EUR 2,366 million) in 2024. This would only partially reveal the result of the use of the state budget appropriations for progress in the respective year. The laws and the ministries' strategic action plans do not set indicators for the allocations that have been programmed in the Ministry of Finance's reserve instrument in the absence of the ministries' approval of the descriptions of progress measures. Appropriations for 14 ministries (EUR 974.2 million) were planned for 2022, 8 ministries (EUR 862.9 million)

for 2023 and 8 ministries (EUR 669.8 million) for 2024. The Ministry of Finance plans to abolish the reserve instrument in the draft amendment to the Strategic Management Methodology (Sub-section 1.2, page 23).

- ✓ The 2022 Strategic Management Methodology sets out the cases for not conducting a multi-alternative analysis. The Government took this decision to speed up the process of developing and implementing progress measures following the entry into force of the new strategic management system. With the new strategic management system in its fourth year of operation, progress measures should be designed or modified in accordance with its principles. By 31.03.2023, 12 (out of 14) ministries have adapted cases in the measures adopted by 31.03.2023, of which 8 have adapted more than 50% of measures. Ministries did not assess alternatives where decisions on the financing of specific activities have already been taken or activities have been launched, where the specific way of implementing the measures is determined by law, EU legislation, international commitments, the Government programme, where activities are developed under the Recovery and Resilience Facility, etc. Not assessing alternatives will not lead to the highest benefit at the lowest cost (Sub-section 1.2, page 23).

2. Monitoring of progress lacks tools and data

- ✓ In 2022, 32% (10 out of 31) of the 2020 milestones of the indicators of the National Progress Strategy LT 2030 have been achieved. The Ministry of Culture has achieved 71% (5 out of 7) of the assessed indicator values in 2022, the Ministry of Transport and Communications 80% (12 out of 15). The Ministries lack the data to periodically assess progress. The National Progress Plan has 92 indicators to measure the achievement of three (out of 10) objectives, but the progress report on the implementation of this plan does not include 70% of the values in 2022 and 26% in 2021. The Ministry of Culture has not included 77% (23 out of 30) of the indicator values in the 2022 activity report, as they are based on studies, reports, data from other institutions and were not published at the time of the activity report. Without data to measure the achievement of indicators on a periodic basis, it is not possible to assess progress in the interim period and to take timely and informed decisions on improvements to measures if necessary (Section 2, page 26).
- ✓ The Strategic Management Information System (SIS) is not adapted to the new strategic management system, so data for monitoring is collected from the annual and interim reports on the implementation of the National Progress Plan, the ministries' activity reports, and the information is provided by the system participants. This reduces the efficiency of the planning, monitoring, and reporting processes and makes it difficult to link the strategic management and state budgeting systems. The new system (SVIS) is still under development and is scheduled for completion in April 2026 (Section 2, page 26).

Recommendations

For the Office of the Government

1. The National Progress Plan should set out the principles for the preparation of the National Progress Plan (scope, definition, and choice of indicators) to establish a link between the progress to be achieved in the relevant areas of the State's activities and the State's financial capacity.

2. The measures and deadlines for the implementation of the recommendations, the expected impact of the audit and the indicators for measuring change are set out in the report Section 'Plan for the implementation of the recommendations' (p. 30). Up-to-date information on the status of implementation of the recommendations, results and developments is published in open data on the National Audit Office website https://www.valstybeskontrole.lt/LT/AtviriDuomenys.