

Structural Reforms and their Link to the
National Budgetary Process
- the Croatian Experience -

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Institutional framework

New Budget Act (2008)	<p>a mandatory drafting of strategic plans and a three-year strategy of government programs</p> <p>in order for the strategic priorities and goals of the government policies to directly affect the allocation of resources within the budget</p> <p>a multiannual budget framework that contains not only the budget for one budget year, but also the projections for the following two years</p> <p>greater flexibility in budget execution, since the Parliament adopts the budget on a less detailed level</p>
Decree on procedures for estimate the impact of Regulation/Planning and strategic act (2015)	<p>Fiscal impact assessment used for analysis of positive or negative impact of strategies on Budget</p>
Law on System of strategic planning and development management (2017)	<p>system of strategic planning of RC and management of public policies – preparation, implementation, reporting and monitoring implementation and performance, and valuation of document for strategic planning</p>

Fiscal Impact on budget

- **Expected impact on public budget** are estimated in relation to expected costs and benefits from introducing strategies and possible alternatives in their introduction, based on following criteria:
 - Fiscal impact of introducing regulation and strategies,
 - Source end methods of funding,
 - Administrative costs of regulation and strategies, NRP
 - Cost bear by citizens, enterprises and other level of government responsible for implementation

BUDGET STRUCTURE supports strategic planing



REPUBLIKA HRVATSKA
MINISTARSTVO FINANCIJA
DRŽAVNA RIZNICA
Katančićeva 5
Zagreb



BUDGETARY CLASSIFICATIONS

organizational
classification

program
classification

sources of
financing used in
the budget

economic
classifications

		Execution 01.2010.- 12.2010. 1	Index 4 / 2 5	Budget proposal 2011. 2	Index 2 / 1 3	Budget proposal 2012. 4	Index 4 / 2 5
	Ukupni rezultat	2.567.144.959,17	98,59	2.751.710.543	105,68	2.651.625.500	96,36
	110 MINISTRY OF JUSTICE	2.567.144.959,17	98,59	2.751.710.543	105,68	2.651.625.500	96,36
	11005 Ministry of justice	348.931.172,82	92,55	471.333.867	125,01	423.440.313	89,84
	2801 COORDINATION AND ADMINISTRATION OF JUSTICE	162.275.980,10	100,17	166.717.070	102,91	145.421.630	87,23
	A576237 MONITORING AND ANALYSIS OF THE PRACTICE OF THE EUROPEAN UNION	29.015,70	59,83	90.000	185,57	100.000	111,11
	1 General revenue and receipts	29.015,70	59,83	90.000	185,57	100.000	111,11
	11 General revenue and receipts	29.015,70	59,83	90.000	185,57	100.000	111,11
	3213 Professional development of employee			40.000	4.000,00	30.000	75,00
	3237 Intellectual and personal services	29.015,70	61,09	50.000	105,26	70.000	140,00
	A576238 ALIGNMENT OF RH LEGISLATION WITH EU LAW	410.562,00	90,25	571.000	125,52	571.000	100,00
	1 General revenue and receipts	410.562,00	90,25	571.000	125,52	571.000	100,00
	11 General revenue and receipts	410.562,00	90,25	571.000	125,52	571.000	100,00
	3211 Business travel	4.323,60	17,36	50.000	200,80	50.000	100,00
	3213 Professional development of employee	11.760,00	39,20	50.000	166,67	50.000	100,00
	3237 Intellectual and personal services	394.478,40	98,62	471.000	117,75	471.000	100,00
	A576239 INTERNATIONAL COOPERATION OF THE MINISTRY OF JUSTICE	400.173,23	83,85	612.130	128,27	812.130	132,67

Key documents in defining strategic reforms

1. Strategic plans
2. National reform program
3. Laws
4. Long term strategies and programs

Strategic plans

- Strategic plans of line ministries based on instructions – first step in budget process,
- S three-year strategic plans shall contain: missions, visions, strategic goals, actions to achieve them and their link with the organizational and program classifications, and performance evaluation measure

Content of Strategic plan (as basis for NRP and Convergence program preparation): content

- Content of Strategic plan was changed to emphasize Reform measure
- Methods for realization of objectives
- administration/public management start emphasis only ongoing activities, but
- New methods: ongoing and new activities separated - in line with NRP reform objectives
- *the level of funding required to implement the existing programmes and/or activities ensuring from the effective legislation; and*
- *the level of funding required to introduce and implement new or change the existing programmes and/or activities.*
- **Fiscal impact assessment** has been made for National Reform Program

OVERVIEW OF THE STRATEGIC PLANNING PROCESS

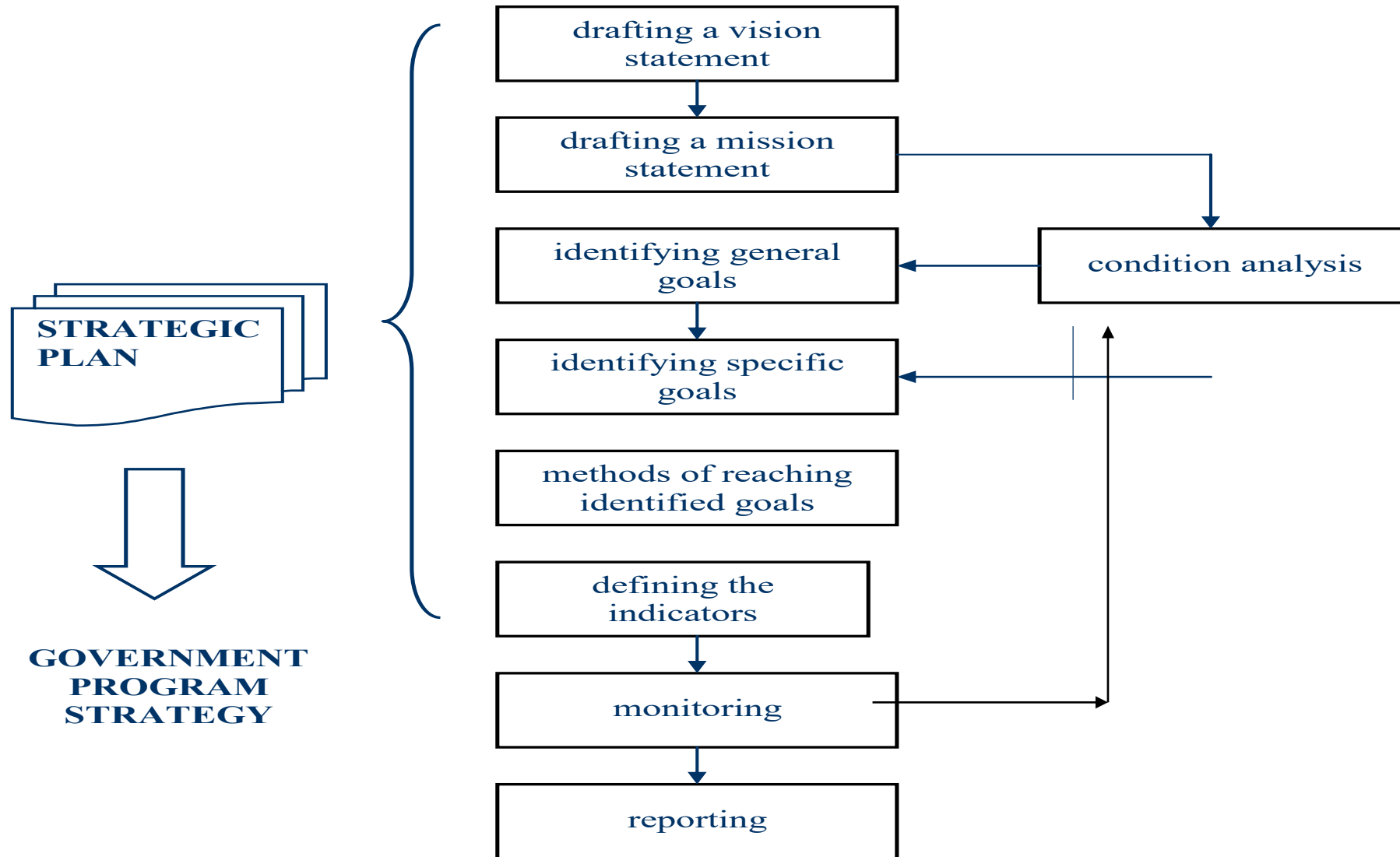


Table: Overview of reforms measure – part of Strategic plan form

Reform measure/new way of implementation	EC recommendation	Reform measure short description		Qualitative impact		
Legal/administrative instrument of measure implementation	Activity for measure implementation	Fiscal effect of measure on CG budget		Activity/project in Central Gov. budget		
Results indicator	Unit	Initial value	Target value 2019	Target value 2020	Target value 2021	Target value 2022

National reform program – strategic document where key reforms are defined

- **The National Reform Programme** define a strategic framework for the implementation of structural reforms in the current year and over the next three years.
- The NRP contain major elements of the macroeconomic scenario and key reform measures from the strategic goals set in the strategic plans and which are being taken or are planned to be taken by the State over a mid-term period, all in keeping with the fiscal framework defined by the Convergence Programme.
- **NRP (Ministry of regional development and EU funds)** with line ministries in charge for reforms, define strategic framework for structural reforms in current and next three years.
- **Convergence program (MF)**, define macroeconomic and fiscal framework in current and next three years (macroeconomic changes, midterm budgetary framework – projection of general budget, public debt, fiscal risks and sensibility analysis of deficit/surplus and public debt and qualitative institutional characteristics of public finances).

National reform program – strategic document where key reforms are defined

- **1. Strengthening economic competitiveness**

- Improving the business environment
- Improving the management and disposition of state assets
- **Improving public administration**
- Improving the efficiency of the judicial system

- **2. Aligning education with labor market needs**

- Education in accordance with labor market needs
- Implementation of the curricular reform

- **3. Sustainability of public finances**

- Strengthening the framework for public financial management and implementation of fiscal consolidation
- Stimulation of demographic renewal
- Improving the efficiency of the social security benefits system
- Ensuring the sustainability of the pension system and the adequacy of pensions
- Ensuring financial stability, sustainability and quality of the healthcare system

NRP 2018 (part of reform): **Improving Public Administration**

- **Streamlining of state information structure**
- One of the detected issues which reflect negatively on the level of usage of online public e-services in Croatia, as well as communication with public government bodies via online applications, is the inadequate, information system and inefficiently managed Information and Communication Technology (ICT) infrastructure of public administration.
- Pursuant to the National Information Infrastructure Act, the Centre for Shared Services (CSS) will be established. This will enable a rational and cost-effective development of an interoperable ICT system within the state administration based on a “state cloud” concept. The CSS is a long-term measure in the context of the NRP and it represents a strong political commitment. Therefore, the application to the ERDF will be prepared during 2018, as well as the signing of the Grant
- Agreement and initiating the implementation of the “Establishment of Shared Services Centre” project and include 40 institutions into the “state cloud”. The end objective of this measure is establishing a single strategic site for managing and coordinating the development of a state ICT, crucial due to the streamlining of state ICT expenditure by monitoring the spending of budgetary resources

An example (NRP program) - Improving Public Administration

			measure results indicators							
Measure	CSR	Objective	Results indicator	Initial value	Target value	Fiscal effect of the measure — Total and annual change of Government revenue and expenditure	Legal/administrative instruments of measure implementation	Activities	Deadline for the implementation of activities	Implementing authority of activities
1.3. Improving public administration										
1.3.5. Streamlining of state information structure		establishment of the Shared Service Centre (SSC) as a single strategic place for managing and coordinating the development of state ICT and streamlining of the state ICT expenditure.	Contract on grant award to the Project of establishment of SSCs and establishment of the SSCs in 40 institutions		SSC established in 40 institutions	Expenditure:HR K 370.6 million (85% ERDF, 15% SB)	1) National Information Infrastructure Act2) Regulation on the organizational and technical standards for connecting to the national information infrastructure	1.3.5.1. Preparation and start of implementation of project activities (phase 1) - establishment of Shared Service Centers in 40 institutions.	Dec 2018	MPA

Part of the strategic plan of Ministry of Public administration

Reform	EC Recommendation	Reform short description		Qualitative effect		
Rationalization and industrialization of the state information infrastructure and easier access to services provided by the public administration	Reduce administrative burden of enterprises	establishment of a shared service center as a unique strategic place for managing and coordinating the development of state IT and rationalization of state ITP expenditures through monitoring of spending of budgetary resources		Establishment of a Service Sharing Center as a Single Strategic Site for Management and Coordination and Development of State ICT, Rationalization of State Consumption		
Legal/administrative instruments of measure implementation	Activities for measure implementation	Fiscal impact on budget		Activity/project in CG budget		
The law on state information infrastructure, Decree on standards		370,8 mil HRK (85% ERDF, other national cofunding)		A757024		
Results indicators	Unit	Initial value	Target value 2018	Target value 2019	Target value 2020	Target value 2021
	kn	0	68.000.000	297.000.000	370.600.000	370.600.000

Link between NRP and Strategic plan

An example is a reform measure that has a significant fiscal impact that will be financed by EU funds and national funding

When assessing the effects of reform measures it is important not only to determine the fiscal impact, but also the source of funding.

The slide shows the linking of the NRP measure, which is under the authority of the Ministry of Public administration and the Strategic Plan of the Ministry Directorate

In the strategic plan of the Ministry of Finance, the fiscal impact has been elaborated more in detail over the years and links have been made to the program classification of the budget (A757024)

The following is an example of a reform measure whose fiscal impact can only be assessed following the adoption of the legislative framework - the law (which will implement this reform measure) should make an assessment of the fiscal impact

Measures that can not be estimated at the moment

Measure	CSR	Objective	measure results indicators			Fiscal effect of the measure — Total and annual change of Government revenue and expenditure	Legal/administ rative instruments of measure implem entation	Activities	Deadline for the implem entation of activities	Implementing authority of activities
			Results indicator	Initial value	Target value					
1.3. Improving public administration										
1.3. Improving public administration										
1.3.1. Review of the salary determinatio n system	4/b	1) Strengthen efficiency, expertise and motivation of state officials and employees to provide efficient and high-quality service to Croatian citizens and entrepreneurs. 2) Ensure a transparent structure of jobs within one legislative act by classification of jobs in pay grades in accordance with the standard classification criteria.	1) Uniform salaries in state service in compliance with the principle of equal pay for equal work and/or work of equal value 2) Classification of state administration jobs and new assessment model	1) 0 2a) Number of positions in state administration: 64 general positions, 476 special positions, and separate determination of work positions of police officers as well as customs and tax authority officials	1) Uniform salaries 2a and 2b) standardisation of positions in the state administration and correlation of work results with salary	Expenditure: since the legislative act is still being drafted, it is not possible to express its fiscal effects at this time. It is estimated that implementation of the act shall not require SB funds in the first year. In the second year of implementation, it shall be necessary to plan funds for payment of one-off reward in the amount of 0.1% of the aggregate salaries for regular work. In the third year of implementation, it will be necessary to plan additional funds for promotion of officials and employees assessed as exceptional - payment of one-off rewards for exceptional results in the amount of 0.1% of aggregate salaries for regular work.	Government Officials' and Employees' Salaries Act	1.3.1.1. Enactment of the Government Officials' and Employees' Salaries Act.	Sept 2018	MLPS

Eg. NRP reform measure – Set up new public institution (Fiscal policy Committee)

- when adopting the national reform program, the cost of establishing and working *Fiscal Policy Committee* was estimated in the medium term
- this effect is included in the budget limit and the same is then included in the budget (as seen from the slide)

Main Objectives, Reform Areas and Economic Policies (NRP 2018)

Measure	CSR	Objective	Measure results indicators			Fiscal effect of the measure — Total and annual change of Government revenue and expenditure	Legal/administrative instruments of measure implementation	Activities	Deadline for the implementation of activities	Implementing authority of activities
			Results indicator	Initial value	Target value					
3. SUSTAINABILITY OF PUBLIC FINANCES										
3.1. Strengthening the framework for public financial management and implementation of fiscal consolidation										
3.1.1. Improving the fiscal framework	1/b	<p>1) Monitor implementation of fiscal rules concerning the structural balance rule, expenditure rule, public debt rule, and the rule on amount of deficit in state budget projections and contribute to overall sustainability of public finances through compliance with the fiscal rules.</p> <p>2) Strengthen the role of the Fiscal Policy Committee as the supervisor of application of the Fiscal Responsibility Act as well as implementation of the state's overall fiscal policy.</p>	<p>1) Full alignment of numerical fiscal rules with provisions of the Stability and Growth Pact 2) Independence of the Fiscal Policy Committee</p>		<p>1) Efficient application of numerical fiscal rules</p> <p>2) The Fiscal Policy Committee as a permanent and independent state body</p>	<p>Expenditure: HRK 1.5 million for operation of the Fiscal Policy Committee</p>	Fiscal Responsibility Act	3.1.1.1. Enactment of the Fiscal Responsibility Act.	July 2018	MF

Part of the Budget Law 2019-2021

Code	Name	Budget 2019	Proj 2020	Proj 2021
11	FISCAL POLICY COMMITTEE	1.497.100	1.495.100	1.499.100
1105	Fiscal policy committee	1.497.100	1.495.100	1.499.100
22	FINANCIAL AND FISCAL SYSTEM	1.497.100	1.495.100	1.499.100
2211	INDEPENDENT MONITORING OF FISCAL POLICY IMPLEMENTATION	1.497.100	1.495.100	1.499.100
A926001	ADMINISTRATION AND MANAGEMENT	1.387.100	1.460.100	1.464.100
11	<i>General revenue and receipts</i>	1.387.100	1.460.100	1.464.100
31	Employees expenditures	977.500	1.068.500	1.072.500
311	Wages (gross)	803.000		
312	Other expenditures for employees	33.500		
313	Material cost	141.000		
32	Material expenditures	374.500	374.500	374.500
34	Financial expenditures	1.100	1.100	1.100
42	Expenditure for acquisition of nonfinancial assets	34.000	16.000	16.000
K926002	INFORMATIZATION	110.000	35.000	35.000
11	<i>General revenue and receipts</i>	110.000	35.000	35.000
41	Expenditure for acquisition of nonfinancial assets	15.000	15.000	15.000
42	Expenditure for acquisition of productive fixed assets	95.000	20.000	20.000

Form for fiscal impact assessment

- The entire NPR compiles a form for assessing fiscal performance
- All bodies fill in a form for assessing the fiscal impact (examples shown in previous slides), and the holder/ministry consolidates (the form's snippet of the form below)
- The Ministry of Finance gives an opinion on the form and assessment of the fiscal effects of the measure.

Macroeconomic and fiscal Guidelines - link

- The estimated fiscal impact of the reform measures MF includes in the limits for the medium term period

The limits are contained in the *Economic and Fiscal Policy Guidelines*

Based on the limits, the ministries prepare the budget and allow the implementation of the reform measures

Economic and fiscal policy guidelines

- MTBF is established in line with Economic and Fiscal Policy Guidelines for a three-year period
- Relying on the strategic plans, the NRP, CP the country-specific recommendations of the Council of the EU, MF prepare draft economic and fiscal policy guidelines for a three-year period
- Guidelines contain: 1. macroeconomic policy objectives for a three-year period; 2. the macroeconomic and fiscal framework, including any changes in the environment as defined in the CP; 3. **the level of planned funding for each institution, including the levels of funding planned for the previous, current, the next and following two years.**
- **The ceilings planned for each institution at the heading level of organizational classification include:**
 1. ceilings required to implement the existing programmes and/or activities
 2. the level of funding required to introduce and implement new or change the existing programmes and/or activities.

Example of the expenditures ceilings

Source 1, 2 and 8 conto 3 and 4		2017.	Current plan 2018.	Projection 2019.			Proj 2020.	Proj 2021.
				1. ceiling	2. ceiling	Total ceiling		
Total		105.949.483.920	108.667.136.767	111.349.552.167	133.223.000	111.482.775.167	111.928.910.756	113.733.927.824
010	HRVATSKI SABOR	123.168.322	134.588.810	134.530.652	0	134.530.652	140.673.774	142.382.299
020	VLADA REPUBLIKE HRVATSKE	181.757.485	227.423.650	250.006.443	0	250.006.443	255.142.616	255.330.474
025	MINISTARSTVO FINANCIJA	16.606.436.044	16.285.104.631	16.241.864.840	0	16.241.864.840	14.540.586.486	14.711.123.345
040	MINISTARSTVO UNUTARNJIH POSLOVA	4.598.156.377	4.704.696.227	4.893.459.897	0	4.893.459.897	5.005.438.785	5.043.562.918
041	MINISTARSTVO HRVATSKIH BRANITELJA	834.350.169	1.135.564.817	1.149.876.801	0	1.149.876.801	1.124.766.004	1.095.929.640
048	MINISTARSTVO VANJSKIH I EUROPSKIH POSLOVA	574.717.058	654.182.843	667.880.934	55.700.000	723.580.934	796.994.206	719.243.640
065	MINISTARSTVO MORA, PROMETA I INFRASTRUKTURE	5.713.310.321	5.911.704.189	6.090.983.307	0	6.090.983.307	6.216.954.823	6.315.558.438
076	MINISTARSTVO GRADITELJSTVA I PROSTORNOGA UREĐENJA	269.977.784	329.677.897	520.468.354	0	520.468.354	530.994.212	590.000.155
077	MINISTARSTVO ZAŠTITE OKOLIŠA I ENERGETIKE	832.800.957	777.916.163	872.219.951	0	872.219.951	885.991.424	871.977.483
080	MINISTARSTVO ZNANOSTI I OBRAZOVANJA	13.211.021.177	13.777.977.987	14.209.212.504	30.000.000	14.239.212.504	14.288.623.181	14.484.942.647
160	DRŽAVNI ZAVOD ZA STATISTIKU	76.573.488	90.812.222	104.791.723	7.350.000	112.141.723	150.647.321	197.716.502

Obrazac standardne metodologije za procjenu fiskalnog učinka

1. Predlagatelj							
		BROJČANA OZNAKA		NAZIV			
Razdjel		060		MINISTARSTVO POLJOPRIVREDE			
2. Osnovni podaci o prijedlogu propisa/akta planiranja							
Vrsta propisa/akta planiranja		Zakon	NE	Odluka	NE	Ugovor	NE
		Uredba	NE	Akti planiranja (projekti, planovi, programi, strategije, politike i dr.)	DA	Ostalo	NE
Naziv propisa/akta planiranja		Nacrt Nacionalnog programa reformi 2019., s Prijedlogom Zaključka Vlade Republike Hrvatske					
3. Povezanost prijedloga propisa/akta planiranja s državnim proračunom							
RAZDJEL	GLAVA	GLAVNI PROGRAM	PROGRAM	FUNKCIJA	PODPROGRAM		
076 MINISTARSTVO GRADITELJSTVA I PROSTORNOGA UREĐENJA	07605 Ministarstvo graditeljstva i prostornoga uređenja	35 PROSTORNO UREĐENJE I UNAPREĐENJE STANOVANJA	3501 RAZVOJ I UPRAVLJANJE PROSTORNIM UREĐENJEM	0620 Razvoj zajednice	A538075 INFORMACIJSKI SUSTAV PROSTORNOG UREĐENJA - ISPU		
080 MINISTARSTVO ZNANOSTI I OBRAZOVANJA	08005 Ministarstvo znanosti i obrazovanja	38 ZNANOST I TEHNOLOŠKI RAZVOJ	3801 ULAGANJE U ZNANSTVENO ISTRAŽIVAČKU DJELATNOST	0150 Istraživanje i razvoj: Opće javne usluge	A557042 PROGRAM DOKTORANADA I POSLIJEDOKTORANADA HRVATS		
049 MINISTARSTVO GOSPODARSTVA, PODUZETNIŠTVA I OBRTA	04905 Ministarstvo gospodarstva, poduzetništva i obrta	32 GOSPODARSTVO	3201 PRIPREMA, PROVEDBA I PODRŠKA OSTVARENJU STRATEŠKIH CILJEVA ZA JAČANJE GOSPODARSTVA RH	0442 Proizvodnja	A560000 ADMINISTRACIJA I UPRAVLJANJE		
080 MINISTARSTVO ZNANOSTI I OBRAZOVANJA	08005 Ministarstvo znanosti i obrazovanja	37 OBRAZOVANJE	3701 RAZVOJ ODGOJNO OBRAZOVNOG SUSTAVA	0970 Istraživanje i razvoj obrazovanja	A577004 PROVEDBA KURIKULARNE REFORME		
080 MINISTARSTVO ZNANOSTI I OBRAZOVANJA	08005 Ministarstvo znanosti i obrazovanja	37 OBRAZOVANJE	3701 RAZVOJ ODGOJNO OBRAZOVNOG SUSTAVA	0970 Istraživanje i razvoj obrazovanja	A578045 SUFINANCIRANJE NASTAVNIH MATERIJALA I OPREME ZA		
080 MINISTARSTVO ZNANOSTI I OBRAZOVANJA	08005 Ministarstvo znanosti i obrazovanja	37 OBRAZOVANJE	3703 OSNOVNOŠKOLSKO OBRAZOVANJE	0912 Osnovno obrazovanje	A579003 ODGOJ I NAOBRAZBA UČENIKA S TEŠKOĆAMA U RAZVOJU		
080 MINISTARSTVO ZNANOSTI I OBRAZOVANJA	08005 Ministarstvo znanosti i obrazovanja	37 OBRAZOVANJE	3704 SREDNJOŠKOLSKO OBRAZOVANJE	0922 Više srednjoškolsko obrazovanje	A580004 STANDARD UČENIKA S POSEBNIM POTREBAMA		

4. Fiskalni učinak										
4.1. Rashodi i izdaci državnog proračuna										
		TEKUĆA GODINA (t)								
		Troškovi provođenja postojećeg propisa/akta planiranja na godišnjoj razini			Povećanje/smanjenje kao rezultat provedbe propisa/akta planiranja					
Skupina računa razred 3, 4, 5	Naziv	Izvori 1 2 i 8	Ostali izvori	Ukupno	Izvori 1, 2 i 8	Ostali izvori	Ukupno	Ukupni trošak provedbe u tekućoj godini (t)	Odobrena sredstva unutar državnog proračuna	Sredstva koja će se osigurati preraspodjelom
		1	2	3=1+2	4	5	6=4+5	7=3+6	8	9
31	Rashodi za zaposlene			0	13.296.447	53.177.685	66.474.132	66.474.132	66.096.996	
32	Materijalni rashodi			0	108.659.937	197.000.179	305.660.116	305.660.116	302.219.252	
34	Financijski rashodi			0	165.902		165.902	165.902	165.902	
35	Subvencije			0	214.628.898	461.661.097	676.289.995	676.289.995	658.089.995	
36	Pomoći dane u inozemstvo i unutar općeg proračuna			0	275.401.265	297.670.018	573.071.283	573.071.283	573.071.283	
37	Naknade građanima i kućanstvima na temelju osiguranja i druge naknade			0	653.420.979	235.728.000	889.148.979	889.148.979	839.148.979	50.000.000
38	Ostali rashodi			0	630.764.840	150.208.374	780.973.214	780.973.214	742.761.423	
41	Rashodi za nabavu neproizvedene dugotrajne imovine			0	198.000	3.416.903	3.614.903	3.614.903	3.614.903	
42	Rashodi za nabavu proizvedene dugotrajne imovine			0	60.702.510	151.402.386	212.104.896	212.104.896	212.104.896	
43	Rashodi za nabavu plemenitih metala i ostalih pohranjenih vrijednosti			0			0	0		
44	Rashodi za nabavu proizvedene kratkotrajne imovine			0			0	0		
45	Rashodi za dodatna ulaganja na nefinancijskoj imovini			0	959.748	4.079.999	5.039.747	5.039.747	5.039.747	
51	Izdaci za dane zajmove			0			0	0		
53	Izdaci za dionice i udjele u glavnici			0			0	0		