



Valsts kase

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Smilšu iela 1, Rīga, LV-1919, phone: +371 67 09 42 22, fax: +371 67 09 42 20, e-mail: kase@kase.gov.lv, www.kase.gov.lv

APPROVED  
Minister of Finance  
\_\_\_\_\_ D. Reizniece-Ozola  
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**STRATEGY**  
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**Treasury Operational Strategy for 2017–2019**

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## **Introduction**

The Treasury Operational strategy for 2017–2019 (hereinafter – the Strategy) is the Treasury’s medium-term planning and management document for the execution and performance of functions and tasks defined by Treasury Regulations within the planned funding.

The Strategy has been developed in accordance with the Law on Budget and Financial Management, Development Planning System Law and laws and regulations governing the management of the institution issued on the basis of the above laws, as well as in compliance with Cabinet Instruction No. 3 of 28 April 2015 “Procedure for the Development and Updating of the Operational Strategy of the Institution and Assessment of its Implementation”, and the Operational Strategy of the Ministry of Finance for 2017–2019.

The Strategy defines the strategic development priorities of the Treasury, Operational Directions and their strategic goals, tasks, outputs and performance indicators. The task of the Strategy is to facilitate the engagement of all Treasury employees in reaching the set targets.

## **1. General**

### ***1.1. Mandate***

The Treasury is a direct administrative authority under the Ministry of Finance designed to effectively implement the functions of public administration in the area of public financial management.

In accordance with the delegation under the Law on Budget and Financial Management, and the Regulations of the Treasury (Cabinet Regulation No. 677 of 3 August 2004), the Treasury shall have the following functions:

- 1) organising implementation and financial accounting of the central government budget;
- 2) granting allocations and executing payments;
- 3) central government debt management;
- 4) functions of the Paying and Certifying Authority for the disbursements of the European Union policy mechanism, the European Economic Area Financial Mechanism and the bilateral Norwegian Financial Mechanism, and the functions of the national fund vested by the national authorising officer, as defined by laws and regulations;
- 5) other functions defined by laws and regulations.

The Treasury exercises its functions through the *sub-programme 31.01.00 “Budget Execution”* and *sub-programme 31.02.00 “Central Government Debt Management”* of the *central government budget programme 31.00.00 “Budget Execution and Central Government Debt Management”*; *sub-programme 41.03.00 “Instalments to International Organisations”* of the *central government budget programme 41.00.00 “Ensuring of Payments to Other State Authorities and Persons”*; the *central government budget programme 42.00.00 “Budget Loans and Their Repayment”*; *sub-programme 62.20.00 “Technical Assistance for Absorption of the European Regional Development funds (ERDF) (2014–2020)”* of the *central government budget programme 62.00.00 “Implementation of Projects and Activities of the European Regional Development Fund”*; the *central government budget programme 01.00.00 “State Budget Grant to Local Government Financial Equalisation Fund”*; and *sub-programme 71.05.00 “Technical Assistance for the Implementation of the European Economic Area and Norwegian Financial*

*Mechanisms” of the central government budget programme 71.00.00 “Implementation of Programmes, Projects and Activities Financed by the European Economic Area and Norwegian Financial Mechanisms”, which are financed from the state grant and from the paid services provided in accordance with Cabinet Regulation No. 760 of 12 September 2006 “Regulations on the Price List of the Paid Services Provided by the Treasury”.*

#### ***1.2. Ultimate Objective (for the Strategy period)***

***Sound and Effective Financial Management in the Public Interest.***

#### ***1.3. Future Objective (Vision)***

***The Treasury is the leader of financial competences and services in the public sector.***

#### ***1.4. Operational Directions***

***Operational Direction 1: Implementation of the central government budget***

***Operational Direction 2: Central government debt and cash management***

***Operational Direction 3: State loan and guarantee management***

***Operational Direction 4: Performance of the functions of the Paying and Certifying Authority of the European Union funds and foreign financial assistance***

***Operational Direction 5: Accounting services***

#### ***1.5. Strategic Priorities of the Treasury***

- 1) Effective human resources management, encouraging management leadership and employee development at all levels, and their engagement in the achievement of the Treasury’s goals.
- 2) Ensuring effective access to and quality of the services provided by the Treasury through exploiting the possibilities provided by information technologies.
- 3) Effective administration and monitoring of public financial management processes in the public interest.

## 2. Operational Directions

### 2.1. Implementation of Central Government Budget

#### 2.1.1. Description of the existing situation

The Treasury organises implementation of the central government budget throughout the public financial management cycle, keeps financial records of the central government budget, maintaining a Single central government budget planning and execution information system where budgeting operations are also performed by Ministry of Finance clients.

The Treasury provides services in an e-environment: holds accounts for clients, accounts for central government budget revenues, assigns assignments and grants from general revenues on the basis of annual central government budget appropriations and financial plans registered with the Treasury, provides payment services: processes and effects payment orders and provides institutions administering central government budget payments with information about taxes and duties paid and other central government budget revenues. The Treasury develops payment services based on approved technologies. The e-government solutions used reduce paper document circulation and increase the functionality of electronic services in the servicing of clients, and provide for a possibility to reduce the administrative burden and risk of corruption. Encouraging rational use of the system functionality, accounts data provided by central and local government budgetary institutions are available not only for the performance of the Treasury's direct functions, i.e. preparation of reports on budget execution, but also for the monitoring and analysis of grants assigned.

With a significant increase in information security, cyber-attack and technological risks, special attention must be paid to limiting those risks and ensuring business continuity.

While ensuring unified public financial accounting, the Treasury develops laws and regulations for keeping central and local government authorities' accounting records based on unified principles and methods, and ensures a reporting system which allows one to obtain quality information about budget execution on both a cash-flow and accrual accounting basis. The central government budget implementation process is organised within the Single Treasury Account, which is recognised in world practice as the most efficient method for ensuring financial management. Such financial management approach enables the reduction of direct and indirect costs of borrowing and cash management, provides for a possibility to generate additional revenue through the more efficient management of funds and investments, and a possibility to monitor and control all transactions, as well as facilitates accounting of transactions.

Supporting the European Commission initiative to improve the quality of accounting data and compliance of the accounts with the main principles of international public sector accounting standards, the Treasury is implementing a priority measure (2015–2018) “Ensuring standardisation of financial accounting processes at central and local government institutions”. The initial compliance of Latvia with the standards was evaluated at 63% (EUROSTAT, 2014). The set of measures undertaken will allow at least 88% compliance to be achieved by 2020, and, after evaluating the results, to decide on future activities. Standardisation of financial accounting will enable investors and international credit rating agencies to receive quality, timely and internationally comparable information (reports) on public finances in line with the best practice. Two stages of priority measures have been completed: an analysis of 29 standard requirements and evaluation of the compliance of the requirements of Latvian laws and regulations carried out

in 2015, whereas 29 guidelines were developed in 2016, the requirements of which will be adopted in the Cabinet regulations on accounting and reporting in the public sector. Rules for the implementation of the accrual accounting principle in tax accounting should also be standardised in laws and regulations. During the strategy period, the development of laws and regulations in the field of accounting and reporting, and development of manuals for their implementation should be finalised, providing a structured explanation of the requirements with easily perceivable examples.

In its operations the Treasury follows the general principles of quality management, strives to follow the European Statistics Code of Practice and actively engages in the development of new statistics methodologies and indicators to provide various policy areas with adequate statistical data. The role of reliable, comparable and timely statistics in European and Latvian policy-making and implementation is increasing, and compliance with the European Statistics Code of Practice is a major contribution.

In accordance with the Official Statistical Programme for 2017–2019, the Treasury provides reports on the implementation of central and local government budgets and central government debt. According to the Central Statistical Bureau, during the Strategy period, the European Statistics Code of Practice must be implemented in the official statistics system.

### *2.1.2. Aim of the Operational Direction*

**Implementation and monitoring of the central government general budget ensures an efficient and economical budget implementation process and compliance of the services provided by the Treasury with the best financial management practices.**

### *2.1.3. Performance Results*

Result	Performance indicator	Numerical value of the performance indicator			
		2016 (performance)	2017	2018	2019
1. Uniform budget implementation, budget cash flow accounting and implementation principles developed and approved; a positive assessment of the quality of budget implementation process, effective accounting, timely and adequate control received from external auditors and counterparts.	1.1. Conformity of the financial statements with the main principles of international and international public sector accounting standards (%).	63	63	63	85
	1.2. Conformity of the financial statements with the requirements of the European Statistics Code of Practice within the framework of the national statistical	–	30	75	90

	information programme (as % of the European Statistics Code of Practice performance requirements referable to the Treasury).				
2. Treasury client expectations identified and the services provided improved accordingly.	2. Satisfaction with the quality of services received in the field of public budget implementation is not lower than 85% (% of clients surveyed <sup>1</sup> ).	89.9	85	85	85
3. Efficient and operational government budget implementation process ensured.	3. Execution of all payment orders submitted in the national currency (euro) in the e-environment within one business day regardless of the number of payment orders and amounts (annual average % determined by applying the number of payments received from clients during a business day in euros against payment orders executed on that day).	-	100	100	100

<sup>1</sup> In accordance with the requirements of documents governing the Treasury's quality management system, client satisfaction surveys must be carried out at least once per three years. Both comprehensive client surveys and surveys aimed at identifying satisfaction with a particular service, or satisfaction within and needs of a particular client segment are carried out as necessary.

#### ***2.1.4. Tasks for the Implementation of the Operational Direction***

- 1) To apply unified classifications complying with the requirements of international financial institutions in the general budget planning, and organise an operative and efficient central government budget implementation process (1.)<sup>2</sup>.
- 2) To ensure conformity of the financial statements with the main principles of international and international public sector accounting standards and execute the national statistical information programme according to quality standards (1).
- 3) To reduce the administrative burden for the receipt of services and the costs associated with service administration, ensuring quality remote access to Treasury services (2, 3).
- 4) To organise an independent external evaluation of possibilities to develop and maintain Treasury information technology solutions and develop a medium-term Treasury information technology strategy (3).

#### ***2.1.5. Institutions Involved***

Central and local government budget institutions, other institutions financed from the State budget.

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<sup>2</sup> The sequence number in the parenthesis indicates the sequence number of the result to be achieved within the Operational direction.



## ***2.2. Central government debt and cash management***

### ***2.2.1. Description of the existing situation***

General government debt of Latvia and debt servicing costs against gross domestic product are still among the lowest in the European Union; nevertheless, in the medium term the Treasury will have to refinance relatively large share of central government debt undertaken over previous years, and provide funding requirement for the government deficit and on-lending through new borrowings on the domestic and international financial markets. In view of the fact that borrowing transactions of the Treasury affect central government budget expenditure for debt servicing, to cover funding needs in the medium term, the Treasury will have to ensure borrowing options and provide availability of financial resources with low costs for government debt servicing in the long term, by hedging financial risks and promoting the development of the domestic financial market.

As for the central government debt and cash management, the external environment is substantially impacted by central banks' monetary policies. The European Central Bank continues with unprecedented quantitative easing programme to promote the growth of the European economy, and, as a result, euro benchmark rates have reached historically low levels, i.e. with short-term rates becoming negative and bringing long-term rates close to zero. Such monetary policy measures, however, are not permanent, and the situation will substantially change when the European Central Bank will announce further decisions regarding policy change, and an increase in interest rates and financial market volatility might be expected afterwards. Over the coming years, decisions by monetary institutions and the global financial market reaction will be among the most important factors in central government debt and cash management, enhanced by financial market volatilities and uncertainties caused by global geopolitical and economic developments.

Consequently, the greatest medium-term challenge for the Treasury regarding debt management will be the selection of most appropriate timing for new borrowings to achieve optimal transaction terms in a very changing financial market environment.

A key factor of successful issuance of central government debt securities is providing the necessary liquidity. Given the relatively small funding needs of Latvia, the liquidity of government debt securities is considered the most important factor that will impact central government debt management in the medium term.

A wide range of counterparties is necessary to conclude financial transactions and implement investor communication events. Recent experience of the Treasury as well as current trends indicate that credit institutions are more actively extending their operations in niche markets, but not necessarily with sufficient capacity for all types of services, whereas global investment banks in search for cost optimisation thoroughly examine and review their regional coverage.

To optimise central government debt servicing costs in the long term, within the government debt portfolio management, the Treasury maintains the debt portfolio structure by hedging financial risks and assessing the situation in financial markets, as well as monitoring counterparty transaction limit by taking into account counterparty risks. To prevent uncontrolled increase in central government debt servicing costs, even in the volatile financial market situation, the Treasury is using the appropriate technologies, methods and financial derivative instruments in financial risk modelling that ensure a balance between the costs of financial

resources and financial risk hedging in the long term, considering the financial risk hedging as the most important.

Within cash management, the Treasury ensures the availability of financial resources for timely execution of central government's financial liabilities by appropriate investment strategy of funds. It is set in compliance with the parameters set for financial risk hedging and counterparty transaction limits, for placing deposits with Latvian and foreign credit institutions and investing cash in fixed income debt securities, acknowledging the fact that in the current, non-standard financial market situation where opportunities for the placement of funds (incl. in account balances) with positive short-term returns are limited. To ensure cash and liquidity management in the current financial market situation as effective as possible, having an option to raise short-term funding with negative interest rates, when necessary, the Treasury makes short-term borrowings from credit institutions or issuing T-bills. The funding is attracted only if it is necessary to finance the monthly budget execution cycle, as well as having simultaneous short-term borrowing and investing operations to ensure liquidity, provided that it is safe and cost efficient. In the medium term, with new borrowings for refinancing of the central government debt, the Treasury will have to ensure safe and cost-effective management of large pre-funding over the medium term. To increase the investment returns from cash management in the medium term, the Treasury needs to expand the range of counterparties. By adapting to the changing market practice, new financial (incl. structured) instruments must be added to the cash management inventory also ensuring the adoption of IT systems for the relevant transactions.

In order to promote fiscally responsible management decision-making in the public sector, the Treasury, based on its many years of experience and competencies in various financial transactions and financial management, is ready to provide advisory support to public sector institutions on financial management issues as required, and to assess the possibilities to manage other financial assets of the central government.

### ***2.2.2. Aim of the Operational Direction***

**To ensure the availability of financial resources for covering the funding needs of the central government debt at low servicing cost in the long term, while hedging financial risks and promoting the development of the domestic financial market at the same time.**

### ***2.2.3. Performance Results***

<b>Result</b>	<b>Performance indicator</b>	<b>Numerical value of the performance indicator</b>			
		2016 (performance)	2017	2018	2019
1. Availability of financial resources to cover funding needs at low debt servicing costs in the long term while hedging financial risks.	1.1. The implicit interest rate on Latvian general government debt <sup>3</sup> does not exceed the average of euro area countries with	-	0	0	0

<sup>3</sup> In accordance with the Stability Programme methodology, the indicator is determined by dividing the debt servicing interest expense of the general government debt for the current year in the relevant country by the preceding year's amount of general government debt (using Eurostat data on ESA 2010 basis).

	a similar and one grade higher credit rating for the year concerned (the minimum positive deviation of the Latvian indicator from the euro area average, in basis points).				
	1.2. Interest expenditure of the current year to the preceding year's central government debt ratio <sup>4</sup> does not exceed the relevant indicator of the preceding year by more than 30 basis points (deviation from the preceding year in basis points). <sup>5</sup>	–	30	30	30
	1.3. Liquidity funding <sup>6</sup> is not lower than the liquidity reserve (annual average (%)) determined as a ratio of the amount of liquidity funding of each month against the liquidity reserve of	–	100	100	100

<sup>4</sup> The value of the ratio is established as a percentage by dividing the interest expenditure of the budget sub-programme 31.02 "Central Government Debt Management" in year *n* (reduced by the budget revenue from financial derivative instruments, the premium fixed at the issuance of government debt securities, and revenue from borrowings with negative interest rate) by the amount of consolidated government hedged debt as at the end of year N-1.

<sup>5</sup> The value of the performance indicator is the difference between the ratio value of the current and preceding year in basis points, determined in accordance with the calculation methodology referenced in footnote 4. Overrun of the performance indicator in the current year is only permissible if transactions resulting in reduced interest expenditure in the medium and long term are effected within the central government debt management during the year concerned.

<sup>6</sup> Funding required for the liquidity reserve of the relevant month, which, in compliance with the applicable Cash Management Strategy, is constituted by liquid financial resources and short-term borrowing transactions (e.g., issue of 21 day T-bills, short-term borrowings to be made within the relevant month).

	the relevant month <sup>7</sup> ).				
2. Offer of government securities to domestic financial market participants maintained stable.	2. Outstanding amount of domestic securities <sup>8</sup> at the end of the year is not lower than at the beginning of the year concerned (minimum difference between the outstanding amount of securities at the end and beginning of the year, EUR million). <sup>9</sup>	-55.5 <sup>10</sup>	+55.5	0	0

<sup>7</sup> Amount of funding required to ensure the execution of central government budget and debt obligations within a calendar month.

<sup>8</sup> Government debt securities distributed among domestic financial market investors through initial placement.

<sup>9</sup> A negative net issuance in 2016 is in line with the allowed derogation defined by the existing Central Government Debt Management Strategy of the Treasury and was taken into account when planning borrowing measures in the domestic financial market in 2017. A derogation may be made for negative net issuances within a current year provided that the relevant amount is compensated when planning domestic market borrowings for the following year.

<sup>10</sup> A negative net issuance in 2016 is in line with the allowed derogation defined by the existing Central Government Debt Management Strategy of the Treasury and was taken into account when planning borrowing measures in the domestic financial market in 2017.

#### ***2.2.4. Tasks for Implementation of the Operational Direction***

- 1) To continue diversification of the investor base in the field of investor relations aimed at ensuring the availability of financial resources and borrowing opportunities by maintaining a regular dialogue with the exiting investor community (in Europe, USA, Asia), and taking measures to broaden the investor base in countries where:
  - (a) investors have purchased securities of European countries with a similar or higher credit rating (over 10% of the amount issued) over the last two years, but whose interest in purchasing Latvian government securities in the last two years has not been observed or has been below 10% of the total volume;
  - (b) investors have significantly increased purchase volumes of securities or demonstrated an interest in obtaining them;
  - (c) borrowings in their local currencies (JPY, RMB, and other currencies) would ensure diversification of government debt government risk management (1).
- 2) As for the development of the domestic financial market, to ensure borrowing opportunities and the best possible conditions:
  - take further steps to improve the liquidity of government debt securities, at the same time maintaining the Primary Dealer System in Latvia;
  - provide investment opportunities for private individuals (retail sector) by maintaining a regular savings bonds supply (1, 2).
- 3) Improvement of the central government debt and cash management process in compliance with the best financial market practice:
  - broaden the range of financial instruments available, and provide the required IT system support for the execution of corresponding transactions;
  - maintain and develop long-term cooperation with existing and new counterparties (1, 2).
- 4) Provide advisory support to public sector institutions on financial management upon request, and assess the possibilities to manage other financial assets of the central government (1).

#### ***2.2.5. Institutions Involved***

Ministry of Finance, line Ministries, Bank of Latvia, Financial and Capital Market Commission, credit institutions, and other institutions.

## **2.3. State loan and guarantee management**

### **2.3.1. Description of the existing situation**

Candidates for state loans meeting the eligibility criteria defined by the Law on Budget and Financial Management and whose projects comply with the objectives of the Law, may operationally receive state loans within the limits set by the Annual State Budget Law.

It is important for the Treasury to ensure the availability of financial resources for the implementation of economically significant investment projects co-financed by the European Union on financially favourable terms, thus reducing project non-implementation or freezing risks (e.g., due to insufficient financial flows), and availability and quality risks of the services provided to citizens.

With decreased financing from European Union funds in the form of grants in the coming years, it is necessary to build a system where local governments and their capital companies are capable of implementing projects through the use of financial instruments. The Treasury must not only ensure an optimum lending process, but, if necessary, also provide advisory support on the use of various financial instruments.

To ensure an even faster and more transparent central government lending and debt servicing process based on quality service provision principles in line with modern standards, to reduce the administrative burden and duplication of functions in the public sector, and to promote the implementation of projects co-financed by the European Union, by ensuring the availability of funding in the form of state loans, during the Strategy period the Treasury will review the regulatory acts governing the field of issuing and servicing of state loans and service provision possibilities through the budget electronic payment system *eKase*.

To ensure the availability of the services, local governments issue guarantees on liabilities of their capital companies. To date, in 68% of cases local governments have issued guarantees on their capital companies' borrowings from the Treasury. Therefore, it is necessary to address the issue of refinancing of the other loans by central government loans, ensuring joint management of the central government debt.

Within the study and student loan programme, the Treasury provides support to education authorities on behalf of the Ministry of Finance by organising auctions among credit institutions on the right to issue and service government guaranteed study and student loans, and providing for a possibility for students to receive loans from credit institutions on the most favourable financial terms and at the lowest possible rates. There is an issue of a lack of competition among commercial banks concerning the right to issue government guaranteed loans, which needs to be addressed in cooperation with the Ministry for Education and Science and Association of Latvian Commercial Banks.

### **2.3.2. Aim of the Operational Direction**

**To ensure the availability of financial resources (incl. long term) for candidates to state loans in the form of a government loan on financially favourable terms through quality service, and to ensure a timely government guarantee process, while limiting the credit risks of central government loans and guarantees.**

<b>2.3.3. Performance Results</b>					
<b>Result</b>	<b>Performance indicator</b>	<b>Numerical value of the performance indicator</b>			
		2016 (performance)	2017	2018	2019
1. A client-orientated state loan issuing and monitoring process on financially favourable terms ensured.	1.1. The amount of state loans granted to local governments and their capital companies guaranteed by local governments is not less than 85% of the total amount of borrowings by local governments and their capital companies guaranteed by local governments in the year concerned.	–	85	85	85
	1.2. Satisfaction with the quality of services received through the implementation of the state loan issuing process is not lower than 85% (% of clients surveyed <sup>11</sup> ).	–	85	85	85
2. Timely and proper assessment of credit quality and adequacy of the provisions to cover potential losses built on that basis ensured.	2. The amount of provisions calculated within the state loan portfolio for the preceding quarter is sufficient or exceeds the amount actually unpaid in the current quarter (provisions as % of receivables).	–	100	100	100

<sup>11</sup> In accordance with the requirements of documents governing the Treasury's quality management system, client satisfaction surveys must be carried out at least once per three years. Both comprehensive client surveys and surveys aimed at identifying satisfaction with a particular service, or satisfaction within and needs of a particular client segment are carried out as necessary.

#### ***2.3.4. Tasks for Implementation of the Operational Direction***

- 1) To ensure an operational state loan issuing and servicing process, while maintaining the dominant role in the field of loans issued to local governments and their capital companies with local government guarantees (1).
- 2) Increase client satisfaction with the state loan issuing and servicing process, by ensuring availability of the service and consultations in the *eKase* budget electronic payment system, and joining the Credit Register of the Bank of Latvia (1).
- 3) Ensure a timely central government guarantee process and promote access to government guaranteed study and student loans by providing support education authorities to encourage competition among credit institutions regarding possibilities to issue government guaranteed loans (1).
- 4) To make a timely assessment of deterioration of loan quality by creating adequate provisions (2).

#### ***2.3.5. Institutions Involved***

Ministry of Finance, line Ministries, credit institutions, local governments, special state budget discharge bodies, central and local government capital companies, scientific institutes and higher educational establishments having the status of a derived public person.



## ***2.4. Performance of the functions of the Paying and Certifying Authority of European Union funds and foreign financial assistance***

### ***2.4.1. Description of the existing situation***

The Treasury, in line with the provisions of laws and regulations, performs the functions of the Certifying Authority for the European Regional Development Fund, European Social Fund and the Cohesion Fund, for the European Economic Area Financial Mechanism and Norwegian Financial Mechanism, as well as the functions of the Paying Authority for the Swiss-Latvian Cooperation Programme.

As the Paying and Certifying Authority, the Treasury ensures accounting of the resources received and spent, prepares and submits reports to the Granting Authority confirming that the declared expenditure comply with the requirements of applicable laws and regulations, and performs other duties related to financial management. To ensure the approval of the declared expenditure, based on the risk assessment the Treasury carries out various verifications determined in laws and regulations, and analyses the information at its disposal.

The European Union funds programme for the 2007–2013 programming period was closed in 2017. The 2007–2013 programming period of the European Union funds is Latvia's first full seven-year period, which was officially closed on 31 March 2017 with the submission of closure documents' package to the European Commission prepared by the Ministry of Finance and the Treasury, substantially contributing to the development of the country's national economy and raising the well-being of society. When drawing on the experience and improving the methods applied, it is also important to continue timely and quality declaration of expenditure during the 2014–2020 programming period of the European Union funds, ensuring regular payments flow of European Union funds from the European Commission, which is one of the main sources of investments into the Latvian economy. The Treasury will continue to participate in the development of the management information system of Cohesion Policy funds, ensuring that the data in the reports to be submitted to the European Commission are automatically entered according to a certain algorithm, thus reducing the number of manual operations and possible errors, and ensuring traceability of the reporting process. Considering that the Ministry of Finance and Central Finance and Contracting Agency are also involved in the preparation of the reports, the Treasury has prepared an explanatory document to develop a joint understanding and action in the process.

During the Strategy period, closure of the Swiss Programme projects and the programmes co-financed by the European Economic Area and Norwegian Financial Mechanisms of the 2009–2014 programming period should be ensured, and a management and control system for the new European Economic Area and Norwegian Financial Mechanism need to be created, incl. by participation in the drafting of laws and regulations.

### ***2.4.2. Aim of the Operational Direction***

**To organise and standardise the performance of the functions of Payment and Certifying Authorities in a manner that ensures compliance with the requirements of the laws and regulations of the Granting Authorities and Republic of Latvia and timely receipt of funds from Granting Authorities, and minimises the risk of ineligible expenditure being declared.**

<b>2.4.3. Performance Result</b>					
<b>Result</b>	<b>Performance indicator</b>	<b>Numerical value of the performance indicator</b>			
		2016 (performance)	2017	2018	2019
A positive assessment <sup>12</sup> of the Certifying Authority's management and control system by external auditors.	Assessment of the Certifying Authority's management and control system by external auditors is not below '2'.	-	2	2	2
<b>2.4.4. Task for Implementation of the Operational Direction</b>					
To organise and ensure the verification of expenditure reports in line with the requirements set by Granting Authorities and laws of the Republic of Latvia.					
<b>2.4.5. Institutions Involved</b>					
Authorities specified in the laws and regulations, responsible for providing information and acknowledgements required for the certification process of expenditure.					

<sup>12</sup> Rating categories in compliance with the laws and regulations governing the management of European Union Funds ('1' – works well, no or minor weaknesses identified; '2' – works, but certain improvements are needed; '3' – works partially and substantial improvements are needed; '4' – not working, major weaknesses identified).

## 2.5. Accounting services

### 2.5.1. Description of the existing situation

In the 2016 central government budget expenditure review process conducted in line with the move towards a small and efficient public administration, a possibility was identified to achieve a more appropriate work organisation of the accounting function by outsourcing accounting services of the central government and their subordinate institutions. The efficiency improvement model supported by the Cabinet in 2016 provides for a gradual centralisation of accounting functions at the said institutions and their delegation to the Treasury, which already keeps accounts of subordinate institutions of the Ministry of Finance – the Procurement Monitoring Bureau and Fiscal Discipline Council – and accounts and human resources management records of Lotteries and Gambling Supervision Inspection, and has gained special competences in both the development of accounting requirements and their alignment with international public sector accounting standards, and practical application of those requirements and service provision, and also keeps the accounts and the Centralised Human Resources Management System of the Ministry of Finance.

Laws and regulations define the accounting methods and fundamental principles, however, the development of standardised arrangements for accounting and financial reporting is complicated due to both keeping records of the diverse transactions and the heterogeneity of information required for government level decision-making, since alongside laws and regulations governing accounting, institutions issue their own internal regulations that affect the standardised accounting arrangements and information system support. Likewise, there are no uniform human resources management processes linked to accounting in place, and institutions have different approaches to their implementation, which makes the creation of a single information and document flow and its incorporation into the information system difficult. By equalising and standardising the accounting process, the Treasury will ensure its continuity, a high quality of accounting data, and preparation of financial statements in compliance with uniform fundamental principles of accounting, and will maintain a system of personnel records and the operational exchange of information to provide the service.

Implementation of the measure is intended in stages, by gradually extending the range of service recipients. Under a pilot project conducted in 2017, the resources required for successful implementation of the project are being identified so that accounts of two central government institutions may be kept from 2018, and of 12 state budget institutions from 2019.

### 2.5.2. Aim of the Operational Direction

**To provide effective and high quality accounting services to public administration institutions.**

### 2.5.3. Performance Result

Result	Performance indicator	Numerical value of the performance indicator			
		2016 (performance)	2017	2018	2019
1. Accounting services to state budget institutions provided.	1. State budget institutions receiving the accounting	-	4	8	12

	services provided by the Treasury (number).				
2. Treasury client expectations identified and the services provided improved accordingly.	2. Satisfaction with the quality of the accounting services received is not lower than 85% (% of clients surveyed <sup>13</sup> ).	-	85	85	85

#### ***2.5.4. Task for Implementation of the Operational Direction***

- 1) Implement a pilot project for the centralisation of the accounting function of central government and their subordinate institutions: develop the required technical and procedural bases so that from 2018 the Treasury may pilot accounting services to four central government institutions and their subordinate institutions (1).
- 2) From 2018, to provide accounting services to institutions involved in the pilot project (1.).
- 3) Gradually increase the number of the institutions, and from 2019 provide accounting services to 12 state budget institutions (1).
- 4) To improve the information and document flow process by providing a quality accounting services (2).
- 5) Standardise the accounting process in order to reduce the service implementation and provision risks identified (1, 2).

#### ***2.5.5. Institutions Involved***

Central government and their subordinate institutions receiving accounting services, and certain agencies under the Ministry of Finance.

<sup>13</sup> In accordance with the requirements of documents governing the Treasury's quality management system, client satisfaction surveys must be carried out at least once per three years. Both comprehensive client surveys and surveys aimed at identifying satisfaction with a particular service, or satisfaction within and needs of a particular client segment are carried out as necessary.

### 3. Assessment of Operational Capabilities

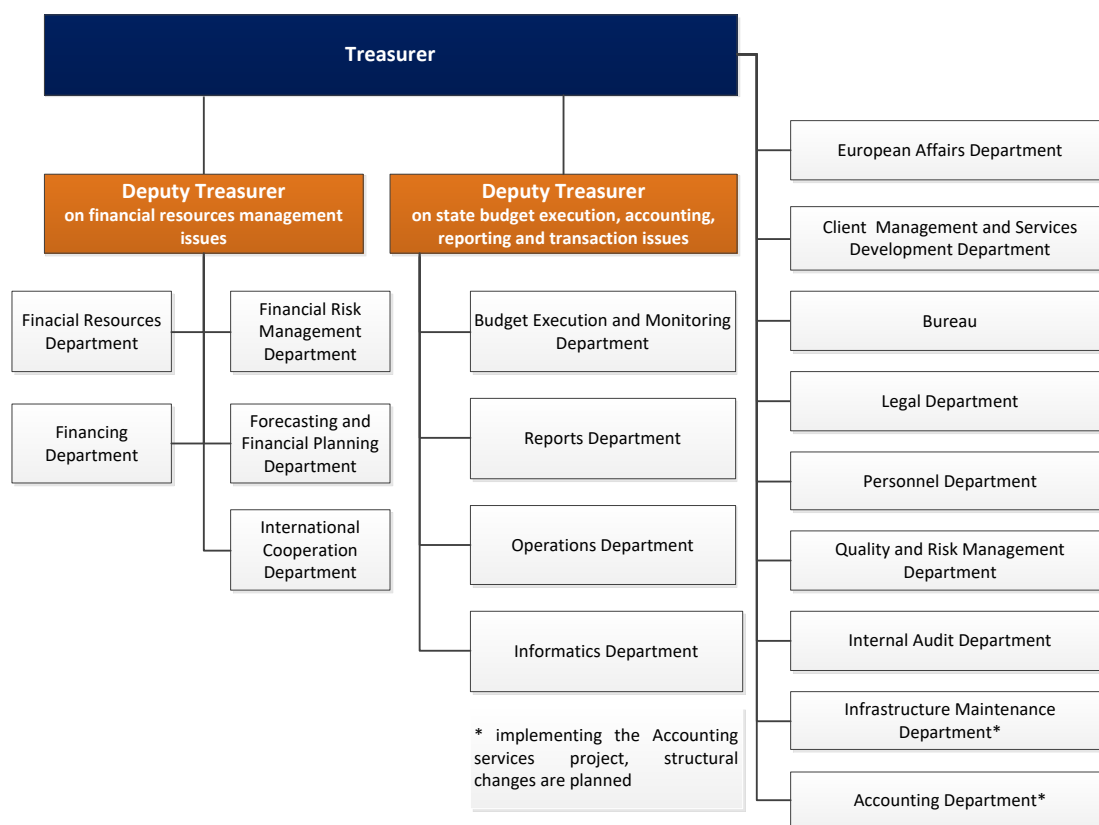
#### 3.1. Structure of the Treasury

The work of the Treasury is managed by the Treasurer. The Treasurer is appointed and removed from office by the Minister for Finance.

The legal status, functions, tasks, competence, rights of the Treasury and the procedure for ensuring legality are defined in accordance with Cabinet Regulation No. 677 “Regulations of the Treasury” issued in compliance with the State Administration Structure Law on 3 August 2004.

The structure and work organisation of the Treasury is established by the Rules of Procedure of the Treasury issued in compliance with the State Administration Structure Law.

#### Organisational Chart of the Treasury



To minimise the financial risks, the Treasury operates according to the principle of separation of functions (similar to the best practice of financial institutions and European debt management bodies):

- 1) client service and financial transactions;
- 2) financial risk management;
- 3) settlements, accounting and reporting.

To ensure uniform, comprehensive and informed decision-making, the following committees are active at the Treasury:

- 1) **Audit Committee** – to facilitate effective implementation of the internal audit functions at the Treasury and improve the internal control system established by the Treasury with a view to ensuring the achievement of the Treasury’s strategic goals, safeguarding its resources and establishing and maintaining effective control measures.
- 2) **Information Systems Change Management Committee** – to ensure a coordinated change management of the Treasury’s information systems.
- 3) **Credit Committee** – to facilitate the credit risk management of the Treasury’s counterparts and coordinate the work of the Treasury’s structural units on matters of central government loans and supervision of state issued guarantees.
- 4) **Crisis Management Committee** – to ensure the continuity of the Treasury’s operations, efficient coordination of actions and resources in a situation of operational crisis at the Treasury, performance of its functions and operational recovery within the shortest time possible, while preventing the risk of negative image-building.
- 5) **Quality and Risk Management Committee** – to facilitate the achievement of the strategic goals, continuous improvement of the Treasury’s performance and compliance of the services with public interests and client needs through effective quality, risk and information security management.
- 6) **Debt Management Committee** – to facilitate effective work and decision-making in the area of central government debt management.
- 7) **Resource Liquidity Committee** – to promote secure and effective cash and liquidity management.
- 8) **Management Committee** – to ensure effective management of the Treasury staff and financial resources with a view to achieving the objectives defined by the Operational Strategy.
- 9) **Central Government Budget Accounting Committee** – to organise the implementation and updating of the Treasury’s central government budget financial accounting policy and to ensure effective accounting policy change management.

### 3.2. Assessment of the Operating Environment

	Strengths	Weaknesses
<b>Internal environment</b>	<ol style="list-style-type: none"> <li>1) <b>Experience</b> gained in the management of financial resources and accounting. Transfer of specialised knowledge.</li> <li>2) A strong, organised and loyal <b>team</b>. Experienced, knowledgeable, motivated and growth-orientated <b>staff</b>. An <b>organisational culture</b> based on a sense of belonging and trust.</li> <li>3) A <b>decision-making mechanism</b> with clearly defined responsibilities, powers, division of work, incl. organising work across committees, for the</li> </ol>	<ol style="list-style-type: none"> <li>1) Insufficient capacity and ability to simultaneously implement multiple high priority projects.</li> <li>2) Lack of advanced knowledge for managers of effective change management and communication.</li> <li>3) Difficulties in effective human resources management (uncompetitive remuneration in one of the Treasury areas, i.e. financial management).</li> <li>4) The insufficient competences of business information system analysts.</li> <li>5) Insufficient capacity regarding specific types of procurement and</li> </ol>

	<p>effective performance of functions and management of staff and financial resources. Potential corruption risks prevented.</p> <p>4) A <b>quality, risk and information security management system</b> introduced and maintained: process management and monitoring, planning and achievement of goals, monitoring the impact of external and internal factors, integrated risk management, organised communication, identification of stakeholders and inclusion of their requirements in the institution's business processes, employee engagement and awareness of management decisions.</p> <p>5) Stable, integrated and safe <b>information technology solutions</b> of national significance.</p> <p>6) <b>Project management approach</b> to the development and improvement of Treasury services.</p> <p>7) An <b>effective internal control system</b>, compliance of operations with the Code of Ethics.</p> <p>8) The <b>volume of financing</b> available for ensuring the functions and development of the services provided.</p> <p>9) <b>Client service</b> and good governance principles complied with.</p> <p>10) <b>Quality and reliability of data.</b></p> <p>11) Regular and targeted measures to <b>reduce red tape.</b></p>	<p>signing of procurement contracts.</p> <p>6) Insufficient compliance of work environment with the specificities of the Treasury.</p>
<p><b>External environment</b></p>	<p><b>Opportunities</b></p>	<p><b>Threats</b></p>
	<p>1) Opportunities to use future technologies in the field of financial services. Use of self-service technologies and automation of routine tasks, information structuring and analysis.</p> <p>2) The Treasury as a potential</p>	<p>1) Increase in uncertainty, turbulence in financial markets due to geopolitical risks or threats to national security.</p> <p>2) A growing trend in cyber-attacks around the world.</p> <p>3) Threats to EU stability, the development of the Member States'</p>

	<p>financial management competency centre of the public sector: fiscally responsible financial management decision-making in the public sector, consultancy support to public sector institutions on financial management issues, possibilities to manage other financial assets of the public sector (incl. local government budget funds) upon request.</p> <p>3) The Treasury as a potential provider of certain public administration support functions.</p>	<p>economies, European Union budget policy, and a decrease in fund volumes.</p> <p>4) Public administration remuneration policies limiting the possibilities to offer competitive salaries to financial management staff, due to which the Treasury is unable to attract financial management professionals for continuous work.</p> <p>5) Lack of information system suppliers required for the work specifics of the Treasury.</p> <p>6) Mechanical job cuts in the public administration.</p>
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### 3.3. Operational Principles of the Treasury

- 1) **Knowledgeable, motivated, cooperation-orientated staff:** The Treasury's main value is its employees, capable of performing the Treasury's functions and reaching the set strategic goals, thus winning public confidence in efficient and reliable management of public finances.
- 2) In its operations, the Treasury follows **quality management principles**, which ensure result-orientated and stable operations and sustainable development, continuous improvement of processes and compliance of the services provided with public interests and needs of stakeholders, and the requirements of laws and regulations. The quality management system in place is based on the professionalism and competence of staff, punctual performance of professional duties, awareness of the decisions made, engagement in processes, projects and working groups.
- 3) When implementing projects and development measures to improve the operations and services, the Treasury follows the **project management principles** laid down in the Project Management Manual. Project management enables priority-setting, planning of the required resources, project implementation and performance monitoring.
- 4) **Risk management** integrated in all processes and projects contributes to the achievement of the Treasury's targets by identifying the likelihood and effects of adverse events, reducing risks to an acceptable level, and allowing maximum use of the potential.
- 5) **E-services and effective management of information technologies:** The Treasury's information technology development strategy provides for use of innovative solutions and modern e-governance technologies, ensuring remote access to services and following a user-orientated approach, the primary concern being security of the information under its management.
- 6) **Information security management** protects client information and the Treasury's resources against external and internal, whether deliberate or accidental, threats ensuring the stability of services and continuity of the Treasury's operations.



- 7) Professional, polite and operational **client service**.
- 8) Effective **internal control**: controls are in line with risks incurred, timely and reliable financial information, transparency and efficiency of operations through qualitative and quantitative maximisation of performance results of the resources invested.
- 9) **The Treasury's image** is built by professional teamwork, jointly developing a trusted and appreciated institution.
- 10) A jointly built and maintained **work environment** and an **organisational culture** based on the sense of belonging and trust, where it is easy to work and collaborate: reliable, ethical, participatory, collegial, cohesive and motivating.
- 11) **Good governance**: when exercising the delegated functions, the Treasury acts professionally and openly, ensuring that it operates in the public interest and reducing the administrative burden.
- 12) **Leadership**: managers of all levels demonstrate leadership skills, personal example and participation, building and maintaining a motivating and teamwork-orientated work environment focused on the achievement of the Treasury's targets.
- 13) **Application and transfer of best practices, interinstitutional cooperation and communication** with clients, counterparts, professional organisations and other stakeholders: The Treasury continuously updates its processes, taking account of the best practices and the experience of financial sector organisations, is involved in development initiatives organised by public administration, provides expertise, shares best practices to promote joint development and sustainability of public administration.

## **Conclusion**

The report on the implementation of the Strategy is provided in the Public Annual Report of the Treasury according to the procedure stipulated by laws and regulations.

To implement the Strategy, the Treasury develops an Annual Development Plan and internal strategic management and planning documents governing the areas of the Treasury's operations.

As defined by the Strategy, the organisational units of the Treasury review and amend its internal regulations, Treasury planning documents, regulatory frameworks governing the quality management system, and other documents.

The Strategy is reviewed, specified and updated according to the procedure set by the Cabinet.

Treasurer

K. Āboliņš