



OVERVIEW OF PUBLIC SECTOR INSTITUTIONAL FRAMEWORK

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SUMMARY

The purpose of the public sector is to provide services to the population through central government authorities and local authorities. The size of the public sector is determined by a combination of political and economic factors¹. According to experts, assessing the optimal size of the public sector is very difficult as it depends on the values and aspirations of the society and political forces².

Following the principle of division of powers, public sector bodies form a system ensuring the performance of the State functions. The variety of State institutions, their legal status and powers are determined by the functions exercised by the State, peculiarities of managing the general affairs of the society, organisational and financial capabilities of the State, the content and expediency of the policy implemented during a certain period of public life and State development, international obligations of the State as well as other factors³. The State may exercise its functions not only through the system of the State and municipal authorities but also through other non-state bodies entrusted by law to exercise or participate in the exercise of the State functions in certain forms and ways⁴. The institutional framework and extent of the public sector vary from country to country. The analysis of OECD public governance reviews shows that there is no single institutional framework for all countries⁵.

According to data of 30 September 2018, there were 4,109 legal entities of 8 legal forms in the Lithuanian institutional framework: 78 % out of which account for budgetary bodies, 15 % for public bodies, 5 % for private limited liability

¹ M. Katsimi. Explaining the Size of the Public Sector. Kluwer Academic Publishers, 1998, p. 117.

² V. Smalskys et al. Development Trajectories of Lithuanian Public Sector Governance. Public Policy and Administration, T. 16, No 2, 2017, p. 212-230.

³ Ruling of the Constitutional Court of 13 December 2004.

⁴ Rulings of the Constitutional Court of 7 January 2008, 13 December 2003, 21 December 2006, 20 March 2007.

⁵ OECD Public Governance Reviews, see <https://www.oecd.org/gov/publicgovernancereviews.htm>.

companies, 2 % for State and municipality-owned enterprises, limited liability companies and other bodies: the Central Bank and the charity and support foundation. All policy-making institutions (Ministries) are budgetary bodies, and the variety of legal forms is concentrated in policy-implementing institutions (98 % of all institutions), most of which operate at local government level (3,431 institutions). The variety of legal forms of public sector bodies has developed since the establishment of the institutions did not always involve an assessment of the compliance of legal forms with the planned activities. Therefore, similar or very similar functions are performed by institutions with different legal forms, such as budgetary institutions, public bodies and private limited liability companies administering EU support.

Twenty legal acts regulate the remuneration of public sector employees. Regulations governing the remuneration of different legal forms differ, as accordingly differs their remuneration. The most significant differences are observed in the management areas of Ministers of Environment, Finance, Social Security and Labour and Agriculture, where the relative average remuneration in public bodies is up to 90 % higher than in the budgetary institutions performing policy implementation functions. The difference in relative average remuneration in management areas is also due to the relationship between existing institutions of different legal status. For example, the management area of the Minister of Energy is dominated by state-owned enterprises (50 % of all bodies in the management area), which have one of the highest relative average remunerations compared to the institutions of other legal forms. In comparison, 89% of the institutions operating in the management area of the Minister of Culture are budgetary institutions with the lowest average remunerations compared to the institutions of other legal forms.

Regarding the financial capabilities of the State, it is essential to look constantly for ways to increase the efficiency of institutions operating in a particular area of the public sector and to achieve the best results with optimal resources.

The system for improving the institutional framework consists of two measures: criteria for establishing institutions and a functional review. Since 2018, the established criteria determine when new institutions can be set up (only when strictly necessary), explicitly assign the institutions to a specific management area, and formulate the functions performed by the institutions as specific activities assigned. The purpose of the review of institutional functions is to assess their necessity and the possibility of delegating them to municipalities or non-public sector organisations, thereby clarifying the competence of institutions in the sector.

The analysis of the institutional framework improvement system showed that the system of entities responsible for the development of the institutional framework does not cover all bodies active in the public sector, i.e. they act only at the central executive level (Commission of Public Administration Development and groups for the development of public administration in Ministries).

The functional review as a tool for the analysis and improvement of activities of institutions should help to clarify the competencies, functions, subordination and accountability of institutions, improve the organisational structure of public authorities, however, by mid-2018 the functional review as a means to develop the institutional framework was limited to 20 % of public sector bodies. The functional review methodology established only procedures and methods for the review planning, organisation, execution, implementation of recommendations and monitoring of functions of institutions accountable to the Government, namely, Ministries, Governmental Agencies, entities under the Ministries and other budgetary institutions subordinate to the Ministries to ensure that functional reviews are conducted under standard principles and that their results are used as a basis for decisions on the competences and distribution of functions, activity organisation and financing of institutions accountable to the Government. Other State and municipal authorities and bodies reviewing their functions are also recommended to follow the methodology, however, in the period 2012–2016, the review of functions in accordance with it was carried out only by authorities accountable to the Government.

Positive changes in the public sector institutional framework require optimising the scope of institutions' activities, continually analysing the functions performed and eliminating inappropriate or excessive activities. Functional review, as a means of analysing and improving the performance of institutions, should contribute to the clarification of the competences, functions, subordination and accountability of institutions, and the improvement of the organisational structure of authorities.

The results reveal that the conducted functional reviews did not contribute significantly to the clarification and optimisation of functions of bodies in the entire public sector, as they were only targeted at 20 % institutions in this sector. 34 % of the planned functional reviews of institutions accountable to the Government were not carried out, and only 13 % of the public management areas were covered by the ones that were conducted. A low number of functional reviews performed and the delay in the implementation of recommendations or the lack of their activity plans did not ensure that the objectives of functional reviews were achieved.

In 2018, new Guidelines for Improving the Public Sector System were adopted that aimed to improve the management of public sector bodies and clarify their competence. The guidelines aim to optimise the entire network of public sector bodies. The guidelines provide legal preconditions for enhancing the institutional framework of the sector, as the action plan includes entities that are accountable to the Seimas and the Government and act at the local level. The guidelines set out the criteria for the establishment of institutions and the periodic evaluations of institutional activities. All measures set out in the action plan must be implemented by Q4 2020. None of the two measures set out in the action plan has been fully implemented on time, with implementation deadlines ending in

Q3-Q4 2018, and there is therefore a risk that other measures foreseen in the plan may also be delayed.