European Commission

ISSN 1725-3187 (online)
ISSN 1016-8060 (print)

EUROPEAN ECONOMY

Economic Papers 525 | July 2014

Public Spending Reviews: design, conduct, implementation

Caroline Vandierendonck

Economic and Financial Affairs

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Comments and enquiries should be addressed to:

European Commission
Directorate-General for Economic and Financial Affairs
Unit Communication and inter-institutional relations
B-1049 Brussels
Belgium
E-mail: ecfin-info@ec.europa.eu

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KC-AI-14-525-EN-N (online)
ISBN 978-92-79-35174-7 (online)
doi:10.2765/70397 (online)

KC-AI-14-525-EN-C (print)
ISBN 978-92-79-36139-5 (print)
doi:10.2765/80302 (print)

European Commission

Directorate-General for Economic and Financial Affairs

Public Spending Reviews

Design, conduct, implementation

Caroline Vandierendonck

Abstract

Public expenditure accounts for almost half of the annual wealth created in the EU (49.0% of GDP in 2013 [1]).
A major policy lesson stemming from the crisis is the need to enhance expenditure performance, which can be defined as the reinforced connection between funding decisions and policy priorities (shall this policy be funded with public money?) and subsequently between funding levels and results delivered to end-users (what is the value for public money?).
Spending reviews appear as an adequate instrument of expenditure performance. They consist in seeking a 'smarter' expenditure allocation across national policy priorities based on a selective and sustainable expenditure-based consolidation.
This paper proposes to highlight the main features and key success factors of the design, conduct and implementation of spending reviews, based on the experiences of EU Member States.

[1] General government expenditure of the EU28 (Eurostat).

JEL Classification: E6.
Keywords: spending review, expenditure review, policy review, value for money, cost-effectiveness, performance.

Corresponding author: Caroline Vandierendonck, European Commission, Directorate General for Economic and Financial Affairs, caroline.vandierendonck@ec.europa.eu.

ACKNOWLEDGEMENTS

The report was prepared in the Directorate-General for Economic and Financial Affairs under the direction of Lucio R. Pench, Director for fiscal policy.

The report was prepared by Caroline Vandierendonck. The main contributors were Stefan Ciobanu, Head of unit fiscal governance and fiscal statistics, and Pierre Gaudillat. In addition, the report benefitted from comments and suggestions by Nicolas Carnot and Lucio R. Pench.

The author would also like to thank members of the Economic Policy Committee for their insightful contributions, comments and suggestions.

Comments on the report would be gratefully received and should be sent by mail or e-mail to:

Stefan Ciobanu

European Commission

Unit ECFIN C4/CHAR 12.44

B-1000 Brussels, Belgium

e-mail: stefan.ciobanu@ec.europa.eu

or

Caroline Vandierendonck

European Commission

Unit ECFIN C4/CHAR 12.83

B-1000 Brussels, Belgium

e-mail: caroline.vandierendonck@ec.europa.eu

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1. EXECUTIVE SUMMARY

Sound budgeting requires both fiscal discipline and efficiency in expenditure allocation. A major policy lesson stemming from the crisis is the need to enhance expenditure performance, which can be defined as the reinforced connection between funding decisions and policy priorities (shall this policy be funded with public money?) and subsequently between funding levels and results delivered to end-users (what is the value for public money?). The end-users concerned could be companies, citizens, tax-payers, employees etc.

Strong budget pressures over the past years and decades have encouraged some EU Member States to experiment their own instruments of expenditure performance. The governments' common objectives have been to stem the increase in public sector expenditure and tackle the asymmetry between new spending and new savings. Indeed, while unreformed spending aggregates generally tend to increase from one budget year to another and the rationale for additional areas of spending appears to be easily put forward, adequate and sustainable saving options are much harder to identify and implement.

For EU countries, where public expenditure accounts for almost half of the annual wealth created (49.0% of GDP in 2013([1]), spending reviews would appear as an adequate instrument of expenditure performance. They consist in seeking a 'smarter' expenditure allocation across national policy priorities based on a selective and sustainable expenditure-based consolidation; i.e., an in-depth and coordinated examination of baseline expenditure in light of the policy outcomes pursued.

Spending reviews can have two dimensions. Firstly, a strategic *dimension questioning the relevance of public funding for a specific policy objective, the depth of the involvement of public authorities and consequently the relevant public level/body in charge. Secondly, a* tactical *dimension aiming at increasing - for policies passing the strategic test - the efficiency of each public euro spent by optimizing the relationship between expenditure level and impact, for example in terms of quality of service.*

Expenditure-based policies are an alternative or a complement to revenue-based consolidations that may inter alia *fuel a negative feedback loop between fiscal adjustment and growth. Among expenditure-based measures, spending reviews offer a more sustainable approach compared to linear across-the-board expenditure cuts which may generate negative economic and social impact in the medium and long term. Growth-enhancing expenditures are also likely to deliver more in an ecosystem which has been previously streamlined thanks to implemented spending reviews.*

The potential savings can be significant for public finances. For example, in the 1980s and 1990s, Canada, the Nordic EU Member States and the Netherlands engaged in large-scale spending reviews that contributed to restoring sound budgetary positions after severe budgetary shocks. However, well-managed and implemented reviews are time- and resource-intensive, and the analytical, organisational and political hurdles should not be underestimated. A successful spending review does not stop with a well-documented report – it starts with it. The opportunity is in the detail, and in the bold reform option; the saving is in its implementation.

There is no one-size-fits-all methodology for spending reviews. However, key success factors can be identified. They include political commitment, ownership by the administration, clear objectives and governance, integration in the budgetary process, anticipation of implementation, building of transformation capability and performance culture at all levels of public service.

The crisis has provided an opportunity to transform public service and reprioritise public funding - not as a one-off, but as a regular exercise. At least 8 EU Member States are currently or were recently engaged

([1]) General government expenditure of the EU28 (Eurostat)

in one form or another of spending review [2]: the UK, the Netherlands, France, Italy, Ireland, Denmark, Spain, and Sweden [3].

(2) Including in its implementation phase
(3) The UK, the Netherlands, France, Sweden, Italy, Ireland, Denmark: based on self-declared data published by the OECD in 2013

2. INTRODUCTION

EU fiscal rules have encouraged Member States to adopt budgetary constraints taking their expenditure into account. The expenditure benchmark was introduced in the reformed Stability and Growth Pact ([4]) as a corollary to deficit rules. It restricts expenditure growth (net of discretionary revenue measures) to GDP growth with the aim to maintain or restore the structural medium-term objective. The Directive on national budgetary frameworks adopted in 2011([5]) stipulates that Member States have to project major expenditure (and revenue) items over a planning horizon of at least 3 years and quantify expected impact of new measures on expenditures in their medium-term budgetary plans. Some Member States have developed – before and after these EU rules were adopted – their own national expenditure rules, defining annual and sometimes multiannual aggregated spending envelopes, generally in relation to macroeconomic aggregates or past performance. Most have enshrined expenditure ceilings setting numerical spending caps at a more disaggregate level, (eg. line ministries and operating cost versus other costs for each of them), in their multiannual budget plans. In practice, the track record in the execution of these rules and ceilings – which are generally not binding beyond the first year – remains mixed at this arguably preliminary stage([6]).

While these rules define the envisaged *level* of spending, this paper explores the *paths* to achieve this level, and in particular the instruments of expenditure performance. In the framework of EU fiscal surveillance, expenditure performance has mostly been approached on a country by country basis, a recent example being the Member States benefiting from financial assistance from the EU([7]).

Building on these preliminary insights, the ECOFIN Council of March 2013 gave the mandate to the Economic Policy Committee([8]) and the Commission to "*review budgetary processes and practices conducive to enhanced expenditure performance aiming at achieving efficiency gains and sustainability in the public sector*"([9]). The emphasis was laid on performance instruments rather than on comparison across national expenditure levels.

As a first step to fulfil this new mandate, this paper proposes to focus on the preparation and implementation of spending reviews, aiming in particular to share some methodological insights and draw lessons from country experiences. An earlier version of this paper was presented to the Economic Policy Committee of 20 February 2014. Case studies of spending reviews were presented by the Netherlands and Ireland on this occasion.

Spending reviews refer to the systematic and in-depth scrutiny of baseline expenditures[10] with the objective to detect efficiency savings and opportunities for cutting low-priority or ineffective expenditures in a coordinated effort. Once their results materialize into specific, implemented reforms ideally reflected in the budgetary process, spending reviews can contribute tangibly to the achievement of fiscal consolidation targets and may even free up fiscal space for new policy priorities. They help realign actual spending with policy priorities and may even detect alternative ways of reaching policy objectives.

([4]) Regulation (EU) No 1175/2011 of the European Parliament and of the Council of 16 November 2011 amending Council Regulation (EC) No 1466/97 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies

([5]) Council Directive 2011/85/EU on requirements for budgetary frameworks of the Member States

([6]) For an in-depth analysis, see Ayuso i Casals J. (2012), *National Expenditure Rules – Why, How and When*, Economic Paper no 473, European Commission, Directorate-General for Economic and Financial Affairs

([7]) The Commission report "The Quality of Public Expenditure in the EU" (Occasional Paper 125, see Reference section) provided a first illustration of best practices across Member States with case studies on the French, Swedish, Dutch and Austrian performance-based budgeting and administrative reforms.

([8]) The Economic Policy Committee contributes to the Council's work of coordinating the economic policies of the Members States and of the Community and provides advice to the Commission and the Council. It comprises delegates from the Member States, the Commission, and the ECB.

([9]) "Council Conclusions on the quality of public expenditure", ECOFIN 3227th Council meeting, 5 March 2013.

([10]) OECD, Working Party of Senior Budget Officials, May 2013

After a reminder of the broader context of public policy evaluation in Section 3, Section 4 provides a brief overview of public expenditure across the EU. Section 5 then focuses on the main features of spending reviews, illustrated with an indicative roadmap (Section 6). Recent initiatives in the EU, including case studies on the Dutch, Irish and UK projects are highlighted in Section 7. The spending reviews link with national budgetary frameworks is explored in Section 8.

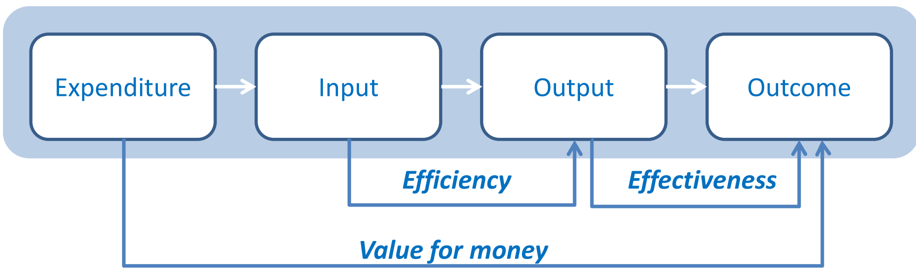
3. PUBLIC POLICY EVALUATION

Spending reviews constitute one of the instruments of public policy evaluation. Placing spending reviews in a broader policy assessment context provides a useful preamble to exploring their specific pre-conditions and features.

Public policy evaluation can be defined as the analysis of the impact of public intervention. The aim is to check whether the assigned objectives are delivered on, for the identified target population/end-users. Evaluation as a decision-making instrument for public policy appeared in the US in the 1960s. It subsequently developed in the UK and Nordic countries and spread to other European democracies in the 1980s. It benefited from frameworks designed by the World Bank and the OECD – mostly for the assessment of support programmes to developing countries – and by the European Commission for the assessment of the use of EU funds. The overarching goals of evaluation are generally the following: i) to define and measure a public intervention and its impact versus public needs (fact-based), ii) to provide evidence to help policy-makers establish whether an intervention is a success or a failure (judgment), and iii) to improve intervention through strategic overhaul or operational resources adjustment, for example. Paradoxically, it could result in more control and extend the territory of public intervention by legitimizing it. The development of evaluation in the 1980s coincided with the emergence of the so-called "New Public Management" advocating the import of insights/processes from the private sector into the public sector to increase the efficiency of public policy.

The criteria to evaluate a policy would typically include one or several of the following: i) *effectiveness*, i.e. assessing to what extent the results of an intervention were generated by the actions carried out (link output-outcome, for example longer life expectancy thanks to number of medical consultations); ii) *efficiency*, i.e. assessing to what extent output was generated with an adequate level of input; iii) sustainability; iv) positive or negative side effects etc. as well as overall value for money. The diagram below illustrates the relationship between the related, but different, notions mentioned above ([11]).

Graph 3.1: **Concepts of value measurement for public action**



Evaluation differs from auditing. The former explores the impact of public intervention at micro and macro level *outside* the administration delivering the intervention, whereas the latter focuses on the monitoring of processes in which the intervention consists *within* the administration. The former can be *ex ante, in itinere* or *ex post,* while the latter is not *ex ante*.

Isolating the actual (or expected) impact (in terms of savings and cost) of the intervention remains the main challenge of evaluations. The so-called "counter-factual" refers to the unobservable situation that would have existed without this public intervention or with an alternative one. Multiple methods have been developed to approach it and detect potential causality. Among the most common ones relying on

([11]) Adapted from the European Commission's Economic Paper no. 301 of February 2008 and Occasional Paper no. 473 of December 2012 (see Reference section)

empirical estimation are the difference in differences ([12]) or regression discontinuity ([13]). These approaches can be time-consuming and not self-sufficient to draw conclusions: the timing for evaluation and for decision/implementation is difficult to reconcile. There is sometimes no significant marginal value-added and time for sophisticated econometric models. An estimate with some acceptable error margin will usually be sufficient to document a better decision than *status quo*.

([12]) Statistical method consisting in an attempt to circumvent the non-observability of the counterfactual by observing a parallel evolution in a population unaffected by the intervention
([13]) Statistical method consisting in an attempt to circumvent the non-observability of the counterfactual by introducing a cut-off in the population according to one parameter

4. BRIEF OVERVIEW OF EU EXPENDITURE

Examining briefly the scale, composition and evolution of expenditure aggregates in an EU context, sheds a useful light on the orders of magnitude targeted by spending reviews.

4.1. DIRECT EXPENDITURES

Total general government expenditure in the EU reached 49.0% of GDP, averaging 12,617€ per inhabitant in 2013 (Eurostat). The picture by Member States is of course more diverse, reflecting national preferences and political decisions: 6 Member States record a ratio beyond 54%, while 6 maintain a ratio in the lowest range, between 34% and 39% (all of them Member States who joined the EU after 2004). In terms of evolution, the EU-28 expenditure-to-GDP ratio increased by 3.5 points since 2007, the year preceding the outburst of the crisis. 4 Member States managed to stabilize or even reduce their expenditure-to-GDP ratios since that year (all of them 'new' Member States). Taking a step back, the expenditure-to-GDP ratio increased by 1.8pts in the EU28 over a decade (Eurostat, 2003 and 2013).

The average EU-28 nominal expenditure per inhabitant increased slower than inflation between 2007 and 2013 (with a nominal annual increase of roughly 1.8%). On a national basis, 3 Member States actually stabilized or even slightly decreased this amount during the same time period, while it grew annually by more than 4% in 7 other Member States, (Eurostat).

In terms of function ([14]), more than half of general government expenditure was devoted to covering health and social risks: social protection and health accounted respectively for 19.9% and 7.3% of GDP, as illustrated in Graph 4.1 (Eurostat, 2012). Unsurprisingly, their weight relative to GDP has increased with the crisis. Other important spending areas were general public services ([15]) (6.7% of the GDP) and education (5.3%).

Central government level concentrated 37% of general government expenditure of the EU-27 in 2012 (Eurostat). It was followed by state and local governments (resp. 8% and 23%) and social security funds (32%) ([16]).

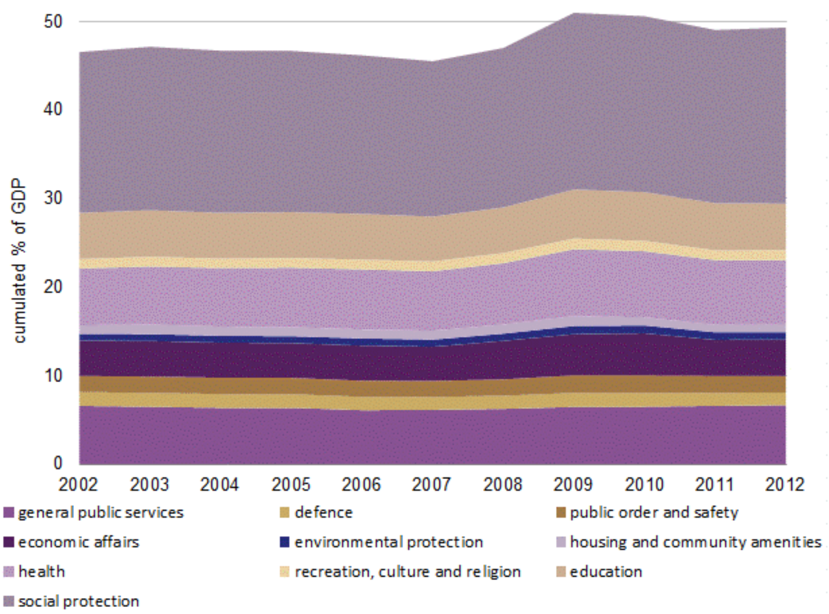
The potential for savings is not proportionate to the respective share in the overall spending bill. In particular, caution is recommended when benchmarking the levels of funding at an aggregated level across countries (for example at the level of COFOG classification), especially when disconnected from quality indicators Conclusions in terms of saving potential cannot be drawn until in-depth analyses are conducted, including the evaluation of the performance in terms of public service delivery. In other words, the good idea is in the detail. On the one hand, a higher than the average expenditure ratio in one sector (like education or health) does not mean that the potential for savings is proportionate: the ratio may reflect a sovereign national preference, as long as the incremental spending materializes into better outcomes. On the other hand, a below-the-average expenditure ratio should not automatically ring fence a policy from being scrutinized, as a consolidated amount does not reveal the efficiency of the spending allocation.

([14]) According to the International Classification of the Functions of Government (COFOG), EU 27, 2012

([15]) General public services include transfers of a general character between different levels of government, interest debt payment, foreign economic aid, general services, executive and legislative organs, financial, fiscal, external affairs, etc.

([16]) For Malta and the United Kingdom, social security expenditures are included under the central government sector

Graph 4.1: **EU-27 general government expenditure by COFOG division, % GDP, 2012**



Source: Eurostat

4.2. TAX EXPENDITURES

In addition to expenditures labelled as such in budget classifications, tax expenditures ([17]) should not be exempted from the scope of performance analysis. Although it is difficult to estimate their consolidated size, tax expenditures are likely to amount to several points of GDP in many Member States ([18]). In addition, the regular review of the impact of tax expenditures versus their cost is not a mainstream practice across the EU, which is why the main ones appear as prime candidates to be integrated in the scope of spending reviews.

([17]) They can be defined as "provisions of tax law, regulations or practices that reduce or postpone revenue for a comparatively narrow population of taxpayers relative to a benchmark tax." They may take the form of exemptions, allowances, credits, preferential rates, deferral rules, sometimes granted to a specific sector or activity. They are policy instruments of the general government to promote specific social or economic policies and are closely related to direct spending programmes.

([18]) For an in-depth analysis, see Bauger L. (2014), *The use of tax expenditures in times of fiscal consolidation*, Economic Paper no 523, European Commission, Directorate-General for Economic and Financial Affairs.

5. MAIN FEATURES OF SPENDING REVIEWS

5.1. OBJECTIVES

This paper proposes to explore one particular type of public policy evaluation: spending reviews. They refer to the coordinated and in-depth analysis of baseline expenditures with the prime objective to detect efficiency savings and opportunities for cutting low-priority or ineffective expenditures, for example by examining consequences of alternative funding levels([19]). If their impact is large enough, the opportunities to streamline, reallocate, and sometimes cut public expenditure that are identified by spending reviews can ultimately contribute to the achievement of fiscal consolidation targets and may even free up fiscal space for new policy priorities such as growth-enhancing expenditures or tax reductions.

Spending reviews generate more than spending cuts and should not be confused with the latter. The former assumes the preliminary exercise of identifying which cuts would be least detrimental (or more beneficial) to the impact of public policies. If time allows, they are preferable in theory to "quick and dirty" across-the-board linear cuts applied without assessing in detail the policy impact or negative spillovers and without monitoring the savings captured versus the hidden costs.

In the long run, the regular conduct of spending reviews is supportive of countercyclical macroeconomic policy. Spending reviews take longer to deliver results than across-the-board cuts (such as a linear percentage cut in wages or pensions) or tax increases. Once a reform option has been selected, its full implementation can take from months to years. This is obvious when legislative changes and/or a transformation of complex processes across organisations are at stake. In such cases, it is crucial to secure progressive delivery with partial savings in the first years of implementation. Experimentation is a recommended first step. Therefore, spending reviews may not be the best suited response to very urgent fiscal consolidation needs. For instance, the emergency situation in EU countries under a financial assistance programme has not always allowed the in-depth and wide-ranging assessments required for fully fledged, benefit-maximising reviews. When time allows, the savings they have the potential to generate are supposed to be more sustainable, better monitored with pre-defined indicators and limit, as well, the risk of negative spill-overs (in terms of new costs or issues of equity/quality of public service). This advocates for the "pre-emptive" conduct of such reviews in macroeconomic upswings, and the collection of priorities for expenditure reductions when they are not driven by urgency.

Spending reviews can be beneficial to growth-enhancing expenditures. The latter often cannot be funded extensively without damaging the national fiscal performance unless expenditure margins are saved elsewhere. Spending reviews are meant to identify such expenditure margins (by saving public money in a sustainable way) and secure the impact of new or increased growth-enhancing expenditures (by removing negative spill-overs from inefficient or ineffective policies). For example, streamlining the process for entrepreneurs to establish a company may not only save administrative time and money, but may ultimately deliver enhanced budgetary room for public investments. In other words: growth-enhancing expenditures are likely to deliver more in an ecosystem which has been streamlined thanks to spending reviews.

In a nutshell, spending reviews are an instrument of structural and selective expenditure-based consolidation. We exclude the analysis of the value-added of planned expenditures, and focus on large-scale reviews targeting several existing expenditure lines or policies in one consolidated effort, with savings as the primary objective. Examples include the pooling of back office functions (like procurement or pay office) across line ministries, the clarification of responsibilities and the streamlining of corresponding resources on a policy across government layers (like urban policy, transport etc.), the merger of state agencies with complementary mandates or a better targeting of social benefits.

([19]) OECD (2011), *Value for Money – Denmark*, OECD Working Party of Senior Budget Officials

However, the purpose of the savings generated by the implementation of spending reviews is not always to tighten public finances. In Italy, the Prime Minister announced that the ambition for the spending review started in autumn 2013 is to free up the annual amount of €32bn by 2016 to finance tax cuts and productive investments. In its Spending Round 2013, the UK Treasury compares saving plans with investment decisions.

5.2. APPROACH

Expenditure cannot be analysed in isolation from the policy it is supposed to fund and the end-user it is meant to serve ultimately. As a consequence, two approaches are usually observed: a strategic one and a tactical one ([20]). A spending review can either focus on one approach (e.g. the French RGPP can be described as tactical) or combine the two (e.g. the UK Comprehensive Spending Review), as long as the strategic analysis is undertaken before the tactical one. Spending reviews could also be labelled as policy reviews as they may recommend a shift in a policy objective or target population or rethink the expected service and the process whereby it is delivered.

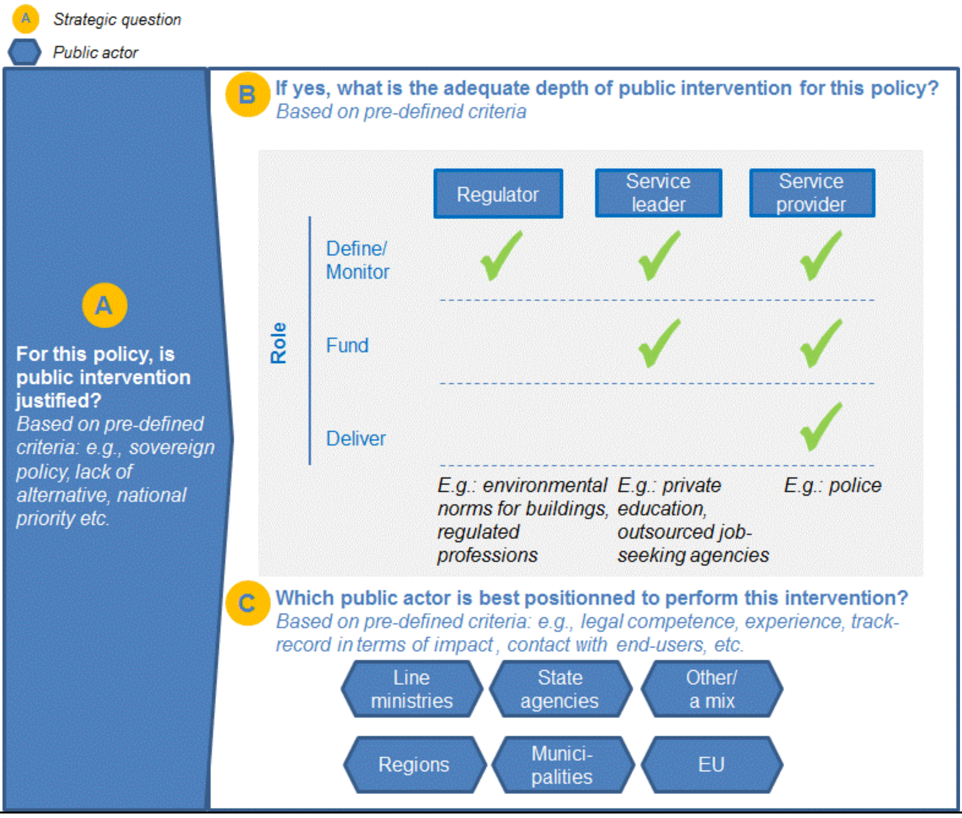
The *strategic* approach is about policy prioritisation and clarification of responsibilities. Above all, it is meant to constructively challenge the very funding of a policy with public money. Concretely, it is about deprioritising public intervention that has become i) obsolete because its initial root cause was addressed, or sufficiently addressed, or because it is no longer a priority, ii) redundant or with a limited marginal impact compared with other interventions now financed by other actors (the EU, another public entity etc.), iii) inefficient or ineffective because the causality between the funding and the results cannot be observed, and the public need may not be fulfilled, iv) inconsistent or even counter-productive in relation with other public interventions. The underlying agenda is not necessarily to shrink the portfolio of policies funded by public money, but to reshuffle it in line with new national priorities, new technologies available and taking into account emerging actors/norms influencing the policy (the civil society, the EU, international standards etc.). Of course, cost and impact are not the only drivers of such a strategic screening. "Sovereign" policies of the State as defined nationally (for example in relation to constitutional bodies or criminal justice), are typically ring-fenced from radical decisions. However, they should not be exempted *de facto* from a tactical analysis of their efficiency.

Once the principle of public intervention is set straightaway (sovereign policies) or proven (question A in Graph 5.1 below), the next question is the depth of involvement of public authorities (question B). Depending on its role in the definition, delivery and funding of a policy, it could range from "service provider" (defining, delivering and funding 100% of a service) to "service leader" (defining and funding an outsourced service for example) or "regulator" (defining norms on a private market for example). Then, the public actor or level of government which is the best positioned to perform that intervention is not a trivial question (question C), considering the overlapping responsibilities observed in many Member States, which are sometimes counter-productive to achieve a policy objective. Such strategic analytical grid should be defined according to national context at the early stages of a spending review. This could typically include: the sequence of strategic questions, the classification of potential public roles and actors, and the level of granularity of policies/organisations analysed, and the factual criteria used to allocate/reallocate a role and actor (mix of actors) to each policy, or conclude that a specific policy does not require public intervention any longer.

Graph 5.1 illustrates in a simplified way, as an example, a sequence of strategic questions that could be asked for each public policy.

([20]) Similar distinctions were commented in several OECD publications (see Reference section)

Graph 5.1: **Illustration - examples of strategic questions and roles for public intervention**



Source: DG ECFIN

The *tactical* approach aims at increasing the value delivered for each public euro spent by optimizing the mix between public funding and impact. For the policies 'passing' the strategic test, it is about adjusting the total level of resources dedicated to a policy and/or their reallocation at a disaggregated level, either in terms of functions (eg., back-office vs. front-office, operating vs. welfare expenditure etc.) or of target (eg., one segment of social recipients).

The underlying assumption is that public spending can be more efficient. This means either that i) a similar service (outcome for the target population) can be generated at a lower cost (or that a higher service can be attained at the same cost with a better allocation), for example by simplifying processes inducing both unnecessary delays for the end-user and costs or by delegating the policy to a more suitable entity/level of government, ii) there is breaking point characterized by a marginal or acceptable reduction in the service and a non-marginal cost reduction. Some Member States have ventured into sensitivity analysis: the interdepartmental policy reviews launched in the Netherlands in the 1980s and their revival in 2010 had to suggest at least one policy alternative leading to a minimum 20% reduction of expenditure after four years([21]). Another objective of spending reviews may be to raise the commitment to public performance within the administration delivering public service (this can also be used as a means to achieve other objectives of the spending review rather than as an objective *per se*). This means defining monitoring indicators and targets, reorienting administrative culture towards measurable results expressed as benefits for the end-user (citizen, tax-payer, company etc.), potentially questioning commonly and historically agreed administrative processes or funding streams/levels.

([21]) OECD (2007), Journal on Budgeting, Volume 7

Apparently competing objectives may undermine the legitimacy and quality of spending reviews. For example, safeguarding/improving the quality of public service and increasing end-user satisfaction might appear as contradicting expenditure control objectives. In practice however, a high or growing level of funding is not necessarily linked to a high public value, and is sometimes the result of counter-productive factors such as over-complex procedures relative to risk or siloed points of contact multiplying communication channels and thus costs. Increased equity is also often indicated as an objective.

Therefore, spending reviews have to be carried out in a coordinated way, within a consistent framework of objectives defined upfront. Expectations have to be clearly formulated (at least in qualitative terms) before launching spending reviews so that the risk of having a bold scenario fulfilling the spending review objectives but rejected for non-factual reasons when the time of implementation comes is put as much as possible under control.

Quantitative objectives may be assigned upfront to spending reviews. The prime objective is usually savings. They could take the form of a total numerical amount or percentage of savings that spending reviews are expected to identify, matching national fiscal targets for example. In that case, the first step would be to estimate the size of the fiscal gap. In the UK, the goal to generate at least £8bn savings in 2012 and 2013 is transparently indicated on the website of the coordination unit (the Efficiency and Reform Group). When starting its "RGPP"([22]) public reform programme in 2007, the French government set the principle of non-replacement of 1 out of 2 retiring civil servants, as an indirect savings goal. At a more disaggregated level, quantitative objectives could consist in targets for cost drivers such as a unit cost or average processing period per administrative file solved, a number of FTE ([23]) hours per end-user serviced, etc. This type of guidelines can help prioritise the areas analysed by spending reviews, influence the selection of the implementation scenario, constrain the time horizon for implementation, improve consistency across multiple spending reviews etc. If they are communicated positively, they can also gather all contributors around a clear target. On the other hand, this top-down approach is not only difficult to quantify: it also creates a bias risk of over-evaluating the potential savings from a spending review, which will fail to be captured during the implementation phase. The right balance between strategic direction and flexibility has to be struck - and potentially adjusted along the way - by public authorities engaging in spending reviews. In any case, the difficulty to set quantitative objectives should not be underestimated.

The baseline expenditure against which savings will be measured and the fiscal gap to be filled have to be evaluated and clearly communicated. This will prevent double-counting and clarify budgetary objectives at a later stage.

Finally, these objectives can only be achieved provided that spending reviews materialize into actual reforms capturing the identified potential benefits.

5.3. SCOPE

It is reminded that only spending reviews covering at least several percentage points of the expenditure-to-GDP ratio are considered in this paper. They are more likely to deliver a significant budgetary impact.

Determining the scope of a spending review project is a highly strategic decision. It is recommended to dedicate enough time to it during the design phase of spending review so that efforts and resources for the conduct and implementation phase remain focused. Spending reviews offer the opportunity to overcome existing classifications (budget lines, administrative settings) that may no longer adequately

([22]) Révision Générale des Politiques Publiques
([23]) Full Time Equivalent

reflect how policies are structured and funded. Structuring the analysis according to a "spending chain" across responsibilities, categories of inputs (personnel, equipment, transfers) and end-users helps capturing the consolidated impact of public intervention. A consolidated picture of the real cost of public policies can thus be drawn, challenged and improved so that actual spending and policy priorities are better aligned. Some Member States have already reformed their budget structure in order to mirror expenditure lines and policy programmes, quantified targets and activities. The case studies of performance budgeting in France (LOLF), the Netherlands (VBTB), Sweden and Austria are explored in a previous publication from the Commission ([24]). Although an overhaul of budget structures taking into account performance is encouraged and can simplify the spending reviews by providing relevant data, it is not a pre-requisite.

There are multiple criteria to delineate the scope of a spending review. Some criteria and options are of a technical nature (data availability), others are of a political nature (financial authority over government subsectors), and others of both (implementation risk). At that stage, the decision-makers have to rely on assumptions, for example to value the potential impact or detect major impediments early on. Table 5.1 provides a non-exhaustive list of potential criteria and options. For example, before the 2010 Comprehensive Spending Review, the UK restricted its spending review to "DEL" (Departmental Expenditure Limits) expenditures which are more predictable (healthcare, education, defence) and account for 48% of the total spending. AME (Annually Managed Expenditures) which are more demand-led and volatile (social security, tax credit, debt service etc.) were excluded from the scope ([25]).

Criteria and options are not mutually exclusive. They can be combined to determine the overall scope of the spending review, but also its timing. Indeed, the scope of spending reviews may be extended step by step in order to benefit from quick positive results to build credibility and learn for broader plans. For example, the UK decided to progressively integrate additional line ministries to its spending review project started in 1998. On the other hand, a systematic approach like the one France adopted in 2007 by launching reviews and reforms targeting the entire central government in the same process can unite all forces towards a common impetus for reform. However, according to a report([26]) assessing the results of this reform, this systematic approach also generated reform fatigue among administrative staff, while the exclusion of the local government sector prevented the review of policies across all responsibilities concerned.

The design, conduct and implementation of spending reviews are highly complex processes requiring strong expertise in many fields: knowledge of administrative processes, data analysis and cost/saving estimation, transformation of complex organisations, project management etc. It is therefore recommended to take into account the availability of such expertise when defining the scope of a spending review project.

([24]) European Commission (2012), *The Quality of Public Expenditures in the EU*, Occasional Paper no 125, Directorate-General for Economic and Financial Affairs

([25]) HM Treasury (2010 and 2013), *Spending Round 2013* and *Spending Review 2010*

([26]) IGA IGF IGAS (2012), *Bilan de la RGPP et conditions de réussite d'une nouvelle réforme de l'Etat*

Table 5.1: **Criteria to define the scope of a spending review project and corresponding options (non-exhaustive)**

Scope criterion	**Question**	**Options** (examples)
Government level	*Where do we have authority to conduct and implement reviews?*	-All general government -Only a subsector (central, state, local governments, social security, agencies, committee) -Only a sample of a subsector (e.g. agencies with budget in deficit or exceeding a certain amount) -Off-budget items, publicly controlled companies
Vertical/Horizontal	*Do we opt for transversal reviews or follow existing budget classification?*	-Vertical: by administrative unit/organisation/existing budget classification (line ministries) -Horizontal: by policy objective (youth unemployment with spending across ministries), by function (employee compensation, purchasing, real estate costs across administrative organisation) , potentially across multiple responsibilities
Type	*What type of spending is a priority candidate for a review?*	-Welfare spending/Administrative operating cost - Mandatory expenditure prescribed by law -Discretionary expenditure -Tax expenditure
Potential impact	*What impact can we potentially capture?*	-High potential positive impact on one objective (savings, equity, quality etc.), negative impact on the other objectives -Limited potential impact but positive on all objectives
Implementation	*How likely is it to capture the impact? At what cost? When?*	-High implementation risk and delays (due to complexity, effect of service disruption on end-users, low acceptability, resistance to change etc.) -High implementation risk but high value as a model or as a condition for other reforms -Low implementation risk and fast timing (quick legitimacy-building results)
Existing knowledge	*Can we build on existing knowledge?*	-Spending areas not analysed recently with little available data or coordinated expertise -Spending areas where existing diagnosis, data and peer experiences can be leveraged
Volatility	*Can unit cost or volume be reduced?*	-High: demand-led spending (unemployment benefits) -Low: high fixed costs spending (transport)

Source: DG ECFIN

5.4. TIMING AND CALENDAR

Recommending an adequate moment for initiating spending reviews can be seen from a twofold perspective. In hard times, they may come as a highly recommended method to detect potential savings without compromising growth recovery. In good times, more resources and more time may be available to explore and experiment more and better reform options.

It does not appear realistic to dedicate less than several months to the review of existing policies and spending and the generation of reform options. A wider scope does not necessarily require a lengthier process; a well-coordinated effort leveraging more resources is an alternative. Similarly, depending on the complexity of the reform options selected, a careful implementation, potentially starting

with an experimentation phase, is often measured in months, rather than in weeks. On the other hand, it is worth investing in selective "quick wins" delivering results within weeks, while there is benefit in disaggregating highly complex and long reforms taking years until full delivery into a set of smaller reforms when possible.

Communicating a clear calendar will channel the efforts towards achievable ambitions and force decision-making. The calendar can be fixed (similar for all individual spending reviews) or rolling. For example, each review may have its own timing, (depending on the availability of data, the number of actors involved etc.), as long as a consolidated calendar of decision and communication for main milestones rhythm the project. Its consistency with the annual and multi annual budget planning is a key success factor ensuring that implementation is taken into account in budget plans (including its one-off cost).

Finally, while one-off spending reviews can have a major impact, the ultimate benefits are reaped when they become a regular part of the budget process. By engraining a culture of efficiency throughout the administration and keeping a constant check over efficiency, they can improve acceptance throughout the civil service and broader public but also increase their potential to contribute to counter-cyclical balancing on the expenditure side.

6. ILLUSTRATIVE ROADMAP OF A SPENDING REVIEW

Although there is no one-size-fits-all way of carrying out a spending review project, the present paper provides an indicative roadmap. It aims at exemplifying the way to structure the list of deliverables, key success factors and main risks.

It consists in 5 phases (illustrated in Graph 6.1), **of which 1 is transversal (4.). They are necessary to document strategic decisions, as described below.**

Phase 0. Commitment: the conditions for launching the project are secured and the overall mandate is defined and supported at high level.

- *GO/NO GO decision*: the project can start if the conditions are fulfilled

- *Macro mandate decision*: the approach (strategic/tactical) and main objectives of the spending review are formulated and potentially quantified (e.g., targeted amount of savings)

Phase 1. Design: the overall mandate is broken down at the level of individual spending reviews, each of them forming a standalone project.

- *Micro mandates decision*: each individual mandate is validated (including objectives, leader, calendar etc.)

- *Deliverable*: standard outcome expected from each spending review is defined

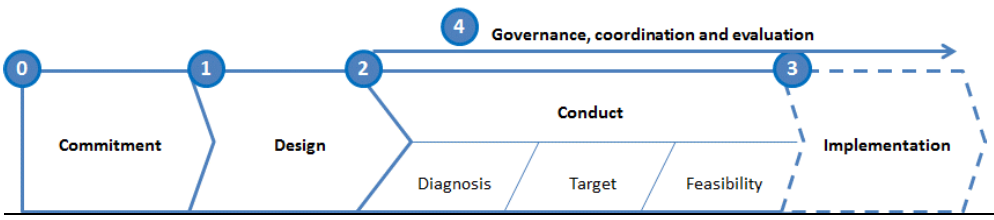
Phase 2. Conduct: the individual spending reviews actually take place. Each of them builds a target situation with reform options (including estimated savings and implementation scenarios) to bridge the gap from existing situation. This is the core phase of the roadmap.

- *Reform options decision*: at the end of this phase, the deliverables of each spending review are put forward for implementation decision. A set is selected for implementation, and for each of them a preferred reform option generating the best impact/cost-risk-timing return.

Phase 3. Implementation: the selected reform options are implemented, potentially after experimentation. Change in legislation, procedures, organisations etc. materialize.

Phase 4. Governance, coordination and evaluation (transversal): the progress of all individual spending reviews and of the consolidated project versus the mandates decided in previous phases is monitored and reported.

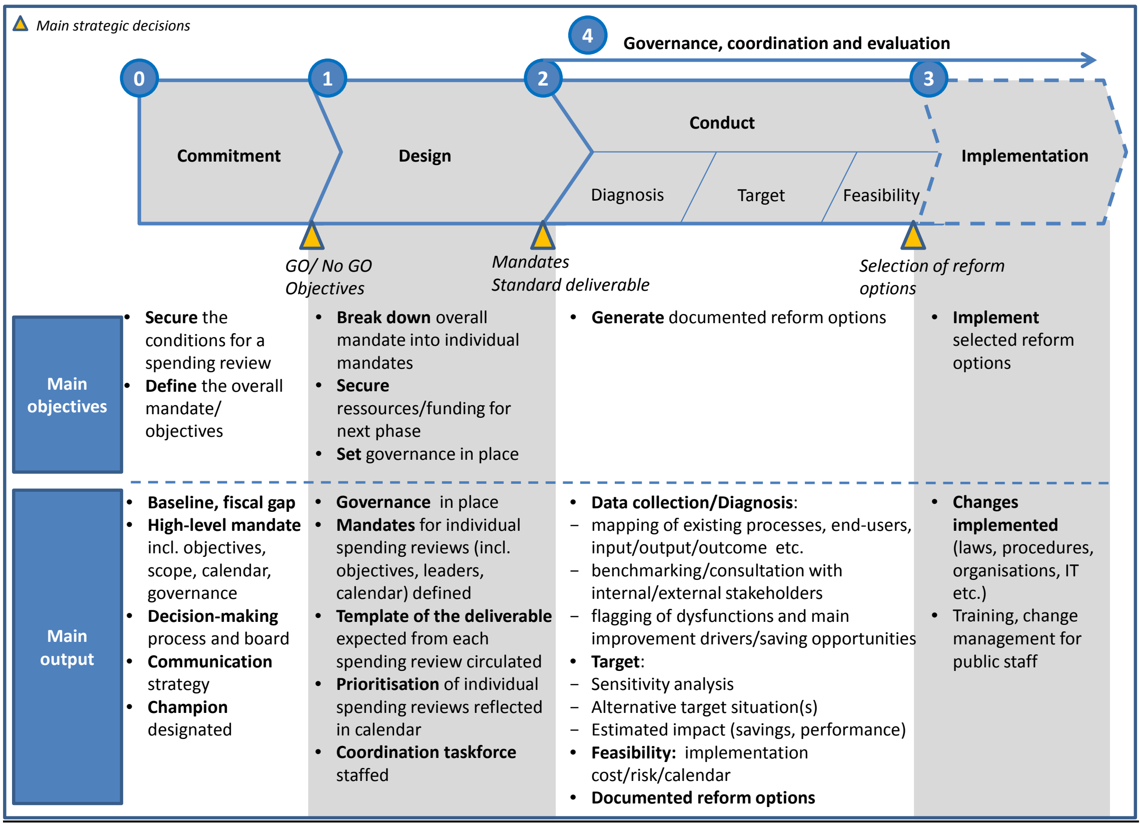
Graph 6.1: **Phases of the illustrative spending review roadmap**



Source: DG ECFIN

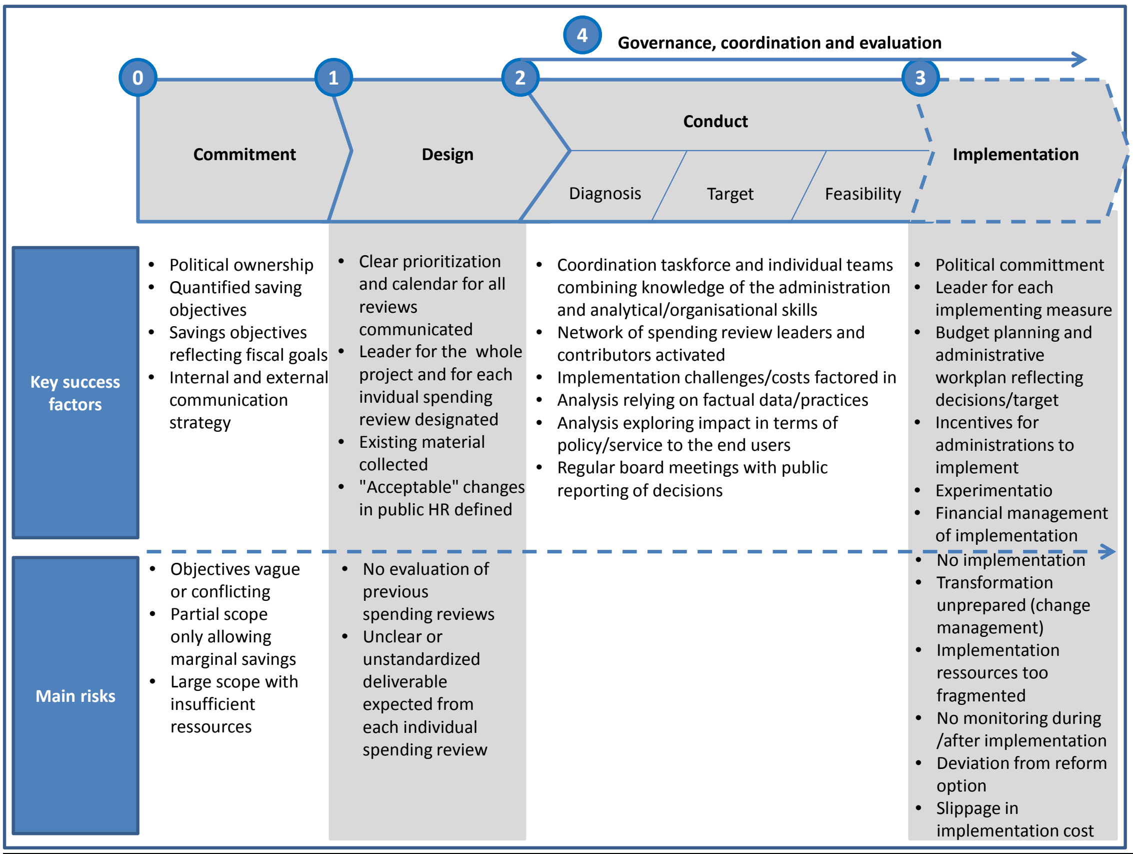
In order to provide a stylised delineation of a spending review process, Graph 6.2 illustrates main objectives and output for each step, while Graph 6.3 summarizes key success factors and main risks. Selected elements are further developed in the text.

Graph 6.2: **Objectives and output of a spending review project (summary)**



Source: DG ECFIN

Graph 6.3: **Key success factors and main risks for each phase of the indicative roadmap**



Source: DG ECFIN

6.1. PHASE 0. COMMITMENT

Launching a spending review project requires at least three key pre-conditions to be fulfilled from the very beginning. We focus here on comprehensive spending reviews initiated by Governments in a coordinated manner.

First of all, political commitment must be secured and communicated. It is all the more necessary to create early momentum and strive to maintain it throughout the project since difficult decisions will most likely have to be advocated during the implementation stage. Supporting the drafting of a report summarizing the insights from a spending review is of course not as strong as committing to adopt reforms leveraging those. Mobilizing the support from the public service which is expected to contribute to and experience the changes requires strong and reasserted ownership at the highest level, even if some benefits may only be fully captured after political changeover.

Secondly, a clear mandate has to be formulated in terms of approach, objectives, scope and time horizon. It will be the macro roadmap drawing a clear vision of success for the months and years to come. Such mandate is preferably matching national policy priorities and fiscal goals. This consistency secures the implementation of the spending reviews as their expected benefits are embedded in budgetary plans. The following questions have to be clearly answered upfront: *What are the overarching objectives, in qualitative and quantitative terms? By what time horizon? Where do we focus our efforts? Who will lead the project, politically and operationally, with what funding?* In Canada, spending review was the

instrument to achieve the fiscal consolidation goal announced by the Government: decrease the national deficit from 5.9% to 3% in 3 years (1994-1998) via savings. The project was led by the Ministry of Finance and managed to over-deliver: CAN$17bn were saved, mostly through a 16% reduction in public service staff (60 000 FTE).

Finally, sufficient and adequate resources need to be dedicated to the project. In particular, some high-level administrative profiles will have to be delegated from their usual responsibilities, while additional funding may be necessary to hire external expertise. The knowledge of existing administrative rules and processes is key, yet insufficient: analytical capability to assess the potential impact of a reform option, experience in transforming large organisations, project management are three of the additional skills that have to be well represented. These skills are instrumental in establishing a coordinated methodology across policies/spending analysed, and in particular in factoring in implementation scenario/risks/cost to document decision-making on reform options. However, the operational leadership of the project should be exercised by the national public authorities to anchor the efforts effectively in the domestic environment.

6.2. PHASE 1. DESIGN

During the design phase, the macro mandate is operationalized to steer the forthcoming spending reviews. The high level targets and guidelines have to be disaggregated into multiple projects and more detailed guidelines. In the case of top-down objectives where a certain amount of central government's budget has to be saved, the expected contribution of each line ministry can be estimated upfront. And each line ministry can suggest the sectors to investigate (purchasing, one particular agency etc.). Ideally at the end of this phase, a portfolio of individual, standardized mandates stating the objective, the leader, the calendar, the assumptions has been agreed.

This portfolio forms the basis for the coordination of the overall project. Consequently, the responsibility over the coordination and delivery of the reform options has to be defined and staffed, and the governance arrangement established before the next phase can start.

Ideally, the screening of the scope should provide some useful insights allowing to build a consolidated calendar with different level of priorities depending on the strategy selected (e.g., small but easy-to-implement project first to create impetus or on the contrary, highly symbolic but complex project first to focus on big savings). Spending reviews covering areas where the cost of conducting them (in terms of resources for example) is projected to exceed the potential savings should be deprioritized right away.

In the Netherlands, the overall project under the supervision of the Ministry of Finance's Inspectorate of the Budget consisted in 20 review groups responsible for their own policy area, led by an independent chairman and involving civil servants from several ministries([27]). In Italy, the ongoing spending review consists in 25 working groups: 8 focus on horizontal spending (i.e. purchasing), 13 on spending ministries, 3 on local governments, 1 on Cabinet.

In addition, a standard deliverable expected as final outcome for each individual review has to be agreed. It would typically include the definition of all the technical elements required to document a decision at a later stage on whether or not a tangible reform/implementation should follow: number of reform options to build, elements to provide in terms of impact and feasibility (potential savings, costs, impact for end-user, risk, implementation calendar etc.), pre-requisites etc. Methodological guidelines are welcome so that, for example, potential savings are calculated in a consistent way or so that the level of details provided for each reform option is consistent across the portfolio of individual spending reviews.

([27]) Berger B. (2011), *Spending Cuts without the Cheese Slicer*, IMF PFM Blog

The bottom line is that spending reviews have to document technically the decision of implementation and also provide actionable next steps for a smooth implementation where relevant.

6.3. PHASE 2. CONDUCT

This is the core phase of the roadmap, where individual spending reviews are actually performed. Its deliverable should consist in a documented proposal of a set of reform/saving options that is submitted for two decisions: i) whether there is a good opportunity/feasibility mix to implement the spending review, and ii) if yes, what is the best reform option in terms of target and implementation path.

Involving officials responsible for the spending under review, as well as operational staff is highly recommended. This limits the risk of disconnection between recommendation and practice, which often deviates from legal and procedural provisions. Field visits can be beneficial to the quality and credibility of the reform options put forward at a later stage by collecting real-life evidence. For example, it seems relevant to interview the directors of the largest hospitals when reviewing healthcare spending/policies – and perhaps test reform ideas.

The conduct phase can be broken down into 3 defining moments: diagnosis, formulation of reform options and feasibility.

Diagnosis: the existing expenditure is described in detail to set the baseline of current performance. It starts with the mapping of the spending chain, from sources of funding to all expenses for each input – including capital, current, amortized etc. Main features can be estimated in terms of cost and time (spending past and expected evolution, cost driver of each input, etc.), if possible at a disaggregated level to spot potential dysfunctions/heterogeneities (by regions, service etc.). The spending is set in the wider context of the policy it is supposed to fund. Detailing the objectives, target population, observed benefits (to the target population or other) and spillovers allows comparing the consolidated cost with the benefits generated in practice. This picture can be put in perspective versus, on the one hand, national or international benchmarks, and on the other hand, existing procedures that are supposed to reflect it.

Thorough and disaggregated data collection and process mapping is usually a major challenge. To cater for the lack of data, alternative approaches can be explored and combined: bottom-up (extrapolation of sample observation, unit cost assumptions on highly disaggregated inputs), top-down (allocation of a total spending envelope according to an allocation key reflecting the main cost driver, e.g. volume of medical consultations). Existing material should of course be leveraged: reports from the Court of Auditors, from think tanks etc.

A good diagnosis based on documented facts is likely to induce controversy. It will question common sense or historically accepted assumptions that are enshrined in procedures that may have become obsolete or impaired by exemptions.

Formulation of reform options: alternative target situations are envisaged. The potential performance of the expenditure is assessed. Multiple approaches are possible to build this target situation, bearing in mind that several targets can be proposed for decision. One approach is to perform sensitivity analysis to simulate the impact of a lower level of spending and/or of an alternative allocation of spending on policy objectives. The interdepartmental policy reviews launched in the Netherlands in the 1980s initially included a requirement to suggest at least one policy alternative leading to a minimum 20% reduction of expenditure after four years([28]). Another one is to make one major cost driver vary and deduct the overall savings. An interesting option is to start by redefining the policy (e.g. by removing one redundant step in the process, or pooling support functions) and then estimate the new spending level (from scratch or by

([28]) OECD (2007), Journal on Budgeting, Volume 7

difference). In any case, savings should be net of new recurring costs potentially generated by the new target process – after one-shot implementation cost. Potential savings can ideally be calculated from the point of view of public finances, of the end-users and compared with the benefit for end-users (where relevant). For example, streamlining the process whereby a company can be established would lower the cost per incorporation request burdening the administration, lower the administrative/legal cost incurred by the entrepreneur and save time so that he or she can focus on seizing a business opportunity.

Some countries have decided to consult widely officials and end-users to generate ideas for the targets or voice their preferences between different proposals – either through online surveys or dedicated websites (to reach a wider audience) or through more focused questionnaires (to reach an informed audience i.e. target population, officials in charge of the spending).

Feasibility: the feasibility of implementing the reform option(s)/target(s) is documented. Together with potential impact, feasibility is the main criterion to decide whether a given spending alternative should be implemented in the next phase. Feasibility refers to multiple factors: the one-shot cost of implementation (e.g. staff training), the risk (administrative or social resistance etc.), the time horizon (incl. the political timing), the pre-requisites (e.g. amending a law), the negative spillovers on other expenditure lines etc. Several implementation scenarios can be proposed, as long as their feasibility is as comprehensive (legal, social, financial dimensions) and as quantified as possible. Feasibility should not be understood in isolation for each individual spending review. The capacity of an administration to implement simultaneously multiple reforms – even if each of them rates well on feasibility – has to be taken into account.

6.4. DECISION ON THE REFORM OPTIONS

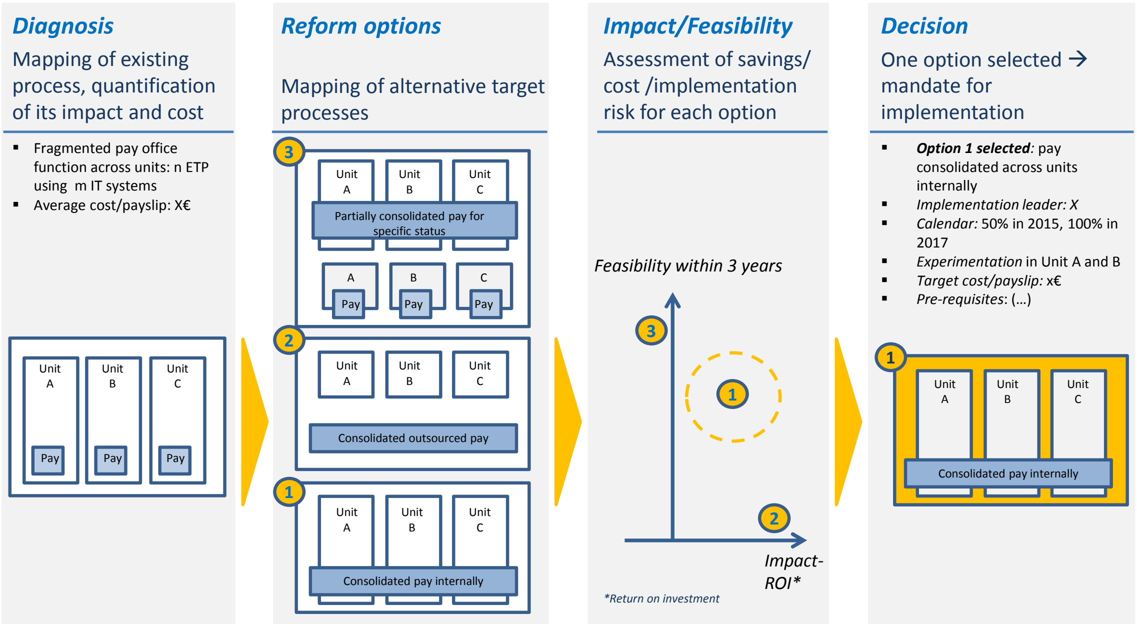
At the end of the conduct phase, a portfolio of reform options is put forward for implementation decision ([29]), based on the technical deliverable built in a consistent manner by each individual review team. A set of reform options is selected for implementation. Ideally, it would include details for an implementation mandate: a roadmap with a calendar, estimated cash flows (including expected savings and implementation cost) until 100% of savings is captured (if the implementation is progressive), leader of the implementation phase, main pre-requisites, e.g. of legal or IT nature. When the case is not clear or when implementation is highly complex and/or costly, experimentation may be a suitable first step.

Graph 6.4 provides a very simplified illustration of the steps of the conduct phase until a decision is reached.

The responsibility for this selection is a major governance question. It should be defined during the commitment or design phase. Ideally, it could be positioned at senior decision-making level (board) so that there is sufficient weight to overcome resistance during the implementation phase. The approach for proposing options to the board also has to be confirmed upfront: bottom-up (administrative units submit their plans and targets), top-down (the board sets savings target for each administrative unit), mixed etc. In case of disagreement on a saving option, for example between the review taskforce and the administrative unit/line ministry impacted by the decision, the respective savings options and implementation scenarios should be compared according to similar criteria (savings, costs, timing, risk etc.). A good decision would balance an ambitious goal with a carefully prepared implementation and a necessary ownership by the administrative units that will implement the measure and materialise the selected saving option.

([29]) see Phase 4. Governance, coordination and evaluation of the present paper.

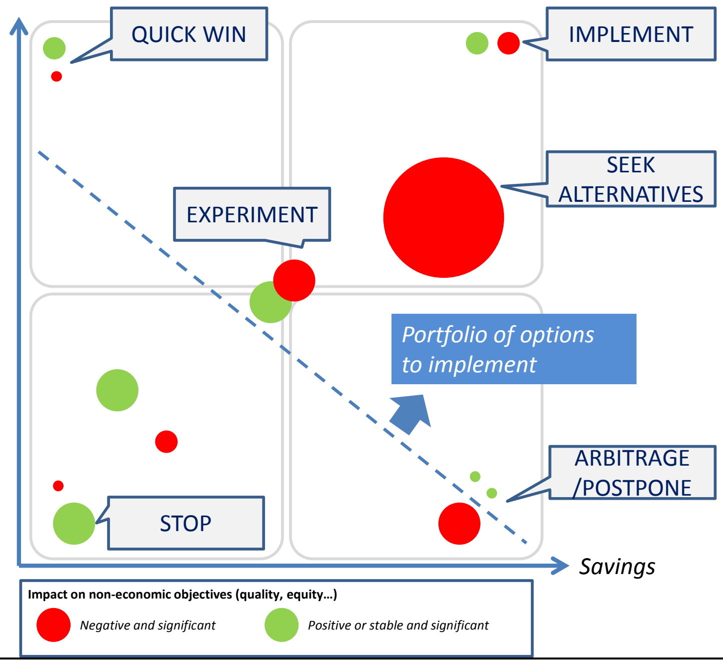
Graph 6.4: **Illustration of the conduct phase with the example of centralising the pay office function**



Source: DG ECFIN

Graph 6.5 depicts an over-simplified selection grid. Once criteria have been defined, saving options for each individual spending review can be rated accordingly and mapped on a matrix structured by saving and feasibility and potentially additional dimensions (the size of the bubble reflects the estimated consequence for the quality of service – red if negative, green is neutral or positive). Each mix leads to a specific conclusion: *stop* implementation if both saving expectations and feasibility are low, *prioritize* implementation if feasibility is high, even with limited savings etc. For some individual spending reviews, none of the options will be appealing; therefore reform on that specific topic should normally be given up.

Graph 6.5: **Prioritization matrix supporting the selection of spending reviews to implement**



Source: DG ECFIN

6.5. PHASE 3. IMPLEMENTATION

This phase effectively starts after a spending review but should be anticipated during the previous phases to inform the reform decision.

During the implementation phase, the selected reform options materialize into adopted reforms and savings start being generated. Implementation has to be anticipated early on so that no effort is wasted on documenting unreachable savings and limited time is lost after the end of the conduct phase.

Political commitment is particularly important at the beginning and throughout the implementation phase. The objective of a spending review should not be to deliver a well-documented report, but to provide insightful proposals to decision-makers convincing them to act on the proposals.

Savings captured during implementation are sometimes smaller than the potential identified during the spending review. While some slippages are inevitable, a consistent bias can reveal issues in terms of methodology or independence. Securing time for experimentation may help checking the assumptions and estimates made during the conduct phase. However, if experimentation does not prove successful, decision-makers should be ready to give up generalisation, despite pressures in terms of political communication. Results have to be monitored and measured as follows:

- individually for each project, against the decided implementation roadmap and against expected savings until 100% is captured, and afterwards in a lighter form of follow up;
- comprehensively against the initial mandate formulated during the commitment phase.

On the other hand, savings captured through measures which were generated by a spending review may be retroactively earmarked to the overall impact of the spending review.

A major risk of this phase is to stop the reform halfway by implementing changes in structures, policy objectives and organisations without capturing the corresponding benefits. This can be tempting in order to avoid addressing resistance inside or outside the administration. For example, the merger of two public entities or the pooling of back-office functions is supposed to materialize into a reduction in the size of public staff concerned, even if not immediately. Similarly, a better targeting of welfare is supposed to lead to cuts for other populations whose support is no longer the priority. Therefore, the tight monitoring not only of the changes implemented, but also of the gains actually captured, is instrumental.

The pre-requisites to successful implementation in terms of public sector human resources have to be anticipated and prioritised. Indeed, many reform options may result in changes in size, organisation and employment conditions of public staff. The relevance and magnitude of such changes would ideally be defined at a high governance level - ideally before the conduct phase start, and in any case before implementation rolls out. Among the potential changes that have been observed one could mention the harmonisation of statuses, leverage of the public staff age pyramid until retirement, introduction of performance indicators/of financial and non-financial incentives, adjustment of career paths, organization chart, decision-making processes etc. Therefore, investment in training, change management and communication towards staff is key.

A spending review is not only a technical exercise: its successful implementation and sustainability requires ownership, communication and incentives. The reforms generated by spending reviews are arbitrages whereby identified groups within the administration or in the public opinion will inevitably consider themselves as losers. As a consequence, transparent communication on the value-added of every measure as well as early involvement of administrative staff can make the difference. In terms of incentive, some Governments committed to redistributing a portion of the savings, either as financial compensation (RGPP, France), or as increased budget flexibility (ongoing spending review in Italy, where subnational governments will be able to invest savings into lower local taxes).

6.6. PHASE 4. GOVERNANCE, COORDINATION AND EVALUATION (TRANSVERSAL)

The transversal monitoring of a spending review project has to be carefully prepared and be supported by staff resources with adequate profiles. Once the project has been broken down into individual spending reviews (for example, one per line ministry), two main sets of elements would be generated: i) the potential reform options, of which one will be selected at a later stage for implementation, ii) the expected impact. Multiple governance schemes can be observed [30](Graph 6.6 below illustrates a selection of simplified governance schemes). The respective role of the administration under review and the transversal taskforce established for monitoring purposes is of course a key aspect.

In a *top-down* scheme, both saving reform options and amount are set by the decision-making board. The role of individual review teams is restricted to implementation. This scheme is not commonly observed.

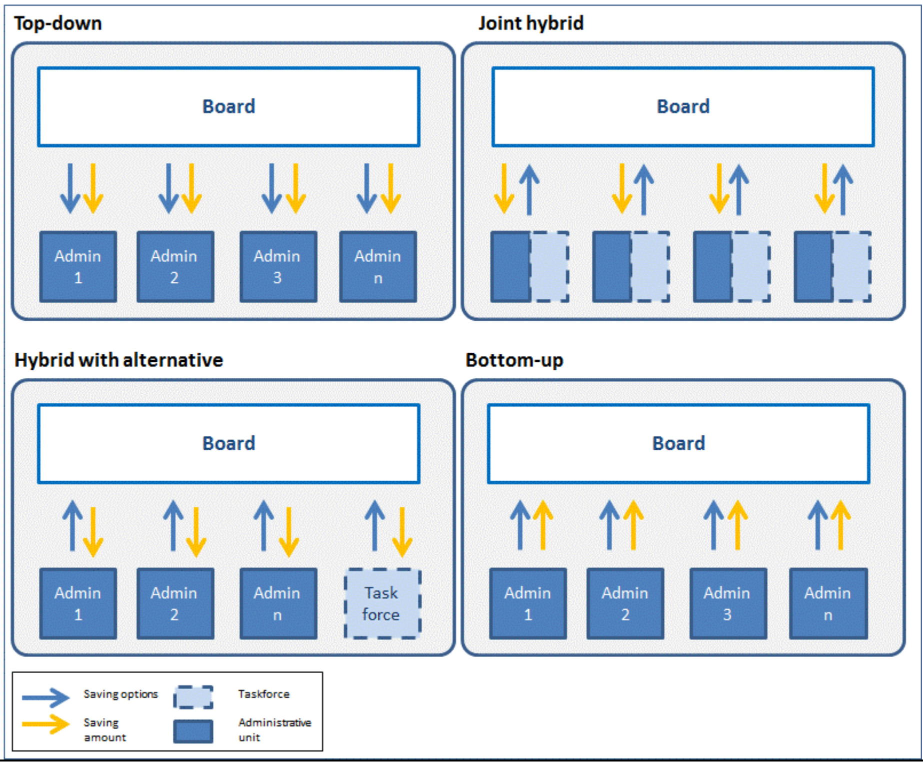
In a *bottom-up* scheme, both saving reform options and amounts are built and estimated by the individual review teams. This approach was followed by the 2012 Italian spending review. Its main risk is to restrict ambitions (especially if the administrations under review are forming the teams) and to fail to set a consolidated goal which is easier to communicate.

[30] See Robinson M. (2013), *Spending Reviews*, Annual Meeting of OECD Senior Budget Officials, OECD Working Party of Senior Budget Officials; OECD ref GOV/PGC/SBO (2013)6

In a *joint hybrid* scheme, individual review teams combining staff from administration under review and taskforce staff develop saving options consistently with the saving guidelines set in a top-down approach. The UK and Dutch governance models are close to this scheme.

In a *hybrid with alternative* scheme, two sets of saving options are developed: one by the review team, usually the administration under review, and an alternative one by the taskforce. Both sets are put forward to the board for decision. The ongoing Italian spending review mixes the last two schemes, as the members of the taskforce are represented in the review teams but the Commissioner can reject proposals and suggest alternative options if he deems them more relevant.

Graph 6.6: **Selection of simplified governance schemes for a spending review**



Source: DG ECFIN

For the sake of simplicity, the next paragraphs detail the respective role of each body involved in the joint hybrid governance scheme. However, many elements would apply to any governance scheme. Graph 6.7 provides a summary of the potential role allocation.

The first question to be addressed is about the composition and reporting rules of the decision-making board. Its role is generally to take strategic decisions such as the amount of savings to capture, the selection of the scope, the breakdown of the saving target (for example, by line ministries), and of course the selection of reform options to be implemented. Indirectly, its meetings – usually a few times a year – also serve as a driving force for the whole process, since progress is expected to be reported and recommendations for decision documented.

The board has to be positioned at a high level so that decisions have sufficient legitimacy and political weight for subsequent action. For example, both Denmark and France created dedicated fora under the supervision of the Prime Minister and gathering line ministers, respectively in the Economic

Committee and the Committee for the modernization of public policy (CMPP([31]), now Inter-Ministerial Committee for Public Action Modernisation (CIMAP([32]). Italy recently followed the same path by setting up a dedicated cabinet commission chaired by the Prime Minister. In the UK, the Public Expenditure Committee of the Cabinet (PEX) and the Quad (Prime Minister, Deputy Minister, Chancellor and Chief Secretary to the Treasury) take the decisions. Transparent communication is recommended both to the administration that will undergo the transformations and externally to the end-users/citizens/tax payers. Dedicated communication channels and the designation of a "champion" embodying the project are a plus.

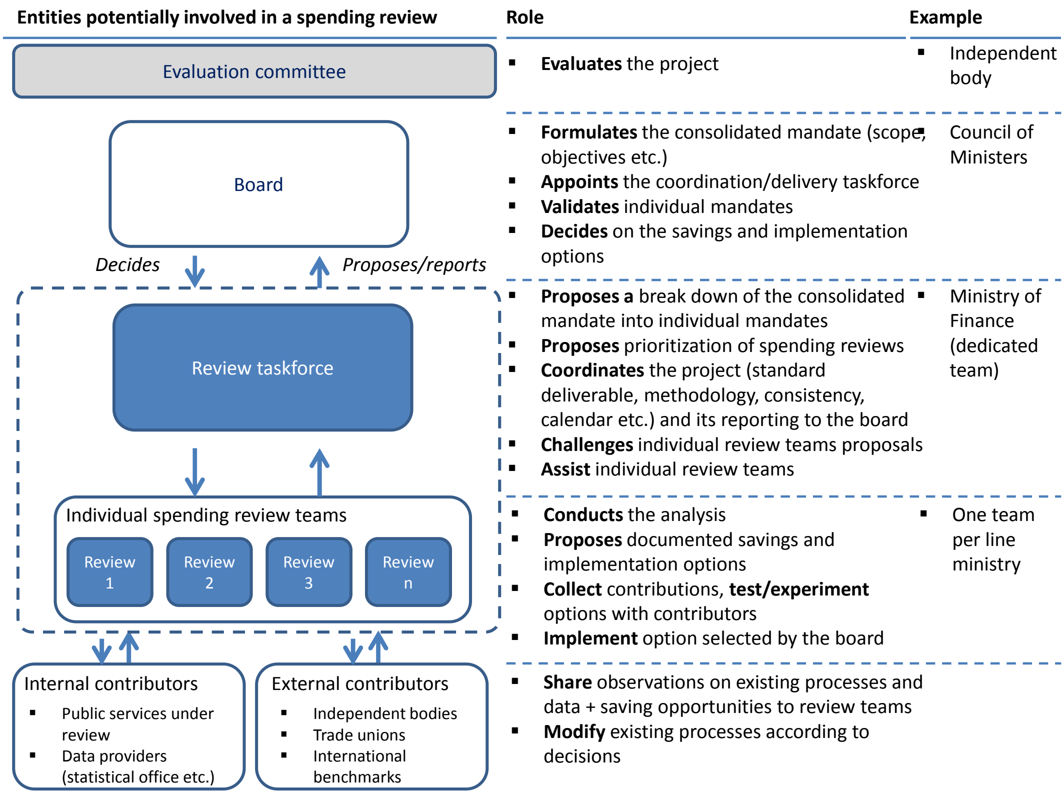
Establishing a coordination/delivery taskforce is the second step. This is typically a permanently staffed team reporting to the board who has a consolidated view over the entire project, potentially also during the implementation phase. It may be directly responsible for carrying all reviews (delivery unit), or some of them, or for coordinating/challenging reviews submitted by others, e.g. by line ministries (coordination unit). Its responsibilities could include the preparation of the reporting to the board, the monitoring of the progress of individual spending reviews, the development of a consistent methodology for the estimation of potential savings, the technical assistance to individual spending reviews etc. According to a 2011 presentation from the OECD([33]), some or all of these responsibilities are often hosted within the Ministry of Finance (Australia, Canada, Denmark, Finland, the Netherlands, and the UK) although they are not always identified within a dedicated team (Denmark). In the UK, this unit was called the Prime Minister Delivery Unit, reporting to the Prime Minister through the Head of the Civil Service (the Cabinet Secretary) between 2001 and 2010. It was replaced in 2011 by the Efficiency and Reform Group (ERG) reporting to HM Treasury, present in 4 offices across the UK (its scope is wider than spending reviews).

It is of paramount importance that the coordination/delivery taskforce can rely on a mandate endorsed at a high level. This will help establish itself as a credible partner to contributing line ministries and administrations. However, the positioning of this unit will also condition its longevity beyond political changeover. The balance between authority and independence is sometimes difficult to strike. During the commitment stage, the objectives, scope, calendar, reporting of the spending review project should be summarized in a mandate agreed at board level and serving as the establishing act of the unit.

Sufficient and adequate resources have to be dedicated to that taskforce. Ideally the expertise should not only be administrative (knowledge of public processes), but also technical (cost-benefit analysis etc.) and include project management and change management. The latter proves especially useful in the implementation phase when organisations may have to be transformed and administrative culture overhauled. Therefore, some Member States have innovated by hiring staff from the private sector, contracting with private consultants, involving non-political working groups. In the Netherlands, the Bureau for Economic Policy Analysis (CPB), the Environmental Assessment Agency (PBL) and civil servants contributed to the spending reviews. These profiles should also invest in the capability-building of the administration for the longer-term so that the culture of results and savings gets strengthened at all levels. Building a network of leaders of individual spending reviews is also part of the governance. For example, in France, each line ministry appointed one responsible for all the RGPP reforms within its area of competence *(correspondant de modernisation).*

([31]) Conseil pour la modernisation des politiques publiques
([32]) Comité interministériel pour la modernisation de l'action publique
([33]) OECD (2011), *Proposal for analysis of spending reviews*, 7th annual meeting of Senior Budget Officials Network on Performance & Results

Graph 6.7: **Example of role allocation in a joint hybrid governance scheme**



Source: DG ECFIN

This variety of expertise required is reflected in the profiles of the heads of coordination/delivery taskforces. Some have experience in the private sector (S. Kelly, Chief Operating Officer of the British ERG; E. Bondi, former head of the Italian spending review, F.-D.Migeon, former head of the Directorate monitoring the French RGPP), others in international organisations (C. Cottarelli, head of the ongoing Italian spending review), while others come from the top civil service or from academia (C. McCarthy, former head of the Irish spending review).

Independence from the administration under review is a major feature of this coordination/delivery taskforce. A key success factor is that decisions are not made by officials responsible for the policy or spending under review. These decisions include the delineation of scope, the estimate of savings, the opportunity to generalise experimentation.

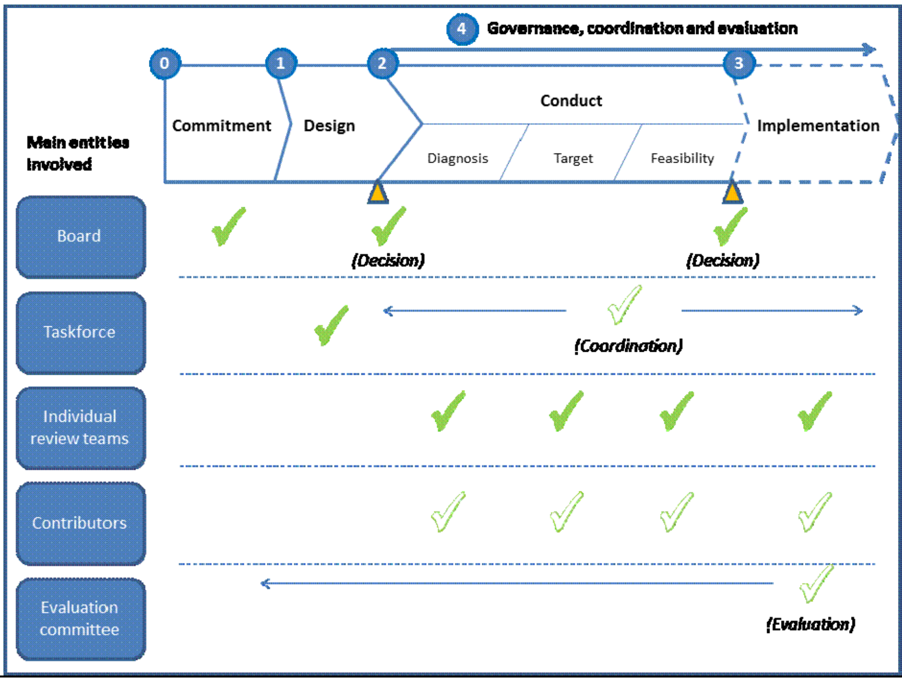
In practice, while the contribution from officials involved in a particular policy/spending is necessary to get the real picture (which may not always follow the corresponding procedure), the decision on potential changes which have an impact on funding or FTEs has to be shielded. Fact-based and documented proposals are also beneficial to independent decision-making.

Evaluating the spending review project itself is highly encouraged. This is necessary at the end of the implementation phase of a spending review to evaluate the real savings captured versus the implementation cost and assess the fulfilment of the initial mandate's objectives. It is useful throughout the spending review so that potential dysfunctions in the process can be corrected before distortive decisions are taken and implemented. In practice, such evaluation should be carried out by an autonomous body with proper expertise. In France, several reports were published on the RGPP reform (2007-2012) in

2011-2012: by the three state inspectorates, the Court of Auditors, the Economic, Social and Environmental Council, the National Assembly. Among other examples it is worth mentioning the UK National Audit Office which independently assessed the savings achieved by the 2004 Gershon spending review and the Finnish National Audit Office (VTV) which published an evaluation of the Productivity Programme.

Graph 6.8 illustrates the respective involvement of entities according to the phase of the spending review project.

Graph 6.8: **Involvement of main entities in the various phases of the spending review**



Source: DG ECFIN

Transparency is encouraged. The regular publication of the progress and impact of a spending review, including assumptions regarding the savings estimates, not only benefits the overall quality of a spending review, but also contributes to a greater ownership in the administration and support in the public opinion.

7. RECENT DEVELOPMENTS IN THE EU

7.1. PAST AND ONGOING INITIATIVES IN MEMBER STATES

Few Member States had engaged in large-scale spending reviews before the outburst of the sovereign debt crisis in 2007: the Nordic countries, the Netherlands and the UK([34]).

However, earlier national fiscal crises were often the triggering factor. For example, the Netherlands, Sweden and Denmark examined and cut public expenditures as a response to growing deficits in the 1980s and 1990s: more than 8.9% in the Netherlands in 1983, 9% in Denmark in 1983, 12% in Sweden in 1993. The implementation of the saving options identified, which included the reduction in public staff and transformation of state administration, contributed to the discretionary fiscal tightening. Although the UK carried out so-called "spending reviews" as early as the 1980s, they mostly focused on allocating incremental increases in expenditure as opposed to suggesting saving measures([35]), until the Gershon Efficiency Review of 2004 (still a few years before the crisis). In Finland, the Productivity Programmes started the same year.

In most cases, the process was only temporary. Once public finances had been restored, the magnitude of the spending reviews in terms of number of reports produced (less than 5 in the Netherlands in the early 2000s) and implemented significantly reduced, or the process was altogether dismantled. Among the exceptions is Denmark, where measures regularly identified by spending reviews are integrated in the budget on an *ad hoc* basis.

The crisis and the reinforced pressure on expenditure tightening led to a revival of spending reviews (in Member States who had already implemented them) **and an extension to other Member States.** Currently or very recently, according to self-declared data published by the OECD in 2013, at least 7 Member States are engaged in a spending review and/or its implementation: the UK, the Netherlands, Sweden, Denmark, Ireland, France, and Italy. In addition, the Spanish government commissioned a group of experts ([36]) who published mid-2013 a set of recommendations on reforming public administration ([37]). Four levers are envisaged: i) the removal of duplicate structures at central and regional level; ii) the reduction of administrative burdens; iii) the establishment of shared services; and iv) the rationalisation of the institutional administration of the central government ([38]). Implementation is ongoing ([39]).

All projects include the central government in their scope, sometimes adding the social security. Some Member States have widened the efforts to an even more encompassing scope including transfers to local governments (UK) or publicly controlled companies (Italy), while others focused on the central government scope (France's RGPP).

It is difficult to estimate the actual consolidated savings captured. In particular, disentangling the impact of measures generated by spending reviews from other factors (demand effect, multiple measures affecting a policy) may prove to be a challenge. In addition, independent ex-post evaluation of the impact is not systematically available.

Overall, the information publicly available on past and ongoing experiences remains fragmented and heterogeneous. In particular, access to broader evidence would provide interesting insights for future

([34]) According to the OECD (2013), Working Party of Senior Budget Officials, 3rd annual meeting, June 2013
([35]) OECD Working Party of Senior Budget Officials (2013), 3rd annual meeting
([36]) Commission for Public Administrations Reform (CORA)
([37]) 217 recommendations, which rose to 221 subsequently
([38]) European Commission (2014), *Assessment of the 2014 national reform programme and stability programme for Spain*, Commission Staff Working Document no. 410
([39]) To date (June 2014), 29 % of the measures had been adopted and the remaining 71 % had been launched

review of the following: i) actual impact of the spending review after implementation in terms of savings and other objectives, ii) share of the expected savings captured, iii) detailed governance, including the size and budget of the coordination taskforce, iv) share of consolidation achieved via spending reviews, v) share of recommendations from spending reviews integrated in the budgetary process / implemented, and vi) incentive system set in place.

Table 7.1 gives a snapshot of the past and ongoing spending reviews in the above-mentioned 8 Member States plus Finland.

Table 7.1: **Main features of past and ongoing spending reviews in selected EU Member States**

	Project name and timeframe	Scope	Aggregated public savings *(expected/captured)*
Italy	Spending review (since October 2013)	General Government -including: tax expenditures akin to subsidies, companies not issuing bonds directly or indirectly controlled by the state -excluding: interest payment, Constitutional bodies (Parliament, Presidency, Constitutional Court)	*Expected*: €32bn recurring savings in 2016 (2% of GDP) with a progressive roll-out starting in 2014
	"Bondi/Monti" Spending review published in 2012	General Government	*Expected*: €15.6bn in 2015 *Captured*: approx. €13.9bn
UK	Comprehensive Spending Review (2010-2015)	General Government	*Expected*: £81bn by 2014/2015, of which £18bn in welfare reform. The target also includes lower debt interest payment and freeze in public sector pay. *Captured*: 65% captured mid-2013 (according to the UK Treasury). On efficiency measures: £3.7bn in 2010; £5.5bn in 2011; £10 in 2012; expected £15bn in 2013
	Gershon Efficiency review (published in 2004)	Spending ministries including Health and transfers to subnational governments	*Expected*: £21.5bn over 2004-2008 (broadly captured)
Ireland	Special Group on Public Service Numbers and Expenditure Programmes (published in 2008-2009)	Central Government	*Captured*: > €7.8bn (implementation ongoing over 2012-2014)
	Comprehensive Expenditure Report 2012-14	Central Government	
	Capital Expenditure Review (published in 2011)	Capital spending of line ministries	
The Netherlands	Comprehensive Expenditure Review (published in 2010)	Central government and social security (20 review topics)	*Proposed*: €35bn (12% of scope)
	Interdepartmental Policy Reviews/Reconsideration Procedure (1981-2000s)	5 to 30 annual reviews	*Captured*: €3.2bn in 1982, €4.2bn over 1984-1997
France	Public Action Modernization (MAP) (2012-ongoing)	General Government	*Expected*: €1.8bn in 2014
	Conseil stratégique des dépenses publiques (announced in January 2014)	General Government	*Expected*: €50bn over 2015-2017
	General Review of Public Policies (RGPP) (implemented 2007-2012)	Central government and agencies, mostly operating costs	*Captured*: €11.9bn over 2009-2012 (3% of scope), of which 30% driven by payroll volume reduction (150 000 public FTEs cut)
	Modernization audits (published over 2005-2007 in 7 waves)	Central government and agencies on a 150bn€ scope of public expenditure	*Expected*: €8bn, partially implemented and captured via the RGPP
Finland	Productivity Programme (implemented 2005-2015)	General Government	N.A. (e.g., cuts in public jobs compensated by financial incentives)
Sweden	Implemented early 1990s	General Government	*Size of the consolidation program*: 126bn SEK (8% GDP) in 1996
Spain	Commission for the Reform of the Public Administration 2012-2015	Central Government. Regions can adhere to the central government measures	*Expected*: €37.62bn over 2012-2015. When implementation is complete: that's €17.5bn annually compared to 2011. In June 2014, 29 % of the measures had been adopted and the remaining 71 % had been launched
Denmark	Annual Special Studies (implemented since the 1980s)	General Government	N.A. (expenditure agreements included in budget law)

Nota bene: aggregated savings indicated in Table are mostly based on self-declared data from the corresponding Member States

Source: Press articles, Ministries of Finance websites, OECD Working Party of Senior Budget Officials, OECD Journal on Budgeting, OECD Value for Money in Government, UK Office for Budget Responsibility, DG ECFIN

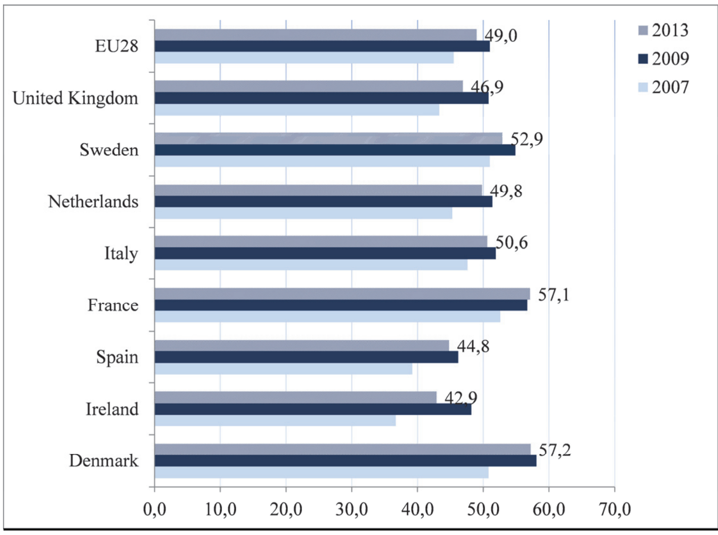
7.2. SELECTED CASE STUDIES

This section proposes a snapshot of the spending reviews carried out in 3 Member States: the UK, the Netherlands and Ireland. Each of them is currently engaged in large-scale spending reviews that have already succeeded, in a relatively short period of time, in freeing up significant savings embedded in the budgetary process.

As a context-setter, we observe the recent evolution of the general government expenditure to GDP ratio in the 8 Member States which are currently conducting and/or implementing spending reviews([40]). They started implementing spending reviews more or less rapidly after the outburst of the crisis. The results of spending reviews are difficult to appreciate before a few years down the road, for example until implementation cost is precisely factored in. It is important to stress that consolidated data do not reflect the expenditure reallocation that occurred across policies during those years as a consequence of the restructuring of national spending priorities thanks to the careful analysis of their impact. Clear-cut conclusions on the outcome of spending reviews should not be drawn based on these data ([41]).

The UK, the Netherlands and Ireland are the only countries in this sample that recorded an expenditure-to-GDP ratio below the EU-average in 2007 for the general government. In the year following the outburst of the crisis (2009), the ratio exploded with an increase ranging from +3.9 percentage points in Sweden to +11.6 pp in Ireland (+7.5 pp in the UK and +6.1 pp in the Netherlands)([42]). By 2013, the ratio had readjusted downward by more than one percentage point (vs. 2009) except in Denmark (-0.9pt) and France (+0.4pt), with a record decrease of over 5.3 percentage points in Ireland. Overall, the 2013 levels are still significantly higher than pre-crisis across this sample. Data for the years 2007, 2009 and 2013 are summarized in Graph 7.1 below.

Graph 7.1: **Evolution of general government expenditure, % of GDP, 2007-2013, selected Member States**



Source: Eurostat, DG ECFIN

([40]) Note that in most cases, the implementation of the spending reviews is not complete at this stage
([41]) In particular: expenditure reallocation across policies may not be reflected, implementation may not be complete, and, of course, other significant factors impact expenditure evolution.
([42]) Note that these amounts include for some countries support measures to the banking sector.

Insights into recent spending review exercises in the UK, Ireland and the Netherlands are provided in the following boxes.

UK – the 2010 Comprehensive Spending Review and the 2013 Spending Round

The objective of the 2010 Comprehensive Spending Review was to set disaggregated expenditure ceilings in order to save £81bn over 4 years (from 2011/12 to 2014/15), thus making the share of public spending in the GDP return to its 2006/07 level (2008/09 in real terms). The methodology to generate those savings consisted both in scaling down or stopping selected policies/projects/bodies and in increasing the efficiency of maintained ones. Decisions are implemented as they are endorsed by the Chancellor and reflected in budget plans. For the first time in the already established British experience with spending reviews, the scope is almost complete as transfers to sub-national governments, capital and current expenditures, as well as tax expenditures are included([43]). Among the measures announced in 2010 were welfare cuts([44]), freeze in public sector pay, efficiency measures, reduced debt-servicing cost, as well as maintained or increased spending for selected priority or growth-enhancing policies (schools, transport, low-carbon economy etc.). The Office for Budget Responsibility (OBR) estimated that half a million public jobs would be cut by 2014/15.

In terms of Governance, the new Public Expenditure Committee of the Cabinet (PEX) and the Quad (Prime Minister, Deputy Minister, Chancellor and Chief Secretary to the Treasury) are in charge of coordination and decision-making. Spending plans and reform options were prepared bottom-up by each spending ministry and alternatives proposed by the Treasury. Public agents and the public were invited to submit their saving ideas through a “Spending Challenge” website. An Efficiency and Reform Group (ERG) was created to detect and implement efficiency reforms in partnership with the Treasury and spending ministries.

In 2013, a new “Spending Round” was presented to the Parliament: in fact, it disaggregates the targets of general government expenditures for 2015/16 with a saving objective of £11bn. Based on announced measures and spending cuts, the OBR forecasts that public jobs would be further reduced by 144,000 by 2015/16. Further efficiency savings of £5 billion are expected through, inter alia, the scaling back of non-priority projects, a centralised procurement across the Government and a cap on public sector pay.

Ireland – the Comprehensive Review of Expenditure

In December 2011, the first Comprehensive Expenditure Report 2012-2014 was published. This Report was the output of the Comprehensive Review of Expenditure (CRE) that was conducted in Ireland with the objectives of i) meeting the overall fiscal consolidation objectives in terms of spending and numbers reduction targets, ii) re-aligning spending with Government priorities and iii) considering new ways of achieving Government objectives. It set multiannual expenditure ceilings for 3 years (2012 to 2014). This expenditure allocation was predominantly informed by expenditure reports prepared by individual spending ministries (including health and social protection). They were considered in first instance by a

([43]) According to the British budget classification, both Departmental Expenditure Limits (*DEL*) and annually managed expenditure (*AME*) were included in the scope. However, selected policies were either ring-fenced, or received additional funding to preserve growth: schools, international aid, health, transport, low-carbon economy

([44]) E.g. a time limit for the Contributory Employment and Support Allowance, an increased age limit for shared room rate housing benefit, a removal of the mobility component for disabled claimants in residential care.

high Steering Group chaired by the Secretary General of the Department of Public Expenditure and Reform.

The Expenditure Reports represented a line-by-line examination of the spectrum of public services designed to refocus delivery and achieve better value for money. Each spending ministry had primary responsibility for evaluating every budgetary programme for which they were responsible, including programmes delivered by Government Agencies, and put in place internal administrative arrangements to ensure the delivery of the Expenditure Reports within a challenging timeframe. A standard approach was developed as an aid to prioritisation and involved assessing each programme against three Value for Money tests: (a) rationale, objectives and relevance, (b) effectiveness and (c) efficiency.

In terms of impact, savings of €7.8bn were reported to the OECD Working Party of Senior Budget Officials mid-2013 for the 2011 spending review and a previous exercise in 2008 (Special Group on Public Service Numbers and Expenditure Programmes). At the end of 2013, the Secretary General indicated that public staff had reduced by 30,000 since 2008, reducing the public payroll from €17.5bn in 2009 to €14.1bn in 2013 (net of pension-related deductions)([45]).

The Irish Government announced that this process was not meant to be a one-off but to become a cornerstone of the budgetary planning. In October 2013, the Government announced that a new CRE and review of the Capital Investment Framework would commence in the coming months.

The Netherlands – the 2010 Comprehensive Expenditure Review and the 1990s Interdepartmental policy reviews

In the Netherlands, a cross-party agreement to undertake spending reviews on a regular basis over a multiannual time horizon was struck in 2010.

In the run-up to the elections, a spending review was initiated in late 2009 on 20 topics for a four-year plan. The scope accounted for approx. 80% of total Government expenditure and included among others tax expenditures. Each topic was reviewed by a taskforce combining civil servants from the relevant line ministry and staff from the Ministry of Finance, and chaired by senior officials not responsible for the policy under review. Their objective was to independently formulate reform options – one of which generating savings of a minimum of 20% over 4 years – that would then potentially feed political decision. Overall, the proposed reform options were estimated at a €35bn annual saving potential (12% of the central government and social security expenditure). Some of the suggested cuts were included in political campaign programmes and, after the government was formed, in the coalition agreement, often with some adaptations (e.g. measures such as the privatization of public transport in big cities or a reduction in child care compensation), while others were left aside at that stage (housing market/interest rate deduction scheme etc.)([46]).

This initiative revives the well-established Dutch experience with spending reviews. After a series of initiatives in the 1970s, policy reviews were structured with the 1981 Reconsideration Procedure, during a severe fiscal crisis, and strengthened by interdepartmental policy reviews from 1995. The objective of the policy reviews was to suggest alternatives to a given policy that could yield savings through efficiency measures or potentially reduction of service levels. Overall, 243 reports were made public in the period 1981 to 2006, with the annual average shrinking to less than five in the early 2000s. In terms of past results, an estimated share of 25% of expected savings from measures decided on the basis of policy

([45]) http://per.gov.ie/2013/11/01/perspectives-on-public-service-reform-speech-by-mr-robert-watt-secretary-general-at-institute-of-public-administration-ipa-conference/
([46]) Berger B. (2011), *Spending cuts without the Cheese Slicer*, IMF Public Financial Management Blog

reviews was actually captured between 1981 and 1991 (OECD, 2011), considering that expected savings amounted to €4.2bn over the period 1984-1997.

7.3. THE EUROPEAN SEMESTER

In the context of the reinforced EU economic governance emerged in response to the crisis, Member States have started to be encouraged to carry out systematic reviews of their expenditures.

More broadly, the performance of public spending has become a regular feature of country-specific recommendations (CSR) issued following the latest European Semester rounds. In 2012, nearly 2/3 of non-programme Member States received a CSR referring to the necessary strengthening of the performance of public spending. In 2013, the ratio reached 4/5 (the only exceptions were Sweden, Latvia and Luxembourg) and then 3/4 in 2014 (20 out of 26 Member States ([47]).

A more detailed analysis highlights four categories of performance-related CSRs. For 10 Member States in 2013, and 11 in 2014, the recommendation is specifically directed at reinforcing the efficiency of the heavy weights of public expenditure: healthcare/long-term care and/or education (the latter to a lesser extent). Explicit reference to the instrument of spending review as such is limited: in 2013, they were explicitly recommended in the cases of Spain, Italy, France and Slovenia, without further specification on the policy area(s) concerned. In 2014, Slovenia, Croatia and Spain are encouraged to carry out spending reviews. Moving on to other categories, 5 Member States received in 2013 CSRs asking to prioritise growth-enhancing expenditures (Czech Republic, Lithuania, Slovakia, Slovenia and the UK), 3 other Member States were encouraged to reduce administrative burden (Bulgaria, Hungary, Italy) and the introduction of performance-based budgeting was mentioned only for the Czech Republic – on a very restricted scope. Overall, 4 Member States (Czech Republic, Italy, Slovakia and Slovenia) received CSRs covering more than one of these performance categories.

These findings for the European Semester 2013 are illustrated in Annex 1.

Given the increased emphasis on expenditure performance aspects at the current economic juncture, further analytical work to sharpen their reflection in the outcome of the subsequent European Semesters seems warranted.

([47]) In 2013: Member States with programmes at the time (Portugal, Ireland, Greece and Cyprus) and Croatia are excluded from the analysis since they did not receive specific CSRs in 2013. In 2014, only Greece and Cyprus are excluded.

8. LINKING SPENDING REVIEWS TO NATIONAL BUDGETARY FRAMEWORKS

8.1. EXPENDITURE RULES AND CEILINGS

Numerical fiscal rules constraining expenditure have multiplied in recent years, as a response to crisis-related challenges. 16 out of the 28 EU Member States have reported having in place at least one expenditure rule in 2012([48]). As highlighted in a dedicated Economic Paper on national expenditure rules ([49]), a number of features have made those rules appealing, among which: i) they target the part of the budget that the government controls most directly, ii) they target the main source of deficit bias, iii) they are often more transparent and simpler than rules targeting other budget aggregates. In addition, the reformed preventive arm of the Stability and Growth Pact introduced the expenditure benchmark in the EU surveillance framework. While not an expenditure rule *per se* (it is derived from the existing budget-balance rule of the SGP), it draws attention to the consideration of expenditure aggregates by capping the increase of national nominal primary spending ([50]) below a reference value of the medium-term growth rate. On the national level, expenditure rules provide a numerical "envelope" of spending for the next year and potentially the outer years, usually at a highly aggregated level (central government, general government). As a substitute to an expenditure rule (or as a necessary complement), expenditure ceilings may be set during budget preparation. They refer to quantitative upper limits on the amount of expenditure which are set for specific years and which are applied during the budget preparation process. Contrary to expenditure rules, they are not permanent and have to be set during each budget preparation. They usually cover a more disaggregated level such as the line ministry. The establishment of multiannual and binding expenditure ceilings is encouraged. However, in the case of ceilings established top-down, it is recommended to maintain some allocative flexibility (for example across expenditure categories but safeguarding payroll expenditure) ([51]).

Spending reviews are an instrument to achieve fiscal objectives defined in the budget. As they target expenditure levels, their implementation supports in particular the compliance of budget execution with national fiscal rules and expenditure ceilings. In a top-down approach, spending reviews can help budget units set their level of ambition in terms of savings and identify the measures enabling them to respect the ceilings. In a bottom-up approach, spending reviews can help budget units evaluate the amount of savings that can be captured. In the UK, spending reviews are undertaken periodically in line with the update of expenditure ceilings (Departmental Expenditure Limits). In Ireland, spending reviews are being developed in a way that informs Government decisions on future budgetary matters and allows for reviews and recalibrations of ministerial expenditure ceilings in light of changing priorities and evaluations of expenditure. The same approach prevails in Ireland, where multiannual expenditure ceilings are informed by spending reviews submitted by spending ministries. In Italy, expenditure ceilings for the 2015 budget will be decided in March 2014 on the basis of recommendations which will emerge from the ongoing spending review.

The effort of harnessing public expenditure can certainly not rely on spending reviews only: they are usually combined with more linear cuts (such as reducing pensions by a certain percentage) and other pre-existing measures affecting the expenditure aggregate. Spending reviews may contribute directly to fiscal tightening. For example, the Canadian spending reviews supported the successful fiscal consolidation goal set by the Government, namely reducing the public deficit from 5.9% to 3% in 3 years (1994-1998) via savings. On the other hand, the savings spending reviews generate may be used to fund

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([48]) Fiscal Governance in EU Member States: Results from the 2012 update of the Fiscal Governance Dataset maintained by DG ECFIN – Note for the attention of the Economic Policy Committee, 10 December 2013

([49]) Ayuso i Casals J. (2012), *National Expenditure Rules – Why, How and When*, Economic Paper no 473, European Commission, Directorate-General for Economic and Financial Affairs

([50]) Excluding interest payments, unemployment benefits and increases in expenditure matched by legally mandated revenue increases.

([51]) Robinson M. (2012), *Aggregate expenditure ceilings and allocative flexibility*, OECD Journal on Budgeting Volume 2012/3

other expenditures, thereby contributing more indirectly to fiscal objectives. This approach is preferred by the current Italian spending review, whereby the potential annual savings of €32bn that are envisioned for 2016 would fund tax cuts and productive investments.

8.2. THE BUDGETARY PROCESS

Enshrining savings and measures expected from spending reviews into budgetary planning is a key requirement for ensuring the exercise is firmly embedded into the budgetary process. To this end, two moments can be distinguished. First of all, if an overall saving target has been established upfront before spending reviews start, it has to be consistently reflected in future budgets as a forcing device to conduct and implement spending reviews. Secondly, in any case, at a later stage once saving options have been documented and decided and implementation has started or is about to, they have to be reflected in budget preparation. This will generate multiple benefits: i) reinforce the credibility of national fiscal objectives by spelling out concretely envisaged measures generating savings, ii) increase the political weight of these measures, thereby securing their implementation, iii) ensure the transparency of budgeting in front of the tax-payers. The necessary condition of the integration of measures identified by spending reviews is their individual quantification. As is often the case in the quantification of reforms in the field of public finance, issues related to the consistent definition of a baseline raise methodological problems; disentangling the impact of one measure is a major challenge, considering that multiple measures may contribute to the same objective and influence the same indicators. In general, the question of the relevance of a spending line whose impact cannot be measured can be raised. The consistency between the decisions taken by the board of the spending review and the measures specified in the budget planning is instrumental. This includes the methodology used to document the potential savings and new costs.

Similarly, the results of the implementation of spending reviews have to be reflected in the budget execution. Beyond the inevitable slippages related to implementation and revision of assumptions of the expected savings, the isolation of results captured by spending reviews and their integration into budget execution documents is a challenge.

Table 8.1 lists some of the common risks that Government may be facing when integrating spending reviews into the budgetary process once saving options have been decided.

Spending reviews should become a permanent feature of budget planning and execution. Regular analysis of the way public money is spent should become a continuous effort to which the political and administrative decision-makers are committed and accountable. Indeed, the socio-economic profile of end-users, the impact of a policy on the target population, the Government priorities evolve constantly. Ideally, a review schedule should be enshrined in multi annual administrative work plan for a selection of expenditures. However, Member States have not postponed (and should not postpone) the launch of a spending review until a long-term methodology and spending review schedule is agreed. On the contrary, a one-shot spending review is likely to provide useful insights for a more permanent process. Again, such a process has to be distinguished from auditing which focuses on compliance with existing administrative/legislative rules as opposed to questioning their impact as a whole.

Table 8.1: **Main risks when integrating spending review into the budgetary process**

	Observation	**Risk**	**Mitigation factor** (example)
Budget preparation	***No integration*** *into multiannual budget process*	No implementation of the spending review, no savings captured	Explicit link between spending review, individual measures and expected impact (saving/cost) over a multiannual span
	No consolidated saving target for spending reviews	-Lower credibility of fiscal objectives -Limited impetus for implementation due to lack of direction -No reallocation / reprioritisation of measures to deliver necessary savings	-Communicate the overall saving target -Specify the share of total savings to be achieved by spending review vs. other instruments / the indirect impact expected (e.g. funding of other expenditures)
	No individual quantification *of saving target for each measure*	-Lower credibility of fiscal objectives -Limited impetus for implementation due to undisclosed rationale -Lack of accountability during implementation (unclear mandate for entities implementing measures) -No detection/correction of deviation during implementation leading to slippages -No reference to assess whether the measure and its implementation was successful	-Identify each measure to be included in the overall balance sheet of the spending review -Break down saving target for each measure horizontally (payroll, transfers) and vertically (by line ministry)
	Positive bias *underestimation of implementation costs/ overestimation of savings*	-Achievement of fiscal objectives at risk -Insufficient resources endangering implementation (IT, coordination, etc.) -Erosion of public and staff support for implementation (lack of credibility) -Ad hoc linear and counter-productive correction measures during implementation to meet saving target -Aggressive implementation calendar endangering the sustainability of savings	-Include the most conservative saving scenario -Add an implementation cost safety margin -Isolate net savings from one-off implementation cost and new recurring cost -Match budget planning with implementation roadmap (potentially over several years)
	Unclear expenditure baseline	-Double-counting of expected savings -No reference to assess whether the measure and its implementation was successful -Slippages during implementation -Lack of transparency	-Clarify the expenditure baseline -Spell out the consistency of saving targets with the fiscal objectives
Budget execution and reporting	***"Moving" expenditure baseline***	-Double-counting of expected savings -No reference to assess whether the measures and their implementation were successful	-Remind the expenditure baseline used for budget preparation and explain potential deviations
	Retrospective labelling *measures labelled as "spending review" ex-post*	-No reference to assess whether the overall target was achieved -Lack of transparency	-Ensure consistency with spending review workplan and roadmap
	No individual quantification *of actual savings captured by each measure*	-No reference to assess whether the target was achieved / detect whether the overall impact of the measure is positive	-Break down saving results for each measure horizontally (payroll, transfers) and vertically (by line ministry). -Ensure methodology consistency between ex-ante saving projections and ex-post results measurement.
	No independent and transparent evaluation	-Biased quantification of savings captured -No lessons learnt for future spending reviews and for their integration in future budgets -Lack of accountability towards citizens and public staff	-Mandate an independent body with the task of evaluating the results of the spending review and secure its access to relevant data and information

Source: DG ECFIN

9. CONCLUSIONS

Spending reviews have become more widespread throughout the European Union. They appear as an instrument of fiscal consolidation, but also of generation of margins for growth-enhancing policies and of improvement of the administrative ecosystem. If they cover a significant scope of public expenditure, are rigorously documented and implemented, spending reviews may contribute to the achievement of budgetary objectives. They can also become a driving force for permanent budgetary improvement, provided that they are embedded in the multi-annual budgetary process as a regular feature, matching policy priorities and ingrained in administrative culture.

This report has aimed to highlight the main features of spending reviews with a specific focus on experience from the EU. As part of the toolkit of public policy evaluation, and supported by the renewed focus on expenditure control at the EU level exemplified by the expenditure benchmark and diffusion of national expenditure rules, spending reviews have the potential to ensure that public expenditure delivers more value for public money. It is important to recognise the strategic decisions which need to be tailored to country-specific circumstances: these include, for instance, the extent of public intervention domains being reviewed and whether changing its very scope is an acceptable option, the overall objectives, the destination of the savings generated, or even the ring-fencing of some categories of public action – all aiming to reflect political preferences as well as economic and social demands. While national priorities may vary, a strong political commitment, a clear formulation of the link between spending and the policies they are supposed to fund is essential to their success, in particular by securing buy-in within the public sector and transparency with the broader public. A well-planned process should generally build on political commitment to adjust the scope to the budgetary objectives and the existing capabilities, to spell out a clear mandate and allocate adequate resources to design and conduct the review. However, actual benefits can only be reaped through the prioritised implementation of the most appealing measures in terms of feasibility and expected impact, ensuring that savings are measurable and sustainable.

While some Member States have built a tradition of conducting spending reviews on an occasional or regular basis (UK, NL, DK, FI), others have led reviews to respond to specific challenges (SE, IE, FR, ES). Ambitious exercises have recently been kicked-off or announced by some Member States (IT, FR) ([52]). Overall these national efforts are building a welcome momentum towards better and smarter fiscal discipline in line with the broader objectives of the Economic and Monetary Union.

The particular relevance and usefulness of recourse to spending reviews, especially in the aftermath of the economic and financial crisis, was acknowledged by the finance ministers of the European Union, who accordingly invited (via the March 2013 ECOFIN Council conclusions) the Economic Policy Committee and the European Commission to review budgetary processes and practices conducive to enhanced expenditure performance. Building on the analysis provided in the present note and the ensuing thematic discussions at the Economic Policy Committee during 2014, further developments may be envisaged to leverage the benefits of spending reviews as a key instrument for the improvement of public policy performance.

([52]) Non-exhaustive references throughout this paragraph

ANNEX 1

References to performance of public spending in 2013 Council country-specific recommendations for non-programme EU Member States

Legend
✓ Reference in CSR
☐ Reference to spending reviews in CSR

	Limits cuts in / prioritise growth-enhancing expenditure	Strengthen efficiency of public spending	Reduce admin. burden/strengthen admin. capacity	Introduce performance-based budgeting
AT		✓ In healthcare/ education		
BE		✓ In LT care		
BG			✓	
CZ	✓	✓ In healthcare		✓ For research bodies
DE		✓ In healthcare/LT care		
DK		✓ In education		
ES		✓ - Spending reviews ✓ - In healthcare		
EE		✓		
FI		✓ - At local govt level ✓ - In LT care		
FR		✓ - Spending reviews ✓ - In healthcare		
HU			✓	
IT		✓ - Spending reviews	✓	
LT	✓			
MT		✓ - In healthcare		
NL		✓ - In LT care		
PL		✓ - In healthcare		
RO			✓	
SK	✓	✓ - In healthcare		
SI	✓	✓ - Spending reviews		
UK	✓			
total	5	15	4	1

Note: References to spending reviews are framed

***Source**:* European Semester 2013, DG ECFIN

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