Spending Reviews: 
*efficiency, performance and “fiscal space”*

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Visit of Norwegian Productivity Commission  
22 June 2015
Spending Review – What? and Why?

- A critical re-assessment of existing expenditures, and of the policies they are based upon, in light of the principles of efficiency, effectiveness, economy and/or affordability

- Baseline expenditure is usually largely fixed: 80-90%
- Harder for governments to identify “fiscal space”
- Requirement to live within fiscal limits
- Are those old decisions still the best decisions? new priorities
- Scope for efficiency, modernisation, reform and innovation
- Move from “incremental” to a more “zero-based” approach
Expenditure baseline analysis – focusing the mind of policy-makers

“FIXED” VERSUS “FLEXIBLE” AREAS

- Constitutional
- Legal - fixed
- Legal - annual
- Contractual commitments
- Administrative commitments
- Political commitment
- Sensitive
- Discretionary
Expenditure baseline analysis – focusing the mind of policy-makers

FUNCTIONAL BREAKDOWN 1

- Public pay
- Social welfare
- Other
Expenditure baseline analysis – focusing the mind of policy-makers

FUNCTIONAL BREAKDOWN 2

- Health
- Education
- Other
Expenditure baseline analysis – focusing the mind of policy-makers

FUNCTIONAL BREAKDOWN 3

- Defence
- Agriculture
- Other
## Typology of spending review

<table>
<thead>
<tr>
<th>Primary Objective</th>
<th>Tool</th>
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<tbody>
<tr>
<td>Analysis of management, organizational structures and/or policies to <strong>improve efficiency and effectiveness</strong></td>
<td><strong>Performance evaluation</strong> (of policies, programmes, or organizations)</td>
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### Spending Reviews

- **Efficiency reviews**
  - Goal: achieve efficiency savings by identifying how existing services can be delivered at a lower cost.

- **Strategic reviews**
  - Goal: achieve savings through efficiency measures and prioritisation, e.g. scaling back or eliminating services or transfer payments identified as ineffective or low-priority.

*Source: adapted from OECD, 2011*
## Designing a Spending Review - Choices

<table>
<thead>
<tr>
<th>Who?</th>
<th>What?</th>
<th>How?</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Independent experts OR In-house experts</td>
<td>• All spending OR Sector focus OR Specific, targeted areas</td>
<td>• Expenditure baseline analysis</td>
</tr>
<tr>
<td>• Central AND/OR line ministry</td>
<td>• Efficiency, staff numbers, red tape AND/OR strategic priorities</td>
<td>• Savings targets AND/OR fixed ceiling</td>
</tr>
<tr>
<td>• Steering committee</td>
<td>• Programmes OR Ministries</td>
<td>• Public / civic engagement</td>
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<tr>
<td>• Balance between political and administrative viewpoints</td>
<td>• Streamlining of agencies</td>
<td>• Performance-focused analysis</td>
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<td>• Policy options, trade-offs OR policy prescriptions</td>
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</tbody>
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OECD country example: CANADA

• Programme Review (mid-1990s) aimed at fiscal consolidation/reining in high debt and deficits
  – Agency reviews
  – Tough agency specific targets
  – “war of attrition” – not a sustainable model?

• Strategic Review (2007-2011)
  – Create additional fiscal space for new spending priorities
  – Permitted “reinvestment proposals”

• Strategic and Operating Review (2011-2012)
  – Comprehensive
  – Additional focus on operating efficiencies
  – no “reinvestment proposals
OECD country example: NETHERLANDS

- Context: fixed expenditure ceiling, fiscal stress
- 2010 Comprehensive Expenditure Review (20 topics)
- Processes set by MoF and agreed by Cabinet
- Joint review process: taskforces with spending ministry + MoF staff
  - required to develop options capable of delivering at least a 20 percent reduction over four years
- Options presented political leadership for decision
  - central to 2010 election debate on budgetary savings measures and subsequent Coalition Agreement on expenditure ceilings
- Significant savings attributed (€36 billion)
- *Institutionalisation*: Cross-party agreement to adopt a regular four-year spending review cycle, in the run-up to each election
OECD country example: IRELAND

• Major fiscal shock from 2008 – huge consolidation requirements
• Context: end of long “boom”: high public expectations of budgets
• 2008: Expert-led exercise
  – Comprehensive: programmes, staff numbers, reform agenda
  – Not binding on government
  – Very useful in stimulating public debate and attitudes
• 2011: Civil service-led exercise
  – New priorities for a new government
  – Built on institutional learning from previous exercise
  – Designed into overall review / evaluation architecture
• 2014: Civil service exercise – “low key”
  – generating policy options for ministers
  – linked with multi-year spending ceilings
Spending Reviews in Ireland:
Main components

- Dept. Submissions
- Public Consultation
- Internal analysis

Steering Group

- Final Report
- Dept. Reports
Spending Reviews in Ireland: Methodology – Value for Money Template

Test 1
- Rationale
- Objectives
- Relevance
- Sunsets?

Test 2
- Effectiveness
- Alternatives
- Benchmarking

Test 3
- Trend in outputs
- Unit costs
- Admin costs
Spending Reviews in Ireland:
Cross Cutting – Some Horizontal Papers

- Labour Market Activation
- Social Housing Supports
- Sources of funding for the 3rd Sector
- Publicly Funded Local Transport
- Legacy Programmes
- Enterprise Supports
Lessons learned

• Clear, manageable timely process to ensure delivery
• In the presence of a hard budget constraint, planning is required to avoid crowding out of prioritised policies
• Savings (or cost containment) options must be specific & substantive
  – Need policy basis, not just ‘salami slicing’ or cuts to demand-led
  – Admin savings must encourage efficiencies but remain realistic
• Standard approach and templates to Departments
• Develop buy-in at Ministerial level at the beginning
  o Full, proactive engagement required
  o Flexibility is necessary
• Leadership and top management support is crucial
Lessons learned

• Use of multi-annual ceilings leads to better planning of multi-annual expenditure reforms and can incentivise early decisions
• Needs to be a direct link to Budgetary process
• Transparency and communication: analytical papers and submissions
• Opportunity to spotlight evidence and expenditure reform, particularly in Parliamentary setting
• Quality of input – trained evaluators preferable
• Consideration of horizontal issues add value
• Work done in between Spending Reviews is important
  – Can be resource intensive if review is treated as a ‘one-off’
Integrated element of OECD Budget Principles

- Budgeting within fiscal objectives
- Alignment with medium-term strategic plans and priorities
- Performance, evaluation & VFM
- Quality, integrity & independent audit
- Transparency, openness & accessibility
- Participative, Inclusive & Realistic Debate
- Fiscal Risks & Sustainability
- Capital budgeting framework
- Comprehensive budget accounting
- Effective budget execution