



FISCAL AFFAIRS

# HOW TO

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# NOTES

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## How to Design and Institutionalize Spending Reviews

Fiscal Affairs Department

# How to Design and Institutionalize Spending Reviews

Prepared by Laura Doherty and Amanda Sayegh

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Fiscal Affairs Department  
How to Design and Institutionalize Spending Reviews  
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## I. Introduction

Spending reviews refer to the process of conducting in-depth assessments of existing public expenditure in order to identify opportunities to reduce or redirect spending from low-priority, inefficient, or ineffective spending (Robinson 2014; Vandierendonck 2014). They offer a systematic approach to ensuring that spending is aligned with the government’s policy priorities, is effective in achieving its intended objectives, and is deployed efficiently.

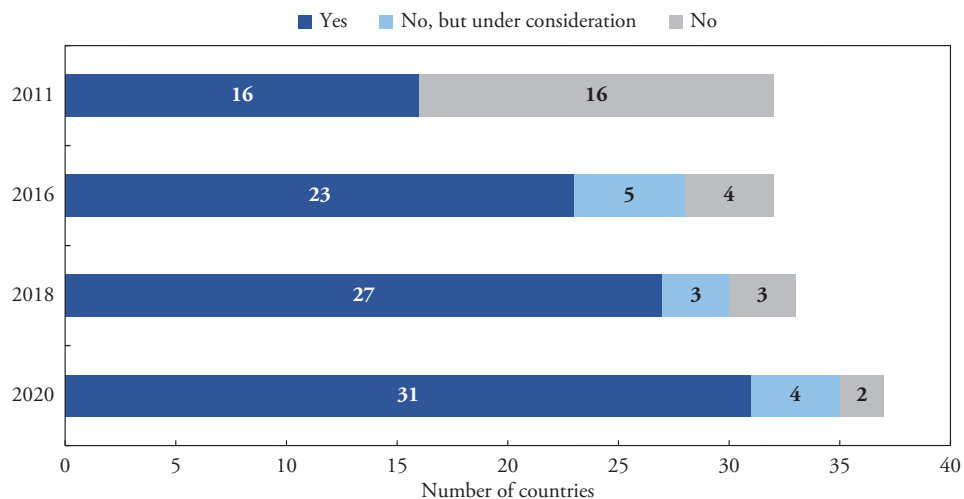
Spending reviews are an important public financial management tool. They help create fiscal space, which can be used to fund new priorities, address emerging spending pressures, or reduce debt. They can also help improve the quality of spending and fiscal outcomes. When used as an integral tool for budget planning, they can help ensure that budget decisions are informed by program performance and that spending remains aligned with changing priorities of the government and its citizens. For example, they are particularly useful in reviewing baselines for ongoing expenditure in medium-term budget frameworks,

which would otherwise receive less scrutiny than new spending decisions (Harris and others 2013).

Spending reviews are being increasingly adopted as a core part of the public financial management framework, particularly in advanced economies. More than three-quarters of Organisation for Economic Co-operation and Development (OECD) countries report that they conduct spending reviews either annually or periodically (Figure 1). Some middle-income and emerging market economies have also adopted spending reviews to enhance the quality of public spending (for example, South Africa and Ukraine).

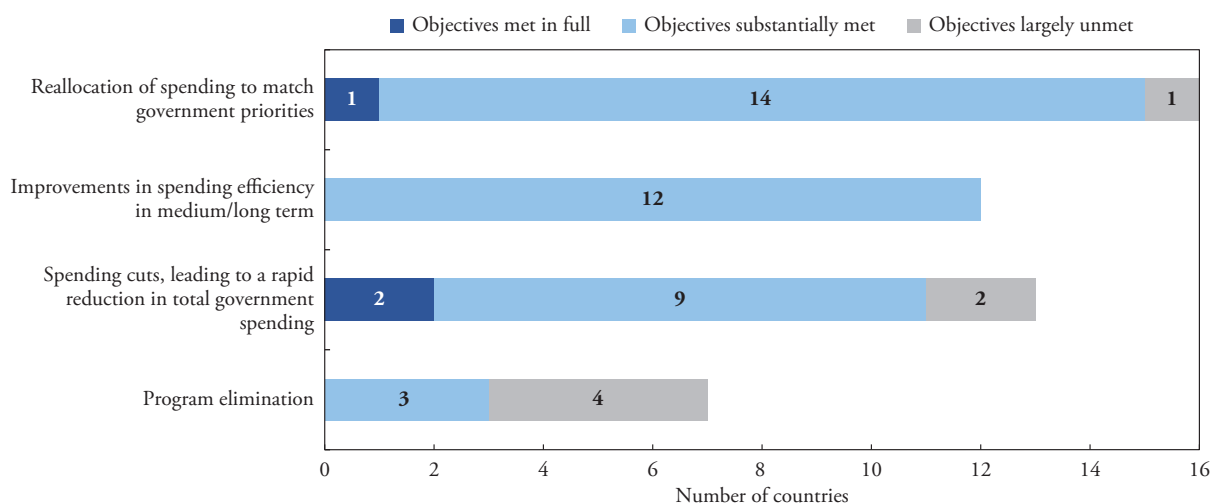
The objectives of spending reviews and the approaches to conducting them vary across countries. Some have adopted them as a mechanism to improve effectiveness within programs and policies, to align expenditures with government priorities, and to control the level of total expenditure (OECD 2019a). Figure 2 shows that among OECD countries that monitored the results of spending reviews, about 80 percent reported that they reduced spending when this was the main purpose of the review; about 90 percent

**Figure 1. Spending Reviews in OECD Countries (2011–20)**



Source: OECD (2021a).

Note: OECD = Organisation for Economic Co-operation and Development.

**Figure 2. Effectiveness of Spending Reviews: Evidence from OECD Country Survey**

Source: OECD (2019b).

Note: OECD = Organisation for Economic Co-operation and Development.

reported success with use of spending reviews for reprimarization (OECD 2019a).

This How to Note outlines the various objectives of spending reviews and provides guidance on designing a spending review process, including the organizational architecture and roles and responsibilities of various stakeholders. It also discusses the various stages of conducting spending reviews and mechanisms for integrating their outcomes into the budget process. This note draws on lessons and experiences from countries that have established spending reviews, while recognizing that this is an emerging area for further reform.

## II. Objectives and Scope of Spending Reviews

Spending reviews are an essential tool for ensuring the sustainability of public finances and enhancing the efficiency and quality of public spending. They provide opportunities to identify saving options based on a thorough evaluation of spending performance and efficiency. Fiscal adjustments that reflect strategic choices according to fact-based evaluation deliver higher-quality and more enduring savings than across-the-board spending reductions, which are generally neither efficient nor welfare enhancing and are more vulnerable to the risks of policy reversal (IMF 2014).

Spending reviews provide a vehicle to assess baseline spending and complement the regular budget process, which in many countries typically focuses on incremental changes to baselines and new policies.

Assessment of ongoing expenditures, on a regular basis, helps ensure that those responsible for spending public resources are accountable for how effectively and efficiently this is done. Further, spending reviews offer a systematic approach to assessing program performance in a way that is integrated with budget decision-making, as compared with ex post evaluations or performance audits, which review value for money once programs have ended.

### A. Spending Review Objectives

Spending reviews are a flexible tool that can be designed to meet multiple objectives, including

- *Fiscal consolidation* by identifying saving measures that reduce the rate of growth or the level of public expenditure
- *Creation of fiscal space* to accommodate new policy priorities or to meet emerging fiscal pressures
- *Reprioritization of existing expenditures* from low-priority, ineffective areas to higher priorities
- *Achievement of better value for money* by identifying areas of inefficient spending, where similar outputs and outcomes can be achieved with fewer inputs and free up resources to help meet the objectives above

Spending reviews can also help deliver and support long-term economic and fiscal reforms. The need to opening up fiscal space to meet long-term

### Box 1. Targeted Spending Reviews: Types of Review Topics

There are four key types of review topics:

- *Program reviews*: these examine specific programs and may deliver either strategic savings (by eliminating or cutting back the program) and/or efficiency savings (by lowering the cost of delivering services under the program). These tend to focus on a single administration or agency.
- *Policy area reviews*: these examine a specific policy topic, such as social benefits, higher education, or climate-related policies. They can cut across multiple agencies and are generally aimed at delivering savings by improving efficiency and effectiveness and eliminating duplication.
- *Process reviews*: these scrutinize specific business processes that generally cut across the entire government—for example, procurement processes, IT systems and practices, and human resources management practices. Process reviews aim to achieve efficiency rather than strategic savings.
- *Agency reviews*: these review an entire government organization (ministry or other agency) and may in principle cover all of the agency's programs and processes. They generally aim to achieve efficiency savings.

Program or process reviews may be agency-specific or horizontal reviews. A horizontal program review examines a group of related programs delivered by two or more agencies—for example, training programs for the unemployed—whereas a horizontal process review looks at a particular business process domain across several (or all) government agencies; for example, a review of government-wide procurement practices.

Sources: Robinson (2014); and IMF staff.

reform needs is rising in advanced economies that must address long-term fiscal pressure from demographic change. It is also necessary in emerging market economies and low-income countries working toward meeting their UN Sustainable Development Goals. Countries are also facing greater spending pressure associated with climate change and the policy responses required. By developing a framework to review and report existing expenditures, spending reviews can support such long-term reform.

### B. Scope of Spending Reviews

The objectives of spending reviews and countries' approaches to them vary widely, ranging from periodic comprehensive spending reviews to spending reviews targeted to specific sectors or programs as part of an annual spending review process. Annex 1 presents case studies of the various approaches used by five countries that have conducted spending reviews: the United Kingdom, Denmark, The Netherlands, the Slovak Republic, and Ukraine.

*Comprehensive spending reviews* cover a large proportion of total government spending and are not limited to predefined review topics. They are usually conducted on a periodic basis, as has been the case in the United Kingdom and Ireland. Comprehensive reviews

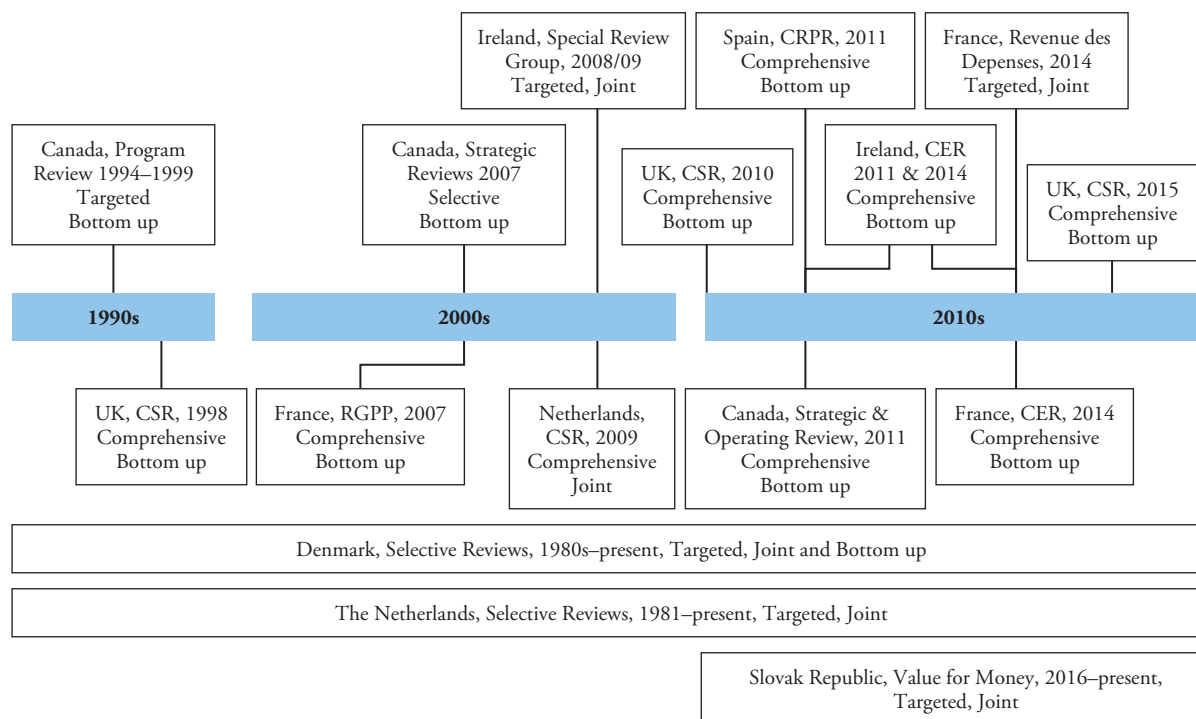
can identify ways to achieve fiscal consolidation needs in one process and allow governments to assess trade-offs across the full area of spending reviewed, rather than within a narrow area. However, they require significant resources and commitment across the entire government.

*Targeted spending reviews* (also known as selective reviews) are limited to the examination of predefined categories of spending (Box 1). Denmark, the Slovak Republic, and Ukraine have adopted targeted spending review approaches, in which a selected number of spending areas are chosen for review each year.

Targeted reviews may be vertical, in which all or part of the spending of one government ministry or agency is reviewed, or horizontal, in which a particular category of spending or policy objective is assessed across the entire government (for example, climate-related spending or information and communications technology acquisition and management). Vertical reviews conducted by individual spending ministries may be administratively simpler to conduct, but they limit opportunities to prioritize across government. Horizontal reviews can help better identify duplicative activities, but they are also more cumbersome to manage as they cut across administrative responsibilities.

Defining the scope of reviews is a strategic decision and can depend on political and institutional consid-



**Figure 3. Evolution of Spending Reviews in OECD Countries**

Source: IMF (2019).

Note: “Joint” refers to institutional arrangements in which the Ministry of Finance and the relevant spending ministry jointly undertake the review; “bottom up” refers to cases in which the spending ministry takes the lead. This distinction is discussed further in the next section. CER = comprehensive expenditure review; CRPR = comprehensive review of public resources; CSR = comprehensive spending review; OECD = Organisation for Economic Co-operation and Development; RGPP = révision générale des politiques publiques (general review of public policies).

erations, including the objectives of the review and resource capacity within a country. Comprehensive reviews have often been adopted where fiscal consolidation needs are pressing. For example, comprehensive spending reviews were adopted in The Netherlands in 2009 following the global financial crisis and in the United Kingdom in 2010 and 2015. Targeted reviews, in contrast, are increasingly common where spending review objectives are focused primarily on improving value for money and quality of government services (for example, Denmark’s ongoing program of targeted reviews, which is focused on identifying the least efficient and effective activities to make room for investment in new priorities).

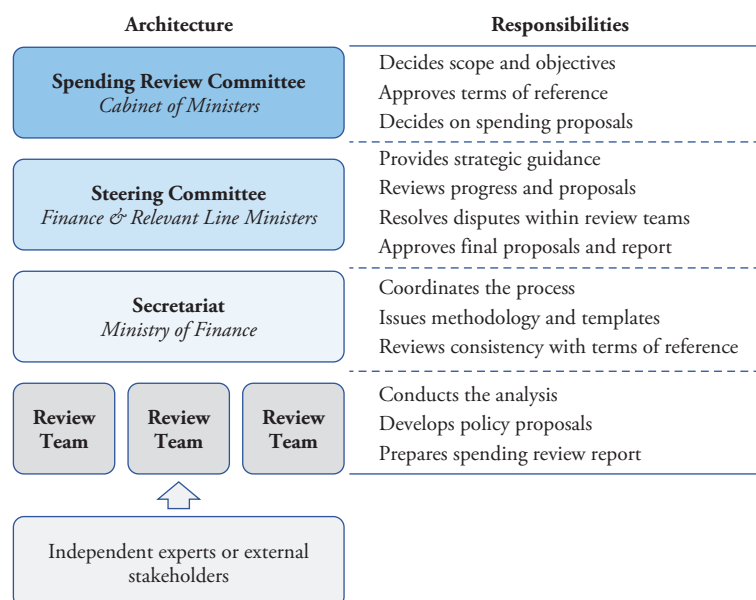
Countries such as Canada and The Netherlands have combined various types of spending reviews to achieve different objectives. For example, The Netherlands has combined an ongoing annual targeted review process with occasional comprehensive reviews in 1981 and 2009, when that country faced large consolidation needs. The scope of spending reviews and how they

have been conducted by governments have varied widely (Figure 3).

### III. Institutional Arrangements for Spending Reviews

Spending reviews work best when supported by adequate resources and well-developed governance structures. However, countries will need to tailor their approach with regard to their resources and technical capacities. Different models may include approaches in which (1) spending ministries examine spending and propose measures for central review (that is, “bottom-up” reviews); (2) independent entities or central agencies, such as the Ministry of Finance, lead and even conduct the review or in which (3) spending ministries and ministries of finance are jointly involved in the review process (that is, “joint” reviews).<sup>1</sup> Joint reviews in which all relevant government entities are

<sup>1</sup>See Robinson (2014) for a discussion of different approaches.

**Figure 4. Example of an Organizational Structure for Spending Reviews**

Source: IMF staff.

closely involved in the process prove to be most effective and deliver more realistic options for development. This reflects a combination of factors, including ease of access to information, securing buy-in from key stakeholders, and ensuring that those ultimately responsible for implementing the proposal have been involved in their design.

A well-organized governance framework will help support the handling of spending reviews. Figure 4 provides an illustrative example of the organizational structure for a spending review. Some important governance elements include the following:

- A decision-making body to approve the scope of the review and its objectives and, ultimately, decide on the policy proposals to be included in the budget; Some countries have established this at the political level, such as a committee or subcommittee of the Cabinet.
- A steering committee to provide strategic guidance to review teams, resolve disputes, and approve final outputs for submission to the decision-making committee: In some countries, particularly those with smaller bureaucracies, the role of the steering committee may also be performed by the decision-making committee.
- A secretariat, or a dedicated team, to coordinate the process and provide guidance on methodology and outputs: In some countries this has been established

through dedicated spending review departments in ministries of finance (for example, the Slovak Republic and The Netherlands) or agencies (for example, South Africa); in other countries staff of budget or strategic departments are assigned to perform these functions.

- Spending review teams: these are responsible for undertaking the technical work of the spending review, including conducting analysis, developing the policy proposals, and drafting the final report.

A strong chair, of sufficient seniority, can help ensure that spending reviews remain focused. In many cases the chairperson is a representative from the Ministry of Finance, but some countries have opted for co-chairs from the finance ministry and the relevant spending ministry (for example, Slovenia and Ukraine), and others appoint an independent chair or senior government official not responsible for the area under review (for example, The Netherlands).

Lessons from country experience (see Annex 1) suggest that more successful spending review processes have typically benefited from

- *Strong political commitment to the process*: Ideally, the objectives, mandate, and terms of reference for the spending review should be authorized by the Cabinet or the Council of Ministers. This ensures that the objectives of the review are aligned with those

**Table 1. Overview of Spending Review Process**

Stage	Objective	Key Steps	Responsibility
<b>Stage 1: Establish the objectives and framework</b>	To ensure success, this stage establishes the scope and objectives of spending reviews, the success criteria, and the political mandate to promote ownership and participation.	<ul style="list-style-type: none"> <li>Establish overall objectives for the review</li> <li>Select review areas</li> <li>Identify key roles and responsibilities</li> <li>Establish review targets</li> <li>Set review timeline</li> </ul>	<ul style="list-style-type: none"> <li>Ministers</li> <li>Ministry of Finance</li> <li>Ministries</li> </ul>
<b>Stage 2: Identify policy options</b>	To undertake the rigorous analytical work, which then informs the identification of saving options and the impact assessment.	<ul style="list-style-type: none"> <li>Collect data</li> <li>Undertake benchmarking and analysis</li> <li>Assess the effectiveness and efficiency of existing spending</li> <li>Identify saving options</li> <li>Prepare spending review report</li> </ul>	<ul style="list-style-type: none"> <li>Review Teams</li> <li>Ministry of Finance</li> <li>Ministries</li> <li>Experts</li> </ul>
<b>Stage 3: Decision-making</b>	To determine which saving options or efficiency measures should be implemented	<ul style="list-style-type: none"> <li>Present findings and recommendations</li> <li>Make decisions at minister level</li> </ul>	<ul style="list-style-type: none"> <li>Ministers</li> </ul>
<b>Stage 4: Implementation</b>	To ensure that decisions are implemented as anticipated.	<ul style="list-style-type: none"> <li>Integrate into budget and medium-term frameworks</li> <li>Enact legislation</li> <li>Monitor implementation of decisions</li> </ul>	<ul style="list-style-type: none"> <li>Ministries</li> <li>Parliament</li> <li>Ministry of Finance</li> </ul>

Source: Adapted from IMF (2019).

of the government and helps secure broad buy-in to the process and participation of all stakeholders. A high-level and formalized decision-making process is required to ensure that the outcomes of the reviews are consistent with the government's medium-term fiscal and economic objectives and to arbitrate disputes between the Ministry of Finance and the line ministry concerned. In some countries final decisions may be taken by the Cabinet of Ministers, while in others they may be delegated to a subcommittee of the Cabinet (such as Australia's Expenditure Review Committee).

- *Strong leadership from the Ministry of Finance in coordinating the process:* As custodian of the budget process, the Ministry of Finance should play a lead role in coordinating the spending review. Several countries have established dedicated spending review teams to fulfill this function (for example, Denmark, Slovak Republic, UK), which are responsible for issuing guidance on the methodology, developing the timetable for the review, defining outputs and their structure or templates, and reviewing final outputs to ensure consistency with the terms of reference and the agreed methodology.
- *Review teams that engage a range of stakeholders:* Spending reviews should engage a broad range of actors. Buy-in and cooperation from spending ministries are critical to bring the sectoral knowledge, data, and expertise required to undertake analysis and assess the impact of proposals. Further, as spending ministries will ultimately be responsible for implementing the review's findings, they need to

have some ownership of proposed measures. Representatives from finance ministries can also help challenge the status quo and ensure that proposals are rigorously costed out. Evidence from a 2017 survey of EU member states (European Commission 2018) showed that working groups with broad composition helped ensure knowledge exchange, coordination, and communication among stakeholders.

- *Combining external expertise with internal knowledge:* Although government ownership is critical, external consultants and advisors can play an important role by bringing additional analytical expertise to the process and helping overcome any status quo bias within administrations. External expertise can be drawn from academia, independent research institutions, and fiscal councils. However, relying solely on independent experts can risk generating impractical reforms or reducing government ownership of them. To balance ownership and expertise, some countries have established external advisory groups, included experts as part of the review teams, or adopted consultation processes with relevant experts and stakeholders.

#### IV. Conducting Spending Reviews

A spending review typically involves several key stages: (1) objective setting and design; (2) identification of saving options based on in-depth analysis; (3) deciding on measures to include in the budget; and (4) implementation (Table 1). Some countries have developed detailed methodologies to govern how spending

## Box 2. South Africa Spending Review Methodology

In South Africa, the Government Technical Advisor Center (GTAC) under the national Treasury is responsible for the spending review framework. The center developed a standardized methodology and step-by-step guidance for spending reviews, which is supported by extensive training for government officials. Since 2013, South Africa has conducted about 40 large-scale spending reviews supported by external consultants and about 200 “pocket-problem” spending reviews, conducted by budget analysts, which evaluate targeted areas of spending.

The spending review methodology involves the following stages:

- *Policy and institutional analysis*: Provides a broad overview of the linkages between the policy, design, and implementation and identifies key stakeholders.
- *Logical analysis*: Identifies possible improvements to the program’s design of implementation modality, by considering its rationale, how well the program delivered on its intended objectives, and whether there are options to improve it.
- *Performance indicator analysis*: Examines available quantifiable performance indicators for a spending area or program to assess its overall performance and identify any gaps in the indicator set.

Source: South Africa National Treasury, *GTAC Expenditure Analysis and Policy Costing Manual*.

- *Expenditure Analysis*: Assesses spending areas or programs drawing on spending trends, cost drivers, performance indicators, and benchmarking to determine whether there are opportunities for savings and improvements in efficiency.
- *Cost modeling*: Helps explain the fiscal implications of various policy choices and their trade-offs.
- *Report and action planning*: Effectively communicates the outcomes of the review, prepares the final report setting out the analysis and options for decision-making.

The spending reviews are overseen by a steering committee comprising staff from the Treasury and sector departments. The committee is tasked with agreeing on the methodology, analysis undertaken, and final outcomes of the review. The time frame for spending reviews differs according to their scope: large-scale reviews take six to eight months to complete, and pocket-problem reviews take about four to six months. The timing of the most recent round of spending reviews, performed in 2021, was aligned with the budget preparation process in order to feed directly into budget decision-making.

reviews are carried out. Box 2 summarizes the methodology defined in South Africa.

### A. Establishing the Objectives and Framework

The framework governing the conduct of spending reviews should (1) provide clear objectives for the review; (2) determine the scope of the review in terms of the spending areas and administrative units to be covered and the key issues to be addressed; (3) define the process, roles and responsibilities, and implementation approach; and (4) define the outputs to be delivered.

Ideally the framework for the review will be endorsed at the political or ministerial level. For example, the United Kingdom establishes a framework for the conduct of spending reviews at the start of each spending review round, clearly setting out its context and objectives. Ukraine approves its annual spend-

ing reviews through a government resolution. Other countries (for example, Slovak Republic, The Netherlands) prepare detailed terms of reference, approved by the government, for each review team, which include information on the objectives, organization, scope, and outputs of the review.

Setting clear objectives and saving or efficiency targets at the start of the process can help to incentivize review teams and help facilitate trade-offs across different proposals. Individual ministries generally have little incentive to offer saving options or identify low-priority areas of spending, and ministries of finance seldom have all the information needed to uncover the range of potential policy opportunities. For these reasons, top-down numerical targets for the savings to be achieved by spending reviews can guide and incentivize spending agencies to identify appropriate measures.

Even where the objective of a spending review is to achieve better value for money, rather than aggre-

### Box 3. Spending Review of Online Education in Denmark

In 2015 online education in Denmark was analyzed as part of a spending review of secondary schools. Before the spending review schools received the same government subsidy for students in online education and traditional education, even though online education is potentially much more efficient. The analysis had three parts.

(1) **Survey the number of students.** The analysis began with a desk review of the number of schools supplying online education and a survey of the number of students participating in online education and the associated costs.

(2) **Analyze and benchmark the cost of providing online education.** A survey and case studies of nine schools benchmarked all schools delivering online

education. The cost per student ranged from DKr 111,000 to DKr 37,000, which indicated that efficiency could rise substantially through broad implementation of best practice.

(3) **Develop options for increased efficiency.** The specific saving options were identified by analyzing and benchmarking the costs associated with particular activities in relation to procurement and the development of educational materials, planning and conducting of online lessons and examinations, and the required administrative support functions. Substantial efficiencies were identified—for example, by reducing the number of educational materials developed at each school and buying them from publishers instead.

The total savings identified amounted to 25 percent of the cost base.

Sources: IMF (2019); and QVARTZ (2015).

gate expenditure reductions, targets can help set the level of ambition for the review. For example, review teams could be required to develop a certain number of options or to propose alternative approaches for improving policy outcomes (for example, reducing maternal mortality or increasing educational attainment). The Netherlands' spending review framework, for example, requires spending review teams to develop a menu of options, with at least one that involves a 20 percent reduction in spending over the four-year period ahead.

The objectives and targets for spending reviews should ideally look ahead three or four years. This allows the spending review objectives to be informed by the medium-term fiscal outlook and the need for saving or prioritizations required to ensure consistency with the government's overall macroeconomic and fiscal objectives, including adherence to fiscal rules.

## B. Analyzing Spending and Developing Policy Options

Conducting the spending review involves analyzing existing spending to identify low-priority, ineffective, or inefficient spending, which can then inform the development of policy options.

### Expenditure Analysis

Expenditure can be examined from a range of different perspectives:

- *Appropriateness* of the spending activity to determine how well it is aligned with government policy priorities
- *Effectiveness* of different interventions to assess how well programs and policies meet or contribute to their intended objectives
- *Efficiency* or cost-effectiveness of activities to determine whether similar outputs or outcomes could be achieved with fewer inputs or through the application of different productive processes

Both quantitative and qualitative analysis can help assess the perspectives listed. Annex 2 provides examples of tools, techniques, and approaches to undertaking spending review analysis; Box 3 provides an example from Denmark. The IMF has also developed the Expenditure Assessment Tool (EAT), which helps countries assess expenditures by benchmarking spending—levels, composition, and outcomes—against regional and income country comparators (Garcia-Escribano and Liu 2017). The information can help governments assess where spending is low or high compared with peer countries, or where it is delivering less-effective outcomes, and point to areas that warrant closer scrutiny.

Different types of expenditure analysis include the following:

- *Analysis of budget expenditure baselines:* Baseline spending projections show the cost of maintaining existing policies into the future. They are also used to help estimate the costs of changes in policies. Baselines provide a benchmark against which to identify saving needs as well as the drivers of future spending pressures, which can help identify areas of focus and savings that can be targeted. Baseline analysis also helps review teams better understand mandatory legislative expenditure commitments and opportunities to reform them or reduce overlapping commitments.<sup>2</sup>
- *Analysis of spending inputs and trends:* Analyzing spending inputs and their composition, trends over time, and expected future pressures and cost drivers must be considered during the review. Spending can be reviewed from different perspectives, including by economic classification (for example, the share of the wage bill, recurrent or capital spending), by function (for example, social function), or by different types of services provided. This review offers insight into ways that changes in the input mix may help reduce waste or improve outcomes.
- *Evaluating spending efficiency or effectiveness:* Spending efficiency can be evaluated by comparing the unit costs of service delivery either across different forms of delivery or different jurisdictions within a country, or by cross-country comparisons (see “International benchmarking” in the next paragraph). In addition, examining relationships between inputs and outputs (the production function) can identify which input components are responsible for inefficient spending outcomes and can help determine areas for improvement. Program logic analysis<sup>3</sup> as an alternative to evaluations is another tool that can be used to assess expenditure performance.
- *International benchmarking of data:* International benchmarks can be used to compare the costs of delivering a given expenditure program with the costs or levels of spending in other countries (Box 4 summarizes a benchmarking exercise from Slovenia). The sample of comparator countries should be

<sup>2</sup>See Rahim, Wendling, and Pedastsaar (2022) for more information on preparing expenditure baselines.

<sup>3</sup>“Program logic analysis” refers to the process of identifying the relationships between inputs, activities, outputs, and outcomes in order to examine the potential impacts on effectiveness and efficiency of any changes.

selected appropriately considering contextual factors, such as the level of development, geographic proximity, or institutional arrangements. For example, the geography of a country will influence the cost of constructing infrastructure; demographic patterns will affect demand for certain types of services.

The type of analysis is also linked to the spending review’s objectives and topics covered. Reviews seeking to identify cost savings in government processes (for example, procurement) would focus on the input/output relationship and could include a cost-benchmarking exercise. By contrast, reviews seeking to improve the value for money of government programs would place greater emphasis on spending effectiveness and performance analysis. The type and depth of analysis will need to be tailored to technical capacities and the availability of information in a country.

### *Developing Policy Options*

A key task of spending reviews is to develop a menu of policy options and their cost, drawing on the findings of in-depth expenditure analysis, for decision-makers to consider in the context of the budget process. Developing robust proposals can be challenging, and the bulk of the review’s time should be spent on this stage. When identifying and proposing policy options, officials should focus on providing technical advice regarding the impact and cost of policy options; decisions about political trade-offs should be left to ministers. Table 2 sets out common criteria that can be employed to identify saving options.

The process for developing policy options will depend on the organizational setup of the review. If review teams are required to prepare joint recommendations, it may be necessary to establish mechanisms for agreement on proposals. For example, Germany and The Netherlands have a no-veto principle for review teams to ensure that all issues can be discussed, developed, and presented to decision-makers. Ukraine allows members of the spending review team to offer a separate opinion when it differs from the consensus view. In Australia, different recommendations, including alternative proposals, may be submitted to the Cabinet by the spending ministry and Ministry of Finance, with disagreements resolved by the Cabinet of Ministers.

Policy proposals must be carefully assessed for their impacts. Each proposal should include an assessment of its medium-term fiscal impact, based on a consis-

### Box 4. Example of International Benchmarking for Slovenia

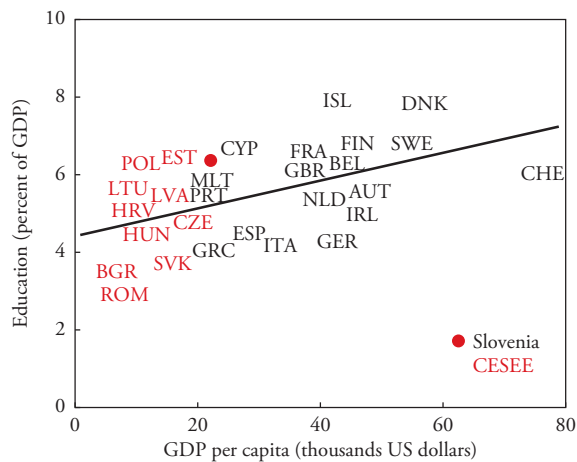
The IMF conducted a benchmarking exercise for spending in Slovenia to help identify areas where there was potential to achieve greater efficiency and to identify areas where spending pressures were acute. The analysis was based on review of economic and functional spending classification data and selected output metrics in targeted sectors, including education and health.

Education spending was found to be the fourth highest in the European Union, and the highest among central, eastern, and southeastern European (CESEE) comparators (Box Figure 4.1), reflecting a high wage bill and, to a lesser extent, goods and services. Capital spending was broadly in line with EU averages, suggesting an oversize sector in terms of employment. Education employment had been increasing since 2000, despite a declining student population, and student-teacher ratios were among the lowest in Organisation for Economic Co-operation and Development countries. Slovenia also had

relatively low teaching contact hours (Box Figure 4.2). The IMF report noted that such trends suggested room to reduce staff levels and to merge small schools without negatively affecting education outcomes

Similarly, health spending in Slovenia was found to be relatively high in relation to countries at similar levels of income (Box Figure 4.3) and is projected to increase over coming decades. Health outcomes were found to be relatively good, though with evidence of some inefficiencies. Health-adjusted life expectancy, at 71, was the highest of the CESEE comparators; however, health spending was about 30 percent higher than in countries with similar life expectancies, and the number of healthy life years was among the lowest in Europe (Box Figure 4.4). Based on these findings, the report highlighted several areas for potential reform, including strengthening the primary health care system, developing an efficient provider payment system for hospitals, and appropriate use of copayments.

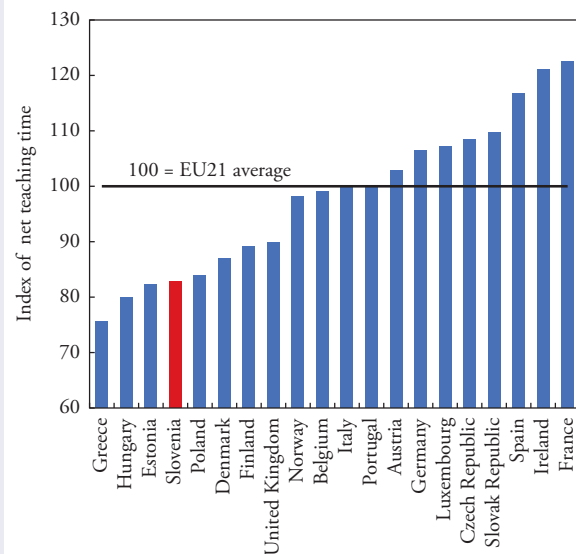
**Box Figure 4.1. Education Spending Controlling for Income, 2012**



Source: IMF (2015).

Source: IMF (2015).

**Box Figure 4.2. Net Primary Education Teaching Time, 2012**



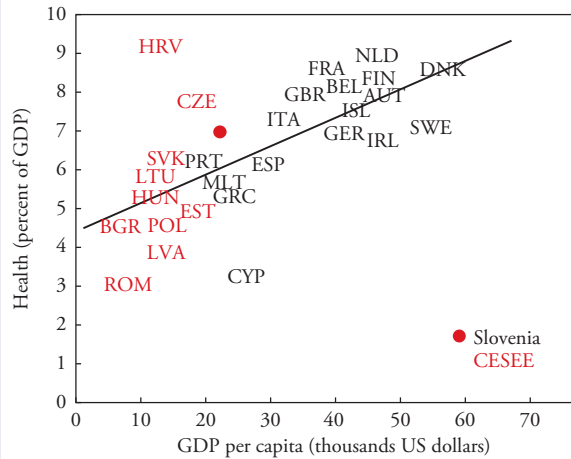
Source: IMF (2015).

tent costing methodology. Adopting a medium-term perspective allows for consideration of longer-term reforms that may have little impact in the near term (and may even involve up-front costs) but could yield large saving or efficiency improvements over time.

Similarly, this approach ensures that reviews consider the longer term impacts of proposals that yield savings in the short term but impose higher fiscal costs in the future. In particular, proposals that involve investing, divesting, and rationalization of assets call for close

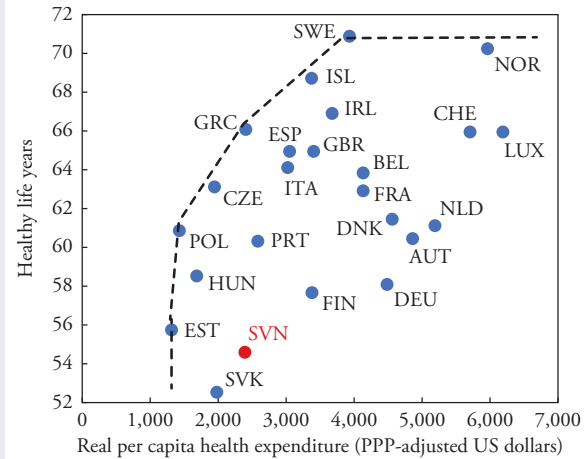
**Box 4. Example of International Benchmarking for Slovenia (continued)**

**Box Figure 4.3. Health Spending Controlling for Income, 2012**



Source: IMF (2015).

**Box Figure 4.4. Healthy Life Years and Health Expenditure 2010–12**



Source: IMF (2015).

**Table 2. Common Criteria for Identifying Saving Options**

Relevance	<ul style="list-style-type: none"> <li>Is the policy activity aligned with the government’s stated priorities?</li> <li>Is there still a need for the activity?</li> </ul>
Effectiveness	<ul style="list-style-type: none"> <li>Are activities achieving their intended objectives or outcomes? Is there a need to reconsider the program design?</li> </ul>
Efficiency	<ul style="list-style-type: none"> <li>Are activities being delivered in a cost-effective way, or can they be provided at reduced cost without compromising outcomes (for example, through changes in service delivery or simplified administrative arrangements)?</li> </ul>
Equity	<ul style="list-style-type: none"> <li>Can the activity be better targeted to meet its intended objectives?</li> <li>Is there room for larger contributions from individuals who benefit (e.g., user charges)?</li> </ul>
Duplication	<ul style="list-style-type: none"> <li>Is there a way to reduce duplication, merge shared services, or consolidate overlapping programs across government that target similar objectives?</li> </ul>

Sources: Authors; and Robinson (2018).

scrutiny, so that long-term public value is not compromised in favor of short-term gains (IMF 2018).

Setting out the rationale for the proposal; the impact on affected stakeholders and citizens; any social, regional, and economic consequences; and implementation details, such as the need for legislation or consultation with external stakeholders, can also help the decision-making process. For example, the COVID-19 pandemic may have disproportionately affected groups such as women, low-income households, and other vulnerable groups (IMF 2021). This underscores the importance of understanding at the outset the potential impact of saving measures on such groups in particular. Box 5 presents an illustrative template for the presentation of policy proposals.

At this stage, there is an important challenge function for finance ministries, which must ensure that the

proposed policy options and assessment of their budget implications are robust and stand up to scrutiny.

Spending review reports are a key output prepared by spending review teams. These reports aim to summarize the findings of the expenditure analysis and set out the suite of policy options for consideration by decision-makers. A well-structured spending review report should include the following:

- Brief overview of the spending area reviewed
- Summary of recent spending trends, key drivers, and future spending pressures
- Key findings and implications of the expenditure analysis
- Details of spending review proposals, including their rationale; medium-term budget impact; economic, social, sectoral, or other impacts; and implementation issues



### Box 5. Sample Template for Costing out Policy Proposals

Policy proposals in spending reviews should set out the rationale for the proposal, its medium-term fiscal costs (and longer-term costs if the saving profile differs over the longer term), and actions required for implementation. In some cases, spending review teams may propose more than one option for a particular program. For example, if the spending review proposal

calls for better targeting of a particular social benefit, the options could consider different income levels at which the means test applies, tapering rates, or grandfathering arrangements. The template below is an example of information for decision-makers considering spending review options.

#### MINISTRY – PROGRAM NAME

Budget Impact (millions) cost (-) / savings (+) resulting from policy change	t	t+1	t+2	t+2	Total	Recommended Option and Reason
Policy Proposal A – Summary of policy change						
Policy Proposal B – Summary of policy change						
Policy Proposal C – Summary of policy change						
Total budget of program (based on current policy)						

<b>Policy description:</b>	Description of the policy proposal
<b>Policy rationale:</b>	Explanation of the rationale for the policy proposal (informed by the spending analysis undertaken by the team)
<b>Affected groups:</b>	Details on the impact of the policy change on stakeholders: <ul style="list-style-type: none"> <li>• Who will be affected by the policy change? How many will be affected?</li> <li>• What is the financial impact/cost for those affected?</li> <li>• What are the social/economic consequences?</li> </ul>
<b>Other implications:</b>	Information relating to other implications: <ul style="list-style-type: none"> <li>• Does the profile of longer-term savings differ?</li> <li>• Are there specific regional or sectoral considerations?</li> <li>• Are there spillovers or consequences for other programs?</li> <li>• Is the policy consistent with coalition or other agreements?</li> </ul>
<b>Implementation:</b>	Details of implementation issues to be considered: <ul style="list-style-type: none"> <li>• Is legislative change required? What is the deadline for approval?</li> <li>• Are there institutional changes that need to be made?</li> <li>• Is consultation or negotiation with third parties required prior to implementation?</li> <li>• Are there impacts on departmental resourcing?</li> <li>• How much time is needed for implementation?</li> </ul>

Source: Authors.

### Decision-making

During the decision-making stage, the decision-making body considers and agrees on the policy proposals to be adopted and incorporated into the budget and medium-term expenditure framework. Sufficient time must be allotted to this stage, particularly because decision-makers may request additional

information to support their decision or amendments to existing proposals, which will then need to be reformulated to assess their financial and other impacts. This stage could be as long as two to three months, depending on the scope of the review.

There is a strong case for final decisions to be made at the Cabinet level or by the decision-making body responsible for the budget to support their implement-

tation. Although spending review proposals intended to enhance efficiency may not be controversial, proposals whose focus is on rationalization often require high-level engagement. This is because decisions about which options to adopt inevitably involve trade-offs across sectors, government objectives, and affected groups.

### ***Implementation and Monitoring***

Spending review outcomes should ideally be implemented through the regular budget process, which can be aided by aligning the timeline for spending reviews with the regular budget cycle. The ultimate responsibility for implementing spending review decisions lies with the respective spending ministries. But finance ministries also must often ensure that approved measures

- Have been factored into the ministries' medium-term expenditure ceilings and the next budget
- Are not subject to renegotiation for the purpose of postponement or temporary exemption
- Are accompanied by practical implementation plans, with clear milestones, that anticipate required changes in legislation, administration, IT systems, and departmental resourcing— communication plans can also help smooth the rollout of policy changes

A process for monitoring the implementation of spending review decisions will ensure that identified measures are implemented and will assess whether expected results are achieved. Incorporating spending review decisions into medium-term expenditure ceilings helps ensure that spending ministries are accountable for delivering on those decisions. Regular reporting on the progress of spending review outcome implementation also helps promote accountability.

In order to promote transparency, spending review reports and government-adopted proposals can be made available to the public. For example, the Slovak Republic publishes spending review reports on a dedicated webpage of the Ministry of Finance.<sup>4</sup> Independent fiscal bodies, including fiscal councils or parliamentary budget offices, can also play a role in monitoring the government's progress.

<sup>4</sup>See <https://www.mfsr.sk/en/finance/value-money/spend/spending-reviews.html>.

## **V. Institutionalizing the Spending Review Framework**

### **A. Integrating Spending Reviews with the Budget Process**

Integrating spending reviews with the regular budget process ensures that budget allocation decisions are informed by program performance and value for money and that spending remains aligned with changing priorities.

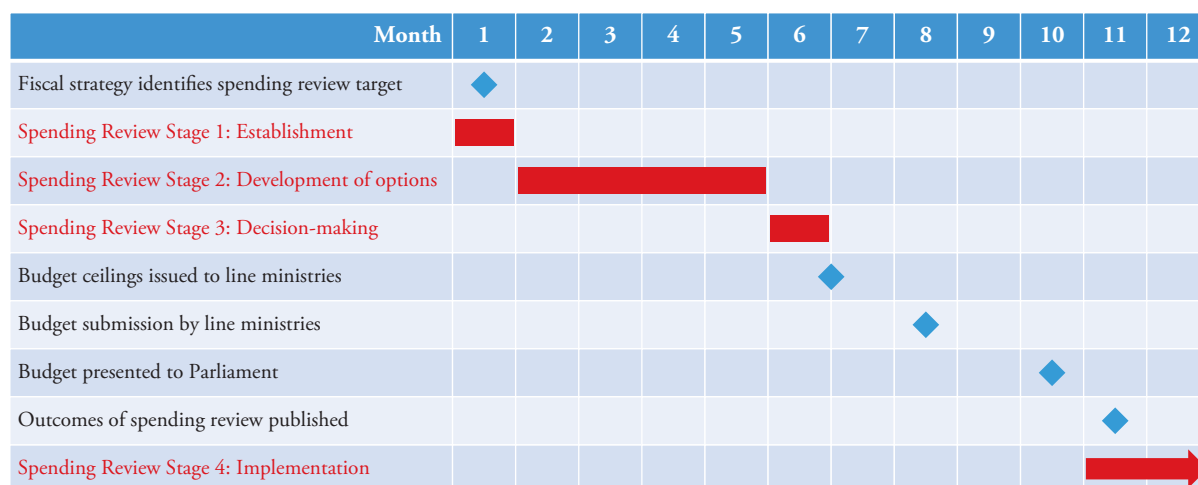
It also ensures that spending review objectives are consistent with the government's medium-term fiscal objectives and that spending review decisions are incorporated into medium-term expenditure ceilings and agency budgets. In Australia the outcomes of strategic spending reviews are considered by the budget Expenditure Review Committee as part of the annual budget process. The United Kingdom's spending review process is undertaken periodically and used as the basis for formulating medium-term expenditure plans for government agencies over a multiyear period (Bova, Ercolo, and Vanden Bosch 2020).

Figure 5 provides an indicative timeline for the various stages of spending reviews and their potential alignment with the budget planning process.

Including a requirement for regular spending reviews in public financial management (PFM) legislation can help institutionalize the process and better integrate spending reviews with the budget process. After piloting targeted spending reviews, Ukraine amended its budget code in 2018 to require regular spending reviews and allow for incorporation of proposals into the draft budget. Italy and the Slovak Republic have also made spending reviews a permanent feature of their PFM systems.

Formalizing spending review procedures through secondary regulations or guidelines can also support conducting spending reviews. Clear criteria help facilitate comparable identification and assessment of saving options. Several countries (such as Bulgaria, the Slovak Republic, and South Africa) have established spending review methodologies outlining the framework governing how these reviews should be conducted, the techniques or approaches for assessment of baseline expenditures, and templates for spending review submissions and output reports.

**Figure 5. Indicative Timeline for Spending Reviews and Budget Preparation**



Source: Authors.

### B. Piloting Spending Reviews

Conducting a spending review, especially for the first time, is a demanding exercise. Spending reviews entail in-depth analysis of expenditures, policy instruments, and performance information to identify potential saving measures. The process requires significant time to conduct the analysis and to coordinate across relevant departments and other stakeholders within, and potentially outside, the government. For a comprehensive spending review this could take more than a year, even in an environment with strong analytical capacity within line ministries and the budget department. For this reason, it can be useful to pilot the spending review process before formalizing it into broader PFM and budget procedures. Several countries have opted to pilot the review process in one or more areas before full implementation, including Belgium, the Slovak Republic, and Ukraine.

Pilots enable governments to test the proposed framework and assess the capacity building and training activities required for ministries to participate in the analysis of spending and the development of saving options.

The selection of the spending area that will participate in the pilot is important. In addition to testing the proposed framework, the pilot must deliver results and demonstrate the value of the process to the government. Some guiding principles that can help aid the pilot process include the following:

- *A narrow and well-defined scope:* For pilot exercises there could be merit in focusing on a limited

number of promising areas—for example, selected ministries or a selected number of policy areas within a ministry.

- *Simplicity:* Streamlining the pilot process by focusing on policy areas for which one ministry is responsible rather than on cross-cutting issues involving several government institutions can help ensure a more efficient administrative process for the first round of pilots.
- *Strong political commitment:* the relevant minister should be willing to support an initiative to identify inefficiencies in the spending area and be willing to provide strategic guidance during the decision-making stage.
- *Incentives for participation:* Specific incentives for spending ministries to participate in the pilot should be considered—for example, allowing them to retain any or a portion of the measures identified and realized savings for reallocation within the ministry or policy sector.
- *Strong within-ministry analytical capacity:* Given the in-depth analysis required for spending reviews, selecting pilot ministries with a reasonable information base to support the analysis is helpful.

### VI. Supporting PFM Reform and Building Capacity for Spending Reviews

Spending reviews require a high level of analytical capability in both finance ministries and spending agencies, as well as sound PFM systems. Table 3

**Table 3. Supporting Elements of a PFM System and Capabilities**

	Supporting Element	Why Is It Helpful?
1	<b>Credible annual budget process</b>	Budget is largely implemented as planned, within respective ceilings for ministries and/or programs
2	<b>Medium-term budget framework</b>	Helps frame spending review objectives, provides a medium-term focus, facilitates policy trade-offs, and allows results of reviews to be factored into multiyear ceilings or forward estimates
3	<b>Financial and nonfinancial performance information</b>	Provides solid information basis against which to compare trends in expenditure and assess their efficiency and effectiveness using inputs, outputs, and outcome indicators
4	<b>Analytical capacity</b>	Enables identification of areas of inefficiency and development of reform proposals
5	<b>Methodology for costing and accounting for savings</b>	Ensures that savings are costed out consistently and identified separately
6	<b>Mechanisms for expenditure prioritization</b>	Makes it possible to move resources from lower- to higher-priority areas
7	<b>Time and resources</b>	Allows sufficient time to undertake analysis, develop reform options and integrate them into budgets, and plan implementation

Source: Adapted from IMF (2019).

outlines some of the supporting elements of a PFM system that help support spending reviews. Although these elements are important, their absence does not preclude countries from undertaking spending reviews; however, it is important to tailor the reviews' aspirations to country capacity. Spending reviews can be an effective policy tool even in countries without fully developed PFM systems or in countries with reduced capacity. The spending review framework, however, will need to be designed with these limitations in mind.

A credible budget process, medium-term budget frameworks, and performance information ensure that the spending review objectives align with the government's fiscal objectives and provide an avenue for spending review outcomes to be fully integrated with budget procedures. For example, baseline expenditure projections can be used to define saving objectives for spending reviews, while performance information can provide a solid information basis for conducting them.

However, a process for reviewing baseline spending in countries where these frameworks are underdeveloped can still be effective. In these instances, countries may opt for a more streamlined process, focusing primarily on the largest areas of expenditure, examination of spending trends, areas of consistent over- or underexecution vis-à-vis spending plans, and simplified cross-country benchmarking drawing on external information sources. Low-capacity countries can also consider adopting elements of spending review frameworks as a starting point for analysis, including high-level benchmarking or beginning to identify and monitor performance indicators in large spending areas. For example, in many lower-income countries, a large portion of the annual budget is the public sector

wage bill. Countries can also consider bringing in external expertise to help guide the process, without undermining government ownership.

Institutionalizing spending reviews, or introducing elements of the spending review framework, can also facilitate building capacity across spending ministries and the ministries of finance for policy analysis. This can help contribute to increased consideration of potential performance and results of policy options and can lead to better-informed preparation of spending proposals as part of the regular budget process.

## VII. Conclusion

Spending reviews have proved to be a useful and flexible tool for identifying savings and improving the efficiency and effectiveness of government expenditure. They are adaptable tools that can form an important part of the public financial management toolbox. Their regular use can support governments in meeting their fiscal objectives, improve budget allocation to ensure better alignment with government policy priorities, and improve spending efficiency and effectiveness over time.

Some of the key lessons highlighted in this How to Note suggest that spending reviews with more success are those in which

- There is government ownership and political commitment to the process, to help ensure the objectives of the review are aligned with those of the government, incentivize participation, and provide an avenue for review outcomes to be decided.
- Clear strategic objectives and saving targets are set at the start of the process to ensure the spending

review is aligned with medium-term fiscal objectives and delivers tangible results.

- Review criteria, templates, and guidance are available for conducting the review to help ensure that it is well focused and to help facilitate comparable assessment of review options.
- There is a well-governed structure that sets out key responsibilities, deliverables, and mechanisms for decision-making and advancing spending review decisions.
- Internal knowledge is combined with external challenge by bringing together spending ministries that have sectoral and policy knowledge with finance ministries and external experts to challenge the status quo.
- A medium-term perspective is adopted to ensure that the full financial impacts of options are considered, thereby encouraging consideration of more enduring saving options while avoiding options that yield short-term savings but higher fiscal costs over the longer term.
- Reviews are integrated with the budget process so that spending review decisions are factored into medium-term expenditure ceilings and agencies are held accountable for delivering them.
- There is a focus on implementation, comprising development of realistic implementation plans and monitoring of progress in implementation of spending review decisions.

## Annex 1. International Experience with Spending Reviews

### United Kingdom

The United Kingdom conducts periodic comprehensive spending reviews, intended to review spending of all government departments. The spending review process is used to determine fixed departmental expenditure limits for each government department over a multiyear period through spending review settlements. Zero-based reviews of capital spending plans have also been conducted that examine how government assets can be managed more effectively, in addition to evaluating spending.

The government sets a framework for government departments to guide spending reviews at the outset of the process. The spending reviews, which set expenditure limits for each government department, can involve identifying savings and efficiencies in spending or reallocations to allow increased spending on certain priorities. To achieve this goal, the government sets specific objectives at the outset of the spending reviews. For example, in the 2015 spending review, departments were asked to model two scenarios to deliver a 25 and 40 percent saving in real terms over four years.

In developing their proposals, departments are requested to consider the contribution of the proposal to meeting government objectives, effectiveness and feasibility of the proposal, spending implications and value for money, broader macroeconomic implications, legislative and operational requirements, sectoral and distributional impacts, and administrative and compliance costs.

The spending review process is conducted over several months and is led by HM Treasury, which is responsible for issuing guidance to departments, working with them on spending options, and coordinating the overall process. Independent experts are invited to submit analysis to Treasury on the impact and cost-effectiveness of major areas of public spending, and the public is invited to make written representation to help inform the spending review.

Once a spending review is complete, the main government departments publish a plan for what they will achieve over the course of the current Parliament, referred to as Outcome Delivery Plans. These plans are informed by the spending review settlements.

### Denmark

Denmark has a system of spending reviews known as “special studies” that operates on an annual cycle as part of the budget preparation process. A number of targeted spending reviews are undertaken each year, with review topics and terms of reference typically prepared and proposed by the Ministry of Finance in cooperation with the relevant line ministry and subject to approval by the Cabinet’s Economic Coordination Committee (ECC). The spending reviews are typically initiated in February in connection with the first ECC discussion on the next year’s budget.

The reviews are typically vertical reviews that focus on a specific agency or program. The primary objective of these reviews in the past has been on increasing fiscal space for new priorities, although objectives also include fiscal consolidation and increasing the results for the money spent.

Saving measures considered in the reviews can vary from increasing efficiency—for example, in back-office functions—and harmonizing grants to similar programs to improving incentives and better targeting public services.

Benchmarking organizational entities within the policy area often guide the analysis when the focus is on increasing efficiency. Examples include benchmarking procurement costs across schools, administrative costs across police stations, and time spent in direct contact with citizens and companies across job centers. Subsequently the specific actions and behavior that make up best practice can be identified, and the potential savings by spreading best practice can be determined.

Special studies are generally carried out by working groups comprising the Ministry of Finance and the relevant line ministry. External consultants are often also engaged in the analysis. Working groups usually present their findings to the ECC for a decision in June. The final report is intended to be a joint report approved by the Ministry of Finance and the line ministry, although where the two disagree, separate recommendations may be proposed.

### The Netherlands

The Netherlands—similarly to Denmark—has a long tradition of undertaking “special studies” spending reviews as a part of the annual budget cycle. The review topics and terms of reference are prepared by the Ministry of Finance and presented to the Cabinet

### Box 6. Case Study: UK Government Property Optimization 2010

In 2010 the United Kingdom undertook a comprehensive spending review aimed at achieving significant fiscal consolidation. Reviewing operational costs was a central workstream of the spending review, and a number of areas were targeted for saving, including information and communications technology, office supplies and general procurement, and property. Property was regarded as a particular challenge because the government occupies extensive property, utilization rates and costs are highly variable (Box Figures 6.1 and 6.2), and the central government information is inadequate.

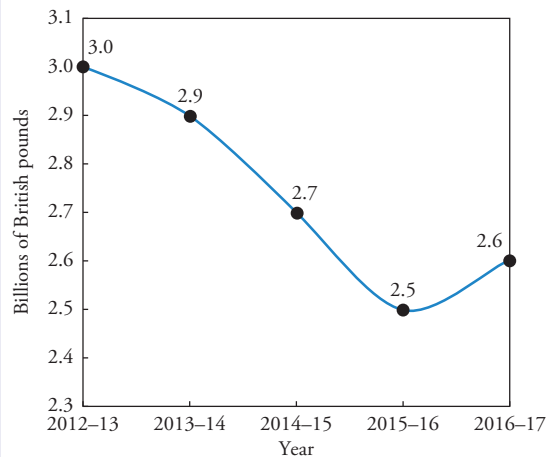
To tackle this challenge, the Government Property Unit (GPU) was set up during the spending review with the mission of increasing the efficiency and effectiveness of government real estate, supporting public services, and improving property management capability across government. Progress was made quickly in identifying significant opportunities for real estate rationalization (simplification of the government’s real

estate footprint to match it to strategic and operational demands) both through lease renewals and through review of the real estate owned by the government. Spending Review 2010 identified ways for departments to extend saving over four years through savings on rent, increased utilization, and disposal of property and land assets. The GPU then worked closely with ministries to help them realize these savings.

This work of Spending Review 2010 provides a platform for ongoing reform. The GPU, now reconstituted as the Government Property Agency, continues the work of increasing the efficiency and effectiveness of government real estate holdings. The government reports the following results as a result of this work, since 2010:

- The size of real estate holdings has fallen by more than 25 percent.
- More than £1 billion in annual costs has been saved.
- The GPU has overseen the collection of more than £3 billion in capital receipts from the sale of surplus land and property.

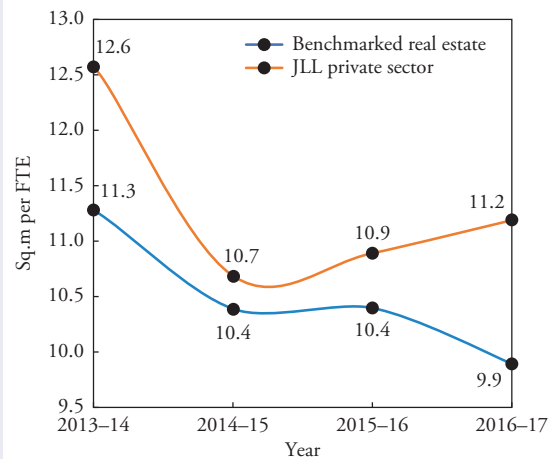
**Box Figure 6.1. UK Government Central Real Estate Costs, 2012–13 through 2016–17**



Source: IMF (2019).

Source: IMF (2019).

**Box Figure 6.2. Utilization Rates (Space per Employee), Government Nonspecialized Real Estate vis-à-vis Private Sector**



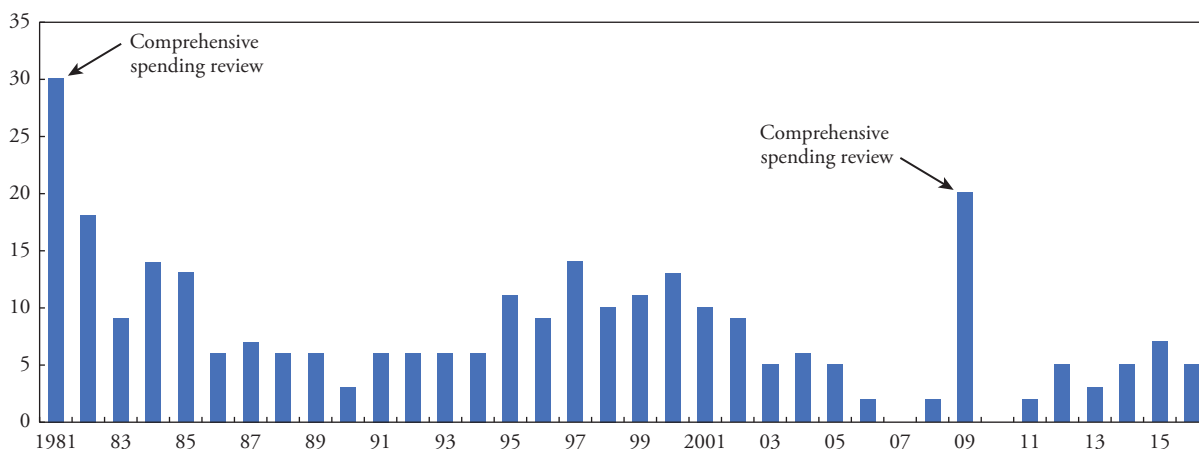
Source: IMF (2019).

Note: Sq.m per FTE = square meter per full-time employee; JLL = Jones Lang Lasalle Limited (commercial real estate company).

at the same meeting at which the budget is presented for the coming year. The terms of reference are then included in the budget as an annex.

The budget director in the Ministry of Finance chairs an interdepartmental steering committee that

oversees the process, while working groups carry out the specific reviews. An independent chairperson leads each working group of independent experts and civil servants (director level or higher) from the Ministry of Finance, the prime minister’s office, and line minis-

**Annex Figure 1.1. Number of Spending Reviews Undertaken in The Netherlands, 1981–2016***(Number of spending reviews)*

Sources: IMF staff team; and Schoch and den Broeder (2013).

tries. A secretariat with employees from the Ministry of Finance and the most relevant line ministry supports each working group.

An important characteristic of the Dutch spending review framework is the independence of the working groups. The spending review reports have an independent, analytical, and nonpolitical status, and the options proposed can go against current government policy. There is also no right of veto within working groups on any policy proposal being considered. The Cabinet decides which options to include in the budget but does not change the reports before publication. Instead it decides on a “Cabinet’s View,” which is published together with the report.

The number of spending reviews varies from year to year, typically from three to seven reviews (see Annex Figure 1.1). In 1981 and 2009 comprehensive spending reviews were, however, undertaken. In 2009 the government identified 20 policy areas to be reviewed and required each working group to develop a menu of saving options with at least one option capable of delivering a 20 percent reduction in spending or tax expenditures in the area under review, over a four-year period. The purpose of this was to encourage creativity and bold thinking in the working groups. The process had a significant impact as the parties used the options in their manifestos before the 2010 election. It is estimated that 20 percent of the measures in the 2010 Coalition Agreement originated in the comprehensive spending review reports.

### Slovak Republic

The spending review project (known as the “Value for Money” project)<sup>5</sup> was introduced by the government in 2016 and featured in flagship budget documents such as the National Reform Program and the Stability Programme. The long-term goal of spending reviews is to improve the efficiency of public expenditure and meet the medium-term objective of restoring general government finances to balance or surplus.

Given the lack of analytical capacity to carry out larger exercises and without prior experience, a new section at the Ministry of Finance was tasked with the agenda. Technical expertise was provided by the European Commission’s Structural Reform Support Programme and the IMF.

Because of capacity constraints and the general objective of improving allocative efficiency (better public value) for (the same or less) money, the Slovak Republic opted for yearlong targeted reviews. After three rounds of rolling-series policy and thematic reviews covering about one-quarter of central government spending each year the process had identified meaningful savings and measures to improve welfare. On average, spending reviews have identified savings up to 8 percent of the budget analyzed. The savings could be retained and repurposed to more productive spending.

The review teams usually consisted of roughly five analysts, combining the Ministry of Finance and

<sup>5</sup><https://finance.gov.sk/en/finance/value-money/about-value-money>.



line ministry analysts, if available. Teams usually did not include budget department representatives. The exercise significantly strengthened the government's expenditure analysis and program evaluation capacity. It also helped identify other areas and processes of public financial management in need of enhancement, such as program budgeting.

Slovak spending reviews diverge in two areas from the recommendations presented in this note— financial targets and limited budget incorporation. Lack of financial targets is driven, at least in part, by the decision to repurpose savings within a particular sector. Launching the exercise without targets might have lowered the political stakes and opened up space for testing the instrument and building capacity. However, weaker budget incorporation is a critical gap that needs to be closed. Even if savings are small or indirect, they should be reflected in baselines and accounted for later in the process if the spending review is to be used later for consolidation as well.

Three of the Slovak practices should be considered also by countries wanting to improve their reviews. To tackle problems with reporting as a result of weak budget incorporation and execution resistance, a task force was set up within the deputy prime minister's office (implementation unit). The unit focuses predominantly on execution of the spending review measures and issues public status reports twice a year, including (un)realized savings. It also functions as a policy communication channel to supplement oversight typically carried out by the budget departments.<sup>6</sup>

Second, full transparency regarding the process (timetable) and the outputs keeps up the momentum and allows for public oversight. Terms of references and interim and final reports, including implementation report data, are published online (often in English as well)<sup>7</sup> and set a high standard for other countries.

A final noteworthy innovation for countries seeking broader validation of the findings and discussion on policy options is the issuance of interim reports. Splitting up the process, the Slovak Republic first publishes technical analytical summaries of the surveyed area (interim report) and only thereafter publishes a final report with measures. The two-step process creates space for wider consultation on possible measures. The

Slovak Republic does not, however, encourage public involvement through submissions.

In late 2018, the Slovak Republic amended its budget law<sup>8</sup> and mandated spending reviews for new governments starting in 2020. Governments will need to assess at least 50 percent of the general government expenditure over their term.

## Ukraine

After a first pilot round in 2018, Ukraine made spending reviews an official part of the public financial management system. A requirement to conduct regular reviews of spending efficiency and effectiveness is written into the Budget Code. Decisions to review spending and follow-up decisions on review findings are made by the Cabinet of Ministers of Ukraine. A Cabinet resolution is issued at the beginning of the year designating the spending areas and objectives for each review.

In developing its spending review architecture, Ukraine has drawn on international experience. The Cabinet of Ministers each year selects the spending areas for review. Working groups (consisting generally of 11 to 15 officials and experts) are established, with representatives from the Ministry of Finance, the relevant spending ministry, and independent experts. At least half of the working group members must come from outside the agency being reviewed, and each working group must include at least two national and two international independent experts. Independent experts have typically been drawn from think tanks, academia, and civil society organizations.

Working group chairs are usually deputy ministers of the spending ministry under review. The choice of these individuals ensures high-level guidance and support for the review process; however, it can present challenges when there are changes in government.

The Ministry of Finance has developed methodological instructions to help guide the conduct of spending reviews. The instructions provide guidance on the process, stages of the review, information required to support policy measures, and content of the final spending review report. These instructions also set out guiding principles to ensure that all members have the opportunity to express their views. Members who

<sup>6</sup><https://www.vlada.gov.sk/implementacna-jednotka/>, in Slovak only.

<sup>7</sup><https://finance.gov.sk/en/finance/value-money/spending-reviews>.

<sup>8</sup><https://www.slov-lex.sk/pravne-predpisy/SK/ZZ/2004/523/20200101.html>, paragraph 14, subparagraph 3 . Public Sector Budgetary Rules (Law on).

disagree with the conclusion of the final report may submit an alternative opinion with the final report.

Although numerical targets are not established for each spending review, the guidelines recommend that working groups develop at least two options for addressing the objectives of the review, neither of which can include a no-change policy option. As in the Slovak Republic, the Ukrainian system gives line ministers explicit authority to reallocate within their portfolio amounts that can be saved in spending review areas under their control. This incentive has helped garner support for spending ministers to participate in the review process.

The instructions also establish milestones to monitor progress, including the submission of monthly progress reports to the Ministry of Finance and Cabinet and a mechanism for ministerial coordination meetings

(between finance ministers and the relevant spending ministers or their deputies) to resolve disputes and provide feedback on the direction of the work of the reviews. To support transparency, the instruction also states that review reports should be published on the official websites of ministries within three days of their submission to the Cabinet.

Although results are limited thus far, the Ukrainian case is already very informative for other countries with public financial management systems at similar stages of development. Ukraine is still working to develop program and performance information, which means there is no ready-made analysis to support the reviews. Nor is there a well-established methodology for baseline scenarios and fiscal impact assessments. The spending reviews are helping to develop this gradually, and therefore to support wider budget reforms.

## Annex 2. Examples of Tools, Techniques, and Approaches to Spending Review Analysis

Analysis	Question to ask in the analysis	Possible tools, techniques, approaches
<b>Spending Description:</b>		
Analysis of the scope of the program/activity	<ul style="list-style-type: none"> <li>• What is the program focus</li> <li>• What is the public policy rationale for the spending activity</li> <li>• What are the objectives and outputs of the spending activity?</li> </ul>	<p>Program/activity description and strategic objectives:</p> <ul style="list-style-type: none"> <li>• List of activities</li> <li>• Identification of intended beneficiaries</li> <li>• Details of rationale of the program/activity at the time it was introduced and rationale for subsequent reforms</li> <li>• Indication of whether the program/activity is identified as strategic and/or a priority in strategic and planning documents (for example in the yearly national reform program)</li> </ul>
<b>Spending Analysis:</b>		
Analysis of inputs and outputs	<ul style="list-style-type: none"> <li>• What are the key deliverables from the activity/program?</li> <li>• What are the spending components?</li> <li>• What areas absorb a large proportion of the budget?</li> <li>• How is spending distributed among different activities?</li> <li>• How much output is produced?</li> <li>• What is the cost of producing one unit of output?</li> </ul>	<p>Key outputs:</p> <ul style="list-style-type: none"> <li>• Description of outputs produced</li> <li>• Volumes and values by activity, objective, cost center, and production unit</li> </ul> <p>Key inputs:</p> <ul style="list-style-type: none"> <li>• Number of employees</li> <li>• Composition of employees</li> </ul> <p>Decomposition of total expenditure:</p> <ul style="list-style-type: none"> <li>• By economic category (e.g., compensation of employees, purchases of goods and services, investment)</li> <li>• By government level (central, local, social security funds)</li> <li>• By activity</li> <li>• By objectives</li> <li>• By actions</li> <li>• By cost center</li> <li>• By production unit</li> <li>• Costs per unit of output, costs per employee, costs per beneficiary</li> </ul> <p>Distributional impact of government spending:</p> <ul style="list-style-type: none"> <li>• Incidence analysis of spending (beneficiaries/recipients by income group, share of resources captured by income group, average value of benefits by income group)</li> </ul>
Expenditure trends	<ul style="list-style-type: none"> <li>• Has spending been increasing or decreasing? Are there sudden stops or accelerations?</li> <li>• Have all spending components been growing at the same pace?</li> <li>• Are there expenditure areas of consistent underspending?</li> <li>• Are there expenditure areas of consistent overspending?</li> <li>• Are there specific circumstances that can explain any significant distance between budgeted and actual expenditure (e.g., external factors out of the control of program managers, such as natural disasters or legal rulings)?</li> </ul>	<p>Spending analysis:</p> <ul style="list-style-type: none"> <li>• Growth rates of spending and spending components</li> <li>• Comparison of budget to actual expenditure for all components</li> <li>• Systematic differences between projections and outturn (both for inputs and outputs)</li> <li>• Changes in context factors (technology development, price of inputs—e.g., commodities traded on international markets, legal rulings, international commitments)</li> </ul>

Analysis	Question to ask in the analysis	Possible tools, techniques, approaches
Details of short- and medium-term cost drivers and pressures	<ul style="list-style-type: none"> <li>• What areas have shown large growth in spending over time?</li> <li>• Do aggregate dynamics reflect developments of one particular component?</li> <li>• What are the reasons behind the increases?</li> <li>• What are the projections going forward? How is demand expected to evolve?</li> </ul>	<p>Supply side:</p> <ul style="list-style-type: none"> <li>• Calculation of contribution to aggregate growth of spending items</li> <li>• Developments of quantitative indicators of volume of services provided (number of applicants, number of beneficiaries, number of units supplied, etc.)</li> <li>• Decomposition of monetary costs among quantities and prices (e.g., for wages, changes in number of employees, and changes in wage rates; for purchases of goods and services, changes in quantities purchased, and unit costs)</li> </ul> <p>Demand side:</p> <ul style="list-style-type: none"> <li>• Analyze long-term spending projections (e.g., in EU countries, those prepared in the context of the Ageing Working Group)</li> <li>• Impact of demographic changes</li> <li>• Changes in demand over time driven by other context factors (e.g., by technological innovation or by income growth)</li> <li>• Emergence of new needs (e.g., because of changes in labor supply patterns)</li> </ul>
Benchmarking	<ul style="list-style-type: none"> <li>• How does spending compare with international benchmarks?</li> <li>• How does it compare when internally benchmarked across the country?</li> </ul>	<ul style="list-style-type: none"> <li>• International benchmarking (comparing against other countries) to identify areas of significant misalignment (e.g., spending is higher/lower than benchmark by 5, 10, or 15 percent). Sample of comparator countries to be carefully selected (consider similar income level, regional proximity, similar institutional and social context)</li> <li>• Identifying distance from best performers (countries that display lower cost, best outcomes, best costs/outcomes ratios)</li> <li>• Intra-country benchmarking (comparing cost levels, cost composition, physical input mix) between different municipalities, cost centers, production units. For example, compare average production costs for unit produced or per employee or per beneficiary or compare work utilization patterns and staff skill composition.</li> </ul>
<b>Program Evaluation:</b>		
Assess the appropriateness of spending	<ul style="list-style-type: none"> <li>• Is the activity a government priority?</li> <li>• Does the need for which the activity was initially designed still exist?</li> </ul>	<ul style="list-style-type: none"> <li>• Relevant government statements on policy intent or strategic priorities</li> <li>• Data on demand for outputs over time</li> <li>• Context factors that may affect the appropriateness of the program (e.g., new technologies or processes, new needs because of changes in social preferences and work patterns)</li> </ul>
Assess the efficiency of spending	<ul style="list-style-type: none"> <li>• Are activities being delivered in a cost-effective way?</li> <li>• Can steps be taken to provide the same activity at lower cost?</li> <li>• Are there opportunities users to make larger payments?</li> <li>• Is there overlap or duplication with other government programs?</li> </ul>	<ul style="list-style-type: none"> <li>• Compare the average cost for unit of output across production units (ministries, municipalities) that deliver the same (or a similar) program</li> <li>• Compare the average cost with private producers that deliver a similar product or service</li> <li>• Examine alternate technologies for producing the same output</li> <li>• Examine utilization of staff work time and staff skill composition</li> <li>• Examine level and dynamics of user charges or copayments as a portion of total cost</li> <li>• Examine how user charges and copayments are distributed between income groups</li> <li>• Identify activities and outputs of programs aimed at similar objectives (including from other ministries or levels of government)</li> <li>• Walk through the process of providing the activity to identify resources (human and physical) that are not fully utilized</li> </ul>
Assessing the effectiveness of spending	<ul style="list-style-type: none"> <li>• How is the activity currently targeted?</li> <li>• Does the activity meet the policy objectives?</li> <li>• Is the program well managed?</li> </ul>	<ul style="list-style-type: none"> <li>• Assess the portion of spending that reaches the intended beneficiaries (value of outputs to recipients compared with total expenditure)</li> <li>• Assess achievement of key performance indicators and desired impact</li> </ul>

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