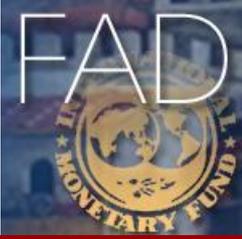


# Expenditure Reviews: Lessons from International Experience

**Richard Hughes**  
**Public Financial Management Division**

Workshop on Public Expenditure Reviews  
Bratislava, 2 November 2015

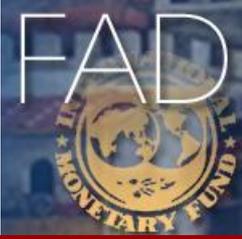




# Outline of Presentation

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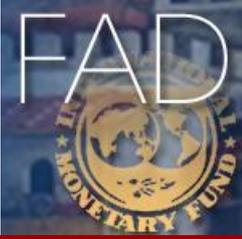
- I. Objectives of Expenditure Reviews**
- II. Range of Expenditure Review Approaches**
- III. Lessons from Success and Failure**
- IV. Questions & Answers**



# I. Objectives of Expenditure Reviews

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- 1. Fiscal Consolidation:** Reduce the growth or level of public expenditure
- 2. Allocative Efficiency:** Shift expenditure from lower priority to higher priority sectors
- 3. Value for Money:** Increase output per unit input within a given sector



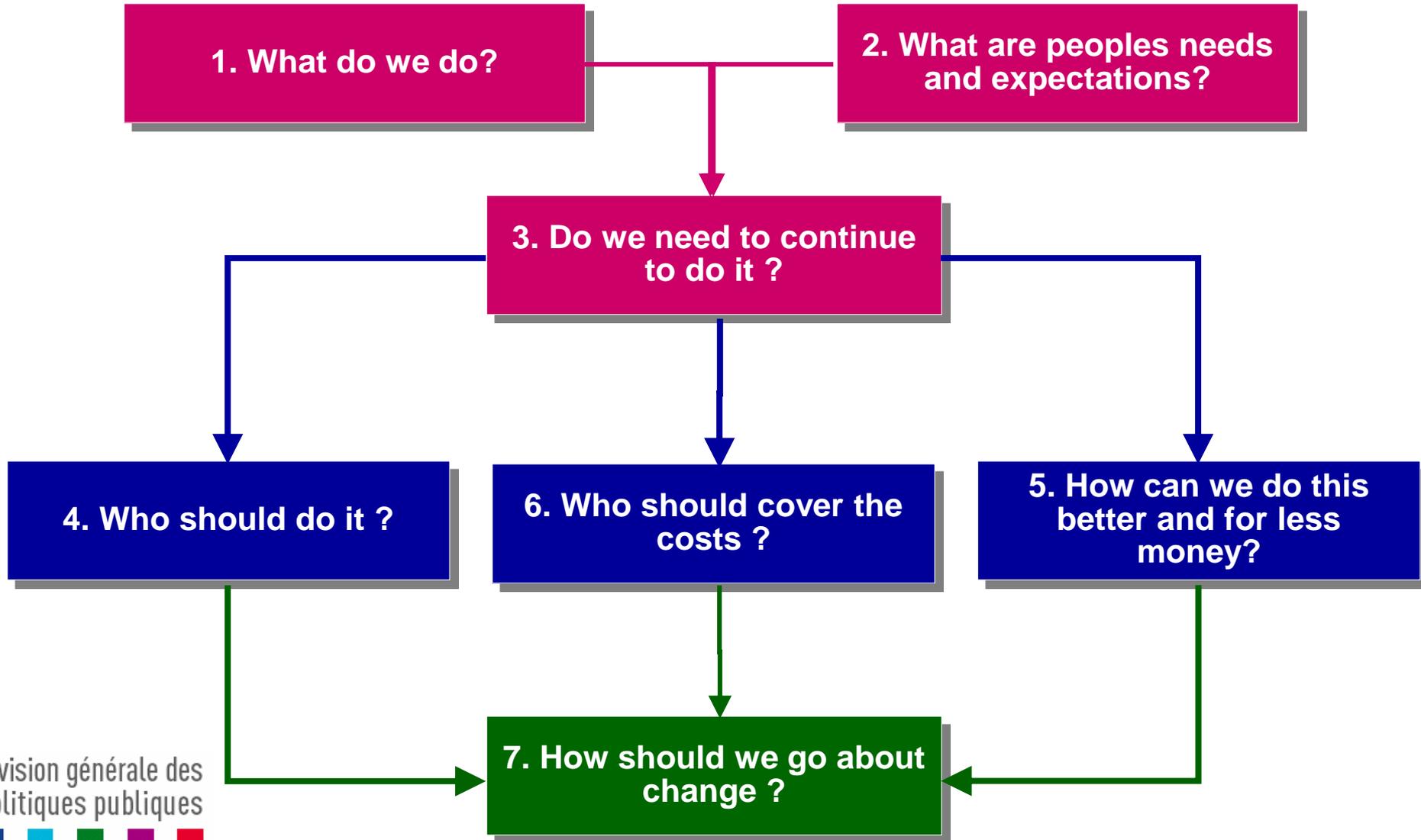
# II. Range of Spending Review Approaches: 4 basic expenditure review models...

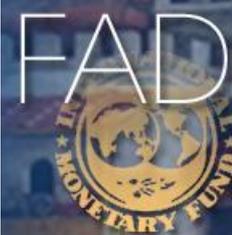
		SCOPE	
		Targeted	Comprehensive
<b>FREQUENCY</b>	<b>Annual</b>	<p><b>Strategic Reviews</b> (Australia: 2007-)</p> <p><b>Program Evaluations</b> (Korea: 2006-)</p> <p><b>Special Studies</b> (Denmark: 1980s-)</p>	<p><b>Zero Base Budgeting</b> (USA: 1970s)</p> <p><b>Activity-Based Costing</b> (USA: 1980s)</p>
	<b>Periodic</b>	<p><b>Value for Money Reviews</b> (National Audit Offices)</p> <p><b>Base Realignment &amp; Closure Commission</b> (USA: 1985-2005)</p>	<p><b>Program Review</b> (Canada: 1994-98)</p> <p><b>Comprehensive Spending Reviews</b> (UK: 1997-Present)</p> <p><b>RGPP</b> (France 2008)</p> <p><b>Expenditure Review</b> (Ireland 2011)</p>

...involving a range of different actors...

	Exec/ Cabinet	MoF	Line Ministry	Indep. Experts	Parly
USA BRAC	X			X	X
Canada Program Review	X	X	X		
UK CSRs	X	X	X	X	
France RGPP	X	X	X	X	
Ireland Expenditure Review		X		X	

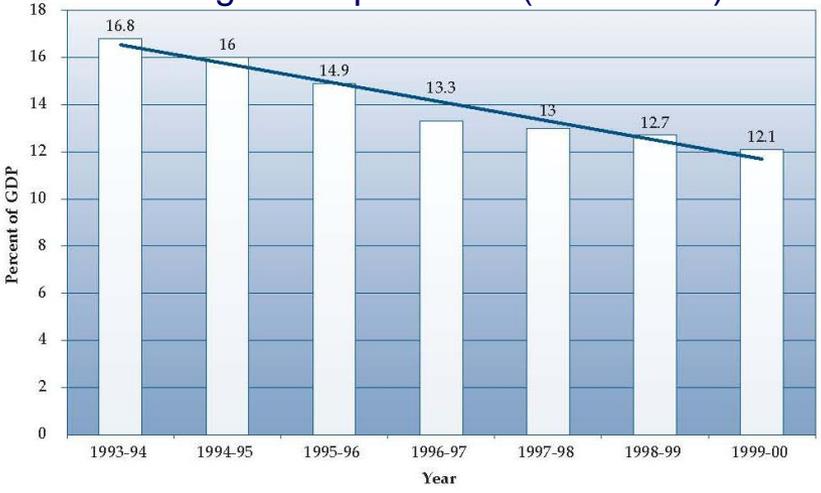
# ...all of which ask the same basic questions...





# ...but can deliver very different outcomes.

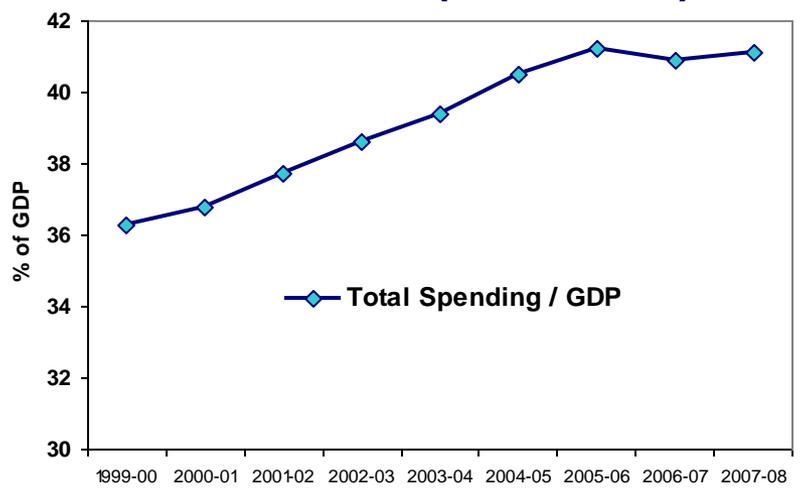
## Canada's Program Review Program Expenditure (1993-2000)



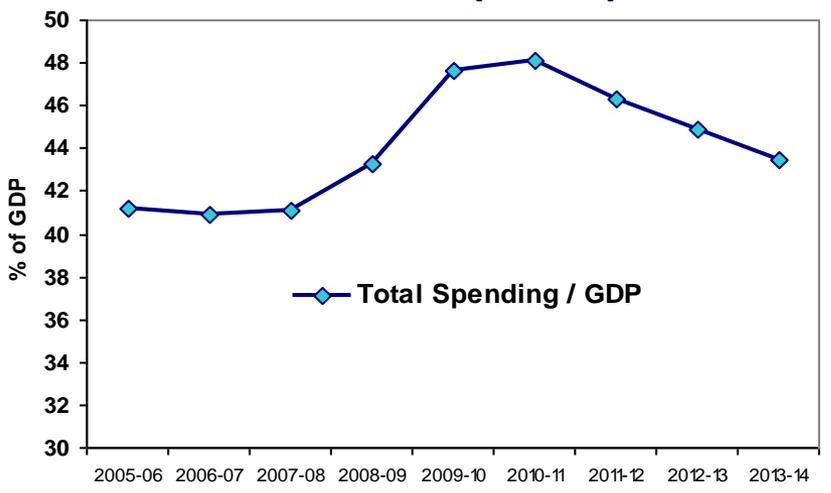
## Korea's Program Evaluations

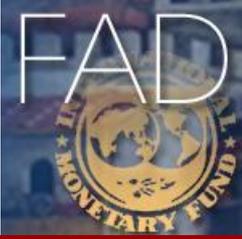
Program Rating	2006 Budget (Won m)	2007 Budget (% Change)		
		Agency Request	MoF Budget	Parl Vote
Effective	8,891	6.5%	5.0%	-0.2%
Moderate	33,156	7.7%	6.7%	7.5%
Adequate	297,180	-0.1%	-2.3%	-2.4%
Ineffective	11,431	-47%	-53%	-53%
<b>TOTAL</b>	<b>350,658</b>	<b>347,975</b>	<b>340,582</b>	<b>339,875</b>

## UK CSRs (1998-2007)



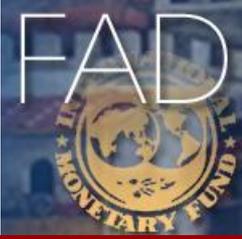
## UK CSRs (2010-)





## III. Lessons from Success & Failure:

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## Lesson #1:

# Be clear from the start about your priorities

### Labour Party Manifesto's Five Pledges for 1997 Election

1. Cut school class sizes to 30 or under for 5, 6 and 7 year-olds
2. Cut NHS waiting lists by treating an extra 100,000 patients
3. Halve the time from arrest to sentencing for persistent young offenders
4. Get 250,000 under-25 year-olds off benefit and into work
5. No rise in income tax rates and inflation and interest rates as low as possible

Our pledge to ensure a better life for you and your family



Britain  
forward  
not back

Your family better off  
Your child achieving more  
Your children with the best start  
Your family treated better and faster  
Your community safer  
Your country's borders protected

Call 08705 900 200 or log on to  
[www.labour.org.uk](http://www.labour.org.uk) to support Labour.

*Tony Blair*



# Lesson #1:

## Be clear from the start about your priorities

*“We will guarantee that health spending increases in real terms in each year of the Parliament”*

The Coalition:  
our programme  
for government

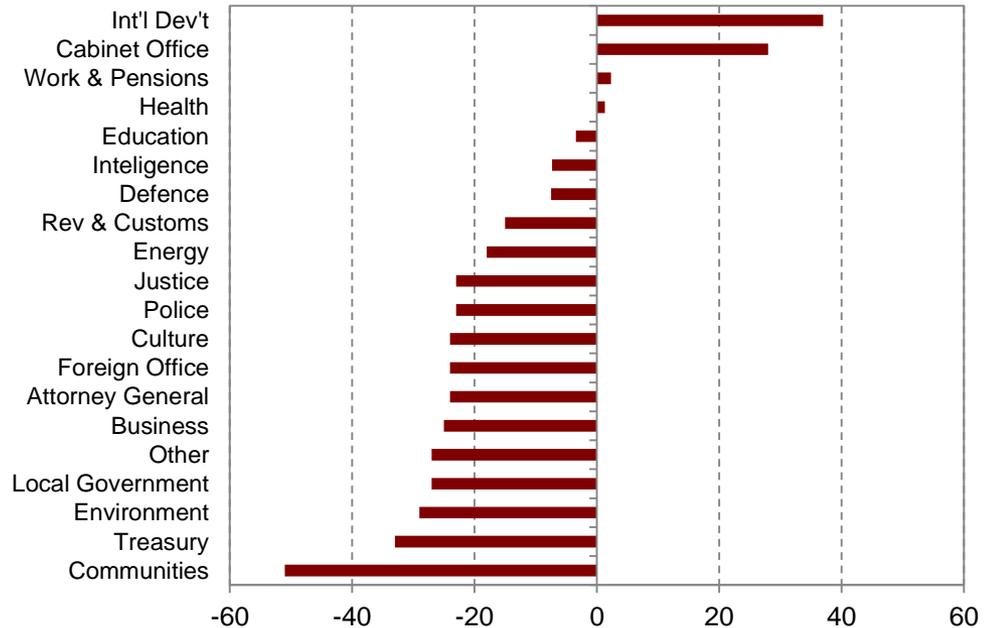
*“We will restore the earnings link for the basic state pension from April 2011”*

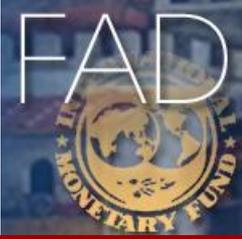
*“We will honour our commitment to spend 0.7% of GNI on overseas aid from 2013”*

*“...while recognizing the impact this will have on other departments”*



**Cumulative Real Percentage Change in CSR 2010 (2010-11 to 2014-15)**





# Lesson #2

## Take a medium-term perspective

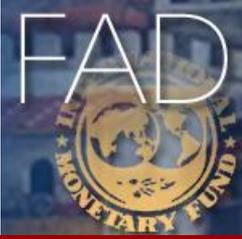
### Time Horizon of Expenditure Reviews

Country	Review	Time Horizon
France	General Review of Public Policy	3 Years
Ireland	Comprehensive Review of Expenditure	3 Years
UK	Spending Review	4 Years
Australia	Strategic Reviews	4 Years
Holland	Spending Review	4 Years
Canada	Program Review	5 Years

### Why Take a Multi-year Approach?

1. Allows more ambitious savings to be realized
2. Savings measures support the credibility of medium-term fiscal targets
3. Avoids doing a Review every year which leads to:
  - a. Reform fatigue
  - b. Expectation that the outcome will be reopened

# Lesson #3

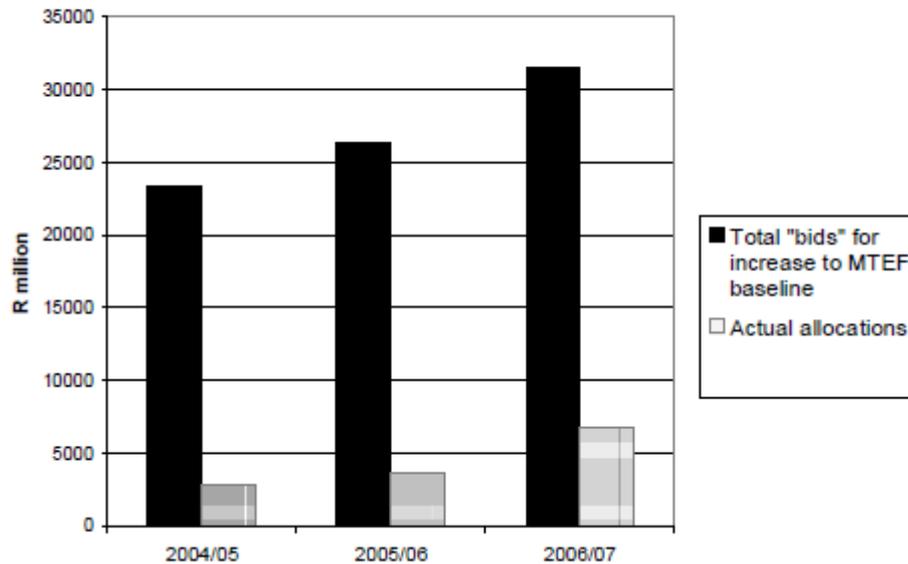


## Establish clear, top-down parameters from the start

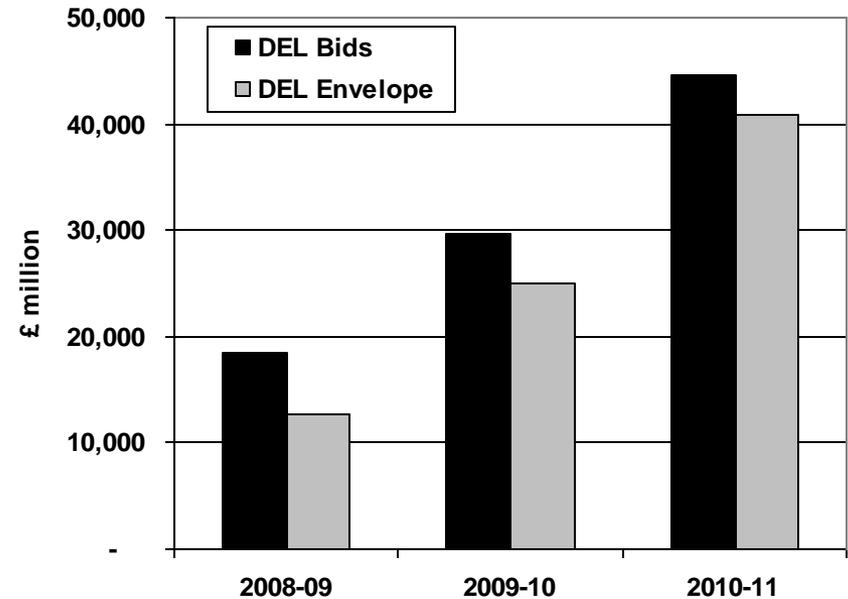
### Fix the overall spending envelope at the beginning...

#### South Africa's "Bottom-up" MTEF Process

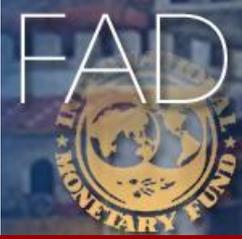
Figure 1: Additional allocations over the 2004 MTEF compared with requests



#### UK's "Top-Down" CSR Process



...to ensure people make tradeoffs...



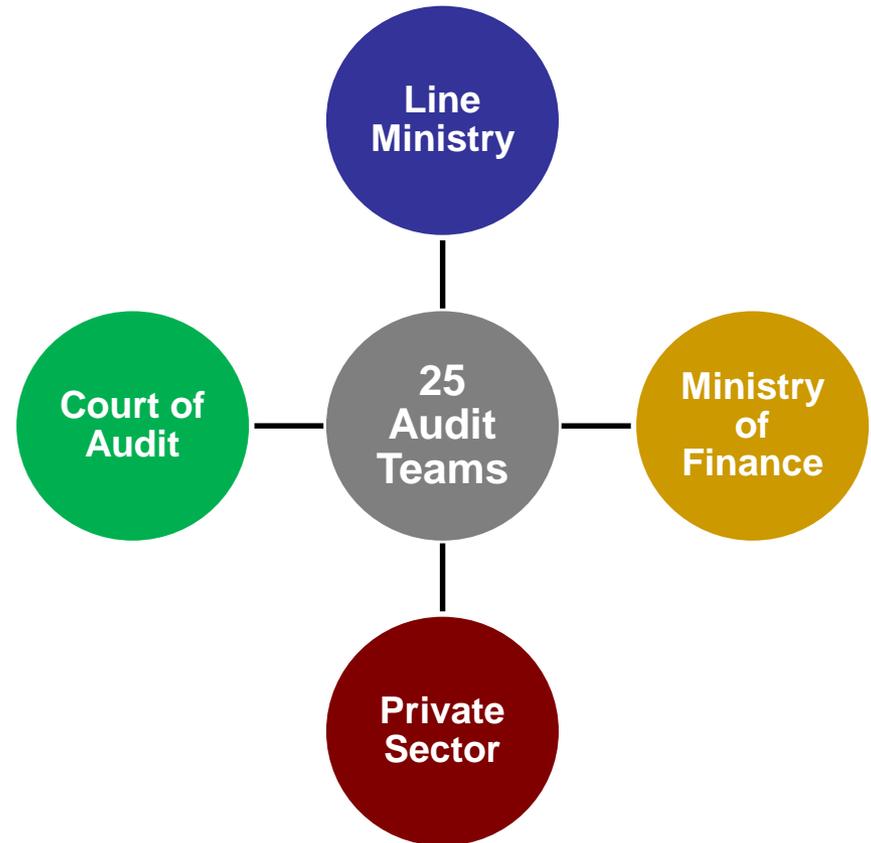
# Lesson # 4

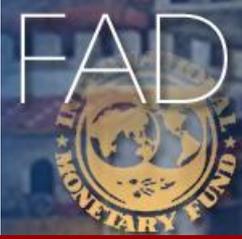
## Combine external expertise with internal knowledge

### Expenditure Review Players

Actor	Strength	Weakness
President / PM's Office	Political commitment	Limited fiscal expertise
Ministry of Finance	Overview of public finances	Limited sectoral expertise
Line Ministries	Knowledge of their sector	Status quo bias
Outside Experts	Challenging ideas	Ignorance of public sector
Parliament	Legitimacy	Protective of constituency

### France's RGPP Audit Teams





# Lesson # 5

## Look at spending from different perspectives

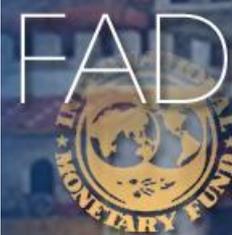
DEPARTMENT X		Programs			
		Prog 1	Prog 2	Prog 3	Prog 4
Processes	Human Resources				
	Procurement				
	Transactions				
	Corporate Services				
	Fees & Charges				
	Asset Management				



**Productive Efficiency**



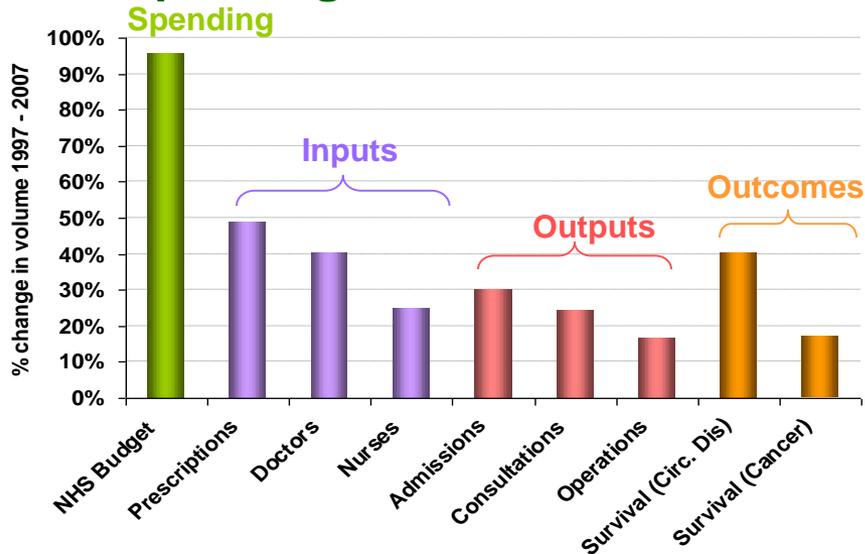
**Allocative Efficiency**



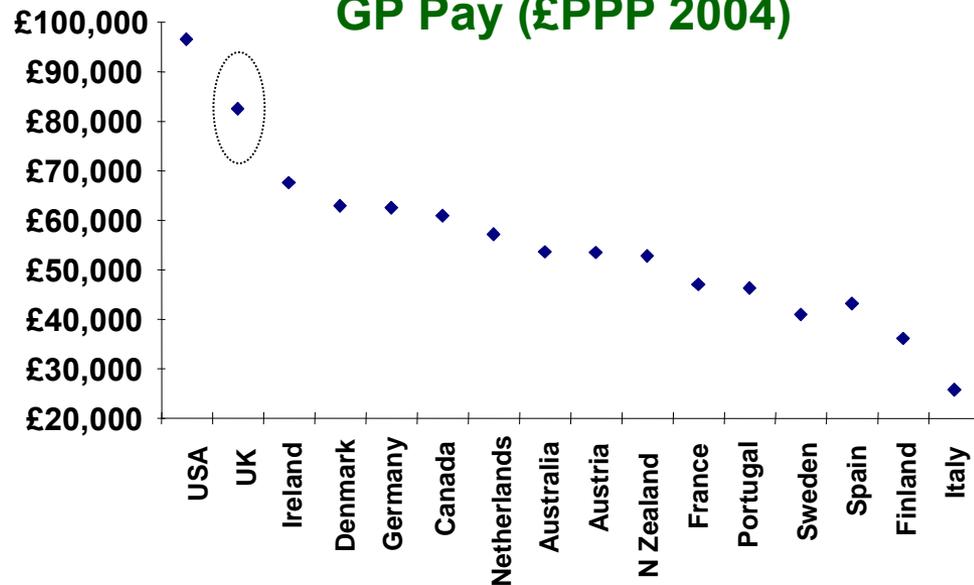
# Improving Productive Efficiency

## Value Chain Analysis in the UK Health Service

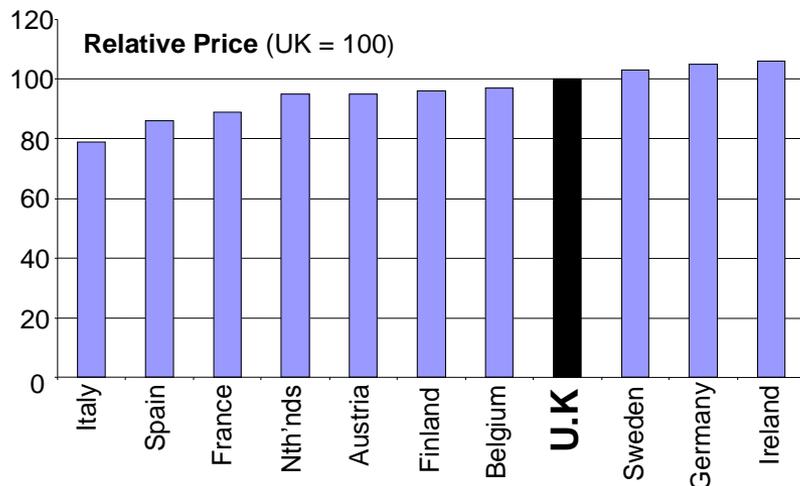
### Spending ⇒ Outcomes in NHS



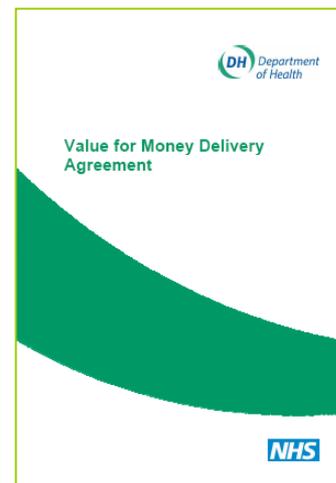
### GP Pay (£PPP 2004)



### Branded Drug Prices: UK vs EU



### NHS Efficiency Plan



**“Brown to tackle £100,000 a year GPs over pay & hours”**  
*Daily Mail 14/5/07*

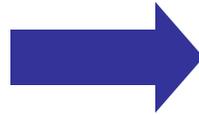
**“NHS price plans surprise drug companies”**  
*Financial Times 2/8/07*

**“NHS push for 10% drug price cut”**  
*Financial Times 7/1/08*

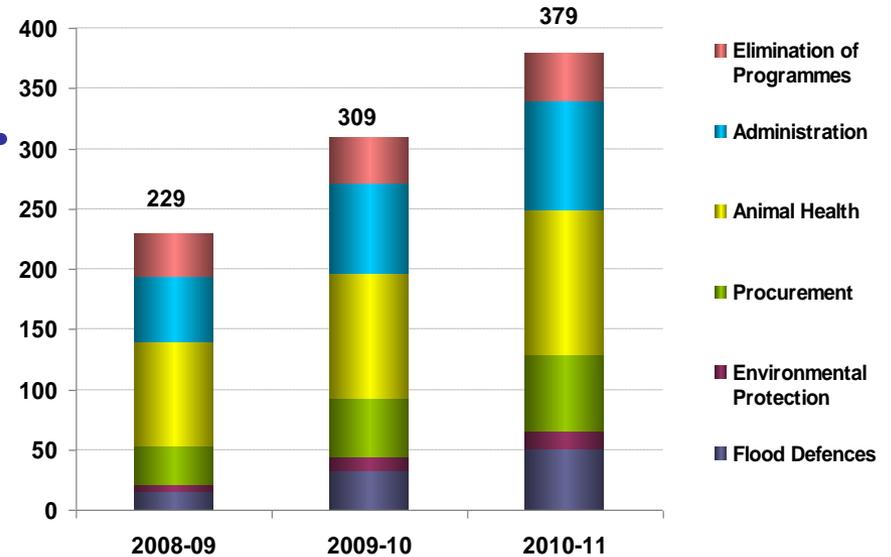
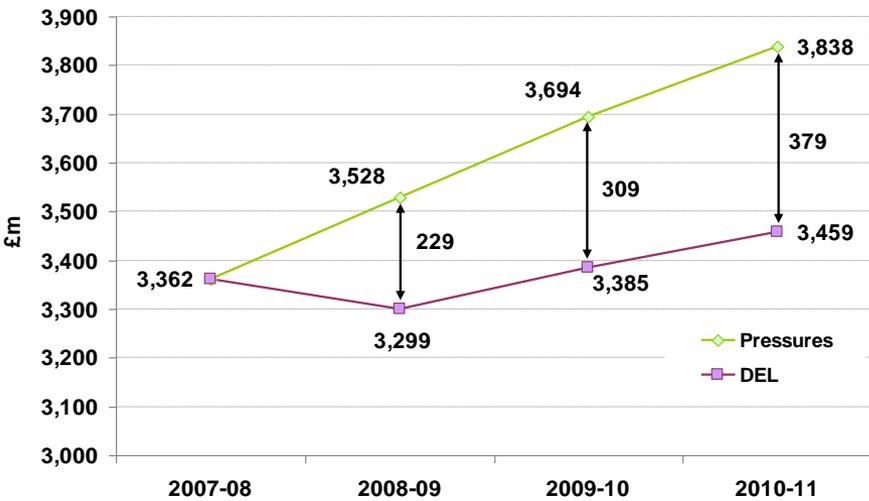
# Improving Allocative Efficiency

## Making Savings in UK Department of Environment

**Department of Environment**  
**Pressures vs. Budget**  
 2008-09 to 2010-11

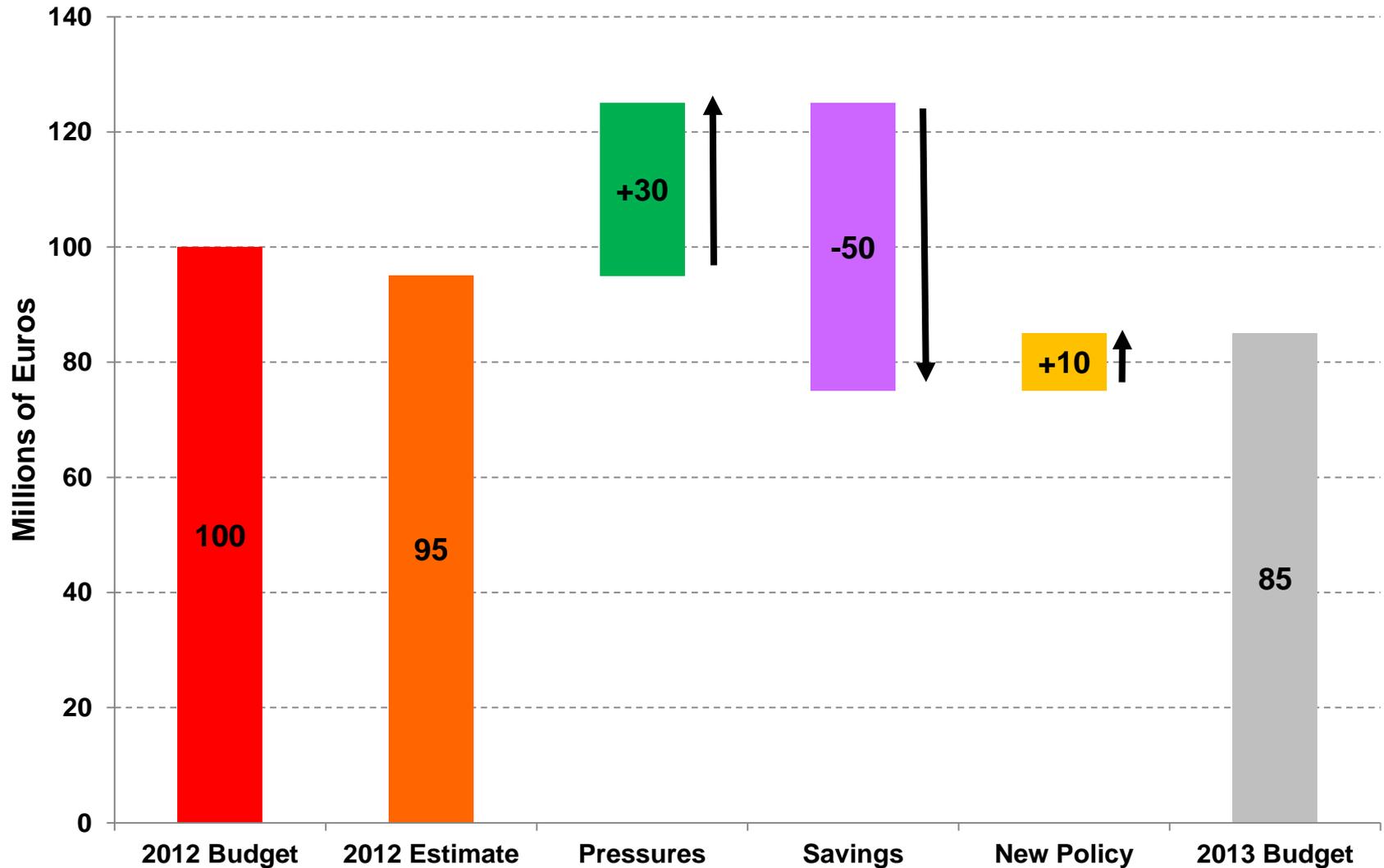


**Department of Environment**  
**Savings Measures**  
 2008-09 to 2010-11



# Lesson # 6

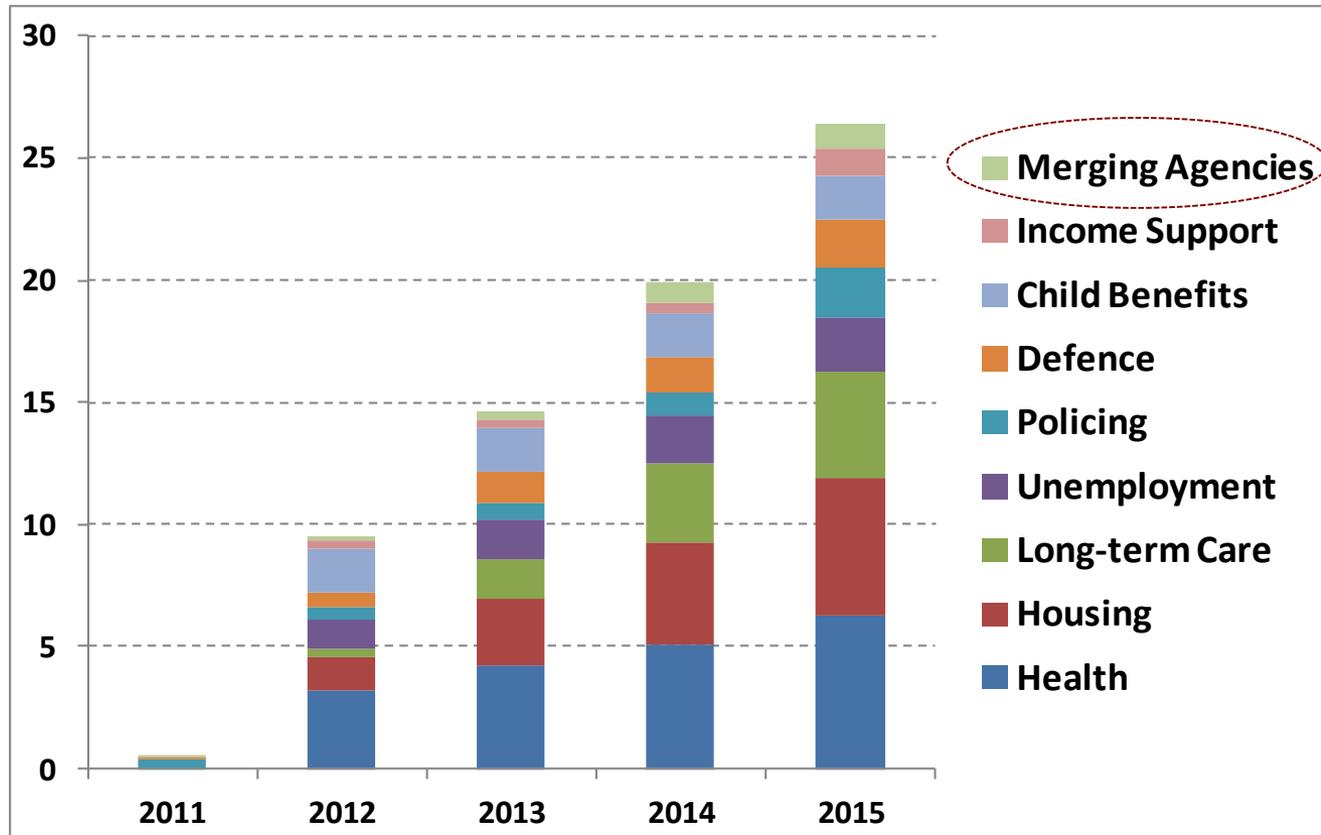
## Have a clear accounting methodology for savings



# Lesson # 7

## Don't overestimate inter-ministerial "synergies"

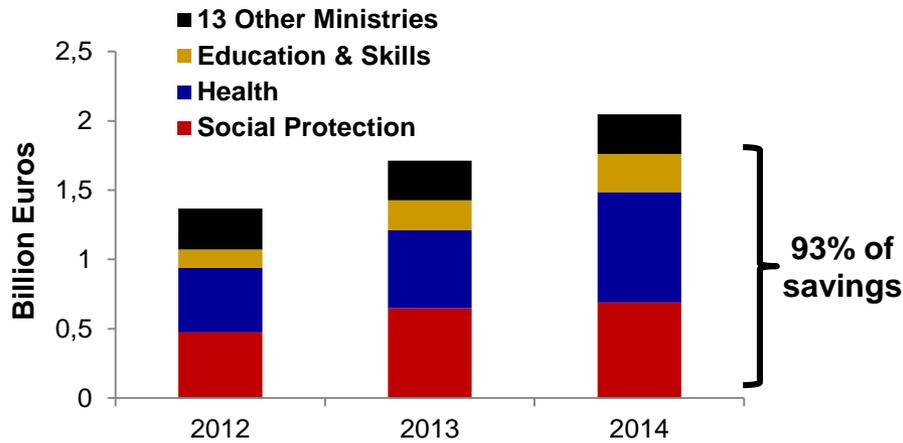
**Savings Identified in Dutch 2010 Spending Review  
(Billions of Euros)**



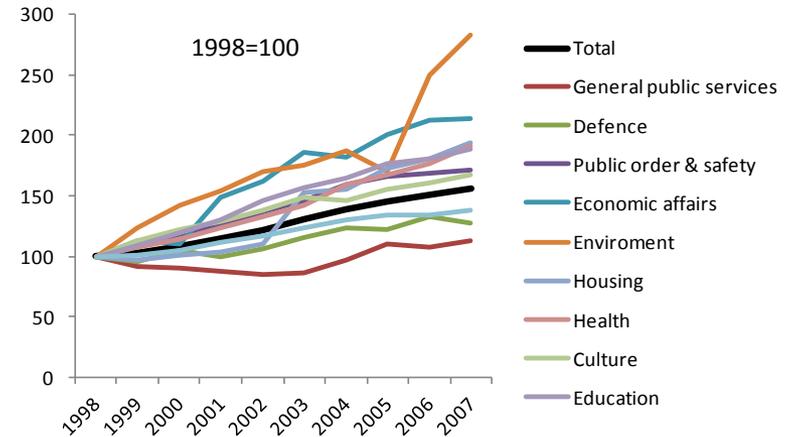
# Lesson # 8

## Focus early on the most promising areas

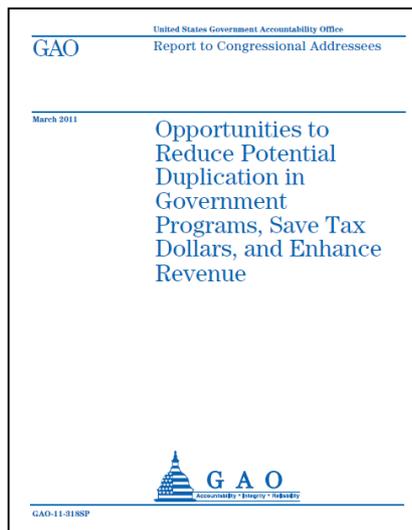
### Big Ministries: Ireland CRE Savings



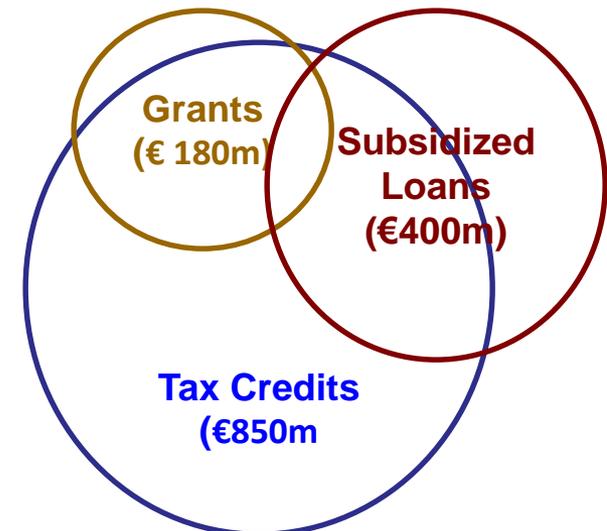
### Big Increases: UK Real Spending



### Big Waste: Value for Money Audits



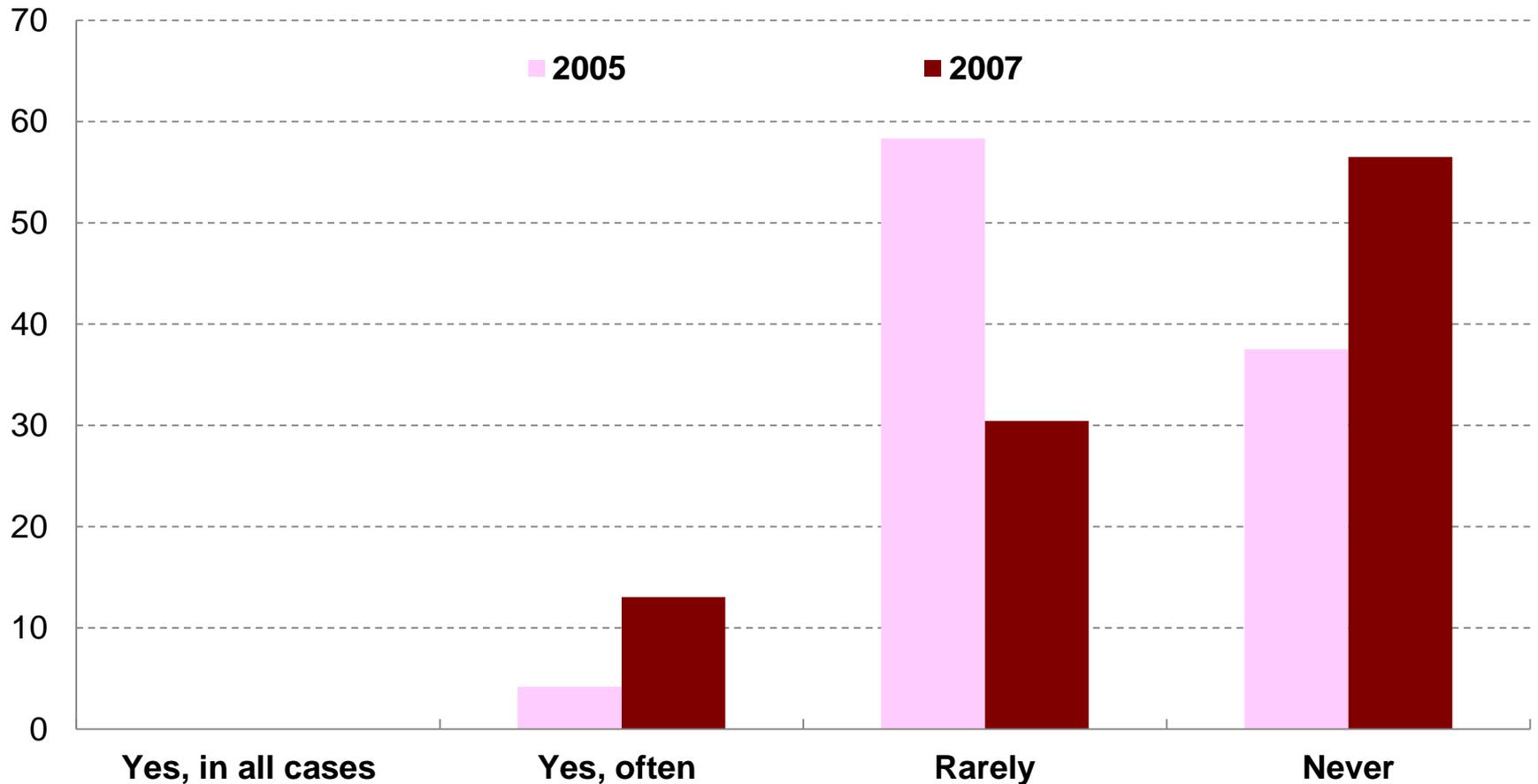
### Big Overlaps: France Enterprise Policy



# Lesson # 9

## Don't expect miracles

**Are programs eliminated if performance targets are not met?**  
*(Survey of OECD Countries)*

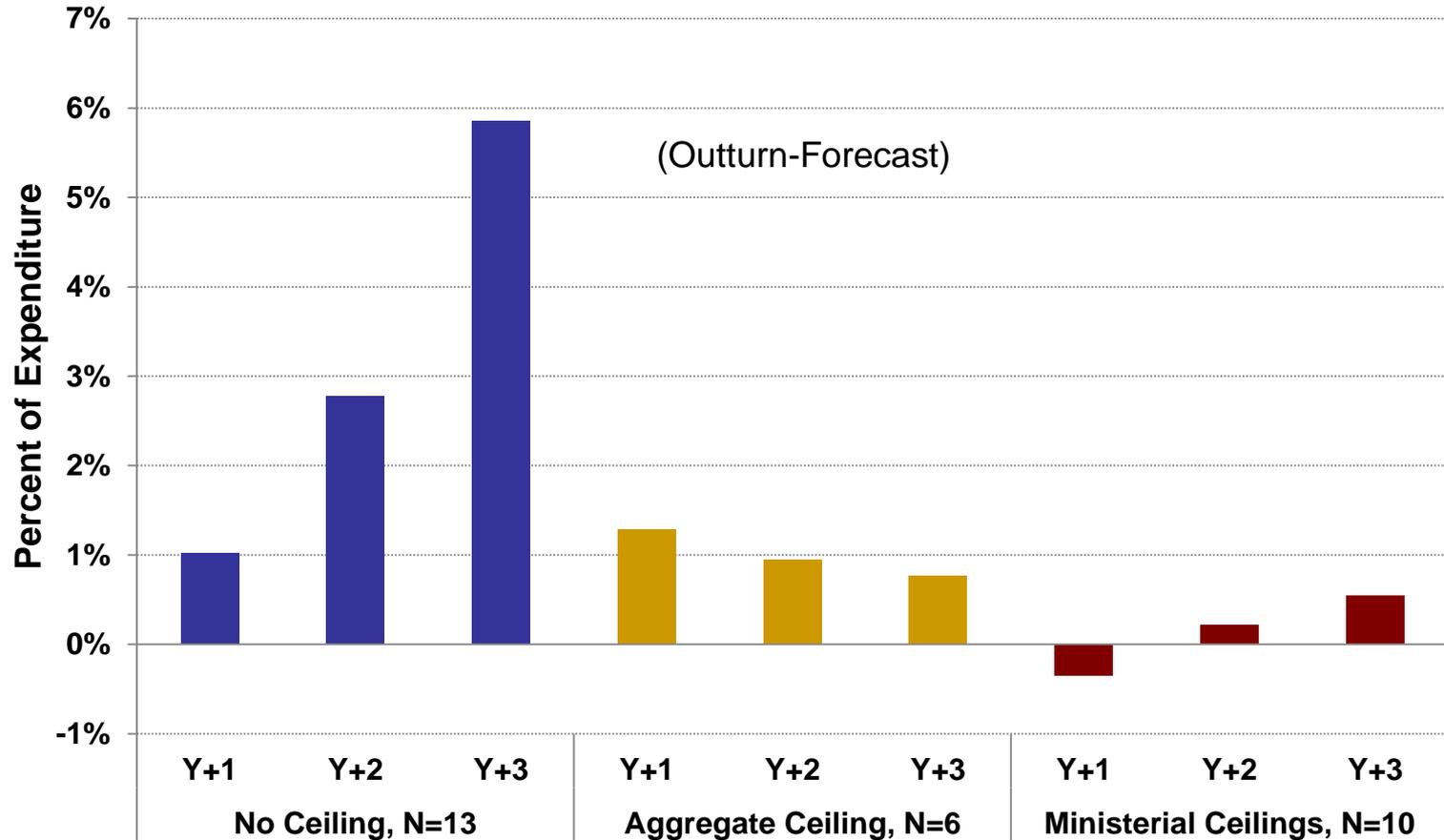


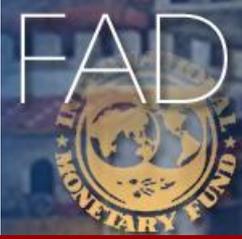


# Lesson # 11

## Lock savings into multi-year budgets

**UK's Average Government Expenditure Forecast Error (1981-2009)**

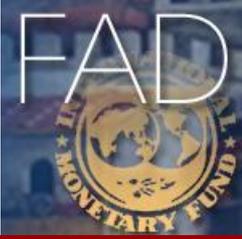




## **Lesson # 12:**

# **Leave enough time to implement the reforms**

- **Reviewing expenditure and identifying savings is the easy part**
- **The difficult parts of expenditure reviews are:**
  - Negotiating and agreeing the conclusions within government
  - Passing the necessary legislation in Parliament
  - Persuading the public of the case for reform
  - Delivery planning and implementation
- **Leave at least 6 months between the conclusion of the review and the start of the first financial year to deal with the above**



## IV. Questions and Answers?

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**Thank You**