

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

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Spending review

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

Growth in use of spending reviews

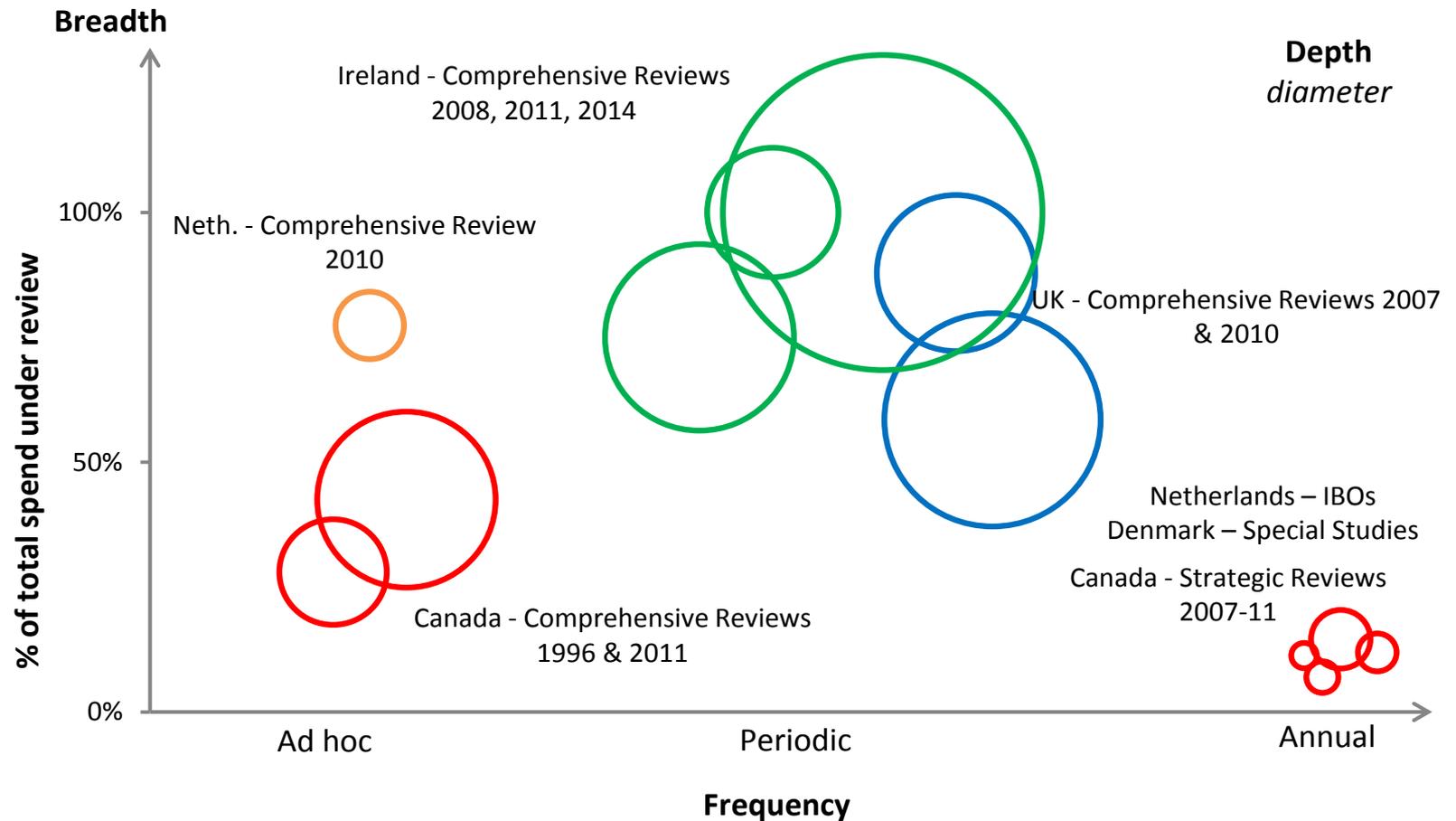
- Before the global economic crisis
 - Australia, Canada, Denmark, the Netherlands, UK
- After the crisis
 - **Over half of OECD member countries** report that they have conducted, or are planning, spending reviews
 - Becoming a standard tool of fiscal consolidation, fiscal space

Typology of spending reviews

Primary Objective	Tool		
<p>Analysis of management, organizational structures and/or policies to improve efficiency and effectiveness</p>	<p>Performance evaluation (of policies, programmes, or organizations)</p>		
<p>Creating fiscal space by reallocating and/or reducing public expenditure for programmes or organisations</p>	<p>Spending Reviews</p> <table border="1" data-bbox="705 801 1903 1352"> <tr> <td data-bbox="705 801 1284 1352"> <p><i>Efficiency reviews</i></p> <p>Goal: achieve efficiency savings by identifying how existing services can be delivered at a lower cost.</p> </td> <td data-bbox="1284 801 1903 1352"> <p><i>Strategic reviews</i></p> <p>Goal: achieve savings through efficiency measures and prioritisation, e.g. scaling back or eliminating services or transfer payments identified as ineffective or low-priority.</p> </td> </tr> </table>	<p><i>Efficiency reviews</i></p> <p>Goal: achieve efficiency savings by identifying how existing services can be delivered at a lower cost.</p>	<p><i>Strategic reviews</i></p> <p>Goal: achieve savings through efficiency measures and prioritisation, e.g. scaling back or eliminating services or transfer payments identified as ineffective or low-priority.</p>
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Source: adapted from OECD, 2011

Typology of spending reviews



Sources: Government of Canada, UK HM Treasury, Ireland Department of Finance, Netherlands Ministry of Finance, van Nispen (2015), author's own calculations

Integrated element of OECD Budget Principles



Motivations for spending reviews

- **Benefits**

- *Comprehensive*

- Move from “incremental” to a more “zero-based” approach
 - Baseline expenditure is usually fixed: 80-90%
 - Scope for efficiency, modernisation, reform and innovation

- *Standardized*

- Consistent approach across portfolios

- *Rebalances an information asymmetry*

- Can improve performance info exchange of performance information

- *Shifts incentives*

- Line ministries have incentive to develop cost-minimization options

Designing a spending review - choices

Who?

- Independent experts OR In-house experts
- Central AND/OR line ministry
- Steering committee
- Balance between political and administrative viewpoints

What?

- All spending OR Sector focus OR Specific, targeted areas
- Efficiency, staff numbers, red tape AND/OR strategic priorities
- Programmes OR Ministries
- Streamlining of agencies

How?

- Expenditure baseline analysis
- Savings targets AND/OR fixed ceiling
- Public / civic engagement
- Performance-focused analysis
- Policy options, trade-offs OR policy prescriptions

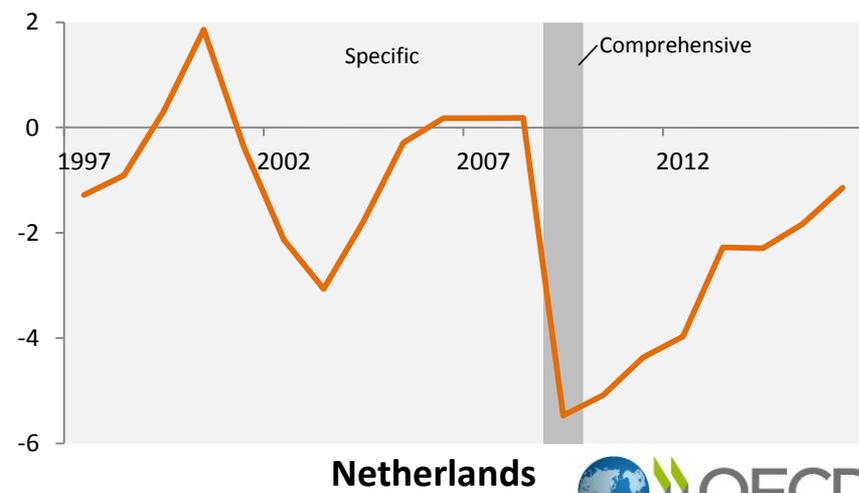
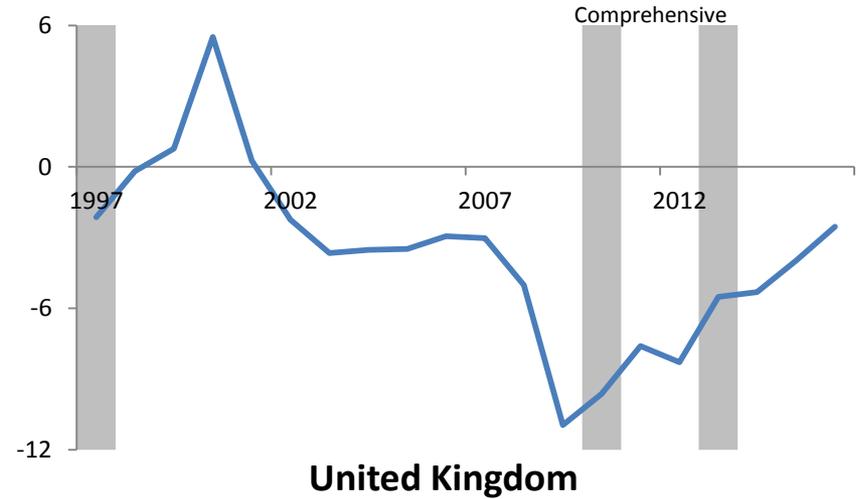
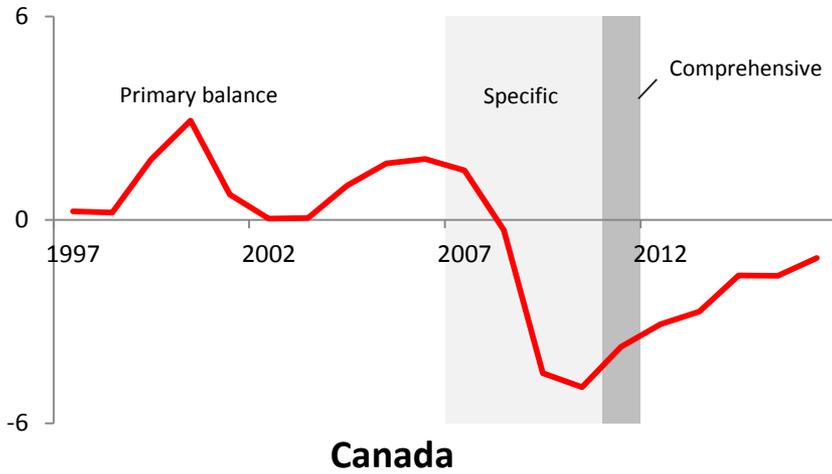
Spending review as a decision tool

- There is no technocratic substitute for hard decisions
- But hard decisions need to be ***well-informed***
- What is needed:
 - solid, evidential basis for assessing and prioritising public expenditure ***in each area***
 - standardised analytical approach
 - ***principles to guide and focus*** the analysis - **IMPACTS**
 - clear recommendations
 - political support for the process
 - direct linkage to the budget process

Leadership + buy-in

- Develop buy-in at Ministerial level at the beginning
 - Full, proactive engagement required
 - Flexibility is necessary
- Leadership and top management support is crucial

Buy-in: Fiscal circumstances



Indicates general government primary balance, as % of GDP

Leadership: Clarity of objectives

Netherlands

2010 Comprehensive Expenditure Review

- Compulsory 20% savings options for 20 areas

France

2010 Révision Générale des Politiques Publiques (RGPP)

- 10% reduction in non-salary administration costs

Canada

2011 Strategic and Operating Review

- Compulsory departmental 10% savings options

1996 Program Review

- Department-specific targets, as high as 50%

Leadership: Ministry of Finance

Spending review

	Chief Executive	CBA	Line Ministries	Commission	Other
Determine methodology	25	88	19	13	
Select review scope	44	63	25	6	13
Guidance, steerign, technical assistance	6	94	31	13	6
Prepare reports	6	56	63	25	
Supervision & review of reports	19	81	44	25	
Final decision-making	56	38	19		6
Monitoring	13	69	44		13

'Classic' performance budgeting

	Chief Executive	CBA	Line Ministries	Agencies	Legislature	Supreme Audit	Internal Audit
Setting performance targets	47	38	91	56	13		
Establishing framework/guidelines	19	75	19	9	16	6	
Generating performance information	6	34	91	72	6	19	19
Conducting evaluations	6	38	56	53	6	38	25
ICT system for performance		59	34	31		3	3
Allocating funds based on performance info	16	47	44	28	9		

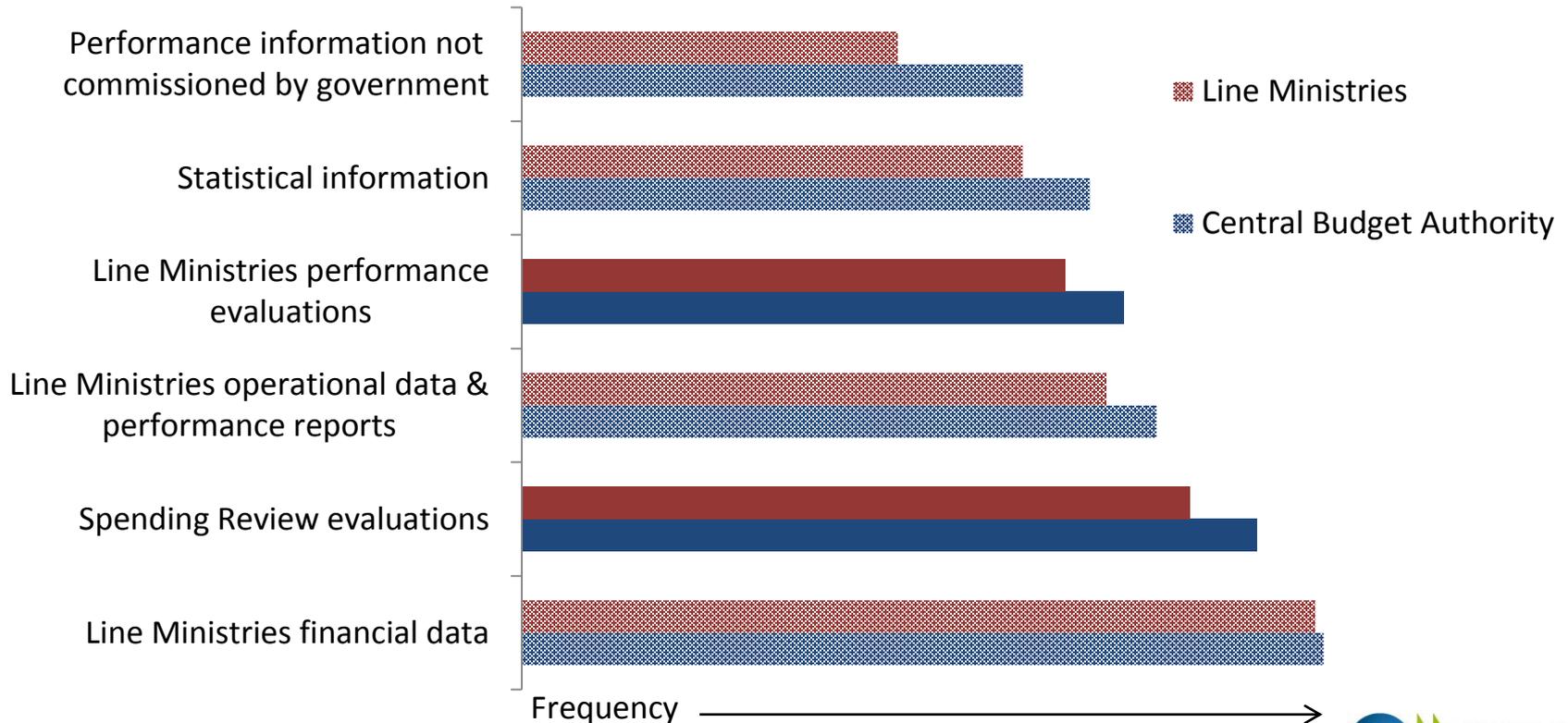
Leadership: Budget links

- Integrate spending reviews in the budget preparation process
- Consider savings options simultaneous with new spending
- Frequency
 - spending review is a resource-intensive activity
 - align with budget cycle



Budget relevance

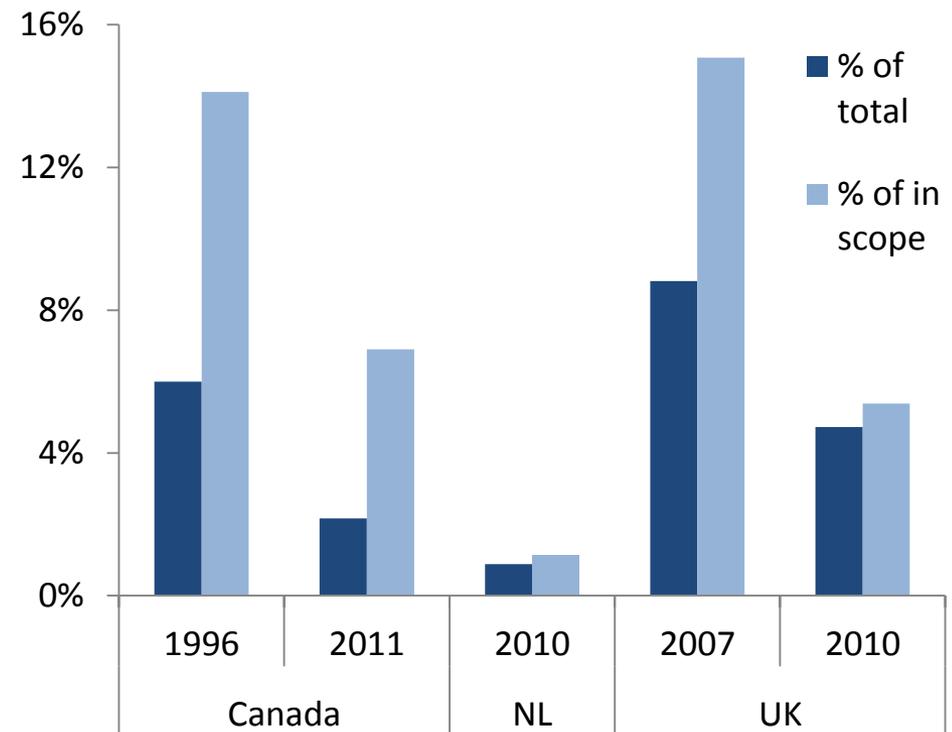
- Evaluations conducted in SR are more likely to impact budget negotiations



Coverage: Broad scope

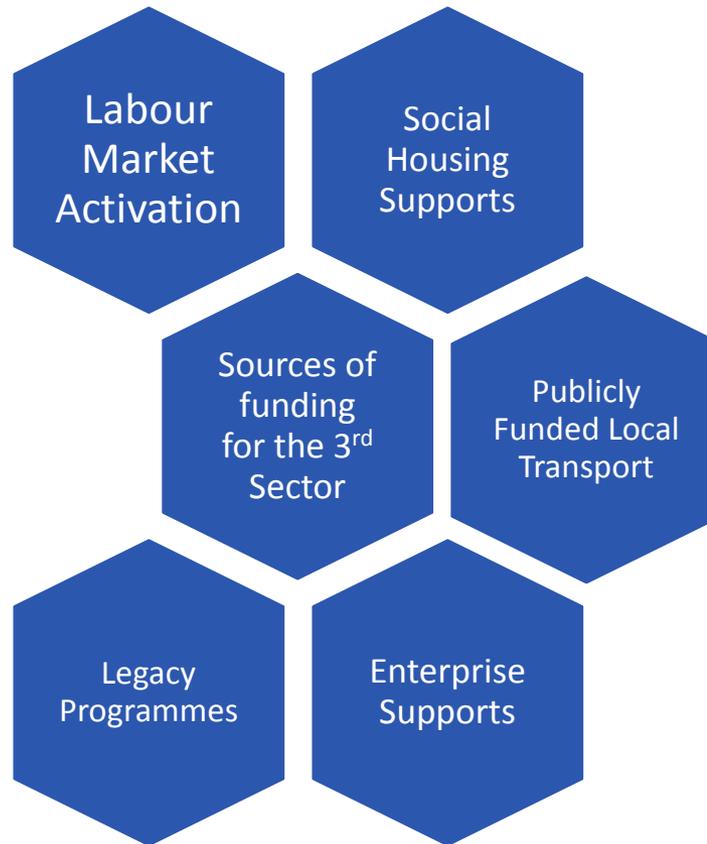
- Root and branch
- 75% of OECD SRs examine appropriated spending and transfers/entitlements
- Ring-fencing spending areas puts pressure on others

Savings yields
in-scope vs. total spending base



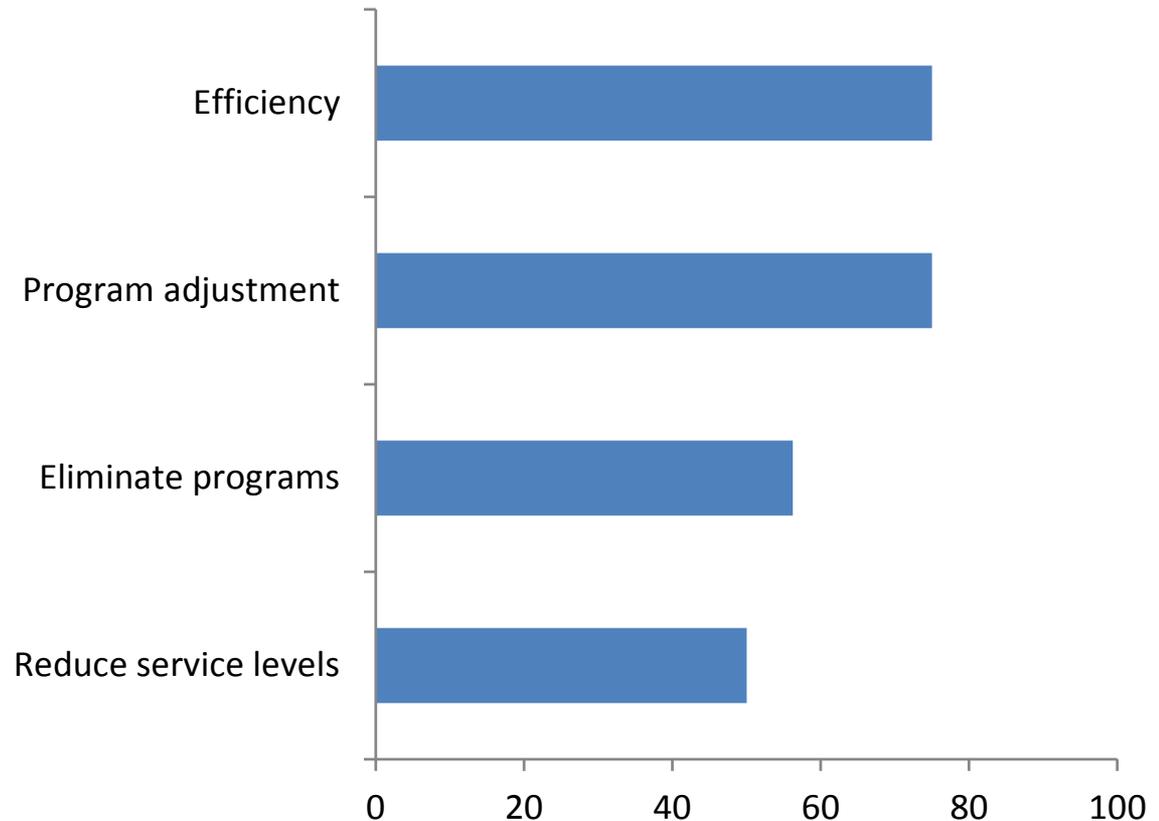
Coverage: Multi-dimensional

Horizontal Papers in Ireland's Spending Review



Mix of measures

- Efficiency wins are great...
- ...but administrative savings goals must remain realistic



Challenges in spending reviews

- **Challenges**

- *Institutionalization*

- Work done in between spending reviews is important
 - Can momentum be sustained?

- *Information base*

- Measures of efficiency, economy, effectiveness
 - Timely info

Challenges in spending reviews

Most challenging	Index
Poor quality performance information	2.9
Lack of performance information	2.9
Lack of political support	3.1
Least challenging	
Lack of framework	4.3
Lack of time for implementation	3.7
Lack of capacity/capability	3.4

1= very challenging, 5=not at all challenging

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