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OECD Best Practices for Spending Reviews

Strengthening the impact of spending reviews

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As countries look to sustainably address current and emerging fiscal pressures, ways and means to identify savings and reallocate resources to new priorities takes centre stage. Countries are looking to strengthen spending review practices to ensure they remain an integral part of budgeting with clear budgetary impact. Strengthening spending review practices means building on existing practices and ensuring the reviews play an integral role in budgetary decision-making. Spending reviews offer a comprehensive analysis of government expenditure and identify opportunities for savings and reallocations to high priority spending areas. Strong spending review practices will reinforce the capability of governments to navigate the fiscal challenges ahead. The OECD Best Practices for Spending Reviews identify key success factors based on the experiences of OECD countries.

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Strengthening the impact of spending reviews

As countries look to sustainably address current and emerging fiscal pressures, ways and means to identify savings and reallocate resources to new priorities takes centre stage. Countries are looking to strengthen spending review practices to ensure they remain an integral part of budgeting with clear budgetary impact.

The nature of spending reviews has evolved over time. Many countries adopted spending reviews in the wake of the 2008 financial crisis, where they were used to implement substantial spending reductions, specifically in countries that undertook comprehensive spending reviews that were used to identify large scale savings options across different government sectors.

Since then, the objectives of the reviews have broadened, and countries have increasingly used spending reviews as an ad-hoc practice focusing on effectiveness and efficiency with only a limited or no focus on savings options. This has helped identify performance improvements in selected spending areas, and increased collaboration between the ministry of finance and spending entities, but this orientation has also created complications. Effectiveness and efficiency spending reviews without a clear savings and reallocation target can lead to inconclusive results that are difficult to implement in the budget.

Given the current fiscal context facing countries, spending reviews are likely to go back to 'basics' where the main focus is on identifying tangible savings and reallocation measures that can be readily reflected and monitored in the budget.

Strengthening spending review practices means building on existing practices and ensuring the reviews play an integral role in budgetary decision-making. Spending reviews offer a comprehensive analysis of government expenditure and identify opportunities for savings and reallocations to high priority spending areas. Strong spending review practices will reinforce the capability of governments to navigate the fiscal challenges ahead. The *OECD Best Practices for Spending Reviews* identify key success factors based on the experiences of OECD countries.

OECD Best Practices for Spending Reviews

1.	Formulate clear objectives and specify the scope of spending reviews
2.	Identify distinct political and public service roles in the review process
3.	Set up clear governance arrangements throughout the review process
4.	Ensure integration with the budget process
5.	Implement recommendations in an accountable and transparent manner
6.	Ensure full transparency of spending review reports and the review framework
7.	Update the spending review framework periodically

1. Formulate clear objectives and specify the scope of spending reviews

Clear objectives

The objectives of a spending review must be clear. This may include a reduction in overall spending, a shift in spending from one government priority to another, or to make specific spending more effective. Different objectives shape the structure of the review process and the roles of participants.

The objectives of a spending review should be communicated from the outset and framed within formal Terms of Reference. These are usually prepared by the Ministry of Finance and the ministries involved in the review. The Terms of Reference should clearly express the objectives, scope, the main tasks, governance structure and access to information, deliverables, timetable and milestones, as well as the resources available for a review. Setting an indicative savings target for each spending review is beneficial as it maintains focus on identifying savings during the review process.

Box 1. Spending reviews in Ireland

In Ireland, the government's spending reviews aim to improve the allocation of public expenditure across all areas of government. The Department of Public Expenditure and Reform is responsible for spending reviews and the way in which spending reviews integrate with the annual budget process. The Irish Government Economic and Evaluation Service (IGEES), established in 2012, supports the Department in this role in conjunction with the departments being reviewed and external experts. Through the IGEES, the government is systematically assessing the efficiency and effectiveness of government expenditure by applying dedicated resources to spending reviews.

The objectives of spending reviews specifically consider the extent to which the government is achieving its goals through the expenditure committed from any given activity. The scope of the Spending Review 2020-2022 has broadened from the previous approach adopted from 2017-2019 to encompass policy analysis and evaluation in addition to the focus on expenditure re-prioritisation.

Clear scope

After determining the objectives of a spending review, the scope of the review informs how best to achieve the objectives. Within the coverage of a spending review, all expenditures should be eligible for review, including capital expenditure, mandatory expenditure, and extra-budgetary expenditure.

It is not feasible to review all areas of government spending in-depth every year, nor is it desirable to do so as the effort would duplicate the work of previous spending reviews and there is insufficient time for a ministry to implement the decisions from a previous review. Governments should regularly and periodically plan for spending reviews. This allows governments to adopt a strategic approach to spending reviews by scheduling the programmes it will review each year and provides time to implement the findings from a review before repeating a subsequent review.

The scope of a spending review can vary depending on its objectives and can cover the activity of a single ministry or cross-ministerial functions. There are certain trade-offs between a broad and a narrow scope of spending reviews. A broad scope can increase the breadth of analysis and increase stakeholder buy-

in, and result in improved data availability and collaboration across ministries, while it may also constrain the development of deeper and more impactful analysis.

Cross-governmental reviews can be complex, as they involve multiple ministries, but they can also improve co-ordination and identify overlaps of ministries.

Box 2. Spending reviews in Germany and Estonia

In Germany, the first two spending reviews took place in 2015 and were on intermodal transport and a job-training scheme. These reviews had a limited scope while the Ministry of Finance and the relevant line ministries accumulated experience in undertaking spending reviews. In subsequent rounds of spending reviews, the scope of the review was increased, as did the complexity of the reviews by analysing the inter-relationships between several expenditure programmes within a given area of policy.

In Estonia, the government introduced spending reviews into its public financial management processes in 2016. After undertaking two reviews covering almost 3% of the national budget, the government has recently conducted several spending reviews covering both the activities of a single ministry and multiple ministries. As such, the objective is to scale up the use and scope of spending reviews and make them a standardised instrument in the budget process.

2. Identify distinct political and public service roles in the review process

Political leadership

Political leadership and support is critical to ensure the viability and sustainability of spending reviews. This leadership is particularly important at the inception where the objectives and scope of reviews are set and at the conclusion where final decisions on adopting recommendations are made. Political support for spending reviews is usually strongest at the beginning of a political term.

The incentives for a spending review can affect the level of political commitment to the review. If a spending review is to identify efficiencies to reallocate expenditure, political commitment is likely to be greater if the relevant minister and line ministry are to retain a proportion of the efficiencies identified in order to fund new priorities within that ministry.

Box 3. Spending reviews in the Netherlands

During the formation of government, following general elections, the coalition agreement includes a statement on spending reviews. The statement identifies the priority and focus of the new government's spending review programme over the four-year term of government. The coalition agreement is politically binding but is an instrument for the executive of the government and does not have a legal

status through parliament. Political leadership is demonstrated through key stages of the spending reviews:

- The Cabinet determines the topics and/or areas of government to review based on government priorities and the politics of the day.
- The Cabinet approves the terms of reference of a spending review and publishes the terms in the Budget Memorandum along with guidance information on the conduct of the review.
- The Cabinet determines which recommendations from the spending review it will approve.

The analysis underpinning a spending review occurs through a non-political working group, co-ordinated by the Ministry of Finance. Both the report by the working group and the Cabinet's decisions are released publicly.

Public servants carry out spending reviews

Public servants prepare the analyses and scenarios for a spending review and implement the recommendations adopted from spending reviews. This includes an active engagement by public servants in articulating the scope of the review, desired outcomes and outlining areas where ministerial involvement is needed.

Spending reviews are a resource-intensive and specialised activity where sufficient resources need to be dedicated to the process. It is essential that Ministry of Finance staff have expertise in undertaking reviews and understand the challenges facing the line ministry being scrutinised. Likewise, it is important to build close collaboration with line ministries, both to enhance the capacity for conducting spending reviews and to create trust and a sense of ownership of the spending review process.

Box 4. Building capacity on spending reviews

A number of countries have established specialised units within finance ministries to co-ordinate spending reviews. The units support capacity building of public servants and build institutional knowledge so lessons from one spending review can be applied to future reviews.

- Latvia implemented spending reviews as an integrated part of the 2016 State Budget. Latvia has since looked at how to improve the process by carrying out deeper analysis of spending and the possible ways to reduce the administrative burden. A separate division (Budget Development Division) was established within the Budget Department in mid-2018 dedicated to spending review.
- Norway established a specialised unit for spending reviews in the Ministry of Finance to build capacity and scale up the use of spending reviews. Located within the Budget Department, the unit works closely with line ministries to reach agreements on the set of recommendations put forward to ministers for final decision.

3. Set up clear governance arrangements throughout the review process

Clear roles and responsibilities

A clear governance structure at all stages of the spending review process is essential for their success.

- The Ministry of Finance performs a fundamental role in a spending review. It is involved at all stages and is responsible for the link between a spending review and the budget process.
- Line ministries are also involved in all stages of the spending process and are responsible for implementing the decisions from a review in co-ordination with the Ministry of Finance.
- The Cabinet may also be engaged in the process, most notably at the beginning of a spending review, when the topics and scope of a review are determined and at the conclusion when recommendations are adopted.

Governance arrangements for spending reviews are usually articulated in Terms of References. A two-fold governance arrangement can be formed whereby a steering group is assigned with overseeing the process, and a working group with carrying out the day-to-day operation of spending reviews.

Steering groups

A steering group provides oversight during the review process. It brings findings and recommendations to the relevant ministers, who discuss the findings within the cabinet. The steering group also assigns tasks to the working group, and supervises and co-ordinates its contribution. Members of the steering group typically include senior representatives from the Ministry of Finance and the line ministry (ministries) involved in the spending review.

Box 5. Steering groups in Norway

In Norway, all spending reviews comprise a steering group and a working group. Representatives from the Ministry of Finance, line ministries and if applicable relevant agencies are all represented on both the steering group and the project team. Whilst a representative from the Ministry of Finance chairs the steering group, a representative from a line ministry often holds the position of project manager in the working group. The working group works closely with external experts (if applicable) in order to ensure the quality of work and to ensure that the spending review includes relevant stakeholders and knowledge resources from both the line ministry and relevant stakeholders. The steering group has the overall responsibility for the quality of the material submitted to the government. The members of the project team and the steering group have a joint responsibility in ensuring the quality of the spending reviews. As a final step before the conclusions of a spending review are finalised, the working group, including the external experts, give a presentation of the main findings and recommendations to the relevant ministers, and as such, government ministers get a first-hand insight to the spending review, which is an important step in ensuring political acceptance of the findings.

Working groups

The analytical capacity of a spending review is concentrated in the working group. They analyse topics according to the objectives of the spending review, prepare options based on efficiency, effectiveness, and value-for-money and propose recommendations to the steering group. Working groups usually consist of staff from the Ministry of Finance and relevant line ministries. External experts may also be involved in the working groups as appropriate. In the case of an external representative, it is important to find individuals who understand the workings of government so they can contribute effectively.

It is essential to effectively engage line ministries in the spending review process in order to promote the ownership and legitimacy of the conclusions of spending reviews, as well as to benefit from the information and expertise at their disposal.

Box 6. Working groups in the Netherlands

In the Netherlands, the Ministry of Finance initiates spending review topics and draws up procedural guidelines and forms working groups. The working group is chaired by an independent expert, and the Ministry of Finance and line ministries provide a joint secretariat. Members of the working group are at a director level, or higher. The key rule is that no member of the working group may “veto” another member’s proposal. Before a report is finalised, an inter-departmental committee chaired by the Ministry of Finance checks whether the working group has followed the procedural guidelines presented in the terms of references.

4. Ensure integration with the budget process

Alignment with the budget process

Spending reviews should be systematically integrated into the preparation of the government’s budget. This link to the budget process allows recommendations from spending reviews to be connected to the government’s fiscal management and appropriation processes. Most OECD countries link the spending review process to the annual budget process or the medium-term expenditure framework.

The spending review timetable should be planned so that findings are available in time for the budget formulation process so governments can compare merits of new spending proposals against changes to the composition of existing spending.

This timeframe can be highlighted in the Terms of Reference for the spending review.

Box 7. Spending reviews in New Zealand and Norway

In New Zealand, where spending reviews are referred to as ‘baseline reviews,’ the Treasury and the relevant line ministry assess the financial position of that ministry. The 2018 baseline review of the Ministry of Social Development was used to assess the reprioritisation of spending and the future funding needs of the ministry. The government published the terms of reference, an interim report and final report of the completed review. The Cabinet’s decisions from the baseline review were then included in the government’s 2019 Budget.

In Norway, spending reviews are aligned with the budget process and a routine part of budget planning. The Norwegian government initiates a budget strategy conference in autumn where the economic outlook over the medium-term is discussed. Based upon that discussion, the government decided its priorities and guidelines for the budget process for the following year. Mandates for spending reviews have been an important part of the discussion, where the results of previous spending reviews are also reviewed. Soon after the final spending review report is delivered, the Ministry of Finance, in close cooperation with line ministries, present the recommendations to the government for approval. Thus, recommendations from spending reviews that have direct effect on spending are integrated into the budget process.

Alignment with medium-term frameworks

A medium-term horizon (3-5 years) can enhance the effectiveness of spending reviews. Longer time horizons increase the range of options governments can consider compared to a single year. In many instances, the findings from a spending review can only be implemented over the medium-term, such as redesigning the delivery of public services and proposing legislative changes.

It is important that the recommendation of a spending review are included in the government’s medium-term expenditure framework. It reflects the implementation of the recommendations in concrete terms, provides increased transparency and a greater degree of certainty about future funding levels.

Box 8. Spending reviews in Denmark

Spending reviews have been undertaken for more than 20 years in Denmark. They are led by the Ministry of Finance, with the government using them to reallocate resources and increase efficiency. The spending reviews inform budget negotiations and decisions on multi-annual budget agreements. The reviews are conducted over a relatively short period, where the decision on which reviews to conduct is taken in January or February and the reviews are undertaken over the ensuing months with the aim of having the findings available by the beginning of May. This ensures the findings of a spending review are available when the government decides on budget priorities in June.

Evaluations and performance budgeting frameworks

Spending reviews align to the government's budget cycle, focus on the efficiency and effectiveness of delivering public services and conclude with options that identify how existing expenditure can be allocated to achieve the government's priorities. As such, they differ from an evaluation of public policy. Given that spending reviews are prepared within a short period, collecting additional information can be challenging, highlighting the importance of quality and availability of existing information and data.

Evaluations, performance information frameworks and performance audits by supreme audit institutions can yield valuable information and should be available and used in the spending review process. Likewise, spending reviews are an important mechanism to improve the availability and quality of the performance information considered during the budget preparation process.

Box 9. Use of performance information for Spending Reviews in Mexico

The Ministry of Finance of Mexico systematically uses performance information for the preparation of spending reviews. The Ministry's Performance Evaluation Unit provides information on the level of achievement for each budget programme. It also monitors the follow-up of recommendations from earlier evaluations.

The National Council for the Evaluation of Social Development Policy (CONEVAL) also prepares an annual "Considerations for the Budget Process" document. It analyses the contribution of budget programmes related to national social policy priorities.

5. Implement recommendations in an accountable and transparent manner

Recommendations from spending reviews are clear

Spending reviews should conclude with clear recommendations. The recommendations are an essential element of a spending review and bring the review to a conclusion. In order to support the preparation of recommendations, the analyses that takes place in the working group may include scenarios and options for consideration.

Box 10. Spending reviews in Greece

Greece started implementing spending reviews after the 2008 financial crisis. The first reviews were a comprehensive, top-down exercise with strong leadership from the Ministry of Finance that focused on identifying savings to improve fiscal balances. Today, the process has shifted away from focusing mostly on savings, towards also assessing the quality of spending and allowing for reallocation of resources, with stronger involvement of line ministries. Greece has been working on embedding the reviews as a permanent technical process that produces possible savings options to be included in the government's budget process every year. To achieve this, all possible options for savings and reallocations are explored and a portfolio of possible spending review measures is built for each review area, and the measures that are to be implemented in the upcoming budget are selected by political leaders.

Monitor implementation of spending review decisions

The relevant ministry (or ministries) is accountable for implementing the conclusions of spending reviews in co-ordination with the Ministry of Finance. Line ministries and the Ministry of Finance keep ministers informed of the progress on implementing decisions from spending reviews.

It is essential for the Ministry of Finance to monitor the implementation of spending review decisions and hold line ministries accountable for delivering the agreed conclusions in full and on time. This increases awareness of potential fiscal risks to the government and acts as an early warning signal to any potential issues.

Box 11. Monitoring the results of spending reviews

Slovak Republic: The government established a Value-for-Money Unit within the Ministry of Finance to strengthen the analytical capacities that inform decisions on public expenditure. The Value-for-Money Unit has increased the scale and sophistication of spending reviews, as evidenced by expanding the spending reviews from a single sector to cross-government reviews. In this context, monitoring the implementation of spending reviews is a priority activity where the implementation of results is systematically reported on, and any potential risk is tracked.

United Kingdom: After the publication of a spending review, the Treasury is responsible for overseeing its implementation, including spending controls during the year, and monitoring potential risks (e.g. savings that have been identified in the spending review but may fail to materialise) through regular engagement by the Treasury's spending teams with spending departments.

6. Ensure full transparency of spending review reports and the review framework

Conclusions of spending reviews are available publicly

Transparency supports the integrity, accountability, and oversight of spending reviews. Governments determine the timing of spending review reports and resulting decisions. The final reports from a spending review should be available publicly along with the final decisions adopted from the reviews, even for difficult spending reviews that result in major fiscal consolidation measures. This facilitates their effective implementation and increases transparency around budget decisions.

Box 12. Spending reviews in Latvia

In 2015, Latvia amended its budget laws to include a systematic programme of public spending reviews. The Ministry of Finance is responsible for conducting the spending reviews. Each year the Cabinet approves the scope of the spending review programme. In 2019, the scope referred to priority topics for horizontal review (e.g. public procurement), public policy (e.g. inpatient healthcare), and system improvements (e.g. data automation). The reports from the spending review programmes for the past five years are available on the Ministry of Finance website. The results are also produced in an accessible format to show the reallocation of expenditure brought about by the spending reviews in that year.

The governance arrangements and guidance materials are available publicly

Clear communication is crucial and underpins the integrity of the process. A new spending review should include an announcement of its high-level objectives and the areas of expenditure to be examined. It should be accompanied by the review's terms of reference and other guidance materials.

Box 13. Spending reviews in the United Kingdom

In the United Kingdom, spending reviews are a co-ordinated exercise across the whole-of-government. Emphasis is placed making guidance material and related information public. Two features of the guidance materials are notable:

- **Framework approach:** The guidance materials outline the relationship between spending reviews and the government's planning and performance framework. The materials show how the findings from spending reviews contribute to the preparation of departmental plans, the annual budget, annual reports, and public expenditure statistical analysis publications.
- **General guidance on performance:** The Treasury produces frameworks, and guidance publications on performance, public value, appraisal, and evaluation. For example, 'The Green Book' provides guidance on such things as social cost-benefit analyses, sensitivity analysis and the capital expenditure to better understand the efficiency and effectiveness of expenditure.

7. Update the spending review framework periodically

The framework should be updated according to ever-changing challenges

A spending review framework is a government policy and like all government policies, it should be reviewed periodically to ensure it is performing as intended. It should take stock of changes to the environment in which it operates as well as reflecting on strengths and potential weaknesses observed within the current spending review framework. The increased use and broader application of spending reviews illustrates how spending reviews have evolved to suit the circumstances of a country.

Such a review should consider how spending review policy has performed over time relative to its objectives. It should have regard for changes in institutional capacities and risks that may arise through the implementation of the policy. In doing so, the review can assist in bringing about increases to the effectiveness of the policy and the maturity of institutional capacities.

In addition to such a fundamental review at certain intervals, each individual spending review should identify lessons from its experience that can inform future spending reviews within the government's existing policy guidance.

Box 14. Canada and Ireland: evolving objectives of spending reviews

Canada: The Canadian government has used spending reviews since the 1990s and the objectives of those reviews have changed alongside changes in the economic environment. During the fiscal crisis in the 1990s, reviews aimed to address budget deficits through expenditure reductions. In 2003, the expenditure reviews focused on results during a time of greater economic prosperity. This focus continued until the late 2000s when the focus moved to strategic reviews with an emphasis on gaining oversight and understanding of expenditure outcomes.

Ireland: During the 2008 financial crisis, the main objective of Ireland's comprehensive expenditure report was to identify areas where public expenditure could be decreased in order to meet challenging fiscal objectives. Today, the process is more collaborative where line ministries have greater involvement in the review process. For the most recent spending reviews, the objectives were to create a stock of analysis to inform the government's resource-allocation decisions, to underpin the efficiency and effectiveness of spending with a focus on outcomes, provide evidence for potential reforms, and to ensure that the findings were embedded within the budgetary process.