

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

Ronnie Downes

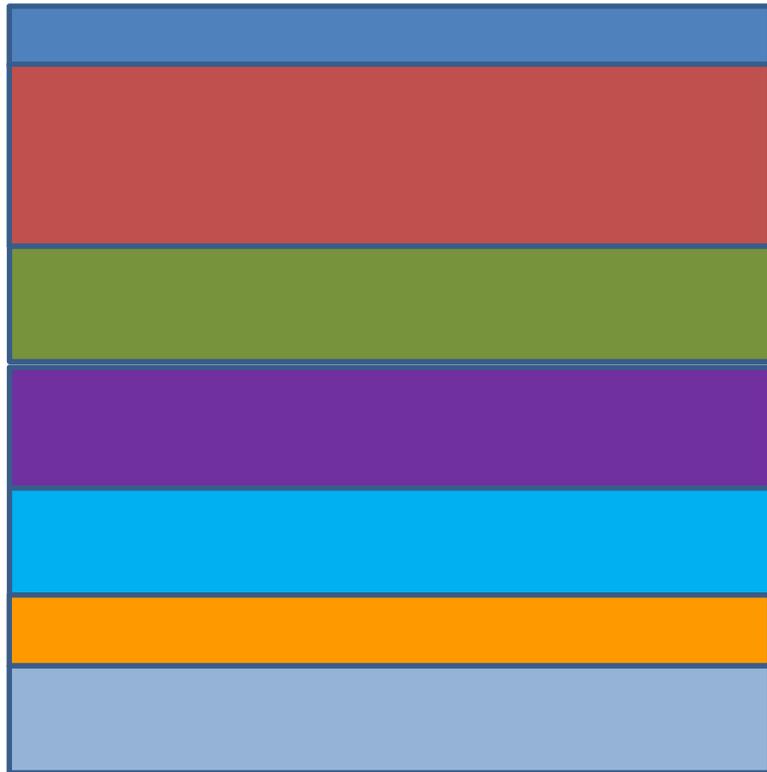
Deputy Head - Budgeting and Public Expenditures,
Public Governance & Territorial Development
OECD

Visit of Norwegian Productivity Commission
22 June 2015

Spending Review – What? and Why?

- *A critical re-assessment of existing expenditures, and of the policies they are based upon, in light of the principles of efficiency, effectiveness, economy and/or affordability*
- Baseline expenditure is usually largely fixed: 80-90%
- Harder for governments to identify “fiscal space”
- **Requirement to live within fiscal limits**
- Are those old decisions still the best decisions? new priorities
- Scope for efficiency, modernisation, reform and innovation
- Move from “incremental” to a more “zero-based” approach

Expenditure baseline analysis – focusing the mind of policy-makers

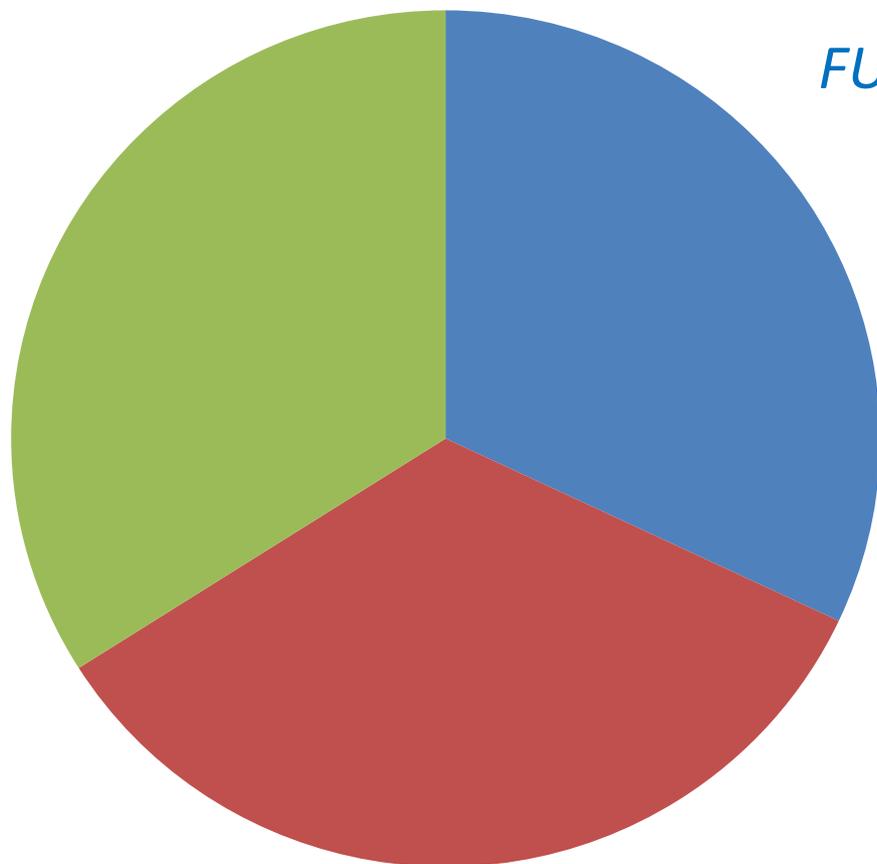


“FIXED” VERSUS “FLEXIBLE” AREAS

- Constitutional
- Legal - fixed
- Legal - annual
- Contractual commitments
- Administrative commitments
- Political commitment
- Sensitive
- Discretionary



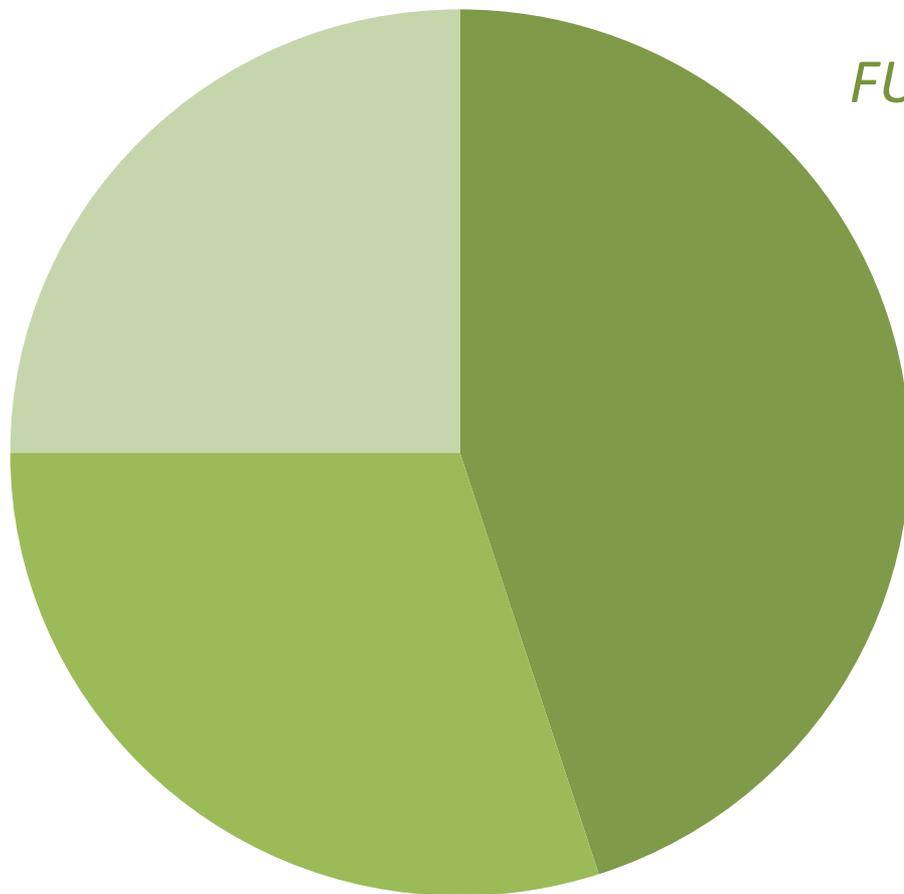
Expenditure baseline analysis – focusing the mind of policy-makers



FUNCTIONAL BREAKDOWN 1

- Public pay
- Social welfare
- Other

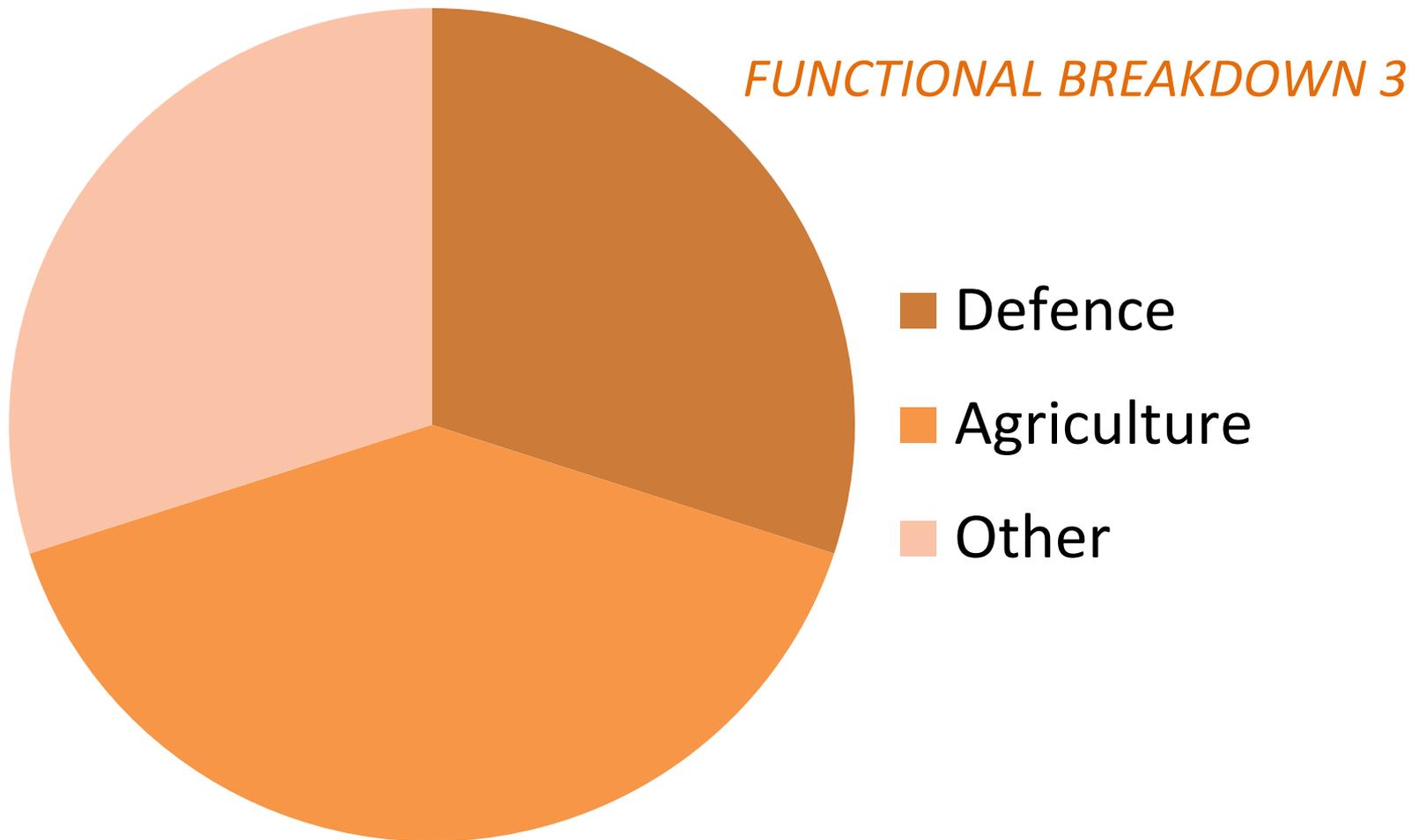
Expenditure baseline analysis – focusing the mind of policy-makers



FUNCTIONAL BREAKDOWN 2

- Health
- Education
- Other

Expenditure baseline analysis – focusing the mind of policy-makers



Typology of spending review

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="707 801 1912 1352"> <tr> <td data-bbox="707 801 1286 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="1286 801 1912 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>
<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>		

Source: adapted from OECD, 2011

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

OECD country example: CANADA

- Programme Review (mid-1990s) aimed at fiscal consolidation/reining in high debt and deficits
 - Agency reviews
 - Tough agency specific targets
 - “war of attrition” – not a sustainable model?
- Strategic Review (2007-2011)
 - Create additional fiscal space for new spending priorities
 - Permitted “reinvestment proposals”
- Strategic and Operating Review (2011-2012)
 - Comprehensive
 - Additional focus on operating efficiencies
 - no “reinvestment proposals”

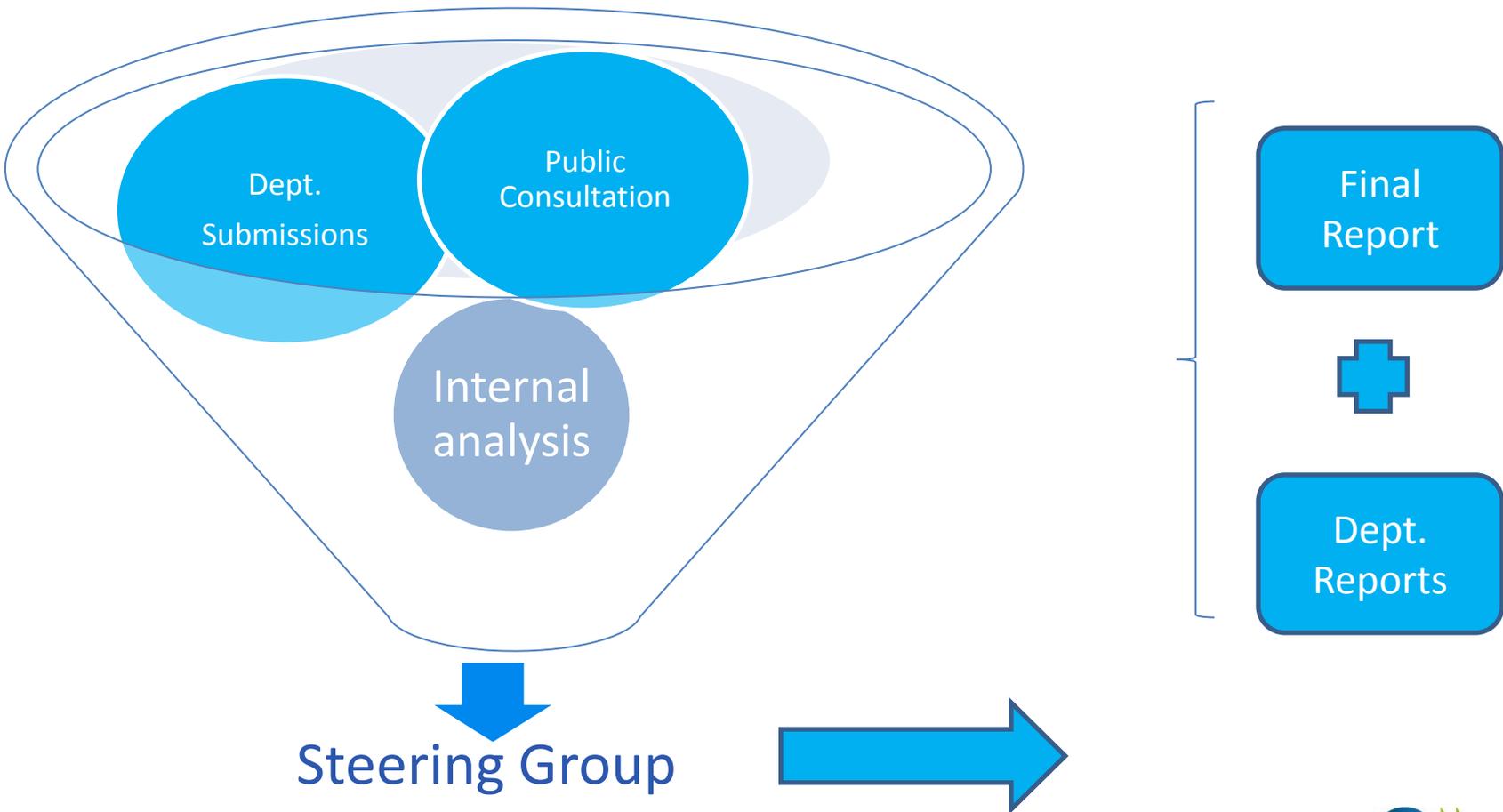
OECD country example: NETHERLANDS

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

OECD country example: IRELAND

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

Spending Reviews in Ireland: Main components



Spending Reviews in Ireland: Methodology – Value for Money Template

Test 1

- Rationale
- Objectives
- Relevance
- Sunsets?

Test 2

- Effectiveness
- Alternatives
- Benchmarking

Test 3

- Trend in outputs
- Unit costs
- Admin costs

Spending Reviews in Ireland: Cross Cutting – Some Horizontal Papers



Lessons learned

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

Lessons learned

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

Integrated element of OECD Budget Principles

