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Spending reviews

by
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This article focuses on the optimal design of spending review processes. It contents that sending review should be an integral part of the government budget preparation process, in order to support aggregate fiscal discipline and to increase the fiscal space available for essential new spending initiatives. The article discusses the appropriate focus and coverage of spending review, the assignment of roles and responsibilities during the process, and the information base of spending review.

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1. Introduction

In the years since the onset of the global financial crisis in 2007, spending reviews have come to be widely used by OECD governments. It has, during that time, been employed principally as a tool for reducing aggregate expenditure to achieve fiscal consolidation. A spending review is, however, much more than a tool for cutting aggregate expenditure. Properly viewed, it is a core instrument for ensuring good expenditure prioritisation – more specifically, for expanding the fiscal space available for priority new spending in a context of firm aggregate expenditure restraint. Given the difficult fiscal context facing many OECD governments in the medium and long term, it is essential that spending review become a permanent feature of the budget preparation process. The use of this important budgetary instrument must not be allowed to dwindle away once the immediate crisis has passed, as has happened in some countries in the past.

If spending reviews are to be institutionalised, it must be designed appropriately. This requires careful analysis of what has worked, and what has not worked, in spending review practices to date. It also requires explicit consideration of the ways in which a spending review, as an ongoing part of the budget preparation, may need to be designed differently from a spending review used as an essentially ad hoc tool of major fiscal consolidation. Moreover, because a spending review is a resource-intensive activity, it is crucial that it is designed in such a way as to be as cost-effective as possible.

The questions of how to design spending reviews as an ongoing process, and how to ensure that it survives as a core instrument of budget preparation, are the primary foci of this paper.

This paper is structured as follows: The initial sections discuss the definition and objectives of spending reviews and its relationship to the budget process. This is followed by an overview of the development of spending reviews in OECD countries over recent decades, contrasting the recent post-global financial crisis surge in spending review activity with the more limited pre-crisis use of spending reviews. The challenge of maintaining spending reviews in the future as a permanent element of the budget preparation process is then discussed. This is followed by three sections discussing key aspects of the design of a spending review – its scope, processes and roles, and its information base. Following on from this, the relationship between performance budgeting and a spending review is examined. This leads to final reflections on the means of maintaining the focus of a spending review as a permanent element of the budget preparation process. Conclusions follow, together with a set of suggested "Principles for the Conduct of Spending Reviews".

In overview, the principles put forward at the end of this paper call for spending reviews to be a continuing process, fully integrated into budget preparation. They suggest that spending reviews should have wide coverage of government expenditure, and should aim to deliver both efficiency and strategic savings. Spending reviews should nevertheless normally be selective rather than comprehensive, with comprehensive reviews undertaken exceptionally when either fiscal circumstances or major changes in government priorities require special in-depth scrutiny of spending. Care should be taken to keep spending reviews focussed on the identification of savings measures, and to avoid the dissipation of energy through a broader focus on, for example, new spending proposals or broader public sector reform.

With respect to roles and responsibilities in the spending review process, firm political oversight and direction of the spending review process is critical. The overall management of the spending review process at the bureaucratic level by the Ministry of Finance (MOF) – together, where relevant, with any other central agencies which play an important role in the budget process – is essential for its success. The primary work of identifying savings options should normally be carried out by the civil service, with selective use of external expertise. In developing savings options, either a joint review or bottom-up approach can be taken with respect to the roles of the spending ministries and MOF. In either case, the process must be designed in such a way as to place substantial pressure upon spending ministries to "play the game".

Finally, steps should be taken to improve the information base of spending reviews – particularly through the greater availability of appropriately-designed evaluation studies.

The treatment of spending reviews in this paper is primarily thematic, as opposed to case study based. The paper draws upon a recent detailed study of spending review systems in six OECD countries (Robinson, 2013a), together with the OECD's 2012 survey of spending review practices, and other information on spending review practices in the broader set of OECD countries.

Box 1. **Overview of the conceptual framework for spending reviews**

The following key concepts are discussed in this paper:

A spending review is the process of developing and adopting savings measures, based on the systematic scrutiny of baseline expenditure.

Spending reviews may be efficiency reviews (focused on savings through improved efficiency) and/or *strategic* reviews (focused on savings achieved by reducing services or transfer payments).

There are four stages in the spending review process: i) the framework stage (deciding the key design features of the spending review system); ii) the parameters stage (deciding specific savings targets, review topics, procedural calendar, etc.); iii) the savings option stage (developing savings options to be put forward to the final decision makers); iv) and finally the savings decision stage (the final decisions on which savings measures will be implemented).

During the savings options stage, there are three alternative approaches which may be taken in assigning roles to the MOF and spending ministries: i) bottom-up review (spending ministries develop their own savings options, with alternatives prepared by the MOF); ii) joint review (savings options are developed in a joint spending ministry/MOF review teams); iii) and top-down review (savings options are developed by the MOF with limited spending ministry involvement).

Spending reviews examine review topics, which may be of three types: i) programme reviews (which seek to identify strategic and/or efficiency savings in specific programmes); ii) process reviews (focused on business processes); and agency reviews (which review whole ministries or other agencies); iii) a horizontal review focuses on the review topic which cuts across several government agencies (e.g. a review of government-wide procurement practices).

Box 1. Overview of the conceptual framework for spending reviews *(cont.)*

Selective spending review is a spending review which focuses on a specific list of review topics which are decided at the outset (i.e. during the parameters stage) of the spending review process. By contrast, a comprehensive spending review is not constrained by any such ex-ante list of review topics, and aims to review spending in greater depth. Comprehensive spending reviews do not literally try to examine everything.

2. Nature and objectives of spending reviews

A spending review is defined in this paper as the process of developing and adopting savings measures, based on the systematic scrutiny of baseline expenditures. [1, 2]

The appraisal of proposals for new or additional spending does not constitute spending review, even when focused on possible increases in the funding of existing programmes or projects.[3]

Spending reviews are used for either or both of two key purposes: firstly, to give the government improved control over the level of aggregate expenditure and secondly to improve expenditure prioritisation.

Box 2. The UK 2010 Comprehensive Spending Review (CSR)

The UK 2010 Comprehensive Spending Review (CSR) was a “roots and branches” review aimed at achieving large reductions in public expenditure for fiscal consolidation purposes. Reflecting this, the CSR was very much an efficiency and strategic review. Unlike the Netherlands CER, the UK CSR was not limited by any ex-ante list of spending review topics. It covered nearly all government expenditure – budget, mandatory and transfers to sub-national government – as well as tax expenditures. The CSR process was a primarily bottom-up one, in which the main source of savings options was spending ministries (“departments” in UK terminology) themselves. These were required to conduct their own internal spending reviews and then to present formal submissions detailing savings options to Treasury. After receiving departmental submissions, Treasury officials then also injected saving options of their own. The whole process was presided over by the Treasury Ministry’s newly-created Public Expenditure (PEX) Committee of Cabinet.

There are two types of savings measures – efficiency savings and strategic savings – which spending review may be tasked to identify. Efficiency savings are expenditure reductions which are achieved by changing the way in which services are produced so as to deliver the same quantity and quality of services (i.e. outputs) at a lower cost. They have also been referred to as “operational” savings. Strategic savings, by contrast, are expenditure reductions achieved by cutting back services (outputs) or transfer payment delivered to the community.[4] They have been referred to elsewhere as “output” savings (Robinson, 2013a).

If – for example, the Gershon Efficiency Review in the UK in 2004 (see further below) – a spending review is targeted exclusively at achieving efficiency savings, it is referred to in this paper as an efficiency review. If, on the other hand, its focus is instead on both types of savings – like, for example, the Strategic and Operating Review carried out in Canada in

2011-12 – it is referred to here as a strategic and efficiency review. This differs from the terminology used in a previous OECD papers on spending review (OECD, 2011; 2012a: 9), in which the term "strategic review" was used to refer to spending reviews targeted at both strategic and efficiency savings.

Box 3. **The 2010 Netherlands Comprehensive Expenditure Review**

One notable recent example of a spending review was the 2010 "Comprehensive Expenditure Review" (CER) in the Netherlands. The CER examined 20 review topics, and was primarily a strategic review. Each topic review was carried out by a review task force, with uniform terms of reference and processes set by the Ministry of Finance and agreed on by the Cabinet. Following a well-established Dutch tradition, review task forces are comprised of both representatives of the spending ministry and of the Ministry of Finance (MOF). Indeed, the intense involvement of MOF officials with strong policy skills and detailed portfolio knowledge – particularly from the Inspectorate of Budget – in the development of concrete savings measures has been essential to the success of spending reviews. During the 2010 CER, each review task force was required to develop options capable of delivering at least a 20 per cent reduction in expenditure – over four years – in the programme under review. These options were then presented to the political leadership for a decision, and played a key part in both the 2010 election debate about budgetary savings measures, and in the subsequent Coalition Agreement on expenditure ceilings. The CER process built on lessons learned in the conduct of spending review processes in the Netherlands stretching back over two decades. There is now cross-party agreement to adopt a regular four-year spending review cycle, with something like the 2010 FER being conducted in the run-up to each election.

Savings measures arising from spending reviews are, in principle, specific in the sense that the government knows how the reduction in baseline expenditure concerned will be achieved – that is, what services or transfer payments will be cut back (in the case of strategic savings) or what cost-reducing changes to business processes will be made (in the case of efficiency savings). Expenditure reductions achieved through spending review are therefore different from non-specific cuts, defined as cuts which the government imposes on ministries without review and without knowing in advance how and where they will be implemented.

A final definitional point: systems for assessing or rating the effectiveness and efficiency of government expenditures do not, in themselves, constitute spending review. Consider, for example, the Programme Assessment Rating Tool (which operated in the US under the Bush administration), which assigned ratings such as "effective" and "ineffective" to US federal government programmes. Because the PART rating process did not recommend on whether programmes rated as "ineffective" should be cut, it cannot be considered to fit the definition of spending review. Any decision by the President on whether to recommend that Congress cut funding to an ineffective programme had to be made based on further analysis subsequent to the PART rating process. After all, the rating of a programme as ineffective does not automatically mean that the elimination of that programme is a viable savings option. The appropriate solution to the programme's difficulties may instead be programme redesign or even additional funding.

For the same reason, government-wide evaluation systems (such as that which existed in Canada for many years) – which require ministries to evaluate their programmes and systems – cannot be considered to constitute a spending review. Only review processes which are designed to develop explicit savings options for government decision can be regarded as a spending review.

Rating and evaluation systems are better regarded as part of the information base available to spending reviews. Thus, for example, the knowledge that a specific programme has been rated/evaluated as ineffective is a valuable piece of information in determining whether the closure of the programme is a viable savings option.

3. Spending reviews and deficiencies in the budget process

As emphasised above, a spending review is a tool for better expenditure prioritisation (allocative efficiency) – that is, for helping reallocate limited government resources to programmes which deliver the greatest benefits to society. The increased use of spending reviews is in part based on the recognition that conventional budget preparation processes tend to be weak on prioritisation.

All too often, budget preparation focuses disproportionately on the consideration of new spending proposals, with little review of baseline expenditures. When this is the case, it is all too easy for scarce resources to continue to be wasted on existing programmes which are inherently ineffective, low priority, or which have long outlived their usefulness – or on inefficient business processes. The disproportionate focus upon new spending is a central feature of the well-recognised problem of budgetary incrementalism, which has been defined as "inattentiveness to the (budgetary) base" (Berry, 1990).

The failure of conventional budget preparation processes to fully address expenditure prioritisation is not accidental. It is no easy matter for central decision-makers, whether in MOF or at the level of the political leadership, to reallocate resources. To do so, requires considerable information about the efficiency and effectiveness of baseline spending and involves overcoming resistance from spending ministries and ministers. Particularly in the case of strategic savings, reallocation also creates political resistance on the part of those who benefit from the services or transfer payments being cut. There is consequently a great temptation to avoid reallocation to finance new spending initiatives, and instead to rely upon revenue growth or, when revenue growth is insufficient (as it usually is), to simply permit aggregate expenditure to grow faster than revenue notwithstanding the deficits this produces. And if expenditure cuts absolutely cannot be avoided, the path of least resistance is often to fudge the matter by relying on non-specific budget cuts, such as uniform "across-the-board" percentage cuts to all ministry budgets.

It is for these reasons that in many countries, in the "good times" before the GFC, both the MOF and the political leadership played a relatively passive role in expenditure reallocation. Authority to reallocate funds within ministry budgets was often deliberately delegated to the ministries concerned. Reallocation between ministries took place only at the margins, and budget flexibility was often limited.

Spending reviews aim explicitly to change this situation. It involves a deliberate re-assertion of the role of the centre in the reallocation of resources. It expressly recognises that only through a willingness to prune back waste and to cut services which are ineffective, outdated or otherwise of low priority can substantial room for new priorities be found while keeping aggregate public expenditure under control. Spending reviews acknowledge that good expenditure prioritisation requires not only careful consideration of all new spending proposals, but also continuing reconsideration of baseline spending.

4. Integration of spending reviews into the budget process

A spending review is not necessarily an integral part of the budget preparation process, but experience teaches that it should be.

During the 1980s, a number of governments set up ad hoc spending reviews which were, to a greater or lesser extent, separate from the budget process. The Grace Commission established by President Reagan, which reported to Congress in 1984, is a representative example: the Commission's timetable was not linked to budget preparation, it was not guided in its work by any budgetary savings targets, and its work was carried out largely outside government by individuals drawn from the private sector.

By contrast, most spending reviews conducted by the OECD governments over the past two decades have been deliberately and fully integrated into the budget preparation process. This means, that they have been designed to feed savings options to the government for consideration and decision during the preparation of the budget. That is, as part of the overall process of deciding how much funding to provide to each spending ministries for the year or years to come. They have therefore worked under deadlines intended to ensure that savings options are made available at the right stage of the budget preparation process.

There are two key reasons why spending review should be integrated into the budget preparation process.

The first is that both allocative efficiency and aggregate expenditure restraint benefit from simultaneous consideration of new spending proposals and savings options. Simultaneous consideration makes it possible for governments to adopt additional high-priority new spending proposals without increasing aggregate expenditure, by selecting additional savings options sufficient to fund the additional new spending. This encourages direct comparison of the merits of new spending proposals and baseline expenditure. It directly supports top-down budgeting, which requires adherence to a firm aggregate expenditure ceiling established at the start the budget preparation process (Robinson, 2012). In order to permit simultaneous consideration, the spending review timetable must ensure that savings options are ready for presentation to the political leadership in the budget preparation process at the same time that it considers major new spending proposals.

The second reason why spending review should be integrated into the budget preparation process is to ensure that the scale of the spending review effort is calibrated to the government's budgetary objectives for aggregate expenditure. If, for example, the government wishes to implement deep cuts in aggregate public expenditure, spending reviews will need to be particularly in-depth in order to identify correspondingly extensive and high-value savings measures. If the context is different, and the government sees spending reviews rather as a means of increasing the fiscal space for priority new spending (while properly controlling the growth rate of aggregate expenditure), spending reviews may not need to be as far-reaching.

It can be useful – particularly in the context of spending reviews designed to achieve major fiscal consolidations – to strengthen the link between the spending review process and the government's objectives concerning aggregate expenditure by setting targets for the quantum of savings to be identified via a spending review (see Box 4). Most countries which have used this approach have set uniform minimum targets which apply to all ministries (e.g. 5 per cent for all ministries), or to each of the programmes selected for review. However, it is possible – particularly during a tough comprehensive spending review – to set differentiated targets, which demand that lower-priority ministries identify larger savings than higher-priority ministries.

Box 4. **Savings targets and spending reviews**

Recent examples of savings targets set to guide spending review processes include:

- Canada: under the three years of Strategic Review (2007-08 to 2010-11), each agency reviewed was required to identify savings options totalling at least 5 per cent from their lowest-priority, lowest-performing programme spending. Under Strategic and Operating Review (2011-12), agencies were required not only to present options for a 5 per cent cut, but also a set of options for a 10 per cent cut.
- France: During the first round of the *Révision Générale des Politiques Publiques* (*RGPP*) process (RGPP1) in 2007-08, review teams were asked to identify efficiency savings sufficient to ensure that the policy of non-replacement of one in two retiring civil servants would not impact on services. This effectively set a target for the efficiency savings to be achieved. During RGPP2 (2010-11), an additional target of a ten per cent reduction in non-salary administration costs (to be achieved by 2013) target was set.
- Denmark: although savings targets have not been traditionally set as part of Denmark's long-standing spending review process (the Special Studies process, discussed further below), this has changed recently. In the recent review of the police budget, a savings target of DKK 600 million was set (equivalent to approximately 6 per cent of police spending). A savings target was also set in a major review of defence expenditure.

Precisely because the importance of integrating spending reviews into the budget preparation process is now widely understood, most spending reviews over the past two decades have been directed and managed, at the bureaucratic level, by the MOF, either exclusively or in partnership with other "central agencies", which may play a key role in budget preparation in particular countries (such as the president's or prime minister's office). Exceptions to this – such as the 2007 Gershon Efficiency Review in the UK – have been rare.

5. Spending reviews prior to the Global Financial Crisis (GFC)

In the years immediately prior to the GFC, spending reviews were not an important element in the budget preparation processes of OECD countries as a whole. Only three OECD countries could be unambiguously said to have systems of ongoing spending reviews – the Netherlands (Interdepartmental Policy Reviews), Denmark (Special Studies), and Finland (the Productivity Programme).

It might seem surprising in this context not to mention two other countries – the United Kingdom, and Australia. After all, in the UK, periodic so-called Spending Reviews (SRs) had taken place for almost twenty years prior to the GFC[5], and in Australia, the work of an Expenditure Review Committee (ERC) of Cabinet had been at the centre of the budget preparation since the mid-1970s. It is, however, important not to draw the wrong

Box 5. **Denmark's Special Studies review process**

Since the mid-1980s, Denmark has had a system of spending reviews known as "special studies", and this process has continued to operate right up to the present time. The special studies are part of the normal annual budget preparation process, although there have been some years when no special studies have been undertaken. Although in principle the special studies may recommend increases in funding for existing programmes, in practice this is rare and the focus is upon savings measures. There is no formal link to broader government performance-improvement processes.

There have typically been 10-15 special studies carried out each year, although this has increased significantly since the GFC. Historically, the primary focus of the special studies process has been upon increasing space for new expenditure priorities. However, at the present time the focus has shifted more towards aggregate expenditure reduction for fiscal consolidation purposes. This has led to an increase in both in the number of special studies and in the value of expenditure which they cover (e.g. studies of defense and police expenditure).

Most special studies are agency reviews or programme reviews, and the main focus has, over the years, been upon efficiency savings rather than strategic (output) savings.

Special studies are generally carried out by joint MOF/spending ministry taskforces, with formal terms of references approved by Cabinet. Taskforces present savings options to the Minister of Finance and the Economic Committee of Cabinet. These recommendations should in principle be based on consensus between the MOF and the spending ministry concerned, but if consensus not reached separate recommendations may be put forward. The Economic Committee generally makes the final decision about which savings measures will be adopted in the budget.

conclusions from the use of the words "spending review"/"expenditure review" in these contexts. Both the UK SR process and the Australian ERC focused on the budget preparation as a whole – including the review of new spending proposals. In neither case did the process necessarily or routinely include the review of baseline expenditure to identify savings measures. Thus, as the UK Treasury frankly acknowledges, the UK SRs prior to 2007 "focussed on allocating incremental increases in expenditure", giving little attention to savings measures (HM Treasury, 2006: 24). It would seem that, prior to the 2010 CSR, only the 2007 SR can mount a credible case for classification as a true spending review. Moreover, in Australia, the ERC – even though it had overseen two periods of intense spending review activity focused on delivering fiscal consolidation in earlier times (the first in the late 1970s, and the second in the mid-1980s) – did not pay much attention to the review of baseline expenditure in the years running up to the GFC.

Pre-GFC spending review processes were in most cases initially established in order to implement major fiscal consolidations, and were then either allowed to atrophy, or discontinued altogether, once the consolidation process was completed. When spending reviews were first introduced in the early 1980s (as the Reconsideration Procedure) in the Netherlands for example, more than thirty review topics were examined during each annual review cycle. By the time of the GFC, this had fallen to as few as five reviews annually. The Danish Special Studies saw a similar diminution in the level of review activity over time.

At least in the Dutch and Danish cases some level of continuing spending review activity was maintained. This was not the case elsewhere. As noted, spending review activity in Australia had largely dwindled away. The same was true in Canada. Canada's highly successful ad hoc Programme Review spending review process of 1994-1996 (see Box 6) was followed by a number of attempts to establish spending reviews as an ongoing process in order to deliver what one prime minister referred to as a "continuous culture of reallocation" (Good, 2008: 272). These were, however, essentially unsuccessful, and by the time of the GFC Canada had no spending review process.

Box 6. **Canadian Programme Review in the mid-1990s**

Canada is well known for the highly successful "Programme Review" (PR) spending review process which took place over two rounds in the 1995 and 1996 budgets. PR was explicitly aimed at fiscal consolidation to rein in high deficits and reduce debt. Tough agency-specific savings targets were established – as high as 50 per cent in the case of the transport ministry, and between 15-25 per cent for most other ministries. The PR process was based on agency reviews, and was guided by six "tests" (programme assessment criteria). The process was overseen by a Cabinet sub-committee. The Prime Minister "strongly and visibly supported his minister of finance" against spending ministers (Good, 2007).

The spending review activities that had existed in the years immediately preceding the GFC were often narrowly focused on identifying efficiency savings, with little or no effort devoted to the search for strategic (output) savings. Examples of this efficiency savings bias included:

- The Finnish Productivity Programme, established in 2004, and explicitly focused on efficiency savings.
- The Danish Special Studies process, which in practice focused overwhelmingly on efficiency savings.
- The 2004 Gershon Efficiency Review in the United Kingdom – a wide-ranging ad hoc efficiency reviews which constituted the most substantial British spending review (in the sense of the review of baseline spending to identify savings measures) in the pre-GFC period.

6. Spending reviews since the GFC

Since the GFC, everything has changed. In the OECD's 2012 survey, half of the member countries surveyed claimed to have a spending review process in place. This includes a significant number of countries – such as Ireland and Italy – with no significant previous experience of conducting spending reviews. It also includes countries such as Australia and Canada where spending review had, prior to the GFC, been discontinued or had largely withered away.

Examples of new spending review processes established in the wake of the GFC include:

- Ireland, which carried out an ad hoc spending review in 2008 (in order to deliver major reductions in aggregate expenditure) and then established a spending review in 2011 as an integral part of a new system of triennial Comprehensive Reviews of Expenditure.[6]
- Canada, which established an ongoing spending review process in 2007, initially in the form of Strategic Review (2007-08 to 2010-11), and then from 2011-12 as *Strategic and Operating Review* (SOR) (see Box 7 for further detail).
- Australia, which carried out a so-called *Comprehensive Spending Review* over three budget cycles during 2008-10.[7]
- France, where spending review was a key part of the "general review of public policies" (*Révision Générale des Politiques Publiques* (RGPP) undertaken under the presidency of Nicolas Sarkozy in two rounds of review [RGPP1 (2007-08) and RGPP2 (2010-11)], and formally terminated by President François Hollande after his election in May 2012.[8]

Box 7. **Recent Canadian spending review experience**

As noted above, the Canadian federal government carried out a so-called Strategic Review (SR) over four budget preparation cycles from 2007-08 to 2010-11. In 2011-12, this was replaced by a somewhat different Strategic and Operating Review (SOR) process. Under SR, the primary budgetary objective was to create additional fiscal room for new spending priorities, and the government claimed during the four years of the SR process to have reallocated all savings to new spending initiatives. Consistent with this, during the SR years spending ministries were permitted to present options for new spending financed by savings – which were referred to as "reinvestment proposals". In 2011, under SOR, the focus shifted towards fiscal consolidation and the gradual reining in of aggregate expenditure. Savings were primarily allocated to the bottom line, and agencies were no longer permitted to present reinvestment proposal.

The SR/SOR process was largely a process of agency reviews – i.e. ministry-by-ministry reviews to identify savings options. SR aimed to review all ministries over a four-year cycle. SOR was a much more intensive comprehensive review, in which all agencies were covered in a single year in preparation for substantial fiscal consolidation in the 2012 budget. These reviews are essentially decentralised (bottom-up), with each agency carrying out its own review and developing its own savings options without the direct participation of Treasury Board Secretariat (TBS) staff members. Agencies then present review submissions to the government.

Both the SOR and SR processes have been supervised at the political level by a Cabinet sub-committee. The TBS led the process at the bureaucratic level.

A striking feature of post-GFC spending review is its broad scope and more ambitious savings objectives. A leading example of this is the 2010 Comprehensive Spending Review (CSR) carried out by a newly elected government in the UK in order to deliver major expenditure cuts. Another example is provided by the Netherlands, where the number of review topics carried out in the 2010 spending review process increased dramatically to twenty, and the change of pace was symbolised in the renaming of the process as Comprehensive Spending Review (*Brede Heroverwegingenin*) from the previous more innocuous-sounding Interdepartmental Policy Reviews. Across the OECD, "comprehensive" spending reviews became the vogue.

Also apparent has been a widening of the scope of spending review processes. Most post-GFC spending review processes have placed at least as much emphasis upon the search for strategic savings as upon the search for efficiency savings. A strategic and efficiency review is, in other words, the predominant post-GFC mode of spending review.

The reason for this expansion and intensification of the spending review process since the GFC is obvious: governments have been aiming to consolidate public finances, and have in most cases viewed spending reviews primarily as a key instrument for cutting aggregate expenditure. The perceived need for fiscal consolidation reflects, or course, a number of factors the most important of which are:

- The damage done to public finances by the crisis itself – both as a result of cyclical deficits, and of the cost of crisis-linked bailouts.
- The increased awareness that in many OECD countries, public finances were structurally unsound even prior to the GFC.
- The perception in some countries that fiscal consolidation was crucial for market confidence.
- Pressure to comply with fiscal rules (e.g. the European Union's 3 per cent deficit limit).

In this context, governments have generally taken the view that they could not rely upon non-specific uniform across-the-board expenditure cuts to achieve the magnitude of reductions in aggregate expenditure which they have considered to be necessary. The use of spending review process to identify *specific* savings measures has appeared to be the only feasible means of achieving ambitious expenditure reduction objectives.

7. The future of spending reviews

As the world economy makes a slow recovery from the GFC, what will be the future of spending reviews? How should spending reviews be designed to make the best possible contribution to budgeting over the long haul?

An obvious concern is that, as crisis conditions subside, spending review will once again be allowed to wither away. The danger of this occurring may increase to the extent that there is a backlash against "austerity" policies, in a context where a spending review has come to be viewed merely as a tool for reducing aggregate expenditure.

Fiscal circumstances have, however, changed greatly since the pre-GFC era.

In the first place, whatever view one takes about the need for fiscal support for ailing economies in the recovery phase after the GFC, the need for medium and longer term fiscal consolidation in the majority of OECD countries can no longer be seriously disputed. In most OECD countries, baseline expenditure will, without major policy changes, grow unsustainably, particularly in areas such as pensions and health expenditures. The fiscal position has been greatly aggravated in most countries by the large jump in government debt during the crisis. Moreover, revenue growth is certain to be more subdued than in the pre-GFC era. Faced with these circumstances, most OECD governments will be compelled to make a much stronger effort to restrain aggregate expenditure in coming years. One way in which this has already manifested itself is in the new popularity of expenditure rules – such as the new EU rule that aggregate expenditure should not grow faster than trend GDP.

Recognition of these fiscal realities has nothing to do with one's stand on "austerity" policies. Most economists calling for more fiscal support in the recovery phase recognise clearly that any additional discretionary expenditure should be strictly temporary in nature – e.g. infrastructure projects – and should not undermine efforts to bring the growth of baseline expenditure under control.

Secondly, while it is possible in the short run, as part of a major fiscal consolidation programme, to largely ban new spending proposals and to focus the budget preparation process quasi-exclusively on cutting expenditure, this becomes impossible in the medium and longer term. New policy challenges inevitably arise which demand additional expenditure, and the challenge of finding fiscal space for high priority new spending is one which must be addressed.

Under these circumstances, the importance of maintaining spending reviews as an integral part of the budget preparation is clear.

It is, however, crucial to ensure that a spending review does not come to be seen merely as an instrument for dramatic expenditure cuts. Rather, it should be understood as an instrument for expenditure prioritisation, which is relevant whatever the prevailing policy objectives concerning aggregate expenditure may be. It is also essential to communicate the message that the need to be able to prioritise expenditures will be greater than ever before under the more difficult fiscal circumstances which face most OECD countries in the coming decades.

It will also be important to design the spending review process in a manner which is appropriate for its ongoing use as a key element of the routine budget preparation process. To do this, it will be necessary to distinguish clearly between, on the one hand, the type of spending review process which may be appropriate when a government wishes to make large and rapid cuts to aggregate expenditure and, on the other hand, the type of spending review process appropriate to the task of providing additional scope for crucial new spending initiatives in a context of generally tight public finances.

This distinction is crucial to the discussion in the following sections of this paper, where key aspects of the design of spending review processes are discussed with a view to drawing lessons, where possible, about optimal design. The central question is how to design spending reviews for the long haul, as an integral part of the budget preparation process.

8. Scope of spending reviews

A threshold question when designing the spending review process is whether to focus the process on either or both efficiency and strategic savings. It is no accident that since the GFC, strategic and efficiency reviews have become the norm. Past experience makes it clear that it is unrealistic to expect efficiency reviews alone to deliver major expenditure reductions, and to deliver them quickly (OECD, 2012a: 12)

Even a particularly in-depth efficiency review is unlikely to yield savings of more than two per cent of government expenditure. In all cases where a spending review has delivered large expenditure reductions relatively quickly, the review process has deliberately targeted strategic savings as well as efficiency savings. This is true, as in the 2010 UK Comprehensive Spending Review, which according to the government delivered cuts in departmental budgets (other than health and overseas aid) averaging 19 per cent over four years. Going back further in time, it was also true of the Canadian Programme

Review in the mid-1990s, which cut spending to something around 10 per cent over two years (Bourgon, 2009).

Estimates of savings achieved through recent spending review processes are discussed in an Appendix. However, the argument for focusing spending reviews on both efficiency and strategic savings is not based only upon the potential magnitude of savings available. If a spending review is to be used as an instrument of expenditure prioritisation, then part of its focus must be identifying ineffective or low-priority programmes. Prioritisation necessarily involves the search for strategic savings, and not only efficiency savings.

However broad its scope may be, the savings delivered by spending reviews can never be instantaneous. In most cases, it takes several years to put savings measures fully into effect, even with vigorous implementation. In the case of efficiency savings, new processes have to be introduced, sometimes in the form of significant new IT projects. Both efficiency savings and strategic savings often require personnel reductions, and these take time to achieve – particularly if civil service job security means that staff reductions need to be achieved largely through natural attrition.

Another aspect of the scope of spending reviews is their coverage – that is, what part of government expenditure is subject to review. Some spending reviews focus only upon budget expenditure (i.e. on expenditure which is legally authorised in the annual budget law), while others also cover mandatory expenditure (expenditure such as social security benefits which is authorised by standing legislation). For example, the coverage of the RGPP in France was relatively narrow, with a focus primarily at the personnel and operating costs of central government. At the opposite end of the spectrum, the 2010 UK CSR was particularly wide, including nearly all government expenditure – whether budget or mandatory – as well as tax expenditures. The recent tendency is towards broad coverage – 11 of the 15 OECD countries which claimed in the 2012 survey to have spending review processes indicated that the process covered both budgetary and mandatory expenditure.

The case for broad coverage of government expenditure by spending review is compelling, particularly given the contribution of mandatory social security and health expenditures to the fiscal sustainability challenges faced by many OECD countries.

As noted above, many of the spending reviews launched since the GFC have been labelled "comprehensive" reviews. This raises the question of whether spending review as an ongoing process should be comprehensive or selective.

To consider this question properly it is necessary to clearly define what is meant by a "comprehensive" spending review. After all, no spending review process has ever reviewed everything – i.e. every single government programme and every single business process. To do so would be completely impracticable. The term "comprehensive" cannot therefore be taken literally.

To distinguish meaningfully between comprehensive and selective spending reviews, it is useful to start by noting that any spending review process is comprised of a set of *review topics*. There are three key types of review topic:

- Programme reviews: These examine specific programmes (i.e. specific categories of services or transfer payments), and may deliver either strategic savings (by reducing the services provided by the programme) and/or efficiency savings (by lowering the costs of delivering services under the programme).

- Process reviews: These scrutinize specific business processes used in the production of government services – for example, procurement processes; IT systems and practices; or human resources management practices. Process reviews aim to achieve efficiency rather than strategic savings.
- Agency reviews: These review a whole government organisation (ministry or other agency), and may in principle cover all of the agency's programmes and processes.

Programme or process reviews may be agency-specific or they may be horizontal. A horizontal programme review examines a group of related programmes delivered by two or more agencies, while a horizontal process review looks at a particular domain of business process across several (or all) government agencies (e.g., a review of government-wide procurement practices). As noted previously by the OECD (2012a: 11), such horizontal process reviews are an important part of any good efficiency review.

Against this background, a selective spending review may be defined as a review which is limited to a specific list of review topics – programmes, processes and/or agencies – which is specified at the beginning of each round of spending review.

A comprehensive spending review, by contrast, is defined here as a review the scope of which is not limited by any *ex-ante* list of review topics, and in which review teams are asked to look at all ministries with the expectation that they should seek to identify, to the extent practically possible, the most important savings options. A comprehensive spending review is expected to have a greater scope, and to yield greater savings, than a selective review.

One implication of this definition is that, to qualify as a "comprehensive" review, the process must target both strategic and efficiency savings.

Despite the recent popularity of comprehensive spending reviews, selective spending reviews have over time been more common than comprehensive reviews. A key reason for this is the extremely demanding nature of a comprehensive spending review such as the Canadian 2011 Strategic and Operating Review or the UK 2010 CSR. Even a selective spending review is a demanding process for the MOF and spending ministry staff. But a comprehensive spending review is a truly exhausting process during which the MOF and other civil servants involved have no choice but to put other important responsibilities to one side and concentrate overwhelmingly upon the spending review process. It involves, in the words of one British minister (describing the 2010 CSR), an "enormous effort".

This suggests that comprehensive spending reviews are only desirable when a government wishes to achieve major aggregate expenditure reductions in a short period of time; whether to deliver fiscal consolidation, to reduce the size of government, or to pave the way for a dramatic shift in the direction of spending after the arrival in office of a new government with radically different expenditure priorities to its predecessor. In such cases, the government will be politically well-advised to make the cuts quickly at the start of its electoral mandate, in the hope that adverse voter reaction dies down by the time of the next election.

Under more normal conditions, a selective spending review is a better approach. Expenditure restraint rather than sudden major cuts is what is normally required, and it is easier to reallocate gradually than suddenly. Avoiding the extreme pressure of a comprehensive spending review has the added advantage that the review work carried out during each round of the spending review process will generally be more thorough and of higher quality.

If a spending review is normally to be conducted on a selective basis, the question of the principles guiding the selection of review topics during each spending review round arises. One possibility is the discretionary selection of review topics. Under this approach, central decision-makers select review topics based on the perceived probability that they will yield high-value savings measures (e.g., ordering the review of programmes, processes or even agencies the efficiency or effectiveness of which have been widely questioned. This is, approximately speaking, what the Netherlands and Denmark do. A different approach is the automatic review cycle. This is an approach which aims to review all programmes, or all agencies – not during a single spending review cycle, but gradually over time. This was the approach of the Canadian Strategic Review, which reviewed one-third of Federal agencies each year over three years between 2008 and 2010.

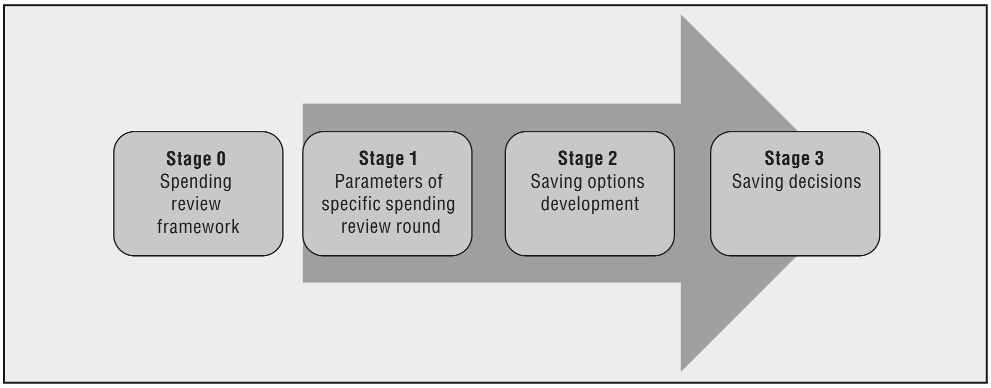
Each of these approaches has merits. The discretionary selection of topics enables the targeting of the spending review process on programmes or processes which are *prima facie* most likely to yield significant savings. On the other hand, the automatic review cycle approach can identify important savings options which might be missed under a purely discretionary selection process. It is not obvious that either of these approaches is superior to the other. There is, however, nothing to prevent a government combining the two approaches – that is, by putting in place an automatic review cycle, but at the same time building in the discretionary selection of specific review topics by the political leadership and the MOF.

One final point on the scope of spending review processes is that, in the great majority of cases, spending reviews do not include scrutiny of capital projects which are under construction or acquisition (e.g. infrastructure projects, IT projects which are already underway). Only in the exceptional case of comprehensive spending reviews intended by governments to deliver deep spending cuts have such "in the pipeline" capital expenditure reviews been included (e.g., in the 2010 UK CSR and in the Irish spending reviews of 2008 and 2011). In these cases, the scale and speed of the expenditure reductions targeted was such that there was no choice but to achieve them in part by cancelling capital projects currently underway. In more normal times, however, it is inappropriate to include such capital projects within the scope of spending reviews. The aim should, instead, be to ensure that the right decisions about which capital projects to finance are made ex-ante, through the establishment of excellent processes for the appraisal of new capital expenditure proposals put forward by spending ministries. Once these proposals are approved, it then makes little sense to duplicate the ex-ante appraisal process (unless the project experiences major unforeseen difficulties). Indeed, government should avoid the wastage involved in the cancellation of partially-completed projects which were carefully appraised by the MOF before construction commenced.

9. Roles and processes

Stage 0 – the establishment of the spending review frameworks or the "framework stage"– is the stage at which decisions are made on those design features of the spending review process which can potentially remain in place over multiple rounds of spending reviews. These include what part of government expenditure is to be covered (budget and/or mandatory); whether the review is selective or "comprehensive"; whether the focus is efficiency and/or strategic savings; the precise assignment of roles in the process; and whether or not quantitative savings targets will be set. These are general design features which the government does not need to revisit during every new round of spending review,

Figure 1. **The four different stages of spending reviews**



and need only consider when it is either establishing a spending review process for the first time, or when it wishes to modify the overall design of the spending review process used in the past. Collectively, it is these design features which determine the prevailing type of spending review system in the country concerned.

By contrast to the framework stage, the remaining three stages must be undertaken afresh during every new round of spending review. In that sense, Stages 1-3 may be said to constitute the spending review process proper – as opposed to the process of deciding how spending review will work.

Stage 1 – the setting of the parameters of the specific spending review round or the "parameters stage" – refers to the determination of those characteristics of the spending review process which are necessarily specific to each round of spending review. These include: choosing specific review topics (if the framework is one of selective spending review); specifying any criteria/review questions which review teams are required to address during reviews (see Box 8); deciding the magnitude of savings targets (if applicable); and specifying the key dates in the spending review calendar (in the context of the broader budget preparation calendar).

Stage 2 – the development of savings options or the "savings option stage" – refers to the development of recommendations and options on possible savings measures for presentation to those who make the final decision on which savings measures will be implemented.

Stage 3 – the savings decisions stage – refers to the final decisions on the savings measures which are to be implemented. This is the final stage of the spending review process.

The key players in the spending review process – the political leadership; the MOF; the spending ministries; and external players – have different roles to play in each of these stages. These roles are summarized in the following table, following which they are discussed in detail.

9.1. The Savings Decisions Stage – the role of the political leadership

In discussing the roles of key players in each of the stages of the spending review process, it is useful to start at the end of the process – at the savings decisions stage. The final decision on which savings measures to implement must, in general, be made by the political leadership.

Box 8. **Setting explicit review criteria**

In many recent spending review processes, an important part of the "parameters" stage at the outset of the spending review process has been the establishment of explicit criteria to guide the search for savings options. The identification of options for strategic savings must always involve the application of criteria to determine which services or transfer payments can be eliminated or scaled back, even if these criteria are not made completely explicit. Some criteria may be obvious (e.g. inherent ineffectiveness, low priority). Others may be less obvious, or may vary with the philosophical orientation of the government (e.g. criteria based upon a view of the appropriate role of government *versus* the private sector).

Particularly in countries where the spending review process is based on bottom-up reviews, it has proven to be useful to make these criteria completely explicit at the outset of the spending review process. During the 2010 UK CSR, for example, spending ministries were instructed to review their spending on the basis of a set of standard questions, such as: Is the activity essential to meet Government priorities? Does the Government need to fund this activity? Does the activity provide substantial economic value? This approach was broadly modeled upon that of the Canadian Programme Review of the mid-1990s, during which six defined "tests" were applied to assess programmes. The same broad approach was adopted by Ireland during its 2008 and 2011 spending reviews.

Table 1. **The key players in the spending review process**

	Stage 0 General S.R. framework	Stage 1 Specific S.R. process parameters	Stage 2 Savings option development	Stage 3 Savings decisions
Political leadership	X	X		X
MOF	X	X	X	
Spending ministries			X	
External players			X	

The term "political leadership" refers in this paper to those elected politicians who exercise dominant *de facto* power over the content of the budget. In all of the OECD countries which have carried out spending reviews in recent decades, *de facto* (as opposed to legal) power over the budget is located primarily in executive government, rather than the Parliament.

The way in which the political leadership decides which savings measures to adopt depends upon the institutional structure of the country – concretely, on the way in which power is distributed between the elected politicians who sit at the summit of executive government. In some countries, the final say essentially lies in the hands of the President and/or Prime Minister. In other countries, the Cabinet plays a central, or even dominant, role. To varying degrees, the minister of finance also exercises substantial budgetary power.

The UK provides an interesting illustration of the way in which the locus of political power in the spending review process can change. During the 2010 CSR, political decisions on the choice of savings measures were essentially collegial, involving a small group of ministers (the treasury ministers, the prime minister and the deputy prime minister) and the newly-created Public Expenditure (PEX) Committee of Cabinet. However, this arrangement was very unusual for the UK, where historically (including during the 2007 CSR) budgetary decisions have been made by either or both of two powerful figures – the Chancellor of the Exchequer (finance minister) and the Prime Minister, and the role of Cabinet was marginal. The broader ministerial participation, and the important role of the PEX committee during the 2010 CSR, reflected the highly unusual circumstances of a coalition government.

The locus of political decision-making with respect to savings measures also depends to some extent upon the nature of spending reviews. If the focus is upon strategic savings, the political sensitivity of decisions to cut or scale back programmes means that such decisions will almost always be taken at the very top. By contrast, in the case of a purely efficiency review without dramatic savings targets, it could be the case that the final decision is left, say, to the minister of finance.

9.2. The Framework and Parameters Stages – the role of the political leadership and the MOF

In almost all recent spending reviews, the political leadership has also played a key role in establishing the general framework and parameters of the spending review process. Far from leaving the design of the general spending review framework solely to the bureaucracy, political leaders have tended to be highly assertive in ensuring that the framework is one which is capable of delivering savings measures of the type and magnitude which they wish to see. Political leaders have also played a key role in the selection of review topics and the setting of savings targets, where relevant.

Experience also demonstrates the need for the political leadership, when setting the parameters of each round of spending review, to put the spending ministries on notice that it requires them to contribute fully to the process.

At the bureaucratic level, the role of the MOF is quite fundamental to the success of the spending review, starting with the detailed work of designing the spending review framework. In most countries, it is also predominantly, if not exclusively, the role of the MOF to advise the political leadership on the parameters of each spending review. Consistent with this, the OECD 2012 survey reported that in thirteen of the fifteen countries claiming spending review processes, the MOF played the main role in defining spending review procedures.

9.3. The Savings Options Stage: The roles of the MOF, spending ministries and external players

In most countries, the development of savings options has primarily been undertaken by the spending ministries and the MOF, with external players playing a supporting role at most. It is useful therefore to discuss the considerable differences in the roles played by the spending ministries and MOF, prior to considering the role of external players.

It is with respect to the roles of the spending ministries and the MOF in the development of savings options that the greatest differences of approach between countries become evident. Broadly speaking, there are three main approaches which OECD countries have taken in assigning roles in the development of savings options between these two key players:

- Bottom-up spending review: In this approach, the spending ministries themselves are required by the government to identify savings options for presentation to the central agencies and political leadership. For this purpose, the spending ministries constitute internal review teams which do not include representatives of the MOF. Canada, the United Kingdom and Ireland are examples of this approach.

- Joint spending review: In this approach, the spending ministries and the MOF constitute joint review teams to develop savings options. The savings options presented by these review teams to the political leadership are approved by both the spending ministry and the MOF. The Netherlands and Denmark are examples of this approach.
- Top-down spending review: In this approach, spending review teams are composed of MOF staff or nominees, and there is little or no participation of spending ministry staff. There is no process for requiring or requesting spending ministry endorsement of the savings options which are identified. This was essentially the approach taken in France during the RGPP.

Both the bottom-up and joint spending review approaches aim to tap into the information possessed by the spending ministries, and each appears to have worked well in a number of countries.

On the other hand, experience suggests that the top-down approach to spending review does not work well. Marginalising the spending ministries during the process of identifying savings options comes at a heavy price. Not only do the spending ministries have unparalleled detailed knowledge of their own programmes and processes, but it is they who have to implement any savings measures which the government decides to adopt. If they do not at least understand the logic of the savings measures which they are expected to put into effect, implementation may prove very difficult. The French experience is an example. The lack of understanding and acceptance of savings measures on the part of the spending ministries proved to be a significant problem for the implementation of the French RGPP, and it is now a generally accepted in France that the RGPP's highly centralised approach to the identification of savings options was a mistake (OECD, 2012b: 63, 65).

The main choice with respect to the roles of the spending ministries and the MOF in the savings option stage of the spending review process is therefore between the bottom-up and joint review approaches. Graphically, these two approaches may be represented as follows (where "Cabinet" is shorthand for the political leadership):

The graphical representation of the joint review process recognises that, in joint review systems such as the Netherlands and Denmark, there is usually a provision that if the spending ministry and MOF are unable to reach full agreement on certain savings options, each side retains the right to put unilateral positions to the political leadership. However, such failure to reach an agreement on savings options is rare in the joint review systems (see below).

It should be acknowledged that, in practice, the differences between national approaches are not quite as stark as the stylised models suggest. For example, in a bottom-up review process such as in the UK, there is considerable pressure on spending ministries to modify the options which they develop to make them more palatable to the MOF prior to presentation to the political leadership. This means that the pure bottom-up and joint review approach should be regarded as polar extremes, with most real-world spending review systems placed somewhere on the spectrum between the two.

Whether the bottom-up or joint spending review approach is used, it is necessary that substantial pressure is applied to overcome the natural resistance of spending ministries

Figure 2. **Savings options stage: The bottom-up review approach**

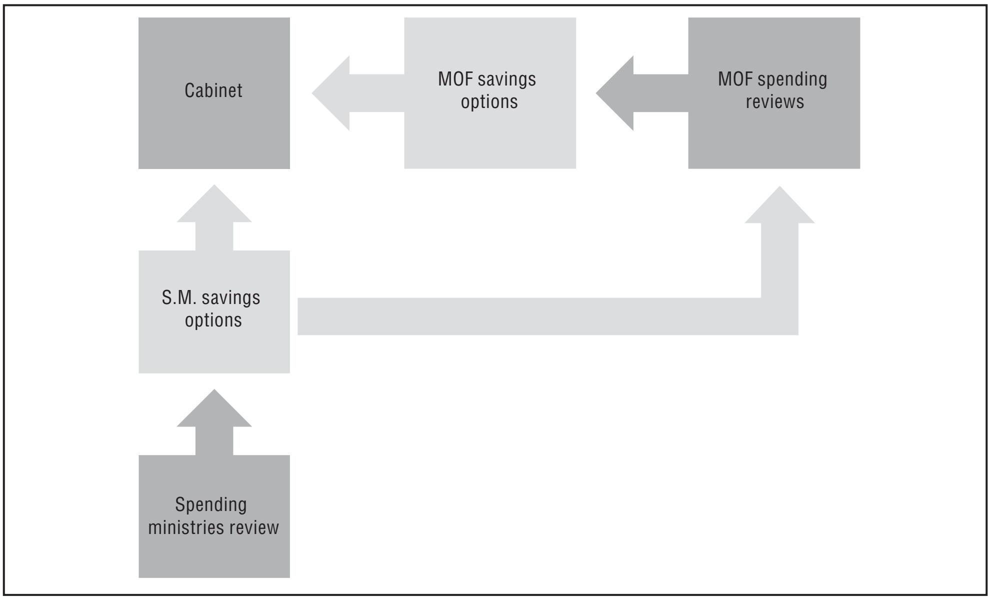
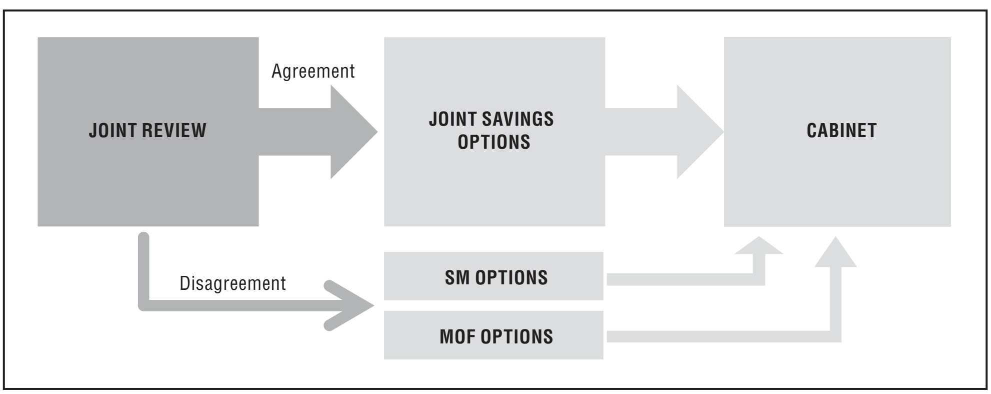


Figure 3. **Savings option stage: The joint review approach**



to budget cuts and to ensure that they participate in the process in good faith. Pressure from the political leadership is, as previously mentioned, particularly important here. Spending ministers and top executives of the spending ministries must be in no doubt about the commitment of the President/Prime Minister and/or Cabinet to the spending review process, and must understand that they and/or their ministries are likely to pay a price for obstructive tactics. In Canada, for example, certain spending ministries which initially failed to co-operate in the Strategic Review process when it got underway in 2008 found themselves either or both i) ordered to rework their savings options submissions and ii) treated more harshly when the cuts were decided. As a consequence, spending ministry co-operation improved substantially in subsequent years.

Other mechanisms for applying pressure to spending ministries may be useful. The possibility of setting savings targets – e.g. requiring that a specific ministry present savings options to the value of at least 15 per cent of its budget – as already mentioned. Another possibility, which is discussed further below, is to permit spending ministries to present reallocation options which, if adopted by government, would allow them to retain part of the value of any expenditure cuts and reapply the funds to other priority areas.

The joint review approach places considerable pressure upon the spending ministries because only by convincing the MOF representatives on the review teams of the adequacy and appropriateness of its preferred savings options can a spending ministry be reasonably confident that these will be the options finally adopted by the government. If a spending ministry chooses instead to put forward inadequate and/or politically unrealistic savings options to the joint review team, it must assume that they will fail to receive the endorsement of the review team. This will then trigger the circumstances mentioned above, where the MOF and the spending ministry concerned may put forward separate savings options proposals to the political leadership. Choosing to “fight it out” in this manner is a risky game for a spending ministry, which has a high probability of depriving it of the chance to at least minimising the damage – from its perspective – of the spending review cuts.

Whether the spending review process is based upon joint reviews or upon bottom-up reviews, the challenge function of the MOF and any associated central agencies is of fundamental importance in getting the spending ministries to “play ball”. It is essential that the MOF actively analyses the merits of, and where appropriate opposes or calls for modifications of, savings options put forward by the spending ministries. That MOFs are playing this role seems to be supported by the results of the 2012 OECD survey in which twelve of the fourteen countries claiming to have spending review processes, the MOF was reported to be the (or one of the) main institutions responsible for the supervision and review of reports prepared during the spending review process.

In a joint review process, it will be the MOF members of the joint review teams who must bear prime responsibility for carrying out the challenge function. This makes it vital that the MOF commit substantial resources to the work of the joint review teams. This is why, for example, the Netherlands Ministry of Finance insists upon nominating senior staff members – even including the deputy budget director – as its review team representatives. These representatives, incidentally, not only challenge spending ministry proposals, but also sometimes put forward their own savings options for consideration.

In a bottom-up process, explicit mechanisms and structures must be established to carry out the challenge function, and MOF officials will inevitably play a central role in these. During the 2010 CSR in the UK, savings options put forward by spending ministries were reviewed at a number of levels prior to presentation to the PEX. There was a review by a senior civil service committee (led by top Treasury officials), and a review in bilateral discussions between the treasury ministers and a relevant spending minister (with extensive participation of Treasury officials). (The challenge function was further supported by an “Independent Challenge Group” of experts – see further below.) Similarly, during the 2011 spending review in Ireland, all spending ministry savings options were scrutinized in the first instance by a high-level Steering Group, chaired by the head of the Department of Public Expenditure and Reform. [9]

To effectively carry out its challenge role in the spending review process, it is essential that the MOF officials have strong policy – as well as financial – skills and knowledge. The transformation of MOFs in many leading OECD countries from purely accounting/ economic institutions into organisations with stronger policy skills – in which the desk officers responsible for the budgets of specific spending ministries are expected to acquire in-depth understanding of their policies and programmes – has therefore been crucial to the success of contemporary spending reviews. The creation of a specific spending review unit within the MOF can also greatly facilitate spending reviews, on the assumption that such units co-operate closely with the MOF's sector budget analysts.

Should the role of the MOF in the development of savings options go beyond challenging spending ministry proposals and extend to the development of its own savings options? As previously mentioned, the MOF does not hesitate to play this role in the Netherlands, where the process is based on joint reviews. The same is true in most countries where spending reviews are structured as a bottom-up process. For example, during the 2010 UK CSR, following the presentation by spending ministries of their savings options submissions, Treasury officials frequently injected savings options of their own into the process. The same has historically been the case in Australia where, during spending reviews, the Cabinet Expenditure Review Committee receives not only spending ministry savings proposals, but also counter-proposals from the Department of Finance.

The Canadian case is, however, one notable exception to this generalisation. Although the Canadian Treasury Board Secretariat (TBS) staff have played a very active challenge role in respect to spending ministry savings options during the spending review processes which have operated since 2008, they have (according to the TBS) deliberately abstained from presenting ministers with alternative savings options.

The case for mandating the MOF to present alternative savings options nevertheless appears strong. As noted, to successfully carry out the challenge function, it is essential that the MOF develop a cadre of staff with substantial expertise and knowledge of the policies and programmes of spending ministries. In doing so, the MOF develops a capacity not merely to challenge the spending ministry savings options, but also to identify credible savings options of its own. There is no evident reason why the MOF should then be prevented from using this capacity to propose savings options. Indeed, the knowledge that ministers may receive alternative savings options from the MOF must put additional pressure on spending ministries to carry out their own reviews in a thorough manner and to put forward a well-developed range of savings options to the political leadership.

One final point in respect to the role of the MOF during the savings options stage is that it is almost invariably the role of the MOF to carry out operational oversight of the process of developing savings options – i.e. to ensure that those who are mandated with the responsibility for developing savings options approach the task in a manner consistent with the framework and parameters of the spending review process. Consistent with this, the OECD's 2012 survey reported that of the 15 countries claiming spending review processes, the MOF was the main institution providing guidance, steering and technical assistance in 14 countries.

9.4. The MOF vis-à-vis *other key central agencies*

The discussion above has referred to the fundamentally important role of the MOF in the development of the spending framework and parameters, and in the subsequent development of savings options. In some countries, this pivotal bureaucratic support role is played virtually exclusively by the MOF as for example, in the UK where HM Treasury has unquestioned leadership of the spending review process at the bureaucratic level.

In other countries, however, bureaucratic leadership of spending reviews is shared with other "central agencies". Australia is a case in point. The Department of the Prime

Minister and Cabinet plays a major role in the spending review process alongside with the Ministry of Finance.

A particular striking example of a system with multiple central agency players in the spending review process is France. In France, budgetary power lies mainly with the president and the Prime Minister, and the Minister of Finance[10] is less powerful than in many other OECD countries. This allocation of budgetary authority at the political level is mirrored at the bureaucratic level, and this had a major impact on the distribution of central agency roles in the RGPP spending review process. In particular, the RGPP Monitoring Committee (*comité de suivi de la RGPP*) which supervised the RGPP process was chaired jointly by the heads of the office of the President and the office of the Prime Minister, with the Budget Minister serving only as a committee member. The MOF would appear, as a result, to have played a somewhat less powerful role in the spending review process than in the most other countries.

Clearly, the sharing of roles between the MOF and any other relevant central agencies must take into account the nature of the political and administrative system. However, what is clear is that, if the President/Prime Minister's office or some other central agency plays a major role in the spending review process, it is essential that there be close co-operation between that agency and the MOF, and that the two do not compete or conflict with one another in the advice provided to the political leadership or in the supervision of the spending review process. The importance of such co-operation is borne out by the experience of Australia, where one of the great strengths of the spending review – and indeed, of expenditure policy more generally – has been the tradition of close co-operation between the Department of Finance and the Department of Prime Minister and Cabinet.

9.5. The role of external players in the Savings Options Stage

So far, nothing has been said about the role of those outside government in the spending review process. This reflects the fact that spending reviews have in recent decades been carried out primarily by civil servants. Although the use of outside experts is very widespread, these outside experts in most cases serve as advisers to (or sometimes members of) review teams which are themselves directed by, and predominantly composed of, civil servants. Moreover, many of the "outside" consultants and academics which have been engaged as advisers are themselves former civil servants. (This was true, for example, of the "Independent Challenge Group" during the 2010 UK CSR. Of its external members – note that the great majority of its members were serving civil servants – many were former civil servants.)

In this respect, contemporary spending review practices generally differs from the approach used in the ad hoc reviews of the 1980s previously referred to, which were often (including in the case of the Grace Commission) led by prominent businessmen and staffed mainly by outsiders. The results of spending reviews carried out at that time were widely considered disappointing, in significant measure because outsiders did not have sufficient detailed knowledge of government to do the job properly. It is therefore broadly accepted today that the civil service should play a central role in the conduct of spending reviews. This makes particular sense when spending review is carried out as an ongoing process rather than as a purely one-off exercise, because of the importance of accumulated knowledge. The importance of the civil service role is underlined by the problems which Denmark – the only country with long-term spending review experience where external consultants undertake most of the detailed analytic work in the development of savings options – has had as a result of the weakness of the knowledge base within the MOF.

Notwithstanding this, it should be recognised that private sector experts can potentially play a major role in the search for efficiency savings. Business process review – e.g. of procurement processes, or IT systems – is an area where spending review work is often rather generic, and where private sector expertise is more directly applicable to government. This explains why the most important recent major example of spending review carried out primarily by outsiders – the Gershon efficiency review in the UK – is generally considered to have been a success.

Box 9. **Ireland: Building civil service spending review capacity**

Facing very difficult fiscal circumstances, Ireland initiated its first spending review process in 2008. This first round of spending review was managed by a so-called Special Group comprised of external experts, supported by a secretariat provided by the Department of Finance. The process was essentially a bottom-up review, in which the Special Group requested each spending ministry to submit to it an "evaluation paper" outlining savings options (together with an analysis of the impacts of these options on outputs and outcomes). The Department of Finance also prepared its own evaluation papers with options for expenditure and staff reductions for the Special Group. Based on these inputs, the Special Group presented a report on savings options to the government in 2009, and these options greatly influenced the 2010 budget.

This initial heavy reliance upon external expertise to carry out the spending review reflected the weak expenditure analysis capacity of the bureaucracy at the time. In order to build that capacity, the government in 2011 established the Department of Public Expenditure and Reform with responsibility for expenditure analysis and the management of the spending review process. Following this, the government in 2011 established a continuous spending review process modelled quite substantially on the UK system. As in the UK, this remained a bottom-up review process based on agency reviews. Agency reviews are guided by a standard set of review criteria, including efficiency, effectiveness, and the validity and relevance of programme rationale. The second round of spending review based on this new system was carried out in 2011, with the next round to be carried out in 2013. Spending reviews are now established in Ireland as a process in which the savings option stage is primarily the responsibility of civil servants (with relevant external input), by contrast to the initial external expert-led process in 2008-09.

Source: Drawn from "Combined Countries Case Study" carried out within the budget group of the OECD Secretariat by Atsushi Jinno, unpublished internal document.

The other channel for external input into the spending review process is suggestions for savings options from the general public. Whereas invitations to the general public to make suggestions for savings options were rarely a feature of spending reviews prior to the GFC, a number of countries have incorporated such public input in the post-GFC period. Examples include the UK (where the government labelled its invitation for public input into the 2010 CSR as the "Spending Challenge"), Australia (in 2008, at the start of its Comprehensive Spending Review), and Italy (2012).

9.6. Role of the parliament

What about the role of the parliament? As mentioned above, OECD countries which have carried out spending reviews in recent decades have all been countries in which *de facto* budgetary power lies in the hands of executive government. The Parliament's role is essentially to give formal approval to the budget rather than determine its parameters. This reflects the fact that almost all the countries concerned are pure parliamentary systems,[11] in which the political leadership of executive government is drawn from the parliament and where, as a result, executive government can normally be sure of securing the passage of its recommended budget through the parliament (perhaps with some second-order amendments). Reflecting this, in no recent case could the parliament be said to have been a key decision maker in the choice of savings measures to be adopted as a result of the spending review process.

Although not changing the fact that spending reviews have in general been an essentially executive government process, one important characteristic of the parliamentary system – namely, whether it tends to produce single-party governments or coalitions – has had a substantial impact on the spending review process. In countries with coalition governments – such as the Netherlands, Denmark and (exceptionally) the UK under the Conservative-Liberal coalition elected in 2010 – the role of the Cabinet in the spending review process is greatly strengthened relative to that of the Prime Minister, because it is particularly in the Cabinet and its committees that agreements can be negotiated between the coalition parties.

10. The information base of spending reviews

MOF officials in countries which have conducted major spending reviews in recent years concur in the view that more performance information is needed to improve the spending review process. In particular, many take the view that more evaluation – and more relevant evaluation – is needed. The belief in the necessity of strengthening the information base of spending reviews appear to already be leading to efforts to breathe new life into programme evaluation. The Netherlands, Canada and France (under the RGPP) are amongst the countries which have explicitly identified the need to boost evaluation in order to improve spending reviews (see Robinson, 2013b). MOFs in these and other countries increasingly believe that spending reviews needs to be able to draw on high-quality evaluation which is carried out outside the spending review process itself.

The tight time limits which usually apply to spending reviews tend to make it difficult to carry out evaluations – which in many cases take substantial time – as part of the spending review process itself. This has meant that, unless evaluations are already available (which has rarely been the case), spending reviews have been forced to rely to a large degree upon quite informal expenditure analysis. MOF officials therefore increasingly recognise that spending review teams do not carry out evaluations – rather, they use and commission evaluations.

It is important, however, to guard against the illusion that merely increasing the amount of evaluation activity will improve the quality of spending reviews. It is also important not to mistakenly believe that government-wide evaluation systems – that is, systems requiring ministries to evaluate all their programmes and processes over time – are either necessary or sufficient to assure the information requirements of spending reviews.

Past experience with the use of evaluation as an input into budgeting has been generally disappointing. In the period from the 1970s to the 1990s, many OECD governments undertook massive efforts to build government-wide evaluation systems, and a handful of these countries (Canada being a notable example) maintained these systems up to the present time. Evaluations carried out by spending ministries pursuant to the requirements of such government-wide evaluation systems were little used, and of limited value, in budget preparation process. These evaluations tended to predominantly focus upon management/policy improvement objectives rather than on budget decisions, and often failed to provide timely or conclusive information to managers (Robinson, 2013b). This is part of the more general phenomenon noted previously by the OECD (2012a) that "performance information adds value to the management and service delivery tasks of line ministries and executive agencies but has proven difficult to use for fund allocation as per the needs of Ministries of Finance".

This negative view of the budgeting relevance of evaluations carried out by spending ministries was reinforced in recent years in countries such as the Netherlands and Australia, where MOFs seeking to draw on such evaluations in spending reviews concluded that their quality was generally too low for them to be useful.

This makes it clear that what spending reviews need is not more evaluation, but more relevant evaluation. In this context, there needs to be an explicit recognition that the type of evaluation which is useful to the MOF and the political leadership in making budget decisions is significantly different from evaluation which help spending ministries improve their policy design and management.

At the same time, it must be recognised that evaluation to support spending reviews – even when "comprehensive" – does not require that all programmes and processes being examined by review teams be formally evaluated. On the contrary, many savings options can be identified without any need for formal evaluation. For example, the identification of low priority programmes which could be cut does not require the evaluation of the effectiveness or efficiency of the programmes concerned. It is, rather, simply a matter of deciding that the outcomes which the programme aims to achieve are not sufficiently important to justify the expenditure involved.

What spending reviews require are two main types of selective evaluation. The first is formal efficiency analysis aimed at identifying and quantifying opportunities for efficiency savings. The second is outcome evaluation with respect to programmes that are pursuing objectives which are clearly worthwhile, but through means with questionable effectiveness.

This suggests that for evaluation to make a useful contribution to spending reviews, the choice of evaluation topics, and of the type of evaluation technique employed, should be explicitly geared to the task of identifying savings options. A single government-wide evaluation system cannot be expected to do this. Instead, the MOF and political leadership need to be able to commission evaluations specifically intended to feed into the spending review process.

The system of Strategic Reviews introduced in Australia in 2007 is an example of how evaluation geared to spending reviews can operate. *Strategic Reviews* are reviews of programmes or processes which are formally commissioned by the Expenditure Review Committee of Cabinet, usually on the recommendation of the MOF. The Strategic Review reports cannot themselves be regarded as spending reviews, because it is not in general part of their terms of reference to recommend options for budget savings. Instead they review programme or process performance in a way which is intended, in part, to support spending reviews by providing the DOF with better information. Once specific strategic reviews are completed, the DOF usually develops and presents to the ERC savings options which draw upon the reviews.

A related issue is the role of performance indicators in providing the information base for good spending reviews. MOF officials with recent experience of spending reviews usually assert that performance indicators are one significant information source for spending reviews. However, many also indicate disappointment that performance indicators have not made a greater contribution to the spending review process despite what has been, for many countries, a massive effort over recent decades to develop more and better indicators.

It is, however, necessary to be clear about the role which indicators can potentially play, and about the limitations of indicators. Performance indicators by themselves rarely provide clear and conclusive information on the effectiveness and efficiency of programmes and processes. To take one important example, outcome performance indicators in general either do not distinguish, or distinguish only to a limited degree, between the outcomes achieved by the government programme and the impact of so-called "external factors".[12] This means that it is usually not possible to judge the effectiveness of the programme solely by looking at the programme's outcome indicators. It is precisely the task of outcome evaluations to analyse outcome indicators in order to distinguish actual outcomes achieved from the effect of external factors.

It is therefore unrealistic to expect that performance indicators alone – without evaluation based on those indicators – can provide the necessary information base for good spending review.

Disappointment with the contribution of performance indicators nevertheless also reflects, in some countries, a failure to develop enough of the right type of performance indicators. For example, the development of good outcome (effectiveness) indicators has unfortunately been an area where progress has been disappointing even in some countries which have introduced performance budgeting systems. Sometimes, performance budgeting has been seen more as a matter of stuffing the budget documents full of performance indicators than of ensuring the relevance of those indicators for budgetary decisions. As a consequence, many essentially operational indicators (activity and input indicators, the primary relevance of which is to internal ministry management) have found their way into the budget papers and annual performance reports. These types of indicators tend to be of limited value for the spending review process.

11. Spending review and performance budgeting

Spending reviews have an important connection with the most widespread form of performance budgeting – programme budgeting. Under programme budgeting, expenditure is classified in the budget primarily by "programmes" based on objectives and types of services (outcomes and outputs), rather than solely by economic categories (such as salaries, supplies and communication costs) and organisational categories (e.g. ministry and department with the ministry). Good performance information about the performance of programmes – in the form of both programme indicators and evaluations – is then used to inform budget preparation. The main objective for which programme budgeting was designed is improved expenditure prioritisation.[13] Basically, the assumption is that by providing information on the costs of delivering groups of services, and the results achieved, programme budgeting facilitates decisions about which areas of expenditure to cut back on and which to augment, in order to best meet community needs. By contrast, a traditional budget, in which funds are mainly allocated by line item, is of limited value as a vehicle for choices about expenditure priorities.

The existence of some type of spending review process should be seen as a critical precondition for programme budgeting to succeed in improving expenditure prioritisation. Experience makes it clear that it is a mistake to believe that merely developing programme performance information will ensure that this information is used in the budget preparation process. Rather, it is necessary to create routine processes to ensure the use of such performance information to ensure that programme performance is systematically taken into account when deciding how to allocate limited government resources. Spending reviews provide precisely such a process.

In the context of a programme budgeting system therefore, spending reviews should be viewed as the primary mechanism by which programme performance information is systematically taken into account during the budget preparation process.

Not only do spending reviews support programme budgeting, but the converse is also true. Firstly, the emphasis placed by programme budgeting (and performance budgeting more generally) on the development of good programme performance information, strengthens the information base of spending reviews. Secondly, the programme classification of the budget helps because it identifies programmes and sub-programmes upon which spending review will need to focus, and indicates how much money is being spent on the programmes.

Expressed differently, it is an essential starting point for good spending review that the MOF knows exactly which programmes are being delivered by each spending ministry and how much is being spent on each. This makes the programme classification of the budget particularly relevant to programme review, and to the search for strategic savings.

A key problem facing programme budgeting over recent decades has been that, in many OECD countries where it was implemented, there was no strong desire on the part of either the MOF or the political leadership to become progressively involved in expenditure reallocation. This was true, for example, in France (in respect to the LOLF programme budgeting system introduced between 2001 and 2006) and also in the Netherlands (in respect to the VTBT system introduced from 2000). Yet expenditure reallocation is, as noted above, precisely the main purpose of programme budgeting. The result was, inevitably, programme budgeting systems which were all dressed up with nowhere to go. By contrast, if the new post-GFC emphasis on reallocation is maintained and strengthened, programme budgeting will have the opportunity to demonstrate its true worth as a tool for expenditure prioritisation.

12. Keeping the spending review process focussed

The challenge for OECD countries over the medium term is to build on the valuable experiences of spending reviews accumulated during recent years in order to transform spending reviews into a permanent feature of the budget preparation process. This will require that spending reviews be viewed not only as an instrument for making deep public expenditure cuts, but as an instrument for ongoing reallocation in the context of aggregate expenditure restraint.

It will also require that spending review processes be designed in a manner appropriate to an ongoing role, as opposed to a role exclusively as a crisis instrument. As suggested above, this has a range of implications, one of which is that spending reviews should normally be selective rather than comprehensive.

It also has implications for the frequency in which spending reviews are carried out. Transforming spending reviews into a permanent feature of the budget preparation process implies that spending reviews should occur with the same frequency as budget preparation – that is, at the same time intervals as spending ministry budget funding allocations are decided. This means that if, as in the majority of countries, budgeting is primarily annual, then spending review should also be an annual process.

By contrast, in countries where budgeting is truly multi-annual, spending reviews should be conducted only every two or three years. The crucial factor here is the frequency in which spending ministry budget allocations are set. In a truly multi-annual system such as that of the United Kingdom, budget preparation is essentially a process which occurs every three years, and in which each spending ministry is told how much money can expected for the three years to come. Under such a system, it makes sense to also conduct a spending review every three years. In cases where firm multi-year expenditure ceilings are set for ministries, it is more appropriate to conduct some spending review every year.

The proposition that spending reviews should be conducted with the same frequency as budget preparation applies to routine, selective spending reviews. By contrast, comprehensive spending reviews – when required – should be held only at irregular and infrequent intervals.

Integrating routine spending reviews into the budget preparation process also raises issues about the relationship of spending reviews to other elements of the budget preparation process, and in particular to the new spending process. Spending reviews and the scrutiny of new spending proposals are different processes and, while it is important that they be synchronised (as discussed earlier), they need to be kept separate. In virtually all cases, countries with spending review processes have therefore ensured that the review teams tasked with identifying savings options do not undertake appraisal of new spending proposals.

An important qualification to this generalisation is the so-called "spend to save" measures. This refers to proposals for achieving efficiency savings via investments in cost-saving technology (e.g. labour-saving IT systems). In this case, there is an integral link between the potential savings in baseline expenditure and new spending, and for this reason most spending review processes have permitted such options to be presented.

Nevertheless, "spend to save" measures present significant challenges for the MOF. Supposedly cost-reducing investments have often ended up costing more than they save as, for example, in the case of major IT systems which greatly exceed their budgets and deliver disappointing cost savings. It is therefore crucial that, if "spend to save" options are permitted during the spending review process, they be subject to particularly intense critical appraisal by the MOF. It can also make good sense to create incentives to make the spending ministries themselves much more cautious in requesting budget funding for such investments. For example, the MOF may require a prior agreement with the spending ministry that the cost of the supposedly cost-saving investment will be repaid over time by the ministry through deductions from its budget allocations. This makes the funding for such investments essentially a loan to be repaid by the spending ministry.[14]

In the context of a comprehensive spending review aimed at delivering large and rapid expenditure reductions, it may make sense to (temporarily) ban the presentation of "spend to save" options. This is what happened in Canada under the SOR process in 2011-12. Under the SR process during the preceding three years, the presentation of such options had been permitted. However, during the SOR the combination of larger savings targets and skepticism on the part of the MOF about the capacity of such options to deliver substantial savings led to spending ministries being prohibited from putting forward these proposals.

In a few cases, spending review processes have permitted spending ministries to put forward options for new spending to be financed by savings achieved through spending reviews. As mentioned earlier, under the SR in Canada, for example, spending ministries were permitted to present, together with savings options, so-called "reinvestment proposals" (perhaps better referred to as "reallocation options") which the government could either accept or reject. This mechanism was intended to provide additional encouragement to spending ministries to approach the task of identifying savings options seriously, by convincing them that by presenting attractive new spending options they would be able to retain some or all of the funding they would otherwise lose in the SR process. This approach no doubt has merit, although good expenditure prioritisation requires that any such reallocation be subject to exactly the same review processes in the MOF and at the level of the political leadership as any other new spending proposals.

The success of spending review also requires that its focus on the identification of savings options be rigorously maintained, and that the process not be permitted to drift off into the pursuit of other diverse objectives. In particular, spending review should be kept separate from any broader management and performance improvement processes. This is one of the lessons learnt from the French experience with the RGPP. The RGPP's stated objectives were not only the "rationalisation of public expenditure", but also the improvement of service to clients, and the modernisation of civil service human resources management. It was partly as a result of this diffused focus that the RGPP tended to be diverted from the task of identifying savings options with the result that, according to *Cour des Comptes* (2010: 19-20):

> "… few of the work responsibilities of government agencies were eliminated or even scaled back … Government agencies are certainly heavily involved in the RGPP, but were more focused on revising their organisational charts than on revising their programmes."

The spending review process will, of course, often point towards programmes which require management improvement or policy redesign. However, the follow-up of such matters should be kept separate from the spending review process itself.

For precisely the same reasons, spending review teams should not be tasked with identifying new revenue options (OECD, 2012a: 11). Maintaining the focus of spending review on the search for savings options is of critical importance.

13. Conclusion

Spending reviews are critical to good expenditure prioritisation, because good prioritisation requires not only that the right choices about new spending are made, but also that baseline expenditure is subject to constant critical scrutiny. It is important that the momentum created by the post-GFC surge in spending review activity in OECD countries not be lost, and that spending reviews become a permanent feature of the budget preparation process. For this to happen, the spending review process must be designed appropriately, and fully integrated into the broader budget preparation process. At the same time, spending reviews must take full account of the institutional specificities of member countries.

Notes

1. Defined as expenditure on existing programmes and projects, at the level required by prevailing policies or laws (i.e. on an "unchanged policy" basis).
2. This is broadly consistent with the definition provided in OECD (2012a: 3) of spending review as "assessments of the strategic orientation of programmes and/or the efficiency of spending and are broadly used to reduce and/or (re)allocate budgetary expenditures."
3. Although spending review processes may be designed so as to identify not only savings options but also options for increases in baseline expenditure, it is only through the inclusion of the deliberate search for savings options that such a combined process qualifies as spending review.
4. More precisely, expenditure reduction achieved by reducing the quantity or quality of services, or cutting transfer payments, delivered to the community.
5. Spending reviews took place under the Blair and Brown Labour governments in 1998, 2000, 2002, 2004, and 2007.
6. Despite their name, the CREs should not themselves be equated with a spending review process. Rather, they constitute a multi-annual budget preparation process which sets three-year ministry expenditure ceilings – just like the UK SRs upon which they are essentially modelled. Critically, however, the government has decided that the CREs should routinely include the review of baseline expenditure for savings options, in the form of a set of "Expenditure Reports".
7. Australia introduced a system of "Strategic Reviews" in 2007. However, as discussed later, these Strategic Reviews should not be regarded as spending reviews per se, but rather as part of the information base of spending reviews.
8. However, the Hollande government indicated in December 2012 that it was establishing a new spending review process to be known as "modernisation de l'action publique".
9. The Irish DPER is a separate ministry created by splitting the Department of Finance in order to create a ministry to specialize in spending review and associated functions.
10. Note that the minister of finance role is, in a sense, divided between a senior minister – the Minister of Economy and Finance – and a lower-level minister, the Budget Minister.
11. The one partial exception is France, which is a quasi-parliamentary system in which the president is elected separately from the parliament but the Prime Minister comes from the parliamentary majority. However, with relatively rare exceptions (the periods of so-called cohabitation), the presidential party/parties have also dominated the parliament. This was the case during the period when the RGPP was carried out. As a result, the parliament as an institution played no role in deciding the savings options to be made during the RGPP process, although several members of parliament were associated with the work of the RGPP Monitoring Committee.
12. External factors refer to external events or client characteristics which influence the measured outcome of programmes but are beyond the control of government.
13. This is not, of course, to say that expenditure prioritisation is the only objective of programme budgeting. By making programme performance a more important factor in decisions on ministry budget allocations, programme budgeting also aims to place significant pressure on ministries to improve the effectiveness and efficiency of their existing services.

14. Such mechanisms have operated in several countries, including Denmark and Australia. While they have often been part of capital charging" systems which are today somewhat discredited, they do not require the introduction of a full capital charging regime.

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The following OECD budget officials also made themselves available for interviews which informed this paper: David Enns (Deputy Assistant Secretary, Expenditure Management, Treasury Board Secretariat of Canada); David Fjord Nielsen (Chief Consultant, Danish Ministry of Finance); and Peter van den Berg (Deputy Budget Director, Netherlands Ministry of Finance).

ANNEX 1

Principles for the Conduct of Spending Review

Spending review as part of the budget process

1. Make spending review a regular rather than ad hoc process.
2. Integrate spending reviews in the budget preparation process.
3. Ensure that spending reviews present savings options to the political leadership at the stage in the budget preparation process where decisions are made about new spending proposals are put forward by spending ministries – so as to permit savings and new spending options to be considered simultaneously.
4. Base the frequency of spending reviews on the frequency with which government sets spending ministry budget allocations. In countries where budget allocations are set annually, this means carrying out spending review annually. However, in countries where firm ministry budget ceilings are set every, say, three years,[1] it means that spending review should also be carried out every three years.
5. Recognise that a spending review is a resource-intensive activity, and that all aspects of the process need to be designed so as to deliver the best possible return (in the form of credible savings measures) on the resources committed to the process.

Coverage of spending review

6. Include the selective review of mandatory (statutory) expenditure as well as budget expenditure in the spending review.
7. Structure the process to identify both strategic ("output") savings options and efficiency savings options.
8. Include both agency-specific and horizontal reviews.
9. Ensure that routine spending reviews are selective in their coverage.
10. Carry out comprehensive spending reviews only exceptionally, such as in response to unusually difficult fiscal circumstances requiring deep expenditure cuts, or a change of government involving a major shift in expenditure priorities.
11. Focus routine spending reviews on current expenditures,[2] and exclude reconsideration of major capital projects which have already been given budgetary approval.[3] Consider including the review of approved capital projects only in the context of exceptional comprehensive spending reviews which need to deliver large and rapid reductions in aggregate expenditure.

12. In the context of routine selective spending reviews, build into the process an opportunity for the political leadership to nominate specific review topics (e.g. specific programmes) for inclusion in the spending review.

Relation to other elements of the budget process and broader public management systems

13. Focus the spending review process tightly on the identification of savings options.
14. Do not dilute the budgetary focus of the spending review process by mandating it also to pursue broader policy and management improvement.
15. Exclude consideration of options for tax increases from the spending review process, with the possible exception of the review of tax expenditures.
16. Keep the spending review process separate from the process whereby decisions on new spending proposals are made. As part of this, spending review submissions presented to the political leadership should only present savings options, and should not present recommendations with respect to new spending proposals other than "spend to save" proposals.[4]
17. Permit "spend to save" options as part of routine SRs, while retaining the possibility of excluding them during exceptional comprehensive spending reviews which are designed to achieve deep and rapid expenditure reductions. However, the MOF should always take a critical and sceptical view of spend-to-save options, and should consider creating incentives to ensure that spending ministries themselves appraise such projects very critically (e.g. requirements that ministries repay the cost of such projects).

Responsibility for the spending review process

18. Build in leadership of the spending review process by the top political leadership. This should include approval of the procedures to be followed, the setting of criteria for the identification of savings options, instructions to spending ministries to co-operate in the process, and ultimate decisions on which main saving measures to adopt.
19. Assign responsibility for the identification of savings options primarily to the civil service, rather than outsourcing this role entirely or primarily to the private sector. In particular, civil servants should carry the main responsibility for the identification of strategic savings options, because of the detailed knowledge of government programmes that this requires. (This is contingent on the civil service in the country concerned having the necessary capacity to play this role.)
20. Private sector expertise should nevertheless be fully harnessed in the spending review process. In general, the appropriate contribution of private sector experts will be greatest in respect to the identification of efficiency savings, many of which will involve the application of generic business process improvements. However, external experts – including academics and former civil servants with relevant policy knowledge – also often have an important contribution to the make to the search for strategic savings options.
21. The process should be structured so as to place maximum pressure on spending ministries to put forward meaningful savings options. As part of this, appropriate sanctions should be applied to ministries which fail to do this.

22. All savings options put forward by spending ministries should be subject to critical review by the MOF, and when possible with review participants from elsewhere in the civil service (e.g. panels of selected senior members of other spending ministries), prior to presentation to the political leadership.
23. If the spending review process is designed so as to permit spending ministries to put savings options to the political leadership unilaterally (without prior endorsement by the MOF), the process whereby by the political leadership considers these options should be structured as an interrogative process aimed to subject such options to searching test and challenge. To support this, the MOF should prepare an analysis and recommendation with respect to each savings option.
24. Irrespective of how the spending review process is structured, the MOF should retain the right to present its own savings options to the political leadership.
25. Savings options developed by the MOF and/or other central agencies should not be presented to the political leadership for decision without extensive and meaningful consultation with the relevant spending ministries. This should not be interpreted as giving spending ministries any right of veto over such options.
26. The MOF should ensure that its staff have sufficient policy analysis skills and knowledge of government programmes to be able to successfully analyse savings options proposed by the spending ministries and, where appropriate, put forward their own savings options.
27. The MOF should have a specialised spending review unit which leads the spending review process and which supports savings options analysis, in association with the sectoral desk officers.
28. Where the political and administrative structure of the country requires that bureaucratic leadership of the spending review process be shared between the MOF and other relevant central agencies (e.g. president or prime ministers' office/ministry), these MOF and any such agencies should co-operate and co-ordinate closely in order to present a "united front" to the spending ministries. Conflict and competition for control of the spending review process should be carefully avoided.

Other process aspects

29. Set standard terms of reference to be followed by the spending review teams. These should include a defined set of questions/criteria to be applied in the search for strategic savings.
30. In the context of a comprehensive spending review aimed at achieving large savings, set *ex ante* savings targets (e.g. minimum values for the savings options to be identified by ministries or spending review teams).

Information base of spending review

31. Continue developing performance indicators which are as useful as possible for the identification of savings option, including programme effectiveness indicators (particularly for programmes which are potentially expendable).
32. Ensure that a spending review is able, where appropriate, to commission outcome (impact) evaluations of programmes the cost-effectiveness of which is questionable,

and to frame the terms of reference of those evaluations to ensure that they meet the information needs of budgeting.

33. Increase the use of efficiency-oriented evaluation designed specifically to support the search for efficiency savings options during the spending review process.

Notes

1. Even if these exclude expenditure the level of which is determined by standing legislation rather than budget appropriation (like the UK "annually managed expenditure").
2. Including minor capital.
3. I.e. under construction/acquisition, or already given budget approval and moving towards construction.
4. Options where the realisation of the potential efficiency gain depends upon an investment in cost reducing technology.

ANNEX 2

Savings generated by spending review

The following summarises information which is publicly available, including in member country responses to the 2012 OECD questionnaire, concerning the magnitude of expenditure reductions achieved through spending reviews in selected countries. Most of these savings estimates are self-reported estimates and are therefore subject to the risk of self-reporting bias, although in several cases noted below savings were subject to independent scrutiny by national audit offices. It is also not always clear that savings estimates presented by government fully distinguish between specific savings identified through spending review and non-specific budget cuts.*

Canada

The Canadian government publicly reported savings of approximately CAD 5.2 billion from the 2011-12 Strategic and Operating Review, an amount equivalent to a little less than 2 per cent of direct federal programme spending. Savings delivered by the Strategic Review which took place in the three preceding years were estimated by the government at CAD 2.8 billion.

France

The French government claimed total cumulative gross savings from the whole RGPP process (RGPP 1 and 2) of EUR 15 billion, an amount equivalent to 3.4 per cent of 2011 public expenditure. Moreover, the accuracy of the government's estimate of savings was a matter of some public dispute, and the *Cour des Comptes* (national audit office) expressed the view that the exercise had only "limited budgetary impact".

Ireland

In the OECD questionnaire, Ireland indicated that the two rounds of spending review in 2008 and 2011 had resulted in savings of EUR 7.8 bn, which would amount to a large portion of the EUR 9.5 bn of expenditure reductions which the government reports publicly to have achieved between 2009 and 2011 (Government of Ireland, 2012: 7).

* As discussed at the outset of this paper, the savings realised from spending reviews should in principle be specific in the sense that the governments know how the reduction in baseline expenditure concerned will be achieved, and should therefore differ from non-specific cuts which the government may impose on ministries without knowing in advance how they will be implemented.

Netherlands

The Netherlands reports in the OECD questionnaire having achieved EUR 36 bn in savings from the 2010 Comprehensive Spending Review.

United Kingdom

In the OECD questionnaire, the savings from the 2010 UK Comprehensive Spending Review was estimated at GBP 81bn over the four years period to 2014-15. As previously noted, the Government indicated publicly at the time of the review that this equated to cuts in departmental budgets (other than health and overseas aid) averaging 19 per cent.

The 2004 Gershon Efficiency Review claimed to have identified, and negotiated agreements with spending departments which would deliver GBP 21.5 billion in efficiency savings by 2008. In 2007, the National Audit Office (NAO) carried out an independent estimate of savings achieved to that point, indicating that Gershon had generated demonstrable savings of at least GBP 10 billion. This was equivalent to about 2.4 per cent of total UK central government expenditure in 2007-08 or (perhaps more meaningfully, given that efficiency savings do not apply to transfer payments) 4.3 per cent of "DEL" expenditure (i.e. expenditure including demand-driven social security transfers and similar expenditure). The NAO estimate of GBP 10 billion may well represent an underestimate both because it was made prior to the target date for the realisation of the targeted savings (2008), and because measurement problems may have prevented some realised savings from being counted by the National Accounting Office in its (appropriately) conservative estimates.

Glossary

Agency review: A review which covers a whole government organisation (ministry or other agency), and which may cover all of the agency's programmes and processes.

Baseline expenditure: Expenditure on existing services, transfers and projects, at the level required by prevailing policies or laws. Baseline expenditure includes expenditure required to meet existing contractual and quasi-contractual commitments.

Comprehensive spending review: Aspending review in which the scope of the review is not limited by any ex-ante list of review topics (i.e. which is not a selective spending review), in which spending review teams are asked to look at all ministries with the expectation that they should seek to identify, to the extent practically possible, all of the most important savings options. It should not be assumed that a comprehensive spending review examines everything.

Efficiency savings: Savings which are achieved by changing the way in which services are delivered so as to deliver the same quantity and quality of service at lower cost.

Horizontal review: A review which covers a group of related programmes delivered by two or more agencies (horizontal programme review) , or looks at a particular domain of business process across several (or all) government agencies – for example, a review of government-wide procurement practices (horizontal process review).

Output savings: See strategic savings.

New spending: Expenditure on new services, transfers or projects, or additional expenditure on existing programmes and projects in excess of that required by prevailing policies or laws. All expenditure which is not baseline expenditure constitutes new spending.

Process review: A review of specific business processes used in the production of government services – for example, procurement processes; IT systems and practices; and human resources management practices.

Programme: A category or type of government services or transfer payments. (More precisely, in a programme budgeting context, expenditure on a category of outputs with a common objective, including a common outcome.)

Programme review: The review of specific programmes to deliver either strategic savings and/or efficiency savings.

Review topics: Specific programmes, processes or ministries which are chosen for review during the spending review process.

Spending review teams ("review teams"): Groups tasked to carry out a review one or more spending review topics in order to identify savings options.

Selective spending review: A spending review which is limited to a specific list of review topics – programmes, processes and/or agencies – which is specified at the beginning of each round of spending review.

Spending review: The process of developing and adopting savings measures, based on the systematic scrutiny of baseline expenditure.

Strategic savings: Savings which are achieved by scaling-back or eliminating services or transfer payments which are considered to be ineffective or low-priority.

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